



**FOLKETINGET
STATSREVISORERNE**



**FOLKETINGET
RIGSREVISIONEN**

**November 2023
– 4/2023**

**Extract from Rigsrevisionen's report
submitted to the Public Accounts Committee**

The construction of New North Zealand Hospital

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Capital Region of Denmark's management of the budget for building New North Zealand Hospital and the Danish Ministry of the Interior and Health's supervision of the construction work. The building of the hospital is funded through Kvalitetsfonden (the Quality Fund).

2. The Capital Region of Denmark is the builder and is responsible for the budget. In 2013, the government gave its final approval to build the New North Zealand Hospital with government funding of approx. DKK 5.3 billion (2023 prices). Since then, the region has increased the budget several times and at present it has been increased by DKK 2.3 billion. The region expects to complete the hospital by the end of 2026, which is six years later than planned.

The Ministry of the Interior and Health administers and disburses all funding through the Quality Fund and supervises all projects under the hospital programme. The ministry oversees that the Capital Region of Denmark keeps the project within the budget and complies with the terms of the government's funding commitment.

3. The budget of the New North Zealand Hospital is affected by rising construction material and labour costs as a consequence of the COVID-19 pandemic and the war in Ukraine. However, the budgeting challenges facing the project go further back in time. We have examined whether the Capital Region of Denmark had set a robust budget at the beginning of the construction phase in 2019 and again in 2021 and 2022 when the region increased the budget. We have also looked into the Ministry of the Interior and Health's supervision. The study concerns only the capital expenditure budget (in the report, the terms capital expenditure and the capital expenditure budget are interchangeable) and total contingencies. The capital expenditure budget accounts for more than half of the total budget. From 1 July 2019 to 30 June 2022, the capital investment budget was increased by 68%.

4. The study assesses whether the builder, the Capital Region of Denmark, ensured that the budget for the construction of the New North Zealand Hospital was robust and whether the Ministry of the Interior and Health's supervision of the construction project has been adequate.

Rigsrevisionen initiated the study in November 2022.

Regions

Denmark is divided into five regions, whose main responsibility is healthcare.

The Quality Fund

Kvalitetsfonden was established by the government in 2007 to contribute to financing a new hospital infrastructure in Denmark. Preliminary commitments were made to support 16 hospital construction projects in the five Danish regions. Investments in the construction projects have been capped at DKK 57 billion (2023 prices).



Main conclusion

In the opinion of Rigsrevisionen, it is not satisfactory that the Capital Region of Denmark failed to draw up a robust budget for the construction of the New North Zealand Hospital. In failing to do so, the project was inadequately funded from the beginning and has become significantly more expensive than planned. Additionally, the supervision of the project by the Ministry of the Interior and Health has not been entirely satisfactory.

The budget set by the Capital Region of Denmark for the building of the New North Zealand Hospital was not robust

The building project was underfunded from the beginning in 2019 and again when the budget was increased by the region in 2021. The region's budgeting of capital expenditure costs was neither in 2019 nor in 2021 realistic. In 2019, the region did not pay heed to its advisers, who pointed out that the construction costs were underestimated. Moreover, the budget was based on the assumption of future savings in 2019 and 2021. The region did not adhere to its contingency plan and failed to allocate sufficient funds in the budget.

When the budget was increased in 2022, the Capital Region of Denmark reported that further funding would be required in the future to complete the project, which indicates that the budget was not robust in 2022 either.

Rigsrevisionen notes that price increases in the construction sector, particularly in 2021 and 2022, challenged the budgeting further, but price increases alone do not explain the significant budget overruns.

The Ministry of the Interior and Health's supervision of the construction of the New North Zealand Hospital has not been entirely satisfactory

The Ministry of the Interior and Health's supervision was not satisfactory in 2019. In the last six months of 2019, the ministry reviewed one quarterly report and had a single meeting with the Capital Region of Denmark. The ministry did not assess whether the region had drawn up a robust budget before construction began. The ministry was aware, however, that the budget was under pressure, and that the construction of the New North Zealand Hospital was a high-risk project.

The Ministry of the Interior and Health's strengthened its supervision in the period leading up to the budget increase in June 2021. Beginning in November 2020, the ministry tightened its supervision of the construction work. The ministry reviewed the quarterly reports submitted by the Capital Region Denmark regularly and had frequent meetings with the region concerning the economy of the project. Yet, the ministry did not consider whether the region had set aside sufficient funds in the contingency budget.

The Ministry of the Interior and Health's supervision was satisfactory in May 2022 when the Capital Region of Denmark increased the budget. The ministry pointed out to the region that it found it unsatisfactory that the region was facing budgetary challenges so soon after the budget increase in June 2021. Subsequently, the ministry and the Capital Region of Denmark started a process to manage the new challenges, which was finished after the completion of this study. According to the ministry, the process included meetings with and the submission of statements from the region concerning the economy of the project and consolidation of the budget. The process was completed in July 2023 when the ministry approved a new budget for the project of approx. DKK 7.6 billion (2023 prices). The region is required to finance all budget overruns.