

Appendix one – Response from agency



Health

Ms Margaret Crawford
NSW Auditor-General
NSW Audit Office
GPO Box 12
SYDNEY NSW 2001

Our ref H20/78119

Dear Ms Crawford

Final Performance Audit Report – Health Capital Works

Thank you for your letter of 22 July 2020 inviting NSW Health to provide formal comments on the Health Capital Works performance audit report.

I have reviewed the provided report and appreciate the efforts of your team in reviewing this complex area. NSW Health is delivering a capital program of \$10.1 billion over four years (starting in 2019/20), governed through a series of frameworks and standards which provide assurance on decision-making. Within this context, I would like to offer additional information to assist in the reading of the report findings.

I am pleased to note that the audit report has acknowledged the 20-Year Health Infrastructure Strategy which was recently approved by NSW Government. This will address several points raised in the report. In addition, I would like to highlight the following:

Health capital planning in context of NSW Government process

The NSW Health methodology, process and tools used to develop business cases, determine options and decide on preferences is informed by whole-of-government functions, predominantly facilitated by NSW Treasury, the NSW Department of Premier and Cabinet and Infrastructure NSW (INSW), among others. Planning and delivery for capital projects is required to operate within and comply with the INSW Investor Assurance Framework and government policies, as well as governance through the Infrastructure Investor Assurance Committee (IIAC) and previously Major Projects Executive Committee (MPEC).

NSW meets the requirements of these frameworks and engages with our NSW Government partners to ensure the effective governance of our decision-making processes. Additionally, these broader requirements have evolved over the last ten years and it needs to be noted that new whole-of-government processes were introduced during the time period reviewed as part of this audit. In reviewing the projects highlighted, it is important to view them within context of the structures and frameworks in place at the time that each was commenced.

Clarification of the role of the Ministry of Health and Health Infrastructure

The roles and responsibilities of Health Infrastructure and the Ministry of Health are clearly understood by the NSW Health System. The Ministry of Health manages asset planning and prioritisation and business case appraisals. Health Infrastructure is the delivery agent for capital programs over \$10 million.

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Health capital projects cost benefit analysis

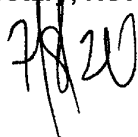
NSW Health welcomes the improvement opportunities identified in the report and will work to respond to the listed recommendations. In doing so, I wish to acknowledge the strength and maturity of the NSW Health capital planning framework and our capability in business case development and economic appraisals. It needs to be highlighted that in 2014, NSW Health in collaboration with NSW Treasury, was the first State jurisdiction to develop a suite of benefit valuation methods for capital projects cost benefit analysis. This delivered a comprehensive evaluation of alternative capital and non-capital solutions which has been adopted as a model for capital project evaluation. NSW Health will continue to strengthen our processes as our Health system evolves.

In addition to the above points, please find attached to this letter a summary of NSW Health's responses to the individual recommendations made in this report. I thank you and your staff for your ongoing engagement with NSW Health and its representatives during this audit program.

Yours sincerely



Elizabeth Koff
Secretary, NSW Health



NSW Health Response to Recommendations

Audit Recommendation	NSW Health Response	Comment
1. By December 2020, the Ministry of Health should: Establish effective arrangements to ensure the Health Cluster's capital funds are used to deliver the greatest value for New South Wales by: <ul style="list-style-type: none">commencing the implementation plan for the new 20-year Health Infrastructure Strategy and related Prioritisation Frameworktransparently detailing the basis of annual prioritisation decisions relating to NSW Health's forward capital planningeffectively coordinating, screening, and aligning the capital priorities of Health Cluster agencies with the new Strategyinforming the government through advice on their alignment with statewide directions for health infrastructure investment in the 20-year strategy.	Accepted	NSW Health will commence the implementation plan for the new 20-year Health Infrastructure Strategy and related Prioritisation Framework. NSW Health has developed a state-wide Investment and Prioritisation Framework. The Framework was issued to all health entities in late July 2020 to: <ul style="list-style-type: none">outline the basis for which Ministry will review and prioritise investment proposals in the 10-year Capital Investment Strategic Plan, andprovide clear guidance on the types of investment proposals required to respond to the long-term health challenges facing the NSW health system. NSW Health will inform the government through a reprofiled 10-year Capital Investment Plan based on investment proposals which align with the state-wide directions for health infrastructure investment in the 20-year Health Infrastructure Strategy.
2. By September 2020, the Ministry of Health should: Work with Health Infrastructure and stakeholders to strengthen the Process of Facility Planning by: <ul style="list-style-type: none">reviewing the roles and responsibilities of all Health Cluster agencies involved in developing business cases to assure they support rigorous consideration of the full range of feasible options including non-capital optionsdeveloping guidance and an action plan to strengthen the sector's capability for transparently assessing alternative non-capital options aligned with the 20-year Health Infrastructure Strategystrengthening economic appraisals within business cases including assessments of the risks and benefits of all feasible options (including non-capital options), and compliance with relevant NSW Health and Treasury guidelines	Accepted	NSW Health has revised the previous Process of Facility Planning Guideline to NSW Health Facility Planning Process (FPP). The Guideline was issued to all health entities in late July 2020. The FPP outlines the roles and responsibilities of all Health Cluster agencies involved in developing business cases. NSW Health has developed the state-wide Investment and Prioritisation Framework. The Framework was issued to all health entities in late July 2020 to provide clear guidance on the types of investment proposals including non-capital options required to respond to the long-term health challenges facing the NSW health system. Ministry of Health will work with Health Infrastructure to: <ul style="list-style-type: none">strengthen economic appraisals within business cases including assessment of the risks and benefits of all feasible

Audit Recommendation	NSW Health Response	Comment
<ul style="list-style-type: none"> assuring that demand and capacity forecasts of Clinical Services Plans are accurately described in business cases supporting proposed capital solutions. 		<p>options (including non-capital options) and comply with relevant NSW Health and Treasury guidelines, and</p> <ul style="list-style-type: none"> ensure that the demand and capacity forecasts of Clinical Services Plans are accurately described in business cases supporting proposed capital solutions.
3. By September 2020, the Ministry of Health should:		
<p>Systematically monitor and publicly report (at least annually) on:</p> <ul style="list-style-type: none"> the total amount of contingency funds controlled by NSW Health, and the amounts reallocated to individual projects and how compliance was achieved with Treasury policies on the use of contingency funds. all major new works initiated by NSW Health with an Estimated Total Cost of \$5.0 million or more, and how compliance was achieved with NSW Government requirements associated with Capital Expenditure Authorisation Limits for the approval of new works. 	Not accepted	<p>This recommendation is seen as duplication of existing structures which provide assurance on the highlighted areas and which have been established in agreement with key NSW Government stakeholders. Specifically:</p> <ul style="list-style-type: none"> NSW Health already has an effective arrangement for contingency management in line with Treasury Circular (NSW TC 14/29) Management of Contingency Provisions for Major Project and NSW Contingency Management Guidebook (February 2014). The report does not recognise existing whole of government processes. NSW Treasury introduced Prime financial system in November 2016 to systematically monitor and manage Government Agencies' financial data. Recommendation is a request to duplicate an existing practice.
4. By September 2020, Health Infrastructure should:		
<p>Enhance its governance and project management systems by:</p> <ul style="list-style-type: none"> developing a quality framework, and associated key performance indicators for the planning and delivery phases of all projects to support systematic monitoring and transparent reporting on: <ul style="list-style-type: none"> the quality of developed business cases and economic appraisals based on their compliance with NSW Guidelines the effectiveness and efficiency of project management continuous improvement and the professional development of staff 	Accepted	<p>The enhancements to the governance and project management systems will be incorporated into the Health Infrastructure Corporate Plan for 2021-2023.</p>