



## National Audit Office

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Reference GF/1382/10  
Date 18 November 2010

*Dear Richard,*

### NATIONAL PROGRAMME FOR IT IN THE NHS

Since I wrote to you on 15 September, Mark Davies, the National Audit Office (NAO) Director with responsibility for leading our work on the National Programme for IT, has obtained further details about the £546 million contract awarded to BT following the termination of Fujitsu's local service provider (LSP) contract in the South. Mark and his team are currently reviewing the information they have obtained and this letter represents an interim response to your enquiries. I expect to provide more details about the award of the contract as part of the memorandum I plan to prepare for the Committee in response to your request for a further audit of the Programme. I thought it would be helpful, however, if I set out briefly our initial appraisal of the circumstances that led to the award of the contract to BT and a breakdown of its costs.

#### The original Fujitsu contract and its termination

The Fujitsu LSP contract was scheduled to run until December 2014 at a cost of £1,212 million (at 2009-10 prices). It was originally intended that under the contract Fujitsu would deploy Cerner Millennium to 42 acute trusts, 31 primary care trusts, 13 mental health trusts and 4 ambulance trusts. The Department of Health reports that prior to termination of the contract in May 2008, Fujitsu had deployed Cerner Millennium at eight live sites. The contract termination followed 10 months of negotiations about setting a new baseline for development and deployment plans, and to agree changes to meet the local needs of the NHS. The Department and Fujitsu were unable to agree on price and commercial terms and, when Fujitsu withdrew from negotiations, the NHS terminated the contract. The basis for the contract termination remains in dispute.

#### The options considered by the Department for replacing Fujitsu

The Department has advised us that Fujitsu's withdrawal from the contract resetting negotiations had not been expected, and consequently no replacement suppliers had been approached at the point of termination. The Department reports, however, that it had given consideration to options for maintaining service at those NHS sites that had gone live as part of the Fujitsu Local Service Provider (LSP) contract, in case the contract renegotiations proved unsuccessful. Four options had been considered to provide continuing LSP services to the South.



- Undertake a new procurement to identify a new supplier.
- Contract with BT (the LSP for London).
- Contract with CSC (the LSP for the North, Midlands and East).
- Contract with BT (75 per cent) and CSC (25 per cent).


These options were considered on the basis of the scope of the original Fujitsu LSP contract, as mentioned earlier, but excluding those deployments that had already been delivered. The Department calculated the estimated costs of the deployments still remaining at the time of the termination using the prices in the existing LSP contracts held by BT and CSC, adjusted for risk. This initial appraisal of options was validated by PricewaterhouseCoopers and the Office of Government Commerce, and informed the basis of the decision by Health Ministers and the Chief Secretary to the Treasury to terminate the Fujitsu LSP contract. The Department's preferred option was for BT to take on the work, but on the basis of a reduced number of sites compared with that originally specified in the Fujitsu LSP contract.

### **The scope and price of BT's contract**

BT made an initial proposal to take on the eight live Fujitsu sites, together with the deployment of 25 RiO systems to mental health trusts, and deployment of Cerner Millennium at 10 new acute trusts. With no other LSP or alternative supplier available to use to compare BT's costs and because BT was not taking on Fujitsu's LSP work on a like-for-like basis, the Department commissioned a number of external experts to benchmark the firm's proposals. This included asking Gartner to verify the overall technical proposal and Ernst and Young to verify the financial models. This benchmarking was also informed by a technical assessment of data centre hosting arrangements undertaken by Deloitte and IBM. The Department has advised us that it determined the cost of the RiO deployments and new acute trust deployments on the basis of the costs of BT's existing London LSP contract. Following negotiations the Department reduced the number of new acute trust deployments to be delivered by BT from the 10 proposed to four.

The final price the Department agreed with BT for work at the eight live sites, 25 RiO deployments and four new Cerner Millennium deployments was £546 million. A breakdown of this price can be found at Appendix 1. In the period since BT was contracted to undertake this work, however, the number of former Fujitsu sites at which BT will maintain services has been reduced from eight to seven after one trust withdrew from the Programme. The number of new Cerner Millennium deployments has also reduced from four to three due to one site withdrawing from the Programme.

The memorandum I have agreed to prepare for the Committee will include more detailed consideration of the Department's decision to award the contract for the South to BT and the basis upon which the costs of the contract were determined and agreed. This will include an exploration of the additional functionality the Department secured which drove a change in the cost of the new Cerner Millennium deployments from £65 million for four to £69 million for three. It will also consider the cost implications of subsequent changes to the scope of the work to be undertaken by BT under the contract. Mark Davies has advised that he has been in touch with your office to set up a date for him to discuss the planned memorandum with you in more detail.

  
 AMYAS C E MORSE

## Breakdown of the £546 million contract awarded to BT under the Southern Programme for IT

Cost Area		Price (£ million)
Work at live sites	Service management for eight live sites in Fujitsu data centre (July 2009 to March 2010 i.e. prior to transferring the services to the BT data centre)	35.1 <sup>a,b</sup>
	Transfer of seven live sites to a BT data centre	73.8 <sup>a</sup>
	Upgrade of six live sites from Millennium R0 to LC1 enhanced functionality	16.5
	Service management for seven live sites in the BT data centre (April 2010 to October 2015)	108.9
	Orders and results (ordering of radiology diagnoses, X-ray, scans etc and pathology tests such as a blood tests)	4.9
	Hosting of Map of Medicine application, software licenses and service management of the application	5.5
	Other (including TUPE, clinical safety work, integration, resolution of known defects in Millennium Release 0, delivery of data set change notices, provision for contract change notices)	12.2 <sup>a</sup>
25 RiO deployments at mental health and community trusts(including service management until October 2015)		224.3 <sup>c</sup>
Four new deployments at acute trusts (including service management until October 2015)		65.0 <sup>c</sup>
<b>Total cost</b>		<b>£546.2</b>

<sup>a</sup> Includes costs arising from the termination of the Fujitsu contract.

<sup>b</sup> These costs were set by Fujitsu and were higher than those in its original LSP contract. The Department is seeking to recover the increase in costs as part of its ongoing dispute with Fujitsu.

<sup>c</sup> The Department has told us that these costs were determined on the basis of the costs of BT's existing London LSP contract (contract change notice 2).