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Action required by: 20 August 2015

Establishment of Southern Partnership Group

To: Hon Dr Jonathan Coleman (Minister of Health)
Hon Bill English (Minister of Finance)

Purpose

This report seeks approval to establish a Southern Partnership Group to oversee the redevelopment of Dunedin Hospital. A fiscally neutral transfer of \$0.2 million is sought to enable the Ministry of Health to meet the cost incurred with the establishment of the partnership group while a work plan, project structure and budget is developed. A draft memorandum to the Cabinet Appointment and Honours Committee is attached for consideration.

Key points

- Dunedin Hospital has reached the end of its life cycle, with a number of its buildings no longer suited for acute clinical functions and in many cases facilities that don't meet minimal clinical standards.
- At the same time the district health board (DHB) is facing an increasing deficit position in its financial performance, which has resulted in a Commissioner being appointed.
- Significant capital investment is required at the Dunedin site and this provides an opportunity for a substantive in-depth review of services, how they are delivered and at what cost to Southern DHB.
- Officials from the Ministry of Health and Treasury propose that a Partnership Group, similar to that used for re-developments for the West Coast and Canterbury DHBs, be established to assist Southern DHB to review service delivery and plan for a major capital investment in Dunedin. The Partnership Group would be directly accountable to the Minister of Health and Minister of Finance
- Initial funding of \$0.2 million will be required for the establishment of the partnership group while a work plan, structure and budget for the development of a Strategic Assessment and Indicative Business Case is prepared.
- The Terms of Reference for the Southern Partnership Group is attached for your agreement.
- The Ministry will provide secretariat and procurement support to the Southern Partnership Group and initially hold contracts.
- The project is expected to take seven to ten years, which is in line with the timeframes for any major redevelopment.
- The Minister of Health has instructed his officials to explore possible options to speed up the process for the rebuild, while not compromising engagement or robust decision making. This timeframe will be confirmed when the Partnership Group has been established.
- A Single Stage Business Case for urgent interim works at the Dunedin site has been considered at the August Capital Investment Committee and a joint report will be forthcoming shortly.

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Recommendations

The Ministry of Health and Treasury recommend that you:

	Minister of Health	Minister of Finance
a) Agree to establish a Southern Partnership Group for the Southern DHB redevelopment project.	Yes/No	Yes/No
b) Agree the proposed Terms of Reference for the Southern Partnership Group.	Yes/No	Yes/No
c) Agree a fiscally neutral transfer \$0.2 million from the Equity for Capital Projects appropriation to Health Sector Projects for project initiation.	Yes/No	Yes/No
d) Note that officials will provide further advice on additional funding requirements from the health capital envelope for the development of the Strategic Assessment and Indicative Business Case once the Partnership group is established and a work plan and project team structure are determined and a proposed budget is prepared.		
e) Agree that the Ministry of Health will provide secretariat and procurement support for the Partnership group.	Yes/No	Yes/No
f) Sign the attached draft memorandum to the Cabinet Appointments and Honours Committee (APH) and the accompanying CAB 100 form, for consideration at APH's 25 August 2015 meeting (Appendix B) as a late submission.	Yes/No	

Michael Hundleby
Acting Director
National Health Board

Ben McBride
Manager, Health
The Treasury

Hon Dr Jonathan Coleman
Minister of Health signature

Hon Bill English
Minister of Finance signature

Date:

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Purpose

1. This report seeks approval to establish a Southern Partnership Group to oversee the redevelopment of Dunedin Hospital. A fiscally neutral transfer of \$0.2 million is sought to enable the Ministry of Health to meet the cost incurred with the establishment of the partnership group while a work plan, project structure and budget are developed. A draft memorandum to the Cabinet Appointment and Honours Committee is attached for consideration.

Southern DHB

Issue

2. Dunedin Hospital has reached the end of its life cycle, with a number of the buildings no longer suited for acute clinical functions and in many cases facilities that don't meet minimal clinical standards. Enduring financial problems have meant that for a number of years, only essential maintenance issues and those posing an immediate risk to clinical service continuity has been prioritised and undertaken resulting in deteriorating assets.
3. At the same time the DHB is facing an increasing deficit position in its financial performance, which resulted in a Commissioner being appointed.
4. An investment in a re-configured, clinically fit-for-purpose facility at the Dunedin Hospital would be a key enabler for realising the shift in the way in which health care would be delivered by Southern DHB.
5. Any redevelopment is an opportunity to review how care is best delivered. Service Planning interrogates strategies to manage growth, service changes, whole of service alignment and financial viability. A substantial 'whole of health service' review of operations would provide a clear understanding of service configuration, models of care and key enablers and ensure a strong base for business case decisions going forward.
6. In the undertaking of any service review there will be challenges as stakeholders will have concerns as to the possible outcome for services. A high level of public interest, along with a number of competing interests and external influencers, will all need to be considered. A capital investment provides an opportunity and an incentive for engagement in the review of services, how they are delivered, and at what cost to Southern DHB.
7. The service review will inform not only the business cases going forward but also the design and configuration of the facilities themselves, providing operational efficiencies and improving the effectiveness of services.
8. The Dunedin School of Medicine adds another layer of complexity as all the various schools and programmes within the School of Medicine have some relationship with Southern DHB. Many DHB employed staff are also engaged in research and teaching. In addition, in some areas there is a merge of clinical areas and university space.

Interim works

9. On 9 March 2015 the Capital Investment Committee (CIC) approved the Strategic Assessment for a Single Stage Business Case for urgent interim works (Intensive Care Unit (ICU), Gastroenterology, Mental Health, Audiology and deferred maintenance). This business case was reviewed by the CIC at their 13 August 2015 meeting and a report seeking joint Ministers' approval for an investment of up to \$22.5 million is being prepared.
10. It is intended that these interim works will ensure the operation of Dunedin hospital for the next seven to ten years while the redevelopment is progressed.

Partnership group model

11. There are currently two Partnership Groups operating in the health capital environment. One overseeing the Christchurch hospital redevelopments and related projects, the other overseeing the Greymouth Hospital redevelopment.
12. The partnership group model has proved to be an effective and successful mechanism for achieving service review, providing business cases which are robust, ensuring the outcome is appropriate to the need and providing best value for the public money.

Southern DHB Redevelopment Project

13. The Ministry of Health and the Treasury, in agreement with the Southern DHB Commissioner, propose that a Partnership Group be established to provide governance and oversight of the Southern DHB service review and redevelopment of the Dunedin hospital site.
14. The role of the Southern Partnership Group would be to provide governance oversight of the redevelopment throughout the phases of the project, beginning at service review and Strategic Assessment through to final completion of construction. It is expected this process would normally take seven to ten years until the opening of a new facility, which is in line with the timeframes any major redevelopment.
15. The Minister of Health has instructed his officials to explore possible options to speed up the process for the rebuild, while not compromising engagement or robust decision making. This timeframe will be confirmed when the Partnership Group has been established.
16. The initial phase will require an in-depth service review and the development of a Strategic Assessment, expected to be completed late 2016. This will provide a review of 'whole of health service' operations, looking at strategies to manage growth, service changes, whole of service alignment and financial viability. A financial model will also be developed to support subsequent phases of the project.

Membership

17. Officials have identified a set of requisite skills for the Group to guide selection of the committee members, which includes the following:
 - Governance experience
 - Health Service Planning experience
 - Senior health clinician
 - Financial accountant with governance and health experience
 - Change management with senior management experience and governance
18. The proposed members of the Southern Partnership Group are Mr Andrew Blair (Chair), Richard Thompson (Southern DHB Deputy Commissioner), Dr Andrew Connolly, and Dr Tony Lanigan. The Commissioner, Southern DHB will attend meetings and Ex officio members from the Ministry of Health, the Treasury and Southern DHB would also attend meetings.
19. An additional member with an interest in primary care will be advised at a later date.

Terms of Reference

20. Terms of Reference are attached. The Terms of Reference are based on those of the West Coast Partnership Group. (Refer attached APH paper for member CVs)
21. It is proposed the term of the Southern Partnership Group would be five to seven years with options to exit from the process as required. An initial three-year term of office the Partnership Group would commence as soon as practicable.

22. Membership will have the ability to change as the project progresses through various stages. This ability to change members at appropriate stages/phases would enable the membership to move from a strong clinical service delivery expertise base to a stronger construction expertise base, as the project develops while keeping the membership small and functional.
23. As the Partnership group would not be a section 11 committee, the Minister of Health will need to indemnify all members of the partnership group against individual liability associated with any of their duties on the partnership group under regulation 4(c) of the Public Finance (Department guarantees and indemnities) Regulations 2007.
24. All Partnership Groups are subject to Cabinet Office Circular CO (12) 6, Fees framework for members appointed to bodies in which the Crown has an interest. Ministry of Health officials used a similar fee structure to that outlined for a Group 4, Level 1 body in Cabinet Office Circular CO (12) 6. This is in line with the Canterbury Hospital Redevelopment Group and the West Coast Partnership Group.
25. The Southern Partnership Group will be accountable to the Minister of Health and Minister of Finance for all agreed deliverables.

Finance

26. A high-level estimate of \$300 million for the redevelopment has been signalled in the DHB's capital intentions. Southern DHB will not be contributing any funds to the redevelopment.
27. Estimated cost of business case development depends on the extent of use of professional advisors. While a project structure, work plan and proposed budget is developed in consultation with the Chair of the Partnership Group, \$0.2 million fiscally neutral transfer is sought to initiate the work of the partnership group. A further funding request from the Health Capital Envelope will be developed to complete the Strategic Assessment and Indicative Business Case stages of the project.

Reporting

28. The Partnership Group will provide Ministers with quarterly reporting on progress.

Treasury Comment

29. The Treasury understands that there may be a desire to expedite the redevelopment of Dunedin Hospital in light of the anticipated 7 to 10 year timeframe for the planning and build process. While highlighting for the partnership group the urgency of the situation would be appropriate, we would not support establishing an expedited timeframe for completion of the process.
30. The Southern DHB has not significantly advanced the service planning for the DHB which is a precursor for a major redevelopment. This work is essential to ensure that the eventual outcome of the process in Dunedin is an optimised hospital delivering the appropriate scale and scope of services for the future. A significant amount of engagement with clinicians and other stakeholders will be needed to ensure buy-in for any changes, which will be time consuming.
31. Past experience with expedited business case and construction processes in Christchurch and Greymouth illustrate the risks of working to rigid timelines, which have limited the full exploration of procurement approaches and led to compromises which have driven higher build costs (i.e., initiating procurement on the basis of the partial design of Burwood Hospital due to tight construction schedules).
32. To mitigate service and facilities risk while the redevelopment process is undertaken, an urgent works business case has been prepared by the DHB to address deferred maintenance issues and non-fit-for-purpose ICU and endoscopy facilities. This redevelopment project represents a once-in-a-generation opportunity to build modern and sustainable services and facilities in Dunedin that will meet the needs of the population. Getting it right will not be a short term process.