



Driving efficiency at the BBC

To deliver quality content for the Licence Fee payer



In February 2014, Tony Hall made a speech to the Oxford Media Convention where he argued that although the BBC had done much to become efficient, we must never stop looking for ways to do more. At the same time, Tony asked me to carry out an efficiency review, looking both at the BBC's record and where we can go further to deliver value for money for Licence Fee payers.

Having completed this review, I am immensely proud of the range, depth and quality of the BBC's content and services. I see very clearly the significant financial challenges the BBC has faced and continues to face, the extent of change taking place across all parts of the BBC and the scale of achievement in doing more for less. Over the last 20 years the BBC has significantly increased the number of services it provides to Licence Fee payers for the same price in real terms.

In 2010 the Licence Fee was held flat at £145.50 for six years and the BBC took on new annual funding obligations which build up to £500 million (13 per cent of the Licence Fee) by April 2014. Funding these obligations, absorbing inflation and finding the investment needed to stay relevant to audiences in the digital world requires an unprecedented focus on efficiency.

Since the start of the current Charter, BBC staff have delivered annual savings of £1.1 billion and we are on track to deliver £1.5 billion by 2016/17. This reduction has been achieved through property rationalisation, procurement savings, reducing the cost of our people and a wide range of other initiatives in every part of the BBC. This report explains how we use the market to test costs – two thirds through competitive markets. It also explains how we prioritise resources – more than 90 per cent - on the content and services audiences value most.

We still have more to deliver - some £400 million annual recurring savings - to meet our financial targets for the end of the Charter. We know there are more opportunities to simplify and streamline. And through our "Compete or Compare" framework, we will continue to look for opportunities to reduce cost. But, as the report illustrates, many savings delivered in this Charter period come from structural or one-off initiatives that can't easily be repeated, making it more likely that content and services will be impacted if the real terms value of the Licence Fee continues to be reduced.

Everyone at the BBC is dedicated to producing great work. For 3p per hour of output and 40p a day we believe the Licence Fee payer can be confident they are getting good value from an organisation committed to delivering the best and to delivering value for money.

Anne Bulford OBE,
Managing Director, Finance and Operations

Executive Summary

A key BBC objective for 2014/15 was to *'improve value for money through a more efficient and open BBC'*. Earlier this year, we announced a review of how we spend the Licence Fee and the efficiency of the organisation. This report sets out the key conclusions of this review.

Efficiency in the BBC is about quality as well as cost

We have significantly improved productivity over the last 20 years by increasing the number of services and amount of content we provide for roughly the same price in real terms. While the Licence Fee was broadly flat in real terms, we were able to re-invest efficiency savings in new types of content and services like BBC Online and BBC iPlayer. Since 2010, when the Licence Fee level was frozen for six years, we have primarily used efficiency savings to meet inflationary pressures in our cost base and to pay for around £500 million per annum of new obligations placed on the BBC, including broadband roll-out, the World Service and funding local TV and S4C. At the same time, the BBC has faced more competition than ever before from a growing and globalising media market.

We are on track to deliver over £1.5 billion of cumulative annual savings by the end of this Charter period in 2016/17. We have already delivered over £1.1 billion per year towards this target. This is a significant achievement in the context of £3.2 billion of core controllable spend. To date, the great majority of these savings have been true productivity: doing the same or more for less.

Our aim is to concentrate spend on what matters most to audiences – content and services. More than ninety per cent of core controllable spend is on content, distribution and their related support costs, leaving just 9 per cent of spend on the professional support needed to run the BBC. This is a 25 per cent reduction in the proportion of the Licence Fee spent on such overheads in four years.

The BBC reaches 96 per cent of the UK population a week at a cost of three pence per hour of consumption for each person in the household. The evidence suggests that, so far, greater efficiency has not been at the expense of quality: BBC One and BBC Two score higher than other Public Service Broadcaster flagship channels for quality perceptions and we have broadly maintained our share of TV and radio consumption in a rapidly expanding market. With so much choice and global competition, letting our services decline is not a realistic option or fair on those who fund us.

The BBC has a strong track record on efficiency, constantly tested against competitors and the market

Since the mid-1990s the BBC has delivered average savings of around five per cent a year through five key efficiency programmes – from ‘Producer Choice’ in the 1990s, to ‘Continuous Improvement’ and ‘Delivering Quality First’ in this Charter period. In the decade to April 2015, the effect will be a cumulative net efficiency saving of over a third of our cost base - a record that compares well with that of central government.

To ensure that it is maximising efficiency, the BBC has established a strong culture of market testing and benchmarking activity. Around two-thirds of spend is already subject to market testing, either because it is purchased in a competitive market, such as acquisitions of film or sports rights, or because it relates to contracts subject to competitive procurement exercises.

We also benchmark BBC spend. Comparison of in-house TV productions against independent productions gives confidence on price. And in News, external benchmarking of our newsgathering resources indicates that the cost per minute of international news broadcast is significantly lower than for other global news organisations.

Overall, the evidence shows that the vast majority of the BBC’s spend compares well to market; work is ongoing to complete our assessment and we will identify further savings wherever possible such as in the BBC’s HR teams.

The BBC’s current savings programmes maintain the emphasis on efficiency, with the aim of achieving £800m of savings per year to meet the costs of inflation and new obligations while still investing in critical audience priorities.

Underlying the BBC’s current savings programme – Delivering Quality First (DQF) – is that the amount of funding that we have for the UK public service will be 26 per cent less in real terms than it would have been by 2016/17 as a result of the Licence Fee freeze and all the new obligations placed on the BBC. In addition, we have sought headroom to make new content and technology investments in order to remain relevant to Licence Fee payers. In 2013 we announced a further £100 million per year in strategic reinvestment in new content and services which led us to make difficult scope choices to generate savings. Overall, this will mean savings of over 30 per cent of our addressable cost base over the period.

To date, the majority of savings have come from productive efficiencies in three areas – people, property and procurement. Significant savings have come from structural or one-off opportunities including re-procuring major contracts, exiting Television Centre and investing in new finance systems to reduce headcount. Opportunities for further structural productivity savings are limited and many of the savings we are making cannot be readily repeated or replicated.

The need for scope reductions is therefore increasing in order to avoid salami-slicing. Since 2011/12, around 30 per cent of the £800 million total of Delivering Quality First and Strategic Initiative savings have been made through scope reductions. This is expected to rise to around 50 per cent of the savings in the final years of the programmes as we find money for strategic reinvestment. This will result in tough choices – the most significant is the proposal to close BBC Three as a linear broadcast service.

The BBC will embed continuous efficiency improvement but our capacity to deliver savings without diminishing content and services is reducing.

Efficiency is a process not an end-point. As announced in July, we will work to make the BBC as efficient as any broadcaster by rigorously applying a 'Compete or Compare' framework to all BBC spending – using competition wherever possible, and external comparisons where available, in order to drive up standards and drive down costs. The 'Compete or Compare' approach will embed continuous improvement within the BBC – each time we 'Compete or Compare' we will test the efficiency of the BBC and look for opportunities to improve value for money for Licence Fee payers. All areas of the BBC will be subject to competition or cost comparison on a regular basis.

It is unavoidable that after a long period of delivering substantial annual savings, the BBC's ability to deliver efficiencies on the same scale is reducing. This comes at a time when the competition for the best ideas and talent is escalating.

The BBC has modernised before, from radio to television, then from black and white TV to colour TV. Now it must modernise for a digital world where people consume media differently so that it can remain relevant to its audience and offer great value for money to licence fee payers.

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1. Introduction – prioritising efficiency

The BBC has significantly improved its productivity¹ over the last twenty years, increasing the number of services it provides for roughly the same price in real terms.

In 2010 the BBC was set the challenge to deliver its public purposes and its new funding obligations without an increase in the Licence Fee. The BBC set clear ambitions to focus on quality, innovation and efficiency. The Director-General also set an objective for the Corporation to be demonstrably well run in order to obtain more value for money for the Licence Fee payer.

The BBC is now leaner and more agile. Since 2007 the BBC has made £1.1 billion of annual savings.

These savings have been used to absorb inflationary costs and to pay for £500 million a year of new funding obligations including World Service, broadband roll-out, local TV and S4C, as well as exciting new content and innovative services like iPlayer. The NAO has commended the BBC's achievements in delivering efficiency programmes².

This achievement must be considered within the global market the BBC operates. The media sector has undergone dramatic change, including the consolidation of independent production, the development of digital services and greater competition from global conglomerates such as Viacom, Walt Disney, Google, Apple and Netflix. The BBC still performs extremely well, retaining a 42 per cent share of TV and radio consumption in the UK and our global news services have a weekly reach of 265m people.

This report reviews progress in delivering efficiency across the BBC's TV, Radio, Future Media and support services. Three key questions were considered:

1. To what extent have efficiency gains been made at the BBC over time?;
2. To what extent the BBC is efficient compared to external benchmarks?; and
3. How the BBC will continue to deliver future efficiency savings?

The BBC has established a 'Compete or Compare' framework to ensure it delivers value for money. The BBC has undertaken significant benchmarking and cost comparisons, which can provide Licence Fee payers with confidence that the vast majority of BBC spend compares well against market comparators.

The Corporation is confident that 'Compete or Compare' will provide a rigorous framework for delivering future continuous improvement.

The following report sets out key efficiency achievements including short case studies to help illustrate how we are delivering more for less.

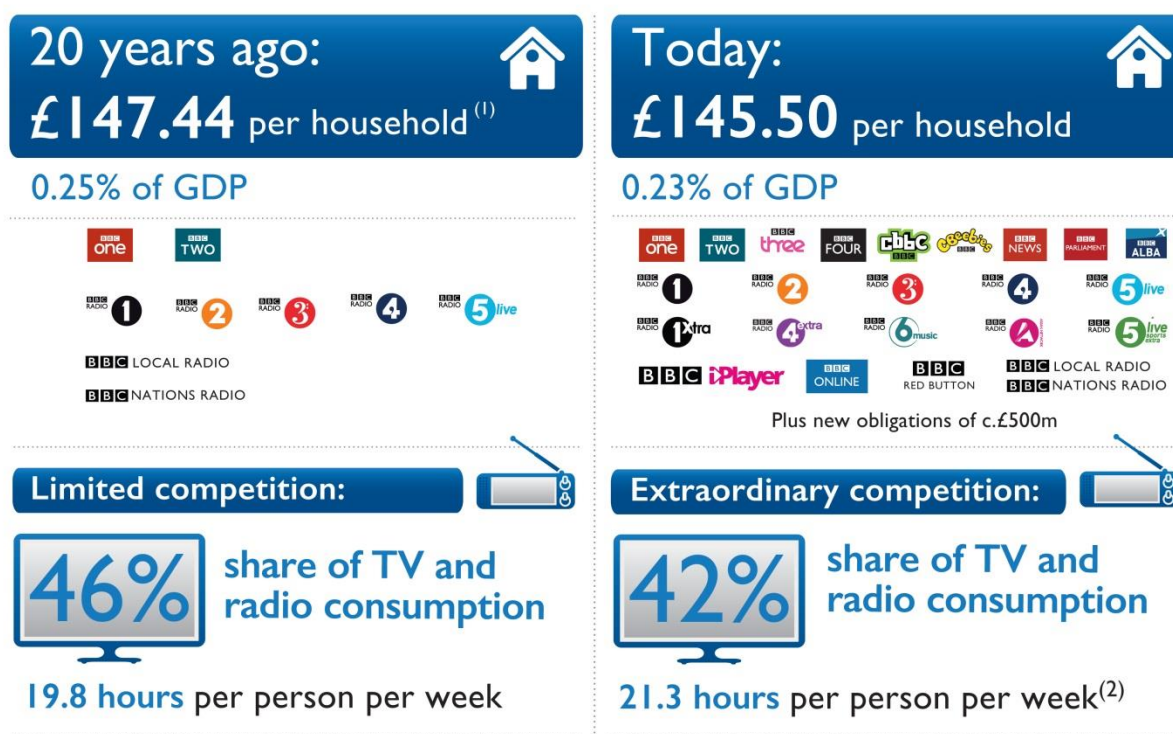
¹ A measure of outputs against the cost of inputs

² http://www.nao.org.uk/wp-content/uploads/2011/11/1012_BBC_Efficiency.pdf

2. Broadcast market – the BBC offers value and quality

The BBC offers many more services now than twenty years ago. The contrast is stark. Then: two national TV stations and five national radio stations and a radio based World Service. Now: eight national TV stations, ten national radio services, iPlayer, the World Service, which includes TV services, as well as a globally recognised web service (see figure 1).

Figure 1: Comparison of the BBC from 1994 to 2013



(1) in 2013 prices – Inflated by RPI (2) Figure comparable to 1994 methodology

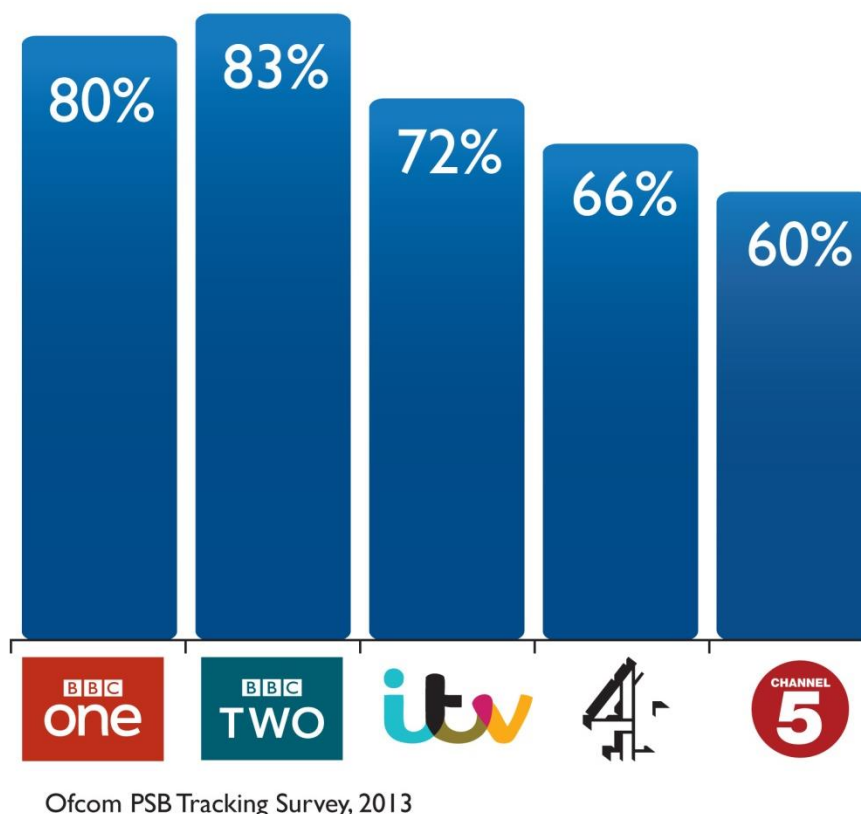
All this has been achieved within a Licence Fee that has remained broadly constant in real terms (when inflated by RPI) and while absorbing £500 million a year of new obligations. This marks a significant improvement in productivity and value for money for Licence Fee payers driven, in large part, by efficiency.

The BBC reaches 96 per cent of the UK adult population every week. Average usage is over six hours per household per day. This means **each hour of that consumption costs each person in the household only three pence.**

Quality and public value are the foundation of BBC services. Any assessment of efficiency therefore needs to consider quality and public value, which can be seen both on screen and through indicators like audience appreciation. BBC One and BBC Two score higher than other Public Service Broadcaster flagship channels for TV quality perceptions for example (see figure 2).

Figure 2: TV quality perceptions

'Shows well-made, high quality programmes' % of regular channel viewers rating channel at 7,8,9,10/10

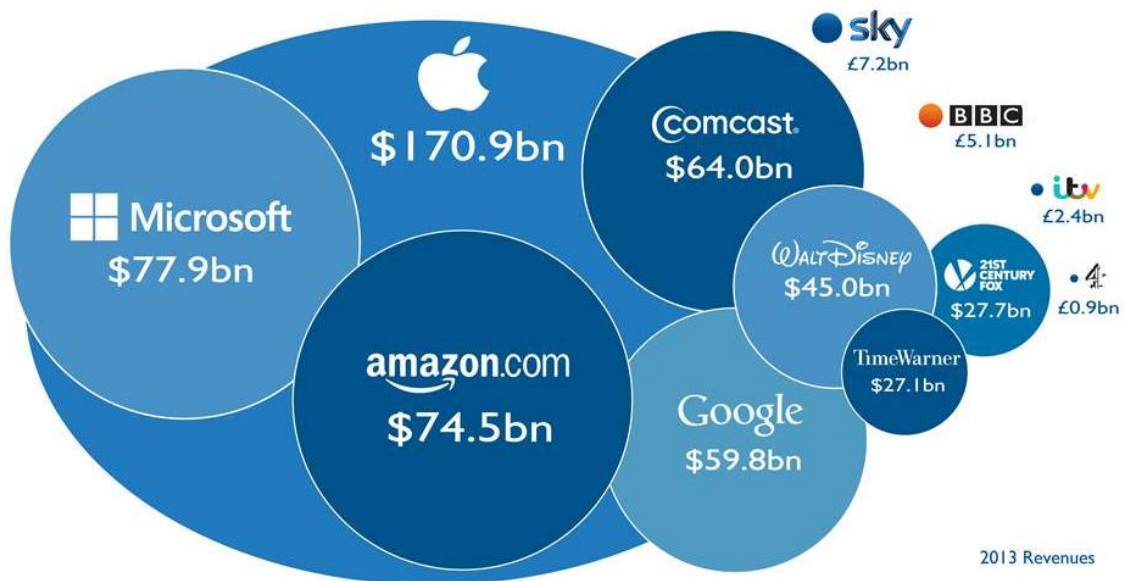


The purposes of the BBC, as set out in the Charter and Agreement, cover a series of public service obligations which sometimes prevent the BBC from delivering a service in the lowest cost way. These include our important responsibilities to represent the UK, its nations, regions and communities and to deliver to the public the benefit of emerging communication technologies. The BBC's services are subject to around 70 service licences quotas and some 150 different requirements contained in the Charter and Agreement.

There is broad support that the Licence Fee is the most appropriate way of funding the BBC. A nationally representative survey of UK adults found some **seven out of ten people are willing to pay the current level of the Licence Fee or more**, while support for subscription has halved over the last ten years.

By delivering services valued by Licence Fee payers, the BBC has largely maintained its share of TV and radio consumption, despite massive changes in competition, including the entrance of major US companies into the UK media market (especially online). Figure 3 below illustrates the relative size of the BBC (in 2013 revenue terms) against some of its global competitors. Over the last 20 years the BBC's share of UK broadcasting revenues has reduced to 25 per cent from 36 per cent.

Figure 3: Relative revenues of BBC and competitors (2013)



One powerful example is illustrative of the relative effectiveness of the BBC’s Drama investment. Netflix spent a reported \$100 million producing two series of House of Cards (originally a BBC produced television series). In comparison the BBC, through the Licence Fee, provided fourteen series (or 79 hours) of quality British drama for the same amount. These BBC dramas showcased new and world-renowned actors and writers, and delivered very high audience appreciation.

Figure 4: Comparison of content investment

The new US entrants into the content market are investing huge sums



- House of Cards**
- 2 series / c22 hours of content
 - Viewed by 6% of UK adults
 - Viewer appreciation 8.0 out of 10

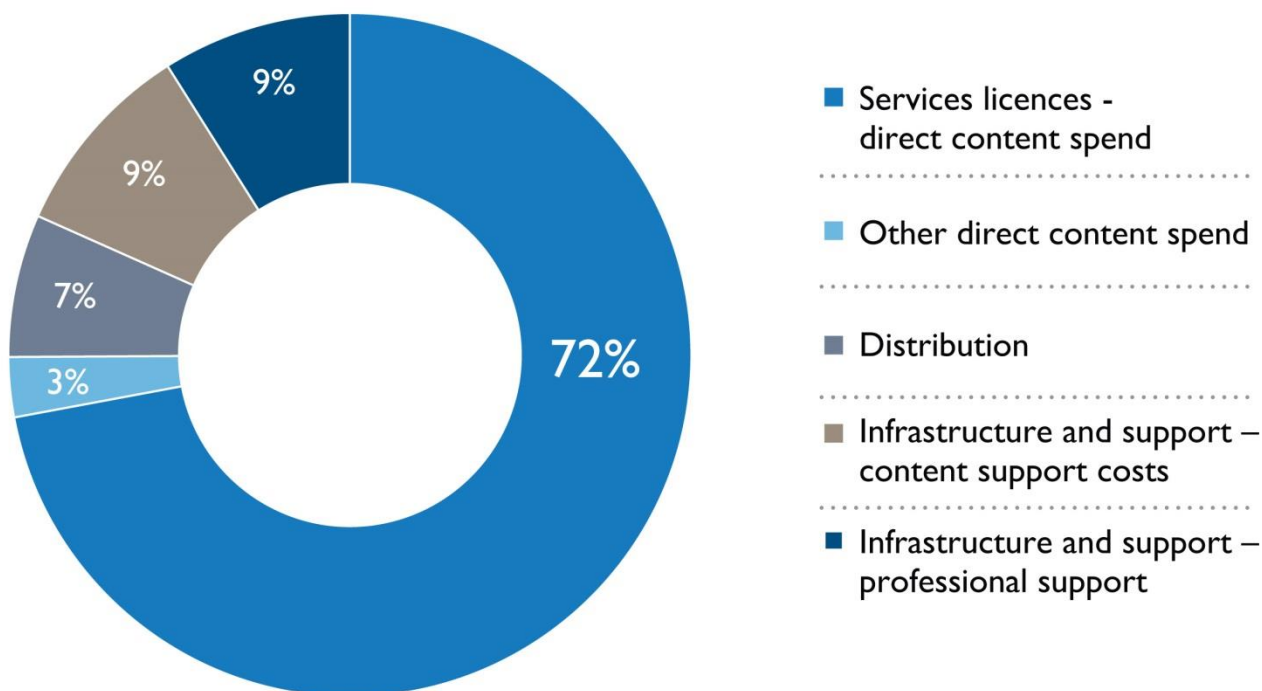
- BBC drama series**
- 14 series / c79 hours of content
 - Viewed by 72% of UK adults
 - Viewer appreciation 8.8 out of 10

House of Cards: Ipsos MORI, 1,035 UK adults 16+, July 2014; BBC: BARB; Pulse by GfK

3. Over ninety per cent of BBC expenditure is on content and distribution

More than ninety per cent of core controllable spend is on content, distribution and related support costs with less than ten per cent on the professional support needed to run the BBC (figure 5 below).

Figure 5: Breakdown of core controllable spend



The BBC Group's overall revenue was just over £5 billion in 2013/14. The Licence Fee provides nearly three-quarters (£3.7bn) of this with another £1.1 billion from commercial activities (primarily BBC Worldwide) and almost £250 million of Grant-in-Aid funding (primarily for BBC World Service, but ceasing from 1st April 2014).

After costs and taxes, BBC Worldwide returned over £174 million to support BBC public services. Other commercial returns add a further £162million.

The BBC Annual Report provides breakdowns of revenue as well as spend by activity³ and by service⁴. Further detail is also included in Appendix I. In summary, the BBC spent £3,778 million on UK public service broadcasting in 2013/14. This includes £566m on "other items" that includes Broadband Rollout, Local TV, pension deficit reduction payments and Licence Fee Collection costs. Excluding these items leaves

³ BBC Full Financial Statements 2013/14, Page 3

⁴ BBC Full Financial Statements 2013/14, Table B3.1, Page 33

£3,212 million of core controllable expenditure, which is spent on services for the UK public, including TV, Radio and online.

Work undertaken to ensure we minimise Licence Fee collection costs and levels of evasion is discussed in section 4 below. Significant pension reforms undertaken by the BBC are covered in Appendix 3.

The BBC's financial statements for 2013/14 show infrastructure and support costs of £589m. This represents 18 per cent of the controllable expenditure total and includes property costs (£140m), technology (£130m), finance and business (£70m), marketing, audiences and communications (£72m) and divisional running costs (£63m).

A further analysis of the £589 million on a line-by-line basis identifies elements of those costs incurred in support of content production and audience-facing activities. These account for £301 million of the £589 million – costs which the BBC incurs as a result of content driven activities including:

- Marketing and Audience research, including subscriptions to industry-wide audience measurement agencies for TV and Radio: BARB and RAJAR;
- Libraries and learning which directly relate to our public mission;
- Content delivery including technology staff; and
- Property accommodating the content support teams.

The remaining £288 million spent on professional and other services represents nine per cent of the core controllable costs. As a result over ninety per cent of core controllable spend is content, distribution and related support costs. The BBC has met its commitment to reduce overheads from twelve per cent in 2009/10 to less than ten per cent. A 25 per cent reduction in the proportion of the Licence Fee spent on overheads has been achieved over the last four years.

All overhead areas are routinely benchmarked and subject to regular market testing and we have plans in place to continue to reduce overhead costs further by the end of the Charter period. These include reorganisation of our HR functions, further property rationalisation and re-procurement of transaction processing services. The BBC has a strong record in delivering these plans. For example, the BBC won “Best Public Service Outsourcer” at the National Outsourcing Association Awards in November 2014.

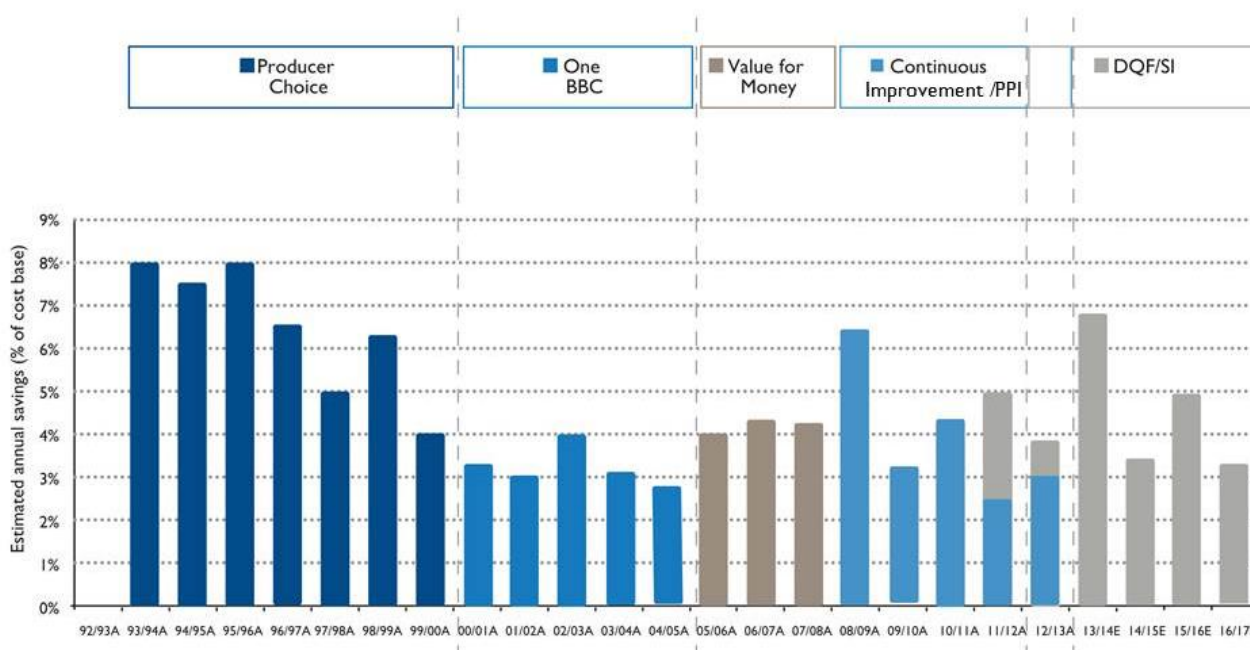
4. The BBC's track record in efficiency

The BBC has delivered strong year-on-year savings since the mid-1990s, achieving average improvements of around five per cent a year, with a particular emphasis placed on overhead and support costs.

In recent years, this has been acknowledged by the NAO. At the CMS Select Committee in July 2014, Amyas Morse, Comptroller & Auditor General, said: *"I have to testify that the BBC's done, in my view, a good job of addressing their cost structure ... their cost reduction work, which they've been successful with over a period of time, they've set targets and they've achieved them, I'm impressed with that and I've always reported on it on various occasions and always given positive comment about it"*.

There have been five over-arching efficiency programmes at the BBC since 1993. These have had different approaches, but the BBC has consistently improved value for money for the Licence Fee payer⁵. The results are summarised in figure 6 below with a further description of each programme in Appendix 2.

Figure 6: BBC efficiency programmes (1993-2017)



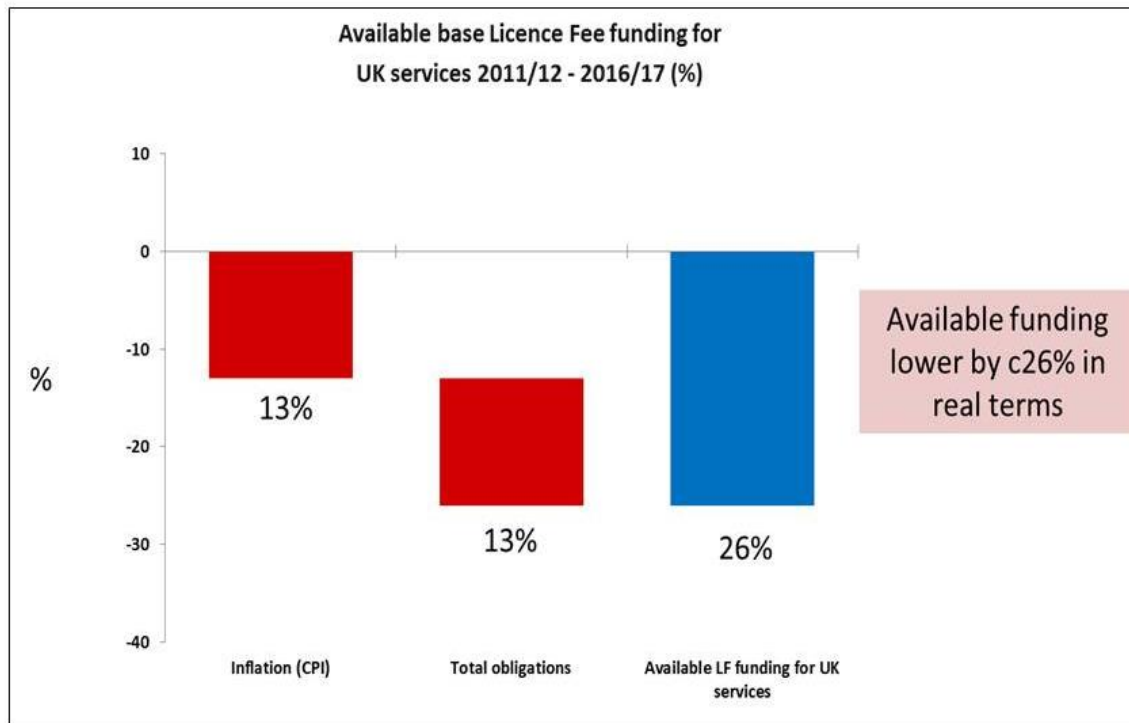
The BBC will have delivered around 36 per cent in cumulative annual net efficiencies against its addressable baseline in the decade to April 2015. This compares to around 27 per cent by central government (based on an analysis of NAO data).

⁵ Efficiency definitions and measurement methodology have changed over time therefore it should be noted that the levels of gross savings may not be directly comparable across the time periods.

The funding we have for public services in the UK will be 26 per cent less in real terms than it would have been by 2016/17⁶ as a result of the Licence Fee freeze and obligations placed on the BBC (see figure 7a).

Figure 7a: Real term changes to available BBC funding

The BBC faces 26% lower real terms funding for UK public services due to the freeze in the Licence Fee and total obligations*



* Lower than it would have been if the LF had increased by CPI and the BBC faced no obligations

In nominal terms, the BBC's UK PSB Group income (including that allocated to obligations⁷) has grown by around 2 per cent since 2010 (primarily due to household growth). By comparison over the same period, UK TV advertising revenue has increased by 11 per cent, ITV's overall revenues have increased by over 21 per cent and BSkyB's revenues have increased by over 16 per cent.

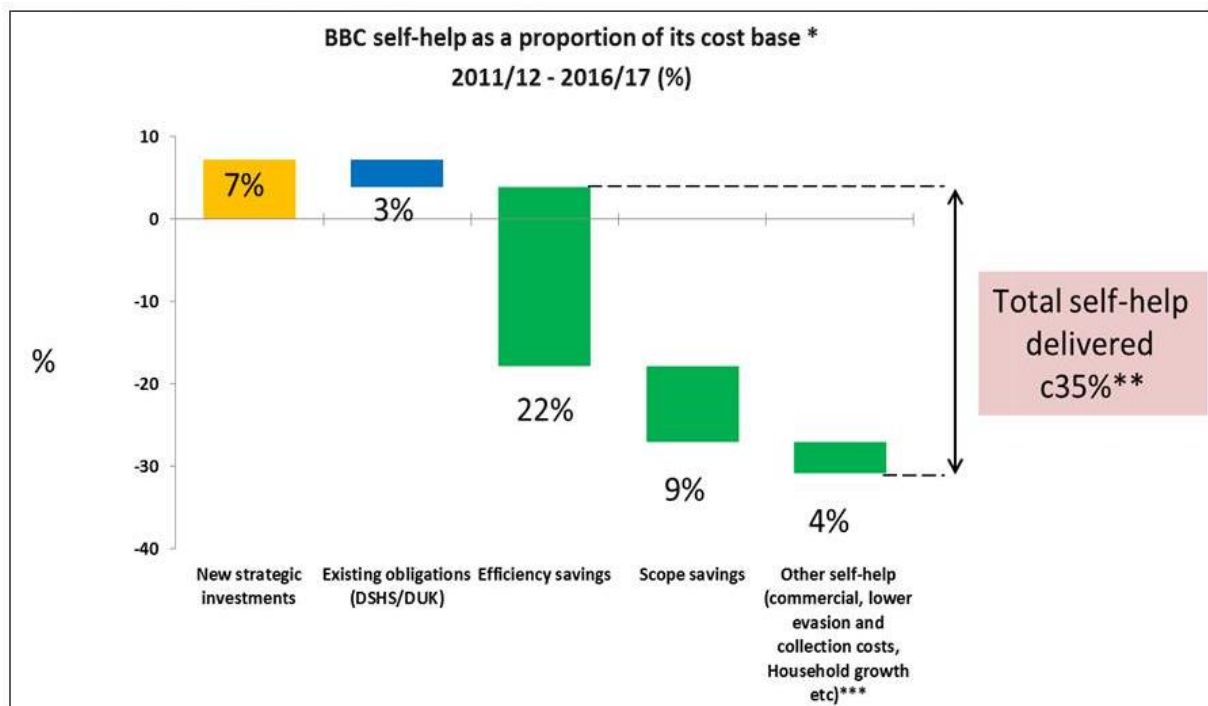
⁶ Lower than it would have been if the Licence Fee had increased by CPI and the BBC faced no obligations

⁷ After adjusting for digital switchover underspends

In order to offset this reduction and generate funding for investment in vital new strategic initiatives, the BBC has set out to deliver savings and commercial income or 'self-help' of some 35 per cent of its addressable baseline costs⁸ over the six year period to 2016/17 (see figure 7b).

Figure 7b: BBC self-help activities

The BBC has generated significant self-help, primarily through efficiencies, but also through tough scope choices.



* Baseline is the addressable cost base (e.g. excluding obligations, licence fee collection costs and restructuring costs as no net savings have been assumed to be delivered on these) and calculations use a CPI deflator

** Gross self-help before restructuring / implementation costs

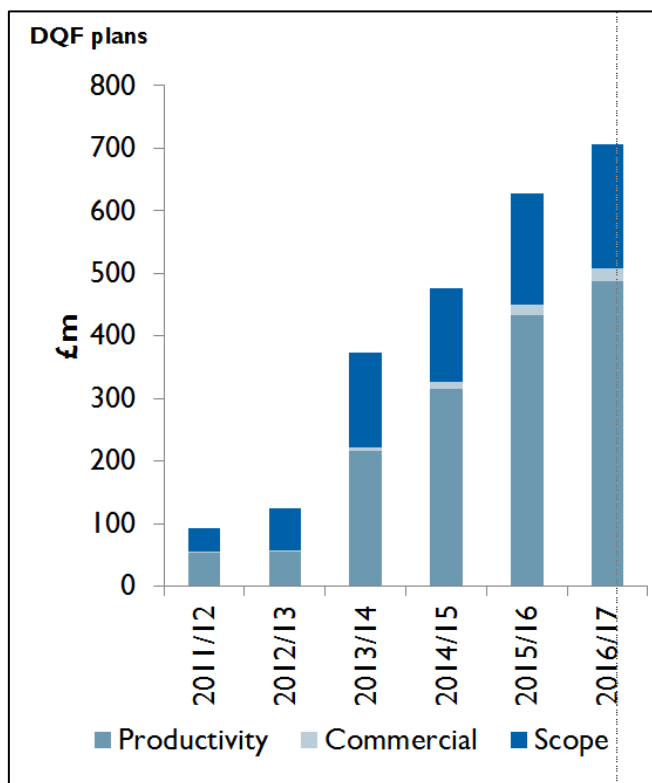
*** Less than 4% if, for example, risks on licence fee evasion materialise – approximately half of the 4% comes from household growth

The BBC target is to deliver **over £1.5 billion of cumulative net annual savings over the Charter period**. From the start of this period in 2007/08 to the end of 2013/14 the BBC has already delivered more than £1.1 billion of cumulative annual savings.

The BBC's current savings plan, known as Delivering Quality First (DQF), is well on track, although the degree of challenge is increasing. Savings are aimed at ensuring the quality content, service and distribution that Licence Fee payers are entitled to expect. Audited Delivering Quality First savings of £374 million per year are higher than expected at the halfway point (£367m), with a target to hit £700 million per year by 2016/17 (see figure 8 overleaf).

⁸ Baseline: 2010/11 addressable cost base and using a CPI deflator. Excludes the total cost of obligations, LF collection costs and restructuring costs, as it is assumed that efficiencies cannot to be made against these (as previously agreed with the NAO).

Figure 8: DQF plans



In addition, in 2013 we announced a further £100 million per year in strategic reinvestment in new content and services which led us to make difficult scope choices to generate further savings. As part of both these programmes, the BBC plans to re-invest around £243 million a year back into content and services with the remainder funding new obligations and mitigating the Licence Fee freeze.

Many Delivering Quality First savings are structural or one-off and opportunities for further significant step-changes in productivity are now more limited. There are no material areas of spend that the BBC has not reviewed. This means the need to make scope changes, such as the proposal to move BBC3 online, will increase if we are to avoid salami slicing.

From 2011/12, **30 per cent of savings are from reductions in scope** (over £300 million a year by 2016/17), for example the shared evening programmes across Local Radio in England and changes to the BBC Two daytime schedule. In the future period to 2017 scope savings increase to almost 50 per cent of “in year” targets.

The NAO is in the process of assessing our performance against Delivering Quality First targets and will report on their work in the next few months.

Delivering Quality First placed a particular emphasis on finding savings in overheads and support functions. These efficiencies fall under three main headings – **people, property, and procurement**. Examples of Delivering Quality First savings include:

- Driving efficiencies with in-house production, independent producers, talent and rights-holders;
- Streamlining commissioning and production processes;
- Creating integrated multi-media news and sports operations to improve service and save money;
- Re-procuring major contracts;
- Exiting Television Centre (saving £30m per year) and other White City buildings;
- Reviewing our Marketing and Audience activities, saving 25 per cent; and
- Investing in new systems and processes in Finance (saving £120m cumulatively).

Section 6 further summarises targets and approaches by BBC division (the internal organisation structures we use to manage the BBC).

At the same time as delivering essential efficiency savings, the BBC must modernise, as it has done before, to remain relevant to its audience in a digital world where people are consuming media very differently. Investment priorities include:

- new content and services, like iPlayer, to maintain platform relevance to audiences;
- new technology to both facilitate digital content and help drive future efficiencies;
- refresh shorter ‘shelf life’ digital technologies (compared to traditional broadcast technology); and
- upgrading outdated content production and delivery systems.

In order to support this modernisation the Director-General announced in 2013 a further £100 million per year investment in Strategic Initiatives, requiring further efficiency and scope savings, on top of those within DQF.

Figure 9: DQF and Strategic Reinvestment case studies

The BBC has made major savings in support areas and is also having to make scope cuts.

Technology provision

£30m + savings per year

- Majority of technology provision first outsourced in 2004 via a competitive tender to a single provider, Siemens – delivered savings of c£37m pa*
- Additional savings delivered during contract life via volume reductions (adoption of strict policies and savings targets), price renegotiation (with new owner, Atos) – delivered c£13m pa by 2013/14
- Review ahead of re-procurement, supported by detailed benchmarking, recommended multi-provider approach and extension of existing contract by two years to enable orderly transition – additional savings negotiated in these years combined with new ways of working will deliver c.£90m of cumulative savings over the next two years.
- Competitive re-procurement underway

* plus Siemens bought in-house provider, BBC Technology, for £150m
Note – some of savings are inflation / volume dependent



£50m savings per year

- We have announced that, subject to the approval of the BBC Trust, we will close BBC Three as a broadcast channel in autumn 2015
- Closing the broadcast channel will save over £50m per annum, enabling reinvestment in an online youth offer and drama on BBC One

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One other area where the BBC has made important savings is the management of Licence Fee collection. Since the BBC took over collection of the Licence Fee from the Home Office in 1991, the evasion rate has been cut by more than half from over 12 per cent in 1991 to under six per cent today and is now one of the lowest rates by international standards. At the same time, the cost of collection as a percentage of revenue collected has been cut from over six per cent in 1991/92 to under three per cent now. The most recent contract renewal will cumulatively save over £200 million over the life of the contract and has allowed for investment in technology to enable online purchasing and renewals for Licence Fee payers, offering convenience and reducing cost. The combined cost of collection and evasion is now at around eight per cent of the Licence Fee – down from almost 19 per cent in 1991/92.

5. Current status of benchmarking and market testing

Over the last five years the BBC has undertaken both market testing (for example through major re-procurements or buying content rights in competitive markets) as well as a large number of benchmarking reviews to drive realistic levels of efficiency. Process review and other techniques have also been employed and the BBC's own budget process is a rigorous test of all areas, with every division challenged to deliver savings and to justify existing spending.

This combined work currently shows that around 80 per cent of our current controllable spend has been tested. This work shows that BBC spend either sits within, or will sit within, market comparator ranges by the end of the Charter Period. For example the BBC's Procurement team sit in the top quartile on all relevant measures (cost and effectiveness) and we are reorganising and reducing the HR department to bring the team in line with normal market standards. Work continues to complete assessment of the remaining 20 per cent of spend.

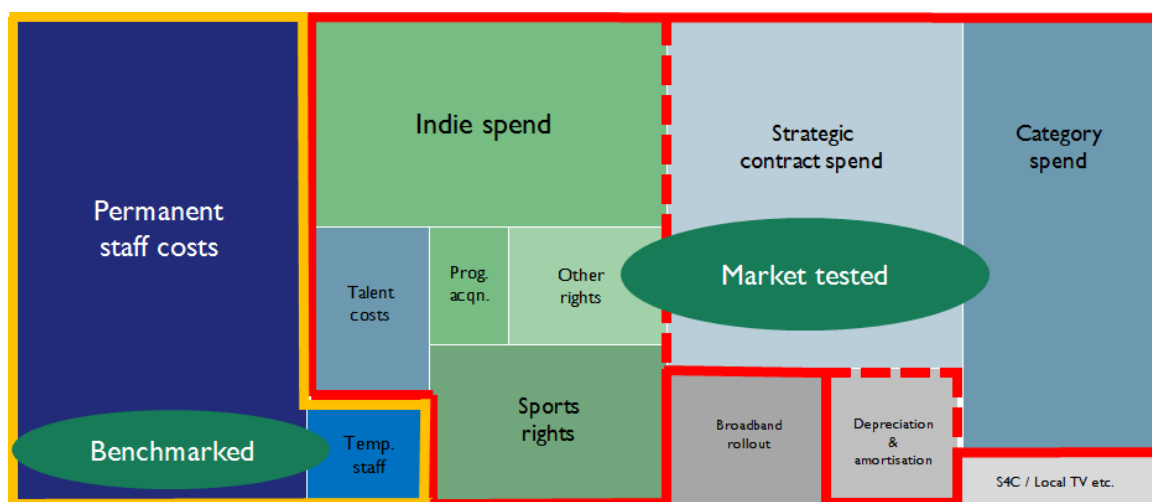
Around two-thirds of total spend is subject to market testing, either because it is purchased in a competitive market or because it relates to contracts subject to competitive procurement tender exercises.

Benchmarks and other cost comparators have been used to assess spend – including, where possible, against media and technology companies, the commercial and public sector and other comparable organisations.

For example, as section 6.2 shows, comparison of in-house production against independent production prices has given us confidence on programme prices. This has been demonstrated by the successive independent reviews of the Window of Creative Competition held in 2008, 2010 and 2012.

The figure below illustrates how the BBC's overall spending broadly divides between benchmarked and market tested. All available tools are, however, used across all costs wherever useful. For example, Finance transaction processing costs are both market tested through procurement as well as being benchmarked against external comparators.

Figure 10: Market testing of BBC spend



Around one-quarter of the BBC's costs (about £1bn) is accounted for by staff costs. All BBC roles are subject to rigorous salary benchmarking and discounts to the market are applied for senior roles. Analysis shows BBC staff are paid in-line with, and in some cases below, relevant market comparators. Pay restraint, combined with headcount reductions, has to date delivered over £150m per year of value to the BBC. Since 2009 the BBC has reduced the number and pay bill of senior managers by more than a third, reducing the pay bill by over £20m per year.

Within the UK Public Service, World Service and Monitoring, headcount has fallen to 18,647 from 20,128 (EFT) or around eight per cent. This headline reduction masks much more significant change in the BBC's skills base. Areas such as TV, Sport and Children have changed their workforce model, increasing flexibility and digital skills, while News and English Regions have been increasingly deploying staff to work across multiple platforms. Since 2007, the number of support function staff⁹ has reduced by 23% (616) while technology roles have increased by one third (499) to support digital investment, including in BBC iPlayer. Eighty-eight per cent of staff are now focussed on content development and delivery (including technology supporting content delivery). Appendix 3 sets out further details.

Content spend of over £1bn is subject to market competition and includes:

- **Sports rights** acquired on a competitive basis. The BBC's unique position (programming without advertising interruption) and strong relationships with sports bodies helps secure competitive rates;
- **TV acquisitions**, such as films or foreign programmes, are bought at market rates in competitive markets;
- **On-air talent** is a competitive market. Strict BBC controls have reduced costs by 15 per cent in nominal terms in the last five years, to £194 million from £229 million. From 2015 talent costs will be managed as a proportion of overall content spend, with a cap of 16 per cent, as agreed with the Trust. In 2013-14 it stood at 14.6 per cent;
- **Independent production** is a competitive market. Production prices paid can be compared, within genres, to others in the market.
- **Other rights** such as music copyright are the subject of a market negotiation with rights holders.

Strategic contract and category spend, totalling over £1.3bn, comprises:

- Spend with **12 strategic suppliers**¹⁰, totalling £690 million a year, is subject to rigorous and regular re-procurement. For example, two major contracts re-procured in 2013/14 are delivering yearly savings above £20 million for facilities management and domestic radio transmission.
- Category spend - expenditure across the BBC on a wide range of goods and services (costumes and wigs, transport and location services etc.) totalled £655 million in 2013/14 across some 11,500 vendors. With support from the Procurement team, this spend is managed via framework agreements or managed services. Spend fluctuates according to production and business need but savings of more than £70 million were realised in 2013/14 from the competitive prices secured.

⁹ Support functions: Finance, HR, Legal, Property, Security, Policy and Strategy, Project Management and Procurement.

¹⁰ These include ATOS (technology), Arqiva (distribution), Red Bee (playout), Capita (finance and HR) and Interserve (property). A 'strategic supplier relationship' is defined as one with a committed value of at least £5million per annum, a duration of five years or more and of operational importance, therefore requiring strong governance.

The Procurement team buys under the provisions of the Public Procurement Regulations in line with business objectives. It has been awarded 'gold' standard by the Chartered Institute of Purchasing and Supply and the BBC was chosen as "Best Public Sector Outsourcer".

The Procurement team has been benchmarked regularly, including a review by the National Audit Office in 2008 and two independent reviews by third party consultants. These reviews concluded the department was top quartile in its effectiveness, with low running costs compared to other well run procurement departments.

Some items are outside the scope of market testing and not controllable, including the BBC's £150 million broadband rollout contribution to BT required under the current Licence Fee settlement.

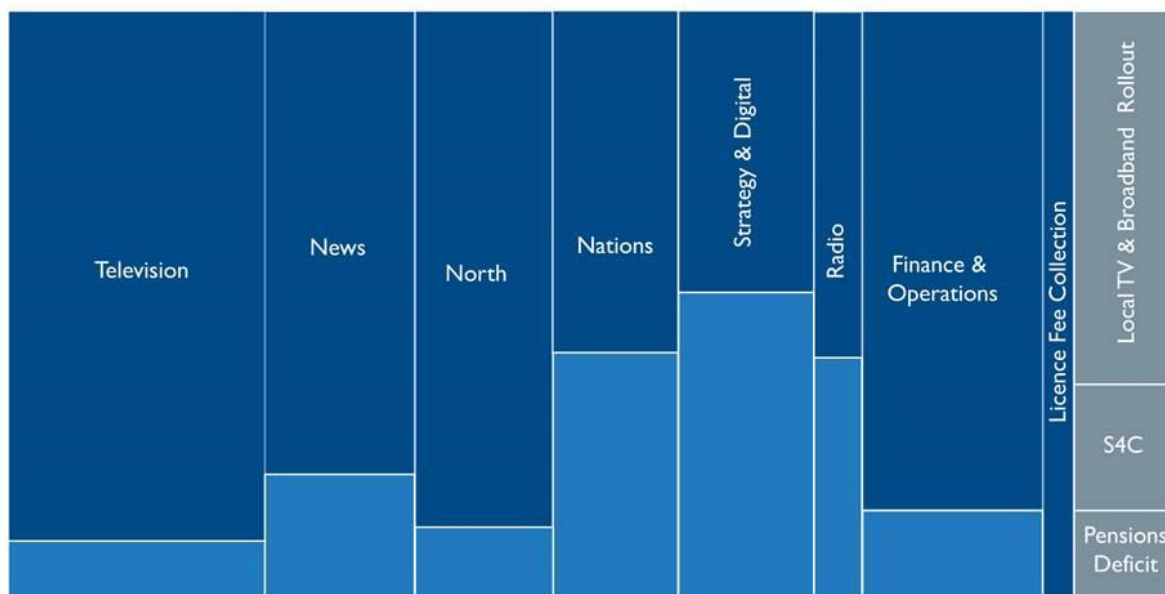
Some specific areas do not have comparable benchmarking evidence. For example, Research & Development, which has produced significant returns, is not directly comparable to other media companies. In these areas inputs (e.g. salaries) are assessed and we make more extensive use of process reviews.

As a result of all of this work we have, today, market evidence and good comparators for the majority of our spend. Work continues to complete assessments of the remaining areas. The current status is set out in figure 11 below and summaries of divisional work follow in section 6.

Figure 11: Current status of efficiency evidence

Current status of efficiency evidence at the BBC

Current status of efficiency at the BBC



Key

- Good evidence of efficiency
- Further work underway
- Out of scope of review

6. Divisional summaries

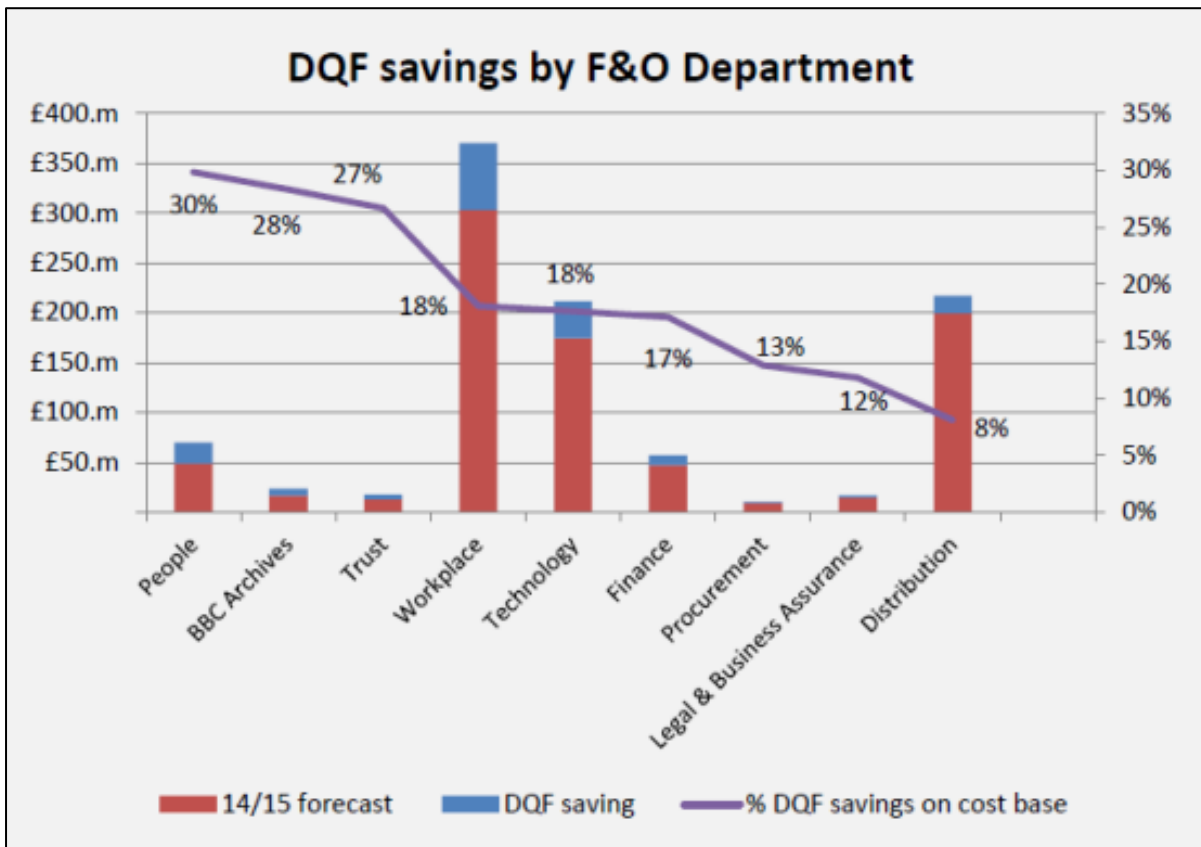
6.1 Finance and Operations

Finance and Operations (F&O) covers the BBC's centralised professional services and business support teams including Technology, HR, Legal, Finance, Property and Procurement. The teams support content divisions, where consolidation of requirements across the BBC allows us to deliver value for money through economies of scale.

F&O is the heart of the BBC's efficiency drive. It ensures effective delivery across the BBC services needed to meet and exceed audience expectations, whilst driving business performance and better decision making.

The division has around 2,500 staff (of which over half are in Technology and Archives) and expenditure of over £700 million¹¹ (approximately 40% technology and 25% property). F&O was set a gross Delivering Quality First target of 27 per cent of its 2012/2013 cost base and it is forecast to save £167 million per year by 2016/17 (£501m cumulative savings) plus £26 million per year in Licence Fee Unit collection costs.

Figure 12: DQF savings by F&O department



¹¹ This includes Licence Fee collection costs but excludes Distribution which has moved to the Strategy & Digital division from 2014

Examples of BBC Finance & Operations savings include:

- Finance has made £120 million of cumulative net savings from procurements, streamlined processes, staff reductions and a new specialist Finance Centre in Cardiff. Costs have fallen to £50 million in 2013/14 from £101 million in 2006/07. Staff numbers have reduced by 53 per cent, to 305 in 2014/15 from 650 in 2005/06;
- A transformation plan and relocation to Birmingham will reduce the cost of our HR function by 2016/17;
- Licence Fee Unit’s re-procurement of the collection contract with Capita in 2012 is forecast to deliver £112 million of cumulative savings by the end of this Licence Fee Period in 2016/17 (and over £200 million over the contract life). Collection costs as a percentage of the Licence Fee have fallen to 2.7 per cent in 13/14 from 3.5 per cent in 09/10;
- Day to day support for BBC buildings is delivered by outsourced services (cleaning, security, catering, building maintenance). Re-procurement through competitive tenders will achieve significant savings;
- Between 2010/11 and 2016/17, a mixture of building disposals and renegotiated suppliers’ contracts will generate savings of £67m per year on our property costs;
- The BBC now occupies 154 buildings down from 213 in 2000. Old, dilapidated buildings have been replaced with modern, fit for purpose buildings at no extra cost to the Licence Fee payer. Sixty per cent of the estate is less than 15 years old versus five per cent in 1999. Floor space is now 404,000m², down from 691,000m² in 2008. More detail on our property is in Appendix 4.
- The Division is currently implementing a comprehensive change programme across the core functions within the Division (Technology, HR, Archive, Academy, Finance);
- The main technology contract is outsourced to ATOS. This initially saved £37 million a year and further savings have been delivered during the contract’s life. A recent contract extension combined with new ways of working will deliver almost £90million of additional cumulative savings.

Figure 13: Technology outsourcing activities



6.2 Television

Television spends almost £1 billion per year and is responsible for commissioning content across all the main channels, BBC One, BBC Two, BBC Three and BBC Four, in addition to iPlayer and Red Button content and the full range of genres and sub-genres (excluding Children's, Sport and News). In 2013/14 the Division commissioned over 4,000 hours of originated content.

In addition to commissioning and scheduling activity, Television runs its own in-house production business, delivering to BBC commissioners and competing against independent companies to deliver high quality content and value for money to the Licence Fee payer. Generally, Television does not own or manage production facilities – studio and post production services are tested in the market.

Television also manages a number of activities and strategic contracts on behalf of the BBC which are competitively tendered (e.g. Payout provision, Access Services) and Rights Framework deals with collecting agencies for music and other copyright, which are renegotiated on a periodic basis.

Television operates a flexible staffing model in order to meet production requirements and enable creative renewal – with circa 1,400 continuing staff, at times crewing up to more than double that figure using fixed term contractors, casuals and freelancers at prevailing market rates.

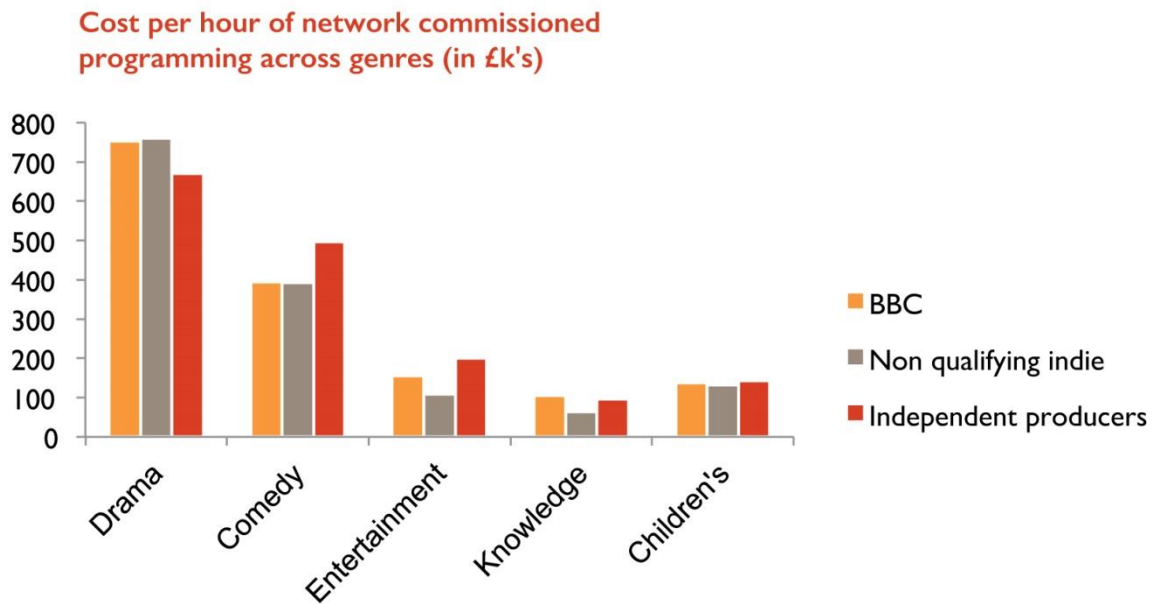
Television was set a gross Delivering Quality First savings target of 22 per cent of its cost base and remains on track to release £250 million of cash a year by 2016/17.

The market in which Television operates has changed radically in recent years. Competitors have scale, are global and there has been significant consolidation of independent producers as well as emerging, new competitors (e.g. Netflix, Google). Alongside this audience behaviour is shifting with content being accessed across multiple platforms. Efficiency has been an important part of driving innovation as we look at different ways to make our content and make sure programme choices match audience expectations.

Television drives efficiency in a number of ways:

- Television operates in a competitive market for the best ideas. The introduction of the Window of Creative Competition (“WOCC”) has meant that supply of programming is competed between in-house and independent companies, intensifying competition for ideas. A significant proportion of in house content is therefore won competitively. The Trust review the operation of the WOCC every two years, including comparisons of the cost per hour of programming from different suppliers;
- A key indicator of this is the price of independent production content versus in-house. Multiple factors affect pricing, however, at an overall level, across all categories, the BBC's in-house production activity compares well. (see figure I4 overleaf);
- All strategic contracts (eg Payout, Access services) are negotiated through a competitive tender process, following EU procurement rules where applicable.

Figure 14: Cost per hour by commissioning genre



Source: BBC Trust review of WoCC, 2013

Examples of BBC Television savings include:

- Cost per hour trends demonstrate cost reduction over time. For example Continuing Drama Series (including EastEnders, Casualty and Holby City), reduced cost per hour by 17-20 per cent between 08/09 and 12/13. In a review published in March 2011 the NAO concluded that “...The BBC has taken important steps toward delivering value for money from these long running programmes. The series production costs are tightly controlled...and the programmes are delivered on time and largely on budget.”;
- Technology change has enabled Television to modernise in-house production workflows to improve efficiency. Examples include the introduction of desk top editing, file based delivery of programmes and the move to HD;
- Television has consolidated production activity by sub-genre across our production bases, merging editorial and production management teams and streamlining business teams.

BBC Television continues to explore opportunities to benchmark with other broadcasters.



6.3 News Group

The BBC News Group produces news and current affairs output for the BBC's network TV, radio and online services, runs regional TV, local radio and news online in the English Regions, and operates the World Service, World News TV, bbc.com/news and BBC Monitoring internationally. News and current affairs output specifically for Scotland, Wales and Northern Ireland is provided by the respective Nations, outside of the News Group, but their teams also contribute to the BBC's overall newsgathering operations.

News Group is the largest division in the BBC in terms of people, with over 6,000 employees. The total Licence Fee spend in 2013/14 was around £660 million¹², approximately 60 per cent of which related to staff costs.

BBC News delivers trusted, impartial journalism to around 80 per cent of UK adults each week across its portfolio. Internationally it has an audience of 265 million. The output includes network bulletins, radio and news online; multi-platform services in English Regions (39 local areas); global multi-platform outputs in English and 27 languages; as well as current affairs and political programming and the BBC Parliament channel. Internationally we run both the World Service as well as the World News TV channel.

Between 2009 and 2013, BBC News delivered an average 3.5 per cent a year savings. News Group has a Delivering Quality First savings target of 14 per cent of its cost base¹³, with Network News having a higher overall savings target than the English Regions.

World Service saved £42 million across 2011/12 to 2013/14 following reductions to its funding as part of the government's 2010 Comprehensive Spending Review and to allow for some investment. It is making further cumulative savings of £18million over 2014/15 to 2016/17 to absorb inflation and release money for investment in new priorities, particularly around new TV content for language services and digital. This is a total saving of over 20 per cent.

In December 2013, the Director, News and Current Affairs set out a strategic vision to deliver more distinctive, original and inquisitive journalism as well as to break more stories, examine important issues with greater impact and set the pace in mobile and social media.

News Group is the largest division by staff numbers, because almost all news is delivered in-house. This is more cost-effective than a contractor-led model, which would limit the sharing of content and production across BBC services. News Group can also maintain the high editorial standards required of public service news more consistently. It consistently scores high on quality and impartiality from our audiences.

News Group now has a centralised newsgathering department for English output that shares content widely across BBC news outlets.

¹² English Regions, Network News, World Service and BBC Monitoring. Excludes BBC World News and bbc.com/news, which are commercially funded

¹³ Network News and English Regions

Examples of BBC News Group savings include:

- In five years, output increased by over 70 per cent while the costs of international newsgathering reduced;
- Network News saved £34 million from a 13 per cent staff reduction between 2006 and 2008;
- A fully multi-media model was developed, including a new multimedia Newsroom and Programmes department which enabled News to close around 500 posts between 2009 and 2013
- More shared working between the News Channel and World News Channel teams, combining the domestic Radio and World Service newsrooms, bringing together the World Tonight, Newshour and associated programmes under a single editor;
- Reviews of several local radio stations identified opportunities to develop multiplatform content that increase output and local news coverage while controlling costs. This work is being rolled out across the UK; and
- ViLoR (Virtual Local Radio) is a project to replace aging technology across Local Radio, using IP links from two central data centres with much reduced local infrastructure. This results in a saving of at least £1m per radio station upgraded from analogue to digital equipment. Three stations have already upgraded as part of a plan to roll the technology out across England.

In October 2014, BBC News Group announced a restructure to drive an increased focus on digital transformation, improve the impact of its original journalism and reinvigorate current affairs. It reflects a number of strategic initiatives to develop multiplatform working and enable greater collaboration and sharing. This proposal is currently subject to consultation with staff on post closures and has the potential to contribute £48 million in annual savings.¹⁴



¹⁴ [BBC News announces plans to save £48m and invest in digital transformation](http://www.bbc.co.uk/mediacentre/latestnews/2014/news-plans) <http://www.bbc.co.uk/mediacentre/latestnews/2014/news-plans>

6.4 North

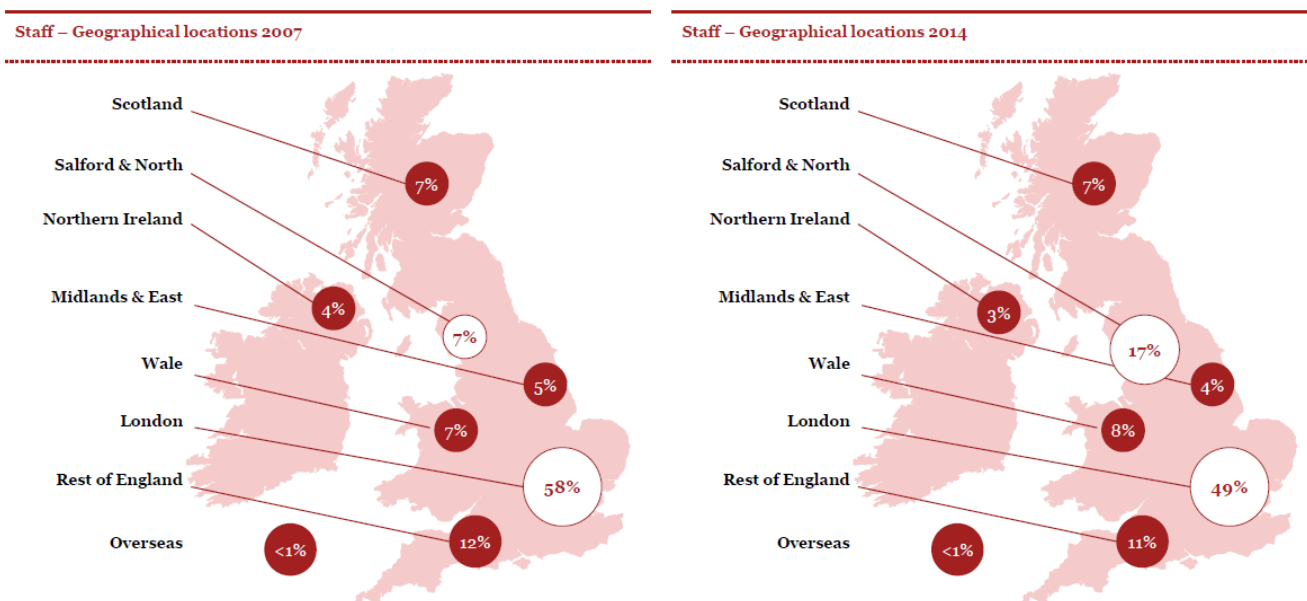
BBC North includes Sport, Children's, 5 live, and is home to BBC Learning and parts of Future Media. BBC North employs around 900 people and has a total spend of just under £480 million, with the largest cost category being sports rights. The output includes the two Children's channels, CBBC and CBeebies, which broadcast for 12 and 13 hours a day respectively. BBC North delivers 1,700 hours per year of sport on BBC One, BBC Two and BBC Three, plus over 4,000 hours per year on Red Button. Radio 5 live is on air 24 hours per day, 365 days per year and 5 live sports extra's output is in excess of 2,000 hours per year. The BBC World Service includes approximately 900 hours per year of sport output from BBC North.

North was originally set a gross Delivering Quality First savings target of 12 per cent of its cost base and much of this was met in the move to Salford. It is on track to deliver over £300m in cumulative DQF (Delivering Quality First) savings across BBC North departments, with around £120m cumulative savings delivered to date. Savings initiatives include reduction in Talent costs, control of inflation within production, reduction of overhead costs and increased income from co-production agreements and commercial activity.

Sports rights are the largest area of spend and these rights are acquired in a highly competitive market. Market forces determine price as a result of a bidding process involving all commercial competitors (e.g. Sky, BT, talkSPORT, ITV) across a variety of platforms for a multitude of different sports. To put this in context BT paid £875 million for the Champions League football rights last year.

After sports rights, the rest of the budget is spent mainly on staffing, independent production costs (most notably in Children's), production resource costs (such as outside broadcasts, studio and post-production), and talent costs. 39 per cent of staff relocated from London to Salford, and 1,500 roles were transferred in total. The move to Salford allowed the BBC to meet its commitment for the majority of BBC staff to be based outside of London, a year earlier than anticipated (see figure 15). In its 2013 review the NAO concluded that the BBC relocated to Salford on time and under budget while maintaining broadcast continuity.

Figure 15: BBC staff: Geographical locations



The BBC's move to Salford in 2011/12 significantly changed and improved working practices. For example;

- The relocation of staff enabled a 10% reduction in staff numbers, a 32% reduction in senior managers and savings of £2.2m per annum from London Weighting payments;
- BBC Sport's football programmes - Match of the Day, Match of the Day 2, Football Focus and Final Score – all moved from London to Salford in Autumn 2011. Overall, this saved BBC Sport more than £2.2 million a year because Salford studios are shared and only paid for when used. But quality improved at the same time: all the programmes are now broadcast in High Definition and Salford has also adopted Augmented Reality technology for better on-screen technical analysis;
- The BBC North environment allows for new ways of working, enabling colleagues to collaborate more effectively, deliver better content and a richer experience to audiences. For example, bringing together multi-skilled, cross platform teams has allowed BBC Sport to generate more output than when previously working in disparate teams in London, for the same funding. Their end-to-end digital Sports production team, bringing together all Radio, Television & Online activity enables Sports news content to be delivered to over 100 million people a week at no additional cost;
- Children's has driven significant efficiencies by restructuring its in-house production team, reducing management overheads and introducing a more flexible staffing structure, more closely aligned to the cycle of production and commissioning.

6.5 Radio

BBC Radio division broadcasts eight of the BBC's national radio networks – Radio 1, Radio 1Xtra, Radio 2, Radio 6 Music, Radio 3, Radio 4, Radio4extra, Asian Network, as well as Music Television and events like the BBC Proms and Radio 1's Big Weekend. The division also includes in-house radio production and four out of the BBC's six performing groups (BBC Symphony Orchestra and Chorus, BBC Concert Orchestra, the BBC Singers and BBC Philharmonic Orchestra)¹⁵.

With a staff level of around 1,200 people, Radio directly manages a cost base of around £160 million. It was asked to meet a Delivering Quality First gross savings target of 19 per cent of its cost base or £35 million per year by 2016-17. It has already delivered annual savings of £19 million by the end of 2013/14 and is on track to deliver the overall target during the remainder of the Charter period.

The key output measures in BBC Radio are Reach/Audience (where two-thirds of the UK population listened to the BBC in 2013/14); Average Hours Per Listener (which are nearly 16 hours per week); Appreciation Index, the lead metric for Quality (which is over 8 out of 10); and unique browsers tracking performance across our websites (6.6m unique browsers per month in Sept 2014).

Radio has carried out a wide range of benchmarking studies, and been subject to a number of reviews by external consultants, or by BBC teams from outside the Radio division. In the past three years, two-thirds of the division's directly controllable cost base has been subject to independent scrutiny. In that time Radio has also embraced a number of digital platforms.

In 2009 the NAO produced "The efficiency of Radio production at the BBC" report. This recognised the contribution Radio made to BBC efficiency whilst maintaining audience reach and delivering strong share of radio listening. It acknowledged that efficiency within a creative organisation relies on the interplay of production and editorial choices.

The NAO has also carried out a VFM review of the BBC's coverage of major events in 2010, much of which is Radio led. This review found that audiences valued the output and the majority of events came in on budget.

Examples of BBC Radio savings include:

- A radio management structure review reduced management layers and staff costs by nearly 10 per cent over the last four years.
- A 70 per cent reduction in the cost of Radio HQ, through reduction in senior management posts and integration of staff from Finance, HR and Strategy. Staffing is now more flexible and project based. A Restructure of the division into two "hubs" for Pop and Speech & Classical, allowing savings from shared administration and scheduling efficiency of £1 million per year.
- The Live Events team in Radio 1 was used to drive increased value across the rest of the live events output. Its remit was expanded to include all of the pop music networks and the team oversees all event management costs;

¹⁵ The BBC Scottish Symphony Orchestra and the BBC National Orchestra of Wales are respectively managed by BBC Scotland and BBC Wales.

-
- *Proms in the Park* event has reduced costs while increasing audience numbers at the event;
 - Making efficiencies in in-house radio production through tight cost control, fewer producer days, and a change in the mix of staff in studios. In addition, *Woman's Hour* now has a single production base in London;
 - In Radio 2, reducing the number of staff required to make radio programmes and training on-air talent to self-operate studio equipment.
 - The scheduling and planning system (Proteus) has reduced the administration around commissioning and presentation. There have been improvements to the commissioning process and changes to multiplatform to increase audience value.

Radio continues to investigate further opportunities for efficiency including potential benchmarking with both independent producers for radio and the commercial sector.

6.6 Strategy & Digital

The Strategy and Digital division oversees BBC Future Media (which runs the BBC's online, app and iPlayer services), Distribution, Marketing and Audiences, as well as Communications, Policy and Strategy.

Future Media has been an area of essential investment in recent years, with the BBC developing world class online products that are helping it modernise its services for a digital era where viewers want to access content in many more ways.

More people are viewing the BBC in new ways as these facts show:

- More *Unique Mobile Browsers* - An average of 62.7m UK unique browsers accessed BBC Online per week in Sept 2014;
- Increased *Data requirements* - In 2013/14 BBC online services delivered 593,000 Terabytes of data (up from 139,000 in 2009/2010);
- More apps *supported* - In 2014, the BBC has 1200+ total certified apps across devices (compared to 589 in 2012 and 388 in 2011); and
- *More people reached* - Close to half of UK adults access BBC Online each week.

Strategy & Digital was set a gross Delivering Quality First savings target of 13 per cent of its cost base. The overall budget for the division of around £450m is mostly spent on future media services and distribution costs and more than 95 per cent relates to audience facing activities.

Examples of efficiency activities in Strategy & Digital include:

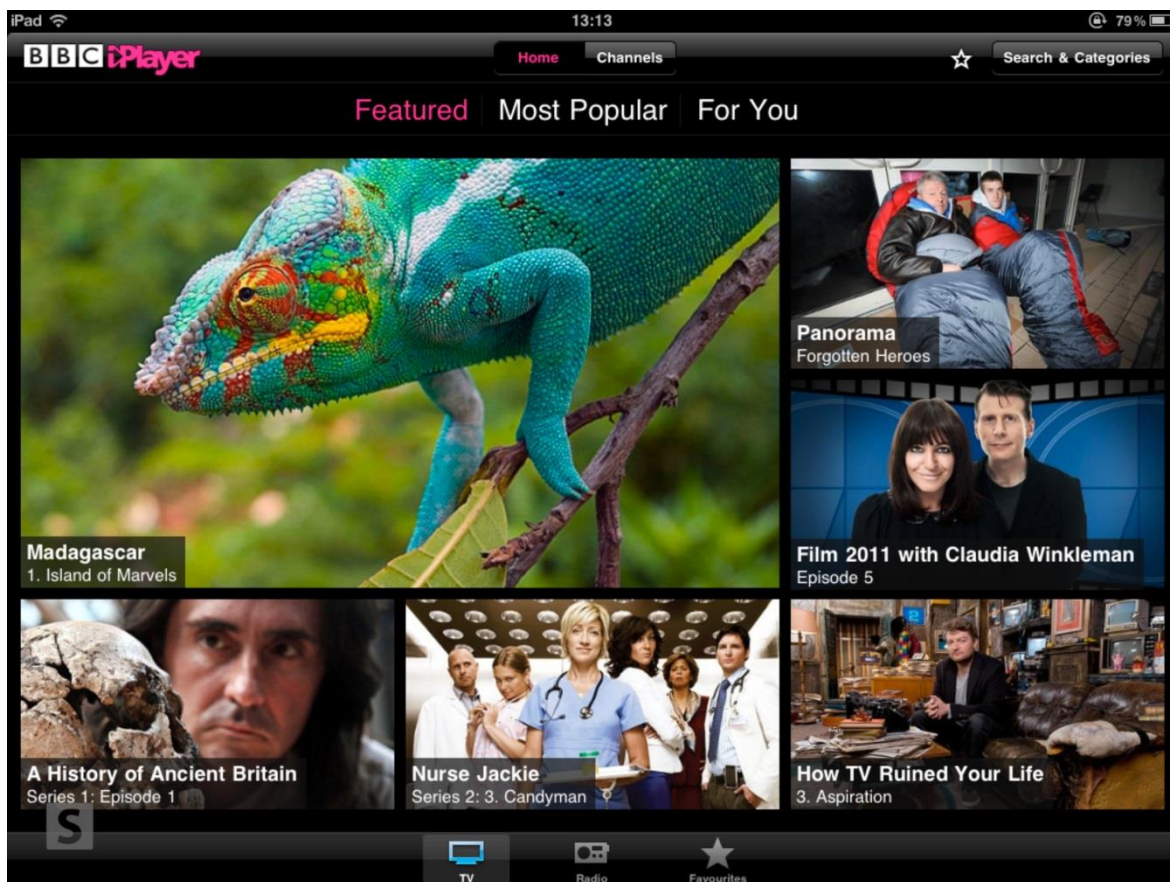
- Future Media: BBC Online reduced costs by 25 per cent between 2010/11 and 2013/14, including 262 post closures. The FM division has also restructured and moved nearly 300 roles to Salford. Future Media has also significantly improved its interaction with its digital suppliers, enabling greater competition and giving the BBC better systems. The value of benefits derived from Future Media projects is more than double the cost of the investment. Over the period from 2010 to 2014 the number of devices supported by our platforms has increased exponentially from 40 in 2010 to over 1,200. The Video Factory project successfully insourced a significant contract for the online content delivery system for iPlayer, improving the technical capability and service performance reliability while reducing the ongoing cost.
- Digital Distribution: online distribution costs (including digital text) reduced from £24.1 million in 2007/08 to £18.8 million in 2013/14. This is cost effective re-procurement also allowed for significant growth in data bandwidth required. Mediatique produced a report on the BBC's distribution arrangements to the BBC Trust concluding that *"the BBC costs are significantly lower on a unit-cost basis than for the commercial cohort, reflecting both sound cost management at the BBC and the benefits of volume adjustments in line with the market-leading popularity of the BBC's on-demand services."*¹⁶
- Marketing and Audiences: costs are primarily driven by BBC priorities in communication with audiences, signposting content and the way in which our audience consume our content. M&A has made savings of 25 per cent of the cost base. The M&A budget includes the BBC's audience

¹⁶ November 2013 http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/review_report_research/vfm/distribution.pdf

research contracts (e.g. BARB) and where activities can be procured in the market a competitive process is followed. For example moving to a single supplier saved in excess of £400,000 per year on Web Analytics (the service that analyses web page usage) in 2013/14.

- Communications: Savings have been delivered through post reductions of 25% and moving publications online (Annual Report; Ariel; Media Centre portal).
- Policy & Strategy (P&S): Costs are mainly staff so the focus has been on helping other parts of the BBC (e.g. Distribution) to achieve significant savings. The team has been restructured to reduce senior management costs.

The division continues to look for options to increase efficiency and are investigating benchmarking opportunities with external organisations where equivalent inputs and outputs can be measured consistently.



6.7 Scotland

With an annual spend of just over £190 million and over 1,200 employees, BBC Scotland is the national broadcaster for Scotland producing content across TV, radio and digital platforms in both English and Gaelic. BBC Scotland complements and enhances the national TV proposition for viewers in Scotland by providing “opt-out programming” on BBC 1 Scotland, BBC 2 Scotland and BBC iPlayer, providing around 800 hours of television output per year. BBC Scotland launched BBC ALBA in 2008 and transmits around 50 hours per week of Gaelic TV programmes across a wide range of genres. BBC Scotland also delivers BBC Radio Scotland and BBC Radio Nan Gaidheal and the BBC Scottish Symphony Orchestra.

In addition, BBC Scotland also provides a broad range of television programming for audiences across the UK and the BBC has set a target of 8.6 per cent of expenditure, in line with Scotland’s population, on Network output to come from Scotland by 2016. This target has been met since 2011 when 9 per cent was reached.

Since 2007, the headquarters and main production base of BBC Scotland is at Pacific Quay, Glasgow although BBC Scotland broadcasts from a further 10 sites across Scotland. The move to Pacific Quay enabled organisational transformation which allowed BBC Scotland to deliver 32 per cent savings of its costs base by 2012/13. Some of the ground-breaking technology that helped to achieve this is highlighted below:

- The first HD digital end to end technology solution across all platforms;
- The first BBC digital library of scale, offering re-use and re-versioning of content benefits;
- The first area in the BBC to outsource first line broadcast engineering support – saving over £3m over the life of the contract.

BBC Scotland was set a ‘Delivering Quality First’ target of 14 per cent which will result in the delivery of cumulative savings of £46m by end of 16/17.

Examples of BBC Scotland savings include:

- A review of News which resulted in the reduction of presentation roles across Scotland’s main TV and Radio shows “Reporting Scotland” and “Newsdrive”. Correspondent posts were also merged during this process;
- Radio in Scotland focussed on content sharing with the network, programme changes and efficiencies, together with a review of the management structure;
- Support departments have also played their part, having been set and delivering a higher level of savings than the content producing areas: for example in Media Management, upgrades to the Digital Library resulted in more efficient ways of working and new Rights contracts have been negotiated to deliver greater value for money from comparable services and output.



6.8 Wales

BBC Wales broadcasts two TV services: English language opt outs on BBC One Wales and on BBC Two Wales. In addition BBC Wales produces around 550 Welsh language TV hours for broadcast on S4C and broadcasts two radio services, Radio Wales (English) and Radio Cymru (Welsh language). It also produces local online content in Welsh and English and runs the National Orchestra and Chorus of Wales.

English language television programmes recently reached their highest levels of audience in a decade, whilst Radio Wales delivered strong weekly reach figures in 2013/14 in a very competitive marketplace.

BBC Wales has a Delivering Quality First savings target of 15 per cent. BBC Wales will save just under £28 million per year by 2016/17. This will create total cumulative savings of around £190 million over the 10 years to 2016/17. BBC Wales has a total spend of around £150 million each year and about 40 per cent is on network TV content. It has around 1,200 employees, of which over 15% work on Network TV.

Examples of BBC Wales' savings include:

- Following an audience, quality and efficiency impact assessment, savings were made in News by discontinuing lowest priority output and other initiatives such as reducing spend on party conferences in Wales by presenting from a studio in Cardiff with live inserts. At the same time specialist news coverage was increased in geographical areas such as Gwent Valleys, daily politics and weekly current affairs.
- A new flagship programme was commissioned from the indie sector in 2012, "The Wales Report with Huw Edwards", to replace "Dragons Eye". Investment in peak time radio schedules has been increased, with the establishment of a news focus team to support flagship news programmes "Good Morning Wales" and "Post Cyntaf". These illustrate areas where investment has been reprioritised to drive increased value for money. Changes to increase the effectiveness of operations include moving News and Sport from a bi-media bi-lingual operation into a fully integrated tri-media operation.
- The development of Roath Lock studios delivered an 18,400 m² facility comprising nine studios, to support drama production in Cardiff. The project was delivered on time and on budget, enabling the BBC to meet its public commitment to achieving 12 per cent of its network TV production from the Nations by 2012. These modern, flexible, and fit-for-purpose facilities support the production of quality programmes like Doctor Who. The project met all its key objectives and delivered benefits far in excess of its targets.



6.9 Northern Ireland

BBC Northern Ireland (BBCNI) output covers News, Politics, Sport, Factual, Events, Irish Language, Ulster Scots and Current Affairs. This produces 700 hours a year of opt out TV for local BBC1 and BBC2. Radio Ulster transmits from 0630 to 0000 daily; and Radio Foyle, a local station is available from 0700 to 1700 on weekdays. BBCNI also hosts local News, Sport, Factual and Radio online content.

BBCNI has a Delivering Quality First savings target of 11 per cent of its cost base. In total BBCNI's annual savings to date have been £18 million and are forecast to increase by 2016/17. Total spend in Northern Ireland is around £75 million and the division employs around 600 people.

To assess efficiency, BBCNI's content spend was benchmarked against the cost per hour data for Scotland, Wales and Network services, which shows BBCNI to be operating at the lower end of the Tariff ranges.

Examples of BBCNI savings in recent years include:

- A restructure of the Drama department, removal of overcapacity in Factual, restructure of the News department and reorganisation of newsgathering and the introduction of desktop editing to newsroom;
- Reductions in the size of TV Continuity and Scheduling teams;
- Technology and Operations department merged line management to match changes in demand;
- Reprourement including, for example, electricity costs.



7. The Future – constant ‘Compete or Compare’

“I want to make the BBC as effective and efficient as any broadcaster in the country... we will do this through a system of ‘Compete or Compare’. And we will do it all the time as a normal part of the way we run the BBC – not just when we need to prove our case. We will extend competition where it works: where it can bring greater choice, value for money or innovation. And where we can’t open ourselves up to competition, we’ll compare what we do with the best practice in the market.” **Director-General, Tony Hall**, 10 July 2014

Efficiency is a constant process not an end-point. In future, the BBC will apply a formal ‘Compete or Compare’ framework to all spending – using competition and external comparisons wherever possible to drive up standards and drive down costs. Where market tests or external benchmarks are not available we will use internal benchmarks and process reviews and the BBC will test inputs (e.g. staff rates) as well as outputs (e.g. programme budgets).

Two-thirds of spending is already subject to some form of market testing, and most of the remainder to some form of cost comparison ensuring value for money and quality is delivered.

The Director-General announced in July 2014 his desire to go further and extend competition where it works, for example through the potential removal of the in-house TV production guarantee as part of a package of changes to BBC Production.

This ‘Compete or Compare’ approach, alongside constant pressure on the cost base driven by the need for investment in BBC services to meet audience expectation, will embed continuous improvement permanently in the BBC. Each time the BBC competes or compares it will retest the relative efficiency of the BBC and look to further improve value for money for the Licence Fee payer.

As a result of this framework all areas of the BBC will be subject to competition or cost comparison on a regular basis in line with market norms. All significant cost areas will be covered at least every Charter period, unless longer contracts are required to achieve best value, with some areas being subject to competitive tests on a continuous basis.

8. Conclusion

This report demonstrates that BBC has a very strong record in delivering efficiency.

We now produce many more services than 20 years ago when we only had two national TV stations and five national radio stations. Now we have four times as many TV channels and twice as many national radio services, plus iPlayer and a global web service. With the Licence Fee constant in real terms, that has only been possible through a transformation in our productivity. Over the same period we have achieved, on average, 5 per cent a year in efficiency savings. We have delivered much more for less. The BBC is now a better run, much improved organisation.

In all, the BBC will deliver over £1.5 billion of cumulative annual savings by the end of this Charter period in 2016/17. This is a significant achievement in the context of £3.2 billion of controllable spend.

More than 90 per cent of the Licence Fee is now rightly focused on content. Our challenge is to maintain and improve this further. However, the BBC's ability to deliver productive efficiencies is now lower and the need to make scope reductions is increasing.

The BBC plans to embed continuous efficiency improvement through 'Compete or Compare' which will make sure the BBC is as efficient as the market.

Two-thirds of BBC spend is already subject to market-testing. A first assessment of the vast majority (80%) of spend has now been completed, benchmarked or reviewed and action is underway to complete assessment of the remaining spend.

The BBC remains a passionate public service broadcaster dedicated to making the quality services and British content that the Licence Fee means our very special audiences deserve and expect in return.

Appendix I: Where BBC revenue is generated and where it is spent

The BBC Group derived its overall revenue of £5,066 million in 2013/14 from a number of sources, as set out in the Annual Report and in the table (figure 16) below:

Figure 16: BBC Group revenues 2013/14

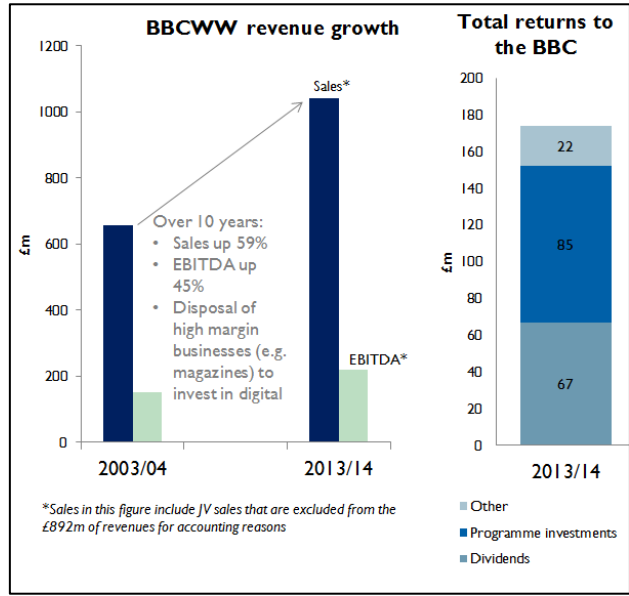
2014	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other commercials £m	Group adjustments* £m	Group £m
Licence fee income	A2	3,726.1	–	–	–	–	3,726.1
Other revenue		67.8	8.7	838.1	108.6	–	1,023.2
Intra-group trading		167.5	7.8	9.6	20.6	(205.5)	–
Grant-in-Aid and other grant income		5.1	238.5	1.0	–	–	244.6
Royalties		20.5	–	42.5	0.3	–	63.3
Rental income		7.9	0.1	0.8	–	–	8.8
Other income		268.8	255.1	892.0	129.5	(205.5)	1,339.9
Total income		3,994.9	255.1	892.0	129.5	(205.5)	5,066.0

Most revenue (£3,726m, or 74 per cent of the total in 2013/14) comes from the Licence Fee. The next largest revenue source is BBC Worldwide, whose primary focus is the global exploitation of the BBC's intellectual property. Other commercial activity includes royalties and similar payments from independent producers who have been able to commercially exploit programmes that were originally shown on the BBC, as well as the revenues of Global News Limited, which operates the BBC's international World News TV channel and bbc.com/news. In 2013/14 the BBC also received Grant-in-Aid funding, primarily for BBC World Service, although this ceased from 1st April 2014 when it became funded from Licence Fee income.

This total revenue of some £5 billion is not all available to support the BBC's UK public services. The commercial operations, such as BBC Worldwide, also have operating costs needed to generate the revenues.

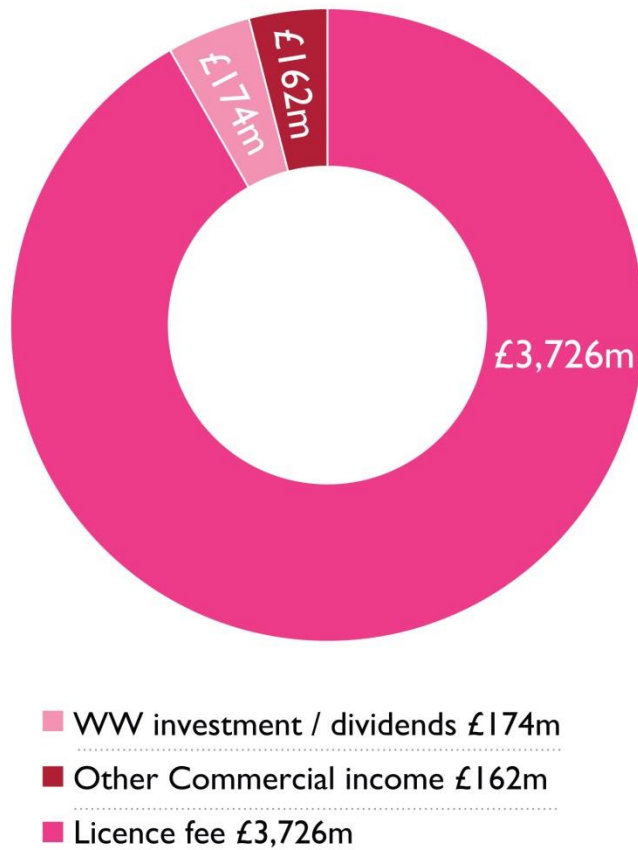
BBC Worldwide is a profitable commercial operator (with EBITDA margins broadly comparable to similar companies), and has grown significantly over the last ten years. This growth has resulted in total revenues of around £1 billion, enabling it to deliver £174 million to the BBC public service in 2013/14, primarily in dividends from after-tax profits and co-investment in programmes, as set out in figure 17 overleaf.

Figure 17: BBC Worldwide growth



However, most of the funds available to BBC UK public services (some 92 per cent) continue to come from the Licence Fee.

Figure 18: BBC PSB revenues 2013/14



Under the current Licence Fee settlement a significant proportion of Licence Fee income goes on funding obligations for non-BBC services – £150 million on broadband rollout, around £100 million to fund S4C and subsidies for local TV.

The World Service is something for the country to be proud about – it is the largest international broadcaster in the world and is internationally respected. Before 2014 the World Service was funded by the UK government. Since April 2014 this obligation (around £245m per year) has been transferred to the Licence Fee payer. It now accounts for over six per cent of the BBC’s total public service spend.

The BBC has had to absorb these obligations whilst the Licence Fee has been held constant at £145.50 a year.

The BBC’s Full Financial Statements provide significant detail on how the BBC spends its money, including a breakdown of spend by type of activity (see figure 19 below), as well as by service (in Table B3.1 on page 33 of the Annual Report). In summary, the BBC spent £3,778 million on UK PSB activities in 2013/14. This includes £566 million of “other items” that includes Broadband Rollout, Local TV, Pension deficit reduction payments and Licence Fee Collection costs. Excluding these items from the £3,778 million of UK PSB Group Expenditure leaves £3,212 million of core controllable expenditure, which is spent on services for the UK public, including TV, Radio and Online.

Figure 19: Breakdown of UK PSB Group Expenditure 2013/14

	£m	
Service licences – direct content spend	2,315	72%
Other direct content spend	91	3%
Distribution	217	7%
Infrastructure & Support - content support costs	301	9%
Infrastructure & Support – professional support	288	9%
Core controllable spend	3,212	100%
Other spend*	566	
Total spend	3,778	

*Including obligations (broadband, S4C, local TV) and Licence Fee collection

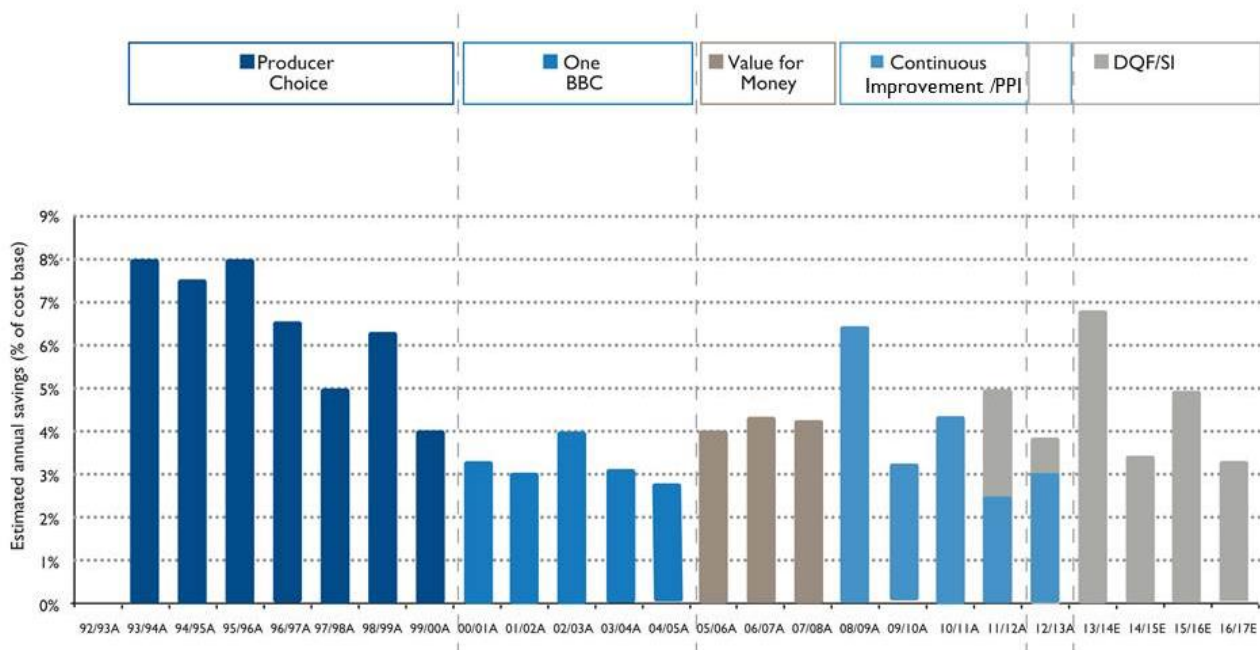
The BBC’s infrastructure and support costs of £589 million include £301 million of costs incurred in support of content production and audience facing activities. The remaining £288 million represents nine per cent of core controllable costs.

Therefore, of this £3,212 million of core controllable spend, over 90 per cent is spent on content, distribution and support of those activities and less than 10 per cent on the professional services needed to manage the BBC.

Appendix 2: The BBC's efficiency programmes (1993-2014)

The BBC has run five over-arching efficiency programmes in the last twenty years.

Figure 20: BBC efficiency programmes (1993-2017)



First, *Producer Choice*, ran from 1993 to 2000. An internal market was established for elements of production. Television and radio producers could choose internal or external production resources for programming making. Producers were required to understand the full cost, operating efficient prices to industry standards. Business units and production tariffs in all departments were established. This programme realised average cost savings of around 7 per cent a year.

Second, *One BBC*, ran from 2000 to 2005. This saw a considerable expansion in the scope of the BBC's digital offer combined with efficiency goals. Parts of finance, HR, technology, play-out and transmission were outsourced and the cash released was invested in content areas. Annual cash releasing cost savings were around 1.5 per cent a year, with overall efficiency of around three per cent a year.

Third, *Value for Money*, ran from 2005 to 2007. The goal was to transform the production and overhead cost base, and drive out savings from procurement. Annual cash releasing savings during this period amounted to around four per cent a year with a continued focus on support services, for example, finance and property costs were reduced by around 45 per cent and 35 per cent respectively of their baseline costs.

Fourth, *Continuous Improvement* ran from 2007 to 2012. This included reducing capacity and greater use of new technology in production, improved purchasing and negotiation with suppliers, and reducing management and overheads. Cumulative savings over the period were about £2 billion or almost 4 per cent a year cash releasing savings.

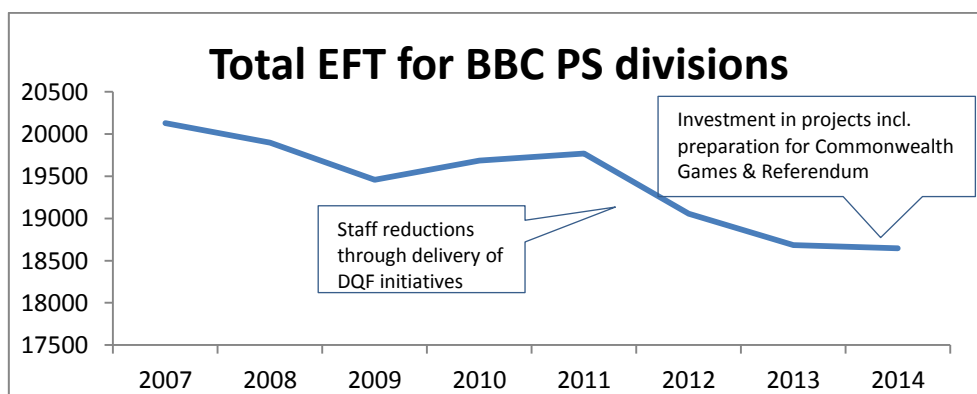
Fifth, *Delivering Quality First has run from 2012 to date.* This followed the Licence Fee settlement agreed with the government in October 2010, which froze the Licence Fee to 2017, and added new funding responsibilities including for the World Service, S4C, BBC Monitoring, local TV and broadband. The BBC is now half way through this programme and has already delivered £374 million of recurring annual savings. This has been achieved through a more flexible workforce, streamlining technology, increased out-of-London production and reduced the BBC's property estate. Further details are found in Section 5.

Appendix 3: Staff at the BBC

The BBC Group (including BBC Worldwide) has reduced the total number of people employed by 10 per cent, on an EFT basis, between April 2007 and April 2014 (to 20,736 from 23,037), at the same time as investing in technology and digital skills. Output in terms of online, news and in-house TV production has increased while workforce and support functions shrunk and pay was controlled.

Within the UK Public Service, World Service and Monitoring, headcount has fallen to 18,647 from 20,128 (EFT) or around eight per cent (see figure 21 below). Looking over the last three years and only at the UK Public Service, the paybill fell by four per cent from £961.2 million in 2010/11 to £922.3 million in 2013/14 (see Annual Report). Had we not reduced staff and had wages increased in line with CPI (12 per cent) over this period the cost would be far more. This equates to **savings of £150 million a year**.

Figure 21: Total EFT for BBC Public Service divisions



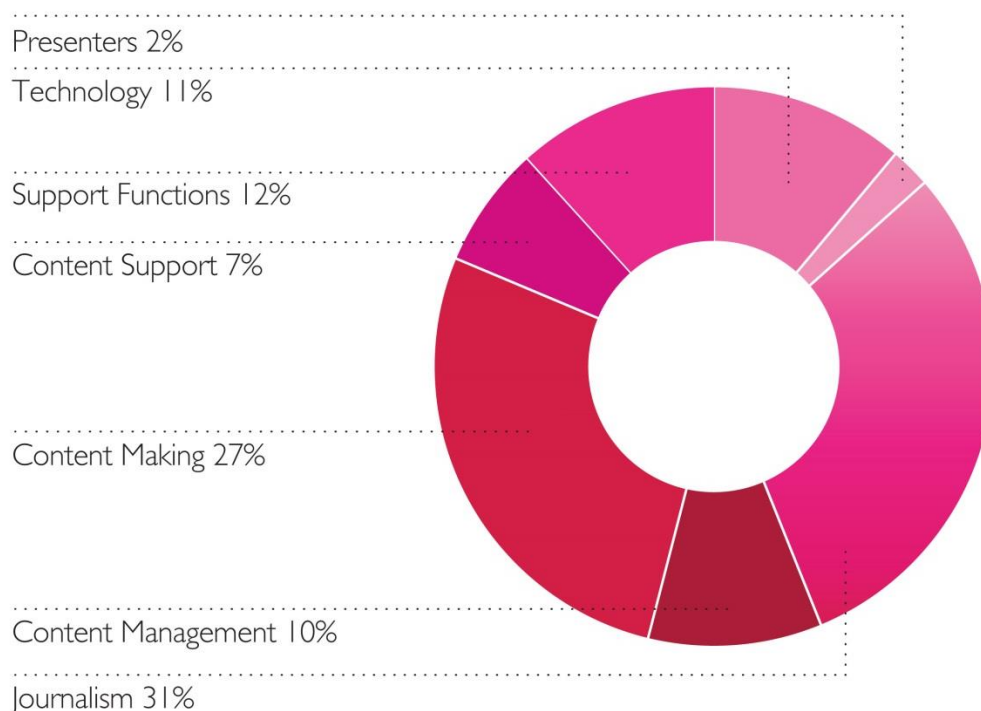
This headline reduction masks much more significant change. Areas such as TV, Sport and Children have changed their workforce model, increasing flexibility and digital skills, while News and English Regions have been increasingly deploying staff to work across multiple platforms.

A 23 per cent fall in support function staff¹⁷ reduced numbers to 2,089 in 2014 from 2,705 in 2007. Technology roles increased by one third, to 2,034 in 2014 from 1,535 in 2007, reflecting digital investment, including in BBC iPlayer. Over the same period, there has been a decrease in support roles and an increase in technology roles, meaning that the BBC now has 88 per cent of its staff focussed on content development and delivery (including technology, supporting content delivery).

Within the 2013/14 Annual Report we had noted that 80 per cent of the BBC's staff were directly employed in content production and delivery of services. Further analysis now demonstrates that 12 per cent work in support functions, and that 88 per cent work on content and services that most matter to BBC audiences (see figure 22 overleaf).

¹⁷ Support functions: Finance, HR, Legal, Property, Security, Policy and Strategy, Project Management and Procurement.

Figure 22: BBC distribution of workforce, 2014



Since 2009 the BBC has reduced the number and paybill of senior managers by more than a third, reducing the total number of senior managers 410¹⁸ while reducing the paybill by over £20 million per year. The total cost to the BBC of all senior managers is £50 million (or around £125,000 per person). The move from 640 senior managers in 2009 to 410 roles in 2014 represents strong progress in reducing senior manager numbers.

In 2009 the BBC set a policy of applying a discount to the external market for its senior managers. For the purposes of the discount, Executive Directors, SM1 and SM2 roles were included. Depending on the grade, a discount of between 20-80 per cent was applied to the external median compensation. There are some specialist roles where the BBC is unable to apply the full discounting policy.

The BBC target level of discount varies with seniority:

- Executive directors: discount of between 50 and 80 per cent;
- SM1: discount of between 30 and 50 per cent;
- SM2: discount of between 20 and 30 per cent.

The vast majority of senior manager roles (and all Executive directors) are paid at a discount in line with (or greater than) the policy. Over 97 per cent of our Senior Manager roles are paid at a discount to the

¹⁸ 403 Senior Managers as set out in the Annual Report plus 7 Executive Directors

benchmark comparators. If it paid market rates, the BBC would potentially be paying £10 million more every year.

In the private sector most senior managers would often receive medical cover, travel allowances (including the provision of cars or car allowances), share schemes and flexible benefits. The BBC no longer offers private medical insurance or car allowances to new senior managers.

Historically, the Senior Manager population at the BBC has been comprised of functional and divisional leaders as well as editorial leaders whose core purpose is to deliver content to our audiences. As the BBC has evolved, offering multiplatform, multi-media services to our audiences, so has the need to recruit different skills to support the development and delivery of these offerings.

The senior manager roles at the BBC currently make up around 2 per cent of the total workforce. Of this, approximately half of these roles have significant editorial responsibilities, including channel controllers, commissioners and managing editors of major news programmes.

The BBC has also reformed its pension arrangements. In 2010, before the public sector reviewed its pension arrangements, the BBC made significant pension reforms. These included closing the defined benefit pension scheme to new joiners and limiting how benefits build up for existing members. New joiners are now able to join a defined contribution pension plan, more aligned with private sector. At the time, the reforms reduced the pension scheme's funding deficit by around £0.5 billion (and the future service contribution rate by 7 per cent of pensionable salary). The BBC continues to work with the pension scheme trustees to further reduce risks. The reforms continue to play a significant part in helping make our pension arrangements affordable and sustainable for the future.

Appendix 4: BBC Property

The BBC estate is highly specialist due the technical and broadcast equipment critical to a 365 day, 24 hour operation.

In 1998, the BBC's Executive Board approved a strategy—a 2020 Vision—to equip the BBC with modern buildings that were fundamentally more cost effective and fit for digital production.

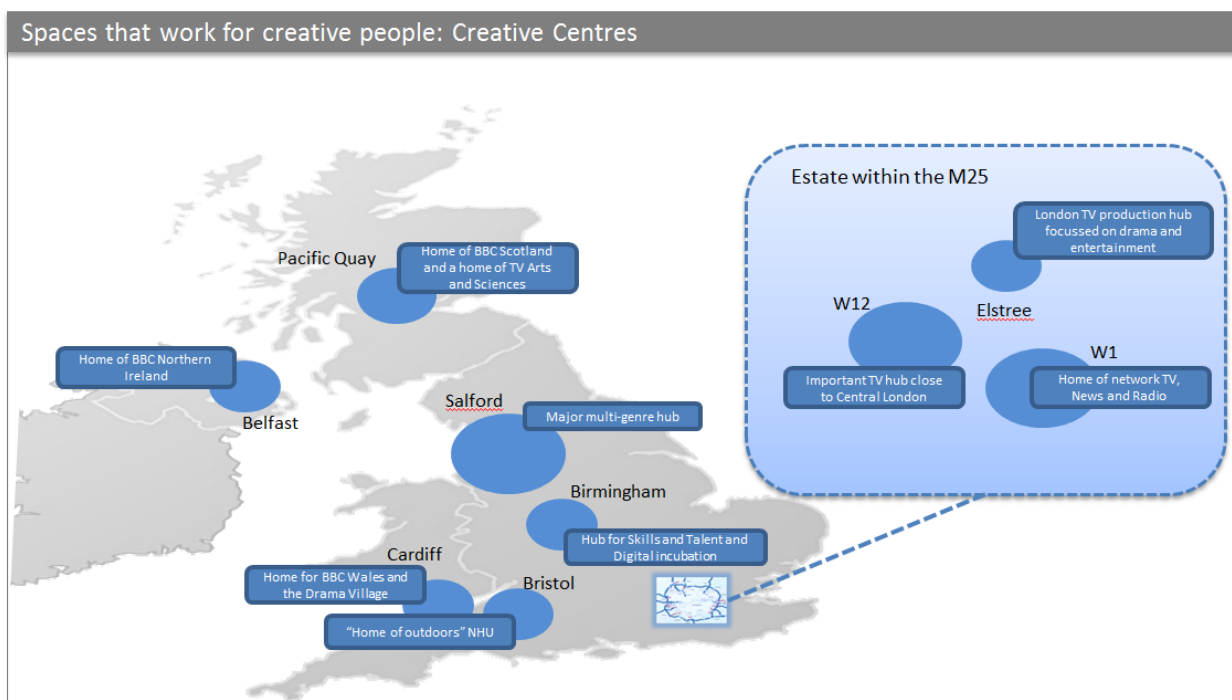
Now more than 60 per cent is less than 15 years old, compared to 5 per cent in 1999. The overall cost of running the estate is now 4 per cent less in real-terms than in 2001/02, meeting a target for property expenditure to be no higher in real-terms after changes. Workplace, the BBC's property division, has made significant savings and will have achieved a £67m a year reduction in operating costs under Delivering Quality First.

The BBC now occupies 154 buildings utilising 403,687 m² (as at 31st October 2014) down from 213 buildings and over 640,000m² in 2000. One hundred other property interests are mostly aerials and masts.

Seventy-five per cent of space is concentrated in 16 key buildings in 'creative centres' spread across the country. These creative centres, in London, Salford, Glasgow, Cardiff, Belfast, Birmingham and Bristol comprise both office and production and broadcast facilities (see figure 23 below).

A number of other production centres house regional programming and local radio stations. The BBC also owns drama studios at Dumbarton and Selly Oak and recording studios at Maida Vale. Other studio requirements such as post production are met by BBC subsidiaries or the external market.

Figure 23: BBC creative centres



Examples of property savings include:

- London property portfolio is smaller following exits from Bush House, Marylebone High Street, Television Centre, Henry Wood House and White City 1;
- A competitive tender for Facilities Management services is delivering significant savings;
- The average space per person reduced from 15m² (08/09) to 12m² (12/13). In London W1 it is 8.3m² per person;
- Restructuring of the workforce team led to a 19 per cent reduction in staff with more based outside London.

The current average space per person of 12m² is in line with best practice. The government estate currently stands at an average of 13m² and the industry (IPD) benchmark is 11m². In our modern buildings in London and Salford we typically operate on a ratio of 7m² to 10m² per person.

Vacant space is approximately nine per cent in 2013/14. The planned disposal of buildings in the next few years will reduce this to 2.3 per cent, well below the target figure of five per cent and in line with external benchmarks. An estate made up mostly of modern broadcast buildings require less maintenance and people to run, but proportionately increases the cost per m².