Infrastructure - Funding context

Clear prioritisation and trade-offs will be required to manage capital investment through Budget 2024

The Health Capital Envelope is sizeable but over-committed

- There is approximately $5.4 billion for Te Whatu Ora within the Health Capital Envelope appropriation. However, due to cost escalations, it is now no longer possible to fund all prioritised projects and cost pressures from the remaining funding. The current estimated shortfall is s9(2)(b)(ii) and s9(2)(j).
- While the fund is over-committed, we are not yet at the stage where contracts have been signed for all projects or we are risking expenditure being unappropriated.
- New Dunedin Hospital (funded via a separate appropriation) is the largest capital investment underway within the health system at $1.6 billion total capital. The project has been in train for over a decade, and has been challenging due to its size, and the role of the hospital as a teaching hospital for the University of Otago. s9(2)(b)(ii) and s9(2)(j) s9(2)(b)(ii) and s9(2)(j), with Treasury and Te Waihanga supporting this work. In terms of cost, s9(2)(b)(ii) and s9(2)(j) will constrain decision in Budget 24. Treasury consider further cost escalations likely. We are meeting with you in the next few weeks to further discuss New Dunedin Hospital.

Budget 2024 will be challenging

- Given the health infrastructure deficit, you will need to carefully phase investment across this and subsequent budgets. With hospitals in particular you will also need to consider the market capacity to deliver on investments.
- These pressures will force trade-offs, sequencing decisions and limit investment choices across portfolios. Several priority health capital projects have already been signalled for the next few years (see right), although the costs for these projects are indicative and there is no funding for these currently in the Health Capital Envelope appropriation.
- In the recent past Te Whatu Ora has been directed to fund projects before business cases or detailed costings have been completed, which has partly contributed to the cost escalations and pressures outlined above. Funding has also often been provided in small chunks, which obscured the known future cost of projects while effectively binding Government to fully fund them. We recommend that you fund scoping and design work to enable accurate whole-of-life costing before committing to any new projects.

From: Kate McDonald [TSY]
Sent: Friday, January 26, 2024 12:40 PM
To: ^Parliament Marnya Jain <Marnya.Jain@parliament.govt.nz>
Cc: Jess Hewat [TSY] <Jess.Hewat@treasury.govt.nz>; Caitlin Andrews [TSY] <Caitlin.Andrews@treasury.govt.nz>
Subject: Cover notes for NDH

[IN-CONFIDENCE]

Kia ora Marnya,

Here's some covering notes for the NDH paper from Te Whatu Ora. Let me know if you have any questions this afternoon 😊

Ngā mihi nui,
Kate

Preferred scope option

- Te Whatu Ora have indicated that their recommended option is to continue on with the build, retaining the existing scope agreed in the business case.
- The Vote team is supportive of the option, and would not recommend rescoping the project for the following reasons:
    - Rescoping the project would lead to significant further delay (6-12 months at minimum) on this project, which has been in planning since 2013. Any delay has negative impacts on clinical service delivery, and impacts on health outcomes. Any delay will also have a (as yet unquantified) fiscal impact.
    - Previous attempts to rescope the project have not resulted in meaningful savings, and have caused cost increases through delays associated with rescoping.
    - Given the significant stakeholder engagement undertaken to get to the current scope, it is also likely that there will be significant community dissatisfaction with any further delay or scope change.
    - While the paper outlines a rescoped option that Te Whatu Ora say would remain within the current appropriation, we are sceptical that this would be achievable given the associated delays and experience with previous attempts to rescope.
    - We do not consider that there has been sufficient work done considering the clinical impacts and fiscal impacts to reconsider the scope, and do not believe that rescoping the project would result in better service delivery or value for money outcomes.
- s9(2)(b)(ii) and s9(2)(j)
-
-
-

- We are aware that Te Waihanga are recommending an urgent review of the New Dunedin Hospital project. The Vote team do not support this recommendation. Te Whatu Ora is unlikely to be able to produce the level of detail requested in the timeframe outlined, and it is unlikely a substantially better option will be identified through this process. Several reviews have already been undertaken over the past three years, and we consider that there are better levers available (such as heightened monitoring) to manage performance.
- We recommend that as part of progressing with the project, additional monitoring requirements are considered (subject to further discussion between the Ministry of Health, Te Whatu Ora, and the Treasury).

Funding

- The paper outlines that Te Whatu Ora are forecasting a * capex increase for this project. * s9(2)(b)(ii) and s9(2)(j) . This also includes a s9(2)(b)(ii) and s9(2)(j) , and additional funding for items including carparking, and decommissioning of the existing hospital (needed between 2025 and 2027). The paper notes that alternative funding arrangements will be investigated for the carparking component.
- We have advised that any request for funding needs to go through the Budget 24 process. Te Whatu Ora are concerned that this would result in delays, which we have asked them to clearly outline in the paper.
- While Te Whatu Ora's recommended option is that new Crown funding be sought to cover cost escalations, we also expect that as part of the Budget 24 process, Te Whatu Ora consider how reprioritisation can be used to fund immediate cost pressures (*) in line with the Capital Pipeline Review process.

*s9(2)(b)(ii) and s9(2)(j)

Kate McDonald (she/her)**| Analyst | Health | Te Tai Ōhanga – The Treasury**
Email: kate.mcdonald@treasury.govt.nz
Visit us online at https://treasury.govt.nz/ and follow us on Twitter, LinkedIn and Instagram

Treasury comment:

Capital context

- Te Whatu Ora will be involved in all aspects of the Budget 2024 capital process, including the Capital Pipeline Review, Cost Pressure, and New Capital investment tracks.
- If all currently prioritised capital projects were to be delivered, Te Whatu Ora would face a shortfall of* capex s9(2)(b)(ii) and s9(2)(j) *. Prioritised projects are in various stages of delivery, ranging from early planning through to nearly completed. As such, there is room to manage this pressure through reprioritisation through Budget 2024 and in future. s9(2)(g)(i) .

*s9(2)(b)(ii) and s9(2)(j)

New Dunedin Hospital

- We are meeting with you on Monday 29 January on some of the issues facing New Dunedin Hospital.
- Our view is that the best option is to continue with the planned build, retaining the existing scope agreed by Cabinet in 2021. This is the best option to avoid additional delay, cost escalation, and negative impacts on service delivery.
- While previous decisions on New Dunedin Hospital (including site selection and building footprint) have led to challenges with the build, we do not consider that these will be meaningfully addressed through rescoping without significant delay, cost escalation, and impact on service delivery outweighing potential benefits.
- s9(2)(b)(ii) and s9(2)(j)
- We are aware that Te Waihanga are recommending an urgent review of the New Dunedin Hospital project. We do not think this will be helpful at this point. s9(2)(g)(i)

  Several reviews have already been undertaken over the past three years, and we consider that there are better levers available (such as heightened monitoring) to manage performance.
- s9(2)(b)(ii) and s9(2)(j)
- It is likely that Te Whatu Ora will request additional funding for New Dunedin Hospital cost pressures as part of Budget 2024. We recommend that alternative funding options are explored before new funding is considered, including reprioritisation.

Possible talking points:

- You may wish to ask about what is being done to reduce the likelihood of further cost escalation for New Dunedin Hospital, along with other projects currently in planning and delivery.
- You could ask what processes officials have undertaken to identify capital reprioritisation options.
- You might want to ask about the details of the due diligence undertaken and steps proposed by Te Whatu Ora to mitigate delivery risk.

New Dunedin Hospital – Cost pressure funding

Hon Dr Shane Reti, Minister of Health

Treasury contact: Caitlin Andrews

Sign out contact: Jess Hewat s9(2)(g)(ii)

Description:

This paper seeks approval to a reprioritisation option for $290 million total capex of cost escalation for the New Dunedin Hospital project (NDH). s9(2)(b)(ii) and s9(2)(j) . The paper recommends transferring funding from the DHB Equity Support Capital Contingency to the New Dunedin Hospital contingency. s9(2)(b)(ii) and s9(2)(j)

Comments:

Treasury remain supportive of the continuation of the project to current scope. However, there remains significant risk with NDH, specifically around the level of management required under this contractual model, continuing cost escalations, and the level of information being provided to Ministers. We do not think these risks are set out clearly enough in the Cabinet paper, and our proposed recommendations below aim to give Ministers further visibility of the project risks on an ongoing basis.

Given Ministers have signalled their preference to continue the project and minimise delays, s9(2)(b)(ii) and s9(2)(j) . Additionally, the strategic and clinical case for the hospital remain as a high priority.

While we still have concerns about the project, we don't think delaying the build further is the answer (and we understand there are costs associated with delays). We have recommended actions to health officials to get better information and mitigate risks with the project concurrent with this decision, which have largely been actioned in this paper.

Treasury Recommendation:

Treasury supports this paper. However, we recommend you table the following recommendations, to provide further clarity around your expectations moving forward with the project.

We recommend you:

1. **direct** Te Whatu Ora to work with the Treasury to commission independent monthly reporting by a quantity surveyor. The reporting is to be paid for by Te Whatu Ora and provided to Ministers by the Treasury's Investment Management System team. The initial report should set a baseline for, time, cost, scope and benefits. Subsequent monthly reporting should be measured against that baseline;
2. **direct** officials to undertake a targeted investment review (Gateway review) to be undertaken as soon as possible to identify options to improve deliverability of the project, including providing terms of reference to Joint Ministers in the next six weeks;

3. **note** entering into contract without an Implementation Business Case does not follow Cabinet's expectations as set out in CO(23)9. An Implementation Business Case should be completed, a Gateway assurance review completed, and Cabinet approval sought by December 2024 at the latest.

Fiscal Implications:

We have now seen the Quantity Surveyor report and preliminary Quantitative Risk Assessment and note that these costs appear legitimate and largely outside of Te Whatu Ora's control.

This paper recommends reprioritising $290 million from the DHB Equity Support Capital contingency, which has a balance of s9(2)(b)(ii), and s9(2)(j) million total. Based on information provided by Health New Zealand, we agree that this funding is no longer needed for its intended purpose (Holidays Act remediation) after the bulk of the funding was drawn down last year. Because of this, the contingency was not reflected in the Treasury's 2023 Half Year Economic and Fiscal Update given the likelihood of it being required was assessed as being remote at the time. This means utilising the contingency for another purpose will have a corresponding impact on net debt. We ultimately consider this would be a marginal change to the net debt track (around 0.06% of GDP). We will be recommending the close of the DHB Equity Support contingency through the March Baseline update.

Should you wish to identify an option that does not impact net debt, our view is from the options identified by Health officials, s9(2)(g)(i) . However, you should note that a funding decision would need be taken again later in the project's lifecycle.

The paper also notes future possible costs that will materialise in the project. A number of these have some optionality in how they are managed (e.g regarding decommissioning), but we think it is appropriate for these to be signalled to Cabinet early. We would expect any future costs to be met through reprioritisation before returning to Cabinet. Ultimately this is the riskiest project in the health portfolio and future costs of a high magnitude are almost certain.

Table Five: proposed interventions for high-risk initiatives

Initiative	Proposed intervention
New Dunedin Hospital	Cabinet is considering a paper on this initiative on Tuesday 5 March that seeks agreement to cover $290 million cost escalation from re-allocated funding. We recommend: • Minister of Finance, Minister of Transport and Minister for Infrastructure to receive monthly reporting from an independent quantity surveyor outlining cost, time, scope and whether the contingency is sufficient to complete the programme • Health NZ undertake a targeted investment review (Gateway review) as soon as possible to ensure the delivery phase of the programme is set up successfully.

We expect the health capital portfolio will continue to experience cost escalations, which reinforces the need for transparent reporting. We have recommended additional reporting for New Dunedin Hospital given the scale and level of risk associated with this initiative.

37. For all new investments in capital projects, reprioritisation options should be considered first. For Dunedin Hospital cost pressures, this is going through a separate Cabinet process on which we have provided you with advice.

	15817	New Dunedin Hospital	This initiative provides funding for cost pressures being felt on the New Dunedin Hospital project. It enables the construction contract for the new outpatient building to be signed.	-	-	290.000	-	-	-	Do not support consideration of this initiative through Budget 2024. Funding for New Dunedin Hospital is being considered through a separate Cabinet paper, due at CAB on Monday 18 March, and should remain separate from the Budget 2024 process due to ongoing considerations about the overall cost, funding source, and timing concerns. As part of the development of this Cabinet paper, Health New Zealand identified multiple options for funding, including reprioritisation from other capital projects.

New Dunedin Hospital – Cost Pressure Funding

Hon Dr Shane Reti, Minister of Health

Treasury contact: Kate McDonald s9(2)(g)(ii)

Sign out contact: Jess Hewat s9(2)(g)(ii)

Description:

This paper seeks approval to approve a reprioritisation option for $290 million total capex of cost escalation for the New Dunedin Hospital project (NDH). This paper has been updated since consideration at the 100 Day Committee, namely to reflects the options for increased assurance agreed by yourself and Ministers Reti, Bishop, and Jones. The paper recommends transferring funding from the DHB Equity Support Capital Contingency to the New Dunedin Hospital contingency.

Comments:

Treasury remain supportive of the continuation of the project to current scope. However, there remains significant risk with NDH, s9(2)(g)(i) , continuing cost escalations, and the level of information being provided to Ministers. To this end, the Ministry of Health have provided a number of additional measures to support the successful delivery of this project, namely a project readiness review by Te Waihanga, enhanced reporting on the project, and moving forward the timing of the Implementation Business Case (ImBC).

Treasury are broadly supportive of all options indicated by Ministers, and consider that they address many of the concerns raised previously around the management of this project, reporting and information flow, and Ministerial oversight of the project. Notably, the recommendation to move the ImBC to before contract signing reflects best practice, and will provide a level of assurance to all Ministers that key commercial terms are in place. Treasury will support the development of an ImBC through a Gateway review as part of this process, which will also highlight any further improvements that can be made to support the project.

Treasury Recommendation

We recommend you support this paper and reaffirm your support for the agreed assurance measures.

Fiscal Implications:

You have indicated that you want to reprioritise $290 million from the DHB Equity Support Capital contingency, which has a balance of s9(2)(b)(ii) and s9(2)(j) million total. Based on information provided by Health New Zealand, we agree that this funding is no longer needed for its intended purpose (Holidays Act remediation) after the bulk of the funding was drawn down last year. Utilising this contingency will have a corresponding impact on net debt. This would be a marginal change to the net debt track (around 0.06% of GDP).

The paper also notes future possible costs that will materialise in the project. We would expect any future costs to be met through reprioritisation before returning to Cabinet. Ultimately this is the riskiest project in the health portfolio and future costs of a high magnitude are almost certain.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: New Dunedin Hospital: Update after review

Date:	13 June 2024	**Report No:**	T2024/1567
		File Number:	SH-17-6-4

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance** Hon Chris Bishop **Minister for Infrastructure**	**Agree** the recommendations in this report	18 June 2024

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Caitlin Andrews	Senior Analyst, Health	s9(2)(k)	n/a (mob)	
Erana Sitterlé	Head of Investment Policy, Investment Management System		s9(2)(g)(ii)	✓
Jess Hewat	Manager, Health and ACC, Health			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: New Dunedin Hospital: Update after review

Purpose of Report

1. In March 2024, Cabinet agreed to hold funding in a new tagged contingency, from the DHB Equity Support Capital Contingency, to meet the estimated $290 million cost pressures funding requirement faced by the New Dunedin Hospital project (NDH). Drawdown of this funding is subject to Cabinet approval of the Implementation Business Case for NDH. At this time, Cabinet also agreed to additional assurance activities for the New Dunedin Hospital project (NDH), including a one-off review (the review) facilitated by the Infrastructure Commission (InfraCom) (CAB-24-MIN-0095 refers).

2. The review has now been completed and was provided to Ministers on 31 May 2024. We have also seen a draft of the interim Implementation Business Case that was supposed to be approved alongside the review. Given the review outlines a number of actions that will need to be incorporated into the final Implementation Business Case, we recommend the interim Implementation Business case is not approved. Health New Zealand will be anticipating this and are already incorporating changes.

3. The purpose of this report is provide you with:

    a the Treasury view of the independent review;

    b recommended next steps and directions you may wish to provide to Health New Zealand (Health NZ); and

    c prepare you for your meeting on Tuesday 18 June 2024 with the Minister of Health and Minister for Regional Development.

Background

4. s9(2)(b)(ii) and s9(2)(j)

5. The purpose of the review was to support this approval process by providing assurance to Ministers on:

    a the cost and feasibility of the NDH programme, as currently presented by Health NZ;

    b the preparedness of Health NZ to successfully move into the next phase of the NDH project, in particular reviewing the interim Implementation Business Case prior to the execution of the construction contract for the Inpatient building; and

c any recommendations or actions that can be taken to improve preparedness and/or mitigate identified/potential risks and issues.

6. In addition to the review, Joint Ministers (Minister of Health and Minister of Finance) also agreed to the following assurance requirements based on key points in the project, to add capability and/or improve communication between Ministers and the Board:

a appointment of a Specialist Ministerial Advisor to the NDH project;

b enhanced monthly reporting to Ministers on NDH performance; and

c requiring the NDH project to report back to the Infrastructure and Investment Ministers group (IIMG).

Summary of review and Treasury view

The review provided recommendations about improving cost certainty, scope, the broader programme and governance

7. The review was carried out by Robert Rust, who has familiarity with the project given his previous role on the Executive Steering Group. The review was undertaken over a period of six weeks, and appears to be done to a high standard given the time constraints.

8. The Treasury supports the findings and recommendations of the review. The findings are as expected and in line with concerns we have raised previously. We have had positive engagement with Health New Zealand officials throughout the review, who have advised they are implementing all the recommendations.

9. The review sets out the following summarised findings and recommendations:

Table One: summary of review findings and recommendations

Area of concern	Findings	Recommendations
Cost uncertainty	There is a high level of cost uncertainty for the project as currently scoped and planned, and is unlikely to be achievable within the currently approved budget. A greater degree of cost certainty is achievable within the next three months (by approximately end of August 2024), pending completion of developed design, the main contractor's target total cost estimate and the completion of the Quantitative Risk Assessment	Consider delaying execution of the Inpatient construction contract until there is more detailed cost estimates available. In the meantime, Health NZ should maintain programme momentum through continuation of the current foundation enabling works.
Project scope	The project scope does not appear to be fixed and continues to be litigated by the Project Steering Group. Cost certainty can quickly be undone by scope and design changes. This has been an ongoing issue over the duration of the project to date.	The scope of the Inpatient building should be fixed with the Crown (acting through Health NZ) as client instructing no further changes unless there are matters that would render the facilities no longer fit for purpose.
Transition programme and broader programme	The transformation of Health NZ Southern's health system needs to be successfully executed to meet the design assumptions underpinning NDH, which are a substantial reduction in medical admissions, reduced	A single party should be appointed to manage and report on the overall NDH development programme.

Area of concern	Findings	Recommendations
	lengths of stay and increased theatre productivity. Delay in funding of the transition programme (including workforce planning and system transformation) is creating significant risk that the facilities are not ready to 'go live' when the build is completed. The scope of the unfunded aspects of the broader programme (including the pathology laboratory, carparking and demolition/refurbishment of the existing facilities) is not yet well defined.	The transition programme (workforce/system transformation workstreams) should be urgently progressed, including funding agreed and secured. Business cases for the broader programme workstreams (including the pathology laboratory, carparking and demolition/refurbishment of the existing facilities) should also be progressed to properly examine need, outsourcing options and the whole of life cost impacts of each of the options.
Governance	Having an independent member of the Project Steering Group as both the interim Chair and Senior Responsible Owner (SRO) for the NDH project has the potential to cause confusion should they ever choose to exercise the SRO delegations.	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.

We support a delay until there are more reliable and detailed cost estimates

10. s9(2)(b)(ii) and s9(2)(j)

11.

12. We recommend you confirm with Health New Zealand that, in accordance with CAB-24-MIN-0095, you do not approve the interim Implementation Business Case, on the basis that the review does not provide you with sufficient assurance that Health New Zealand is s9(2)(b)(ii) and s9(2)(j) . Health NZ will use the additional time to finalise the Implementation Business Case, which we expect to be of a higher quality by the time they report back, including more robust cost estimates.

13. We agree with the need to maintain momentum with foundation enabling works, which we recommend Ministers direct the Board to provide assurance will continue.

We recommend you direct Health New Zealand to report back to Ministers by September 2024 with a completed Implementation Business Case

14. If you agree with the recommendation to delay until better cost estimates are available, the next steps for Health New Zealand are:

    a in line with requirements set out in CO(23)9[1], undertake a Gateway Review once updated costs are available, to provide assurance that the project is ready to move to contract execution; and

    b report back to Ministers with a finalised Implementation Business Case, to enable the Minister of Health to report back to Cabinet.

15. In the investment planning process, the Implementation Business Case is the standard point at which you will have more detailed costings, s9(2)(b)(ii) and s9(2)(j) . This will enable you to make decisions on next steps to progress the project, including decisions on draw down of the tagged contingency of $290 million. The Treasury, Ministry of Health and Infracom will review the business case and provide you with advice before Cabinet decisions are needed.

16. Cost remains a concern for the project, but the finalised Implementation Business Case business case will include more reliable cost estimates than we have had previously. This will be the point where officials (including Treasury) will provide options on how to manage cost if necessary, including a "go/no go" recommendation on the viability of the project.

17. We understand that Health New Zealand are well underway on implementing the recommendations in the review and will be in a position to report back to Ministers with the business case by September 2024. Our expectation is that final decisions regarding entering in to contract will get Cabinet visibility.

Health New Zealand is developing an implementation plan

18. To provide Ministers with ongoing visibility and assurance of progress, we understand that Health New Zealand has commenced development of an implementation plan to address the review's recommendations. We understand that Health New Zealand may provide this to Ministers ahead of your meeting to discuss the project on 18 June 2024. Once we have seen this plan, we are able to provide advice on whether it adequately addresses the risks and issues identified from the review.

Monthly reporting must be independent and transparent

19. One of the recommendations from the review (recommendation 8) is to improve the quality of reporting to an appropriate standard sufficient to reassure the Government as to the true status of the project. The Minister of Health has also directed Health New Zealand to provide Joint Ministers with enhanced monthly reporting on NDH performance (CAB-24-MIN-0095 refers).

20. We agree this is a high priority area to remedy, as the Treasury has received inconsistent reporting on the project to date. It is important that Ministers and officials receive accurate, objective and timely updates on the project to enable issues to be addressed quickly. To achieve this, we recommend that Health New Zealand provides monthly reporting from its Quantity Surveyor direct to the Treasury, Ministry of Health,

[1] Cabinet Office circular (23) 9: Investment Management and Asset Performance in Departments and Other Entities.

Infracom and Ministers. The initial report should set a baseline for time, cost, scope and benefits, with subsequent monthly reporting measured against this baseline. We will work with Health New Zealand, Ministry of Health and Infracom through the next three months to implement this process and ensure the reporting meets your expectations.

Recommended actions

We recommend that you:

a **agree** to recommend that authorised Ministers (Minister of Health, Minister of Finance, Minister for Infrastructure and Minister for Regional Development) at their meeting on 18 June 2024:

i. **agree** that the interim Implementation Business Case for New Dunedin Hospital (NDH) is not approved at this stage, s9(2)(b)(ii) and s9(2)(j) ;

ii. **direct** Health New Zealand to undertake a Gateway review and complete the Implementation Business Case for NDH by September 2024 to enable the Minister of Health to report back to Cabinet;

Agree / Disagree	*Agree / Disagree*
Hon Nicola Willis	Hon Chris Bishop
Minister of Finance	**Minister for Infrastructure**

b **note** that Health New Zealand will provide authorised Ministers with an implementation plan outlining how it will address the recommendations from the review facilitated by the Infrastructure Commission, and

c **refer** this report to the Minister of Health and Minister for Regional Development.

Refer/not refer
Hon Nicola Willis
Minister of Finance

Refer/not refer
Hon Chris Bishop
Minister for Infrastructure

Jess Hewat
Manager, Health and ACC

Hon Nicola Willis
Minister of Finance
_____/_____/_____

Hon Chris Bishop
Minister for Infrastructure
____/_____/_____

From: Erana Sitterle [TSY] <Erana.Sitterle@treasury.govt.nz>
Sent: Friday, August 9, 2024 2:43 PM
To: hugo.thompson@parliament.govt.nz; ^Parliament: Emily Pearse <emily.pearse@parliament.govt.nz>
Cc: Caitlin Andrews [TSY] <Caitlin.Andrews@treasury.govt.nz>; Rebecca Robertshawe <Rebecca.Robertshawe@tewaihanga.govt.nz>; Andy Hagan <andy.hagan@tewaihanga.govt.nz>
Subject: Notes and alternate recs on Health NZ briefing on New Dunedin Hospital

[IN-CONFIDENCE]

Kia ora Hugo and Emily

As you're aware, Health NZ has provided the Minister of Health's office a briefing on New Dunedin Hospital, as requested at the meeting with Ministers Reti and Bishop on 31 July 2024.

We've provided a brief summary of this, as well as joint feedback and recs from Treasury (IMS and Health teams) and Infrastructure Commission.

Summary of Health NZ briefing:

1. Health NZ has indicated the cost estimates received from the projects Quantity Surveyor and the Target Outturn Cost 2 tender submission from the contract are both above budget 9(2)(b)(ii), 9(2)(j) The paper seeks the following decisions:

Direct: Health New Zealand to develop options to meet the existing appropriation of $1.880 billion for the design, construction and commissioning of the inpatients and outpatients building.
Agree the following options can be considered by Health New Zealand, if considered necessary:

- Option 1: Revision of specification and scope within the existing structural envelope
- Option 2: Full redesign of a smaller facility on current new inpatient site
- Option 3: Staged development on the old hospital site
- Option 4: Staged development on Wakari site

General comments on the briefing and recent discussions with Health NZ:

1. While we understand the pressure that Health NZ is under, it is has been difficult to get written and detailed updates on NDH – e.g. the enhanced monthly reporting, as directed by Cabinet in March, is yet to be established. Without this information, it's difficult to have confidence in next steps and timeframes for delivering these.
2. We provided feedback a draft of this paper, which focused on ensuring the paper has clear next steps, including the phasing of work that will now take place 9(2)(b)(ii), 9(2)(j) consideration of other options, work on Clinical Services Network Plan for wider region), and when they will report back on this to Ministers – these points haven't been addressed in the paper, which makes it very difficult for Ministers to be clear on what they are being asked to agree to
3. We've sought to clarify timeframes for reporting back to Ministers, but Health NZ are not able to commit to any timeframe at this stage.
4. There appear to be two drivers for looking at different options for NDH:
    a. The costs for the current design are above the agreed funding envelope, and there are limited options to reduce cost (e.g. paras 23-28 of the briefing)
    b. The outcomes of the Clinical Services Network Plan work (currently being developed) might call for a different design response than the current design (paras 31-34 of the briefing)
5. The paper doesn't make it clear how these two drivers can be/will be reconciled and brought back to Ministers for decisions
6. On a procedural point, the briefing isn't addressed to all delegated Ministers (being Ministers of/for Health, Finance, Infrastructure and Regional Development), so it's not clear how (and when) Health NZ expected to get the decisions they need

7. We note that Ministers/Cabinet have a decision-making role not only in relation to costs (e.g. if the project budget increases), but also in relation to significant scope change – e.g. if there needs to be a design reset. This is in line with Cabinet Office Circular (23) 9: Investment Management and Asset Performance in Departments and Other Entities.
8. We agree with the need to communicate decisions taken this year on NDH, and what HNZ is currently doing

Recommended next steps:

1. Assuming this briefing gets to all delegated Ministers (as above), we recommend that Ministers do not agree to the actions sought
2. Instead, we recommend Ministers direct Health NZ to:
    a. 9(2)(b)(ii), 9(2)(j) and maximise cost reduction strategies (paragraph 26 of the briefing), with the aim of bringing the costs of the TOC2 down within the current budget
    b. Complete the Clinical Services Network Plan for the wider region, including providing clarity on what impact this will have on the design needed for NDH
    c. Report back to delegated Ministers on these two actions in two months
    d. Agree the parameters of the enhanced monitoring (as per Cabinet agreement in March 2024) with Ministry of Health, Treasury and Infracom and provide this scope to Ministers within two weeks

Nga mihi

Erana

TE TAI ŌHANGA
THE TREASURY

Erana Sitterlé (she/her) **| Investment Management System | Te Tai Ōhanga – The Treasury**
Mob: 9(2)(k) |Email/IM: Erana.Sitterle@treasury.govt.nz
Visit us online at https://treasury.govt.nz/ and follow us on Twitter, LinkedIn and Instagram

From: Caitlin Andrews [TSY]
Sent: Friday, September 13, 2024 2:20 PM
To: Marnya Jain <Marnya.Jain@parliament.govt.nz>; Emily Pearse <Emily.Pearse@parliament.govt.nz>
Cc: Jess Hewat [TSY] <Jess.Hewat@treasury.govt.nz>; Rebecca Robertshawe <Rebecca.Robertshawe@tewaihanga.govt.nz>
Subject: RE: NDH Paper

[IN-CONFIDENCE]

Kia ora kōrua, please see our advice on the latest NDH paper. Emily – happy for you to pass this on to Minister Bishop as well.

Thanks
Caitlin

Health officials met with Minister Bishop on Tuesday 10th September and provided an update on the options analysis for the New Dunedin Hospital Project (NDH). This advice was requested to formalise that discussion.

The paper refines the viable options for the Inpatients build to two:

1) Value manage the existing Inpatients build;
2) Refresh the old site and add an acute services building on a new land package.

The paper seeks your agreement to a) consult with stakeholders in Dunedin and b) provide you with an Implementation Business Case in December

Key points

- Ultimately, Health NZ appears to be doing all you could reasonably expect to manage the project within budget, and are up against some challenging circumstances with the build. We don't see any harm in spending more time to understand the options available, but we urge you to be realistic about the level of information Health NZ will be able to collect by December. There remains significant risk that detailed costings of these options will not be developed by December and decision making will need to be delayed as a result – we will keep you apprised of progress as work unfolds, and advise whether we think further delays are necessary.

- Additionally, the NDH project has gone through several iterations of value management over its 11-year lifespan and realising proposed savings has always proved challenging. Care needs to be taken to understand the full context when committing to a hard budget cap.

- Because of this, we also think that Health NZ should be attempting to understand the opportunity cost of exploring these other options against continuing with the current build scope – it's possible that in an attempt to shave off the ~$200m budget overrun now, we end up facing similar costs later on, due to unforeseen risks from the limited information available. We expect that this work is likely happening behind the scenes anyway, so it will be useful for Ministers to have it made available as a baseline for the other two options.

Process

- Health NZ was asked to report back at the end of September, as well as commence their monthly reporting - we are comfortable that this advice meets that request. However, we recommend you commission Health NZ to report back once more by the end of October, to avoid any confusion regarding your expectations. This report back should also include the results of the rapid clinical services review being undertaken and its impact on design choices and health service outcomes.
- Officials are meeting weekly with Health NZ and receiving useful verbal updates on progress. We are flexible with what monthly reporting could entail, but think progress updates on the development of the two options and their costs will be important in the lead up to the December ImBC.

- There could also be value in establishing a regular cadence of meetings in the run up to December, to reduce the need for reactive updates. We don't think this is strictly necessary but might be a quick way to ensure decision making Minsters are getting the most up to date intel.

Further to the recommendations above, you may wish to:

- Direct Health NZ to provide Ministers with confirmation of the revised cost estimate to deliver to the current scope;
- Clarify you expect the next monthly report back by the end of October which must include the results of the rapid clinical services review and updates on design and option development;
- Test with your colleagues whether you would like to establish regular meetings between the four delegated Ministers;
- Meet or seek advice from recently appointed Crown advisor Evan Davies, who has a long history with the project.

We have developed this advice in consultation with Infracom.

TE TAI ŌHANGA
THE TREASURY
Caitlin Andrews (she/her)|Senior Analyst|Health|Te Tai Ōhanga – The Treasury
Tel: s9(2)(k) |Email/IM: caitlin.andrews@treasury.govt.nz
Visit us online at https://treasury.govt.nz/ and follow us on Twitter, LinkedIn and Instagram
Curious about why I share my pronouns on my email signature? This article explains.

From: Marnya Jain <Marnya.Jain@parliament.govt.nz>
Sent: Friday, September 13, 2024 1:04 PM
To: Caitlin Andrews [TSY] <Caitlin.Andrews@treasury.govt.nz>; Kate McDonald [TSY] <Kate.McDonald@treasury.govt.nz>
Subject: FW: NDH Paper

FYI – final version of the paper. Apparently only minor changes from the one I sent yesterday

Ngā mihi
Marnya

Marnya Jain
Private Secretary - Finance

Office of Hon Nicola Willis
Minister of Finance
Office of Hon Shane Jones
Associate Minister of Finance

Level 7.2 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
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