

Te Whatu Ora Board Paper

Project Whakatupuranga – Nelson Hospital Redevelopment Programme

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| Date: | 14 June 2023 | Author: | Aaron Matthews, Director – Capital Investment, Infrastructure and Investment Group |
| For your: | Approval | Approved by: | Jeremy Holman, Chief Infrastructure and Investment Officer, Infrastructure and Investment Group |
| Seeking funding: | Yes | Funding implications: | Yes |
| To: | Board | | |

Purpose

1. This paper seeks approval from Te Whatu Ora Board (“Board”) of the Programme Business Case (“PBC”) for Project Whatakupuranga, the proposed Nelson Hospital Redevelopment. The PBC will be presented to the Minister of Health (seeking Cabinet approval) in July.

Recommendations

2. The Board is asked to:
 - a) **note** that the Capital Infrastructure Committee (“Committee”) has recommended that this paper proceed to Board.
 - b) **note** that at the Committee meeting of 8 June 2023, a number of key discussion items were raised on the Project Whakatupuranga – Nelson Hospital Redevelopment Programme, this paper addresses the key feedback and actions requested.
 - c) **note** that the Project Whakatupuranga PBC and option 1 – Intermediate was endorsed by the Project Steering Group (“PSG”) on 2 June 2023.
 - d) **note** that the Project Whakatupuranga PBC seeks Cabinet approval for the redevelopment of Nelson Hospital campus, agreement to progress to a Detailed Business Case (“DBC”), and approval to release funding for design and early enabling works from the existing \$150 million Budget 2022 Health capital appropriation.
 - e) **note** that the Minister of Health and Minister of Finance (“Joint Ministers”) agreed on 31 May 2023 that the Project Whakatupuranga PBC should be submitted to Cabinet for consideration in July 2023, and indicated support for Option 1 – Intermediate as the preferred option for further development.

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- f) **note** that a DBC will be progressed to inform an investment decision on Phase 2, for consideration by Cabinet in 2025.
- g) **approve** the recommendation to Joint Ministers to release \$73 million from the existing \$150 million Budget 2022 Health capital appropriation. The requested funding for release will be allocating the following:
s 9(2)(b)(ii), s 9(2)(f)(iv)
- h) **approve** the PBC for submission to Ministers ahead of a Cabinet decision in July 2023.
- i) **recommend a statement** on the priority of Nelson Hospital redevelopment relative to other Health infrastructure investments. This will be required by Ministers when they consider the PBC.
- j) **note that the author does not recommend** this paper be released proactively in full. The paper should be withheld in its entirety as the PBC is under active consideration and is commercially sensitive.

Contribution to strategic outcomes

Te Pae Tata contribution

- 3. The paper contributes to establishing Te Whatu Ora and Te Aka Whai Ora to support a financially sustainable system by informing a Cabinet investment decision about the direction of the redevelopment of Nelson Hospital.
- 4. The PBC provides the detail on how this investment contributes to Te Pae Tata. This includes contributing to the following priorities in Te Pae Tata:
 - a) Pae Ora – Better health and wellbeing in our communities.
 - b) Kahu Taurima – Maternity and the early years.
 - c) Mate Pukupuku – People living with cancer.
 - d) Māuiuitanga Taumaha – People living with chronic health conditions.
 - e) Oranga Hinengaro – People living with mental distress, illness, and addictions.
 - f) Improve equity of health outcomes – Deliver on improving Pae Ora for Māori, Pacific people and Tāngata whaikaha (Disabled people).

Executive summary

- 5. Project Whakatapuranga is the programme to redevelop the Nelson Hospital campus. The programme integrates three key workstreams:
 - a) construction works to upgrade and replace facilities and infrastructure on Nelson Hospital campus.

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- b) data and digital transformation and upgrades.
 - c) and the development and implementation of regionally endorsed Models of Care.
6. This programme addresses critical risks and shortfalls associated with seismic resilience, capacity to meet current and future demographic needs, and quality of care.
 7. Te Whatu Ora has developed a PBC for Project Whakatapuranga, which evaluates a short-list of four options for the brownfield redevelopment of the Nelson Hospital campus. A preferred option has been identified, along with two additional options that have been recommended for further development and assessment in a DBC. The PBC is attached at *Appendix 1*.
 8. The Project Whakatapuranga PBC (*Appendix 1*) seeks Cabinet approval, agreement to advance to a DBC, and approval to commit funds up to \$73 million for design and early enabling works. This paper seeks the Board's approval to submit the PBC to the Minister of Health ahead of July Cabinet meeting.
 9. Joint Ministers considered the Project Whakatapuranga Options Paper on 31 May 2023. They agreed that the PBC should be submitted for consideration by Cabinet in July 2023. They indicated a preference for Option 1 – Intermediate.
 10. Option 1 is the clinically preferred option and has been endorsed with business case by the PSG on 2 June 2023 and the Committee on 8 June 2023. The PSG and Committee recommended an updated funding structure for Phase 1, drawing down \$73 million rather than the previously signalled \$98 million in the final PBC.
 11. This paper also seeks Board confirmation of the description of the priority of Project Whakatapuranga relative to other Health infrastructure investment proposals. Noting that the Infrastructure Investment Plan (“IIP”) will be delivered in the second half of 2023 to inform prioritisation of Health infrastructure investments, agencies have sought an early indication of priority to support Ministers decision making on the approval of the PBC and commitment of funds to Phase 1 works.

Discussion

Ministerial feedback on options

12. Joint Ministers were briefed on the options 31 May 2023. They agreed that the PBC should be submitted for Cabinet consideration in July 2023 as planned, and that it should seek funding for design and early enabling works. Joint Ministers noted their preferred option was Option 1 – Intermediate as the preferred option for redevelopment. (*Appendix 2 and Appendix 3*).
13. Joint Ministers noted the total capital cost of the redevelopment was greater than \$1 billion and the impact this would have on the Budget 2024 demand for capital funding. The Minister of Finance asked about the priority of Project Whakatapuranga relative to other investments and specifically the Tauranga hospital redevelopment. The Minister of Finance also emphasised the importance of the IIP in providing Ministers an indication of investment priorities going forward.

PSG endorsement of PBC

14. The PSG endorsed the PBC on 2 June 2023 and provided alternative options for the drawdown of funding against the \$150 million appropriation made at Budget 2022. The preferred option (\$73 million) was to progress design work to 50% of Developed Design s 9(2)(b)(ii), s 9(2)(f)(iv) A DBC would be submitted for Phase 2 (delivery of a combined Acute Services and Inpatient Building under Option 1) after October 2025. (*Appendix 5*).

Committee endorsement of PBC

15. The Committee considered the PBC on 8 June 2023. The advice provided to the Committee is provided at *Appendix 4*. That paper outlines the context for this investment proposal, including the case for change, summary of options development, overview of the briefing to Joint Ministers and feedback received from Joint Ministers, discussion of the key considerations for prioritisation of Project Whakatapuranga against other potential Health investments, key strategic risks, and financial considerations.
16. The Committee agreed that the PBC should be progressed to the Board and that Option 1 – Intermediate, which was endorsed by the PSG and signalled as a preferred option by Joint Ministers, should progress as the preferred option.
17. The Committee noted that a decision on the prioritisation of Project Whakatapuranga relative to other potential Health investments is not feasible until after the IIP is complete. However, the Committee indicated the priority of progressing this project into the design stage.
18. The Committee recommended that the PBC and Cabinet engagement seek a drawdown of funds up to \$73 million, rather than the \$98 million previously indicated to Ministers. This would secure funding up to 50% Developed Design, along with enabling works and contingency.
19. The Committee recommended that the Board consider public communications surrounding the upcoming investment decision. Any public announcements should follow the Ministerial release that will accompany the Cabinet Paper. Te Whatu Ora will work with Manatū Hauora to ensure that communications are aligned.

Guidance sought on prioritisation

20. Joint Ministers are seeking assurance that other investments will not represent higher priorities than the proposed investment in Nelson. Te Whatu Ora will deliver the IIP in December 2023 and that will provide advice on the priority of investments across the portfolio. The Cabinet Paper covering the PBC needs to include a statement from the Board that indicates the priority of the Nelson Hospital redevelopment relative to other potential Health infrastructure investments.
21. The Infrastructure and Investment Group (“IIG”) is not ready to advise on the specific position of the priority of Project Whakatapuranga against other Health infrastructure investments. However, based on the scale and urgency of the risks that the Nelson Hospital redevelopment seeks to address, it is recommended that Project Whakatapuranga is considered one of the top priorities for redevelopment that will require action.

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22. The assessment of relative priority of the investments will be further informed by the IIP. The IIG recommend the following position statement on Nelson’s relative priority:

“As a major hospital and a key part of the national hospital infrastructure, the redevelopment of Nelson hospital will be one of the investments required across the portfolio of Te Whatu Ora to address challenges regarding seismic resilience, poor state of the facilities, and insufficient capacity to meet the future needs of the population. This will require progression and action to address the current risks and impact on health services. The progression of Project Whakatapuranga into the initial works and design stage through tranche one is a priority for the Te Whatu Ora Board. Te Whatu Ora will be assessing other investments for the timing and sequencing to manage the pipeline of investments and fiscal affordability.”

Minimising the risk of regrettable spend

23. The Cabinet Paper covering the PBC should be clear that funds spent on design are necessary to inform a subsequent investment decision and do not present a visible indication of intent to commit to funding the entire programme. The **s 9(2)(b)(ii)** commitment for design should therefore not be considered regrettable spend.
24. By contrast, early enabling works do signal a visible commitment to the redevelopment of Nelson Hospital. If these are undertaken after the IIP is completed in December 2023, this will provide the opportunity for a future decision point based on more complete information, further minimising the risk of regrettable spend.

Communications for Nelson redevelopment programme

25. Project Whakatapuranga will expand its engagement with the local Nelson community on receiving approval of the PBC. A communications and engagement plan (“C&E Plan”) for the project has been drafted, it will be finalised on approval of the PBC. The C&E Plan focuses on informing stakeholders about the project and the various steps in the process so the community can gain an understanding of the scope of the redevelopment and a realistic timeline.
26. On approval of the PBC, it is expected that an announcement will be made by Ministers. Following on from this announcement, Te Whatu Ora will share communications internally with staff and publicly via Te Whatu Ora website, social media and other channels that:

“Approval of the Programme Business Case and initial funding for the Nelson Hospital redevelopment will see design work and early enabling works commence. This next stage of the project will help form the Detailed Business Case. The Nelson hospital redevelopment is expected to ensure that the hospital has the capacity required to address the changing population and health needs of the Nelson region and the facility is configured to meet contemporary models of care or treatment. The project will also address the current seismic risk to the acute clinical services buildings which would be unable to withstand a significant earthquake, jeopardising the ability to provide patients with post-disaster health services. This is an opportunity to take a whole of system approach to planning – our facilities, data & digital and service delivery - for the Nelson Hospital campus and the people of Te Tau Ihu/Top of the South”.

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Financial implications

27. The information remains unchanged from that included in the Committee paper (*refer to Appendix 4*). However, the PBC has been updated to reflect the feedback on the financial case.

Te Aka Whai Ora Comments

28. The information remains unchanged from that included in the Committee paper (*refer to Appendix 4*).

Next steps

29. The PBC will progress as follows:

- a) PBC and Cabinet Paper to be submitted to Joint Ministers on 4 July 2023.
- b) Cabinet Government Administration and Expenditure Review Committee consideration on 27 July 2023.
- c) Cabinet consideration on 31 July 2023.

Appendices

- Appendix 1: Project Whakatupuranga Programme Business Case, v1.1 (*refer Resource Centre*)
- Appendix 2: Minister of Health_ signed copy Project Whakatupuranga Nelson Hospital Redevelopment Prog Options briefing
- Appendix 3: Minister of Finance_ signed copy Project Whakatupuranga Nelson Hospital Redevelopment Prog Options briefing
- Appendix 4: Capital Infrastructure Committee Paper: Project Whakataupuranga – Nelson Hospital Redevelopment Programme (Project ID 10234) – Programme Business Case, 2 June 2023.
- Appendix 5: PSG - Project Whakatupuranga – Nelson Hospital Redevelopment Programme (project ID 10243) – PBC endorsement