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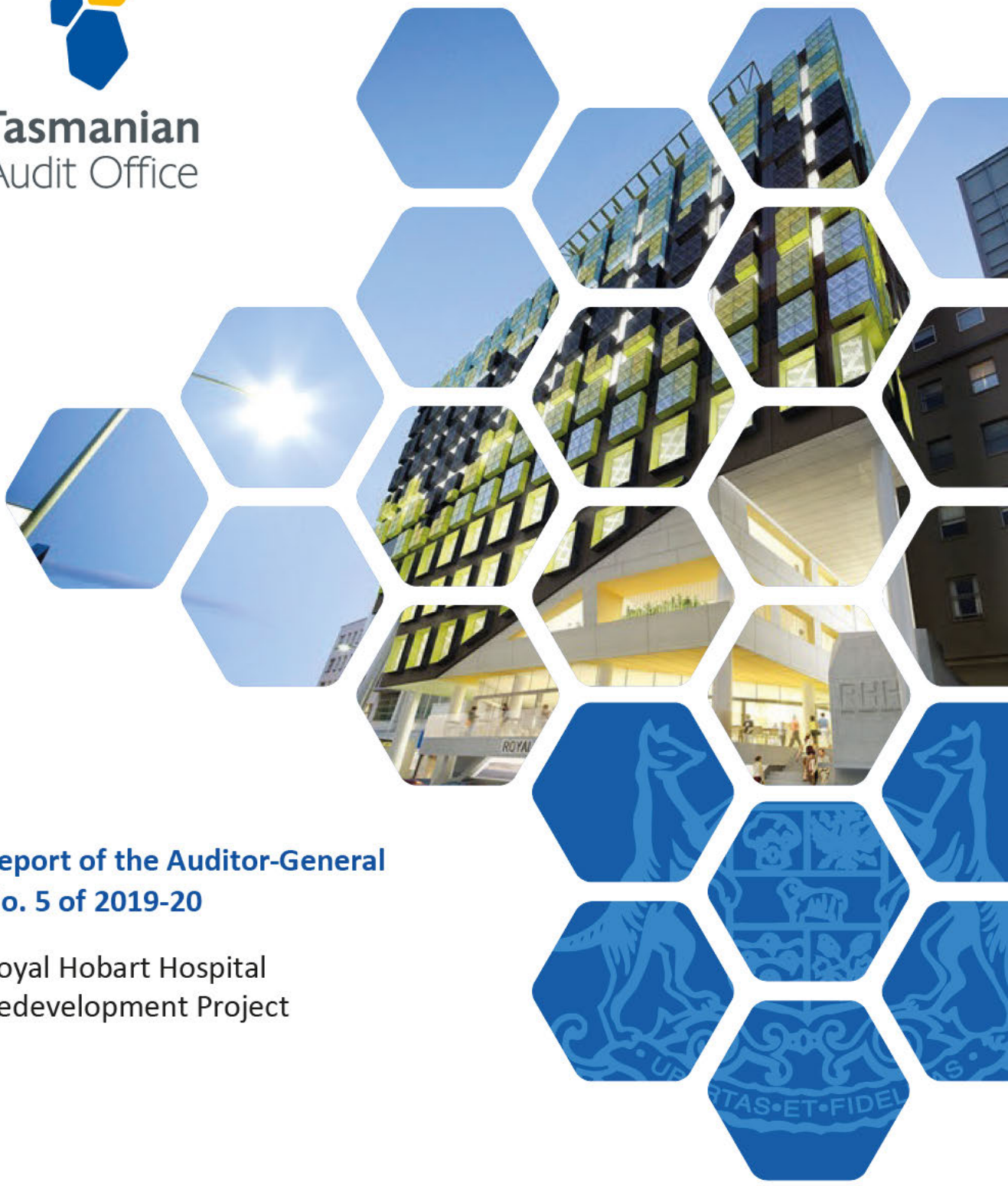

Report of the Auditor-General No. 5 of 2019-20

Royal Hobart Hospital Redevelopment Project

November 2019

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THE ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (Audit Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

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We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

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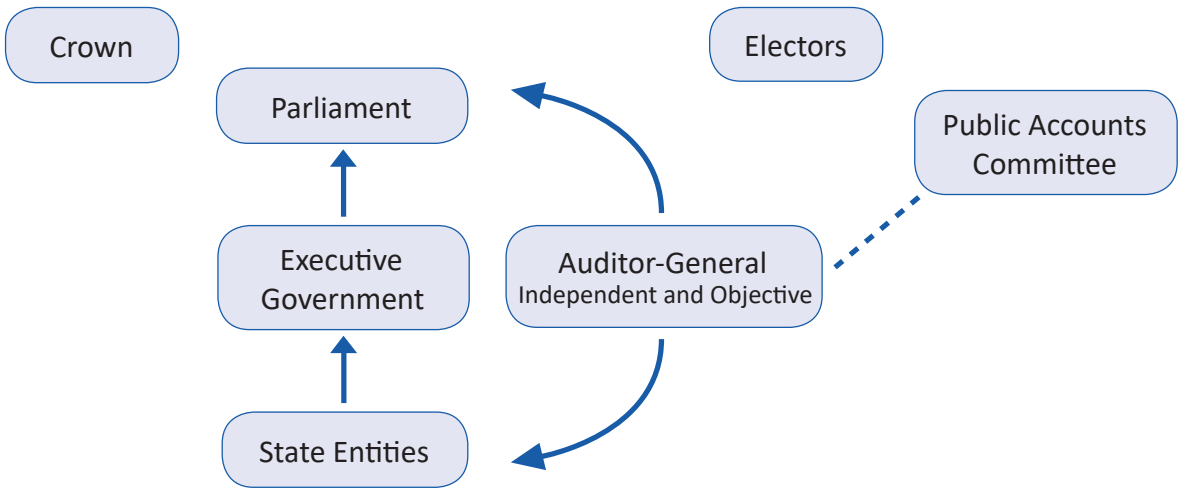

2019
PARLIAMENT OF TASMANIA

Report of the Auditor-General No. 5 of 2019-20

Royal Hobart Hospital Redevelopment Project

26 November 2019

Presented to both Houses of Parliament pursuant to
Section 30(1) of the *Audit Act 2008*

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26 November 2019

Mr President
Legislative Council
HOBART

Madam Speaker
House of Assembly
HOBART

Dear Mr President
Dear Madam Speaker

REPORT OF THE AUDITOR-GENERAL
No. 5 of 2019-20: Royal Hobart Hospital Redevelopment Project

This report has been prepared consequent to examinations conducted under section 23 of the *Audit Act 2008*. The objective for this audit was to form an opinion on the effectiveness of Royal Hobart Hospital Redevelopment Project governance, project management and reporting, financial and risk management and commissioning planning.

Yours sincerely

Rod Whitehead
Auditor-General

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TABLE OF CONTENTS

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AUDITOR-GENERAL'S INDEPENDENT ASSURANCE REPORT

This independent assurance report is addressed to the President of the Legislative Council and the Speaker of the House of Assembly. It relates to my performance audit on the Royal Hobart Hospital (RHH) Redevelopment Project.

AUDIT OBJECTIVE

The objective of this audit was to assess the effectiveness of RHH Redevelopment Project (the Project) processes relating to:

- project governance, management and reporting
- risk management
- budgetary and financial management
- building and operational commissioning.

AUDIT SCOPE

The audit examined and analysed information relating to the Project relevant to the audit objective covering the period from the inception of the Project to 31 March 2019, being the date of completion of audit fieldwork. Where appropriate, events subsequent to 31 March 2019 have been taken into consideration.

The audit scope did not include:

- clinical services planning
- master plans
- procurement processes.

AUDIT APPROACH

The audit was conducted in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*, issued by the Australian Auditing and Assurance Standards Board, for the purpose of expressing a reasonable assurance conclusion.

The audit evaluated the following criteria and sub-criteria:

1. Is project governance, management and reporting adequate?
    1.1. Is there adequate definition and understanding of the Project Executive Steering Committee (ESC) and the Project Control Group (PCG) roles and responsibilities?
    1.2. Is there adequate skills and resources to effectively govern the Project?
    1.3. Has adequate reporting been established to enable sound decision making and monitoring of key project milestones?
    1.4. Are expected benefits adequately monitored and assessed to ensure they will be realised?
2. Are the risk management framework and processes appropriate?
    2.1. Is the risk management framework fit for purpose?
    2.2. Are there adequate skills and resources to manage the project risks?
    2.3. Does the risk management process facilitate the effective management of existing and emerging risks?

3. Is the financial management to deliver the Project and realise the expected benefits appropriate?

    3.1. Are there adequate skills and resources to enable effective financial management of the Project?

    3.2. Is there adequate monitoring of budgeted expenditure, actual project expenditure and forecast costs to complete?

    3.3. Have project modifications and variations been appropriately reviewed, approved and managed?

4. Are plans and resources adequate to enable effective building and operational commissioning?

    4.1. Is there clear delineation between building and operational commissioning roles and responsibilities?

    4.2. Are there adequate skills and resources to support building and operational commissioning?

    4.3. Do commissioning plans adequately identify the critical path of project activities and key milestones to be achieved?

    4.4. Are reporting mechanisms for building and operational commissioning fit for purpose?

    4.5. Do the plans for operational commissioning provide for continuity of operations?

MANAGEMENT RESPONSIBILITY

The ESC is ultimately responsible for the Project. The Project is directed and managed by a team of Tasmanian Health Service (THS) employees recruited predominantly from within the THS and Department of Health (DoH) and supported by project management consultants and other specialist consultants that report to the Project Director who is employed by the THS.

The ESC, PCG and THS and DoH representatives are able to both contribute to the success of the Project and understand and deliver any operational commissioning responsibilities in accordance with their organisational responsibilities and authorities. DoH and THS have overall operational responsibility for the RHH.

AUDITOR-GENERAL'S RESPONSIBILITY

In the context of this audit, my responsibility was to express a reasonable assurance conclusion on the effectiveness of the management of the Project as measured against the audit criteria.

INDEPENDENCE AND QUALITY CONTROL

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information*, and Other Assurance Engagements in undertaking this audit.

AUDITOR-GENERAL'S CONCLUSION

It is my conclusion the RHH Redevelopment Project, as measured against the audit criteria has, in all material aspects, been managed effectively. Project governance, management, reporting and financial and risk management have effectively supported the Project to date. Operational commissioning planning is well progressed, with roles and responsibilities, resourcing, key decision points, monitoring and reporting mechanisms continuing to be clarified and improved as they evolve.

Rod Whitehead
Auditor-General
26 November 2019

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EXECUTIVE SUMMARY

SUMMARY OF FINDINGS

Undertaking a significant construction project can be a challenging process for those charged with a governance or management role. These projects can be a 'once in a lifetime event' for those involved. In many cases balancing learning new skills and acquiring experience in governing major projects has to be done 'on the job' while also undertaking duties associated with 'doing the day job' not related to the governance role.

Strong governance of a project is vital. It provides leadership, direction, control and accountability. It should ensure delivery of successful outcomes and provide accountability to the people of Tasmania that public money is spent efficiently and effectively.

The redevelopment of the RHH is undoubtedly a significant project and is one of Tasmania's largest infrastructure projects and the largest ever in health. A modern medical facility that meets current and future needs of Tasmanians is vital to the Tasmanian community's health and wellbeing. The redevelopment requires significant public sector investment with the added complexity of demolishing and constructing buildings on the current RHH site while the day to day delivery of hospital services continues.

For the above reasons, and in recognition of the imminent practical completion of the building and commencement of operational commissioning planning, the focus of this audit was on assessing the robustness of the governance of the Project. Governance elements subject to audit included strategic project management, leadership, the approach to risk, budgeting and financial management and finally building and operational commissioning.

Governance arrangements were revised in 2015 following implementation of the recommendations in our report on the governance and project management of the Project in January 2014[1] and the further recommendations made by the RHH Redevelopment Rescue Taskforce (Taskforce) in its report[2] following an investigation into issues impacting the Project. Since 2015, the governance of the Project has been appropriately delivered according to agreed and understood terms of reference. Further, individual roles and responsibilities on the ESC were generally clear and understood. There has been a clear distinction between the overarching responsibility for management of the Project and operational management of the RHH. While there is clarity of defined roles under current governance arrangements for the current status of the Project, greater clarity is needed for governance transition as responsibility for completion of the Project is transferred from the ESC to DoH and THS.

Governance arrangements were adequately resourced including involvement of key stakeholders, independent experience in large hospital construction and an independent ESC chair. The complex nature of the Project required that additional expertise was commissioned for specialist areas of activity, including project and contract management, quantity surveyor, program monitoring and legal. To deliver the Project, a lot of knowledge and experience has been accumulated by those involved in its governance and delivery. It would be a considerable loss to the Tasmanian Public Sector if these were not retained for future major Tasmanian Government (Government) projects.

Gateway reviews, which provide independent assurance of the progress of the Project, have been conducted and were broadly positive in confirming appropriate development of the Project.

1 Tasmanian Audit Office, *Redevelopment of the Royal Hobart Hospital: governance and project management*, January 2014

2 RHH Redevelopment Rescue Taskforce, *RHH Redevelopment Project Key Findings and Recommendations,* November 2014

Generally, information reported to the ESC was appropriate and comprehensive. Although no issues regarding the completeness and accuracy of information used for project governance or management purposes were identified, we feel confidence in the information provided could have been strengthened if it were subject to periodic independent assurance.

Prior to 2014, intended benefits for the Project were not outlined. However, since then the expected benefits to be realised have been documented and considered as part of the Project. While some benefits have been realised, the fulfilment of others has been delayed due to later than expected completion of the building. These benefits will need to be tightly monitored to ensure the delays do not adversely affect their realisation.

There was an appropriate framework for the management of project risks that followed good practice. High level risks have responsible individuals assigned to them, are regularly reviewed and there is an escalation process. Risks are split between overall project risks and construction risks managed by the contractor. A Risk Manager for the Project Team was appointed at project inception. One issue of consideration was how risks external to the Project Team were identified and actioned. The management of these risks was further strengthened towards the end of 2018 by the appointment of a Risk Manager by THS. It was noted that discussions relating to the management of risks during ESC meetings could be better documented. We further noted the scheduled review of the risk management framework was deferred given the timing of our audit, although, this review was subsequently completed in July 2019.

There is regular comprehensive reporting of the financial performance of the Project. Budget variances are also appropriately reported and considered. We noted the financial reports were of significant length and detail. Whilst we were informed much of this detailed information was for information purposes only, we felt clear summarised financial reporting would better aid decision making by the ESC. At the time of this Report, the Project is tracking within budget, although a number of operational issues and construction delays could result in significant additional financial outlays. As the Project nears completion management of budgets and remaining contingencies will need to be closely monitored and appropriate action taken to address variation claims that may significantly impact the overall project cost.

The governance structure allows for consideration of operational, functional and clinical commissioning to facilitate the completion of the building, operational commissioning of the building and realisation of intended benefits. However, related to the earlier point on transitional arrangements, greater clarity of roles and responsibilities and planning would support a smoother transition from building to operational use of the new building.

Critical decision making at key milestones initially had not been documented or formalised in a Go-No-Go framework. This was subsequently rectified to support effective decision making at critical points in the delivery of the Project.

During the execution of the audit, we also identified insights of relevance for future major Government infrastructure projects. These included conserving the knowledge, skills and experience accumulated by those involved in the Project for deployment on future projects and inclusion in the initial Delegations Instrument, delegation of contingency allocations.

I would like to thank those involved in the RHH redevelopment and in particular members of the ESC, Project Team, DoH and THS for their assistance in undertaking this audit.

RECOMMENDATIONS

We recommend:

1. The ESC and DoH review governance arrangements to ensure an agile approach is maintained that reflects the changing needs of the Project, including:
    a. defining the governance model, its linkage to the Project Team and transfer of governance, including residual risks, to normal operations
    b. the governance model for operational commissioning, including the Go-No-Go framework
    c. overall roles and responsibilities to support transition from building to operational phases, including documenting roles and responsibilities for:
        - each key milestone across the program lifecycle
        - the Go-No-Go Framework, including the readiness assessments that lead to final decisions
    d. formally assigning overall accountability for operational commissioning of K-Block to a member of the THS Executive.
2. The ESC consider:
    a. the content of its meeting records to ensure:
        - adequate documentation of discussions on the management of risks
        - clarity on the purpose of all financial reporting information provided
    b. the need for independent assurance over performance and other information it is provided.
3. For operational commissioning of K-Block, DoH further develop and implement clear critical path planning and milestones and establish reporting that covers:
    - integration with key building commissioning milestones and key activities
    - shared risks with building commissioning
    - status against the critical path.
4. For future major infrastructure projects, the Government consider:
    a. implementing an approach where acquired knowledge and skills developed on major public sector projects can be conserved for deployment on future projects
    b. including in the initial Delegations Instrument delegation of contingency allocations.

SUBMISSIONS AND COMMENTS RECEIVED

In accordance with Section 30(2) of the *Audit Act 2008* (Audit Act), a summary of findings was provided to the ESC, the Treasurer, the Minister for Health and other persons who, in the opinion of the Auditor-General, had a special interest in the report, with a request for submissions or comments.

Submissions and comments that we receive are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response. However, views expressed by Hon Sarah Courtney, Minister for Health and Katherine Morgan-Wicks, Secretary for the DoH on behalf of the DoH and the Project Team, were considered in reaching the audit conclusions.

Section 30(3) of the Audit Act requires that this Report include any submissions or comments made under section 30(2) or a fair summary of them. Submissions received are included in full below.

In response to your correspondence of 14 November 2019, I wish to thank you for providing me with the opportunity to comment on this Report.

The Tasmanian Government welcomes the findings of the Auditor-General's report into the effectiveness of the management of the Royal Hobart Hospital (RHH) Redevelopment project.

Specifically, the Tasmanian Government welcomes the report's recommendations which predominantly focus on good governance going forward; in subsequent stages of the RHH Redevelopment and other major State infrastructure projects.

This is testament to the robust governance and project management framework implemented as a result of the Tasmanian Government's Rescue Taskforce (2014), which effectively reset the successful RHH Redevelopment project.

Importantly, the report's findings note the project has effective governance and management practices, risk management approach, and financial management processes in place.

These are the hallmarks of good project management.

With the pending completion of construction, critical work to prepare for the move of patient services into K-Block has substantially advanced since the field work for the TAO performance audit was completed in February this year.

The RHH Redevelopment and the RHH are in a solid position to move patient services safely and efficiently as the building is commissioned.

Key tools to support the move of patient services into K-Block have been finalised in consultation with clinical staff or are at a stage of development appropriate to the stage of the project.

The RHH Redevelopment, Tasmanian Health Service and Department of Health have continued to progress the project's transition arrangements including local hospital management and governance, budget and risk management.

While the RHH Redevelopment and RHH prepares to move patients and staff into this state-of-the-art health facility, Tasmanians can be confident that we have the systems and processes in place to support the next stage of redevelopment, as committed in the 2019 RHH Master plan.

Hon Sarah Courtney MP
Minister for Health

Thank you for your letter of 14 November 2019 inviting comment in relation to the Performance Audit, Report of the Auditor-General No. 5 of 2019-20 Royal Hobart Hospital (RHH) Redevelopment Project.

I accept the recommendations in the Report and note your conclusion that the RHH Redevelopment Project has been managed effectively. I provide the following comments with respect to the recommendations.

Transitional governance and operational commissioning responsibilities

Operational commissioning is a shared role as reflected in the project governance and continues to develop as the project progresses. The Executive Director of Operations – South is responsible for the implementation of the operational/clinical elements of operational commissioning and the Director of Corporate and Support Services – South is responsible for the logistical elements of operational commissioning. Both are members of the Project Control Group.

The planning and facilitation of the project's Operational Commissioning strategy is the responsibility of the Deputy Project Director, who also works collaboratively with the positions above.

Recording of risk related discussions

The project has appropriate risk management processes through governance from the Executive Steering Committee. In accepting the recommendations of the Tasmanian Audit Office, risk management is included as a separate standing agenda item for all Executive Steering Committee meetings.

Financial reporting information

The scope and format of detailed financial information reported monthly was designed by the Project Team in consultation with the Executive Steering Committee. The Executive Steering Committee remains satisfied with the current presentation of financial information. In response to the audit's conclusion that supporting financial information is too voluminous to be read by Executive Steering Committee members in its entirety, all reports now clearly state that the supporting information is "for information only" and Steering Committee members will determine through its meeting the level of detail examined according to the program risks and issues being managed.

Need for independent assurance

It is noted that the information reported to the Executive Steering Committee was found to be true and accurate.

The RHH Redevelopment project has been reviewed at various stages throughout the project. The Department will also seek the assistance of Internal Audit to provide regular and cost-effective assurance to the project during its next stage.

Operational Commissioning program

The program has developed further since the March 2019 audit and continues to be refined in line with the most up to date information available in collaboration with RHH leadership, clinicians and staff.

Considerations for future major projects

The importance of retaining acquired knowledge and skills for delivery of future major public sector projects is recognised. A new Capital Program and Operations function is being established in the Department to provide strategic oversight, leadership and management of significant and complex capital development across the health system. The Delegation Instrument from the RHH Redevelopment Project will be a consideration in assigning the governance and authorisation of the new unit.

Thank you again for the opportunity to comment on the report.

Katherine Morgan-Wicks
Secretary
Department of Health

1. INTRODUCTION

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

1.1 As Tasmania's only tertiary care hospital, the RHH is a vitally important part of the State's health infrastructure. RHH is also one of the oldest hospitals in Australia, having operated on the current site since 1820 with buildings dating back as far as 1939.

1.2 In 2005, the Government appointed a consultant to assess the future needs of the RHH. Their assessment found that the buildings on the current site were not sustainable into the future, and that without the demolition of existing buildings, there was no clear space available to provide an effective solution on the existing site. The report also found that there were overwhelming disadvantages associated with the redevelopment of the existing site. The report recommended the Government investigate the construction of a new RHH on an inner urban site, close to, or within the central business district. In response to the report, on 26 September 2006, the Premier announced the Government's intention to construct a new RHH on a new site.

1.3 On 18 May 2009, State Cabinet decided not to proceed with the construction of a new RHH. Cabinet went on to decide that:

- a new hospital on the intended site (the railyards) was ruled out due to its prohibitive up-front costs
- planning would continue on a new approach, with the RHH to be redeveloped on its existing site over an extended period and possibly supplemented by new buildings on a nearby site to provide additional space
- over the first five years, $100m was to be spent to bring the existing site up to minimum regulatory standards and to provide improved operational efficiency and functionality (Phase 1 infrastructure and essential capital works).

1.4 In November 2010, the then Department of Health and Human Services (DHHS) submitted a business case to the Commonwealth Health and Hospital Fund (HHF) for redevelopment of the RHH. This submission was successful and a Intergovernmental Agreement (IGA) for the Redevelopment of the Royal Hobart Hospital was entered into between the Australian and Tasmanian Governments in June 2011. The project funding under the agreement included:

- $240m from the HHF
- $100m from the Australian Government
- $225m from the Government (which included the original $100m announced for the Phase 1 infrastructure and essential capital works).

Additional Australian Government funding of $2.8m was also secured for improvements to day surgery.

1.5 Although not forming part of the Project, DHHS was also successful in its 2010 funding submission for a new Integrated Cancer Centre on the RHH site. State and Commonwealth funds of $20.12m were allocated for this project from HHF funds under the Regional Cancer Centre initiative.

1.6 The Project key outputs under the IGA were revised in June 2017 and included:

- a minimum of 50 000 m² of floor area
- a Women's and Children's Precinct, with a dedicated adolescent ward, including capacity for adolescent mental health patients
- a minimum of 195 new overnight, on-campus beds
- 7 additional operating and procedure rooms
- a surgical intervention and diagnostic area
- an Assessment and Planning Unit adjacent to the Department of Emergency Medicine
- a 23-hour unit for patients that require a maximum of one overnight stay
- a Patient Transit Lounge
- a helipad
- provision of infrastructure and engineering services that meet current building code standards and have the capability to cope with growth or emergency
- a design and layout for flexible utilisation of beds and co-location of functional services
- replacement of the hyperbaric chamber.

1.7 The business case for the redevelopment of the RHH informed the development of a site wide master plan completed in 2011. The master plan provided a strategic and long-term vision for the progressive redevelopment of the entire RHH site, contingent on the receipt of future funding. Stage 1 of the master plan was the construction of an inpatient precinct known as K-Block. Funding for the construction of K-Block, a 10-storey tower constructed on the site of the existing B-Block, was included in the IGA.

1.8 The RHH redevelopment funded under the IGA comprised three phases:

- Phase 1 - infrastructure and essential capital works, which included fit-out of leased accommodation in the Wellington Centre to accommodate RHH's outpatient clinics, lease of a commercial kitchen at Cambridge for the RHH food service, a new positron emission tomography (PET) scanner, expansion of the existing intensive care unit, a new short stay unit and upgrades to the RHH's infrastructure services
- Phase 2 - construction of an Integrated Cancer Centre on the RHH site
- Phase 3 - construction of the new inpatient precinct (K-Block).

Figure 1: K-Block - Campbell Street main entrance

Source: Lyons with Terrior

1.9 Following endorsement of the master plan by State Cabinet in December 2011 and approval to use the managing contractor form of procurement in January 2012, DHHS sought expressions of interest from suitably qualified contractors for the major works. Five expressions of interest were received, with three of those respondents invited to tender with tenders closing on 27 June 2012. On 2 September 2013, the Minister for Health announced John Holland Fairbrother Joint Venture would be the Managing Contractor for the Project, with the joint venture partners comprising John Holland Group Pty Ltd and Fairbrother Pty Ltd.

1.10 Stage 1 of the contract required the Managing Contractor to coordinate the development of the design, prepare a Guaranteed Contract Sum (GCS) offer and undertake a range of early works packages. The early works packages were to prepare the site for the K-Block construction and refurbishment works required to relocate services so B-Block could be demolished. Stage 2 of the contract was for the construction of K-Block.

1.11 On 5 February 2014, the Managing Contractor provided a GCS offer to the former Executive Steering Committee (former ESC) for the Project. The Project Governance, Authorisations and Financial Delegations Instrument Version 2 required the former ESC to recommend to the Minister whether to accept or reject the GCS offer from the Managing Contractor. In considering the proposed GCS offer, the former ESC resolved not to reject the GCS offer, although they identified five key issues that required resolution before a recommendation could be made that the Minister accept the GCS offer. These key issues related to governance, risk and design management concerns, the appropriateness of the Project budget as well as evidence of a comprehensive decanting and refurbishment plan.

1.12 Around the same time, in April 2014 the Tasmanian Health Commission released their report *The Commission on Delivery of Health Services in Tasmania - Working towards a sustainable health system for Tasmania*. The report recommended the RHH redevelopment project be placed on hold to ensure that a full and comprehensive service plan was developed in the context of resources available to build and operate the service as part of a State-wide health system (Recommendation 52).

ROYAL HOBART HOSPITAL REDEVELOPMENT RESCUE TASKFORCE

1.13 The issues raised in the former ESC's report and the Tasmanian Health Commission report facilitated a decision by the Government on 7 May 2014 to place the Project on hold and to commission an investigation by the Taskforce. The role of the Taskforce was to investigate the Project and provide advice and recommendations to the then Minister for Health on:

- capital and operational risk profile of the Project and RHH
- construction methodology
- patient decanting requirements
- governance and management
- the GCS presented by the Managing Contractor
- other related matters.

1.14 The Taskforce completed its investigation in November 2014 and provided a report to the Government that included 13 recommendations. The Taskforce concluded the Project could proceed, with important additions to the redevelopment including:

- a safer construction methodology allowing key acute services to stay on site but away from the day-to-day disruption of construction and still have access to critical medical facilities and security
- a fully costed decanting and refurbishment plan including the construction of the temporary facility in Liverpool Street
- an improved design to increase the floor area of levels 2 and 3 by an additional 1 400m². This was to allow increased space for mental health services including more outdoor recreational space and the inclusion of the hyperbaric chamber
- an improved design for the maternity ward to increase the number of single bed rooms for women who have caesareans or complex births
- the addition of a helipad for emergency aeromedical retrievals
- accelerated replacement of the hyperbaric chamber.

1.15 An additional investment of $71.9m was required for the Project, which was consistent with the budget overrun identified at the time the Project was put on hold in addition to the additional costs from the inclusion of the helipad.

1.16 In December 2015, the Government approved Managing Contractors GCS offer of $389m for the construction of K-Block, bringing the total budget for the RHH redevelopment project to $689m. Demolition of B-Block was completed in April 2017 allowing the construction of K-Block to commence. The practical completion date for K-Block was scheduled for August 2019.

Figure 2: K-Block - Hobart city entry view

Source: Lyons with Terrior

CONTROL OF THE ASSET THROUGHOUT THE REDEVELOPMENT LIFECYCLE

1.17 Throughout the lifecycle of the Project, control of the asset and the relevant responsibility of the Project changes. Key phases of the Project include:

- commissioning, when building work is completed (except for minor defects and omissions) and the buildings are reasonably capable of being used for their intended purpose, also referred to as practical completion
- operational commissioning, being the process of preparing a new clinical or service area for occupation
- ongoing operation and maintenance by THS as the ultimate owner.

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2. IS PROJECT GOVERNANCE, MANAGEMENT AND REPORTING ADEQUATE?

We assessed the effectiveness of the Project's governance, management and reporting by determining whether:

- Roles and responsibilities of the ESC and the PCG were defined and understood.
- Adequate skills and resources were involved to effectively govern the Project.
- Reporting was established to enable sound decision making and monitoring of key project milestones.
- Expected benefits have been adequately monitored and assessed to ensure they will be realised.

SECTION SUMMARY

Overall, the Project had effective governance structures and management practices in place and undertook regular adequate reporting.

We found the governing bodies had appropriate membership from key stakeholders and appropriate independent members who generally operated in accordance with the Terms of Reference (TOR) and the responsibilities were clearly understood. However, one minor exception was the role of the Deputy Project Director and how it related to the ESC.

Independent assurance was achieved by the use of Gateway reviews at appropriate times during the Project. It is noted that at project completion further Gateway reviews will need to be taken to assess operational readiness and benefits realisation. The ESC should consider if further independent assurance is required on the information it receives for decision-making purposes.

Regular reporting was being undertaken and reviewed by the ESC. One area for consideration is the detailed nature of financial reporting, which could be streamlined to aide better decision making. Intended benefits were also regularly reported with a number already completed. Monitoring of benefits yet to be completed will be a key task of the ESC to minimise any further delays to the Project.

THERE IS ADEQUATE DEFINITION AND UNDERSTANDING OF THE PROJECT EXECUTIVE STEERING COMMITTEE AND THE PROJECT CONTROL GROUP ROLES AND RESPONSIBILITIES

2.1 Adequate governance structures are vital to ensure the veracity and success of a project. In response to the Taskforce recommendations, the Project's governance structure was reviewed and the membership of the ESC was revised to provide strategic leadership and oversight to the Project over the PCG. The ESC and PCG are established under the Project Governance, Authorisation and Financial Delegations instrument. The roles and responsibilities are understood and allows governance arrangements to operate in a clear and effective framework. Table 1 outlines roles and responsibilities associated with the Project.

Table 1: RHH Redevelopment Project roles and responsibilities

Group	Responsibility
Executive Steering Committee	The ESC is responsible to the Minister for ensuring that K-Block is delivered within the specific scope, budget and timeframes. The ESC receives advice and reports from the Project Director, the Project Manager and the PCG. On a monthly basis, the ESC reports directly to the Minister for Health outlining all budget adjustments approved since the last report and any changes to scope, timeframes or budget that are likely to have industrial, political, media or stakeholder implications. Membership of the ESC is comprised of two independent members (one as the chair), Secretary of DoH who is the Project sponsor, Chief Corporate Officer of THS and the Secretary of the Department of Treasury and Finance (Treasury).
Project Control Group	The PCG is responsible for the provision of advice and reports to the ESC for the Project. The PCG received advice and reports from the Project Director, Project Manager and the Quantity Surveyor. Any changes to scope, timeframes and budgets approved at the PCG must be reported to the ESC. Membership of the PCG is comprised of representatives from the Project, THS and DoH.
Project Management Group	The Project Management Group (PMG) is responsible for monitoring, decision making and advising on all aspects of the work under the Contract and shall provide timely notice of any matters that may materially affect time, cost or quality in delivery of the Project. The PMG is comprised of membership from the Managing Contractor and the Principal including the Principal's Representative.
Project Director	The Project Director reports directly to the chair of the ESC and assumes responsibility for the management of the Project and ensures the Project is delivered within the scope, budget and timeframes established. The Project Director is supported by a Deputy Project Director and Executive Project Manager (Principal's Representative).

Appendix 1 summarises the current governance structure of the Project.

2.2 Discussions with key stakeholders throughout the audit supported the view that the governing bodies were operating in accordance with the TOR. Roles and responsibilities of all parties had been clearly understood throughout construction and building commissioning phases of the Project ensuring a shared understanding of governance arrangements supporting an effective contribution to the delivery of the Project.

GREATER CLARITY IS REQUIRED THROUGH PROJECT TRANSITION TO OPERATIONAL COMMISSIONING PHASES

2.3 With the ESC completing its role to deliver the K-Block building and the Project transitioning towards operational commissioning, roles and responsibilities are handed over to DoH. The transition arrangements were not clear with stakeholders. We noted roles and responsibilities throughout the transition were defined in the Project Business Plan and K-Block Operational Commissioning Strategy, however, at the time of fieldwork it was identified there was a lack of understanding by key stakeholders as to how

the transition from building completion and commissioning into clinical operational commissioning and then to THS would practically occur.

2.4 Specifically, we noted the role and responsibility of the Deputy Project Director was inconsistent between the Project Business Plan and K-Block Operational Commissioning Strategy. We acknowledge that due to the length of the Project, the roles of Project Team members may evolve over the Project lifecycle, however it should not expand outside of the remit of the Project Team. The Responsibility of the Deputy Project Director within the Business Plan is defined as *'Deputises for and support the Project Director and plays a key role in ensuring the delivery of K-Block within the specific scope, budget and timeframes and provides high level advice to the Project Director, Executive Steering Committee and Ministers'* while the Operational Commissioning Strategy outlines the responsibility of the Deputy Project Director is to have *'Overall oversight, responsibility and accountability for the end-to-end operational commissioning'.* As the Project Director and Deputy Project Director report to the Chair of the ESC, and the ESC's role is to oversee practical completion, it is unclear as to how accountability for operational commissioning rests with the Deputy Project Director when there is no responsibility held with ESC for this stage of the Project lifecycle. In our view, ultimate accountability of the operationalisation of the asset should rest with the THS.

2.5 We note that although operational commissioning is outside the remit of the Project Team, the Deputy Project Director's role leads the Executive Director of Operations - South with the THS planning for operational commissioning and informing the optimal use of clinical spaces provided in K-Block. A lack of clear accountability within THS during in the transition to operational commissioning may decrease the efficiency and effectiveness of the hospital's preparation for the opening of K-Block.

ADEQUATE SKILLS AND RESOURCES HAVE BEEN ENGAGED TO EFFECTIVELY GOVERN THE PROJECT TO DATE

2.6 Redevelopment of K-Block is one of Tasmania's largest infrastructure projects and the largest ever health project. Without adequate resources, the Project may not effectively mitigate key risks or ensure the Crown is effectively prepared for any impacts that may arise.

2.7 To ensure project governance is effectively resourced, and in line with the findings from the Taskforce, the ESC is comprised of parties from key stakeholders including DHHS (now DoH), Treasury, THS, an independent member with large hospital construction experience and an independent chair. In addition:

- a Project Management Consultant was engaged to provide project and contract management services including to act as the Principal's Representative for the Managing Contractor Contract
- a Quantity Surveyor was engaged for financial assessments and reporting
- a Construction Programmer was engaged for program monitoring and advice
- the Office of the Crown Solicitor was engaged throughout the life of the Project for legal support.

2.8 To deliver the Project, a lot of knowledge and experience has been accumulated by those involved in its governance and delivery. It would be a considerable loss to the Tasmanian Public Sector if these were not retained for future major Government projects. Consideration could be given as how to best use and conserve skills to help ensure such projects are well managed and risks of not delivering intended benefits are reduced.

REGULAR COMPREHENSIVE REPORTING IS PROVIDED TO ENABLE SOUND DECISION MAKING AND MONITORING OF KEY PROJECT MILESTONES

2.9 For the governance structure to operate effectively and make sound decisions, adequate reporting is required. This is provided on a monthly basis, with a Project Status Report which is prepared by the Project Director for the PCG and ESC. The Project Status Report is based on information obtained form a range of sources, including but not limited to the Managing Contractor's monthly report to the PMG, the Managing Contractor's Construction Program update monthly, the Quantity Surveyor's Monthly Financial Report, the Executive Project Manager's Monthly Report and other Project Team reporting. In addition to monthly reporting, interim briefing papers and out-of-session minutes are issued as required. This provides a clear view of the Project's progress. The Project Status Report includes an overview of:

- project status
- milestones for the last reporting period
- milestones for the next reporting period
- project milestones/timeframe report on an exception basis relative to the Project Business Plan
- Project Budget report dissected to appropriate level for the group including the expenditure and references to budget approvals
- issues report including areas of concern, specific problems and any action that needs to be taken by the group
- risk management report on an exception basis relative to the Project Business Plan including mitigation strategies
- project by project summary report budget, cash flows, timelines and issues.

2.10 The following issues were noted in relation to the Project Status Report:

- **Cost**: A review of the financial component (Financial Review report) of the Project Status Report and discussions with some members of the ESC identified that current reporting was too detailed and, although a one-page summary accompanies the Report, in November 2018, December 2018 and February 2019 the Report ranged between 90 and 96 pages.

  The Project Status Report and its accompanying appendices were not formally noted as being for 'information purposes' in the ESC meeting agenda and therefore, the assumption is these financial reports are read, understood and endorsed in full by the members of the ESC prior to submission to the Minister. Discussions with ESC members identified in practice the members do not read the entire Report but rather rely upon the one-page summary to monitor the financial status of the Project. A clearer understanding of the financial information ESC members need to be appraised of to enable effective decision making would provide a more effective approach.

- **Progress/Time**: The Project Status Report provides a clear view of progress. This includes an overview of the progress of the Project in accordance with the schedule outlined previously. For example, in January 2019, the Managing Contractor reported a practical completion date of 30 July 2019 to the PCG, however, it is understood that after a review of commissioning activities by the Managing Contractor, this date was delayed until August or September 2019 upon the next submission of the construction program.

The Report outlines the Project Management Consultant had the opinion that an August or September 2019 completion date was unlikely without mitigation of recent delays, ensuring adequate resources were available and effective management of the remainder of the program to avoid further delays. If these issues were not addressed by the Managing Contractor, the Report concluded a realistic forecast completion date would be November 2019.

- **Risk**: Project risks are regularly reported. The TOR for the ESC states its role is to identify and monitor risks and strategic issues arising in the Project. Risk Management is a standing component of the Project Status Report and risks that have eventuated into issues are reported. A commentary is provided by the Project Director on changes to the likelihood or consequence for risks noted as being of significant impact to the Project. The commentary is accompanied by a table outlining the top five risks. Further overview of the Reporting and Management of risks is outlined in another Section of this Report.

2.11 The expected completion date of the Project, as reported in the February 2019 ESC Project Status Report was as shown in Table 2.

Table 2: Expected completion date of the Redevelopment as at February 2019

Milestone	Baseline Date	Previous Target Date	Current Target Date	Status
Receipt of GCS	4 Sep 2015	4 Sep 2015	3 Sep 2015	Achieved
Acceptance of GCS	27 Nov 2015	27 Nov 2015	18 Dec 2015	Achieved
Commencement of Demolition	29 Apr 2016	12 Jan 2017	31 Jan 2017	Achieved
Commencement of Construction	1 Jul 2016	6 May 2017	29 Apr 2017	Achieved
K-Block PC	28 Sep 2018	14 Sep 2019	7 Aug 2019	Not achieved
Final Completion	28 Sep 2019	14 Sep 2020	7 Aug 2020	Will be 12 months post PC

2.12 The dates shown in the Baseline Date column were programmed in early 2015, immediately after the conclusion of the Taskforce review. The detailed programming of the early works necessary to vacate B-Block for demolition and the negotiation of the Guaranteed Construction Sum with the Managing Contractor resulted in the agreement of a revised date for practical completion of K-Block of December 2018. Due to the need to address greater than anticipated hazardous materials (i.e. asbestos) and fire separation issues within existing buildings, plus significant construction quality issues with the prefabricated modules supplied for the construction of the J-Block inpatient facility (including mould), commencement of demolition of B-Block was delayed until January 2017, causing the forecasted date of practical completion of K-Block to be rescheduled to August 2019 (as announced in Parliament by the Minister for Health on 16 August 2016). On 3 June 2019, the Minister for Health announced a revised construction program had been received from the Managing Contractor forecasting Practical Completion of the building in September 2019; however, the Project Team had taken the precautionary view that practical completion may not be achieved by the Managing Contractor until closer to the end of 2019. As of October 2019, the Managing Contractor was completing the final fit-out works, undertaking defect rectifications and completing building commissioning requirements necessary for acceptance of practical completion of the building.

APPROPRIATE PROJECT ASSURANCE NEEDS TO BE CONSIDERED AS THE PROJECT NEARS COMPLETION

2.13 We note that DoH and the THS are responsible for operational commissioning, however, the ESC has responsibility to ensure adequate preparation of the building in the lead up to operational commissioning. As such, as the Project nears operational commissioning, the ESC (on behalf of DoH) needs sufficient assurance the hospital is operationally ready and sufficient assurance regarding the status of the Project in reference to budget, time, quality and cost. At the time of undertaking our audit work, this assurance had not yet been developed.

2.14 Gateway reviews have been conducted and were broadly positive in confirming appropriate development of the Project. Reviews for stages 4 and 5 will need to be undertaken at the appropriate time. Gateway reviews are independent single point-in-time cross-sectional reviews that traditionally review a project when it reaches a milestone and provide a view on progress to date and specific recommendations. Refer to Appendix 2 for details of the purpose of each stage in a Gateway review process.

2.15 We acknowledge that during 2012 and 2014, the Gate 2 (Readiness for Market) and Gate 3 (Investment Decision)[3] reviews were completed, respectively. These were supplemented by further Project Management reviews in late 2015, immediately prior to acceptance of the GCS offer from the Managing Contractor in December 2015, and in mid-2017.

2.16 In September 2017, the ESC:

- noted that in alignment with the Project milestone of "mid-construction of K-Block" the Tasmanian Audit Office audit was scheduled for 2017-18
- agreed that, subject to unforeseen issues or events warranting earlier consideration, the next Quality/Health Check review shall be considered for the Project milestone of "pre-practical completion and commissioning".

2.17 We were advised that given our audit was rescheduled until 2019 and had a strong focus on readiness for operational commissioning. The need for, value and benefits of the planned pre-practical completion and commissioning were to be reviewed once the preliminary findings of our audit were known.

2.18 A Gate 4 review, which was agreed by ESC in September 2017, is to be undertaken pre-practical completion and commissioning. This should provide added assurance of the Project transitioning to be operationally ready.

THERE IS AN ABSENCE OF DATA QUALITY AND INFORMATION ASSURANCE

2.19 It is important decisions by those charged with governance are based on up to date and accurate information. The ESC should consider how it achieves assurance relating to performance and other information it is provided.

2.20 Although our audit did not identify any instances where the information reported to the ESC was not true and accurate, no independent assurance had been sought to ensure the information being reported to the ESC was factually accurate and complete. ESC members noted they had relied on the professionalism and integrity of members of the Project Team, the Project Management Consultant and other contracted services to provide this level of assurance throughout the life of the Project.

2.21 Specialist independent information assurance would provide additional comfort to the Project Team and ESC that the information relied upon is complete and accurate. Limited independent assurance could be utilised to give a higher degree of confidence on key information used for decision making, project status and risk assessment.

3 Gate 3 review was essentially in two steps: decision by Government to increase level of funding following the Rescue Taskforce Report and acceptance of the GCS in December 2015.

EXPECTED BENEFITS HAVE BEEN IDENTIFIED AND MONITORED INDICATING THE DELIVERY OF SOME BENEFITS ARE DELAYED

2.22 Benefits realisation is an important aspect of project management to ensure the desired benefits that are adequately managed and realised. The original business case for the RHH Redevelopment (developed in November 2010) did not include a functional brief or define and document project benefits that the Government was seeking to achieve through this project.

2.23 The Taskforce provided a report to the Government that included 13 recommendations which were endorsed by the Government. Based on the recommendations of the Taskforce, the Project Team developed Target Outcomes and intended benefits and documented these within the Project Business Plan. The Target Outcomes and Project Outputs for the RHH are summarised in Table 4 including their reported status at their last review in August 2018.

2.24 A number of outputs were documented by the Project Team as completed at last review in August 2018. However, as outlined previously, the Project Management Consultant noted the Managing Contractor was unlikely to meet the completion date of August 2019, if it did not mitigate recent delays and provide adequate resourcing. This could result in the anticipated verification dates for a number of the Target Outcomes being further delayed from original timeframes.

Table 4: Target Outcomes progress as at August 2018

No.	Target Outcome Description	Target Outcome Verification	Original Verification Date	Anticipated Verification Date as at August 2018
1	To provide a facility that meets the Project Outputs as defined in the IGA dated 16 June 2017.	Taskforce Report	Completed	Completed
		Verification of Developed Design against Project Agreement	August 2015	Completed
		Verification of Final Designs against Project Agreement	2016	Completed
		Post occupancy verification against Project Agreement	2018	2019
2	To provide a facility that meets the needs of the THS, as defined by the approved Developed Design.	Verification of Developed Design including RHH sign-off of any changes from previous designs	September 2015	Completed
		Verification of Final Design is consistent with Developed Design, including RHH sign-off of any changes	2016	Completed
		Verification that constructed facility is consistent with Final Design	Late 2018	Late 2019

No.	Target Outcome Description	Target Outcome Verification	Original Verification Date	Anticipated Verification Date as at August 2018
3	To provide a facility that meets statutory building requirements and the requirements for tertiary hospital accreditation.	Certification by Designers	September 2015	September 2015
		Certifications by Contractor	2016	2016
		Certificate of occupancy by building surveyor	Late 2018	August 2019
4	To complete the Project within the agreed budget.	Project Financial Report - Total Cost less than Total Budget (Late 2018)	Late 2018	August 2020
5	To commence the delivery of health services from K-Block by the end of 2018.	Certificate of occupancy by building surveyor	Late 2018	August 2019

2.25 Table 5 outlines the status of Project Outputs as at the last review in August 2018. Many of these were yet to be completed, however, the Project Team advised it was on track to meet the Project Outputs which should be realised upon practical completion.

Table 5: Status of Project Outputs listed in the IGA as at last review in August 2018

Project Outputs (as listed in IGA Project Agreement, June 2017)		Additional notes	Status at 1 August 2018 (Completed/Not completed)
1	A minimum of 50 000m^2 of floor area (inclusive of 38 000m^2 of new build, with the balance comprised of refurbished space of a minimum of 12 000m^2 that is in addition to any temporary floor space).	The planned floor area of the new building, K-Block, is estimated at greater than 38 000m^2.	**Not completed:** 38 000m^2 of new building, K-Block. Concrete structure substantially complete and internal fit-out commenced.
		Temporary spaces include a Temporary Inpatient Facility to allow the decanting of B-Block (Levels 2 and 3 of J-Block, 3 154m^2).	**Completed:** Over 12 000m^2 of refurbished space within existing buildings in addition to the temporary inpatient facility. Details have been provided in correspondence to the Australian Department of Health in March 2017. The Australian Department of Health acknowledged that the minimum floor space required for this project has been met.

Project Outputs (as listed in IGA Project Agreement, June 2017)		Additional notes	Status at 1 August 2018 (Completed/Not completed)
1 *(continued)*		The Temporary Inpatient Facility will be in use until 2025 and is in addition to the minimum of 12 000m^2 of refurbished spaces as defined in the Project Agreement.	**Completed** under Phase 3 and detailed below.
2	A Women's and Children's Precinct, with a dedicated adolescent ward, including capacity for adolescent mental health patients.		**Not completed:** Will be provided in K-Block on Levels 6, 7, and 8.
3	A minimum of 195 new overnight, on-campus beds (increasing capacity from 371 to a minimum of 566 beds).	Approximately 250 new overnight, on-campus beds are planned within K-Block[4]	**Not completed:** Will be provided in K-Block
4	7 additional operating and procedure rooms (increasing from 16 to 23).		**Not completed:** Will be provided in K-Block on Level 4
5	A surgical intervention and diagnostic area.		**Not completed:** Will be provided in K-Block on Level 4.
6	An Assessment and Planning Unit adjacent to the Department of Emergency Medicine.		**Completed:** Completed under Phase 1 and detailed below.
7	A 23 hour unit for patients that require a maximum of one overnight stay.		**Completed:** Completed under Phase 3 on Level 4 of C-Block and detailed below.

4 250 beds are proposed within K-Block, however, the additional new overnight campuses also come from the inpatient facility (J-Block).

	Project Outputs (as listed in IGA Project Agreement, June 2017)	Additional notes	Status at 1 August 2018 (Completed/Not completed)
8	A Patient Transit Lounge.		**Not completed:** Will be provided in K-Block on the Ground Floor.
9	A helipad.	The Government made an individual contribution to the Project to fund the helipad. $10.5m was allocated in the 2014-15 Revised Estimates Report.	**Not completed:** Will be provided on the roof of K-Block.
10	Replacement of the hyperbaric chamber.	The Government made an individual contribution to the Project to fund the hyperbaric chamber. A total of $12m was allocated in the 2015-16 Revised Estimates Report.	**Not completed:** Will be provided in the K-Block on Level 3.
11	Provision of infrastructure and engineering services that meet current building code standards and have the capability to cope with growth or emergency.		**Completed:** Completed under Phase 1. Further infrastructure upgrades being undertaken concurrent with K-Block construction.
12	A design and layout for flexible utilisation of beds and co-location of functional services.		**Completed:** the detailed design of K-Block has been completed.

2.26 At the time of fieldwork, monitoring and reporting of operational benefits had not yet been considered by DoH. This should be developed prior to operational commissioning of K-Block to ensure the expected operational benefits are delivered.

2.27 The Government's approach to Project Management is outcomes focussed and outlines that planning for outcome realisation should commence as early as possible in the Project[5]. It stipulates a Steering Committee is responsible for ensuring an effective project business plan is in place to form the baseline for the outcome realisation plan. We note that progress against the Target Outcomes, Project Status and Deliverables had not been reviewed since August 2018. We acknowledge that all of the yet to be completed target outcomes will only be realised at practical completion and that changes in scope, status of the Project budget and progress against program are reported monthly. It will be important benefits continue to be monitored to ensure the best possible outcome from the Project.

5 Tasmanian Government Project Management Framework, Department of Premier and Cabinet (2011)

3. ARE THE RISK MANAGEMENT FRAMEWORK AND PROCESSES APPROPRIATE?

We assessed the risk management framework and process to ensure they are appropriate by determining whether:

- The risk management framework is fit for purpose.
- Adequate skills and resources are involved in the Project to manage the project risks.
- The risk management process facilitates the effective management of existing and emerging risks.

SECTION SUMMARY

The Project has adopted a fit-for-purpose Risk Management Framework, based on the relevant Australian Standard, and appropriately resourced within the Project Team.

There were risk registers with appropriate ownership identified. The risk registers were reviewed and appropriate mitigations recorded. However, the Risk Management Framework had not been regularly reviewed and this should done to ensure it remains fit-for-purpose.

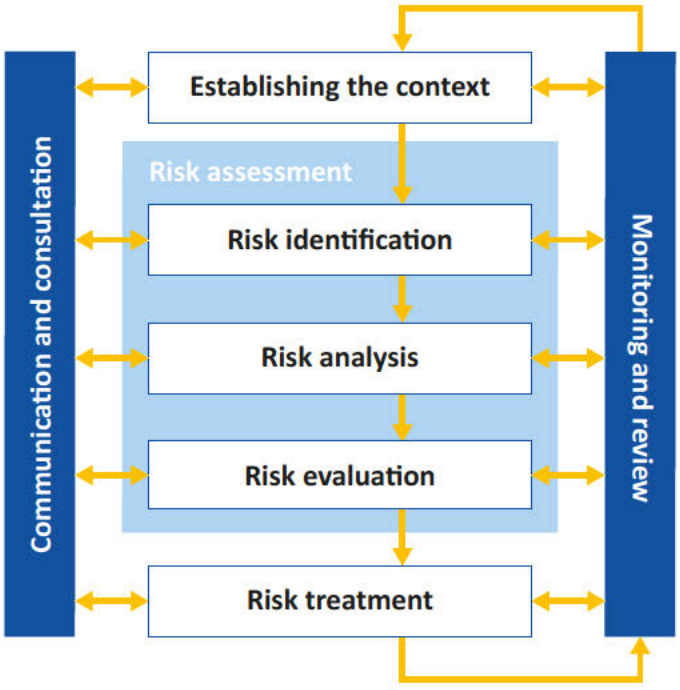
One issue for consideration was how risks external to the Project Team were identified and actioned. This was overcome to an extent by the appointment of a Risk Manager by THS.

THE PROJECT RISK MANAGEMENT FRAMEWORK IS CURRENTLY FIT FOR PURPOSE BUT WILL NEED TO ADAPT AS THE PROJECT MOVES INTO ITS FINAL PHASES

3.1 Risk Management is only effective when risk is integrated into decision making and there is a strong risk culture including flow of information and a continual improvement and review of risk management.

3.2 The Risk Management Framework is fit-for-purpose. It is based on the Australian Standard AS/NZS ISO 31000:2009 and operates within the risk management framework defined by DoH incorporating both clinical and non-clinical risks. Figure 4 summarises the Project's risk management framework.

Figure 4: RHH Redevelopment Risk Management Framework



Source: RHH Redevelopment Risk Management Framework

3.3 There is an appropriate demarcation between project and operational risks while project risks have clear ownership. Risk owners and risk treatment owners are assigned upon initial identification of each risk. Ownership is validated during the consultation period and is regularly reviewed as the Project progresses to ensure assigned ownership remains appropriate. The Project Team is responsible for managing risks associated with overall project delivery and interacting with the Managing Contractor, whereas, actual construction risks are managed by the Managing Contractor itself.

3.4 Risk ownership is further defined with risks managed by the Project Team classified into 10 risk registers to align responsibility for reporting risks with the most relevant leader/ risk owner as shown in Table 6.

Table 6: Managing Contract Risk Classifications and Owners

Classification base Risk Register	Risk Owner/Leader
Contractor Interface	PMG (lead oversight by Executive Project Manager/Principal's Representative)
Contractor and Construction Management	Executive Project Manager/ Principal's Representative
Design and Scope Management	Design Manager/ Principal's Representative
Furniture, Fittings and Equipment (FF&E) Procurement and Commissioning	Manager Project Liaison and FF&E
ICT Procurement and Commissioning	Manager - Finance and ICT
Operational Impacts and Commissioning	Deputy Project Director
Project Administration and Governance	Risk Manager
Post Commissioning Planning	Project Director
THS/DHSS Responsibility	PCG (lead oversight by the Project Director)
Other	Risk Manager

3.5 Overall, risk treatment progress was regularly reviewed and reported based on the inherent risk level with mitigating controls identified to determine the net risk level. We reviewed a sample of risk registers and treatment plans and noted that, at an operational level, they had been completed and reviewed by the risk owners on an ongoing basis in accordance with the Risk Management Framework.

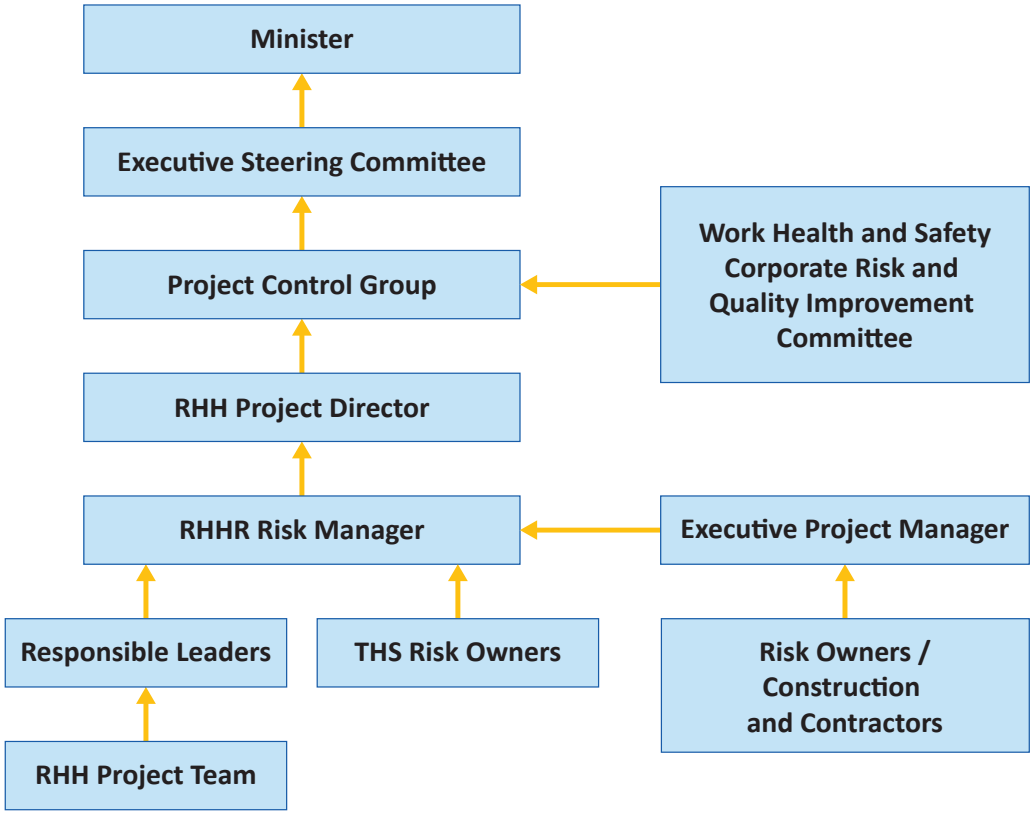
3.6 The Risk Management Framework had not been reviewed to ensure it continued to be fit-for-purpose. ISO31000:2009 outlines that risk management needs to be adaptive, dynamic, iterative and able to react to change and the Risk Management Framework outlines it is to be reviewed on an annual basis. A review of the Risk Management Framework identified the document had not been reviewed on an annual basis. Specifically, the Risk Management Framework was developed and finalised in 2015, however, had only been reviewed in 2017. A lack of a consistent review of the Risk Management Framework, may result in the Framework not being fit-for-purpose through the transition to operational commissioning. We acknowledge the Risk Management Framework was subsequently reviewed and approved by the ESC in July 2019.

ADEQUATE SKILLS AND RESOURCES SUPPORT AND EFFECTIVE RISK MANAGEMENT FRAMEWORK HAVE BEEN FURTHER STRENGTHENED

3.7 The Project aimed to ensure appropriate accountability, authority and competency are applied to manage risks. The following stakeholders play a key role in Risk Management:

- The RHH Redevelopment Risk Manager, appointed at project inception, is responsible for the development, implementation and maintenance of consolidated risk reporting to the required committees.
- The Project Director provides direction on the appropriate project governance, reporting frameworks and reports required for risk management. The Project Director participates in the review of key risk profile information, monitoring the management by responsible leaders of higher risks and the effectiveness of mitigating controls and is key in setting the tone and promoting the required risk culture.
- The PCG assumes the duties of an Audit and Risk Committee and in addition to its existing financial, governance and regulatory obligations, promotes the coordination and oversight of project risk management activities. The PCG also identifies and manages risks, escalating those requiring further consideration to the ESC.
- The ESC provides strategic direction and oversight of the risk management program, and approves the risk profile, appetite, tolerance and framework. Figure 5 outlines the risk management escalation path for the Project Team.

Figure 5: Risk Management escalation path



Source: RHH Redevelopment Risk Management Framework

3.8 As noted previously, a Risk Manager for the Project Team was appointed at project inception and is responsible for facilitating the monitoring and reviewing of the Risk Management Framework including Risk Treatment Plans and Registers to ensure they are updated accordingly and reported to the PCG. Our review of the Project risk register as at February 2019 noted four risks identified as being owned by or influenced by external parties, where the relevant action owner was either THS, RHH or DoH. Upon identification of the risks owned by an external party, the Project Team actively seeks to transfer the risk or notify external parties that a project risk impacting their organisation has been identified. An example of a risk assigned to an external party in the Project's risk register is the *'Potential for fire to spread through the buildings at a much faster rate than assumed by RHH in their fire evacuation plans'*. This risk was identified by the Project Team through construction activities that identified the fire separation within the Hospital may have been compromised due to modifications over the last several decades.

3.9 Discussions with Project Team stakeholders identified that due to the evolution of THS's governance structure over the Project's duration, there was a lack of feedback from the external parties to ensure external risks identified by the Project Team were being addressed. This however improved following the formal appointment of a Risk Manager (Statewide Risk Coordinator) at THS in November 2018. In December 2018, the THS Risk Manager advised the Project Team that risks associated with the K-Block Redevelopment had not been articulated and monitored in the THS's risk registers as should be expected from a THS operational point of view.

CURRENT AND EMERGING PROJECT RISKS ARE CONSIDERED AND ACTIONED BUT THESE ACTIONS AND APPROACH TO EXTERNAL RISKS ARE NOT DOCUMENTED

3.10 Effective Risk Management is key to ensuring a project is successful in its planning and delivery. The Project Status Report submitted to the ESC by the Project Director contains a summary of the Risk Register supplemented by comments from the Project Director.

3.11 Management of the Project advised that at each meeting the Project Director provides an overview of the contents of the Monthly Status Report including an overview of the Summary Schedule supplemented by summary comments contained in the Risk Management section of the report. Where direction or decisions are required from the ESC, a topic specific paper is presented to the ESC. Where the ESC requires a specific action, this is documented in the minutes.

3.12 For example, the Monthly Status Report presented in November 2018 identified the emerging risk relating to RHH/THS capacity to meet the needs of the Project in relation to planning for and minimising the impact of service interruptions. The ESC noted a paper would be prepared for the PCG to manage this risk. This paper and the PCG's decision was then noted by the ESC at the December 2018 meeting.

3.13 Our review of a sample of ESC meeting agendas and minutes for the November 2018, December 2018 and February 2019 meetings identified there was no documentation of consideration and discussion on the identification, monitoring and management of priority risks by the ESC. Specifically, the meeting minutes identified the discussion was limited to risks that had been realised (therefore they were in fact issues; for example changes to resourcing within the Managing Contractor) and there was no evidence as to the level of discussion at the ESC in relation to the Risk Register. ESC members advised the risk register is discussed during the ESC meetings and ESC members expressed they were happy with the level of discussion around risk or problems with risk management at each meeting. However, there was no evidence in the ESC meeting minutes documenting such discussions.

3.14 The February 2019 risk register and associated treatment plans identify eight risks with an inherent risk rating of 'Extreme' and 21 risks with an inherent risk rating of 'High'. While there is documentation that risks were discussed at PCG meetings, there was no evidence as to how these risks were escalated (where applicable) to the ESC for further discussion. Specifically, we note the February 2019 risk register identified two risks that were rated as High with a catastrophic consequence which, in accordance with the Risk Management Framework, needed to be reported to the ESC. Our review of the February 2019 ESC papers revealed only one of the two risks were reported to the ESC. The second risk, related to Major Failure of high voltage infrastructure, was not included in the Project Status Report. Our enquiries identified the rating for this risk was reduced from High to Medium in April 2018 and as such, was not required to be reported to the ESC. However, due to an administrative error, the change in rating was not reflected in the Risk Treatment Plan and Risk Register which continued to show the risk as rated High. This is an example of where independent assurance could assist in enhancing the quality of information reported.

3.15 As noted previously in this Report, there was a lack of consistent monitoring and reporting of emerging risks external to the Project Team. The Project Team identifies and reports these risks to the relevant external parties, however at the time of fieldwork, no documented evidence was provided to demonstrate remedial actions had been implemented by other parties. The Project Team and the ESC follow up on risks assigned to the THS.

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4. IS THE FINANCIAL MANAGEMENT TO DELIVER THE PROJECT AND REALISE THE EXPECTED BENEFITS APPROPRIATE?

We assessed whether the financial management process to deliver the Project and realise the expected benefits is appropriate by determining whether:

- Adequate skills and resources are involved in the Project to enable effective financial management of the Project.
- Adequate monitoring of budgeted expenditure, actual project expenditure and forecast costs to complete.
- Project modifications and variations have been appropriately reviewed, approved and managed.

SECTION SUMMARY

There were adequate skills and resources to enable effective financial management of the Project.

There was adequate monitoring of budgeted and actual expenditure for the Project. As at October 2019, the Project was tracking within budget. However, a number of operational issues and construction delays could result in significant additional financial outlays for the Project. These will need to be closely monitored as the Project transitions into operational commissioning.

Project modifications and variations have been appropriately reviewed, approved and managed.

THERE ARE ADEQUATE SKILLS AND RESOURCES TO ENABLE EFFECTIVE FINANCIAL MANAGEMENT OF THE PROJECT

4.1 We identified there were adequate skills and resources to enable effective financial management of the Project. The Project engaged an independent Quantity Surveyor and Principal's Representative to provide support and quality assurance. The Quantity Surveyor is a member of the PMG and reports to the PCG through the Summary Financial Report. The Principal's Representative is a member of both the PCG and PMG. At the ESC level, there is representation by Treasury to provide insights and input into the financial management of the Project.

4.2 On a monthly basis, the Quantity Surveyor reviews progress and outstanding claims with the Managing Contractor and Principal's Representative. The Quantity Surveyor assesses whether items listed within the progress update and invoices have been completed and then issues a Certificate of Completion to the Project Team.

4.3 The Actual Contract Sum (ACS) and GCS are tracked using various tools and outcomes of the analysis transmitted by the Quantity Surveyor via ACONEX™ to the Project Team. Client instigated (e.g. THS/DoH) changes are tracked separately and a cost is placed against each item. The Project Team reviews each submission to determine whether variations should proceed prior to entry of anticipated/forecasted variation costs in the Quantity Surveyor's financial reports.

THERE IS ADEQUATE MONITORING OF BUDGETED EXPENDITURE AND ACTUAL PROJECT EXPENDITURE BUT INFORMATION PROVIDED TO ESC IS TOO DETAILED

4.4 Funding sources for Stage 1 of the overall Project are shown in Table 7.

Table 7: Funding sources for the RHH Redevelopment (Stage 1)

Funding Source	Amount $m
Special Capital Investment Funds - Hospital Capital Fund - RHH	100
Capital Investment Program - RHH Redevelopment	469
Capital Investment Program - RHH Women's and Children's	100
Capital Investment Program - State-wide Cancer Services - RHH Cancer Centre Upgrade	20
Total	**689**

4.5 The February 2019 Project Status Report and corresponding papers outline the Project is tracking within budget although a number of operational issues and construction delays, discussed at the ESC level and documented within meeting minutes, could result in significant additional financial outlays. Specifically, due to the Managing Contractor not completing the Project on time, and most likely incurring Actual Construction Costs in excess of the Guaranteed Construction Sum, the February 2019 ESC paper 'Review of Project Budget and Contingencies' notes the Managing Contractor may seek to minimise exposure to liquidated damages and recover costs where possible through active pursuit of extension of time claims.

4.6 Our enquiries identified there is the potential that litigation may arise in relation to claims from the Managing Contractor over financial disputes towards the end of the Project. Consequently, the balance of remaining contingencies needs to be closely monitored to ensure any risks that are realised in relation to additional and unexpected financial outlays can be appropriately mitigated.

4.7 For Stage 1 of the RHH redevelopment, at 30 June 2019, $596m of the total project funding of $689m had been expended. We are advised that as at 2 October 2019 a further $26m had been expended leaving remaining funds of $68m which were considered sufficient for payment of the outstanding unexpended commitments. Such commitments include payment of the remaining contracted commitments to the Managing Contractor, procurement of furniture fittings and equipment and information and communications equipment and systems, consultant (including Project Management, Programming, Quantity Surveyors) fees, THS Project Team costs and building and infrastructure works to be undertaken after practical completion of the new inpatient facility (such as the Liverpool Street entrance).

4.8 For Stage 1 Phase 3 construction of K-Block, expenditure as at 30 June 2019 is summarised in Table 8.

Table 8: Phase 3 K-Block construction expenditure as at 30 June 2019

Description	Expenditure (at 30 June 2019) $m	Approved Budget (December 2015) $m	Budget (June 2019) $m
Early Works	1	1	1
Construction - Managing Contractor	388	395	409
Total Construction	**389**	**396**	**410**
Other project and client costs	100	188	174
Total Cost	**479**	**584**	**584**

4.9 As previously noted in this Report, the ESC receives a Financial Review report at every ESC meeting that outlines progress of the Project, key risks that have been realised and financial considerations reported. However, the level of financial reporting received at the ESC appears to be too detailed as reports run to over 90 pages. This may impact on the ESC's ability to provide oversight of the Project. Although a summary document is provided with the Project Status Report this volume of reporting does not aid good decision making or governance. There needs to be more clarity about what information is used for decision making and information that can be just noted. In the absence of this, it would be assumed these financial reports are read, understood and endorsed (for accuracy and completeness) in full by the members of the ESC prior to submission to the Minister. Our enquiries identified this was not happening in practice.

PROJECT MODIFICATIONS AND VARIATIONS HAVE BEEN APPROPRIATELY REVIEWED, APPROVED AND MANAGED

4.10 The Principal's Representative receives variations to the contract when submitted by the Managing Contractor. If upon investigation a variation is deemed appropriate, it is further reviewed and costed independently by the Quantity Surveyor and endorsed by the Principal's Representative prior to being accepted.

4.11 The review and approval of project modifications and variations is facilitated through the Project Governance, Authorisations and Financial Delegations Instrument. The instrument outlines the appropriate review and approval level (ranging from the Project Manager through to the Minister for Health) for a variety of scenarios. We examined evidence for 10 variations processed over the life of the Project and noted the Variation process was followed in all instances in accordance with the Delegation Instrument.

4.12 A detailed review of the instrument and the 10 contingency allocations revealed the allocation and approval of contingencies were not specifically identified in the Delegations Instrument until incorporated in the September 2018 version (Version Five). Management advised that prior to documenting the contingency approvals in the Delegations Instrument, a protocol for the allocation of contingency funding was approved by the ESC and Minister in July 2017. The contingency allocations we tested prior to September 2018 had all been approved by the ESC and Minister where appropriate.

4.13 The allocation of contingencies is the transfer of funds within the Project from a contingency pool to a specific expense line item.

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5. ARE PLANS AND RESOURCES ADEQUATE TO ENABLE EFFECTIVE BUILDING AND OPERATIONAL COMMISSIONING?

We assessed the adequacy of plans and resources to enable effective building and operational commissioning by determining whether:

- A clear delineation exists between the roles and responsibilities of building and operational commissioning.
- Adequate skills and resources are involved in the Project to support building and operational commissioning.
- Commissioning plans adequately identify the critical path of project activities and key milestones to be achieved.
- Reporting mechanisms for building and operational commissioning are fit-for-purpose.
- Plans for operational commissioning provide for continuity of operations.

SECTION SUMMARY

A clearer approach to the delineation of project and operational management has been implemented. There was previously a number of issues with how the Project was managed and operational management including clarification of roles and responsibilities. A clear understanding and demarcation of roles and responsibilities will be important as the Project moves from building to operational phases.

Appropriate resourcing to support the Project moving into the operational commissioning phase has been allocated.

Appropriate planning for the transitional phase has been adopted, though this could be strengthened through the use of critical-path planning.

Reporting mechanisms required for operational commissioning need improvement as these have not been effectively established. The impact of this had not been assessed and no mitigation strategies have been put in place. The cost impact of K-Block commissioning on the RHH operating budget will require further consideration. It was unclear to the ESC and the Project Team, who was forecasting the future operating cost model, how it was to be calculated, and how these costs would be met in the future.

RECENT DEVELOPMENTS ARE MAKING A CLEARER DELINEATION BETWEEN BUILDING AND OPERATIONAL COMMISSIONING ROLES AND RESPONSIBILITIES

5.1 Clear delineation between building and operational commissioning roles and responsibilities enables a smooth delivery of each these programs, visibility of dependences, schedule integration and a controlled transition from program to business as usual operations and governance. Table 9 outlines clearly the key stakeholders with responsibility throughout building and operational commissioning.

Table 9: Responsibilities of key stakeholders throughout building and operational commissioning

Group/Role	Responsibility		Reports to
	Building Commissioning	Operational Commissioning	
Minister for Health	✓	✓	-
Department of Health	✓	✓	Minister for Health
THS Executive		✓	Secretary of DoH
RHH Executive	✓	✓	THS
Executive Steering Committee	✓	✓	Minister of Health
Project Control Group	✓	✓	ESC
Project Management Group	✓		PCG
Construction Interface Group	✓		PMG
Project Director	✓		Minister of Health
Deputy Project Director	✓	✓	Project Director
Professional Reference Group	✓		Advisory Function to Project Director
RHH Executive Commissioning Group (ECG)		✓	PCG
Logistics and Functional Commissioning Groups		✓	ECG
Clinical Commissioning Groups		✓	ECG

READINESS ASSESSMENT AND GO-NO-GO ACTIVITIES FRAMEWORK AND DOCUMENTATION HAS BEEN RECENTLY DEVELOPED

5.2 We identified some common areas of operational commissioning had been documented in the *K-Block Operational Commissioning Strategy* as hospital, K-Block and ward level key activities. We understand these key activities will be delivered by the Logistics and Functional Commissioning Groups (LFCGs) and the Clinical Commissioning Groups (CCGs). The LFCGs members are comprised of non-clinical areas that provide site wide hospital services and are responsible for identifying and coordinating key activities and actions for the expansion of existing clinical and non-clinical services to include K-Block. The CCGs include members that represent the various clinical streams and are responsible for the operational planning and moves of the clinical services to K-Block. Both the LFCGs and CCGs report through to the ECG which coordinates RHH related services commissioning and operational planning through established operational commissioning user group structure.

5.3 The *K-Block Operational Commissioning Strategy* stipulates roles and responsibilities specific to operational readiness assessments and the Go-No-Go decision framework. A Go-No-Go decision framework could not be provided as a separate document at the time of our fieldwork.

5.4 Go-No-Go frameworks as a minimum cover the Go-No-Go decisions to be made, when they need to be made, who makes them and through what process. In the case of the Project, the roles and responsibilities are unclear at the following key milestones:

- practical completion - when the Managing Contractor hands over the building with an agreed defects/residual work schedule.
- Facility Access - when the Client controls access and sequences activities such as Clinical Cleans.
- Facility opening - at the end of readiness assessments and a decision to Go Live for each service.
- Post Go-Live - supplementary support and residual operational program delivery.

5.5 Subsequent to the conclusion of our fieldwork, the Project Team developed and provided a copy of draft Go-No-Go triggers. These triggers were recently utilised in the collective decision to postpone K-Block Go-Live to the second window of opportunity outlined in the *K-Block Operational Commissioning Strategy (January - February 2020)*.

THE ROLE OF CCGS, LFCGS, AND THE CROSS FUNCTIONAL DELIVERY TEAM (CFDT) HAS BEEN MADE CLEARER WITH THE INTRODUCTION OF AN ISSUES REGISTER FOR THE PROJECT TRANSITIONAL PHASE

5.6 The CCGs and LFCGs have responsibilities for operational planning and moving into to K-Block for their specific clinical or non-clinical service, as documented in the *K-Block Operational Commissioning Strategy*. The Strategy also describes the CFDT as having a coordinating role for each ward/service and joint activities. However, there was no clear delineation between the roles and responsibilities of the CCGs, LFCGs and the CFDT as to who is ultimately responsible for assessing a space as being ready and by doing so informs the Go-No-Go decision.

5.7 At the time of our fieldwork, there was an inconsistent approach for each CCG and LFCG to fulfil their responsibilities relating to their operational planning and moving into to K Block. For example, there was no standard approach described or template documents created relating to:

- Assumptions - the documentation of assumptions relating to key dependencies that underpin the services.
- Dependencies - the key milestones/decisions that inform the development of a critical path.
- Training and familiarisation - the key requirements for each service/ward that is required as an input into the needs assessment and overall training program.
- Readiness Assessment Criteria - a set of criteria at select points in time that indicates the services/wards are forecast to be ready to go-live as designed and on time. We acknowledge that although the Readiness Assessment Criteria had not been formally documented, windows of opportunity outlined in the K-Block Operational Commissioning Strategy had been considered and a decision was made to delay initiation of operational commissioning to the second window, scheduled for January - February 2020.

5.8 Subsequent to the conclusion of our fieldwork, each CCG commenced maintaining its own issues and decisions register which are updated at each CCG meeting. The *Operational Commissioning Master Template* GANTT chart was subsequently updated with new/emerging tasks. In addition, the Operational Commissioning Training Approach was developed on 3 June 2019 and was approved on 26 June 2019 which

provides a multi-modal framework for nursing, medical and non-clinical staff. Included in the approach are each of the training collateral required including a Responsibility and Accountability Matrix (RACI) for both the development and delivery of the training material.

ROLE OF THE ESC NEEDS TO BE CLEARER FOR THE PROJECT TRANSITION PHASE

5.9 At the time of our fieldwork, a number of the ESC and Project Team members were unclear about the role of the ESC relating to:

- ESC's input into the practical completion and building handover decision.
- The time point that ESC is to transfer its residual responsibilities to THS: at practical completion or during operational commissioning?
- ESC's role after PC.

5.10 Our fieldwork found the TOR for the ESC shows its role concluding at practical completion but it does not identify any responsibility relating to operational commissioning and with which group/role it needs to interface so as subsequent operational and Go-No-Go responsibilities are delivered after practical completion and before clinical services go-live. Specifically, this has resulted in disconnect between the ESC's role during operational commissioning as a number of Clinical Commissioning groups report to the ESC through the PCG.

ROLE OF THE DEPUTY PROJECT DIRECTOR IS NOT ARTICULATED CLEARLY ACROSS KEY STRATEGIES AND PLANS

5.11 As noted in Section 1, the role and responsibility of the Deputy Project Director is documented inconsistently between the Project Business Plan and K-Block Operational Commissioning Strategy. Although operational commissioning is outside the remit of the Project Team, the Deputy Project Director's role has been extended to help THS plan for operational commissioning and inform the optimal use of clinical spaces provided in K-Block. It was intended the Deputy Project Director's role would evolve as the needs of the Project changed and evolved over time. A lack of clear accountability within THS during the transition to operational commissioning may decrease the efficiency and effectiveness of the hospital's preparation for the opening of K-Block.

ADEQUATE SKILLS AND RESOURCES AND INDEPENDENT ASSURANCE SUPPORT BUILDING AND OPERATIONAL COMMISSIONING

5.12 A foundation of good building and operational commissioning management is the planning of resources, deployment of key skills and independent advice across the program life cycle. A program that is open to critique is one that is more responsive to emerging challenges.

5.13 The operational commissioning program has engaged project resources and RHH's workforce. For example, RHH staff are engaged in the Clinical Working Groups (CWGs) for each division occupying a ward in K-Block. These CWGs report to the RHH Executive Team which in turn is engaged with the PCG. Key skills, such as the program resources, that had previously been working on or leading hospital commissioning programs had also been engaged.

GATEWAY REVIEWS HAVE BEEN USED TO GAIN INDEPENDENT ASSURANCE

5.14 At the 2012 Gate 2 and 2014 Gate 3 review points, the Project Team engaged two independent organisations to conduct a readiness for service review. At the time of fieldwork, no independent review had been conducted or planned for Gate 4 which is prior to operational commissioning. We note the Project Team is in the process of scheduling a Gate 4 review, which had been considered and decided in September 2017 would be undertaken pre-operational commissioning. This is a critical point in the Project where independent experts in hospital commissioning can assess the integrity of the status reporting, test the building and operational commissioning programs integration, and may identify emerging risks.

A STRONGER APPROACH TO DEVELOPING PLANS TO IDENTIFY THE CRITICAL PATH OF PROJECT ACTIVITIES AND KEY MILESTONES WAS BEING DEVELOPED

5.15 Critical paths are standard tools for effective program management and when used to their optimum will support evidence-based decision making. Critical paths can:

- focus a team to deliver to key deadlines, manage dependencies, and integrate program activities
- provide early indication of potential delays and manage stakeholder expectations
- quantify the impact of delays on the Go-Live milestone
- quantify the impact of mitigations and decisions on the Go-Live milestone.

5.16 At the time of our fieldwork, the Project could not provide a Critical Path but provided an *Operational Commissioning Master Template* GANTT chart presenting an operational commissioning program overview across six phases:

1. Operational Commissioning framework.
2. Planning for the Move.
3. Preparing for the Move.
4. Getting Ready to Move
5. Moving Day.
6. Post-Occupancy.

5.17 This GANTT chart was clearly aligned to the *K-Block Operational Commissioning Strategy*, however it did not include the detail required to inform the development of a critical path including:

- key dates for many of the activities scheduled
- key building commissioning activities that integrate with the operational commissioning program
- dependencies mapped between key activities
- a Go-Live date for each of the services/wards.

5.18 At this stage of the Project, providing a Critical Path that includes both building and operational commissioning key activities and milestones with mapped dependencies, would assist DoH, ESC and PCG to determine the likelihood of delays to practical completion, assess the impact on the operational commissioning program, respond to the associated risks and manage stakeholder expectations.

5.19 We acknowledge that at the time of our fieldwork, the GANTT chart was a work in progress, and an updated version has now been provided which details key dates and tasks. In addition, in light of the uncertainty of the date of practical completion, the "Windows of Opportunity", as defined in the Operational Commissioning Strategy, has been adopted. This "Windows of Opportunity" outlines timeframes for the decision as to whether to progress with operational commissioning, as opposed to a fixed date in time. Management has confirmed that once a date for practical completion has been confirmed, the GANTT chart will be updated to progress towards a set migration/ operational commissioning date.

REPORTING MECHANISMS FOR BUILDING AND OPERATIONAL COMMISSIONING NEED TO BE STRENGTHENED

5.20 Reflecting the complexity of commissioning health care facilities, a program reporting structure should not only deliver a clear status of both the building and operational commissioning programs but also dependencies and shared risks. In addition to reporting status against the schedule, risks and issues, assumptions and decisions etc, at this point in the program, reporting against the critical path provides early opportunity to respond to key milestones, such as practical completion, that may be at threat.

5.21 At the time of our fieldwork, reporting mechanisms for operational commissioning had not been effectively established and there was no reporting of dependencies with the building commissioning program. This was predominately due to a lack of clarity as to when the building commissioning would be completed, notwithstanding the initial expected practical completion date of 19 August 2019.

5.22 THS has implemented many CWGs to plan their services and move into K-Block, however, it was reported by the Project Team these groups had not been meeting on a regular basis due to the current workload across the hospital. As a result, at the time of our fieldwork, there was a lack of progress in developing and progressing operational commissioning plans. The impact of this had not been assessed and recorded as a program issue and did not have a mitigation plan in place.

WHILE THE IMPACT OF THE DEVELOPMENT ON CONTINUITY COSTS NEEDS TO BE BETTER UNDERSTOOD, PLANS FOR FUTURE OPERATING COSTS HAVE BEEN DEVELOPED

5.23 Operations are at risk in hospital commissioning programs as they interrupt people's time, the clinical services, the physical space and operating budgets. It is common to find co-designing and co-delivering programs with operational and clinical staff, incorporating methods that are agile and adapt to business-as-usual demands and opportunities.

Continuity: resources and costs

5.24 At the time of our fieldwork, plans for operational commissioning were being established across RHH and the Project. The ECG, which reports to the PCG, was established with CCGs to coordinate operational commissioning planning for K-Block and manage hospital services integration and continuity.

5.25 Discussions with stakeholders identified that although clinical working groups had been mobilised, the cost impact on the operating budget had not been assessed. If an operating budget is not proactively managed incorporating the cost impact of K-Block commissioning, there is an increased risk the RHH may embed a longstanding structural operating deficit. We acknowledge the Project Team has provided operational commitments associated with new contracts and operational expenditure forecasts for both the FF&E and ICT components to THS. Resourcing commitments associated with the operation of K-Block are the responsibility of THS.

Future operating costs

5.26 At the time of our fieldwork, there was a consistent expectation by the ESC the ongoing costs of the hospital will increase as K-Block comes on-line, however, it was unclear to ESC members and to the Project Team, who was forecasting the future operating cost model, how it was to be calculated, and how these costs would be met in the future. This is not within the ESC's TOR.

5.27 Subsequent to fieldwork, the State Budget handed down on 23 May 2019 outlined additional funding for THS for the RHH which would also need to be incorporated.

5.28 Since the release of the State Budget, THS, in consultation with Project Team, prepared a submission which detailed the projected operational costs of K-Block. The Director of Corporate and Support Services, who is responsible for the operational services delivered at the RHH, also updated building and equipment costs. The update included costs not factored into the original budget submission (e.g. consultants costs associated with acceptance and maintenance).

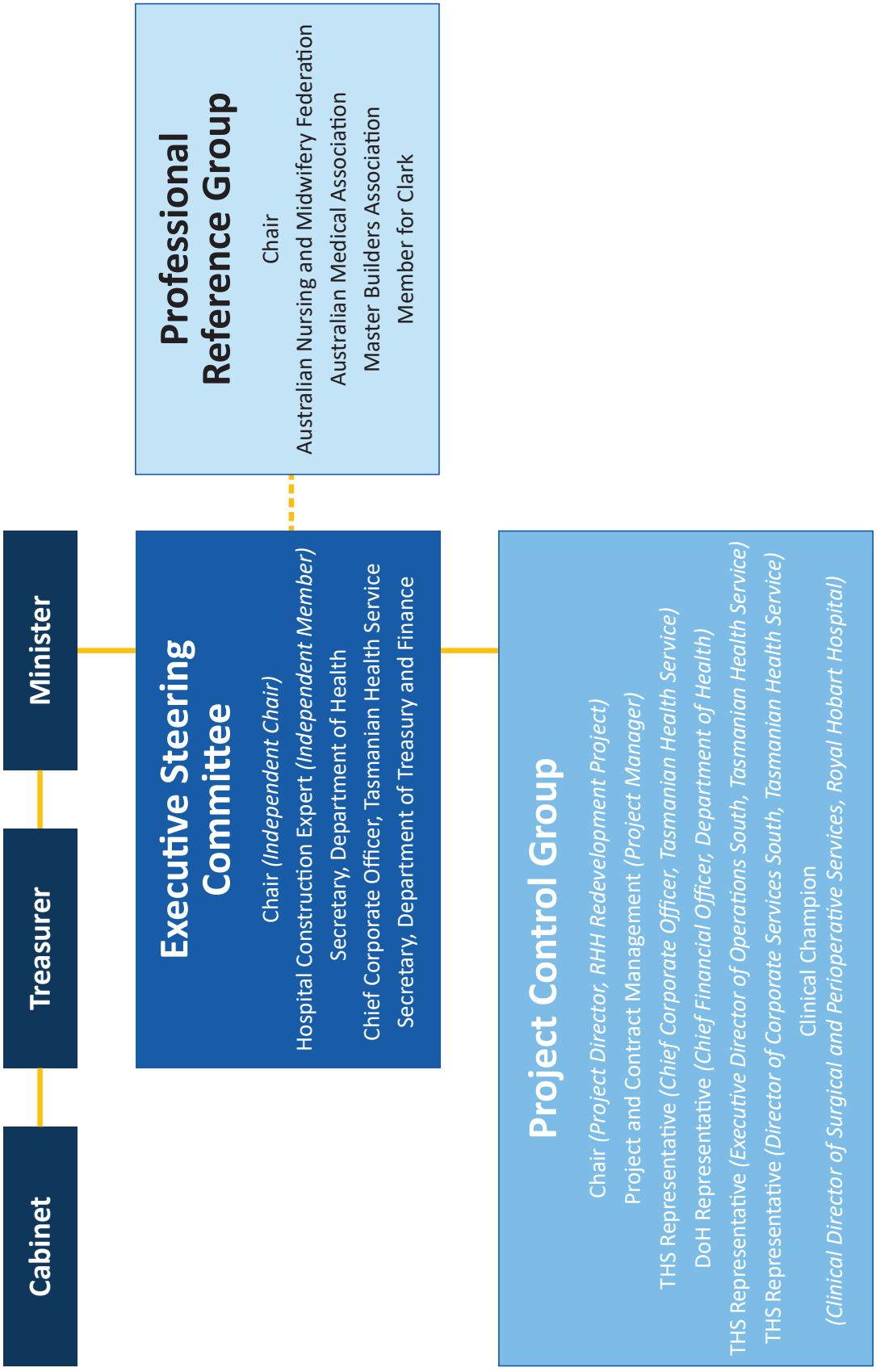
5.29 In addition, projected operational costs associated with the RHH Redevelopment:

- identify additional costs associated with one-off clinical activities, including planning the move, completing an infection control review and testing clinical scenarios
- include updated costings associated with ICT and Clinical Systems and Devices.

ACRONYMS AND ABBREVIATIONS

ACS	Actual Construction Sum
CCG	Clinical Commissioning Group
CFDT	Cross Functional Delivery Team
CWG	Clinical Working Groups
DHHS	Department of Health and Human Services
DoH	Department of Health
ESC	Executive Steering Committee
FF&E	Furniture, Fittings and Equipment
FM	Facilities Management
GCS	Guaranteed Construction Sum
ICT	Information and Communications Technology
LFCG	Logistics and Functional Commissioning Groups
PC	Practical Completion
PCG	Project Control Group
RHH	Royal Hobart Hospital
RMF	Risk Management Framework
RTF	Rescue Task Force
THS	Tasmanian Health Services
TOR	Terms of Reference
Treasury	Department of Treasuty and Finance

APPENDIX 1: GOVERNANCE STRUCTURE OF THE RHH REDEVELOPMENT PROJECT



Source: RHH Redevelopment Project

APPENDIX 2: GATEWAY PROCESS

Milestone	Purpose
Gate 0 - Strategic Assessment	This review investigates the direction and planned outcomes of the program, together with the progress of its constituent projects. It can be applied to any type of program, including policy and organisational change.
Gate 1 - Preliminary Evaluation	This is the first project review which investigates the preliminary business case and proposed way forward to confirm the project is achievable and likely to deliver what is required.
Gate 2 - Readiness for Market	This review investigates the assumptions in the final business case and proposed approach for delivering the project. The review will also check that plans for implementation are in place.
Gate 3 - Investment Decision	This review investigates the final business case and the governance arrangements for the investment decision to confirm that the project is still required, affordable and achievable.
Gate 4 - Readiness for Services	This review investigates the organisation's readiness to make the transition from the specific/solution to implementation and, where appropriate, it will assess the capabilities of delivery partners and service providers.
Gate 5 - Benefits Realisation	This review confirms that the benefits set out in the business case are being achieved and that the operational service (or facility) is running smoothly. The review is repeated throughout the life of the service, with the first review typically 6-12 months after handover to the new owner and a final review shortly before the end of the contract.

AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 23 of the *Audit Act 2008* states that:

(1) The Auditor-General may at any time carry out an examination or investigation for one or more of the following purposes:

- (a) examining the accounting and financial management information systems of the Treasurer, a State entity or a subsidiary of a State entity to determine their effectiveness in achieving or monitoring program results;
- (b) investigating any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity;
- (c) investigating any matter relating to public money or other money, or to public property or other property;
- (d) examining the compliance of a State entity or a subsidiary of a State entity with written laws or its own internal policies;
- (e) examining the efficiency, effectiveness and economy of a State entity, a number of State entities, a part of a State entity or a subsidiary of a State entity;
- (f) examining the efficiency, effectiveness and economy with which a related entity of a State entity performs functions –
  - (i) on behalf of the State entity; or
  - (ii) in partnership or jointly with the State entity; or
  - (iii) as the delegate or agent of the State entity;
- (g) examining the performance and exercise of the Employer's functions and powers under the *State Service Act 2000*.

(2) Any examination or investigation carried out by the Auditor-General under subsection (1) is to be carried out in accordance with the powers of this Act.

Standards Applied

Section 31 specifies that:

'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to -

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing and Assurance Standards as issued by the Australian Auditing and Assurance Standards Board.

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