



The BBC's management of three major estate projects

Report by the Comptroller and Auditor General presented to the BBC Trust's Finance and Compliance Committee
13 January 2010

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Report by the Comptroller and Auditor General and the BBC Trust

This report, prepared by the National Audit Office at the request of the BBC Trust, has been transmitted to the Secretary of State for Culture, Media & Sport in accordance with clause 79(4) of the Agreement between the Secretary of State and the BBC dated July 2006. Clause 79(4) also provides for the report (and any Trust response) to be laid before Parliament by the Secretary of State.

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BBC Trust Response to the National Audit Office Value for Money Study 'The BBC's management of three major estate projects'

Background to this study

As the BBC's governing body, the BBC Trust acts to get the best out of the BBC for licence fee payers. In part this means ensuring that the BBC continues to provide excellent value for money. We commission Value for Money investigations into specific areas of BBC activity to help ensure that licence fee payers are getting the best possible return on every pound of their licence fee.

Each year the Trust commissions a series of Value for Money studies after discussing its programme with the Comptroller and Auditor General – the Head of the National Audit Office (NAO). The studies are undertaken by the NAO or other external agencies, reporting to the Trust. The Trust carefully examines the findings from each study and requires a full response and action plan from the BBC Executive explaining how it will take forward the specific recommendations made.

This study, commissioned by the Trust's Finance & Compliance Committee on behalf of the Trust and undertaken by the NAO, looked at the BBC's management of the Broadcasting House, Pacific Quay and Salford Quays projects and whether they are being delivered in line with both the expectations at the time the commitment of resources was approved and the latest

agreed budget and timetable. The three projects are essential parts of the BBC's vision to provide world-class and efficient facilities to deliver the BBC's public purposes. Nevertheless, it is critical that the BBC manages these major projects effectively to ensure value for money to the licence fee payer.

The Trust places significant value on the work of the NAO and has carefully considered the report's conclusions and recommendations.

Our views on the NAO's findings

This report confirms our own findings that since the BBC Governors, and subsequently the Trust, first intervened directly to bring the Broadcasting House development back on track the BBC has significantly improved its management of major estates projects over the past four years.

We agree that there were significant failings in phase I of Broadcasting House (already reported extensively) which was approved in 2003 and delivered in 2006. Broadcasting House phase I was brought back on track via the direct intervention of the Governors, who worked with the Executive to negotiate a new contract with Land Securities. The Governors also

commissioned Ernst & Young to review the new contract (reporting in May 2006) and the governance (August 2006) to provide reassurance that the failings had been rectified. These reports were shared with the NAO.

The Trust has since received regular updates on the progress of the ongoing estates projects and was keen to ensure via informed external examination that the BBC's management of these projects had indeed improved. We therefore commissioned this review by the NAO. The NAO's report provides us with assurance that important lessons have been learnt, and passed on to the three later projects; with the result that Broadcasting House phase 2, Salford Quays and Pacific Quay are proceeding far better than Broadcasting House phase 1. Notwithstanding the many positive improvements that have been highlighted by the NAO, the Trust agrees that there are still ways in which the BBC can, and should, further improve its processes. The NAO has made some important recommendations in this respect and we will require the Executive to address all of these.

Specifically, the Trust agrees with the NAO that the approvals process should be improved, and that where benefits cases on approval are incomplete this makes it more difficult to demonstrate project success (and value for money). This does not necessarily mean, however, that the projects concerned do not, and will not, on completion provide clear benefits and value for money.

The Trust has considered the approvals process and discussed it with the Executive. The NAO provides four key elements that should be included in an investment proposal. We take very seriously the NAO's conclusion that, although the

investment case improved with each project, none contained all four elements. The Trust will require the Executive to ensure that appropriate guidance on what content should be included in investment cases is developed and implemented.

There are two areas in particular where we are pleased to see that earlier failings noted by the Governors and ourselves have already been addressed:

- the importance of having the right people with the right skills in place from the outset of any major project was one key lesson which was identified by BBC internal audit's review of the governance arrangements for Broadcasting House phase 1, and also picked up by the NAO. The Trust notes that the Executive has taken strong action in this respect, with the result that the NAO recognises that this has improved in more recent projects, with the BBC appointing an experienced project director for Broadcasting House in 2005 and recruiting staff from the construction industry and appointing staff with experience of relocations for Salford Quays.
- the need for appropriate financial contingency allocation was another lesson learned from Broadcasting House phase 1. Again, the Trust notes that the Executive has taken strong action to address this concern, with the result that the NAO found that the contingency set aside for Broadcasting House phase 2, Salford Quays and Pacific Quay was in line with government recommendations.

Although there were undoubtedly serious issues around the governance and project management of Broadcasting House phase I, as previously highlighted by the Governors, the Trust is reassured by this report that significant improvements have been made since then. We are also satisfied that many of the NAO's recommendations have already been implemented by the Executive following the period studied. The Trust has discussed the remaining recommendations with the Executive and considered its response, which is published in this document.

We note the Executive's comments concerning identification of benefits at the start of a major project and how these may evolve with time. While some evolution will undoubtedly occur, for instance around technological fit-out of buildings, we agree with the NAO that any approval to proceed with a project must be based on a sound evaluation of all the anticipated benefits. We will be seeking reassurance for future projects that the BBC has undertaken and set out clearly all the necessary analysis. We consider it important, from the viewpoint of accountability to licence fee payers, that the BBC has mechanisms in place for delivering real value for money and for being able to demonstrate this through clearly documented processes.

We will now require the Executive to provide a more detailed action plan for Trust review which we will share with the NAO. As with other VFM studies, progress against this action plan will be reported regularly to the Trust and again shared with the NAO.

The Trust's response to the recommendation directed at the Trust

The NAO makes a specific recommendation concerning the BBC Trust:

"The preparation of well developed business cases is the responsibility of the BBC management. But the BBC Trust should make clear the evaluation criteria it will apply when considering business cases, satisfy itself that business cases are reviewed independently of project teams before they are submitted (the BBC has confirmed that its Finance team performs such reviews), and draw on expert advice as necessary."

The Trust agrees with the NAO that these points are an important part of discharging the Trust's duties. With regard to the first point, the Trust and its Committees (particularly the Strategic Approvals Committee and the Finance & Compliance Committee) review investment cases against four main criteria: affordability, value for money, extent to which they further the specific strategy (e.g. Corporate Property Strategy) and extent to which they further the BBC's Public Purposes. These are set out in the Trust's protocols, which are currently under review; the Trust will, however, consider the recommendation to see if any improvements in process can be made.

With regard to the second point, the Trust always confirms that the BBC Finance team and Executive Board have reviewed cases before they are submitted to the Trust. In response to the third point the Trust, as laid out in its protocols, regularly commissions expert external, independent, advice to assist it in reaching a view on complex decisions.

BBC Trust
February 2010

The BBC's management of three major estate projects

BBC Executive Response to the National Audit Office Value for Money Study 'The BBC's management of three major estate projects'

The BBC Executive has considered the National Audit Office (NAO) review of our "management of three estate projects" (Broadcasting House, Pacific Quay and Salford Quays), which examines "whether they are being delivered in line with both the expectations at the time the commitment of resources was approved and the latest agreed budget and timetable".

Response to Conclusions on Value for Money

The three projects under review are essential components of the BBC 2020 Property Vision, and share the key principles of this strategy: being audience-focused; flexible; able to incorporate new and future technologies; promote innovative architecture; offering attractive working conditions; helping to save money and ensure that the percentage of the licence fee spent on property should not increase beyond its 1998 level.

However, the three projects had their own specific drivers and were conceived to deliver important strategic imperatives beyond a fit-for-purpose and cost-effective workplace:

- a For Pacific Quay, the creation of headquarters allowing the BBC to meet its strong commitment to investing in, and commissioning more programmes from, Scotland.
- b For Broadcasting House, the need to find a new home for the World Service on time for the expiration of the lease on Bush House, and the need to co-locate the entirety of BBC news operations for better efficiency and higher impact.
- c For Salford Quays, the vision for building a major out-of-London multimedia broadcast and production centre, enabling the BBC to connect better with audiences living outside the South East – a key component (with the Pacific Quay development) of our plan to deliver more than 50% of our network output from out of London.

The conception and realisation of these three projects occurred in a decade during which broadcasting experienced a profound and unprecedented transformation. The development of digital tapeless, high definition, and multiplatform delivery systems, greater audience demands for out-of-London production, and increased terrorism threats in the

aftermath of the 7 July 2005 bombings, required these projects to absorb significant changes in scope.

We believe that, in these circumstances, such changes were not only necessary responses to a fast-changing environment, but contributed with some success to the BBC's public purposes and strategy for delivering value to audiences in the future.

The BBC Executive notes the NAO's conclusion that the BBC is not well placed to demonstrate value for money on the three projects, based on the underlying reasoning that intended benefits were not assessed with enough clarity at the outset of the projects. However, the Executive's view is that this conclusion may be influenced by changes which were introduced after the projects began, which the Executive believes were necessary and justified, but at the time unpredictable, and which will help ensure that value is in fact delivered. For example:

- a The contract for Broadcasting House was rebased in 2006, when the specification of the building was simplified and additional usable space was created. Whilst this created £54m of additional costs, it also generated additional savings of £172m due to the release of other buildings.
- b The reported £60m increase in the cost of the Pacific Quay project results from a comparison of the final outturn with the forecast cost at the time of the approval in principle. It does not make a comparison with the forecast at the time of the final approval, which would make it clear that the project was delivered to budget.

- c The Salford Quays project was approved in principle but remained conditional on affordability. Final approval for the project was only given post-Licence Fee settlement, once the Governors were assured that value for money was achievable – a view validated by Deloitte in December 2006. Benefits were therefore reassessed before a binding contract was signed.

We are confident value for money will be achieved. Only one of the three projects is complete, and already we are seeing real evidence that Pacific Quay is enabling BBC Scotland to deliver better value to licence fee payers – for example, through its enhanced ability to cover major events such as the Glasgow Airport bomb, to produce digital multiplatform programmes such as History of Scotland, and through significant efficiencies. BBC Scotland expects to deliver a 32% reduction in its controllable cost-base over five years, a higher target than most other parts of the BBC, and a reflection of the savings made possible by changes in workflow and technology enabled by Pacific Quay.

Response to NAO recommendations

Although we believe other factors should properly be taken into account in reaching a definitive view of value for money considerations, the BBC Executive welcomes the recommendations contained in the NAO review, both as reassurance that management action has been directed in the right areas, and as a useful focus for future priorities, particularly around project management.

Taking each recommendation in turn:

Recommendation A: Business cases

We agree with the NAO recommendation that investment decisions should be based on a full understanding of the risks and opportunities, and that business cases submitted to the BBC Trust should at a minimum include an accurate assessment of the full-life costs and delivery timetable of the project; an assessment of the qualitative and quantitative benefits; how benefits align to project objectives and when they will be delivered; a quantified assessment of risk; and the proposed governance structure describing roles, responsibilities and reporting lines.

As the NAO recognises, we have continuously improved our business cases with each project. In doing so, we have followed the same learning curve as all major public and private organisations. Over the period in question, Government and industry's experience has enabled best practice in the management of big projects to improve, building on lessons learnt by all organisations including the BBC. We have improved our approach to delivering major projects and realising benefits and

we welcome the NAO's recognition that throughout the period the BBC has strengthened its corporate governance.

In particular, the BBC Finance Committee regularly reviews the operation of its extensive guidelines, and ensures they remain fully compliant with best practice and Office of Government Commerce (OGC) guidance. These guidelines, which apply to all investments over £500,000, insist on the early determination of a detailed benefit plan, including measurable targets and performance indicators with assigned responsibilities.

Recommendation B: Benefits

The NAO review recognises our approach to identifying benefits. We set out, at the beginning of a project, an overarching business case setting out the key financial and non-financial benefits, and work during and after the project to continuously review and improve these benefits to ensure we deliver value for money. This allows us to continue to explore new opportunities for further efficiencies, a process we are currently undertaking for Broadcasting House, where we are developing a consolidated benefits plan in line with best practice. The NAO review acknowledges that contract variations may be necessary as a project develops, and that we have implemented a new change control process on the Broadcasting House project.

Change control and benefits are key areas where the NAO believes the BBC has not followed good practice. We recognise that these are critical aspects to good project management and we take them very seriously, but believe that four other considerations are relevant here:

- a The requirement to provide robust and constant challenge to each of the three projects in question led to lengthy approval processes. For Pacific Quay, a strategic approval was given as early as 2002; at that point, whilst the principle of the development of BBC Scotland Headquarters on the Pacific Quay site was agreed, it was recognised that the cost of technology was not fixed yet and might increase. It was only after the completion of further analysis, and as the result of robust challenge by the Executive and the Governors, that this final approval was given, in 2004. Therefore, the reference in the report to a £60m increase in the cost of the project is based on a comparison of the final out-turn with the forecast cost at the time of the approval in principle, rather than with the forecast at the time of the final approval of the overall case. Similarly, Salford Quays was first approved on a conditional basis, in 2006; final approval, and authority to sign binding contracts, was only given in 2007, after development of a full business case.
- b All post-approval changes were independently reviewed by Finance Committee and approved strictly on the basis of achieving greater value for money and increased benefits for licence fee payers. For example, when the contract for Broadcasting House was rebased in 2006, the specification of the building was simplified and additional usable space was created. Whilst this rebased contract created £54m more costs than were first approved, it also (a) closed out all provisional sums, providing a safe “not to exceed” completion cost for the construction of the project, and (b) generated additional savings of £172m, due to the release of other buildings.
- c Business cases are iterative and evolve as new factors come into consideration. At the time of conception, business cases should always seek to make a full explanation and analysis of the benefits to be achieved from the investment in the building. There are, however, valid reasons why it cannot always set out all potential technology benefits with absolute precision at the time of approval. One key reason is that buildings and technology have different implementation timetables. In a fast-moving environment, technology solutions have to be decided as late as possible to avoid early obsolescence, and therefore their approval cannot be made at the same time as the approval of the building component itself, which generally occurs approximately two years earlier. It is both necessary and appropriate to wait until technology solutions are chosen. For a project with a realisation planned over several years, such as Broadcasting House, determining all technology solutions at the outset would deliver poor value for money, since they would most likely become obsolete before being used. In many cases, benefits realisation will not be finalised upon completion of a project, since more benefits will continue to emerge, for instance through new ways of working, and sharing of facilities, improving the overall value for money of the project.

- d The BBC sets stretching efficiency targets for all divisions against which it monitors value for money outcomes. The ongoing critical projects sit within this framework.

Recommendation C: Skills

We agree that we can continue to strengthen the way in which the BBC secures appropriate and adequate resources for critical projects. We have embarked on a maturity plan to ensure that “pipeline” management – that is, the supply and demand of resources across critical projects – is more effective. This is one objective being pursued by the BBC Programme Management Office (BBC PMO).

The NAO review recognises that, once significant risks were identified, we took action to bring in highly qualified people to manage the property projects.

More generally, as highlighted above, project management capability development has been agreed as a high priority, and we are developing plans to attain greater levels of consistency in terms of the core skills of project directors and project managers, and to consolidate this with targeted training.

Recommendation D: Project management

The BBC Executive welcomes the recognition by the NAO that it has made significant improvements in:

- a Developing standard project roles and responsibilities.
- b Strengthening risk management arrangements.

- c Implementing a more rigorous change control process.
- d Introducing mechanisms for identifying and sharing transferable lessons between projects.

The BBC approach to managing major estate projects has followed a path of continuous improvement since 2004, with the establishment of a Programme and Project Support Office in BBC Workplace and the introduction of the corporate BBC PMO.

The BBC PMO is now in place. It is sponsored by a BBC PMO Steering Board comprising the Chief Operating Officer, Chief Finance Officer, and Director of Future Media & Technology, each of whom has a strong interest from a functional and corporate perspective.

The BBC PMO Steering Board has agreed a development plan for the BBC PMO to better enable project delivery across the BBC and to ensure recommendations made by the NAO continue to be implemented.

Recommendation E: Contingency

The NAO review recognises that the BBC has improved the way in which we calculated financial contingency over the period in question, culminating in an approach fully consistent with best practice in the case of the Salford Quays project.

We note the comment on the release of contingency funds on the Pacific Quay project. Although the remaining money has not, strictly speaking, been spent on elements which would help deliver the approved project scope in a more efficient way, it has been spent on improvements which allowed further benefits to be achieved, such as external lighting for major events and better public access to the building. We therefore consider the use of contingency to have delivered value for money, and with proper approval once it was clear that all remaining risks had expired.

Conclusion

We believe that a full view of Value for Money needs to take proper account of necessary, but unpredictable, changes introduced after the start of the three major projects under review, but welcome the recommendations made by the NAO on the future delivery of critical projects. We will work to ensure that these are implemented and monitored as we move into what will be a critical period for project delivery and benefits realisation.

The BBC Executive welcomes the NAO's acknowledgement that, throughout the period, the BBC has learnt lessons, strengthened the overall governance, and more generally improved the approach to delivering major projects in many areas.

Of the three projects under review, Pacific Quay is fully operational and already serving audiences and achieving stretching efficiency targets, having been delivered on time and on budget; Salford Quays is on very good track to do so.

As recognised by the NAO, the major delivery problems encountered at the beginning of the Broadcasting House project have now been addressed. In its first phase, Broadcasting House has provided a home for Audio & Music, BBC Arabic, and BBC Persian. The second phase is on target to deliver within budget and is now, since the NAO review was completed, back on track to meet the agreed timetable.

We will continue to build on our experience and best practice to ensure these three estate projects, as well as other major projects undertaken by the BBC, deliver value for money to licence fee payers.

BBC Executive
February 2010



National Audit Office

The BBC's management of three major estate projects

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.

Amyas Morse

Comptroller and Auditor General

National Audit Office

30 November 2009

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Contents

Summary **4**

Part One

The aims of the projects and the progress made **10**

Part Two

The BBC as an intelligent client **20**

Appendix One

Methodology **30**

The National Audit Office study team consisted of:

Oliver Lodge, Mark Simpson, Anna Athanasopoulou, Henry Midgley, Iain Forrester and Tom Ross, under the direction of Keith Hawkswell.

This report can be found on the National Audit Office website at www.nao.org.uk/bbcestates2010

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Summary

1 This review by the Comptroller and Auditor General, head of the National Audit Office, was prepared under an agreement between the Secretary of State for Culture, Media and Sport and the BBC. The review examines the BBC's management of three estates projects (**Figure 1**) and whether they are being delivered in line with both the expectations at the time the commitment of resources was approved and the latest agreed budget and timetable. These projects account for BBC expenditure of more than £2,000 million over 30 years.

Figure 1
The three projects

| | Broadcasting House – London | Pacific Quay – Glasgow | Salford Quays – Salford |
|--------------------------------|--|--|---|
| Project description | A two phase project to refurbish the original 1932 building (phase 1) and construct a new extension (phase 2). | Construction of a new headquarters for BBC Scotland, replacing Queen Margaret Drive. | Rental of three buildings (A, B and C) and studio space in a new “Media City” development and relocation of five BBC divisions. |
| Total size of buildings | 93,262 sq m | 32,516 sq m | 30,658 sq m |
| Divisions affected | Audio and Music, News, and Global News | All staff and production formerly at Queen Margaret’s Drive. | BBC Children’s, BBC Formal Learning, parts of Future Media and Technology, BBC Radio Five Live, BBC Sport, BBC Philharmonic and BBC Manchester. |
| Developer | Land Securities | Land Securities | Peel Media |

Source: BBC Board Papers and Project Reports

2 The three projects share overarching aims: to embrace new ways of working through an open-plan environment to encourage the sharing of ideas; to make the BBC more transparent by allowing public access into BBC buildings and providing communal open spaces; and to incorporate leading technology that allows the BBC to produce quality programmes in the digital age. The projects were, however, developed at different times and managed independently of each other, and the BBC handled each project differently. For example, as well as having distinct characteristics in terms of their scale and location, the buildings employ different designs and are funded differently. The BBC adopted different approaches for a variety of reasons including lessons learned from the problems encountered on Phase 1 of the Broadcasting House project, constraints over location and financing and the fact that the different buildings were serving different needs.

3 The focus of our review is on the BBC's overall project management rather than the detailed procurement and financing arrangements. We compared the BBC's approach to managing the three projects against a framework of industry good practice (Appendix 1). As the projects are at different stages, with only one completed, it is too early to examine whether the envisaged benefits are being delivered, although we did examine whether the BBC had specified the intended benefits.

Delivery of the projects

4 Phase 1 of the Broadcasting House project was delivered in January 2006, one year later than specified when the project was first approved by the BBC Governors in 2003 (**Figure 2**). The scope of the project was not sufficiently defined when the project was approved and there were over 42 contract variations individually over £50,000 in value and with a total value of £13.9 million, which contributed to significant delays and ultimately to a dispute with the developer. In July 2006 the BBC rebased the project in negotiation with the developer and agreed a fixed cost for the remainder of the work that was £58 million more than the original budget. The rebased contract simplified the specification of the building, extended the scope of the project and lengthened the timetable for delivery, and in July 2007 was approved by the BBC Trust in a revised business case. Although the BBC forecasts that the Broadcasting House project will be delivered within the revised budget, phase 2 is 16 weeks behind schedule. The project will now be delivered over four years later than originally planned, resulting in additional costs of over £50 million from extending existing leases for other properties used by the BBC and updating some of the technology used by affected divisions.

Figure 2

The status of the Broadcasting House project

| | July 2003 (original budget) | July 2007 (revised budget) | Achieved/forecast |
|--------------------------|--|---------------------------------------|---|
| Construction finish date | Phase 1: December 2004 Phase 2: December 2007 | Phase 1: n/a Phase 2: October 2010 | Phase 1: January 2006 Phase 2: December 2010 |
| Fully operational date | December 2008 | December 2012 | April 2013 |
| Total cost | £991 million | £1,049 million | £1,046 million |

Source: BBC internal documents

5 Pacific Quay was delivered for £188 million in July 2007, which was to the time and budget specified in a revised investment case approved in July 2005 (**Figure 3**). The project was first approved by the BBC Governors in 2002 on the basis that it would cost £126 million and be delivered by mid-2006. Both the size of the building and the technology requirements were increased as the project developed, reflecting the BBC's decision to produce more programmes in Scotland and to incorporate High Definition production facilities, and the BBC sought subsequent approvals from the BBC Governors a number of times.

Figure 3
The status of the Pacific Quay project

| | May 2002 (original budget) | July 2005 (technology scope increase) | Achieved |
|--------------------------|---------------------------------------|--|-----------------|
| Construction finish date | June 2005 | July 2006 | July 2006 |
| Fully operational date | June 2006 | July 2007 | July 2007 |
| Total cost | £126 million | £188 million | £188 million |

Source: BBC internal documents

6 Salford Quays is on schedule to be fully operational by December 2011 (**Figure 4**). The first building (building C) was handed over to the BBC in September 2009, a month earlier than planned. The construction costs are being borne by the developer, the main BBC expenditure being the cost of renting and staffing the studio facilities over 20 years (£233 million). There are also costs associated with relocating five BBC divisions to the North (£90 million).

Figure 4
The status of the Salford Quays project

| | December 2006 (original budget) | May 2007 (revised budget) | Achieved/forecast |
|--------------------------|--|--|--|
| Construction finish date | n/a | Building A: March 2010 Building B: March 2010 Building C: October 2009 | Building A: March 2010 Building B: March 2010 Building C: September 2009 |
| Fully operational date | n/a | December 2011 | December 2011 |
| Total cost | £953 million | £876 million | £877 million |

Source: BBC internal documents

Project management

7 Phase 1 of the Broadcasting House project ran into serious difficulties. It is a complex project with significant risks, but the full scope of the project was not defined clearly at the outset, and weak governance and poor change control processes contributed to severe delays and increased costs. In 2004, the BBC improved the governance of the project, making significant changes to the management of the remaining stages, and the BBC Governors commissioned consultants to conduct a review of these changes in 2006.

8 The BBC has applied lessons from phase 1 of the Broadcasting House project to phase 2 and to the Pacific Quay and Salford Quays projects. In particular, it has developed a standard approach to defining project roles and responsibilities, improved the content and regularity of project reviews, strengthened risk management, and implemented a stricter change control process. For Salford Quays, the BBC established the financial contingency through an analysis of the probability and likely cost impact of the risks occurring. The BBC has also placed a greater emphasis on getting the right skills into project teams.

9 There are, however, important areas where the BBC has not followed good practice.

- The scope of the Broadcasting House and Pacific Quays projects changed after the BBC Governors first approved the projects, adding costs of £28 million (2.8 per cent of the total project cost) and £60 million (48 per cent of the total project cost) respectively. The changes were approved by the BBC Governors but indicate that the BBC had not clearly defined its needs at the outset of the projects.
- For none of the three projects were the intended benefits laid out at the outset with sufficient clarity to provide a basis for a meaningful measurement of subsequent achievements. The expected quantitative and qualitative benefits, and how these will be measured, should be made clear when the business case is approved and this benefits realisation plan should be developed as the project progresses. Although the BBC had done some work to establish processes for identifying benefits from 2004, a detailed benefits realisation plan for Pacific Quay was not set out until a year after the project was completed. A consolidated benefits plan for the Broadcasting House project was approved in May 2009 and the BBC has built on early work to identify the benefits of the Salford Quays project and is now developing a detailed benefits management plan.
- The BBC has not systematically identified the skills it requires to deliver projects, and those available within the organisation, to assess the skills that need to be acquired. Recognising that weaknesses in the capability of the project team contributed to the difficulties with Broadcasting House phase 1, the BBC has since strengthened its project teams by recruiting individuals with relevant skills from industry.
- The financial contingency set aside for the Broadcasting House project was insufficient for a project of that size and complexity and was not established on the basis of an assessment of the project risks. Although an adequate contingency was set aside on the Pacific Quay project, unspent contingency was used to fund expenditure that was not included in the original project scope albeit with approval from the Chief Financial Officer.

10 A key attribute of an intelligent client is the ability to apply the learning from past experiences to future projects so as to continuously improve. The BBC has introduced mechanisms for sharing lessons between projects. For example, it holds joint team meetings, and quarterly health checks of the governance of the Broadcasting House project have been carried out by external consultants. In 2009 the BBC established a Programme Management Office to improve the delivery of major projects and better share lessons by drawing on skills and knowledge from across the BBC.

Conclusion on value for money

11 The BBC is not well placed to demonstrate value for money from the £2,000 million it has committed to spending on the three projects over their life. The absence of clear assessments of intended benefits at the outset of the projects means there is no baseline against which to measure achievements.

12 The way projects are managed is a key determinant of the value for money delivered. The Broadcasting House project got into serious difficulties before the BBC took action and will now cost £55 million more than originally approved and will be delivered over four years later than first planned, leading to further costs of £52 million. The BBC has since strengthened the overall governance of the project, and lessons from that project have been applied to the others, improving many elements of the BBC's approach to delivering major projects. For future major projects the BBC needs to make sure that: investment decisions are based on a full assessment of the scope and cost of the project; there are clear baselines so that performance can be measured and project teams held to account; and proposals submitted by management are reliable and subject to effective challenge by the BBC Trust.

Recommendations

13 Our recommendations are drawn from acknowledged good practice for managing projects and as such have a wider relevance to publicly funded projects. They are about making existing management processes better and should not be costly to implement.

a **Although the BBC improved the content of its business cases with each project, none of the projects was approved on the basis of a complete business case setting out detailed costs, expected benefits and a quantified assessment of the risks.** Investment decisions should be based on a full understanding of the risks and opportunities, and business cases submitted to the BBC Trust should at a minimum include:

- an assessment of the full-life costs and delivery timetable of the project;
- an assessment of the qualitative and quantitative benefits, how these align to the project objectives and when they will be delivered;
- a quantified assessment of risk so any uncertainty in the scope of the project can be evaluated; and
- a description of the proposed governance structure including roles, responsibilities and reporting lines.

The preparation of well developed business cases is the responsibility of the BBC management. But the BBC Trust should make clear the evaluation criteria it will apply when considering business cases, satisfy itself that business cases are reviewed independently of project teams before they are submitted (the BBC has confirmed that its Finance team performs such reviews), and draw on expert advice as necessary.

- b For none of the projects were measurable benefits defined at the outset, diluting accountability and making the evaluation of value for money difficult.** To provide a clear basis for accountability and the measurement of achievements the BBC should produce a detailed benefit realisation plan based on an assessment of the benefits in the business case. This plan should include measurable targets and performance indicators with assigned responsibilities and should be maintained and developed as the project progresses.
- c The BBC has not always had the right skills within project teams and would benefit from a more structured approach to resourcing.** At the outset of major projects the BBC should set out the skills necessary to deliver each stage of the project and match this against an assessment of the skills available within the BBC to identify gaps. At Salford Quays, where there will be ongoing contracts for the availability of critical services to manage, the BBC will need to make sure that those responsible have the commercial and legal skills necessary to monitor whether services are provided as specified and, if they are not, enforce the terms of the contract.
- d The BBC established a Programme Management Office in 2009, which provides an opportunity to establish a systematic approach to the delivery of and learning from major projects.** To maximise the impact of the Programme Management Office the BBC should make sure it not only provides guidance and advice but also acts as a single centre of corporate expertise with the capacity to identify the best way to translate the BBC's business requirements into well-defined solutions incorporating learning from past projects. To fulfil this role the Programme Management Office will need to have sufficient profile within the BBC to be able to influence those divisions affected by major projects.
- e The financial contingency set aside for the Broadcasting House project was not based on a quantitative assessment of the project risks and proved inadequate. Furthermore, when risks failed to materialise on the Pacific Quay project the BBC spent the remaining contingency on items not included in the original project scope.** For all future projects the BBC should:
 - calculate the financial contingency on the basis of a quantitative assessment of the cost and probability of project risks occurring (as it did for the Salford Quays project); and
 - authorise the release of unspent contingency funds only where it contributes to delivering the approved scope of the project more cost effectively.

Part One

The aims of the projects and the progress made

1.1 The BBC is responsible for achieving value for money from its expenditure, which was almost £4,500 million in 2008-09. The BBC is accountable to the BBC Trust for the value for money of its expenditure under the licence fee. The BBC Trust was established in January 2007, replacing the BBC Governors, and approves all BBC spending proposals over £50 million in value.

1.2 This report examines the BBC's management of three of its four largest estates projects in the last ten years.¹ The projects were undertaken at different times and managed independently of each other, to provide the infrastructure necessary to produce and deliver BBC programmes and online content.

The aims of the projects

1.3 Each of the three projects aims to provide accommodation that will:

- create an environment that encourages individuals and divisions to share ideas and thereby promotes creativity;
- make the BBC more accessible to the public by allowing access to BBC buildings and providing communal open spaces to host events; and
- incorporate leading digital technology that allows the BBC to produce quality programmes and online content.

1.4 The vision for each project is different. Pacific Quay, in Glasgow, is the new Headquarters for BBC Scotland and is intended to be a symbol of the BBC's commitment to Scotland. The redevelopment of Broadcasting House is part of the BBC's plans to rationalise its estate in London and bring together the BBC's national and international journalism. Salford Quays will allow the BBC to decentralise some of its operations and develop its presence in the English regions by moving five divisions out of London to join BBC divisions already based in Manchester.

¹ The fourth project is the White City development, which we examined in our report: *The BBC's White City Development: the second phase of the building project*, 27 May 2005.

1.5 The three projects differ in their scale and complexity, in the way they have been financed, and in the degree of risk transferred to the private sector. The Broadcasting House project is a combination of refurbishment and new build on a site already owned by the BBC, while Pacific Quay and Salford Quays are new builds.

1.6 The BBC has a borrowing limit of £200 million, set by the Secretary of State for Culture, Media and Sport by a direction made under the terms of an Agreement between the Secretary of State and the BBC. The limit affects the way the BBC can finance major projects. For Broadcasting House, the BBC raised an £800 million bond in the market to pay for the construction, and financed this by setting up a 30 year sale and leaseback arrangement for the building. The arrangement involved the BBC selling a 150 year lease on the building to an investment vehicle, which used it as security to raise the bond and leased it back to the BBC for 30 years. The BBC pays rent (£40.3 million in 2008-09) to the investment vehicle, in which it owns a 10 per cent stake. At the end of the 30 year lease the BBC has three options: to share in the sale of Broadcasting House, to extend the lease, or buy back the outstanding lease on agreed terms. The BBC also financed the construction of Pacific Quay through a similar arrangement. It raised a bond (£110 million) secured on the building and pays an annual rent (£7.4 million in 2008-09) over 30 years to the investment vehicle that owns the building. The BBC financed the £59 million investment in technology through a mix of its own capital funds and a leasing arrangement.

1.7 At Salford Quays the BBC chose to transfer the construction risk and cost to the private sector developer, Peel Media. As Peel Media owned the land on which the development was to be built, the BBC was unable to finance Salford Quays in a similar manner to the Broadcasting House and Pacific Quay projects. The BBC will rent the offices for 20 years and has a commitment to rent the studio facilities for 10 years. The estimated total cost of the project over 20 years, including rental charges and the move to Salford, is £876 million.

The delivery status of the projects

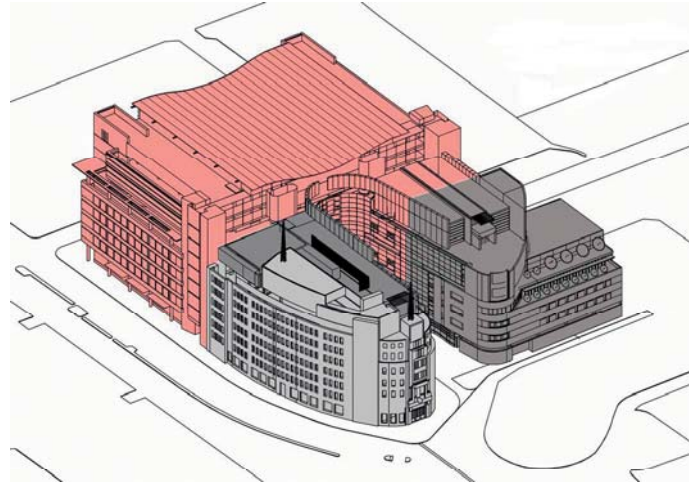
Broadcasting House



1.8 Broadcasting House was the first project to start. In 2000 the BBC published its “Three Site Strategy” which outlined its plans to rationalise its accommodation in London into three main centres: Central London (to include Broadcasting House, Western House, Brock House, New Egton House and Henry Wood House); Other West London (to include White City and Woodlands); and Television Centre. The refurbishment and development of Broadcasting House was to be in two phases. Phase 1 consisted of the refurbishment of the original grade II listed Broadcasting House and the construction of the Egton Wing (now the home of the World Service Arabic and Persian television services). Phase 2 comprised the construction of a new extension to Broadcasting House (**Figure 5**).

Figure 5

The Two Phase development of Broadcasting House



■ Phase 1: Refurbishment ■ Phase 1: New Build ■ Phase 2

Source: *Broadcasting House Business Case, 2007*

1.9 The BBC Governors approved the project in 2003 on the basis that the two phases would be completed by the end of 2008 at a total cost of £991 million. Phase 1 was completed in January 2006, one year later than planned. The project involved significant challenges (see Box 1 on page 20) and 'Regent Street disease', a condition affecting the steel structure of old buildings, was uncovered during the refurbishment. The difficulties experienced on phase 1, and changes to the scope of the project, led the BBC to rebase the project, pushing back the phase 2 completion date to 2012 and revising the overall cost estimate to £1,049 million, £58 million more than was originally approved. In addition to postponing the intended benefits of the project, the four year and four months delay required the BBC to extend the lease on Bush House (£46 million) and to update some of the technology of the News and World Service divisions (£3 million and £6 million respectively).

1.10 Phase 1 was affected by a dispute between the BBC and the developer, which resulted in an Amended and Restated Development Agreement in July 2006. The Agreement settled the phase 1 disputes, and simplified some of the architectural designs to increase the useable space in the building. At the same time the BBC reduced its risk exposure by negotiating a fixed price for the construction of phase 2. The settlement of the dispute cost the BBC £45 million: £8 million for overruns to phase 1; £27 million for contract variations, changes in scope and delays to the project; and £10 million for additional fees and costs. In rebasing the project, the BBC also approved additional expenditure, including the refurbishment of Western House (£13 million) and the Radio Theatre (£3 million). All of the changes were brought together in a 2007 business case for phase 2 of the project, which was approved by the BBC Trust, who by then had replaced the Governors.

1.11 The project is 16 weeks behind the revised schedule, but the BBC is forecasting that it will still be completed within the revised cost estimate. The delay is the result of a dispute between the developer and its sub-contractor. The dispute was resolved conditional on the BBC waiving claims for damages of up to £3.6 million. The BBC considered that had it not done so, there was the likelihood of further delays as the sub-contractor was proposing a revised timetable with a seven month delay to completion.

1.12 Figure 6 sets out the costs of the project as approved by the Governors in 2003, the revised costs approved by the BBC Trust in July 2007, and the BBC's project cost update in August 2009.

Figure 6

The estimated cost of the Broadcasting House project (all figures in £ million in cash prices)

| | Figures in £ million (rounded) | | | | |
|---|--------------------------------|-----------------|-------------------------------|-----------|-----------------------------------|
| | July 2003 (original budget) | Variance | July 2007 (revised budget) | Variance | August 2009 (current forecast) |
| Phase 1 | 161 | 8 ¹ | 169 | 9 | 178 |
| Phase 2 | 242 | 27 ¹ | 269 | -13 | 256 |
| Developer Fee and Costs (Mainly design and build elements of the project) | 69 | 10 ¹ | 79 | - | 79 |
| Additional Approvals: | | | | | |
| Refurbishment of Western House | - | 13 | 13 | - | 13 |
| Radio Theatre | - | 3 | 3 | - | 3 |
| Contingency | 13 | 8 | 21 | 7 | 28 |
| BBC direct costs and other costs | 60 | - | 60 | -1 | 59 |
| Cost of 150 year lease | 96 | - | 96 | - | 96 |
| Bond Costs | 173 | - | 173 | - | 173 |
| Redevelopment total² | 814 | 69 | 883 | 2 | 885 |
| Technology: | | | | | |
| Core Fit-out | 177 | -23 | 154 | -5 | 149 |
| Arabic and Persian News | 0 | 12 | 12 | - | 12 |
| Total | 991 | 58 | 1,049 | -3 | 1,046 |

Source: BBC Broadcasting House business case 2007 and the August 2009 monthly project report

NOTES

- 1 These costs were part of the Amended and Restated Development Agreement (paragraph 1.10).
- 2 This represents the total cost of redeveloping Broadcasting House, borne by the investment vehicle. The BBC will pay for this through the annual rent for Broadcasting House over 30 years (paragraph 1.6).

Pacific Quay



1.13 The new build headquarters of the BBC at Pacific Quay in Glasgow was planned to meet the increased demand for television and radio production in Scotland as a result of a change in the BBC's commissioning policy, and to symbolise the BBC's commitment to investment in Scotland. It was designed as a "state of the art" building, incorporating production facilities and a technology solution intended to allow television, audio and online to use the same systems so that broadcast material can be more quickly deployed across all platforms.

1.14 The BBC Governors approved the investment in the Pacific Quay project in May 2002 on the basis that it would be fully operational in 2006 at a cost of £126 million, although at that time, the financing had yet to be arranged. In November 2003 the Governors approved a 30 per cent increase in the size of the building recognising the likely growth of the BBC's business in Scotland as a result of its decision to move some production out of London. The cost of the project increased to £161 million (a 28 per cent increase) with a new operational date of July 2007. In April 2004 the Governors approved a revised cost of £173 million to include additional costs arising as a result of increasing the bond financing. The BBC then increased the scope of the technology to include Digital Production and High Definition. In July 2005 the Governors approved a final total cost of the project of £188 million.

1.15 The final cost of £188 million was in line with the July 2005 budget but included £60 million of scope increases to the building and technology compared to the original Governors' approval in May 2002. Estimated savings of £3 million were made by fitting out a studio with equipment from an outside broadcast truck.

1.16 Pacific Quay was officially opened in the summer of 2007. During 2008, technical problems arose with the IT and broadcast network and on one occasion the BBC had to make changes to programme plans to ensure there was no break in broadcasting. Siemens, the technology provider at Pacific Quay, worked with the BBC to resolve the technical faults and bore the costs (£500,000) of fixing them.

1.17 **Figure 7** sets out the costs of the project as approved by the Governors in 2002; the revised costs following an increase in the building scope in April 2004; the revised costs following an increase in the technology scope in July 2005; and the final cost of the project.

Figure 7

The cost of the Pacific Quay project (all figures in £ million in cash prices)

| | Figures in £ million | | | | | | Final cost |
|---------------------------------------|-------------------------------|-------------|--|-------------|---|-------------|--------------|
| | May 2002 (original budget) | Variance | April 2004 (building scope increase) | Variance | July 2005 (technology scope increase) | Variance | |
| Property Construction | 64.3 | 27.6 | 91.9 | 4.8 | 96.7 | 3.4 | 100.1 |
| Bond Costs | n/a | 9.6 | 9.6 | 0.3 | 9.9 | - | 9.9 |
| Contingency | 12.0 | 0.2 | 12.2 | -2.1 | 10.1 | -10.1 | - |
| Construction total¹ | 76.3 | 37.4 | 113.7 | 3 | 116.7 | | 110 |
| Cost of moving staff ² | 15.1 | 2.7 | 17.8 | 1.8 | 19.6 | -0.3 | 19.3 |
| Technology | 34.2 | 7.0 | 41.2 | 10.9 | 52.1 | 6.7 | 58.8 |
| Total | 125.6 | 47.1 | 172.7 | 15.7 | 188.4 | -0.3 | 188.1 |

Source: BBC Pacific Quay Investment Case, Board Papers and the Post Implementation Review

NOTES

- 1 This represents the total cost of building Pacific Quay, borne by the investment vehicle. The BBC will pay for this through the annual rent for Pacific Quay over 30 years (paragraph 1.6).
- 2 Includes moving the infrastructure associated with the staff and maintaining business continuity.

Salford Quays



1.18 In 2004 the BBC produced the document “Building Public Value” which included its commitment to moving some of its services and production divisions to Manchester. The same year the BBC announced that five of its London based divisions would move to Manchester by 2011 in what became known as the “Out of London” strategy. In 2006 the BBC decided on Salford Quays as the location for the move. This was an area of dockland that was being developed by a consortium lead by Peel Media and including Central Salford Urban Regeneration Company, Salford City Council and the North West Regional Development Agency.

1.19 The contractual arrangement for Salford is that the BBC will rent office accommodation from Peel Media (specifically three office buildings, which the BBC will equip with technology) and rent studios on a “pay as you go” deal (with a guaranteed minimum usage). Peel Media will provide the studio technology (for example, cameras). Between 2,300 and 2,500 BBC staff will be based at Salford with 1,500 posts transferring from London, comprising 925 permanent staff and 575 other posts.² The consultation process with staff was completed in September 2009 and 418 (45 per cent) of the 925 BBC permanent staff have agreed to relocate – in line with the numbers anticipated by the BBC in 2006.

² Other posts include temporary staff, part time staff, freelance staff, contractors and talent.

1.20 The BBC Governors approved the Salford Quays business case in December 2006. The approved cost of the project was £953 million, although no delivery dates were set at that time. A revised submission to the BBC Trust in May 2007 reduced the total cost of the project to £876 million, mainly due to decreased demand for studio facilities (£73 million) and a reduction in the project contingency (£23 million) but still did not set out project milestones. The BBC expects the three office buildings to be finished by the end of March 2010 with studio facilities to be fully operational from January 2011 and all staff to be moved into the buildings by December 2011. It is using the 2007 figures as the baseline cost for monitoring progress and estimates that it is on budget. The BBC is, however, reviewing whether the number of radio studios can be reduced further.

1.21 Figure 8 sets out the costs for Salford Quays in December 2006 when the project was originally approved; the revised costs in May 2007 to take into account a reduction in studio space; and the latest forecast figures (August 2009).

Figure 8

The estimated cost of the Salford Quays project (all figures in £ million in cash prices)

| | Figures in £ million and for the total cost over the 20 year rental period of the project (rounded) | | | | |
|---|---|------------|------------------------------|----------|-----------------------------------|
| | December 2006 (original budget) | Variance | May 2007 (revised budget) | Variance | August 2009 (current forecast) |
| Cost of moving staff | 86 | - | 86 | 4 | 90 |
| Costs of the amenities (electricity, water etc) | 199 | 2 | 201 | - | 201 |
| Cost of the fit-out and renting the offices | 191 | 16 | 208 | - | 208 |
| Cost of renting the studio facilities | 306 | -73 | 233 | - | 233 |
| Cost of the IT in the offices | 61 | - | 61 | -1 | 60 |
| Technology financing | 10 | - | 10 | -4 | 6 |
| Contingency | 90 | -23 | 67 | -2 | 65 |
| Project team | 10 | - | 10 | 4 | 14 |
| Total | 953 | -77 | 876 | 1 | 877 |

Source: December 2006 Board Paper, April 2007 Finance and Strategy Committee, and the BBC's August 2009 Monthly Report on Salford Quays

Part Two

The BBC as an intelligent client

2.1 Part 2 assesses the BBC's approach to delivering the three projects against industry good practice across three themes: developing projects, keeping projects on track, and learning lessons.

Developing projects

Options appraisal

2.2 It is important to conduct a thorough options appraisal before embarking on any significant investment so that the most cost effective means of addressing a business need is identified. Such an appraisal should support decision making by considering options, including the 'do nothing' scenario, and be driven by an understanding of the costs, benefits and risks of all the options. For all three projects the BBC identified its business needs and assessed a range of options for delivering those needs.

2.3 The Broadcasting House, Pacific Quay and Salford Quays projects have the same broad aims: to provide a flexible, creative working environment with leading digital technology, and to allow public access (paragraph 1.3). Development of the projects occurred at different times, and the BBC has tackled the three projects in very different ways. **Box 1** shows how different options were chosen for the Broadcasting House and Pacific Quay projects despite there being similarities in the projects. There are also significant differences in the design of the buildings, the risk transferred to the private sector, and the arrangements for providing technology.

Box 1

The contrasting approaches to Broadcasting House and Pacific Quay

The BBC decided to redevelop and refurbish Broadcasting House rather than move to a site that could be developed more easily, but decided against redeveloping BBC Scotland's existing headquarters in Glasgow because of the risks and costs involved in redeveloping a listed building. Broadcasting House is also listed, is positioned in close proximity to two London Underground lines, and fronts a Grade 1 listed church. In addition, work on refurbishment has had to be undertaken with the building still occupied and the studios broadcasting. The risks associated with the redevelopment of Broadcasting House were, however, made clear to the BBC Governors when approval for the project was sought and given.

The BBC identified the main alternative to redeveloping Broadcasting House as constructing a new building on vacant land adjacent to the BBC's Broadcast Centre at White City (about a quarter of a mile from Television Centre). The BBC estimated it would cost some £50 million more over 20 years (10 per cent of the estimated project cost) to redevelop Broadcasting House, but considered that moving to White City would make it more difficult to attract contributors from the fields of politics, finance, media, culture and foreign affairs. Although not mentioned specifically in the business case, we also understand that the "iconic" status of Broadcasting House was also a factor. The estimated final cost of the Broadcasting House project is £55 million more than when the project was first approved (paragraph 1.9).

2.4 The design for Pacific Quay has provided open creative spaces and production suites around the building core that contains the studios. By contrast, at Salford Quays the BBC will rent generic office and studio spaces so that it can deploy technology flexibly. For Broadcasting House the challenge has been to adapt the available space to allow divisions to work together. The result is that for each location the office and studio spaces are configured in very different ways.

2.5 The BBC has chosen procurement routes that have increased the **risk transfer** to the contractor with each successive project. For Broadcasting House, the BBC sought to transfer the risk of delivering the work to time and budget to the developer but did not agree a fixed price contract at the outset. During phase 1 of the project the BBC liaised directly with the developer's sub-contractor regarding contract variations, thereby bypassing the contractual relationship between the developer and sub-contractor and compromising the risk transfer. At Pacific Quay the BBC transferred greater risk to the developer by using fixed price contracts and managing the transfer more effectively by applying stricter change control mechanisms. This approach was also adopted for phase 2 of the Broadcasting House project when the project was rebased (paragraph 1.10).

2.6 For Salford Quays the BBC has transferred the construction cost and risks to the developer by setting out its detailed requirements for office and studio space in a rental contract. This arrangement presents the BBC with different challenges and it will need to manage the risks that: it is able to rent all and only the space it needs over the lease period, there being a contractual minimum; the rates it pays for renting office and studio accommodation remain competitive; and it manages the contract in a way that delivers the service levels required from the developer over the life of the contract. The BBC also faces a risk that it will not be able to attract sufficient capability to Salford Quays to fill the 2,300 to 2,500 envisaged posts, although to date 418 London staff have confirmed they are transferring to Salford (paragraph 1.19). In addition, the developer will need to attract other tenants to the Salford location to fulfil the vision that it becomes a creative media community bringing regeneration benefits to the North West.

2.7 Technology provision is central to the success of all three projects. The BBC outsourced the provision of technology services to Siemens under a 10-year framework agreement from 2005 and appointed Siemens under this agreement to deliver all the technology and manage the services for the Pacific Quay project. However, following a further procurement exercise, the BBC used in-house expertise to procure the technology for phase 2 of the Broadcasting House project so it could build on the technology delivered in phase 1. For Salford Quays, the BBC has defined the specifications it requires for the studios within the rental agreement with the developer, and intends to outsource other technology services that will be provided across the Salford Quays site to reduce its up-front capital investment.

2.8 In April 2008 the BBC issued new guidance on investment appraisals that is mandatory for all projects over £4 million in value. The guidance states that all investment appraisals should set out: measurable objectives; information on the range of options, including a 'do nothing' option; and an increased focus on the financial impact of project risks. The BBC created a new template for investment appraisals, and rolled out a training programme to support the new approach.

Business cases

2.9 Once an option has been chosen it should be refined through a detailed business case. A business case provides a means to hold the project team to account by setting out the aims and objectives, lifetime budgets and milestones, and what the project will achieve. In addition, the business case should set out an assessment of risk, how the project will be governed, and how the benefits of the project will be measured and monitored. This assessment of the benefits can be developed as the project progresses but should be sufficiently clear at the outset to enable the success of the project to be judged.

2.10 The documentation presented to the BBC Governors (and subsequently the BBC Trust) when approving the three projects did not provide enough information on which to base fully informed decisions or provide a clear basis for accountability. The Committee of Public Accounts has previously raised concerns about approval being sought from the BBC Governors on the basis of an incomplete understanding of the costs.³

2.11 The scope increases in both Broadcasting House and Pacific Quay indicate that the BBC had not clearly defined its needs at the outset of the projects and that the initial project proposal would have benefited from more robust internal BBC challenge. In addition, although for each project the Governors had approved a summary of the expected benefits, for none of the projects did the documentation clearly set out how they would be measured. In particular:

- The Broadcasting House project was approved by the BBC Governors in April 2003 on the basis of documentation that did not identify clear objectives, measurable benefits, or a detailed assessment of the project risks and their financial implications. There were subsequent additions to the scope of the project totalling £28 million and the first clear and substantial business case was produced in July 2007 (paragraph 1.10). The business case consolidated over 40 documents and provided the first complete baseline against which to measure project progress. A consolidated benefits plan was not approved by the BBC until May 2009.

- The BBC had to seek approval from the BBC Governors at least six times between 2002 and 2005 for the Pacific Quay project, mainly for scope changes. In December 2003 a meeting of the Director General's Finance Committee concluded that the original approval for Pacific Quay may have been sought prematurely and that the building costs were significantly underestimated in the early investment cases. Although the BBC had done some work to establish processes for identifying and reporting benefits from 2004, it did not set out a full description of the financial and non-financial benefits expected, and assign responsibility for monitoring their delivery, until August 2008, a year after Pacific Quay had become operational.
- Salford Quays was approved by the BBC Governors in December 2006 in a Board Paper which set out the objectives, project costs, a high level summary of the benefits, and risks of the project but did not set out when the project would be delivered. The BBC has continued to develop its understanding of the benefits of the project and work is now underway on a benefits management plan with the intention of assigning management responsibilities before the buildings become operational.

Keeping projects on track

2.12 The difficulties experienced by the BBC on phase 1 of the Broadcasting House project have contributed to a delay of four years and four months and a £55 million increase in the total cost of the project (Figure 6). In 2004 the BBC's Internal Audit Department concluded there were significant weaknesses in the BBC's approach to managing the project and the BBC acted on these findings. The BBC Governors commissioned Ernst & Young to review the project in August 2006. Paragraphs 2.13 to 2.30 summarise how the BBC has changed its approach.

Roles and responsibilities

2.13 Establishing an appropriate governance structure with clear lines of responsibility, accountability and communication is necessary for effective and efficient decision making on a project. During phase 1 of the Broadcasting House project there was a lack of clarity over roles and responsibilities. Ernst & Young suggested that the Director General should communicate his own role in the project and his expectations of the way in which divisions should work together. In addition, Ernst & Young recommended that the BBC establish clear protocols for making decisions and make sure its project sponsor had sufficient authority to mediate over the competing needs of different BBC divisions and was visible to the project team.

2.14 It is good practice for projects to have a project sponsor to act as the single point of accountability for the project's success and take difficult decisions that cut across different stakeholder groups. Phase 2 of the Broadcasting House project has two project sponsors: one to deliver the building programme and one to deliver the move of the staff into the new buildings and the envisaged organisational change. Although this creates two lines of accountability, the BBC considers that the two project sponsors have unique skills and are the individuals best placed to oversee the respective aspects of the project.

2.15 The Pacific Quay project had a clearer governance structure because it involved only one division, BBC Scotland, and the project sponsor was the BBC Controller of Scotland, which provided clarity of leadership and a single point of accountability. In addition, the project team and internal stakeholders were categorised in four ways: whether they are responsible, are accountable, should be consulted, or just kept informed (known as a RACI). The BBC has produced a standardised RACI for major projects and applied this to the Salford Quays project in October 2009.

2.16 The BBC has used a variety of methods for communicating progress to stakeholders including internal staff, across the three projects. These methods included internal newsletters, 'sandpit sessions' where managers are invited to trial the new technology, dedicated intranet sites, surveys, exhibitions, and arranging tours and visits. Our survey of a small selection of BBC staff highlighted that they were satisfied with how the aims and progress of the project had been communicated.

2.17 A well defined organisational structure with clear lines of communication can only be effective if it has the right staff, with the right mix of skills and experience, in position at the right time. The BBC's approach to staffing projects would be strengthened if from the outset of projects it adopted a more strategic approach, based on analysis of the skills needed at the different stages of the project lifecycle (such as design, build and operation). At Pacific Quay some early staffing decisions were made on the basis of who was available rather than who was best for the role, which may have contributed to a finding in the BBC's post project review that "it was sometimes difficult to engage senior staff in decision making about their area as some seemed to either not fully understand their responsibilities or take them seriously enough".

2.18 Similarly, at the beginning of the Broadcasting House project the BBC did not have the right mix of experience and expertise to see the project through to a successful conclusion. The BBC's internal auditors reported that the "lack of relevant expertise on or in assisting the project team was without precedent", and that "the project director... did not have experience of such a large-scale transformational project".

2.19 The BBC addressed the weaknesses in the capability of staff on the Broadcasting House project, appointing an experienced project director in January 2005. More recently, for the Salford Quays project the BBC has recruited staff from the construction industry and appointed staff with experience of relocation projects to oversee the move of staff from London.

Project control

2.20 Effective project control depends on receiving timely, relevant and accurate information on a regular basis. During phase 1 of the Broadcasting House project the progress reports submitted to the BBC Governors were of an inconsistent format and did not provide any information on the baseline cost against which to judge project progress, and as a result constrained the Governors' ability to exercise effective oversight of the BBC. There were also problems with the quality and timeliness of reporting to the project board. Project board members reported receiving information on the day of meetings, giving them little time to review it. The BBC subsequently introduced a standard monthly reporting format that included key information on costs and risks, including showing the expenditure in relation to the rebased 2007 business case.

2.21 The improvements to project reporting for the Broadcasting House project were carried over to the other projects. The Salford Quays project and phase 2 of the Broadcasting House project both now have regular RAG (red, amber, green) reports on the status of the project. Meetings are minuted and actions noted and reported on in subsequent meetings. In light of the difficulties experienced on phase 1 of the Broadcasting House project the BBC is now making regular assessments of the most significant risks to phase 2 and Salford Quays, and reporting regularly to the BBC Trust.

2.22 In the current financial climate there is a greater risk that construction contractors and developers could face financial difficulties, especially given the impact on the property market. The delays affecting phase 1 of the Broadcasting House project were in part caused by two sub-contractors going into administration. The BBC has taken a number of steps to help mitigate this risk, for example, the BBC's Finance Committee reviews the financial health of sub-contractors on the projects at quarterly meetings and on the Salford Quays project the BBC insisted that the parent company of Peel Media Ltd, Peel Holdings Group, provided a guarantee in the event that Peel Media Ltd suffered financial difficulties. The BBC has since commissioned consultants to review the financial stability of both Peel Media Ltd and Peel Holdings Group.

2.23 An important way of managing risk is to set aside a financial contingency to allow for problems that might arise as the project progresses. Each risk should be identified and a cost applied to that risk along with an associated probability of it happening, so that the level of contingency required can be calculated for the project as a whole.

2.24 The Treasury recommends that the size of the risk contingency should be in line with a percentage adjustment to the capital expenditure of the project according to the type of the project (**Figure 9**). The upper limit applies at the early stages of project development when risks are generalised, while the lower limit applies at the contract award stage when risks have been identified and valued and effective project and risk management strategies have been developed. The three projects all involve significant investment in technology and special design considerations necessary for the studios.

Figure 9
Recommended ranges for financial contingency

| Project Type | | Percentage of capital expenditure | |
|--------------------------------|--|-----------------------------------|-------|
| | | Upper | Lower |
| Standard Buildings | Buildings not requiring special design considerations e.g. offices. | 24 | 2 |
| Non-Standard Buildings | Buildings requiring special design considerations due to space constraints or unusual output specifications e.g. high technology facilities. | 51 | 4 |
| Non-standard Civil Engineering | Construction of facilities in addition to buildings not requiring special design considerations e.g. extension projects. | 66 | 6 |
| Equipment/Development | Projects that are concerned with the provision of equipment and/or development of software and systems. | 200 | 10 |

Source: *Supplementary Green Book Guidance, HM Treasury*

2.25 The financial contingency for the Broadcasting House project was insufficient for a project of that size and complexity, and was not based on an assessment of specific risks. At the outset of the project the BBC set aside £13.4 million, 2.0 per cent of the relevant project costs⁴ (significantly below the minimum range for non-standard buildings in Figure 9). The BBC increased the contingency as the project progressed after taking external advice, and it currently stands at £28 million, 4.2 per cent of the relevant project costs. The consequence of providing insufficient contingency is that if the project budget, including contingency, is exceeded, then resources have to be diverted from other areas of the business.

⁴ Relevant project costs include capital construction costs (or rental payments in the case of Salford Quays), expenditure on technology and other direct costs but not financing costs, developer fees or contingency.

2.26 The financial contingency for the Pacific Quay project was based on an assessment of the size of the risks and the likelihood of them occurring and was within the recommended range. In May 2002 the contingency was £12 million (10.6 per cent of the relevant project costs) and in April 2004, when the BBC increased the scope of the project and the budget rose to £173 million (paragraph 1.14), it also increased the contingency slightly to £12.2 million (8.1 per cent of the project cost). The BBC is not bearing the construction risk for the Salford Quays project but put aside a financial contingency of 8.4 per cent of the estimated relevant project costs, calculated by assigning a cost to project risks and multiplying this by the probability of the risks occurring. The contingency covers, for example, risks associated with moving staff from London to Salford.

2.27 The use of contingency should be supported by a sound value for money case, contribute to delivering the objectives of the project more cost effectively, and be subject to an appropriate level of approval. For all three projects the BBC established controls governing when contingency can be released; for example the approval of the project sponsor is required before contingency funds can be used on phase 2 of the Broadcasting House project and Salford Quays project, but the BBC needs to determine carefully what constitutes an appropriate use of this contingency.

2.28 At Pacific Quay approval was given by the Chief Operating Officer and Chief Financial Officer to release contingency as risks reduced, and £1 million of contingency was spent on items that were not in the original scope such as “additional infrastructure costs within the base build”, “external lighting enhancements” and enhancing the “external and public environment”. Unspent financial contingency should not be seen as a means to fund enhancements or additions to the project that should have been included in the original business case.

Change control

2.29 Although contract variations may be necessary as a project develops, they can be costly and disruptive to delivery schedules, and should therefore be kept to a minimum. Large numbers of contract variations can indicate inadequate definition of the project scope at the outset. During phase 1 of the Broadcasting House project the BBC circumvented the contractual relationship between the developer and the sub-contractors and entered into discussions about variations with the sub-contractors directly. The detailed scope of the project was not fully defined at the outset and there was a lack of control over contract variations from the BBC divisions affected by the project. In total, over 42 variations, individually over £50,000 in value and with a total value of £13.9 million, were made between 2003 and 2006. This ultimately led to a dispute with the sub-contractor, and contributed to the significant delays and cost increases (paragraph 1.9).

2.30 The BBC has implemented a new change control process on the Broadcasting House project, and the number and value of contract variations has reduced since phase 1. In the case of Salford Quays variations are approved by a committee which includes representation from all affected divisions so a consensus can be reached.

Figure 10 shows the value and number of contract variations across the projects.

Figure 10

The total value and number of all contract variations above £50,000 for the three projects¹

| Value in £ million (number of requests) | Broadcasting House Phase 1 | Broadcasting House Phase 2 | Pacific Quay | Salford Quays |
|--|-------------------------------|-------------------------------|--------------|---------------|
| Additional costs resulting from contract changes | 13.9 (42) | 2.1 (6) | 3.9 (36) | 2.5 (13) |
| Savings resulting from contract changes | 0.9 (3) | 0.3 (2) | 1.9 (6) | 6.1 (14) |
| Net effect | 13.0 | 1.8 | 2.0 | -3.6 |

Source: BBC

NOTE

¹ Numbers presented do not include provisional amounts included in contracts that were subsequently firmed up through contract variations.

Learning lessons

2.31 For the BBC to act as an intelligent client, it needs to build on past performance to deliver improved value for money. Continuous improvement depends on identifying, spreading and applying the lessons from completed projects.

2.32 During phase 1 of the Broadcasting House project the BBC had no formal system in place to identify lessons. A BBC Internal Audit review in December 2005 recommended that the BBC develop a mechanism for identifying lessons and using them to inform future projects; in particular those at Pacific Quay and Salford Quays. The BBC identified the most significant problems on phase 1 of the Broadcasting House project as: poor project management; inconsistent governance arrangements; and the difficulties of refurbishing and integrating state of the art facilities into a listed building.

2.33 The BBC has since improved its approach to identifying lessons, and logs of lessons were maintained for both the Pacific Quay and Salford Quays projects. The BBC prepared a Post Project Implementation Review for the Pacific Quay project in November 2007 that gave a high level account of some of the key lessons emerging. The BBC's benefits paper produced in 2008 (paragraph 2.11), expanded on this and explained in greater detail which aspects of the BBC's approach to managing Pacific Quay had worked well, such as the incentive mechanism in the contract with Siemens, and which had not, including the time and effort wasted in the change request process.

2.34 The BBC has introduced measures to try to make sure that learning is shared between project teams. For example the BBC is now taking steps to familiarise staff affected by the Salford Quays and Broadcasting House projects with the new technology and working processes before they move into the completed buildings as a direct learning result of problems encountered at Pacific Quay. In addition project teams for the Broadcasting House and Salford Quays projects meet twice a month to discuss lessons and some sharing of staff between projects has taken place. For example, the Head of Technology for phase 2 of the Broadcasting House project was recently appointed to oversee the installation of technology at Salford Quays.

2.35 The BBC needs a more centralised approach to developing, resourcing and delivering major projects. In 2009 it established a central Programme Management Office with the aim of better managing the interdependencies between major projects that affect different parts of the BBC. The BBC intends that the Programme Management Office will support project managers and promote the use of common standards across the organisation. It hopes to draw on existing skills and knowledge from across the BBC and also provide opportunities to develop programme management skills in others.

2.36 Delivering a step change in the way the BBC approaches complex programmes will require a change in culture as well as common standards. To deliver this the Programme Management Office needs be staffed by individuals who have proven commercial, legal, project management and procurement experience. If the Programme Management Office is to deliver a consistent approach to managing complex programmes it must be driven by a full understanding of the BBC's long-term corporate strategy across all areas of the business, and promote organisational learning by becoming the repository of the BBC's knowledge of programme delivery.

Appendix One

Methodology

| Selected method | Purpose |
|---|--|
| <p>1 Developing the NAO good practice framework</p> <p>We developed a good practice framework by drawing on existing guidance for managing large capital programmes. The framework comprised a number of questions designed to highlight whether good practice project management principles were being followed.</p> <p>We engaged ARUP to provide specialist advice on this study.</p> | <p>To test the robustness of the BBC's approach to managing the three projects.</p> <p>ARUP validated the appropriateness of our good practice framework and reviewed our conclusions and recommendations.</p> |
| <p>2 Fieldwork</p> <p>The fieldwork for this report took place between June and September 2009 and involved:</p> <p>2.1 Interviews with BBC staff</p> <p>We interviewed senior BBC individuals including: Deputy Director General, Chief Operating Officer, Director Property, Chief Executive Worldwide, Project Director for Broadcasting House and Salford Quays and Director BBC Scotland.</p> <p>We interviewed a further 32 BBC staff associated with the three projects including: Heads of Finance, Technology, Operations, Media management, BBC People and Programme Directors. In addition, we interviewed representatives of two Trade Unions.</p> <p>Interviewees were chosen on the basis of their knowledge of the projects.</p> | <p>To answer the questions posed in our good practice framework.</p> |
| <p>2.2 Review of key documents</p> <p>We reviewed relevant documents including:</p> <p>BBC Trust and Corporate Finance papers, papers prepared by Internal Audit and BBC advisors, the post project evaluation report for Pacific Quay, papers relating to the BBC project development and management processes, minutes of Board meetings and monthly project reports.</p> | <p>To validate evidence from the interviews and support conclusions drawn about the BBC's approach to managing the three projects.</p> |

| Selected method | Purpose |
|--|--|
| <p>2.3 Interviews with external stakeholders</p> <p>We interviewed BBC external partners: Land Securities Group (Broadcasting House and Pacific Quay), Peel Media Limited (Salford Quays), Siemens (Pacific Quay, Salford Quays) and Bovis Lend Lease (Broadcasting House, Pacific Quay and Salford Quays).</p> | <p>To obtain external views on how the projects are/were being managed by the BBC.</p> |
| <p>2.4 Surveys</p> <p>Survey content was developed by the NAO and distributed online to a sample of 40 BBC staff. Twenty staff from Broadcasting House, 10 from Pacific Quay and 10 from Salford Quays.</p> | <p>To collect views of BBC staff to help support conclusions. In particular we sought feedback on the extent to which staff were consulted and kept informed.</p> |
| <p>2.5 Site visits</p> <p>We visited Broadcasting House, Pacific Quay and Salford Quays.</p> | <p>To develop our understanding of the three projects through discussing current issues with contractors and the BBC staff involved in managing the day to day work.</p> |