



National Audit Office

British Broadcasting Corporation

The BBC's management of its
Digital Media Initiative

Report by the Comptroller and Auditor General

This report has been prepared at the request of the BBC Trust under clause 79(3) of the Broadcasting Agreement between the Secretary of State for Culture, Media and Sport and the BBC dated July 2006.

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Summary

1 The BBC's Digital Media Initiative (the Programme) is a transformation project which is designed to allow BBC staff and partners to develop, create, share and manage video and audio content and programming on their desktop. It aims to reduce the time and cost of accessing and editing digital content and to foster creativity. The estimated gross cost of delivery and implementation to the end of March 2017 is £133.6 million.

2 The Programme is supported by a technology system (the system) which has to bind together production (where users manage the recreation of media content and need the latest creative digital media tools) and archiving (where users manage data storage, indexing and retrieval and require more traditional Information Technology and tools). Successful delivery of the programme is critical to the BBC's vision of staff across the BBC being able to create, share and access digital content to make better programmes more efficiently.

3 Our review was prepared under an agreement between the Secretary of State for Culture, Media and Sport and the BBC.¹ When the BBC Trust approved the Programme in January 2008, the system supporting it was due for delivery by the contractor by the end of May 2009. In July 2009, the contract for the system was terminated by mutual agreement and responsibility for delivering the Programme brought in-house. Given the Programme is one of the BBC's seven key cross-cutting programmes supporting the future direction of the BBC, we looked to see how effectively the BBC has been managing the Programme.

4 Our methods are at Appendix One.

5 It is important to understand how the delivery timetable, costs and benefits have changed over time. The planned and latest positions for the Programme are at **Figure 1**. The 2008 and 2010 costs and benefits are not directly comparable as the latest delivery plans involve much wider roll-out of the Programme across the BBC than the 2008 plans. All cost and benefit figures in this report are expressed in cash terms.

¹ The Broadcasting Agreement (July 2006) between the Secretary of State for Culture, Media and Sport and the BBC, clause 79(3).

Figure 1
Delivery Plans for the Programme

Planned timeline for when delivery of the Programme by Siemens was to be to 6 business units



Revised planned timeline for delivery of the Programme by BBC to 13 business units



■ System development ■ Use of system by the BBC

NOTE

1 All cost and benefit figures are in cash terms.

Source: National Audit Office analysis

Key findings

The contracted-out stage of the Programme

6 The BBC did not run an open procurement competition before awarding to Siemens the contract to deliver the Programme. In February 2008, the BBC contracted with Siemens for the development, delivery and operation of the system supporting the Programme at a cost of £79 million to March 2015. As the BBC already had a ten-year Technology Framework Contract with Siemens, competitively procured in 2004, it did not need to go through a competitive process to appoint Siemens, although it was free to do so. It relied instead on Siemens's knowledge of the Programme, the assessment of Siemens made during the 2004 competition and its view that after looking at other delivery partners and options it had not identified a better contractor. As a result the BBC did not have as strong assurance on price, quality and capacity to deliver as a new and specific competition may have provided.

7 The BBC negotiated a fixed price contract with fixed delivery milestones with Siemens. This transferred the risk of cost escalation to Siemens. The contract provided financial protection for the BBC in the event of non-delivery against explicit delivery milestones, unless the BBC undermined this risk transfer by contributing to any delay.

8 When it became likely that the Programme would be delayed, the BBC worked with Siemens to get delivery back on track. However, the two parties did not reach agreement on the causes for the delay and the Programme never reached the User Acceptance Testing phase. Because of the contractual transfer of delivery and financial risk to Siemens, the BBC did not want to intervene in a way that would undermine that transfer of risk. The BBC's approach, even when it was concerned about the deliverability of the Programme, coupled with its incomplete knowledge of the system design, meant it was not in a position to develop a detailed recovery plan until the contract was terminated.

9 The contract with Siemens was terminated by mutual agreement with effect from the end of July 2009. As part of a no-fault settlement, the BBC reached financial arrangements with Siemens which allowed the BBC to allocate £27.5 million to meet the increased cost of completing the delayed Programme. This was funded through what the BBC and Siemens agree should be efficiency savings of £15 million and reduced service charges of £9.5 million, both within the overall Technology Framework Contract, a transfer of Programme assets (£2.2 million) and a payment to the BBC of £0.8 million.

10 At the time the contract was terminated, the BBC estimated the completion of the system would be 21 months later than originally planned. As a result, it did not achieve £26 million in benefits it expected from the Programme in the period 2009-10 to 2010-11. In response, the BBC, to meet its corporate savings targets, made compensating savings in 2009-10 and plans to do the same for 2010-11.

The BBC's in-house delivery stage of the Programme

11 The BBC took responsibility for delivery of the Programme in July 2009, accepting the risks of delivering the Programme, although without testing the value for money of this approach. When the contract with Siemens was brought to an end, the Programme was in difficulty and behind schedule; the delivery method was changing fundamentally, the challenge in terms of the BBC's in-house capability increased and the financial risks transferred to the BBC.

12 Despite the known difficulties, the BBC did not revisit the investment case at this point or test delivery options, such as finding a new contractor. It told us this was largely because of the time a full EU public procurement would take and the potential impact of further delay on other time-critical BBC projects. It considered that taking the programme in-house was the only solution and was achievable, although recognised that it did not, at that time have all the in-house capacity and capability necessary to deliver the Programme.

13 The BBC's in-house delivery of the system has started well but the complex stages to follow will be a severe test of its approach. The in-house team delivered the first two system components, on schedule, in February and June 2010, and early users have been positive about the impact. In September 2010, because of delays in defining procurement requirements, the delivery plan was revised, with the result that completion of the in-house delivery of the system would be delayed by a further five months. Since then the BBC has delivered a further two major system components on time against this revised schedule. The delays mean there is no time contingency left in the revised delivery schedule, although there is still £10 million of financial contingency available to mitigate risks to delivery.

14 The technology solution for the Programme has so far proven to be valid. However, at the time of our review in November 2010, the planning processes the BBC had put in place around the development and testing of the system were not then sufficiently rigorous to support the more complex integration of system elements as the Programme proceeds. The BBC has since made appointments and commissioned external assurance that should strengthen its processes.

The financial case for the Programme

15 The financial case for the Programme has weakened over time. The original cost-benefit estimate in January 2008 was a projected net benefit of £17.9 million by March 2015. These figures were based on implementing the system across six BBC business units. The latest forecast is of a net cost to the BBC of £38.2 million by March 2017 for a wider roll-out to 13 business units. This net cost falls to £10.7 million after taking account of the financial package agreed with Siemens.

16 When approving the revised business case in June 2010 the BBC Trust gave weight to the strategic benefits of moving the BBC more fully into digital technology and the non-financial benefits expected from the Programme, such as improved creativity and increased partnership working with other organisations and potential public access to the BBC archives. The BBC has no direct control over the delivery of those non-financial benefits which will not be delivered solely by the BBC, but has already signed memoranda of understanding with partners including the British Library to realise these benefits.

17 **There was a marked improvement in the June 2010 investment case approved by the BBC Trust compared with earlier cases.** Previous reports by the National Audit Office and the Committee of Public Accounts have highlighted weaknesses in the BBC's investment appraisals process. The final case had, unlike previous cases, full cost and benefit comparisons for scope options, as well as for a 'stop' option. The explanation in the final investment case of how benefits would be secured was an area of marked improvement, as a result of a more rigorous challenge by the BBC Finance Committee and the BBC Trust. However, in the context of a programme with delivery difficulties, and where the BBC was accepting the risks, the case would have been strengthened by independent assurance on costs and system design.

Conclusion on value for money

18 This conclusion on value for money looks at the Programme in two phases: the period when the Programme was contracted-out until the BBC brought it in-house; and how the BBC is managing the in-house delivery of the Programme.

19 The way in which the BBC appointed the contractor without a new competition and was then unable to intervene effectively in system development without undermining its transfer of financial risk to the contractor was not an effective way of approaching the delivery of a complex programme. While the BBC's financial arrangements with the contractor should allow the BBC to complete the Programme, the delay of 21 months and the £26 million in Programme benefits the BBC did not achieve in that period, and had to find elsewhere in the BBC, meant that the early stage of the Programme was not good value for money.

20 The Digital Media Initiative is a challenging Programme, but the BBC has now started to deliver the system and users have been positive about the elements delivered. There is still a considerable way to go in the development of a technically complex system which requires the integration of a number of interdependent elements without any time contingency. In addition, the success of the Programme will depend on take-up by users across the BBC and elsewhere. It is therefore too early to conclude on the likely value for money of the Programme.

Recommendations

- a** **The BBC did not have an up-to-date assessment of its contractor's capacity and capability to deliver the Programme.** The BBC assessed Siemens during a competitive procurement process in 2004 when it entered into a ten-and-a-half year Technology Framework Agreement with Siemens as the BBC's strategic partner responsible for its information systems. The BBC did not have to have a competitive procurement for the Digital Media Initiative as it could appoint Siemens to deliver the Programme in a straightforward and quick procurement under that Framework. However, to provide assurance the BBC is not making procurement decisions on sub-optimal grounds, it should demonstrate in investment cases why its procurement route is likely to offer the best value for money.
- b** **Although it took the Programme technology development in-house, the BBC did not test whether that was the best option.** To manage risks and maximise the cost-benefit of investments:
- the BBC should promptly re-submit for approval those approved programmes where there are significant changes in the delivery model, risk profile or cost-benefit projection; and
 - the BBC Trust should adopt referral thresholds based on the forecast cost-benefit of investments rather than a narrow financial threshold.
- c** **Without a proper understanding of the approach being followed by a contractor and the ability to intervene, the BBC will be unable to act as an intelligent client.** The BBC should:
- commission independent technical assurance reports on system design when contracting-out software development;
 - establish the minimum technical and management requirements for effective oversight of contracts on a contract-by-contract basis; and
 - establish how and when it will be able to intervene to secure delivery of outsourced contracts rather than waiting for either contract non-delivery or termination.
- d** **The financial benefits of the Programme were initially overstated.** The BBC should continue to test the benefits projections with the rigour it showed in reviewing the revised investment cases for the Programme by:
- securing sign-up for benefits from those responsible for delivering them;
 - reducing budgets to reflect projected benefits; and
 - establishing baselines against which it can demonstrate savings.

- e** **There will be lessons to be learnt from the initial contract for the Programme.** Although the BBC and Siemens had separate internal lessons learning reviews they did not share their understanding of the programme in a no-blame environment, even after they had settled the contractual dispute, to generate an agreed and comprehensive record of lessons learned. The BBC should invite Siemens to draw up a joint understanding of lessons to be learnt, not least because they have common business interests in the form of the Technology Framework Contract which runs until March 2015.
- f** **The technology system supporting the Programme has so far been shown to be valid but the BBC has not yet as at October 2010 put in place to the level required the full range of processes and controls that should allow it to complete the development of the technology to the planned time, budget and functionality.** Specifically, it should:

 - for its **technical solution**, complete the independent technical assurance of the design to provide a framework against which it can assess interdependencies and the impact of change control requests;
 - for its **technology planning**, draw up more detailed team-based plans specifying resource requirements and responsibilities for each team;
 - for its **testing**, document a testing strategy to embed the discipline of testing and increase the use of automated testing tools to improve efficiency and acceptability of new technology components; and
 - for **supplier management**, ensure that the supplier management lead appointed in October 2010 sets out how he will secure early understanding of the delivery risks and potential mitigation posed by third party suppliers.