

Casey Hospital Expansion Project

Project summary – November 2017

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Foreword

This Project Summary provides information about the Casey Hospital Expansion PPP Project (**Project**) and is divided into two parts. The first part is an overview of the Project, including the Project background and objectives and the rationale for undertaking it under the *Partnerships Victoria* framework. It summarises the tender process, the value-for-money calculation, and the public interest considerations for the Project. The second part details the key commercial features of the Project, including the main parties and their general obligations, the broad allocation of risk between the public and private sectors and the treatment of various key Project issues.

The Project involves a modification of the existing Public Private Partnership (**PPP**) arrangements for the Casey Hospital Project entered into in 2002 between the Minister for Health for and on behalf of the Crown in the right of the State of Victoria and Plenary Health (Casey) Pty Ltd. The contractual framework for the Project is generally consistent with the current *Partnerships Victoria* framework, adapted as appropriate to a modification.

Partnerships Victoria forms part of the Victorian Government's strategy for providing better services to all Victorians by expanding and improving Victoria's public infrastructure and service delivery. The *Partnerships Victoria* framework uses private sector expertise to design, finance, build, operate and maintain infrastructure projects. The framework consists of the National Public Private Partnership Policy and Guidelines and supplementary *Partnerships Victoria* Requirements. Further information on the [Partnerships Victoria](http://www.partnerships.vic.gov.au) framework is available at <www.partnerships.vic.gov.au>

This summary should not be relied upon to completely describe the rights and obligations of the parties in respect of the Project, which are governed by the Project Documents. The Project Documents are available online at the [Tenders Victoria](http://www.tenders.vic.gov.au) website <www.tenders.vic.gov.au>

This document may be updated from time to time. Please check the [Partnerships Victoria](http://www.partnerships.vic.gov.au) website <www.partnerships.vic.gov.au> for the current edition.

1. Project overview

1.1 Partnerships Victoria: Public Private Partnerships

The Casey Hospital Expansion Project is a public private partnership delivered under the Victorian Government's *Partnerships Victoria* framework. The *Partnerships Victoria* model seeks to achieve better value for money by capturing the expertise and efficiencies of the private sector in designing, financing, building and maintaining infrastructure projects and providing services on a whole-of-life basis.

The *Partnerships Victoria* framework requires that projects comply with the:

- National PPP Policy and Guidelines (National PPP Guidance) that apply across all state, territory and Commonwealth arrangements
- requirements specific to Victoria as detailed in the *Partnerships Victoria* Requirements (updated in November 2016).

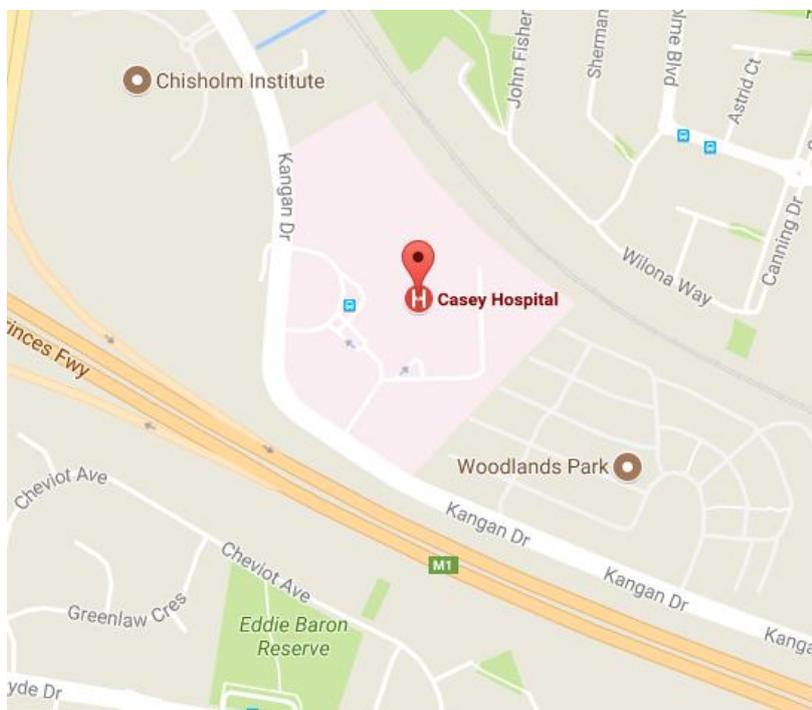
Details of the National PPP Guidance and the *Partnerships Victoria* Requirements are available at [Infrastructure Australia](http://www.infrastructureaustralia.gov.au) <www.infrastructureaustralia.gov.au> and [Department of Treasury and Finance](http://www.dtf.vic.gov.au) <www.dtf.vic.gov.au> respectively.

1.2 The Casey Hospital Expansion Project

1.2.1 Project background

The Project is being undertaken as an expansion to the existing Casey Hospital, a 257-bed public hospital in Berwick Victoria. Casey Hospital is bounded by Kangan Drive, the Woodlands Lifestyle Estate to the east and the Pakenham rail line.

Figure 1: Casey Hospital location



Opened in September 2004, Casey Hospital provides a comprehensive range of health services for the rapidly growing communities of Melbourne's southeast. Services include an emergency department, general medical, mental health, rehabilitation, surgical and ambulatory care and obstetrics.

Presentations and admissions have grown exponentially each year since the hospital opened. The maternity unit and special care nursery are kept extremely busy meeting the needs of the many new families residing in the district. Expansion is needed to enable residents of Melbourne's outer south east to access quality critical care closer to home, given both the unprecedented population growth and need for higher acuity services.

Casey Hospital was originally delivered as a PPP under contracts entered into with the Plenary Health consortium, comprising Plenary Health (Casey), Multiplex Constructions and Brookfield Global Infrastructure Solutions (formerly, Multiplex Asset Management).

The consortium designed, constructed and financed the hospital and, post construction completion in 2004, is responsible for providing non-clinical services over a 25 year term including building services, helpdesk, security, grounds, pest control, external cleaning, training and carparking services.

The contracts expire in 2029 at which time the facility reverts to the State at no cost and in a specific handback condition. Accordingly, there are approximately 12 years remaining of the operating term.

1.2.2 Feasibility study and business case

Following completion in 2012 of a site-wide masterplan study, a feasibility study was undertaken in 2013. As a result of this work, the 2015-16 Victorian State Budget allocated \$106.3 million to deliver an expansion of Casey Hospital comprising 64 new multi-day beds and shell space for provision of an additional 64 beds in the future, subject to the 'completion of business planning and development'.

Subsequently, the business case was completed and a preferred scope option identified, involving a multi-storey tower together with refurbishment of parts of the existing hospital. Given the unprecedented growing demand in the area, in October 2016 government announced it was committing an additional \$28.6 million to deliver an additional 64 beds (by fitting out the formerly proposed shell space). The additional funding brought government's total capital commitment to \$134.9 million.

The scope was subsequently augmented by the inclusion of an 'Education Hub' (**Education Hub**) to be used and funded by Monash University. This space provides dedicated education and training space for medical, nursing and allied health students taking up placement opportunities arising from the Project.

1.2.3 Project scope

The approved Project scope comprises the following:

- 128 multiday inpatient beds (while also allowing for the re-allocation of eight existing beds)
- a new 12-bed intensive care unit
- a new 12-bed day surgery unit with additional patient recovery capacity
- four additional operating theatres and the replacement of two existing theatres with two new theatres designed to current design standards
- the redevelopment of the existing short stay unit
- a new central sterilising supply department
- refurbishment and expansion works to pharmacy, back of house and support facilities as necessary to support and facilitate the expansion
- an additional 333 car spaces (comprising public and staff spaces)
- the Education Hub
- the redevelopment of the existing café and retail areas.

1.3 Procurement model

1.3.1 Governance structure

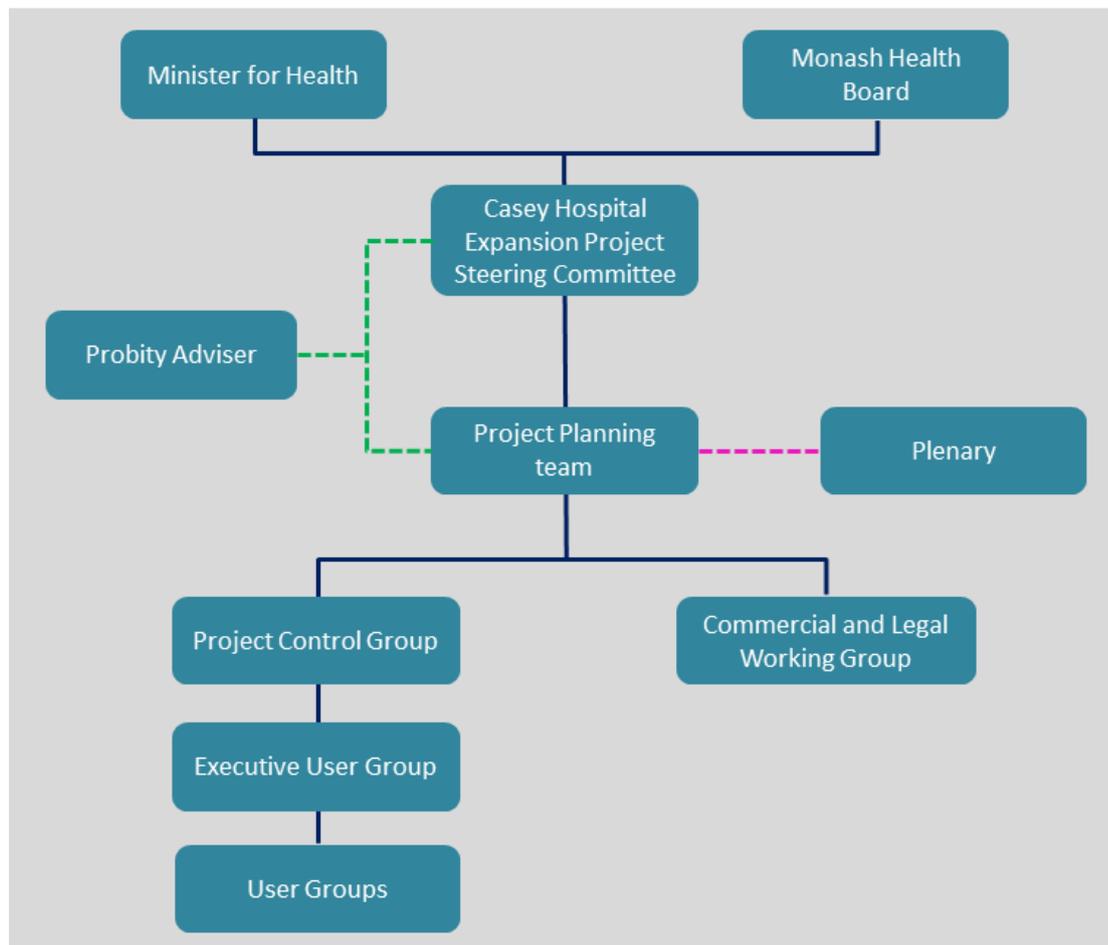
The State instituted a formal project governance structure to oversee the procurement process as represented in Figure 2.

A Steering Committee was established to oversee the development, design and delivery of the Project including to provide recommendations to the Minister. The Steering Committee comprised representatives from the department, Department of Treasury and Finance and Monash Health.

In accordance with the *Partnerships Victoria* framework, as a High Risk High Value project, at key points in the Project approvals were sought from the Treasurer together with the Minister for Health.

A Project Planning Team (**PPT**) was established and is responsible for managing the day to day planning, development and delivery of the Project and co-ordinating communications between Monash Health and the department. The PPT is chaired by the Project Director who reports directly to the Project Steering Committee.

Figure 2: Project governance



1.3.2 PPP delivery model

Following commitment of capital funding for the Project, the department undertook a detailed procurement strategy for the expansion assessing a range of potential procurement options for delivery. These options included:

- the State implementing the expansion outside the existing PPP arrangements by terminating or otherwise unwinding the existing contracts and adopting traditional procurement methods
- delivery of the Project under the existing PPP framework involving varying degrees of involvement by Plenary Health (Casey) (as the incumbent) including
 - unbundled options (such as construction only, managing contractor and design and construction)
 - bundled options (such as design and construct with hard facilities management only and design and construct with full facilities management)
- a new stand-alone tower being constructed on the site, independent from the existing hospital and the existing PPP arrangement.

The recommended option was a bundled model where Plenary Health (Casey) (or a related entity) would, subject to providing a value for money offer, design and construct the expansion and deliver facilities management services (including lifecycle) as a modification within the existing PPP contractual framework. This approach offered integrated design and operational efficiencies for the provision of health services across the site, and was assessed as the most cost effective option.

Following detailed analysis and advice from the Project's commercial advisers, it was considered that, on balance, the Project would benefit from some equity investment although the State would fund the majority of the Project's capital requirement. This model was considered to better achieve the State's preferred risk allocation (i.e. transfer of design, fitness for purpose, construction, facilities management and interface risk) and to incentivise the private sector to deliver a whole of life value for money offer.

On this basis, it was agreed the State would consider a proposal that included equity finance provided such financing options delivered value for money.

1.3.3 Procurement objectives

Table 1 sets out the procurement objectives and how these are to be realised through the PPP model.

Table 1: Procurement objectives

Procurement objectives	PPP delivery method
<p>1 Value for money:</p> <ul style="list-style-type: none"> to procure hospital infrastructure and associated services under the <i>Partnerships Victoria</i> policy in a manner which delivers value for money and satisfies the public interest criteria of the State, including through designing an environmentally and ecologically sustainable expansion facility that reduces whole-of-life costs 	<p>Plenary’s proposal reflects value for money. It delivers the expansion in a manner consistent with the Project objectives and within the State’s Public Sector Comparator. Negotiations with Plenary have arrived at a solution that:</p> <ul style="list-style-type: none"> meets the State’s briefed design requirements (including ESD requirements), and delivers net area above the minimum requirements offers a fixed design and construction cost and facilities management costs retains consistency of approach in the management and maintenance of the existing hospital and the expansion – thereby delivering operational efficiencies and reducing Monash Health operational costs ensures appropriate management of stakeholders and interface risks in a ‘live operating’ environment aligns the contract term for the existing hospital and expansion and retains the PPP risk allocation. <p>Section 1.6 (Value for Money) of this report provides further detail and in particular the additional value-for- money benefits of Plenary’s proposal.</p>

Procurement objectives	PPP delivery method
<p>2 Service quality:</p> <ul style="list-style-type: none"> • to improve access to health care services across the whole of Monash Health’s catchment area and to increase the provision of health care and hospital services to the under-serviced southeast growth corridor of Melbourne • to assist Monash Health to achieve best practice in effectiveness of care, ensuring better patient outcomes and enhanced efficiency, both in use of facilities and equipment and in operating costs • to provide infrastructure facilities and services that assist Monash Health to attract and retain quality staff at all levels 	<p>The State retains responsibility for the delivery of all health services whilst Plenary will be responsible for servicing the facility. This enables Monash Health to focus on the provision of health services with a fully supported help desk facility and scheduled maintenance, security, grounds, carparking, medical gas and other services.</p> <p>As further noted in objective 3 (Sufficient capacity), the expansion will enable Casey Hospital to treat more patients and perform extra and higher acuity procedures thereby reducing the number of patients needing to be transferred to surrounding facilities.</p> <p>Plenary’s proposal adopts best practice measures and delivers optimal design outcomes including:</p> <ul style="list-style-type: none"> • seeking to alleviate stress for patients, family and visitors through its access to natural light and views throughout, use of colours promoting a calming atmosphere, availability of different lighting solutions appropriate to different circumstances, and the introduction of courtyards which allow natural light into deep plan departments • maintenance of one main entrance assisting in intuitive, logical and simple wayfinding and the overall patient and visitor experience • a design that is responsive to the safety and dignity of people with special needs for example the provision of bariatric rooms • locating the new operating theatre suite immediately adjacent to the emergency department to allow direct access for urgent patients • collaboration rooms in all new clinical areas to support interdisciplinary care and facilitate communication between staff from a variety of disciplines • providing access to natural light and views and outdoor spaces from the work place • ensuring the work places are attractive and comfortable with appropriate staff facilities including access to a commercial café and sundry retail.
<p>3 Sufficient capacity:</p> <ul style="list-style-type: none"> • to increase the capacity of the existing hospital facility and to provide infrastructure facilities and services to facilitate the carrying out by Monash Health of the hospital functions as they may be varied over time to meet community health care needs 	<p>The expansion will enable Casey Hospital to treat an extra 25,867 patients, perform an extra 8,000 procedures (therefore ensuring the majority of patients that live within the area are treated within the clinically appropriate timeframe) and support an extra 1,300 births.</p> <p>In turn this will significantly reduce the number of patients needing to be transferred to other surrounding facilities and allow for more patients to access the health services they need closer to home.</p>

Procurement objectives	PPP delivery method
<p>4 Operational efficiency:</p> <ul style="list-style-type: none"> to provide an operationally efficient Casey Hospital (including the expansion) capable of meeting the Services Specification and which supports Monash Health to deliver the hospital functions efficiently within the budgets allocated to it 	<p>The layout and design of the expansion has strong connections with the existing hospital, thereby offering an efficient health services delivery model. Specifically:</p> <ul style="list-style-type: none"> circulation strategies ensure strong links between the existing and expanded facilities new operating theatres are collocated with the existing operating theatres and new day surgical unit to ensure efficient flow of patients and integration of staff there is direct vertical adjacency between the new inpatient units, the intensive care unit and operating theatres helping to reduce travel distances meeting rooms being located on the periphery of inpatient departments so they can be accessed by other areas to maximise use <p>Project Co must interface its construction and services delivery with the operations of the Existing Facility.</p>
<p>5 Flexibility:</p> <ul style="list-style-type: none"> to provide flexible infrastructure capable of adapting to future infrastructure needs, new technologies and clinical practice changes 	<p>Operational sustainability has been supported by the use of standardisation where possible (e.g. generic inpatient units). In addition the design reflects a strategy of flexibility by:</p> <ul style="list-style-type: none"> maximising re-usable spaces delivering core infrastructure in locations which will not obstruct change or expansion.
<p>6 Delivery:</p> <ul style="list-style-type: none"> to secure delivery of the Project in a safe manner, and within the specified timeframe. 	<p>Plenary must adhere to occupation health and safety standards and procedures throughout the construction and operating phases of the Project.</p> <p>The hospital expansion must be constructed and commissioned in stages, with the entire hospital to be available for use by Monash Health by September 2019.</p>

1.4 Procurement process

1.4.1 Process Agreement

The modifications regime under the existing Casey Hospital Project Agreement was not of sufficient detail to address an expansion of the scale proposed. In addition, given the sole-source type procurement model, upfront agreement of various parameters was required to facilitate a value for money outcome. Therefore the State entered into a Process Agreement with Plenary prior to issuing a Modification Request. This agreement addressed issues around:

- tender stages and timelines
- decision points at specified stages providing the State with the opportunity to assess the progress of Plenary's proposal and determine whether proceeding with Plenary would likely deliver value for money; and providing the State with the right to terminate the process at these decision points
- sizing and pricing of equity contributions
- agreement of various transaction and design consultancy fees.

1.4.2 Tender stages

The tender stages comprised the Stage 1 Submission, the Stage 2 Submission and the Development Proposal. At each stage the State assessed progress and determined whether to proceed. The activities and purpose of each stage is set out in Table 2 below.

Whilst the stages represented State decision points, throughout the tender process the activities undertaken by Plenary involved:

- substantial development of the design (together with the design team, State user groups and the FM Subcontractor) to minimise future design/scope risk
- conduct of a competitive process for the appointment of the D&C subcontractor
- ongoing commercial negotiations with the incumbent FM subcontractor
- securing of equity finance
- obtaining required approvals from the equity and debt financiers of the existing Casey Hospital PPP to the implementation of the Project as a modification.

Table 2: Tender stages

Tender stage	Activities	Purpose of submission
Stage 1 Submission	<p>During this phase Plenary (together with its design team, State user groups and the FM Subcontractor) developed the project design to Design Stage 1 level.</p> <p>Plenary competitively tendered to a pre-agreed short-list of contractors seeking bids for fixed margins and preliminaries based on the design. Two contractors were shortlisted, being Watpac and Kane Constructions.</p> <p>Ongoing commercial negotiations with the FM subcontractor, equity, and financiers to the existing project.</p>	<p>State to review and assess:</p> <ul style="list-style-type: none"> • high level commercial structures • the proposed design (Design Stage 1) and its affordability • Plenary's recommended shortlist of construction contractors • the proposed FM Subcontractor and approach, including indicative pricing.
Stage 2 Submission	<p>During this phase Plenary (together with its design team, State user groups and the FM Subcontractor) developed the project design to Design Stage 2 level. Plenary competitively tendered a fixed price contract to the two shortlisted contractors and recommended a preferred contractor, being Watpac.</p> <p>Ongoing commercial negotiations with the FM subcontractor, equity, and financiers to the existing project.</p>	<p>State to review and assess:</p> <ul style="list-style-type: none"> • the commercial structure and status of the contractual documents • the proposed design (Design Stage 2) • Plenary's recommended appointment of a preferred D&C Subcontractor • the proposed approach to facilities management, including pricing.
Development Proposal	Final fixed pricing and contracts	State to evaluate in accordance with the Evaluation Criteria

1.4.3 Evaluation Panel

An Evaluation Panel supported by three discipline-based sub-panels conducted the review and evaluation process as relevant to each stage. The sub-panels comprised:

- Commercial and Legal Sub-panel
- Services Sub-panel
- Design and Technical Sub-panel.

The State selected panel members based on government stakeholder representation and requirements for appropriate and relevant skills and experience. Panel members included representatives of:

- the department, including contract managers of the existing Casey Hospital PPP project
- Monash Health
- Department of Treasury and Finance.

Specialist appointed project advisers supported the sub-panels as required.

The Evaluation Criteria applied to the assessment of the Development Proposal is presented in Appendix 4.

1.4.4 Procurement outcome

Upon completion of each tender stage the State determined to proceed based on Plenary addressing identified issues to ensure the State's preferred risk allocation and value for money requirements were achieved.

Following the extensive tender process, the State entered into final negotiations with Plenary in July 2017. Subsequently the parties negotiated the final form of contracts and executed the Project Documents that govern the Project in September 2017.

1.4.5 Procurement process - key dates

The procurement timelines were as follows:

Table 3: Key dates

Milestone	Date
Process Agreement executed	22 July 2016
Modification Request issued	12 August 2016
Stage 1 Submission*	4 November 2016
Stage 2 Submission*	13 April 2017
Development Proposal (2 parts)*	9 and 16 June 2017
Contract Close	4 September 2017
Financial Close	8 September 2017

**Following each submission by Plenary the State undertook a review or evaluation process to determine whether to proceed in accordance with the Process Agreement.*

1.4.6 Probity

The tender process was undertaken within an agreed probity framework, endorsed by the Project's probity adviser and based on the following probity principles:

- fairness and impartiality
- use of a competitive process (for the construction element of the Project)
- consistency and transparency
- security and confidentiality
- identification and resolution of conflicts of interest
- compliance with government policies as they apply to tendering.

At the completion of each stage of the tender process, the probity adviser confirmed that the process had been conducted in accordance with the applicable requirements.

1.5 Plenary Health (CHEP)

1.5.1. The Consortium

The Project will be delivered by Plenary Health (CHEP) and consortium members outlined in Table 4 below.

Table 4: Consortium members

Consortium member	Entity
Project Co	Plenary Health (CHEP) Pty Ltd
Equity providers	<ul style="list-style-type: none"> • Plenary • Caisse de dépôt et placement du Québec • Palisade Investment Partners Limited Actual investing entities will be related entities of the above.
D&C Subcontractor	Watpac Construction Pty Ltd
FM Subcontractor	BGIS Pty Ltd

1.5.2 Equity finance

Plenary will deliver the Project via a special purpose vehicle financed by the same equity investors in the existing PPP and in the same proportions, thereby providing an integrated solution across the site.

This structure was particularly advantageous in obtaining the necessary consents from equity and debt financiers to the existing PPP to implementation of the Project as a modification to the Existing Project Agreement.

1.5.3 Design and Construction

The design has been developed by a comprehensive team including:

Table 5: Design team

Company	Role
Silver Thomas Hanley	Health planning/architecture
Norman Disney Young	Services engineer
Bonacci	Structure/civil
Cundall	ESD
Rush Wright	Landscape architect
Access & Architecture	Disability access
HKI	FF&E

The design delivers the following key outcomes:

Operational principle – patient centred care

- Provision of best practice (evidence based design) measures to alleviate stress for patients, families and visitors including access to natural light and view from patient beds; use of colours that promote a calming atmosphere; availability of different lighting solutions appropriate to different situations and introduction of courtyards allowing natural light into deep plan departments.
- Intuitive logical and simple wayfinding including one main entrance (with clear drop off and pick up zones) so patients, carers and visitors will easily be able to arrive at their desired destination; clear circulation systems in the new tower that allow for maximum access to sunlight and external views.
- Maximising patient, family and visitor safety through the use of a standardised in-patient room layout (with rooms being large enough to allow ease of movement between patient bed, patient chair and ensuite with or without assistance) and availability of single rooms.
- Respecting individuals, families and visitors and their cultural backgrounds including people with special needs through for example the provision of bariatric rooms.

Optimise clinical outcomes

- Optimising clinical outcomes and continuity of care through:
 - the use of circulation strategies that ensure strong links between the existing hospital and the expansion
 - locating the new operating theatre suite immediately adjacent to the emergency department for direct access for urgent patients
 - the inclusion of collaboration rooms in all new clinical areas to support and facilitate interdisciplinary care.

Operational efficiency

- Supporting business sustainability by delivering operational efficiencies and savings through the following measures:
 - co-locating the new operating theatres with the existing operating theatres and the new day surgery unit ensuring efficient flow of patients and integration of staff
 - providing a direct vertical adjacency between the new inpatient units, intensive care unit and operating theatres thereby reducing travel distances
 - re-using existing spaces for new purposes (for example the existing pharmacy with move into the area currently housing the café).

Enhanced workforce, innovation and knowledge

- The expansion will contribute to learning through the integration of clinical learning spaces (such as collaboration and meeting rooms) into the clinical and inpatient settings allowing for on-job training as well as more formal learning. Access and links to Monash University's Education Hub and other education and research facilities supports a culture of innovation and high care standards.
- A focus on attracting and retaining the best staff led to a design that:
 - ensures access to natural light and views and outdoor spaces from the work place
 - delivers an enhanced work environment that provides comfortable staff facilities including access to a commercial café and retail area
 - includes collaboration rooms that support and encourage multi/cross-disciplinary interactions both formal and informal
 - provides capacity for the implementation of smart technologies which integrate and streamline work processes.

Flexible, responsive and sustainable environment

- Operational sustainability has been supported by standardisation where possible, for example generic inpatient rooms and re-use of existing spaces where possible, while core infrastructure has been provided in locations which will not obstruct change or expansion.

The design has been novated by Plenary to Watpac, who will complete the detailed design and construct the expansion. Watpac have extensive experience in the health sector and in undertaking works within an operating hospital environment. They also have extensive experience in successfully delivering PPP projects.

Construction of the Project is to be completed in four stages thereby enabling progressive use of the new facilities by Monash Health and Monash University. The stages are as follows:

Table 6: Construction stages

Stage	Scheduled completion date
Stage 1 – Front Entry (entrance, café, Education Hub)	Mid-2018
Stage 2 – Pharmacy/Pathology/Back of house	Early 2019
Stage 3 – Ground Floor IPU Tower (theatres, CSSD) & Short Stay Unit	Early to mid-2019
Stage 4 – Day Surgery Unit, Remainder of IPU Tower, roadworks, carparks, landscaping	September 2019

1.5.4 Facilities Management Services

The incumbent FM subcontractor, BGIS, will expand the scope of facilities management services to cover the new and refurbished sections of the hospital. Plenary’s offer incorporates pricing efficiencies arising from BGIS’s existing management structure and presence on the site and savings in maintenance and lifecycle expenditure for the Existing Facility where these are no longer required as a result of upgrades undertaken as part of the expansion.

1.5.5 Commercial Opportunities

Plenary’s offer includes delivery of a new café at the refurbished front entrance of the hospital, together with additional public carparking. There are mechanisms in place to provide the State with a share in the revenues generated from each of these initiatives.

1.6 Value for Money

In assessing whether Plenary's proposal offered value for money, the State undertook the following assessments:

- a quantitative analysis of the total net present cost of Plenary's offer against the Public Sector Comparator
- a qualitative analysis of the value for money delivered by the proposal relative to the State's Public Sector Comparator accounting for any additional qualitative benefits delivered by Plenary's proposal
- the reasonableness of costs not competitively tendered based on benchmark analysis and independent third party review
- a quantitative assessment that State capital contributions did not exceed the available capital funding.

1.6.1 Public Sector Comparator

The Public Sector Comparator (PSC) is an estimate of the hypothetical, risk-adjusted, whole-of-life cost of the PPP scope of the Project if delivered by the State. The PSC is developed in accordance with the Output Specification, Services Specification and risk allocation included in the Modification Request, and is based on the most likely and efficient form of conventional (that is, non-PPP) delivery by the State.

The PSC is expressed in terms of the Net Present Cost to the State, calculated using a discounted cash flow method and taking full account of the costs and risks that would arise through conventional delivery by the State. The PSC includes costs of the design and construction of the hospital expansion, lifecycle and facilities management costs and commercial revenues arising during the Operating Phase, and is detailed below inclusive and exclusive of the cost of Monash University's Education Hub, which will be fully funded by Monash University.

The PSC is made up of a number of elements, as indicated in the table below.

Table 7: Components of the Public Sector Comparator

Components of the PSC	Net Present Cost (excl. Education Hub) (\$m) (Note 1)	Net Present Cost (incl. Education Hub) (\$m) (Note 1)
Capital costs	109.8	113.6
Lifecycle, operating costs and commercial revenues	36.6	37.8
Raw PSC	146.4	151.4
Transferred risks (Note 2)	15.6	16.0
PSC (excluding retained risk)	162.0	167.4

Note 1: All values are expressed in net present values as at 8 September 2017 and discounted at a nominal discount rate of 2.53 per cent per annum in accordance with the Infrastructure Australia guidance that applies under the Partnerships Victoria framework.

Note 2: The transferred risk totalling \$16 million Net Present Cost refers only to those capital, lifecycle and operating risks transferred to the private sector under the Partnerships Victoria arrangements (i.e. those risks that the State would otherwise assume) and excludes the State's estimates of the cost of retained risks.

1.6.2 Scope ladder

Consistent with the *Partnerships Victoria* Requirements, a down scope ladder was approved alongside the PSC. The purpose of the down scope ladder was to identify items which could be removed should the cost of the base proposal exceed the PSC. However, as detailed in Table 8 below, the Net Present Cost of Plenary’s proposal was below the PSC so use of the down scope ladder was not required.

1.6.3 Net Present Cost of Plenary’s proposal

The cost of Plenary’s proposal consists of:

- State contributions to the capital expenditure of the Project during the Development Phase of the Project
- Quarterly Service Payments and Refurbishment Payments payable during the Operating Phase of the Project.

These costs are partly offset by the projected State share of net revenues generated from the café and public carparks delivered as part of the Project.

Table 8: Comparison of the net present cost of Plenary’s proposal against the PSC

	Net Present Cost of Plenary’s final proposal (Note 1)	PSC (\$m)	Savings (\$m)	Savings (%)
Total Project scope <i>(excluding cost of Education Hub funded by Monash University)</i>	159.9	162.0	(2.1)	(1.3%)
Total Project scope <i>(including cost of Education Hub funded by Monash University)</i>	164.6	167.4	(2.8)	(1.7%)

Note 1: All values are expressed in net present values as at 8 September 2017. In accordance with the Infrastructure Australia guidance that applies under the *Partnerships Victoria* framework, and as set out in the Modification Request, the PSC has been discounted at a nominal discount rate of 2.53% per annum, and Plenary’s proposal has been discounted at a nominal discount rate of 4.73% per annum (QSP) and 4.23% per annum (State Contribution). The Net Present Cost represents the cost of the Project to the State in today’s dollars, taking into account the time value of money (using the discount rates above). This is accepted as the most financially robust and appropriate method for comparing costs of long-term projects.

The undiscounted net cost of construction, operations and revenue for the total Project in nominal dollars is as below.

Table 9: Cost of Plenary’s proposal – nominal dollars

Nominal dollars cost of Plenary’s final proposal (\$m)	\$m
Total Project scope <i>(excluding cost of Education Hub funded by Monash University)</i>	189.4
Total Project scope <i>(including cost of Education Hub funded by Monash University)</i>	194.6

1.6.4 Additional value for money benefits of Plenary’s proposal

Plenary’s proposal provides the following value for money benefits not allowed for within the PSC:

- an upgraded kitchen solution (in the form of the ‘*SmartPak*’ model) that allows for increased patient choice and a significantly improved patient experience
- the replacement of two existing theatres with two new theatres designed to current standards
- redevelopment of the existing short stay unit
- additional overall net area including larger in patient units than allowed for in the PSC
- the provision of additional generator back up capacity to the existing hospital thereby enhancing the reliability of the existing site infrastructure
- ten additional staff car park spaces to the State’s briefed requirements
- commissioning of completed sections of the hospital in four stages, thus providing new and refurbished areas for progressive use by Monash Health and Monash University prior to the final completion date of September 2019.

Plenary’s proposal also offers qualitative benefits across the existing and expanded Casey Hospital projects by way of:

- common equity providers
- an integrated facilities management solution across the new and existing hospital areas.

The Project is a strategic project under the Victorian Industry Participation Policy guidelines. Plenary has met the requirements for the 85 per cent target for local content set under the guidelines over the term of the contract.

Plenary has also committed to meet the government’s Major Projects Skills Guarantee policy under which a minimum of 10 per cent of the total labour hours across the development phase of major projects must comprise those contributed by registered apprentices and trainees.

1.6.5 Other costs

In addition to the costs of Plenary’s proposal, the State will meet the following costs totalling \$11.5 million (nominal dollars) in relation to the Project.

Table 10: State costs

State costs	Description
Design Fees	Fees payable to the design consultants for development of the design prior to Financial Close
Plenary Fees	Fees payable to Plenary, its legal and other advisors for project and transaction management prior to Financial Close
Project Management Costs	Costs of the State project team and advisors; and other administration costs
Retained Risk	An allowance for risks which remain with the State under the PPP risk allocation such as certain site contamination risks, specified construction delay risks and scope changes.

1.7 Public Interest Test

At various stages throughout the development of the Project, the State made an assessment of the extent to which the Project was in the public interest. The analysis was undertaken in accordance with the *Partnerships Victoria* guidance on how to evaluate whether a project meets the public interest.

At all stages the State considered that, on balance, the public interest was being protected. Appendix 5 contains a summary of the Public Interest Test.

Figure 3: Artist impression – arrival and main entry



Figure 4: Artist impression – view from public carpark approach



2. Key commercial features

2.1 Project Documents

On 4 September 2017, the Minister for Health, on behalf of the State, executed the Project Agreement and ancillary documents (**Project Documents**) with Plenary Health (CHEP) Pty Ltd and its consortium partners to design, construct and provide equity finance to the Project, and to provide facilities management services to the expansion over the remainder of the term of the existing project. Concurrently the State executed an Amendment and Restatement Deed with Plenary Health (Casey) Pty Ltd to effect amendments to the existing Casey Hospital PPP to accommodate implementation of the Project.

In accordance with government policy, the executed Project Documents and the Amendment and Restatement Deed are publicly disclosed and available at www.tenders.vic.gov.au.

2.2 Parties to the Project Agreement and ancillary contracts

The relevant parties under the Project Documents are:

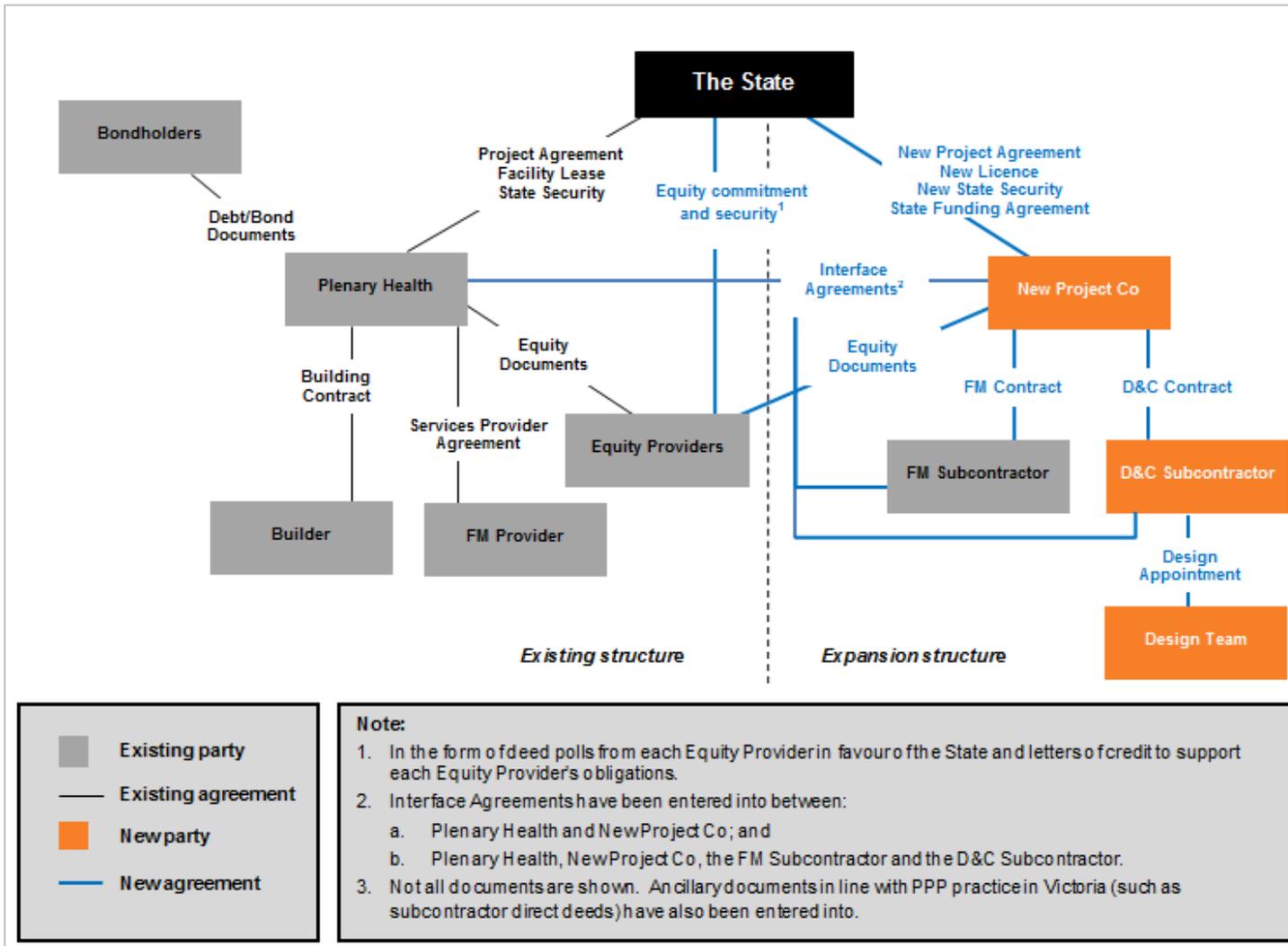
- **The State:** The Minister for Health is the person empowered to execute the Project Documents on behalf of the State.
- **Project Co:** Plenary Health (CHEP) Pty Ltd in its personal capacity and as trustee for the Plenary Health (CHEP) Unit Trust is the counterparty to the Project Agreement and other ancillary documents and is the primary contracting entity with the State. Plenary Health (CHEP) Pty Ltd, in turn, has entered into a range of contracts with its consortium partners to deliver elements of the Project. Notwithstanding this, Plenary Health (CHEP) Pty Ltd will be the organisation ultimately responsible for the delivery of the Project.
- **Equity Providers:** Plenary, CDPQ and Palisade have committed to provide the total equity required by Project Co via related entities or special purpose financing vehicles.
- **Builder:** Plenary Health (CHEP) Pty Ltd has engaged Watpac Construction Pty Ltd to complete the design (which was substantially developed prior to Contract Close) and undertake construction of the expansion.
- **Facilities Management Subcontractor:** Plenary Health (CHEP) Pty Ltd has engaged BGIS Pty Ltd to deliver facilities management services.

2.3 Project contractual relationships

The relationship between the State, Project Co and other related parties is detailed in the Project Agreement, the State Funding Agreement and ancillary documents.

Figure 5 outlines the structure and principal agreements required for implementing the Project. In addition to these documents, selected amendments to the Existing Project Agreement were required, as documented in the Amendment and Restatement Deed.

Figure 5: Project contractual relationships



2.4 Project milestones

Table 11 sets out the Project milestones. The Project term is aligned with the remainder of the operating term of the existing Casey Hospital PPP.

Table 11: Project milestones

Project milestone	Date
Financial Close	8 September 2017
Commencement of construction	11 September 2017
Final Commercial Acceptance	September 2019
Expiry of Project term	August 2029

2.5 Risk transfer

The risk allocation for the Project is generally consistent with the current *Partnerships Victoria* framework, modified to reflect:

- the risk allocation applying to the Existing Project Agreement where considered appropriate for operational efficiency and practicality in contract administration
- the funding structure for the Project whereby the State has committed to fund 85 per cent of the capital expenditure for the Project, with the remainder to be contributed by Project Co as equity finance. This varies from a traditional PPP where generally the majority of the capital is financed by third party debt providers
- the Project being delivered as a State initiated modification under the Existing Project Agreement
- the design development process undertaken prior to Contract Close and agreed to as part of the Process Agreement.

In *Partnerships Victoria* projects, the State seeks to achieve best value for money by allocating risks to the party best able to manage them. This process results in various risks being:

- retained by the State
- transferred to the private sector, or
- shared between the parties.

The table below provides a high-level outline of the risk allocation for the Project as set out in the Project Agreement, the State Funding Agreement, the amended Existing Project Agreement and ancillary documents.

Where a risk is allocated to both parties, the parties may not share that allocation equally. All risks are addressed in detail in the Project Documents and, in respect to the risk allocation between the State and the Existing Project Co, the Amendment and Restatement Deed.

A key principle underlying the risk allocation is that interface risks arising from the Project are generally not borne by the State other than in respect to the granting of relief to Existing Project Co for the impacts of the works in specified circumstances. All other risks arising from the commercial and physical interfaces are addressed between Project Co and Existing Project Co (and their respective subcontractors) under separate interface arrangements to which the State is not a party.

Table 12: Risk allocation

Risk category	Description or comment	State	Project Co	Existing Project Co
Planning risk				
Changes to the existing planning scheme	Risk of revocation, changes or legal challenges to the zoning of the site under the Casey Planning Scheme	✓		
Site risks				
Site conditions	Costs relating to geotechnical and other site conditions		✓	
Pre-existing contamination	Costs relating to the management and removal of pre-existing contamination on the site	✓ in relation to the cost of removal of specified contaminated soil or fill material unless such contamination is caused by Project Co or Existing Project Co, or could have been prevented using best industry practices	✓ in relation to all other pre-existing contamination	
All other contamination	Cost relating to the management and removal of all other contamination on any site	✓ only where the State or its associates causes the contamination; or where the contamination (which was not foreseeable at the date of the Project Agreement) has migrated from an adjoining site, other than the existing hospital, and is not caused by Project Co or Existing Project Co	✓ in relation to all other contamination	

Risk category	Description or comment	State	Project Co	Existing Project Co
Artefacts and heritage claims	Risk that the site has archaeological or cultural significance (above or below ground).	✓ State bears risk for a claim which causes cumulative cessation or suspension of the works or Services for more than 10 business days	✓ All other	
Native title	Risk that the site is the subject of a native title claim.	✓ State bears risk for a claim which causes cumulative cessation or suspension of the works or Services for more than 10 business days	✓ All other	
External works	Costs relating to provision of external infrastructure to the sites (utilities, roads, footpaths, transport facilities)		✓	
Design, construction and commissioning risks				
Design risk	Risk that the design development process cannot be completed on time or to budget, or that the design does not meet the Output Specification.		✓	

Risk category	Description or comment	State	Project Co	Existing Project Co
Construction risk	Risk that construction cannot be completed on time or to budget.	✓ only where delays are caused by State breach or specified relief events, including where the State does not provide access to the Existing Facility for Project Co to undertake works in accordance with the agreed access regime (where total Project Co costs exceed \$50k over the Development Phase)	✓	
Interface risk (Development Phase)	Risk associated with the physical interface between the Existing Facility and the works, and that the activities of Project Co or Existing Project Co impact on the other	✓ Only in respect to relief being granted to Existing Project Co for the impacts of the works in defined circumstances	✓	✓ Primarily in respect of providing access to Project Co for the purposes of undertaking the works.
Defects risk	Risk that defects are discovered after construction is completed.		✓	
Equipment	Responsibility for the selection, procurement and maintenance of equipment.	✓ only in relation to the selection and maintenance of Group 3 Equipment	✓ all other	

Risk category	Description or comment	State	Project Co	Existing Project Co
Fitness for purpose (at completion)	Risk that the expansion including upgrades of the Existing Facility is not fit for purpose at completion (including to the standards specified in the Output Specification, and for the performance of the Services in accordance with the Services Specification)		✓	
State-initiated modifications	If the State elects to implement a significant variation to the works or Services to be provided by Project Co.	✓ other than pricing of margins and preliminaries for modifications which are pre-set in the Project Agreement		
Commissioning and completion	Risk that the works cannot be commissioned in accordance with the agreed criteria.		✓	
Operational risks				
Fitness for purpose (during the Operating Phase)	Risk that the expansion including upgrades of the Existing Facility is not fit for purpose during the term (including to the standards specified in the Output Specification, and for the performance of the Services in accordance with the Services Specification)		✓	✓ In respect of the completed upgrades to the Existing Facility (however allocated to Project Co as appropriate under downstream interface arrangements)

Risk category	Description or comment	State	Project Co	Existing Project Co
Interface risk (Operating Phase)	Risk associated with the physical interface between the expansion and Existing Facility, and that the activities of Project Co or Existing Project Co impact on the other		✓	✓
Services costs (Reviewable Services)	Risk that costs of service provision exceed Project Co's budgeted costs over the Operating Phase.	✓ State bears repricing risk each time the Reviewable Services are reviewed	✓ Project Co bears all risk during each Reviewable Services Term.	
Services costs (Non-Reviewable Services)	Risk that the costs of service provision exceed Project Co's budgeted costs over the Operating Phase.		✓	
Lifecycle costs	Risks associated with the maintenance, replacement and refurbishment of the expansion.		✓	
Utility price and volume risk	Risk of change in the price of the utilities required at the expansion, and energy demand risk.	✓ State bears risk in Operating Phase	✓ Project Co bears risk during Development Phase	
Handback condition	Risk that on expiry of the term, the condition of the expansion does not meet the required standard.		✓	

Risk category	Description or comment	State	Project Co	Existing Project Co
Revenue risk	Risk that public carpark revenues and café revenues do not meet budget	✓ State bears risk in respect to the portion of revenue subject to revenue sharing	✓ (café)	✓ (carpark subject to interface arrangements)
Changes in law or policy				
Changes in law and policy (general)	Risk that a change in legislation applying generally or a change in health policy or health services will affect the Services or the design or construction of the expansion.	✓ State bears the risk of: <ul style="list-style-type: none"> • general changes in law following final completion of construction; and • changes in health policy for the term 	✓ Project Co bears risk during the Development Phase for general changes in law	
Changes in law and policy (project- specific)	Risk that a change in legislation applying exclusively to the Project or Partnerships Victoria projects generally will affect the Services or the design or construction of the facility.	✓		
Tax risk	Risk of changes in income tax, GST or the law relating to taxes generally.		✓	
Force majeure				
Force majeure	Risk of a defined 'force majeure' event affecting construction or the provision of the Services.	✓ Only to the extent that the State must make payments for uninsurable risks in relation to equity returns and specific ongoing costs of service provision to the extent applicable	✓	

Risk category	Description or comment	State	Project Co	Existing Project Co
Finance risk				
Interest rate risk	Risk of movements in interest rates	✓ With respect to State capital contributions made during the Development Phase	✓ With respect to equity contributions made during the Development Phase	
Inflation risk	Risk of inflation	✓ State bears risk for the Operating Phase	✓ Project Co bears risk for the Development Phase	
Insurance risk	Risk that insurance cannot be obtained or that premiums increase significantly.	✓ State takes risk on Operating Phase insurances other than workers compensation and motor vehicles insurance	✓ Project Co takes risk on Development Phase insurances and workers compensation and motor vehicles insurance in the Operating Phase	

2.6 General obligations of Plenary

2.6.1 Equity finance

Project Co is responsible for the provision of equity finance for the Project. Equity was committed at Financial Close as a combination of cash contributions and letters of credit, with the equity funding to be progressively drawn down during construction.

The State Funding Agreement sets out the required equity contributions, the timing of such contributions, specified uses of project bank accounts and restrictions on equity distributions prior to completion of construction of the Project.

2.6.2 Development phase

Project Co is required to design, construct and commission the hospital expansion.

Throughout the Development Phase, Project Co must comply with a specified regime to access the Existing Facility and undertake any works which may disrupt activities within the operating hospital. Beyond agreed parameters, Existing Project Co may incur abatement in respect to non-availability of the Existing Facility. To the extent it does, Existing Project Co typically has recourse to Project Co.

In parallel with the construction activities, Project Co is required to undertake FM mobilisation activities to ensure that Services commence as relevant on completion of each stage, under an integrated model with the services provided to the Existing Facility.

In the event of late completion of Stages 3 and 4, which are stages entailing a significant increase in the scope of Monash Health operating activities, Project Co will be liable to pay liquidated damages to the State. Commencement of payment of the QSP will also be delayed until completion of the relevant stage.

2.6.3 Operating phase

A range of Services are to be provided at the site in relation to building maintenance, help desk, external cleaning, grounds and gardens, medical gases and other facilities management services. The Services are to be provided throughout the Operating Phase in accordance with the standards set out in the Services Specification.

Project Co is responsible for lifecycle works and will take whole-of-life asset condition risk in relation to the expansion. In addition, Project Co is required to work with the State and Monash Health to efficiently implement minor works throughout the term.

Areas of the facility are required to be made available within specified hours, as set out in the Output Specification.

Although there are separate stand-alone Services Specifications for the expansion and the Existing Facility, for operational reasons and to provide efficiency in contract management, certain site-wide services will be provided under the existing Services Specification, notwithstanding that they relate partly to the works undertaken as part of the expansion.

Further, new FF&E acquired as part of the works is to be managed under the expansion Services Specification notwithstanding it may be located in the Existing Facility. Similarly, existing FF&E relocated to new areas of the hospital will be managed under the existing Services Specification.

2.7 General obligations of the State

Under the Project Agreement, the State’s obligations include the following:

- granting Project Co a licence to access the site, including temporary access to undertake works within designated areas in the Existing Facility during the Development Phase
- review and comment on design documentation, construction plans, operating manuals and other material that will be submitted by Project Co in accordance with the Project Agreement
- payment of capped capital contributions to Project Co during the Development Phase in accordance with payment claims certified under the State Funding Agreement
- payment of the Quarterly Service Payment to Project Co during the Operating Phase subject to reductions that may apply under the performance regime if services are not delivered to the required standard
- payment of the Refurbishment Payment to Project Co during the Operating Phase.

2.8 State capital contributions

The State Funding Agreement sets out the required capital contributions by the State. The State is to provide 85 per cent of the capital funding for the Project, capped at an amount specified at Financial Close. The State will provide its contribution to construction costs progressively throughout the Development Phase as works are completed and certified by an independent payment certifier.

2.9 Payment mechanism and performance regime

Payment is made by the State over the Operating Phase in the form of the QSP and the Refurbishment Payment, both of which are paid quarterly in arrears.

2.9.1 Quarterly Service Payment

These payments commence from Commercial Acceptance of Stage 1 and increase following Commercial Acceptance of each subsequent stage (that is, when each Stage is completed and commissioned in accordance with specified criteria applying to each stage).

The formula for calculating the QSP is detailed in a schedule to the Project Agreement. The ‘capital’ component of the QSP does not commence until the entire expansion is complete.

Payments are subject to reduction where facilities management services are not provided to the required standards. The table below summarises the components of the payment mechanism.

Table 13: Overview of the payment mechanism

Payment mechanism component	Description
Base components	
‘Capital’ component	Fixed nominal amount relating to the equity investment in the Project
‘Services’ component	Fee element in two components, being for Reviewable Services and Non-Reviewable Services, with components indexing by CPI or WPI. The Project Agreement includes a mechanism for the cost of Reviewable Services to be reviewed at five yearly intervals throughout the Operating Phase of the Project.
Lifecycle or Refurbishment component	Fee element relating to lifecycle costs for each of the expansion, indexing by CPI.

Payment mechanism component	Description
Operating phase insurances	Reimbursement of operating phase insurance premiums (excluding workers compensation and motor vehicles)
Potential payment adjustments	
Abatement	Payment reductions will apply where quality failure or failure events occur as defined in the Services Specification and these events are not rectified within the specified rectification time.

2.9.2 Refurbishment payments

For practical purposes, the State has adopted a consistent approach to payment for lifecycle works to that applying under the Existing Project Agreement. This involves:

- Quarterly Refurbishment Payments (indexed by CPI) are deposited into a specific bank account (the Refurbishment Account)
- lifecycle works and amounts payable for such works are periodically agreed by the State and Project Co by way of review of the asset management plan and the annual works plan
- payments are made to Project Co from the Refurbishment Account as lifecycle works are completed
- upon expiry of the term, subject to the facility being handed back in the required condition, the balance of the Refurbishment Account is paid to Project Co.

This is not consistent with the approach adopted under contemporary PPP regimes in relation to lifecycle expenditure however it has been adopted from a contract administration perspective and in light of the relatively short Operating Phase of 10 years.

2.9.3 Modifications

The State may, at its sole discretion, request Project Co to implement modifications (to the facility or the Services) provided the State adequately compensates Project Co. This includes an ability to remove works or services from the Project scope. Under the modifications regime, Project Co must provide an estimate of the cost or savings impact of any modification proposed by the State in a manner which complies with the requirements of the Project Agreement, including identifying impacts on the Existing Facility. All costs or savings must be provided on an open book basis. To provide greater transparency and certainty around modification costs, the Project Agreement specifies a range of pre-agreed margins and other on-costs Project Co can claim in such circumstances.

The State may pay for the modification either by way of a lump sum, milestone payments, or an adjustment to the QSP (where the modification is financed by Project Co, or relates to savings or changes to the Services) or by a combination of such methods.

2.9.4 Change in law

In addition to State-initiated modifications, the State bears the risk of cost increases or savings arising from certain changes in law and policy.

2.9.5 Other changes in costs

Subject to certain conditions, Project Co may be entitled to performance relief under the Project Agreement and to payment by the State of certain additional costs and expenses incurred by it as a result of the following events:

- during the Project term:
 - breach by the State of any Project documents
 - industrial action which directly affects the Project and which Project Co can demonstrate is a direct result of an act or omission of the State or a State-related party at the site other than any act or omission which is authorised or permitted under any Project document
 - suspension of works or the provision of Services due to a native title claim or the discovery of artefacts which endures for more than 10 business days
- during the Development Phase:
 - any act or omission of the State (in its contracting capacity) or its Associates, other than any act or omission which is authorised or permitted under the Project documents or is an exercise of a government authority's statutory powers, and which causes delay
 - where an instruction is made by the State not to occupy or undertake works in the Existing Facility less than five business days prior to the date where this would otherwise be permitted in accordance with the agreed access regime; or where the State does not provide access within one hour of otherwise being obliged to do so under the agreed access regime. In each case cost relief is only provided if:
 - Project Co fails to use reasonable endeavours to mitigate the effects of denial of access
 - the cause is not due to a breach by Project Co of a Project Document or the occurrence of a force majeure event
 - the instruction is due to an emergency clinical event, the State has designated the instruction as such and the State has issued more than three such instructions not to occupy the facility
 - Project Co costs for all such denials of access exceed \$50k in total for the Development Phase
 - remediation of contamination (where the State takes this risk)
 - step-in by the State as a result of an emergency or under a statutory power (excluding step-in in circumstances related to a force majeure event or Project Co default)
 - a legal challenge to, or the modification, withdrawal, revocation, suspension, invalidation or replacement of, the Casey Planning Scheme
- during the Operating Phase, a fraudulent, reckless, unlawful or malicious act or omission of the State or any of its Associates acting in connection with the Project.

2.10 Revenue sharing

The State is entitled to a share of revenue in respect of leasing of the café (including sundry retail), and the operation of the public car parks delivered as part of the Project. Revenues are payable to the State on a quarterly basis throughout the Operating Phase.

2.11 Insurance

Project Co is responsible for procuring the usual insurances required for a PPP project in the Development Phase. During the Operating Phase, the industrial special risk and public liability insurance policies procured for the Existing Facility are to be amended to provide loss cover for both the expansion and the Existing Facility.

Insurance premiums for these policies are reimbursable by the State by way of the amendments to the Existing Project Agreement.

2.12 Default, termination and step-in regimes

2.12.1 Default

A default by Project Co under the contractual arrangements will entitle the State to various remedies. Where a default has occurred, the State will, in most circumstances, be required to give Project Co an opportunity to cure the default. If the default is not cured by Project Co within the required cure period, it will escalate to a major default.

The Project Agreement also elevates a number of events to be immediately classified in the major default category (such as late completion of Stage 4 or when service failures occur above specific thresholds).

In respect of major defaults, Project Co will be given the opportunity to agree a cure plan (if the default is capable of cure) or to develop a remediation plan to prevent the default from recurring (in circumstances where the default is not capable of cure). Where Project Co fails to cure the major default within the required cure period or to comply with an agreed remediation plan (as applicable), this will generally give rise to the State's right to terminate the Project Agreement.

Certain events of default are so severe that they are not subject to a cure regime, and are classified as default termination events. They give rise to a State termination right immediately upon their occurrence (for example, insolvency of Project Co, failure to comply with equity contribution obligations, failure to procure or replace required bonds).

2.12.2 Step-in

In addition to triggering termination rights (or potential termination rights), events of major default and default termination events may trigger additional State rights and remedies including the right to step-in to remedy the situation (that is, the right to assume control and management of the Project).

Step-in rights for the State, as specified in the Project Agreement, can be triggered when:

- a major default has occurred and Project Co is not complying with its cure plan or remediation plan
- a default termination event has occurred
- a cure notice is issued by the D&C subcontractor or the FM subcontractor
- there is an emergency
- a law entitles the State to a statutory right of step-in
- a default termination event occurs under the Existing Project Agreement
- the café does not become operational within the required period or if it does not provide the level of amenity required under the Project Agreement.

During any step-in associated with a default, the QSP will be abated to the extent that the services are not being provided.

2.12.3 Termination

Where the Project Agreement is fully or partly terminated before the natural expiry of the Operating Phase, Project Co may be entitled to a termination payment. The Project Agreement can be fully terminated as a result of the following:

- a default termination event
- a force majeure termination event
- major damage whether or not attributable to a default event, force majeure or other event
- voluntarily by the State

2.12.4 Cross termination rights with the Existing Project Agreement

Given the physical interdependency between the Existing Facility and the expansion, the State generally has the option to deal with the site as a whole under a termination scenario of either project agreement, subject to payment of appropriate termination payments. The only exception to this is during the Development Phase of the expansion, where the Existing Project Agreement cannot be terminated due to a default termination event occurring under the Project Agreement.

The State also has the ability to step in under each of the Existing Project Agreement and the Project Agreement following a default termination event under the other.

2.12.5 Termination payments

The basis for the calculation of any termination payment under the Project Agreement is determined by the reason for the termination as summarised in the table below. In the event that the termination payment is a negative amount, Project Co must pay that amount to the State.

Table 14: Calculation of termination payments

Event	Trigger	Termination Payments
Default Termination Event	The State may terminate the Project Agreement if certain events of default have occurred and not been remediated in accordance with the Project Agreement.	The Project's fair market value as determined by an independent valuer.
Termination for Force Majeure	The occurrence of a force majeure termination event (including an uninsurable event for which the State does not act as the insurer of last resort).	Any amounts owing from the State for works or services performed less amounts due to Project Co from third parties.
Voluntary Termination	The State may at any time, for reasons of its own choosing, unilaterally elect to terminate the Project Agreement for convenience.	The fair market value of the equity in the Project as determined by an independent valuer, plus other reasonable costs including break costs payable to key subcontractors.
Termination due to major damage	The facility has been totally or substantially lost or destroyed and the State directs Project Co not to repair or rebuild.	The termination payment in the event of major damage will fall into one of the above categories dependent on the cause of such damage.

Event	Trigger	Termination Payments
<p>Termination due to termination of the Existing Project Agreement</p>	<p>The State may terminate the Project Agreement if a default termination event or a force majeure termination event has occurred under the Existing Project Agreement.</p>	<p>If the termination under the Existing Project Agreement is due to a default termination event:</p> <ul style="list-style-type: none"> • before final commercial acceptance, the costs properly incurred by Project Co in respect of Development Phase activities; and • after final commercial acceptance, the amount calculated as though a Default Termination payment was due. <p>If the termination under the Existing Project Agreement is due to a force majeure termination event, the greater of:</p> <ul style="list-style-type: none"> • the amount calculated as though a Default Termination payment was due (except where the event occurs before final commercial acceptance, in which case the amount calculated above); and • the amount calculated as though a Force Majeure Termination Event payment was due.

2.13 State rights at expiry of contract

The Project Agreement requires Project Co to hand back the expansion to the State at the expiry of the Operating Phase (in 2029 concurrent with the Existing Facility) for nil consideration and in a condition that meets the requirements of the Project Agreement. The State will then resume full control of the site.

The expansion will be independently inspected on a six-monthly basis in the two years leading to the expiry of the Operating Phase to ensure that all lifecycle and maintenance works have been completed and that the expansion will meet the handback condition. The handback provisions are described in the Project Agreement.

If Project Co fails to maintain the expansion to the standards required to satisfy the handback requirements, the State will be entitled to deposit a portion of the QSP into the Refurbishment Account until the balance of that account is sufficient to cover the cost of any required works.

2.14 Audit and inspection rights of the State

The Project Agreement includes contractual rights for the State to be given access to information and data, including to:

- inspect, observe or test any part of the works, infrastructure or Project activities
- examine and make copies of the accounts and other records, reports and all documents reasonably requested of Plenary or any of its key subcontractors in connection with the Project.

The State has the ability to disclose information in connection with the Project to satisfy the disclosure requirements of the Victorian Auditor-General or to satisfy the requirements of Parliamentary accountability.

2.15 Amendments to the Existing Project Agreement

As the Project is to be implemented as a modification under the Existing Project Agreement, this entails amendments to that agreement, documented in the Amendment and Restatement Deed. These amendments include:

- provision of abatement relief under the existing project for the impacts of construction works provided that specified access arrangements are adhered to by Project Co
- revised payment amounts recognising the net effect of additional maintenance and lifecycle costs pertaining to upgraded areas refurbished as part of the Project, less savings arising from lifecycle and ongoing maintenance expenditure no longer required
- amendments to the scope of services and public carparking revenues
- obligations to effect operating phase insurances for the Combined Site
- amendments to termination provisions to allow for cross termination during operations in specified circumstances
- obligations to undertake a Reviewable Services process in an integrated manner with the expansion
- obligations to update manuals as necessary
- amendments to provide for a process to implement minor works, consistent with the regime in the Project Agreement.

2.16 Lessons learned from the existing Casey Hospital PPP

In developing the Project Documents, the following initiatives were adopted as a result of lessons learned from the operations of the existing Casey Hospital PPP:

- Minor works – a simplified process to expedite the implementation of minor works has been incorporated in the Project Agreement and the Existing Project Agreement. The regime allows for pre-agreed pricing of common types of works and builds on a draft policy developed by the department contract management team, Monash Health and BGIS for use at the Existing Facility.
- Services Specifications – whilst the Services Specifications for the Project and the Existing Facility are generally consistent, some new KPIs have been added and points attributable to various KPIs have been increased in relation to the Project under the Expansion Project Agreement (only) to address areas where performance has not been appropriately monitored in the past, and/or to align with contemporary PPPs.
- Reviewable Services (Security) – an extensive suite of data underpinning the pricing of Reviewable Services has been obtained to provide a point of reference for future price review submissions made by Project Co and Existing Project Co, in relation to the Project and the Existing Facility respectively.

Appendix 1: Glossary

Terms used in this Project Summary have the meaning given to them in the Project Agreement unless otherwise defined in this Glossary or elsewhere in this document.

Term	Meaning
Amendment and Restatement Deed	The agreement amending the Existing Project Agreement entered into between Existing Project Co and the State on 4 September 2017.
Commercial Acceptance	the date on which Project Co meets the requirements of the Project Agreement in respect to completion of all design, construction and FM mobilisation activities relevant to a Stage.
Combined Site	the entire parcel of land upon which Casey Hospital is located
Contract Close	the date on which the State and Project Co entered into the Project Documents (4 September 2017)
CPI	Consumer Price Index
D&C Subcontractor	Watpac Construction Ltd
Department or DHHS	Department of Health and Human Services
Development Phase	the period from Financial Close to Final Commercial Acceptance
Development Proposal	the final proposal submitted by Plenary for implementation of the Project
DTF	Department of Treasury and Finance
Existing Facility	Casey Hospital as at the date of Contract Close
Existing Project Agreement	The agreement between the State and Plenary Health (Casey) Pty Ltd entered into in 2002
Existing Project Co	Plenary Health (Casey) Pty Ltd
Expansion Facility	the new areas of the Casey Hospital and areas subject to the works
Evaluation Criteria	the criteria for assessment of Plenary's Proposal
FF&E	furniture, fittings and equipment
Financial Close	The date on which Project Co satisfied all of the conditions to be met in order for the State to make funds available to it (8 September 2017)
Final Commercial Acceptance	Commercial Acceptance of Stage 4 of construction
FM	facilities management
FM Subcontractor	BGIS Pty Ltd
KPI	Key Performance Indicator
MPSG	Major Projects Skills Guarantee policy
Modification Request	the modification request issued to Plenary Health (Casey) for the delivery of the Project on 12 August 2016
Monash Health	the operator of Casey Hospital
Net Present Cost	the discounted value of project cash flows

Term	Meaning
Non-Reviewable Services	all services which are not Reviewable Services.
Operating Phase	the period from Commercial Acceptance of Stage 1 to expiry of the Project Agreement on August 2029.
Output Specification	Schedule 19 of the Project Agreement which sets out the detailed masterplanning, architectural, design, functional, and technical requirements for the Project.
Partnerships Victoria Requirements	the set of specific guidance applicable to Victoria that is to be read in conjunction with the National PPP Guidelines and is available at on the Department of Treasury and Finance website < http://www.dtf.vic.gov.au/Publications/Infrastructure-Delivery-publications/Partnerships-Victoria/Partnerships-Victoria-Requirements >
Plenary	Plenary Group Holdings Pty Ltd or any of its associates, related entities or Related Body Corporates as appropriate to the context.
Plenary Health (CHEP)	Plenary Health (CHEP) Pty Ltd
Plenary Health (Casey)	Plenary Health (Casey) Pty Ltd
PPP	Public Private Partnership
PPT	Project Planning team
Project	Casey Hospital Expansion PPP Project
Project Agreement	The Project Agreement entered into between Project Co and the State on 4 September 2017.
Project Co	Plenary Health (CHEP) Pty Ltd in its personal capacity and as trustee of the Plenary Health (CHEP) Unit Trust, the counterparty to the Project Agreement and the main contracting entity with the State.
Project Documents	All transaction documents to which the State is a party, entered into between Project Co and the State on 4 September 2017
PSC	The Public Sector Comparator for the Project, being the risk-adjusted cost of the most likely efficient form of public sector service delivery that could be employed to satisfy all elements of the Output Specification and Services Specification.
QSP or Quarterly Service Payment	Periodic payments made to Project Co as described in Section 2.8
Refurbishment Payment	Periodic payments made to Project Co as described in Section 2.8
Reviewable Services	Services for the provision of security that are repriced and/or retendered at predetermined times during the Operating Phase.
Services	As described in the Project Agreement and Services Specification
Services Specification	Schedule 1 of the Project Agreement which sets out the detailed description of the Services, standards and key performance indicators.
Stage	one of the four construction stages of the Project described in section 1.5
Stage 1 Submission	one of the tender stages of the Project described in section 1.4
Stage 2 Submission	one of the tender stages of the Project described in section 1.4

Term	Meaning
State	State of Victoria
State Contribution	the capital funding contribution to the Project to be made by the State
State Funding Agreement	the State Funding Agreement entered into between Project Co and the State on 4 September 2017.
VIPP	Victorian Industry Participation Policy
WPI	Wages Price Index

Appendix 2: Useful references

Project documentation, including the Project Agreement, is available at [Tenders Victoria](https://www.tenders.vic.gov.au/)
<<https://www.tenders.vic.gov.au/>>

Partnerships Victoria policy guidance and Project information is available at [Partnerships Victoria](http://www.partnerships.vic.gov.au/)
<www.partnerships.vic.gov.au/>

[Department of Health and Human Services](http://www.dhhs.vic.gov.au/) website <www.dhhs.vic.gov.au>

Appendix 3: Key contact details

Department of Health and Human Services

Website: <https://dhhs.vic.gov.au/>

50 Lonsdale Street

Melbourne VIC 3000

Phone: (03) 9096 2786

Partnerships Victoria

Website: www.partnerships.vic.gov.au/

Department of Treasury and Finance

1 Treasury Place

East Melbourne VIC 3002

Phone: (03) 9651 5111

Appendix 4: Evaluation criteria

The State evaluated each proposal against detailed evaluation criteria.

1 Design and Technical solution

The State evaluated the following aspects of Plenary's design and technical solution and its effectiveness in meeting the requirements of the Output Specification:

- Masterplan – the appropriateness of the masterplan for the site including the integration of the Existing Facility and the expansion; massing and form of the site; building orientation; allowance for future expansion; scale and quality of external spaces; vehicle and pedestrian access, carparking, separation of public, staff, emergency and deliveries traffic)
- Architectural form, landscape – clarity and cohesion of vision; quality of exterior architectural form; incorporation of natural light; functionality and quality of soft and hard landscape
- Design – functional and operational efficiency of design in meeting functional relationships and clinical models; internal wayfinding; separation of patient, visitor, back of house flows; compliance with the schedule of accommodation; interior design
- Engineering services – engineering and associated services including utilities, building systems, mechanical services, vertical transportation, plant, ICT, AV
- Flexibility and expansion capability – ability of design to meet changing requirements
- ESD – sustainability and efficiency of the design
- FF&E – the quality, durability and suitability of proposed FF&E; proposed procurement methodology
- Construction Management – project management and construction management; construction program and approach to staging; construction methodology; approach to ensure business continuity of the Existing Facility including minimisation of impacts, noise, dust, vibration and infection control measures; OH&S; process for achievement of commercial acceptance
- Output Specification Departures – the nature and extent of proposed departures from the requirements of the Output Specification, and the impact of those departures on the design and functionality of the expansion
- VIPP – compliance of the submitted Local Industry Development Plan (LIDP), recognising the Project's strategic significance with regard to VIPP
- MSPG – commitment to the apprentice employment target of 10 per cent of total labour hours.

2 Services solution

The State evaluated the following aspects of Plenary's Services delivery approach:

- FM Mobilisation – the robustness of the proposed FM Mobilisation Plan for the implementation of the Services including a demonstrated understanding of key mobilisation activities and milestones, timing and extent of commitment of resources, interfaces with the Existing Facility and communication with stakeholders
- Management of services delivery – project and FM management resources and integration of the structure with the management and services delivery for the Existing Facility; management of subcontractors; training and recruitment processes
- Services specific solutions – methodology to deliver the Services to meet the requirements of the Services Specification; staffing levels; interface with existing services provision; help desk solution; services and cost allocation between the Existing Facility and the expansion; nature and extent of proposed departures from the requirements of the Services Specification and the impact of those departures on delivery of the Services.

3 Commercial and Financial solution

The State evaluated the following aspects of Plenary's commercial and financial proposal:

- consortium structure and risk allocation between consortium members, Project Co and Existing Project Co
- level and appropriateness of financial support and security packages
- contract departures – the nature, extent and value for money impact of proposed departures from the draft State Project Documents
- equity commitments – quantum, pricing of equity, certainty of commitment, long-term ownership intentions
- quantum of proposed State capital contribution
- the appropriateness of the proposed payment structure
- the offer for commercial opportunities
- the robustness of financial assumptions and the Financial Model
- taxation
- insurance.

4 Value and risk proposition

The State evaluated the following factors in assessing Plenary's value and risk proposition:

- the net present cost of the proposal (including any down scope items) – the whole-of-life, risk-adjusted cost of the Proposal, taking into account its financial and risk consequences
- compliance of the proposal with the commercial parameters set out in the Process Agreement
- VFM enhancements – alternative approaches submitted for consideration by the State that would provide a value-for-money enhancement.

Appendix 5: Public Interest Test

In line with the *Partnerships Victoria* Requirements, the Casey Hospital Expansion PPP Project’s Public Interest Test was updated prior to contract execution. The Project continues to satisfy the public interest assessment that covers criteria such as equity and transparency.

Table 15: Public Interest Test

Public interest elements	Standards, relevant policies and strategies	Assessment
<p>Effectiveness</p> <ul style="list-style-type: none"> Is the Project effective in meeting Government objectives? 	<ul style="list-style-type: none"> The Victorian Labor Platform (2014) to expand Casey Hospital Victorian Health Priorities Framework 2012-2022: Rural and Regional Health Plan Casey Hospital and Dandenong Service Plan (2011) 	<ul style="list-style-type: none"> The Project is supported by existing government policies and service plans listed in the adjacent column. The Project Objectives are consistent with these policies and plans. The Project reflects and support the clinical care models that have been developed consistent with government policy.

Public interest elements	Standards, relevant policies and strategies	Assessment
<p>Accountability and Transparency</p> <ul style="list-style-type: none"> • Do the proposed procurement arrangements ensure that: • The community can be well-informed about the obligations of Government and the private sector partner (Project Co); and • They can be overseen by the Auditor-General 	<ul style="list-style-type: none"> • Service Agreements continue to be the principal mechanism used by the Department of Health and Human Services (DHHS) to document and monitor the use of public funds. • <i>Freedom of Information Act 1982</i>. • Victorian Government Purchasing Board Probity Policy. • Best Practice Probity Advice Guidelines. • Victorian Auditor-General. • The monitoring role of the Health Services Commissioner in relation to DHHS and Project Co's obligations and performance standards. 	<ul style="list-style-type: none"> • The Project's Probity Practitioner has monitored the procurement process and reported to Government at appropriate stages in the process. In addition the private sector proponent may contact the Project Probity Practitioner to raise any issues they may have. No issues were raised. • The Auditor-General retains the right to view all material. Project Co will have an opportunity to identify any elements of their proposal that they deem to incorporate IP or other trade secret information. The only notable limitation is where the State assesses the public interest in maintaining confidentiality against the public interest in disclosure. This is not a Project-specific limitation. • The Health Services Commissioner: <ul style="list-style-type: none"> – helps people make their concerns known to health services providers – protects people's right of access to their health information – conciliates formally or informally, between consumers and providers of services – assists in the resolution of complaints – uses information obtained and lessons learned to recommend improvements to services. • The final contract is tabled in Parliament and published on-line. The Project summary includes an explanation of the PPP contract.

Public interest elements	Standards, relevant policies and strategies	Assessment
<p>Affected Individuals and Communities</p> <ul style="list-style-type: none"> Have those affected been able to contribute effectively at the planning stages, and are their rights protected through fair appeals processes and other conflict resolution mechanisms? 	<p>The Labor Government is committed to open and effective community engagement.</p> <p>Standards include:</p> <ul style="list-style-type: none"> an appropriate stakeholder consultation process in relation to the Project and the preferred option local government planning requirements Victorian Industry Participation Policy (VIPP) and Major Project Skills Guarantee (MPSG). 	<ul style="list-style-type: none"> A Communication, Consultation and Engagement Strategy has been developed for the Project to ensure adequate communication and engagement with relevant stakeholders (including the local community). Consumer representatives has been engaged with during the design planning process Local government planning and heritage requirements have been considered. Both the VIPP and the MPSG will apply to the Project. The Industry Capability Network (ICN) has been consulted as part of Project development and actively participates by facilitating the registration of interested parties.
<p>Equity</p> <ul style="list-style-type: none"> Are there adequate arrangements to ensure that disadvantaged groups can effectively use the infrastructure or access the related service? 	<p>The Project is governed by the:</p> <ul style="list-style-type: none"> <i>Equal Opportunities Act 1995</i> <i>Racial Discrimination Act 1975</i> <i>Sex Discrimination Act 1974.</i> 	<ul style="list-style-type: none"> By its very nature the design of the expansion will accommodate people with special needs in terms of physical access and also special facilities for the culturally diverse community that use the hospital. The expanded hospital provides new/additional services and facilities and therefore improves upon the existing level of equity of access for the community of Casey and the broader Monash region. Contractual provisions include adequate safeguards to ensure that Project Co complies with all laws which include the common law and the principles of equity.

Public interest elements	Standards, relevant policies and strategies	Assessment
<p>Public Access</p> <ul style="list-style-type: none"> • Are there safeguards that ensure ongoing public access to essential infrastructure? 	<ul style="list-style-type: none"> • Appropriate contractual arrangements in place • The operator of the hospital will ensure there are adequate safeguards in place to ensure ongoing public access to Casey Hospital. 	<ul style="list-style-type: none"> • Monash Health will be the public operator of the Casey Hospital Expansion and provider of core services therefore there will be no detrimental change to current levels of public access. • The Casey Hospital Expansion will service Victorian patients and families (particularly those from Casey and the Monash region) and will also provide services to interstate and international patients as required. • Special-needs groups will continue to access services at the expanded Hospital, consistent with State requirements. • Contractual provisions include adequate safeguards to ensure the continued supply of services to the public. The contract includes step-in rights to give the State certain rights to take over the provision of services by Project Co.

Public interest elements	Standards, relevant policies and strategies	Assessment
<p>Consumer Rights</p> <ul style="list-style-type: none"> Does the Project provide sufficient safeguards for service recipients, particularly those for whom Government has a high level of duty of care, and/or the most vulnerable? 	<ul style="list-style-type: none"> Government's non-delegable duties in relation to health services provision to all members of the community. Public Hospital Patient Charter. 	<ul style="list-style-type: none"> The Public Hospital Patient Charter outlines the rights and responsibilities of patients while attending a public hospital in Victoria. It aims to support a partnership between patients and their health care providers by providing a clear statement of expectations that is understood by both patients and providers. Role of the Health Services Commissioner (as listed above). The Project will provide sufficient safeguards for service recipients by: <ul style="list-style-type: none"> core services continuing to be provided directly by the public sector appointment of competent service provider(s) (Project Co) for the non-core services inclusion of performance standards required of the service provider (Project Co) State step-in rights, and requiring in the PPP contract that Project Co comply with all laws including any relevant health legislation. Public information on hospitals is published on the Department of Health and Human Services website. This information covers performance of the public hospital system including individual hospital performance in areas such as elective surgery access and emergency department performance.

Public interest elements	Standards, relevant policies and strategies	Assessment
<p>Security</p> <ul style="list-style-type: none"> Does the Project provide assurance that community health and safety will be secured? 	<ul style="list-style-type: none"> State’s duty of care to the public. Relevant laws and regulations covering OH&S requirements for Monash Health personnel. Minimum performance requirements consistent with existing Monash Health obligations and contracts will be required. 	<ul style="list-style-type: none"> No change from current procedures. The PPP contract will require compliance with health and safety legislation. The PPP contract includes performance standards such as security response requirements required of Project Co.
<p>Privacy</p> <ul style="list-style-type: none"> Does the Project provide adequate protection of users’ rights to privacy? 	<ul style="list-style-type: none"> <i>Freedom of information Act 1982</i> <i>Information Privacy Act 2000</i> <i>Health Records Act 2002</i> <i>Federal Privacy Act 1982.</i> 	<ul style="list-style-type: none"> The Project can provide adequate protection of users’ rights to privacy through: <ul style="list-style-type: none"> contractual obligations imposed on Project Co in relation to disclosure and use of confidential information requiring relevant individuals to have passed police checks and working with children checks (as relevant) core services being provided directly by the public sector, limiting the amount of sensitive information disclosed to contractors or sub-contractors.