New South Wales

Special Commission of Inquiry into Healthcare Funding

Submission Number: 137

Name: Health Infrastructure

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NSW GOVERNMENT

HEALTH INFRASTRUCTURE
Submission

The Special Commission of Inquiry into Healthcare Funding

1. This submission is provided to the Special Commission of the Inquiry into Healthcare funding (the Inquiry) and provides context on the activities of Health Infrastructure (HI).
2. HI sees the Inquiry as an opportunity for meaningful reform and will do everything it can to assist and engage with the Inquiry.

Executive Summary

3. HI is responsible for the implementation of the NSW Government's health capital works program for health capital investments valued at $10 million and above. HI works collaboratively with Local Health Districts and Specialty Health Networks (LHD/SHN), other NSW Health organisations and the Ministry of Health (the Ministry) to deliver projects using a well-established capital delivery process.
4. HI has had broad and unique exposure to many areas of the NSW Health system through its collaborations over many years in delivering its programs of work. Planning and delivery of a major capital project has many interfaces with hospital operations through the planning and delivery phases of the project and of course as HI transitions out of a project and facility and hands the new facilities to the LHD/SHN to commence service delivery.
5. Existing or emerging challenges in the capital program delivery include managing stakeholder expectations in relation to the clinical and non-clinical scope that each project will deliver; achieving efficiencies in design and manufacturing as well as embedding good asset management principles to manage maintenance cost impacts; the escalation of construction costs impacting the scope that can be delivered for each project; and the need for uplift in recurrent funding for LHD/SHNs to afford the new facilities predominantly due to additional workforce requirements associated with expanded facilities and implementation of new models of care.
6. HI has several initiatives underway to mitigate impacts of the above challenges, guided by NSW Health's Future Health Strategy and 20 Year Health Infrastructure Strategy. HI has also identified herein some further opportunities that may address the recurrent cost impacts that result from the capital program, which are outside of the scope of HI's role within the system and would require whole-of-system action to implement and may be relevant for consideration within the Inquiry.

Context

Establishment of Health Infrastructure and achievements

7. HI was established in July 2007 and is responsible for the implementation of the NSW Government's health capital works program, overseeing the planning, design, procurement and construction of health capital investments valued at $10 million and above. HI is led by a Chief Executive reporting to the Secretary, NSW Health and guided by an Advisory Board. The Advisory Board comprises individuals with a depth of expertise across construction, commercial, legal, finance, town planning as well as a range of experiences within the NSW Health system.
8. HI provides a centralised service and skilled resource pool and collaborates across the system to deliver major capital projects, leveraging contemporary and agile operating procedures and processes to provide procurement and delivery efficiencies for NSW Health. HI's initial focus was design, procurement and construction only, but over time has been requested or required to provide complementary advisory functions (such as economic advisory, town planning, health facility design, arts in health, asset management practices, operational commissioning) which work together with LHD/SHN resources to maximise the impact and opportunity of capital program delivery for the NSW Health system.

9. Over the years HI has built strong and collaborative relationships across NSW Health including with its delivery partners in LHD/SHNs, across NSW Government and across the construction industry in NSW, inclusive of the major building contractors and consultants who identify HI as a delivery partner of choice and support the delivery of high quality facilities for the NSW Health system.
10. In its more than 16 years of operation, the capital pipeline has grown from $2.4 billion for the four years from 2007, to $13.8 billion of capital investment announced in State Budget 2023-24 for the next four years. Since 2007, HI has completed around 240 health capital works projects across NSW, including more than 160 in rural and regional NSW. We currently have more than 100 projects underway. HI is a well-established delivery agency that was modelled on private sector structures to prioritise agility and efficiency, with a strong track record and reputation across the construction industry and NSW Government.
11. Capital investment prioritisation processes are led by the Ministry of Health. Capital funding is allocated per project by NSW Treasury to the Ministry who in turn transfers the budget to HI to fund capital project planning and delivery. HI operating costs and all cost associated with running the capital program are funded from an allocation of each project's capital budget and HI does not receive a recurrent budget for the capital program delivery.

Project governance

12. The NSW Health Capital Strategy Group (CSG) provides oversight on the NSW Health capital program's strategic direction, delivery, evaluation, policy, and governance. Its membership includes several Deputy Secretaries within the Ministry including the Chief Financial Officer, the Ministry Health System Strategy and Patient Experience, the Chief Executive, Health Infrastructure and the Chief Executive, eHealth. Where a project is funded through the NSW Health capital program, the CSG has certain decision making and approval delegations in relation to release of program contingencies or where a request relates to additional scope or capital funding requests outside of the approved business case.
13. The highest level of governance for each individual capital project is the Executive Steering Committee (ESC), which provides a collaborative forum for information sharing and decision making between the relevant entities. Each ESC has membership comprising the Chief Executive of the relevant LHD/SHN, the Chief Executive of HI, and the Executive Director of Strategic Reform and Planning Branch in the Ministry. NSW Treasury is invited as an Observer to the meetings.

Project processes

14. The NSW Health Facility Planning Process (FPP) (Guideline GL2021_018) provides a framework (Stage 0 to 4) for the NSW public health system to prioritise, plan deliver and evaluate capital infrastructure projects over $10 million.
15. Stage 0 (Principles, Planning & Prioritisation) is to identify all possible options to deliver the service outcomes before undertaking detailed considerations of a specific approach or solution. Analysis also needs to consider issues such as, workforce, recurrent costs, information and communications technology, support services, and life cycle maintenance implications. HI provides some inputs into Stage 0 but our role formally commences at Stage 1 where the capital project is initiated with a Budget Allocation Letter from the Ministry. LHDs/SHNs lead the Stage 0 services needs analysis, producing a Clinical Services Plan endorsed by the Ministry (Strategic Reform and Planning Branch) and which sets the foundation from which the capital project is established.
16. At Stage 1, HI then develops a broad spectrum of potential scope options informed by Stage 0 work and aligned with the available capital budget, and capable of fully or partially meeting the service needs set out in the LHD/SHN Clinical Services Plan.
17. HI has an established Project Delivery Standard (Parts 0 to 10) that aligns with Stages 1 to 4 of the NSW Health FPP framework and with the requirements of Treasury's Gateway Policy (Gate 1 to 6). This is shown in Figure 1 below.

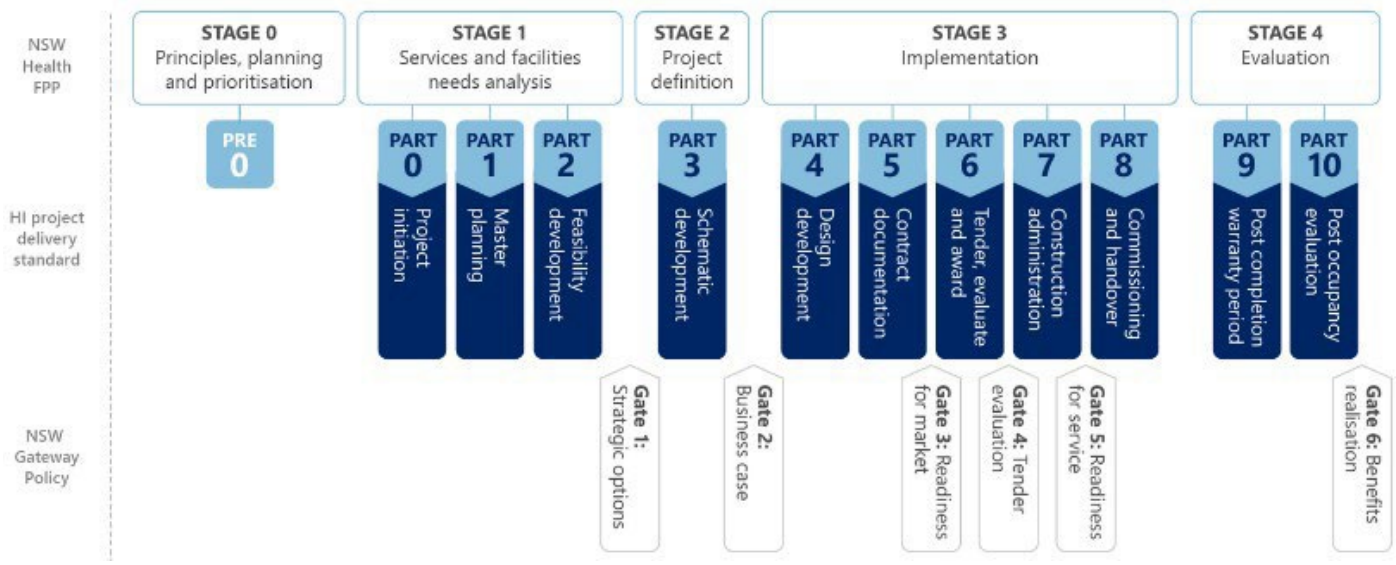

Figure 1 - Alignment of NSW Health's Facility Planning Process, HI's Project Delivery Standard and Treasury's NSW Gateway Policy.

18. HI's Project Delivery Standard seeks to standardise delivery approaches and outputs where feasible but also recognises bespoke requirements relative to their local context including community demographics and service delivery models. To inform local context, the planning process includes consultation processes, through "user groups" supporting design development processes or through specific engagement sessions. Through the NSW Health FPP and HI's Project Delivery Standard, the planning and delivery of a capital project is a highly collaborative effort between HI, LHD/SHNs and the Ministry.
19. HI provides centralised leadership, technical skills and capabilities and is ultimately responsible for delivery of the project within time and budget requirements.
20. HI's centralised specialty in the navigation of planning systems is a critical role for NSW Health, with key interfaces with the department of planning and depth of understanding of pre- and post-approval requirements. HI works closely with the construction sector to share NSW Government objectives and requirements and partner with consultants and contractors to build capability and ensure the sector is aligning its growth and development with the program requirements. In partnership with industry and through effective construction procurement, HI delivers substantial social impact achievements in the communities within which the projects are delivered. This includes initiatives such as employing and training local workforce, whilst achieving good levels of Aboriginal participation in the overall project workforce. HI drives sustainability initiatives and innovations across the program through its design approaches and encouraging sustainability innovations within its procurement processes.
21. HI also leads collaboration across other Shared Services providers (HealthShare, eHealth and NSW Pathology) and other Government agencies, to achieve mutually beneficial outcomes.
22. The LHD/SHN provides local leadership, takes the lead with substantial staff and community engagement processes, with some support and technical advisory from HI, and is responsible for project deliverables that require local sponsorship and ownership as they carry through to the operational phases of a project, such as the development of Workforce Plan and the Financial Impact Statement (FIS).
23. The Ministry provides oversight and approval from a system management perspective.

Challenges, current response and opportunities

Clinician, staff and community expectations

24. Community expectations are still for traditional models of care delivery (e.g. doctors over other professionals, hospital beds over day-only or community-based care, surgical and other invasive interventions over supportive care). Infrastructure projects tend to be at the forefront of driving change and whilst HI's role does not extend to managing these expectations and shifting the mindset, often HI is working closely to and in parallel with the LHD/SHN.

Timely information on infrastructure projects

25. LHDs/SHNs often consult broadly with clinicians, staff and community through the process of their early planning including during the development of the Clinical Services Plan.

26. Clinical and non-clinical scope inclusions in the project are often determined very early in the project and with limited technical asset, design and construction input and before HI has involvement. This often translates to a very early stakeholder expectation regarding the number of beds and other clinical and non-clinical services that a new or refurbished facility will include, providing parameters that limit flexibility for options development during the planning processes.

27. Due to public commitments or community expectations and the constraints of limited capital budgets, the publicly committed scope of a facility may be required to be prioritised over more innovative, virtual or community- based models during the capital project options analysis processes.

28. Limiting the publishing of project scope information in early planning stages will assist ensuring consistency of information relating to project scope. This in turn allows more flexibility for scope development to enable virtual or community- based models to be implemented, which may enable reduction of recurrent cost impact. (Premier's Memorandum M2022-06 Information on Infrastructure Projects)

Leveraging virtual care

29. Consideration of virtual care models should occur early in the planning process, led by LHD/SHNs and the Ministry. Virtual care is progressively being adopted in different areas across the NSW Health system, guided by the Future Health Strategy. The recurrent financial and environmental opportunities and implications should be considered as part of the options analysis in Stage 0 and solutions included in the Clinical Service Plan.

30. HI is reviewing design implications of an increase in virtual models, including through a review of facilities worldwide. Generally, there are still facility requirements to support virtual models and there is likely to be little capital cost saving as any reduction in space will be offset (or exceeded) with increase in technology.

31. Opportunities to collaborate with other states with major capital works programs are also being explored.

Alternative delivery models

32. There is opportunity for further investigation of alternative delivery models to include a broader range of non-capital solutions or partnering with the non-government sector to finance or deliver specific functions of a facility / service. These do not need to be at whole of facility level but rather there may be opportunity to review partnerships or outsourcing of specific services to achieve operating cost benefits.

33. There may also be opportunity for this in the facility / asset lifecycle management where, for example, a building contract may be let with an embedded maintenance agreement. The success of these arrangements depends on very early engagement and detailed procurement options analysis as a part of the project business case. HI has capability to consider these opportunities noting that Government appetite, industry capacity/capability and appropriate governance are key to the success of such models.

Design standardisation, innovation and bespoke approaches

34. HI projects include substantial consultation at a local level to ensure designs are tailored to the needs of local clinicians, staff and communities. There is a challenge to deliver facilities that include innovations, meet local needs and requirements whilst ensuring there is a level of standardisation across the program.

35. In the context of manufacturing supply chain challenges, environmental sustainability targets, maintenance and asset management, workforce shortages and general recurrent cost affordability challenges, HI has established a program of work to target specific areas for standardisation rather than fully standardise hospital design. Its objective is to reduce design work and time including reduce consultation requirements, as well as provide opportunities for bulk manufacturing where there is scale across the program.

Design Standardisation Program

36. HI is developing a catalogue of standard design features to help deliver capital projects that are more sustainable, efficient to operate and of consistent quality standards.

37. The Design Standardisation Program will help address current key challenges including consideration of operational and whole of life costs of design features; improving consistency of quality and experience within NSW

Health facilities, reducing time and resources allocated to assessing and designing common design features, and managing expectations of stakeholders.

Standardised room layout designs

38. The Australasian Health Facility Guidelines (AusHFGs) guide standardised health service unit composition and room layout designs across the NSW Health portfolio. NSW Health has mandated the use of AusHFGs; all HI projects use this as their foundation for planning.

39. Where a project identifies improvements or innovations can be incorporated by adjusting the standard design, a NSW Health AusHFG Steering Committee is responsible for review and approval of variations to the AusHFGs. This is often where local stakeholder consultation has identified changes that will support new or tailored models of care. During the process, innovation is positively viewed noting that potential variations are always overlayed with a lens of recurrent cost, safety and infection control impacts.

Recurrent funding misalignment

40. There is a perception that HI is responsible or accountable for the operational affordability issues associated with large building facilities. HI's role is to deliver the agreed scope of work as derived from the LHD/SHN Clinical Service Plan. Ultimately HI's capital project design strategies and delivery methods have only potential for *some* positive influence on the recurrent affordability. In this regard, HI's design processes have evolved in recent years to include lessons learnt and increase consideration of design impacts on recurrent costs, for example to seek to reduce circulation area (between rooms or departments), or to specify and select equipment with sustainable running costs.

Design and maintenance costs are only one element of the impact on recurrent costs

41. Service expansion and workforce is the most substantial cost driver of impact on recurrent costs. Even where service provision in the new facility is equivalent to the old, there is still a recurrent cost uplift predominantly as a result of workforce required to support delivery of new models of care or simply from the impact of delivering facilities compliant with current building standards and AusHFG (often requiring greater floor area driving increased staffing requirements). Where there is new or expanded service delivery, this cost uplift is even greater.

42. HI facilitates the overall business case development but within that, LHD/SHN are required to develop a FIS to review the impact of the new capital build on recurrent expenditure and funding (Part 2 and Part 3 of the HI Project Delivery Standard), based on the project scope, models of care and facility design. This FIS is endorsed by the Ministry and NSW Treasury as part of the Final Business Case (Gate 2, NSW Gateway Policy).

43. Whilst the FIS gives an indication of the recurrent cost uplift requirements, this is usually 2-4 years in advance of facility opening and doesn't determine the recurrent budget that is allocated. The actual recurrent budget is negotiated with the LHD/SHN and the Ministry (outside of HI processes) in the lead up to the financial year of operational commencement.

44. It is HI's observation that on operational commencement of the new facility, the recurrent budget uplift has typically not been aligned with the requirement forecast within the approved FIS, resulting in LHDs needing to stage opening processes to better align with funding availability (largely for workforce), limiting the realisation of service benefits from the newly delivered facilities.

Recurrent cost impact analysis in early planning

45. Stage 0 of the FPP is a collaborative planning process where inputs from LHD/SHNs and shared services are used to inform Clinical Service Plan development. There is opportunity to do more in this early planning phase to have a significant impact. This needs to occur prior to a project announcement or scope being determined, to identify potential efficiencies in service delivery (i.e. maximising networking of services) and to forecast the recurrent cost impacts that will result in the need for additional budget in the go-live year and future years.

46. This data may be used then to collaborate with Finance in the Ministry and the service planning process may be more iterative, ultimately developing a Clinical Service Plan that is sustainable and meets service need. An ongoing challenge is that at this time a facility may be five years from the go-live operating date and there will be limited certainty of recurrent budget availability.

Workforce planning uplift

47. The NSW Health's Future Health Strategy in the People and Culture program of work includes a review of workforce planning capabilities. HI believes the system overall would strongly benefit from increased support to the LHD/SHNs throughout this workforce planning process for capital redevelopments; there is opportunity to have substantial recurrent impact if more planning is carried out early in the project processes (commencing at Stage 0).

48. LHD/SHNs are responsible for development of a Workforce Plan for a capital redevelopment. Currently, they have variable capabilities in this area and the Workforce Plan is often not completed prior to its need to be submitted for the FIS and within the Final Business Case. This precludes the opportunity for collaboration and iterative efficiency improvements in parallel to the facility design process as it is usually too late to make design changes at the point of delivery of the Workforce Plan.

Construction cost escalation impacting achievable scope

Construction Costs

49. Since 2020, as a result of global economic issues and COVID-19 impacts, cost escalation has impacted the construction sector in Australia. Historically a 2-3% per annum cost escalation assumption has been factored in to HI cost forecasts, however since 2020 the escalation rate is approximately 10% per annum, which is unbudgeted in projects announced in 2021 or prior.

50. The escalation rate has affected the scope that HI is able to deliver for a capital project, requiring reduction of scope to align with available budgets. NSW Health has strived to maintain commitment to announced or agreed scope but there are several projects where other elements of the scope are being adjusted in consultation with the LHD/SHN and endorsed by the project ESC. There will be an impact on the cost benefit ratio for these projects and in some cases there may be an impact to the justification for investment with service delivery outputs not meeting the original intention of the Clinical Service Plan.

Infrastructure Workforce Constraints

51. The NSW Government infrastructure program in the coming years is substantial. Other states are increasing their infrastructure spend and this year in the health infrastructure sector, Queensland and Victoria both have strong pipelines that exceed the NSW budget commitments, which has never been the case previously. With ongoing market capacity and supply chain constraints, coupled with skilled labour shortages, delivery of public and private infrastructure programs is becoming increasingly challenging.

52. For HI, workforce attraction is a key constraint due to labour shortages. In project leadership roles, such as those in HI, market rates for pay exceed the range that payroll positions can provide in NSW Government and a high contingent workforce is therefore required in order to attract and retain sufficient talent to support the ongoing delivery of the NSW Health capital program. HI has commenced discussions with INSW in relation to these workforce challenges and they are in turn facilitating discussions to consider potential solutions to this common challenge faced by all infrastructure delivery agencies.

Sustainable capital projects

HI Corporate Strategy 2021-2025

53. NSW Health's Future Health Strategy as well as its 20 Year Health Infrastructure Strategy provide refreshed principles to guide HI activities to support a more sustainable health system.

54. The HI Corporate Strategy 2021-2025 sets out key initiatives and a clear target future state. The initiatives support prioritisation of sustainability principles including financial, social and environment sustainability. From a financial sustainability perspective, several activities support the increased consideration of asset management considerations and recurrent cost impacts of HI facility delivery. As at June 2023, HI had completed over 50% of the initiatives outlined in the Corporate Strategy. The Corporate Strategy is forecast to be updated in 2024.

Asset management maturity uplift

55. In line with the Asset Management Policy for the NSW Public Sector, NSW Government agencies have embarked on a program of improvement of asset management practices. HI has played a key role in this maturity program for NSW Health.

56. NSW Health has also recently more broadly embedded asset management information into its planning processes. At Stage 0 of the FPP it is intended that Strategic Asset Management Plans and Asset Management Plans will be considered. The impact of these changes will take some time to come to fruition but there should be improved capital prioritisation processes that consider existing asset conditions. These processes will provide the best value for money solutions for the system, whilst delivering financially sustainable assets – both impacts theoretically progressively improving the average asset condition and longevity of the assets across the system and improving the overall recurrent cost position.
57. Importantly, HI has already embedded improved asset management practices into its capital program delivery, informing facility design. Equipment specifications have been or are in the process of being updated to ensure sustainability (financial and environmental) principles are embedded.

Benefits evaluation and lessons learnt analyses

58. HI has been collaborating across NSW Government to align its benefits evaluation processes with the NSW Treasury framework. Benefits planning and evaluation is embedded within HI project processes, noting the LHD/SHN takes the lead on articulating the benefits and determining how they will be measured, as well as monitoring them post-completion.
59. Post-completion monitoring and reporting is an area of current focus and improvements in this data capture are in progress. This process will consider the operating efficiency of the facilities and any improvements that could be made to reduce recurrent cost impacts. Whether benefits are realised is an important post-completion reflection, but HI also specifically evaluates areas of hospital redevelopments after they are operational, to determine if there are any models of care, design or construction lessons to be learnt.
60. The Post Occupancy Evaluation process at Part 9 of the Project Delivery Standard is providing useful data that feeds into update of guidance or processes (noting some of the design lessons are also provided back to the AusHFG Steering Committee).

Conclusion

HI has provided to the Commission an overview of its role and its views on the relationship between capital builds and operational affordability, identifying issues and opportunities for consideration. Recognising the fiscally constrained environment within which the system operates, HI seeks to continue to strengthen relationships across NSW Health to enable HI to play its role in collaborating and contributing to the minimise cost impacts of capital builds, whilst ensuring HI is driving innovation in facility planning and delivery to keep NSW ‘on the map’ in terms of being at the forefront of contemporary and high-quality health facility delivery.