

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

Introduction

As Tasmania's only tertiary care hospital, the Royal Hobart Hospital (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.

In 2005, the Government appointed Conrad Gargett Consultants 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 then Premier, the Hon Paul Lennon, announced the Government's intention to construct a new RHH on a new site.

In May 2009, the Government decided not to proceed with the construction of a new RHH. The Government determined 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
- \$100m was to be spent over the first five years 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).

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

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

Additional Commonwealth funding of \$2.8m was also secured for improvements to day surgery.

Although not forming part of the RHH redevelopment 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.

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

The RHH redevelopment project key outputs under the IGA were revised in August 2013 and included:

- approximately 50 000 m² of floor area
- a Women's and Children's Hospital, including a dedicated Adolescent and Mental Health Unit
- 195 new overnight, on campus beds (increasing capacity from 371 to 566 beds)
- 7 additional operating and procedure rooms e. a surgical intervention and diagnostics 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
- provision of infrastructure and engineering services that meet current building code standards and have the flexibility to cope with growth or emergency and
- a design and layout for flexible utilisation of beds and co-location of functional services.

The business case for the redevelopment of the RHH (November 2010) informed the development of a site wide master plan completed by Melbourne-based architecture firm Lyons 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 ten storey tower constructed on the site of the existing B-Block, was included in the IGA.

The RHH redevelopment project 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 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).

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

Figure 1: K-Block - Campbell Street main entrance (acknowledgement Lyons with Terrior)



Following endorsement of the masterplan 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 RHH redevelopment project, with the joint venture partners comprising John Holland Group Pty Ltd and Fairbrother Pty Ltd.

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.

On 5 February 2014, the Managing Contractor provided a GCS offer to the former Executive Steering Committee (former ESC) for the RHH redevelopment project. The *Royal Hobart Hospital Redevelopment Project, 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.

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

Around the same time (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 Statewide health system (Recommendation 52).

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

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

The Taskforce completed their investigation in November 2014 and provided a report to the Government which included 13 recommendations. The Rescue Taskforce concluded the RHH redevelopment 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 the 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.

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 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 is scheduled for August 2019.

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

Figure 2 K-Block – Hobart city entry view (acknowledgement Lyons with Terrior)



Audit objective

The objective of this audit is to assess the effectiveness of processes for:

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

This is the second audit of the RHH redevelopment project undertaken by the Tasmanian Audit Office (Office). In January 2014, the Office tabled a report in Parliament following an audit which assessed the effectiveness of the governance, project management and initial implementation of the RHH redevelopment project up to 31 October 2013. The report was critical of governance and project management aspects, specifically:

- governance arrangements had been weak and in a state of flux during crucial planning and design periods
- there were significant gaps in provision of status reports to steering and review committees and, up until March 2013, project status reports were too brief
- milestones and work schedules were being met in the early stages of the project including the initial design work, however, substantial slippages occurred in finalising the design and appointing a managing contractor.

The report contained 18 recommendations 10 of which related specifically to the RHH redevelopment project and nine to future projects (one recommendation applied to both)

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

which were aimed at improving governance and project management of the RHH redevelopment and similar projects.

The report also foreshadowed that another audit would be initiated aimed at assessing implementation of the recommendations and auditing other aspects of the redevelopment. This audit encompasses both those points.

Audit scope

The scope of the audit is the Royal Hobart Redevelopment Project, as overseen by the Redevelopment Executive Steering Committee, with data and information considered from the project inception to date.

State entities that will be included within the scope of the audit are:

- Department of Health (DoH) (formerly the Department of Health and Human Services)
- Tasmanian Health Service (THS).

Key stakeholders that may be included within the scope of the audit include:

| Key stakeholders |
|--|
| Project sponsor – Minister for Health |
| Project business owner – Secretary, Department of Health - responsible for managing the Project outputs for utilisation by the Project Customers |
| Executive Steering Committee (ESC) - provide strategic leadership and oversight to the project as the peak decision making body |
| Professional Reference Group (PRG) – comprises expert professionals with an interest in the project who provide advice to the ESC |
| Project Control Group (PCG) - operates within the scope set by the ESC and provides direction to the Project |
| Project Working Group (PWG) - operates within the scope set by the ESC and is responsible for the management of the Project |
| RHH Executive Commissioning Group (ECG) - provides leadership within the RHH for issues arising in the project particularly relating to clinical and non-clinical service planning, implications for asset and functional design, stakeholder and change management and operational planning and commissioning |
| Commissioning Groups (clinical and non-clinical) - accountable to the RHH Redevelopment Executive Commissioning Group and the Project Control Group (PCG) |
| Advisory Groups - The RHH Redevelopment ICT Advisory Group and RHH Redevelopment Sitewide Facility and Infrastructure Advisory Group have been established to coordinate the Project's related activities with those of the Tasmanian Health Service and Department of Health |

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

The audit scope will not specifically cover:

- clinical services planning
- master plans
- procurement processes.

However, documentation related to these areas may be examined in connection with the audit criteria outlined below.

Audit Criteria

| Criteria | This will cover |
|---|---|
| Is project governance, management and reporting adequate? | <ul style="list-style-type: none">• Is there adequate definition and understanding of the project Executive Steering Committee and the Project Control Group roles and responsibilities?• Is there adequate skills and resources to effectively govern the project?• Has adequate reporting been established to enable sound decision making and monitoring of key project milestones?• Are expected benefits adequately monitored and assessed to ensure they will be realised? |
| Are the risk management framework and processes appropriate? | <ul style="list-style-type: none">• Is the risk management framework fit for purpose?• Are there adequate skills and resources to manage the project risks?• Does the risk management process facilitate the effective management of existing and emerging risks? |
| Is the financial management to deliver the project and realise the expected benefits appropriate? | <ul style="list-style-type: none">• Are there adequate skills and resources to enable effective financial management of the project?• Is there adequate monitoring of budgeted expenditure, actual project expenditure and forecast costs to complete?• Have project modifications and variations been appropriately reviewed, approved and managed? |

Audit Planning Memorandum

ROYAL HOBART HOSPITAL REDEVELOPMENT PROJECT

| Criteria | This will cover |
|--|--|
| Are plans and resources adequate to enable effective building and operational commissioning? | <ul style="list-style-type: none">• Is there clear delineation between building and operational commissioning roles and responsibilities?• Are there adequate skills and resources to support building and operational commissioning?• Do commissioning plans adequately identify the critical path of project activities and key milestones to be achieved?• Are reporting mechanisms for building and operational commissioning fit for purpose?• Do the plans for operational commissioning provide for continuity of operations? |