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## Southern Partnership Group - Budget

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

**RECEIVED**  
 11 APR 2016  
 BY: Office of the  
 • Hon. Dr Jonathan Colema.11\_

### Purpose

This report seeks approval of \$5.902 million as the budget for the next two years of the Southern Redevelopment Project.

### Key points

- The funding for the first stage of the Southern Redevelopment Project ends in June 2016.
- The Ministry of Health proposes to amalgamate the budget for the development of the indicative (IBC) and detailed business case (DBC) stages together for the next stage to improve efficiencies and reduce the risk of slippage in the timelines.
- These business cases require a final service plan, models of care, a functional brief, engineering reports, architectural designs and quantity surveyor reports. One of the largest cost in these stages is the architectural design. It is unclear at this point when the differing levels of architectural designs are required in the IBC and DBC.
- The Ministry seeks \$5.902 million from the Health Capital Envelope as the budget for this period. The bulk of this Budget will be determined by the competitive tendering process. Any underspend will be returned to the Health Capital Envelope.
- The Ministry is writing a Request for Proposal (RFP) for consultants to develop the IBC and DSC. Prior to the RFP going to market Budget approval is required to enable the next phases of the project to commence as quickly as possible.
- Officials are aware that joint Ministers of Health and Finance are meeting to discuss the timelines for the Dunedin Hospital redevelopment project. The Ministry will ensure the RFP reflects these agreed timelines.

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## Southern Partnership Group - Budget

### Recommendations

The Ministry and Treasury recommends that you:

Minister of Health      Minister of Finance

- (a) Agree to the following fiscally-neutral transfer to enable the Ministry of Health to meet the costs incurred by the Partnership Group on the Southern Redevelopment Project.

Yes / No      Yes / No

Vote Health Minister of Health	\$ (million) increase / (decrease)			
	2016/17	2017/18	2018/19	2020/21
Non-Departmental Capital Expenditure:				
Equity for Capital projects for DHBs and Health Sector Crown Agencies	(5.902)			
Health Sector Projects	5.902			
Total Debt:	0			



Michael Hundleby  
Director - DHB Performance  
Service Commissioning  
Ministry of Health



Ben McBride  
Manager, Health  
The Treasury



Hon. Dr Jonathan Coleman  
Minister of Health

Date: **iv/Cf(((, ,**



Hon. Bill English  
Minister of Finance

Date:

## Southern Partnership Group - Budget

### Background

1. Joint Ministers approved \$1.7 million for the first stage of the Southern Redevelopment Project in October 2015, funding the Strategic Planning Stage (HR 20151782 refers).

### Introduction

2. Stage 2 is due to commence in July 2016 and covers the IBC and DSC in preparation for the build.
3. For the purposes of this budget request, the Ministry has amalgamated the IBC and DSC stages together to improve efficiencies and reduce the risk of slippage in the timelines. These business cases require a final service plan, models of care, a functional brief, engineering reports, architectural designs and quantity surveyor reports. One of the largest cost in these stages is the architectural design. It is unclear at this point when the differing levels of architectural designs are required in the IBC and DSC.
4. The Ministry seeks \$5.902 million from the Health Capital Envelope as the budget for this next stage. The bulk of this Budget will determined by the competitive tendering process. A high level outline of the Budget spend over the next two years is attached as Appendix 1. Any underspend will be returned to the Health Capital Envelope.
5. The Ministry is writing a Request for Proposal (RFP) for consultants to develop the IBC and DSC and prior to this going to market, Budget approval is required to enable the next phases of the project to commence as quickly as possible. This includes the Public Private Partnership (PPP) procurement model. A high level outline of what is required for PPPs is outlined in Appendix 2.
6. Officials are aware that joint Ministers of Health and Finance are meeting to discuss the timelines for the Dunedin Hospital redevelopment project. The Ministry will ensure the RFP reflects these agreed timelines.

### Indicative Business Case stage

7. The IBC's main focus is on options development (referred to as the economic case). Formal consideration of a PPP procurement is also required at this stage (refer below). Through engagement with architects, health planners and stakeholders (such as hospital management, clinicians, government officials) a long and short list of options is identified that focuses on facility and service configuration, and a recommended preferred way forward to take into the DBC. Robust interrogation of the options is critical.
8. The work engaged in at the beginning of the IBC is not intended to compromise the joint Ministers decision on the Strategic Assessment (as the June 2016 start date for the IBC assumes that non critical work can go ahead while waiting for this decision). However it may lead to contractor fees being lost and contracts being broken if joint Ministers do not approve moving to an IBC.

### Detailed Business Case phase

9. The DSC stage undertakes a more detailed analysis of the costs and benefits and full financials of the preferred and short listed options, final Models of Care, concept draft, functional brief, provides for a procurement proposal, and the necessary funding and management arrangements for the successful delivery of the project.
10. The development and costing of the concept design, schedule of accommodation and functional brief can be contracted for during the DSC, but only if the preferred option has been confirmed and is well developed.
11. The development and costing of the concept design, schedule of accommodation and functional brief can be contracted for during the DSC, but only if the preferred option has been identified and worked up.

**Design and build phase**

12. Experience from the Canterbury and West Coast DHB builds – Burwood, the Acute Services Building - ASB (400 beds, 62,000 m2 and \$445 million) and the Greymouth hospital (54 beds, 8,500 m2 and \$68 million) indicate that the design (concept, preliminary, developed and detailed design) and build phase takes approximately 4-6 years. This takes into account approval points, procurement, and fast tracking mechanisms such as moving from one stage to another before it is complete. The length of the process will depend upon completeness of the business cases and procurement options and complexity of build.
13. If the concept design is finished within the DBC this will help to reduce the design build phase timelines.

**END.**

**Appendix 1**

**Proposed spend over the next two years for the IBC/DBC phase**

<b>Stage 2</b>	<b>Deliverables (June 2016 - Aug 2018)</b>	<b>(\$) 2016/17</b>	<b>(\$) 2017/18</b>
<b>Consultants</b>			
Business case	Indicative Business Case, Detailed Business Case		
Health Planner	Finalise service plan		
	Options		
	Models of Care		
	Functional brief		
Architect	Options		
	Master site plan		
	Concept design		
Quantity Surveyor	Options		
	Concept		
Building reports			
Legal			
Probity			
Gateway	Gate 1 (before the IBC complete)		
	Gate 2 (before the DBC complete)		
Independent Quality Assurance			
<b>Project Support</b>			
Project Manager			
Communications			
HRPG			
Administration			
Finance model			
Travel			
Ministry of Health project staff			
Programme consultant	Construction advice, peer review		
<b>Sub total</b>			
<b>Total</b>			<b>5,901,500</b>

## Appendix 2

### Public Private Partnerships in the IBC/DBC stage

1. Formal consideration of procurement options, including a Public Private Partnership (PPP) is required in the IBC phase when considering the long list options for a project of this size (Cabinet Office Circular (15) 5).<sup>1</sup>
2. Where a PPP is a preferred option, the DBC requires the development of a Public Sector Comparator (PSC), which is a counterfactual based on traditional build duration and cost to which PPP procurement can be compared in order to determine value for money, and a further market sounding for a PPP procurement.
3. The additional element for PPP procurement in the DBC is the PBM (Proxy Bid Model) which estimates the different costs incurred through a PPP (due to procurement cost and potential finance costs) which is then compared against the PSC. If PPP procurement is included in the short list in the IBC, consultation with joint Ministers and engagement with potential interested parties through an initial market sounding is required before PPP procurement is presented to Cabinet. If a PPP is the preferred option in the DBC, Cabinet approval at the end of the DBC is required to use a PPP in conjunction with the standard approvals to proceed.
4. The PPP procurement guidance estimates that 20 months (at the most) is required for the procurement process (where a preferred bidder is selected and the documentation that forms the basis of the contract is developed). A Cabinet report back confirming the value for money offered by PPP procurement (confirming the project cost under PPP procurement is lower than the PSC) is required before the contract is signed.

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<sup>1</sup> A PPP is a long-term contract for the delivery of a service, where provision of the service requires the construction of a new asset, or enhancement of an existing asset, that is financed from external (private) sources on a non-recourse basis, and full legal ownership of the asset is retained by the Crown.