



National Audit Office

Report

by the Comptroller
and Auditor General

BBC

E20: renewing the *EastEnders* set

Key facts

£59.7m **£86.7m** **31 months**

BBC's budget for the E20 programme in its October 2015 business case

revised programme budget approved in May 2018

estimated delay in the BBC completing the programme (compared with October 2015 plans) – from October 2020 to May 2023

- 45%** increase between the BBC's original E20 budget (£59.7 million) – subsequently increased to £62.1 million to account for some new activity – and the current budget (£86.7 million)
- March 2021** date the BBC now plans for the 'Front Lot' (which is predominantly a replacement for the existing external set) to be ready for filming, 22 months later than planned in 2015
- May 2023** date the BBC now plans for the 'Back Lot' (the site of new locations), and the overall programme, to be complete
- £54.7 million** BBC's latest budget for the Front Lot, up £23.5 million (75%) compared with its 2015 plans
- 11 months** time taken for the BBC and Wates, appointed to construct the Front Lot, to negotiate and agree the contract for this work
- £28.2 million** BBC spending on E20 up to the end of September 2018 – with some elements of the programme already completed

Summary

1 The BBC is the UK's main public service broadcaster. It is responsible for serving audiences with impartial, high-quality and distinctive output and services that inform, educate and entertain.¹ In 2017-18, the BBC spent around £2 billion of its licence fee income on television, including £1.3 billion on BBC One. One of the BBC's flagship TV programmes is *EastEnders*, which has been broadcast since February 1985. *EastEnders* had an average audience of 6.6 million in 2017 and is currently broadcast four times a week. The external filming set for *EastEnders*, including 'Albert Square', was built in 1984 with the original intention that it would be used for two years. However, it has never been rebuilt and is in poor condition, requiring ongoing maintenance.

2 The BBC is replacing the external filming set for *EastEnders* and the core infrastructure at BBC Elstree Centre (BBC Elstree) as part of a programme of activity (the programme) called 'E20' which, among other objectives, aims to enable improved audience engagement with *EastEnders*. A new external filming set will be built (on the 'Front Lot') near to the current site. It is being rebuilt and improved, using brick structures rather than the existing facades, as the current external set is in poor condition, which means *EastEnders* cannot be filmed in high-definition and there are increasing filming delays owing to stoppages in production due to health and safety concerns. The BBC also plans to enlarge the existing filming site, with the current external set being demolished to provide new locations (on the 'Back Lot') that better reflect modern East-End London. E20 is a complex and bespoke programme as, for example, the BBC needs to replicate the existing external set to an exact specification on the Front Lot to maintain continuity on-screen. Furthermore, both Lots border residential areas and production studios, meaning that construction works need to be coordinated with live filming.

3 E20 comprises other components at BBC Elstree. These include: the construction of two TV production control rooms (galleries); new edit suites; the installation and commissioning of more efficient boilers and upgraded facilities to house them (in the 'Boiler House'); new electrical infrastructure; and works to prepare the Front Lot site for construction (Front Lot enabling works), for example, by clearing underground obstructions. These works are now complete.

¹ Department for Culture, Media & Sport, *Royal Charter for the continuance of the British Broadcasting Corporation*, Cm 9365, December 2016, p.5.

4 E20 is one of the BBC's nine Tier One (particularly complex) projects within its Critical Projects Portfolio. In 2016, we examined the performance of the BBC's critical projects, which are subject to additional corporate and executive scrutiny. We concluded the BBC had strengthened oversight of its critical projects, but further action was required.² In 2016 we reported that E20 was forecast to complete 26 months later than originally planned owing to a substantial change in scope. At that time, the BBC considered that successful delivery of the project appeared probable. Subsequently, for E20, the BBC has taken action in response to our relevant 2016 recommendations.

Focus of our report

5 This report examines whether the BBC has managed E20 in a way that is likely to achieve value for money. Owing to a significant scope change, the report uses the programme's 2015 business case as the baseline to assess value for money. However, we report on the programme from 2013 when the first E20 business case was developed. This report focuses on:

- the early stages of the programme, including significant changes in scope in 2015 (Part One);
- the progress and costs of the programme (Part Two); and
- what went wrong with the programme and how the BBC has responded (Part Three).

Key findings

The BBC's revised approach to E20

6 The case for the programme, and the rationale for the current approach, is clear. The BBC is rebuilding and improving the external filming set near to the current site at BBC Elstree and will subsequently build new locations on the site of the existing external set. This approach is understandable as the BBC owns Elstree, the production infrastructure for *EastEnders* is in place there, and the programme offers wider benefits to the users of the Elstree site including more efficient energy usage and upgraded production infrastructure. Alternative options the BBC considered were discounted as they involved greater costs, risks and filming constraints. However, the Front and Back Lot approach the BBC is now working to was not formally considered as an option as part of the original business case in 2013 (paragraphs 1.3 to 1.5 and 1.9).

² Comptroller and Auditor General, *Management of the BBC's critical projects*, National Audit Office, April 2016.

7 The BBC substantially revised its plans for E20 in 2015, owing to forecast increases in the cost of the programme. In 2013, the BBC proposed building a temporary set, two-thirds of the size of the existing external filming site, to use while it constructed a new permanent set. Based on advice from its previous cost consultants, the BBC expected the whole programme to cost £59.7 million and complete by August 2018. Subsequently, following an assessment of feasibility and further planning, in October 2015, the BBC's Executive Board approved the revised Front and Back Lot approach as the previous plan was forecast to cost up to £7 million more than it had budgeted. The BBC intended that the revised approach would also cost £59.7 million and would be completed in October 2020. This included a four-month delay to defer spending to later financial years and ease wider BBC budget pressures. This added £1.2 million to the programme costs (paragraphs 1.5 to 1.8).

8 The BBC's early planning processes led to underestimation of aspects of complexity, cost and risks of its revised Front and Back Lot approach.

In October 2014, the programme team, supported by various specialist consultants, spent seven weeks scoping and producing a feasibility report comparing the temporary and permanent set approach to the Front and Back Lot proposal. The report assessed that the revised approach would be cheaper on a like-for-like basis, estimating a total budget of between £59.2 million and £69.2 million, depending on the scope of the Back Lot. Following further planning, the full business case was approved in October 2015 with a budget of £59.7 million. The BBC's programme team later identified that the time taken to complete the feasibility report was too short, given the complexity of the programme, and that certain aspects of the design process, such as the approach to scenic ageing and the costing of the Boiler House works, were not assessed adequately. Given what was known to the BBC in 2015, it would also have been prudent for the BBC and its cost consultants AECOM to have allocated more funding to cover risk and contingency from the outset of the revised programme (paragraphs 1.6, 1.7 and 3.19).

The progress, costs and benefits of E20

9 In 13 of the 17 months between August 2016 and December 2017, the BBC considered successful delivery of E20 was in doubt. As a BBC critical project, E20 has been subject to ongoing scrutiny and reporting, and actions have been taken as a result. In October 2017, the BBC reported internally that its 2015 plans were no longer achievable due to forecast delays and cost increases. This was because of delays procuring the Front Lot construction contract, as well as anticipated delays in awarding the contract as costs were expected to be £10.3 million more than the BBC had budgeted for. Subsequently, following further contract negotiations and more realistic programme planning, the programme team submitted a paper to the BBC Board in May 2018, requesting an updated budget of £86.7 million and a new completion date in early 2023. The BBC Board approved this plan on the basis that there would be no further cost increases to the Front Lot contract, which was still under negotiation, and that various corporate functions, such as finance and procurement, approved the plan. The BBC recognises that E20 remains a high risk programme (paragraphs 2.2 to 2.4, 2.9 and 2.10).

10 As a result of more realistic plans, the BBC now forecasts E20 will cost £86.7 million – 45% more than the original budget. Most of this increase relates to the higher cost of the Front Lot, which the BBC now estimates will cost £54.7 million – £23.5 million (75%) more than planned. This is primarily because of higher than expected construction contract costs, partly as a result of inflation in the construction industry across the UK; increases to the funding to age the newly built set so that it looks comparable to the existing set; additional resources to manage the main construction contract; and extra programme team costs. The BBC has also significantly increased its funding to cover known and unknown risks. The BBC expects the Front Lot to be complete at the end of March 2021, 22 months later than planned in 2015 (paragraphs 2.2 to 2.4, 2.6, 3.8 and 3.9).

11 The BBC plans for E20 to be completed in May 2023 – 31 months later than envisaged in its 2015 plans. The most significant reason for the delay is that the BBC now has more realistic assumptions about the time needed to age the newly built Lots (13 months for the Front Lot and seven months for the Back Lot) – with the BBC previously intending to age them alongside construction. There were also delays because the BBC had to change its procurement approach on the Front Lot owing to limited market interest in the work, and the BBC subsequently having around 11 months of contract negotiations. The overall 31-month delay, which builds in some contingency time, is additional and separate to the 26 months that we reported in 2016 (paragraphs 1.12, 2.6 to 2.8, and 3.8).

12 The BBC still expects to realise the intended benefits of E20, albeit at a later date and greater cost than originally planned. Up to the end of September 2018, the BBC had spent £28.2 million and has completed various elements of E20. With the exception of the cost of the galleries, this work has all, to varying degrees, cost more and taken longer than planned in 2015. In October 2018, the BBC began constructing the Front Lot, the most challenging part of E20, and the Back Lot was at an early design stage. The BBC considers E20 as critically important as it has the intended benefits of: maintaining *EastEnders*' competitiveness; allowing new technology and high-definition filming to be used; and introducing design, structural and health and safety improvements. These all appear broadly achievable on the basis that the remainder of the programme is completed but will be realised later than planned. However, the extent of the benefits that can be achieved from the Back Lot may be revised when plans are more certain (paragraphs 2.11 to 2.15).

What went wrong with the programme and how the BBC has responded

The Front and Back Lot approach: problems in the early stages of the programme

13 The BBC had insufficient expertise in construction project management to identify critical issues, for example with the Front Lot design. The BBC's initial E20 resource plan did not consider the specific skills required in the programme team. Subsequently, in April 2017, a BBC internal audit report identified that the team had inadequate expertise in construction project management. This contributed to, for example, Front Lot design coordination problems that resulted in the BBC commissioning internal and external reviews to resolve design issues and inconsistencies, and ineffective technical review and challenge of programme documents and decisions. Subsequently, in 2017, the BBC recruited a new Programme Director and a Front Lot Project Manager. More recently, in early 2018, the Programme Director carried out a capability assessment that identified the resources required for the remainder of E20 (paragraphs 3.4 to 3.7).

14 While they did engage with each other, the programme team and *EastEnders* production (the end users of the set) were not sufficiently integrated, leading to ineffective design development and change processes:

- The 2015 business case emphasised the importance of collaboration between the programme team and the production team, given that *EastEnders* is a continuing drama and often requires set changes as part of its storylines. However, communication and relationships between them were ineffective, and their respective responsibilities, requirements and processes have not always been well communicated or understood by both parties. However, integration is now better. For example, having been indirectly represented since 2014, the *EastEnders* production team became directly represented in the E20 Steering Group in 2017. The programme team has also improved the way it manages the various stakeholders affected by E20 (paragraphs 3.11 to 3.14).
- The BBC's 2015 business case also recognised the importance of effective design development and change processes, but it did not include a design change process. Furthermore, no formal design change process was agreed between E20 and the *EastEnders* production team until September 2016, around a year after the business case was approved, and even then it was not used. Critical design stages were also completed without the appropriate approvals, which resulted in the production team making over 70 design change requests eight months after the design was supposed to be stable. These were subsequently rationalised into 16 changes at a cost of around £440,000. Furthermore, the E20 and production teams agreed more robust design change processes in April 2017 and further clarified them in April 2018 (paragraphs 3.15 to 3.17).

Other significant factors leading to cost increases and delays

15 The BBC has faced other issues such as higher than expected inflation in the construction sector, as well as asbestos and obstructions in the ground.

There have been inflationary pressures in the construction industry across the UK. In May 2018, the BBC attributed £9.2 million of cost increases to higher than forecast inflation and demand for construction services. However, it was unable to provide evidence to support this figure and the impact of inflation has increased owing to delays in the programme. The BBC also encountered asbestos and obstructions in the ground at various stages of the programme – particularly in the Boiler House and Front Lot enabling works. These issues cost the BBC around £1.8 million and were to some extent unforeseen by the programme team – partly due to poor BBC site records, and limited surveying work (paragraphs 3.18 to 3.21).

16 E20 has been delayed by around 12 months as a result of commercial challenges.

In 2017, the BBC revised its procurement approach for the Front Lot construction contract owing to a lack of market interest. This delayed the programme by around six months and increased costs by an estimated £2.3 million, although the BBC avoided further delays by separating the enabling works from this contract and carrying them out within its existing Boiler House contract. The BBC, acknowledging that its original single-stage approach had not worked, moved to a two-stage procurement with contractors on its construction framework in early 2017. Three contractors bid and two met the BBC's assessment criteria. During an initial stage, Wates was appointed by the BBC in April 2017. The second stage involved Wates seeking more clarity about the BBC's requirements and design before proposing costs for various elements of the work. There were around 11 months of negotiations – six months more than planned – between the contractor and the BBC. This was owing to Wates' contract price offers being higher than the BBC anticipated, the need to finalise clarifications, allocate risks, and confirm provisional sums, as well as both parties agreeing the type and supply of bricks for the Front Lot. The BBC and Wates signed the Front Lot contract in September 2018 at a fixed price of £24.2 million, £9.5 million more than the BBC budgeted for in October 2015 (paragraphs 2.7, 2.8 and 3.24 to 3.26).

17 The BBC has made many improvements to its project management of E20 over time, particularly since mid-2017.

In response to problems throughout E20 and issues identified by various assurance reviews, the BBC has made improvements, for example in capability, governance, stakeholder engagement, and in project management, scheduling and budgeting. Additionally, the programme team has carried out lessons learned exercises on discrete parts of the programme, such as the Boiler House work in 2016. However, it did not formally capture a set of programme-wide lessons learned until November 2017 (paragraphs 3.1, 3.6, 3.7, 3.10, 3.13, 3.14, 3.17 and 3.27).

Conclusion on value for money

18 The BBC built the external filming set for *EastEnders* (including 'Albert Square') in 1984, and originally planned to use it for two years. It has lasted for 34 years but is no longer fit for purpose. There are, for example, filming delays and maintenance costs as a result of stoppages in production due to health and safety concerns. The BBC will not be able to deliver value for money on the E20 programme in the way that it envisaged in 2015. Disappointingly, some of the reasons for this were built into E20 at the outset and could have been addressed earlier. These include insufficient construction project management expertise that contributed to a lack of appropriate technical challenge, inadequate integration between the programme team and end users, and early planning processes that led to underestimation of aspects of complexity, cost and risks of its revised approach. The programme costs have also been adversely impacted by inflation in the construction industry across the UK, which has had a greater impact than it would have done had the programme completed without any delays.

19 E20 has been subject to ongoing scrutiny and reporting and, in the past 18 months, the BBC has made many improvements to the programme and various elements of E20 have been completed. Furthermore, the benefits of the programme still appear to be broadly achievable, albeit at a later date. As the Front Lot construction only started in October 2018 and the Back Lot is at an early design stage, it is not yet possible to conclude on the value for money of the latest programme plan. Therefore, sustained scrutiny, including by the Board, is required to prevent this programme going off-track again, and to ensure the maximum benefits are achieved for licence fee payers, albeit at a substantially higher cost and later than originally planned.

Recommendations

- a** Given that E20 remains high risk, in addition to the work of the BBC's Programme Management Office (PMO), the BBC should continue periodic, independent scrutiny of the feasibility of its new programme plans.
- b** Following the BBC's problems with design development and change request processes on E20, and subsequent changes in these areas in 2017 and 2018, the BBC should keep these processes under active review, particularly as the Front Lot has now entered the important construction phase and the Back Lot plans advance.
- c** The BBC should ensure, via its corporate PMO, that the E20 programme team continues to capture lessons systematically, and that learning is applied for the remainder of the programme.
- d** The BBC should ensure, via its corporate PMO, that appropriate assessments of the skills needed for all current and new critical projects have been carried out, particularly in terms of technical and specialist roles.
- e** The BBC should review its wider portfolio of critical projects to ensure that end users are sufficiently integrated and engaged in the scope, development and progress of projects from the outset.