

Reference: 20210523

2 December 2021

Dear [REDACTED]

Thank you for your Official Information Act request, received on 4 November 2021. You requested the following:

Treasury Report T2021/681: New Dunedin Hospital - Final Detailed Business Case and wider capital system implications

Information being released

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	9 April 2021	Treasury Report T2021/681: New Dunedin Hospital - Final Detailed Business Case and Wider Capital System Implications	Release in part

I have decided to release the relevant parts of the document listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- names and contact details of officials, under section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment, and

- confidential information, under section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely



Sebastian Doelle
Team Leader, Health

Treasury Report: New Dunedin Hospital - Final Detailed Business Case and Wider Capital System Implications

Date:	9 April 2021	Report No:	T2021/681
		File Number:	CM-1-3-28-0-6

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss with the Minister of Health appropriate governance arrangements for the SDHB Transformation Programme in light of the upcoming Health and Disability System Review reforms.	15 April 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
James de Hamel	Analyst, Health	N/A (wk)	
Sebastian Doelle	Team Leader, Health	N/A (wk)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer a copy of this report to the Minister of Health

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: New Dunedin Hospital - Final Detailed Business Case and Wider Capital System Implications

Purpose of Report

1. This report provides advice on the New Dunedin Hospital (NDH) Project in advance of the upcoming Cabinet paper on the final Detailed Business Case (DBC) being considered by the Cabinet Government Administration and Expenditure Review Committee on 15 April 2021.
2. It discusses the progress made to date on the NDH Project and highlights the importance of successfully executing Southern District Health Board's (SDHB) Transformation Programme in order to deliver the associated benefits from the capital investment.¹
3. The challenges associated with the NDH Project and SDHB's Transformation Programme are further examples of prevalent systemic issues in the current health capital system. We note the opportunities for comprehensive health capital system reform as part of upcoming Health and Disability System Review decisions and advocate the prioritisation of key elements of the Health Infrastructure Unit's (HIU) Work Programme to accelerate "quick wins" in the capital system.

Background and Progress of the NDH Project

The Treasury supports the approval of the final DBC in light of the progress made on the NDH Project to date...

4. The Draft DBC for the NDH Project was approved in-principle by Cabinet in August 2020, subject to a number of outstanding significant matters being addressed [CAB-20-MIN-0413, T2020/2527 refers]. These matters included:
 - a demonstrating progress on design;
 - b conducting a Quantitative Risk Assessment;
 - c establishing new governance arrangements; and
 - d ensuring stronger alignment between the NDH Project and the SDHB Transformation Programme, including changes to service delivery and model of care, workforce, and data and digital systems.
5. Significant progress has been made on these requirements ahead of the final DBC going to Cabinet:
 - a design work for the NDH Project has now progressed and the concept design stage is complete for both the inpatient and outpatient buildings. The project risks have been assessed (based on the concept designs) with a Quantitative Risk Assessment (QRA) to provide a level of confidence in the project costs and contingencies included;
 - b the QRA has been independently reviewed. It confirmed the budget cap of \$1.47 billion, including contingencies for design, scope and construction; and

¹ The SDHB Transformation Programme includes a data & digital programme, and service changes to the model of care and workforce.

- c in line with Cabinet's decision in September 2020 [CAB-20-MIN-0431 refers], the new Executive Steering Group for the NDH project has been established and is operational as part of the new governance structure for the project.

... and additional conditions proposed by the Treasury will mitigate specific risks for the NDH Project.

6. In light of the progress made to date on the NDH Project, the Treasury supports the final approval of the DBC, subject to the inclusion of conditions. These conditions have been included in the Cabinet paper, and are intended to mitigate the specific risks for the NDH Project regarding the alignment with the SDHB's Transformation Programme, as well as budget and scope management risks. Treasury's recommended conditions are:
 - a the NDH Executive Steering Group receives regular monthly updates on progress of the SDHB's Transformation Programme in order to provide appropriate visibility and input into the design processes for the NDH project;
 - b a Value Management Strategy is developed to enable effective trade-off decisions that may be needed to keep the project within budget. A Value Management Strategy will support the process of identifying the optimum balance of project benefits in relation to project costs and risks. It will also assist project governance in assessing whether or not design changes or cost reductions are appropriate, and when budget or risk decisions should be escalated.
 - c Quantity Surveyor Reports are developed at each of the design stages, and an updated Quantitative Risk Assessment is performed as part of the Implementation Business Cases for the Outpatient and Inpatient Buildings by February 2022 and December 2023 respectively. This will provide assurance of budget planning, while providing early visibility of contingency constraints.
7. In addition to the above conditions, the contingencies for construction and design risks included in the DBC appear to be small relative to the current level of design and procurement. We highlight the ongoing need for the overall budget and the specific risk contingencies to be carefully managed in line with the scope brief reflected in the DBC. The Treasury will continue to monitor progress of risk mitigations as part of our observer role on the Executive Steering Group for the NDH Project.
8. While the Implementation Business Cases for both the Outpatient and Inpatient buildings are now expected by February 2022 and December 2023 respectively, these postponements allow for the completion of further design stages and preferred contractor decisions (prior to contract award) to be made. In our view, these extended timelines are conducive to mitigating risk during design and procurement, and are not reflective of delays to the NDH Project overall.

Additional funding for the NDH Project should be considered alongside other investments in health infrastructure.

9. Given the Cabinet paper is presented during the Budget Moratorium, the paper seeks approval for Joint Ministers to finalise funding arrangements after Budget Day 2021, including the increase of the total budget for the NDH Project to \$1.47 billion.
10. The Treasury recommends that the additional funding of \$70.0 million for the NDH Project, over and above the \$1.4 billion available in the tagged contingency *Dunedin Hospital Redevelopment*, is sought from the available funding in the Health Capital Envelope 2020-2025 Multi Year Allowance (MYA).
11. This would allow consideration of additional funding requests for the Dunedin Hospital Project alongside other health capital investment proposals, improving transparency and prioritisation across the health capital system. The alternative, which would be to seek funding from future Budget allowances, limits the opportunity to prioritise and trade-off decisions against other budget investment proposals.

Update on the SDHB Transformation Programme

12. SDHB recognised the importance of a new hospital being developed around technology-enabled models of care and processes based on current evidence and best practice. A Transformation Programme is required to ensure these considerations are taken into account and implemented.

SDHB's data and digital Indicative Business Case is progressing and will be submitted for Ministers' consideration in due course...

13. A key element of the SDHB Transformation Programme is its data and digital investment proposal. SDHB expects to present an Indicative Business Case (IBC) to Cabinet in July 2021.
14. The scope of the investment includes new digital infrastructure and equipment (i.e. hardware), business changes for SDHB's operations, and new digital systems (i.e. software). The IBC for this investment is being completed separately to the Business Case for the NDH Project.
15. The IBC outlines a preferred option valued at s9(2)(f)(iv) and s9(2)(j) with a Crown capital contribution accounting for s9(2)(f)(iv) and s9(2)(j). These costs are expected to be incurred over a 10-year period.
16. In their feedback on the IBC for SDHB's Data and Digital Investment Proposal, Officials noted that investment in data and digital is being driven by the shift to the new models of care being developed under the Transformation Programme. s9(2)(g)(i)

17. The IBC notes a key dependency between the NDH Project and the data and digital project, with delays to the latter risking delay for the NDH Project. Officials have asked for dependencies relating to the NDH Project to be mapped. The Ministry of Health has confirmed that dependencies have been mapped for certain elements of the data and digital investment, however this information has not been reflected in the IBC to date.

... however the Treasury remains concerned about the lack of visible progress across the wider Transformation Programme by SDHB.

18. It is our view that the successful execution of transformation programmes such as this will be critical to realising the benefits from investment in other new hospitals, regardless of the future health system operating model emerging from the Government's programme of reforms.
19. The wider investment across the NDH Project and the SDHB Transformation Programme still lacks significant alignment and coordination of the wider dependencies, creating risks for delivery.
20. In response to the Gateway Review findings, and as part of the initial DBC for the NDH Project in August 2020, Cabinet noted that SDHB had been asked to prepare a programme business case for the Capital Investment Committee, covering all the interdependencies it is managing, including ICT and workforce, to ensure visibility of the total investment required [CAB-20-MIN-0413 refers].
21. In addition to the request for a programme business case, Cabinet also noted that as part of the overall governance arrangement for the NDH Project and SDHB's Transformation Programme, the Director General of Health would write to SDHB requesting that it establish a Transformation Programme Board. This Board would ensure more robust governance and appropriate alignment with the NDH Project, reporting to the SDHB Board [CAB-20-MIN-0431 refers].
22. The Treasury currently has no visibility of a structured and comprehensive programme approach to the Transformation Programme being applied to date. Following the letter by the Director General of Health, SDHB has elected to provide oversight directly rather than establish a separate board. This decision was made on the basis that the Transformation Programme strongly links to business-as-usual and an additional governance group may confuse accountabilities.
23. The lack of visible progress on the Transformation Programme and absence of a comprehensive and structured programme approach increases the risk of failing to deliver the benefits associated with the NDH project and the Transformation Programme. Further, there is a consequent risk that the building design may not be fit-for-purpose for any new model of care and/or digital capability evolving from the SDHB Transformation Programme.

Further steps need to be taken to address the risk of misalignment between the SDHB Transformation Programme and the New Dunedin Hospital Project.

24. s9(2)(g)(i)
25. We understand that SDHB is currently conducting a strategic refresh exercise with the intent of providing improved visibility of its Transformation Programme to central government by June 2021.
26. The Treasury intends to engage with the Ministry of Health to provide advice to Joint Ministers with options to further mitigate the risk of misalignment between the SDHB Transformation Programme and the NDH Project following the expected strategy refresh by SDHB in June 2021. These options may include SDHB establishing a dedicated governance group which would be consistent with the above Cabinet signal in September 2020.

27. In light of the upcoming Health and Disability System Reforms, and consequential changes to the health system operating model, we recommend you discuss appropriate governance arrangements for the SDHB Transformation Programme with the Minister of Health. ^{s9(2)(g)(i)}

Strengthening the health capital system

28. The wider investment in the NDH Project and the SDHB Transformation Programme illustrates the need for reform of the capital investment and asset management system (capital system) in the health sector.
29. Issues with the health capital system have been described in the Health and Disability System Review and in officials' previous advice. Key issues identified by the Treasury include the following:
- a There are significant weaknesses in service planning. The lack of national service planning means that there is no process for agreeing what services will be delivered at different locations. This complicates decision-making regarding the facilities and infrastructure needed in each location, and makes it difficult to assess the relative priority and value of investments. Additionally, the lack of service planning means that facility builds and refurbishments are not always underpinned by robust service design or coordinated with related investments (e.g. data and digital).
 - b Capability in key areas, such as planning and delivery (oversight) of major hospital builds is scarce and not always available. This results in a heavy reliance on contractors, with associated costs and risks that institutional knowledge is not always developed or maintained.
 - c Communication between central government and DHBs on capital projects is not always clear and timely.
 - d Governance arrangements for health capital projects do not necessarily reflect best practice.
 - e There are no agreed and consistently applied standards for different health facility types. This results in DHBs 'reinventing the wheel' on each project, contributing to slow business case development and a potentially limited application of evidence and best practice.
 - f Work to strengthen central coordination and support for health capital projects has progressed very slowly and with limited success.
 - g DHBs have limited ability and incentives to manage their assets well. Depreciation funding can be, and has at times been, diverted to operational costs rather than set aside for capital maintenance.
 - h Realisation of benefits is not well monitored.
30. Many of these issues directly contribute to design work for health capital projects taking a long time and business cases being time-consuming and costly to develop. The underlying issues relate not to business case requirements and processes themselves, but to the quality of information provided in support of investment proposals.

There are opportunities to improve the system through the Health and Disability System Review reforms...

31. The new health system operating model will establish a national hospital network and increase levers over delivery of capital projects compared to the current, decentralised model.
32. As previously advised [T2021/419 refers], the Treasury strongly supports this approach as we expect it to facilitate national prioritisation of health capital projects; the development and use of facility design standards; and national oversight and coordination of the pipeline of major projects, underpinned by a robust national service plan. We see national service planning as the cornerstone of system change, as it will enable a system view of what and where health capital investment is most needed.
33. Recent DHB capital intentions suggest that s9(2)(f)(iv) of Crown funding is required over the next 10 years. The scale of current and upcoming investment requires critical oversight and effective prioritisation to ensure best use of limited resources.
34. The Treasury will continue working with the Ministry of Health, the Health and Disability System Review (HDSR) Transition Unit (TU), and the Infrastructure Commission on the design of the health capital system within the new health system operating model.
35. The Treasury is also engaging with the Infrastructure Commission on its review of the health capital system. The review looks at the investment and infrastructure systems in the health sectors of New South Wales and Victoria and intends to develop recommendations for an operating model for the health capital system in New Zealand. We anticipate the review findings and recommendations will inform the policy work by the TU and feed into recommendations to the HDSR Ministerial Oversight Group.

...and in the shorter term through the Ministry of Health's HIU.

36. The Ministry of Health's HIU has recently developed an action plan to strengthen the health capital system, with outputs to support better investment planning; asset management; delivery; and monitoring of projects [HR20202299 refers].
37. The Budget 2021 package includes \$16.96m operating funding over four years to accelerate the HIU's work programme. Specific actions over the next six to 12 months include:
 - a preparing a four-year pipeline of nationally significant investments;
 - b updating guidance and streamlining processes for consideration of DHB-led business cases, including improved communication with DHBs on budget and prioritisation decisions; and
 - c implementing strengthened conditions of funding to include a standardised approach to facility design and best practice governance arrangements for project delivery.
38. The Treasury fully supports this action plan and will continue working with the HIU, and the Infrastructure Commission where appropriate, on shorter-term actions to strengthen the health capital system. These actions include:
 - signalling to DHBs the Government's health capital priorities, and Ministers' expectation that business cases for priority projects (such as Whangārei and Nelson hospital redevelopments) will be progressed; and

- working with DHBs from an early stage where needed (for example, on the Whangārei hospital and Waikato mental health unit redevelopments) to set clear expectations and provide tailored support for business case development.
39. While a range of shorter-term actions are being progressed, change will take time to materialise, as it requires central capability and capacity to be established across a sizeable and complex portfolio of projects.
 40. The Treasury continues to work with the Ministry of Health on understanding the pipeline of upcoming DHB capital projects and considering options to support development of these projects. This includes a potential option of funding the business case development process for major projects.

Next steps

41. Following Cabinet's decisions on the NDH DBC in April 2021, and SDHB's strategic refresh in June 2021, the Treasury and the Ministry of Health will provide further advice regarding how the concerns with the Transformation Programme governance arrangements might be addressed.
42. Final funding decisions on the NDH Project will be sought following Budget Day on 20 May 2021. This will include the previously signalled increase in the NDH Project budget by \$70.0 million from the existing Health Capital Envelope 2020-2025 MYA.
43. The Treasury will continue working with the Infrastructure Commission on its review of the health infrastructure investment system (expected to be completed around June 2021). We anticipate this will inform overall system settings advice to Ministers.

Recommended Action

We recommend that you:

- a **note** the progress made on the NDH Project, while significant alignment risks with the SDHB Transformation Programme remain
- b **note** the conditions proposed by Treasury included in the Cabinet Paper seeking approval of the final DBC, namely:
 - i. the NDH Executive Steering Group receives regular monthly information updates on progress of the SDHB Transformation Programme in order to provide appropriate visibility and input into the design processes for the NDH Project;
 - ii. a Value Management Strategy is developed to enable effective trade-off decisions that may be needed to keep the project within the budget; and
 - iii. Quantity Surveyor Reports are developed at each of the design stages, and an updated Quantitative Risk Assessment is performed as part of the Implementation Business Cases for the Outpatient and Inpatient Buildings. This will provide assurance of budget planning, while providing early visibility of contingency constraints.

- c **note** the opportunities to address the underlying issues in the health capital investment and asset management system via the Ministry of Health's HIU action plan, and as part of the Government's upcoming programme of health system reform
- d **discuss** with the Minister of Health appropriate governance arrangements for the SDHB Transformation Programme in light of the upcoming Health and Disability System Review reforms, and
- e **refer** a copy of the report to the Minister of Health.

referred / not referred

Sebastian Doelle
Team Leader, Health & ACC

Hon Grant Robertson
Minister of Finance