National Audit Office

REPORT

Progress on the Buckingham Palace Reservicing programme

The Royal Household

SESSION 2024-25
HC 122

Key facts

£369mn

fixed budget for the Buckingham Palace Reservicing programme (the programme), funded through an uplift to the Sovereign Grant (2016 prices)

10 years

length of the programme from 2017 to 2027

£238.9mn

net expenditure at March 2024, 65% of the £369 million budget (actual prices)

one	there has been one Senior Responsible Owner for the duration of the programme, who is also the Master of the Household
£22.5 million	the Royal Household's assessment of the cost impact of COVID-19 on the programme
July 2020, October 2022 and January 2024	date of the three resets on the programme to manage challenges and take advantage of opportunities
£100 million	Sovereign Grant funding to be received in the final two years of the programme (27% of total funding)
£1.6 million	estimated underspend at the end of the programme based on scenario analysis; the outcome ranged from a worst-case projected £5.9 million overspend to a best-case £8.8 million underspend
£3.4 million	expected annual additional income and utilities savings for 40 years until 2066 included in the business case (2016 prices)

Summary

Introduction

1 Buckingham Palace (the Palace) is a Grade I listed building of international standing and is the official residence of The Sovereign. It was built and updated in stages between the early 18th century and the mid-20th century. It is a working building with over 700 members of staff. The Palace hosted around 50,000 guests in 2023-24, who attended a range of events and functions from small lunches to large receptions, as well as garden parties and investitures. Around 500,000 people visit the Palace during its annual summer opening.

2 Since 2017, the Royal Household (the Household) has been undertaking the 10-year Buckingham Palace Reservicing programme (the programme) to update the plumbing, pipes, wires and heating, some of which date from the 1940s and 1950s. A framework agreement between the Household and HM Treasury requires that the Occupied Royal Palaces be maintained as buildings of State to a standard that is consistent with the operational needs of the Household as well as the royal, architectural and historic character of the buildings.[1] Detailed technical assessments of the Palace carried out in 2016 established that some systems needed urgent replacement within two years, and others substantially upgrading in the next 10 to 15 years. The Household assessed that no action would result in a real risk of significant service failure, fire, flood, health and safety incidents and damage to the Palace.

3 The overall objective of the programme is to mitigate the real risk of operational failure within the Palace through reservicing to deliver an enduring building infrastructure with a life expectancy of 50 years. The reservicing programme is a combination of works to update the Palace's essential services, including electric cabling and heating systems, and operational improvements, including new lifts, lavatories and improved disabled access. The Household aims to keep the Palace occupied and operational during the works. It agreed with HM Treasury a fixed budget of £369 million for the programme, which is funded through an uplift to the Sovereign Grant, paid over 10 years from 2017.

1 The Occupied Royal Palaces are Buckingham Palace, St James's Palace, Clarence House, Windsor Castle, Hampton Court Mews, Windsor Home Park and parts of Kensington Palace. The Palace of Holyroodhouse is maintained by Historic Environment Scotland.

Scope of this report

4 Our report examines the Royal Household's progress in delivering the Buckingham Palace Reservicing programme. It considers whether:

- the programme is set up for success;
- progress to date and how effectively the programme team has navigated delivery challenges; and
- how effectively the Household is managing risk to the end of the programme and the delivery of benefits.

5 This report does not seek to comment on the merits of the decision on the option taken forward for the programme or the wider role of the Royal Household. We make recommendations to the Household and highlight that further lessons could be drawn out for other heritage programmes.

Key findings

Programme set-up

6 **The Household developed a clear business case to secure funding for the 10-year programme.** The Household decided on a 10-year phased refit after considering a range of options for the programme. It expected this option to cause minimal disruption to the running of the Household and public access. The Household was clear about the programme's purpose, core objectives, and benefits. The scope of the work was well-defined and manageable, supported by a phased delivery plan. The Household developed its cost estimate using high-level assumptions and an optimism bias of 20%, following advice from experts, to reflect the risk and uncertainty of works on a heritage building. The Household told us that it and HM Treasury considered two funding models: a temporary uplift in the Sovereign Grant to be paid over 10 years or a one-off capital grant. HM Treasury decided on the temporary uplift model (paragraphs 1.7 to 1.15).

7 **The chosen governance model reflects the risks and opportunities of carrying out a programme in a live environment, with clear accountabilities allowing for informed and quick decisions.** The Senior Responsible Owner (SRO) has clear delegated authority and has been in post since the Household started developing the business case in 2015. He is also the Master of the Household, responsible for all hospitality, catering and housekeeping across the Occupied Royal Palaces. His dual role has helped the Household to recognise issues and make timely decisions about the trade-offs needed to keep the Palace operational during the works, as well as from the perspective of being the operator of the completed Palace. The Household decided to have an in-house programme management office (PMO) to keep close control and oversight over the works, given the fixed budget. It set up an operations team, also reporting to the SRO, to provide a link between the normal business of the Palace and the Royal Collection Trust and the programme, allowing issues to be managed and resolved quickly in a live environment. There is independent oversight, specialist scrutiny, advice and guidance in the form of a Programme Challenge Board (paragraphs 1.16 to 1.25, and Figure 2).

Progress with the programme

8 **The Household has made good progress against the overall programme objective to mitigate the real risk of operational failure.** The phased delivery approach has focused on doing the most important work first to address the risks of fire and flood. Completed works include moving water tanks, installing new boilers, a switch panel and back-up generators, removing 3.5 kilometres of dangerous electrical cabling, the East Wing, and some projects in the West Wing. The PMO estimates that 82% of operational improvements are now complete, including new lavatories, lifts and an accessible entrance ramp (paragraph 2.3, and Figures 3 and 4).

9 **The programme is within budget, but some individual projects have increased in cost and taken longer to complete than expected.** At the end of March 2024, the programme's net expenditure was £238.9 million, 65% of the £369 million budget (actual prices). While the Household has taken opportunities to bring forward work where possible, some of the work originally planned to be completed by this stage, such as the South Wing main section, has been deferred to the final years of the programme. There have been delays and cost increases on some individual projects, for example the East Wing was completed over two years later than planned and at March 2024 was 78% over its estimated cost. However, some projects have come in under budget. Costs related to managing the programme are higher than estimated in the outline business case. This is partly due to costs that were originally assumed to be covered elsewhere and because the Household decided to invest more of its budget on managing the programme reflecting its better understanding of programme risks. The PMO estimates that £40.8 million, 11% of the programme's total budget will be spent on management costs (paragraphs 2.4, 2.12, 2.13 and 2.20, and Figures 4 and 5).

10 The reasons for delays and cost increases on some individual projects vary, and some were more in the control of the Household than others. Some challenges have been outside the control of the programme, for example the COVID-19 pandemic, variable inflation and supply chain difficulties. In October 2023 the PMO calculated the total programme-wide cost impact of COVID-19 as £22.5 million. The Household has also delayed work due to the availability of funds in-year. Increases in annual funding have been lower than expected in the original funding profile, largely due to the impact of the COVID-19 pandemic on the Sovereign Grant. The Household was not able to bring forward funding from future years to cover costs or match the desired pace of work. It will receive the balance of funding in the last two years. Other challenges were more likely and were in the Household's control. While the Household expected to encounter some issues, it thought it had a relatively good understanding of the Palace and had planned on that basis. In the end, it discovered more asbestos and structural damage – which are common issues for heritage programmes – than expected, resulting in project delays (paragraphs 1.15, 2.5 to 2.11, and 3.2, and Figure 6).

11 The Household has absorbed any increased costs within the fixed budget and funding profile. As the programme is funded through an allocation from the Sovereign Grant agreed with HM Treasury, the Household considers the overall programme budget to be fixed and therefore needs to absorb any additional costs, including inflation, within its funding envelope. Where project or management costs have exceeded budgets, they have been funded by the programme's overall contingency. At the end of March 2024, the programme had spent £90.8 million (65%) of the £140 million programme contingency. Total expenditure exceeded the cumulative funding received for the programme by the end of 2022-23. To manage this, the programme has borrowed from the core Sovereign Grant Reserve. At the end of March 2024 it had borrowed a total of £4.7 million, which it plans to repay by the end of the programme (paragraphs 1.2, 1.14, 2.15, 2.16 and 3.12, and Figure 7).

12 The Household regularly reviews its plans and has adapted its approach to manage within its means while maintaining the core scope. The Household has focused on the overall objectives and benefits of the programme, as set out in the business case, when it has needed to make trade-off decisions and has made only minimal changes to the scope. For example, the Household reviewed the case for the Visitor Admissions Centre because the cost estimates and project complexity had increased. It decided not to go ahead with the Centre as it could achieve the benefits and scope of the programme by other means, such as introducing Schools Week for pupils to learn in the State Rooms. To manage challenges and take advantage of opportunities it has reset the timelines and delivery strategy for the programme three times. The July 2020 reset brought some work forward, given the reduced number of public events and staff onsite during the COVID-19 pandemic. Resets in October 2022 and January 2024 have revised the works schedule and sequencing to manage funding, including paying back what it has borrowed from the core Sovereign Grant. Using a phased approach made these resets possible, increasing the Household's ability to manage risk and uncertainty, and apply lessons as the programme progresses (paragraphs 2.17 to 2.20).

13 **The Household is monitoring benefits and is making progress towards its targets.** The business case listed the programme's benefits, including an expected £3.4 million annual additional recurring income and utilities savings for the 40 years to 2066 (2016 prices). The Household is tracking and reporting performance on benefits, including benefits that were unforeseen at the start of the programme. However, it could do more to bring all this information together to ensure that everyone involved in delivering benefits can understand progress and actions needed. Some benefits have already been achieved, such as reducing the risk of fire and flood by removing 3.5 kilometres of Vulcanised Indian Rubber cabling and moving water tanks from the roof to the basement, and completing some reservicing works and operational improvements across the Palace. To help ensure the benefits are monitored and realised after the programme is complete, the Household is looking to include benefits targets in its normal performance reporting process, which will include assigning responsibility within the Household for achieving benefits (paragraphs 1.13, 3.16, and 3.18 to 3.20, and Figure 9).

14 **The programme has a culture of collaboration and continuous improvement.** The Household has sought out external scrutiny for the programme and acted on the recommendations that it has received. It has also put in place a system to capture and embed lessons learned. The Household has used a variety of techniques to create transparency and secure 'buy-in' from internal and external stakeholders and contractors, throughout the programme. The Household has developed good engagement within the programme team and with the rest of the Palace organisation. This has been essential in allowing the Household to manage dependencies and ensuring that the Palace remains operational and occupied while reservicing work happens (paragraphs 1.23 to 1.25, 2.21 to 2.24, 3.6 and 3.11).

Risks remaining

15 **The Household has deferred some work to later stages because of funding and other challenges, increasing risks in the later stages.** The programme will receive the final £100 million of funding (27%) in its last two years and expects to spend £51.5 million in the final year of the programme (2026-27). The work to be completed over the next three years includes works on essential services and the West Wing, which are underway, and the North and South Wings, which are yet to begin main works. The Household has carried out work to understand the risks to completion and how it can manage these. It is carrying out enabling works before tendering the main works contract to mitigate the risk of delays leading to more cost. To reduce dependencies between projects it is doing work on the North and South Wings at the same time rather than sequentially. With concurrent work taking place, there is a risk that there is not enough capacity in the PMO to manage this, or in the supply chain to carry out the work. In addition, as the programme comes to an end, key staff may leave (paragraphs 2.3, 3.2 to 3.11, and 3.13, and Figures 5 and 8).

16 **There is limited unallocated contingency left in the programme budget for the Household to deal with any unknown risks without reducing what is delivered.** The PMO's analysis at March 2024 estimates net unallocated contingencies at £5.0 million. In addition, the PMO estimates, based on previous competitively tendered rates, that £54.6 million of expected design and construction work is not yet in contract, meaning these costs are uncertain until contracts are finalised. In March 2024 the PMO analysed different scenarios. It estimates a £1.6 million underspend using its current mitigations. In the analysis the outcome ranged from a worst-case projected £5.9 million overspend (once all contingency has been spent) to a best-case £8.8 million underspend. To keep within the funding envelope the PMO has identified projects that could be dropped and are not critical to achieving the programme's benefits. The total budget for the projects which the Household considers it could drop to ease budget pressures is £10.7 million. The Household has also considered how to fund the programme if something happens that means it cannot complete works within budget. In this case, it will fund any difference from the core Sovereign Grant, which would put pressure on other areas funded from the core Sovereign Grant (paragraphs 3.7 to 3.9 and 3.12 to 3.14).

17 **The Household forecasts the programme will achieve its key benefits, including its primary objective of mitigating the real risk of fire and flood; but achieving some benefits will need further activity beyond the programme.** The Household had a clear primary purpose to mitigate the risk of operational failure of the Palace by replacing core services. It prioritised these works and is on track to achieve its objectives. The business case also contained financial and qualitative wider benefits, such as improving public access, operational efficiencies and improving environmental sustainability. Overall, the Household is forecasting to exceed the target of £3.4 million annual additional recurring income and utilities savings at the end of the programme (2016 prices). The Household will need to invest outside the programme to achieve some benefits. For example, as noted at the time of the outline business case, additional investment will be needed to achieve benefits related to increasing income from renting out offices in the grounds of St James's Palace. Plans are underway to deliver this work through the Royal Household Property Section's Annual Works Programme (paragraphs 1.9, 2.3, 3.16 and 3.17, and Figure 9).

Conclusion

18 The Household has managed the £369 million, 10-year Buckingham Palace Reservicing programme well and has demonstrated good practice in a number of areas. It had clear objectives and a budget that reflected the risk of undertaking a heritage programme. There has been a strong focus on keeping within the budget, and the Household has managed this so far despite challenges, by making trade-offs, actively managing risks and learning lessons. The Household has worked hard to engage stakeholders within the Palace and through the supply chain, and the Palace has remained operational throughout. The Household has responded well to challenge and assurance, fostering a culture of honesty. While risks remain to the overall value for money of the programme, particularly given the backloading of work on to the last two years and the limited remaining unallocated contingency, if the Household continues to manage risks effectively, its approach to the programme should set it up to deliver good value for money.

Recommendations

19 In completing the Buckingham Palace Reservicing programme the Royal Household should:

a Review capacity and capability requirements within the PMO following the most recent reset, and act quickly where it sees risks. As more work is to be delivered in the final stages, it should consider carefully when is the right time to close programme structures and ensure it has the right people in place until the end of the programme.

b Continue to monitor benefits, including additional benefits of the programme, by bringing all information together in a single shared tracking system. This will make it easier to monitor progress, understand performance and provide clear forecasts for all those involved in delivering the benefits, such as internal and external stakeholders required to realise third-party benefits (for example, additional rental income and increased number of visitors to the Palace).

c At the end of the programme in March 2027, set out how much it has spent, what it has achieved through the programme, and what additional work is required to maximise benefits, and how this will be funded. It should set out plans for how it will optimise value for money in the longer term.

d Carry out an evaluation between five and 10 years after the programme ends, publishing and communicating the findings. The evaluation should assess and demonstrate what value the programme has delivered, including for wider society, and could inform decision making for similar investments across the Royal Estate.

e Identify the lessons it has learnt and discuss these with the Infrastructure and Projects Authority (IPA) and HM Treasury to decide a set of lessons for major projects, particularly for heritage projects and those taking place in a live environment. We have set out some potential lessons that could be explored.

- **Have as much continuity in senior, critical positions as possible.** The programme has had one Senior Responsible Owner (SRO) from programme design throughout delivery. The programme director and operations director have also been in post from early in the programme, developing a strong relationship and deep knowledge of the programme and the building. This has also facilitated an open and transparent culture.
- **There may be advantages in appointing an SRO who is also the ultimate operator of the asset, particularly where the programme is taking place in a live environment.** Major works disrupt normal business. For the Palace, it must still be a home, workplace and venue hosting events of national importance. The SRO understands how the building currently operates and could in the future, and has clear delegated authority, enabling them to anticipate issues, make trade-offs, identify opportunities and make the final decisions about when to stop and start work.
- **For heritage projects, plan to spend time on discovery and enabling works, take account of high levels of uncertainty in the budget, and do not proceed too quickly to finalising design and starting work.** Even with a well-understood building, it is very likely that significant issues that need to be remedied will be found. It is useful to build a flexible delivery plan, phasing work and dividing it into smaller, discrete projects, to deal with unexpected issues and allow trade-offs to be made.
- **Think carefully about what skills and experience are needed in the governance and assurance models, and how those skills will be used.** For heritage projects it is important to have people who understand the peculiarities of older buildings and what is likely to be found. We also found that, as the reservicing included elements to improve sustainability, it was important to involve people who understood this in the governance arrangements.
- **When considering funding models, think through how the different options might operate under different scenarios.** For example, heritage projects are likely to find unexpected issues, such as asbestos and structural damage, which may require replanning of work. Working in a live environment can create dependencies which may affect how work is carried out.

20 The IPA and HM Treasury should share the lessons with government's project delivery and project assurance and review communities. This could mean, for example, that the IPA adds the lessons to the government's project delivery hub, includes examples on its assurance reviewer and major project leadership academy training courses, and updates any relevant guidance, particularly for heritage projects; and that HM Treasury writes to spending teams dealing with major projects setting out the lessons and how they might encourage departments to implement them.