



PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

Referred by: Australian Labor Party **Proposal No:** C1537
Date Referred: 6/03/2023 **Date Published:** 20/03/2023
Proposal Title: Three helicopter ambulance bases in regional NSW
Cluster: Health

General Government Sector Impacts

	2022-23 \$'000	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	4 year Total \$'000
Expenses (ex. depreciation)	-	-	-	-	-
Depreciation	-	-	2,100	4,250	6,350
Less: Offsets					-
Revenue					-
Net Operating Balance:	-	-	(2,100)	(4,250)	(6,350)

Capital Expenditure	-	-	-	-	-
Capital Offsets					
Net Capital Expenditure:	-	-	-	-	-

Net Lending/(Borrowing):	-	-	-	-	-
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Total State Sector Impacts

Net Lending/(Borrowing):	-	-	-	-	-
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Notes and costing assumptions:

This policy seeks to build three new helicopter ambulance bases for locations in rural and regional NSW, to progressively start operations across the next four years. The policy proposes that the build of the bases will be funded from the Snowy Hydro Legacy Fund (SHLF).

The PBO considered two different options for securing the premises for new bases under this policy; build or rent. The PBO has opted for a rental approach, which is likely cheaper and is consistent with an existing recent arrangement for a helicopter ambulance base at Orange.

The PBO estimates the capital cost to fit out three regional helicopter ambulance bases is \$63.9 million over the four years to June 2027, subject to the costing assumptions below. In addition, the PBO estimates the annual total cost to run the three bases is \$68.7 million plus \$6.5 million depreciation once all three bases are operational in 2026-27. (Refer Table 1)

The PBO considers that Snowy Hydro Legacy Funds will be available to meet the operating and capital expenditure, aside from depreciation expense. This policy will reduce the net operating balance across the forward estimates by \$6.35 million, based on the assumption that the policy will

Notes and costing assumptions continued:

result in further depreciation that has not otherwise been included in the 2022-23 Half Yearly Review of the NSW Budget.

Background

The key components included in this costing are that each base (2024-25 costs) will have:

- one leased Agusta Westland AW139 helicopter - fitted for air ambulance duties (\$18.6 million)
- one road retrieval ambulance vehicle (\$0.25 million)
- plant and equipment to use in a leased hangar (\$2.0 million)
- rented hangar facility
- an annual base operating cost starting at \$21.8 million (in 2024-25 dollars), plus \$2.1 million asset depreciation expense

Key assumptions and caveats

The PBO has assumed the following:

- preliminary work on Base #1 could start by January 2024 and it would be fully operational by July 2024.
- the fit-out of the other two bases would start at intervals of one year. The costing proposes the fit-out for helicopter Bases # 2 and #3 commence January 2025 and 2026 respectively, with the third base being operational by July 2026.
- Based on NSW Health advice, the helicopter ambulance bases in this costing:
 - are of same size as those currently used by NSW Ambulance outside of the Sydney Metropolitan area.
 - will each hold one helicopter only, supported by one road retrieval ambulance vehicle.
 - would be located at an existing airport that supports helicopter operations and allows easy access to fuel and airport infrastructure.

Capital Assumptions

The following capital costings are per individual base:

Helicopter

- NSW Health has advised that capital costs for a single base include the initial \$18.6 million value of the 'right of use' for one Agusta Westland AW139 leased helicopter fitted out for medical patients and paramedics.
- The AW139 helicopter is the current standard in use on other NSW Ambulance helicopter bases. NSW Health has assumed that the leased helicopter will be held for 10 years with a discount rate of 4.38% included.
- An annual cost escalation rate of 2.5% for the later helicopters.
- The initial cost of the leased helicopters sourced from overseas is subject to commercial supply and foreign exchange risks.

Base

- NSW Health advised that a one-off \$2 million capital investment would be required for each base fit out, consisting of plant and equipment such as a tug, fuel tank, fuel and water pumps, and medical and computer equipment. The PBO considers that these costs are reasonable and will be split evenly over the 2 years of implementation in each base.
- Capital costs exclude the provision of maintenance facilities for periodic servicing. The PBO assumes that helicopter maintenance would be performed by a contract helicopter lease supplier using their facilities, including making available a substitute helicopter during scheduled maintenance.

Notes and costing assumptions continued:

- Under the alternative option to build a base, NSW Health has advised that a purpose-built hangar with fit-out would cost \$19.55 million. The PBO notes that there are no comparable projects against which to gauge whether the figure is appropriate. The PBO has costed the base using a rental option. (refer 'Operational Cost Assumptions' below)

Road ambulance

- NSW Health has advised that one specially outfitted road retrieval ambulance vehicle is required to support each helicopter base, at a cost estimate of \$250,000.

Operational Cost Assumptions

The following costings are per individual base, unless otherwise stated.

Operational costs advised by NSW Health include helicopter lease and flying costs (including fuel and maintenance), employee related costs including on-costs, ambulance and facility maintenance expenses, and medical supplies.

NSW Health has advised that the set-up of a privately owned hangar facility at Orange has been rented by Health for \$679,000 in 2021-22. The PBO has conservatively estimated that a hangar facility could be rented at an annual cost of \$1 million, escalated annually at 2.5 per cent. The PBO has assumed that the rental expense is to be treated as an operating cost.

Health has advised that these assumptions have been applied for the operating costs:

- Each base would have team of aviation/medical staff, and employee costs have been estimated based on actual costs incurred at similar bases.
- Employee costs are escalated at an annual 2.5 %.
- Flying costs assumptions – the helicopter service will be operated by a third-party supplier using a leased helicopter. Actual costs depend heavily on the flight patterns undertaken and the distances flown, especially to tertiary hospitals.

Depreciation and amortisation expense

- The PBO has estimated an annual depreciation expense assuming a 10-year useful life for the ambulance, leased helicopter, and plant and equipment (\$2.1 million in 2024-25). The depreciation expense is scheduled to start as each base becomes operational.

Resource availability

The PBO assumes for the base to operate:

- A rental hangar facility will be available at each of the three bases.
- If not available, a build solution might be required resulting in additional capital expenditure, but lower ongoing operating (rental) costs, and potential delays to operational start dates.
- A timely supply for the foreign sourced helicopters, without which the bases cannot function. Health estimates a 12-month lead time to select and source helicopters.
- availability of suitably skilled aviation and medical teams.

Funding

The policy proposes that the bases be funded from available monies from the Snowy Hydro Legacy Fund (SHLF). Treasury has advised the PBO that \$306 million has been provisioned in the NSW Budget from 2022-23 to 2025-26 for programs that may or may not proceed, pending government decision. The PBO assumes that there are sufficient funds to meet this costing's capital and operating expenditures, except for non-cash depreciation. The PBO has assumed that the Half Year Review of the Budget does not have any provisions for depreciation associated with unallocated SHLF capital expenditures, therefore the State's net operating balance will reduce by \$6.35 million across the forward estimates to 2025-26.

Notes and costing assumptions continued:

TABLE 1 TOTAL COSTING FOR 3 HELICOPTER AMBULANCE BASES WITH SOURCE OF FUNDS

TOTAL 3 BASES	FOR	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	Sub-Total to 2025-26 \$'000	2026-27 \$'000	CUMULATIVE TOTAL \$'000	Available Source of Funds (1)
Operating Expenses (exc. Depreciation)		500	22,300	45,100	67,900	68,700	136,600	Snowy Hydro Legacy Fund
Depreciation		-	2,100	4,250	6,350	6,450	12,800	(2)
Capital Expenditure		1,000	20,850	21,300	43,150	20,800	63,950	Snowy Hydro Legacy Fund

(1) Use of unallocated provisions from the 2022-23 Half-Yearly Review of the NSW Budget.

(2) Depreciation (a non-funded expense) has not been recognised for unallocated SHLF provisions in the 2022-23 Half-Yearly Review of the NSW Budget. Therefore, the depreciation expense will impact the State Budget's net operating balance.