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Governance Review of Recurrent Cost Impacts of Capital Projects

Ministry of Health

17 November 2021

Final Report

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Executive Summary

There is significant investment in health infrastructure over the next four years and without intervention the recurrent cost impacts of planned and in-flight projects will become challenging

Over the next four years, NSW Health will invest $10.8 billion in health infrastructure. Of this record investment, almost $2.5 billion will be allocated across the State to continue Health's record capital program which includes 37 hospital upgrades or redevelopments (with four new hospitals) and eight regional and metropolitan car parks currently being built. This record investment will also ensure that the 29[1] new and upgraded health facilities announced prior to the 2019 state election will commence before March 2023. These projects will need to have the capacity to meet service demand and accommodate new models of care. This is a challenge as there is a risk of insufficient recurrent funding to operationalise these new builds.

Current governance frameworks focus on capital costs

The NSW Health Facility Planning Process (FPP) outlines a five-stage process (including a new stage, Stage 0) on key activities that need to be undertaken for the delivery of a project. This process clearly articulates the collective roles of MoH, Health Infrastructure (HI) and Local Health Districts (LHDs)/Specialty Networks (the teams) throughout the project lifecycle. However, the key focus is on capital cost governance including decision points and accountability. While there are high-level recurrent cost considerations during the early stages of the process, once a project is announced and in-flight (usually from Stage 1 onwards) the ETC (capital) is locked in. As such, projects are progressed without detailed recurrent cost assessments.

Willingness to adapt the FPP to meet the need to reduce recurrent costs

Key stakeholders in the FPP have recognised the risks associated with focusing on capital costs and have sought solutions to better understand total project lifecycle cost impacts. The implementation of Stage 0 in 2021, as part of the revised FPP, offers an opportunity to consider the recurrent cost impacts of a capital project before funding is confirmed.

Key decisions along the FPP are being made based on capital value rather than whole of life costs. A lack of focus on recurrent costs early on (Stage 0/1) and throughout the FPP can impact operationalisation

Stakeholders identified a need to improve processes and governance around TOTEX of projects and that addressing the misalignment of projected and actual recurrent costs currently underway for in-flight projects is a good start. Clinical Service Plans (CSPs) are prepared prior to the FPP and inform development of projects. Prior to Stage 0 being implemented, projects were identified based on CSPs, and were focused on capital costs, with limited consideration of recurrent cost impacts. As the project progressed, it could be up to 3-4 years later that the project enters Stage 4, where the question of 'how are we going to afford operationalising the facility' would arise. At this point, there are no mechanisms in place that allow for the review of the project or design to realign with potential changes in activity and also efficiency measures for reducing recurrent costs.

Any changes in the level and nature of recurrent costs may require an increased budget to operationalise facilities. This increase in recurrent costs, coupled with the pressure from government to deliver projects within existing recurrent budgets, impacts the ability to operationalise new assets.

Although there are changes in the level and nature of the recurrent costs from project to project, it is noted there are similar recurrent cost drivers across all capital projects including staffing, additional cleaning (larger footprints) and ICT related costs.

Bringing a focus on recurrent costs throughout the FPP, establishing additional assurance points, as well as involving additional teams, such as Finance and System Purchasing, in assurance will support more accurate recurrent cost assessments. For example, establishing an assurance process between Stages 3 and 4 around the Financial Impact Statement (FIS) of the project and including Finance, can help communicate an evidence-based case to Treasury for any

[1] Minister Hazzard 22 June 2021 announcement, https://www.health.nsw.gov.au/news/Pages/20210622_04.aspx , accessed 14 July 2021

required additional recurrent funding. This is particularly important for in-flight projects and planned projects going forward.

Stronger governance and involvement of teams such as Finance and System Purchasing, with a focus on joint accountability/shared inputs and insights for activities relating to recurrent costs is required.

Across the FPP teams (MoH, HI, and LHDs) there are examples of collaboration and strong communication, especially in development of specific tools such as the UCE and FIS Tracking process and tools. Teams are proactive and capable of working within the bounds of their roles and responsibilities. However, there have been examples where teams, such as Finance and System Purchasing, felt there was less collaboration and involvement, especially in Stages 1 and 2 that would have otherwise provided for earlier insights on potential recurrent cost impacts. Finance and System purchasing team's limited involvement in Stage 1 and 2 is seen as a potential contributor towards their challenges in justifying projects that require additional funding i.e. more than originally budgeted for to Treasury. Finance expressed that given the current budget constrained environment, Treasury are increasingly wanting to see alignment of projects to State Outcomes and discussions on the benefits from any additional funding.

Stronger leadership is needed to build and foster a culture of collaboration and communication across NSW Health to improve quality of inputs for key decision making

Executive leadership (both the ESC and PDC) make key decisions based on project capital costs with limited consideration of whole-of-life costs (or TOTEX). This is fostering a culture amongst teams to focus their efforts in ensuring there is sufficient rigour on preparing capital costs, meanwhile the same level of effort is not being applied to recurrent costs. This has led to the development of facilities that have been commissioned but are unable to fully operationalise due to insufficient funding covering recurrent costs.

Key changes are recommended to emphasise greater scrutiny and accountability for recurrent costs

From the consultations and review of supporting documentation, **four priority recommendations** have been identified to improve transparency in development of recurrent costs during the FPP. These are described in the table below:

Table 1-1 Summary recommendations

No.	Recommendation	Outcome
1	Develop a framework that categorises planned projects based on key drivers of recurrent cost impacts e.g. total project cost, project size, category, and delivery capacity of the LHD.	This will help adopt a risk-based prioritisation approach to ensure increased support around key activities for more complex projects and promote collaboration between stakeholders.
2	Introduce internal assurance review points for key activities related to recurrent costs that are subject to change over the lifetime of the project along the FPP	This will provide for regular review of recurrent cost estimations and an opportunity for contemporary information and assumptions to be included.
3	Implement new membership and responsibilities across project governance groups to increase focus on recurrent costs	This will ensure adequate focus on recurrent costs from a governance perspective.
4	Promote greater collaboration and information sharing through common platforms, assumptions and tools for recurrent costs	This will promote more collaboration between stakeholders involved in the FPP and that a broader set of assumptions are used in decision-making.

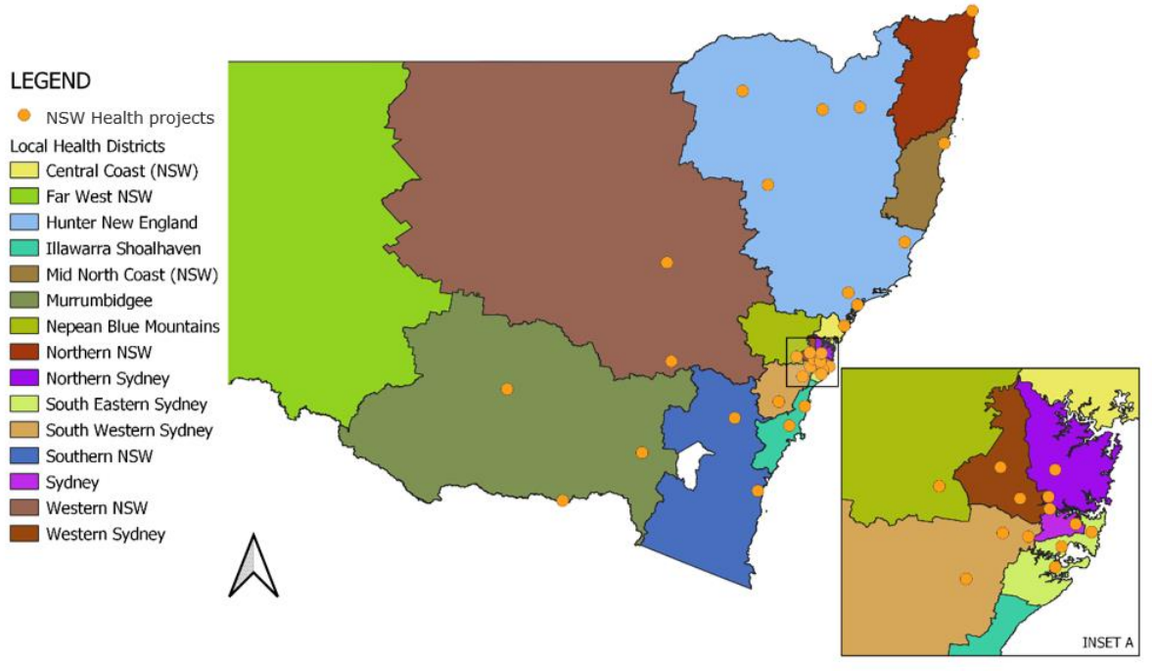
1 Introduction

1.1 Background

In 2019/20 NSW Health delivered more than $2 billion in infrastructure planning and construction across 23 projects[2]. Over the next four years, NSW Health is set to deliver a further $10.8 billion of health infrastructure[3] as shown in Figure 1.1. In line with modern clinical service needs, these new developments will provide bigger and more complex hospitals. This will substantially increase capital and operational costs. Increased costs present a longer-term challenge for MoH in ensuring that the delivery of the current pipeline projects fall within operating (and capital) budgets and meets requirements.

MoH has identified a misalignment between projected and actual recurrent costs across several recent in-flight projects. The misalignment presents a challenge in managing the ongoing recurrent cost impacts of capital projects going forward.

Figure 1.1 – Overview of future NSW Health in-flight projects



Source: Deloitte analysis (2021)

1.2 Purpose of this paper

The purpose of this paper is to identify challenges and gaps in governance of capital projects in relation to recurrent costs. The paper also identifies high-level recommendations to support addressing these challenges.

[2] https://www.health.nsw.gov.au/annualreport/Publications/annual-report-2020.pdf

[3] https://www.hinfra.health.nsw.gov.au/about-us

2 Approach

2.1 Scope

The current FPP was reviewed against a good governance framework to understand how the recurrent cost impacts of capital projects can be better understood and managed.

2.2 Process

The review developed a holistic governance framework (refer to Section 3) that considers people, process and enablers as the foundation for the efficient delivery of projects applicable to the health service delivery context.

Specifically, the review involved the following:

- reviewing existing documentation relating to governance of the FPP to understand the effectiveness of current processes in place
- developing a good governance framework to design consultation and review questions
- conducting consultations with four key stakeholder groups or the teams (refer to Table 2-1) that form part of the FPP to understand how well the different teams were interacting and co-ordinating their efforts throughout the FPP
- exploring the tools and information used to inform the FPP to understand how important documents such as the clinical service plan, business case and financial impact statements were being prepared
- assessing the current governance arrangements against the framework to identify issues
- identifying potential governance solutions to resolve issues.

2.3 Key Questions

The assessment was guided by the following key questions:

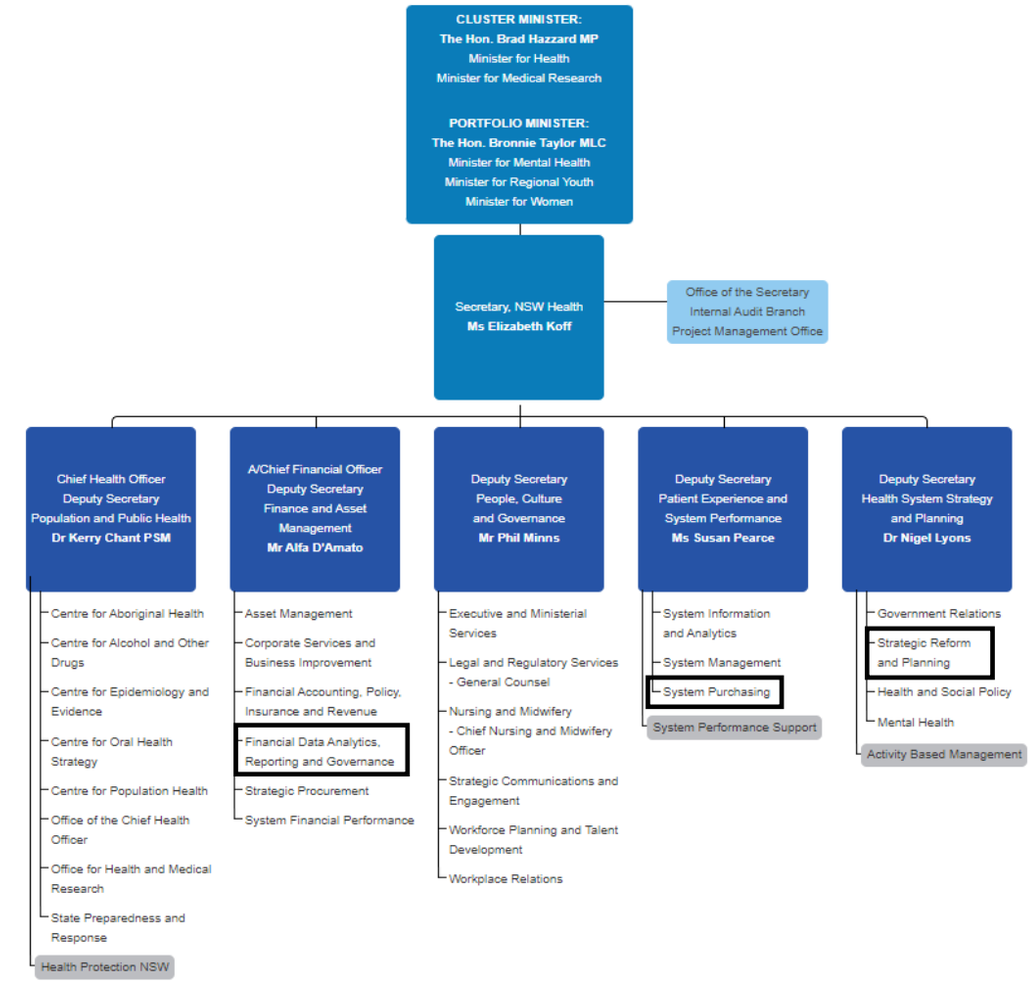
1. Where is the misalignment of projected and actual recurrent costs occuring in the FPP? What are the impacts of this?
2. How are the misalignment of recurrent costs being addressed? What initiatives or activities are taking place?
3. Are communication and reporting touchpoints aligned with key decision points?
4. Do people have the skills necessary to undertake their roles and responsibilities?
5. What are the inputs that people need to perform their activities?
6. Is the right information being received at the right time to undertake relevant analysis and reporting?
7. Are key decisions being informed by clear understanding of the potential risks and challenges of a project?

2.4 Consultations

The organisations comprising NSW Health include LHDs, statutory health corporations, affiliated health organisations and administrative units within the Health Administration Corporation, such as the NSW Ambulance Service, HealthShare NSW and the MoH. Figure 2.1 shows the overarching NSW Health and MoH Governance structure.

The four consultations were held via teleconference with the stakeholders outlined in Table 2-1. They were facilitated by Deloitte and attended by a representative from the Strategic Reform and Planning Branch as an observer. These consultations were not recorded, however notes were taken by those in attendance and they were used to inform this paper. Where necessary, follow up conversations were held with stakeholders.

Figure 2.1 NSW Health and MoH governance structure



Source: Ministry of Health organisation chart, accessed 14 October 2021, https://www.health.nsw.gov.au/about/ministry/Pages/chart.aspx

Table 2-1 Consulted stakeholders

Stakeholder	Responsibility across FPP
Health Infrastructure	• Lead delivery agency for capital investments valued $10 million and above • Leads stages 1-4 of the Facility FPP (including planning, procurement, delivery and evaluation) in partnership with Districts/Networks • Prepares Investment Decision Documents (IDD) and Business Cases • Provides management function to implement the Asset Management Policy
System Purchasing Branch, Ministry of Health	• Leads the development and negotiation of the annual Service Agreements with Districts and Networks
Strategic Reform and Planning Branch, Ministry of Health	• Responsible for strategic health policy development, delivering better value health care that drives improvements in population health and the patient experience • Supports Districts with service planning tools and analysis (Strategic Analysis and Investment Unit) • Facilitates review and endorsement of Clinical Service Plans (CSPs), Investment Decision Documents (IDD) and Business Cases (Service and Capital Planning Unit)
Finance and Asset Management Division, Ministry of Health	• Responsible for allocation of budget based on projected service need • Delivers all NSW Health cluster reporting to NSW Treasury, including State Outcome performance reporting, and has financial oversight of the NSW Health capital program

2.5 Supporting documentation

- Financial Impact Statement (FIS) Tracking Implementation Plan dated 15 March 2021
- Lifecycle Model Framework dated 10 February 2021
- Project Governance Arrangements dated May 2015
- Financial Impact Statement (FIS) Tracking Projects commissioning in 2021/22 dated 8 April 2021
- Spreadsheet of NSW Health Capital Projects - Commissioning received 24 May 2021
- Ministry of Health website accessed October 2021[4].

[4] https://www.health.nsw.gov.au/about/ministry/Pages/chart.aspx

3 Effective governance

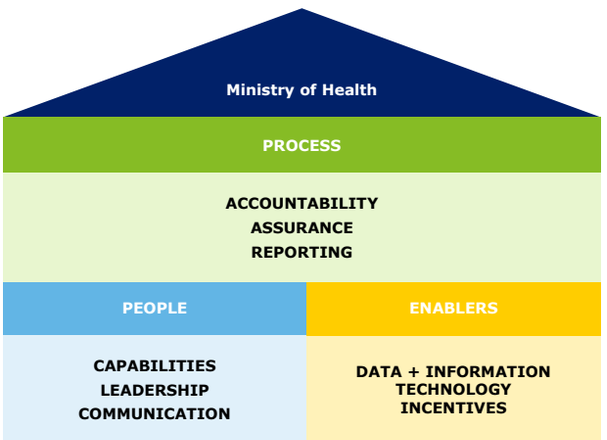
3.1 A good governance approach

Good governance is the foundation that enables good decision making. A good governance framework is guided by clear principles that clearly articulate roles and responsibilities, mechanisms for resolving issues, and implements accountability for decision-making abilities.

Where there are shortcomings or challenges with decision making, review of governance processes is typically the first step. However, improving overall governance requires a change management approach that considers both people and enablers, as process is only one part of the solution.

A good governance framework, as in Figure 3.1, highlights that processes often form the centre of a framework and it is supported by people and enablers for the successful oversight.

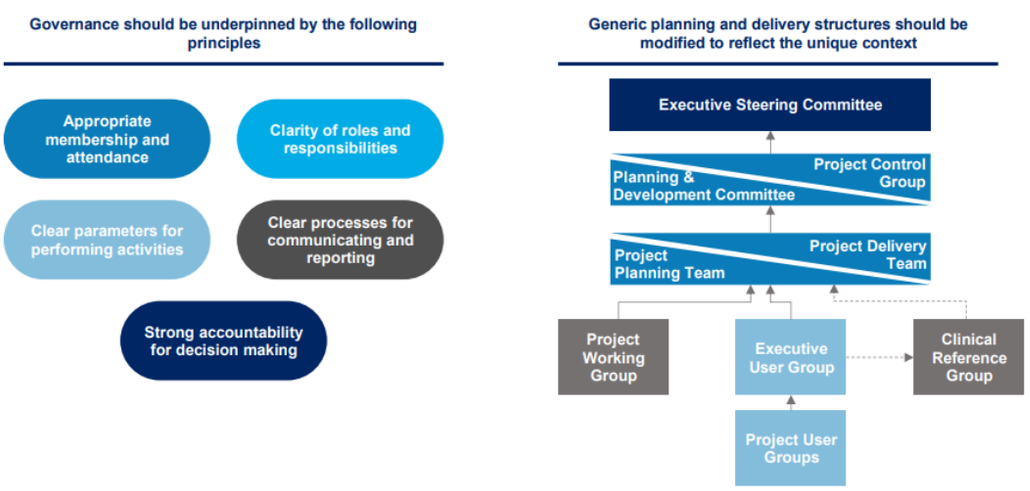
Figure 3.1 - Good governance framework



3.2 Existing Governance

The current FPP is governed by several principles including clarity of roles and responsibilities, appropriate membership and attendance, clear parameters for performing activities, clear processes for communicating and reporting, strong accountability for decision making – however these are centred on the process aspects of governance.

Figure 3.2 Existing Governance



Source: NSW Health Facility Planning Process (2020)

3.3 Governance requires process, people and enablers

In order to effectively implement the processes, people and enablers need to be appropriately developed and managed. Figure 3.3 provides an overview of the governance framework and highlights that processes often form the centre of focus and is supported by people and enablers for the successful operation of governance frameworks.

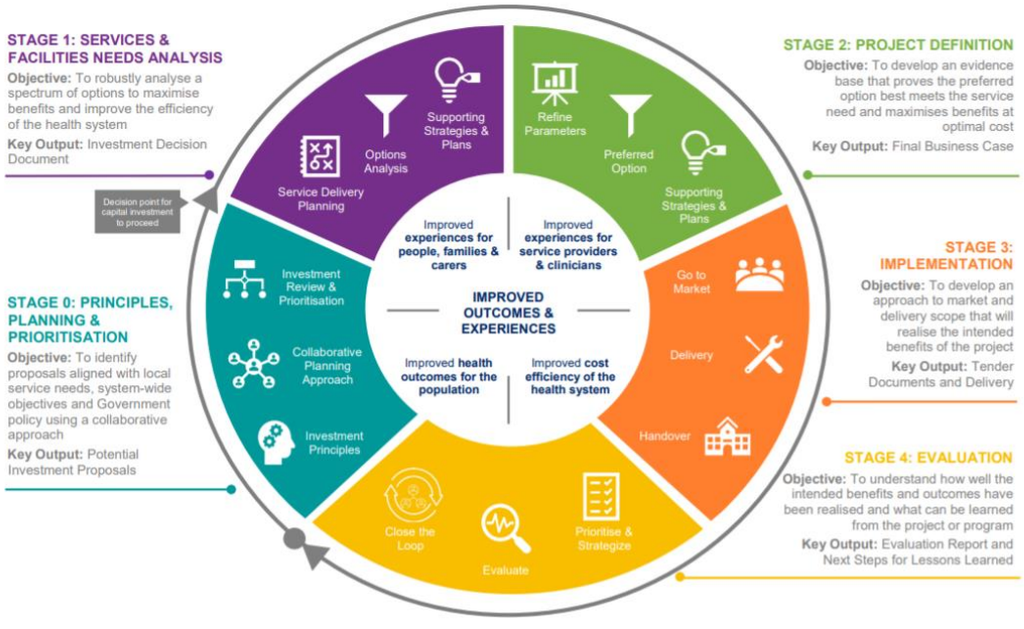
Figure 3.3 Holistic governance framework and key review questions

Framework	People			Process			Enablers		
	Capacity	Leadership	Communication	Accountability	Assurance	Reporting	Data & Information	Transparency	Technology
Description	This means that people have available resources and tools necessary to undertake their roles and responsibility	This means people in executive leadership have provided with the necessary information to make informed decisions.	This means that people know who they are able to reach out to for necessary information to collaborate on projects or initiatives.	This means clarity on who has ultimate accountability but also for smaller decisions that are made throughout the Planning Process.	This means that the right people have authority and that the right voices are included in the process.	This means that all relevant stakeholders get the information that they need at the frequency they need it.	This means that there is consistency across fundamental assumptions and information.	This means that all relevant stakeholders with development of key activities have oversight on inputs when required.	This means that people are able to access data and information via stable and reliable technology means.
Key Review Question	Do teams have the capacity and skills necessary to undertake project?	What is the role of leadership in promoting a collective decision-making culture?	Are there communication or collaboration issues occurring along the FPP?	Are there adequate accountability mechanisms on stakeholders to evaluate whole-of-life costs for projects?	What assurance processes are in place to evaluate overall affordability of projects? Who has the authority to endorse outcomes of the assurance process?	Do teams receive the right information at the right time for them to undertake relevant analysis and reporting?	Across the teams, do they use common planning assumptions and data to inform all key decisions throughout the FPP?	Do the existing tools and platforms provide suitable oversight on recurrent costs?	Are existing tools being adopted across teams to understand impact of recurrent costs?

Source: Deloitte (2021)

Using this governance framework, the following sections explore how the current FPP performs against this framework and provides considerations for MoH to take forward to improve the recurrent costs of its planned and in-flight projects. In 2020, the Ministry released the *NSW Health Facility Planning Process*, which provides guidelines for projects and programs valued $10 million and above. The current FPP provides a clear process for progressing projects from planning through to commissioning with robust governance arrangements from Stages 1 to 4. The diagram below displays the stages, objectives and key outputs of the FPP.

Figure 3.4 The FPP



4 Current State

4.1 Stage of project impacts the governance improvements

The appropriate goverance changes depend on the stage of the project, with different solutions likely for in- flight projects and future new builds. In-flight projects formed the main point of discussions during the consultations, as these formed a more immediate need to address potential issues with the inability to secure sufficient budget for operationalising facilties.

Definitions:

- **In-flight projects** are defined as projects that have received capital funding allocations through the NSW Budget process and and have been handed over to HI to manage. This means they are at Stage 1 (or beyond) of the Facility FPP.
- **Future new builds** are defined as projects have not yet receiving funding allocations in the Budget. These projects may be:
    - election commitments (what we would refer to as projects 'in planning', because an announcement has been made but funding has not been allocated). The ETC cannot be changed.
    - proposals that have been submitted to the Ministry for capital funding consideration during Stage 0 (but note that there is no certainty that a proposed project will proceed until funding has been confirmed in the Budget paper).

Historically, the FPP began once a project had been announced, which limited the ability to consider portfolio-wide impacts and overall recurrent costs impacts.

- Stage 0 was introduced as an important mechanism for improving the planning and costing of future projects in terms of overall whole-of-life considerations.
- Stage 0 is a pre-planning stage, with no project-specific governance arrangements. However, a key aspect of Stage 0 is the collaborative planning approach outlined in the State-wide Investment and Prioritisation Framework, which was implemented in early 2021.
- The introduction of Stage 0 provides a mechanism to collaborate and consider the strategic needs of NSW Health across inter and intra district-based planning before projects are announced and funding allocated.
- The projects in Stage 0 potentially have the opportunity for improved consideration of recurrent cost impacts immediately in addition to finding efficiencies in planning and project lifecycle costs.

4.2 Understanding why there are recurrent cost changes

Roles and responsibilities are only clear for capital costs with less clarity on responsibility for managing recurrent costs

The FPP sets clear roles and responsibilities for MoH, Health Infrastructure (HI) and Local Health Districts (LHDs)/Specialty Networks. It has been designed with capital solutions in mind and understandably focuses on capital costs associated with building, expanding or redeveloping facilities. There are high-level recurrent cost considerations during the recently added Stage 0 of the FPP. Projects previously however could be progressed through the process without detailed TOTEX assessments, particularly during Stages 0 and 1.

Decision points and accountability both focus on capital costs.

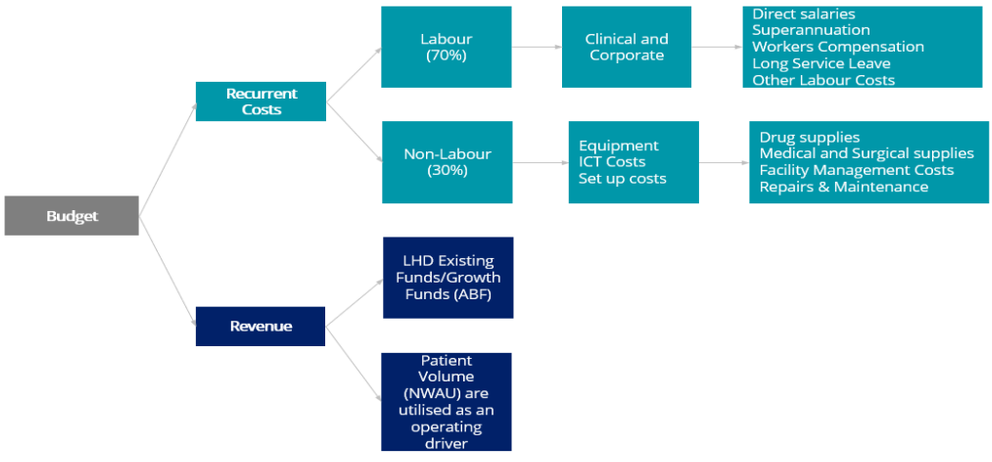
In review of the FPP, it was noted that key decisions and announcements could be made based on total capital cost figures rather than the overall total whole-of-life costs (including recurrent costs, i.e. TOTEX). There is no other parallel process which specifically addresses recurrent costs associated with the capital projects. Committing capital without sufficient understanding of the recurrent costs can impact projects at commissioning and operationalisation stages.

Willingness to adapt the FPP to meet the need to reduce recurrent costs

Key stakeholders in the FPP have recognised the risks associated with focusing on capital costs and have sought solutions to better understand total cost impacts. The implementation of Stage 0 in 2021, and the addition of investment principles in relation to whole-of-life costs and non-capital options is an example, however it is expected there should be greater consideration on recurrent costs at this stage, going forward.

Figure 4.1 provides an overview of an example budget structure, focusing on recurrent cost and revenue. Typical with most projects, labour (70%) comprises the majority of project recurrent costs while the remaining balance comprises non- labour (30%) with major items including ICT, cleaning and establishment costs.

Figure 4.1 Example budget structure



Source: Central Coast Local Health District Financial Impact Statement (December 2014), Deloitte analysis (2021)

Changes in the level and nature of recurrent costs require an increased budget to operationalise facilities. This increase in recurrent costs, coupled with the pressure from government to deliver projects within existing recurrent budgets, impacts ability to operationalise new assets.

The four main categories driving recurrent cost changes

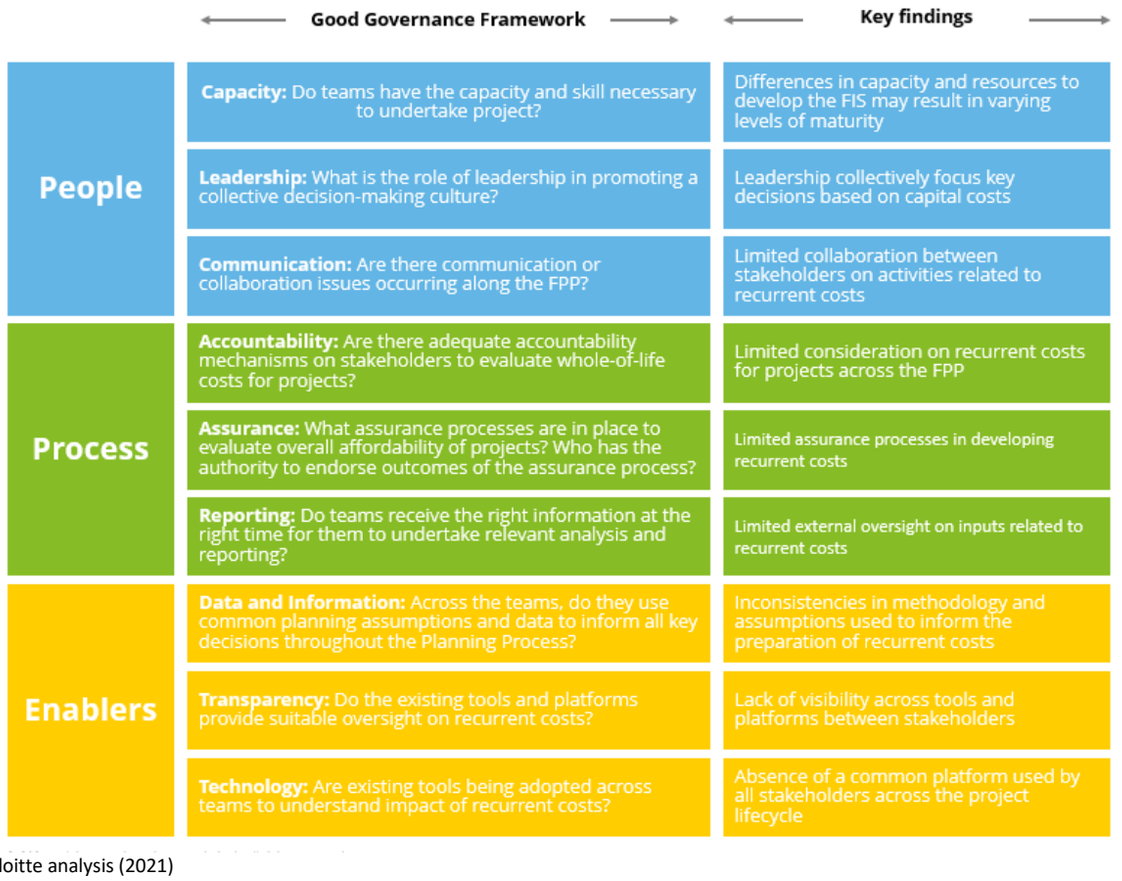
- **Increased floor space requirements** for hospitals being redeveloped in accordance with Australasian Health Facility Guidelines (AusHFG) resulting to higher operating and maintenance costs. The changes in models of care and design requirements under the AusHFG now result in larger floorspace compared with existing and older facilities providing similar levels of activity and types of services.
- **Staffing requirements and levels** for similar activities may change with new facilities. As a result of increased floor space requirements, the ratio of staff required results in an increase of labour expenditure.
- **Design change consideration** from traditional to the adoption of virtual health and alternative models of care to meet modern patient needs (where applicable) has added another layer of complexity in forecasting clinical service demand at a facility level. The design changes involve potential reduction in building footprint required to meet service needs, and this leads to reduction in building operational and maintenance costs. In some instances, there is the potential for reduction in workforce requirements as well.
- **Continual strong growth in service delivery** demand place tighter budgetary conditions over the forward estimates. In 2020/21 there was $160m worth of new capacity of which Activity Based Funding (ABF) only covered $100m representing a 60% difference. This funding gap and major recurrent cost discrepancies place heightened scrutiny on the weighted activity and infrastructure.

4.3 Reviewing the FPP for alignment to good governance

A number of projects have limited considerations being made around recurrent cost impacts, and in turn how this affects the overall NSW Health budget. This impacts the ability for MoH to manage its reputation amongst the communities i.e. once a project scope and budget has been announced it needs to be delivered to avoid community backlash.

The current FPP was reviewed against a good governance framework with summary of key findings shown below.

Figure 4.2 - Logic map of key findings based on governance framework



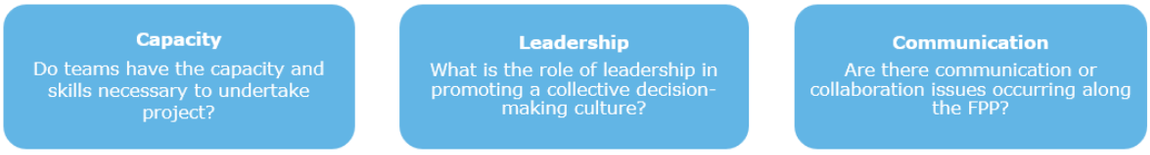
Deloitte analysis (2021)

Given there is increasing understanding of the need to address recurrent cost impacts, the FPP has been reviewed to:

- specifically consider how the above drivers are currently considered in the process and the cost management tools in use
- undertake a more general review of the how recurrent costs can be considered during the process
- reflect broader consideration of governance, including the people that deliver the process and the enablers that support the process.

This framework was used to both inform the consultation approach and subsequent analysis in developing considerations for MoH to take forward.

4.4 People



4.4.1 Differences in capacity and resources to develop the FIS may result in varying levels of maturity

Across the FPP, HI and LHD play a dominate role throughout Stages 1 to 4 in the delivery of projects. HI is responsible for delivering the projects, whereas LHDs are responsible for detailed service planning and workforce planning to ensure a sound foundation for investment decisions, both capital and recurrent costs as well as development of the FIS at both Stage 1 and 2.

It was flagged in consultations, that there was a considerable range of inconsistency when it comes to preparing FIS' across metro, regional, and rural LHDs. Depending on the capacity of the LHDs, some outsource this capacity to external consultants due to capacity constraints (e.g. resources required to develop a FIS also undertake finance duties across the LHD). While using an external supplier can mean capacity is relieved for the LHD, it also can lead to valuable knowledge gained through the project lost and can sometimes mean variability in quality and assumptions used. It was noted, the level of assistance from consultants on FIS developments would likely vary, depending on model of care, size and location of each project with limited flexibility in current processes to tailor involvement based on project complexity.

Meanwhile HI rely on various sources of information to develop the business case and prepare the project for delivery. As part of this, one of their main inputs is the CSP which they have expressed is an area they would like to see improvements in considering alternative models of care to reduce building footprint requirements leading to potential reduction in capital and recurrent costs.

4.4.2 Leadership collectively make key decisions based on capital costs

Executive leadership governance groups (both the ESC and PDC) make key decisions based on project capital costs with limited consideration of whole-of-life costs (or TOTEX). Moreover the Capital Strategy Group comprising the Chief Financial Officer (CFO) of MoH, Health Infrastructure, eHealth NSW and the SRPB of MoH meet bimonthly, providing capital program oversight at the whole of NSW level. Given the monitoring is focused on the capital program as a whole, it doesn't consider specific recurrent cost impacts. The governance groups and Capital Strategy Group focus on capital is driving a culture for stakeholders involved throughout the FPP to strive to make a project 'stack up' on a capital value basis. There have been projects where affordability of recurrent costs were raised in Stage 1 to the Executive Steering Committee (ESC), proceeding without adjustments to recurrent costs. This highlights the current prioritisation capital costs have in decision making processes. This has contributed to projects being built while unable to be fully operational (i.e. parts of buildings are cold shelled) as a result of insufficient funding for covering recurrent costs.

4.4.3 Limited collaboration between stakeholders on key activities related to recurrent costs

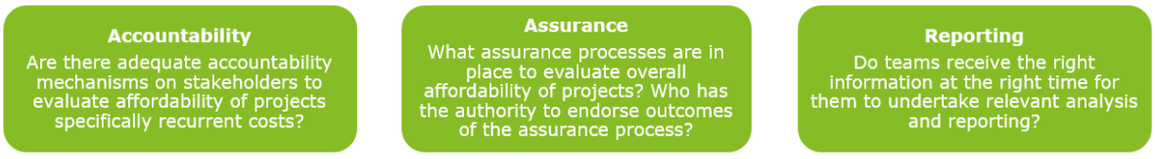
Throughout consultations, there were examples of teams working collaboratively in development of specific tools, such as the UCE and FIS Tracking process and tool. However, this has been limited to a single tool or process for one stage of planning. The need to demonstrate stronger governance with a focus on joint accountability/shared inputs and insights for activities relating to recurrent costs is required.

Finance and System Purchasing identified examples where their lack of involvement in Stage 1 and 2 to advise on recurrent cost would have identified potential recurrent cost impacts earlier and foresight on the need for increased costs once a new facility is operational. Their limited involvement is seen as a potential contributor towards their challenges in justifying projects that require additional funding i.e. more than originally budgeted for to Treasury. Finance expressed that given the current budget constrained environment, Treasury are increasingly wanting to see alignment of projects to State Outcomes and discussions on the benefits from any additional funding.

Good examples of collaboration between teams include:

- UCE tool was developed with an advisory group including representatives including Finance and used data supplied by HI. This was tested with LHD/SHN planners and promoted to HI
- FIS Tracker implementation plan was developed by HI in conjunction with MoH representatives including Finance, System Purchasing and Capital Planning.

4.5 Process



4.5.1 Limited consideration on recurrent costs for projects across the FPP

The FIS is required to inform the financial and activity projections submitted by the LHD in support of the Business Case Preferred Option that informs the capital development only. Across the teams consulted, all identified the need to address the misalignment of projected and actual recurrent costs. Based on the current guidelines, TOTEX (project whole-of-life costs, including recurrent costs) should be considered throughout the FPP. However, the workforce costs that comprise the majority of recurrent costs are typically only assessed at a high-level at Stages 1 and 2.

Issues of early visibility were raised due to unexpected increases in additional funding required due to the increase in Net Cost of Service (NCOS) identified near commissioning. At Stage 3, there is limited ability to alter scope of a project and the associated capital costs, making it difficult to consider further alternative models of care and service efficiency models to optimise recurrent costs.

4.5.2 Limited assurance processes in developing recurrent costs

Gateway reviews are undertaken by INSW throughout the FPP and occur based on the capital value and risk of the project. These reviews are focused on capital value given the scale and complexity of projects and have limited focus on recurrent costs. Stakeholders consulted identified that there are limited formal review points internally along the FPP to assess whether the recurrent costs put forward are reflective of the nature of the project as well.

Project Working Groups (PWG) currently have responsibility for developing and monitoring key project activities. This includes capital and recurrent cost estimates and economic appraisals amongst other activities. The level of involvement for PWGs differs across projects based on their ad-hoc nature depending on project needs and this is possibly contributing to the limited focus on recurrent costs. Earlier review of FIS prior to Treasury sign-off has been identified by Strategic Reform and Planning Branch as these would have not be supported by System Purchasing most typically found for rural hospital projects.

4.5.3 Limited external oversight on inputs related to recurrent costs

The current governance structure identifies the high dependency on a select number of stakeholders to endorse (PDC and PPT) and be responsible (LHD and HI) for key inputs into the recurrent cost estimates. System Purchasing and Finance highlighted that their limited involvement during Stage 1 and 2 may be contributing to a widening funding gap across projects.

PDC and PPT are governance groups that endorse a number of activities influencing recurrent costs with a large proportion of members comprising HI and LHD representatives. The activities supported are undertaken by either HI or LHDs. This highlights the limited external oversight and reviews currently available.

A review of the current terms of reference is shown below.

Figure 4.3 – Current terms of reference of project governance groups and staging involvement

Activities	ESC	PDC	PCG	PPT	PDT	PWG	CRG	EUG	PUG	LHD	HI
Functional brief	1	1		1				1	1	1	1
Options Development	1	1		1				1			1
Workforce Development Strategy	1, 2	1, 2	3	1, 2	3			1, 2, 3	1, 2, 3	1,2,3	
Change Management	1, 2, 3	1, 2	3	1, 2	3			1, 2, 3	1, 2, 3	1,2,3	
Risk Management Plan	1	1, 2		1, 2							1,2
Preliminary Business Case	1	1		1				1			1
Financial Impact Statement	1, 2	1,2		1,2						1	
Operational Commissioning and Facilities Management Plan	2, 3	2	3	2	3			2, 3	1, 2, 3	1,2,3	
ICT, Systems and Equipment Strategy	2, 3	2	3	2	3			2, 3	2	2, 3	2, 3
Preferred Option	2	2		2				2	2		2
Procurement Strategy	2 3	2	3	2	3						2,3
Final Business Case	2	2		2				2	2		2

Executive Steering Committee (ESC)	
Planning & Development Committee (PDC)	
Project Control Group (PCG)	
Project Planning Team (PPT)	
Project Delivery Team (PDT)	
Project Working Group(s) (PWGs)	
Clinical Reference Group (CRG)	
Executive User Group (EUG)	
Project User Group(s) (PUGs)	
LHD (Local Health District)	
Health Infrastructure (HI)	

Informed	Informed about the activity or output
Support	Contribute to / advise on activity or output
Manage	Contractual management responsibility
Endorse	Formal endorsement of activity or output
Responsible	Accountable for the activity or output

Source: Project Governance Arrangements (2015), Deloitte analysis (2021)

Note: Numbering within cells refers to current stages

4.6 Enablers

4.6.1 Inconsistencies in methodology and assumptions used to inform the preparation of recurrent costs

Different tools, platforms and assumptions are used by different stakeholders across the lifecycle of a project, which may lead to variances in recurrent cost estimates. Examples include:

- Activity assumptions adopted by System Purchasing is based on current year activity while Strategic Reform and Planning Branch adopts the Clinical Services Planning Analytics platform that contained applications, datasets, and tools to inform projected patient activity using Department of Planning, Industry and Environment (DPIE) DPIE 2014 planning projections out to 2031 and 2036
- Finance and System Purchasing are typically involved following completion of Stage 2 during final business case and near commissioning (a number of years later), limiting their opportunity to provide timely advice on recurrent cost considerations.

This has been evident with a number of business cases that would not have been endorsed by Finance and System Purchasing from a recurrent cost or TOTEX point of view.

4.6.2 Lack of visibility across tools and platforms between stakeholders

There is limited transparency and access to platforms and tools implemented across all stakeholders involved throughout the FPP.

- Finance expressed that a lot of their challenges with requesting for funding is related to the need to provide evidence on the ability to meet State Outcomes[5]. This is necessary to justify any additional funding needs to Treasury.
- System Purchasing and Finance identified there was a lack of awareness and visibility of the tools implemented by teams throughout a project lifecycle. They're typically involved near commissioning limiting the opportunity to provide timely advice on recurrent cost considerations.

This has been evident with a number of projects being received by System Purchasing that are not satisfactory to support for funding submissions being most common across most rural hospitals.

4.6.3 Absence of a common platform used by all stakeholders across the project lifecycle

There are numerous tools available in different formats that are utilised by stakeholders respectively that limits oversight and transparency. This includes:

- HI recently developed the FISTracker, designed to assist health organisations to improve sustainability and ongoing recurrent cost impacts of heath assets
- Strategic Reform and Planning Branch have developed the UCE tool to provide planners with high level understanding of projected operational costs (i.e. marginal cost of floorspace)

This demonstrates broad recognition of the issue across all stakeholders however highlights the complementary nature that requires a consolidation with greater digital collaboration to share insights and inputs to assist with recurrent cost impact concerns.

[5] 2020-21 Budget – Budget Paper No. 2 Outcomes Statements – 03 Health Cluster, https://www.budget.nsw.gov.au/sites/default/files/2020-11/3.%20Health%20cluster-BP2%20Budget%202020-21.pdf, accessed 12 July 2021.

5 Future state

5.1 Overview

The following section provides an overview of the recommendations required to improve the governance framework across people, process and enablers to better estimate, communicate and manage recurrent costs. The scale and complexity of the Health capital program will always involve a significant risk of cost blow-outs for recurrent costs. This risk can be managed however by considering evolving technology needs, models of care, activity and workforce profiles and once a project is in-flight, regular check-ins and consideration of recurrent cost impacts (especially during Stage 3).

Four key focus areas identified to minimise the risk of recurrent cost impacts include:

- **Governance arrangements** need to be established to determine when recurrent cost estimates are created, how frequently they are updated as the project progresses and the information and involvement that is required from stakeholders. Opportunities exist to expand governance of the capital program to also consider recurrent costs for future projects and in-flight projects, example mandatory Project Working Groups with a remit around recurrent costs and additional teams represented in Executive Steering Groups (e.g. Finance).
- **Managing costs** through the design phase involves estimating future costs. It is well understood that at the start of projects, uncertainty about the project will be much higher than it will be as the project progresses, therefore the accuracy of the estimated costs will be lower. Communicating information about uncertainty and cost accuracy and seeking advice from teams such as Finance and System Purchasing earlier in a project's formation can support to manage cost impacts.
- **Mind-set shift** is required across members and groups involved in the planning and implementation project governance structure throughout the FPP process for recurrent costs. This requires greater emphasis on recurrent costs and TOTEX costs compared to capital costs. This identifies potential affordability constraints that mitigates ongoing issues with recurrent cost discrepancies prior to the Final Business Case in Stage 2
- **Cultural shift** is required to ensure members and groups collaborate more frequently to understand budget constraints and ensure future actions place greater emphasis on TOTEX considerations. With the inclusion of additional assurance review and inclusion of new members into specific governance groups this will support in collaboration allowing for new insights and early identification on recurrent cost issues.

From the consultations and review of supporting documentation, **four priority recommendations** are identified to improve transparency in recurrent costs impacts during the FPP. These are:

Table 5-1 Overview of Recommendations

No.	Recommendation	Outcome
1	Develop a framework that categorises planned projects based on key drivers of recurrent cost impacts e.g. total project cost, project size, category, and delivery capacity of the LHD	This will help adopt a risk-based approach to ensure increased support around key activities for more complex projects and promote collaboration between stakeholders.
2	Introduce internal assurance review points for key activities related to recurrent costs that are subject to change over the lifetime of the project along the FPP	This will provide for regular review of recurrent cost estimations and an opportunity for contemporary information and assumptions to be included.
3	Implement new membership and responsibilities across project governance groups to increase focus on recurrent costs	This will ensure adequate focus on recurrent costs from a governance perspective.
4	Promote greater collaboration and information sharing through common platforms, assumptions and tools for recurrent costs	This will promote more collaboration between stakeholders involved in the FPP and that a broader set of assumptions are used in decision-making.

The implementation timeframes for these recommendations are shown below.

Short term
Implemented within the next 6 months. Planning to commence now.

Medium Term
Implemented between the next 6 to 18 months. Planning could commence now if appropriate.

Long term
Implemented beyond the next 18 months. Planning could commence now if appropriate.

Improving governance systems and processes for future projects will ensure less variance between budget and actual recurrent costs.

5.2 Recommendation 1

Recommendation 1: Develop a framework that categorises planned projects based on key drivers of recurrent cost impacts e.g. total project cost, project size, category, and delivery capacity of the LHD.

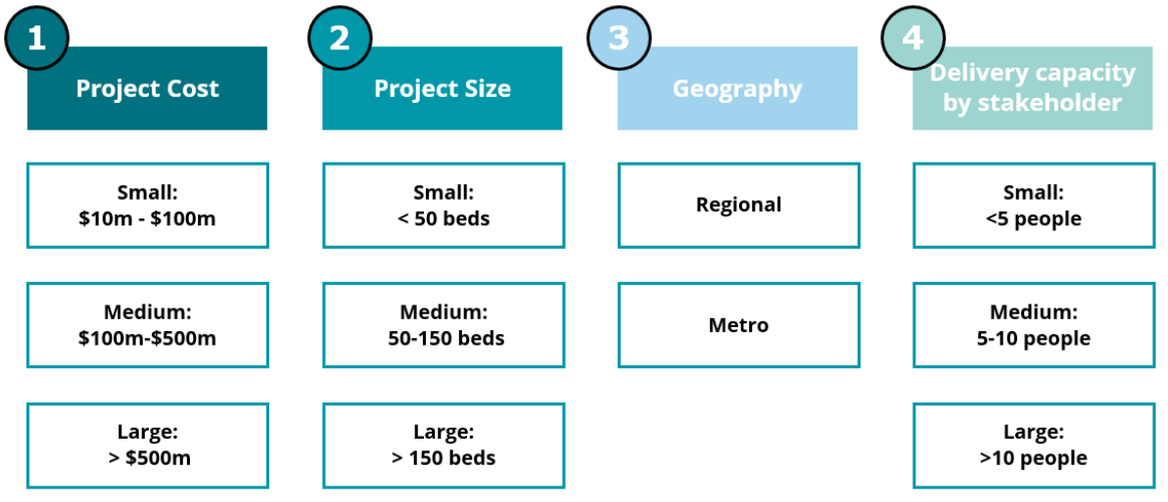
Medium Term

No.	Challenge	People	Process	Enablers
1	Differences in capacity and resources to develop FIS may result in varying levels of maturity	■		
2	Limited collaboration between stakeholders on activities related to recurrent costs	■		

The adoption of a risk-based project framework to categorise projects will ensure increased support around key activities for more complex projects and promote collaboration between stakeholders, it is expected this will in turn lead to improved accuracy between budget and actual recurrent cost estimates.

A framework should be developed that considers the complexity of the project, the capital cost, the location and delivery capacity of the LHD (including experience with similar size projects). This will streamline processes and ensure appropriate assistance can be provided depending on the type of project. This is in recognition the FPP applies to projects over $10 million. A diagram for the potential packaging of projects is illustrated below.

Figure 5.1 Potential project packaging based on complexity



Source: Deloitte analysis (2021)

Currently, project complexity is determined by its capital value whether it is less than or greater than $10 million in capital value. An alternative way to segment projects and apply more rigour, is through the following categories:

- **Project Cost:** Given the increasing size of projects, most projects tend to be valued greater than $10 million and often means HI will be the responsible deliverer.
- **Project Complexity:** Categorising types of projects based on size could be one way to ensure appropriate risk mitigation for recurrent cost estimates depending on the level of complexity in deriving demand assumptions along Stage 0, 1 and 2.
- **Geography:** LHDs are geographically segmented as either regional or metro. This is a critical distinction for project development along the FPP as there are different nuances between LHDs in developing the FIS range from financial systems, high reliance on external consultants for financial statements, limited review or advisory to support LHDs and FIS template not standard
- **Delivery Capacity by stakeholder:** Delivery capacity, including previous experience with projects of that size or scale, could highlight potential mismatch of skills and capability, leading to variances between budgeted and actual recurrent costs.

5.3 Recommendation 2

Recommendation 2: Introduce internal assurance review points for key activities related to recurrent costs that are subject to change over the lifetime of the project along the FPP

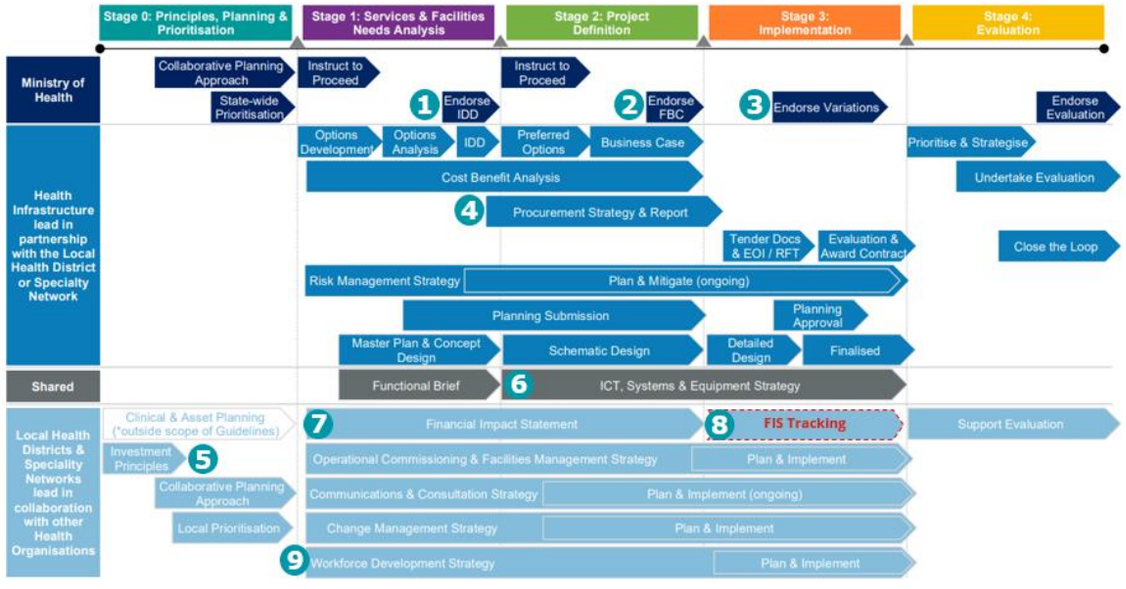
Short term

No.	Challenge	People	Process	Enablers
1	Limited assurance processes in developing recurrent costs		■	
2	Limited external oversight on inputs related to recurrent costs		■	
3	Leadership collectively make key decisions based on capital costs	■		

From Stage 1 onwards, the prioritisation of recurrent costs and TOTEX in evaluation of projects is critical for financial sustainability for NSW Health. This has a domino effect on downstream activities leading to affordability concerns with limited ability to make changes. This has highlighted the need for more frequent checkpoints or assurance review points and input from key stakeholders to influence decision making. This will minimise downstream impacts on the ability for projects to operationalise due to funding constraints.

The additional assurance review points identified along the FPP are shown below. The extent of these review points should be determined based on the project's designated risk profile as determined/developed in recommendation 1.

Figure 5.2 Proposed assurance review points for key stakeholders during the FPP



Source: NSW Health FPP (2020), Deloitte analysis (2021)

Along with the additional assurance points, a review of the governance structure membership to include Finance, System Purchasing and Strategic Reform and Planning Branch. This will involve new roles and responsibility for key activities provide the necessary assistance. These are detailed and shown on the following listed below:

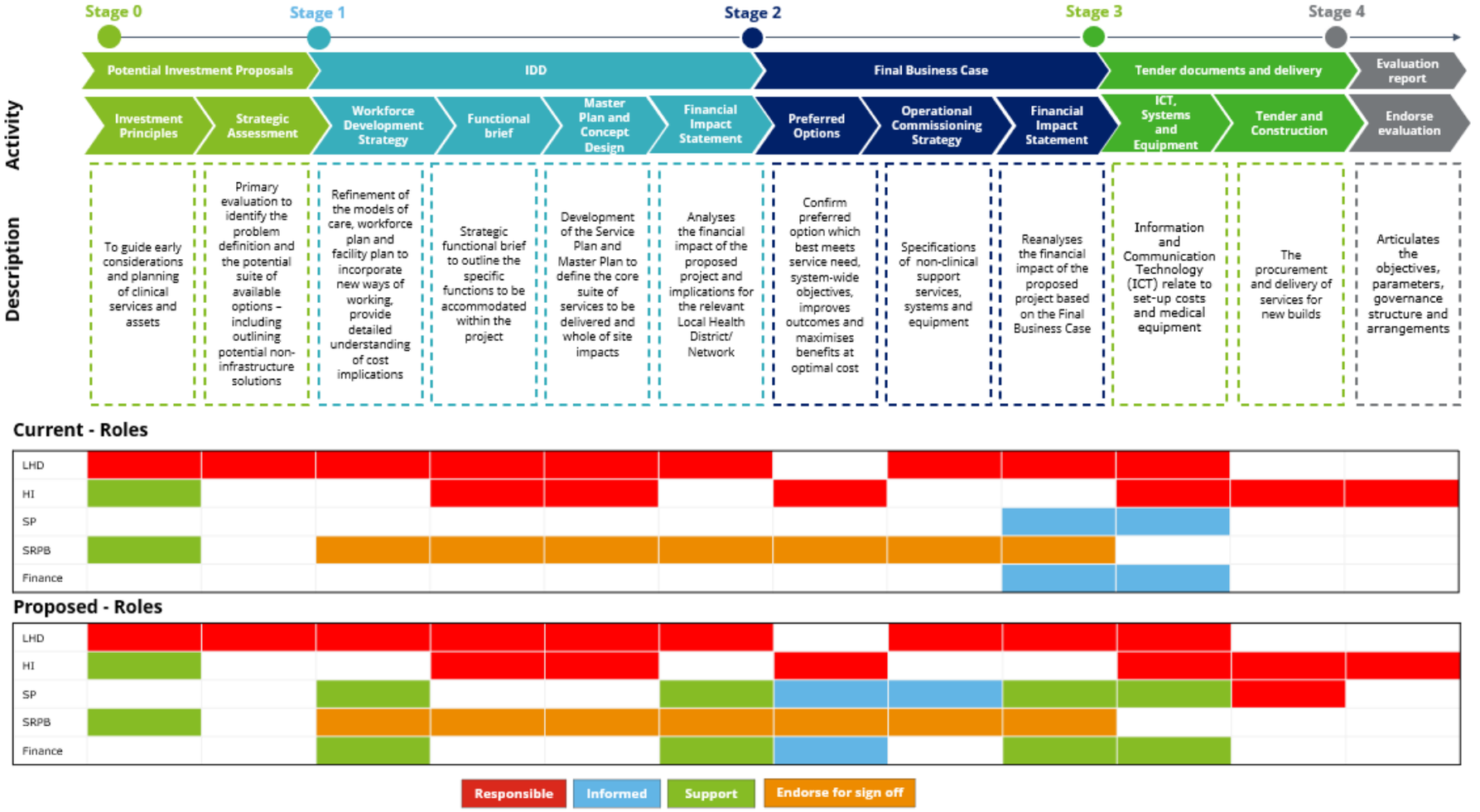
- Table 5-2 summarises the proposed assurance, owner and timing along the FPP staging.
- Figure 5.3 shows the current and recommended roles for consulted stakeholders for key activities

Table 5-2 Proposed assurance review points

No.	Description	Teams	Stage				
			0	1	2	3	4
1	The need to involve Finance and System Purchasing prior to handover and endorsement on specific activities relevant for recurrent costs. Refer to Figure 5.2 on their proposed role on the identified activities.	Finance System Purchasing		●			
2					●		
3						●	
4	Procurement reform lifecycle to connect design for operation and maintenance with standard contracts (i.e., medical equipment, cleaning and air conditioning).	System Purchasing		●	●	●	
5	Finance to provide high-level advice on financial viability post development of CSPs and before Stage 0 to provide preliminary indications on recurrent costs to inform design of project options	Finance	●				
6	Greater ongoing review of patient experience influencing changing ward configuration driving higher recurrent costs (i.e. single two-bed).	System Purchasing		●	●	●	
7	Finance to become responsible for the collection, management and storage of benchmarking data comprising of capital costs, recurrent costs, performance against outcome metrics, used to inform planning, delivery and evidence base for discussions with Treasury. Finance will also endorse FIS prior to submissions to ESC.	Finance		●	●		
8	• Endorse FIS Tracking to be formally part of Stage 3 (shown in red hatch) • Review governance to include Finance and System Purchasing to support HI and LHD	LHD HI Finance System Purchasing				●	
9	Review workforce implications at facility and network level to identify potential efficiencies with capital builds	Strategic Reform and Planning Branch		●	●	●	

Source: Deloitte analysis (2021)

Figure 5.3 Current and recommended roles for key activities



Source: Deloitte analysis (2021)

5.1 Recommendation 3

Recommendation 3: Implement new membership and responsibilities across project governance groups to increase focus on recurrent costs

Short term

No.	Challenge	People	Process	Enablers
1	Limited assurance processes in developing recurrent costs		■	
2	Limited consideration on recurrent costs for projects across the FPP		■	
3	Leadership collectively make key decisions based on capital costs	■		

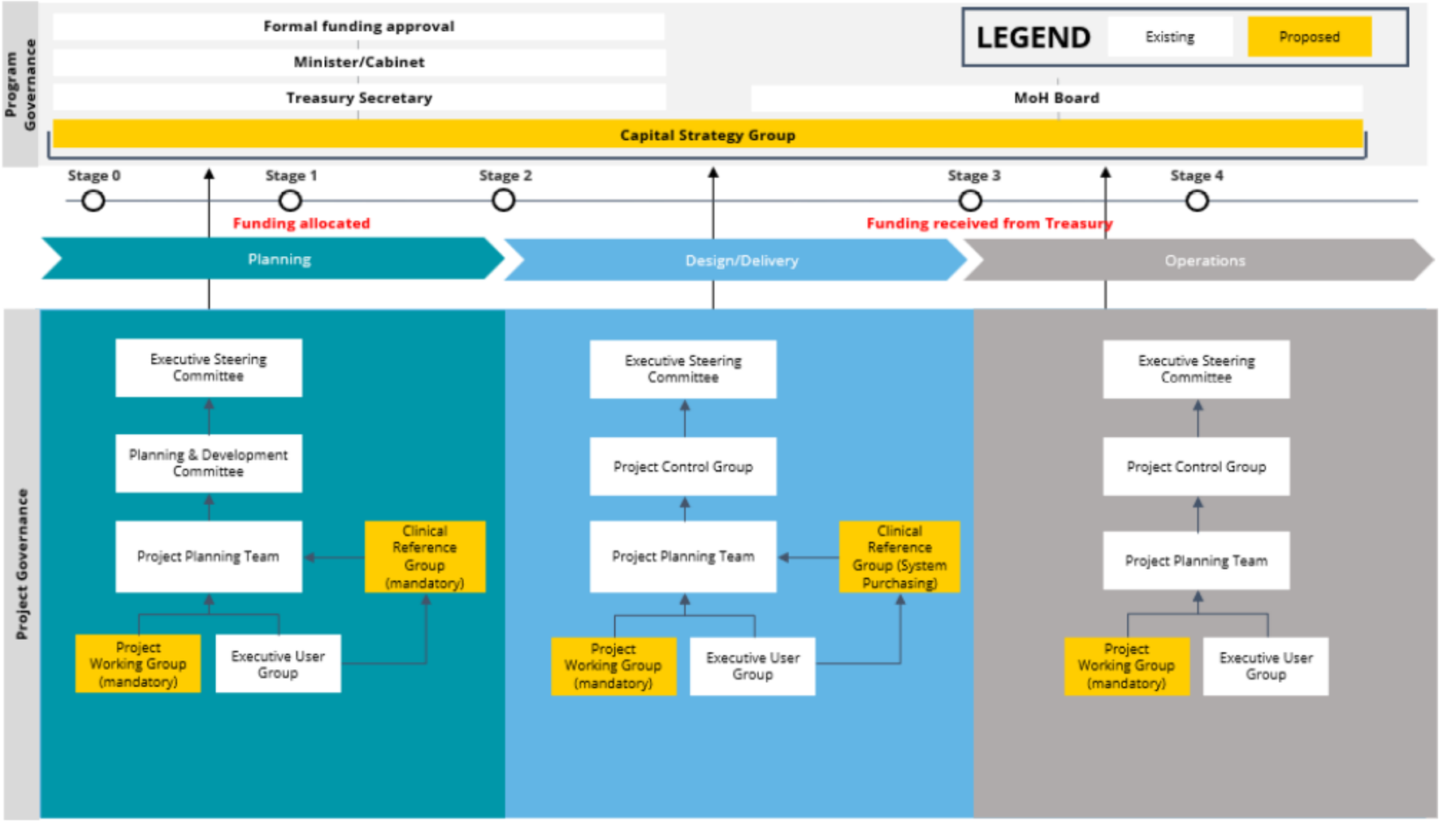
The project governance structure details a number of groups working together on activities through planning, design/delivery and operation phases of a project. Providing greater oversight and transparency on recurrent costs across the FPP can be implemented with the addition of new members across project governance groups.

Ensure the additional assurance will consider equally capital and recurrent expenditure throughout FPP to inform key decisions This will encourage discussion on strategic / district needs and project affordability for recurrent costs. The key actions to implement are: The project governance structure details a number of groups working together on activities through planning, design/delivery and operation phases of a project. The key potential additions to the existing project governance arrangements includes:

- **Greater role and responsibility for Finance and System Purchasing**: The need for more involvement from Finance and System Purchasing in the governance groups across stages of the project could provide greater clarity around whole-of-life costs of a project and downstream minimise current cost impacts. Refer to Table A.3 on the additional project governance arrangements.
- **Mandating PWG involvement for all FPP projects to focus on the TOTEX of a project:** Currently PWG's are convened as required to coordinate, monitor and implement planning strategies to achieve project objectives and timeframes including consideration of both capital and recurrent cost estimates. Moving forward, PWGs role should be mandatory across all projects considering the variability of recurrent costs.
- **Program Board to consider TOTEX on projects.** Currently, the Capital Strategy Group has a focus on capital costs with less consideration over recurrent costs. The Capital Strategy Group's responsibility will require to have a holistic appreciation of TOTEX when undertaking its key responsibilities of defining whole of Program governance arrangements, reviewing program status monthly and approving end/start of each program/project phases with close.
- **Executive Steering Committee (ESC).** Currently Project ESC meetings are coordinated for projects greater than $50m in value while for projects under $50m LHD coordinate multiple projects. ESC's involvement across all projects should be responsible for providing monthly strategic direction, review and approval on key decisions within the NSW Program scope, budget and timelines.
- **Clinical Reference Groups (CRG):** To support LHDs and Strategic Reform and Planning Branch the opportunity to include System Purchasing and Finance to assist with interrogation on the financial viability developing CSP's and related equipment requirements.

Figure 5.4 provides an overview of how the two additional governance groups could look within the existing governance framework. Table A.3 provides the membership (including additional proposed MoH teams) for the below governance groups.

Figure 5.4 Potential evolution of project governance across project lifecycle



Source: Deloitte analysis (2021)

5.2 Recommendation 4

Recommendation 4: Promote greater collaboration and information sharing through common platforms, assumptions and tools for recurrent costs

Long term

No.	Challenge	People	Process	Enablers
1	Inconsistencies in methodology and assumptions used to inform the preparation of recurrent costs			■
2	Lack of visibility across tools and platforms between stakeholders			■
3	Absence of a common platform used by all stakeholders across the project lifecycle			■

There are a range of valuable tools and initiatives that have been designed to improve transparency and minimise discrepancies on data inputs and assumptions along the FPP. This can enable improved visibility and awareness of data, tools and initiatives that are being led by MOH, HI and LHDs. Importantly this ensures greater oversight and transparency across all activities related to recurrent costs.

The key actions include:

- **Greater transparency in assumptions:** Increase stakeholder trust and approach in developing assumptions. Establish assumptions register across all activities inputs that needs to be reviewed the new proponents recommended as shown in Figure 5.3. to minimise potential inconsistencies (i.e. Activity profiles).
- **Standardise all processes for activities to online dashboard:** An opportunity to use a project management software to identify status of key activities relating to recurrent costs. This will provide alerts and status updates to relevant stakeholders to undertake their delegated responsibility in a timely manner. This would provide for enhanced oversight across the project lifecycle and provide opportunity to validate and test assumptions between stakeholders in an interactive manner. This would be an extension of the existing MoH initiative, Clinical Services Planning Analytics (CaSPA) portal aimed at upgrading clinical services planning and projects. A potential project management software to consider is Aconex which is used in other jurisdictions such as Queensland Health during development of business cases.
- **Consolidate key tools into the recommended online dashboard:** Intregate all existing platforms and tools utilised by stakeholders within the FPP into a simple interface able to accessed by relevant stakeholders easily. This includes incorporating all relevant tools and software (i.e. FISTracker) used across the FPP able to be accessed and utilised by stakeholders on a given project. This will allow improved interoperability for stakeholders to have the opportunity to be informed earlier on potential recurrent cost considerations and visibility of real-time data insights to provide inputs into key activities informing TOTEX.

These key actions will drive ownership of financial performance across the MoH to deliver insightful reporting, and appropriate measurement and allocation of recurrent costs in line with relevant activities.

Appendix A Recommendations

The following provides a summary of the recommendations and the challenges they aim to address.

Table A.1 Summary recommendations table

No.	Recommendation:	Challenge	People	Process	Enablers
	Short-Term				
2	Introduce internal assurance review points for key activities related to recurrent costs that are subject to change over the lifetime of the project along the FPP	• Limited assurance processes in developing recurrent costs • Limited external oversight and reviews related to recurrent costs • Leadership collectively make key decisions based on capital costs		■	
3	Implement new membership and responsibilities across project governance groups to increase focus on recurrent costs	• Limited assurance processes in developing recurrent costs • Limited consideration on recurrent costs for projects across the FPP • Leadership collectively make key decisions based on capital costs	■	■	
	Medium-Term				
1	Develop a framework that categorises planned projects based on key drivers of recurrent cost impacts e.g. total project cost, project size, category, and delivery capacity of the LHD	• Difference in capacity and resources to develop FIS • Limited collaboration between stakeholders on activities related to recurrent costs	■		
	Long-Term				
4	Promote greater collaboration and information sharing through common platforms, assumptions and tools for recurrent costs	• Inconsistencies in methodology and assumptions used to inform the preparation of recurrent costs • Lack of visibility across tools and platforms between stakeholders • Absence of a common platform used by all stakeholders across the project lifecycle			■

Appendix B Governance Responsibilities

Table A.2 Governance responsibilities and proposed frequency of meetings

Group	Responsibilities	Frequency
Executive Steering Committee (ESC)	Provides strategic direction and leadership on all Project activities, monitoring achievement of project deliverables (including adherence to Project scope) and endorsing project deliverables prior to submission to HI, MoH or Treasury in the case of Gateway review documentation. Ultimate decision-making authority within the Project Governance structure.	Minimum quarterly but typically monthly
Planning & Development Committee (PDC)	During Stage 1 & 2, of the FPP the PDC is responsible for monitoring and advising on all aspects of the Project, monitoring the achievement of project deliverables for which Stakeholders are responsible as outlined in the POFP	Monthly or as determined based on project need
Project Control Group (PCG)	During Stage 3, PCG is responsible for overseeing construction and commissioning, providing direction and advice to other governance structures, monitoring and reporting to the ESC on project progress and making decisions consistent with their level of delegation.	Monthly or as determined based on project need
Project Planning Team (PPT)	During Stage 1 and 2 responsible for the consideration and coordination of the consultation processes and engagement with users that provides advice to PWGs, EUG, PUGs and PDC/PCG on clinical and non-clinical issues in order to facilitate, co-ordinate, guide and advise the project as required	Monthly or as determined based on project need
Project Delivery Team (PDT)	During Stage 3, is responsible for the consideration and coordination of the consultation processes and engagement with Users	-
Project Working Group(s) (PWGs)	PWGs report to the PPT and PDT depending on the stage of the Project and have responsibility for developing monitoring key project activities including communications and consultation, change management, overarching operational policy development, capital and recurrent cost estimates and economic appraisals	As determined based on User Consultation programme

Clinical Reference Group (CRG)	Convened as required to provide expert clinical advice on clinical and health service delivery matters to the PDC/PCG or PPT. This group is responsible for the resolution of clinical issues escalated from the PUGs	-
Executive User Group (EUG)	Responsible for overseeing the PUG process. This includes resolving issues escalated from PUGs and ensuring consistency across each PUG and alignment with design briefs with Clinical Services Plan (CSP), local, area and state-wide, LHD and Facility operational policies and other project parameters	As determined based on project need
Project User Group(s) (PUGs)	During Stage 1 to3, PUGs are responsible for developing the functional briefs for health planning units (HPUs). The PUGs consider and moderate the interests of the broader workforce and work collaboratively to ensure that the facility user requirements both in the short and long term are accurately reflected in the project brief and design documentation	As determined based on User Consultation programme

Appendix C Governance Memberships

Table A.3 Project Governance Arrangement memberships

Standard Membership	Organisation	ESC	PDC	PCG	PPT	PDT	PWGs	CRG	EUG	PUGs
HI Chief Executive	HI	Chair								
HI Director	HI	*Invited*	Member	Member						
HI Project Director	HI	*Invited*	Chair	Chair	*Invited*	*Invited*		*Invited*	*Invited*	
HI Consultant Project Manager	NA	*Invited*	*Invited*	*Invited*	*Invited*	*Invited*	*Invited*	*Invited*	*Invited*	
Architect (Consultant)	NA		*Invited*	*Invited*	*Invited*	*Invited*		*Invited*	*Invited*	Member
Cost Manager	NA		*Invited*	*Invited*						
LHD Chief Executive	LHD	Member	*Invited*	*Invited*						
General Manager - LHD / Facility	LHD	Invited	Member	Member	Chair	Chair	*Invited*	Chair	Chair	
LHD Executive / representative	LHD	Invited	Member	Member	Member	Member	Member	Member	Member	Member
LHD Service Planning Representative (Stages 1 and 2)	LHD		Member		Member					
Clinical leaders / representatives	LHD		Member	Member	Member	Member	Chair	Member	Member	Chair
Non-clinical personnel / operational managers	LHD				Member	Member	Member	*Invited*	*Invited*	Member
Communications representative (LHD)	LHD		*Invited*	*Invited*	*Invited*	*Invited*				*Invited*
Change Management representative (LHD)	LHD		*Invited*	*Invited*	*Invited*	*Invited*	*Invited*	*Invited*	*Invited*	
NSW Ministry of Health representative(s) – (SRPB)	MoH	Member	Member	Member				*Invited*		
NSW Treasury representative(s)	NSW Treasury	Observer								
Consumer representatives	NA	*Invited*	*Invited*	*Invited*			*Invited*			*Invited*
Finance **Director**	MoH	*Invited*	Member		Member		Member	*Invited*		
System Purchasing **Director**	MoH	*Invited*	Member		Member		Member	Member		

Source: Project Governance Arrangements (2015)

Deloitte.