



Government of **Western Australia**
Department of **Treasury**

Public Private Partnerships

Midland Public Hospital Project

Project Summary

December 2012



Midland Public Hospital Project

Project Number: 12053

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Table of Contents

Foreword.....	4
1 PROJECT OVERVIEW.....	5
1.1 Swan District Hospital and WA Health Reform	5
1.2 The Site	5
1.3 The Project	5
1.4 Project Objectives	8
1.5 Delivery Model.....	9
1.6 Procurement Process.....	11
1.6.1 Expression of Interest Phase.....	11
1.6.2 Request for Proposal Phase.....	12
1.6.3 Negotiations.....	12
1.6.4 Probity.....	12
1.7 Timetable.....	13
1.8 Delivery Approach	13
1.9 Value for Money	14
1.9.1 Public Sector Comparator (PSC).....	14
1.9.2 Qualitative Value for Money Considerations	16
1.10 Public Interest Considerations.....	16
1.10.1 Value for Money.....	16
1.10.2 Quality of Service.....	16
1.10.3 Range of Services	17
1.10.4 Additional Services	18
1.10.5 Option to Purchase Private Patient Facility	18
2 Key Commercial Features	19
2.1 Parties to the Project Documentation.....	19
2.2 Project Scope	20
2.3 Project Documentation and Related Agreements	21
2.4 Commercial Opportunities.....	24
2.5 Commercial Principles.....	24
2.5.1 Design and Construction	24
2.5.2 Patient Transfer	24
2.5.3 Service Delivery.....	25
2.5.4 Maintenance	26
2.5.5 Security.....	26
2.5.6 Expansion of the Public Patient Facility.....	27
2.5.7 Purchase of the Private Patient Facility.....	27
2.5.8 Default, Termination and Step in Regimes.....	27
2.5.9 State Rights at End of Services Agreement.....	28

Foreword

This Project Summary provides an overview of the contractual arrangements entered into for the delivery of the Midland Public Hospital Project.

This summary is divided into two parts. Part One provides a broad overview of the Project, including the rationale to deliver it under a Public-Private Partnership model as a Design, Build, Operate and Maintain project, as well as a summary of the tender process, the value for money outcome, the public interest considerations and the timetable for the Project. Part Two focuses in more detail on the key commercial features of the Project, including the main parties and their respective obligations, the broad allocation of risk between the public and private sectors and the treatment of various key project issues.

This summary should not be relied on as a complete description of the rights and obligations of the parties to the project and is not intended for use as a substitute for the contracts.

1 PROJECT OVERVIEW

1.1 Swan District Hospital and WA Health Reform

The new Midland Public Hospital will replace the existing Swan District Hospital and will significantly increase bed numbers and expand on the health services available to the local community. This initiative is based upon recommendations from the report of the Health Reform Committee, *A Healthy Future for Western Australians* (known as the **Reid Report**) which was released in 2004. Recommendation 24 of the Reid Report stated that:

“... Swan District ... Hospital(s) should be expanded over the next ten years to approximately 300 bed general hospital(s). This development will improve access to hospital care in high growth metropolitan areas and reduce demands on the tertiary hospitals for general care.”

The expansion of services in the Midland catchment area and the development of the Midland Public Hospital (to replace the Swan District Hospital) is one of the critical initiatives in the delivery of WA Health reform. The development of the Midland Public Hospital reflects the strong current demand and need for health services based on population profile (including projected changes) and current and planned hospital utilisation and configuration. Further significant population growth is expected in the Midland catchment area driving a continued increase in demand for services at the Midland Public Hospital.

1.2 The Site

In July 2008 a detailed business case for the development of a new public hospital in Midland was submitted to the Department of Treasury and Finance and then an addendum to the business case was submitted with updated information in February 2010. The business case and addendum recommended that single stage relocation from Swan District Hospital to a new greenfield site was likely to provide the best outcome to the State.

The Site chosen is located south of the Midland town centre in the Clayton precinct of the Midland Redevelopment Area. The Site is approximately 8 hectares in area and was vacant Crown land. The Site is bounded to the south by Clayton Street, to the west by Centennial Place, to the east by Lloyd Street and to the north by the existing freight and interstate/regional passenger rail line.

1.3 The Project

Following on from the business case to develop a new greenfield site for a public hospital, a procurement process was conducted. As part of this process, it was identified that a model whereby a private entity would design, build, operate and maintain the Midland Public Hospital was likely to provide an optimal outcome to the State.

St John of God Midland Health Campus (whose sole member is St John of God Health Care Inc) was selected as the preferred respondent after the RFP phase in November 2011. Contractual close then occurred in June 2012. Once the construction is completed and the hospital is commissioned, St John of God Midland Health Campus will be responsible for operations at the Public Patient Health Campus for a term of 20 years.

The construction component of the project is being undertaken by Brookfield Multiplex Constructions Pty Ltd (on behalf of St John of God Midland Health Campus) and is due to be completed in November 2015.

The project includes both a general hospital providing free services to public patients and a private hospital providing services to private patients. The hospital providing services for public patients will be licensed as a private hospital and will provide services free of charge to public patients. The public hospital will have 307 public beds offering a comprehensive range

of Clinical Services including an Emergency Department Service, Critical Care Service, Surgical Services, Medical Services, Maternity Service, Neonatology Service, Paediatrics Service, Geriatric and Aged Care Service, a Cancer Unit, Rehabilitation Service and adult and older adult Mental Health Services. The public hospital will be collocated with a private hospital containing 60 beds and there will be some infrastructure that will be shared by both the private and public hospitals.

As part of the wider Midland community, the public and private hospitals will integrate and collaborate with existing health service providers to ensure a seamless health journey for residents.

The Midland Public Hospital will also participate in undergraduate and postgraduate teaching and training to ensure ongoing supply, quality, improvement and sustainability of the health workforce.

The Operator is required to provide safe, high quality care, and to participate in health care reform initiatives that are implemented across the public health system. The quality of service provided is generally required to be equal to or greater than that provided at peer state or national health service providers. The overall level of service is monitored through a regime of 159 Key Performance Indicators (KPIs).

Table 1 – Project Key Points

Project Key Points	
Key members	
Operator	St John of God Midland Health Campus
Clinical Services Provider	St John of God Health Care Inc
Builder	Brookfield Multiplex Constructions Pty Ltd
Architect	Hassell Ltd
Site	
Location	Lot 515, bordered by Clayton Street, Centennial Place, Lloyd Street and the existing railway line in the Midland town centre.
Area	Eight Hectares
Public Transport Access	Links are planned between the Midland train/bus interchange and the Campus.
Expected number of publicly available car parking spaces	Approximately 220 bays
Design & Construction	
Construction Cost (Public Patient Facility and Public Patient proportion of the Shared Infrastructure)	\$339.7 Million
Footprint of Total Facility	1 Hectare
Total Floor Area of Facility	4.4 Hectares
Height	5 Floors (approximately 20 metres high)
Public Hospital	
Number of Beds	307
Services Provided	<ul style="list-style-type: none"> • Emergency Department Service; • Critical Care Service; • Surgical Services: <ul style="list-style-type: none"> - General Surgery; - Ear, Nose and Throat (ENT); - Gynaecology; - Ophthalmology; - Orthopaedics; - Urology; - Vascular Surgery; - Plastics; and - Minor burns and minor trauma services; • Medical Services: <ul style="list-style-type: none"> - General Medicine; - Cardiology; - Endocrinology; - Neurology; - Renal medicine;

	<ul style="list-style-type: none"> - Respiratory; - Palliative Care; - Gastroenterology; - Immunology; and - Infectious Diseases; • Maternity Service: <ul style="list-style-type: none"> - Obstetrics; • Neonatology Service; • Paediatrics Service; • Geriatric and Aged Care Service; • Cancer Service; • Rehabilitation Service; • Mental Health Services: <ul style="list-style-type: none"> - Adult service; and - Older adult service; • Teaching and Training Service; • Clinical Support Services; and • Non-Clinical Support Services.
Private Hospital	
Number of Beds	60
Services Provided	<ul style="list-style-type: none"> • Gastroenterology Service, including endoscopic services; • General Medicine Service; • Respiratory Service; • General Surgery Service; • Orthopaedic Service; • Ear, Nose and Throat Service; • Gynaecology Service; and • Cardiology Service.

1.4 Project Objectives

At the commencement of planning for this Project, a suite of project objectives was developed and agreed to guide project management and procurement activity. The project objectives for this project are as follows:

- to meet the need to enhance and expand health services delivered in the Midland catchment area by:
 - provision of high quality, safe clinical services;
 - increasing access to health services/providing care closer to home;
 - expanding hospital and ambulatory services to meet future demand;
 - ensuring a sustainable health workforce;
 - provision of care in the most appropriate clinical setting; and
 - ensuring a financially sustainable health system;

- to meet the State's investment objectives of:
 - addressing current and future health services demand;
 - delivery of the Project by the private sector providing long term value for money for the State; and
 - improving accessibility to health services;

1.5 Delivery Model

The following table presents a brief description of the delivery models analysed by the State as part of the procurement process.

Table 2 – Delivery Models

Delivery model	Description
Public Build, Own and Operate	The Project is undertaken by government and the design and construction roles are tendered separately to the private sector.
Design and Construct ("D&C")	The design and construction of Project assets are combined into one procurement process which is tendered to one private sector party.*
Design, Build, Maintain ("DBM")	The private sector is contracted to design, construct and maintain the facilities.
Design, Build, Operate and Maintain ("DBOM")	The private sector operates the facilities in addition to the provision of design, construction and maintenance roles.
Design, Build, Finance, Maintain ("DBFM")	The private sector is contracted to provide financing in addition to the design, construction and maintenance of the infrastructure.*
Design, Build, Finance, Operate ("DBFO")	The private sector is contracted to provide financing, and in addition to designing, constructing and maintaining, is also responsible for operating the hospital.
Build, Own, Operate, Transfer ("BOOT")	Government grants a long term leasehold interest to the private sector to finance, build, operate and maintain the service, with return on the private sector investment from operational revenue.

Prior to the Expression of Interest (EOI) phase (see section 1.7 for an explanation of procurement phases), the Design, Build, Finance, Operate (DBFO) and the Design, Build, Operate, Maintain (DBOM) were identified as the preferred procurement methods. Based on information received as part of the EOI, the State reached the conclusion that the DBOM model was likely to provide the best value for money and qualitative outcomes. Consequently the Request for Proposal was based on a DBOM procurement model.

The benefits of a DBOM model in general result from one entity being responsible for all aspects of the entire project from start to finish. This allows for:

- Greater incentive for design efficiencies and innovation in order to provide better operating outcomes;

* Hospital operated by Department of Health.

- Elimination of potential conflicts between parties responsible for each role as a single party is responsible for designing, building, maintaining and providing all services at the public health campus;
- Increased incentive for on-time delivery of construction during construction and commissioning phase; and
- Transfer of risk associated with ongoing capital lifecycle costs.

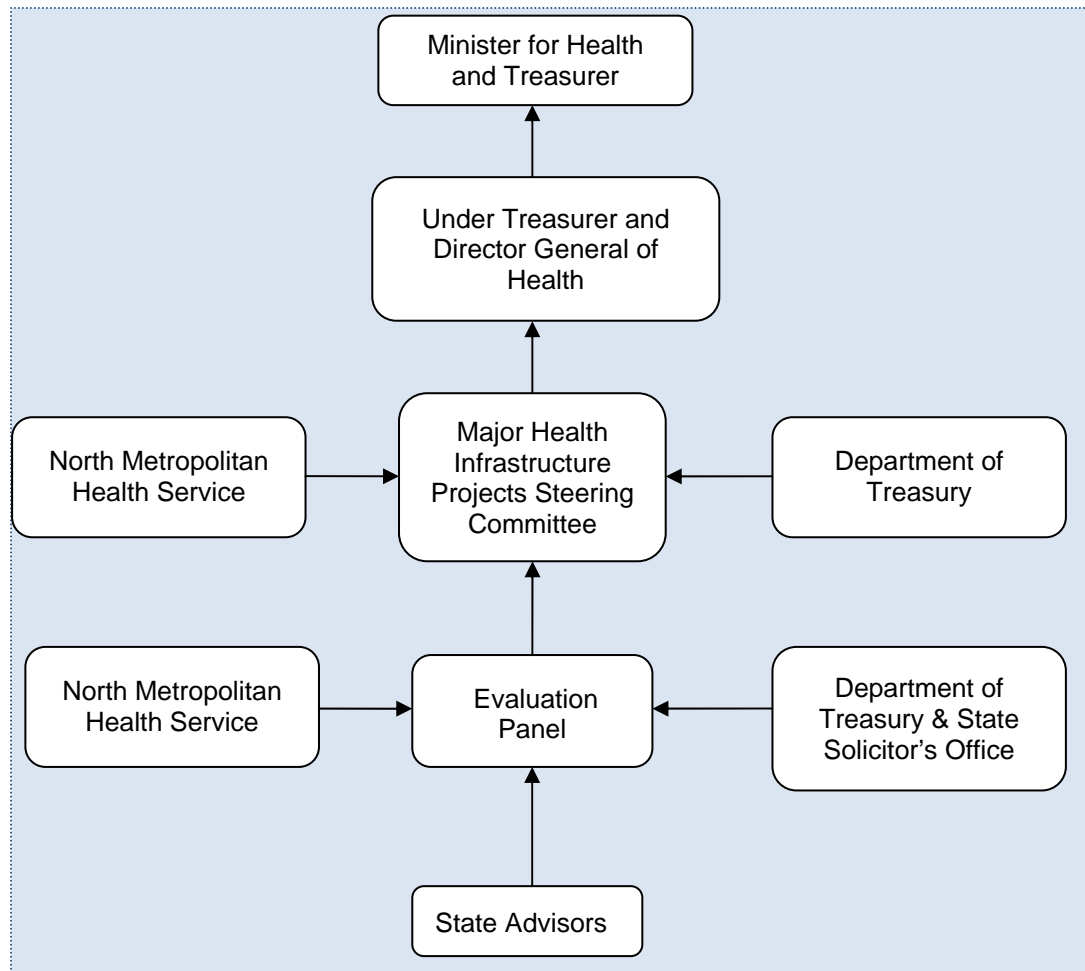
In addition there are specific benefits for this project that flow from the use of the DBOM model, such as:

- It allows the State to contract for high quality clinical services at a pre-agreed price; and
- It allows the Operator to build a colocated private hospital on site which can provide better outcomes for the State and patients in several ways:
 - it allows for efficiencies in designing and constructing the private and public facilities together;
 - it gives the Operator the opportunity to develop economies of scale across the entire campus that will provide greater value for money outcomes for the Operator and the State;
 - it helps attract medical specialists to the area;
 - it gives patients the option of being treated as either a public or private patient and increases the range of services provided; and
 - it increases the incentive for the Operator to provide better operating outcomes at the public health campus because there will be a flow on impact on the private operations.

1.6 Procurement Process

The State undertook an open and competitive procurement process to appoint St John of God Midland Health Campus as the Operator. The procurement process was implemented in accordance with relevant State tendering guidelines. Senior State representatives were involved in the evaluation and recommendation of St John of God Midland Health Campus' appointment. The State's evaluation structure is represented in the diagram below.

Diagram 1 – State Evaluation Structure



The procurement phase was undertaken in three stages as described below:

1.6.1 Expression of Interest Phase

The procurement process commenced with the public release of the Invitation for Expressions of Interest (EOI) in October 2010. The purpose of this document was to invite suitably skilled and qualified organisations to submit expressions of interest to deliver the Project. It also contained information concerning the Project and set out the information that respondents needed to provide in their submissions and the criteria against which submissions were assessed.

After a detailed evaluation of the expression of interest submissions, the State invited two respondents to progress to the Request for Proposal (RFP) phase of the procurement process. These were St John of God Health Care Inc and Ramsay Health Care Pty Ltd.

1.6.2 Request for Proposal Phase

The second phase of the procurement process was the Request for Proposal (RFP) phase. This phase commenced with the release of the RFP document to the two short-listed respondents in May 2011. The RFP contained the detailed technical, operational and commercial requirements for the Project. The RFP requested the short-listed respondents to submit fully costed and complete proposals based on the requirements set out in the RFP document.

During the months of May to October 2011, the State conducted an interactive tender process between the State and each of the short-listed respondents. The intention of the interactive tender process was to provide timely and meaningful feedback on the concept design and other aspects of the RFP to assist respondents in understanding the State's requirements and to increase the quality of the final proposals.

Proposals were received in October 2011, and were evaluated against a range of qualitative and quantitative criteria that considered the following:

- concept and facility design and construction;
- service delivery – including delivery of public patient health services as well as additional private health services; and
- commercial structure, risk and value for money to the State

After a detailed evaluation process, the State identified St John of God Midland Health Campus as the preferred respondent to proceed to negotiations in November 2011.

1.6.3 Negotiations

During the negotiation phase, the State worked with St John of God Midland Health Campus to address certain aspects of their RFP proposal and develop the final project documents for execution. The contracts were then signed on 14 June 2012.

1.6.4 Probity

The procurement process was undertaken within a robust probity framework in accordance with the following probity principles:

- fairness and impartiality;
- use of a competitive process;
- consistency and transparency of process;
- security and confidentiality;
- identification and resolution of conflicts of interest; and
- compliance with State policies as they apply to tendering.

Key evaluation activities were monitored by an independent probity practitioner from Stantons International in accordance with a probity plan and were supported by individual evaluation plans for each stage of the procurement process.

1.7 Timetable

Details of the timing of the procurement process and the Project generally are provided in the timetable below.

Table 3: Project timetable

Event	Date
EOI phase	
Release of invitation for expressions of interest (EOI)	6 October 2010
Closing date for submission of EOIs	10 November 2010
EOI evaluation and short-listing of respondents	December 2010
RFP phase	
Release of the request for proposal (RFP)	26 May 2011
Closing date for responses to RFP	13 October 2011
RFP evaluation and nomination of preferred respondent	November 2011
Negotiations	
Contract close	14 June 2012
Construction phase	
Construction Works planned to commence	September 2012
Construction Works planned to be completed	November 2015
Operational phase	
Commence Operational Phase	December 2015

1.8 Delivery Approach

Design and Construction

The Design and Construction Agreement with St John of God Midland Health Campus delivers significant value for money for the State when compared against the State's reference design and capital cost studies undertaken for the Business Case (see section 1.10 for more detail on the value for money considerations).

Key design features include the provision of:

- a patient-centred design with 80% single occupancy bedrooms for inpatients and sufficient space for relevant therapy and treatments to be delivered in or close to the patient's bedroom (compared with approximately 30% single rooms in the reference design);
- a comfortable environment for families through provision of multiple support facilities including café, retail and performance spaces, children's play areas, private areas for distressed relatives in the Intensive Care Unit / Critical Care Unit and Emergency Department, access to generous courtyard areas for respite and family interaction and access to facilities providing community and pastoral support services;

- narrow building floor plates configured around generous “active” courtyards to maximise patient, staff and visitor access to nature, outlook and daylight, which is central to the creation and maintenance of a healing environment;
- a hydrotherapy pool for the provision of hydrotherapy services to both outpatients and inpatients;
- a distinctive civic development which draws on the context, history and aesthetic of the immediate Midland Railway Workshops precinct to inform its scale, composition and materiality, which will deliver the Department of Health’s development vision for an accessible, connected, welcoming and inclusive health campus; and
- a flexible, adaptable and incrementally expandable design, which is able to accommodate some of the State’s initial expansion requirements with minimal capital works through expansion of the public inpatient areas into the 60 bed private inpatient ward. The Imaging Department, Emergency Department, Central Sterile Supply Department and Operating Suite have been sized to accommodate the expansion needs for an initial expansion to a 464 bed hospital with some additional fit-out required and re-allocation of private use to public utilisation.

Service Delivery

St John of God Health Care Inc is a Perth based health care services provider. It is the third largest private hospital operator in Australia, currently operating 13 Hospitals with over 2,000 beds.

Key features of the service delivery model include:

- clear, detailed service delivery plans, incorporating innovations in service delivery, that are founded in evidence based practice and align well with the Project Objectives;
- a service delivery model that focuses on good patient outcomes and with strong community engagement plans that include careful consideration of the local, indigenous and culturally and linguistically diverse community requirements;
- a clear commitment to quality improvement and meeting the required quality and performance standards;
- a broad and inclusive teaching and training program for staff;
- a commitment to ongoing responsiveness to WA health requirements and participating collaboratively with other public health services in the area; and
- an information and communications technology proposal with a clear system design, which includes a broad range of infrastructure and systems that align well with the State’s technology and strategy.

1.9 Value for Money

The State’s evaluation framework for the project sought to identify and deliver the best overall value for money solution. The concept of value for money goes beyond the selection of the cheapest solution, focusing on the overall value of each delivery option. This involves a careful comparison of the State managed delivery option and each proposal received from the short-listed respondents. The analysis considered quantifiable elements (i.e. items that can be quantified in dollar terms) as well as subjective or qualitative considerations.

1.9.1 Public Sector Comparator (PSC)

The PSC is an estimate of the risk adjusted, whole-of-life cost of the Project if delivered by the State. The PSC is developed according to the same output specifications included in the RFP documentation and assumes the most likely and efficient form of conventional (i.e. traditional, non-PPP) delivery. An additional scenario was included in the PSC where it was assumed that the Midland Public Hospital would be expanded during the life of the contract.

The PSC for the Project was developed in collaboration by the State's project team and its commercial advisor, KPMG, in accordance with the National PPP Guidelines.

The PSC contained estimates for the costs and risks to the State for:

- the State to build the public hospital under a traditional Design and Construct (D&C) contract;
- the Department of Health to transition services from the Swan District Hospital to the Midland Public Hospital;
- the Department of Health to provide the clinical services at the public hospital over the life of the contract; and
- The Department of Health to be responsible for ongoing maintenance and capital expenditure of the public hospital.

The estimated cash flows over the life of the project are discounted at the discount rate estimated in accordance with the National PPP Guidelines to obtain the net present cost of the PSC. The net present cost of the PSC is then compared to the net-present cost of the bids received to determine the quantitative aspect of the Value for Money analysis. The Value for Money estimate for the St John of God Midland Health Campus proposal at contractual close is contained in the table below:

Table 4: Quantitative Value for Money Assessment – Net Present Cost

Scenario	Public Sector Comparator (\$000)	Private Sector Delivery (\$000)	Savings (\$000)	Savings (%)
Base Case	\$6,268,756	\$4,960,040	\$1,308,715	20.9%
Expansion*	\$9,080,383	\$7,145,515	\$1,934,868	21.3%

As shown in the table above, contracting with St John of God Midland Health Campus for the project represents a \$1.3 Billion net present cost saving against the PSC for the base case scenario and a \$1.9 Billion saving against the PSC for the expansion scenario.

This saving is driven by:

- a competitive construction cost, whereby St John of God Midland Health Campus' capital build represents significant savings over the State cost of delivery. Amongst other things, this saving is driven by the sharing of infrastructure with the St John of God Health Care Inc funded integrated private hospital; and
- St John of God Midland Health Campus offering discounts on the State's cost of delivering the services of between 3.3% and 15%.

The payment mechanism for clinical services within the Services Agreement ensures that a minimum value for money is maintained throughout the contract. The price paid for services in any year will always be less than the equivalent cost at comparable State hospitals. This is explained further in Section 2.5 on the commercial principles of the project.

* The expansion scenario only includes additional costs for the provision of expanded services. It does not include any capital costs associated with expanding the Public Patient Facility.

1.9.2 Qualitative Value for Money Considerations

In addition, there are a number of qualitative aspects of the St John of God Midland Health Campus solution that support the quantitative value for money of the solution. In addition to the Design and Construction and Services delivery approach benefits as detailed in Section 1.9 there are the following qualitative advantages:

Private Hospital

The collocated 60 bed private hospital is likely to improve the value for money to the State over the life of the contract because it increases the range and level of service provided to the catchment area at no cost to the State. As part of the Services agreement the State also has the option to acquire the private hospital from St John of God Midland Health Campus at a pre-agreed price in order to expand the public hospital. This gives the State flexibility through a relatively simple and efficient method to increase the level of service provided to Public Patients. .

Proposed Third Party Operators

St John of God Midland Health Campus' proposal includes third party operators providing additional services that will complement the core services provided and support the objectives of the project. These include:

- Consulting Suites: will be provided that will provide an incentive for specialist consultants to commence or expand their practices in Midland by offering a base to service the health needs of the community.
- Community Service Centre: St John of God Midland Health Campus has allowed an area of the facility to accommodate community groups that support health services in the Midland Public Hospital catchment area. The Community Services Centre is planned to be multi-functional and comprise a reception and waiting area; four meeting/group rooms of various sizes; and an open plan work area. Community Groups accredited to St John of God Midland Health Campus and or the Department of Health will be allocated use of the Centres facilities (subject to need) to support health consumers within the area. St John of God Midland Health Campus will provide the facility free of any rental charges.
- Proposed additional teaching and training: St John of God Midland Health Campus has had discussions with educational institutions to provide healthcare professional teaching and training at the Midland Public Hospital. These services are subject to further discussions and St John of God Midland Health Campus will provide further details as they are confirmed.

1.10 Public Interest Considerations

At various stages throughout the development of the Project, an assessment was made of the extent to which the procurement delivery method would satisfactorily protect the public interest.

At each stage, it was considered that, on balance, the public interest was being protected.

Key points from the public interest assessment include:

1.10.1 Value for Money

The contract offers significant value for money to the State measured in both quantitative and qualitative terms, as detailed in Section 1.10 above.

1.10.2 Quality of Service

The tender and negotiation phases resulted in no significant change to the service specifications or performance regime set out in the contract, thus providing a robust framework for providing quality and flexibility of service.

The St John of God Midland Health Campus proposal incorporates:

- extensive clinical plans for the delivery of health services at the Midland Public Hospital. These plans have been clinically reviewed and all meet, and in some cases exceed, the requirements of the State. These are included as service plans within the final contract;
- a requirement for the Midland Public Hospital to maintain the standards necessary to remain licensed as a private hospital;
- an on-going quality accreditation through an independent agency;
- a performance regime including 159 Key Performance Indicators (KPIs) relating to health service quality, governance and activity. This requires St John of God Midland Health Campus to achieve performance thresholds that are at least as good as peer state or national health service providers;
- an abatement regime, with associated financial costs, if St John of God Midland Health Campus does not meet KPI performance thresholds for 104 of the KPIs; and
- agreement to operate at health service levels specified in the Department of Health's role delineation, published in the WA Health Clinical Services Framework 2010-2020 (as updated from time to time).

In regards to equipment and maintenance the contract specifies:

- minimum levels of annual expenditure on equipment; and
- the provision of annual asset maintenance and work plans.

1.10.3 Range of Services

When the Midland Public Hospital opens, the proportion of patients in the catchment area who will be able to be treated at their local hospital will double from 35% to 70%.

Compared to the current Swan District Hospital, Midland Public Hospital will offer expanded capacity, including a significantly expanded emergency department; an increase to 24-hour anaesthetic cover; improved cardiology services; general surgery (including day surgery); obstetric services, including antenatal and postnatal care; general medical and geriatric services; general paediatrics; expanded rehabilitation services; expanded mental health services; and ambulatory care services.

The Midland Public Hospital will also provide services not currently available at Swan District Hospital such as high dependency and coronary care units, cancer services and adult rehabilitation services. This will mean that more people can access care in their local area.

In light of St John of God Midland Health Campus' status as a Catholic health services provider there are a limited number of specific procedure types it is unable to provide, these being:

- termination of pregnancies;
- sterilisation procedures (male and female);
- artificial conception procedures and reproductive technology; and
- contraception.

Of the four procedure types, only three are currently undertaken at Swan District Hospital. Artificial conception procedures or reproductive technology is not currently provided through any WA public hospital except King Edward Memorial Hospital. This will continue once Midland Public Hospital opens.

The restricted procedures comprise a very small proportion of total service requirements with an estimated 250 procedures provided in the first year of operations, against an expected total of 29,000 inpatients in the first year of operation. Due to this very small proportion and

the ability for the services in question to be readily provided at alternative locations, it has been agreed that these services are excluded from the Services Agreement.

The Project Agreements allow for the State to build a separate clinic on the site to enable alternative delivery of these services.

1.10.4 Additional Services

As outlined in the section on qualitative Value for Money (Section 1.10.2) there will be additional consulting suites provided on campus as well as a community service centre. St John of God Midland Health Campus has had discussions with educational institutions to provide healthcare professional teaching and training at the Midland Public Hospital. These services are subject to further discussions and St John of God Midland Health Campus will provide further details as they are confirmed.

1.10.5 Option to Purchase Private Patient Facility

As outlined in Section 1.10.2, the State has the option to purchase the private hospital beds (Private Patient Facility), thus providing a cost effective method to expand in order to meet increased public patient bed demand.

If the State exercises this option, St John of God Midland Health Campus plans to build a replacement private hospital adjacent or in close proximity to the Midland Public Hospital, thus continuing to enable the benefits of public and private facilities in close proximity to each other.



2 Key Commercial Features

Part Two of this document outlines the contractual relationships between the parties involved in the Project, including the obligations of the parties involved. Within the contractual documents the entire facility comprising both the public and private hospitals is referred to as the Midland Health Campus.

2.1 Parties to the Project Documentation

On 14 June 2012 the Premier, on behalf of the State of Western Australia, executed the Midland Health Campus Project Services Agreement and the Design and Construction agreement with St John of God Midland Health Campus (“the Operator”) to design, build, maintain and operate the Midland Public Hospital.

The relevant parties under the project documentation are:

The State

The State of Western Australia is a signatory to the Project Documents. The Premier, in accordance with his executive powers, is empowered to execute the project documentation on behalf of the State.

Operator: St John of God Midland Health Campus

The sole member of St John of God Midland Health Campus is St John of God Health Care Inc. St John of God Midland Health Campus may not engage in any activities other than those contemplated by the Project Agreements. It is the counterparty to the Services Agreement and the Design and Construction Agreement. St John of God Health Care Inc will be subcontracted by St John of God Midland Health Campus as the key services provider at the Campus, but St John of God Midland Health Campus has entered into contractual relationships to deliver the other elements of the Project.

Builder: Brookfield Multiplex Constructions Pty Ltd

Brookfield Multiplex Constructions Pty Ltd (“the Builder”) has entered into a design and construct subcontract with St John of God Midland Health Campus to undertake the design, construction and commissioning of the facility.

Radiology and Nuclear Medicine: PerthRadClinic

St John of God Midland Health Campus has engaged PerthRadClinic Ltd to provide radiology and nuclear medicine services

Pharmacy Services: PMST Pty Ltd

St John of God Health Care Inc (as key services subcontractor to the Operator) has engaged PMST Pty Ltd to perform the pharmacy services.

2.2 Project Scope

The table below summarises the key responsibilities of St John of God Midland Health Campus as outlined in the Project Documentation.

Table 5 – Project Scope

Project Element	Description
Design and Construction of the Public Patient Health Campus	The Operator will design, construct and commission the Public Patient Health Campus and the shared infrastructure for a fixed price by the Date for Completion.
Transition Phase	Subject to the State and the Operator agreeing the terms of the Interim Management Agreement, the Operator will manage the Swan District Hospital for a period prior to the opening of the new Midland Public Hospital and will also be responsible for the transfer of patients from the Swan District Hospital to the public hospital.*
Operation and Management	<p>The Operator will provide all clinical, clinical support and non clinical support services, as well as maintenance at the Public Patient Facility.</p> <p>The clinical services include:</p> <ul style="list-style-type: none"> • Emergency Department Service; • Critical Care Service; • General Surgery Service; • Orthopaedic Service; • General Medicine Service; • Maternity Service; • Gynaecology Service; • Neonatology Service; • Cardiology Service; • Geriatric and Aged Care Service; • a Cancer Unit; • Respiratory Service; • Paediatrics Service; • Rehabilitation Service; and • Mental Health Service.
Term of Services Agreement	<p>Once the Design and Construction Phase is complete and the facility has been commissioned, the Operator has an initial concession term of 20 years (unless terminated in accordance with the Services Agreement).</p> <p>The Services Agreement also provides an option for the term to be extended for an additional 2 years if requested by the State.</p>
Handover at end of the Project	The Operator is required to handover the Public Patient Facility at the end of the 20 year term of the Services Agreement for nil consideration in a well-maintained and pre-specified handover condition.

* If the Interim Management Agreement is not agreed to and executed then the Department of Health will continue to manage the Swan District Hospital and be responsible for the transfer of patients. See Section 2.3 for a summary of the Interim Management Agreement.

2.3 Project Documentation and Related Agreements

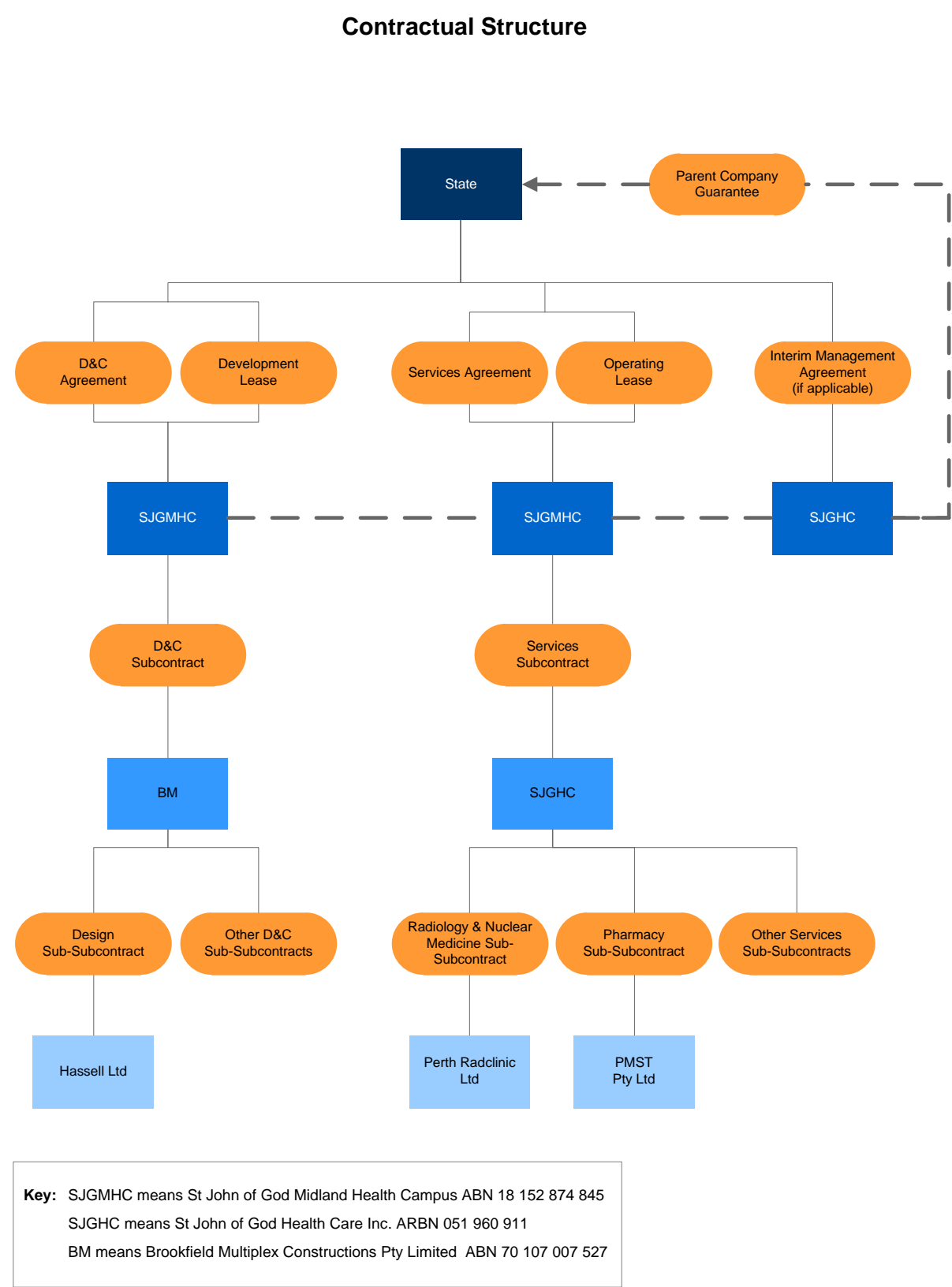
There are two main Project Agreements, the Design and Construction Agreement and the Services Agreement. All project documents are explained in the table below.

Table 6 – Project Documents

Name	Description
Design and Construction Agreement	<p>The agreement entered into between the Operator and the State that provides for the design, construction and commissioning of the Midland Public Hospital.</p> <p>The Operator will also design, construct and commission the private patient facility, the private proportion of any shared infrastructure and the commercial facilities under the Design and Construction Agreement, but at no cost to the State.</p>
Development Lease	The Development Lease grants to the Operator a lease over the Site to enable it to undertake the design and construction of the facility.
Interim Management Agreement	The agreement (if the full form is agreed and executed by the parties) will set out the terms on which the Operator will provide management services at Swan District Hospital to ensure that transition from Swan District Hospital to the Midland Public Hospital is achieved with no compromise to patient safety and care for a period prior to opening of the new Midland Public Hospital. The Services Agreement sets out that the State and the Operator or St John of God Health Care Inc (Key Service Provider) (as the case may be) will endeavour to execute the Interim Management Agreement by 1 July 2013. The State and the Operator have agreed to a term sheet regarding the Interim Management Agreement that is included within the Services Agreement.
Services Agreement	The agreement entered into between the Operator and the State that provides for the operation and maintenance of the public hospital, the performance of the patient transfer services and hand over of the public hospital at the expiry of the term.
Operating Lease	The Operating Lease grants to the Operator a lease over the Site to enable it to perform its obligations under the Services Agreement during the Operational Phase.
Interface Agreement	The agreement entered into between the Operator, the Key Service Provider and Brookfield Multiplex Constructions Pty Ltd (Builder) for the cooperation and coordination of activities in relation to the design, construction, operation and maintenance of the facility.
Design and Construction Subcontract	The agreement entered into between the Operator and the Builder for the undertaking of all, or substantially all, of the design and construction of the facility.
Key Subcontracts	The agreements entered into between the Operator and or the Key Services Provider and key subcontractors in relation to the Project.

State Security	<p>The security provided by the Operator in the form of:</p> <ul style="list-style-type: none"> • the general security agreement, • the specific security deed, • the parent guarantee, • and any other documents which the State and Operator agree to be a State Security.
Service Novation Deed	The deed(s) that provide (if required) for the novation of key subcontracts under the Services Agreement from the Operator to the State.
Builder Novation Deed	The deed that provides (if required) for the novation of the Design and Construction Subcontract from the Operator to the State.
Builder Parent Guarantee	The parent guarantee provided by the Builder's parent company in respect of the performance of the Builder's obligations under the Design and Construction Subcontract in favour of the Operator.

Diagram 2 – Contractual Structure



2.4 Commercial Opportunities

As well as providing a private hospital on the campus, St John of God Midland Health Campus will also provide commercial opportunities such as:

Consulting Suites

Consulting suites that will be serviced by a common reception area will be provided. The consulting suites provide an incentive for specialist consultants to commence or expand their practices in Midland by offering a base to service the health needs of the community.

Retail Facilities

Retail facilities will be provided to complement the operations of the health campus and enhance the experience of patients, visitors and caregivers including a café, gift shop, florist, newsagency and retail pharmacy.

2.5 Commercial Principles

Set out below is a summary of some of the key commercial principles as set out in the project documents.

2.5.1 Design and Construction

The Operator is required to design and construct the Public Patient Facility and the shared infrastructure by the Date for Completion. The State will pay a fixed sum of \$339.7 million for the Public Patient Facility and its portion of the shared infrastructure, subject to adjustment in limited risk events. In this regard, the Operator is predominantly responsible for risks relating to designing and constructing the Public Patient Facility and the shared infrastructure, but the State will provide some relief in regards to specific issues such as variations directed by the State and any pre-existing contamination that does not meet defined acceptance criteria. During the Design and Construction Phase, the Operator assumes all site risk except for the discovery of artefacts, native title and heritage claims and any pre-existing contamination.

The Operator is required to obtain and maintain all authorisations and approvals for the design, construction, completion and commissioning of the facility, including ensuring that the Public Patient Health Campus is:

- designed in accordance with the State's design requirements
- constructed and commissioned in accordance with the design documentation; and
- completed in accordance with all licensing and authorisation requirements.

Key Approvals

The Operator is responsible for obtaining approval of the hospital design from the hospital Licensing and Accreditation Review Unit (LARU) established under the *Hospitals and Health Services Act 1927* (WA).

2.5.2 Patient Transfer

If the Interim Management Agreement is entered into, the Operator will be responsible for all matters relating to the transfer of patients from the Swan District Hospital to the Public Patient Facility.

The State will pay a fixed patient transfer payment for these services. The State will not pay for any cost overruns above this fixed payment and may reduce the Patient Transfer Payment to take into account poor performance of the patient transfer services by the Operator.

If the Interim Management Agreement is not entered into, the State will be responsible for the patient transfer services.

2.5.3 Service Delivery

The Operator will be responsible for the delivery of all clinical services and the provision of all things necessary in order to ensure that the clinical services are provided in accordance with the Services Agreement. Below are some of the details regarding the service delivery.

Licensing and Accreditation

The Operator is responsible for ensuring the hospital is licensed at all times. They must also obtain and maintain accreditation from the Australian Council on Healthcare Standards (ACHS).

Annual Notice and Activity Profile

The services to be delivered each Financial Year will be set out in the Annual Notice that will be provided to the Operator prior to each Financial Year. The Annual Notice will include the Activity Profile that will set out the type and volume of services the State expects to purchase from the Operator in the coming Financial Year.

Service Volume Management

The Operator is required to manage the service volumes throughout the course of the year at the Public Patient Facility. The Operator is obliged to provide care to all patients that present at the Public Patient Facility, whether that is direct care or stabilisation and transfer to an appropriate specialist facility if the required service is not part of the services that are required to be provided.

Absolute Minimum Volume

The State has provided an assurance to the Operator that, during the course of any entire Financial Year during the Operational Phase, the total volume of services it pays for will not fall below an absolute minimum volume, specified on a per Service Payment Category basis.

It has also specified that if activity significantly exceeds that expected the State will meet with the Operator with a view to reviewing the Activity Profile.

Service Costs

The prices paid by the State for each unit of volume delivered will be fixed for each Financial Year.

The prices for each Service Payment Category are based on the prices as bid by St John of God Midland Health Campus as part of the competitive tender process. Over the course of the Services Agreement the prices bid will be indexed by an independently published price index which reflects changes in prices charged by private hospital operators in a competitive market.

Payment Mechanism – Ceiling and Floor

The State and the Operator will both be protected from any large deviations in the indexed tendered prices for the majority of service payment categories through a payment mechanism that includes ceiling and floor prices that will be based on comparable State hospital costs. If the indexed tendered price is higher than the ceiling then the ceiling price will apply. If the indexed price is lower than the floor then the floor price will apply. The ceiling and floor prices are determined as a discount to the comparable State hospital costs, which means that the State is guaranteed to always pay prices that are below the comparable State hospital costs throughout the life of the contract, thus ensuring value for money to the State.

The ceiling discounts range between 4% and 6% and the floor discounts range between 8% and 15%.

For the Non-Admitted Service Payment Categories there is an alternative payment mechanism. This mechanism does not involve ceiling and floor discounts, but still ensures that the price paid by the State will not be greater than the equivalent State cost for the same Service Payment Category.

Maximum Payment Amount

The State will also stipulate a Maximum Payment Amount for each Financial Year. The Maximum Payment Amount will be set as the maximum amount the State will pay to the Operator based on the Activity Profile and the applicable Service prices for each year. If activity significantly exceeds expectations, then the Activity Profile can be adjusted by the agreement of the parties

Further Services

In addition to the services reflected in the Activity Profile, the State may request, on an ad-hoc basis, that the Operator provide a specified volume of Further Services. The State will pay a price per unit of volume for the Further Services performed as agreed at the time between the Operator and the State (but being not more than the relevant floor price for the applicable Service Payment Category that the Further Services are contained within).

Payments for Further Services are not included within the Maximum Payment Amount limit.

Medical Equipment

The Operator is required to manage all risk associated with procurement, maintenance and use of medical equipment, and will be required to demonstrate appropriate investment in medical equipment through a minimum expenditure provision within the Services Agreement. The Operator is able to buy, lease or enter into specific service arrangements for the provision of medical equipment.

Key Performance Indicators and Abatement

The Operator is required to meet 159 Key Performance Indicators, 104 of which may result in Abatement if not met. The indicators are generally measured against performance at other hospitals (State and National) and the reporting frequency varies from monthly to annually, to a per-incident basis. There is a mechanism for the State to change the KPIs over time.

2.5.4 Maintenance

The Operator is responsible for maintaining the hospital to meet the State's requirements at all times.

Lifecycle Fee

A monthly fee (referred to as the lifecycle fee) will be paid to the Operator during the Operational Phase as the method for funding expenditure for capital works associated with lifecycle refurbishment or lifecycle replacement of any part of the building fabric or Fixed Building Equipment within the Public Patient Facility that will be required to meet the Operator's obligations under the Project Documents, including the handover condition requirements.

The Operator bid a Lifecycle Fee in real terms as part of the competitive tender process and this was assessed in the value for money analysis. Actual Lifecycle Fee payments throughout the Operational Phase will be escalated by applying the Perth All Groups CPI movements to the real fixed amounts specified in the Services Agreement.

2.5.5 Security

The security given to the State during the Design and Construction Phase and the Operational Phase includes:

- a charge over the assets of the Operator company (other than in respect of the Private Patient Facility);
- a parent company guarantee, under which the obligations of the Operator under the Design and Construction Agreement and the Services Agreement are guaranteed by St John of God Health care Inc;
- performance bonds throughout the Design and Construction and the Operational Phases;

- a general set-off right in respect of any payment required to be made by the State to the Operator under the project documents;
- a handover bond approaching the expiry of the Operational Phase.

2.5.6 Expansion of the Public Patient Facility

As part of their responses to the Request for Proposals, bidders were required to develop a design and master plan that allowed for further expansion of the Public Patient Facility during the Operational Phase to accommodate forecast increases in demand for Health Services in the area. The Services Agreement also provides for the State being able to give notice to the Operator that it requires the expansion works be undertaken at any time.

2.5.7 Purchase of the Private Patient Facility

In addition to the expansion requirements listed in the previous section, the State also has the option under the termination regime (see the following section) to purchase the Private Patient Facility. The State can purchase the Private Patient Facility as long as the State gives the Operator three years (or four years in some circumstances) notice and pays a price calculated in accordance with the Services Agreement.

2.5.8 Default, Termination and Step in Regimes

Default

If St John of God Midland Health Campus does not meet certain required levels of service then it may be placed in default. Where a default has occurred, the State will in most circumstances be required to give St John of God Midland Health Campus an opportunity to cure the default.

Where St John of God Midland Health Campus fails to remedy a default this will generally give rise to the State's right to terminate the Services Agreement. Certain events of default are so severe that they are not subject to a cure regime and will give rise to a State termination right immediately upon their occurrence. These are referred to as Immediate Termination Events in the Services Agreement.

Step In

If an immediate termination event or event of default occurs, in addition to termination rights (or potential termination rights), the State has a step in right to:

- temporarily assume total or partial management and control of the Project, the works or the Services;
- access the facility; and
- take such other steps as necessary to minimise the effect of the Step-in Event.

The State can also step-in when:

- an emergency has occurred;
- a force majeure event has occurred; or
- the State is required to take action by law.

Termination

The Project Agreement can be terminated:

- as a result of certain events of default;
- as a result of a force majeure event (i.e. an event beyond the control of the parties that prevents the Operator from undertaking its obligations);
- as a result of damage that substantially prevents the performance of the services or the occurrence of an uninsurable risk; and

- voluntarily by the State.

Where either or both of the Services Agreement and the Design and Construction agreement are terminated before the natural expiry of their term, either the State or St John of God Midland Health Campus may be entitled to a termination payment. The basis for the calculation of the termination payment will be determined by the reason for the termination.

2.5.9 State Rights at End of Services Agreement

At expiry of the Services Agreement, St John of God Midland Health Campus is required to handover the facility and all equipment for nil consideration in essentially the condition it was in at the beginning of the Services Agreement, excluding fair wear and tear.

In the event that St John of God Midland Health Campus fails to maintain the relevant facilities to the standard required to satisfy the handover requirements, it must recompense the State to cover the expense of any works required to be undertaken by the State to bring the facility up to the required level.

