



Gateway Review Report

New Dunedin Hospital

Mid-Stage Gateway Review 0

December 2021

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Gateway Review Report

Review 0: Strategic Assessment

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This report has been prepared by the Gateway Review Team in accordance with the New Zealand Government's Gateway Review Process (Gateway) as set out in the six handbooks *Gateway Review Process Best Practice – Gateway to Success*, published by the New Zealand Government. This report summarises the Team's findings and recommendations, informed by, but not limited to, an assessment against the criteria documented in the handbooks.

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This report contains headline findings and recommendations only and is not intended to be interpreted in isolation from the daily discussions and briefings to the SRO during this Review.

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1 Review Conclusion

1.1 Overall Picture of the NDH Project

Introduction

The Ministry-led NDH Project is progressing and planning for delivery of the current scope is well advanced and has made significant and positive progress. Notwithstanding the issues highlighted elsewhere in this report, the Project is generally on track.

The level of clinical engagement in the design process for the new Outpatients and Inpatients Buildings has been extensive but may have driven a higher scope than is achievable within the approved budget and increased the risk if the design is rescope and reduced in scale to achieve savings.

Separate from the build project, SDHB is responsible for a business transformation project and the roll-out of a digital strategy that will enable changes in service delivery and introduction of new models of care to lessen the dependency on hospital-based services.

The NDH Project and the SDHB change management initiatives are inextricably linked. The success of one is dependent on the success of the other. They are not mutually exclusive. Together, as a programme of works they represent a significant investment. Inclusive of current estimates of escalation and the roll-out of the digital strategy, the all-up investment is in the order of \$2 billion.

Whilst an imperative remains for proceeding with the Outpatients Building, deferring the Inpatients Building could achieve savings through redesign that also ensures a fit-for-purpose building.

Political Context

There are significant challenges for the NDH that need urgent attention. Global forces, the Dunedin location of the Project and the constraints of the NZ construction market have made its execution difficult and enforces reconsideration of its scope and scale given the approved budget.

How the upcoming health reforms will impact on this Project has yet to be considered. Given the political interests in this project at both national and local levels, strong central government leadership and decisions are required to affirm the direction of this project, in terms of scope, scale and timeframe within available government funding.

Delivery Risk

Delivery of NDH to scope, time and approved budget is at risk. Budgetary pressures arising from disruption to materials supply and labour markets, to levels unseen in recent times, are threatening to derail the Project.

Whilst value management processes are underway, any major departure from the current scope and scale has the potential to undermine support for the Project, losing both community and clinician trust and confidence in the NDH build and compromising intended outcomes.

This report draws attention to delivery risks which in normal circumstances would most likely be manageable at project or programme level. However, in these extraordinary times, there are more substantive issues which need to be resolved urgently. Some are longstanding, have been highlighted before, yet remain unresolved and are a source of frustration to many.

For this programme of works to be delivered successfully, there is a need after political direction and decisions as it relates to scope, scale and funding, to:






1. Revisit governance arrangements, clarify roles, responsibilities and accountabilities, and separate governance from day-to-day project management activity
2. Integrate the buildings, ICT and Transformation Programmes into a single and coherent programme of works
3. Address cost escalation pressures by proceeding with the Outpatients Building but consider deferring the Inpatients Building to enable redesign and value management to ensure it is fit-for-purpose and deliverable within an agreed budget

For emphasis, this report is purposely crafted around these themes. It highlights the imperative for urgent action. This is in the context for the need to prepare for the transition of responsibility for NDH to Health NZ next year in areas of both accountability and capability to support successful delivery of a fully integrated Programme.

1.2 Delivery Confidence Assessment

Delivery Confidence Assessment	RED / AMBER
<p>There are significant challenges for NDH that need urgent attention.</p> <p>Delivery of NDH to scope, time and approved budget is at risk.</p> <p>Global forces, the Dunedin location of the Project and the constraints of the NZ construction market arising from disruption to materials supply and labour markets are threatening to derail the Project.</p> <p>Due to the lack of clarity in the current governance arrangements, senior stakeholders and decision makers do not have an overall view of the risks or the full scope of the investment required to deliver the benefits of the NDH.</p>	

The Delivery Confidence assessment RAG status uses the definitions below:

Colour	Criteria Description
	Successful delivery to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery significantly.
	Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.
	Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly, should not impact delivery or benefits realisation.
	Successful delivery is in doubt with major risks or issues apparent in a number of key areas. Prompt action is needed to address these, and whether resolution is feasible.
	Successful delivery appears to be unachievable. There are major issues which at this stage do not appear to be manageable or resolvable. The programme may need re-baselining and/or overall viability re-assessed.

1.3 Recommendations

The Gateway Review Team makes the recommendations in the table below, which are prioritised using the following definitions.

- ▶ **Critical (Do Now)** – To increase the likelihood of a successful outcome it is of the greatest importance that the programme should take action immediately.
- ▶ **Essential (Do By)** – To increase the likelihood of a successful outcome the programme should take action in the near future.
- ▶ **Consider (Good Practice)** – The programme should benefit from the uptake of this recommendation.

Ref.	Recommendation	Priority
R1.	The Ministry of Health establishes a single Project Steering Committee accountable for the NDH and that integrates all workstreams and realisation of all the benefits.	DO NOW
R2.	The Ministry of Health appoints an SRO to take responsibility for the integrated Project and benefits realisation.	DO NOW
R3.	The Ministry of Health initiates engagement with Ministers, the Health Reforms Transition Unit and the incoming Board of HNZ about the impact of the health reforms on the NDH.	DO NOW
R4.	That the SRO implements centralisation and management of critical Controls Documents and Processes.	DO BY 31/03/22
R5.	In its Cabinet Report Back on governance due February 2022 the Ministry of Health of Health includes advice on resolving cost escalation issues and the potential trade-offs with the scope and scale of the NDH.	DO NOW
R6.	The Ministry of Health work with HNZ to develop a workforce plan, and acquire the necessary funding, to allow the HIU (HNZ) to attract and develop the appropriate skills and experience required for the NDH to be delivered on time and to budget.	DO NOW
R7.	That Joint Ministers consider the opportunity to delay the Inpatients Building to mitigate cost escalation risks and assure alignment with the national health strategy for hospital and specialist services.	DO NOW
R8.	That the SRO ensures risks and risk management are accepted as a core project control function and are included for consideration by all governance bodies as a standing agenda item.	DO NOW
Preliminary Gateway 3 Outpatients Building Observations		
G3 R1	The Project Director documents and have endorsed the approach to the procurement of site-wide systems to mitigate interface, maintenance and future system expansion cost issues.	DO NOW
G3 R2	The Project Director obtains priced maintenance proposals from subcontractors for specialised systems and equipment.	DO NOW
G3 R3	The Project Director finalises and has endorsed the structure and resourcing of the Contract Management Team before the award of the Outpatients Building Contract in early 2022.	DO NOW
G3 R4	The Ministry of Health in conjunction with the HIU explores opportunities for emerging project professionals to join the NDH Project Team as a development opportunity.	Consider

Section 4 details the Gateway Review Team’s findings in support of these recommendations.

2 Background

2.1 Review Approach

Review 0 – Strategic Assessment is a broad, strategic review that may be undertaken at the start-up stage of a programme to inform decision-making or may be undertaken during programme implementation to confirm the alignment with the established outcomes.

In order to form an opinion in relation to this Review, the Gateway Review Team has:

- ▶ Applied the Gateway Review Process.
- ▶ Interviewed the stakeholders listed in Appendix B.
- ▶ Reviewed the documentation listed in Appendix C.

More detailed information regarding the nature of this Review and its context within the New Zealand Government Gateway Review Process is at Appendix A.

2.1.1 Context for this Review

In July 2022, the New Zealand public health system will undergo significant change. District Health Boards (DHBs) will be disestablished, and their assets transferred to a new Crown Entity, Health NZ. Health NZ will also assume responsibility for the commissioning and delivery of all hospital-based services. In addition, certain Ministry of Health functions, including those of its Health Infrastructure Unit (HIU) will relocate to Health NZ.

The HIU is managing the build component of the NDH project – construction of a new Inpatient Building, Outpatient Building and Logistics Building. At present Southern DHB is responsible for the transformational change required to achieve the wider benefits of the investment, including implementation of the models of care, necessary workforce changes and digital strategy. Those responsibilities will transition into Health NZ when Southern DHB is disestablished. This Mid-Stage Gateway Review 0 has been commissioned to determine the Project's overall readiness for this transition/handover.

The Project is well advanced with plans for a new Outpatients Building and is currently in the market to appoint a Main Contractor. This Review will also undertake a short-form Gateway 3, Investment Decision assessment of readiness to proceed to contract a Main Contractor for the Outpatients Building by way of an addendum to this report.

2.2 Project Description

On 19 April 2021, Cabinet approved the Final Detailed Business Case (DBC) for a new hospital in Dunedin (the Project or NDH) (CAB-21-MIN-0124) at a total budgeted cost of \$1.47 billion.

The Project is inclusive of:

- Acquisition of properties for construction of the new facilities (completed)
- Enabling works including site demolition and ground preparation (part completed).
- A new Inpatients Building on the former Cadbury Factory block
- A new Outpatients Building on the adjacent former Wilson parking block
- A new Logistics Building, primarily to contain plant for the Inpatients Building

The intended scope is for the delivery of 421 inpatient beds, 16 theatres (expandable to 20), 30 intensive care beds (expandable to 40) and increased ambulatory care capacity, including for day surgery. The new facilities replace the Clinical Service Building (CSB) and Ward Block on the existing Dunedin campus and will enable and support increasing demand in age-related services, modern flexible models of care, greater accessibility, standardisation and resilience.

Separate from the Project, the Board of Southern District Health Board (SDHB) oversees the delivery of a wider change management programme necessary to realise the full benefits of investing in the NDH. Key initiatives embedded in this programme are the development and implementation of its:

- Digital strategy
- Changes to models of care
- Primary and Community Healthcare strategy
- Workforce strategy

The NDH build and the SDHB change management programme are inextricably linked. Each is reliant on the other for success and delivery of the benefits of the investment.

SDHB is also in the process of updating the site master plan for out-of-scope services and long-term development of the campus and wider Tertiary Health Precinct with the University of Otago and Otago Polytechnic. This will underpin future business cases and investment decisions.

2.2.1 Aims of the Project

The DBC states that the five investment objectives for the project are:

- Ability to adapt – to create responsive infrastructure and capability that supports disruptive health system change
- To optimise use of total health system resources
- To reduce non-value-added time by 80 percent to create a seamless patient journey
- To improve the patient and staff experience
- To reduce the risk of harm to “acceptable standards”

2.2.2 Driving Force for the Project

Dunedin Hospital is not only important for Dunedin, but also for the entire Southern Health region. The hospital provides tertiary services for the whole of the Southern DHB population. Critical clinical buildings in Dunedin are not economic to renovate or refurbish. The CSB cannot be repaired and is at serious risk of failure.

The design and configuration of the hospital's existing clinical buildings impede the delivery of efficient, patient-centred models of care. They restrict service capacity, cause delays, and increase outsourcing costs. The facilities cannot absorb innovations, preventing efficiency gains and care improvements.

The poor condition of the CSB is problematic.

It is not IL4 compliant – in a significant earthquake, the hospital may be damaged to the point it would be unusable.

- Numerous areas and building components have asbestos, which would incur increased costs to remove for a refurbishment.
- The building has concrete spalling and water ingress through the roof and walls.
- Windows, floors and ceilings need replacing.
- The building needs a general refurbishment throughout.
- The building layout, configuration, and inability to run new services means that it is not suited to modern models of care either as an acute services building or a ward block.

The Ward Block is regarded as being relatively solid and seismically safe, yet a 2017 Beca report raised numerous issues with its performance and composition. Issues include asbestos, concrete spalling, and general maintenance issues. Renovation and refurbishment of the Ward Block was considered but would have had to be undertaken floor by floor which would have caused significant disruption to patients and services (e.g., relocating stairwells to outside the building) over an extended programme. The cost would have been similar to a new build without delivering any of the benefits expected from modern health facilities or flexibility needed for future models of care.

2.2.3 Project Delivery Status

Key activities completed since the last Gateway include:

- Completing acquisition of required properties on the former Cadbury Factory and Wilson Parking sites in the central city
- Approval of a Final Detailed Business Case (DBC) by Cabinet on 19 April 2021 with a budget of \$1.47B.
- A new Executive Steering Group has been stood up
- Developed Design of the Outpatient Building was completed in August
- Preliminary Design of the Inpatient Building was completed in September
- Contracting-in additional professional, technical and project management capabilities including a commercial manager
- CERES have finished all above ground demolition work.

- CPB commenced as the Main Contractor for the Inpatient Building for the Early Contractor Engagement Design Phase in October
- Appointment of CERES / March to undertake enabling works
- Early Contractor Engagement of CPB Contractors Limited (CPB) for the Inpatients Building
- A set of RFPs for the Outpatient Building (Main Contractor, façade and supply of structural steel) were released to market in September 2021 and are currently being evaluated.

2.2.4 Current Position Regarding Gateway Reviews

This is the fifth Gateway Review of the Project.

- June 2016 - Gateway 0 (Strategic Assessment)
- June 2017 - Gateway 1 (Business Justification and Options)
- June 2020 – Gateway 2 (Delivery Strategy – Detailed Business Case)
- November 2020 Gateway Assurance of Action Plan

2.3 Acknowledgements

The Gateway Review Team would like to thank all those interviewed for their support and openness, which contributed to the team's understanding of the Project and the outcome of this Review and Rhiannon O'Hara and latterly Caleb Barone, Project Co-ordinator for their excellent logistical and administrative support.

3 Previous Review

The Gate 2 Review, undertaken in June 2020, reported that “if viewed in isolation, the build Project could be assessed as Amber, but since the building itself will not deliver the benefits sought from the Programme, the Review Team adopted a wider perspective and assigned a Red/Amber Delivery Confidence Rating to the Programme”.

The June 2020 Gateway Review highlighted the need for governance clarity. An Assurance of Action Plan Review (AAP) was completed in November 2020. It concluded that

“the New Dunedin Hospital build project has made some improvements in resourcing and is progressing early contractor engagement. The delivery team is strongly led but is hindered by a lack of clarity in the overarching governance and appropriate delegations.

The June 2020 Gateway Review highlighted the need for governance clarity. This has been taken forward by the Ministry of Health. Additionally, it highlighted the need to adopt a wider perspective across the programme (including ICT integration and service transformation). Unfortunately, the content of that Gateway Review was not shared with the Southern DHB until immediately prior to the November 2020 AAP. As a result, there had been little progress on the bulk of the recommendations made within it.

The Delivery Confidence Assessment reported in June 2020 remains largely valid. The Review Team is of the view that a robust response to the recommendations should be enacted prior to the approval of the DBC and the subsequent approval of the ECE contract. There is a need to ensure that investment decision-makers can have greater confidence that the appropriate controls will be in place and that benefits realisation can be achieved”.

The DBC and ECE contract have since been approved.

Appendix E includes the recommendations of the Gate 2 Review, an update of the actions taken by the Ministry to address these recommendations post the AAP, and the Gateway Review Team’s comments on whether or not the recommendations have been addressed.

4 Findings and Recommendations

4.1 Policy and Business Context

Findings:

Direction and Scope

On 24 August 2020, Cabinet approved Option 5 as the preferred option for the NDH. Subsequently a final DBC was approved on 19 April 2021 increasing the capital envelope from \$1.4 bn to \$1.47 bn.

The business environment since the emergence and response to COVID-19 in New Zealand has significantly impacted the setting for the delivery of this Project. There are significant challenges that need urgent attention. Global forces, the location of the Project in Dunedin and the pressures in the NZ market have made its execution difficult.

This has put the successful delivery of the Project at significant risk unless the scope and scale is reconsidered or the approved budget revisited: “less hospital or more money”.

The Review Team found that there is a tension between the solution proposed being too big for the population served and the independent advice provided to the Ministry. However, the solution has been endorsed and the design has been approved (Option 5).

Given the political interests in this project at both national and local levels, strong central government leadership and decisions are required to reset the direction of this project, in terms of scope, scale and timeframe within available funding.

Expectations locally are already well formed that the current scope and scale will be delivered. However, there is an alternate view that the current design already exceeds foreseeable demand for the population served.

Health sector reforms

The impact of the reforms will shift the focus from a district to regional (South Island) and even national service provision and decision-making. HNZ’s responsibility for HIU and funding across NZ, with policy intent including health equity, could be an opportunity to revisit the current design plans that are based on the current health system and policy settings.

HNZ will have influence in revisiting past and in-flight decisions. Given that specialties and sub-specialties could be redistributed, the NDH’s scope and scale may be proven too big for the catchment population. The Review Team also heard concerns about the longer term financial and clinical sustainability of the NDH. As a consequence, an element of uncertainty exists but there has been little engagement about these and other policy issues that arise from the health reforms. The Review Team finds that what the reforms mean for this Project

should be a matter for urgent discussion amongst the Ministry, Ministers, the Health Reform Transition Unit and the incoming Board of HNZ.

The capital envelope for health infrastructure is very constrained. Over-building in Dunedin will deprive other regions of much needed funding. An unintended consequence of an overbuild of the NDH risks raising expectations of a similar blueprint being available to other communities. Is this the highest and best use of \$2 billion (excluding ongoing operating costs) for NZ and NZ Health?

Integration of Build, SDHB Transformation and ICT programmes

The Review team observed that the ESG's Terms of Reference are very prescriptive and were described as "fractured on purpose" from other Project workstreams. They focus on NDH construction and have limited visibility and no accountability for the critical dependencies and associated risks.

The Review Team observed that each of these workstreams has progressed under separate leadership, project management and governance structures. For the moment all elements of the programme of works only come together at Ministerial level. Best practice would have it coming together at an SRO / Steering Group level.

A number of interviewees expressed strong support for the establishment of a single governance body that has responsibility for all aspects of delivering the NDH. The Review Team is strongly supportive of this approach due to the inter-dependent nature of these three workstreams. Among the benefits would be oversight and direction of all the aspects of the NDH, heightened awareness of all risks to a successful outcome, lessened possibilities for rework and ensuring benefits of the investment are maximised.

The Review Team heard evidence that progress with the delivery of SDHB Transformation and ICT Programmes is slow. It is unclear if these SDHB dependencies are tracking to required timeframes and there is a lack of confidence that all will be in readiness for go-live of the NDH. Of particular importance here is the commitment and ability of the SDHB to implement its planned reform of its primary and community services and the importance of this to enabling delivering of health equity goals.

As noted in the Ministry of Health SRO's NDH Memorandum to the Deputy Chief Executive Sector Support and Infrastructure, dated 24 August 2021, "The NDH benefits proposition requires an aligned delivery of the Southern DHB transformation, ICT/Digital and infrastructure work programmes. These are currently managed through separate decision-making channels, with some reporting between but no consolidated channel to you or Ministers that aligns with the Director General's accountabilities across the total NDH investment. A consolidated reporting pathway is required across all activities." The Review Team supports this approach.

Governance

The Review Team finds there is an urgent need to clarify and have endorsed the governance, project structure, accountabilities and delegations as recommended in previous Gateway Reviews.

A high level of frustration was observed at what for many appears to be cumbersome, unclear and unworkable arrangements. The Review Team heard that governance and day-to-day project management decision-making had become blurred, as a result of the existing almost dysfunctional structure leading to time delays, missed opportunities and unnecessary cost.

The Review Team heard from a number of interviewees that there is a low level of confidence and trust amongst the governance and senior leadership of the Project Team. This has led to delayed or no decisions being made, relitigation of decisions, generally fraught working relationships together with elements of poor performance. It is critical that the roles and responsibilities of the governance body, SRO and Programme Director are clearly articulated and agreed. The Review Team notes the ESG's Terms of Reference say "The ESG shares responsibility with the SDHB transformation programme's equivalent governance arrangements to ensure the NDH Project and DHB Transformation Programme remain aligned, and together realise the benefits." Integration of these two streams of only formally come together at Ministerial level which is not appropriate for day-to-day co-ordination of a project of this size and complexity.

It is critical at this point that the Project's governance arrangements are set up for success. The dynamics of relationships among the senior leaders need attention that could be resolved through clarity of accountabilities and empowerment of project personnel. Appropriate delegations need to be established to enable those with accountabilities to fully exercise them without interference or relitigating issues.

Contemporary Governance practice in Major Projects in other jurisdictions is generally consistent as follows.

The Senior Responsible Officer (SRO) is generally a senior executive of the agency accountable for delivering the services long term i.e. the role accountable for the realisation of the benefits articulated in the Business Case which are tracked and reported under the Benefits Management Plan. Often on large and complex projects there may be two (but never more than two) SROs with joint accountability for the delivery of the Project. The two SROs would be the senior executive of the agency accountable for delivering the services long term including the Change Management necessary to implement the new operational models and a senior executive of the agency/unit accountable for delivering the infrastructure element of the Project.

The Project Steering Committee generally comprises a small group of senior representatives from key central Government agencies such as Treasury, DPMC (where considered appropriate), Crown Law, the central agency with delivery/procurement accountability and expertise, the agency responsible for overseeing Government investment

(New Zealand Infrastructure Commission) together with other subject matter experts invited as required by the Committee to assist with deliberations on specific matters of interest. The Steering Committee would generally meet monthly, or as required at major decision points in the Project life cycle and focus on issues of scope, time, cost and integration of the various workstreams (in this case the Build, Transformation Programme and the ICT programme of works) all of which are critical in achieving the overall benefits articulated in the endorsed Business Case. The Project Steering Committee is then accountable to and reports to the Senior Executive Group of the agency accountable for delivering the services long term and/or joint accountable Ministers as appropriate.

The Project Director for each workstream is generally a senior Public Servant with the necessary authority, respect, and financial delegations to make day-to-day decisions in order to maintain Project Schedule and manage day-to-day issues and Risks as they arise in that workstream.

A Project Control Group is established on most Projects, chaired by the Project Director for the relevant workstream which meets more frequently than the Steering Committee (often weekly) and manages the day-to-day issues arising to ensure Time, Scope, Cost and Integration with other workstreams are managed within the boundaries delegated from the Steering Committee.

Recommendations:

R1.	The Ministry of Health establishes a single Project Steering Committee accountable for the NDH and that integrates all workstreams and realisation of all the benefits.	DO NOW
R2.	The Ministry of Health appoints an SRO to take responsibility for the integrated Project and benefits realisation.	DO NOW
R3.	The Ministry of Health initiates engagement with Ministers, the Health Reforms Transition Unit and the incoming Board of HNZ about the impact of the health reforms on the NDH.	DO NOW

4.2 Business Case and Stakeholders

Findings:

Business case

The Review team notes the approved DBC is focused on the build only (Outpatients Building and Inpatients Building) which is progressing.

A separate DBC for the Digital Strategy is under development and yet to be approved. However, the build and the Digital Strategy are not mutually exclusive and ideally should have been developed together and incorporated into one Business Case to align critical interdependencies and ensure the building design fully reflected these. The Digital Strategy

DBC does not yet appear to include provision for enabling the Primary Care and Community based models of care.

There is a risk that the full Business Case for the critical Digital Strategy component of the NDH may not be fully supported by Government. In that case the elements of the Digital Strategy that enable community-based services and other smaller hospitals in the region will not be able to deliver the benefits of a fully integrated system. This may compromise the benefits to be realised from the NDH investment.

Stakeholders

The Review Team observed strong support for the NDH in Dunedin, however, the link to wider objectives including the intent of the upcoming health reforms is somewhat tenuous as the operating and policy environment has significantly changed. If significant changes are required to ensure the project's success, this tension will require political fortitude and active stakeholder management.

The Review Team heard that good working relationships have been established in Dunedin with key stakeholders. There is an active Local Advisory Group and Iwi representation on the ESG. Clinical input and engagement into building design has been particularly strong.

Given the high risk and political nature of the NDH, the Review Team observed that there appear to be open lines of communication to Ministers' offices. This needs to include more timely, free and frank advice from the Ministry in line with recommended changes to governance.

Controls environment

The Review Team were advised that there is no centralised management of key Controls Documents and Processes such as Risk and Issues Management or the pending suite of Project Management Plans that the Contractor(s) will be required to submit under the terms of the Contract(s). Contemporary practice on Major Projects of this scale and complexity centralises the management of these critical Controls Documents and Processes to ensure there is Management's focus of these processes is not lost in the heat of the Construction activities. Without this focus there is a risk that the Ministry may well miss early warnings or key obligations under the Contracts.

The SDHB have implemented a Programme Management Office (PMO) to guide the processes around the DHB's work on the two key streams of Clinical Service Planning and Digital Strategy both of which are critical to both inform the design of the facilities and realise the benefits of the Capital investment.

The DHB has elected to retain hands on management and oversight of the above two key workstreams rather than create a Project Board and have appointed experienced individuals to lead each of the streams of work who then report directly to the SDHB's Board on Progress, Risks and Issues arising.

Cabinet Report back early 2022

A report back to Cabinet to review the governance settings was meant to occur in May 2021 but has been pushed out to early 2022. This will highlight further work required on the governance. The Review Team understand that the scope of this report back includes advising Ministers on other issues covered in this report, including the scope and scale of the NDH, and this opportunity should be taken.

Recommendation:

R4.	That the SRO implements centralisation and management of critical Controls Documents and Processes.	DO BY 31/03/22
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4.3 Management of Intended Outcomes**Findings:*****Delivery plans***

The Review Team finds there are well developed plans for the delivery of the building aspects of the NDH. The Developed Design for the Outpatients Building and Preliminary Design for the Inpatients Building is complete. Intent to proceed with the Outpatients Building first has wide support.

There is a need to consider options beyond the review of scope and design to manage cost escalation such as pushing the Inpatients Building out to allow time for the ECE Contractor to review and advise on design, equipment selection and construction issues as discussed in more detail in the body of this report.

There is a need to ensure all senior stakeholders and decision makers understand the full scope of the investment required to bring the NDH into service, i.e., the Build, ICT and Transformation Programmes.

Funding/affordability

It was made very clear to the Review Team by most interviewees that the cost associated with the Build element of the Project is a major concern to all parties involved with the Project. The Review Team heard that there was a low confidence in budget containment but that while this may not achieve the original desired outcomes, it may result in a more fit-for-purpose hospital.

A significant cost impost on the Project which is outside the control of the Project Team and even Government is the impact of the Covid-19 cost shock pressure caused variously by

shortage of materials and skilled labour for the construction industry in general. The Review Team was advised that this escalation impact on the Project has risen from the 3% allowed pre Covid19 to possibly 6%-8% or higher, this translates currently to an additional cost impact in the range of \$60m - \$120m.

While the Project Team are attempting to mitigate this risk, they recognise that it is well beyond their ability to achieve savings of this magnitude without compromising the scope and scale. In order to achieve savings of this scale it would require a radical rescoping and redesign of the facility which would in itself incur significant additional costs and delay to the Project Schedule and potentially create some reputational risk for both the Ministry and Government.

The Review Team understands that the early delivery of the Outpatients Building is necessary, as a priority, to relieve the critical infrastructure issues in the existing hospital building. There would seem to be little opportunity to influence, in any significant way, the cost associated with this element of the Project without exposing the Ministry to potential risks associated with the existing aging infrastructure.

The Inpatients Building has already suffered some slippage in the schedule (~22% time delay in awarding the ECE Contractor). There is an opportunity by "sliding" the Inpatients Building schedule further out to gain several benefits:

- Allow time for a more intensive review of the Clinical and ICT Services proposed to ensure they align with the future needs under the Ministry of Health's proposed National Health Plan
- Allow the ECE Contractor more time to re-examine the design and apply the learnings from recently completed projects i.e., Christchurch in order to:
 - to maximise opportunities for prefabrication, modularisation, and local manufacturing
 - more fully reviewing the Engineering Services to bring them more into line with current industry learnings and contemporary practice
- Take the pressure off Government Capital expenditure by smoothing out Capital cashflows and potentially moving some of the expenditure outside the Covid-19 cost shock envelope.

Clearly the risks associated with this strategy include reputational Risk to the Ministry and Government in not delivering on the promise – this risk is somewhat manageable in that the Outpatients Building is still proceeding, the Covid-19 cost shock pressure was not foreseeable at the time the project was initiated and it is causing considerable issues with all other projects both Government and non-government across the New Zealand and in-fact the world.

Resources / capabilities

Delivery of the Programme of Works is dependent on the ability to attract and retain the right skills and experience. The project is currently heavily resourced with expert consultants and contractors. The Review Team noted it would be beneficial to have key roles filled by

permanent Ministry of Health staff to ensure the retention of institutional knowledge and the development of inhouse skills for future projects and to prepare for the transition to HNZ.

The Review Team heard consistent concerns regarding the ability for the contractors to attract the necessary professional and trades skills and labour in New Zealand, exacerbated by the NDH being located in Dunedin. This will have serious consequences for the project being delivered on time and to budget.

Concern was expressed by a number of interviewees about the churn at senior leadership levels and that this would only be exacerbated when Health NZ is established and assumes responsibility for the Project. It was noted the project had already had three SROs, three chairs of governance bodies and the SRO role currently being recruited for.

Attracting key senior resource is difficult in a constrained market and with unattractive Ministry pay bands. The Review Team heard the HIU was the least well-funded capital-intensive central agency but with a major capital programme underway to transition to HNZ. Identification and recruitment of the talent required should be a priority for HNZ. The NDH Project offers opportunity for development of talent that already existing within the public health system.

Concerns were expressed about the performance of some team members on the Project Team. While it is beyond the remit of a Gateway Review to comment on the performance of any individuals these concerns are symptomatic of the previously discussed dysfunctional governance, structure and accountabilities that currently exist. The issue of poor performance would be resolved once clear accountabilities and appropriate delegations and role clarity are established.

The Review Team heard that whilst there was some oversight responsibility of the Transformation Programme, the workforce within the SDHB required to drive and resource this work is not adequate to successfully deliver this aspect of the NDH.

Benefits Realisation

The Benefits Realisation Plan developed by the SDHB was comprehensive based on good baseline data and allocation of responsibilities and future performance measures. Its early completion was helpful to development and direction of the Project and should be promulgated more widely to ensure that a focus on the benefits is maintained and ensures the focus remains on the Benefits Realisation during the development and delivery of the project.

The Review Team heard that the Benefits Realisation Plan could be broadened to include the efficacy of services to Maori and reflect health equity outcomes.

The Review Team's recommendations about improvements to governance, if implemented, will ensure a continuing focus and oversight of the investment necessary to ensure these benefits are realised.

Recommendations:

R5.	In its Cabinet Report Back on governance due February 2022 the Ministry of Health of Health includes advice on resolving cost escalation issues and the potential trade-offs with the scope and scale of the NDH.	DO NOW
R6.	The Ministry of Health work with HNZ to develop a workforce plan, and acquire the necessary funding, to allow the HIU (HNZ) to attract and develop the appropriate skills and experience required for the NDH to be delivered on time and to budget.	DO NOW
R7.	That Joint Ministers consider the opportunity to delay the Inpatients Building to mitigate cost escalation risks and assure alignment with the national health strategy for hospital and specialist services.	DO NOW

4.4 Risk Management

The consequence of the broader external environment on the Project, due to its significant scale and being in Dunedin, means its execution as originally expected is enormously problematic. This is reflected in poor market responses to the RFPs, contracting, and the limited capacity of the sub-contracting and materials supply and fabrication in the area.

Due to the governance structure and terms of reference of the ESG, there is a lack of clear governance responsibility for critical interdependencies amongst the workstreams within the overall Project.

Findings:

The Review Team finds that delivery of this broader programme of works to scope, time and approved budget is at risk. Budgetary pressures arising from COVID-19 disruptions to materials supply and labour markets, to levels unseen in recent times, are threatening to derail the Project.

The Review Team were provided with a Comprehensive suite of Risk and Issues Management documentation which included:

- The endorsed Risk Management Plan (which included a section on Issues Management)
- A comprehensive Risk Register
- A separate Comprehensive Issues Register

The Risk Management Plan is approaching best practice in that it includes detailed definitions and categories for risks together with schedules that articulate the obligations of the various key accountably roles within the project structure. The Risk Management Plan provided focuses on the Build component of the programme of works but does make reference to the fact that *“this document is based on the Ministry’s Risk Management Framework to which the SDHB Risk Management Planning will also align”*.

There was no evidence provided to the Review team that rigorous Risk Management is occurring in the DHB however given the fact that the DHB has an established PMO provides confidence that there is a level of maturity in Project Controls in the DHB that would be appropriate.

There was evidence provided that the high-level Risks and Issues are being reported to the ESG for their consideration and action as appropriate.

The Risk Management Plan did not appear to include guidance on the frequency of formally reviewing Risks and updating the Risk Register. This is normal practice and the fact that it is missing means the risk that the Risks and Issues will NOT be formally, rigorously and

regularly reviewed is exacerbated by the absence of centralised management of critical Controls Documentation and Processes discussed elsewhere in this report.

There was no evidence provided of an integrated view of risk and issues management across the three critical streams of work required to ensure a robust programme view of risk and issues management is available to the Ministry of Health Executive.

The consideration of risks and risk management needs to be accepted as a core project control function and included for consideration by all executive and governance bodies as a standing item on their agendas.

Whilst value management processes are underway, any major departure from the current scope and scale has the potential to undermine support for the Project, lose both community and clinician trust and confidence in the NDH build and compromise intended outcomes.

Recommendation:

R8.	That the SRO ensures risks and risk management are accepted as a core project control function and are included for consideration by all governance bodies as a standing agenda item.	DO NOW
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4.5 Review of Current Outcomes

For the purposes of this Review, the current project phase ends with the award of the contract for the Outpatients Building.

Findings:

In this Phase, the Project has made significant and positive progress. It has contracted-in a range of professional, technical and project management resources. A number of planning and development activities are either complete or underway. Notwithstanding the issues highlighted elsewhere in this report, the Project is generally on track.

Activities have largely been focussed on the design and procurement of the new Outpatients and Inpatients buildings.

What is being proposed and the order in which the building programme will be procured and commissioned is generally supported. Whilst an imperative remains for proceeding with the Outpatients Building, deferring the Inpatient Building could achieve savings through redesign that also ensures a fit-for-purpose building that fully accommodates the Digital Strategy Business Case

Outpatients Building

Refer to the Appendix to this report **Early Gateway 3 Outpatients Building Observations**.

There is a high level of confidence that this building will be commissioned as planned, in 2024.

The Review Team notes that if the Contractor on the Outpatients Building does not bid or is not successful on the Inpatients Building then there is a risk to the Ministry that the integration of critical services across the total development - Security & Access Control, BMS, Nurse Call, etc - could be sub optimal. This risk can materialise in two ways:

- If different suppliers provide the systems in the different buildings this presents an interface and maintenance risks for the Ministry longer term,
- Price gouging by the established system supplier for the later stages of the works could occur.

The Review team considers that thought should be given to obtaining maintenance proposals from capital bidders, particularly specialised engineering services, (i.e. Security & Access Control, BMS, Nurse Call, BMS, etc) to both:

- Allow realistic whole of life evaluation of sub-contractor bids, and
- Give the Ministry the opportunity to take up the option of fixed price maintenance services from the system providers.

Inpatients building

Work is proceeding on the Inpatients Building with the Early Contractor Engagement (ECE) Contractor having been appointed who is engaging with the Project Team.

In attempts to contain costs within the agreed funding envelope the Project Team have initiated a range of actions including:

- External Peer Review of the Clinical Planning scope and scale and confirming it aligns with both contemporary and future best practice
- Value Management Reviews of the emerging design at key point in the process including challenging space allocations for engineering services, structural solutions, building finishes, etc
- Early procurement of long lead time items that could also be subject to volatile price changes including Façade and “Black Steel” for the Outpatients Building
- Tendering the Outpatients Building in advance of finalising the Detailed Design to elicit contemporary advice from proponents on areas of the design of the facility that might benefit from refinement to ensure when the subcontracts go to the

market, they attract innovation and interest from multiple bidders that will provide the Ministry with value for money outcomes

- Early engagement of contemporary construction expertise through an ECE approach for the Inpatients Building, albeit later than scheduled

Recommendations: There are no recommendations for this section.

4.6 Readiness for Next Phase

For the purposes of this review, the Next Phase ends with the handover of responsibility for the management and delivery of the NDH Project to Health NZ from 1 July 2022.

Findings:

Readiness for the next phase includes:

- Cost escalation issues
- Trade-off decision (more funds versus less hospital)
- Structural and governance issues
- People capacity and capability
- Progressing delivery of the Outpatients Building
- The transition to HNZ

The Review Team considers it is imperative that these issues as discussed elsewhere in this Report be resolved prior to the handover to HNZ.

There is a need to ensure all senior stakeholders and decision makers understand the full scope of the investment required to bring the NDH into service i.e., the Build, ICT and Change Management programmes of work.

The Ministry should engage with HNZ and agree how the transfer of responsibilities will occur to ensure a smooth transition, in a way that maintains momentum and has regard for the outcome of discussions as recommended earlier in this Report (Section 4.1) about the impact of the health reforms on the NDH.

Recommendations: There are no recommendations for this section.

5 Sharing Opportunities

The Gateway Review Team believes the following processes or artefacts used in the programme represent good practice. The team encourages the SRO to share these good practices to the extent possible with other Government Agencies. If the ability to share is limited by intellectual property, privacy, confidentiality or other concerns, the SRO may be able to partially share (e.g., by removing confidential sections or limiting rights to use by recipients).

Process / Artefact	Why Good Practice
Digital Blueprint is considered as a good example of articulating the aspirations for the Digital ambitions of the project.	This could inform the BCs for other hospital builds across NZ and support the standards set by HNZ.
The Benefits Realisation Plan prepared by the DHB is an example of a solid and comprehensive approach to this important activity which encapsulates the benefits articulated in the Business Case. This work is often overlooked early in a project's evolution.	This is a useful example of best practice for other projects, both in its scope and timing.

6 Next Review

The next planned Gateway Review is a **Gate 3: Investment Decision** in May 2023 prior to the award of Separable Portion 1 for Inpatients and the appointment of a Main Contractor for the Logistics Building.

Given the high-risk nature of this Project a Gate 3 Review (Investment Decision) could have been completed ahead of the awarding of the Outpatients Building contract. The timeframe for awarding the contract (February 2022) make this impractical. However, the Review team have made some observations in the Appendix to this Report to assist the SRO.

It is recommended that an in-flight Gateway Review occurs 6 months post the establishment of Health NZ. That should assess progress against the recommendations of this review if this has not already occurred as part of an Assurance Review.

If for whatever the reason the SRO determines that the Project is at serious risk of delivering planned milestones and benefits, consideration should be given to commissioning a further Mid-stage Project/Programme review.

The Ministry/Health NZ should contact the Gateway Unit at least 10 weeks before the next Gateway Review is needed, to request an assessment meeting at which the appropriate review type and dates will be confirmed. The Gateway Unit requires 8 weeks to arrange a Gateway Review following receipt of a signed confirmation from the SRO.

As this review is published to the PSI as above, it is not a Gateway review. It is however facilitated by the Gateway Unit.

2. APPENDIX A – Review Purpose and Context

1. Overview of the Gateway Process

Gateway is a programme/project assurance process that involves short, intensive reviews at up to six critical stages in the lifecycle of a project and at intervals during a programme. Reviews are conducted by a team of reviewers not associated with the programme/project, and usually contain a mix of experts sourced from the public and private sectors.

Reviews are designed to:

- ▶ Assess a programme/project against its specified objectives at a particular stage in its lifecycle
- ▶ Provide early identification of any areas that may require corrective action
- ▶ Increase confidence that the programme/project is ready to progress successfully to the next stage.

2. Overview of Review 0 – Strategic Assessment

Review 0 – Strategic Assessment is a broad, strategic review that may be undertaken at the start-up stage of a programme, to inform decision-making, or may be undertaken during programme implementation to confirm the alignment with the established outcomes. Review 0 may be undertaken several times throughout the life of particularly complex programmes in addition to the other reviews that would occur in the normal application of the Gateway Review Process.

In a broader sense, this type of review provides assurance to the Sponsoring Agency responsible for the programme, via the Senior Responsible Owner, that the scope and purpose has been adequately assessed, communicated to stakeholders, and fits within the agency's overall business strategy and/or whole-of-government strategies and policies. It also aims to test whether stakeholders' expectations of the programme are realistic, by reference to planned outcomes, resource requirements, timetable and achievability.

Review 0 – Strategic Assessment is undertaken at the start-up stage of either a programme, it occurs when the preliminary justification for the programme is drawn together. It is based on a strategic assessment of business needs, an analysis of the stakeholders whose co-operation is needed to achieve the objectives, and a high level assessment of the programme's likely costs and potential for success. In this case, a Review 0 – Strategic Assessment comes after the business need has been identified, before any further development proposal goes forward for approval. It is expected to occur infrequently and can be undertaken when an agency specifically requests a review, and obtains the Gateway Unit's concurrence, or where the review is commissioned by the Government.

Programmes that are particularly complex or long-lived may benefit from one or more Review 0 – Strategic Assessment reviews. Unlike other Gateway reviews it is likely that this will be determined by circumstances particular to the programme, rather than before a particular decision point.

In short, the Review 0 aims to test whether stakeholders' expectations of the programme are realistic, by reference to outcomes, resource requirements, timetable and achievability.

At this Gate, the Gateway Review Team would be expected to:

- ▶ Review the outcomes and objectives for the programme (and the way they fit together) and confirm that they make the necessary contribution to the overall strategy of the organisation and its senior management
- ▶ Ensure that the programme is supported by key stakeholders
- ▶ Confirm that the programme's potential to succeed has been considered in the wider context of government policy and procurement objectives, the organisation's delivery plans and change programmes, and any interdependencies with other projects or programmes in the organisation's portfolio and, where relevant, those of other organisations
- ▶ Review the arrangements for leading, managing and monitoring the programme as a whole and the links to individual parts of it (eg, to any projects within the programme)
- ▶ Review the arrangements for identifying and managing the main programme risks (and individual project risks), including external risks such as changing business priorities
- ▶ Check that provision for financial and other resources has been made for the programme (initially identified at programme initiation and committed later) and that plans for the work to be done through to the next stage are realistic, properly resourced with sufficient people of appropriate experience and authorised
- ▶ After the initial Review, check progress against plans and the expected achievement of outcomes:
 - that there is engagement with the market as appropriate on the feasibility of achieving the required outcome
 - where relevant, check that the programme takes account of joining up with other programmes, internal and external.

3. APPENDIX B – List of Interviewees

Name	Role/Position	Interview Date
Hon Andrew Little	Minister of Health	30/11/2021
Karen Mitchell	Senior Responsible Owner, Ministry of Health and Acting Deputy-Director General, Health Infrastructure Unit, Ministry of Health	29/11/2021
Robyn Shearer	Deputy Chief Executive, Ministry of Health	30/11/2021
Richard Blattman	Acting Director, Health Infrastructure Unit, Ministry of Health	30/11/2021
Mike Barns	Programme Director, New Dunedin Hospital Project, Ministry of Health	29/11/2021
Andrew Howie and Andrew Holmes	Procurement Lead, TBIG and Construction Director, Ministry of Health	30/11/2021
Adam Feeley	Project Director, Ministry of Health	30/11/2021
Neil O'Donnell	Director, RLB	29/11/2021
Chris Fleming	Chief Executive, Southern DHB	30/11/2021
Hamish Brown	Acting COO, Southern DHB	29/11/2021
Pete Hodgson	Chair, Southern DHB	29/11/2021
Sheila Barnett	Chair Clinical Leadership Group, Southern DHB	30/11/2021
Sebastian Doelle	Principal Advisor, Treasury	01/12/2021
Blake Lepper	Principal Infrastructure Advisor, Infracom	01/12/2021
Matt Allen	Director, Project Management, RCP	29/11/2021
Evan Davies	Chair, Executive Steering Group	01/12/2021
Dr Nick Baker	Member, Executive Steering Group	01/12/2021
Dean Fraser	Member, Executive Steering Group	01/12/2021
Robert Rust	Member, Executive Steering Group	01/12/2021
Patrick Ng	Chief Digital Officer, Southern DHB	29/11/2021
Chris Mules	Advisor to the NZ Health Transition Unit	30/11/2021
Paul Corbett	General Manager, CPB	01/12/2021
Chad Paraone	Acting Chief Executive Maori Health Authority	29/11/2021
Paul Tonkin	Director, Woods Harris	30/11/2021
Darren Douglass	Data and Digital, Ministry of Health	30/11/2021
Anita Dahya	Advisor, Ministry of Health	01/12/2021
Simon Watts	Probity Adviser, Bell Gully	01/12/2021

4. APPENDIX C – List of Documents Reviewed

Document Title	Version and/or Date
Detailed Business Case <ul style="list-style-type: none"> • 1. Final DBC • 2. 2021 03 24 Briefing • 3. 4432493_Cabinet Paper NDH DBC • 4. GOV-21-MIN-0011 Minute Final DBC 	22/03/2021
Updated Master Programme <i>(noted that this has been sent to ESG for the November 9th ESG meeting at which point it will be approved, or not.)</i>	Version 4.0
Schedule of Accommodation <ul style="list-style-type: none"> ○ 1. OB SoA report – key findings ○ 2. OB NDH ESG Memo ○ 3. IB SoA report – key findings ○ 4. IB NDH ESG Memo ○ 5. IB SDHB response 	08/10/2021 09/11/2021
Block & Stack	13/11/2020
Project Execution Plan	Revision 2 27/08/2021
BIM Execution Plan	Version 3.4 19/08/2021
NDH Organisation Chart	21/10/2021
Risk Register (provided on 11/11/2021)	As at 11/11/2021
Issues Register (provided on 11/11/2021)	As at 11/11/2021
Master Site Plan Report <ul style="list-style-type: none"> • NDH Master Site Plan Report • 100% DHB Health Precinct Plan – Phase One <i>(SDHB have engaged with Jasmax to update)</i>	04/02/2019 08/03/2021
Market Engagement Information Memorandum	July 2019
Market Engagement Report	Aug 2019
Market Re-Engagement Report	09/07/2020
Market Re-Engagement Memo	20/05/2020
Risk Management Plan	30/03/2021
Assurance Plan	21/04/2021
Executive Steering Group Terms of Reference	04/03/2021
Monthly Dashboard Report to the Executive Steering Group <ul style="list-style-type: none"> • 10 September 2021 • 8 October 2021 • 9 November 2021 	

Document Title	Version and/or Date
Executive Steering Group Minutes <ul style="list-style-type: none"> • 10 August 2021 • 10 September 2021 • 8 October 2021 	
SDHB progress updates to ESG <ul style="list-style-type: none"> • 10 August 2021 • 10 September 2021 • 8 October 2021 	
Gateway Review 0 – Final Signed Report	Final – 17/06/2016
Gateway Review 1 – Final Signed Report	Final – 06/06/2017
Gateway Review 2 – Final Signed Report	Final – 12/06/2020
Gateway Review AAP – Final Signed Report	Final – 19/11/2020
Southern DHB Digital Blueprint	Feb 2021
Consolidated Bed and Treatment Space Report (Destraavis)	Final – December 2019
Southern District Health Board – Strategic Services Plan	Final -14 June 2016
SRO Gateway Planning Workshop Presentation	12/11/2021
Probity Plan <ul style="list-style-type: none"> • Probity Plan – NDH Project • NDH Supplementary Probity Plan 	November 2021
NDH Outpatient (OB) Main Contractor (MC) Procurement Plans	03/08/2021
Procurement Programmes <ul style="list-style-type: none"> • Outpatient Building – Main Contractor • Outpatient Building – Façade • Outpatient Building – Structural Steel 	
Chronology of Price Certainty and Approvals	27/10/2021
ECE Award Process – ECE Award Memo	24/09/2021
NDH ECE Contract Award Plan	28/07/2021
NDH DG Memo and Joint Ministers Briefing – NDH ECE Inpatient Preferred Respondent	24/06/2021

Document Title	Version and/or Date
NDH ECE Delivery Plan	17/11/2021 V0.6
Memo of Understanding (MoU) – Mana Whenua	13/09/2021
Draft – NDH Transformation Programme – Governance Arrangement Risk	DRAFT
DDG Memo – NDH Change Approach Memo	24/08/2021
NDH ESG and SDHB Appointment – Cabinet	14/01/2021
SDHB Transformation Plan	10/03/2021
Executed ECE Agreement	04/10/2021
ECE Contract Award – Joint Ministers Paper	03/08/2021
Request for Proposal – IB ECE Contractor <ul style="list-style-type: none"> • NDH ECE RFP – Part 1 • NDH ECE RFP – Part 2 • NDH RFP Supporting Documents • Appendix A – ECE Services • Appendix B – ECE Deliverables • Appendix C – Broader Outcomes 	20/11/2020
NDH Inpatient Main Contractor Recommendation Report	23/06/2021
NDH Report Sup - Probity Letter	10/06/2021
NDH ESG Memo - ECE-Inpatients Recommendation	17/06/2021
ESG Memo - ECE-Inpatients Draft Rec	11/06/2021
NDH Inpatient MC Rec Report Draft	09/06/2021
NDH IQA Draft Report for SRO	15/06/2021
NDH Governance, ECE and Delegations Decisions Memo	6/11/2020
IQA Response and Actions	27/10/2021
SDHB Change Program Email	23/06/2021
NDH Inpatients Building Construction Contract (ECE Version)	23/09/2021
MoH Resourcing Proposal V3	01/12/21
Proposed New Dunedin Hospital Project Resourcing Structure 27 October 2021	01/12/21

Document Title	Version and/or Date
MOH Resourcing proposal	01/12/21
Review of NDH New Governance Settings Cabinet Report (DRAFT WIP)	01/12/21
CIC and Good Governance background paper DRAFT 12112021	01/12/21
NDH Benefits Realisation Plan	October 2021
NDH Outpatients Implementation Business Case	DRAFT

5. APPENDIX D – Sample Action Plan

This Appendix to the Gateway Report is intended to be able to be distributed as a stand-alone document detailing the Senior Responsible Officer's Action Plan to address the recommendations in this report.

1. Context for the Report

Introduction

The Ministry-led NDH Project is progressing and planning for delivery of the current scope is well advanced and has made significant and positive progress. Notwithstanding the issues highlighted elsewhere in this report, the Project is generally on track.

The level of clinical engagement in the design process for the new Outpatients and Inpatients Buildings has been extensive but may have driven a higher scope than is achievable within the approved budget and increased the risk if the design is rescoped and reduced in scale to achieve savings.

Separate from the build project, SDHB is responsible for a business transformation project and the roll-out of a digital strategy that will enable changes in service delivery and introduction of new models of care to lessen the dependency on hospital-based services.

The NDH Project and the SDHB change management initiatives are inextricably linked. The success of one is dependent on the success of the other. They are not mutually exclusive. Together, as a programme of works they represent a significant investment. Inclusive of current estimates of escalation and the roll-out of the digital strategy, the all-up investment is in the order of \$2 billion.

Whilst an imperative remains for proceeding with the Outpatients Building, deferring the Inpatients Building could achieve savings through redesign that also ensures a fit-for-purpose building.

Political Context

There are significant challenges for the NDH that need urgent attention. Global forces, the Dunedin location of the Project and the constraints of the NZ construction market have made its execution difficult and enforces reconsideration of its scope and scale given the approved budget.

How the upcoming health reforms will impact on this Project has yet to be considered. Given the political interests in this project at both national and local levels, strong central government leadership and decisions are required to affirm the direction of this project, in terms of scope, scale and timeframe within available government funding.

Delivery Risk

Delivery of NDH to scope, time and approved budget is at risk. Budgetary pressures arising from disruption to materials supply and labour markets, to levels unseen in recent times, are threatening to derail the Project.

Whilst value management processes are underway, any major departure from the current scope and scale has the potential to undermine support for the Project, losing both community and clinician trust and confidence in the NDH build and compromising intended outcomes.

This report draws attention to delivery risks which in normal circumstances would most likely be manageable at project or programme level. However, in these extraordinary times, there are more substantive issues which need to be resolved urgently. Some are longstanding, have been highlighted before, yet remain unresolved and are a source of frustration to many.

For this programme of works to be delivered successfully, there is a need after political direction and decisions as it relates to scope, scale and funding, to:

- Revisit governance arrangements, clarify roles, responsibilities and accountabilities, and separate governance from day-to-day project management activity
- Integrate the buildings, ICT and Transformation Programmes into a single and coherent programme of works
- Address cost escalation pressures by proceeding with the Outpatients Building but consider deferring the Inpatients Building to enable redesign and value management to ensure it is fit-for-purpose and deliverable within an agreed budget

The report highlights the imperative for urgent action and was prepared in the context of preparation for the transition of responsibility for NDH to Health NZ next year.

2. Recommendations and Action Plan

The Gateway Review Team made the recommendations in the table below, prioritised using the following definitions. The Senior Responsible Officer's plan to address these recommendations is also included in the table below.

- ▶ **Critical (Do Now)** – To increase the likelihood of a successful outcome it is of the greatest importance that the programme should take action immediately.
- ▶ **Essential (Do By)** – To increase the likelihood of a successful outcome the programme should take action in the near future.
- ▶ **Consider (Good Practice)** – The programme should benefit from the uptake of this recommendation.

R1.	The Ministry of Health establishes a single Project Steering Committee accountable for the NDH and that integrates all workstreams and realisation of all the benefits.	DO NOW		
R2.	The Ministry of Health appoints an SRO to take responsibility for the integrated Project and benefits realisation.	DO NOW		
R3.	The Ministry of Health initiates engagement with Ministers, the Health Reforms Transition Unit and the incoming Board of HNZ about the impact of the health reforms on the NDH.	DO NOW		
R4.	That the SRO implements centralisation and management of critical Controls Documents and Processes.	DO BY 31/03/22		

R5.	In its Cabinet Report Back on governance due February 2022 the Ministry of Health of Health includes advice on resolving cost escalation issues and the potential trade-offs with the scope and scale of the NDH.	DO NOW		
R6.	The Ministry of Health work with HNZ to develop a workforce plan, and acquire the necessary funding, to allow the HIU (HNZ) to attract and develop the appropriate skills and experience required for the NDH to be delivered on time and to budget.	DO NOW		
R7.	That Joint Ministers consider the opportunity to delay the Inpatients Building to mitigate cost escalation risks and assure alignment with the national health strategy for hospital and specialist services.	DO NOW		
R8.	That the SRO ensures risks and risk management are accepted as a core project control function and are included for consideration by all governance bodies as a standing agenda item.	DO NOW		

Preliminary Gateway 3 Outpatients Building Observations				
G3 R1	The Project Director documents and have endorsed the approach to the procurement of site-wide systems to mitigate interface, maintenance and future system expansion cost issues.	DO NOW		
G3 R2	The Project Director obtains priced maintenance proposals from subcontractors for specialised systems and equipment.	DO NOW		
G3 R3	The Project Director finalises and has endorsed the structure and resourcing of the Contract Management Team before the award of the Outpatients Building Contract in early 2022.	DO NOW		
G3 R4	The Ministry of Health in conjunction with the HIU explores opportunities for emerging project professionals to join the NDH Project Team as a development opportunity.	Consider		

6. APPENDIX E – Previous Findings and Recommendations

The table below contains the significant recommendations made in the previous Gateway Review for this programme - **Assurance of Action Plan – New Dunedin Hospital** and the action taken post that review, including actions that varied from recommendations made in the review.

	Recommendation	Action Taken Post AAP	Gateway Review Team Comment
R1	Develop a detailed procurement plan evaluating the procurement options for the build, which could provide the opportunity for lessons learnt from the early stage of delivery to inform final design and delivery of the later stage	<p>The market re-engagement carried out between January and July 2020 informed the detailed procurement planning and contracting models for the New Dunedin Hospital.</p> <p>Refer to: Procurement Plan Outpatient and Inpatient Building 22 October 2020. Refer Procurement Plan Outpatient Building 3 August 2021.</p> <p>The procurement of the ECE Contractor for the Inpatient Building is complete, and the successful supplier, CPB has been onboarded.</p> <p>The procurement of the Outpatient Building Main Contractor is underway, and a preferred respondent is expected to be identified and endorsed by the NDH Executive Steering Group prior to year-end.</p> <p>Refer to:</p> <ul style="list-style-type: none"> • ECE Request for Proposal • ECE Award Process – ECE Award Memo • NDH ECE Contract Award Plan • ECE Agreement • ECE Service Delivery Plan 	Recommendation addressed
R2	Formalise the build Project as one component of an overarching Programme, which also includes ICT integration and the	<p>Advice to Cabinet is explicit that the NDH Project is one component of a wider programme of transformation.</p> <p>The Director-General of Health wrote to the Southern District</p>	Recommendation partially addressed.

	<p>Service Change activities in both Hospital and Primary/Community settings</p>	<p>Health Board requesting that it establish a Transformation Programme Board reporting to the DHB Board to oversee a Transformation Programme to ensure more robust governance and greater alignment with the infrastructure investment [CAB-20-MIN-0431]. The Final Detailed Business Case notes that the Southern District Health Board has elected to provide this oversight directly rather than establish a separate board, on the basis that the Change Programme (sic) strongly linked to business-as-usual and an additional governance group may confuse accountabilities.</p> <p>The advent of Health New Zealand in 2022 will see both the Health Infrastructure Unit and DHB functions merge into the new entity.</p> <p>In the interim the NDH Project and SDHB have adopted a joint approach in several key areas. Each agency is represented on key procurement panels such as appointment of the Digital Design consultant for SDHB. An integrated approach to planning and programme is being progressed in key areas including the SDHB Digital Programme, FF&E and Commissioning.</p>	<p>Refer Section 4.1 Policy & Business context of this report</p>
<p>R3</p>	<p>Develop an Executive Summary that clearly articulates what approval is being sought for the Project, what additional approvals will be needed for further related business cases (e.g., ICT) and the extent of business change activities that will be required if the totality of the aspirational benefits are to be achieved by the Programme, through this enabling investment in a building</p>	<p>The Final Detailed Business Case was endorsed by the new Executive Steering Group (10 March 2021). The supporting Cabinet papers and Health Reports address the accountabilities of the project and SDHB.</p> <p>Cabinet approved the Final Detailed Business Case on 19 April 2021 (2021 04 19 CAB-21-MIN-0124)</p> <p>SDHB are in the process of finalising a Digital Detailed Business Case by end of 2021.</p> <p>As noted earlier, both SDHB and the NDH Project will become part of Health New Zealand in 2022 allowing for a more integrated programme view.</p>	<p>Recommendation still to be addressed.</p>

R4	<p>Maintain and strengthen Clinical, Leadership input to, and ownership of, the healthcare re -design (wider models of care) and patient flow aspects of the building design</p>	<p>Southern DHB have a Clinical Leadership Group (CLG) chaired by Dr Sheila Barnett to help provide clinical input into the New Dunedin Hospital project, including advice about clinical impact of design and overview of future models of care. SDHB also have a Clinical Council.</p> <p>CLG has begun to further explore questions relating to the Outpatients' operating model and outpatients' scheduling system, with support of SDHB's New Dunedin Hospital PMO, led by Bridget Dickson (previously Hamish Brown).</p> <p>SDHB will shortly complete a "Strategic Briefing", which provides key messages to the Southern health system as they move into the Health NZ transition phase. In this briefing, there will be a recommendation to build an integrated, clinical leadership group that has a mandate for whole system connectivity and quality. The group would have representation from multiple professional groups and from across the system. To ensure success, it must be recognised and supported by key sector organisations.</p> <p>The Strategic Briefing will recommend that clinical governance groups are established for each locality, which also have a whole-system and quality improvement mandate. Locality groups would have representation on the wider clinical group.</p>	<p>Recommendation addressed by DHB with work progressing on the key areas recommended previously.</p>
R5	<p>Ensure ongoing stakeholder engagement through a form of Stakeholder Reference Group, augmented with Iwi, academic and local community representation</p>	<p>A Local Advisory Group (LAG) operates as a stakeholder reference group. It has terms of reference. It includes representatives from:</p> <ul style="list-style-type: none"> • Dunedin City Council • Otago Regional Council • Otago Polytechnic • Waka Kotahi NZTA (the new site is bounded by state highways) • University of Otago • Local Business • Mana Whenua Representative 	<p>Recommendation addressed.</p>

		<p>LAG considers issues that relate to the New Dunedin Hospital but are not about the hospital build itself. Current issues include land transport matters including parking, precinct planning including the Wilson's block, district energy issues, the Interprofessional Learning Centre, construction workforce issues and worker housing issues.</p> <p>The new Executive Steering Group (ESG) includes an iwi representative as a member. The Chair of the Local Advisory Group is invited to attend ESG as an observer.</p> <p>Consumer representation is included in the user group process run by the SDHB and RCP (as the NDH Design Manager).</p>	
R6	Restructure the Governance arrangements, with clarity of accountabilities at Portfolio, Programme and project level; along with appropriate financial delegations and empowerment	<p>In December 2020 the Cabinet Business Committee authorised the new NDH Project Governance arrangements (refer CBC-20-MIN-0131). The first meeting of the new Executive Steering Group took place on 16 February 2021.</p> <p>Refer to:</p> <ul style="list-style-type: none"> • Paper to Minister of Health and Chair, Business Committee that sets out the new governance arrangement establishing the Executive Steering Group to oversee the redevelopment of the Dunedin Hospital. • Executive Steering Group Terms of Reference dated 4 March 2021. • Paper to Director-General of Health NDH Governance, ECE and Delegations Decisions 6 November 2021. <p>The report back to Cabinet on the outcome of the review of the new governance settings for the New Dunedin Hospital Project has been put on hold pending Health NZ reforms.</p>	<p>Recommendation partially addressed.</p> <p>Delegations is still a work-in-progress that must be resolved as a matter of urgency.</p> <p>Refer Section 4.1 Policy & Business context of this report.</p>
R7	Develop a skills profile and resource requirement and recruit as appropriate in order to address the need to manage the:	<p>As an adjunct to the role of ESG Chair, the Ministry is seeking the Chair's advice and review of the structure and processes currently governing the NDH Management Team. This review is expected to be completed before year end.</p>	<p>Recommendation being addressed but requires urgent resolution.</p>

	<ul style="list-style-type: none"> • Programme (including change management); and • Project (including Contract delivery) <p>simultaneously and in a co-dependent manner.</p>	<p>A new SRO is in the process of being appointed for the project and a key focus will be reassessing the specialist skills and resources required that matches the planned activities and timescale of the project. It is likely that the core project team will call upon other experts or resources within the Ministry from time to time to assist with specific aspects of the project.</p> <p>Refer to:</p> <ul style="list-style-type: none"> • Joint Ministers paper on ECE Contract Award and structural changes required to the NDH Project to support the appointment of CPB. • KPMG IQA Report – May 2021. <p>SDHB retains responsibility for the change programme but key roles such as the SDHB Programme Manager are collocated with the NDH Programme Director in the NDH Project Office.</p>	<p>Refer section 4.3 Management of Intended Outcomes of this Report</p>
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7. APPENDIX F - Preliminary Gateway 3 Outpatients Building Observations

1. Introduction

While the Review Team considers it is too early in the process to provide a full Gateway 3 Review on the procurement for the Outpatients Building, the Review Team were requested to provide observations that could assist the Ministry with the tender evaluation and appointment of the Contractor and for and delivery phase of the Outpatients Building.

These observations should not be seen as a replacement for a full Gateway 3 Review but simply matters that have come to the attention of the Review Team during the conduct of the Gateway 0 Review.

2. Background

The Ministry has been to market with an RFP for the Outpatients Building, the Project Team are currently evaluating bids and engaging with proponents as part of the robust evaluation of the bids in order to appoint the Contractor to meet Project Schedule and Budget.

While the Detailed Design status was approximately 50% complete the Ministry elected to go to the market before the design was fully completed in order to elicit advice from proponents on areas of the design and construction of the facility that may benefit from refinement to ensure that when the subcontracts go to market they attract interest from multiple bidders with innovative solutions and local capacity which will then provide the Ministry with improved value for money outcomes.

3. Assessment of Proposed Solution

The Review Team finds that the proposed solution - the early delivery of the Outpatients Building– meets the objectives of the agreed approach being to address as a priority the critical infrastructure issues in the existing hospital building.

The procurement follows a well-documented and endorsed approach supported by all stakeholders and the Probity Advisor. The Clinical Leadership Group have been actively engaged at all stages of the development including progressively reviewing the design as it evolved.

In order to mitigate potential supply delays on long lead time items (Black Steel and Façade) the Ministry elected to tender these packages early then novate these contracts to the appointed Contractor for the main works to then manage the contracts and incorporate these items in the main building works. This approach also provides earlier price certainty on items that could be subject to highly volatile price fluctuations.

The Review Team notes that there are other items of equipment that are often subject to long lead time such as lifts however the Delivery Team have advised that they did not consider that the procurement of these items by the Contractor for the main works would negatively impact on the overall program.

If the Contractor on the Outpatients Building does not bid or is not successful on the Inpatients Building then there is a risk to the Ministry that the integration of critical services across the total development - Security & Access Control, BMS, Nurse Call, etc - could be sub optimal. This risk can materialise in two ways: -

- If different suppliers provide the systems in the different buildings this presents an interface and maintenance risks for the Ministry longer term,
- Price gouging by the established system supplier for the later stages of the works could occur.

Consideration should be given to obtaining maintenance proposals from sub-contractors during the bid process, particularly specialised engineering services, (Security & Access Control, BMS, Nurse Call, BMS, etc) to both:

- Allow realistic whole of life evaluation of sub-contractor bids, and
- Give the Ministry the opportunity to take up the option of fixed price maintenance services from the system providers.

Recommendations:

G3 R1	The Project Director documents and have endorsed the approach to the procurement of site-wide systems to mitigate interface, maintenance and future system expansion cost issues.	DO NOW
G3 R2	The Project Director obtains priced maintenance proposals from subcontractors for specialised systems and equipment.	DO NOW

4. Business Case and Stakeholders

Refer to the Gate 0 Review Report for comments in this area.

5. Risk Management

Copies of the Executive Steering Group Meetings (ESG) provided include references to the Status Report Dashboard, which was provided separately, this dashboard includes a good

summary of the high-level Risks and Issues for comment and discussion by the ESG hence ensuring Risks are considered at the executive level.

Refer to the Gate 0 Review Report for further comments in this area.

6. Review of Current Phase

Refer to the Gate 0 Review Report which addresses in more detail the broader concerns over Governance, Structure, Resourcing, Accountabilities and Delegations appropriate for a project of this scale.

The Outpatients Building is critical to relieve the infrastructure issues at the existing facility, this is proceeding in accordance with the agreed approach with tenders closed and currently being evaluated.

7. Readiness for Next Phase

Recommendations from previous Gateway and the Independent Quality Assurance (IQA) Reviews with respect to Project Governance, Delegation's, Structure and Resourcing of the Project overall and more specifically the Delivery Teams Contract Management capacity and capability have NOT been resolved.

These matters are discussed in more detail in the Gate 0 Report.

Specific to this Gateway 3 Observations Paper the structure, resourcing and delegation authority of the Contract Management Team has not been finalised or endorsed. This is an important activity that needs to be finalised as soon as possible as the Project Team is already engaging with the bidders in clarifying, evaluating and finalising the recommendation for the preferred bidder. Once the successful bidder is approved then solid Contract Management processes including a Contract Management Manual together with appropriately qualified and experienced resources will be required to ensure the Ministry is clear on its obligations under the Contract and is suitably resourced to manage the Contract.

Role Clarity

Many interviewees expressed concern over the lack of clarity around their authority to make decisions. This is creating uncertainty in the Project Team and has resulted in minor matters being escalated to more senior managers, often in Wellington, this then results in delays in resolving and progressing issues. As an example, the awarding of the ECE Contract some 4 months later than scheduled while design progressed unabated has reduced the opportunity for the ECE Contractor to influence the design and equipment selection based on their learnings from recently completed projects (i.e., Christchurch Hospital).

All of this is indicative of poor clarity around roles and accountabilities.

The input from an experienced Contractor with deep knowledge of the industry capacity and capability in New Zealand together with the ability to adopt contemporary practices would be beneficial to both: -

- The project in that it could create a more efficient construction schedule saving time and cost and
- Increased manufacturing capacity and capability in NZ.

Resourcing

While overall governance, structure and accountability issues are addressed in the Gateway 0 Report there is a pressing need to need finalise and endorse the resourcing of the Contract Management Team including finalising Contract Management Manual before the award of the Outpatients Building Contract in early 2022. Without this capability being formally resolved the Project may be exposed to challenges and pressures from the Contractors that they are not equipped or capable of dealing with resulting in the Ministry being exposed to unnecessary cost and delays during the delivery of the project.

The limited availability of the necessary skills in NZ, or in fact internationally, together with the Ministry’s limited ability to offer appropriate remuneration for appropriately qualified and experienced resources will be a challenge in resolving this issue.

There is an opportunity to use this Project as a development opportunity for emerging Government Project Professionals to allow them to improve their skills with experience on a major project in preparation for the emerging pipeline of Health projects.

Recommendations:

G3 R3	The Project Director finalises and has endorsed the structure and resourcing of the Contract Management Team before the award of the Outpatients Building Contract in early 2022.	DO NOW
G3 R4	The Ministry of Health in conjunction with the HIU explores opportunities for emerging project professionals to join the NDH Project Team as a development opportunity.	Consider