



House of Commons

Committee of Public Accounts

**The BBC's White City 2
development: The
response of the BBC
Governors to the
Committee's Twenty-
fourth Report of
Session 2005–06**

**Second Special Report of
Session 2005–06**

*Ordered by The House of Commons
to be printed 22 May 2006*

HC 1139
Published on 13 June 2006
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

Current membership

Mr Richard Bacon MP (*Conservative, South Norfolk*)
Annette Brooke MP (*Liberal Democrat, Mid Dorset and Poole North*)
Angela Browning MP (*Conservative, Tiverton and Honiton*)
Greg Clark MP (*Conservative, Tunbridge Wells*)
Rt Hon David Curry MP (*Conservative, Skipton and Ripon*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Helen Goodman MP (*Labour, Bishop Auckland*)
Mr John Healey MP (*Labour, Wentworth*)
Mr Sadiq Khan MP (*Labour, Tooting*)
Mr Edward Leigh MP (*Conservative, Gainsborough*)
Sarah McCarthy-Fry MP (*Labour, Portsmouth North*)
Mr Austin Mitchell MP (*Labour, Great Grimsby*)
Dr John Pugh MP (*Liberal Democrat, Southport*)
Jon Trickett MP (*Labour, Hemsworth*)
Kitty Ussher MP (*Labour, Burnley*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)

The following were also Members of the committee during the period of the enquiry:

Mr Alistair Carmichael MP (*Liberal Democrat, Orkney and Shetland*)
Diana R Johnson MP (*Labour, Hull North*)
Stephen Williams MP (*Liberal Democrat, Bristol West*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Emma Sawyer (Committee Assistant), Ronnie Jefferson (Secretary), and Luke Robinson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk.

SECOND SPECIAL REPORT

The Committee of Public Accounts reported to the House on *The BBC's White City 2 development* in its Twenty-fourth Report of Session 2005–06, published on 14 February 2006 as HC 652. The BBC's response was received on 3 May 2006, and is published below as an Appendix to this Report.

Appendix: The BBC's response

1. During the course of the White City 2 project additional costs were identified which added over £60 million to the total cost, an increase of 29%. The whole life costs of projects should be assessed, and made available to BBC Governors, before projects proceed.

The original investment agreed by the Governors related to the construction costs of the White City 2 development. The BBC welcomes recognition by the NAO that the construction and basic fit out was delivered within the budget and timescales approved by the Governors.

The £60m, referred to by the PAC, was not part of the construction project and £40m related to specialist broadcast technology equipment, including edit suites and playout facilities. This cost was known about at the time of the original investment case. It was specifically budgeted and agreed by a separate legal entity, BBC Broadcast Ltd (now Red-Bee Media).

The BBC accepts the PAC's recommendation that total project costs should be included in the original investment case and have taken steps to seek to ensure that furniture, fit out and staff move costs are included in all cases presented to Governors for approval. Nevertheless in a dynamic changing broadcast operational environment it is unlikely to be possible to envisage all the possible uses to which a building will be put by the BBC over its life.

2. Even after signing the contract with Land Securities Trillium, the BBC made 300 variations to the White City 2 scheme. The BBC should better integrate design and construction, as recommended by the Office of Government Commerce, to reduce the risk of design changes after contracts have been let. Introducing variations after deals have been signed inevitably heightens the risk of cost increases.

The BBC accepts the PAC's suggestion to follow recommendations by the Office of Government Commerce when entering into such contracts.

However, in this instance, out of the 300 contract variations, 129 were simple confirmation of designs at no extra cost to the BBC. The NAO's report acknowledges that most of the

variations were to finalise the detailed design and provisional sums rather than involving significant changes to the agreed design. According to our cost consultant, the number of variations and the total value of them is well below the norm for a project of this size and complexity. There was an allowance in the project budget for contract variations, and therefore the 300 variations did not result in any extra cost to the BBC or in delays in completing the building.

3. The BBC sublet space to BBC Broadcast Limited, a commercial subsidiary, for rent lower than the cost to the BBC. Licence fee money should not be used to subsidise the BBC's commercial subsidiaries. The rent charged for sublet buildings should meet the BBC's costs or match the market rate if this is higher. As well as recovering its current costs, the BBC should also recoup previous undercharging from individual subsidiaries.

The BBC does not use the licence fee to subsidise the BBC's commercial activities.

The basis of the rental charge to BBCB was reviewed and updated in spring 2005 by the BBC's Fair Trading Team. The BBC achieved a full recovery of costs under the original unitary charge basis and continues to achieve a full recovery under the current arrangements.

4. Because of the way the project was financed, the BBC did not know whether the return to the private sector shareholders was within the limit specified in the contract, and the BBC was unlikely to secure a share of any refinancing benefits. The principle has been accepted that the public sector should share in gains that arise when projects are refinanced. Public bodies should recognise that obtaining refinancing benefits, and identifying returns to the private sector, is more straightforward where financing is linked directly to the project in question.

The National Audit Office report states that the partnership with Land Securities Trillium was unlikely to achieve refinancing benefits for the BBC. However, as the report was being finalised, the BBC did re-structure the lease, achieving a saving to the BBC of £63m in today's money. In a competitive tender exercise, the decision to appoint Insight (LST) was based on the fact that over the life of the deal, this contractor offered the lowest price to the BBC. In addition to the £63m savings the BBC achieved, LST produced cash benefits to the BBC of £33m over the first four years of the partnership.

5. The BBC's plans to cut staff and move others to Manchester increase the risk of space and technical capacity at White City 2 being under-utilised. While the BBC expects the new buildings to be fully used, its focus should not be exclusively on White City 2 but on achieving the most cost-effective solution to its accommodation needs, taking account of the whole of its estate. The BBC should not hold on to property which it does not need or which cannot be used cost-effectively.

The precise details of accommodation requirements in the future will be at least partially dependant on the progress of the BBC's own cost savings initiatives and the outcome of the discussions with HM Government on the level of the licence fee in the next Charter period from January 2007. Nevertheless, even assuming the move to Manchester goes ahead the London premises are expected to be significantly rationalised with concentration of activity into 3 sites of which the new development on the White City site is key.

6. More than two years after the Energy Centre was completed, the space for a combined heat and power installation is not being used, and the BBC is paying for the empty space. This space, together with vacant office space in the Energy Centre, has cost around £1 million a year, and the BBC should put the unused space to productive use as soon as possible.

The empty space for the combined heat and power plant comprises 2,335 sq ft or 1% of the total project and will be fully utilised when the final phase of the site is brought on stream. The vacant office space is currently a shell and core building and fit-out for occupancy commences this year.

7. The BBC did not follow public sector good practice in several important respects on this project. There is guidance from the Treasury and the Office of Government Commerce on estimating whole life costs, monitoring returns to the private sector, obtaining refinancing benefits, and integrating design and construction. The BBC would benefit from drawing on this guidance.

The BBC welcomes the PAC's recommendations and will endeavour to incorporate this guidance in future projects, where practicable.

8. The Comptroller and Auditor General's work is providing fresh insights about the BBC's use of public money, but is being done under arrangements which end in 2006. The Comptroller and Auditor General should have a continuing role beyond 2006, which should include full access rights enabling him to identify and select subjects for examination.

The BBC welcomes the work of the Comptroller and Auditor General and the NAO. The Communications Act, agreed by all parties at the time, has been successful and has provided the BBC with many valuable lessons learnt.

BBC believes that this arrangement best balances parliamentary scrutiny of licence fee expenditure with the editorial independence of the BBC and should be maintained. The BBC is therefore working with the Comptroller and Auditor General to ensure a similar agreement is reached for a continuing relationship post 2006.

List of Reports from the Committee of Public Accounts Session 2005–06

First Report	Managing National Lottery Distribution Fund balances	HC 408 (<i>Cm 6712</i>)
Second Report	The regeneration of the Millennium Dome and associated land	HC 409 (<i>Cm 6689</i>)
Third Report	Ministry of Defence: Major Projects Report 2004	HC 410 (<i>Cm 6712</i>)
Fourth Report	Fraud and error in benefit expenditure	HC 411 (<i>Cm 6728</i>)
Fifth Report	Inland Revenue: Tax Credits and deleted tax cases	HC 412 (<i>Cm 6689</i>)
Sixth Report	Department of Trade and Industry: Renewable energy	HC 413 (<i>Cm 6689</i>)
Seventh Report	The use of operating theatres in the Northern Ireland Health and Personal Social Services	HC 414 (<i>Cm 6699</i>)
Eighth Report	Navan Centre	HC 415 (<i>Cm 6699</i>)
Ninth Report	Foot and Mouth Disease: applying the lessons	HC 563 (<i>Cm 6728</i>)
Tenth Report	Jobskills	HC 564 (<i>Cm 6724</i>)
Eleventh Report	Local Management of Schools	HC 565 (<i>Cm 6724</i>)
Twelfth Report	Helping those in financial hardship: the running of the Social Fund	HC 601 (<i>Cm 6728</i>)
Thirteenth Report	The Office of the Deputy Prime Minister: Tackling homelessness	HC 653 (<i>Cm 6743</i>)
Fourteenth Report	Energywatch and Postwatch	HC 654 (<i>Cm 6743</i>)
Fifteenth Report	HM Customs and Excise Standard Report 2003–04	HC 695 (<i>Cm 6743</i>)
Sixteenth Report	Home Office: Reducing vehicle crime	HC 696 (<i>Cm 6743</i>)
Seventeenth Report	Achieving value for money in the delivery of public services	HC 742 (<i>Cm 6743</i>)
First Special Report	The BBC's investment in Freeview: The response of the BBC Governors to the Committee's Third Report of Session 2004–05	HC 750 (<i>N/A</i>)
Eighteenth Report	Department for Education and Skills: Improving school attendance in England	HC 789 (<i>Cm 6766</i>)
Nineteenth Report	Department of Health: Tackling cancer: improving the patient journey	HC 790 (<i>Cm 6766</i>)
Twentieth Report	The NHS Cancer Plan: a progress report	HC 791 (<i>Cm 6766</i>)
Twenty-first Report	Skills for Life: Improving adult literacy and numeracy	HC 792 (<i>Cm 6766</i>)
Twenty-second Report	Maintaining and improving Britain's railway stations	HC 535 (<i>Cm 6775</i>)
Twenty-third Report	Filing of income tax self assessment returns	HC 681 (<i>Cm 6775</i>)
Twenty-fourth Report	The BBC's White City 2 development	HC 652
Twenty-fifth Report	Securing strategic leadership in the learning and skills sector	HC 602 (<i>Cm 6775</i>)
Twenty-sixth Report	Assessing and reporting military readiness	HC 667 (<i>Cm 6775</i>)
Twenty-seventh Report	Lost in translation? Responding to the challenges of European law	HC 590 (<i>Cm 6775</i>)
Twenty-eighth Report	Extending access to learning through technology: Ufi and the learndirect service	HC 706 (<i>Cm 6775</i>)
Twenty-ninth Report	Excess Votes 2004–05	HC 916 (<i>N/A</i>)

Thirtieth Report	Excess Votes (Northern Ireland) 2004–05	HC 917 (N/A)
Thirty-first Report	Northern Ireland's Waste Management Strategy	HC 741
Thirty-second Report	Working with the voluntary sector	HC 717
Thirty-third Report	The Royal Parks and the Diana, Princess of Wales Memorial Fountain	HC 644
Thirty-fourth Report	Returning failed asylum applicants	HC 620
Thirty-fifth Report	The refinancing of the Norfolk and Norwich PFI Hospital	HC 694
Thirty-sixth Report	Tackling the complexity of the benefits system	HC 765
Thirty-seventh Report	Inland Revenue Standard Report: New Tax Credits	HC 782
Thirty-eighth Report	Channel Tunnel Rail Link	HC 727
Thirty-ninth Report	Consular services to British nationals	HC 813
Fortieth Report	Environment Agency: Efficiency in water resource management	HC 749
Forty-first Report	The South Eastern Passenger Rail Franchise	HC 770
Forty-second Report	Enforcing competition in markets	HC 841
Forty-third Report	Delivery chain analysis for bus services in England	HC 851
Forty-fourth Report	National Offender Management Service: dealing with increased numbers in custody	HC 788
Forty-fifth Report	Employers' perspectives on improving skills for employment	HC 862
Forty-sixth Report	Governance issues in the Department of Enterprise, Trade and Investment's former Local Enterprise Development Unit	HC 918
Second Special Report	The BBC's White City 2 development: The response of the BBC Governors to the Committee's Twenty-fourth Report of Session 2005–06	HC 1139

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number