



National Audit Office

## **DEPARTMENT OF HEALTH**

# The Paddington Health Campus scheme

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 1045 Session 2005-2006 | 19 May 2006

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**DEPARTMENT OF HEALTH**  
The Paddington Health Campus scheme

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**John Bourn**  
**Comptroller and Auditor General**  
**National Audit Office**  
**12 May 2006**

The National Audit Office study team consisted of:

Ashley McDougall and Will Palmer,  
under the direction of Karen Taylor

This report can be found on the National Audit Office web site at [www.nao.org.uk](http://www.nao.org.uk)

**For further information about the National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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## SUMMARY

**1** The Paddington Health Campus (the scheme) was a complex and ambitious attempt to build a world-class healthcare and research centre which ultimately proved to be beyond the capacity of the scheme partners to deliver.

**2** The goal of the scheme was to build a health campus in Paddington with state of the art clinical accommodation. This would have met the strong clinical and operational drivers then supported by all organisations involved, and replaced three run-down hospitals – St Mary’s, the Royal Brompton and Harefield. The scheme also included space for new research facilities for Imperial College, including the National Heart and Lung Institute, currently housed mainly on the Royal Brompton and Harefield sites. The Campus partners were Royal Brompton and Harefield NHS Trust, St Mary’s NHS Trust, Imperial College and, from 2002, Partnerships UK. The main organisations involved in the scheme are at **Figure 1**.

**3** The Outline Business Case (OBC), which identified an “affordable preferred option” for investment was approved by the London Regional Office of the NHS in October 2000. It estimated the gross capital construction cost to be approximately £300 million (£411 million at 2005 prices), excluding optimism bias<sup>1</sup>, with completion by 2006. By the time of the scheme’s collapse, in May 2005, projected costs had risen to £894 million (including optimism bias of £117 million) and the expected completion date slipped to 2013.

## Overall conclusions

**4** We have identified three main reasons behind this failure: the sheer number and scale of risks and lack of a single sponsor; the way in which the Campus partners organised and carried through the scheme, including the failure to secure adequate land for the scheme; and the lack of active strategic support for the Campus vision.

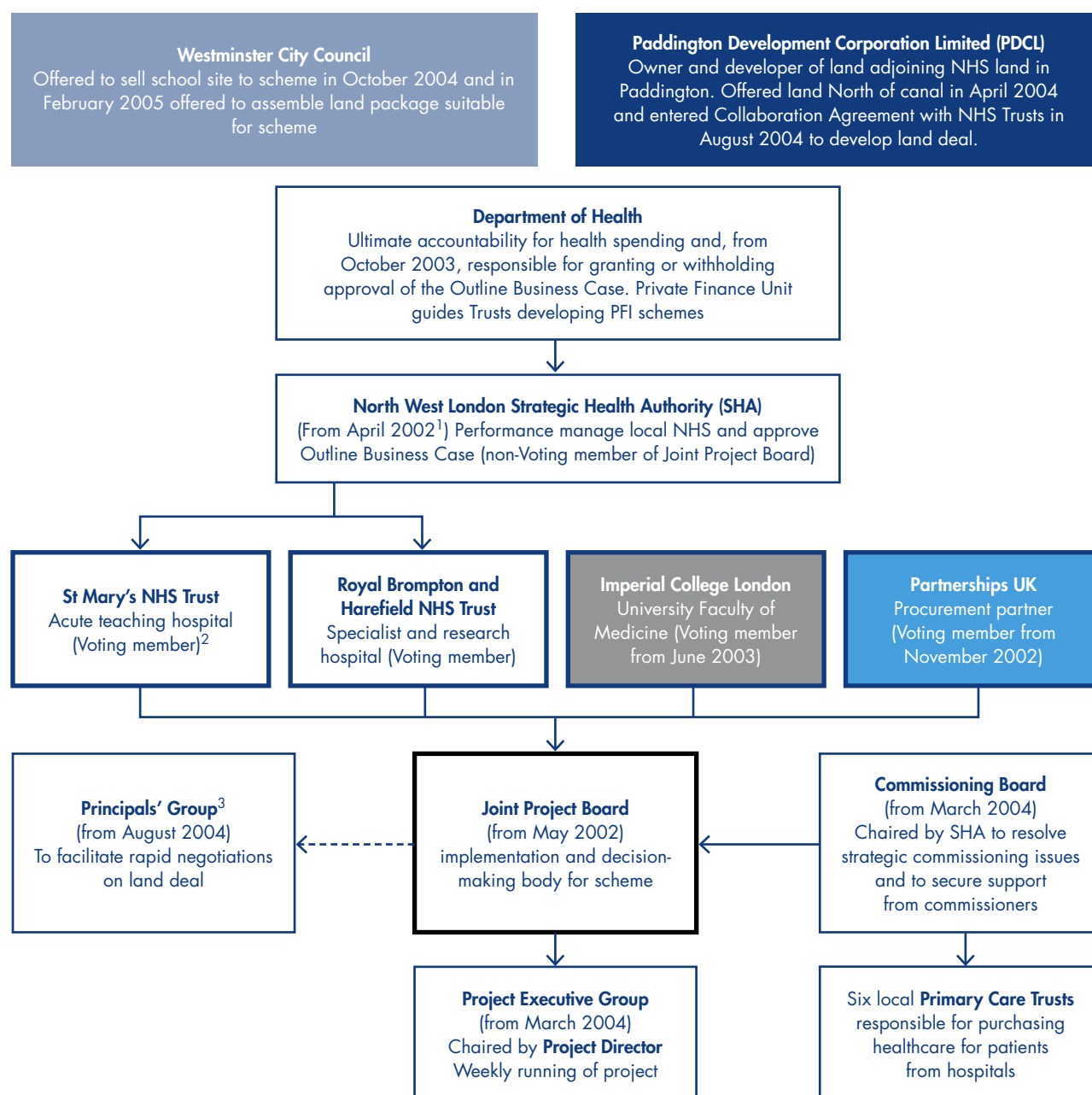
**5** The cancellation of the scheme represents poor value for money for the patients, visitors and staff who have been left with hospital premises that are long overdue for renewal and specialist clinical services which have failed to meet the recognised need for reconfiguration.

**6** While it was necessary to spend money attempting to develop a robust business case for the proposed health campus, taxpayers have nevertheless lost out as the almost £15 million spent came to nothing. In addition, in recent years, building costs have risen sharply. The failure to deliver to the original timetable means that any new schemes will be more expensive for the taxpayer than they need have been. However, to date no additional costs have been incurred as the scheme did not proceed.

**7** An important opportunity to put the scheme on a sounder footing was missed in late 2002/early 2003. An assessment in December 2002 by external construction consultants, commissioned by the Campus partners, provided evidence, for the first time, that the estimated capital construction costs had more than doubled since the OBC. In November 2002 Westminster City Council advised that the scheme could not fit on the land available.

<sup>1</sup> Optimism bias, which was not introduced until 2003, is an adjustment to redress the tendency of capital schemes to be overly optimistic when assessing the cost of projects. Judgements on affordability after 2003 were based on the capital value including optimism bias.

# 1 The principal organisations involved in the Paddington Health Campus scheme (2002–2005)



Source: National Audit Office

## NOTES

1 The project was initially sponsored by the West London Partnership Forum. The Forum oversaw the scheme through its Paddington Basin Project Board from April 2000 to March 2002.

2 The other non-voting members of the Joint Project Board were the North West London Strategic Health Authority and the Kensington and Chelsea, Westminster and Brent Primary Care Trusts.

3 The Principals' Group comprised the Chairs, Chief Executives, Finance Directors and nominated Non-Executive Directors of the two NHS Trusts, the Project Director, the Paddington Health Campus land negotiator, the Chief Executive and Chair of the North West London Strategic Health Authority, and representatives from Imperial College London, the Department of Health (until January 2005) and Partnerships UK. It was chaired by the Strategic Health Authority. It was not a formal part of the Campus accountability framework but met every week.



**8** While the Campus partners were rightly committed to overcoming obstacles, we believe the failure to have a critical challenge led to wasted and misdirected effort and expense. The Strategic Health Authority should have either required that the Campus partners draw up a new OBC in early 2003 or cancelled the Campus scheme. Cancelling the scheme at that point would have freed resources and organisations to develop other schemes. Developing a new OBC would, we believe, have led sooner to the robust assessment of whether the partners could afford to build the scheme and address the:

- more than doubling of the forecast capital cost;
- absence of adequate land, in the light of planning constraints; and
- lack of available funds to build the scheme.

**9** A further two years were spent exploring a variety of alternative schemes. In 2003 the Campus partners, strongly encouraged by the Strategic Health Authority, developed Outline and Full Business Cases to acquire The Point building beside St Mary's hospital in 2003. From Summer 2004 onwards the Campus partners developed a new OBC for the whole scheme, at the request of the Chief Secretary to the Treasury. In the event, in May 2005 the Campus partners could not agree a revised OBC.

## Summary of key findings

### The scheme partners underestimated the risks to the scheme

**10** The Campus scheme faced a number of significant risks, due in part to its intrinsic complexity and the timescale over which it was being planned. The timescale itself led to additional risks due to the impact on design assumptions of new national policies for the NHS introduced while the scheme was being developed. These risks included project risks, in particular the mismatch between the size of the scheme and the land and funding available, and the impact of 'consumerism' guidelines on space in new hospital building schemes. There were also policy risks because of the change in the structure of the NHS, with the creation of Strategic Health Authorities and Primary Care Trusts, and the implications for this scheme of Payment by Results and patient choice that could not have been foreseen by the Campus partners.

**11** The Department of Health (the Department) is currently reviewing how the commissioning of major capital schemes through PFI can be reconciled with long-term affordability and policies on choice, Payment by Results and the movement of care away from acute hospitals to the primary care sector.

**12** Any one set of the above project or policy risks would have been challenging. However, the layering of risks upon risks without adequate mitigation or an effective risk management strategy made the scheme particularly vulnerable and reduced its chances of success.

**13** The Campus partners failed to address some of the requirements of the Department's Capital Investment Manual in developing an OBC. For example, they did not draw up a risk register as part of the 2000 OBC or carry out a formal reappraisal of the 2000 OBC when its estimated capital cost increased by more than 10 per cent. Whilst the Campus partners drew up 'snapshot' risk registers on three occasions (summer 2001, autumn 2003 and autumn 2004), in summer and autumn 2004 the Project Director made a deliberate decision not to embed risk management processes in the scheme as the scheme did not have sufficient resources or capacity to do so at the same time as drawing up a new OBC. As a result, the lack of structured and integrated risk management processes was a key contributor to the Campus partners' collective inability to realise fully and act earlier on the threats to the viability of the scheme.

**14** The biggest single constraint throughout the life of the scheme, was that the NHS failed to identify an adequate land requirement before securing the original OBC approval in 2000. As the Campus partners developed the scheme, their land requirements became clearer and new schemes emerged which had different land and space requirements. It was over two years after the 2000 OBC was approved that the Campus partners realised they did not own enough land to make the Campus work within Westminster City Council's planning policy. They therefore needed to acquire additional land.

**15** From early 2003 on, the Campus partners explored a number of complex ways of addressing the scheme's space requirements but without any satisfactory resolution. This included, in early 2005, exploring an offer from Westminster City Council to assemble a land package suitable for the scheme as required by the December 2004 OBC, although without any written parameters but ultimately subject to approval by Trust Boards.



**16** The Comptroller and Auditor General has expressed his concern that the need to have transactions off balance sheets was inappropriately distorting decision making.<sup>2</sup> This was a contributing issue in the struggle to develop an affordable Campus scheme as the Campus partners believed that the Department would not accept any OBC if the OBC or supporting land deal was on balance sheet. However, the Campus partners' December 2004 OBC was supported by an embryonic land deal which, at that stage, was on balance sheet. The Department did not have the resources at that time to fund such a deal and the NHS Trusts could not afford to put it on their own balance sheets. The land deal supporting the OBC had to be developed and improved to reflect this view and other matters relating to the overall affordability of the deal.

**17** All Campus partners agreed that the scheme had to be affordable within local NHS resources. In early 2003 they had a gap of £53 million between available revenue and the expected running costs of the scheme. Although all parties agreed that the December 2004 OBC was affordable under the existing funding regime, they also recognised that short-term support would be required to support the land deal. However they could not agree that the May 2005 Addendum to the OBC was affordable. Constantly changing forecasts of revenue, based on evolving Departmental guidance, and the cost of the land deal also undermined the confidence of the North West London Strategic Health Authority and Royal Brompton and Harefield NHS Trust. Concern over whether the scheme was affordable was one of the reasons the Royal Brompton and Harefield NHS Trust Board was unable to recommend the final OBC to the Strategic Health Authority for approval.

The way in which the scheme partners organised and carried through the scheme did not maximise their chances of success

**18** When it entered the Campus scheme in 2000, the Royal Brompton and Harefield NHS Trust set out, as a pre-condition, that a merger with St Mary's NHS Trust was not an option. It was concerned that a merger between the two Trusts would undermine its capacity to provide the very different patterns of service it delivered to patients. St Mary's set no such condition. Whilst the NHS Capital Investment Manual assumes a single sponsor for capital investment projects, the then London Regional Office of the NHS sanctioned the joint arrangements when approving the OBC. The Department believed a merger was desirable and inevitable once contracts for the Campus scheme had been signed, but did not press for a merger because it recognised that such a request at the start of the scheme would have brought it to a halt.

**19** Although there were three Campus partners, the scheme did not have a single sponsor or single Accountable Officer. In 2004 the Department stated that the Chief Executives of St Mary's and Royal Brompton and Harefield NHS Trusts and the Rector of Imperial College were each Accountable Officers for expenditure incurred by their own organisations on the scheme. The Campus partners thought there were two (or three) Senior Responsible Owners and the Chief Executive of St Mary's considered he was the Accountable Officer for the scheme. At the time, there was no resolution on who, if anyone, was the Accountable Officer for the scheme.

**20** The Committee of Public Accounts has expressed concern in the past on the risks to capital investment schemes of complex partnership arrangements<sup>3</sup>, and has recommended that capital projects should have clear accountability arrangements and a single project sponsor. The lack of clear leadership and authority for decision making was one of the factors that undermined the scheme's progress.

<sup>2</sup> Public Accounts Commission, Twelfth Report of Session 2003-04.

<sup>3</sup> Committee of Public Accounts *The English National Stadium Project at Wembley*, Eighth Report 2003-04, HC 254; *The Millennium Dome*, Fourteenth Report 2001-02, HC 516; *The Cancellation of the Benefits Payment Card Project*, Third Report 2001-02, HC 358; *Department of Health: Cost Over-runs, Funding Problems and Delays on Guy's Hospital Phase III Development*, Twenty-eighth Report 1998-99, HC 289.

**21** Ultimately, in addition to the land and affordability issues, it was the differing financial and clinical interests of the two NHS Trusts that led to St Mary's NHS Trust approving the revised business case in 2005 and the Royal Brompton and Harefield NHS Trust declining to recommend it for approval. This reflected, in part, the lack of confidence on the part of the Brompton in St Mary's ability to deliver savings and manage a forecast deficit without compromising the Campus vision.

**22** Throughout the development stage, the scheme was handicapped by the Campus partners' failure to provide or secure adequate funding to develop the scheme. Available development funding was based on a proportion of the original estimated OBC cost of £360<sup>4</sup> million, not the approximately £894 million it would have cost. The scheme relied on funding from the Strategic Health Authority and Primary Care Trusts. However, between 2002 and 2005 the scheme was unable to secure sufficient project funding from them and the Trusts themselves felt unable to find funding from within their own resources. Instead, the continuation of the scheme was reliant on £4.9 million in funding from co-sponsor Partnerships UK. As a result of the earlier inadequate funding and uncertainty about the future of the scheme, it was severely under-resourced in manpower and capability.

### The strategic support for the Paddington Health Campus vision was unsatisfactory

**23** The Department provided support and encouragement to the Campus partners – mainly on the financial challenges facing the scheme – both through its membership of the Principals' Group and access to the senior responsible official at the Department. It also set out its assessment of the conditions necessary for success on numerous occasions and offered limited capital and revenue funding to support the scheme.

**24** However, the Department had no strategic position on the desirability to the NHS or 'UK plc' of a successful health Campus. It did not share the Campus partners' view that this was a scheme of national importance. As a matter of policy the scheme was treated as the responsibility of the local NHS to resolve, as budgets had been devolved to local NHS organisations. The two NHS Trusts, Partnerships UK and Westminster City Council told us that they had been uncertain whether the Department did in fact want the Campus scheme to succeed, while the Department has explained that it was willing to support an affordable scheme.

**25** The Department was clear that its two roles in respect of the scheme were a) to offer advice on scheme particulars and development and b) to consider the Full Business Case. Approval of the 2000 OBC was delegated to the London Regional Office of the NHS and the Department played no role at that stage. The Department, from mid-2004, expressed its concerns as to the viability of the scheme. At no point did it ask the Campus partners to carry out further work on the scheme but it responded positively to requests that the scheme be allowed time to explore new opportunities.

**26** The Campus partners believe the Department played a more active role than this suggests. No substantive steps were taken by the Campus partners from April 2004 to May 2005 without the consent of the senior responsible official at the Department. The Campus partners believed they had political strategic support for an affordable scheme.

<sup>4</sup> The development funding was based on the full £360 million cost of the 2000 OBC, but £27 million related to other hospitals and £33 million to equipment costs so the capital construction cost of the Paddington scheme was only £300 million.



## RECOMMENDATIONS

- 27** The circumstances under which the Paddington Health Campus scheme collapsed were unique. It faced scheme-specific constraints on site, size and complexity of governance arrangements for three sponsors. Nevertheless, we consider that there are lessons for all NHS capital investment schemes which need to be reflected in any guidance used by Trusts. We recommend that:
- a** The Department should implement its own Capital Investment Manual guidance on reassessing OBCs if estimated capital construction costs rise more than 10 per cent above approved OBC values.
  - b** No capital investment scheme in the NHS should proceed without the formal identification of a single sponsor, even if this means Trusts must merge prior to starting a procurement.
  - c** No OBC should be approved where it has been subject to conditions imposed by an NHS Trust which explicitly constrain the development of options or limit value for money that may be secured.
  - d** Any approval conditions on OBCs should be subject to a formal review timetable under which the approving authority will review and document the continued viability or acceptability of the scheme.
  - e** No scheme should proceed without formal confirmation from commissioners, who would be expected to support the scheme, and the NHS Trusts themselves, of assured funding for full development costs.
  - f** Third parties negotiating on behalf of NHS Trusts should only do so under written instructions.
  - g** The Department should ensure that formal timetables are drawn up and followed for the identification and transfer of scheme responsibilities and commitments in periods of NHS reorganisation.
  - h** The Department should ensure that the lessons learned above are incorporated into the Capital Investment Manual.
  - i** The Department should consider and performance manage capital investment schemes with a national dimension within the context of a national strategy for NHS capacity planning.



## PART ONE

There was a strong case for investment  
in the NHS in west London



## Introduction

**1.1** The Paddington Health Campus scheme, first proposed in 1998, was aimed at bringing together, on a single Campus in the Paddington Basin, the clinical services of St Mary's NHS Trust and the

Royal Brompton and Harefield NHS Trust – alongside new research facilities for Imperial College's Faculty of Medicine, moved from the Royal Brompton and Harefield campuses. These three organisations are referred to collectively in this report as the Campus partners (**Figure 2**).

## 2 The Campus partners

**St Mary's NHS Trust** is a large teaching hospital employing 3,300 staff. It is a multi-site Trust which largely occupies outdated and run-down accommodation in and around Paddington. More than 60 per cent of the buildings at the Trust were long overdue for decommissioning with many failing to meet Health and Safety and Disability Discrimination Act requirements. The basic remedial maintenance required to correct unchecked estate degradation had a cost of almost £74 million and the estimated cost to update buildings to modern standards was £465 million.

**The Royal Brompton and Harefield NHS Trust** was created by a Trust merger in 1998 and provides a complete range of specialist heart and lung services through its 2,300 employees. Doctors and scientists working at the Trust and the National Heart and Lung Institute undertake internationally recognized research into heart and lung disease treatment. Approximately two-thirds of patient accommodation was both over 70 years old and fell below the

minimum suitable condition.<sup>2</sup> The basic remedial maintenance required to correct unchecked estate degradation had a cost of almost £21 million and the estimated cost to update buildings to modern standards was £294 million.

**Imperial College of Science, Technology and Medicine** has a world-wide reputation as a centre of excellence for teaching and research in science and medicine. The Imperial College Faculty of Medicine is one of the largest and most prestigious centres of biomedical research and teaching in the UK, with over 700 faculty members active in research. As a result of the proposed moves of the NHS hospitals from the Royal Brompton and from the Harefield Campuses, it was necessary also to relocate Imperial College's closely associated research and teaching facilities, particularly its National Heart and Lung Institute, from these campuses to the proposed Paddington Health Campus.

*Source: 2004 OBC and National Audit Office*

### NOTES

1 Partnerships UK became a co-sponsor of the Campus scheme with effect from July 2002 when it agreed a Development Partnership Agreement with the two NHS Trusts.

2 Condition B as defined in NHS Estate Code: sound, operationally safe and exhibits only minor deterioration.

## There were strong clinical drivers supporting the proposed Paddington Health Campus

**1.2** The clinical case for the Paddington Health Campus was based on a number of reviews into health provision and specialised health services in London. In 1997 the Turnberg report set out a number of recommendations, all of which received Government acceptance, to define the wider London healthcare strategy. The Turnberg report argued for:

- a modernisation of London's hospitals;
- integrated working both within the NHS and with other partners;
- alignment of specialist commissioning with London medical school groupings;
- Imperial College being responsible for the academic focus in north west London; and
- a more rational distribution of specialist services in north west London.

These points were all cited in the 2000 OBC for the Campus.

**1.3** Subsequent clinical reviews of specialist services indicated:

- the need for a single specialist paediatric centre, to replace the then current services fragmented over five sites (the Boyd Report 1998); and
- the desirability of concentrating heart services on two sites in west London, rather than four as was the case (the English Report 1998).

## The original vision of the Campus fully addressed the main objectives of the Campus partners

**1.4** In October 2000, following on from a Strategic Outline Case prepared in 1998, the then London Regional Office of the NHS, acting under delegated authority from the Department of Health, approved an OBC for the Paddington Health Campus drawn up under the auspices of the West London Partnership Forum. Neither the Department nor HM Treasury played any role in approving this business case. The intention of the 2000 OBC was to address the recommendations made in the Turnberg Report and subsequent specialist reviews and the condition of the Trusts' estates. The preferred option within the OBC called for the:

- rationalisation of specialist services (paediatric and heart and lung) centring on Paddington;
- redevelopment of St Mary's Hospital; and
- investment in associated facilities by Imperial College.

**1.5** The 2000 OBC had an estimated gross capital cost of £300 million<sup>5</sup> and a completion date of 2006. It involved separate hospitals for St Mary's NHS Trust and Royal Brompton and Harefield NHS Trust on the proposed health campus. A map of the then existing site is at Map A and a map of the Campus vision is at Map B (see centre page map section, page 28).

<sup>5</sup> The figure of £360 million usually associated with the 2000 OBC included capital expenditure on a number of other hospitals and equipment. The figure of £300 million is comparable in scope to the later scheme valuations used in this report.



## The report will consider why the Campus scheme collapsed and was cancelled

**1.6** In May 2005 the Campus scheme collapsed as the Royal Brompton and Harefield NHS Trust did not recommend an Addendum to a revised OBC for approval by the Strategic Health Authority after five years and £14.9 million in direct costs. The Strategic Health Authority then recommended that the scheme be cancelled and in June 2005 the Minister at the Department confirmed that the project could be formally cancelled. The scheme did not proceed as far as the selection of a PFI partner or exchange of contracts so, given that there was no deal, it is not possible to comment on the value for money of any proposed procurement route.

**1.7** This examination was prompted in part by correspondence from four Members of Parliament in 2005 expressing concern at the cancellation of the Campus scheme and what they felt was a lack of clarity on accountability for the collapse.

**1.8** The study scope is limited to the immediate and underlying causes for the collapse of the scheme in May 2005, rather than the chronological story of how the scheme progressed from Strategic Outline Case in 1998 to cancellation in June 2005 (a chronology of events is at Appendix 1). The report considers:

- the risks faced by the Campus partners and how they approached the task (Part 2);
- the progress made by the Campus partners in implementing the 2000 OBC (Part 3);
- roles and accountability in the scheme (Part 4); and
- the way ahead for all parties (Part 5).

**1.9** The report is based on documentary evidence from, and interviews with, all relevant stakeholders and also draws on the findings of a number of external reviews of the scheme, including the Independent Review Panel's 'Lessons Learned' Report commissioned by the North West London Strategic Health Authority in July 2005 and published by the Strategic Health Authority in October 2005<sup>6</sup> (Appendix 2). The full methodology is at Appendix 3.

<sup>6</sup> Final Report to the North West London Strategic Health Authority from the Independent Review Panel: Lessons Learned from the Paddington Health Campus Project <http://www.nwlonon.nhs.uk/featuredInformation/download/board18Oct05/PHCLessonsFinal.doc>.

## PART TWO

The way the Campus partners approached the scheme exacerbated the risks



**2.1** This part of the report focuses on the risks faced by the Campus partners in delivering the scheme outlined in the 2000 OBC and the way in which the Campus partners attempted to manage those risks.

## There were complex intrinsic project, organisational and policy risks for the Campus scheme

**2.2** The Campus scheme, like other major capital schemes faced multiple layers of risk: intrinsic project risk, organisational risk and policy risk. However the scale and complexity of the scheme meant that these risks were exacerbated by the ways in which the Campus partners chose to address them. In addition, the scheme was based on the 2000 OBC which the 2004 Joint Review (Appendix 2) found was produced at speed and contained a number of errors and omissions such that it was not deliverable at the price within the OBC.

### Intrinsic project risk

**2.3** These are risks faced by any major capital investment. The only NHS-specific risks relate to the clinical content. All capital investments must manage these risks. Many struggle unsuccessfully to balance time, cost and quality. None will succeed without good risk, project and programme management.

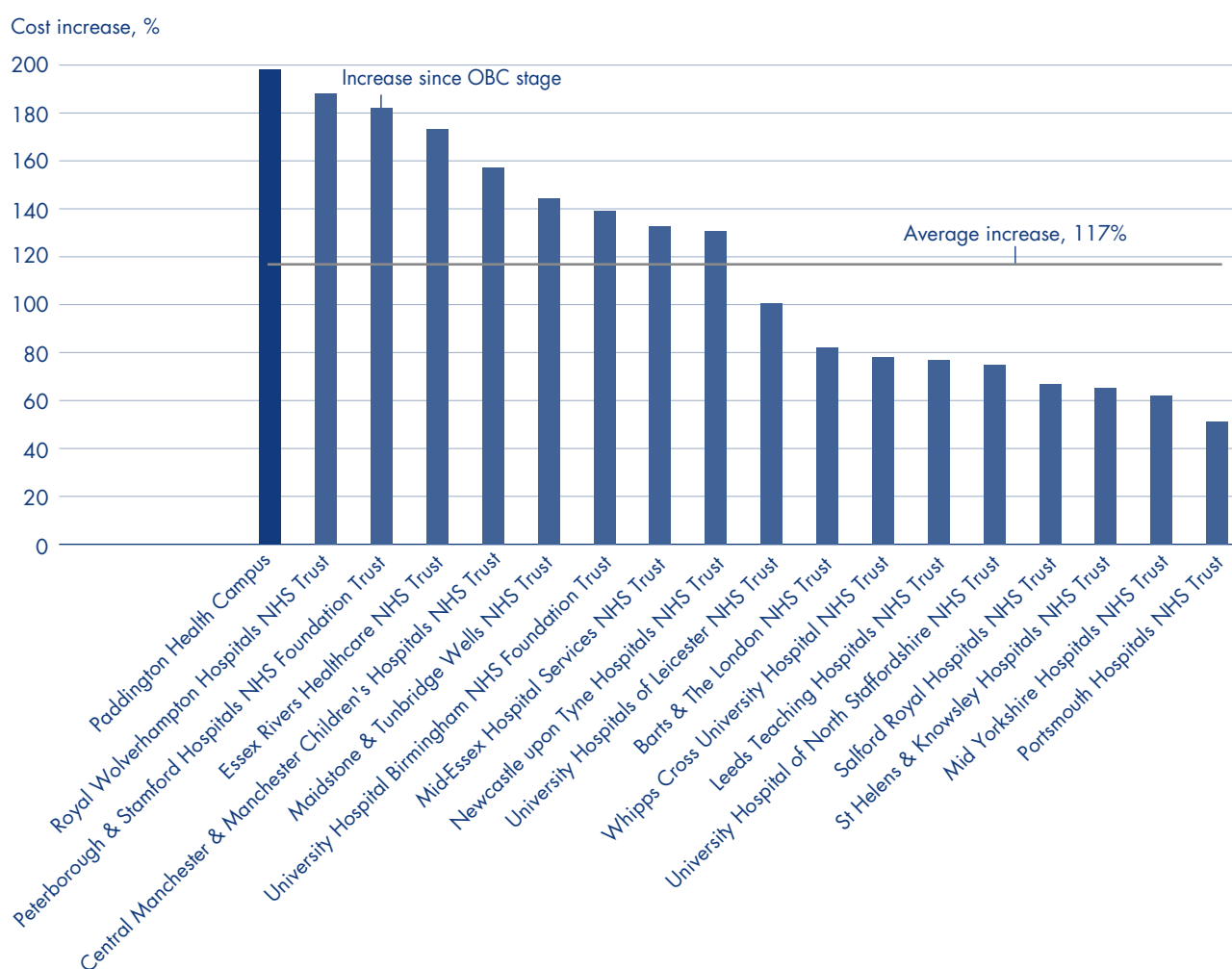
**2.4** A major project risk affecting affordability is that of the history of cost escalation for large NHS schemes. All large NHS capital investments (schemes above £75 million) cost significantly more than their initial OBCs. For major schemes either in planning or build stage, the average cost increase above the original OBC is 117 per cent (**Figure 3 overleaf**). In the case of the Campus scheme it was late 2002 before the Campus partners realised, for the first time, that, because of the inadequate 2000 OBC, the likely full costs of delivering the scheme had more than doubled to £786 million (excluding optimism bias).

**2.5** In the case of the Campus scheme, the 2000 OBC omitted any material cost relating to how St Mary's hospital would be kept operational while the new hospitals were built on the St Mary's site – the decant strategy. The original OBC allowed £1 million for this. The Campus partners' 2003 estimate was for £80 million for what was, by then, a completely different scheme because the Campus's space requirements grew during its development.

**2.6** Securing planning permission is a standard risk that needs to be managed. The NHS Capital Investment Manual states that Trusts are expected to obtain outline planning permission for the site to be developed prior to advertising the scheme in the Official Journal of the European Union (OJEU). In the case of the Campus scheme the partners did not expect planning permission to pose a threat to the viability of the scheme. After a

tendering exercise in 1999, the Kensington, Chelsea and Westminster Health Authority appointed Skidmore, Owings & Merrill (SOM) as consultant architects, at a cost of £35,000, to undertake a seven week study to identify a Master Plan and Urban Design Strategy. The work was later extended to cover an Outline Planning Application for the selected Master Plan.

### 3 Increases in estimated capital cost since original OBC for NHS capital schemes over £75 million



Source: Draft memorandum received from the Department of Health containing replies to a Written Questionnaire from the Health Select Committee, HC 736 (iii) 1, Session 2005-06, December 2005. Figure for Paddington Health Campus calculated by National Audit Office.

**2.7** After spending £1,040,000 in total with SOM on design fees for a planning application prepared in accordance with an agreed development brief, the scheme failed to secure outline planning permission adequate for the development.<sup>7</sup> Outline Planning Permission was agreed in principle by Westminster City Council in August 2002, subject to the completion of a legal agreement. In the event the planning permission was not issued as the scheme had moved on.

**2.8** In the negotiations with the Campus partners on the August 2002 scheme, Westminster City Council's planning department had stressed the maximum bulk and scale that could be recommended for the site and therefore believed the partners to be aware of its planning concerns before November 2002. In November 2002 the Council's planners advised that the scheme, which was by then significantly different from the August 2002 scheme, was too large for the existing site (by one floor for St Mary's and two floors for the Royal Brompton and Harefield's proposed buildings). This required the partners to acquire additional land to address the building design issues.

**2.9** Procurement of a major capital investment of the scale of the Campus scheme is a one-off event and few if any NHS Trusts or Boards have the necessary skills for such a scheme. In November 2002, the Campus partners appointed Partnerships UK (PUK) as a procurement co-sponsor for the scheme (backdated to 1 July 2002). St Mary's NHS Trust told us that Campus partners assumed that with the degree of expertise that PUK brought, they had the best available advice on the management of complex PFI projects in the NHS. This included the procurement of advisers and property advice.

**2.10** PUK's role was to work with the Campus partners to achieve the successful procurement of a contract for the scheme in a timely and efficient manner. PUK also agreed to fund 50 per cent of internal and third party project development costs up to a maximum of £6 million and share any value for money savings from a signed contract.

**2.11** If the scheme was cancelled by the Campus partners PUK would recover its direct costs and project funding. Once the scheme was cancelled, when the Royal Brompton and Harefield NHS Trust did not recommend the May 2005 Addendum to the OBC for approval, PUK was therefore entitled to recover its investment. In October 2005 the Trusts agreed to settle the amount due to PUK which represented £1.1 million in direct costs, £4.8 million for third party and internal project development costs funded by PUK and £0.1 million in interest charges for deferred payment. The NHS Trusts agreed to pay these amounts, in broadly equal proportions in April 2006, because of cash-flow problems in the NHS in the North West London Strategic Health Authority. The Strategic Health Authority has agreed to reimburse the two Trusts £1 million each towards the settlement of the sums due to PUK.

## Organisational risk

**2.12** This refers to the additional risks introduced to the successful delivery of the project by the Campus partners themselves. They include project sponsorship; risk management; project management; and clinical and public support.

### Project sponsor

**2.13** A key risk in this area was the decision of the two NHS Trusts to enter the Campus scheme as separate, rather than merged, organisations. This prevented the scheme having a single management chain capable of acting quickly and decisively on the areas within its control and assessing risks on a consistent basis. The Royal Brompton and Harefield NHS Trust Board had formally identified a Trust merger as an unacceptable option and a condition whose breach would remove its support for the Campus scheme. The concern was that a corporate merger, undertaken for mainly project reasons, might make the delivery of the campus easier, but that the resulting merged hospital would so change the nature of the services it was able to deliver that a primary purpose of improved specialist services would have been jeopardised. The Department believed a merger was desirable but did not propose one at the start of the scheme as it believed such a requirement would stop the scheme.

<sup>7</sup> Initial payments were made by Kensington, Chelsea and Westminster Health Authority on behalf of the West London Partnership Forum until October 2000, after which St Mary's NHS Trust hosted payments in accordance with its Standing Financial Instructions. Kensington, Chelsea and Westminster Health Authority waived its Standing Financial Instructions to take account of the increased cost as the Paddington Basin Steering Group judged the time required to tender the work would have delayed the planning application unacceptably. The only other material breach of procurement guidelines was the contract with Mike Flaxman Associates, let in 2000 on the basis of a cost estimated by the Campus partners at £75,000 for consultancy on NHS financial matters. The work was not tendered until 2002 by which time Mike Flaxman Associates had been paid £173,000. In total they were paid £460,000 between March 2000 and June 2005.



## Risk management

**2.14** The NHS Capital Investment Manual requires NHS Trusts to assess risk at a level sufficient to assure the Trust that the preferred option in an OBC is affordable and represents the optimum solution. The 2000 OBC did not have a risk register. In early 2001 the Campus partners commissioned a risk assessment from Ernst & Young which was delivered in May 2001. It was a static assessment and was not integrated into the scheme's ongoing management. While there were plans to update the assessment in 2002, it was not updated until the autumn of 2003. A further update took place in the autumn of 2004 and was incorporated into the 2004 OBC.

**2.15** There were a number of areas specific to the Campus scheme which were not covered in the risk assessments. There was no risk/impact assessment of;

- having two sponsor NHS Trusts and three Senior Responsible Officers;
- commissioners' reluctance to support the scheme's development costs;
- the absence of strategic support; or
- the cost-benefit implications of Imperial College's research to the vision of the Campus.

Although the Campus partners recognised the need to address the final bullet after the 2003 Gateway review (Appendix 2), they were unable to identify an appropriate methodology to quantify either risk or benefit in conjunction with Imperial College.

**2.16** None of the risk assessments were used in a structured way as active risk registers for the ongoing management of the scheme. As the 2005 Independent Review Panel noted (Appendix 2), in 2003 the scheme was focussed on procurement when in reality it still needed to satisfy the pre-conditions of a robust Outline Business Case.

**2.17** Following the Gateway review in November 2003 (Appendix 2), the Campus partners accepted the need to introduce and embed a risk register, assumptions log and issues log as primary project control tools. However, during the summer and autumn of 2004 the Project Director recognised that the project team did not have the capacity, or financial resources, to absorb significantly different ways of working at the same time as producing a new OBC. The Project Director decided to concentrate on the OBC with the firm intention of introducing the Gateway recommendations for project controls immediately after submission of the revised OBC. The Campus partners' December 2004 OBC included a risk management strategy, an updated risk register and the commitment to an active risk management process.

## Project management

**2.18** In October 2000, the Department's guidance on funding operational planning for PFI schemes was that the then London Regional Office would re-imburse the scheme with 1.75 per cent of the capital costs to fund the cost of developing the scheme to Full Business Case. The scheme, with projected capital costs in the 2000 OBC of £360 million was therefore based on a funding ceiling of £6.3 million. The project team understood that this could not vary, despite the significant increase in the estimated capital cost of the scheme.

**2.19** The abolition of NHS Regional Offices in March 2002 transferred the responsibility for funding project costs to the local NHS. The North West London Strategic Health Authority provided £2 million for project costs in 2002/03 and £1.5 million in 2003/04. However from April 2004 the eight main commissioning Primary Care Trusts only agreed to cover half the sum sought from them. PUK agreed to match this funding.

**2.20** The Royal Brompton and Harefield NHS Trust had activity commissioned by all 303 Primary Care Trusts over the period the scheme was being developed. Since most PCTs therefore had little activity carried out by the Royal Brompton and Harefield NHS Trust, it had correspondingly little influence over their commissioning decisions. In addition, approximately 20 per cent of the Royal Brompton and Harefield NHS Trust's income came from specialist clinical service commissioners and research and development funding, neither of which considered that their resources had been increased to enable them to support project development costs. As noted by the Independent Review Panel, inadequate and inappropriate funding handicapped the scheme's management capability throughout the planning phase.



**2.21** Had the revised OBC been approved in 2004 or 2005 for a higher capital value the funds available would have increased to approximately £16.6 million. The Department told us it believed the Trusts were in a position to redirect operational costs to provide funds, if they so chose.

**2.22** The Independent Review Panel concluded that there had been a number of significant lapses in basic programme management disciplines, only partially accounted for by inadequate resourcing of the scheme. These contributed to the failure of the Campus scheme. They included inadequate management of stakeholders, risks, work briefs and general progress (Appendix 2). When it first became involved, PUK discussed with the Campus partners the need for project resources to be increased and management processes strengthened.

**2.23** From approval of the OBC in October 2000, the planned date of advertising the scheme in the Official Journal of the European Union (OJEU) slipped five times, from summer 2001 to July 2003. In the event, no OJEU notice was ever issued. Such delays would have dented market confidence in the scheme and the project team.

**2.24** The Project Director's contract was terminated in October 2002, by mutual agreement, reflecting the Project Board's dissatisfaction with the slow progress in meeting development planning milestones. An interim Project Director was appointed in October and a permanent replacement from April 2003.

### Clinical and public support

**2.25** Staff and public consultation by St Mary's NHS Trust showed a high level of support for the vision of the health Campus. However, support by both staff and the public from the Royal Brompton and Harefield NHS Trust's two sites was mixed. Royal Brompton-based staff were generally more in favour of the proposal than Harefield-based staff (**Figure 4**).

**2.26** In September 2002, a first detailed draft of all the clinical output specifications was produced. This showed that the planned Campus buildings were insufficient in scale to contain the proposed clinical activity. Although the Clinical Reference Group reviewed and accepted the proposed clinical content, Westminster Primary Care Trust noted at the Joint Project Board in April 2003 that, in fact, no agreement had been reached on service strategies and affordability, so the clinical content remained unconfirmed. However in June 2003 the Strategic Health Authority, approved the scheme with the support of the three main Primary Care Trusts.

**2.27** Discussions on the clinical configuration of services continued to the end of the scheme and were a particular cause of concern to clinicians at the Royal Brompton and Harefield NHS Trust. In December 2004, in response to concerns expressed by clinicians, the confidential session of the Trust Board considering a new OBC was assured by the acting Chief Executive that the Campus option, as stated, was not the final product. It was advised that there would be opportunities to make changes, including to the functional content of the OBC, between approval of the OBC and the production of the full business case. The Brompton Trust has told us that this assurance was given on the good faith understanding that a PFI procurement partner would provide value in the development of output based specifications into a building solution better than that proposed in the OBC. There was no price identified as the likely cost of this assurance.

#### 4

#### Staff willingness to move from Brompton and Harefield sites to the Paddington Health Campus

	Intending to move (Per cent)	Not intending to move (Per cent)	Unsure (Per cent)
Brompton staff	24	33	44
Harefield staff	8	64	28
Overall	19	46	35

Source: The Quality of Working Life Survey: Royal Brompton and Harefield NHS Trust, Institute of Employment Studies, 2003

**2.28** Public support for the scheme in the Harefield area was limited by two factors:

- The scheme involved the transfer of clinical services from Harefield hospital to the Paddington Basin site and the consequent closure of Harefield hospital; and
- Supporters of Harefield hospital were not happy with the integrity of the consultation process. The public consultation on specialist acute services (including those at Harefield hospital) closed in November 2000. But the OBC was developed before that date, a planning application for the Campus scheme was submitted in June 2000, a Project Director was advertised for in July 2000 and the OBC approved in October 2000.

**2.29** Supporters of Harefield hospital created the Heart of Harefield group in July 2000 to take forward their opposition to the closure of Harefield and, later, the escalating cost of the Campus scheme. The campaign to save Harefield hospital provided a continual check and challenge on the viability of the Campus scheme to the Board of the Royal Brompton and Harefield Hospital NHS Trust and to the scheme.

## Policy risk

**2.30** Policy risk is a particular risk for public sector projects and relates to changes outside the control of individual organisations but which may have a material impact on the organisation and investment scheme. Such risks are common to all NHS schemes so, while they should be recognised as an additional risk, they cannot explain the failure of the Campus scheme on their own as other hospital building schemes have overcome similar hurdles. Against this it should be recognised that the Department is currently reviewing how the commissioning of major capital schemes through PFI can be reconciled with long-term affordability and policies on choice, Payment by Results and the movement of care away from acute hospitals to the primary care sector.<sup>8</sup>

**2.31** The main relevant NHS policy change affecting the development of the campus was consumerism which increased space in patient areas to improve the dignity and privacy of patients. This guidance, although not mandatory, had a considerable impact and was a major factor in the increase in size of the scheme between 2000 and 2003. Further draft guidance on the proportion of single rooms in a hospital was issued for consultation in 2004. The project team was assessing the potential impact of this draft guidance on design and space requirements prior to the scheme's collapse but the May 2005 Addendum did not meet the standards in the draft guidance.

**2.32** Three other policy changes affecting the affordability calculations for the scheme were the introduction of private and NHS Treatment Centres, Payment by Results and choice at the point of GP referral. These policies emerged after the scheme started in 1998. Treatment Centres and choice increase the potential that patients will choose to attend other hospitals or providers for elective care. Payment by Results ensures that money follows patients and sets a fixed price for hospital activity. There is a potential opportunity as well as a risk for Trusts if they can attract additional patients and make a financial surplus out of treating them but uncertain income increases the risks for new schemes with higher than average costs.

**2.33** The underlying risk from choice/Payment by Results is that it is a new and different funding regime for NHS Trusts and is therefore very difficult to forecast, especially over the very long time horizons of PFI contracts. Each Trust will need to make their own assumptions as to how patient choice and Payment by Results will impact on their future revenues but they have no track record on which to base those assumptions.

<sup>8</sup> *Our health, our care, our say: a new direction for community services*, Cm 6737, Department of Health, January 2006.

## PART THREE

The Campus partners were unable to agree a deliverable scheme



**3.1** The Royal Brompton and Harefield NHS Trust Board decided in May 2005 that it could not recommend the Addendum to a new OBC to replace the 2000 OBC unless and until three concerns were addressed to its satisfaction. The concerns were:

- the current absence of certainty about a suitable land deal and its acceptability;
- the affordability gap for the Campus and in particular for St Mary's NHS Trust under the Payment by Results regime, after transitional funding has ceased, with potentially serious implications for the strategic coherence and original vision of the Campus; and
- the work being undertaken in north west London towards improving efficiency of service delivery raises fundamental issues about the capacity and configuration of services in the sector with further potential implications for the Campus as originally envisaged.

This part of the report considers the build-up of these problems.

## The Campus partners were unable to secure adequate land for the scheme

**3.2** The NHS did not own enough land to make the Campus work within Westminster City Council's planning policy. It therefore needed additional land. Much of 2003 was spent exploring the possibility of acquiring additional space beside the Campus site – The Point building. This was an office building on the other side of the Paddington Basin from the St Mary's site. With the strong encouragement of the Strategic Health Authority, which also took an active role in securing Primary Care Trust agreement to the affordability of this option, the Campus partners prepared a Full Business Case for the procurement of The Point. This was approved by the Strategic Health Authority on 4th November 2003 which then submitted it to the Department for approval (Map C in centre page map section, page 28).

**3.3** A month earlier, the Chief Secretary to the Treasury wrote to the Department expressing concern about the scheme's escalating costs and setting out that before he could consider approving any expenditure on the Point he required:

- a new OBC for the Campus scheme; and
- an independent review of the process that led to that situation.



**3.4** Once the Joint Project Board was orally briefed on the interim findings of the independent review in February 2004, it stopped work on developing the scheme as the review highlighted fundamental weaknesses (Map D in centre page map section, page 28). The Department authorised work on a new OBC, as requested by the Chief Secretary, in July 2004, following a submission from the Campus partners in April 2004.

**3.5** In April 2004, Paddington Development Corporation Limited (PDCL), the developer of the Paddington Basin site, approached the Campus partners with a proposal that the Campus use land to the north of the Paddington Basin (Map E in centre page map section, page 28 ). The Campus partners immediately referred the offer to the Department who approved testing its feasibility.

**3.6** In October 2004 Westminster City Council's Leader and chair of its planning committee met with the Campus partners and informed them that the then current proposal with hospitals on both sides of the Paddington Basin could not be recommended for planning permission. The Campus partners recognised that this would mean they could not build the Campus as they did not have sufficient land available to meet the Council's concerns. They therefore decided to exit the scheme, anticipating that it would take four weeks to make the arrangements before making a public announcement.

**3.7** Three days after this decision, Westminster City Council re-iterated that it would support use of part of the North Westminster Community School site, due to become free in 2006, to accommodate all clinical activity at the hospitals on the north of the Basin. The Campus partners, with Departmental consent, immediately decided to explore the Council's offer. This would have freed the main St Mary's site as well as the Brompton and Harefield sites for disposal, more than funding the costs of acquiring the land on the north of the Basin, albeit with a delay before disposal receipts could be received.

**3.8** In December 2004 the Campus partners thought they had found a solution which involved the purchase of land from PDCL and Westminster City Council. However the Department considered that the proposed land deal was unacceptable because it meant the land purchase would appear on its balance sheet, and so would count against its annual spending limit for capital projects, which it could not accommodate. The Department also considered the £62.5 million premium over open market value that would be paid to PDCL excessive, although the District Valuer confirmed that, in his view, the land transaction represented fair value. The Department made clear in January 2005 that it would reject the December 2004 OBC on the above grounds.

**3.9** The Campus partners therefore decided in January 2005 that, in the light of the Department's reaction to the 2004 OBC, they had no option but to exit the scheme.

**3.10** Westminster City Council did not want to see the scheme fail because of a lack of land as, in planning policy terms, it had made clear since 1987 that it viewed the retention and improvement of St Mary's hospital as a strategic priority for the Council. Therefore, in February 2005, with the agreement of the Department, and the support of the Campus partners, but without any written brief, the Council commenced negotiations with PDCL on behalf of the Campus partners (Map F in centre page map section, page 28). The Campus partners were not present at these discussions although the Department held a number of bilateral meetings with the Council over this period. On this basis the Campus partners decided to draw up an Addendum to the 2004 OBC. This would concentrate on the financial implications of the potential new land deal.

**3.11** The Department stipulated four conditions for the land deal for the Campus scheme. These were that:

- The agreement on land for the Campus scheme had to be with Westminster City Council only, not PDCL, as the Department did not believe PDCL should receive anything more than fair open market value for their land.
- PDCL was not to be involved in the disposal of surplus sites.
- No overage was to be paid to parties other than Westminster City Council.
- No premium over open market value should be paid by the NHS on land it acquired.





**3.16** The May 2005 Addendum to the OBC was predicated upon the NHS Trusts accepting contractual obligations if the Department approved the OBC. Because of the complex relationships described in paragraphs 3.13 and 3.14 above, the Royal Brompton and Harefield NHS Trust was not confident that PDCL was serious about selling the land to Westminster City Council or that a genuine proposal existed which had the support of PDCL, Westminster City Council and, particularly, the Department. It was concerned that the Department would not support the proposed land deal as the conditions set out in paragraph 3.11 above had not been satisfied, although the Department had explained that its conditions were not immutable.

**3.17** In May 2005 Westminster City Council wrote to the Department to set out

- how it saw the current position on the proposed land transaction;
- that it required commercial close on the option to buy the North Westminster Community School site by September 2005; and
- that it sought a decision from the Department on whether it found Westminster's proposals acceptable by the end of June 2005.

**3.18** In its letter, Westminster City Council stated that it believed:

**“this overall proposal is fair to both parties and provides an appropriate and justifiable framework for agreement between the public sector partners and a private developer. The most recent offer represents the most favourable basis on which we believe PDCL's participation can be secured. It is either this deal or no deal.”**

**3.19** St Mary's NHS Trust has told us that it was the contents of this letter that formed the basis of its Board's support for the Addendum to the OBC. Conversely, the Royal Brompton and Harefield NHS Trust noted from the same letter that the PDCL Board was “unenthusiastic” and that past experience suggested further discussions between the Trusts and PDCL “may be pointless”. Coupled with PDCL's public withdrawal from involvement with the scheme (paragraph 3.13 above), the Royal Brompton and Harefield NHS Trust was left in the position of lacking confidence about the certainty of a suitable land deal and its acceptability.

**3.20** Unlike the Board of St Mary's NHS Trust, the Royal Brompton and Harefield NHS Trust Board at this stage declined the offer of another presentation on the proposed land deal from the Campus partners' land negotiator. It believed it had a full understanding of the land deal through previous discussions and presentations. On 25 May 2005 its Board declined to support the proposed Addendum, in part because of the above concerns.

## The Campus partners, and others, differed over whether the scheme was affordable

**3.21** In October 2000, when approving the OBC, the London Regional Office expressed concerns about the affordability of the scheme at an estimated capital construction cost of £300 million. By October 2002, the Campus partners considered that projected costs had increased by an estimated 10 per cent over the OBC. This increase breached the tolerance level at which the NHS Capital Investment Manual required formal reappraisal of the OBC, although no reappraisal was carried out. In fact, independent costings estimated the capital cost to be £786 million (December 2002, excluding optimism bias). This implied an annual scheme payment of approximately £80 million, some £53 million over the resources available from Primary Care Trusts to pay for the Campus scheme.

**3.22** The Department did not believe that the December 2004 scheme was affordable but, because final figures depended on the rejected land deal, did not complete its analysis. It continued throughout the period January to May 2005 to stress that it was concerned the scheme was at the margin of affordability.

**3.23** The Department told the Campus partners to assess affordability on the basis of traditional NHS financing arrangements and to address affordability under Payment by Results as a sensitivity factor. Under the existing funding regime, the Campus partners believed that they could afford the May 2005 scheme with an expected surplus of £0.75 million. However, under Payment by Results, which is being introduced by stages until 2008, the forecast steady state position was for an overall deficit of £2.8 million, including the cost of the land deal and associated rental of accommodation. This comprised a Royal Brompton and Harefield NHS Trust surplus of £15.4 million and a deficit of £18.2 million for St Mary's NHS Trust. St Mary's NHS Trust was confident that the required savings were easily achievable in the timescales involved (over 10 years).

**3.24** All Campus partners recognised that in May 2005 the steady-state scheme was not affordable under what would be the future funding arrangements without savings at St Mary's NHS Trust. In addition, the supporting land deal was not affordable from local NHS resources without bridging finance from the Department to cover the period between the partners acquiring additional land for the new Campus and when they would be able to dispose of the existing Brompton and St Mary's sites. Such funding was not available from the Department to support the December 2004 land deal but was available from the NHS Bank for the land deal in the May 2005 Addendum. The Department was not confident that the Campus partners could deliver the scheme against the background of punitive penalty clauses for delay.

**3.25** In parallel with developing an acceptable land deal the Campus partners checked the value for money of their scheme with similar schemes. They drew up confidential comparisons on capital construction cost per bed and cost per square metre (**Figures 6 and 7 on page 30**). We have added a column to that analysis to show the impact of including optimism bias.

**3.26** While the Campus scheme reported a high cost per bed, the Campus partners believed that this was because of the specialist nature of the care provided which had a relatively high proportion of tertiary and intensive care beds. The Department told us that it regarded the cost per square metre as a better guide to the affordability of schemes. On this measure the Campus was in the middle of the core comparator group of tertiary centres in constrained urban environments, although its estimated capital cost of £777 million excluded a further £117 million for optimism bias which the scheme was required to include when calculating its affordability position. Some of the optimism bias costs would eventually have contributed to increases in cost per square metre and cost per bed prior to financial close.

## Capacity planning in 2005 indicated that the local NHS in north west London needed to reduce capacity by 500 to 600 beds

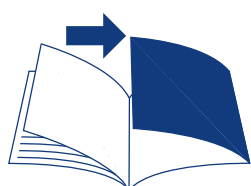
**3.27** When the scheme was first conceived, the National Beds Inquiry<sup>9</sup> had identified the need for more beds in the NHS. The 2000 OBC accepted this starting point and planned for 1,000 beds. By November 2002 this had risen, on the basis of detailed modelling, to 1,200. By October 2003 this had fallen to 1,088 and in the final scheme (May 2005) had been reduced, on the basis of planning and collaboration between the Campus partners and Primary Care Trusts, to 835 NHS beds and 88 private beds.

**3.28** By late 2004 the Strategic Health Authority and the Department were concerned about having too many hospital beds in north west London. The NHS was developing PFI schemes at Hillingdon NHS Trust (£271 million, 500 beds) and North West London Hospitals NHS Trust (£305 million, 600 beds) in addition to that proposed for Paddington. The Department told the Strategic Health Authority that this was a matter that needed a plan, but not a resolution, for the OBC to be approved.

**3.29** In December 2004 the Strategic Health Authority had estimated that there were 300-400 surplus beds in the sector, although in poor accommodation, and in January it calculated that St Mary's alone, if in-patient stays were reduced to national averages, could release 110 beds. St Mary's was using different planning assumptions to those used by the Strategic Health Authority, but intended that the planning assumptions used by both would be reconciled and agreed once the OBC had been approved. After an exercise in February-March 2005, the Strategic Health Authority concluded that there was a need to reduce hospital capacity in north west London by 500-600 beds – the equivalent of a medium sized hospital.

9 *Shaping the Future NHS: Long Term Planning for Hospitals and Related Services*, Department of Health, February 2000.

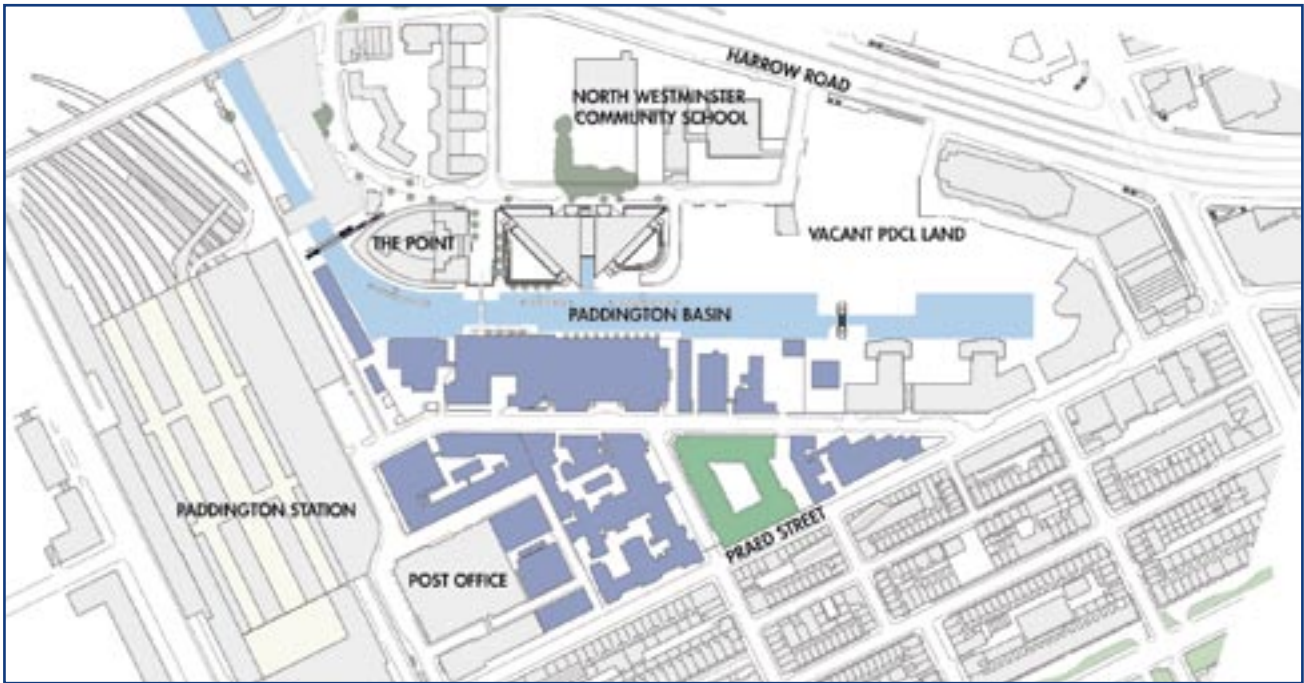
## The Changing proposals for Paddington Health Campus Schemes - Maps C-F



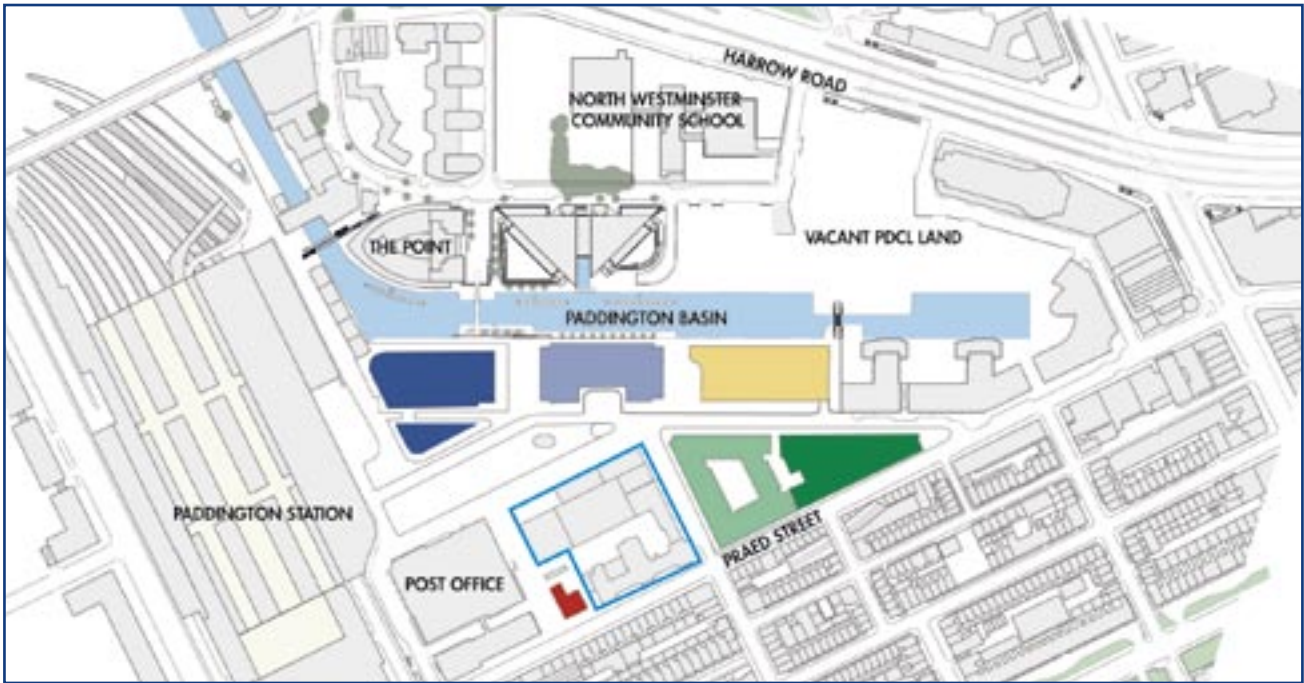
Maps C-F overleaf

The changing proposals for the Paddington Health Campus scheme

Map A: Existing site layout



Map B: Proposed site layout – June 2000



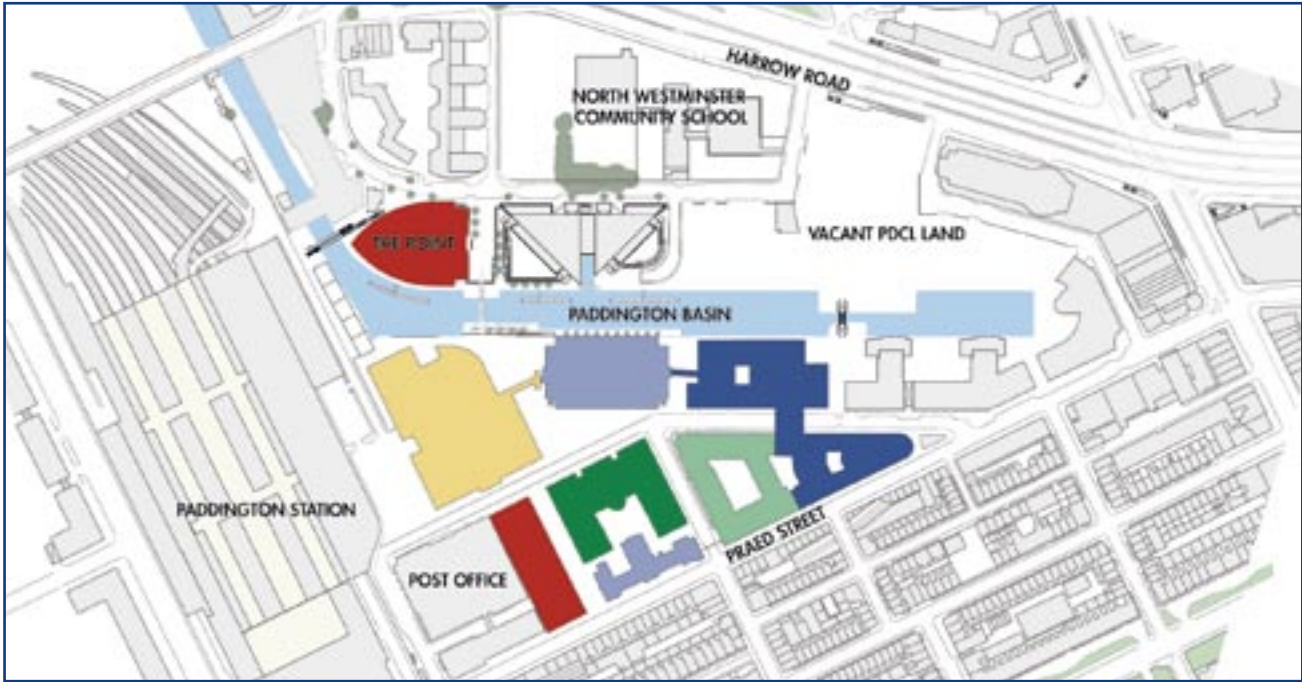
KEY:

- |   |  |
|---|--|
|  Existing Imperial College buildings |  Existing St Mary's NHS Trust buildings |
|  Proposed Imperial College buildings |  Proposed St Mary's NHS Trust buildings |

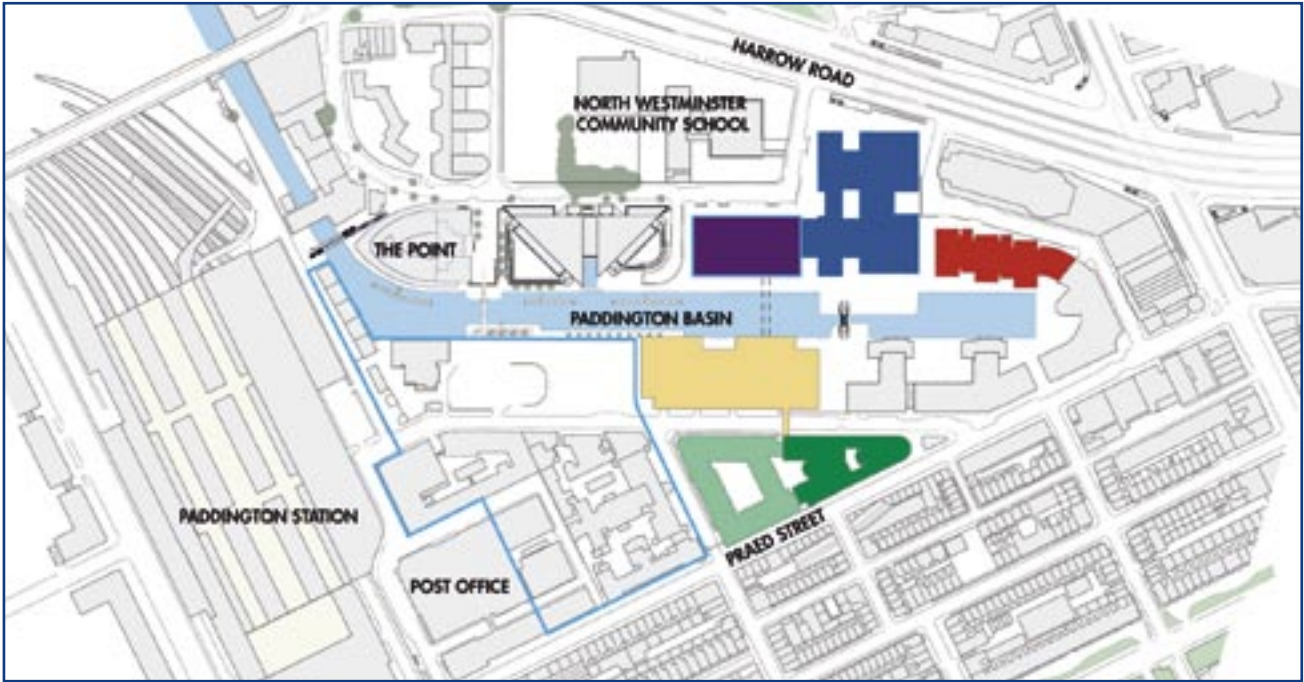
Source: Adapted from graphics produced by Studio4 Design & Architecture



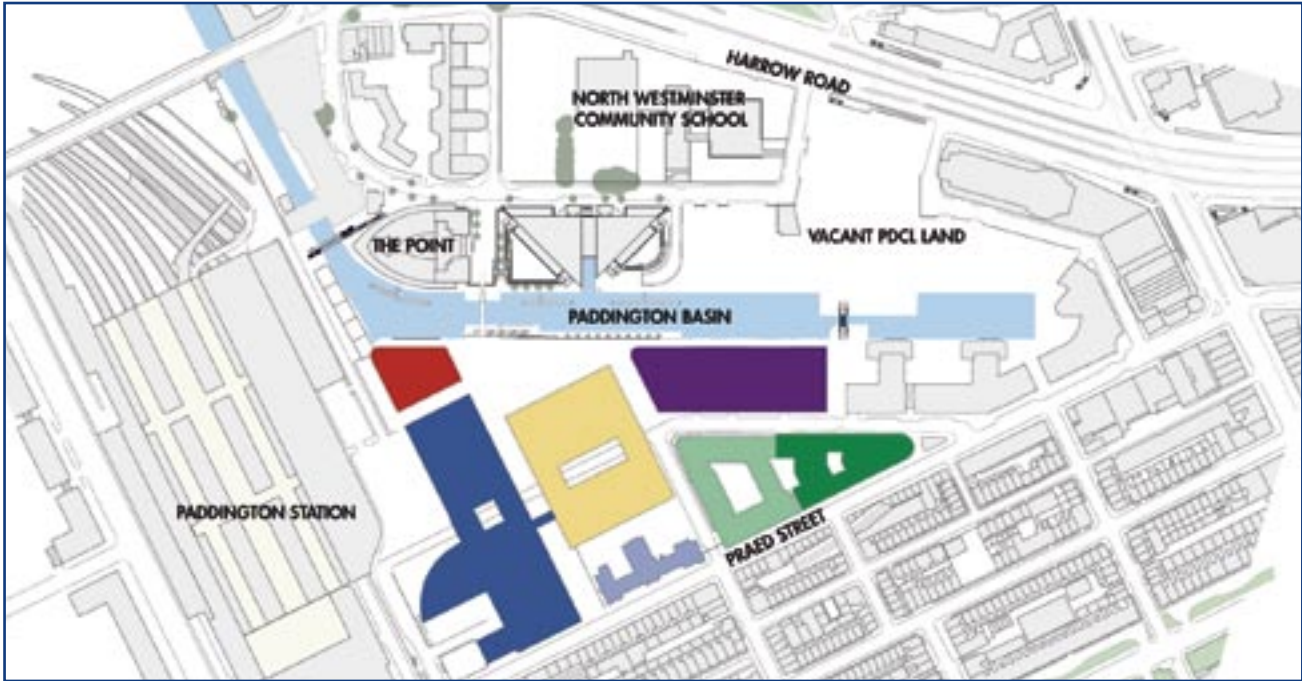
Map C: Proposed site layout – May 2003



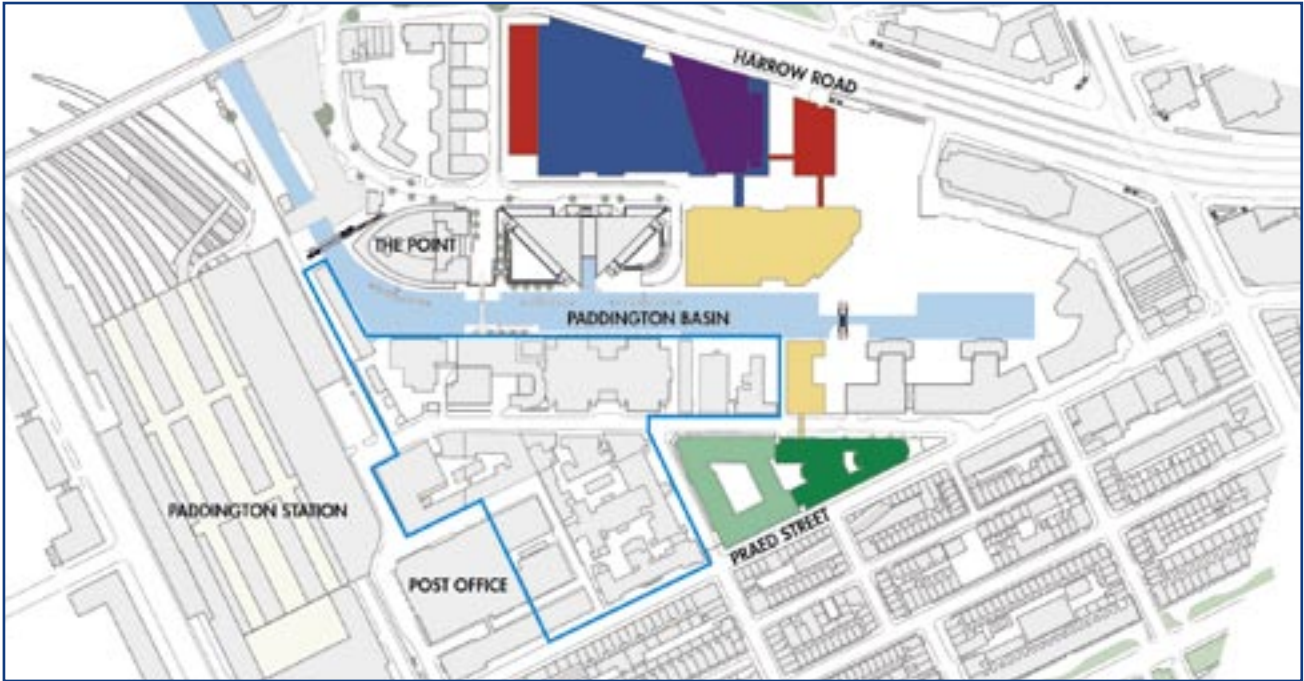
Map E: Proposed site layout – July 2004



Map D: Proposed site layout – February 2004



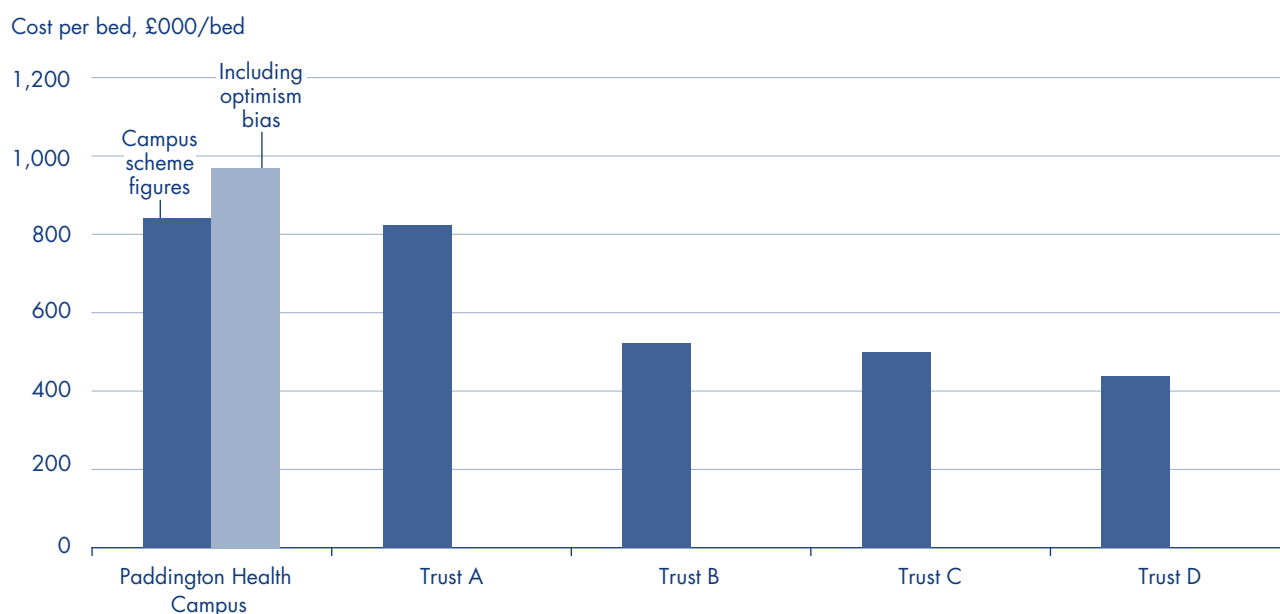
Map F: Proposed site layout – February 2005



- Proposed Royal Brompton & Harefield NHS Trust buildings
- Proposed shared non-clinical services buildings for St Mary's and Royal Brompton & Harefield NHS Trusts

- Proposed buildings to be occupied by both St Mary's and Royal Brompton & Harefield NHS Trusts
- Surplus site released for commercial - residential development

## 6 A comparison of capital construction cost per bed for major hospital builds

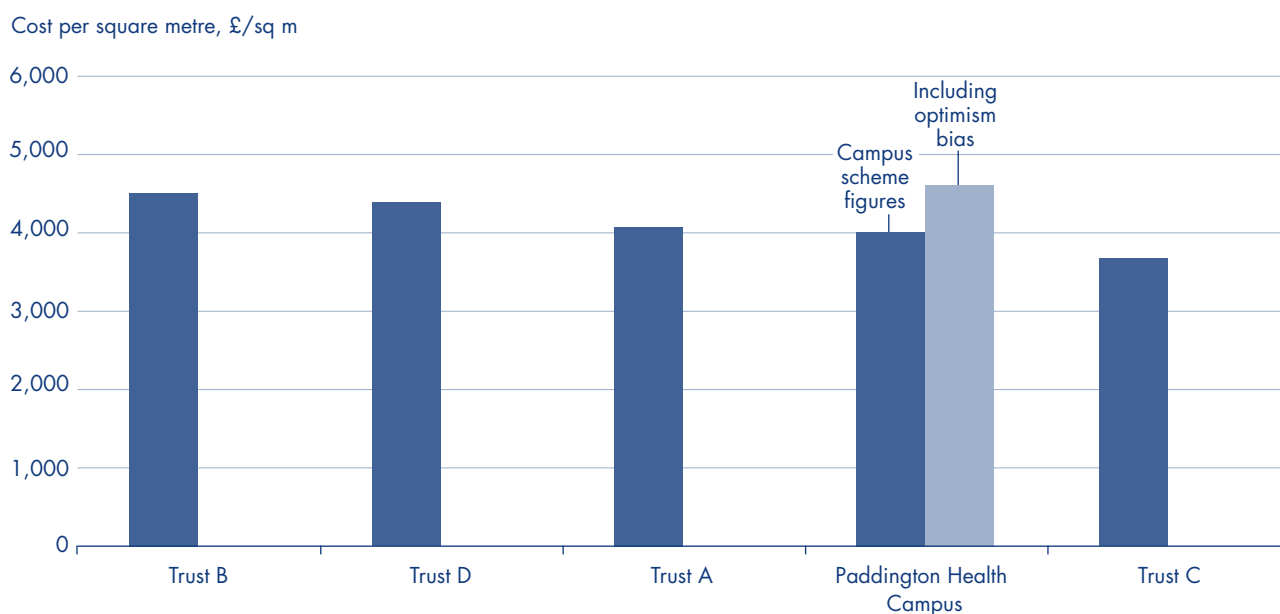


Source: April 2005 Campus documentation and National Audit Office addition of optimism bias

### NOTE

The four comparators are major urban teaching hospital schemes on constrained sites.

## 7 A comparison of capital construction cost per square metre for major hospital builds



Source: April 2005 Campus documentation and National Audit Office addition of optimism bias

### NOTE

The four comparators are major urban teaching hospital schemes on constrained sites.



## PART FOUR

There was a lack of clarity in  
key accountabilities and roles



## Accountability for the scheme was uncertain

### The Accountable Officer

**4.1** The Chief Executive of an NHS Trust sponsoring a scheme is the Accountable Officer for all capital schemes (**Figure 8 overleaf**). However in the case of the Campus partners there was no clarity over whether there was, or should have been, a single Accountable Officer.

**4.2** The Chief Executive of St Mary's NHS Trust believed in late 2003 that, ultimately, he was the single Accountable Officer for the scheme, given that all expenditure was initially made through his Trust's accounts and then recharged to other Campus partners on an agreed basis. Imperial College never accepted that their Rector was an Accountable Officer for this scheme, nor even that he was appropriately a Senior Responsible Owner for what was an NHS-led and driven scheme. The Chief Executive of the NHS confirmed in writing to the Campus partners in February 2004 that the Chief Executives of St Mary's NHS Trust and the Royal Brompton and Harefield NHS Trust and the Rector of Imperial College were equally accountable for determining the appropriateness of any expenditure by their own organisations on the Campus scheme.

**4.3** The Chief Executive of St Mary's has subsequently come to learn that in April 2004 his external auditors had stated that, since there was more than one participating organisation in the scheme it was not, by definition, possible for there to be one Accountable Officer for the scheme. The Department told us that it considered this to be simply a governance issue of how the Campus partners satisfied themselves as to the propriety of expenditure charged to their organisations, rather than an Accountable Officer issue.

### The Strategic Health Authority

**4.4** In the first year following its establishment (2002-03), the North West London Strategic Health Authority kept a distance from the scheme, although it had a Non-Executive Director on the Joint Project Board. It also set deadlines for the scheme, highlighted the interests of Primary Care Trusts with those of the Campus partners and gave strong direction as to how the scheme should proceed. It did not have any influence over Imperial College. In the latter stages of the scheme, the role of the Strategic Health Authority blurred into that of a project partner, whose principal distinct role was to act as a conduit between the scheme and the Department. From September 2004 the Chair or Chief Executive of the Strategic Health Authority chaired the Principals' Group.

## 8 Generic organisational responsibilities for Outline Business Cases

Organisation/Post	Responsibility in construction of Outline Business Cases
HM Treasury	None normally, but in the case of the Campus scheme, after October 2003, the Treasury was responsible for granting or withholding approval of a new OBC.
Department of Health	<i>Private Finance Unit</i> responsible for giving advice and support to the NHS;  In the case of the Campus scheme, after October 2003 the Department was responsible for granting or withholding approval of a new OBC.
Trust Board	The Trust board is responsible for effective oversight of the project, holding the Project Board and the Trust Chief Executive to account.
Trust Chief Executive	The project owner and accountable officer for the transaction is the NHS Trust Chief Executive. The Chief Executive has ultimate responsibility for delivering the scheme, and as such owns the deal. S/he is an accountable officer (through the NHS Chief Executive to Parliament) and is therefore responsible for ensuring value for money and appropriate use of public funds.
Project Board	This should be constituted as a committee to enable it to act directly on behalf of the NHS Trust and to be accountable to the NHS Trust board. Should be given clear terms of reference and stated areas of delegated discretion from the NHS Trust board.
Strategic Health Authority	The Strategic Health Authority is responsible for the performance management of the NHS in its area. Specifically, it will: <ul style="list-style-type: none"> <li>■ be involved in the preparation of OBC;</li> <li>■ participate in the Project Board; and</li> <li>■ formally approve the OBC before submission to the Department of Health</li> </ul>
Primary Care Trusts	Responsible for commissioning care from NHS Trusts. For capital schemes they: <ul style="list-style-type: none"> <li>■ are involved in the preparation of OBC;</li> <li>■ participate in the Project Board; and</li> <li>■ formally endorse the OBC.</li> </ul>

Source: Department of Health Capital Investment Manual and National Audit Office

### The Department of Health

**4.5** This was not a local scheme for the local NHS, given the nature and scale of the Campus scheme. It had explicit national dimensions in the integration with Imperial College's research work and the national services provided by both NHS Trusts. However Departmental policy under *Shifting the Balance of Power within the NHS*<sup>10</sup> was that all funds would be allocated to local NHS budgets so the solution to any funding issue was also local. The Department had no formal position on whether or not the Campus should be built. It explained to us that the initial 2000 scheme was approved by the local NHS and that the Department had no role in this. Both NHS Trusts, Partnerships UK and Westminster City Council all told us that they had been uncertain whether the Department did in fact want the Campus scheme to go ahead.

**4.6** The Department provided advice for the scheme through its Private Finance Unit and guidance through its Capital Investment Manual. Under the system of delegated authority by which the Department allows a degree of autonomy to the local NHS, it did not see its role as policing schemes' compliance with the Manual because local NHS organisations developed plans for capital investment.

**4.7** Once the scheme involved complex land transactions (from April 2004 onwards) the Group Delivery Director at the Department became much more closely involved. He had at least 24 meetings with Campus partners and related third parties between April 2004 and the collapse of the scheme in May 2005. No substantive steps were taken by the Campus partners during this period without his consent although it is equally true that the Department did not sponsor or request any scheme initiatives.

<sup>10</sup> *Shifting the Balance of Power within the NHS*, Department of Health, 2001.

**4.8** Some of the advice and guidelines provided by the Department to the Campus partners were ephemeral. It said a scheme with a capital to revenue ratio of over 1:1 was likely to be unaffordable (the Campus was 1.8 :1) but later agreed that this was not the case. It also expressed concerns over capacity in north west London but later said this problem could be managed after the OBC was submitted, as long as the Strategic Health Authority planned to address it. This created uncertainty on the part of the Campus partners.

## The 2002 NHS reorganisation disrupted the scheme

**4.9** Following the restructuring of NHS commissioning bodies from April 2002, the local Primary Care Trusts became responsible for commissioning services from hospitals and consequently determining the levels of funding available. It was not until approximately

May 2003 – over one year after their creation – that Primary Care Trusts began to assert limits to their approval of the Campus scheme.

**4.10** Continuity of personnel was one mitigating factor during the period of organisational change and beyond. A number of key personnel maintained continuity for the scheme, even while in different organisations (**Figure 9**).

**4.11** In March 2005 a new Chief Executive of the Royal Brompton and Harefield NHS Trust took up post. He had no previous involvement with the Campus scheme or the NHS in England. With his fresh perspective on the scheme he was concerned at the Department's absence from discussions with the Campus partners and the way in which the proposed land deal was negotiated without the Royal Brompton and Harefield NHS Trust being a participant in those negotiations. He was instrumental in the Board declining to support the Addendum to the 2004 OBC.

### 9

#### Continuity of NHS personnel involved in the scheme and their differing roles over the span of the scheme

Individual	Original involvement with the scheme	Later involvement
John Bacon	Director of Finance and Performance, London Regional Office of the NHS (1995–2000) Approved the 2000 OBC	Director of Delivery, Department of Health, (2000–2006) responsible for guidance on capital investment for Campus scheme
Dr Gareth Goodier	Chief Executive, Royal Brompton and Harefield NHS Trust (April 2003–August 2004)  Senior Responsible owner for the Royal Brompton and Harefield NHS Trust element of the scheme which was already underway when he took up post	Chief Executive, North West London Strategic Health Authority (September 2004 onwards)  Member of Joint Project Board and Principals' Group
Baroness Hanham	Chairman of St Mary's NHS Trust (2000 onwards)  Chaired Trust Board which approved the 2000 OBC	Oversaw St Mary's involvement with the Campus scheme  Member of Joint Project Board and Principals' Group
Julian Nettel	Chief Executive of St Mary's NHS Trust (1999 onwards)  Member of West London Partnership Forum that developed the Campus as preferred option in the 2000 OBC	Senior Responsible owner for the St Mary's element of the scheme as Chief Executive of that Trust  Member of Joint Project Board and Principals' Group
Lord Newton	Chair of West London Partnership Forum (1999–2001)  Brokered a way forward for specialist services in west London through the Campus scheme	Chair of Royal Brompton and Harefield NHS Trust (2001 onwards)  Member of Joint Project Board and Principals' Group



## PART FIVE

The way ahead is challenging for all parties





**5.1** Both NHS Trusts continue to need substantial investment to redevelop or refurbish their hospital estates to make them fit for purpose. The 2004 OBC quantified the combined cost of bringing both the St Mary's and Royal Brompton Hospitals' estates to modern standards at £759 million. Both Trusts are working on revised development plans which take account of the demand and capacity work the Strategic Health Authority has conducted during the latter half of 2005. At this point in time the exact nature of future capital development requirements for both Trusts has yet to be established.

**5.2** The cost of construction in the public sector has increased at above the cost of inflation while the scheme was in development. This means that it will be some 37 per cent more expensive to build replacement facilities now than it would have been in 2000, before allowing for general inflation. A worked example of the impact of delay is at Appendix 4. Such a delay does not represent cash spent or wasted on this scheme and nor is it an argument for simply building schemes more quickly, irrespective of the business case for investment. It demonstrates that redevelopment now will be markedly more expensive than in 2000.

**5.3** The North West London Strategic Health Authority in July 2005 announced that it would carry out a sector strategy review to determine its capacity and service requirement and investment priorities. It is unlikely that all three hospitals – St Mary's, the Brompton and Harefield – can be rebuilt or refurbished as required in the light of available capital resources.

**5.4** In September 2005 the Department issued new guidance on the business case approval process for major capital schemes. The principal changes were that

- the Department would no longer approve Strategic Outline Cases. These would now only require Strategic Health Authority approval; and
- OBCs for schemes with a capital cost of £75 million or more will require Departmental approval before a scheme can advertise in OJEU. This would follow Strategic Health Authority approval of the OBC.

**5.5** The changes reflected a re-prioritization of Departmental resources away from reviewing Strategic Outline Cases as experience had shown they were very difficult to assess conclusively. The intention of the pre-OJEU review is that it ensures Departmental resources are focused on more fully developed cases to check that capacity and service assumptions fit with national policies, affordability assumptions are robust, the scheme represents good value for money and the scheme is ready for OJEU.

**5.6** The Department, in the context of the *Our health, our care, our say*<sup>11</sup> White Paper on health and social care services in the community, is reconsidering the current capital investment programme. It expects to reduce the scale of the programme from £12 billion to £7.9 billion after a reappraisal of the affordability of the programme and individual schemes within it in early 2006. It will also, as part of this exercise write to Strategic Health Authorities with practical guidance on applying the experience of previous procurements, both in the NHS and in wider government.

**5.7** Since the end of the scheme, Imperial College has advanced plans to refurbish the National Heart and Lung Institute building on the Royal Brompton Hospital Campus. This current modernisation is expected to be completed by early 2008 at a cost of around £10 million.

11 *Our health, our care, our say: a new direction for community services*, Cm 6737, Department of Health, January 2006.

# GLOSSARY

<b>Addendum</b>	the May 2005 update to the December 2004 OBC.
<b>Affordability</b>	the capacity of an organisation to afford the health campus. It is usually expressed as the maximum price that the organisation could pay.
<b>Business Case</b>	a document that supports a proposal for capital investment. It must convincingly demonstrate that a project is economically sound, financially viable and will be well managed.
<b>Campus Partners</b>	St Mary's NHS Trust, the Royal Brompton and Harefield NHS Trust and Imperial College of Science, Technology and Medicine and, from 1 July 2002, Partnerships UK.
<b>Capital Investment Manual</b>	provides detailed guidance to the NHS for each stage of a capital scheme including practical guidance on the technical considerations of the full capital appraisal process and a framework for establishing management arrangements to enable benefits to be identified, evaluated and realised.
<b>Clinical Reference Group</b>	responsible for developing clinical models based on affordable models of care for the Campus.
<b>Commissioners</b>	NHS organisations, usually Primary Care Trusts, which receive direct funding from the Department of Health to purchase healthcare for patients. May also include national commissioners of specialist services.
<b>Enabling and decanting</b>	works that would facilitate the move of the three hospitals to the campus and allow St Mary's hospital to remain operational during building works.
<b>Full Business Case</b>	the third phase (following the Strategic Outline Case and Outline Business Case) of the business case, which assesses and plans the preferred option in detail.
<b>Gateway Report</b>	a review by the Office of Government Commerce to establish a scheme's fitness to proceed in the procurement cycle.
<b>Independent Review Panel 2005</b>	commissioned by the North West London Strategic Health Authority to produce a report on the 'Lessons Learned from the Paddington Health Campus Project' (published 10 October 2005).
<b>Joint Project Board (JPB)</b>	established in May 2002 to oversee the Paddington Health Campus scheme. The Board was co-chaired on a rotating basis by Non-Executive Directors of St Mary's and the Royal Brompton and Harefield NHS Trusts.
<b>Joint Review</b>	collaboration between the Department of Health, HM Treasury and the National Audit Office in 2004 to consider why the scheme's estimated capital costs had risen so much since the 2000 OBC and how this situation had come about.

<b>London Regional Office</b>	responsible for overseeing London's health services, covering a population of 7 million and overseeing 16 Health Authorities (as at 1999). Abolished in 2002.
<b>Memorandum of Understanding</b>	a document which set out the agreement that had been reached between the Campus Partners in relation to how the procurement of the Paddington Health Campus was to be governed.
<b>MIPS</b>	Median Index of Public Sector construction costs.
<b>National Heart and Lung Institute</b>	a division of Imperial College, Faculty of Medicine. The Institute is based at the Royal Brompton and Harefield Hospitals.
<b>NHS Trust</b>	a providing body for health care, created under 1990 legislation in a move to distinguish between the providing function and the commissioning function (undertaken by Health Authorities).
<b>North West London Strategic Health Authority</b>	from April 2002, one of England's 28 Strategic Health Authorities, responsible for the performance management of St Mary's NHS Trust and the Royal Brompton and Harefield NHS Trust.
<b>Off balance sheet</b>	a form of borrowing in which the obligation is not recorded on the borrower's financial statements and does not attract capital charges.
<b>Official Journal of the European Union (OJEU)</b>	the journal through which a PFI scheme must tender for contractors. Formerly 'Official Journal of the European Communities' (OJEC).
<b>On balance sheet</b>	a form of borrowing in which the obligation is recorded on the borrower's financial statements and does attract capital charges.
<b>Optimism bias</b>	an explicit adjustment, based on data from previous projects, to redress the tendency to be overly optimistic when assessing the cost, work duration and benefits of projects.
<b>Outline Business Case (OBC)</b>	the second phase (following Strategic Outline) of the business case cycle, which identifies the preferred option.
<b>Outline Planning Permission</b>	establishes the principle of development. The details of the development may be reserved and will require a further planning application.
<b>Overage</b>	a clawback mechanism to allow the seller of land to receive a defined proportion of sales proceeds if that land is re-sold by the initial purchaser.
<b>Paddington Basin</b>	the offshoot of the Grand Union Canal, which lies to the north of the current St Mary's Hospital.
<b>Paddington Basin Project Board</b>	oversaw the development of the Campus scheme on behalf of the West London Partnership Forum until it was disbanded during the April 2002 reorganisation of the NHS.
<b>Paddington Development Corporation Limited (PDCL)</b>	owners of land adjacent to the St Mary's hospital site north of the Paddington Basin.

<b>Paddington Health Campus</b>	the project by which the Campus Partners sought to build a health complex on the Paddington Basin site.
<b>Patient choice (at the point of referral)</b>	the policy, effective from January 2006, whereby patients are able to choose a convenient place, date and time for their initial hospital appointment from at least four providers.
<b>Payment by Results (PbR)</b>	the NHS financial framework for rewarding activity in hospitals with a tariff-based payment.
<b>Principals' Group</b>	established in August 2004 to enable the Campus partners to negotiate effectively in a time-critical manner with Paddington Development Corporation Limited.
<b>Project Executive Group</b>	established in March 2004 to take day-to-day decisions relating to the scheme in conjunction with the Project Director. Reported to the Joint Project Board.
<b>Private Finance Initiative (PFI)</b>	a policy introduced by the Government in 1992 to harness private sector management and expertise in the delivery of public services, while reducing the impact of public borrowing.
<b>Public Sector Comparator (PSC)</b>	a method used to calculate the "in-house" cost of delivering a project, which helps determine whether the Private Finance Initiative route is a viable alternative and demonstrates good value for money.
<b>Risk</b>	the probability of an event occurring, coupled with the anticipated impact on individuals and/or organisations.
<b>Risk assessment</b>	the process that helps organisations understand the range of risks they face – both internally and externally, the level of ability to control these risks, their likelihood of recurrence and their potential impacts. It involves a mixture of quantifying risks and using judgement, assessing and balancing of risks and their benefit and weighing them, for example, against cost.
<b>Risk register</b>	a database where results of all an organisation's risk assessments are recorded.
<b>Strategic Outline Case</b>	the first phase (preceding Outline Business and Full Business) of the business case cycle, which makes the case for change.
<b>Turnberg Report 1998</b>	a review of London's healthcare provision, chaired by Sir Leslie Turnberg, which set the context for the wider London healthcare strategy.
<b>West London Partnership Forum</b>	formed in March 1999 to unite the local healthcare organisations in west London (now north west London) and Imperial College to take forward the recommendations of the Turnberg Report 1998. Dissolved in March 2002.
<b>Westminster City Council (WCC)</b>	local authority, which owned the North Westminster Community School Site and was the provider of planning permission for the Campus scheme.

# APPENDIX ONE

## Chronology of the Paddington Health Campus scheme

1998

### February

The Turnberg Report, which reviewed the wider London healthcare strategy, is published.

### September

Strategic Outline Case drawn up by West London Partnership Forum and submitted to Department of Health.

2000

### April

West London Partnership Forum creates Paddington Basin Project Board to develop OBC.

### June

West London Partnership Forum submits planning application for proposed Paddington Health Campus scheme to Westminster City Council.

### July

Kensington and Chelsea Health Authority launch consultation on specialist services in west London.

### October

London Regional Office of NHS approved Outline Business Case (estimated gross capital construction cost £300m), with caveats.

### November

Consultation on specialist services closed, one month after the approval of the Outline Business Case.

First permanent project director for the scheme appointed.

2001

### January/February

Objections to the Paddington Health Campus scheme raised by three Community Health Councils and scheme referred to the Secretary of State for Health.

### May

Risk register drawn up by Ernst & Young.

### October

Secretary of State confirmed approval for Paddington Health Campus scheme.

2002

### March

Kensington, Chelsea and Westminster Health Authority, London Regional Office and West London Partnership Forum wound up under NHS reforms, to be replaced by North West London Strategic Health Authority and Primary Care Trusts.

### May

Joint Project Board (JPB) established to replace Project Board of former West London Partnership Forum to oversee Paddington Health Campus scheme.

### September

First draft of clinical output specifications produced. Planned Campus of insufficient scale to accommodate proposed clinical activity.

North West London Strategic Health Authority wrote to Campus partners stating that it should be ready for OJEU advertising by 31 March 2003 and that there could be no further slippage.

### October

Joint Project Board considered 10 per cent increase in costs of Outline Business Case.

The Project Director's contract was terminated by mutual agreement. An interim Project Director was appointed immediately and a permanent replacement from April 2003.

### November

Westminster City Council planners advised that the Campus proposal exceeded the planning approval.

Partnerships UK appointed as co-sponsor for procurement expertise (with effect from 1 July 2002).

### December

Cost estimate from Davis Langdon and Everest put capital construction cost for scheme at £786 million.



## 2003

### February

Westminster City Council planning department request that the Campus partners withdraw their planning application for further consideration.

### March

The Campus partners identified the availability of The Point building as essential for the enabling and decanting of the scheme.

### April

Cost estimate from Davis Langdon and Everest put capital construction cost for scheme at £792 million. Affordability Gap £53 million.

Westminster Primary Care Trust noted that no agreement had been reached on service strategies so the clinical content of the scheme remained unconfirmed

### May

New scheme configuration means that new Imperial College building is no longer separate from hospital buildings so the College's building was now within the scope of the proposed PFI scheme.

### June

Scheme was approved by the Strategic Health Authority, with Primary Care Trust support.

### August

OBC for Enabling Case for the Paddington Health Campus (procurement of the Point building on a long lease) was finalised.

### October

Chief Secretary to Treasury requested new OBC and review of scheme management before Enabling Case could be considered.

Risk register updated by Davis Langdon and Everest

## 2003 (continued)

### November

Full Business Case for enabling works was approved by North West London Strategic Health Authority.

Gateway review of Campus scheme.

The Chief Executive of St Mary's NHS Trust wrote to the Chief Executive of the NHS regarding who was the Accountable Officer for the scheme.

### December

Joint Department of Health/HM Treasury/National Audit Office Review Steering Group commenced review.

## 2004

### February

Interim findings of Joint Review reported orally to Campus partners. Work on OBC immediately stopped, pending decision on whether to proceed with project.

### April

Campus partners agree new affordability and space constraints with commissioners, subject to 24 assumptions.

PDCL approached Campus partners identifying land on north of the Paddington Basin that scheme could use for more straightforward build. Campus partners received Departmental consent to explore this opportunity.

### June

Joint Project Board noted the advantages of using north site and subsequently prepared the 2004 Outline Business Case.

## 2004 (continued)

**July**

Chief Secretary to Treasury approved one final attempt to make the project work, on condition that rigorous action was taken to address all of the problems identified by the Joint Review. Preparation of new OBC authorised by Department of Health.

**September**

Joint Review report published.

Strategic Health Authority installed as chair of the Principals' Group.

**October**

Westminster City Council planning committee notified Campus it would not approve Campus using both sides of the Paddington Basin.

Campus Principals' Group decided to exit the scheme, implementing a four-week timetable before a public announcement of the decision.

Westminster City Council offered the Campus partners part of its school site, which along with existing PDCL land, would allow the partners to build both hospitals on north side of the Basin.

**December**

Revised Outline Business Case was approved by the Campus partners and submitted to the Department by the Strategic Health Authority with caveats requiring funding support for land deal.

Affordability gap under Payment by Results of £9.8 million. Surplus of £4.4 million under existing funding regime.

## 2005

**January**

Campus partners prepared to cancel scheme in face of objections from Department of Health.

Department of Health no longer invited to Principals' Group.

**February**

Offer by Westminster City Council, to use the school site and procure land for the Campus from PDCL, was accepted as basis for Addendum to OBC.

**March**

PDCL terminated the Collaboration Agreement between the Campus partners and PDCL on 2 March 2005 because PDCL did not believe it was commercially sustainable.

**May**

Joint Project Board approved submission of Addendum to OBC to NHS Trust Boards and Imperial College's Council, subject to conditions yet to be agreed.

Surplus of £0.75 million under existing funding regime. Affordability deficit under Payment by Results of £2.8 million.

Royal Brompton and Harefield NHS Trust Board did not recommend Addendum to OBC.

**June**

Strategic Health Authority recommended cancellation of the scheme, withdrawal of the OBC and establishment of an independent review.

Scheme formally cancelled by Minister.

## APPENDIX TWO

### External reviews of the Campus scheme

#### The London Regional Office of the NHS highlighted a number of concerns in late 2000

**1** The London Regional Office of the NHS formally approved the OBC in October 2000, subject to the outcome of the public consultation on the future of specialist services in west London. The Regional Office highlighted its concerns about the:

- completeness of the strategy to operate clinical services while building new hospitals on the same site (“decant strategy”);
- identification and responsibility for management of project risks;
- treatment of the Queen Elizabeth the Queen Mother building; and
- affordability of the scheme.

**2** The summary of other concerns included a further 17 issues, such as the need to emphasise the proposed increase in nursing staff, and the need for a full risk assessment and a strategy for achieving planning permission.

**3** There was no requirement from the Regional Office for the above issues to be addressed in a reworked OBC. Rather, the Regional Office split the issues into two categories: those which had to be addressed in the near future prior to placing the OJEU advert for procurement (anticipated for Summer 2001) and those that would be resolved within the Full Business Case when that was prepared. There is no record of any review by the Regional Office of how the Campus partners were addressing the issues when the OJEU tendering was delayed.

#### The 2003 Gateway Report gave the Campus scheme a ‘Red’ rating

**4** The Campus scheme was the subject of an Office of Government Commerce Gateway Review in November 2003. The purposes of the review were to confirm the project’s readiness to move to procurement on a robust, affordable and achievable basis.

**5** The Gateway Review gave the Campus scheme project a ‘Red’ rating, which is given to projects or programmes that should take remedial action immediately in order to achieve success. The Review made 14 recommendations that needed to be addressed without delay and noted that the project was being driven towards failure by a combination of programme management failures, inadequate resources and skills and the absence of support from the Strategic Health Authority, Department and Treasury.

**6** The Independent Review Panel (2005) noted from the project’s own documentation, drawn up almost a year after the Gateway Review, that:

- ‘Five [of the Gateway Review] recommendations were not addressed in a timely fashion (e.g. the new governance arrangements based around the Project Executive Group and affordability of the scheme).
- Twelve recommendations did not achieve the right outcomes (e.g. those relating to Mission Critical programme treatment, Programme Management disciplines, project team resourcing with right skills and top-level Government support for realising land requirements).
- Eleven recommendations were not completed (e.g. adding practical construction and PFI expertise to the pool of Non-executive Director experience, Technical Director, Heavy-weight Project Manager, Change Control procedures, formal Assumptions Control, Ground Surveys).<sup>12</sup>

<sup>12</sup> Independent Review Panel Report (2005), paragraph 1.23.

**7** It was the view of the Independent Review Panel that failing to address adequately the concerns of the Gateway Review in a timely manner had a substantive impact on the scheme.

## The 2004 Joint Review prompted the production of a smaller, more affordable OBC

**8** The escalation of projected costs since OBC approval, from £360 million to over £800 million by 2003, led to an expression of concern from the Treasury. A Member of Parliament also requested an investigation from the National Audit Office. This led to the creation of a Steering Group. The Group, which consisted of representatives from the Department of Health, Treasury and the National Audit Office, was tasked with:

- reviewing the change in the scheme's costs since OBC approval; and
- reviewing the process which led to this situation.

**9** The Group's findings, published in September 2004, highlighted concerns in two main areas: project governance and management and affordability. It concluded that unless the identified weaknesses were addressed, it was unlikely that the required investment in the NHS in west London would achieve its objectives. The review recommended:

- a** The Strategic Health Authority should lead a process identifying options for investment in the NHS in west London for heart and lung, paediatrics, tertiary services and St Mary's infrastructure;
- b** Primary Care Trusts should lead the development of appropriate models of care;
- c** Responsibilities for projects should be clearly set out and there should be a single client who takes full responsibility for the cost and funding implications of design changes;
- d** Recent Gateway recommendations for the Paddington Health Campus should be implemented for the management of any new investment scheme and

appropriate project resources should be provided for any project team by Primary Care Trusts in line with national guidance and the revised scale of investment.

## The 2005 Independent Review Panel identified 'lessons learnt' from the collapsed Campus scheme

**10** Following the decision in May 2005 not to proceed with the Paddington Health Campus, the North West London Strategic Health Authority commissioned an Independent Review of the scheme. The aim of the review was to identify the 'lessons learnt', which could improve the quality of future similar PFI projects throughout the NHS.

**11** The Panel concluded, in September 2005, that the scheme was unable to simultaneously and adequately fulfil all the basic parameters for success – specified clinical activity, land procurement commitments or space with Outline Planning Resolution (or later a Masterplan) and robust income streams. The review also noted that the project was allowed to continue for as long as it did due to the absence of reliable processes responsible for sponsoring, managing and delivering the project throughout the management chain.

**12** The Independent Review Panel also made 43 recommendations, covering:

- a** Government and Department of Health leadership and policy;
- b** Department of Health's supporting framework and tools;
- c** Area-based capacity and performance management;
- d** Sponsorship of programmes;
- e** Programme governance and delivery;
- f** Management of land and planning dependencies; and
- g** Context for re-use of Paddington Health Campus assets.

## APPENDIX THREE

### Methodology

**1** The fieldwork for this examination focussed on the project documentation for the Campus scheme, held at St Mary's NHS Trust. This comprised minutes of all main committees from 2000 onwards and correspondence with the Department of Health, including presentations to the senior responsible official at the Department.

**2** We had full access to the external reviews that were carried out on the project, as listed in Appendix 2.

**3** We spoke to the following organisations or individuals, to whom we are grateful for their time and co-operation:

- Department of Health
- Eric Sorensen
- Heart of Harefield
- Ian Robertson, property adviser to the Campus partners
- Imperial College of Science, Technology and Medicine
- Nigel Vince, Chair of the Independent Review Panel, 2005
- North West London Strategic Health Authority
- Paddington Development Corporation Limited (PDCL)
- Partnerships UK
- Royal Brompton and Harefield NHS Trust
- St Mary's NHS Trust
- Westminster City Council



## APPENDIX FOUR

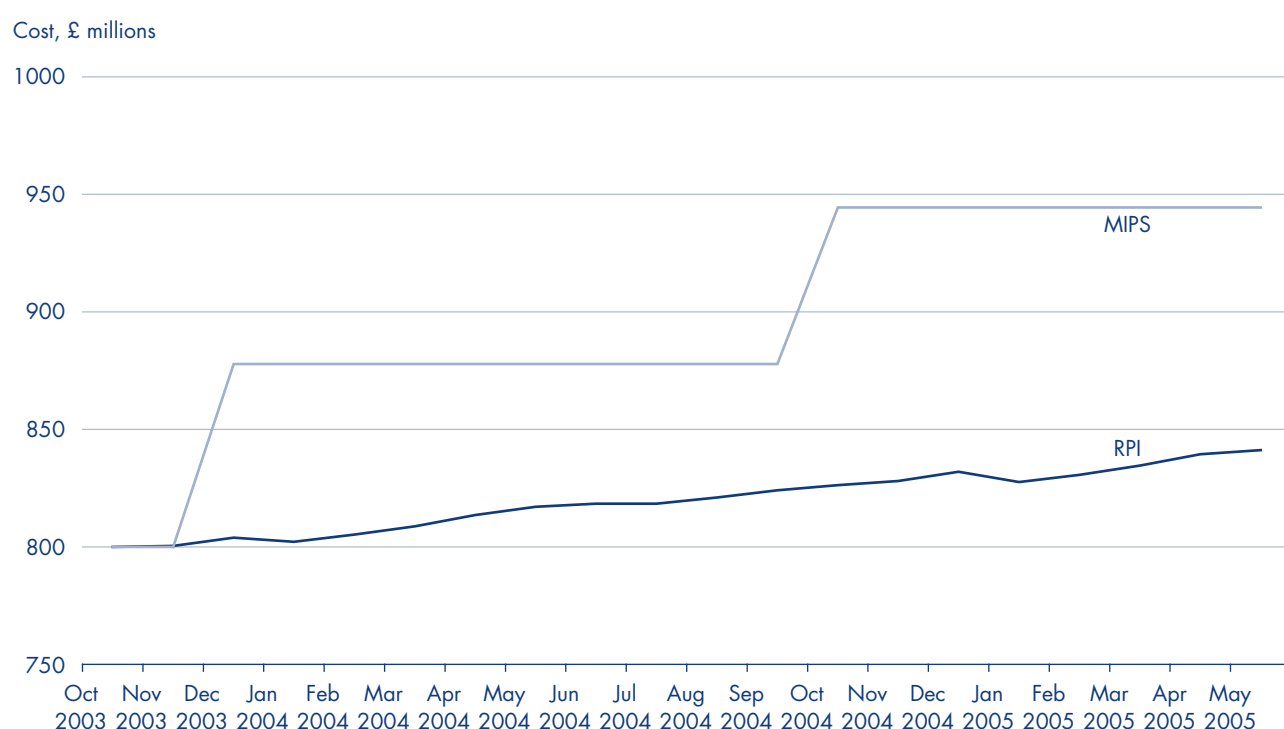
### The opportunity cost of delay in taking forward the Campus scheme

**1** The opportunity cost of the failed project is likely to be greater than the simple £14.9 million direct cost of the project itself. Delay is 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, for illustration, had the project eventually gone ahead in May 2005, in substantially the same form it had reached by October 2003, then that 17 month delay would have added approximately £103 million to the cost of construction (construction tender prices exceeding general inflation by some 13 per cent during the period) (**Figure 12**). The cost of borrowing has the capacity to offset the impact of capital

cost increases, if rates fall, or indeed add to the cost, if rates rise, although the degree of offset /cost would not be known until financial close.

**2** This amount is illustrative and is not a cash cost, as the eventual project configuration by May 2005 differed from that in October 2003, partly to accommodate affordability concerns. However, 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.

**12** Construction Costs Inflation between October 2003 and May 2005



Source: Office of National Statistics, Paddington Health Campus documentation

#### NOTE

RPI is the all-items Retail Price Index and MIPS is the Median Index of Public Sector Building Tender Prices published by NHS Estates based on information compiled by the Department of Trade and Industry.

## APPENDIX FIVE

### Relevant recommendations from previous Committee of Public Accounts' reports

#### Department of Health: The Chelsea and Westminster Hospital<sup>13</sup>

**1** In July 1988, the North West Thames Regional Health Authority submitted a proposal to the Department for a 665-bed hospital at a cost of £136 million. The Regional Health Authority aimed to have the hospital open to patients by September 1992. By the end of 1992, the total estimated cost had slipped to £236 million and the expected opening time had been pushed back to March 1993. The Committee of Public Accounts' report included the following recommendations:

- iii** We are concerned that the health authority assumed that planning agreement would be forthcoming and were therefore unprepared for the difficulty and consequent delay that actually occurred at a cost of some £16 million.
- xi** We expect the NHS in future to take a more cautious approach on projects which rely on the property market to fund developments. We also expect to see a full sensitivity analysis on all major capital projects to establish the impact of any problem in financing the projects.
- xvi** We wish to emphasise some themes which emerge from our examination of this project which would be relevant to any major construction project financed from public funds. They are:
  - a** the agreement of the planning authority must be clearly established in a formal way before significant expenditure is incurred for detailed design and development work;
  - b** the project should be considered in the broadest geographical and organisational context and not limited to narrow local factors, however attractive the proposals may be to local interests;
  - e** there should be a full sensitivity analysis to establish the impact of any problems in financing the project.

<sup>13</sup> Committee of Public Accounts (1993) *The Chelsea and Westminster Hospital*, Twenty-Sixth Report 1992-93 (London: HMSO).

## Department of Health: Cost over-runs, funding problems and delays on Guy's Hospital Phase III development<sup>14</sup>

**2** The Treasury approved in principle the development of Guy's Hospital Phase III in December 1986 at a cost of £35.5 million and with a planned completion date of December 1993. The development was finally finished in April 1997 after the cost had increased to £151.8 million. The Committee of Public Accounts report included the following recommendations:

### On the control of project costs and delivery

- i** The Guy's Hospital Phase III project cost £115 million more than the original estimate of £35.5 million and was delivered over three years late. It is a disgrace that the original estimate was so inadequate, and was approved by both the Department of Health and the Treasury quickly, even though both had strong reservations about it;
- ii** The unrealistic initial cost estimates may have enabled Guy's to secure a place in the queue for scarce NHS capital investment at the expense of other schemes. We expect the NHS Executive to ensure that priorities for capital allocation are based on realistic cost estimates;
- iii** A key factor in the cost overruns and delays was that during the course of the project there were four changes of client body with overall responsibility, six different project sponsors, and five changes in project manager. While we recognise that the NHS was undergoing considerable change during this period, the failure to ensure consistent project oversight and management was indefensible. We note the NHS Executive's assurance that they are now seized of the importance of the sponsorship role and the need to ensure continuity of personnel, and indeed had intervened in recent cases to keep project sponsors in post;
- vi** Accountability for such projects has been sharpened since 1994, with the issue of the Capital Investment Manual, and the designation of trust chief executives as accountable officers with a direct line of accountability to the NHS Chief Executive. However, we are disturbed that no one associated with this major failure of cost control and project management has been identified or disciplined;

<sup>14</sup> Committee of Public Accounts (1999) *Department of Health: Cost Over-runs, Funding Problems and Delays on Guy's Hospital Phase III Development*, Twenty-eighth Report 1998-99 (London: HMSO).

### On the funding problems

- vii** In addition to failing to control the costs of the project, and delivery on time, those responsible for Guy's Phase III also proceeded at various stages without full funding for the project. This was reckless. The net outcome was that the public sector contribution rose from £19.5 million to £117.9 million including a £25.3 million funding gap; a total cost increase to the taxpayer of £98.4 million. While it is not possible to link this extra cost to specific delays to other patient services and projects elsewhere, it is clear that there must have been a considerable adverse impact in other parts of the country. The NHS Executive put the impact of financing the funding gap as equivalent to each NHS trust receiving a one off reduction of about £58,000, or a large capital project being delayed by one year;
- viii** We look to the NHS Executive to ensure that future projects should not be allowed to proceed without an agreed funding strategy, without sensitivity analyses that address the risks involved, and without rigorous re-appraisal and confirmation at every stage that sufficient funding is available;

### On improvements to the planning and delivery of NHS capital projects

- ix** We note the Executive's assurance that improvements in project management and accountability since 1994, and the introduction of Private Finance arrangements, will limit the risk of problems in the future to major construction contracts in the NHS. We look to the NHS Executive to ensure that this guidance is followed by NHS trusts. And we will be interested to hear about their experience with PFI in due course.