



Government of **Western Australia**  
Department of Health  
**Fiona Stanley Hospital**

# **Fiona Stanley Hospital Facilities Management Services Project**

**Project Summary**

**February 2012**

## Disclaimer

This Project Summary provides an overview of the commercial and contractual arrangements for the provision of facilities management and support services for Fiona Stanley Hospital.

This summary is divided into two parts. Part One provides an overview of the Project, including the rationale to deliver it under a contracted service, as well as a summary of the procurement process and the value-for-money outcome.

Part Two focuses in more detail on the key commercial features of the Project, including the main parties and their respective obligations, the payment mechanism, and the broad allocation of risk between the public and private sectors.

This summary should not be relied on as a complete description of the rights and obligations of the parties to the Project and is not intended for use as a substitute for the Facilities Management Services Contract.

Although the Project is not delivered under a strictly public private partnership model, the Department of Treasury's guidelines for disclosure (Project Disclosure Policy, August 2011) have been used as guidance.

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# 1 Project Overview

## 1.1 Fiona Stanley Hospital

Fiona Stanley Hospital (“FSH”) is a new 783 bed modern tertiary health campus for public patients currently under construction in Murdoch, Western Australia. The hospital will open in 2014, and will be the major tertiary hospital in the south metropolitan area, offering health care services to communities south of Perth and across the State.

FSH will provide:

- 643 beds, plus 140 beds in the State rehabilitation service;
- a full range of acute medical and surgical services;
- the State burns service;
- the State rehabilitation service;
- state-of-the-art emergency care which will support a major trauma centre;
- comprehensive cancer services including radiotherapy treatment facilities, medical oncology, and haematology;
- renal transplantation and dialysis services;
- a mental health unit with a secure wing and a mother and baby unit;
- obstetrics and neonatology services;
- paediatric services;
- facilities for pathology, bio-medical engineering and cell tissue manufacturing;
- a modern medical imaging centre that will provide fast and accurate information to clinicians; and
- a world-class medical research facility to be built in conjunction with universities and the Western Australian Institute for Medical Research.

Doctors, nurses and allied health professionals will be employed by WA Health.

## 1.2 The Project

The Project relates to the provision of facilities management and support services for the FSH. The provision of such services is vital to the successful commissioning and ongoing operation of FSH.

FSH will be one of the most technologically sophisticated hospitals in Australia. As such, its services will be based on the latest innovative hospital work practices. To achieve this, many of the services and supporting technology must be developed in the context of WA Health for the first time.

The breadth and complexity of the required non-clinical service reforms is such that it is unlikely that WA Health has the systems, capacity or experience to deliver innovations comparable to a private service provider, particularly given the public sector's commitment to a significant area-wide reconfiguration of its clinical services prior to the opening of FSH in 2014.

As such, following a rigorous procurement and evaluation process, the Minister for Health for and on behalf of the State of Western Australia (the "State") entered into a Facilities Management Services Contract ("FM Contract") with Serco Australia Pty Ltd ("Serco") in July 2011 to deliver the Project. Under the FM Contract, Serco will integrate non-clinical services through state-of-the-art technology to ensure the smooth running of the whole hospital.

The term of the FM Contract is 10 years, with two 5 year options to extend, exercisable at the Principal's discretion. The Project term involves the following three periods:

- Pre-Operational Period – the period from Contract execution (July 2011) to the Transitional Services Commencement Date (December 2013) during which time Serco will conduct all planning and procurement required to establish the Services prior to practical completion of FSH;
- Transitional Period – the period from the Transitional Services Commencement Date (December 2013) to the Operations Commencement Date (April 2014) during which time Serco will provide planning and Service provision prior to commencement of operations; and
- Operational Period – the period from the Operations Commencement Date (April 2014), when FSH opens to the public, to the expiry of the Term, including 2 five-year extension options (June 2030).

The signing of the FM Contract sufficiently ahead of the FSH's opening in 2014 means Serco will be able to work closely with the hospital project team to establish and test its equipment, services, technology and systems, as well as undertake recruitment and training of staff prior to commissioning of the hospital.

The four main components that will be run by Serco at FSH are:

- management, procurement and integration services;
- hard facilities management services;
- soft facilities management and support services; and
- information and communications technology ("ICT") services.

The table below provides a summary of the key aspects of the Project.

FSH FACILITIES MANAGEMENT SERVICES PROJECT	
<b>Key Parties</b>	
Principal	The Minister for Health, for and on behalf of the State of Western Australia
Facilities Manager	Serco Australia Pty Ltd
Guarantor	Serco Group plc
Equipment Financier	Commonwealth Bank of Australia
<b>Key Components</b>	
Contract Term	10 years plus two 5 year extension options (at Principal's discretion)
Contracted Services	28 integrated non-clinical services (detailed in Section 1.3).

**Table 1: FSH FM Contract – Key Aspects**

## 1.3 Project Outcomes

Serco is responsible for the delivery of 28 integrated non-clinical services (“Services”) as per the service specifications and key performance indicators (“KPIs”) detailed in the FM Contract. The following table identifies these Services.

SERVICE	DETAILS
Audio Visual	Includes deployment and security of audio visual equipment and all telehealth requirements
Cleaning	Includes all clinical and non-clinical cleaning
Electronic Records Management	Includes mail room, scanning, filing, storage, security, and management for all non-patient records.
Energy and Utilities	Includes central plant operation/maintenance, mechanical, electrical, and hydraulic services.
Estate	Includes fire systems, lifts, security systems, nurse call systems, pneumatic tube systems, first response team for immediate faults, repairs, and minor works.
External Transport	Includes transport of patients and equipment between hospitals and to the community.
Grounds Maintenance	Includes gardens maintenance for the entire site.
Health Record Management and Clinical Coding	Includes scanning of paper-based records and provisional diagnosis coding to assist early discharge.
Helpdesk and Communications	Provides a single point of contact for access to all of the Services and includes coordination of all Service requests and switchboard functions, including coordination of all patient enquiries.
Human Resource Management	Selected human resource services for the State’s employees and volunteers, including non-clinical training and induction, occupational and safety health, workers compensation and liaison with the Health Corporate Network.
ICT	Includes provision of significant enabling technology that will establish FSH as a digital hospital and support and complement WA Health systems.

Internal Logistics	Encompasses most functions currently performed by orderlies and Patient Care Assistants and includes movement of patients, specimens, samples and pathology, and furniture.
Linen	Includes maintenance of adequate linen imprest levels at all times
Managed Equipment	Includes the procurement, installation, and maintenance of all medical equipment, including supply and accessories, upgrades, enhancements and training.
Management and Integration	Overarching management required to ensure services are interoperable, with transparent performance reporting
Patient Catering	Includes the provision of cooked-fresh meals to patients.
Patient Entertainment	Includes clinician access to patients' health records at the bedside through a single, swing-arm flat-screen system, with patient access to TV, radio, movies, internet, and meal ordering functionality.
Pest Control	Includes pest control for the entire site
Pre-operations	Includes all planning and procurement to establish the services prior to practical completion of the hospital.
Property Management	Providing a full property management service for all leasable spaces including retail catering.
Reception	Includes information service points in the main hospital building, rehabilitation building, and education building.
Safety and Incident Management	Includes emergency management
Scheduling and Billing	Includes booking of elective theatres and other bookable spaces as well as patient appointments, booking reminders, and a direct billing service
Sterilisation	Complete sterilisation service for entire hospital
Supplies Management	Includes management of a complete supplies solution to achieve best value-for-money outcomes, including delivery.
Transitional	Includes planning and service provision after practical completion and prior to commencement of operations.
Vehicle and Traffic Management	Includes all traffic flows, incidents, parking on site, staff permits, infringements, and fines.
Waste Management	Including waste segregation, storage, and disposal.

**Table 2: Facilities Management Contracted Services**

The following two additional facilities management services for which Serco did not bid are not included in the FM Contract and will be procured separately:

- Child care – to include at least 90 child care places for hospital employees; and
- Fleet management – to include procurement and management of the Government vehicle fleet for FSH.

Serco is also responsible for the provision of an integrated asset solution (“Asset Solution”) that involves Serco procuring, financing, and maintaining the fixtures and equipment required by FSH to commence operations (“Assets”). This relates to all the equipment necessary to perform the non-clinical services (“FM Equipment”), as well as certain fixtures, fittings, and equipment for the Principal (“Principal’s Equipment”).

As a number of the Assets will not be required until the commissioning of FSH, the Contract includes procurement mechanisms that allow the State to retain the ability to re-specify the Assets to allow for product changes, technology and market movements.

## **1.4 Procurement Model**

As stated previously, WA Health approved the delivery of facilities management and support services at FSH via a contract with Serco following a rigorous procurement and evaluation process as well as detailed and productive negotiations.

The procurement process is described in detail below.

### **1.4.1 Selection of Procurement Model**

The State undertook an open and competitive procurement process to award the contract for the delivery of facilities management and support services. The procurement process was implemented in accordance with relevant State tendering guidelines.

The procurement strategy was endorsed by the Government’s Major Health Infrastructure Projects (“MHIP”) Steering Committee in July 2009. The FSH team formed a working group consisting of members from the State Solicitor’s Office (“SSO”), Department of Treasury and Finance Strategic Projects (“DTF-SP”) and Government Procurement (“DTF-GP”), and the FSH Project Team to progress the supporting documentation for the Expression of Interest (“EOI”), Request for Submission (“RFS”) and evaluation process, and contract negotiation process.

The members of the working group representing the DTF and SSO endorsed the Procurement Plan and the EOI and these were subsequently endorsed by the MHIP Steering Committee on 16 September 2009.

The Government approved the procurement strategy in November 2009.

The FSH Facilities Management Working Group provided oversight to the evaluation panel that assessed all industry responses to the EOI and RFS and, ultimately, endorsed the draft evaluation report.

### **1.4.2 Procurement Process Timeline**

A summary of the phases and timing of the procurement process is provided in the table below. Each phase is then discussed in more detail in the following sections.

EVENT	DATE
<b>EOI Phase</b>	<b>November 2009 – January 2010</b>
Release of invitation for EOI	4 November 2009
Closing date for submission of EOIs	17 December 2009
Completion of EOI evaluation and short-listing of respondents	27 January 2010
Short-listed respondents notified	29 January 2010
<b>RFS Phase</b>	<b>February 2010 – May 2010</b>
Release of RFS	19 February 2010
Closing date for responses to RFS	31 May 2010
<b>Evaluation Process</b>	<b>June 2010 – October 2010</b>
<b>Pre-selection Proposal and Negotiations Process</b>	<b>October 2010 – June 2011</b>
<b>Execution of the Contract</b>	<b>July 2011</b>

**Table 3: Procurement Process Timeline**

### 1.4.3 Expression of Interest

The State Government advertised for EOIs for the provision of facilities management and support services at FSH on 4 November 2009.

The purpose of the EOI phase was to identify a shortlist of respondents to participate in the RFS process and confirm the services structure for the RFS. The EOI invitation provided an indicative services structure only.

The EOI assessment was undertaken by senior management within the FSH Project Team, commercial advisors, and legal advisors, and included oversight from a probity advisor and a senior officer from the DTF. The process involved rigorous assessment against the criteria in the EOI documentation, as well as referee checks with reference site nominees.

As part of the EOI assessment, three respondents were short-listed for the RFS phase.

### 1.4.4 Request for Submission

A request for detailed submissions was issued to the three short-listed respondents on 19 February 2010.

The RFS invitation fully documented the desired outcomes of the proposed FM Contract and included service specifications and KPIs for each of the Services.

One respondent formally withdrew from the process on 2 March 2010. Submissions were received from the two remaining short-listed respondents by the closing date, 31 May 2010.

## 1.4.5 Evaluation Process

An evaluation panel comprising senior representatives of the FSH Project Team with a broad range of expertise thoroughly assessed and interrogated the proposals submitted by the short-listed respondents.

The evaluation panel undertook a detailed assessment of each submission involving:

- desktop evaluations of the responses, including assessments of each of the management plans and service plans (the respondents' service plans were required to address the detailed service specifications that had been developed by the State). A range of specialist staff from the FSH Project Team and South Metropolitan Area Health Service ("SMAHS") provided input into assessment of the service plans;
- two-day non-commercial workshops with each of the respondent teams (involving up to 24 respondent representatives) to further assess each respondent's experience, organisational/team capacity, and their proposed service solutions and methodologies;
- evaluations against the documented criteria;
- site visits to 16 hospital reference sites nominated by respondents in Scotland, England, New South Wales, and Victoria. This included reference sites nominated for key subcontractors. These site visits proved an invaluable component of the assessment process in confirming the evaluation panel's assessment of the respondents' solutions;
- a separate price assessment, which was undertaken in parallel with the evaluation of service solutions;
- a commercial review and a significant ICT review;
- a legal and commercial departures assessment undertaken by the SSO, advised by external legal and commercial advisers; and
- two-day commercial workshops with each respondent to assess the commercial departures outlined in their submissions.

The outcomes of specialist reviews, all undertaken by experts in their respective fields, were also incorporated into the evaluation. These reviews assessed:

- the ICT implications of service solutions proposed by respondents;
- any variations between the service specifications and the respondents' service solutions that had commercial implications; and
- any commercial impact of the respondents' service solutions.

The extensive and detailed evaluation process – which included assessment of service solutions, commercial issues, and financial modelling - concluded that the proposal from Serco represented the best option for service delivery and the lowest price and, therefore, the best value-for-money for the State.

### 1.4.6 Pre-selection Proposal and Negotiation Process

The evaluation report recommended that Serco be appointed as Preferred Respondent and to enter into a negotiation process in accordance with the provisions of the RFP, which was endorsed by the:

- State Tender Review Committee (“STRC”) on 1 September 2010. The STRC provided a letter of endorsement to the Director General, Department of Health (as the accountable authority) for his consideration in finalising the approval process;
- Facilities Management Working Group, chaired by the FSH Executive Director, on 3 September 2010;
- Project Control Group, chaired by the Chief Executive, SMAHS, on 15 September 2010; and
- MHIP Steering Committee, chaired by the Director General, Department of Health, on 22 September 2010.

A six-person contract negotiation team was then identified, comprising senior personnel from SMAHS and the FSH Project Team. The Chief Executive, SMAHS was the executive sponsor of the contract negotiation process.

A series of specialist working groups, involving operational staff from across SMAHS and the FSH Project Team, reviewed the initial drafts of Serco’s service plans and provided input to the negotiation team regarding the proposed service solutions.

The State’s negotiation team met intensively with Serco’s negotiators from October 2010 through to June 2011 and resolved key areas, including governance, commercial matters, and service solutions. It also addressed key risk areas and opportunities identified during the evaluation process.

### 1.4.7 Execution of the Contract

The FM Contract between the Minister for Health and Serco Australia was signed in July 2011.

The contract includes rigorous documented performance standards that are comparable with other high-performing hospitals in Australia.

## 1.5 Value-for-Money

An assessment of the value-for-money of the FM Contract was conducted by making an assessment of the net present cost (“NPC”) of the Public Sector Comparator (“PSC”) versus the risk-adjusted NPC of the FM Contract over the full term of the FM Contract, including the 2 five-year extension options (20 years). The details of this assessment are provided in the following sections.

## 1.5.1 Public Sector Comparator

The PSC is the hypothetical risk-adjusted cost if a project were to be conducted by government. The PSC provides a benchmark against which the State can compare the proposed contract, to determine whether the proposed contract provides value-for-money.

The PSC has the following four core elements that are required to be determined:

- Raw PSC – provides a base costing under the public procurement method where the underlying asset or service is delivered by the public sector. This includes delivering the service over the same period as the proposed contract term and to a defined performance standard as required under the output specification.
- Competitive Neutrality – adjustments to remove any net competitive advantages that accrue to a government business by virtue of its public ownership.
- Transferable Risk – the optimal allocation of risk is a key objective in the structuring of a private sector delivery. The value of Transferable Risk to government needs to be included in a PSC to allow for a like-with-like value-for-money assessment with private sector bids.
- Retained Risk – any risk not to be transferred to the private sector is retained by the State. The cost of Retained Risk should be included to provide a comprehensive measure of the full cost to government in a PSC.

The PSC has the following key characteristics:

- it is expressed as the NPC of a project cash flow based on the specific government discount rate over the required life of the contract;
- it is based on the most likely otherwise form of public sector delivery;
- it is inclusive of Competitive Neutrality adjustments so that there is no net financial advantage between public and private sector ownership;
- it contains a realistic assessment of the value of all material and quantifiable risks that would reasonable be expected to be transferred to bidders if the project is delivered by the private sector; and
- it contains an assessment of the value of the material risks that are reasonably expected to be retained by government if the project is delivered by the private sector.

The PSC represents a hypothetical rather than actual dollar cost to government and is calculated in the following form:

$$\text{PSC} = \text{Raw PSC} + \text{Competitive Neutrality} + \text{Transferable Risk} + \text{Retained Risk}$$

The following table shows the NPC and total cost of the PSC in terms of its four core elements as discussed above, over a term of 20 years (including both 5 year extension options exercisable under the FM Contract).

PSC	NPC (\$M)	TOTAL COST (\$M)
Raw PSC	\$2,387.4	\$4,276.9
Competitive Neutrality	\$67.9	\$127.8
Transferable Risk	\$299.7	\$545.3
Retained Risk	\$142.1	\$247.6
<b>PSC</b>	<b>\$2,897.1</b>	<b>\$5,197.7</b>

**Table 4: Risk-Adjusted NPC and Total Cost of the PSC**

### 1.5.2 Risk-Adjusted NPC of the FM Contract

The risk-adjusted NPC of the FM Contract is calculated as the NPC of the Serco bid adjusted for State contract management costs and those risks retained by the State, whether or not the Project is undertaken by the private or public sector.

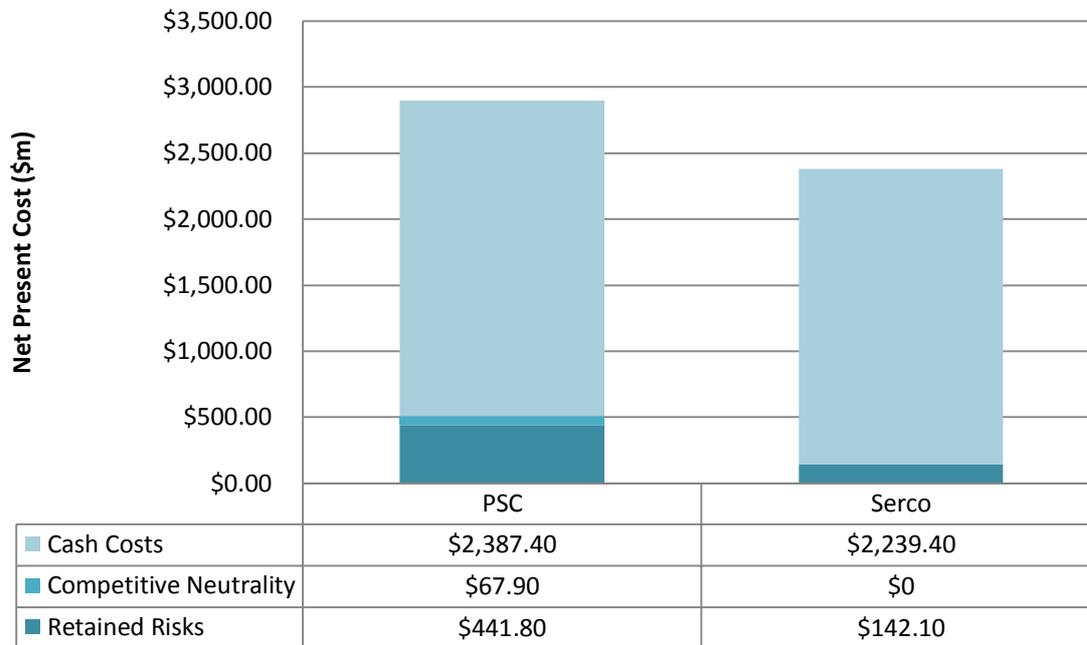
The following table shows the risk-adjusted NPC of the FM Contract over the full 20 year term (including both 5 year extension options).

RISK-ADJUSTED FM CONTRACT	NPC (\$M)
Total Firm Price	\$2,213.2
State Contract Management Costs	\$26.2
Retained Risks	\$142.1
<b>Risk-adjusted FM Contract</b>	<b>\$2,381.5</b>

**Table 5: Risk-Adjusted NPC of the FM Contract**

### 1.5.3 Value-for-Money Assessment

The following figure provides a comparison of each of the components of the risk-adjusted NPC under the PSC and FM Contract over the 20 year term.



**Figure 1: Value-for-Money**

As demonstrated in the above figure, the FM Contract represents a cost saving of \$515.6 million compared to the PSC, or 18% of the cost under the PSC.

As such, a contracted method for providing the Project (via Serco) demonstrates the better value-for-money to the State.

In addition, the quality of Services documented in the FM Contract provides an opportunity for continuous improvement, based on performance indicators and shared profits (with the State) for innovation. Poor performance, or non-adherence to agreed quality standards, will result in an abatement of revenue to Serco, culminating in potential abatements and the requirement to dismiss poor-performing subcontractors.

The FM Contract also provides an opportunity to leverage Serco’s systems development experience, along with its international experience in a range of service industries.

## 2 Key Commercial Features

This section outlines the contractual relationships between the parties involved in the Project. A summary of the key commercial principles, payment mechanism, risk transfer, performance management, and other core commercial principles is provided.

### 2.1 Parties to the Project Documentation

In July 2011, the State executed the FM Contract with Serco as the Facilities Manager for FSH.

In addition, Serco entered into a Master Lease Agreement with the Commonwealth Bank of Australia (“CBA”) to fund the procurement of equipment under the Pre-Operational Period. The equipment that will be funded includes the Principal’s Equipment.

Part of the payments received by Serco from the State under the FM Contract will be used to repay the amounts provided by CBA to Serco under the Master Lease Agreement. This arrangement is supported by a Tripartite Agreement executed between the State, Serco and CBA under which the State commits to make payments due under the FM Contract to CBA to satisfy amounts under the Master Lease Agreement.

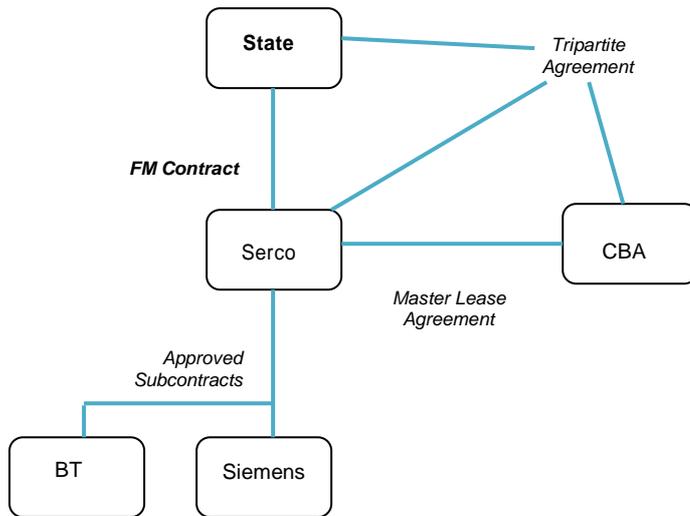
The relevant parties under the Project documentation are:

**The State (Principal):** The Minister for and on behalf of the State of Western Australia is a signatory to the FM Contract and Tripartite Agreement.

**Serco Australia Pty Ltd (Facilities Manager):** Serco is the organisation that is contracted to deliver the Project, guaranteed by its ultimate UK listed parent company, Serco Group plc. Serco is also a party to the Master Lease Agreement and Tripartite Agreement relating to the provision of the Asset Solution.

**Commonwealth Bank of Australia (Equipment Financier):** The CBA is a signatory to the Master Lease Agreement, under which it will provide funding for the purchase of equipment during the Pre-Operational Period. The CBA is also a signatory to the Tripartite Agreement.

The contractual arrangements between the parties are illustrated below.



**Figure 2: Contractual Arrangements**

Further details of the project documentation referred to above is provided in the following subsections.

## 2.2 Project Documentation and Related Agreements

The table below provides the Contracts that the State entered into with Serco for the delivery of the Project.

NAME	PARTIES	DESCRIPTION
FM Contract	<ul style="list-style-type: none"> <li>The State</li> <li>Serco</li> </ul>	This is the main Contract that sets out the key rights and responsibilities of Serco and the State.
Master Lease Agreement	<ul style="list-style-type: none"> <li>Serco</li> <li>CBA</li> </ul>	This Agreement sets out the key rights and responsibilities of Serco and the CBA in relation to the funding of equipment procured under the Pre-Operational Period.
Tripartite Agreement	<ul style="list-style-type: none"> <li>The State</li> <li>Serco</li> <li>CBA</li> </ul>	This Agreement sets out the key rights and responsibilities of the State, Serco and CBA in relation to the funding of equipment procured during the Pre-Operational Period.

**Table 6: Project Documentation**

## 2.3 Subcontractors

Serco may, with the approval of the Principal, engage subcontractors to perform part of its obligations under the FM Contract, including the performance of works or services. Subcontractors may also be engaged to supply materials, services, goods, or equipment to enable Serco to undertake its obligations.

Each such subcontractor must be an experienced, creditworthy, reputable, and competent party that hold all necessary registrations or licences and has sufficient resources to deliver its obligations under the subcontract.

Notwithstanding the above, Serco may not subcontract the performance of any of the Management and Integration Service.

Subcontracts that were approved as part of the execution of the FM Contract include:

- a subcontract between Siemens Ltd and Serco relating to the provision of part of the Managed Equipment Service; and
- a subcontract between BT Australasia Pty Ltd and Serco relating to the provision of part of the ICT Service

## 2.4 Key Commercial Principles

The FM Contract has been developed based on the following Commercial Principles:

ISSUE	PRINCIPLE
Meeting Service Specifications	The Facilities Manager will receive a fee for provision of the Services consistent with the service specifications.
Total Services Fee	The fee will be determined by calculating, and then aggregating, individual fees for the individual Services.
Volume Risk	For Services where the State desires to transfer volume risk, the individual Service fee shall be a fixed fee based on the service specifications.
Variable Fee	For Services where it is uneconomic for the State to transfer volume risk, the individual Service fee shall be a variable or volume-based fee based on the consumption of the Service.
Inflation	Fees will be indexed annually to maintain the real value of the fee to the Facilities Manager.
Continuous Improvement	The payment mechanism will encourage continuous improvement in the efficiency and effectiveness of the Services provided by the Facilities Manager over the term of the FM Contract.
Quality of Service Delivery	Where the performance of the Facilities Manager falls below the service specifications and the KPIs, the fees paid to the Facilities Manager will be reduced appropriately to account for the below-standard service. This will apply to the extent that poor service equates to no fee being payable to the Facilities Manager.
Performance Incentive	Where the Services exceed the service specifications and deliver clear and quantifiable additional value to the State, the Facilities Manager's performance will be appropriately recognised.
Innovation	The payment mechanism incentivises the Facilities Manager to look for better ways of delivering Services to provide cost savings to the State without compromising the intent of the service specifications.
Ongoing Value-for-Money	Certain Services will be contested in the marketplace on an ongoing basis to ensure that value-for-money is obtained during the life of the FM Contract.

**Table 7: Key Commercial Principles**

## 2.5 Payment Mechanism

The total monthly payment is the sum of the monthly service payments for the services provided.

The payment mechanism calculates a payment for the provision of Services according to the service specifications and KPIs, allowing for:

- i. a base fee – fixed for fixed-priced services and variable for consumption based services;
- ii. indexation;
- iii. reduction of the payment due to instances of service delivery that fall below the levels required (“Abatement”);
- iv. the potential mitigation of accrued Abatements for Services that exceed the required standard and are considered to be of material additional value to the State (“Abatement Credits”);
- v. profit-sharing of improved service delivery methods identified by the Facilities Manager that deliver cost savings without compromising the intent of the service specifications; and
- vi. payment for any additional works or services required.

## 2.6 Volume Risk Transfer

In order to provide the State with a steady, well defined cash flow, the majority of the FSH facilities management costs are on a fixed price basis (subject to annual indexation).

Where it is not appropriate to transfer volume risk to the facilities manager, the Service is provided on a variable price basis. The following Services will be provided on a variable price basis:

- Catering;
- Sterilisation; and
- Waste Management.

For Services provided on a variable price basis, the pricing structure includes consideration of the financial impact and risk transfer relating to:

- unforeseen changes in volume within a FM Contract year; and
- changes in volume between the first FM Contract year and subsequent FM Contract years.

## 2.7 Performance Management

The Contract reflects the following core performance management principles:

- **Principle 1: Outcomes-Based Arrangement and Contracted Service Levels**  
Service specifications and KPIs contractually outline the quantity and quality of the Services to be provided.
- **Principle 2: Remediation**  
Remediation processes allow the Facilities Manager to respond to certain events.
- **Principle 3: Abatement**  
A payment mechanism whereby payments made to the Facilities Manager reduce as a result of service delivery that falls below the quality and/or quantity levels provided in the KPIs and service specifications.
- **Principle 4: Remedy**  
Enables the Facilities Manager to remedy ongoing performance issues.
- **Principle 5: Default and Termination**  
Continued and/or excessive unsatisfactory performance leading to an Event of Default that, correspondingly, allows the State to terminate the FM Contract.

## 2.8 Other Core Principles

Due to the significant Pre-Operational Period, the State has included a significant liquidated damages regime. The State has also negotiated an extensive surety package to protect the State from any loss it may suffer from the actions of the Facilities Manager.

## 2.9 Intervening Events

Serco is entitled to relief, and in some cases compensation, in respect of its performance of the Services under the FM Contract under the following circumstances:

- where circumstances that are beyond Serco's control interfere with Serco's ability to provide the Services to the standard required under the FM Contract, such as:
  - negligence or breach of contract by the Principal,
  - the outbreak or the effects of any outbreak of any medical contamination, except where caused or contributed to by Serco,
  - the Principal suspends the FM Contract or exercises a step in right,
  - the Principal directs Serco to terminate a subcontract otherwise than due to fault, and
  - a defect in the construction of FSH;
- during an event of Force Majeure. If a Force Majeure event prevents performance of one of Serco's obligations for more than 180 consecutive days, the Principal may terminate the FM Contract;

- where the Principal suspends the whole or any part of Serco's performance of the Services. This may occur at any time if the Principal considers it necessary due to any act or omission of itself, Brookfield Multiplex FSH Contractor Pty Ltd ("Managing Contractor"), Serco or in order to comply with any law or where the Principal has failed to pay amounts due under the FM Contract;
- during any period where the Principal exercises its step-in rights to the whole or any part of Serco's performance of the Services. In circumstances where the step-in rights have been exercised due to default by Serco, the Principal can recover its costs in rectifying the relevant circumstance; and
- where a right to terminate the FM Contract arises. In such circumstances, the Principal may permanently take out the whole or any part of Serco's obligations under the FM Contract.

## 2.10 Default

The Principal has the right to terminate the FM Contract upon the occurrence of certain defaults by Serco including where Serco:

- abandons the FM Contract;
- fails to maintain the agreed financial security package including:
  - a parent company guarantee from Serco Group plc,
  - bank guarantees for amounts as agreed under the FM Contract, and
  - an insurance bond as agreed under the FM Contract;
- fails to maintain its insurances;
- commits a material breach of the FM Contract, or breaches any term more than once in any three month period;
- fails to provide the Services to certain levels, including accruing an unacceptable level of abatement within any three month period; or
- reaches the limit of liability as set under the FM Contract.

## 2.11 Termination

The Principal has the right to terminate the FM Contract under the following circumstances:

- where Serco fails to remedy a default in accordance with the remedy plan, where the default is capable of remedy;
- for a default which the Principal believes is not capable of remedy;
- where Serco or the Guarantor becomes insolvent;
- where the limit of liability for liquidated damages is reached;
- where a change of control of Serco occurs without the consent of the Principal; or
- in the case of an extended Force Majeure (greater than 180 days).

Serco may terminate the FM Contract if the Principal fails to pay Serco after receiving notice of the non-payment.

