National Audit Office

## DEPARTMENT OF HEALTH

# The Paddington Health Campus scheme

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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[1], 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.

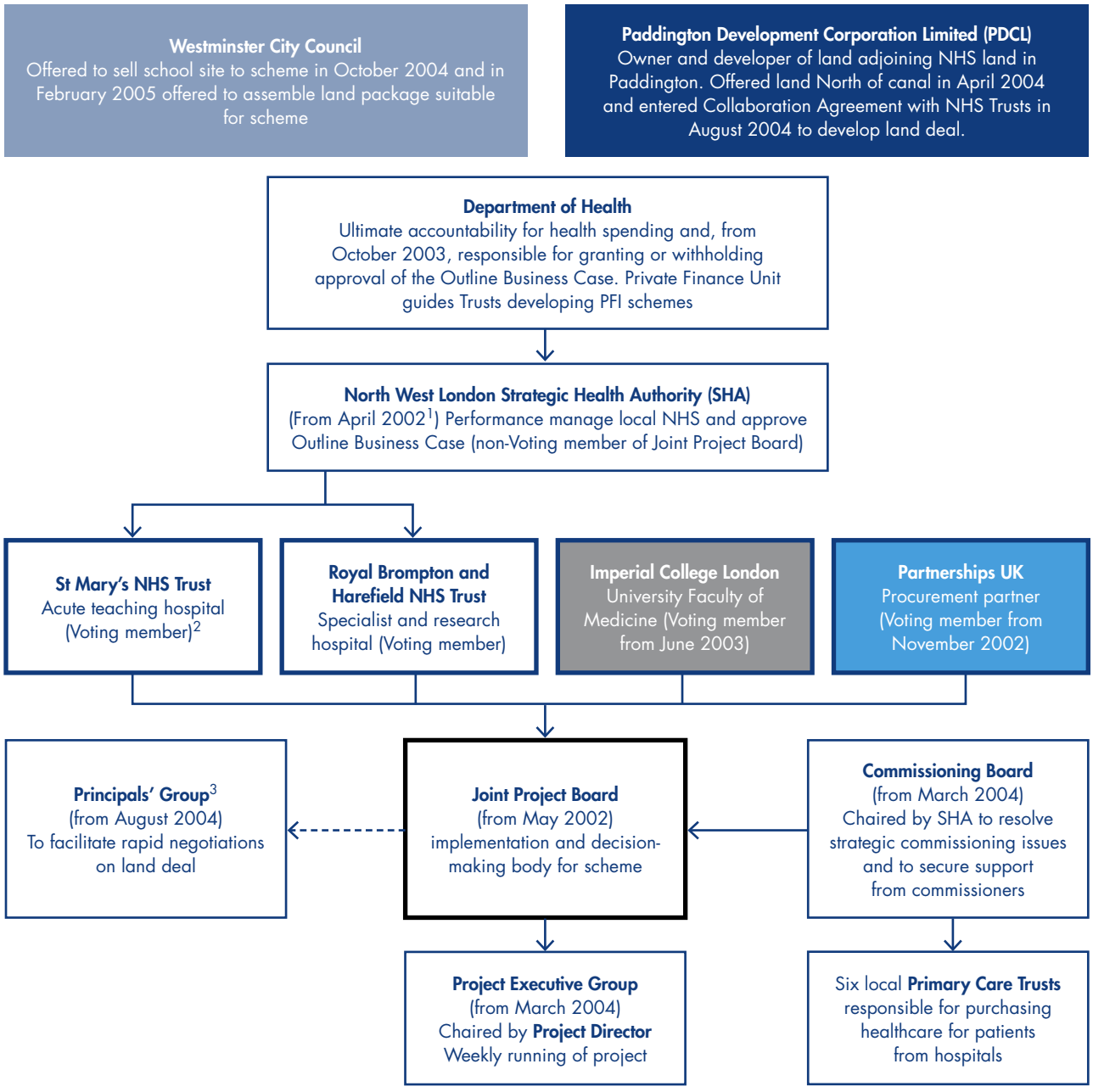
**5** The cancellation of the scheme represents poor value for money for the patients, visitors and staff who have been left with hospital premises that are long overdue for renewal and specialist clinical services which have failed to meet the recognised need for reconfiguration.

**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.

1 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.[2] 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[3], 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.

2 Public Accounts Commission, Twelfth Report of Session 2003-04.
3 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[4] 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.

4 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.