Te Whatu Ora
Health New Zealand

Briefing

In Flight Project: New Dunedin Hospital – Value Management Advice and request for additional escalation funding

Date:	9 December 2022	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	HNZ00008490

Action sought		
	Action sought	**Requested by**
Hon Andrew Little **Minister of Health**	Agree to value management proposal endorsed by the Te Whatu Ora Board	16 December 2022
Hon Grant Robertson **Minister of Finance**	Agree to value management proposal endorsed by the Te Whatu Ora Board	16 December 2022

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Jeremy Holman	Chief Infrastructure and Investment	9(2)(a)	✓
Monique Fouwler	Director – Delivery	9(2)(a)	

The following agencies have been consulted:

☐ Māori Health Authority ☒ Ministry of Health ☐ Public Health Agency

Minister's office to complete:

☐ Approved ☐ Declined
☐ Noted ☐ Needs change
☐ Seen ☐ Overtaken by Events
☐ See Minister's Notes ☐ Withdrawn

Comments

Te Whatu Ora
Health New Zealand

Briefing

In Flight Project: New Dunedin Hospital – additional funding

Date:	1 November 2022	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	HNZ00008490

Purpose

1. This briefing provides options for addressing an estimated $200 million cost increase for the New Dunedin Hospital project and seeks your approval for additional funding of up to $110 million from the Health Capital Envelope (HCE) escalation provision in Budget 22.

Recommended actions

2. Te Whatu Ora recommends that you:

   a **Agree** to the value management Option B that requires additional funding of up to $110 million of Crown capital funding for the New Dunedin Hospital as provisioned in Budget 22.

   Agree / Disagree

   b **Note** that Option B has reduced the clinical risk but clinical risk still remains due to the level of design left to be completed, and the risk associated with programme and Iwi relationships remains.

Hon Andrew Little

Minister of Health

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Hon Grant Robertson

Minister of Finance

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Background

1. The Detailed Business Case (DBC) for delivery of the New Dunedin Hospital (NDH) was approved by Cabinet in April 2021 [CAB-21-MIN-0124].

2. In March 2022, Joint Ministers agreed to a series of cost saving measures that equated to $89 million resulting in an additional risk of $111m being recognised as a pressure against the Budget 22 appropriation to address cost escalation estimates of $200m for the New Dunedin Hospital project. Joint Ministers noted that any further significant deviations from what has been agreed needed approval from Joint Ministers (HR20220041).

3. The other changes agreed along with the estimated cost savings were:

   - Façade value engineering $15 million
   - medical equipment budget reduction $10 million
   - removal of the Pavilion building and one link bridge $47 million.

4. During value management activities since March 22, it became apparent that it was not possible to achieve the savings articulated to Joint Ministers and additional changes to the design would have to be undertaken to achieve the savings target agreed. This has resulted in the last now almost nine months being dedicated to a redesign of the inpatient building.

5. 9(2)(g)(i) [redacted]

6. The value management options were considered by the Capital and Infrastructure Board Committee on 13 October and the Board on 28 October 2022.

7. Updated advice was provided to the Capital and Infrastructure Board Committee on 8 December 2022 and endorsed by the Board on the same day.

Options

8. Three options were put forward for Board consideration and are almost the same as those provided to Joint Ministers in September.

9. With the effluxion of time the design team has focussed their work on refining Option B and has undertaken some minor work on testing the assumptions of Option C to confirm whether the savings articulated by the clinical team were feasible.

10. The table in Appendix A summarises the differences in the Options and Appendix B outlines the key design changes of Option B and Option C, compared to the schedule of accommodation contained in the business case and the current design capacity. This is similar to the table provided to Ministers in the previous briefing, but now includes clarity on the impact of Option C also.

Impact Summary of Option A – original design

11. Retaining the original design is the least risky option because if the decision was made in December 22, the design would be progressed without any further redesign required.

12. There would still be a programme delay of 9 months due to the time taken to undertake the value management exercise. This delay also has created further escalation cost risk.

13. Additional funding of $89 million, on top of the $111 million currently recognised in the Health Capital Envelope to fund the estimated $200 million escalation, would need to be found.

14. If this option was chosen by Joint Ministers, Treasury would need to provide advice as to how this additional $89 million could be funded.

Impact Summary of Option B – Board endorsed

15. In summary the main impact on clinical spaces for Option B are:

- 12 less beds on opening day but space available for later fitout.
- 2 less operating theatres reducing the number from 28 to 26, which is deemed sufficient based on current projections.
- 1 less MRI but with shell space available for one in the future
- No PET CT but a space available for one in the future

16. Additionally, onsite pathology has reduced to an acute clinical function only at 350m2, but this area has not been independently reviewed by the pathology service expertise, noting that Southern Community Laboratories recommended a minimum of 500m2 for these functions.

17. The deletion of the Pharmacy Aseptic Production Unit from scope. The key dependency is determining the feasibility and cost of extending the lifetime of the current facility in Southern Blood and Cancer Building.

18. In particular, further development of regional service plans and models of care will be needed to mitigate the risk of not being able to meet future demand.

19. Mana whenua have been engaged over the last four years in relation to the design and there have been several briefings and follow-up co-design workshops held with Aukaha and Mana Whenua representatives on the optimisation process and resultant options.

20. Whilst Aukaha expressed that the loss of the Pavilion Building and ‘cloak’ façade has been disappointing, there has been understanding of the context and need for savings in the discussions to date.

21. 9(2)(g)(i) [redacted]

22. It should be noted that sufficient time and budget fee allowance needs to be made to allow for the future co-design process with Aukaha and mana-whenua, to achieve the appropriate expressions of the cultural narrative in the Inpatients Building and landscape design.

23. There could be further unforeseen design risk associated with this option as it progresses due to unknown services clashes and consenting risk.

24. The programme implication of Option B is a 12-month delay to construction start due to the delay in undertaking the value management exercise to date, plus three more months of design required. Mitigations to the programme delay would be sought as the project progresses including accelerating the structural design so that piling could commence mid next year.

25. The cost savings estimated from this option is $90 million which is in line with the cost savings originally indicated. The call on the Health Capital Envelope for this option

would be $110 million which can be covered by the acknowledged risk of $111 million provided in Budget 22.

26. This is the option recommended by the New Dunedin Hospital Executive Steering Group and is supported by the clinical representation on the Executive Steering Group.

27. In recommending this option the Board noted that:

- Option B is being recommended due to the constraint on current capital and that any further reprioritisation of the Health Capital Envelope to support the other options herein will mean the deferment of other projects prioritised by Ministers.
- Normally value management is considered as part of an ongoing process, and in conjunction with our design team and construction contractor, rather than redesigning at this stage of the project.
- In recommending Option B as the best viable option in the current circumstances, the Board notes that the planning of option B is at an early stage of its development and future design and construction risks, along with further clinical and future capacity risks, may become apparent. These will be addressed as design progresses and could require further investment.
- It is likely that Option B will not meet the expectations of all local stakeholders.
- Further engagement with Te Aka Whai Ora and Mana Whenua on Option B will be required.

Impact Summary of Option C – Design Lite

28. Options C is a 'design lite' option that was put forward by clinical leadership and had not been tested by the design team, however, it was premised on potentially removing one floor from the Pavilion Building, deleting one link bridge and cold shelling or staging of the components in the original design which they believed would save $35m.

29. Advice from the project design team upon further investigation suggests that the savings that might be gained is closer to a saving of between $20 – $25 million. They also have advised that the removal of one floor of the Pavilion Building was not feasible without significant structural redesign, resulting in the main impact being:

- shelling the Mental Health Service for Older Persons at a loss of 24 beds
- shelling the PET Scanner
- shelling 2 radiology spaces
- deletion of one link bridge.

30. Moreover, as Option C does not remove the Pavilion Building, the cultural narrative remains.

31. Effectively, this option is Option A without the need for major redesign but defers the $20 - $25 million expenditure into the future which will then make these costs subject to further escalation. The only real saving is the removal of the link bridge.

32. The programme implication of Option C is approximately a 9-month delay to construction start due to the delay in undertaking the value management exercise to date. Mitigations to the programme delay would be sought where possible as the project progresses.

33. The impact of this option would be that additional funding of up to $65 million is required above the $111 million provisioned in Budget 22.

34. If this option was chosen by Joint Ministers, Treasury would need to provide advice as how this additional $65 million could be funded.

Cost Escalation Risk

35. All the options are subject to cost escalation risk over and above the $200 million already identified. 9(2)(i) [redacted]

36. Strategies and mitigations to continually manage cost risk is an ongoing exercise with the design consultants and contractors. Options to reduce this risk such as changing the procurement approach to a 'just in time' procurement to allow for the effluxion of time will be considered. This may provide more clarity of market pressures and reduce the risks for sub-trades having to provide a price now for the future in these uncertain times, but this cannot be guaranteed.

37. This may mean that final pricing may not be known for some time yet.

Cost pressures against the Health Capital Envelope

38. The Board understands the government's fiscal constraints and noted the cost pressures against the Health Capital Envelope. This has meant that they could only endorse Option B as funding has already been provisioned for New Dunedin Hospital escalation at $111 million and that to add further funding from the Health Capital Envelope would require the deferment of other projects prioritised by the Ministers.

Interprofessional Learning Centre

39. As part of the cost savings measures, Joint Ministers agreed to release the Crown contribution of $17m in the New Dunedin Hospital budget for the Interprofessional Learning Centre (ILC) to cover cost pressures and have invited a third-party financing option as an alternative (HR20220041).

40. The ILC is subject to a separate single stage business case to be approved at a future date which will provide a better understanding of the options for this facility, consequential cost estimates and potentially contain an option regarding partnership with Iwi.

41. If the Crown contribution is still required to be funded from the New Dunedin Hospital Budget, the above funding requirements remain true in that the $1.47 billion budget currently contains the $17 million.

42. However, if the funding requirement for the ILC was to be removed from the New Dunedin Hospital Budget, acknowledging that the ILC is subject to a separate business case in the future, this would mean that $17 million in the Health Capital Envelope would be available to allocate across other priority projects or for further cost escalation pressures that may present at New Dunedin Hospital.

New Dunedin Hospital Project Governance Update

43. As per the agreed project governance arrangements [HR20221531 refers], a letter inviting 9(2)(a) [redacted] to be the Independent Chair of the Project Steering Group has been sent. Included were draft Terms of Reference for the Independent Chair and Project Steering Group.

44. The Terms of Reference and Project Steering Group members is under review and will be discussed initially with 9(2)(a) [redacted] before being submitted to the Board and Ministers.

Next Steps

45. Once the approval is given, the project team will continue with the design and consultation of the approved option as required and a communication plan will be developed with the Ministers office so that an announcement can be made as soon as possible.

Appendices

46. There are two appendices to this paper

- Appendix A – Summary of comparisons of each option
- Appendix B – Key design changes of each option.

Jeremy Holman
Chief Infrastructure and Investment Group
Te Whatu Ora
09 / 12 / 2022

Option	Scope	Estimate of cost* $m	Progress on design and delivery timeframe*	Risk	Overall comment
A	Original scope. Includes pavilion and both link bridges.	$1470 + $200	75% of Developed Design No additional time	Design risk – Low Clinical risk – Low Cost and time certainty – Medium/High.	Least delay, and highest design certainty but likely to be highest overall cost. Loses efficiency of floor plate achieved by Option B (which will increase maintenance and operating costs).
B	Removes Pavilion Optimise Inpatient GFA, removes logistics building	$1470 + $110 Future investment will be required for shelled space and potential refurbishment of the current Pharmacy Aseptic Production Unit	Between Concept and Prelim design Timing + 3 months design	Design risk – Medium Clinical risk – Low to medium Cost and time certainty – Medium.	Achieves savings requested by the Minister while preserving nearly all capacity. Efficient building. Some costs are deferred (eg shelling) rather than deleted and potential refurbishment of the current Pharmacy Aseptic Production Unit may require additional capital in the future. Supported by ESG and Board. Consenting, clinical risk and some cultural risk through deletion of Pavilion 'Cloak" remain but likely to be able to be managed through design elements in remaining buildings (with some cost implications).
C	Original minus one link bridge and includes shelled spaces	$1470 + $175 Future investment for shelled spaces required in the future	Estimate 75% Developed No additional time	Design risk – low Clinical risk – low to medium Cost and time certainty – medium/ high	Untested, least certainty of any potential savings or deferment of capital requirements. Reinstates the Pavilion building and logistics building but shells 24 beds, PET scanner, 2 radiology spaces and deletes one link bridge plus some other services.

(*in addition to the nine months already incurred for all options through the value management process)