



## **The BBC's efficiency programme**

Report by the Comptroller and Auditor General  
presented to the BBC Trust's Finance and Compliance  
Committee, 8 September 2011





**BRITISH BROADCASTING CORPORATION**

**The BBC's efficiency programme**

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

*Presented to Parliament by the Secretary of  
State for Culture, Olympics, Media and Sport  
by Command of Her Majesty  
November 2011*

© BBC 2011

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as BBC copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

# The BBC's efficiency programme

## BBC Trust Response to the National Audit Office Value for Money study 'The BBC's efficiency programme'

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.

From 2012, some studies will be chosen and undertaken by the Comptroller & Auditor General, the head of the NAO. These may be supplemented by other studies chosen by the Trust which are undertaken by external agencies.

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.

### Background to this study

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 its current efficiency programme. This programme was drawn up to meet

the Trust's challenge to the BBC in 2007 to find efficiencies equating to 3 per cent per annum over the five year period 2008-13. The Trust was keen for this value for money study to take place to review the BBC's progress to date in delivering the savings required and also to assess the BBC's approach taken in managing the efficiency programme – with a view to drawing out lessons that will be useful in the delivery of future savings required under the new licence fee settlement 2013–2017.

The Trust thanks the NAO for undertaking this review.

### Our views on the NAO's findings

We welcome the NAO's finding that the current efficiency programme is 'proving a clear success in the terms set for it'. The NAO note that the programme is on track to exceed its target of delivering £487 million per annum sustainable, cash-releasing net savings by 2012-13, whilst its overall performance in terms of audience measures has not declined. We are pleased to receive this assurance that the BBC Executive is managing the current efficiency programme in an effective way.

This headline is reassuring, however we are not complacent. Under the 2010 licence fee settlement the BBC faces a new challenge to find further significant savings. The NAO report identifies some areas where the BBC can go further in strengthening and embedding a culture of challenging cost on a continual basis. We consider it essential that the BBC builds on these recommendations as it implements its new programme of efficiencies going forward.

We have sought, and received, confirmation that the BBC Executive has accepted all the NAO's recommendations and will be actioning these as the BBC transitions from the existing efficiency programme into the forthcoming Delivering Quality First (DQF) efficiency programme. The main actions that arise in response to the NAO's recommendations cover the following areas:

- The BBC Executive will continue to explore ways in which it can obtain external perspectives and benchmarking information which challenge practice and identify possible opportunities for savings
- The BBC Executive will ensure that the savings related to the DQF programme are based on a detailed analysis of the costs and benefits of the affected activities, including the value those activities bring to the BBC's core objectives.

- The BBC Executive has begun to link, more explicitly, detailed performance dashboards to expected savings and to consider which external factors could have impacted performance and why. This builds on the recommendation the NAO made in a previous report on the BBC's management of major sports and music events. The BBC Executive will take this further and embed this approach within the DQF programme.
- The BBC Executive will ensure that lessons learned by individual divisions under the current efficiency programme are shared across all the divisions.
- The BBC Executive will allocate specific responsibility for challenging cross-divisional activities and identifying cross-divisional savings. This is being implemented within the DQF programme.

The Trust is satisfied that the Executive's proposed actions are an appropriate response to the NAO's findings. Progress against the action plan will be reported to the Trust.

BBC Trust

October 2011



National Audit Office

**British Broadcasting Corporation**

# The BBC's efficiency programme

---

**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 August 2011

This report examines the BBC's progress to date in delivering the savings required, and assesses the BBC's approach to delivering the programme against the principles of effective structured cost reduction.

© National Audit Office 2011

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.



# Contents

Key facts **4**

Summary **5**

Part One  
The BBC's efficiency  
programme **10**

Part Two  
The BBC's approach to  
delivering savings **24**

Appendix One  
Methodology **31**

---

The National Audit Office study team consisted of:

Matt Cain, Oliver Lodge, Saagar Patel, David Sewell and Danny Slater under the direction of Keith Hawkswell.

This report can be found on the National Audit Office website at [www.nao.org.uk/bbc-efficiency-2011](http://www.nao.org.uk/bbc-efficiency-2011)

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](mailto:enquiries@nao.gsi.gov.uk)

Website: [www.nao.org.uk](http://www.nao.org.uk)

Twitter: @NAOorguk

## Key facts

---

**£487m**

Reduction in annual expenditure by the end of 2012-13, compared to 2007-08 baseline, required to achieve the BBC's target

---

---

**£396m**

Reduction in annual expenditure delivered by the end of 2010-11

---

---

**£560m**

Forecast reduction in annual expenditure by the end of 2012-13, the end of the BBC's efficiency programme

---

**£145.50**

The current cost of a television licence

**3 per cent**

Annual net cash-releasing efficiency target set by the BBC Trust for the period 2008-13

**Seven**

Out of 12 areas of the BBC are forecasting that they will deliver the required reduction in expenditure by the end of 2012-13

**£1,902 million**

The total net savings the BBC is forecasting the programme will deliver over the course of the current licence fee settlement

**£64 million**

Forecast savings that are identified as at risk

**£139 million**

Forecast total cost of implementing the efficiency programme

**16 per cent**

The minimum level of cash-releasing savings the BBC will need to deliver over the four years to 2016-17, following the 2010 television licence fee settlement

# Summary

## Introduction

**1** In 2007 the Department for Culture, Media and Sport (the Department) removed the link between the television licence fee and inflation, and instead set it at a level that increased between 2 and 3 per cent a year for the period 2007–12 with the prospect of a freeze in 2012-13. It also asked the BBC to fund a scheme to support the national switchover to digital television.

**2** The BBC Trust set the BBC the target of finding 3 per cent cash-releasing efficiency savings each year. The BBC set up an efficiency programme called the Continuous Improvement Programme (the programme), to deliver these savings.

**3** This report examines the BBC's progress to date in delivering the savings required, and assesses the BBC's approach to delivering the programme against the principles of effective structured cost reduction. In doing so it draws out lessons for the BBC that will help strengthen its approach to identifying and delivering future savings, which will be necessary under the new licence fee settlement for the period 2013–17.

**4** We have not sought to examine in detail the individual initiatives through which the BBC is delivering savings. Instead we have audited the processes put in place by the BBC to manage the programme and validate and challenge the savings delivered. Our methods are set out in Appendix One.

## Main findings

### On progress to date in delivering the savings

**5** As at March 2011, the BBC is on track to exceed its target of delivering 3 per cent sustainable, cash releasing savings each year. To meet this target the BBC must identify £487 million qualifying savings net of implementation costs by 2012-13. To date it has delivered £396 million and is forecasting it will deliver a further £164 million over the final two years of the programme. Of the future savings, the BBC has classified £64 million as at risk, meaning that there is some uncertainty that the planned savings will be made or performance maintained. However, the BBC is forecasting that it will achieve its target even if all of this risk materialises. The level of savings achieved in the period under review and sustained from previous years has been checked by KPMG, the BBC's external auditor.

**6** Although the BBC is on track to achieve its overall target for the programme, the performance of individual areas of the BBC in meeting their targets varies. As at April 2011, nine of twelve areas were ahead of schedule, with North, Future Media & Technology and Workplace behind. The BBC's Internal Audit Department conducted a review of how areas were managing the programme that highlighted a lack of senior management control and insufficient embedding of risk management in two of the three that are currently behind target (Future Media & Technology and Workplace). By contrast BBC Vision, which had implemented strong governance arrangements, is ahead of schedule.

**7** When negotiating the licence fee in 2007, the BBC believed it was close to its 'efficiency frontier', meaning that further savings would only come from the adoption of new technology or working practices or have a direct impact on its performance. It is hard to say whether the target set by the Trust was sufficiently stretching, but overall the BBC is on track to exceed it. In addition, the BBC has also managed additional cost pressures from higher than expected inflation and a voluntary freeze in the level of the licence fee. To respond to these pressures, the BBC identified further savings initiatives additional to those planned through its efficiency programme, although the majority of these would not have qualified as efficiencies under the programme.

#### On the impact of savings on performance

**8** For the savings delivered under the programme to qualify as efficiency savings the BBC must be able to demonstrate that its performance has not been unduly affected. The BBC has sought to validate that savings represent efficiencies by monitoring a range of performance measures, comparing performance against 2007-08 levels, and investigating where performance falls more than 5 per cent below this baseline.

**9** The BBC has delivered the required savings whilst broadly maintaining its overall level of performance. Areas of the BBC that produce content for the public account for 82 per cent of the savings target and have monitored over 50 performance measures based on three of the BBC's established indicators of public value: Reach, Quality and Impact. Over the course of the programme to date, the proportion of performance measures that have fallen more than 5 per cent below 2007-08 levels has remained between 7 and 11 per cent each quarter.

**10** The BBC cannot demonstrate with certainty that all the savings represent true efficiencies:

- There is likely to be a time lag between savings being delivered and their impact on performance becoming evident.

- The BBC cannot demonstrate a direct link between individual efficiency initiatives and performance in the same area. To avoid creating an additional administrative burden, the BBC did not establish new performance measures that would demonstrate the impact of efficiency initiatives.
- Although the BBC has identified the reasons for all falls in performance greater than 5 per cent, it has not assessed increases in performance for the impact of external events, such as the performance of competing networks, global news events and even the weather. Such events can mask any negative impact of making savings.

### On how the BBC is managing its efficiency programme

**11** In designing the programme the BBC followed available good practice. It established clear lines of accountability for delivering savings and by doing so created strong incentives to deliver. The BBC's Chief Financial Officer is the Senior Responsible Owner of the programme and delegated individual targets to areas of the BBC. Directors of these areas are responsible for meeting their savings targets and this is recognised in their formal performance objectives. The BBC created a central team to provide oversight and challenge, and to keep track of progress and outstanding risks.

**12** The BBC did not require that each area identify initiatives in excess of their targets to provide contingency. However, BBC Vision, which is responsible for delivering more than half the planned savings, encouraged those staff responsible for identifying savings to propose initiatives beyond the level of its target. In addition, the total level of the savings assumed within the individual area targets is greater than the savings required to meet the overall target for the programme.

**13** The BBC set divisional savings targets based on a high level assessment of the potential for savings within each area, but we did not see a detailed analysis of the costs and benefits of the outputs produced by each area. Cutting spending effectively requires an informed strategic overview. By having a clear understanding of what activities should cost and the value that they contribute, organisations can better target cost savings and avoid making cuts to low cost activities that contribute relatively greater value.

### Developing a culture of continually challenging costs

**14** The BBC managed the delivery of efficiency savings as a programme, which is a common starting point for organisations wishing to improve their efficiency, but good practice is to embed the behaviours developed through these programmes in day-to-day operations. Creating such a culture can be challenging, particularly when cost reduction programmes may have a direct impact on staffing levels and morale.

**15** The BBC established clear accountability for delivering savings targets through formal personal objectives but these arrangements provide limited incentives to deliver further savings. In addition, the divisional structure of the programme has meant that:

- staff within the different areas of the BBC do not have the incentive to identify and deliver savings that cut across areas or consider whether by delivering savings in their area they are increasing costs in other areas; and
- different areas of the BBC have approached the task of delivering their savings in different ways but the BBC has not evaluated these approaches with a view to identifying and disseminating good practice.

**16** The need to build a culture of continually challenging costs is underlined by the BBC's 2010 television licence fee settlement. Under the settlement the BBC will need to deliver further savings of at least 16 per cent over the period 2013-14 to the end of 2016-17 to meet its new responsibilities such as funding the World Service and S4C. This will create a different financial context for the BBC as its budget is set to fall in cash terms whereas over the period 2007-08 to 2012-13 it was set to increase. The BBC considers that it will not be able to manage within its new licence fee settlement through delivering efficiencies alone.

### **Conclusion on value for money**

**17** The BBC is delivering value for money from its efficiency programme in that it is on track to exceed its target of delivering £487 million sustainable, cash releasing net savings by 2012-13, whilst its overall performance in terms of audience measures has not declined. The efficiency programme is therefore proving a clear success in the terms set for it. It is, however, hard to say whether the target set was sufficiently stretching and the BBC cannot say whether all the savings represent genuine efficiencies. To manage within its 2010 licence fee settlement the BBC must build on the successful elements of its efficiency programme by strengthening its approach to targeting savings and creating a culture of challenging cost on a continuing basis.

### **Recommendations**

**18** To manage within its 2010 licence fee settlement the BBC will need to fundamentally challenge its costs and the way it delivers services. The BBC has acknowledged this and in January 2011 it began a six month internal consultation to inform how it will deliver its future strategy within the financial constraints of the licence fee settlement. This consultation, termed 'Delivering Quality First', is intended to generate a wide range of proposals for delivering savings.

- 19** We have not audited Delivering Quality First, but our recommendations are intended to help the BBC build on its experience of managing its current efficiency programme and embed a focus on challenging its cost base on an ongoing basis.
- a** **A number of previous National Audit Office reports have recommended that the BBC undertake benchmarking to identify the scope for delivering cost savings.** Whilst finding appropriate external benchmarking partners can be challenging, in commissioning a review of four of its radio stations, the BBC has demonstrated that there are a number of approaches that can be taken. The BBC should continue to explore opportunities to challenge its perceptions about what its activities should cost to deliver, and use the resulting insights to identify and deliver cost savings.
  - b** **The BBC could not demonstrate that the savings targets allocated to areas of the BBC were based on an assessment of the costs and benefits of what those areas produce.** Through its Delivering Quality First programme the BBC has consulted staff across the whole organisation on ways to deliver the savings required under its new licence fee settlement. The BBC should prioritise these savings by using a detailed analysis of the value its activities contribute to its objectives.
  - c** **The number and range of external factors that impact on the BBC's performance make it difficult for the BBC to isolate their impact.** Nevertheless the BBC should review its approach to accounting for external factors when measuring its performance and one way the BBC could adapt its performance management framework is to give more focus to areas where it has greater influence over the outcomes.
  - d** **The BBC does not have a standard approach to improving the efficiency of its operations.** Different areas of the BBC have approached the process of identifying and delivering savings in different ways but the BBC has not yet evaluated the effectiveness of these different approaches. The BBC should:
    - evaluate the approaches taken by different areas to identify which have proved most effective; and
    - use this evaluation to develop a consistent approach to identifying, prioritising, monitoring and evaluating initiatives to improve the efficiency of its activities.
  - e** **By setting savings targets for each area of the BBC the BBC did not create incentives for staff within those areas to identify efficiencies from activities that cross boundaries between areas of the organisation.** In seeking to improve the efficiency of its operations in future, the BBC should challenge activities, as well as discrete areas of the organisation. One way of promoting this approach is to make named individuals responsible for activities that cross areas.

# Part One

## The BBC's efficiency programme

### The origin of the programme

**1.1** In the run up to the review of the BBC's Royal Charter in 2006, the BBC developed a strategy<sup>1</sup> for the ten year period of the next Charter. This strategy formed the basis for the BBC's licence fee bid. In setting the level of the licence fee the Department for Culture, Media and Sport (the Department) had to make an assumption about the level of efficiency savings the BBC could deliver. It based its judgement in part on a range of reviews commissioned by itself, the BBC and the then BBC Governors.

**1.2** In January 2007 we examined the evidence base available to the Department to determine whether it had reasonable grounds on which to base its assessment of the scope for efficiency savings.<sup>2</sup> It was not part of our work to identify a particular efficiency target for the BBC. We concluded that, whilst it was always possible to do more to inform its judgement, the Department had sufficient evidence on which to assess the broad level of efficiency the BBC could reasonably be expected to deliver. The Department judged that the BBC could deliver up to 3 per cent cash releasing savings each year.

**1.3** The Department removed the link between the television licence fee and inflation and decided to increase the level of the licence fee over the period 2007-08 to 2011-12, as set out in **Figure 1**, with the prospect of a freeze in 2012-13. At the time the BBC estimated that, given assumptions about the likely growth in households and collection rates, the licence fee settlement would provide it with funding of £21.5 billion over the period, with more than £800 million ring-fenced to support the Digital Switchover programme. This was £2.2 billion less than the BBC had asked for in its licence fee bid.

**1.4** Figure 1 shows that the BBC forecast that over the period of the settlement its available funding would increase in cash terms by £312 million (from £3,255 million in 2007-08 to £3,567 million in 2012-13). However, once the BBC had taken account of the inflation it expected, it forecast that its funding would fall in real terms by £118 million (from £3,255 million to £3,137 million).

<sup>1</sup> Creative Future, BBC, 25 April 2006.

<sup>2</sup> *How the Department for Culture, Media and Sport assessed the BBC's efficiency as part of the licence fee settlement*, National Audit Office, 18 January 2007.



**Figure 1**  
The 2007 television licence fee settlement

Year	2007-08	2008-09	2009-10	2010-11	2011-12 <sup>3</sup>	2012-13	Total
Percentage increase in television licence fee from the previous year (%)	3	3	2	2	2	0-2 <sup>4</sup>	N/A
Proposed cost of the television licence fee (£)	135.50	139.50	142.50	145.50	148.50	148.50	N/A
Forecast licence fee income (£ million) <sup>1</sup>	3,286	3,520	3,553	3,726	3,735	3,656	<b>21,476</b>
Less: amount ring-fenced to support Digital Switchover (£ million)	(31)	(97)	(174)	(208)	(203)	(89)	<b>(802)</b>
<b>Forecast cash available to fund the BBC's core public services (£ million)</b>	<b>3,255</b>	<b>3,423</b>	<b>3,379</b>	<b>3,518</b>	<b>3,532</b>	<b>3,567</b>	<b>20,674</b>
<b>Forecast funding in real terms available for the BBC's core public services (£ million)<sup>2</sup></b>	<b>3,255</b>	<b>3,336</b>	<b>3,210</b>	<b>3,257</b>	<b>3,187</b>	<b>3,137</b>	<b>19,382</b>

#### NOTES

- 1 The forecast licence fee income is based on the BBC's assumptions about growth in the number of homes with televisions and the rate of licence fee evasion.
- 2 The real terms figure has been calculated based on the BBC's assumption of 2.6 per cent inflation over the period, all other figures are in cash terms.
- 3 In September 2010, the BBC Trust offered to forego the 2 per cent increase in the licence fee for 2011-12 (see paragraph 1.15). The licence fee has therefore been kept at its 2010-11 level of £145.50.
- 4 The settlement provided for between a 0 and 2 per cent increase in the licence fee in 2012-13, to be determined in the next licence fee review, the BBC made its financial projections based on an assumption that there would be no increase in funding.

Source: BBC

**1.5** The BBC Trust set the BBC the target of achieving cash-releasing efficiencies of 3 per cent of expenditure a year for the five-year period 2008-09 to 2012-13 (to be measured net of any implementation cost and against a 2007-08 baseline).

**1.6** The BBC set up an efficiency programme called the Continuous Improvement Programme (the programme), to deliver these savings. These savings were to be re-invested in the BBC to deliver its planned strategy and to meet inflationary pressures within the BBC.

## The design of the programme

### Setting up the programme

**1.7** In developing the programme the BBC reviewed good practice at the time and drew heavily on guidance produced by HM Treasury. In particular it:

- Established a **clear definition of what constitutes an efficiency**. In line with the criteria applied in the 2007 Spending Review, the BBC classified savings as either **productive** (carrying out the same activities at a lower cost, whilst maintaining performance) or **allocative** (switching resources from activities that contribute less to the organisation's outcomes to those that contribute more so that there is no adverse effect on overall performance). The BBC planned to deliver a quarter of its efficiencies through allocative efficiencies.
- Set up arrangements to **measure the delivery of efficiency savings** including a process to capture implementation costs so that only net savings were reported. To qualify as savings under the programme both allocative and productive efficiency savings needed to release cash and productive efficiencies needed to be sustainable.
- Established **clear baselines** for measuring savings. The BBC set a financial baseline based on its budget for core UK public services from its 2007-08 audited accounts (£3,246 million).<sup>3</sup>
- Provided a **consistent template for each area to record** their individual efficiency initiatives. The BBC followed the approach prescribed by the Office of Government Commerce and asked each area to describe their initiatives in Efficiency Technical Notes. These Efficiency Technical Notes set out the estimated cost of the initiative, when savings would be delivered, the risks to delivery and the risks to performance, and a named individual responsible for their delivery.
- Produced **training and guidance** on the definition of efficiencies and the scope of the programme. Prior to the start of the programme, the BBC ran a series of workshops for senior finance staff on the definition, measurement and reporting of efficiency savings. The BBC also put guidance on the programme on its intranet, so it was available to all staff.

**1.8** The National Audit Office has highlighted the importance of providing sufficient contingency in efficiency programmes to manage the risk that some efficiency initiatives will fail or will under deliver.<sup>4</sup> The BBC did not require areas to build in contingency. BBC Vision, however, encouraged those staff responsible for identifying savings to propose initiatives in excess of what was required (see paragraph 1.22). In addition, the total level of the savings assumed within the individual areas targets is greater than the savings required to meet the overall target for the programme.

<sup>3</sup> Expenditure on UK public services in 2007-08 (£3,487 million) less restructuring costs (£117 million) and licence fee collection costs (£123 million).

<sup>4</sup> *Progress with VFM savings and lessons for cost reduction programmes*, National Audit Office, July 2010.

## Governance of the programme

**1.9** The BBC gave the programme a high profile on the Executive Board. The Chief Financial Officer is a member of the Executive Board and is the Senior Responsible Owner. She allocated individual targets to directors responsible for the different areas of the BBC many of whom also sit on the Executive Board. The different areas and the level of savings targeted are set out in Figure 4 on pages 18 and 19. The Chief Financial Officer is accountable for the overall delivery of the programme, whilst individual directors are responsible for delivering the required savings from their areas and are accountable to the Executive Board. The BBC has established formal objectives relating to the delivery of the programme and these are cascaded to the responsible staff.

**1.10** We did not see a detailed analysis of how targets were allocated to individual areas based on an assessment of the costs and benefits of outputs produced by those areas. The Chief Financial Officer allocated targets based on a high level view of each area's capacity to deliver savings. For example Professional Services was allocated a lower target than other areas because it had made significant savings in previous efficiency programmes, and BBC Vision was given a higher target because the BBC felt there was some scope for restructuring.

**1.11** The BBC established effective programme management arrangements for keeping track of progress. It set up a central team to monitor the overall delivery of the programme, monitor risk and provide challenge and advice to the individual areas of the BBC on what is likely to qualify as an efficiency saving. The central team is accountable to the Chief Financial Officer. Individual areas formally report progress and risk each quarter to the central team, which compiles quarterly reports for the Executive Board and the BBC Trust. We saw evidence that these reports were considered and actions taken. The BBC also tasked its Internal Audit Department to review the governance structures implemented by each area against good practice (see paragraph 1.21).

## What has been delivered

### Overall progress on savings

**1.12** To achieve its target for the programme, the BBC needs to deliver savings in 2012-13, net of implementation costs in 2012-13, of £487 million, equivalent to 15 per cent of the 2007-08 baseline. To qualify under the programme savings must be sustainable, meaning that the savings accumulate year-on-year.

**1.13** Figure 2 shows the BBC's net savings to date and its forecast position. As at March 2011 the BBC has delivered £396 million of net savings (£423 million gross) and has plans in place to deliver £560 million of net savings (£573 million gross) by the end of the programme, exceeding its target of £487 million net savings. The BBC has classified £64 million of the forecast savings as 'at risk',<sup>5</sup> meaning that there is some uncertainty that the full amount of planned financial savings will be realised, or performance maintained. However, even if all of this risk materialises, the BBC has sufficient savings planned to achieve its target.

**1.14** The BBC wanted to deliver savings early (as illustrated by Figure 2) to increase the cumulative savings over the course of the programme. It is forecasting it will deliver £1,902 million net cumulative savings by the end of the programme (£2,041 million gross). These cumulative savings figures represent the amount of cash the BBC is forecasting it will release over the period of the licence fee settlement.

## Figure 2

Actual and forecast savings over the course of the programme

	2008-09 actual (£m)	2009-10 actual (£m)	2010-11 actual (£m)	2011-12 forecast (£m)	2012-13 forecast (£m)	Total forecast (£m)
Savings from 2008-09	237	237	237	237	237	<b>1,185</b>
Savings from 2009-10		83	83	83	83	<b>332</b>
Savings from 2010-11			102	102	102	<b>306</b>
Savings from 2011-12				66	66	<b>132</b>
Savings from 2012-13					85	<b>85</b>
Running total of gross savings compared to the 2007-08 baseline	237	320	423	488	573	<b>2,041</b>
One off implementation costs	(38)	(30)	(27)	(31)	(13)	<b>(139)</b>
Running total of net savings compared to the 2007-08 baseline	199	290	396	457	560	<b>1,902</b>

### NOTES

- 1 The figure shows that the BBC is on course to deliver £560 million net savings in 2012-13, exceeding the target of £487 million (paragraph 1.12). We have also shown the forecast total net cumulative savings (£1,902 million) and the forecast total gross cumulative savings (£2,041 million) over the course of the programme. These figures represent the amount of money the BBC is forecasting it will save over this period.
- 2 All figures are in cash terms.
- 3 Not all figures cast due to rounding.

Source: National Audit Office analysis of BBC data

5 The BBC has two categories of risk for the programme: crystallised risk (which accounts for £21 million) and non-crystallised risk (£43 million).

**1.15** When negotiating the licence fee settlement with the Department in 2007 the BBC believed it would be at the 'efficiency frontier' by 2008, after which delivering further savings would either come from the adoption of new technologies or new ways of working or, would have a direct impact on its performance. It is hard to say whether the savings targets set during its efficiency programme were sufficiently stretching and how much scope there is for the BBC to deliver further efficiency savings. Nevertheless, whilst the performance of individual areas varies (paragraph 1.18), overall the BBC is on track to exceed its savings target. Furthermore, over the course of the programme to date, the BBC has absorbed a number of other budgetary pressures it had not anticipated at the time the programme was conceived. In particular:

- The impact of higher than forecast inflation: when planning its efficiency programme the BBC assumed that inflation would be 2.6 per cent a year, whereas over the course of the programme to date it has been between 3 and 4.5 per cent.<sup>6</sup>
- Increased contributions to the BBC's pension fund: the BBC re-evaluated its pension deficit in March 2011 and as a result agreed to make an additional contribution into the pension fund of £110 million in 2010-11 and plans to make contributions of £60 million in 2011-12 and 2012-13.
- The impact of a voluntary freeze in the level of the licence fee from 2010-11: the BBC Trust offered to forego the permitted increase in the licence fee in 2011-12 and 2012-13 meaning that the licence fee has remained at its 2010-11 level of £145.50.

**1.16** To manage these pressures the BBC identified further savings initiatives in addition to those planned through its efficiency programme. However, the majority of these savings would not have qualified as efficiencies under the programme as they represent either delayed or reduced levels of investment, for example a £32 million reduction in spending in BBC Online, or short-term savings which are not intended to be sustained.

**1.17** The BBC categorises savings from the programme into five broad themes for the purposes of reporting in its annual report. **Figure 3** overleaf shows the proportion of savings delivered as at March 2011 in each of these themes.

<sup>6</sup> Based on Consumer Prices Index.

**Figure 3**

## Source of programme savings as at March 2011

Savings category	Percentage of total savings	Explanation
<b>Productive savings</b>		
Production and process improvement	28	Savings arising from new ways of working and merging operations. For example BBC Vision has increased the use of computer generated imagery to reduce location costs on the programme <i>Survivors</i> .
Procurement and contracts	26	Savings from renegotiating contracts with existing providers, bulk buying and outsourcing.
People	13	Savings generated by post closures, staff redundancies, reduction in talent costs and removal of some staff allowances.
Property and technology	6	Savings from disposing of buildings that the BBC no longer needs and moving staff into existing buildings, and savings from large pan-BBC IT projects.
<b>Allocative savings</b>		
Focusing on content quality	27	Switching funding from content which is less popular with audiences to higher performing output.

**NOTE**

1 The proportions above are based on the running total of actual savings delivered as at 2010-11 from Figure 2.

Source: BBC analysis reviewed by the National Audit Office

## Progress on savings within different areas of the BBC

**1.18** Although the BBC is on track to achieve its overall target for the programme, the performance of different areas of the BBC in meeting their targets varies. The BBC monitors the progress of different areas of the BBC along the lines set out in **Figure 4** on pages 18 and 19. Figure 4 shows the progress made by the different areas of the BBC to date, and their forecast position at the end of the programme, including the amount of savings currently classified as 'at risk'.

**1.19** Seven of the twelve areas of the BBC are currently forecasting they will achieve their savings targets for April 2013, including BBC Vision which accounts for over half of the target. There is, however, still a significant amount of risk to be managed in Future Media & Technology. The areas of the BBC that are not on track to meet their savings targets are, however, forecasting that they will deliver the planned level of cumulative savings due to the front loading of savings (paragraph 1.14).

**1.20** As at April 2011, nine areas were ahead of or in line with their planned position (Figure 4), with North, Future Media & Technology and Workplace behind:

- North, responsible for £33.6 million of the savings target (around 7 per cent), was created in 2010-11 to recognise those BBC departments due to move to Salford, including BBC Children's Department and BBC Sport. The planned savings for those departments were transferred from BBC Vision and News Group, respectively. BBC Children's Department did not meet its target for the year 2010-11. BBC Children's Department over-delivered in 2008-09 and 2009-10, and is still forecasting that it will meet its cumulative target for the period to April 2013;
- Future Media & Technology, responsible for £32.4 million of the savings target (around 7 per cent), planned to deliver just over a third of its savings from its 10-year Technology Framework Contract with Siemens, which was taken over by Atos on 1 July 2011. Although Siemens considers it has delivered all the savings contractually required, the BBC expected that further savings would be delivered as a result of incentive arrangements in the contract.<sup>7</sup> These additional savings have not materialised and Future Media & Technology has therefore under delivered to date; and
- Workplace, responsible for £23.2 million of the savings target (around 5 per cent), has under-delivered to date because it delayed giving up property leases due to market conditions. The BBC has told us, however, that it is now in negotiations with interested parties and some of the delayed savings will be realised before the end of the programme.

**1.21** The BBC central team carried out a mid-point review of progress on the programme and observed a clear link between the governance of the programme within areas of the BBC and the proportion of savings classified as at risk. This view is supported by the review of how different areas of the BBC were managing the programme carried out by the BBC's Internal Audit Department (paragraph 1.11), which highlighted a lack of senior management control and insufficient embedding of risk management in two of the three areas that are currently behind target (Future Media & Technology and Workplace). As a result of Internal Audit's recommendations, programme steering groups have now been set up in Workplace and Future Media & Technology, to review risk regularly.

<sup>7</sup> We have not audited the contractual arrangements or the savings delivered under the contract as part of this work.

**Figure 4**

Forecast positions at the end of the programme and level of risk

Area	Target annual savings to be delivered by April 2013 as a proportion of the area's annual expenditure (%)	Target savings to be delivered by April 2011 (£m)	Savings delivered by April 2011 (£m)	Variance (%)
BBC Vision	4.3	187.7	236.8	26
News Group	4.0	22.2	22.4	1
North	4.0	20.9	19.6	-6
Future Media & Technology	3.3	26.5	22.6	-15
Professional Services	1.5	12.0	15.9	33
BBC Scotland	5.6	18.3	18.5	1
Workplace	2.7	20.5	13.1	-36
English Regions	2.2	15.6	16.5	6
BBC Audio & Music	2.5	10.9	13.2	21
BBC Wales	3.8	7.3	7.7	5
BBC Northern Ireland	3.8	1.8	5.0	177
Nations & Regions Headquarters	4.5	4.2	4.2	0
<b>Total</b>		<b>348</b>	<b>396</b>	<b>14</b>

**NOTES**

- 1 The areas described above do not reflect the current structure of the BBC due to a number of reorganisations for example Nations & Regions Headquarters no longer exists and the savings have been reassigned to other areas of the BBC.
- 2 Not all figures cast due to rounding.

Source: National Audit Office analysis of BBC data



---

Target savings to be delivered by April 2013	Forecast savings by April 2013	Variance	Savings at risk	Savings at risk as a percentage of forecast savings
(£m)	(£m)	(%)	(£m)	(%)
249.6	306.1	23	31.7	10
34.4	35.3	3	2.5	7
33.6	32.8	-2	1.6	5
32.4	45.2	40	17.9	40
27.0	29.3	9	1.2	4
23.4	23.2	-1	0.0	0
23.2	22.6	-3	2.8	12
20.6	20.2	-2	3.6	18
16.1	18.1	12	0.3	2
13.8	14.6	6	0.7	5
8.0	7.1	-11	1.4	20
5.0	5.0	0	0.0	0
<b>487</b>	<b>560</b>	<b>15</b>	<b>64</b>	<b>11</b>

---

**1.22** By contrast, BBC Vision implemented strong governance and reporting structures and is on course to exceed its target by 23 per cent. BBC Vision was tasked with delivering more than half of planned savings from the programme. At the start of the programme, BBC Vision provided detailed guidance to its staff in an Efficiency Handbook and produced a series of plans to demonstrate how it would deliver the required savings and act as a reporting tool. These plans were produced to a standard format and encouraged responsible staff to identify additional efficiency initiatives to provide contingency.

**1.23** BBC Vision has had to manage the impact of the delay of the BBC's Digital Media Initiative to its savings target. The Digital Media Initiative is a major technology programme and the BBC was planning on the basis that it would deliver savings of £26 million, and it would have contributed to BBC Vision's target. In its April 2011 report on the BBC's management of the Digital Media Initiative, the Committee of Public Accounts noted that the BBC had made savings to compensate for this delay, and stated that, "the fact that the BBC easily identified new savings to compensate for the financial consequences of the contract failing suggests that the BBC should be more vigilant in securing real value and efficiency".

### Validation of the savings

**1.24** The BBC has put in place arrangements for validating that the savings it delivers are cash-releasing and sustainable. The BBC has made sure that savings are cash-releasing by reducing divisional budgets by the targeted amount of savings each year, in effect taking the cash away upfront. It has also contracted KPMG, its external auditor, to carry out an annual examination of the savings. KPMG checks a sample of savings back to supporting documentation to make sure there is evidence they are genuine and also performs tests on expenditure each year to check that savings achieved in previous years have been sustained.

**1.25** For the savings delivered under the programme to qualify as efficiency savings the BBC must be able to demonstrate that its performance has not been unduly affected. The BBC has established processes to monitor its performance although KPMG does not have a role in this aspect of validating the savings.

**1.26** The BBC encouraged areas providing services to other parts of the BBC to use existing service measures, such as customer satisfaction surveys, to measure performance. However, Professional Services, which is responsible for delivering around 5 per cent of the savings target, does not have any performance measures.

**1.27** As areas of the BBC producing content for the public (such as BBC Vision and BBC Audio & Music) account for 82 per cent of the savings target<sup>8</sup> we focused on how they have measured their performance, based on the three BBC public value performance indicators that relate to non-financial performance: Reach, Quality and Impact (see **Box 1**). Collectively, over the course of the programme the BBC has monitored over 50 individual measures quarterly and investigates where performance has fallen below 2007-08 levels by more than 5 per cent. These measures are based on well-established data sources, for example television viewing figures come from the Broadcasters' Audience Research Board.

**1.28** Over the course of the programme to date the BBC has broadly maintained its performance. There is, however, likely to be a lag between when some savings are made and their impact on performance because of factors such as the elapsed time between programmes being commissioned and their broadcast and the subsequent impact on viewer behaviour. The percentage of indicators where performance has fallen more than 5 per cent below the 2007-08 baseline has remained between 7 and 11 per cent each quarter (**Figure 5** overleaf). Where performance falls more than 5 per cent below the baseline level, areas consider the impact of external factors and provide an explanation to the central team. To date the central team has not disallowed any savings due to these falls in performance.

**1.29** The indicators that have consistently been more than 5 per cent below the baseline relate to listener numbers for the Asian Network and radio listener numbers in Northern Ireland. Both these indicators reflect the performance of services with relatively small audiences so they are more sensitive to fluctuations in listeners.

---

### **Box 1**

The public value performance indicators used by the BBC to assess its performance under the programme

**Reach** is a measure of the uptake of BBC services by the population.

**Quality** is a measure of the characteristics of public service broadcasting – excellence, distinctiveness, originality and innovation.

**Impact** is a measure of the extent to which BBC programmes are memorable, challenging, engaging and supportive of the BBC's purposes.

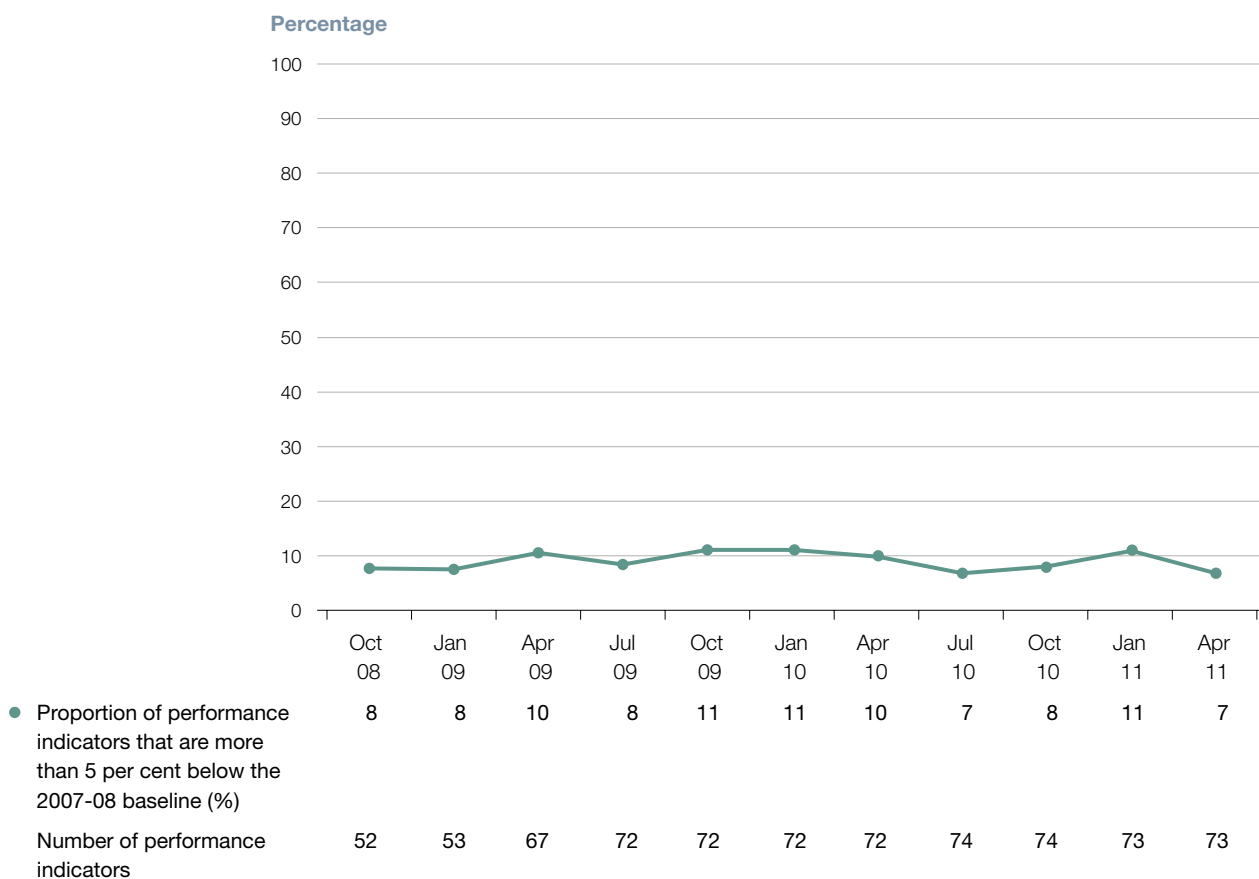
*Source: BBC*

---

<sup>8</sup> Together the targets for BBC Vision (£249.6 million), News Group (£34.4 million), North (£33.6 million), BBC Scotland (£23.4 million), English Regions (£20.6 million), BBC Audio & Music (£16.1 million), BBC Wales (£13.8 million) and BBC Northern Ireland (£8.0 million) equal £400 million (82 per cent of the £487 million target).

**Figure 5**

The proportion of BBC performance indicators that have fallen by more than 5 per cent below the 2007-08 baseline on a quarterly basis



Source: National Audit Office analysis of BBC data

**1.30** The BBC's approach to validating performance does not provide assurance that all the savings delivered represent genuine efficiencies:

- As the BBC is measuring its overarching performance based on its public value performance indicators it has not established a direct link between individual efficiency initiatives and performance in the same area. It may be the case that the reinvestment of savings in a particular area of the BBC over the course of the programme (paragraph 1.6) could have a positive impact on overall performance of that area, which may compensate for falls in performance due to savings delivered under the programme. For example, the BBC has spent £277 million on developing new drama programmes for BBC One, which will impact on the performance of the channel. Although the BBC did not document it as part of the lessons learned review it carried out on its previous efficiency programme, the BBC told us that based on its experience with that programme it decided to use existing performance measures to avoid creating further administrative burdens.
- The BBC has not taken full account of the external factors that may affect its performance. As the BBC is measuring its delivery of outcomes, its performance reflects numerous external factors, such as the performance of competing networks, global news events and even the weather. It has only taken external factors into account when attempting to explain falls in performance but it is equally possible that some external factors could lead to rises in performance that may mask negative impacts from the savings delivered under the programme. For example, the BBC observed strong growth in the number of viewers watching BBC News in 2010 but noted that this may be attributable to stories with high public interest, such as the rescue of the Chilean miners.

How the BBC approaches linking cost and performance is discussed in paragraph 2.14.

# Part Two

## The BBC's approach to delivering savings

### The new licence fee settlement

**2.1** In October 2010, the Department for Culture, Media and Sport (the Department) agreed a new television licence fee settlement with the BBC Trust. The settlement maintains the licence fee at its 2010-11 level (£145.50) for the five-year period from 2012-13 to 2016-17, following the BBC Trust's offer to forego the 2 per cent licence fee increase for 2011-12.

**2.2** The Department also transferred funding responsibility for BBC Monitoring<sup>9</sup>, S4C<sup>10</sup> (both from 2013-14) and the BBC World Service<sup>11</sup> (from 2014-15) to the BBC, and required the BBC to play an active role in supporting new local television, which the BBC in total estimates will require funding of £1.2 billion over the period. In addition, the Department ring-fenced a proportion of the licence fee for funding the rollout of broadband, amounting to up to £150 million a year from 2013-14 to 2016-17. **Figure 6** shows how the settlement will impact the BBC's funding available for its core UK public services.

**2.3** The new licence fee settlement has created a different financial context for the BBC. Over the period 2007-08 to 2012-13, although the BBC's budget was set to decrease in real terms it was increasing in cash terms (see paragraph 1.4 and Figure 1). Under the new licence fee settlement:

- the BBC's budget will fall in cash terms as well as real terms (Figure 6);
- the BBC will need to deliver at least a further 16 per cent cash releasing savings over the period 2013-14 to 2016-17 compared to 2012-13 expenditure<sup>12</sup> (equivalent to 3.8 per cent a year) to fund the obligations set out in paragraph 2.2; and
- unlike its current efficiency programme, where the BBC has some flexibility about when savings could be delivered, the BBC will need to deliver these savings by the time it assumes responsibility for funding specific obligations.

<sup>9</sup> BBC Monitoring provides news and information based on round the clock monitoring of television, radio, internet and news agency sources worldwide. It is currently funded by a grant paid from the Cabinet Office.

<sup>10</sup> S4C is a Welsh language channel, it is currently funded by the Department for Culture, Media and Sport.

<sup>11</sup> The BBC World Service is currently funded by the Foreign and Commonwealth Office.

<sup>12</sup> BBC Funding Settlement, letter from the Secretary of State for Culture, Olympics, Media and Sport to Sir Michael Lyons, 21 October 2010.

**Figure 6**

## The 2010 television licence fee settlement

Year	2011-12 <sup>1</sup>	2012-13 <sup>1</sup>	2013-14	2014-15	2015-16	2016-17	Total
Proposed cost of the television licence fee (£)	145.50	145.50	145.50	145.50	145.50	145.50	<b>N/A</b>
Forecast licence fee funding (£ million) <sup>2</sup>	3,699	3,730	3,762	3,800	3,837	3,871	<b>22,699</b>
Less: amount previously ring-fenced to support Digital Switchover (£ million)	(200) <sup>3</sup>	(86) <sup>3</sup>	–	–	–	–	<b>(286)</b>
Less: amount ring-fenced for broadband (£ million)	–	–	(150)	(150)	(150)	(150)	<b>(600)</b>
Less: estimated funding required for new obligations (£ million)	–	–	(125)	(373)	(337)	(332)	<b>(1,167)</b>
<b>Forecast funding available to the BBC's core public services (£ million)</b>	<b>3,499</b>	<b>3,644</b>	<b>3,487</b>	<b>3,277</b>	<b>3,350</b>	<b>3,389</b>	<b>20,646</b>
<b>Forecast funding available to the BBC's core public services, adjusted for inflation (in real terms) (£ million)<sup>4</sup></b>	<b>3,499</b>	<b>3,538</b>	<b>3,287</b>	<b>2,999</b>	<b>2,976</b>	<b>2,923</b>	<b>19,222</b>

**NOTES**

- 1 These figures were agreed as part of the 2007 licence fee settlement, although subsequently in September 2010 the BBC Trust offered to forego the permitted increase in the cost of the licence fee, holding it at its 2010-11 level for 2011-12 and 2012-13.
- 2 The forecast licence fee funding is based on the BBC's assumptions about growth in the number of homes with televisions and the rate of licence fee evasion.
- 3 These figures represent the amount currently available to be spent on Digital Switchover in 2011-12 and 2012-13, any underspend is currently ring-fenced for broadband rollout.
- 4 The real terms figure has been calculated based on the BBC's assumption of 3 per cent inflation over the period, all other figures are in cash terms.

Source: National Audit Office analysis of BBC data

**2.4** To manage within its new licence fee settlement the BBC will need to look beyond efficiency savings and consider making savings that may affect the services it delivers. In reacting to the licence fee settlement, in January 2011 Sir Michael Lyons, the then Chairman of the BBC Trust, was clear that he did 'not expect ... efficiencies will fully meet the funding gap ... and some hard choices about content and services may need to be made'.<sup>13</sup>

**2.5** Although the BBC's current efficiency programme was not designed to deliver the type of savings that will be necessary in future, it provides a good starting point for the BBC to build on in developing its approach. We have therefore audited the approach the BBC has taken to delivering efficiencies against the principles of effective cost reduction to both draw out lessons and make recommendations for moving beyond delivering efficiencies to reducing costs.

<sup>13</sup> Licence fee Settlement Commissioning Note, Sir Michael Lyons, 12 January 2011.

## An effective approach to structured cost reduction

**2.6** The National Audit Office's guidance on cost reduction<sup>14</sup> sets out clear expectations for the effective management of cost reduction programmes. It explains that organisations need to look beyond delivering short-term efficiencies and think more radically about how to make longer-term savings by taking a strategic overview to prioritising expenditure and embedding a culture of ongoing challenge to costs. Given that the focus of the BBC's work to date has been on identifying and delivering sustainable efficiency savings, we have chosen to focus on how the BBC can develop its approach to cost reduction by:

- taking a strategic approach to making cost savings; and
- developing a culture that continually challenges costs.

### A strategic approach to making cost savings

**2.7** The National Audit Office's guidance is clear that cutting spending effectively requires an informed strategic overview to avoid eroding the quality of services unnecessarily. This should involve challenging how services are delivered and considering new approaches. In auditing the BBC's current efficiency programme we did see examples of areas of the BBC challenging the way they deliver services to realise savings. For example, News Group delivered a large proportion of its savings target by restructuring the way it works to have fewer teams, and reduce headcount, but share material more freely. The BBC has acknowledged that to cope with the financial pressures presented by the licence fee settlement it will need to continue to question how it delivers its objectives.

**2.8** The former Chairman of the BBC Trust was clear that the BBC needed to "undertake a fundamental review of its cost base and shape of services and activities".<sup>15</sup> In January 2011 the BBC began a six month internal consultation to inform how it will deliver its strategy within the financial constraints of the settlement. This exercise, termed 'Delivering Quality First' is intended to generate a wide range of proposals for delivering the required savings. In contrast to its current efficiency programme, the BBC intends to build contingency into its plans by pursuing more than the 16 per cent savings it requires.

**2.9** Although the BBC Trust will ultimately be responsible for deciding which of the resulting proposals are accepted, the BBC will need to make sure that it prioritises them based on an accurate, realistic assessment of the costs, benefits and delivery risks. Targeting savings in this way will help avoid making inadvertent cuts to low cost activities that contribute relatively greater value to the BBC's objectives.

<sup>14</sup> *A Short Guide to: Structured Cost Reduction*, National Audit Office, June 2010.

<sup>15</sup> Licence fee Settlement Commissioning Note, Sir Michael Lyons, 12 January 2011.



**2.10** During its current efficiency programme the BBC targeted savings to the extent that it allocated different targets to individual areas of the BBC based on a high level view of each area's capacity to deliver savings. We did not, however, see a detailed analysis of how the targets were allocated, based on an assessment of the costs and benefits of outputs produced by the different areas (paragraph 1.10). To strengthen its approach to prioritising savings the BBC will need to be clear about:

- what its operations 'should' cost to deliver; and
- the link between cost and performance.

### **Determining what activities should cost**

**2.11** With available funding set to fall, the BBC will need to be in a position to trade off between cost and quality to focus its resources, which may be at odds with the BBC's creative culture that focuses on delivering as much quality as possible. In our report on the BBC's management of the cost of producing continuing drama<sup>16</sup> we noted, "the production team treats the ... budget as both a limit and a target and aims to allocate all the available funding to produce the best programme possible". Additionally, Ernst & Young's review of in-house commissioning for the BBC Trust<sup>17</sup> noted that "quality is considered to be an overriding factor in decision-making".

**2.12** Benchmarking, whether internally or with external partners, is one of the most effective ways of determining whether an organisation's cost base is at the right level. We have recommended that the BBC should carry out further benchmarking of its costs in our reports on the BBC's management of the costs of producing continuing drama,<sup>18</sup> the efficiency of radio production<sup>19</sup> and the management of the coverage of major events.<sup>20</sup>

**2.13** Although external benchmarking may be complicated by commercial sensitivities, internal benchmarking can provide valuable insights. Following recommendations in our report on the efficiency of radio production, BBC Audio & Music commissioned a report<sup>21</sup> that compared management practices across four network radio stations and concluded there was scope for savings to be made from sharing good practice. If the BBC can improve its analysis of what its activities should cost to deliver, it will be better able to demonstrate where there is scope for future savings.

<sup>16</sup> *The BBC's management of the cost of producing continuing drama*, National Audit Office, March 2011.

<sup>17</sup> *BBC In-House Television Commissioning*, Ernst & Young, June 2008.

<sup>18</sup> *The BBC's management of the cost of producing continuing drama*, National Audit Office, March 2011.

<sup>19</sup> *The efficiency of radio production at the BBC*, National Audit Office, February 2009.

<sup>20</sup> *The BBC's management of its coverage of major sporting and music events*, National Audit Office, January 2010.

<sup>21</sup> *Synergies within BBC Radio 1, Radio 2, 1Xtra and 6 Music*, John Myers, May 2011.

### Understanding the link between cost and performance

**2.14** The BBC has an established framework of outcome measures of its performance (see Box 1), but previous National Audit Office reports have highlighted concerns about the BBC's processes for linking cost and performance. For example, in our report on the coverage of major events<sup>22</sup> we found that, "When approving budgets to cover individual major events the BBC does not identify the intended benefits from its coverage".

**2.15** Throughout its efficiency programme, the BBC has delivered savings and then monitored its overall performance to try to make sure that savings represent genuine efficiencies (paragraph 1.25). To deliver strategic cost reductions with the minimum impact on performance the BBC must use its understanding of the relationship between cost and performance to target where savings should fall.

**2.16** For the BBC, making a link between the cost of audience facing activities and their outcomes is complicated by the extent to which external factors affect the BBC's performance. When examining the impact of savings on performance under the programme, News Group attempted to compare its performance against a predicted profile based on historical data to try to account for changes in viewer behaviour. It changed this approach, however, to comparing performance with a flat 2007-08 baseline to be consistent with the approach used by other audience facing divisions such as BBC Vision and BBC Audio & Music.

**2.17** One way in which the BBC might be able to adapt its approach to measuring its performance is to recognise more explicitly where it has greater control, such as measures of quality, and where its influence is less direct, such as measures of audience numbers. When evaluating performance in such a context, an organisation might expect 'good' results on measures where it has the most control, but may be forgiving if indicators where the organisation has less direct control were not performing well.

### Continually challenging the cost base

**2.18** The National Audit Office guidance on structured cost reduction advocates organisations pursuing the long term aim of creating an environment where operations are challenged and improved on a continuous basis. In recent years the BBC has undertaken a number of initiatives to improve its efficiency, although it has managed these as discreet programmes. This is a common starting point for organisations wishing to improve their efficiency but good practice is to embed the behaviours developed through these programmes in day-to-day operations.

22 *The BBC's management of its costs of major sporting and music events, National Audit Office, January 2010.*

**2.19** Based on our examination of the BBC's efficiency programme, we have identified two particular areas where the BBC can develop its approach to help promote a business as usual approach to challenging cost:

- taking a cross-organisational approach to identifying savings; and
- doing more to promote a culture of continually challenging costs by incentivising and enabling staff.

### Taking a cross-organisational approach

**2.20** The BBC's efficiency programme is structured along divisional lines. By passing individual targets to different areas the BBC has incentivised the delivery of local efficiency savings, and this has been successful in promoting ownership of targets and, we were told, healthy competition between the different areas. But managing the programme in this way may mean that potential efficiency savings are not identified. By way of illustration, BBC Audio & Music cascaded its target to individual radio station controllers, but a recent report on BBC radio recommended improving the coordination of radio stations to help deliver operational efficiencies.<sup>23</sup>

**2.21** Many of the BBC's business activities cross divisional boundaries; for example, the BBC's marketing and editorial compliance teams will be involved in the production of television programmes by BBC Vision. There are some initiatives within the current efficiency programme that deliver savings across multiple areas' targets, for example the BBC has made £6 million of savings through tighter control of telephone contracts. However, by passing targets to individual areas the BBC has not incentivised working between or across those areas. It is therefore possible that savings delivered in one area could lead to increased costs in another area. Whilst the BBC established a central team to oversee the programme, (paragraph 1.11) its role was not to identify efficiency savings or manage their impact.

**2.22** Another consequence of the BBC's devolved approach to its efficiency programme is that different areas of the BBC have approached the delivery of their targets in different ways. In delegating targets to areas of the BBC, the BBC gave each area autonomy over its approach to delivering the required savings. Whilst this may have promoted innovation, as different areas have taken different approaches, by definition, some will be more effective than others. Three years into the programme the BBC has not yet evaluated the approaches taken by different areas but has told us it intends to carry out a post project review. Good practice is to evaluate efficiency initiatives on an ongoing basis to try to ensure that lessons are learnt and can be implemented to deliver further savings across the organisation. Having a standard approach to challenging its cost base would mean that the BBC would be better placed to benchmark internally, and that staff trained in this approach could be deployed across the organisation to best effect.

<sup>23</sup> *Synergies within BBC Radio 1, Radio 2, 1Xtra and 6 Music*, John Myers, May 2011.

## Incentivising and enabling staff

**2.23** To embed a culture of continuously challenging cost throughout the organisation the BBC will need the ongoing support of staff to identify waste in its operations and help deliver savings. Creating such a culture is challenging, particularly at a time when cost reduction programmes are having a direct impact on staffing levels and morale.

**2.24** The BBC has established a strong and visible leadership for its efficiency programme and by doing so has raised the profile of efficiency across the organisation. It also created strong incentives to deliver the savings required by the programme by establishing clear accountabilities through formal personal objectives (paragraph 1.9). Whilst such incentives encourage delivery up to the programme targets they provide limited incentive to deliver further savings. We have, however, seen examples of some areas creating incentives to deliver further savings, for example, BBC Audio & Music put in place arrangements to allow teams who have delivered beyond their savings targets to reinvest some of the savings in creative projects and BBC Vision encouraged staff to identify additional efficiency initiatives to provide contingency.

**2.25** To encourage staff to continue to challenge the cost base the BBC will need to develop measures that incentivise staff on an ongoing basis and provide them with the skills and time to engage in these activities. During the course of its efficiency programme the BBC has rolled out training on identifying efficiency savings and those staff directly involved in the programme will have developed valuable skills. The BBC will need to make sure these skills are utilised effectively and where necessary developed.

# Appendix One

## Methodology

---

### Methods

#### Evaluation of the central coordination of the programme

We reviewed the following **documentation**:

- minutes of the Executive and Trust Board meetings when the programme was on the agenda;
- papers that went to the Executive and Trust Board on the design of the programme and quarterly updates on its progress;
- planning documentation for the individual efficiency initiatives (Efficiency Technical Notes);
- Internal Audit Department's report 'Review of Continuous Improvement Governance and Control' completed in April 2010;
- mid-point review of the programme carried out by the BBC central programme team;
- communications and training plans; and
- programme risk register and monitoring of risk over the course of the programme.

We carried out **semi-structured interviews** with the Chief Financial Officer, the two efficiency managers in the central programme team and the strategy team responsible for collating the performance data.

We assessed the approach of the BBC's external auditor, KPMG, to testing the financial savings from the programme. We interviewed the KPMG team and reviewed the approach they had taken as set out in the terms of reference for the engagement. We reviewed KPMG's reports to management on the programme and other programme documentation to assess whether issues were being raised and responded to.

---

### Purpose

To evaluate the central coordination of the efficiency programme, including reporting, governance, risk management and planning, against good practice.

Methods	Purpose
<p><b>Review of the approach taken to delivering the programme savings in a sample of areas</b></p> <p>We selected a <b>sample</b> of areas (BBC Vision, News Group, Future Media &amp; Technology and BBC Audio &amp; Music) to examine in greater detail, based on the following criteria:</p> <ul style="list-style-type: none"> <li>● total expenditure;</li> <li>● materiality of the area's savings target in terms of the total budget of the area and the BBC's overall target;</li> <li>● the balance between allocative and productive efficiencies in the area's savings target;</li> <li>● the proportion of forecast savings classified as at risk; and</li> <li>● findings from the BBC's Internal Audit Department.</li> </ul> <p>We reviewed the following <b>documentation</b> from our sampled areas:</p> <ul style="list-style-type: none"> <li>● annual efficiency plans for each year of the programme to date;</li> <li>● reports to area boards on programme progress;</li> <li>● details of the governance arrangements for the programme;</li> <li>● risk registers, and risk management arrangements implemented for the programme; and</li> <li>● communications and training plans for the programme.</li> </ul> <p>We carried out <b>semi-structured interviews</b> with each of the finance directors in the areas we sampled and other key staff involved in the development and delivery of the programme.</p>	<p>To examine the approaches taken by different areas and the extent to which lessons were shared between them.</p>
<p><b>Financial/quantitative analysis</b></p> <p>We analysed over 50 performance measures monitored by the BBC over the course of the programme to date. We compared the BBC's performance measures to the programme's baseline year, 2007-08, to identify instances where performance had fallen by more than 5 per cent and checked whether the BBC had provided explanations.</p> <p>We checked a sample of performance measures back to the underlying data to determine that they were being presented accurately.</p> <p>We analysed the reported and forecast financial data over the course of the programme. We compared overall progress to date and each area's progress against their profiled targets, and forecast savings and risk against the target.</p>	<p>To analyse performance data over the course of the programme to date and to analyse financial data, on a local and central basis, against targets.</p>



