



House of Commons

Committee of Public Accounts

The Paddington Health Campus scheme

Ninth Report of Session 2006–07



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*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

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Summary

The Paddington Health Campus Scheme was a complex and ambitious attempt to build a world class healthcare facility which would replace three run-down hospitals (St Mary's, the Royal Brompton and the Harefield) and address problems with the configuration of specialist services in north-west London. However, after five years and £15 million spent trying to develop a robust business case, the Paddington Health Campus scheme collapsed.

In 2000, the approved Outline Business Case estimated that the redevelopment would cost £300 million (£411 million in 2005 prices), with completion by 2006. By May 2005, projected costs had risen to £894 million and the expected completion date had slipped to 2013. Reasons for the delay and cost increases include the fact that Campus partners had failed to secure adequate land for the scheme, and disagreements about the content and affordability. Whilst St Mary's NHS Trust approved the revised business case in May 2005, the Royal Brompton and Harefield NHS Trust declined to recommend it for approval and consequently, in June 2005, the Department cancelled the scheme.

The Department of Health is currently reconsidering the scale of its £13 billion capital investment programme and expects to reduce its level of investment to £7-9 billion, following a review of each scheme's affordability. Whilst the circumstances that led to the collapse of the Paddington Health Campus Scheme were unique, there are lessons for all NHS capital investment schemes. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department and NHS on two main issues: the way in which the local NHS developed the Campus scheme and the role of the Department.¹

We found that the Campus partners were imprudent in submitting an Outline Business Case in 2000 which was manifestly inadequate. At that stage they had not consulted their own doctors and nurses as to the required clinical content of the Campus and were thus unable to determine with any degree of accuracy the land requirements and the likely cost. The eventual collapse of the scheme can be traced directly to the ill-informed decisions taken at the outset by the NHS in north-west London. When the scale of the cost increases became evident in 2002-2003, there was a lost opportunity either to put a stop to the scheme or to require a new outline business case. Overall, the scheme was simply too ambitious for the capacities of those responsible for delivering it.

Many of the failings seen in the Paddington scheme are familiar from past examinations of major capital projects. The Department and the NHS in north-west London repeated many of the mistakes that we identified in our 1999 report on the Guy's Phase III project. The Department failed to provide effective critical challenge when it approved the Paddington scheme in 2000 and thereafter failed to hold the scheme to account against its own guidance in its Capital Investment Manual.

The Department believes there are no more 'Paddingtons' elsewhere in the hospital building programme and that its current review of pre-contract schemes will identify

1 C&AG's Report, *The Paddington Health Campus scheme HC (2005-06)* 1045

affordability problems if they exist elsewhere. There has, however, been too little control of the capital investment programme as a result of the Department's 'hands-off' approach, and forecast costs are some £4 billion above approved outline business case costs. The Department now plans to scale the programme back to £7-9 billion through a one-off review, but it remains to be seen whether this action will be sufficient to get a grip on a programme, which continues to be managed by the NHS locally.

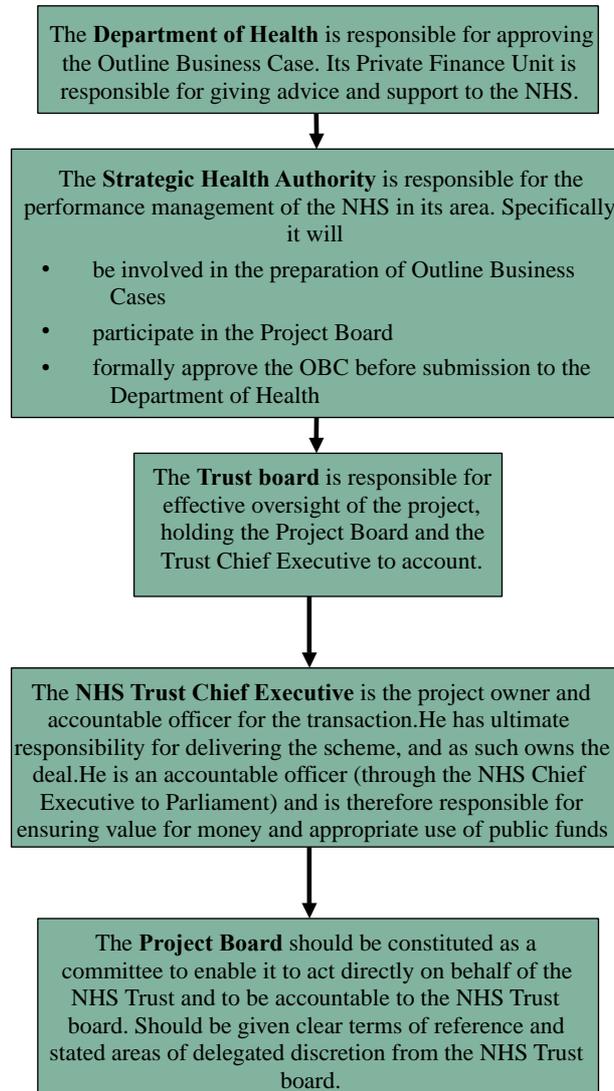
Conclusions and recommendations

- 1. The Paddington Health Campus scheme, as proposed by the Campus partners in 2000, was based on an inadequate Outline Business Case, constructed without the benefit of input from doctors and nurses as to the required clinical content.** Incomplete or inadequate business cases should not be approved until all material issues, including sufficient design work, have been addressed.
- 2. The Royal Brompton and Harefield NHS Trust and St Mary's NHS Trust had unreconciled organisational, clinical and financial interests and in the end the two Trusts took incompatible views of the way ahead.** Capital schemes in the NHS should only proceed with more than one partner when there is a clearly identified single sponsor.
- 3. It took several years after the initial outline business case for the Campus partners to reach a clear position on the clinical content of the Campus, the land required, the planning constraints and the likely cost and affordability of the scheme.** The scheme's development was also handicapped by insufficient manpower and capability. NHS Trusts taking forward building schemes should have early external assessments, for example by the Department's Private Finance Unit, of their capacity to deliver complex schemes and firm timetables against which they can measure progress.
- 4. The North West London Strategic Health Authority failed to manage effectively the development of the scheme by the Campus partners.** The local responsibility for monitoring the scheme fell initially to the Kensington and Chelsea Health Authority and, after March 2002, the North West London Strategic Health Authority. The Strategic Health Authority should have either cancelled or fundamentally reassessed the scheme in early 2003. Instead it strongly encouraged the Campus partners to pursue additional accommodation for the scheme. New Strategic Health Authorities should establish clear criteria for monitoring each scheme's progress and take decisive action when schemes go off-track.
- 5. The bed capacity required by the scheme to meet patients' healthcare needs—and thus its cost and affordability—fluctuated as it was being developed, largely for reasons beyond the control of the Campus partners.** Planned bed numbers ranged from 835 NHS beds to 1,200 across the five-year development of the Campus, and St Mary's NHS Trust was using different planning assumptions to the North West London Strategic Health Authority. Bed numbers, or at least an upper capacity, should be fixed as part of the Outline Business Case approval process.
- 6. The hospital building programme in the NHS was estimated to cost £4 billion more than the approved costs.** The Department's Capital Investment Manual requires a full reappraisal if costs on a scheme are forecast to rise by more than 10%. The average rise above approved costs is 117%, more than doubling the cost. The Department should enforce the requirement for compliance with its guidance and agree with Trusts who breach these guidelines an action plan to bring projects under

closer control, especially where they forecast cost-overruns above approved expenditure levels. It should develop and disseminate to NHS bodies details of the factors that will trigger intervention.

- 7. Forecast cost increases over all current schemes exceed the 40% maximum addition to forecast capital costs which is allowed to correct for optimism bias.** The allowance does not therefore adequately reflect Trusts' over-optimism on the costs of such schemes. To introduce a proper perspective on the likely affordability of schemes, the Department and the Treasury should agree on the appropriate level of optimism bias for NHS capital schemes, based on experience to date.
- 8. The Department was not adequately aware of the state of the Campus scheme because it viewed scheme development as a local issue.** As a result it was slow to respond to the failure of the scheme to make progress. The Department should benchmark the capacity of its Private Finance Unit against similar Units in other Government Departments and against relevant Treasury guidance, to ensure that it has the capacity to provide sufficient support to procurement teams.
- 9. The Campus partners believed that the Department lacked clarity in its role and objectives.** The Department acted as both champion and challenger for the scheme, causing uncertainty and confusion in the Campus partners. The Department, through its Private Finance Unit, should develop flexible and transparent criteria with a greater emphasis on affordability, value for money and viability of projects. It should concentrate on the role of challenger and satisfy itself that hospital building schemes are compatible with these criteria and with other relevant NHS objectives and guidance.
- 10. At one stage the on-balance sheet treatment of the land deal supporting the 2004 Outline Business Case was deemed to render the scheme unaffordable.** The Campus partners were therefore going to leave the scheme. While the Department said it had no requirement that the scheme or supporting land deal be off-balance sheet, the accounting treatment influenced the affordability of the supporting land deal. The Department should confirm to trusts that in evaluating affordability, value for money should drive decisions, and not balance sheet treatment.
- 11. The Department has not been close enough to the development of capital investment projects in the NHS.** While it has a one-off programme to review all pre-contract capital investment schemes valued at over £75 million, there needs to be sustained scrutiny of large projects (over £200 million) by the Department so that NHS Trusts procure these assets within shorter timeframes and with improved value for money.

Figure 1: The principal organisations involved in the Paddington Health Campus



1 The role of local management in the Paddington Health Campus scheme

1. The Paddington Health Campus scheme was an ambitious attempt to replace and renew the estate of two large run-down NHS Trusts. The original vision for the scheme was strong with significant commitment from the trusts involved. The goal was to build state of the art clinical accommodation and research facilities which would address the need for clinical and academic reconfiguration and concentrate specialist services in north-west London at a reduced number of sites. However, the Campus partners were never able to persuade the Department that they had an affordable scheme to match this vision.²

2. The 2000 Outline Business Case had an estimated capital construction cost of £300 million (£411 million at 2005 prices) but the full valuation for the scheme was £894 million in 2005. In 1999, our predecessors said it was a disgrace that the Guy's Hospital Phase III project cost £115 million against an approved original estimate of £35.5 million and looked to the Department to ensure that priorities were based on realistic cost estimates. The Campus partners accept that the 2000 Outline Business Case was inadequate but it was still approved by the Department.³

3. The Campus partners now accept that they submitted what they describe as a 'highly unusual and high-level' business case to the London Regional Office of the Department. It was only after the Regional Office approved the scheme (**Figure 1**) that the Campus partners engaged with their doctors and nurses to determine the clinical content the scheme would require.⁴

4. The original vision was to use the St Mary's site in Paddington for the Campus with clinical content requirements determining the land required. As the details of the clinical content requirements emerged and their impact on the Campus were better understood, the inadequacy of the available land and the impact of planning constraints became evident. The Royal Institute of British Architects told us that early and thorough testing of a design brief could have been used to test the capacity of the land at an earlier stage. St Mary's NHS Trust acknowledged that not understanding the full scale of the task at the approval stage in 2000 had hampered the scheme from the outset.⁵

5. The Campus partners also recognised from the start that they did not have the skills necessary to develop a robust scheme on the scale of the Paddington Health Campus without the support of expert advisers. The 2000 Outline Business Case was developed with the assistance of experienced management consultants. As the scheme progressed it became clear that the first Project Director, appointed in October 2000 lacked the skills to do a job of this magnitude. In October 2002, therefore, after two years of disappointing

2 Qq 2, 9, 13, 21 and 116, C&AG's Report, para 5.1

3 C&AG's Report, para 3 and Appendix 5, Qq 5, 76

4 Qq 133-134

5 Qq 9, 48, 127-135, C&AG's Report, para 1.5

progress in meeting project milestones his contract was terminated by mutual consent. Further experts were engaged to give advice on specific aspects of the scheme at a cost of £7.8 million, with advice on procurement of consultants and property advice from Partnerships UK from November 2002 onwards. Overall the Campus partners spent £14.9 million on developing the scheme (Figure 2).⁶

Figure 2: Expenditure on developing the Paddington Scheme

Spend by Year from 1999		Total cost to 30/06/05
	£'000	£'000
Advisers		
Technical	1,891	
Town Planning	1,721	
Legal	763	
Healthcare planning	758	
Corporate finance	613	
NHS finance	460	
Decant	451	
Property	303	
Communications	221	
IM&T	248	
FM Support	143	
Equipment	94	
Audit	71	
Accommodation	25	
Other	21	
Insurance	8	7,792
Pay		4,762
Accommodation & other		
Project costs		1,272
Direct costs from Partnerships UK		1,071
Total		14,898

Source: Note to Q 92

6. The resources available for development of the Outline Business Case were capped by the capital value of the approved Outline Business Case at approximately £6.3 million. This sum was insufficient to develop a scheme of this scale and inadequate funding handicapped the scheme's management capability throughout the planning phase. Only £4.9 million development funding from the co-sponsor of the scheme, Partnerships UK, allowed the scheme to be developed further. Even then, in 2004 the scheme opted to defer implementing embedded risk management on what was by then a £900 million scheme

because it could not be afforded at the same time as developing a new Outline Business Case.⁷

7. When the original Outline Business Case was submitted in 2000 the Department approved it, with reservations, but now recognises that the scheme should arguably not have gone ahead at that stage. The Campus partners also agree that the scheme should have been either cancelled or resubmitted in early 2003 when costs had doubled and there was no planning permission for the scheme. Following a critical report from the Department, the Treasury and the National Audit Office in October 2004, further consideration was given to stopping the project. But, at all of these points, the Campus partners continued with the scheme believing that the vision was worth the effort, although the Department accepts that, with hindsight, the process went on too long.⁸

8. In October 2003 the Treasury requested a new Outline Business Case to replace that drawn up in 2000. A new Case was submitted by the Campus partners in December 2004, with assumptions on balance sheet treatment and affordability that were not acceptable to the Department. The Campus partners resolved to cancel the scheme but, with the consent of the Department, accepted an offer from Westminster City Council to assemble a package of land for the site. They believed that such an offer could turn the economics of the scheme upside down and therefore felt it ought to be considered.⁹

9. The Campus partners could not agree on the affordability of the final scheme in May 2005. While the scheme was more affordable than the December 2004 Outline Business Case, the constantly changing forecasts of revenue, based on evolving Departmental guidance, and the cost of the land deal undermined the confidence of the North West London Strategic Health Authority and Royal Brompton and Harefield NHS Trust Board in the financial robustness of the scheme. The Department told us it had expressed very significant reservations about the affordability of the scheme in January 2005, after receiving the December 2004 revised Outline Business Case.¹⁰

10. The immediate cause of the collapse of the scheme in May 2005 was the failure of the two NHS Trusts to agree on an Addendum to the December 2004 Outline Business Case. The principal difference between the Trusts was Royal Brompton and Harefield NHS Trust's concern that there was inadequate land available for the scheme, given planning constraints, and that without land the required facilities could not be built. This left the scheme dependent on Westminster City Council and the property developer who owned the land required.¹¹

11. The scheme originally planned for 1,000 beds in 2000, then 1,200 by November 2002, 1,088 in October 2003 and 835 NHS beds in May 2005. The North West London Strategic Health Authority was responsible for bed capacity planning at a strategic level but the Strategic Health Authority and St Mary's NHS Trust were using different planning

7 C&AG's Report, paras 22, 2.14-2.21, Q182

8 C&AG's Report, Appendix 1, Qq 1, 25-26, 93-104, 143-145

9 C&AG's Report, para 3.2, 3.9-10, Q1

10 Qq 141-143, 154, C&AG's Report, para 17

11 C&AG's Report para 3.1 and Q117

assumptions. The Department took the view that it was up to the local NHS organisations to make their own assumptions in planning capacity, even though they had no track record on which to base their assumptions.¹²

12 Qq 20, 27-34, 56-59, 176-178, C&AG's Report, para 3.27

completed and the Department believes that costs are not likely to rise in the meantime to an extent that would outweigh the benefits of such a review.¹⁴

14. Over the period in which the Paddington Health Campus scheme was being developed, the Department introduced a number of national policies with local implications. These included new guidance on bed numbers, consumerism standards, new Treatment Centres, Payment by Results and choice at the point of GP referral. Local NHS organisations had to make their own estimates of the impact of such new policies. The Department accepted that local NHS organisations, in making their own assumptions in planning capacity, had no track record on which to base their assumptions.¹⁵

15. The Department played two key roles in the development of the Paddington Health Campus scheme. It supported the vision of the scheme as a means of meeting the clinical and estate needs of the local NHS organisations but it also challenged the affordability and deliverability of the scheme. As both ‘champion’ and ‘challenger’ the Department, and elements within it, gave mixed messages to the Campus partners, so much so that the partners were uncertain whether the Department did in fact want the Campus scheme to succeed.¹⁶

16. When the Department approved the inadequate Outline Business Case for the Paddington Health Campus scheme in 2000 it did so with a number of qualifications. The Campus partners told us this was a high level business case, but the Department agreed it was not close enough to the development of the scheme to perform an effective critical challenge. In October 2003 it was the Treasury, rather than the Department, which requested a review of the scheme and withdrew the approval of the 2000 Outline Business Case.¹⁷

17. The Department approved the Outline Business Case in 2000 despite the existence of a strong condition from the Royal Brompton and Harefield NHS Trust that it would not proceed with the scheme if it was required to merge with St Mary’s NHS Trust. The Department believed that such a merger might make delivery of the campus easier, but did not propose or require one as a condition of the scheme proceeding, as it believed such a requirement would have stopped the scheme.¹⁸

18. The 2000 Outline Business Case was developed under the Department’s Capital Investment Manual. That Manual required a review if the estimated cost rose by more than 10%; that outline planning permission be secured prior to advertising in the Official Journal of the European Union; and that risk management be adequate to ensure that the preferred option in an Outline Business Case was affordable and represented the optimum solution. None of these conditions were met by the Campus partners or the scheme. The

14 Qq 18, 36-37, C&AG’s Report, para 2.30 and Note to Q75

15 Qq 59-62, 132, C&AG’s Report, para 2.32

16 Q 148

17 Qq 3-5, 9

18 Qq 159-161 and C&AG’s Report 2.13

Department accepts that it should implement its own guidance, and told us that schemes coming forward now are subject to central scrutiny which was not the case in 2000.¹⁹

19. In approving capital investment, for which the taxpayer ultimately pays, the Department has stressed the need for affordable schemes. In the case of the Paddington scheme, at the time the December 2004 Outline Business Case was submitted the land deal supporting the scheme was on-balance sheet. The NHS Trusts could not afford the scheme with the land deal on-balance sheet and the Department did not have the resources at that time to fund such a deal, which resulted in the Campus scheme partners resolving to exit the scheme.²⁰

19 C&AG's Report, para 27a, 2.6, 2.14 and Q5

20 Qq 50-54, C&AG's Report, para 16, 3.8-3.9

Formal Minutes

MONDAY 15 JANUARY 2007

Mr Edward Leigh, in the Chair

Annette Brooke

Mr Ian Davidson

Helen Goodman

Mr Sadiq Khan

Mr Austin Mitchell

Dr John Pugh

Mr Don Touhig

Mr Alan Williams

Draft Reports

A draft Report (The Paddington Health Campus scheme), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 19 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Ninth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions.

[Adjourned until Wednesday 17 January at 3.30 pm.]

Witnesses

Monday 5 June 2006

Mr Hugh Taylor CB, Acting Permanent Secretary, Department of Health, **Mr Bob Bell**, Chief Executive, Royal Brompton and Harefield NHS Trust, **Dr Gareth Goodier**, Chief Executive, North West London Strategic Health Authority, **Mr Julian Nettel**, Chief Executive, St Mary's NHS Trust and **Mr Jack Pringle**, President, Royal Institute of British Architects

Ev 1

List of written evidence

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