

The Paddington Health Campus Scheme

Report of the Steering Group

Department of Health
HM Treasury
National Audit Office

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Background

- 1 The Paddington Health Campus (PHC) scheme envisages a single site solution to the combined accommodation needs of St Mary's (SMH) and Royal Brompton & Harefield (RBH) NHS trusts. The PHC scheme also includes Imperial College space requirements.
- 2 The projected costs of the PHC scheme have escalated considerably since the Outline Business Case (OBC) was approved in 2000. At that time the estimated gross capital cost, excluding land sales, was approximately £360 million (£460 million at 2004 prices).
- 3 Towards the end of 2003, the Treasury expressed concern at the increased projected costs since OBC approval, which were then likely to be more than £800 million, and requested:
 - i) A review of the OBC as the scheme had changed in scope and value since it was originally approved; and
 - ii) An independent review of the process that led to this situation.
- 4 At the same time, the National Audit Office (NAO) also received correspondence from an MP requesting an investigation of the escalating costs and overall management of the PHC. It was agreed with the Department of Health (DH) that an efficient way of their gathering information to respond to its correspondent would be through membership of a Steering Group directing the work in paragraph 3, above. The Steering Group therefore consisted of senior representatives from DH, the lead SHA, the Treasury and the NAO, chaired by Peter Coates, Deputy Director of Finance of DH.
- 5 This report summarises the findings and recommendations of the independent review of the PHC scheme as accepted by the Steering Group. The review team, consisted of members of the DH's Private Finance Unit and Capital Investment Branch who were independent of the Paddington scheme under consideration, and reported to the Steering Group. In preparing the report, the review team had discussions with a wide range of interested parties from the public sector individuals working on the project, the wider public sector and private sector.

The Outline Business Case

- 6 The original OBC was drawn up by the West London Partnership Forum¹, submitted for approval by this non-statutory body and approved by the NHS Trust Boards.
- 7 The OBC was produced at speed during the first half of 2000 and contained a number of errors and omissions. These include:
 - A very low construction contingency at 3%. A range of 12%-14% is more normal for that stage of a project;
 - Omission of Facilities Management space; and
 - No sensible allowances were made for decants nor the costs associated with moving from one hospital to another.
- 8 In reality, the scheme was not deliverable for the price contained in the original OBC. And the approval letter from the then London Regional Office was also qualified, and stated that the OBC could not go forward to procurement and subsequently to Full Business Case without further work. The main topics were contingencies and on-costs, need for investment in Queen Elizabeth the Queen Mother building at SMH, the "buildability" of the project, enabling and decanting, and PFI affordability.

Governance

- 9 There were inadequacies in the formal project structuring document (Project Execution Plan dated August 2000), prepared following the OBC sign off. Nevertheless, the 2000 OBC was supported by relevant West London Health Authorities.
- 10 Following the restructuring of NHS commissioning bodies, the Health Authorities were replaced by the newly formed North West London Strategic Health Authority (SHA) and local Primary Care Trusts (PCTs) in 2002. The winding up of the old Health Authorities caused delay, and the scheme problems, as the skill base in the HAs was temporarily lost. The newly established local PCTs, in common with other PCTs, faced start-up challenges. It was not until relatively recently that PCTs were able to assert limits to their approval and for the previous strengths of the HAs to be replaced by proper and effective support from the SHA. The impact on the governance of the PHC project was to temporarily underplay the importance of commissioners.

¹ *The West London Partnership Forum gathered together the Health Authorities and NHS Trusts in West London, along with their main academic partner, Imperial College with the aim of developing a consensus among the member organisations on the best way to develop specialist services as part of a network of co-ordinated care across West London. It first met in 1998.*

- 11 The PHC scheme was originally overseen by the West London Partnership Forum Paddington Basin Project Board, which existed up until the reorganisation of West London health commissioning bodies in April 2002. A Joint Project Board was established in June 2002 to oversee the PHC scheme which is co-chaired by Non-Executive Directors of St Mary's and the Royal Brompton and Harefield. The independent review team concluded that one of the principal shortcomings was that the Project Board did not set an affordability and a capital cost envelope for the project team. This caused drift, lack of focus and meant the project team was less mindful of, and less focussed on, the need to keep costs and scope under control.
- 12 Imperial College, and St Mary's and the Royal Brompton and Harefield NHS Trusts remain separate institutions with differing interests and priorities for the health campus. The nature of the relationship between these three parties changed in 2003 when it became clear that new accommodation for Imperial College on the PHC could not be accommodated in a discrete building². A draft Memorandum of Understanding, setting out the roles and responsibilities of the two Trusts and Imperial College in relation to the project, was agreed in December 2003, although its formal adoption was deferred pending further revision to the Terms of Reference of the Joint Project Board.

Project Management

- 13 The project running costs and the Project Team have been under funded because the model used to calculate the release of revenue resources to the team was based upon the value of the original OBC - i.e. £360m rather than £800m. As funding has been less than half of that estimated to be required to achieve a reasonable outcome, the work of the project team has been hampered, and again drift has resulted as the team struggled to deliver the right outputs.
- 14 Not only is the Project Team under resourced, but it also needs to review its skills base to ensure it has the right mix and level of resources to deliver this complex project.
- 15 The PHC scheme is one of the biggest and most complex projects ever undertaken in the NHS. The Project Team felt that DH involvement in terms of guidance and advice was not as obvious as it perhaps should have been. There is no evidence that the department or the SHA recognised the complexities and considered whether the trusts needed particular specific support. However, the trusts have entered into a development partnership with Partnerships UK to act with them as a principal in procurement matters, given the complex arrangements for the PHC scheme. PUK have been heavily involved in the development of the project for some time.

² The agreed basis for the Imperial College's involvement in the scheme was set out in a letter of 15 July 2003 from the Rector, Sir Richard Sykes, to the Chief Executives of St Mary's and the Royal Brompton and Harefield.

Variation since the OBC

- 16 There have been a number of cost increases (outside of inflation) since the OBC was originally approved. Factors for these include new guidelines on average bed space to uphold privacy and dignity standards for patients and their visitors ("consumerism") and better understanding of the space requirements needed for projected clinical activity. The main changes are at **Table 1**, below.
- 17 In agreeing the original OBC, it was anticipated that the total space required for the new hospital would be 139,000m². Since then, the briefed space has increased to 218,000m² against a currently occupied space of 166,000m².

Table 1: Variations since the 2000 Outline Business Case

Explanation	OBC Rise
Assumptions that have proven to be unrealistic regarding space savings in non-clinical areas (i.e. facilities management and offices)	£63m
Under-estimating the enabling and decanting costs required to relocate the new hospitals onto the Paddington campus	£79m
Decision to completely refurbish buildings (principally QEQM and the Clarence Wing) in order to bring up to Estates Condition B	£82m
Additional clinical space required to accommodate higher levels of activity, increased clinical intensity of that activity and improvements to the patient and visitor environment required as a result of "consumerism"	£160m
Buildings cost inflation and from introducing a more realistic level of capital cost contingency (@ 9% of capital cost).	£86m
Increased cost of the New Imperial Building in its new accommodation in the Square Building and for introducing new walkways as a result of the reorientation of the buildings on the campus site	£32m
Total	£502m

NOTE

The estimates above are approximate and cannot be reconciled to estimates of cost elsewhere in this paper

- 18 The changes in scope have been considerable. In fact, the project team could no longer be certain that the preferred option in the original OBC remained the best value for money, a consideration that was instrumental in the Treasury's intervention.

Affordability

- 19 There has not been any definition of an affordability envelope within which the scheme had to remain. This contributed to the project having a lack of focus and permitted cost drift.
- 20 The review team noted that the scheme's capital cost had drifted from £460m (2004 prices) at OBC approval to somewhere between £800-£900m. There seemed to be no clarity in the project team on the financial limits within which they should operate. Despite the estimated cost vastly exceeding the 10% tolerance at which the Capital Investment Manual requires formal reappraisal of the OBC, the Project Board did not ask the Project Team to seek re-approval, although the Team did take steps to compare Public Sector Comparator schemes with 'do minimum' options at various stages in the process.
- 21 The project, as reviewed by the team, was probably not affordable as it did not have the required definition nor the clear support of the local health community. The recurring annual revenue gap (defined as the amount which the anticipated annual cost exceeds anticipated funding) increased from just under £5m in the OBC in 2000 to £48m in the reviewed project. This was based on a capital value of c.£800m, which is believed to be too low for the reviewed project.
- 22 The introduction of Payment by Results to reform financial flows in the NHS will have a significant effect on all capital projects, including the PHC. It is not yet clear how PbR will deal with capital investment. In addition, both SMH and RBH trusts offer specialist and tertiary services, the funding of which under PbR has not yet been clarified by DH. The PHC partners believe that the uncertainty regarding Payment by Results and its implication for PHC income levels could, if unchecked, continue to undermine the ability of the project to complete a new, viable OBC.
- 23 There remain unresolved problems around securing of additional funds for the Royal Brompton and Harefield Hospitals development. The Trust has a large number (302) of PCT commissioners and even these account for only 53% of the Trust's total income. The remaining 43% comes primarily from specialist clinical service commissioners and research and development funding. It has not been possible for the Trust to secure pledges of support from all commissioners. Funding of the development also places additional burdens on the local PCTs, which is inequitable, and will have to be resolved.

Conclusion

- 24 There have been shortcomings in the way the Paddington Health Campus scheme has been run, reflecting changing and inadequate governance arrangements, the absence of agreed affordability envelopes and insufficient funding for the Project Team.

- 25 Unless each of the above weaknesses is addressed, it is unlikely that the required investment in the NHS in West London will achieve its objectives. The department and the NHS need to respond positively to the following recommendations if the project is to deliver the high-quality healthcare required by the people of West London, and national users of the specialist services.

Developments since the start of this review

- 26 The Steering Group was established in December 2003 and the independent review team carried out its review in the period January - March 2004. There have been a number of developments since December that should be noted.
- i) Once the interim findings of the independent review team were received, the Project Board stopped the updating work on the OBC (paragraph 3 i) above), so no fully revised OBC is available;
 - ii) Following the cessation of work on the OBC, the project submitted a revised affordability position based on a scheme 15% smaller in size, which, in April 2004, was approved by the Strategic Health Authority and the three major PCTs. The NHS organisations concerned believe that the estimated operating costs for the revised (190,000m²) scheme can be met from anticipated income sources. There is now a positive buy-in to the project from the local health community;
 - iii) Revised Terms of Reference for the PHC Joint Project Board were formally adopted by the Joint Project Board on 6th May 2004. This creates a Project Executive Group and a Commissioner Board which will be the focal point for commissioner involvement in the PHC;
 - iv) The property company, Chelsfield, has come forward and offered land on the north side of the canal, adjacent to the SMH site, which offers the opportunity to rapidly accelerate progress on the project. The proposal is currently being evaluated.

Recommendations

- 27 In the light of the findings set out in Part 1 above, the Steering Group recommends that:
- i) New governance arrangements for the supervision of investment in West London should be agreed between the parties, reflecting the performance management role of the Strategic Health Authority, the funding role of PCTs, the role of Imperial College and the project ownership of the NHS Trusts involved;
 - ii) 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. This process would recognise the difficulties encountered to date in developing and funding a project on the scale of the proposed PHC. The work on options should identify an agreed capital expenditure, affordability and size envelope and be considered in a new OBC. The OBC should consider any options that are identified as part of the Chelsfield proposal;
 - iii) Primary Care Trusts should lead the development of appropriate models of care, including care pathways and full consideration of the clinical environment when the investment has been made in some ten years' time;
 - iv) 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 changes³;
 - v) Recent Gateway recommendations for the PHC should be implemented for the management of any new investment scheme and appropriate project resources should be provided for any project team by PCTs in line with national guidance and the revised scale of investment.

³ *Cost over-runs, funding problems and delays on Guy's hospital Phase III development, Comptroller and Auditor General, HC 761, Session 1997-98, recommendations subsequently incorporated into the Capital Investment Manual.*



