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## **INDEPENDENT REVIEW PANEL REPORT ON THE COLLAPSE OF THE PADDINGTON HEALTH CAMPUS**

In June I received letters from three MPs, Andrew Lansley, John Randall and Nick Hurd expressing concern about the collapse of the Paddington Health Campus scheme. At the same time the North West London Strategic Health Authority commissioned an independent review of the lessons to be learned from the collapse. I undertook to:

- engage constructively with the independent review to highlight our interests and support its work;
- consider whether its final product addresses all concerns adequately; and
- report to you in a Memorandum or other appropriate format on our wider perspective of the lessons learned and issues the Committee may wish to consider.

Following completion of the Independent Review Panel's work, its report is being released by the North West London Strategic Health Authority on Tuesday 11 October, in advance of a special Board meeting on 18 October. I enclose a copy of this review.

I have today written to the three MPs and thought it important to bring the same high-level findings from the Independent Review Panel's report to your attention.

### **NAO conclusions on the work of the Independent Review Panel**

As you will see from their report, the Independent Review is thorough and comprehensive. Although conducted over a relatively short space of time, I can confirm that my staff, who worked very closely with the Panel to explain our interests, have assured me that those interests are met in its Lessons Learned report. Indeed, the Panel followed a thorough approach to understanding the reasons behind the collapse of the Paddington Health Campus scheme, within the Terms of Reference set by the North West London Strategic Health Authority and agreed by the Department of Health. I also note and welcome that all parties have responded to an invitation to correct any factual inaccuracies in the report.

I note that the North West London Strategic Health Authority, which commissioned the independent review, considers the report to be a fair and helpful review.

The recommendations made in the Independent Review Panel's report, are based on the expert independent judgement that was sought by the North West London Strategic Health Authority when commissioning the Independent Review and appointing its chair. As such we have not examined or commented on them. The Department of Health felt that it would take longer than the independent review's reporting timetable for it to consider the reasonableness and cost implications of the recommendations.

Overall, I believe the review has struck the right balance between applying expert judgement and being wise after the event. In particular it stresses the opportunities that were missed to consider whether the scheme was likely to achieve its objectives and the lack of any robust process to ensure that warning signals were given proper attention. These include concerns raised internally at various stages by clinicians, managers, patients and the public and formal concerns by the NHS's conditional approval to the initial Outline Business Case; the Office of Government Commerce's November 2003 Gateway review; and the joint review by the Treasury, the National Audit Office and the Department in 2004.

### **The Lessons Learned report by the Independent Review Panel**

#### ***Overall conclusion***

The report provides a catalogue of missed opportunities, inadequate programme management and fundamental weaknesses in how the Paddington Health Campus partners went about this ambitious, critically important and hugely complex scheme. I am particularly concerned that our earlier recommendation on the Guy's hospital Phase III development that "there should be a single client who takes full responsibility for the cost and funding implications of design changes<sup>1</sup>" was not followed.

I also share the view of the Chairman of the Independent Review Panel that it is a matter of considerable concern that, from 2002 onwards, the scheme, faced with key constraints on lack of land, its ability to meet urban planning requirements, changes in clinical activity and affordability, was unable to simultaneously meet all the basic parameters for success. As noted by the Panel, individually the challenges were not insoluble: collectively they overwhelmed the scheme.

#### ***Limitations flowing from the inadequate original Outline Business Case***

The Paddington Health Campus scheme was undermined from the outset, in 2000, by a flawed business case. As a result, in the first three to four years the Paddington Health Campus project team appears to have been severely under-resourced both in terms of manpower and capability. Inadequate and inappropriate funding handicapped the project throughout the planning phase. The consequences of this under-funding were stressed in the November 2003 Gateway review and noted in our joint review of the project with the Treasury and Department of Health in early 2004.

Any expectation that the project team would successfully address the conflicting goals was undermined by the inadequate resources, skills or personnel secured for and by the project team. In turn the project team's own lapses in basic programme management contributed to the failure of the project. The Panel considered that 'too many of the necessary skills for a programme of this scale were being learned on the job'.

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<sup>1</sup> Cost over-runs, funding problems and delays on Guy's hospital Phase III development, Comptroller and Auditor General, HC 761, Session 1997-98, recommendations subsequently incorporated into the Capital Investment Manual.

### ***Complications caused by the absence of a single project sponsor.***

The absence of a single project sponsor contributed to a divergence of interests between the two NHS Trusts involved. The Independent Review Panel noted that the Royal Brompton and Harefield Trust Board ruled out merger with St Mary's Trust as a pre-condition of its involvement in the scheme but that there had been no translation of its valid concerns about the impact of a merger into a cost-benefit analysis of the business effects of merging the two organisations. This became a critical issue: affordability for the project was always marginal but the differing interests of the two organisations made critical the forecast of an £18 million deficit for St Mary's and a surplus of £15 million for Royal Brompton and Harefield under the new payment by results regime. This crystallised the risks flowing from the absence of a single sponsor and was one of the three reasons cited by the Royal Brompton and Harefield Board as having precipitated the collapse of the scheme.

### ***The use of caveats to keep the project going forward***

A recurring issue was the way the scheme proceeded at key stages on the basis of caveats to Outline Business Cases which meant the Project partners avoided making hard decisions. The Independent Review Panel properly notes that the consequence of this was that 'any affordability assessment would only survive for as long as it took for a PFI bidder in the next phase of the project to place a cost on these risks in bidding for the scheme, not to mention the risk of having no competitive bidders enter the PFI process.'

Some caveats were even less visible: the Royal Brompton and Harefield clinicians were given "Trust Board closed session assurances" of future opportunities for changes to the functional content of the scheme (against which the potential costs of change were not discussed or capped). In the view of the Independent Review Panel, this offer represented a real risk of future un-quantified cost increases as well as the potential to lose clinician support when it was realised that they might not after all get what they had been "assured".

### ***Project governance and the response to warning signals***

A key warning signal was the November 2003 "Red" Gateway review. But of the 30 main recommendations, the Paddington Health Campus project team's own internal review a year later found that five were not addressed in a timely fashion, twelve did not achieve the right outcome and eleven were not addressed.

Uncertain governance, and the failure to engage adequately and objectively with multiple warning signals, from mid-2002 onwards, also significantly undermined the prospect of a successful outcome for the project. It survived to 2005 only through accepting proposals with unacceptable or unquantified consequences and hoping that "something would turn up", through supportive interventions by Westminster City Council. In particular, the Paddington Health Campus partners and their procurement adviser acknowledged the final Outline Business Case to be incomplete but considered that such issues could be addressed before the project was advertised in the Official Journal of the European Union. This entailed uncertainty about the nature and affordability of what was to be approved and was not, in our view, a satisfactory basis on which to proceed for a project with the known complexity and risks of the Paddington Health Campus scheme.

### ***Response to public and staff concerns***

All of the above was also against a background in which the public consultation and Royal Brompton and Harefield staff consultation processes did not result in outcomes that satisfied public concerns, in spite of significant investment in time and energy by those on the project and in the Trust and NWLSHA Boards. The Review panel concluded that managing public and staff contributions, many

very valid, has delivered less value and taken up more time of the Trusts, NWLSHA and Project Team than would have been the case if undertaken through good-practice stakeholder and change management disciplines. The Panel recommends that that public and staff concerns are properly addressed.

***The cost of the Paddington Health Campus scheme***

The direct financial cost incurred by the Paddington Health Campus during the five years of effort to deliver a robust Outline Business Case was £13.8 million. Whilst the report identifies some reusable assets produced by the planning process it recognises that the majority of this sum represents abortive costs.

The report also makes the point that the economic cost of the failed project is likely to be greater than the simple cost of the project team, and that delay can be expensive when building cost inflation is running ahead of general inflation in the economy. While it is difficult to be precise about the costs of delay on a scheme which was never static, had the project eventually gone ahead in May 2005, in substantially the same form it had reached by October 2003, then that 18 month delay would have added approximately £100 million to the cost of construction (construction tender prices exceeding general inflation by some 13 per cent during the period). Whilst this figure is illustrative, as the eventual project configuration by May 2005 differed from that in October 2003, partly to accommodate affordability concerns, it does demonstrate quite clearly how quickly costs would have risen in this case, at that time. This underlines the importance of factoring likely cost increases into decisions on whether to proceed with a project when there have been material changes to the key factors that determined its original viability.

I have written to the Department of Health today, recommending that it takes this report very seriously and publicly responds to it through appropriate notification to the NHS, once it has had time to consider the full cost benefit implications of the recommendations. I believe that it is essential to have the Department's measured consideration so that other NHS organisations can apply appropriate lessons. I will ensure you are copied into the Department's reply.

**JOHN BOURN**