

Health Capital Envelope

29. The Health Capital Envelope (HCE), including Budget 22, appropriation totals **\$4.495 billion**. Of this:
- \$3,812.6 million** has been allocated to projects with an approved business case
 - \$480.9 million** has been allocated but is pending approval.
 - \$118.5 million** is unallocated.
30. The **\$118.5 million** unallocated portion of the HCE is available to fund cost escalations and contingency requirements for **existing projects**. The identified potential cost escalations currently are around **\$300 million**.
31. A more up to date breakdown of the allocation of the HCE can be found in the cost escalation paper for this month.

Cost escalation risk assessment

32. A total unfunded cost pressure of **\$171.3 million** has been identified within the HCE. To manage this, the requests for allocation of HCE have been reviewed and ranked based on project prioritisation criteria.
33. Te Whatu Ora Board has considered the overall cost pressure and endorsed an approach to manage the immediate portfolio pressure. The IIG is currently preparing advice for Joint Ministers and is working with the Treasury and the Ministry of Health to ensure that the advice outlines the range of options and the reasons for the selection of the **recommended** approach. The paper will also recommend that Joint Ministers approve **\$82.8m** in capital allocation from the Health Capital Envelope to ten projects with critical funding requirements.
34. Should the proposed allocation of funds to the proposed projects be approved, it will have the following impact on available funding within the HCE.

	Available Funding	Total Portfolio Cost Pressures	Funding shortfall
HCE as of December 2022 (Post Health Park, Tower 3, Whangārei and New Dunedin Hospital decisions)	\$201.3	\$372.6	(\$171.3)
Impact of allocations sought through this paper	\$118.5	\$289.8	(\$171.3)

Health Capital Envelope

29. The Health Capital Envelope (HCE), including Budget 22, appropriation totals **S9(2)(b)(ii)**.
S9(2)(b)(ii) Of this:
- a) **S9(2)(b)(ii)** has been allocated to projects with an approved business case
 - b) **S9(2)(b)(ii)** has been allocated but is pending approval.
 - c) **S9(2)(b)(ii)** is unallocated.
30. The **S9(2)(b)(ii)** unallocated portion of the HCE is available to fund cost escalations and contingency requirements for existing projects. The identified potential cost escalations currently are around **S9(2)(b)(ii)**.
31. A more up to date breakdown of the allocation of the HCE can be found in the cost escalation paper for this month.

Cost escalation risk assessment

32. A total unfunded cost pressure of **S9(2)(b)(ii)** has been identified within the HCE. To manage this, the requests for allocation of HCE have been reviewed and ranked based on project prioritisation criteria.
33. Te Whatu Ora Board has considered the overall cost pressure and endorsed an approach to manage the immediate portfolio pressure. The IIG is currently preparing advice for Joint Ministers and is working with the Treasury and the Ministry of Health to ensure that the advice outlines the range of options and the reasons for the selection of the recommended approach. The paper will also recommend that Joint Ministers approve **S9(2)(b)(ii)** in capital allocation from the Health Capital Envelope to ten projects with critical funding requirements.
34. Should the proposed allocation of funds to the proposed projects be approved, it will have the following impact on available funding within the HCE.

	Available Funding	Total Portfolio Cost Pressures	Funding shortfall
HCE as of December 2022 (Post Health Park, Tower 3, Whangārei and New Dunedin Hospital decisions)	S9(2)(b)(ii)		
Impact of allocations sought through this paper			

16. Tables 3 and 4 below contain the information for the Red rated projects.

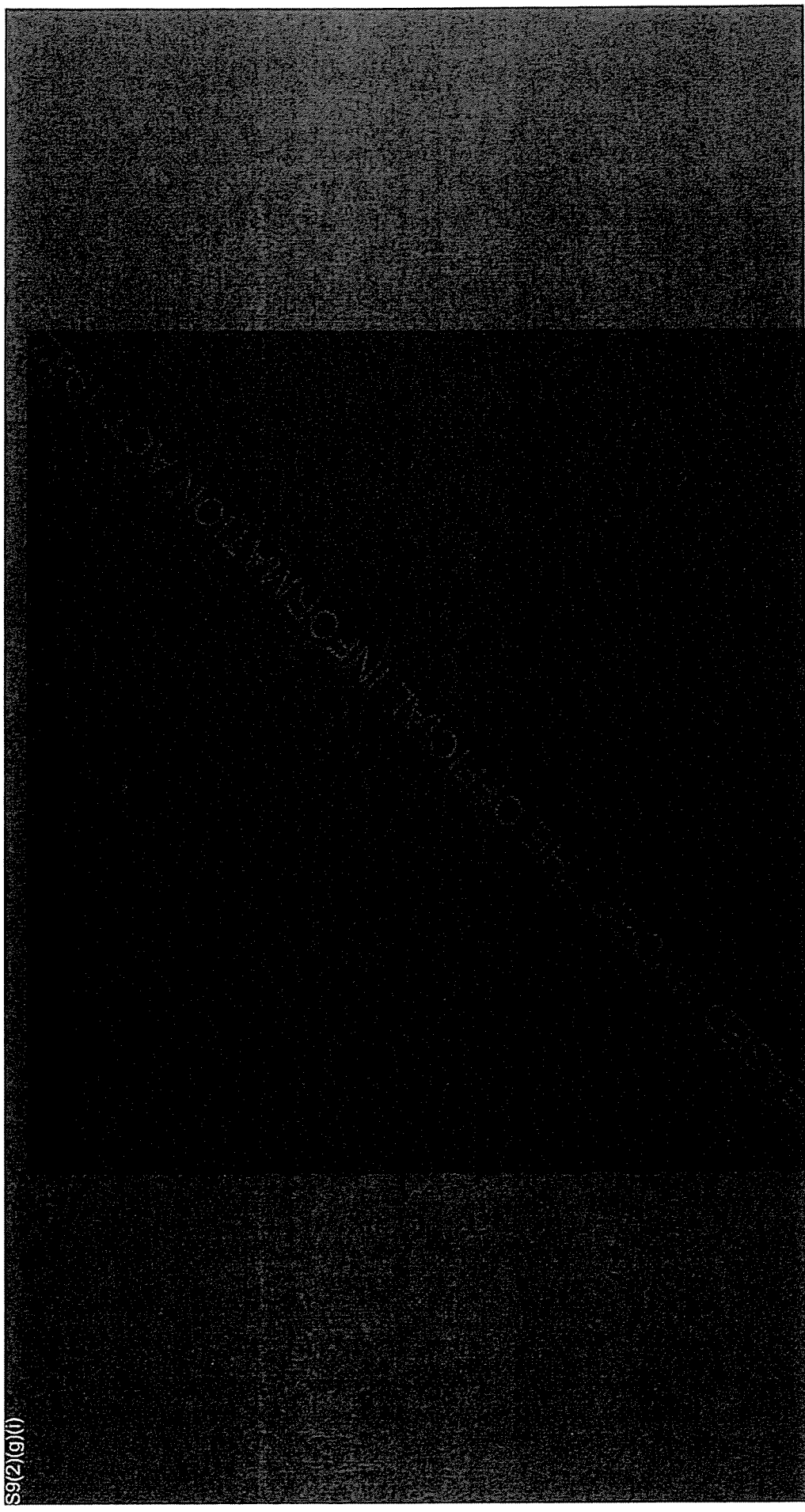
Table 3: Commentary on Red rated projects (excludes MHIP)

Areas	Project	Commentary	Mitigation
<p>1. Southern Location: Dunedin Hospital Rated Red since 31 December 2022</p>	<p>Urgent Interim Works - Deferred Main, Gastro-enterology, Audiology, ICU 10027</p> <ul style="list-style-type: none"> Total Crown funding of \$27.2 million Deliver Phase Quarterly Assurance Report 	<p>This project is the deferred maintenance programme.</p> <ul style="list-style-type: none"> The project is still at Red due to staffing issues and one delayed project (for 'Calorifiers and heat exchangers' - indirect-fired water heaters providing hot water in a heating and hot water system.) which remains behind schedule. The consultancy phase of that project is complete and the project is now in the procurement phase. One calorifier will be replaced per month, with a total 9 calorifiers to be replaced. 	<ul style="list-style-type: none"> A senior project manager was recruited in January 2023 and working on the delivering the 'Calorifiers and heat exchangers' project. This part of the project is expected to complete by June 2024. The IIG is working with the project team on submitting a timeline change request.
<p>2. Waitematā Location: Waitākere Hospital Rated Red since 30 June 2022</p>	<p>Waitākere Hospital Urgent Inpatient Capacity Project 10204</p> <ul style="list-style-type: none"> Total Crown funding of \$65.1 million Design Phase Quarterly Assurance Report 	<p>This project aims to deliver a new inpatient building accommodating a 30-bed inpatient unit and the introduction of an Intensive Care Unit.</p> <ul style="list-style-type: none"> The project remains in Red due to scope changes, including pandemic response requirements, associated cost increases and market escalation. <p>Progress in the last quarter:</p> <ul style="list-style-type: none"> 100% Developed Design was delivered on 23 December 2022. Detailed Design has commenced and is due for completion in July 2023 Preparation for the main contractor procurement on 27 March 2023 is underway and it will be issued subject to approval from the Ministers by 24 March 2023. 	<ul style="list-style-type: none"> The project team undertook a value engineering exercise in October 2022. Scope and budget changes were endorsed by Te Whatu Ora Board in December 2022. Advice is being prepared for the Minister to approve the budget and scope changes as part of a combined briefing on cost escalations in March. The project can move out of Red once Ministerial approval is received. The main contractor procurement will then provide greater cost certainty.

Areas	Project	Commentary	Mitigation
<p>3. Hawke's Bay Location: Hawke's Bay Hospital Rated Red since 30 June 2022</p>	<p>Linear Accelerators 10211-8</p> <ul style="list-style-type: none"> Total Crown funding of \$33.2 million Design Phase Quarterly Assurance Report 	<p>This project includes building a one-storey facility with two bunkers and one LINAC machine that delivers radiation oncology only.</p> <ul style="list-style-type: none"> The project remains at Red as the site change resulted in a significant scope increase to include chemotherapy and haematology. These share staff with oncology and the new site is not close to existing services. <p>Progress in the last quarter:</p> <ul style="list-style-type: none"> The feasibility report and Concept Design (including the cultural narrative) are complete and out for sign-off by Te Whatu Ora Hawke's Bay. Service operating and workforce models are due in the first quarter of 2023. 	<ul style="list-style-type: none"> A new Business Case is being developed for the additional indicative cost of \$23.86m for scope increase (including medical oncology, chemotherapy and haematology). The additional funding is needed as a site change was requested by the IIG to make more effective use of the hospital grounds. The IIG expect to receive the business case in April. It will be considered by the Capital and Infrastructure Committee and Te Whatu Ora Board in June 2023. Once the business case is approved by Joint Ministers – currently planned for July 2023, the project will move out of Red.
<p>4. Taranaki Location: Palmerston North Hospital Rated Red since 30 April 2022</p>	<p>Linear Accelerators 10211-7</p> <ul style="list-style-type: none"> Total Crown funding of \$33.0m Design Phase Quarterly Assurance Report 	<p>This project is the construction of a purpose-built facility on Taranaki Base Hospital campus, the procurement and installation of a new linear accelerator, and staff provisioning to support a new Model of Care in collaboration with MidCentral.</p> <ul style="list-style-type: none"> The project remains at Red as there is a risk to budget due to escalating costs, changing specifications, and time delays in the approvals process and enabling works. <p>Progress in the last quarter:</p> <ul style="list-style-type: none"> Enabling works contractor established the site after asbestos removal and demolition. Detailed Design and procurement of the main contractor are progressing well. 	<ul style="list-style-type: none"> The project team has submitted an updated Change Request with a detailed memorandum to the IIG on 15/02/23. It details the value management during the Design Phase and three mitigation strategies (additional funding sources, further QS, potential descopeing with reduction of gross floor area). The IIG is working with the project team to confirm the best option forward before the Main Contract sign-off in late April 2023. Once the final cost and scope is approved by Joint Ministers, the project will move out of Red.

Areas	Project	Commentary	Mitigation
5. MidCentral Location: Palmerston North Hospital Rated Red since 30 June 2022	Surgical Procedural Interventional Recovery Expansion (SPIRE) 300-19 <ul style="list-style-type: none"> • Total Crown funding of \$27.5 million • Deliver Phase • Quarterly Assurance Report 	<p>This project will repurpose existing space in a clinical building to provide additional theatres, procedure rooms, offices and more.</p> <ul style="list-style-type: none"> • The project remains in Red due to escalating costs and construction timeline slippages. <p>Progress in the last quarter:</p> <ul style="list-style-type: none"> • Construction of the first four areas (Gastroenterology, Day of Surgery Admissions, Recovery and staff area) at Palmerston North hospital is now operational. • Asbestos removal in scope-associated areas is complete. 	<ul style="list-style-type: none"> • Discovery of asbestos in areas associated with the project scope has led to Te Whatu Ora MidCentral undertaking asbestos remediation work at the cost of \$1 million. This is part of wider site maintenance and falls outside of the project scope. • The project has undertaken value management exercises. However, despite reductions in scope and the re-use of existing materials, the final cost to complete exceeds the allocated budget. • Te Whatu Ora Board has endorsed additional funding of \$2.4 million in December and advice seeking Minister's approval is prepared as part of a combined briefing on cost escalations in March. The project can move out of Red once it is approved. • A review has identified opportunities to accelerate the programme and reduce risk to the critical path, allowing for an anticipated July 2023 construction completion date.

S9(2)(g)(i)



Aide-Memoire: HNZ00012202 Update on Health Capital Projects As at 31 January 2023 |

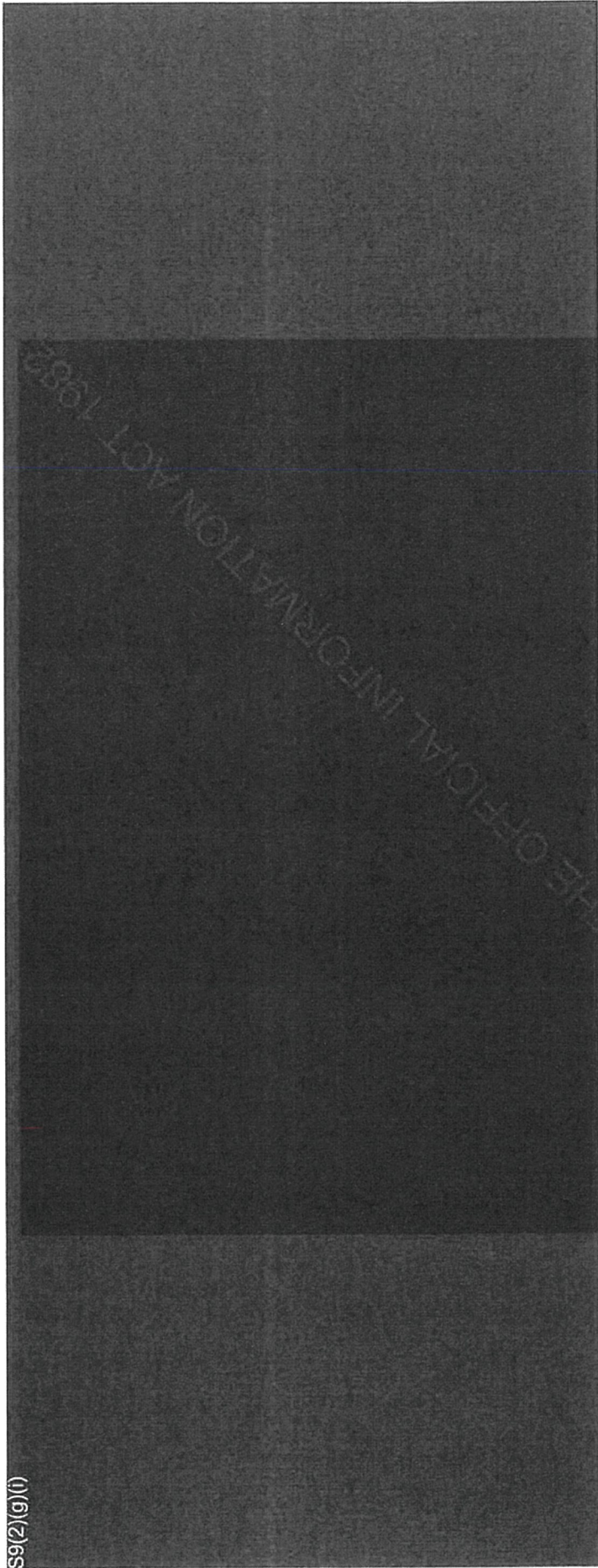
In -Confidence

S9(2)(g)(i)



Aide-Memoire: HINZ00012202 Update on Health Capital Projects As at 31 January 2023 |
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S9(2)(g)(i)



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