

In Confidence

Office of the Minister of Health

Cabinet Priorities Committee

New governance arrangements for health infrastructure

Proposal

- 1 This paper provides an overview of the new Governance Framework for health infrastructure projects and programmes, signals my intention to disestablish three current governance groups, and provides an overview of Te Whatu Ora (Health New Zealand) Infrastructure Operating Model.

Relation to government priorities

- 2 The proposals in this paper will enable Te Whatu Ora to meet its objectives and functions including protecting, promoting, and improving the health of all New Zealanders as set out in the Pae Ora Act 2022, and the directives of the interim Government Policy Statement for Health: 2022-2024.

Executive Summary

- 3 Streamlined and fit-for purpose governance arrangements are required to deliver the Government's objectives in health infrastructure.
- 4 Te Whatu Ora has developed an Infrastructure Programme and Project Governance Framework that transfers responsibility for project governance from Manatū Hauora to Te Whatu Ora. The framework will ensure project roles and structures are established consistently and appropriately depending on the value, risk and complexity of the project, and provide clear lines of accountability.
- 5 The implementation of the framework requires the disestablishment of three current governance groups: the Hospital Redevelopment Partnership Group, the New Dunedin Hospital Executive Steering Group, and the Capital Investment Committee.
- 6 Te Whatu Ora has considered how the skills and experience of key members of these groups can be utilised in the new governance arrangements. Te Whatu Ora will seek to retain a majority of the New Dunedin Hospital Executive Steering Group members on the new project steering group. The current independent Executive Steering Group Chair has accepted an invitation to chair the new group.
- 7 In the transition period, the former Minister of Health asked the current arrangements for the Hospital Redevelopment Partnership Group and the Executive Steering Group to continue into the second quarter of 2023 until new arrangements are in place.

- 8 I also intend to disestablish the Capital Investment Committee, as previously advised to Cabinet and agreed by the Minister of Finance and the previous Minister of Health. I expect to disestablish the Capital Investment Committee by the end of the second quarter of 2023.
- 9 Manatū Hauora intends to establish a new capital advisory panel to provide independent assurance and advice in support of its system monitoring role. Manatū Hauora will invite one or more members of the Capital Investment Committee onto this panel to ensure continuity of experience and expertise.
- 10 Te Whatu Ora Chief Executive Officer has approved the Infrastructure Operating Model (the Operating Model) that is designed to improve the efficiency, performance and capability of infrastructure planning and delivery within Te Whatu Ora. Given the high level of interest in health infrastructure, I am sharing an overview of the Operating Model with you for your information.
- 11 As confidence builds in the performance of Te Whatu Ora infrastructure function over time, I expect a shift towards more consolidated and streamlined reporting with a focus on infrastructure planning and delivery.

Background

- 12 Cabinet has agreed high-level capital settings in support of the health reform goals of greater health equity and financial sustainability [SWC-22-MIN-0063 refers]. The settings provide Te Whatu Ora with progressive decision rights to manage the sector's capital investment and asset management portfolio. The threshold for Board approval for low and medium risk investments funded from within baseline is currently \$25 million whole of life costs. As Te Whatu Ora demonstrates its capability and subject to Ministerial approval, this threshold will increase to \$50 million from 1 July 2024 regardless of funding source.
- 13 In approving the new capital settings, Cabinet noted the requirement for oversight mechanisms of the management of the capital portfolio at Ministerial level, and the transition of Manatū Hauora into a monitoring role of asset and investment management practice.
- 14 Manatū Hauora and Te Whatu Ora will report jointly to me and the Minister of Finance annually on enhancement of infrastructure management. This will include Te Whatu Ora structures and processes to support asset and investment planning, investment delivery, standardised practice, and clarifying roles and responsibilities at the local, regional, and national level. Cabinet has requested a report back by 31 July 2023 with Te Waihanga (New Zealand Infrastructure Commission) and the Treasury as signatories to the first report.
- 15 Manatū Hauora, with input from other monitoring agencies, will assess and provide me with advice on the National Asset Management Strategy and Investment Plan that Te Whatu Ora will present to Cabinet by December 2023. These documents will outline the investment pipeline, proposed prioritisation and sequencing of investments, and the allocation of funding against these investments.

- 16 Te Whatu Ora and Manatū Hauora have recently reported to me and the Minister of Finance on long term governance arrangements for major infrastructure projects as required by Cabinet [SWC-22-MIN-0063 refers]. This paper outlines the Infrastructure Programme and Project Governance Framework.
- 17 The Cabinet Business Committee had previously requested a report back to Cabinet on the governance settings for the New Dunedin Hospital project [CBC-20-MIN-0131 refers], which are addressed in this paper.

Te Whatu Ora Infrastructure Programme and Project Governance Framework

- 18 As a Crown agent, Te Whatu Ora Board is responsible for the performance of its investments and has overall accountability to me as Minister of Health for the successful delivery of all investment projects.
- 19 Te Whatu Ora is responsible for establishing governance arrangements to ensure the successful delivery of projects, including the benefits from improved service delivery enabled by new infrastructure and digital systems. Te Whatu Ora will also plan, prioritise and commission infrastructure projects in conjunction with Te Aka Whai Ora - Māori Health Authority.
- 20 Te Whatu Ora has established a new governance model for health infrastructure that comprises of a Capital and Infrastructure Committee (the Committee) of Te Whatu Ora Board, and an Infrastructure Programme and Project Governance Framework. I have been briefed on the framework which is summarised in Appendix One. Along with the delegations policy, this framework will enable clear decision-making pathways as recommended by the Implementation Unit in the Department of Prime Minister and Cabinet.
- 21 Te Whatu Ora Board interim chair Naomi Ferguson also chairs the Committee. Membership includes Amy Adams, Te Whatu Ora Board member. The Committee has three independent members: Lale Ieremia, Director PCM Consulting Limited, Scott Pritchard, Chief Executive of Precinct Properties and Mei Fern Johnson, Partner Russell McVeagh and Director Crown Infrastructure Partners.
- 22 The Committee assists Te Whatu Ora Board to oversee and monitor capital spending and infrastructure delivery for facilities, clinical equipment and digital systems that provide the foundation for health system operations and align with Te Pae Tata - Interim New Zealand Health Plan. The Committee's responsibilities include capital investment, asset management, prioritisation and overseeing the major projects programme.
- 23 The framework will provide confidence that the necessary structures and sector specific expertise are in place at the right levels to successfully deliver major projects. Under the framework, project roles and structures will be established consistently and appropriately using a scalable and right-sized approach depending on the value, risk and complexity of a project.

- 24 Under the framework, major projects will each have a Senior Responsible Owner who will lead a project steering group, with an appropriate mix of skills and experience, to provide governance over all workstreams (infrastructure, service change and digital systems), and the realisation of all benefits. The single point of accountability is Te Whatu Ora Board through the Board Chair (the Chief Executive Officer reporting to the Chair and the Senior Responsible Owner reporting to the Chief Executive Officer). This structure aligns with best practice governance guidance issued by Te Waihanga for major projects and responds to Treasury's recommendations. It also ensures that there is a single line of accountability and that when projects are delivered, they will be digitally enabled and the workforce will be ready.
- 25 The new governance model is now operational, including new Terms of Reference, defining capability requirements at different stages of the project life cycle, remuneration policy and guidance for project steering groups and Senior Responsible Owners.
- 26 The Hospital Redevelopment Partnership Group, which has overseen Canterbury hospital rebuild projects, and the Executive Steering Group for the New Dunedin Hospital Project report to me as the Minister of Health and are accountable for the successful delivery of projects. However, the accountability for the successful delivery of these projects now sit with Te Whatu Ora Board and the functions performed by these groups will be performed by project steering groups under the new framework.
- 27 The continuation of the Hospital Redevelopment Partnership Group and the Executive Steering Group will create confusion of accountability lines and duplication. Therefore, these groups will be disestablished in their current form to support streamlined and fit-for purpose governance arrangements. The disestablishment of the Hospital Redevelopment Partnership Group and the Executive Steering Group has been agreed by Joint Ministers.

Governance arrangements for the New Dunedin Hospital Executive Steering Group

- 28 In 2020 Cabinet agreed to revise the governance arrangements to govern the New Dunedin Hospital project by establishing the Executive Steering Group [CAB-20-MIN-0431 refers]. The Cabinet Business Committee subsequently noted a report back to Cabinet would be provided on a review of these arrangements [CBC-20-MIN-0131 refers].
- 29 The new governance arrangements for the New Dunedin Hospital Project will align with the new framework with some modifications to ensure clear accountability lines. The Executive Steering Group will be disestablished, and a new project steering group will be constituted.
- 30 Te Whatu Ora will seek to retain a majority of the Executive Steering Group members on the new project steering group. This modified arrangement is considered necessary to retain the experience, expertise and continuity needed to successfully deliver the project. The membership of the group will be augmented with new skills aligned to the scope and stage of the project.

- 31 Te Whatu Ora is making contractual arrangements to retain the current independent Executive Steering Group Chair who has agreed to chair the new project steering group. The independent Chair will be accountable to the Te Whatu Ora Board Chair through the Committee as opposed to a Senior Responsible Owner being accountable directly to Te Whatu Ora Chief Executive Officer.
- 32 The Executive Steering Group has a primary focus on the construction of facilities. The terms of reference for the project steering group will provide for oversight of three workstreams required to deliver the New Dunedin Hospital Project:
- construction of the facility
 - workforce/system transformation
 - digital transformation.
- 33 Ensuring that project governance arrangements provide oversight over the three workstreams is consistent with the recommendations of the recent Gateway review for the New Dunedin Hospital Project.
- 34 Each workstream will have a senior leader, appointed by the Chief Executive of Te Whatu Ora or delegate. The three senior leaders of each workstream will be included in the project steering group as members. Each workstream will also have a project director/workstream lead who will report to the project steering group. This will ensure that all workstreams are aligned and delivered at the same time. Once developed, the terms of reference for these roles will clearly set out the responsibilities and new lines of accountability.
- 35 The role of the Local Advisory Group will be clarified through a new Terms of Reference and Te Whatu Ora has invited Hon Pete Hodgson to chair it. He has accepted, and will be remunerated from the New Dunedin Hospital project budget and will report to the project steering group monthly.
- 36 I intend to disestablish the Executive Steering Group as soon as practicable when the terms of reference are completed, and the new project steering group is appointed. I have been assured that the transition of governance arrangements will not have negative impact on the project delivery timelines.

Governance arrangements for the hospital rebuild projects in Canterbury

- 37 The Hospital Redevelopment Partnership Group was established in 2012 as a steering group to oversee the hospital rebuild projects in Canterbury, which at the time included the largest and most complex build in the history of the public health service in New Zealand [CAB MIN (12) 30/3A refers].
- 38 The Canterbury rebuild projects are mostly complete and the Hospital Redevelopment Partnership Group was disestablished in March 2023. Following disestablishment, Te Whatu Ora has established appropriate

governance in line with their governance framework to oversee finalisation of outstanding projects and any new projects coming into delivery.

Manatū Hauora monitoring role

- 39 Manatū Hauora is chief steward of the health system, sets direction and policy, monitors overall system performance, and advises the Government on funding and system settings.
- 40 As part of these functions, Manatū Hauora will:
- monitor and provide assurance on the performance of Te Whatu Ora across the investment lifecycle (ie, planning, investment decision-making, delivery and benefit realisation)
 - review and advise on Te Whatu Ora National Asset Management Strategy and Investment Plan
 - drive system strategy and performance.
- 41 Manatū Hauora has established a monitoring and accountability framework for infrastructure and investment and will assess the progress of Te Whatu Ora against this in an agreed and transparent way. The monitoring framework will incorporate elements across asset and investment planning and delivery structures that align with priorities in Te Whatu Ora accountability documents.
- 42 The monitoring and accountability framework establishes the expectations that must be met for Te Whatu Ora to progress to increased capital approval thresholds as it builds its capability. This will include the key deliverables agreed by Cabinet when establishing the capital settings [SWC-22-MIN-0063]. Improved delivery of existing projects and delivery of the National Asset Management Strategy and Investment Plan will be key elements of the monitoring framework in the next two years. As part of this work, Manatū Hauora is also engaging with Te Whatu Ora on the status of its planning to improve project reporting. Manatū Hauora will provide regular reporting to me and the Minister of Finance on the progress being made by Te Whatu Ora.
- 43 Manatū Hauora will continue to provide me with advice on major investments requiring my approval or the approval of Cabinet as part of its monitoring and assurance role. The Manatū Hauora approach will not seek to replicate the functions of Te Whatu Ora. It will instead focus on the systems and process underpinning decisions by Te Whatu Ora on the investment proposal. I expect the intensity of the involvement of Manatū Hauora in the business case review function will decrease over time as Te Whatu Ora demonstrates enhanced capability and capacity to manage the capital portfolio.

Disestablishment of Capital Investment Committee

- 44 The Capital Investment Committee was established as a Ministerial committee, providing advice on the prioritisation of Crown funding through the Health Capital Envelope appropriation, overview of the national asset management plan and review of individual investment proposals (SOC-16-MIN-0006 refers).

- 45 Many of these functions now reside with Te Whatu Ora and will be overseen by Te Whatu Ora Board and the Committee.
- 46 Therefore, the Capital Investment Committee will be disestablished by the end of the second quarter of 2023.

Establishment of a Capital Advisory Panel

- 47 Te Whatu Ora is recently established and will develop a roadmap to build capacity and capability as it implements the Operating Model. These changes are expected to be complete by mid-2023 for Tier 3 and Tier 4.
- 48 I have agreed that Manatū Hauora will establish a new capital advisory panel to support its revised monitoring and stewardship role in the second quarter of 2023 following the disestablishment of the Capital Investment Committee.
- 49 The role and functions of the new panel will be clearly differentiated from the Capital Investment Committee and will not duplicate those of Te Whatu Ora Committee.
- 50 Manatū Hauora will invite one or more current members of the Capital Investment Committee to serve the new capital advisory panel, where their expertise supports the new function of Manatū Hauora.

Te Whatu Ora Infrastructure Operating Model

- 51 Health Infrastructure is a critical enabler to achieve Pae Ora, healthy futures for all New Zealanders. Te Whatu Ora Chief Executive Officer approved the new Infrastructure Operating Model in November 2022 (the executive summary of the Operating Model is attached in Appendix Two).
- 52 The Operating Model outlines a pathway to give effect to my expectations for health infrastructure that are set out my 'Letter of Expectations' including:
- delivery of existing projects
 - investment reporting
 - asset management and investment planning.
- 53 As confidence builds in the performance of Te Whatu Ora infrastructure function over time, I expect a shift towards more consolidated and streamlined reporting with a focus on infrastructure planning and delivery.
- 54 The Operating Model was developed by an Independent Working Group appointed by Te Whatu Ora Chief Executive Officer and comprises of a group of senior executives representing the private sectors, a nominee from Te Aka Whai Ora and a representative from Te Whatu Ora.¹ Together the group brings significant expertise in infrastructure delivery across the health sector and the wider New Zealand market.

¹ The members of the Independent Working Group- Wayne McNee (Independent Chair), Graham Smith (Te Whatu Ora), Karen Tregaskis, Robert Batters, Sarah Sinclair, Evan Davies, Robert Rust

Implementing the Infrastructure Operating Model

- 55 To build momentum in the Te Whatu Ora infrastructure pipeline, a clear transition plan to the new operating model will need to be developed and implemented by mid-2023. Te Whatu Ora Chief Executive Officer has agreed several actions that can be taken now and in the medium and long term to make improvements to its infrastructure function
- 56 The implementation of the 'now' actions and initiatives are already underway. I am expecting Te Whatu Ora to:
- complete the implementation of a 'Stakeholder and Market engagement Strategy' in June 2023
 - have in place improved monthly reporting of all health infrastructure projects by June 2023
 - provide a 'Capital (Infrastructure) Investment Plan' to Cabinet by December 2023
 - provide a 'National Asset Management Strategy' to Cabinet by December 2023
- 57 A more comprehensive list of actions to improve Te Whatu Ora infrastructure function is included at page 4 of Appendix Two. Many of the actions related to the infrastructure functions in Te Pae Tata have already commenced.
- 58 Delivering the Operating Model will require significant investment in Te Whatu Ora people and processes to achieve the desired outcomes. This is consistent with my expectation that Te Whatu Ora makes significant improvements to its asset management, delivery and investment management capability.

Infrastructure and Investment Group proposed structure

- 59 In mid-February 2023, Te Whatu Ora commenced the change process that will bring all infrastructure teams from across the motu into a national Infrastructure and Investment Group. Consultation is now underway, and a majority of the change will be agreed by mid-2023 subject to ensuring alignment with other organisational change across Te Whatu Ora.
- 60 The proposed structure will provide comprehensive visibility of legacy issues and the condition across the national asset base. Coupled with enhanced service planning within Te Whatu Ora (including national service plans that will be developed as part of the New Zealand Health Plan), a comprehensive national picture across infrastructure will enable effective trade-offs when making investment decisions including where increased demand and provision of new services require investments to develop new facilities. Over time an investment pipeline of forward construction opportunities will become available that will provide certainty to industry.

- 61 A nationally consistent approach to business case development and the use of agreed design guidelines across the country, will provide consistency and efficiency. Combined with a centrally coordinated market engagement approach with the construction industry and a move towards more collaborative infrastructure delivery models.
- 62 Under the proposed structure four regional infrastructure teams will be responsible for the delivery of most capital works (aside from major projects), and routine and reactive maintenance work within a consistent national framework. A combination of National and Regional infrastructure leads will report to the Chief of Infrastructure and Investment Group creating vertical end-to-end accountability and consistency
- 63 The proposed structure will ensure key decisions regarding investment, considering the state of the assets and the clinical requirements required at a national level, with the bulk of delivery of those projects being coordinated and delivered at a regional level, but within a national framework using consistent procurement, project management and reporting protocols.
- 64 This means infrastructure investment can in future be guided by the principles of Te Tiriti o Waitangi and aims to promote equity of access, outcomes and experience for Māori and enable genuine partnership with Māori. This will be characterised by shared service planning decisions between Te Whatu Ora and Te Aka Whai Ora, and meaningful input from Iwi-Māori Partnership Boards during locality and infrastructure planning.
- 65 The infrastructure function will integrate with other Te Whatu Ora enabling and line management functions through business partnering and shared capabilities. The Operating Model and proposed structure will enable the Implementation Unit's recommendations following the deep dive into projects in the Mental Health Infrastructure Programme including:
- strengthening, standardising and centralising aspects of business case planning
 - stronger role for project teams with direct accountability for delivery
 - creating vertical end-to-end responsibility and accountability for delivering all aspects of the capital works programme
 - build strong and stable leadership.
- 66 A project delivery 'centre of excellence' will provide the leadership and project management of large complex construction projects and provide technical and commercial support to the smaller projects being delivered by regional and local teams.
- 67 This will enable Te Whatu Ora to meet my expectation that national frameworks systems and reporting mechanisms will be developed and implemented consistently across all regions.

68 There is also strong alignment between the Operating Model and the recommendations of Te Waihanga Health Infrastructure Review.

Financial Implications

69 There are no financial implications of this paper.

Legislative Implications

70 There are no legislative implications.

Impact Analysis

71 There are no regulatory proposals in this paper and therefore Cabinet's impact analysis requirements do not apply.

Population Implications

72 There are no direct population implications from this proposal.

Human Rights

73 There are no human rights implications arising from the proposal in this paper.

Consultation

74 The following departments, agencies and entities have been consulted: the Treasury, Te Waihanga and the Department of the Prime Minister and Cabinet (DPMC). Manatū Hauora provided content for parts of this paper.

75 In their feedback, DPMC and Te Waihanga noted the information provided on the Te Whatu Ora Operating Model is light on specific detail, actions and timeframes but Te Waihanga also note that this is a work in progress. The agencies also noted that the Infrastructure Programme and Project Framework could be challenging to implement, as it will consolidate the accountability for all workstreams of a large and complex project with one Senior Responsible Owner and project steering group.

76 Te Waihanga also noted risks associated with establishing new governance structures while the Operating Model is still in development. Te Waihanga recommends robust monitoring of the development and implementation of the Operating Model in the first instance to help both the new governance structures and the associated projects to succeed.

77 Manatū Hauora notes that the infrastructure operating model and governance arrangements are decisions for Te Whatu Ora, but shares the concerns raised by DPMC and Te Waihanga. The monitoring and assurance framework being developed by Manatū Hauora will incorporate visibility of progress in these key areas, as well as strengthened infrastructure reporting from Te Whatu Ora to be in place by 30 June 2023.

Communications

78 My office will prepare communications to support an announcement of the changed governance arrangements for the New Dunedin Hospital project.

Proactive Release

79 I proposed the proactive release of this paper as soon as practicable.

Proactively Released

Recommendations

The Minister for Health recommends that the Committee:

- 1 note that in April 2022 the Cabinet Social Wellbeing Committee agreed new Health capital settings [SWC-22-MIN-0063] that included:
 - 1.1 specified staged increases in decision rights to Te Whatu Ora as it demonstrates the capability necessary for the enhanced management of the asset and investment portfolio;
 - 1.2 an ongoing requirement for Ministerial oversight of the health asset and investment management through the transition period; and
 - 1.3 the Ministry of Health will transition into a monitoring role of asset and investment management practice with support by Te Waihanga, the Infrastructure Commission, and the Treasury.
- 2 note that Te Whatu Ora has established a new governance model for health infrastructure that comprises of a Capital and Infrastructure Committee of Te Whatu Ora Board, and an Infrastructure Programme and Project Governance Framework.
- 3 note the new Te Whatu Ora governance arrangements requires the disestablishment of three current governance groups, which the Minister of Finance and the Minister of Health have agreed:
 - 3.1 the Executive Steering Group for the New Dunedin Hospital
 - 3.2 the Hospital Redevelopment Project Group for Canterbury hospital rebuild projects
 - 3.3 the Capital Investment Committee, which provided advice to Joint Ministers and Manatū Hauora.
- 4 note that Te Whatu Ora and Manatū Hauora will seek to retain key membership of disestablished groups in new governance arrangements to ensure continuity of experience and expertise.
- 5 note that Manatū Hauora will establish a new capital advisory panel to provide assurance and advice to support the Manatū Hauora monitoring function.

- 6 note that Te Whatu Ora Chief Executive Officer has approved a new Infrastructure Operating Model that aims to improve efficiency, performance and capability of infrastructure planning and delivery within Te Whatu Ora.

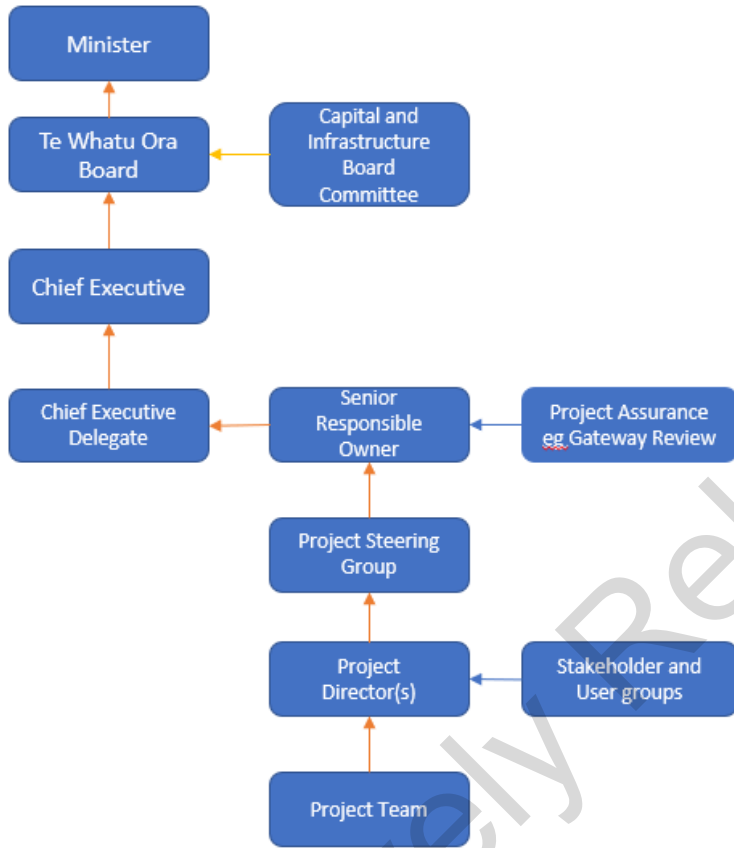
Authorised for lodgement

Hon Dr Ayesha Verrall

Minister of Health

Proactively Released

Appendix One – Infrastructure Programme and Project Governance Framework



Proactively Released

**Appendix Two – Te Whatu Ora Infrastructure Operating Model
(Executive Summary)**

Proactively Released

Proactively Released