

## Budget Sensitive

Office of the Minister of Health

Cabinet Expenditure Committee

## Facilities Infrastructure Remediation Programme Tranche Three: Detailed Business Case

### Proposal

- 1 This paper seeks your approval of the Detailed Business Case for the Facilities Infrastructure Remediation Programme (FIRP) Tranche 3 in **Appendix A**.

### Relation to government priorities

- 2 The proposed investment is aligned with the “Achieving the Health Targets – High Level Implementation Plan July 2024 – June 2027” which I announced on 12 September 2024.

### Executive Summary

- 3 Auckland City Hospital and Greenlane Clinical Centre provide health and disability services to more than half a million people living in the greater Auckland area and Northland, as well as specialist services for the whole of New Zealand and several Pacific countries.
- 4 The FIRP is one of the priority projects in the draft Health Infrastructure Plan (HIP), part of Health NZ’s ten-year roadmap for physical, digital, and health technology infrastructure. The project has been established to address the risk to critical health services from ageing and degraded infrastructure that lacked resilience and the ability to meet current and future demands. Failure of these assets would significantly impact patients at Auckland City Hospital or Greenlane Clinical Centre; critical health services are reliant on this aged and degraded infrastructure.
- 5 I seek your approval of the Detailed Business Case (DBC) in **Appendix A** and the preferred option set out below.
- 6 Given recent affordability exercises undertaken by Health NZ, the proposed investment for implement FIRP Tranche 3 is option 3: ‘do minimum.’ This option defers some of the proposed scope of Tranche 3 for future tranches.
- 7 This option addresses the immediate priorities while keeping within affordability constraints. It provides the best public value as it ensures critical infrastructure continues to be remediated using a risk-based approach to keep services running in New Zealand’s largest hospital.
- 8 At least five Implementation business cases will be required to seek approval to sign contracts for Tranche 3 procurements depending on how workstreams are divided into construction projects. I seek your approval to delegate approval of the Implementation Business Cases to myself, in consultation with the Minister of Finance and the

Minister for Infrastructure, with change in scope and schedule of the implementation business cases requiring joint approval as long as the total capital cost of the project does not exceed s 9(2)(b)(ii)

- 9 There remains significant residual risk as this option does not achieve the full planned benefits of alternative options. s 9(2)(f)(iv)

## Background (Strategic case)

### *Strategic case for Facilities Infrastructure Remediation Programme Tranche 3*

- 10 The Facilities Infrastructure Remediation Programme Tranche 3 (FIRP T3) addresses failing assets risking clinical service delivery at Auckland City Hospital and Greenlane Clinical Centre New Zealand's largest public hospital and clinical research facility. Together these facilities provide health and disability services to an estimated 511,000 people living in the greater Auckland area and Northland. They also provide specialist services for all of New Zealand and some Pacific countries, including organ transplants, specialist paediatric services, neurosurgery and congenital heart surgeries. Auckland City Hospital is also the largest teaching hospital and research centre in New Zealand.
- 11 FIRP objectives include reduced risk of asset failure to ensure these facilities remain resilient to support health services and safety for staff and patients; enabling planned growth; and greater cost effectiveness and environmental sustainability to improve compliance with operational requirements.
- 12 This investment will help stabilise existing assets and services, ensuring progress to deliver on the health All of Government targets can continue. Without this investment, any asset failure would significantly impact Health New Zealand's ability to deliver on the targets due to reprioritised resource, downstream impacts on other hospitals and their ability to meet targets, and wider implications.
- 13 FIRP T3 also offers operational savings from heating and utility savings, quantified in Table 4: Financial Implications.

### *Previous decisions and context*

- 14 The business case for FIRP builds on the Strategic Assessment (approved June 2017), the Programme Business Case and Tranche 1 Business Case (both approved August 2018) and the Tranche 2 Business Case (approved December 2019). As part of the Tranche 1 and 2 works, initial preparatory design work has been completed to inform the Tranche 3 business case.
- 15 Tranches one and two are well advanced in delivery. On a time to completion basis, Tranche 1 is eighty per cent completed and Tranche 2 is seventy-eight per cent completed. The work of these tranches is expected to be completed by December 2025. Tranche three addresses outstanding risks and requirements and builds on the progress and benefits achieved to date. FIRP programme benefits to date include:

- 15.1 A reduction in the Operational Risk Rating, achieving 71% of the planned risk reduction for Tranche 1 to date and is on track to achieving 100%.
  - 15.2 Improved overall site energy efficiency and energy reporting.
  - 15.3 Improved patient and whānau safety, quality, and experience including enhanced food safety and storage from a new cool store.
  - 15.4 Improved site load and capacity information is available, enabling more efficient site infrastructure management.
- 16 FIRP is one of four priority projects for 2025/26 in the HIP, agreed in principle by Cabinet in early March 2025 subject to Budget decisions and business case approvals [CAB-25-MIN-0051]. The HIP is part of Health NZ's ten-year roadmap for physical, digital, and health technology infrastructure informed by the National Clinical Service and Campus Plan. The HIP is not a list of requests for funding from Budget 25 or future Budgets, nor is the inclusion of projects a guarantee I will seek funding for them in the future.
- 17 Priorities for infrastructure investment incorporated the following considerations:
- 17.1 Importance within the National Clinical Services and Campus Plan, which sets Health NZ's strategic direction and priorities for changes in models of care, service delivery models and capacity required to deliver on government priorities and was endorsed by Health NZ's Board in December 2023.
  - 17.2 Delivery of benefits committed to through projects planned and approved prior to the establishment of Health NZ.
  - 17.3 Asset risk.
  - 17.4 Staging of investments to enable long term campus development.
  - 17.5 Investment readiness.
- 18 FIRP is an ongoing programme to enhance the resilience of assets at Auckland Hospital and as a result, I expect further funding requests for later tranches over the next few years. This includes the next immediate priority to address the domestic hot water system at Auckland Hospital that is at a high risk of failure due to deficiencies in the piping product. Health NZ is addressing the immediate risk by replacing the main supply line and ring mains as a first stage. The second stage can only commence construction once the first phase is completed in May 2026. To ensure no delays in the progress of this work, I am also seeking funding from Budget 2025 for s 9(2)(b)(ii) of design work to be undertaken in parallel to the stage one work, separate to the FIRP Tranche 3 funding sought.
- 19 Should the FIRP Tranche 3 DBC be agreed, it is ready for consideration through Budget 2025, given benefits from addressing the risk to services, the efficiencies from continuation of the established delivery programme, and business case and procurement readiness. Progressing this project now will enable Health NZ to deliver value as soon as possible from a well-advanced project.

### Analysis (Economic case)

- 20 The programme scope and tranche approach has evolved from that outlined in the programme business case in response to current site and asset conditions, and revised priorities. The new scope for Tranche 3 will comprise enabling, alternative heating and deferred work from Tranches 1 and 2 including:

**Table 1: Examples of potential for asset failure at Auckland City Hospital and Greenlane Clinical Centre**

Asset	Status	Consequence of failure
Air Handling Units	At end of life with no back up	<ul style="list-style-type: none"> <li>Loss of ventilation (heating and cooling) will result in room temperatures impacting patient wellbeing.</li> <li>Loss of pressurisation regime for infection, increasing risk of infection spread.</li> </ul>
Emergency chiller at both sites	At end of life	<ul style="list-style-type: none"> <li>The radiology department will not be operational.</li> <li>MRI machines would be inoperable without cooling. Fixing these machines is very expensive.</li> </ul>
Isolation fans at both sites	At end of life	<ul style="list-style-type: none"> <li>Loss of containment across multiple rooms, increasing spread of contagions.</li> </ul>

21 s 9(2)(f)(iv)

22 Health NZ also considered further affordability options were also considered as part of this business case. Three options were considered as follows:

22.1 Option 1: 'Do nothing' – undertake no further works, with FIRP being disbanded at the completion of Tranche 2.

22.2 Option 2: 'Do everything' – undertake the full scope of work as per the revised scope for Tranche 3.

22.3 Option 3: 'Do minimum' s 9(2)(f)(iv)

23 The three options were evaluated against the Investment Objectives as outlined below:

23.1 To minimise risk to ongoing service delivery at Auckland City Hospital and Greenlane Clinical Centre by ensuring infrastructure is optimal and at a lower risk of failure.

- 23.2 To remediate critical facilities infrastructure at Auckland City Hospital and Greenlane Clinical Centre to a level which enables planned growth in line with the proposed site masterplans.
- 23.3 To improve compliance with current legislation
- 23.4 To achieve greater cost-effectiveness wherever new or replacement assets are deployed.
- 24 Each option was also rated against Critical Success Factors, 1 being not achieved, 5 being fully achieves the requirements. The option with the highest overall score provides the best value for money. Table 2 below outlines the score comparisons between the three options.

**Table 2: Assessment of options against critical success factors.**

Critical Success Factors	Option 1	Option 2	Option 3
Strategic fit and business needs	1	5	4
Potential Value for Money	1	5	5
Supplier capacity and capability within timeframe	1	5	5
Potential affordability	1	1	5
Potential achievability	1	4	5
<b>Total</b>	<b>5</b>	<b>20</b>	<b>24</b>

- 25 Under option 1, no benefits are realised and residual risk of not undertaking any works under Tranche 3 includes failure risk for highly critical assets, impacting clinical service and safety, continued reliance on carbon heavy fossil fuel boilers that are expensive to maintain, and limited options for the development of the site. This option does not impact work already undertaken in Tranches 1 and 2 and would not incur any further cost.
- 26 Under option 2: the work originally intended under the Programme Business Case is complete. This option provides the most benefits and is the cheapest option overall as any deferral of works will need to be undertaken at some point, if not delivered through FIRP. Utility savings under this option are estimated to be just under \$40 million over 20 years s 9(2)(b)(ii) [REDACTED]. This option is preferred if affordable.
- 27 Under option 3: benefits are significantly reduced when compared against option 2 with reduced benefits including impacts to Operational Risk Ratings of assets and no benefits in sitewide remediation for seismic risk. Utility savings under this option are estimated to be \$11.5 million over 20 years s 9(2)(b)(ii) [REDACTED]. Given current fiscal challenges, this option is recommended.
- 28 Option 3 addresses what is required to mitigate risk while keeping within affordability constraints. It provides best public value as it ensures critical infrastructure continues to be remediated to keep services running in New Zealand's largest hospital.
- 29 When assessing the potential affordability of option 3, the estimates for a revised scope for tranche 3 took priority in the assessment as only funding would be sought

for this stage of works. Total costs for both tranches 3 and 4 was included in the assessment process. While benefits are not fully realised in this option and operational savings will not be as significant, less capital funding is needed immediately for option 3, thus it is the recommended option forward.

30 Risks facing FIRP T3 and subsequent mitigations are as follows in Table 3:

**Table 3: Key risks and mitigations for FIRP Tranche 3**

Risk	Consequence (H/M/L)	Likelihood (H/M/L)	Controls / Mitigations	Residual Risk
If funding is not approved or is delayed a slowing down or closure of the FIRP may result in clinical service disruption and eventual higher replacement costs.	High	High	<ul style="list-style-type: none"> <li>Reprioritise other capital projects.</li> <li>s 9(2)(f)(iv)</li> </ul>	Medium
If there is a serious harm or fatal incident on site while undertaking project works, this may result in potential criminal negligence investigations, and increased costs and programme delays (as works will be halted during a WorkSafe investigation).	High	High	<ul style="list-style-type: none"> <li>Leverage established processes that promote proactive and collaborative practices to ensure adherence to relevant legislation.</li> <li>Continued use of the dedicated FIRP health and safety team for random site verifications.</li> <li>Management attendance at health and safety meetings.</li> <li>Health and safety audits of projects.</li> </ul>	High (through delivery phase due to extent of electrical works near working and treatment spaces).
Liquidation events of contractors/subcontractors may result in cost increases, programme delays, a reduction in market capacity to deliver works, and a risk of responsibilities and liabilities being confused.	High	High	<ul style="list-style-type: none"> <li>Enhanced due diligence prior to the award of contracts and utilisation of market intelligence to make informed judgements on market risks.</li> <li>Personal Securities Register to ensure ownership of goods.</li> <li>Implement reasonable performance and retention bonds.</li> <li>Consider temporary favourable payment terms to help struggling trades.</li> </ul>	Medium
If FIRP is disestablished Health NZ will lose expertise, therefore risking services. This will also increase programme delivery timeframes due to inefficiencies.	High	High	<ul style="list-style-type: none"> <li>Maintain key roles that relate to the scope of Tranche 3.</li> <li>Enabling works to be undertaken so that works can continue while funding approval is awaited.</li> </ul>	Low
If funding is not approved or is delayed a slowing down or closure of the FIRP may result in clinical service disruption and eventual higher replacement costs.	High	High	<ul style="list-style-type: none"> <li>Reprioritise other capital projects.</li> <li>s 9(2)(f)(iv)</li> </ul>	Medium

31 There remains significant residual risk as this option does not achieve the full planned benefits of Option 2. s 9(2)(f)(iv)

## Financial implications (Financial case)

§ 9(2)(f)(iv), § 9(2)(j)

32 The expected whole of life cost of the revised FIRP T3 scope is § 9(2)(b)(ii) over 20 years. Approximately \$11.451 million of energy cost savings over the life of the project will offset the initial capital costs of § 9(2)(b)(ii).

33 § 9(2)(b)(ii)

34 The contingency provisioned in the budget has been determined sufficient for the risks identified. Drawdown of the contingency is subject to approval from the Commissioner.

## Implementation (commercial and management cases)

35 For Auckland specifically, there are several large-scale projects underway that have absorbed a significant proportion of industry resources. These include the City Rail Link, Auckland Airport redevelopment, Downtown Car Park site redevelopment (Commercial Bay 2.0) and IKEA. The type of work that FIRP requires is not typically attractive to the market as work in existing hospital environments is considered challenging. However, Health NZ remains optimistic in the expected responses to tenders due to the strong market engagement and the interest from suppliers that have been engaged previously.

36 As with Tranches 1 and 2, robust governance and reporting will continue for Tranche 3 to support decision making and ensure the deliverables remain on track and expected benefits are able to be realised.

37 Procurement and delivery methods have been tailored to the complexity and risks of each workstream. Therefore, the approach will differ between projects. Applying lessons learnt from Tranche 1 and 2, the methods for approaching the market will fall into one of the following categories that optimises value for money:

37.1 Secondary procurement via the existing consultant and procurement panels;

37.2 Large, high risk, or complex projects; or

37.3 Low risk and/or low value works.



- 38 The programme procurement approach was described in the FIRP Strategic Procurement Plan was approved as part of the Programme Business Case. The procurement approach will continue to evolve with more investigative work and market analysis. Procurement will only commence when the procurement committee has signed off all relevant plans.

**Table 5: Key milestones for each project**

Workstream	Forecast Commencement	Forecast Completion
High risk/highly critical assets	July 2025	June 2027
Sitewide Electrical Resilience	July 2025	December 2027
Alternative Heating	July 2025	April 2027
Technology Upgrades	July 2025	August 2026
Asbestos Removal	July 2025	November 2026

- 39 At least five Implementation business cases will be required for Tranche 3 to seek agreement to enter into contracts depending on how workstreams are divided into construction projects. I seek your approval to delegate approval of the Implementation Business Cases to myself, in consultation with the Minister of Finance and the Minister for Infrastructure.
- 40 Any material change to the scope, schedule or capital cost of the project's implementation business cases, Health NZ will require approval by the Minister of Finance, Minister for Infrastructure, and myself jointly within the total project cost envelope.

### **Investment assurance**

- 41 FIRP is assessed as medium risk so therefore does not require a Gateway review.

### **Cost-of-living Implications**

- 42 There are no cost-of-living implications arising from the proposals in this paper.

### **Legislative Implications**

- 43 There are no legislative implications arising from the proposals in this paper.

### **Population Implications**

- 44 The Auckland population is diverse. Eight per cent of Auckland residents are Māori, 11% are Pacific, and 35% are Asian. Māori and Pacific communities in the region experience inequalities in health outcomes with ethnicity as the strongest equity parameter. Addressing hospital services and patient experience at Auckland City Hospital and Greenlane Clinical Centre will benefit these population groups.

### **Human Rights**

- 45 There are no human rights implications arising from the proposals in this paper.

### **Use of external Resources**

- 46 FIRP is made up of a series of infrastructure projects that will be phased over years. Health NZ has a core programme team and will procure external experts with the



required technical expertise to deliver this project, for example Quantity Surveyors and engineers.

## Consultation

- 47 The Treasury, Ministry of Health and the Infrastructure Commission have been consulted on this paper.

## Communications

- 48 Should the FIRP be approved and funded through the Budget 2025 process, communication of the project will be completed through that process.

## Proactive Release

- 49 Should the FIRP be approved and funded through the Budget 2025, I would anticipate delaying Proactive Release until after the completion of that process.

## Next steps

- 50 The FIRP proposal has been invited into the Budget 2025 process with a submission made on 17 January 2025. If Cabinet approves in-principle the business case, the final approval of the project will be subject to budget decisions.
- 51 Subject to any approval of funding through Budget 2025, Health NZ will develop at least five Implementation Business Cases, which document finalised arrangements and costs, to seek approval to award the contract and commence delivery.

## Recommendations

The Minister of Health recommends that the Committee:

- 1 **Approve** the Detailed Business Case for FIRP Tranche 3 (**Appendix A**);
- 2 **Approve** in-principle the preferred option of Option 3 ‘do minimum’ with an estimated cost of s 9(2)(b)(ii) over three years subject to Budget 2025 funding;
- 3 **Delegate** approval of the Implementation Business Cases for FIRP Tranche 3 to myself, in consultation with the Minister of Finance and Minister for Infrastructure;
- 4 **Delegate** to the Minister of Finance, Minister for Infrastructure, and myself the approval of any change in the scope or capital cost for the implementation business cases within the total project cost envelope of s 9(2)(b)(ii) ;
- 5 **Note** the request in Budget 2025 for an additional s 9(2)(b)(ii) in design work for the next stage of remediating Auckland Hospital hot water pipes, s 9(2)(f)(iv)

- 6 s 9(2)(b)(ii), s 9(2)(f)(iv)

Authorised for Lodgement.

Hon Simeon Brown

Minister of Health

Proactively Released

**Appendix B. The deferred scope from FIRP Tranche 3. and rationale for exclusion.**

Original Scope	Rationale for Exclusion/Deferral
LED lighting	Removed from scope. A separate business case for undertaking LED lighting upgrades was approved and the works are underway.
Nurse Call System	Data and Digital are responsible for nurse call systems.
Tunnel to future Starship	The site masterplan is not finalised. There is no requirement for the tunnel at this stage.
Upgrade support building	The Support Building will be subject to a separate business case to repurpose and refurbish the entire building (including façade) for clinical use.
Site wide plant Seismic upgrades Passive fire protection Site wide electrical Fire system upgrade	The majority of works at GCC that are not critical to keep the site running have been excluded from Tranche 3 scope, as the masterplan for the campus (and its final intended use) is yet to be determined. However, where there is an unacceptable level of risk to clinical service, works have been included within Tranche 3.