

NSW Health

Capital Contingency Management Framework



Document Control Sheet

Document Properties

File Name	Document Owner	Document Approval Status
Capital Contingency Management Framework	Strategic Reform and Planning Branch	ENDORSED

Version History

Version No.	Creation date	Author	Summary of changes
1.0	02/02/2023	Service and Capital Planning Unit	First draft
1.1	31/03/2023	Service and Capital Planning Unit	Updates for eHealth
1.2	04/04/2023	Service and Capital Planning Unit	Revisions for initial HI consultation
1.3	20/05/2023	Service and Capital Planning Unit	Additions and structural changes to facilitate SCPU review
1.4	31/05/2023	Service and Capital Planning Unit	Revisions based on SCPU feedback
1.5	16/06/2023	Service and Capital Planning Unit	Revisions based on HI feedback
1.6	27/07/2023	Service and Capital Planning Unit	Revisions based on eHealth feedback
1.7	08/09/2023	Service and Capital Planning Unit	Revisions based on CSG discussion and additional HI feedback

Approvals

This document requires the following approvals:

Committee	Date	Version signed off
Capital Strategy Group	18 September 2023	1.7

Contents

1. Background	3
1.1 Purpose	3
1.2 Alignment with other policies	3
1.3 Application of the Framework	3
2. Overview of contingency provisions	5
2.1 Purpose of contingency provisions	5
2.2 Types of contingency provisions	5
2.3 NSW Health Centralised Contingency	5
3. Governance for contingency management	6
3.1 Overview of governance structure	6
3.2 Roles and responsibilities	6
4. Infrastructure Project Contingency	8
4.1 Project Contingency	8
4.1.1 Process for seeking release of Project Contingency	8
4.2 Executive Contingency	9
4.2.1 Process for seeking release of Executive Contingency	9
5. Digital Project Contingency	10
5.1 Digital Project Contingency	10
5.1.1 Process for seeking release of Digital Project Contingency	10
6. Estimation of risk and reporting	11
6.1 Estimation of Risk	11
6.2 Reporting	11
7. Declaration of surplus funds and access to Centralised Contingency	12
7.1 Return of surplus funds for infrastructure projects	12
7.2 Return of surplus funds for digital projects	12
7.3 Eligibility to access Centralised Contingency funds	12
7.4 Process for requesting access to Centralised Contingency funds	13
7.5 Prioritisation criteria for assessment of Centralised Contingency requests	14
7.6 Consideration and prioritisation by the CSG	15
Appendix A: CSG Contingency Proposal template	16
Appendix B: Documenting assessment against Centralised Contingency prioritisation criteria	17

1. Background

1.1 Purpose

The purpose of the *NSW Health Capital Contingency Management Framework* (the Framework) is to promote consistent, effective cost control processes across projects and NSW Health's capital program.

The Framework outlines the processes to govern the management of capital contingencies for infrastructure and digital projects, including:

- provisioning and calculating contingency funds;
- estimating project risks and reporting;
- approving contingency expenditure;
- the return of surplus contingency funds to the capital program; and
- the prioritisation and re-allocation of surplus funds to other projects through the NSW Health Centralised Contingency fund.

The Framework replaces the *NSW Health Management of Capital Contingencies* paper (2017).

1.2 Alignment with other policies

The Framework was prepared in response to the [Infrastructure NSW \(INSW\) Cost Control Framework](#) (April 2022), which recommended that Clusters review their existing cost control processes to ensure alignment.

The Framework will support NSW Health to articulate its approach in meeting the requirements and strategic intent of the *INSW Capital Portfolio Health Check* process, which assesses the level of confidence in an agency's capability and capacity to successfully deliver their capital infrastructure portfolio.

It also aligns with the principles in the [NSW Treasury Circular \(TC 14/29\) Management of Contingency Provisions for Major Projects](#).

The Framework is designed to guide the development and application of other relevant policies and procedures governing the delivery of major capital projects, including:

- Health Infrastructure's *Cost Planning and Reporting Standards – 2023* and *Project Governance Arrangements Framework - 2023*; and
- eHealth NSW's *Program and Portfolio Governance Model* and *Change Control Process*.

1.3 Application of the Framework

The Framework applies to all capital projects that are:

- funded through appropriations from the Consolidated Fund,
- delivered by NSW Health entities, and
- valued above \$10 million.

Note that this includes NSW Health's digital asset projects that have had major capital funding approved as part of the annual State Budget process and capital allocated to NSW Health.

The Framework does not apply to projects that are funded through other government capital funding arrangements (such as Restart NSW and the Digital Restart Fund), which retain ownership and management of contingency funds. Projects funded under these arrangements will need to comply with contingency management requirements under the relevant governance for those arrangements.

The Framework also does not apply to capital projects funded through eHealth's Capital Equipment Replacement Fund, as set out in the [Accounts and Audit Determination for Public Health Entities in NSW](#).

2. Overview of contingency provisions

2.1 Purpose of contingency provisions

Contingency provisions are allocated within the project budget to cover the cost of unforeseen risks or unplanned activities related to the project scope in the approved Final Business Case.

Contingency allowance is made to ensure that the scope of the project defined in the approved Final Business Case can be delivered if unforeseen project risks eventuate during project delivery.

The preferred option in the Final Business Case must outline a service scope that is not reliant on access to contingencies at the time of Final Business Case approval. Project teams are required to assess the risk of the project and ensure they have enough contingency allocated to manage any unforeseen risks.

2.2 Types of contingency provisions

Infrastructure Project Contingency

NSW Health infrastructure projects valued at over \$10 million are required to hold two contingency provisions:

- Project Contingency - governed by the project's Executive Steering Committee (ESC).
- Executive Contingency – governed by the NSW Health Capital Strategy Group (CSG)

Section 3 sets out the governance structure, roles and responsibilities of the relevant bodies. Section 4 sets out the calculation standards and process for the release of infrastructure project contingencies.

Digital Project Contingency

NSW Health digital investments (projects and programs) are also required to hold contingency budgets for unforeseen risks or unplanned activities that are necessary to deliver project outcomes and require additional funds.

Section 5 sets out the calculation standards and process for the release of digital project contingencies.

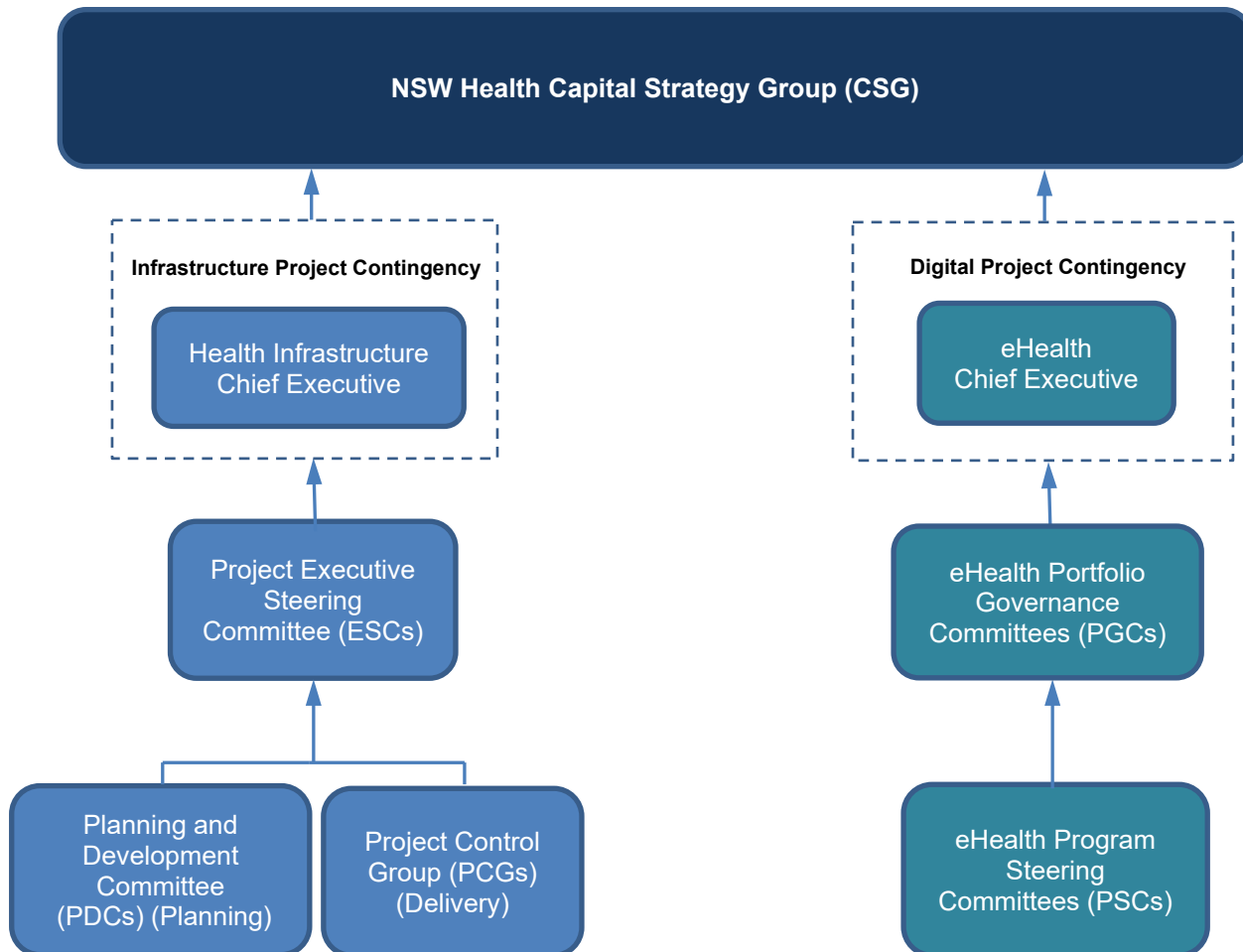
2.3 NSW Health Centralised Contingency

The NSW Health Centralised Contingency fund is used to absorb the impacts of unforeseen or unknown risks across the capital program. The Centralised Contingency fund holds surplus contingency funds that are declared by Health Infrastructure (and eHealth, where applicable) upon the financial completion of a capital project, which the CSG may then reallocate to other capital projects/programs.

Section 7 sets out the processes for returning surplus funds to the capital program, requesting the re-allocation of available Centralised Contingency funds to other projects/program, and the agreed prioritisation criteria to be applied by the CSG.

3. Governance for contingency management

3.1 Overview of governance structure



3.2 Roles and responsibilities

NSW Health Capital Strategy Group (CSG)

The role of the CSG is to provide oversight on the strategic direction, delivery, evaluation, policy, and governance for the NSW Health capital program, as per the approved CSG Terms of Reference.

Where a project is funded through the NSW Health capital program, the CSG is the ultimate decision-making and approval body in relation to Executive Contingency (and in relation to Project Contingency where a request relates to additional scope outside of the approved business case). The CSG is also the sole approval body in relation to Centralised Contingency.

Executive Steering Committees (ESCs)

The project ESC provides strategic direction and leadership on all project activities within the approved scope of the business case from Stages 1-3 of the Facility Planning Process. The ESC is the ultimate decision-making and approval body in relation to Project Contingency, where the contingency request

relates to delivery of the approved scope.

Planning and Development Committees (PDCs) (Planning)

The PDC is responsible for monitoring and advising on all aspects of a project between Stages 1 and 2 of the Facility Planning Process. It is responsible for endorsing requests for Project Contingency during planning before they are submitted to the ESC.

Project Control Group (PCGs) (Delivery)

The PCG is responsible for monitoring and advising on all aspects of a Project in between Stages 3 and 4 of the Facility Planning Process. It replaces the PDC upon completion of all Stage 2 activities. The PCG is responsible for endorsing requests for Project Contingency during project delivery before they are submitted to the ESC.

eHealth Portfolio Governance Committees (PGCs - Digital)

The eHealth PGCs are the principle governing entity for eHealth NSW's various portfolios and provide strategic input, advice and direction in relation to the approval and delivery of digital programs and projects. The PGCs span five domains including Clinical, Corporate, Integrated Care and Population Health, Infrastructure and, Data and Analytics.

eHealth Program Steering Committees (PSCs - Digital)

The eHealth PSCs are responsible for monitoring and advising on all aspects of discrete programs and projects, ensuring that programs and projects are consistent with relevant strategies, business cases and operating policies. The eHealth PSCs report to the relevant PGC.

4. Infrastructure Project Contingency

NSW Health infrastructure projects valued at over \$10 million are required to hold two contingency provisions:

- Project Contingency
- Executive Contingency

This section sets out the calculation standards for infrastructure project contingency provisions and the relevant approval processes for the release of funds.

4.1 Project Contingency

Project Contingency is to be provisioned for unplanned and unforeseen risks to the capital cost plan that may arise during the planning, design and construction phases of the project. It covers risks that can be managed by the delivery team, including:

- Planning risks (development applications, etc)
- Design risks (AusHFG or Building code Australia changes etc)
- Construction risks (latent issues such as asbestos etc).

As a default position, project contingency is to be calculated as 15% of the Gross Construction Cost (GCC), with the following allocations to be applied:

- *Planning Contingency - 5% of GCC*: allocated for issues that arise during resolution of planning.
- *Design Contingency - 5% of GCC*: allocated for issues that arise when developing design.
- *Construction Contingency - 5% of GCC*: allocated to fund client risks during construction.

It is important to note that benchmark data is used, where available, to support the above allocations based on Health Infrastructure's large program of similar projects that have been completed in recent years. Consistent with the INSW Cost Control Framework, the deterministic approach is used to account for the fact that many risks will not have been identified or quantified during the planning and design phases. Additionally, this approach provides consistency across the program and provides appropriate allowances to cover unidentified risks based on historical data.

Project Contingency is governed by the Project's Executive Steering Committee (ESC).

Further details regarding project contingency calculation during planning, design and construction are covered in Health Infrastructure's *Cost Planning and Reporting Standards* document.

4.1.1 Process for seeking release of Project Contingency

The project ESC has authority to release Project Contingencies (planning, design and construction) when risks are realised, as identified on the project risk register.

A paper seeking the release of contingency funding is to be endorsed by the Planning and Development Committee (PDC) or Project Control Group (PCG) and then submitted to the project ESC for approval.

A request for the release of Project Contingency does not need to be submitted to the CSG for approval if it relates to delivery of the approved scope. However, any request to use Project Contingency for additional scope not approved in the Final Business Case needs to be submitted to the CSG for approval, following ESC endorsement.

4.2 Executive Contingency

Executive Contingency is to be provisioned to protect against unforeseen risks and cost overruns external to the project. This includes changes to Health Planning Unit guidelines, legislation (such as external cladding), or Government policy.

Executive Contingency is to be calculated as 10% of the Gross Construction Cost (GCC).

At the point of Final Business Case approval, the approved scope outlined in the Final Business Case should not be reliant on access to contingencies or additional funding. This is because contingency funding is intended for activities and risks that are unforeseen at the time of Final Business Case approval.

4.2.1 Process for seeking release of Executive Contingency

Where the request relates to a project being delivered by Health Infrastructure, the request should be submitted by Health Infrastructure on behalf of the relevant Local Health District/Specialty Network, in accordance with the usual project governance arrangements.

Where the request relates to a project that is not being delivered by Health Infrastructure (and there is no Executive Steering Committee for the project), the request may be submitted directly by the District/Network.

All requests for the release of Executive Contingency must be submitted to the CSG Secretariat ten (10) working days prior to the CSG meeting to ensure that there is adequate time for an initial assessment of the request. The CSG Contingency Proposal template (Appendix A) should be used for the submission of all requests.

If a request is submitted to the CSG for out of session approval, it must also be endorsed by ESC members out of session.

For all Executive Contingency requests, an initial assessment will be conducted by the Ministry of Health Service and Capital Planning Unit (as CSG Secretariat) to review:

- the eligibility of the request and adherence to any relevant policies.
- whether the submission was made within the required timeframe.
- any additional information that could impact the decision.

Decisions regarding the release of contingency are to be made by the CSG, and formally communicated, in accordance with the approved CSG Terms of Reference.

5. Digital Project Contingency

5.1 Digital Project Contingency

NSW Health digital investments (projects and programs) are required to hold contingency budgets for unforeseen risks or unplanned activities that are necessary to deliver project outcomes and require additional funds.

Contingency budgets for digital projects are provisioned to protect against unforeseen risks and to ensure that the scope of the project defined in a project's Final Business Case can be delivered in the event that identified project risks eventuate.

The contingency budget for digital projects is calculated based on the cash flows and risk profile outlined in the Business Case for the investment and is usually within 15-25%. Contingency is not to be used to fund scope that was not included in the Business Case.

5.1.1 Process for seeking release of Digital Project Contingency

Where digital projects are funded through NSW Health capital allocations, the Project Steering Committee has authority to release up to 50% of the contingency budget.

Once greater than 50%, but less than 75%, of the contingency budget has been drawn down, any subsequent change requests must also be approved by the Portfolio Governance Committee (PGC).

Once 75% of the contingency budget has been drawn down, any subsequent requests to release Digital Project Contingencies must be submitted to the CSG. The project's PGC is required to endorse the release of additional contingency budget prior to a request being submitted to the CSG.

Under the eHealth Executive Council, there are four (5) Portfolio Governance Committees (Clinical, Corporate, Infrastructure, Integrated Care and Population Health, and Data & Analytics). Each Committee governs and supports several programs and projects. These committees are responsible for the programs within their portfolio, prioritisation and resolution of issues and conflicts across their portfolio.

6. Estimation of risk and reporting

Contingency funds are provisioned to manage identified project risks. Greater transparency and reporting on the risk position at both the project and agency levels will help provide effective oversight and inform decision making.

6.1 Estimation of Risk

Contingencies are designed to protect the portfolio and project budget against risks that have been identified in the project risk register. As such, the preparation of robust cost estimates is fundamental to successful cost control for capital projects.

The project team should test the adequacy of deterministic contingency allowances using probabilistic methods (P50/P90) during the development of the business case. A weighted assessment of the total risk exposure including the probability of risks occurring and the significance of their impact should be used to test whether the deterministic allowances are sufficient.

The expected value of risks identified should be regularly updated throughout the project lifecycle.

6.2 Reporting

Transparency of cost control is essential to provide confidence that the cost of delivering the infrastructure program is being diligently controlled.

NSW Health entities responsible for delivering major capital projects are required to provide a report to the Capital Strategy Group on the total expected value of risks identified against the available contingency at a project and program level. The report is to include:

- Estimated Total Cost for the projects in the portfolio.
- current risk exposure for the projects in the portfolio.
- current Contingency for the projects in the portfolio.
- the difference between the aggregate risk exposure and Contingency for the projects in the portfolio.
- trends for the above indices.
- forecasts for the above indices over the forward estimates.
- mitigation strategies to contain identified risks.

The benefits of greater transparency and reporting on the value of risks identified against the available contingency include:

- assisting the CSG in making determinations where all implications are considered.
- minimising potential adverse impacts on NSW Health's fiscal position when external shocks occur.
- promoting efforts to manage risks at the project level and accountability for the outcomes delivered.
- enabling risk to be managed across the portfolio rather than contained to a project-by-project basis.
- allowing the agency to flexibly and quickly respond to realised risks.

7. Declaration of surplus funds and access to Centralised Contingency

7.1 Return of surplus funds for infrastructure projects

Upon the financial completion of a project, any surplus funds (including contingency funds) must be declared to the Ministry of Health Finance Branch.

Once funds have been declared surplus, they will be transferred to the NSW Health Centralised Contingency fund for potential reallocation to eligible projects.

Note that in circumstances where capital funding has been secured through other government funding arrangements (and not appropriated from the Consolidated Fund), the relevant governance for contingency management will apply.

7.2 Return of surplus funds for digital projects

Any surplus funds for eHealth capital projects will be assessed by eHealth NSW's Investment, Strategy and Architecture directorate (ISA) in accordance with established portfolio prioritisation and governance practices. ISA will then recommend a treatment method for the surplus funds, including potential transfer to the NSW Health Centralised Contingency fund.

In circumstances where capital funding has been secured through other government funding arrangements, the relevant governance for contingency management will apply. For example, the Digital Restart Fund holds all contingency for projects funded under the remit of its governance. Such projects will return surplus funds to the associated funding source under the relevant governance arrangements.

7.3 Eligibility to access Centralised Contingency funds

Projects eligible to seek funding from the NSW Health Centralised Contingency fund include:

- existing major capital projects, and
- requests for new projects, which have been reviewed and endorsed by the Deputy Secretary, Financial Services and Asset Management Division.

Centralised Contingency may also be considered to deliver unfunded scope in an approved Final Business Case where a robust and value-based case is made for the additional scope that meets NSW Health's strategic aims.

Generally funding decisions for new capital proposals should be considered in the Budget process. However, the following delegates have authority to approve an addition or budget variation, as per sections 2.16 and 2.18 of the Ministry of Health Combined Delegations Manual:

- Deputy Secretary, Health System Strategy and Patient Experience
- Executive Director, Strategic Reform and Planning Branch
- Chief Financial Officer

Note that these delegations are subject to the *NSW Treasury Circular 12/20 Budget Controls – Capital Expenditure Authorisation Limits*, which requires the Minister to seek approval from the Treasurer to:

- vary the ETC of an approved major capital project by more than 10 per cent from the originally approved limit, or
- add a new major capital project with an ETC of \$5 million or more.

7.4 Process for requesting access to Centralised Contingency funds

A request to access available Centralised Contingency funds is to be made through a formal submission to the NSW Health Capital Strategy Group (CSG), using the CSG Contingency Proposal template (see Appendix A). The submission must address how the proposal meets the prioritisation criteria outlined in Section 7.5.

A request to access Centralised Contingency funds must be submitted to the CSG Secretariat ten (10) working days prior to the CSG meeting to ensure that there is adequate time for an initial assessment of the request.

An initial assessment will be conducted by the Ministry of Health on all submissions received. The assessment will review:

- the availability of Centralised Contingency funds for the relevant financial year.
- the eligibility of the request and adherence to any relevant policies, such as TC12-20.
- whether any alternative funding options have been considered.
- whether all correct document and information has been provided.
- any additional information that could impact the decision.

7.5 Prioritisation criteria for assessment of Centralised Contingency requests




Eligible submissions will be reviewed by the CSG against the following prioritisation criteria. Assessing all submissions against these criteria will ensure that proposals seeking Centralised Contingency funds are assessed rigorously and consistently.

Table 1: Prioritisation Criteria

	Criteria	Description
1	Existing Government priorities / commitments	The extent to which the proposal will meet an existing Government commitment or priority.
2	Criticality	The extent to which the additional funds are necessary to deliver project milestones. For example, where funds are needed to award main works tenders, remove asbestos contaminated material (ACM), or address latent issues such as fire safety issues uncovered as part of build process.
3	Benefits and outcomes	<p>The extent to which the proposal contributes to service priorities and re-alignments including hospital avoidance, reduction in length of stay, etc. This includes impacts on patient experience and efficiency.</p> <p>Scope included above the line in the Final Business Case (FBC) would strongly align; scope included in the Clinical Services Plan but below the line in the FBC would partially align; and scope not in the FBC would not align.</p>
4	System sustainability	The extent to which the proposal aligns with the 20-Year Health Infrastructure Strategy and Future Health to future proof infrastructure for potential expansion and support changing service models.
5	Value for money	The extent to which the funds will provide value for money, including (where available and applicable): Benefit Cost Ratio, Return on Investment, and qualitative benefits. The likelihood of future cost avoidance/savings should also be considered.
6	Effective management of portfolio-level risk	The extent to which the allocation of funds would allow the effective management of portfolio-level risk, taking into account the total expected value of risks identified for the capital program against the available contingency (as per the risk report required under Section 6.2).

7.6 Consideration and prioritisation by the CSG

The CSG will assess each Centralised Contingency request against each of the prioritisation criteria and determine its alignment, using the following grading system.

	Strongly aligns with criteria
	Partially aligns with criteria
	Does not align with criteria

This qualitative assessment and grading method is intended to improve the robustness and transparency of the CSG's decisions regarding Centralised Contingency, while still allowing for flexibility and the ability to address risks that may arise in the capital works portfolio.


The outcome of the assessment (including any dissenting votes) must be documented in the minutes for the CSG meeting at which the proposal was considered (or via email, if the request is made out of session). An example of how this assessment should be documented is included at Appendix B.

However, the grading is indicative only and is not determinative of the CSG's final decision regarding access to Centralised Contingency funds.

Decisions regarding the release of Centralised Contingency are to be made by the CSG, and formally communicated, in accordance with the approved CSG Terms of Reference.

Appendix A: CSG Contingency Proposal template






Example of first page only. Please contact MOH-SCPU@health.nsw.gov.au for the most up to date version of the template.

NSW Health Capital Strategy Group (CSG) Contingency Proposal 	
Project/Proposal name:	
Request by: eg. Health Infrastructure on behalf of Local Health District/ Specialty Health Network, Ambulance NSW, eHealth NSW, Pathology NSW	
Recommendation to CSG Approve the: <ul style="list-style-type: none"> • allocation of Centralised Contingency of \$m, increasing the approved project ETC from \$m to \$m (delete if not applicable) • release of \$m of the available \$m in Executive Contingency, resulting in \$m remaining if this request is approved. (delete if not applicable) 	
Principal reason for request <i>Executive/centralised contingency requests for existing projects to specify whether the request is for unidentified risks not mitigated, unplanned costs, or additional scope.</i> Key Reason / Summary <i>Summarise the request to the CSG in 1 – 2 sentences</i> Background <i>Provide a short background on the issue/project, for example, by including information on:</i> <ul style="list-style-type: none"> • When the project was announced and the budget allocated • What stage the project is currently up to (e.g. stage 1, stage 2 or stage 3) • Targeted completion date/s • When/how an issue was identified (e.g. for latent conditions, were these discovered during construction?) • Note if any mitigation strategies have been implemented to address the issue (e.g. a design solution was implemented to minimise rectification costs, but is only considered a temporary solution) Risk Impact <i>Provide a short list (bullet points is fine) of the impact/s to the project, operation and maintenance of the facility, patients and staff etc. if the request is not approved.</i> Alternatives Considered / Options Analysis <ol style="list-style-type: none"> 1. Funding secured through Executive Contingency, to fund the... 2. Don't fund the rectification of / don't fund the purchase of / don't fund the contribution to 3. Alternative funding sources have not been identified. Lessons Learned / Process improvement required to lessen risk on other projects <i>Provide a short summary of any lessons learned during this project, for example:</i> <ul style="list-style-type: none"> • If an action could have been implemented earlier on in the project that would have prevented the issue • If an alternative decision could have been taken • If the LHD/MoH/PM/contractor had been consulted earlier on <i>Provide any suggested improvements that could be implemented by other project teams to either avoid completely or lessen the risk/issue experienced, or if they were implemented for this project but didn't result in the expected outcome (and note why).</i>	

Page 1

Appendix B: Documenting assessment against Centralised Contingency prioritisation criteria

The table below sets out how the assessment of a Centralised Contingency proposal should be documented, as per Section 7.6.

	Criteria	Description of proposal's alignment	Grade
1	Existing Government priorities / commitments		
2	Criticality		
3	Benefits and outcomes		
4	System sustainability		
5	Value for money		
6	Effective management of portfolio-level risk		