Health Infrastructure: NZIER - Building a Healthy Future Report 2023

Date: 8 December 2023

Report No: TW-2023-311

To	Action sought	Deadline
Hon Nicola Willis, Minister of Finance Hon Chris Bishop, Minister for Infrastructure Hon Dr Shane Reti, Minister of Health	Note the findings of an NZIER report on health infrastructure needs, and recommended changes to wider system settings to improve infrastructure planning and delivery.	18 December 2023

Contact details

Name	Role	Phone
Blake Lepper	General Manager, Infrastructure Delivery	s9(2)(a)

Actions for the Minister's office staff

Forward this briefing to the Ministers of Finance and Health.

Minister's Comments

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Recommendations

We recommend Ministers:

1. **note** that the *Building a Healthy Future* Report (the Report) prepared by NZIER has estimated it will cost between $101 billion and $115 billion over the next thirty years to fix, maintain and renew public hospital infrastructure;

2. **note** that the Report identifies a number of recommendations to address the deficit in public hospital infrastructure;

3. **note** that the Infrastructure Commission believes more radical change is needed in infrastructure delivery, with Health New Zealand, Te Whatu Ora needing to be empowered to implement more flexible infrastructure delivery models, over longer term programmes of investment, supported by an associated shift in how Treasury views pricing risk;

4. **note** that the Report has been shared with relevant parties (Treasury, DPMC, Ministry of Health, Health New Zealand and Te Aka Whai Ora) prior to public release;

5. **note** that the Commission intends to publish the report in the first quarter of 2024. We will provide your office with a communications plan and draft media statement at least one week in advance of publication;

6. **note** that the Commission considers changes to system settings are needed to improve infrastructure planning and delivery. These could include empowerment of delivery agencies to implement more flexible infrastructure delivery with increased planning and funding certainty, along with increased accountability and transparency in respect of cost risks. These issues are relevant to current policy work on establishing a National Infrastructure Agency.

s9(2)(a)

Blake Lepper
General Manager, Infrastructure Delivery

Hon Nicola Willis
Minister of Finance

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Hon Chris Bishop
Minister for Infrastructure

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Hon Dr Shane Reti
Minister of Health

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Health Infrastructure: NZIER - Building a Healthy Future Report 2023

Purpose of the Report

1. The purpose of this briefing is to inform you of:
    - a Report produced by NZIER, commissioned by the Infrastructure Commission, which estimates the modelled cost over the next 30 years to address hospital investment needs, considering the demand for healthcare services, the physical space needed to deliver services and the cost of building and maintaining those spaces;
    - the findings and the recommendations of the Report;
    - the planned release of the Report to relevant parties; and
    - the planned publication of the Report on the Commission's website.

Background

2. In March 2020, the New Zealand Health Disability System Review (HDSR) was delivered to government. This recommended system-level changes to the New Zealand health system that would be sustainable, lead to better and more equitable outcomes for all New Zealanders and shift the balance from treatment of illness towards health and wellbeing.

3. In March 2022, the Commission published the Health Infrastructure Review ('the Review'). The Review recommended how Health New Zealand could optimise the way public health infrastructure is planned, delivered and maintained.

4. At the request of the Department of Prime Minister and Cabinet (DPMC) in June 2022, the Commission conducted a technical review of 16 projects within Health New Zealand's mental health infrastructure programme. This included 14 recommendations for the improvement of project delivery within Health New Zealand.

5. To support the Government's investment planning and priorities, and the development of Health New Zealand's infrastructure investment plan, the Commission asked NZIER to model hospital building costs in the future, considering the demand for healthcare services, the physical space needed to deliver services, and the cost of building and maintaining those spaces. NZIER have specifically analysed the health infrastructure implications of a 'business as usual' scenario for costs, asset management practices and service delivery methods. Rather than quantifying what the system should seek to spend, their Report identifies the pressures that the system will face to maintain its current approach against an ageing population and changing demographics.

6. One of the key activities for Health New Zealand (and one of the recommendations from both the HDSR and the Review) is the development of a long-term capital investment plan. Health New Zealand is on track to present its first national Infrastructure Investment Plan and Asset Management Strategy to Cabinet in December 2023. These reports have been developed independently from the Commission's report and are very consistent in their findings.

NZIER's Approach

7. NZIER began its analysis in May 2022, which involved:
   - consolidating information, data and insights from relevant sources, including Health New Zealand;
   - economic modelling of the 30-year infrastructure need, including implications of population growth, population ageing, demographic changes, trends in service improvement, pipeline projects and costs pressures related to infrastructure;
   - economic modelling of key potential mitigation options including the re-purposing of existing assets and complementary models of healthcare.

8. In May 2023 a draft report was provided to the Treasury, Ministry of Health, Health New Zealand and Te Aka Whai Ora for consultation.

Key Findings and Recommendations

9. The Report estimates it will cost $115 billion over the next thirty years to develop and renew New Zealand's public hospital buildings. This estimate reflects the current known state of health infrastructure, the current approach to health infrastructure, and known future pressures.

10. NZIER considered multiple interventions which could potentially reduce future capital requirements in the Health sector, including shifting care from hospitals to community contexts. These interventions had a smaller impact on health infrastructure than were expected, reducing the 30-year infrastructure requirements by $14.3 billion to $101 billion.

11. The Report identifies recommendations for addressing the health infrastructure deficit including:

    - The service expansions and improvements needed to serve a growing, ageing, and more ethnically diverse population in a health system focused on equity are achievable, but only if considerable and sustained efforts are made to reduce infrastructure costs.

    - There is no single model of care solution (of those modelled) that will make a big enough difference. A range of solutions need to be considered including:
      a. changes in the way infrastructure projects are planned and delivered;
      b. better use of existing assets and non-built options;
      c. use of complementary models of healthcare, including a shift from inpatient to ambulatory care, medical innovation and improvements in clinical procedures, virtual care and increased levels of primary care community management.

    - The health infrastructure knowledge base is in the early stages of development. Health New Zealand must incorporate infrastructure investment modelling in its service planning to better inform decision-making.

12. The extent of the deficit points to a level of investment that is not realistic under current market conditions – given building cost escalation and the Government's many

competing infrastructure priorities across transport, housing, education, justice and resilience. In other words, we can't build our way out of the deficit.

13. This means we need to change how we do things. Either we bring down construction and maintenance costs, fundamentally change the way healthcare services are delivered or reduce the services provided – or some combination of these.

14. The Commission believes addressing the infrastructure deficit may require more significant change to infrastructure delivery settings. We see a need to:

    a. **Reduce our infrastructure delivery costs:** Government infrastructure delivery continues to focus on traditional fixed price lump sum procurement that is rigid and transactional, and has not achieved enough change to impact the costs of project delivery. A different approach is needed – both to reflect a significantly different market post-Covid and achieve a different result. This means making better use of alternative delivery models – empowering agencies to invest in longer term programmes of work, standardised design, with greater focus on collaborative contract models. This may have impacts on the fiscal management approach. A shift in the procurement landscape may need to be supported by an associated shift in how the budget process and fiscal management approach manages projects with a greater level of open book pricing risk.

    b. **Look after what we've got:** We need to make better use of both the infrastructure we already have and the new infrastructure we build. The issues of ageing buildings and deferred maintenance are not unique to Health – our other public infrastructure and sectors are facing the same issues too. Improvement in asset management planning and reporting must be prioritised.

    c. **Make greater use of non-built options:** We need to give real consideration to non-built options. This includes the re-purposing of existing assets and use of complementary models of healthcare, including virtual care and increased levels of primary care community management.

    d. **Empower change:** Health New Zealand (and infrastructure delivery agencies more generally) must be empowered to implement more collaborative infrastructure delivery models, over longer-term programmes of investment, supported by faster and more responsive approval processes. Increased empowerment should come with and drive improvements in accountability, leading to improved outcomes.

    e. **Improve investment planning and transparency around the ongoing costs of infrastructure:** In general, investment intensive agencies, including Health New Zealand, manage significant operating expenditure that can dwarf capital spend. This diminishes transparency of capital expenditure and related costs. System disciplines that increase transparency around the ongoing costs of infrastructure, including depreciation and the costs of deferred maintenance could improve incentives faced by agencies to appropriately plan for infrastructure investment. Complementary initiatives which increase expectations on agencies to improve investment planning quality and horizons could further improve outcomes.

15. The Commission considers these issues should be considered in parallel with current work on establishing a National Infrastructure Agency. They are important enablers to improving system outcomes and are closely related to considerations relevant to the design of the National Infrastructure Agency.
16. A more detailed briefing on improvements to the planning, procurement and delivery of health infrastructure can be provided in response to Health New Zealand's National Infrastructure Investment Plan and Asset Management Strategy.

Consultation

17. Treasury, Ministry of Health, Health New Zealand and Te Aka Whai Ora were consulted in the finalisation of the Report.
18. The Ministry of Health acknowledges that the investment sought to address the current condition, capacity and configuration of the entire public health estate, based on current service models, within the next 30 years is significant and likely to be unaffordable to the country.
19. The Ministry's view is that recommendations to provide Health New Zealand with more flexibility for investments should be supported by improvements in Health New Zealand's performance in delivering the current capital portfolio to time, scope and budget.
20. Health New Zealand note that the report is strongly aligned to the issues and challenges that they have identified and the changes they need to make to address them.

Release of Information

21. The Commission has shared the Report with Treasury, DPMC, Ministry of Health, Health New Zealand and Te Aka Whai Ora prior to public release to ensure that recommendations are shared in a timely manner.
22. We anticipate that there will be strong public and media interest in the Report and a communications strategy has been developed for consultation with Treasury, DPMC, Ministry of Health, Health New Zealand and Te Aka Whai Ora.
23. The Commission intends to proactively release a media statement and the Report in the first quarter of 2024 by publication on its website. We will provide your office with a communications plan and draft media statement at least one week in advance of publication.

12 December 2023

To	Jeremy Holman, Chief Infrastructure and Investment Officer, Te Whatu Ora
From	Ross Copland, Chief Executive, New Zealand Infrastructure Commission
Subject	New Dunedin Hospital Inpatient Building Contractor Decision – Te Whatu Ora Board Paper

New Dunedin Hospital Inpatient Building Contractor Decision – Te Waihanga Comment on Te Whatu Ora Board Paper

The New Zealand Infrastructure Commission / Te Waihanga was invited by Te Whatu Ora management to provide comment on a paper they intend to provide to their board. Our team have had regular engagement with this project since Te Waihanga was formed in 2019 and have high-level understanding of the history, risks and key decisions through time. The role and mandate of Te Waihanga is set out in our enabling legislation and in Cabinet Office Circular CO23(9), para's 68-70, including our role in relation to the procurement of major infrastructure projects.

The paper invites the board to make a decision on the appointment of a main contractor for the New Dunedin Hospital (NDH) project. The paper recommends s9(2)(b)(ii), s9(2)(j)

We acknowledge both the difficult advice that Te Whatu Ora are currently providing, and the difficult choices currently faced by the Board. There is a long legacy of decisions that have brought the project to the stage where it is now, several years behind schedule and materially over budget, despite descoping relative to the approved DBC.

The Infrastructure Commission **does not support** the recommendation for the following reasons:

Budget and Programme

- Cabinet approval is required for the additional $215M+ required prior to awarding a main contract. We believe that the considerably more work is required for the board to gain confidence on the likely out-turn cost of the project. We accept that the true cost of the inpatient building delivered under a managing contractor model will not be known until the project is completed. However, we disagree that the decision to

proceed can be detached from a rigorous risk adjusted re-baselined project estimate. The Te Whatu Ora Board should be provided with all relevant information to make an informed decision. With this in mind, we recommend that the board instructs management to:

1. Update the Qualitative Risk Assessment (QRA), prepare a revised implementation business case and submit it to Cabinet (or the appropriate delegation holder/s) for approval. The QRA will need to cover the full programme, including the Outpatient building. Our recommendation is that all of the necessary scope be included in this updated business case so Cabinet is fully informed about the programme of investments necessary to deliver the vision outlined in the strategic case (including all costs required to deliver the benefits outlined in the DBC, including the costs of transitioning to the new hospital and decanting / demolition of existing facilities);

2. Given it is significantly over budget and years behind schedule, Te Whatu Ora should provide the Minister of Health and/or Minister of Finance with the opportunity to request an independent strategic review of NDH. Decisions around the scope and scale of the inpatient building need to be made by Ministers in the context of significant competing sector priorities. A request for further funding will need to be accompanied by context and detail to enable Ministers to consider these trade-offs;

3. s9(2)(b)(ii), s9(2)(j)

Procurement

- s9(2)(b)(ii), s9(2)(j)

Choice of Contractor

- s9(2)(b)(ii), s9(2)(j)

Finally, there are a number of 'noting' recommendations we have comments on: Recommendation (e) states that costs will not be known until the project is complete and the final invoice is paid. While this is of course a *truism*, it is not only possible, but absolutely essential that the board request and receive regular estimates of the forecast cost to complete all of the necessary scope required to deliver the benefits outlined in the approved business case. The board is entitled to receive regular, high-quality reporting on both schedule and cost and needs to proactively manage both to avoid further overruns.

Recommendation (j) to withhold the paper in its entirety is inconsistent with OAG guidance and transparency best practice. We recommend that all papers be released with appropriate redactions as per the Official Information Act noting the definition of *commercial sensitivity*.

NEW ZEALAND INFRASTRUCTURE COMMISSION Te Waihanga

Te Kāwanatanga o Aotearoa New Zealand Government

Dunedin Hospital Funding Decision

Date: 25 January 2024

Report No: TW-2024-335

To	Action sought	Deadline
Hon Chris Bishop, Minister for Infrastructure	Consider this advice ahead of your meeting with the Ministers of Finance and Health on 31 January.	31 January 2024

Attachments

1. Annex A: Project funding timeline
2. Annex B: NZIER health funding requirements
3. Annex C: Te Waihanga advice to Te Whatu Ora

Contact details

Name	Role	Phone
Richard Wall	Senior Advisor, Projects & Programmes	s9(2)(a)
Ross Copland	Chief Executive	s9(2)(a)
Rebecca Robertshawe	Director, Projects and Programmes	s9(2)(a)

Purpose

1. The purpose of this aide memoire is to provide you with a summary of our position on the Dunedin Hospital project ahead of your meeting with the Ministers of Finance and Health, and officials from Health NZ, the Treasury and the Infrastructure Commission, on 31 January 2024.

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2. We understand that Health NZ officials will be seeking multiple decisions from Ministers, including on whether Ministers will agree to provide new Crown operating and capital funding of s9(2)(b)(ii), s9(2)(j) [1] to complete the project as currently designed.

Summary of our position

3. We consider that the additional funding request of s9(2)(b)(ii), s9(2)(j) (towards a revised total project budget of s9(2)(b)(ii), s9(2)(j) should be supported by an updated Quantitative Risk Assessment (QRA) to provide a range of potential total costs, should risks materialise across the full programme of work. The QRA output will be an important tool to assess whether further budget requests are likely beyond this s9(2)(b)(ii), s9(2)(j) an outcome we expect Ministers will be anxious to avoid.

4. We recommend that Ministers seek advice on alternative health care delivery options for the region through a strategic review conducted under urgency over the next 1-2 months. The scope of this review may include site selection, repurposing existing assets, demographics and infrastructure needs in the wider region, and confirmation that the existing project scope remains sound, noting the revised budget.

5. If Ministers agree to provide further funding to deliver the current scope and scale of Dunedin Hospital, a decision shortly after will be required on procurement s9(2)(g)(i), s9(2)(b)(ii), s9(2)(j)

Key points supporting our position

6. The health infrastructure deficit is significant and growing. The New Zealand Institute of Economic Research (NZIER) and Infrastructure Commission estimate that $115 billion of investment will be required over the next 30 years. Investment needs to be targeted where it is most needed. The report highlights that the government and market are not equipped to deliver at the scale proposed and that we need to think carefully about how we deliver health care services into the future and optimise future health infrastructure delivery.

7. A long legacy of decisions has had significant impacts on the affordability of the New Dunedin Hospital Programme. The project out-turn cost is now forecast at approximately s9(2)(b)(ii), s9(2)(j) up from original Indicative Business Case estimates of $1.2-$1.4 billion.

8. Piecemeal funding requests are a common occurrence across the New Zealand public service, adding considerable pressure to Ministers' ability to effectively plan and deliver against their objectives. Approximately s9(2)(b)(ii), s9(2)(j) of the funding request is for costs that should have always been budgeted for and considered as part of the value for money assessment at the business case phase. s9(2)(b)(ii), s9(2)(j)

[1] s9(2)(g)(i)

s9(2)(b)(ii), s9(2)(j)

9. To inform significant funding decisions, we consider that Ministers should be provided with assurances that the funding sought is sufficient to complete the programme (on a risk-adjusted basis and with a high level of confidence). In this instance, we would expect that a funding request of s9(2)(b)(ii), s9(2)(j) be supported by an **updated Quantitative Risk Assessment**.

10. There is **unlikely to be an 'on budget' option to deliver the current scope of the project on the current site**. The scope of the hospital will likely need to be reduced or a new site and scope selected if additional funding is not provided.

11. However, with **considerable pressure on hospital beds across the nation, cost alone does not appear to be a good reason to revisit the design** of the New Dunedin Hospital. There are other good reasons to reconsider the current investment plan for Dunedin Hospital including, but not limited to, the market's ability to deliver a programme of this scale in Dunedin. The inpatients building is an exceptionally large building for the Dunedin market to handle. The size of the building and duration of the programme creates "tail risks" that are hard to quantify (when big buildings go wrong, cascading risk interactions tend to mean they go very wrong). A more modular/staged approach to the hospital development would significantly reduce delivery risk (as well as deliver whole of life benefits) even if it came with a slightly higher upfront cost.

12. We recommend that Ministers request advice on alternative health care delivery options across the region through a **strategic review**. Ministers could instruct Te Whatu Ora to work with its design team to scope-up alternative solutions that can deliver the current scope level of services across the region, reporting back to Ministers in 1-2 months.

Background

13. In July 2017 Cabinet approved an Indicative Business Case for the New Dunedin Hospital. At the time, the New Dunedin Hospital was estimated to cost between $1.2 billion-$1.4 billion. The currently approved appropriation for delivery of the project is $1.59 billion. In addition, a $220 million tagged continency for data and digital packages of the project brings the total available funding for the project to $1.81 billion. A breakdown of the evolution of funding can be found in Annex A.

14. Ministers are being briefed on further cost escalations and previously unfunded costs. Further funding of s9(2)(b)(ii), s9(2)(i) will be required to complete the project, **taking the current** s9(2)(b)(ii), s9(2)(j)

Decisions must be made on a 'best for project' basis

15. The project budget and original timeframes have been significantly impacted by a legacy of decisions that set the project up for failure. s9(2)(b)(ii), s9(2)(j)

    a. **Lack of detail to inform Indicative Case estimates**. This is a core driver of perceived project blowouts. Project scope and clinical requirements are set early in the business case process. Cost estimates, in the case of Dunedin Hospital, were based on concept design, when little is known about site complexity and associated engineering challenges. As the true cost to build this project, as originally scoped, has become clearer as the project has advanced through the design phase, significant scope trade-offs are required or further funding committed.

    b. **Location of the site** has created significant additional cost over and above what was considered in original project estimates. We support Health NZ's statements that extraordinary cost premiums associated with land purchase and demolition costs, contaminated ground, archaeological surveys /excavations, piling difficulty, flood level risk, water table depth and access issues arose due to it being built on a traffic island in the middle of State Highway 1.

    c. **COVID-19 and supply chain constraints** continue to have a major impact on infrastructure projects. The New Zealand construction sector has seen inflation of 26.5% over the past three years (CPI increased by 18.9% over the same period), far in excess of reasonable inflationary assumptions at the time budget was set.

Ministers should expect better information when being asked to make decisions of this magnitude

16. On 12 December 2023, the Infrastructure Commission advised Health NZ of our view that considerably more work was required for the Health NZ Board and Ministers to gain confidence on the likely out-turn cost for the project (see Annex C).

17. To provide Ministers with assurance that s9(2)(b)(ii), s9(2)(j) of further funding and a total project budget of s9(2)(b)(ii), s9(2)(j) will, on a risk-adjusted basis and with a high degree of confidence, be sufficient to complete the programme, we recommended that any request for funding be supported by **an update to the Quantitative Risk Assessment (QRA)**. We recommend that Ministers request that this be completed as a matter of urgency.

While additional funding in health infrastructure is absolutely required, is Dunedin the most pressing priority?

18. Underpinning the $22 billion of annual government expenditure on health services, health infrastructure is a critical enabler of equitable, efficient, high-quality services, supporting both patient and workforce experience and a major driver of overall system sustainability.

19. The Infrastructure Commission, alongside the New Zealand Institute of Economic Research (NZIER), undertook a detailed analysis of the potential scale of investment in Crown-owned health infrastructure over the next 30 years. The analysis concludes that over $115 billion is required to be invested in Crown-owned health infrastructure over that period, as outlined in Annex B.

20. Decisions on further investment in Dunedin Hospital should be considered alongside the long-term portfolio challenges outlined above and as detailed in the 10-year Health Infrastructure Investment Plan. Without this wider context, it will be difficult for Ministers to consider the trade-offs of the decision in front of them.

21. We recommended that Health NZ provide Ministers with the opportunity to request an **independent strategic review of the project**. This review could also consider capital pressures across the wider health capital pipeline and provide advice on whether s9(2)(b)(ii), s9(2)(j) further investment in Dunedin addresses New Zealand's most pressing health capital pressures.

Can the scope of Dunedin Hospital be delivered within the current budget?

22. From a design scale and efficiency perspective, Dunedin Hospital is broadly aligned with the base case assumptions used in the NZIER work. NZIER assumed a Gross Floor Area (GFA) per bed of 193, the current design provides for 197. The NZIER assumed a build cost of $20,000/sqm, the current design comes to ~$22,000/sqm[2].

[2] For the purposes of a comparative analysis, we have considered only the s9(2)(b)(ii), s9(2)(j) of delivery cost pressures, bringing the total project cost to s9(2)(b)(ii), s9(2)(j)

23. This indicates that neither a value engineering nor design efficiency process would be sufficient to deliver the current scope within budget. Our analysis indicates that GFA per bed would need to be reduced from 197sqm/bed to 180sqm/bed, an undertaking that would likely require a first principles design reset of the project.

24. When compared to projects of a lesser scale, the delivery of mega-projects has inherent risk and increased uncertainty throughout all phases of project delivery. When considering whether to provide further funding to this project, we think Ministers would benefit from advice on whether health care services can be delivered more cost-effectively across the region.

25. It is likely that Health NZ could develop a more cost-efficient 463 bed alternative to service the region. However, when considered against the considerable costs incurred on this project to date, whether this would represent value-for-money is an area that would need to be tested.

26. On this basis, **cost alone does not appear to be a good reason to revisit the design** of the New Dunedin Hospital.

27. There may however be other good reasons to reconsider the current investment plan for New Dunedin Hospital. We have broader concerns about the investment that would support reconsideration of the current approach. These include:

    - Scale of building – as signalled at paragraph 11, there are significant delivery risks for a project of this size.
    - Programme overlap – this risk is compounded by the programme overlap with the s9(2)(g)(i) outpatients building. s9(2)(b)(ii), s9(2)(j), s9(2)(g)(i) Risks are reduced by closing out issues on one project before moving to the next.
    - Expectation setting – for the investment system to operate effectively agencies must give accurate information to Ministers and be held to account for that information. While harsh on individual projects, setting firm expectations around budget performance is important for overall system performance.

28. For these reasons, the Infrastructure Commission supports Ministers taking a firm line on this project and requiring Health NZ to develop a revised business case for investment in the Otago Southland Region.

Future decision on procurement

29. If Ministers decide to provide further funding to deliver the current scope and scale of Dunedin Hospital, a decision will be required shortly after on procurement. We are prepared to provide you with advice when required.

30. To date the Infrastructure Commission's position is that we **do not support** the recommendation to enter into s9(2)(b)(ii), s9(2)(j), s9(2)(g)(i) Our reasoning can be found in Annex C.

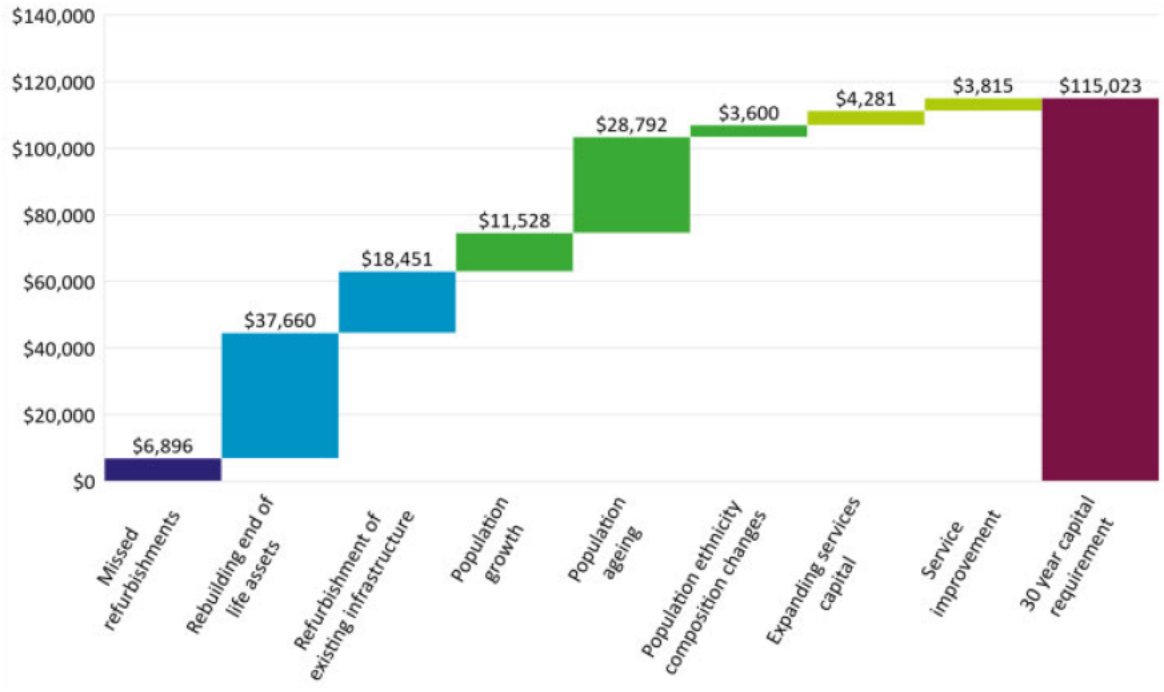
Annex A: Project Funding Timeline

Milestone / Update	Description / Impact	Project Estimate
Indicative Business Case estimate		$1.40 billion
Detailed Business Case	Cost increase of $70 million approved as part of DBC signoff	$1.47 billion
Budget 2022	Further funding of $110 million provided to address cost pressures	$1.58 billion
Budget 2023	Further funding of $10 million provided to address cost pressures	$1.59 billion
Total Appropriation		**$1.59 billion**
Budget 2022 – Data and Digital funding	Tagged contingency of $220 million approved as part of Budget 2022	$0.22 billion
Total Appropriation and Tagged Contingency		**$1.81 billion**

Annex B: NZIER 30 Year Health Funding Requirements

Figure 24 Total health infrastructure investment required over 30 years

2022/2023-2052/2053, $ millions



Source: NZIER

ANNEX C IS A DUPLICATE OF ITEM 2

New Dunedin Hospital – Cabinet Paper Points

Date:	1 March 2024
Report No:	TW-2024-357

To	Action sought	Deadline
Hon Chris Bishop, Minister for Infrastructure	Note the recommendations of this paper.	1 March 2024
Attachments		
None		

Contact details

Name	Role	Phone
Richard Wall	Senior Advisor - Delivery	s9(2)(a)
Ross Copland	Chief Executive	s9(2)(a)

Purpose

1. The purpose of this report is to provide you with a summary of our position on a Health New Zealand (HNZ) request for Cabinet to agree to cover $290 million cost pressures associated with the New Dunedin Hospital (NDH) project.
2. In addition, while approval from Cabinet is not being directly sought to enter into a contract to deliver the Inpatient Building with CPB, it will be a consequence of a decision from Cabinet on funding known cost pressures. As such, this report summarises previous advice that the New Zealand Infrastructure Commission has provided on the project.

Summary of our position

3. As outlined in previous advice, our view remains that:
    a. We do not believe that sufficient rigour has been applied to current estimates of likely out-turn cost. At a minimum, the Commission supports the Treasury recommendation that s9(2)(g)(i)

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b. s9(2)(g)(i) [redacted]

4. The Commission's first and best advice for the Inpatients building is that Ministers instruct HNZ to design an on-budget solution for the programme as a whole, which we acknowledge may necessitate a strategic review of the project scope as currently proposed. This is based on our assessment that the 'as designed' inpatient building is likely to be undeliverable in the Dunedin market under the current set of programme and budget assumptions. There is also evidence that design choices (even after 'value engineering') have had very little regard for the budget pressure the project has faced over several years of design development; and the lack of clarity over design accountability and its consequential budget implications is a persistent risk on this project.

5. However, if a decision is made to progress with the 'as designed' Inpatients building, we recommend at a minimum that:

    a. the decision being asked of Ministers is supported by a completed ImBC that includes full programme costings (as opposed to individual buildings), that have been rigorously scrutinised through a ground-up Quantitative Risk Assessment (QRA) process and reference-class forecasting exercise.

    b. Ministers be clear with HNZ that a contract is not to be entered into prior to approval of the ImBC.

    c. opex and whole-of-life costs be introduced into the financial modelling for the NDH programme. s9(2)(b)(ii), s9(2)(j) [redacted]

Dunedin Outpatients Delivery

6. Progress on delivering the Outpatient building is the most accurate comparator upon which to consider how risk may materialise on the more complex Inpatients building and the potential fiscal impacts.

7. At the time of contract award, the project budget was s9(2)(b)(ii), s9(2)(j) [redacted]. Due largely to design and the provisional basis of the contract pricing, the forecast final cost is s9(2)(b)(ii), s9(2)(j) [redacted]

8. The Outpatients building will continue to face challenges relating to design and the realities of delivering projects of this scale in the regions. s9(2)(b)(ii), s9(2)(j) [redacted]

[1] Inclusive of consultant fees, FF&E (furniture, fixtures and equipment), HNZ direct costs and contingency.

Funding Decision Inpatients Delivery

9. In our recent report to you on NDH [TW-2024-335 refers] we advised that funding decisions of this magnitude should be supported by an updated QRA to provide a range of potential total costs, should risks materialise across the full programme of work.

10. Health New Zealand (HNZ) have undertaken an indicative QRA that s9(2)(b)(ii), s9(2)(j) We have several concerns about this:

    - The quality of the indicative QRA is well below what should be expected for any investment decision. Inpatients building aside, we do not consider that significant risk that remains on Outpatients is adequately considered in these estimates.
    - s9(2)(b)(ii), s9(2)(j) n example of a key concern relates to the ability of the market to deliver the level of work required to meet programme. The current programme provides for a 5-year construction timeframe. With a construction cost estimate of s9(2)(b)(ii), s9(2)(j) – a level of spend difficult to achieve in our larger cities let alone in the regions. A significant driver a cost on this project will be programme.
    - The difference between the P85 and P95 will require an exponentially larger request for funding. We consider that it is highly unlikely, given the complexity of the Inpatient Building and issues faced on the Outpatient Building and other health projects, that delivery of the project within the stated P85 estimate level of contingency is possible.
    - It is not clear to us whether the QRA and wider outturn cost modelling has included other critical path deliverables such as the digital package, or whether sufficient work has been done on some of the remaining provisional sums (e.g. furniture, fixtures and equipment) to provide confidence that these are reasonable.

11. At a minimum, we support Treasury's recommendation that funding is tagged as contingency and only accessible following completion of the Implementation Business Case (ImBC), which is to include full programme costings considered against a complete QRA process. s9(2)(b)(ii), s9(2)(j)

Procurement decision

12. s9(2)(b)(ii), s9(2)(j)

13. s9(2)(b)(ii), s9(2)(j) [redacted]

14. s9(2)(b)(ii), s9(2)(j) [redacted] Nor do we believe there is sufficient evidence that the net costs of delay are accurately represented (due to absence of whole of life cost modelling).

15. Market testing can be formal or informal. As an example, a formal process may only require an Expressions of Interest (EOI) phase to gauge whether there is sufficient interest from the market to warrant taking the project back to market. s9(2)(b)(ii), s9(2)(j) [redacted]

Infrastructure Commission recommendations

16. The New Dunedin Hospital project has seen many critical decisions made without complete information. These have ultimately contributed to the scale and complexity of the challenges in delivering the 'as designed' facilities.

17. The Commission's first and best advice for the Inpatients building is that Ministers instruct HNZ to design an on-budget solution. This is based on our assessment that the 'as designed' inpatient building is undeliverable in the New Zealand market under the current set of programme assumptions.

18. We acknowledge that this will have significant impacts on scope, however when the certainty of a much larger Actual Out-turn Cost than that outlined in the Cabinet Paper is considered, the question is whether the deployment of capital on a 71,000sqm Inpatient facility in Dunedin is the most effective way to deliver clinical services across the region. As such, a decision to revisit the scope of NDH will also need to detail whether reductions in scope can be better distributed and funded across the lower South Island i.e. an on-budget Inpatient facility in Dunedin, plus smaller new facilities in other towns in the region.

19. However, if a decision is made to progress with the 'as designed' Inpatients, we recommend at a minimum that:

    a. The decision being asked of Ministers be supported by an ImBC that includes full programme costings that have been rigorously scrutinised through a ground up QRA process.

    b. s9(2)(b)(ii), s9(2)(j) [redacted]

New Dunedin Hospital Independent Review – Draft Terms of Reference

Date:	28 March 2024
Report No:	TW-2024-380

To	Action sought	Deadline
Hon Chris Bishop, Minister for Infrastructure	**Review** the attached draft Terms of Reference document, and provide feedback **Refer** this Aide Memoire and attachment to the Minister of Finance, the Minister of Health and the Minister for Regional Development	5 April 2024

Attachments

1. Attachment 1: DRAFT New Dunedin Hospital: Independent Expert Review – Terms of Reference

Contact details

Name	Role	Phone
Hedy Manders	Principal Advisor, Infrastructure Delivery	s9(2)(a)
Rebecca Robertshawe	General Manager (Acting), Infrastructure Delivery	s9(2)(a)

Purpose

1. This report provides you with the draft Terms of Reference (ToR) for the independent expert review of the New Dunedin Hospital (NDH) project that the Infrastructure Commission is facilitating. We invite you to provide feedback on the ToR and to seek feedback from the Minister of Finance, Minister of Health, and Minister for Regional Development.

The Review

2. You, the Minister of Finance, the Minister of Health and the Minister for Regional Development (Joint Ministers) have asked the Commission to facilitate a one-off review of

the NDH project to be led by an external independent advisor. This will be supported by the Treasury and the Ministry of Health (MoH). [CAB-24-MIN-0095 refers.]

3. We have developed a draft Terms of Reference in consultation with Health NZ, the MoH and the Treasury, and this is attached for your review and feedback.
4. We will incorporate any feedback from you and the other Joint Ministers prior to seeking formal approval by Joint Ministers.
5. The proposed scope of the review is to provide assurance to Joint Ministers about:
    - the cost and feasibility of the NDH programme as currently presented by Health NZ;
    - the preparedness of Health NZ to successfully move into the next phase of the NDH project, in particular the execution of the construction contract for the Inpatient building; and
    - any recommendations or actions that can be taken to improve preparedness and/or mitigate identified/potential risks and issues.
6. Te Waihanga will be appointing specialised independent expert reviewer(s) to specifically review key aspects of the NDH project including:
    - governance
    - scope
    - programme
    - costs.
7. We anticipate that the Review will take approximately five weeks from the approval of this Terms of Reference document, with a planned completion date (final report) of 31 May 2024. The indicative supporting timeline is:
    - Week 1-2 – Documentation review and preliminary interviews with key stakeholders.
    - Week 2-3 – Further interviews, gather and review evidence.
    - Week 3-4 – Prepare draft report for consultation.
    - Week 5 – Review comments and finalise report.
8. We will publish the Terms of Reference and the Review report on the Te Waihanga website at an appropriate time.

New Dunedin Hospital Independent Expert Review – approval of Terms of Reference

Date: 5 April 2024

Report No: TW-2024-385

To	Action sought	Deadline
Hon Nicola Willis, Minister of Finance Hon Chris Bishop, Minister for Infrastructure Hon Dr Shane Reti, Minister of Health Hon Shane Jones, Minister for Regional Development	**Approve** the New Dunedin Hospital Independent Expert review - Terms of Reference	9 April 2024

Attachments

1. Attachment 1: FINAL DRAFT New Dunedin Hospital: Independent Expert Review – Terms of Reference

Contact details

Name	Role	Phone
Hedy Manders	Principal Advisor, Infrastructure Delivery	s9(2)(a)
Rebecca Robertshawe	General Manager (Acting), Infrastructure Delivery	s9(2)(a)

Actions for the Ministers' office staff

Return the signed report to the NZ Infrastructure Commission | Te Waihanga

Ministers' Comments

IN-CONFIDENCE

Recommendations

We recommend that you:

1. **Approve** the New Dunedin Hospital Independent Expert review - Terms of Reference.

Agree / disagree

s9(2)(a)

Rebecca Robertshawe

General Manager (Acting), Infrastructure Delivery

Hon Nicola Willis

Minister of Finance

Date: _____ / _____ / _____

Hon Chris Bishop

Minister for Infrastructure

Date: _____ / _____ / _____

Hon Dr Shane Reti

Minister of Health

Date: _____ / _____ / _____

Hon Shane Jones

Minister for Regional Development

Date: _____ / _____ / _____

IN-CONFIDENCE

New Dunedin Hospital Independent Expert Review – approval of Terms of Reference

Purpose

1. This report provides you with the final draft Terms of Reference (ToR) for the independent expert review of the New Dunedin Hospital (NDH) project that the Infrastructure Commission is facilitating. We invite you to approve this document to enable review activity to commence.

The Review

2. You, as Joint Ministers, have asked the Commission to facilitate a one-off review of the NDH project to be led by an external independent advisor. This will be supported by the Treasury and the Ministry of Health (MoH). [CAB-24-MIN-0095 refers.]
3. A draft ToR has previously been shared with you for review. [TW-2024-380 refers.]
4. Your feedback and additional feedback from the Treasury and the Commission has informed the attached final draft of the ToR.
5. For your information, details of the changes made are listed in the Summary of Changes section below.
6. Following your approvals the Commission will appoint a specialised independent expert reviewer(s) to review key aspects of the NDH project and produce a report in the timeframe as detailed in the ToR.
7. We note that the review is on the agenda for the Infrastructure and Investment Ministers Group meeting on 9 April 2024.

Summary of Changes

8. The previous draft ToR document has been updated to reflect the feedback received. Significant changes are detailed below:

Significant Change	Rationale
References to formal agreement to the ToR by the Ministry of Health, Treasury and Health NZ have been removed.	The Ministry of Health, Treasury and Health NZ have all been consulted in the development of the document however approval rests with Joint Ministers.
References to the use of a Peer Reviewer have been removed.	The Commission believes that a peer reviewer is not required in this instance given the intent to appoint additional independent QS and planning expertise to support the review.
References to a maximum funding contribution by Health NZ have been removed.	The indicative costs are yet to be confirmed.

Attachment 1: FINAL DRAFT New Dunedin Hospital: Independent Expert Review – Terms of Reference

Attachment 1 is already publicly available

New Dunedin Hospital Independent Expert Review

Date: 30 May 2024

Report No: TW-2024-398

To	Action sought	Deadline
Hon Nicola Willis, Minister of Finance Hon Chris Bishop, Minister for Infrastructure Hon Dr Shane Reti, Minister of Health Hon Shane Jones, Minister for Regional Development	**Note** the key findings and proposed next steps for the Review. **Sign** and return this briefing.	14 June 2024

Attachments

1. Attachment: New Dunedin Hospital Review – Independent Expert Readiness Review 30 May 2024

Contact details

Name	Role	Phone
Hedy Manders	Principal Advisor, Infrastructure Delivery	s9(2)(a)
Rebecca Robertshawe	Director, Projects and Programmes, Infrastructure Delivery	s9(2)(a)
Andy Hagan	General Manager, Infrastructure Delivery	s9(2)(a)

Actions for the Minister's office staff

Refer this briefing to the Ministers of/for Finance, Health and Regional Development

Return the signed briefings to the NZ Infrastructure Commission | Te Waihanga

Liaise with Joint Ministers' offices to arrange a meeting between Ministers and the reviewer.

Ministers' comments

IN-CONFIDENCE

Recommendations

We recommend that Ministers:

1. **Note** that the New Dunedin Hospital Independent Expert Review has identified several recommendations to improve project delivery, including that consideration should be given to delaying contract execution for three months to obtain greater cost certainty;
2. **Note** that Health NZ are preparing a response to the report and their response should inform your decision to approve the Implementation Business Case for the project;
3. **Note** that the Infrastructure Commission intends to publish the review on its website when appropriate, and will develop a communications strategy in liaison with Health NZ, the Ministry of Health and the Treasury prior to confirming a publication date;
4. **Agree** to meet with the Commission and Lead Reviewer to discuss the Review's recommendations.

s9(2)(a)

Agree / disagree

Andy Hagan

General Manager, Infrastructure Delivery

Hon Nicola Willis

Minister of Finance

Date: _____ / _____ / _____

Hon Dr Shane Reti

Minister of Health

Date: _____ / _____ / _____

Hon Chris Bishop

Minister for Infrastructure

Date: _____ / _____ / _____

Hon Shane Jones

Minister for Regional Development

Date: _____ / _____ / _____

IN-CONFIDENCE

New Dunedin Hospital Independent Expert Review

Purpose

1. The purpose of this briefing is to:
    - provide you with the final report resulting from the independent expert review of the New Dunedin Hospital (NDH) project, and
    - inform you of the key findings and the recommendations of the NDH review.

Review background and approach

2. You, as Joint Ministers, asked the Commission to facilitate a one-off review of the NDH project (the Review) to be led by an external independent expert, in accordance with the approved Terms of Reference (TOR) [TW-2024-385 refers]. This was to be supported by the Treasury and the Ministry of Health (MoH) [CAB-24-MIN-0095 refers].
3. The Commission engaged independent lead expert reviewer Robert Rust, supported by additional specialised expertise provided by Rubix (programmers) and Rawlinsons (quantity surveyors).
4. The scope of the Review was to provide assurance to Joint Ministers about:
    - the cost and feasibility of the NDH programme as currently presented by Health NZ
    - the preparedness of Health NZ to successfully move into the next phase of the NDH project, in particular the execution of the construction contract for the Inpatient building
    - any recommendations or actions that can be taken to improve preparedness and/or mitigate identified/potential risks and issues.
5. The key aspects that the team were to review included project governance, scope, programme and costs.
6. The ToR noted that the Review specifically would *not*:
    - review the need for a new hospital, its proposed design or its fitness for purpose
    - review the current delivery of the Outpatient building
    - assess the procurement process to date or the suitability of planned contractual arrangements
    - review the constructability of the NDH or the planned construction approach
    - be providing a 'go/no-go' decision regarding Health NZ entering a main contract for the Inpatient building.
7. The Review commenced in April 2024 and involved review of relevant documentation and interviews with key project staff and stakeholders.

8. The Review team were provided with over 330 document files and met with over 30 interviewees to complete their investigation. A site visit was also undertaken by the lead reviewer.

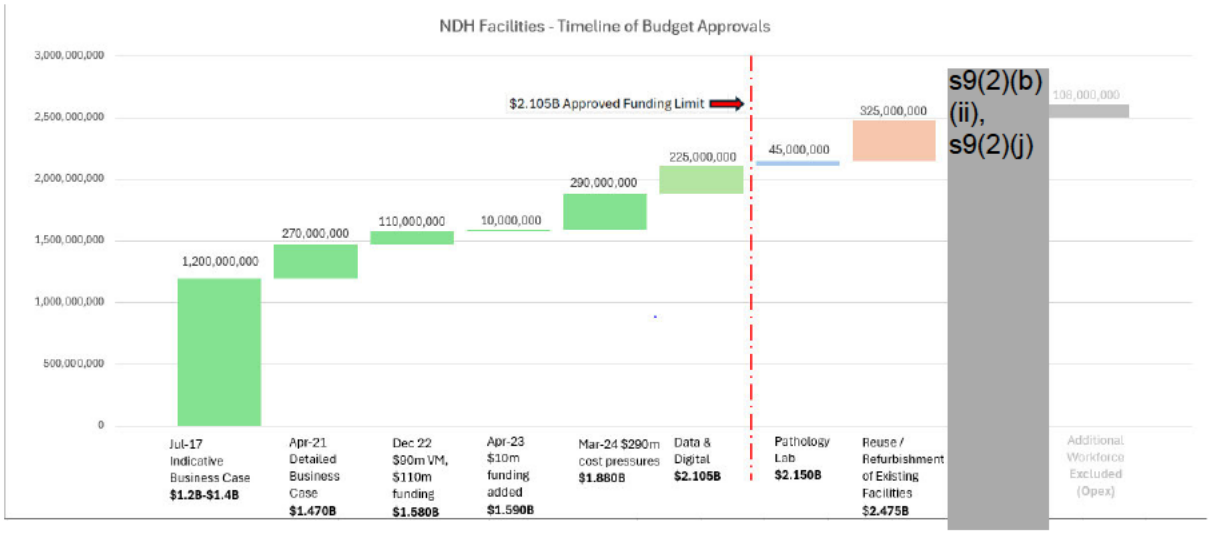
Key findings and recommendations

9. The Review notes key findings across the four areas of investigation and identifies 14 recommendations to better position the successful delivery of the NDH project.

10. Key findings from the Review include:

    a) **Cost uncertainty**: the delivery of the NDH project as currently scoped and planned is probably not achievable within the approved budget. There remains significant uncertainty as to the cost of the Inpatients building. There is also uncertainty of broader programme costs, which remain subject to separate and unprogressed business cases (and funding approvals - see paras 17 and 18). Graph one below illustrates the current estimated costs of the NDH programme.

    Graph one: *NDH programme cost components*



    b) **Delay contract signing**: careful consideration should be given to delaying the execution of the Inpatients construction contract to obtain stronger cost certainty at an appropriate level to execute a construction contract. The Review finds significant Inpatients build cost certainty is achievable within 3 months provided Health NZ action the following:

    - completion of a developed design estimate by Health's consultant RLB (June)
    - submission of the main contractors CPB's target total cost estimate (July)
    - completion of a robust Quantitative Risk Assessment by Health NZ's consultant RLB (August).

c) **Maintain momentum**: Health NZ should maintain programme momentum by considering available options to continue the current foundation enabling works pending main contractor contract execution.

d) **Fix project scope**: Cost certainty can quickly be undone by scope and design changes. The scope of the Inpatient building should be fixed with the Crown (acting through Health NZ) as client instructing no further changes unless they are matters that would render the facilities no longer fit for purpose.

e) **Broader programme**:

   i. The workforce/system transformation workstream should be urgently progressed. The reviewers found delay to funding of the transition programme is impacting development of service readiness. Without funding to progress this workstream there is significant risk that the facilities are not ready to 'go live' when the build is completed.

   ii. Business cases for the broader programme workstreams (being the pathology laboratory, carparking and demolition/refurbishment of existing facilities) should also be progressed to properly examine need, outsourcing options and the whole of life cost impacts of each of the options. A single party should be appointed to manage and report on the overall NDH development programme.

f) **Project governance**: The composition and scope of the Project Steering Group should be refreshed to ensure appropriate expertise in both construction and future operation of the hospital. Other basic structural improvements should be implemented immediately including ensuring the Chair is independent and the Senior Responsible Owner (SRO) role is internalised within Health NZ.

11. Preliminary findings were shared with Health NZ to inform the preparation of the Interim Implementation Business Case.

Te Waihanga advice

12. Te Waihanga supports the findings of the Review.

13. We recommend the Joint Ministers meet with the Commission and Robert Rust, as lead reviewer, to discuss the Review's recommendations and implications for NDH project delivery.

14. Recommendations relating to project governance, scope, programme and other improvements pertaining to the remainder of the planning and implementation phases of the project should serve to reduce future risks to delivery of NDH.

15. In the short term, the delay to contract signing, whilst maintaining project momentum through continuation of early works and procurement, will allow time for Health NZ and Ministers to obtain greater certainty around the costs (and risks via a robust quantitative risk assessment) of the Inpatient building (and therefore of the NDH project – subject to our comments in paragraph 17). The interim implementation business case will need to include a process should the cost certainty exercise result in insufficient funding

(including the tagged contingency), to allow Ministers to have the opportunity to consider additional funding for the project.

16. We also consider that allowing time to obtain increased cost certainty also maintains, relative to the alternative, competitive tensions in contract negotiations supporting best value for money. The main risk of this approach is further uncertainty which could impact the supplier market for NDH. Health NZ are best placed to assess these risks, although the Review does not consider this a high risk given current market conditions.

17. We also note that the Review has re-highlighted that certain items sit outside of the scope perimeter of the project as defined by Health NZ. These items are shown in Graph one to the right side of the vertical line (pathology, reuse and carparking), and have been preliminarily estimated to cost s9(2)(b)(ii), s9(2)(j). Cabinet has noted that these items may require additional Crown funding [CAB-24-MIN-0095 refers] once further work is completed to increase confidence around the scope, costs and funding options for these items (e.g., carparking could be provided privately, requiring less Crown funding). It is unclear when this work is likely to be completed.

18. In the context of the focus on project costs at the recent meeting of the Infrastructure and Investment Ministers Group (on 21 May), Ministers should reconfirm that this potential for additional Crown funding is understood and that there is comfort to progress with Inpatient building contract signing ahead of certainty in respect of these items. We note that the further the NDH Inpatients build progresses, the fewer options will be available to Ministers should additional Crown funding be required to complete the full scope of works necessary to complete NDH in its entirety.

19. Health NZ are responsible for responding to the review. They are currently preparing a response and this should inform your decision to approve the Implementation Business Case for the project.

Consultation

20. Health NZ, the Ministry of Health and the Treasury have been consulted in the finalisation of the Review, however it is important to note that the Review reflects the opinion of the independent expert reviewers.

21. The Commission has also consulted with Health NZ, the Ministry of Health and the Treasury in preparing this aide memoire.

Communications

22. The Commission intends to proactively release the Review and its ToR, with the timing yet to be determined. The timing of the release should consider any commercial implications of the content contained in the Review. Given ongoing commercial negotiations between Health NZ and the main contractor CPB, we believe the Review should be withheld under section 9(2)(j) of the Official Information Act. This does not, however, preclude the publication of the Terms of Reference.

23. We anticipate that there will be strong public and media interest in the Review and, once release timing is confirmed, the Commission will develop a communications strategy to support the release.

24. The communications strategy will be developed with Health NZ, the Ministry of Health and the Treasury.

Next steps

25. We recommend the Joint Ministers meet with the Commission and Robert Rust, as lead reviewer, to discuss the Report's recommendations and implications for NDH project delivery.
26. The Commission will liaise with the relevant teams within Health NZ, the Ministry of Health and the Treasury in advance of the release of the Review to develop the Communications Strategy to ensure a coordinated approach is taken.
27. A further briefing will be provided once the public release date has been confirmed.

Attachment 1 is already publicly available

New Dunedin Hospital Independent Expert Review

Date: 26 June 2024

Report No: TW-2024-435

To	Action sought	Deadline
Hon Nicola Willis, Minister of Finance Hon Chris Bishop, Minister for Infrastructure Hon Dr Shane Reti, Minister of Health Hon Shane Jones, Minister for Regional Development	**Agree to** the release of the NDH Review and Terms of Reference **Sign** and return this briefing.	12 July 2024

Attachments

None

Contact details

Name	Role	Phone
Hedy Manders	Principal Advisor, Infrastructure Delivery	s9(2)(a)
Rebecca Robertshawe	Director, Projects and Programmes, Infrastructure Delivery	s9(2)(a)
Andy Hagan	General Manager, Infrastructure Delivery	s9(2)(a)

Actions for the Minister's office staff

Refer this briefing to the Ministers of/for Finance, Health and Regional Development

Return the signed briefings to the NZ Infrastructure Commission | Te Waihanga

Ministers' comments

IN-CONFIDENCE

Recommendations

We recommend that Ministers:

1. **Agree to** release of the full report of the New Dunedin Hospital Independent Expert Review and its associated Terms of Reference (subject to redactions) (Infrastructure Commission's recommended option)

Agree / disagree

OR

2. **Agree to** release of the executive summary of the New Dunedin Hospital Independent Expert Review and its associated Terms of Reference (subject to redactions), with the rest of the Review to be released post close of commercial negotiations between Health NZ and its contractor.

Agree / disagree

3. **Note** a communications strategy will be agreed with Ministers, Health NZ, the Ministry of Health and Treasury prior to release.

s9(2)(a)

Andy Hagan

General Manager, Infrastructure Delivery

Hon Nicola Willis

Minister of Finance

Date: _____ / _____ / _____

Hon Dr Shane Reti

Minister of Health

Date: _____ / _____ / _____

Hon Chris Bishop

Minister for Infrastructure

Date: _____ / _____ / _____

Hon Shane Jones

Minister for Regional Development

Date: _____ / _____ / _____

New Dunedin Hospital Independent Expert Review

Purpose

1. The purpose of this briefing is to outline options for releasing the recently completed independent expert review on the New Dunedin Hospital project (NDH Review).

Background

1. As Joint Ministers, you have:
   a) received the NDH Review on 30 May 2024 [TW-2024-398 refers)]; and
   b) met with the Reviewers to discuss findings on 18 June 2024.
2. The NDH Review Terms of Reference (ToR) along with the NDH Review have, to date, not been released.
3. The Minister for Infrastructure has received an Official Information Act request for a copy of a briefing [TW-2024-385] from the Infrastructure Commission on the NDH Review (which attached the ToR). The Minister's response to this request is due on 12 July and needs to reflect Joint Ministers' decision about release of the NDH review and ToR.
4. The Minister for Infrastructure has asked the Commission to provide advice on the potential release of the NDH Review and the associated ToR.

Release Considerations

5. We consider that it is in the public interest that the ToR and the NDR Review be released subject to appropriate redactions, but there are considerations as to what is released and when.
6. **The ToR**:
   a) is ready for immediate release in full.
   b) Health NZ, the Ministry of Health and Treasury have been consulted on redactions. No redactions have been requested.
7. **The NDH Review**:
   a) is not currently ready for release due to the volume of potentially sensitive financial information it contains.
   b) The NDH project is subject to ongoing commercial negotiations between Health NZ and the main contractor for the inpatients building construction contract. The contents of the NDH Review will therefore require considered assessment to ensure commercially sensitive financial information is redacted prior to release.
   c) Once redacted, the NDH Review can be released.

Potential Release Approaches

8. We have identified two options for releasing the ToR and NDH Review:
   - Option 1 (Full): Release the ToR and NDH Review in full (subject to redactions);

- Option 2 (Exec Summary): Release the ToR and executive summary of the NDH Review (subject to redactions) – with the rest of the NDH Review to be withheld pending close of commercial negotiations.

9. Both options will require Health NZ, the Ministry of Health and Treasury to propose appropriate redactions.
10. Indicative publication timeframes are:
    - Option 1 (Full): circa three weeks from your agreement to release.
    - Option 2 (Exec Summary): circa two weeks from your agreement to release.
11. A key consideration is the time it will take to agree detailed redactions to the document. Releasing just the ToR and NDH Review executive summary could be done a week faster given the limited amount of financial information to be redacted. Releasing the full NDH Review will likely take a week longer given the greater volume of detailed financial information to redact.
12. These indicative timeframes assume that Health NZ, the Ministry of Health and Treasury advise their proposed redactions in a timely manner and do not identify any additional internal approval requirements.
13. We recommend that Ministers agree to Option 1 (Full). A full proactive release will reflect the importance of this project and the high-level of public interest. While this approach is likely to generate significant media exposure, we believe that a limited release (Option 2) may result in additional scrutiny about project transparency and the commitment of public funds.
14. The main risk of full release is ensuring Health NZ's commercial position is maintained as they progress the project. We consider this can be managed through appropriate redactions. Careful communication will be required to ensure that confidence in the project is maintained, and this will be addressed in the proposed communications strategy.

Communications Strategy

15. We anticipate that there will be strong public and media interest in the NDH Review.
16. The release of the review and ToR will involve, at minimum, publication on the Commission's website. Given the public interest we expect Ministers and/or Health NZ may wish to make statements about the review prior to its publication. The Commission can assist with this process.
17. The Commission will develop a communications strategy with Ministers' offices, Health NZ, the Ministry of Health and Treasury and we will confirm this with you.

Consultation

18. The Commission has sought feedback from Health NZ, the Ministry of Health and Treasury in developing the ToR and NDH Review release options, however we have not received a response in the time available.

Next steps

19. Once you, as Joint Ministers, have confirmed the preferred release approach for the ToR and NDH Review, the Commission will liaise with the relevant teams within Health NZ, the Ministry of Health and the Treasury to agree redactions and to develop the communications strategy.

Relevant excerpts: weekly updates to the Minister for Infrastructure from the New Zealand Infrastructure Commission

TW-2024-384 Infrastructure weekly update for the week starting 8 April 2024

Relevant excerpt:

2.3. New Dunedin Hospital – Independent Project Review

Following Cabinet consideration of the New Dunedin Hospital paper in March, Minister Bishop, the Minister of Finance, the Minister of Health and the Minister for Regional Development (Joint Ministers) directed the Infrastructure Commission to facilitate a one-off review of the New Dunedin Hospital project, to be led by an external independent advisor. The purpose of the review is to provide further assurance to the Joint Ministers before Cabinet's approval of the Implementation Business Case and further funding of $290M.

The Commission has developed a draft Terms of Reference (ToR) in consultation with Health NZ, the Ministry of Health and the Treasury. The Joint Ministers have been asked for feedback on the draft ToR by 5 April. The Review is also on the agenda for the first meeting of the Infrastructure and Investment Ministers Group on 9 April, and the Commission will provide an update to that forum. The Commission will incorporate feedback from Joint Ministers and return an iterated ToR to you to seek sign-off from Joint Ministers. The Commission is in preparatory discussions with a proposed independent reviewer.

TW-2024-386 Infrastructure weekly update for the week starting 15 April 2024

Relevant excerpt:

2.2. New Dunedin Hospital – Independent Project Review

Following Cabinet consideration of the New Dunedin Hospital paper in March, Minister Bishop, the Minister of Finance, the Minister of Health and the Minister for Regional Development (Joint Ministers) directed the Infrastructure Commission to facilitate a

one-off review of the New Dunedin Hospital project, to be led by an external independent advisor. The purpose of the review is to provide further assurance to the Joint Ministers before Cabinet's approval of the interim Implementation Business Case and further funding of $290M.

This review was discussed at the first meeting of the Infrastructure and Investment Ministers Group on 9 April. The Terms of Reference have been approved by the Minister for Infrastructure, the Minister of Health and the Minister for Regional Development. We await approval from the Minister of Finance. The Commission continues preparatory discussions with the proposed independent reviewer.

TW-2024-388 Infrastructure weekly update for the week starting 22 April 2024

Relevant excerpt:

2.1. New Dunedin Hospital – Independent Project Review

The Commission has appointed Robert Rust to lead the one-off review of the New Dunedin Hospital project, with specialist support from firms Rawlinsons (QS) and Rubix (programming). The review is underway with the Commission facilitating weekly update meetings with Treasury and the Ministry of Health. The review report is due to Joint Ministers by 31 May 2024.

TW-2024-397 Infrastructure weekly update for the week starting 6 May 2024

Relevant excerpt:

2.1. New Dunedin Hospital – Independent Project Review

The Review is well underway with Health NZ having provided the Reviewers access to 318 document files and 27 interviews scheduled with key people. The lead reviewer Robert Rust completed a site visit on 1 May. We update Treasury, Health NZ and Ministry of Health officials on progress weekly. The Terms of Reference will be published on our website after the release of the Minister's press release. The Review report is due to Joint Ministers by 31 May 2024.

NEW ZEALAND INFRASTRUCTURE COMMISSION
Te Waihanga

TW-2024-404 Infrastructure weekly update for the week starting 20 May 2024

Relevant excerpt:

2.4. Dunedin Hospital review

The Commission was asked by Joint Ministers (the Minister of Finance, yourself, the Minister of Health and Minister for Regional Development) to facilitate an independent expert review of the New Dunedin Hospital project ahead of their upcoming contract signing. This review is required to present a final report by 31 May 2024. Health NZ have also been preparing an Interim Implementation Business Case to support the decision. The review is being led by Robert Rust, supported by Rubix (programming expertise) and Rawlinsons (costing expertise). To date over 330 files have been shared with reviewers and discussions have been held with over 30 interviewees. A preliminary draft report is planned to be shared with Health NZ, the Ministry of Health and the Treasury on Friday 17 May.

Health NZ are also leading a discussion with yourself, the Minister of Health and the Minister for Regional Development on Tuesday 21 May. This discussion will provide an update on the Interim Implementation Business Case, contract negotiations and the preliminary findings of the Commission-facilitated independent expert review. We will be attending this meeting to support the discussion.

TW-2024-410 Infrastructure weekly update for the week starting 27 May 2024

Relevant excerpt:

2.5. New Dunedin Hospital

You discussed the New Dunedin Hospital project and review on 21 May with your Ministerial colleagues. The review team remains on schedule to provide the final review on Friday 31 May, which we will provide to you alongside a briefing on its findings. We recommend scheduling some time to discuss the review in the following week.

NEW ZEALAND INFRASTRUCTURE COMMISSION
Te Waihanga

TW-2024-414 Infrastructure weekly update for the week starting 3 June 2024

Relevant excerpt:

2.2. New Dunedin Hospital (NDH) Review

The independent expert review of NDH is now complete. A copy of the review report and a cover briefing has been provided in this week's bag.

TW-2024-428 Infrastructure weekly update for the week starting 17 June 2024

Relevant excerpt:

2.2. New Dunedin Hospital independent review: publication of the terms of reference

The New Dunedin Hospital independent review was provided to Joint Ministers on 30 May 2024. Joint Ministers are scheduled to meet with Infracom, the Reviewers and Health NZ on 18 June to discuss the Review. We will now proceed to publish the Terms of Reference for the Review on our website. Redactions for the Terms of Reference will be agreed with Health NZ, the Ministry of Health and Treasury. The Review report will not be published on our website in accordance with our recommendation that it be withheld pending completion of commercial negotiations between Health NZ and the main contractor. The Minister may wish to proceed to issue his press release formally announcing the Review.

TW-2024-460 Infrastructure weekly update for the week starting 19 August 2024

Relevant excerpt:

2.1. New Dunedin Hospital (NDH) project

On 31 July, Health NZ officials met with you and Minister Reti to provide an update on the NDH project, particularly on progress with the cost assurance measures recommended by the independent NDH Review. Two of three cost assurance measures have been completed, being Health NZ's costing of the Inpatients building developed design and the submission by contractor CPB of Target Outturn Cost 2. Health NZ is

awaiting the third measure which is the independent quantitative risk assessment being conducted by Sapere. Regardless, at that meeting Health NZ confirmed the cost estimates received from its Quantity Surveyor and the Target Outturn Cost 2 are both above budget by s9(2)(b)(ii), s9(2)(j) respectively.

On 8 August, Health NZ provided a briefing [HNZ00058951 refers] seeking direction on next steps including recommendations s9(2)(b)(ii), s9(2)(j)

Treasury, with input from Infracom, has provided the Minister of Finance's office and your office with additional advice recommending Ministers provide an alternate direction requiring Health NZ to report back to Ministers in two months on the results of cost reduction measures s9(2)(b)(ii), s9(2)(j) and the potential cost reduction impact of the clinical services review. We believe this further advice is needed before substantive analysis and costing of the alternate four options is commenced. There may be a need to meet again with Health NZ officials to confirm these next steps and the publication strategy for the NDH Review and associated cost pressure briefings.

This is on the agenda for further discussion at our standing officials meeting on Monday 19 August.