



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.

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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.