

BBC Efficiency Review

*Identifying efficiency
savings for the next
Charter period*

*Summary report
September 2015*



As the BBC's DQF savings programme nears completion, this report considers efficiency opportunities beyond FY16/17

Following the release of the BBC's Efficiency Report in November 2014, the BBC asked PwC to conduct an independent review of its approach to efficiency. This summary report focuses on potential longer term efficiency opportunities, beyond those already targeted as part of the current DQF programme due to end in FY16/17

The BBC Efficiency Programme

The BBC has a duty to deliver its content and services in the most efficient way. The BBC has successfully implemented a number of cost saving and efficiency programmes over the last 20 years, and is currently approximately two thirds through a £700m efficiency programme, Delivering Quality First ("DQF").

The BBC published a report in November 2014 (the "BBC Efficiency Report") to provide stakeholders with a summary of the progress made to date¹. Following that work, the BBC's Annual Report and Accounts 2014/15 gave an update on progress to date², concluding that since the start of the current Charter, the BBC has delivered cumulative annual savings of £1.25 billion and is on track to deliver £1.6 billion by FY16/17, the end of the current Charter period.

PwC's review of BBC efficiencies

We were jointly commissioned by the BBC Executive and BBC Trust to provide an independent review of

potential longer term productivity efficiency opportunities, beyond DQF and into the next Charter period.

We previously undertook an assessment of the level of the BBC's overhead costs, which concluded that the BBC's overhead ratio compares favourably with other regulated industries and public sector bodies³. This report considers a broader cost base than overheads alone. In light of the current and ongoing dialogue about the future of the BBC, we were asked to conduct our work assuming that the scope, mix and quality of the BBC's content remains unchanged over the next Charter period. We did not consider efficiency opportunities available through changing the scope, mix or quality of content.

This report

This summary report outlines the methodology underpinning our findings, the efficiency opportunities identified, the estimated value thereof and suggested measures to achieve savings.

Key Consideration

Our analysis is based on the assumption that there will be no radical changes to the BBC's scope, mix or quality of content, and that the BBC's purpose remains constant throughout the next Charter period.



¹ Driving Efficiency at the BBC, BBC, November 2014

² <http://downloads.bbc.co.uk/annualreport/pdf/2014-15/bbc-annualreport-201415.pdf>

³ http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc_report_pwc_update_overheads_efficiency_review.pdf

We reviewed the BBC's cost base to identify potential longer term productive efficiency opportunities in the next Charter period



Our scope, approach and assumptions

Our review covered the Public Service Broadcasting cost base. Our starting point was actuals for the FY13/14 cost base.

We excluded costs largely determined by external factors and hence considered “non-addressable”, such as new obligations¹, exceptional costs² and non-cash items³.

We then excluded planned DQF savings to arrive at a forecast cost base for FY16/17, which was split into two groups of costs for further analysis:

- **Group 1: ~£1.5 billion** of costs largely relating to staff costs, back office, infrastructure and support. These were analysed in detail to identify cost-saving opportunities, based on market trends, benchmarks of other organisations and technology developments
- **Group 2: ~ £1.6 billion** of costs more closely linked to scope, mix and content, such as spend on independent production, content rights or distribution.

Our analysis of Group 1 costs involved reviewing a range of evidence relating to the BBC's cost base and consulting BBC stakeholders, industry and cost reduction specialists.

Given the nature of Group 2 costs, these were analysed at a high-level, based on data provided by the BBC and discussions with BBC stakeholders and our subject matter experts.

We estimated the potential range of efficiency savings in these two groups of costs, from the end of FY16/17 onwards, assuming:

- All planned DQF savings will have been delivered by end of FY16/17
- Savings accumulate over a 10 year period (FY17/18 to FY26/27)
- Constant BBC scope, mix and quality of content over this period

- No inflation, i.e. savings are measured against a flat cost baseline.

Headline findings

- The BBC has achieved significant sustained efficiencies in recent years, which reduces the scope of future savings
- We identified potential total cumulative annual savings of £190-329m by the end of the next Charter period; the upper estimate is equivalent to around 1% of the total addressable cost base per annum over the same period
- Cumulative annual savings amount to £135-263m from Group 1 costs (or 9-18% of the Group 1 cost base) and £55-66m from Group 2 costs (3-4% of the Group 2 cost base) by the end of the next Charter period
- Achieving these savings will not be easy, requiring substantial change from the BBC and technology-enabled innovation
- We recognise that some of the savings identified may only materialise toward the back end of the next ten year Charter period, given external dependencies on market and technology trends
- Others require significant implementation costs, not factored into our “gross” savings figures
- Key efficiency opportunities for Group 1 savings include:
 - Workforce optimisation in core functions
 - Lowering property, HR and finance support costs
 - Reducing corporate, logistics and marketing spend
 - Technology/ IT infrastructure spend
 - Increased use of digital production capabilities.

¹ For example contributions to broadband funding and S4C set by the Department for Culture, Media and Sport (“DCMS”)

² For example one-off restructuring items

³ For example depreciation, amortisation and finance adjustments

The first part of our analysis focused on ~£1.5bn of the total cost base (Group 1 costs)

Group 1 costs comprised ~£1.5bn of the total cost base, covering Core Staff Costs, Infrastructure & Support, Category Spend, Technology and Outside Broadcast Production

Key Consideration

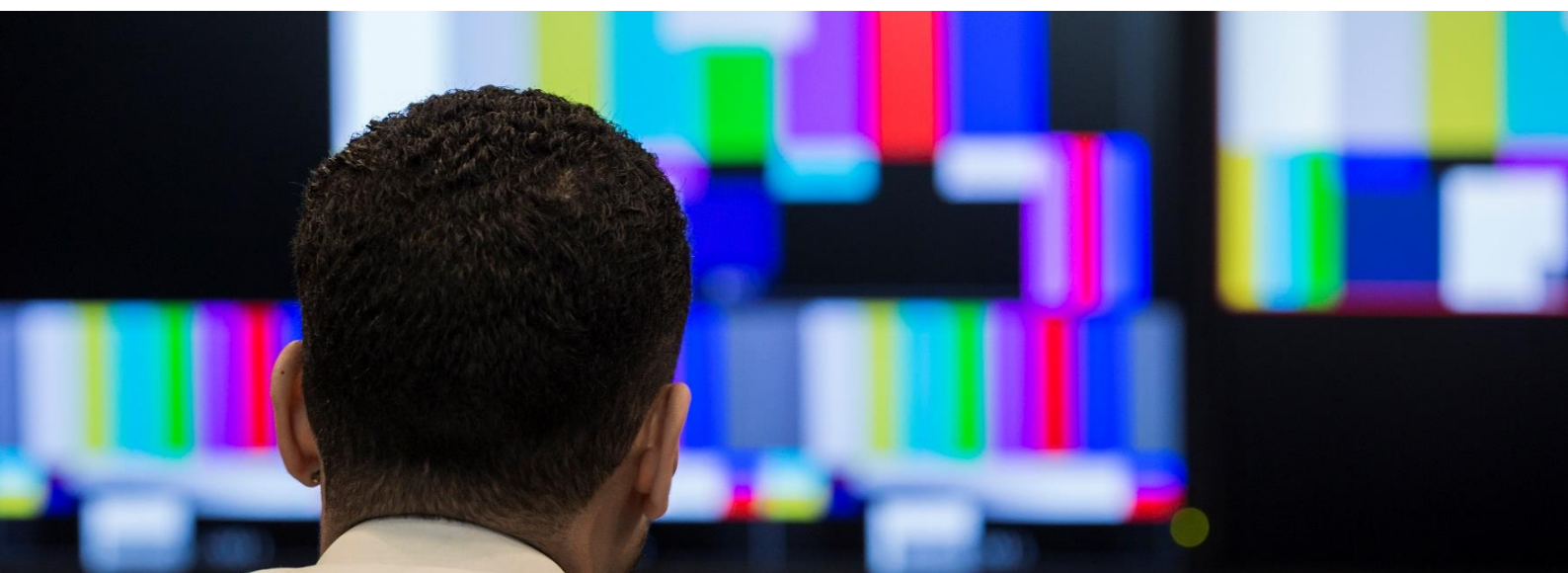
We ensured there were no overlaps or “double counting” of costs across the five categories shown opposite. For example headcount associated with Infrastructure & Support, and Outside Broadcasting Production were not included again in Core Staff Costs.

Breakdown of Group 1 cost base

The ~£1.5bn of costs included in Group 1 was segmented into five areas to identify possible efficiencies. After adjusting for DQF savings already planned within *this* Charter period, the following FY16/17 proxy cost bases were defined:

- **Core Staff Costs:** headcount in content production (including journalism), business operations, technology and content management divisions
- **Infrastructure & Support:** costs for Workplaces (i.e. property), People (i.e. HR) and Finance functions including associated headcount
- **Category Spend:** contracts with third parties for the provision of corporate services, logistics and marketing & audience services
- **Technology:** costs of contracts with main technology providers (e.g. Atos), permanent and temporary IT staff and other external contracts
- **Outside Broadcast (OB) Production:** costs for Sports and Factual outside broadcasts including staff, travel, accommodation, on-location services, networking/telephony costs and other third party spend.

FY16/17 proxy cost base Group 1



We identified £135-263m of potential cumulative cost savings, equivalent to 9-18% of the ~£1.5 billion Group 1 proxy cost base, or 1-2% per annum across the ten year period

Organisational redesign, internal productivity improvements and trends such as automation could deliver savings of £90-163m to Staff Costs across the ten year period

Further efficiencies of £45-100m were also identified across Category Spend, Technology, Infrastructure & Support and Outside Broadcast Production

Achieving these savings will require substantial change from the BBC, as well as technology enabled innovation

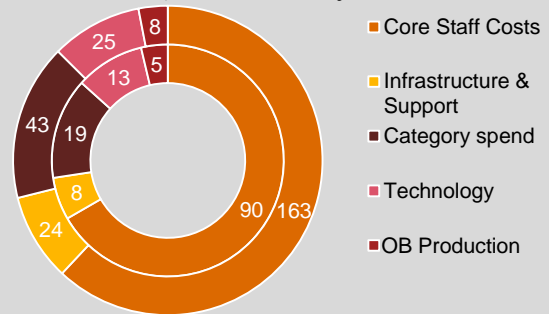
Key Consideration

Our analysis is based on the assumption that there will be no radical changes to the BBC's scope, mix or quality of content, and that the BBC's purpose remains constant throughout the next Charter period.

Breakdown of £135-263m into 5 efficiency opportunity areas

Savings were identified across the five areas of the cost base based on industry benchmarks, interviews with the BBC and discussions with industry and functional specialists

Upper and lower range of potential savings identified by cost area, £m annually



Core Staff Costs – savings: £90-163m

The BBC has delivered a number of workforce related savings over the current Charter period.

The main catalysts for future savings are periodic organisational redesigns (usually possible once every 5 years or so), BBC-specific productivity improvements (e.g. multiskilling employees, improving current processes) and industry-agnostic trends (e.g. automating and speeding up activities, certain activities no longer being required due to technology advancements).

The BBC should be able to continue to modernise its workforce and optimise operations, but savings will very much depend on the pace of technological advancements and their adoption, changes in working practices (particularly in News), investment in training and focused recruitment.

Infrastructure & Support – savings: £8-24m

When looking at the BBC's infrastructure and support functions, we focussed on Workplace (i.e. Property) and the People (HR) and Finance functions. The BBC has already undertaken significant work across all three of these areas,

including rationalisation of the property portfolio and relocation of production to Media City. The BBC has also achieved efficiencies in People and Finance by streamlining processes and relocating staff. This makes further savings particularly dependent on an overall fall in BBC staff numbers.

Further Workplace savings could be generated with increased utilisation, especially out of London, and major steps to lease out marketable properties in London, subject to reduced staff numbers.

In Finance there are opportunities to outsource more, further simplify reporting and reduce technology maintenance costs. In the People area there are opportunities to enhance approvals and controls across processes, minimise duplication, explore synergies with BBC Worldwide and benefit from further optimising sourcing (in-house, outsourcing, offshore, etc.). The BBC is already undertaking efficiency programmes in the Finance and People areas to address many of these opportunities and move closer to top quartile performance compared to benchmarks.

Category Spend – savings: £19-43m

The BBC's third party spend, not covered by strategic contracts (such as

Key Consideration

Achieving the efficiency opportunities identified is dependent on the BBC taking the necessary implementation steps.

These savings will not be easy to achieve and will require a substantial change effort from the BBC.

As with any transformational organisational change, there are costs of implementation.

In particular, many of the opportunities identified are reliant upon an investment in technology, both in terms of time and money.

major technology and distribution) is called “category spend”. Savings can be achieved through adoption of practices such as zero-based budgeting and greater central ownership of savings targets and performance.

Savings in Corporate Services and Logistics are expected to be driven by policy shifts, tighter spend controls and leveraging digital tools. Increasing data commoditisation for audience research, and tighter spend controls are expected to drive savings in Marketing.

Technology – savings: £13-25m

Compared to peers, the BBC outsources a significant proportion of technology spend (which means this spend is market tested) and is currently undergoing competitive re-procurement. Our analysis has focussed on these outsourced contracts, as well as permanent and temporary technology staff costs, to identify practical ways in which the BBC can implement technology solutions to continue to reduce costs overall.

Over the long term, the implementation of measures such as virtualised desktops, digital production and delivery, and effective asset management are expected to deliver efficiency gains through the use of new technology.

Outside Broadcast Production – savings: £5-8m

Internet Protocol (IP) production is the transmission, via a high quality internet connection, of a live feed to a central production and audio gallery (or galleries). This technology has already been adopted in carefully selected cases of outside broadcasts (e.g. 2014 Commonwealth games in

Glasgow) where appropriate. We have assumed that IP production will be increasingly used in non-BBC hosted Sport and Factual programming in future.

Increased remote production should drive savings mainly in third party outside broadcast costs and staff, on-location services and travel expenses. However, savings here are particularly reliant on technology and the acceptance of remote sports event coverage by the wider market, making them difficult to achieve in the short term.

Limitations and considerations

Savings targets are indicative, with further, detailed diagnostics required to validate savings and develop plans for individual efficiency initiatives.

Aspects of these efficiencies may be delivered within this Charter period under current initiatives, thereby reducing the savings potential outlined here.

Timing of realising efficiencies

We expect that some efficiencies could be realised from the start of the next Charter period, if preparation begins now. A significant portion of the Core Staff Cost savings is associated with either technological advancements or periodic organisational redesigns. Technology changes, such as moving towards IP production, require lengthy implementation and set-up costs to realise efficiencies and are therefore expected in the second half of the next Charter period. Workplace property savings are also estimated to have a 2 to 3 year lead-time depending on contractual terms.



For Group 2 costs, we identified lower savings of £55-66m, or 3-4% of the ~£1.6bn cost base, reflecting the nature of these costs

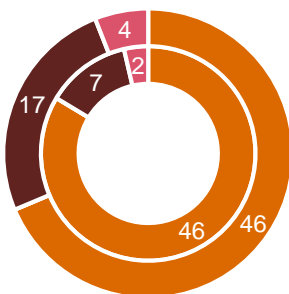
We worked with data and views provided by the BBC on Group 2 costs, most of which are content-related and influenced by editorial decisions about scope and content mix. This cost base is predominantly made up of services sourced externally, susceptible to market forces, with pricing and contractual renegotiation only possible at certain times. Furthermore, our assessment did not consider allocative efficiency savings which affect the scheduling mix or the mix of content without impacting audience satisfaction. For these reasons, incremental pure productive efficiency savings appear more limited than in Group 1.

FY16/17 proxy cost base Group 2

£1,551m



Upper and lower range of potential 10 year savings identified by cost area, £m annually



- Indies, Talent, Prog. Acq. and Prod. Res.
- Copyrights, Sports Rights & Audience Services
- Distribution, Playout & Access
- LF Collection

Possible efficiency savings identified included:

Independent Production (Indies), Talent, Programme Acquisition, Production Resources - savings: £46m

Indies: Despite operating in an increasingly competitive market place, it is expected that a level of savings can be achieved on programmes commissioned from independent producers.

Talent: Talent costs include the fees of presenters, writers and musicians across all genres and all content making areas. While there is increasing competition for top talent in the market, it is expected that Talent savings will come from developing new talent in-house, better succession planning, managing natural churn and optimising utilisation.

Programme Acquisition: Savings in Programme acquisition are related to an opportunity to hold and reduce prices for rights to broadcast lower value titles. There is a further opportunity for savings by purchasing

older titles and buying more cross-platform rights to reduce unit costs.

Production Resources: Savings in this area are tied mostly to procurement deals related to in-house production spend such as costumes, make up, filming, lighting, live events, studio hire, with a focus on better utilising preferred suppliers to leverage BBC buying power.

Distribution, Playout & Access - savings: £7-17m

Distribution: The BBC's Distribution costs are primarily associated with contracts to operate DTT, DAB, AM & FM networks, as well as free-to-air platforms, transponders and local DAB. Savings could be generated through more effective sourcing and management of transponder supply, improving efficiency of transmitter power usage, consolidating platform spend and, if appropriate and where correct market conditions exist, monetising spare capacity on multiplexes.

Playout & Access: Playout & Access costs relate to the delivery of Network

Key Consideration

For Group 2, our approach differed to that for Group 1 in that while we consulted our subject matter specialists and selected industry data to challenge BBC assumptions, we relied more heavily on information and views provided by the BBC. For example, BBC representatives for each cost category provided us with descriptions of cost drivers, historical & forecast trends, benchmarks undertaken, expected savings and other key information, which formed the basis for some of our findings.



TV channels and digital content, and services such as live subtitling, audio description and signing. Savings are expected from the extensive BBC re-procurement process for playout of TV and Digital completed in 2015, improved governance arrangements and savings beyond FY23/24 once initial capital investment has been recovered.

Licence Fee Collection - savings: £2-4m

Licence Fee Collection costs consist of collection costs, marketing and postage and other administration and one-off costs. The savings are expected from the increased adoption of email (as an alternative to traditional mail) by licence fee holders as the primary mode of correspondence with TV Licensing. Further efficiencies were considered in other areas, in particular the third party contracts. However, due to the terms in these contracts, further savings seem unlikely.

Areas with no efficiency savings opportunities identified

Copyrights: Significant pressure from rights holders for increased rights prices are likely to drive Copyrights costs up for the BBC. Given that the majority of these costs are incurred with monopoly suppliers also makes it challenging to negotiate better terms on deals.

Sports Rights: Where possible, the BBC is entering into new sharing deals and sub-licensing arrangements to offset cost pressure in Sports. Despite the favourable effects of these sharing deals and arrangements, the benefits appear more than offset by the increasing competition in the market among bidders. As a result, it is challenging to foresee any potential savings without reducing the scope or changing mix.

Audience Services: Current costs of external contracts are already optimised following rigorous procurement. Further cuts would likely damage the quality of services.



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