



A Simpler BBC

More Efficient

More Open

More Creative

10 October 2018

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Foreword

When I returned to the BBC in 2013, our financial priority was making sure the organisation was run as efficiently and as effectively as possible. The goals were to redirect spending towards content and services – to put as much money on air and on screen as possible – and to simplify the BBC's structures in a way that would establish a more sustainable and more creative BBC.

Throughout the last Charter and in the 18 months since – and with the strong support of our audiences – we have been able to make a strong case for the BBC. The UK public's strong support for public service broadcasting remains undiminished.

Creativity has remained at the heart of the BBC's culture. The BBC won 60 National Television Awards, 76 Emmys and 227 BAFTAs over the course of the last Charter. In the two years since then, we have won a further 14 National Television Awards, 8 Emmys, 36 BAFTAs, 14 Gold ARIAs (Audio and Radio Industry Awards), a Prix Italia for our cross-platform Civilisations Festival and a Rose d'Or for Augmented Reality and Virtual Reality. Our drama, sport, entertainment and natural history programmes continue to demonstrate they have the quality and mass appeal to bring the nation together. Our News output remains the most trusted in the country and is the place that people turn to for coverage of major stories. Each week, young people spend more time with the BBC than any other media provider. This is a testimony to the hard work and dedication of all who work for the BBC.

We have also worked to remove unnecessary complexity and reduce cost. We have reshaped business structures and now have a BBC with fewer layers and fewer divisions. We have provided the technology to support modern and more efficient working practices. The BBC is financially well-managed with less bureaucracy. It is a BBC that is streamlined, with visible and accessible leaders. It is a simpler BBC that delivers the new Charter, but also one that is robust enough to meet the challenges posed by the rapidly changing environment in which it finds itself.

This report demonstrates the hard work that has gone into achieving our financial goals. Since my last report on BBC efficiency, in November 2014, we have continued to deliver on our savings programme, bringing overheads down further to industry-leading levels – just 5.7% of our total costs. Our benchmarking approach, 'Compete or Compare', has delivered a financial rigour that continues to focus more of our spend into content and creativity. For every £1 currently spent on our procurement team, the BBC gets £14 back in savings to put into programmes.

With £800 million of savings from the Public Service to find by 2021/22 we will have to push even harder. We have set productivity targets across the whole BBC of at least 1.5% every year for the current five year period. At 31 March 2018, the BBC has already successfully delivered nearly a third of the overall £800 million target. Another third of the target has already been planned. As the Director-General has said, we will need to be more entrepreneurial in our response to the rapid changes in the media sector and more nimble in how we allocate budgets.

However, while we have sought to protect spending on content wherever we can, savings cannot simply come from overheads. It's not possible to make savings on this scale without also making changes to services, which some audiences will notice. Simply put, we cannot reduce our cost base by a fifth and not see impact in our content. As we set out later, savings have already had an impact on sports rights, and on the closure of BBC Three as a broadcast service and its reinvention online.

As this new Charter began the Director-General set out a creative vision to mobilise the BBC behind an ambitious goal – to reinvent public service broadcasting for a new generation. At the same time, the BBC faces significant financial challenges; from competition for talent and rights, and from rising audience expectations. Reinventing the BBC at a time of unprecedented pressure will require difficult choices to be made.

We have made a strong start but there is still much to do.

Anne Bulford,
BBC Deputy Director-General

1. Introduction – How the BBC is being made more efficient

Back in 2014/15, we set a primary financial objective to *‘improve value for money through a more efficient and open BBC’*.

We achieved a great deal in the ten years to the end of Delivering Quality First (“DQF”) in 2017. We delivered savings of some 30% of our controllable spend, completing the £700 million savings programme and cutting overheads to 6%, putting us in the top quartile of regulated industries.

Savings highlights

- £1.6bn total savings exceeded over last Charter period
- Over £700m DQF savings complete
- Senior Managers numbers more than halved
- Overheads reduced, reaching top quartile performance
- 94% Compete/Compare tested
- 94% of spend on content, distribution and content support

We last reported on efficiency at the BBC in November 2014 (http://www.bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc_efficiency_report_2014), demonstrating the progress made by the BBC from 2011. We have continued to improve efficiency since then, exceeding the objective of £700 million of sustainable savings (the overall savings achieved under DQF was £722 million). More detail on DQF can be found in **Section 4**.

In addition to DQF, we have also delivered £150 million of savings from projects, including Simplification. As part of this programme we cut over 1,000 roles in support positions, but this also required us to make tough decisions on content choices such as giving up some Sports rights. More detail on Simplification can be found in **Section 5**.

‘Compete or Compare’ has been embedded as a way of looking at efficiency across the BBC and brought new rigour to finances. It will continue to shape the BBC’s approach over the next Charter. As at November 2014, the BBC had tested 80% of its addressable cost base (defined as the relevant costs which the BBC can reasonably control). By March 2018, this coverage figure had increased to 94%. Further detail on ‘Compete or Compare’ can be found in **Section 6**.

We have made significant progress in reducing staff costs and numbers, as acknowledged by the NAO. Whilst there is more work to do, the NAO noted that the cost of our workforce fell by 6% in real terms from 2010/11 to 2015/16, and we also cut the overall size of the workforce. This was at a time of ongoing and

increased investment in digital and technology skills. Senior Managers have more than halved since 2009/10 and the cost has reduced by £38 million. We are applying clear organisational design principles to reduce layers and complexity, and are now implementing a fundamental reform of BBC terms and conditions. More detail on our People and HR changes can be found in **Section 7**.

The annual property bill has been brought down by around £90 million and we have reduced the number of buildings we occupy. We continue to look to reduce the size of our estate and modernise our buildings and we expect to hit our target of a 355,000 m² UK property estate by 2020 – a reduction of over 20% since 2014. Progress on our property rationalisation is in **Section 8**.

In procurement across the BBC, and in technology in particular, we continue to negotiate better deals. This means genuine savings have been made on goods and services. We have saved over £90 million in technology costs over the three-year period to 2018, with additional future savings also secured. The NAO has also recognised that we have made efficiencies in areas such as TV Licence Fee Collection. Their report earlier this year noted that the “cost of collecting the TV licence fee fell by 25% in real terms between 2010/11 and 2015/16”, while revenues have grown and service has improved. Procurement and major contracts are considered in more detail in **Section 9**.

We have also delivered on the Director-General’s promise to simplify the BBC’s structures and costs. We have changed our divisional structure to streamline the BBC, for example by creating a single Design & Engineering division, with other divisional changes to better match how content is created and consumed. In 2016, responsibility for Scotland, Wales and Northern Ireland, consolidated under a new Nations and Regions division; further responsibility for regional hubs in England was transferred to this division in 2018. BBC Studios was established as a commercial entity in April 2017 and subsequently merged with BBC Worldwide in April 2018. The consolidated BBC Studios will lead to a leaner and more efficient production and distribution model better suited to the way the market is changing. These steps signal a wider determination not only to modernise the way the BBC works, but also to simplify the way it works. Further detail on organisational change is set out in **Section 10**.

We still face tough savings requirements. This is discussed in **Section 11**. By 2021/2022, £800 million of savings will need to be found above those achieved in DQF, meaning further difficult choices. Feeding into this, PwC were commissioned in September 2015, at the beginning of the latest savings plan, to look at our future efficiency opportunities. We set a future annual efficiency target of at least 1.5% for all divisions, above PwC’s recommendation of 1%. The overall £800 million target, combined with changes to the ways people access

and consume content, will mean that the programmes and services delivered will need review. Our financial plans are flexible and will be refined to reflect changing circumstances.

As set out in **Section 11**, EY have independently reviewed and verified our savings. Additionally, they have benchmarked the BBC's overheads as at 2017/18, identifying the BBC as being within the most efficient 25% of international telecommunications and media companies as well as the most efficient 25% of regulated and non-profit organisations in the UK – better than most of government or indeed media companies. More than 94% of the BBC's controllable spend this year was spent on content and delivery, with just 5.7% spent on running the organisation.

The goal is clear: a simpler BBC. A BBC with as few as possible barriers to creativity. A BBC with a culture that empowers creative talent and ideas. A truly open public service broadcaster reinvented for a new generation.

2. Funding the BBC

The BBC reaches 92% of the UK adult population every week through its TV, radio and online services.

The licence fee makes this possible. It provides around three-quarters (£3.8 billion) of the BBC's income. Another £1.2 billion of revenue is generated by commercial activities - primarily BBC Studios (previously separate as BBC Studios and BBC Worldwide) and the profit from this commercial revenue flows through to support the Public Service. After costs and taxes, the latest 2017/18 annual report showed BBC Worldwide returned £210 million to support BBC public services, above £200 million for the fourth year in a row, primarily through programme investment and dividends.

In 2010, the licence fee was frozen. As a response to this, the BBC set a tough savings targets as part of the DQF programme – see **Section 4** for further details. Since 2013 the BBC has put a particular focus on maximising the proportion spent on content. More than 94% of core controllable spend is now on content, distribution and related support costs with just 5.7% used for the professional support needed to run the BBC.

Available licence fee funding for UK PSB services

Over the course of the last ten years, the BBC has had to absorb inflation and the cost of significant new financial obligations imposed by government (such as paying for the World Service and S4C) while, for much of that time, the licence fee was frozen. This meant that by 2017/18, licence fee income available for UK PSB services fell by around 20% in real terms – this means that after taking account of inflation and government-imposed financial obligations, the BBC has 20% less to spend on services for UK licence fee payers.

At the same time, the licence fee continues to be considered by the public the preferred way to fund the BBC. A nationally representative survey of UK adults found seven out of ten people are willing to pay the current licence fee or more - a figure that rises when households spend time without the BBC and reflect on what they would miss without it.

3. Creativity underpinned by efficiencies

Whilst successfully delivering savings and efficiencies year-on-year, the BBC has continued to deliver world class entertainment to audiences. The BBC is committed to delivering a challenging £800 million of annual savings by 2021/22; a significant proportion of this is either dedicated to managing the increasing costs of continuing to deliver the BBC's existing world class output or is to be reinvested into delivering distinctive new content that is engaging, innovative, educational and risk-taking.

Creativity, quality and risk-taking is the first priority for output on the BBC. In 2017/18, 65% of UK adults think the BBC is effective at providing content/services that demonstrate a high standard of creativity.

Throughout 2017/18, a unique combination of information, entertainment and education across all our platforms allowed powerful stories to be heard, taking audiences on journeys of discovery and creating jaw dropping moments that got the nation talking. BBC iPlayer recorded its best year ever in 2017/18. With a host of box sets, hits from the archives and greater personalisation; viewers streamed on average 272 million programmes per month.

Blue Planet II was BBC iPlayer's most popular programme of the year, with 4.7 million requests for the first episode. The impact of the show led to widespread change in the public awareness of plastic waste. There was a record 66.8 million match requests, including live and on demand, on the BBC Sport website and iPlayer over the course of the BBC's coverage of the 2018 World Cup in Russia.

BBC's mission in arts is to ensure the UK remains one of the most creative countries in the world. It is doing so through creative partnerships; it worked alongside the Royal Opera House in a season of performances and digital activity designed to engage a new audience, culminating in a festival which was viewed 500,000 times on Facebook with a television and radio audience of millions. The BBC is also part of Culture UK, a new partnership strategy developed and launched in collaboration with the Arts Councils of England, Wales and Northern Ireland and Creative Scotland, focused on UK-wide cultural development, artist-led commissioning and technological innovation.

Major new entrants such as Amazon and Netflix have meant that the global media market is increasingly dominated by a small number of US-based media giants with extraordinary creative and financial firepower. Alongside this competition, the BBC continues to deliver outstanding value for money.

Netflix's *The Crown* vs BBC drama. \$130m/£97m gets you:

The Crown

- 2 series /c.20 hours of content
- Viewed by 14% of UK adults
- Viewer appreciation of 8.2/10

BBC Drama

- 18 series /c.85 hours of content
- Viewed by 74% of UK adults
- Viewer appreciation of 8.7/10

4. The Delivering Quality First programme

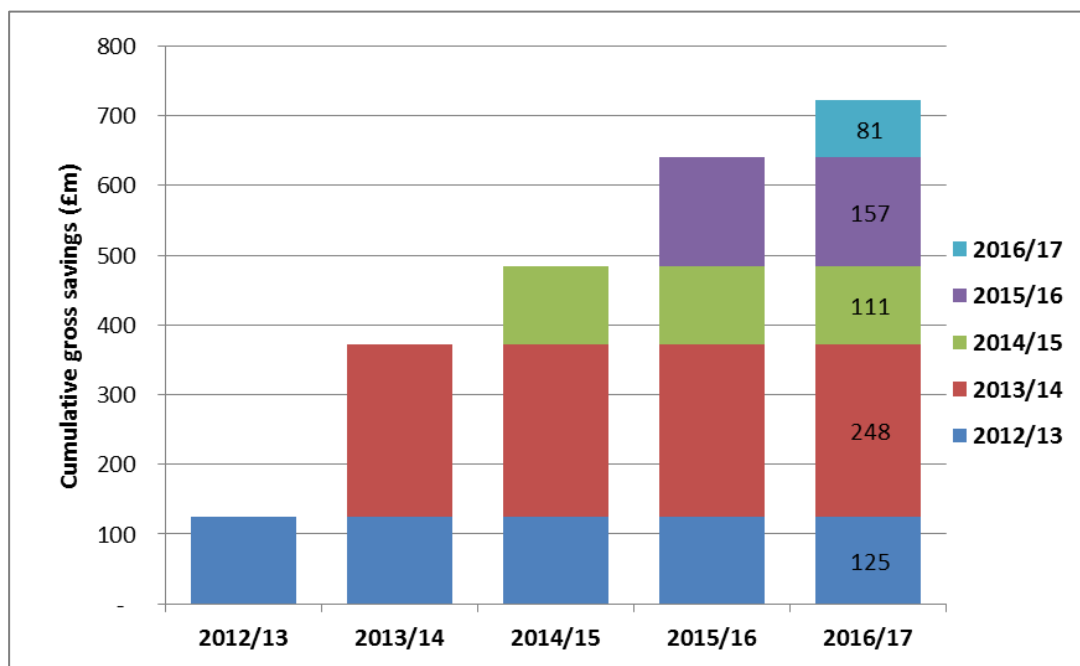
In 2010 the licence fee was frozen and the BBC took on new financial obligations, including funding the World Service and S4C. In 2011, the BBC set a savings target of £700 million a year by 2017, under the DQF programme. This was in response to the 2010 licence fee settlement and was required to ensure our financial stability to the end of the previous Charter.

The DQF programme finished in April 2017 and the BBC exceeded the target for sustainable savings. Overall, the BBC delivered a total annual saving of £722 million by 2016/17, including £712 million of sustainable, ongoing savings that will continue into subsequent financial years.

More than 70% of the savings were realised by finding new, more efficient, simpler ways of working and every area of the BBC contributed.

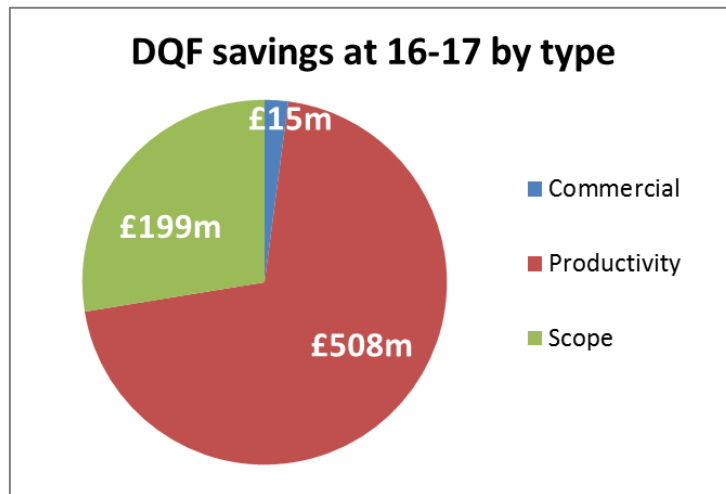
The table below shows the growth of DQF savings over the course of the programme:

DQF savings by year



As shown below, the majority of the savings came from productivity, with some delivered from content scope savings – often delivered through changes in the mix of genres.

DQF savings by type



The following table provides examples of the various initiatives undertaken to deliver the DQF savings programme successfully.

Area	Productivity savings - some examples
News	<p>The relocation of the News division into New Broadcasting House enabled a number of efficiencies such as bringing studios and production control rooms closer together. Co-location of staff allowed process and culture change such as the opportunities for collaboration and the avoidance of duplicative processes.</p> <p>This was evident in the integration of the Newsgathering’s World and Home teams and also the relocation of World Service staff to sit alongside Public Service colleagues. In English Regions, the introduction of virtual local radio stations – where the presenters and their studios remain local but underlying equipment and infrastructure moved to a central, shared, location – delivered further savings.</p>
Content	<p>Content and Production areas combined to deliver DQF savings of £246 million whilst maintaining audience viewing figures and reach. Contractual savings were made with the renewal of the playout services contract (delivering the technology and operations enabling linear TV channel broadcasting) to Ericsson. Elsewhere, changing to tapeless operations delivered further savings.</p>

Nations & Regions	DQF activity in Scotland was focused on productivity initiatives in News, Radio and Support Areas. For example, Scotland's News reduced presentation roles across the main TV and Radio shows <i>Reporting Scotland</i> and <i>Newsdrive</i> . There has been a reduction in headcount of 86 across the period with the majority coming from the Support Areas. Elsewhere, BBC Wales undertook Sport Rights re-negotiations and departmental restructures, while BBC Northern Ireland initiatives include a freeze on other tariff prices.
Support Areas	Support areas in the BBC delivered £186 million of DQF savings against a target of £157 million. Significant savings have been delivered within the finance function as part of the Finance Effectiveness review completed in 2016. This developed a revised operating model which simplified central and divisional finance functions through removing temporary and duplicate headcount. Workplace delivered savings through property exits and disposals whilst Engineering over-delivered through a new contractual arrangement with Atos for technology services.

Area	Scope savings initiatives – some examples
Scope	In our television portfolio, we reduced the volume of daytime commissions and acquisitions as well as cutting the number of red button services available via satellite. In Sport, we delivered a F1 share deal with Sky, which was the most significant single content-led contribution to the DQF plan. In our radio portfolio, Radio 1 and Radio 1Xtra saw an increase in the sharing of content. We also changed the mix of comedy on Radio 2 and drama on Radio 3.

Towards the end of the previous Charter, new strategic priorities were identified, including iPlayer technology, BBC One drama, and the development of sign-in to support personalised content (myBBC). Given the heavy focus on efficiency savings in the early part of the DQF programme, funding for these initiatives came from reprioritisation, including the closure of BBC Three as a broadcast service and its reinvention online.

5. Simplification programme

In July 2015 we set out our plans to cover the projected income shortfall of £150 million due to lower than expected numbers of homes requiring a TV licence. This was on top of the DQF programme.

A third of the £150 million shortfall was delivered by the Simplification programme, a £50 million structural change plan to cut duplication, complexity and cost in the BBC by:

- Reducing the number of divisions (c. £15 million);
- Reducing the number of management layers within the organisation (c. £10 million);
- Simplifying procedures in professional and support areas (c. £25 million).

To enable these changes, a Professional Service Review was launched to determine the levels of resource needed to support the business with the express aim of making support functions simpler, and where possible, to apply a standardised approach in areas such as HR, finance, marketing, communications, legal and technology.

The Simplification programme, completed in autumn 2017, delivered £57 million of savings and a reduction of 1,036 roles across the group. In doing so it over-achieved the targets originally set.

Outside of the Simplification programme, the remaining £100 million was found from content savings and other pan-BBC initiatives including sports rights, online services and other cost savings delivered. As a result we gave up rights to Formula 1 (over and above the content sharing as part of DQF); reviewed and refined our online offering – including closing the iWonder series of interactive guides, the BBC Travel site, and the Newsbeat app; and delivered savings across content areas.

6. 'Compete or Compare'

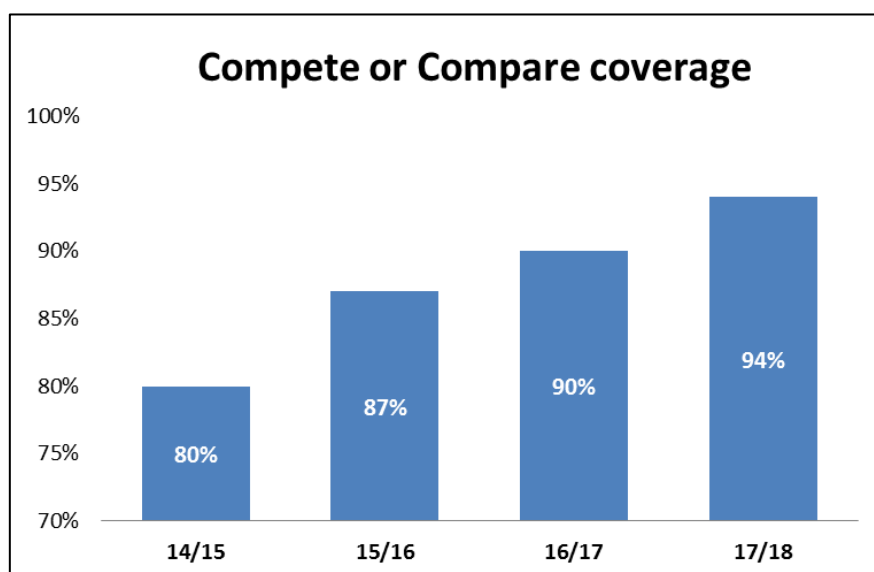
In July 2014, the Director-General announced that, wherever possible, market-style financial competition would be extended to more areas of the BBC, making the organisation more open and efficient. Under the 'Compete or Compare' framework, the objective is to test the BBC cost base either in the market or via benchmarking.

The approach promotes value for money by using competition and rigorous external comparisons to drive up standards and reduce costs across the Corporation. Where competition cannot be used, spend is tested through comparison to private and public sector benchmarks. If external benchmarks are not available, internal benchmarks and/or process reviews are employed.

Through this approach, 94% of the BBC cost base has been tested by means of competition or cost comparison/benchmarking. 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.

Increasing coverage of the BBC cost base

In November 2014, the BBC announced that 80% of the addressable cost base had been covered – or, in other words, tested – through the 'Compete or Compare' framework. Subsequent to this, PwC were engaged independently in 2015 to review the evidence. They concluded that 87% of the addressable cost base had been covered. We have continued to extend the application of the framework and as of today, 94% of the addressable cost base has been tested.



Further coverage gains are becoming increasingly difficult as the remaining addressable cost base either has no competitive external market – e.g. BBC Monitoring services are unique and without equivalent in the competitive external market – or it is difficult to obtain relevant benchmarking data. However, we continue to work further to increase and review our testing coverage of the addressable cost base.

Refreshing ‘Compete or Compare’ will be an integral strand of the BBC’s approach to driving ongoing efficiency throughout the current Charter.

Contestability

Contestability, part of ‘Compete or Compare’, involves opening up the BBC to competition. In doing so, the BBC is able to choose from the best ideas whilst more widely supporting the development of the UK’s creative sector. Increasing competition for supply of production helps the BBC to secure the best ideas, to keep production costs down and to deliver value for money for the licence fee payer.

The BBC has a long history of being open to best ideas. Over ten years ago, at the start of the last Charter, the Window of Creative Competition guaranteed at least 25% production would be made outside the BBC, while also opening up a further 25% to competition between the BBC and independent producers.

Under the new Charter, the Government extended this further, requiring virtually all drama, comedy, entertainment and factual programmes to be put out to competition by 2027. In September 2016, *A Question of Sport*, *Songs of Praise* and *Holby City* were the first returning series opened up to competitive tender.

Under the new Charter, the BBC must also secure competition for at least 60% of relevant radio programming time by 31st December 2022 (relevant radio programmes refers to all network radio programmes except news programmes and repeats). We are making good progress in reaching this milestone; this has involved significant organisational change to deliver. So far the BBC has announced plans to compete titles such as *Annie Mac* and *Dance Anthems* on Radio 1, *Vanessa Feltz* on Radio 2, and *The Danny Baker Show* on 5live.

7. People

We have continued to reshape the BBC into a simpler workforce structure. A broad range of organisational reforms have been put in place from reducing management layers to merging and rationalising divisions. At the same time we have changed the mix of BBC roles and undertaken a fundamental reform of terms and conditions. All of these changes are designed to deliver a more efficient, agile and forward-looking Corporation, fit for the future.

Staffing changes

A strategic commitment to headcount reduction has delivered a decrease of more than 1,000 employees across the BBC group since 2006/07. This headline reduction masks a significant change in the mix of BBC roles away from support to content roles and, in particular, digital content roles.

The overall effect of these staffing changes is that 93% of the BBC's staff are now directly employed in content production and delivery of services (81% directly in content, and 12% in content support).

The BBC also changed the geographical spread of its people around the UK. Major staff moves to Media City in Salford, Mailbox in Birmingham and Pacific Quay in Glasgow, as well as the closure of Television Centre, Media Centre, White City One, Grafton House and other London premises, have helped change the geographical outlook of the BBC so it is more representative of the country.

In [October 2014](#) – two years ahead of schedule – the BBC met its target (set in 2004) to have 50% of its staff based outside London. In 2007 London accounted for 58% of BBC staff. An 11% shift in staff means this now stands at 47% as at 31 March 2018.

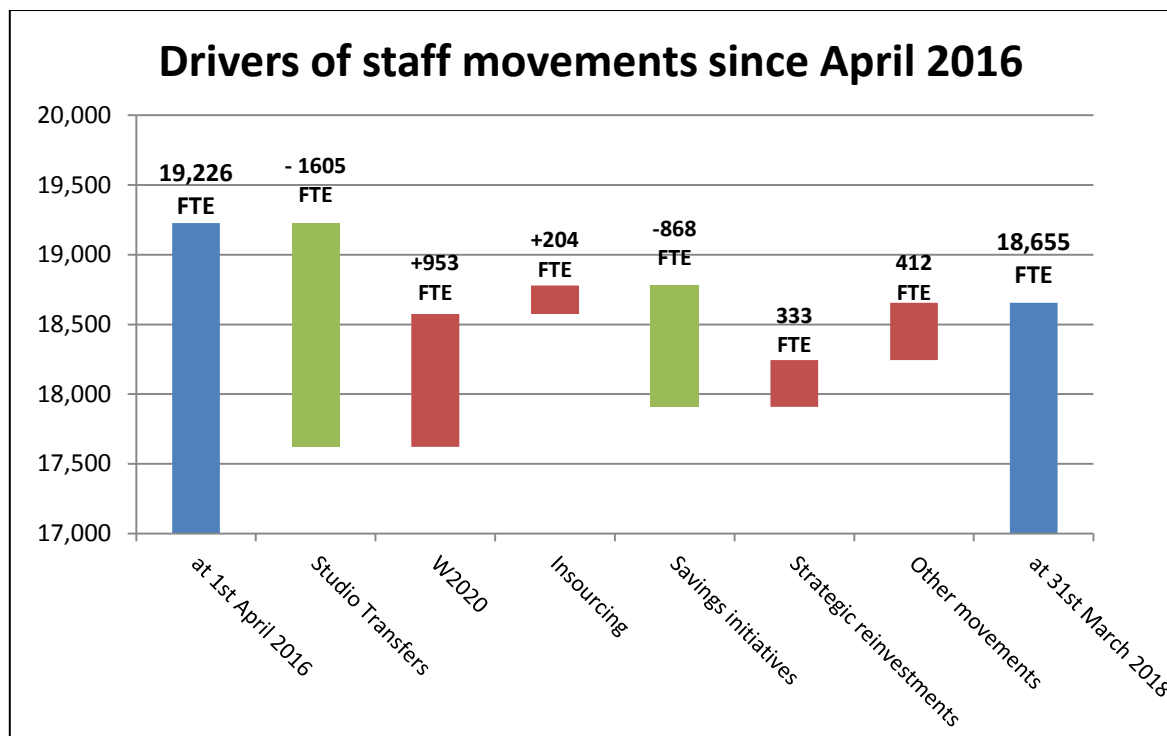
The NAO undertook a review of the BBC's Workforce management published in April 2017. This report found that from 2010/11 to 2015/16, the BBC reduced the cost of its payroll workforce by 6% in real terms and the size of its payroll workforce by 4%, delivering £59 million in real term savings for salaries and wages.

Over this period the BBC closed 3,400 posts. But, at the same time, reinvested by creating new roles in priority areas, particularly digital and technology to support services such as iPlayer; for example by enabling greater personalisation of BBC content.

As a result of these shifts in our workforce, we have reduced the payroll cost of our workforce, while also delivering an increase in the overall volume of output of digital services.

Since April 2016, staff levels have fluctuated driven by a number of factors:

- 1,605 EFTs had left the Public Service, transferring with the formation of BBC Studios.
- 868 roles have closed as a result of cost reduction and efficiency programmes.
- Decreases are offset by 953 new EFTs funded by the government grant for the expansion of the World Service (W2020).
- 204 EFTs were recruited as previously outsourced roles were brought in-house, where the activity could be carried out more cost effectively. Insourcing includes HR transaction processing, creative services and some technology-related activities in Broadcast Services and Technical Support, delivering net average savings of over £2 million per annum.
- New roles have been recruited to support strategic investment including development of products such as iPlayer, personalisation, and Bitesize.
- Other movements in headcount include the BBC’s apprenticeship programme – we remain on target for 2.3% of our employees to be apprentices or trainees by the end of 2019.



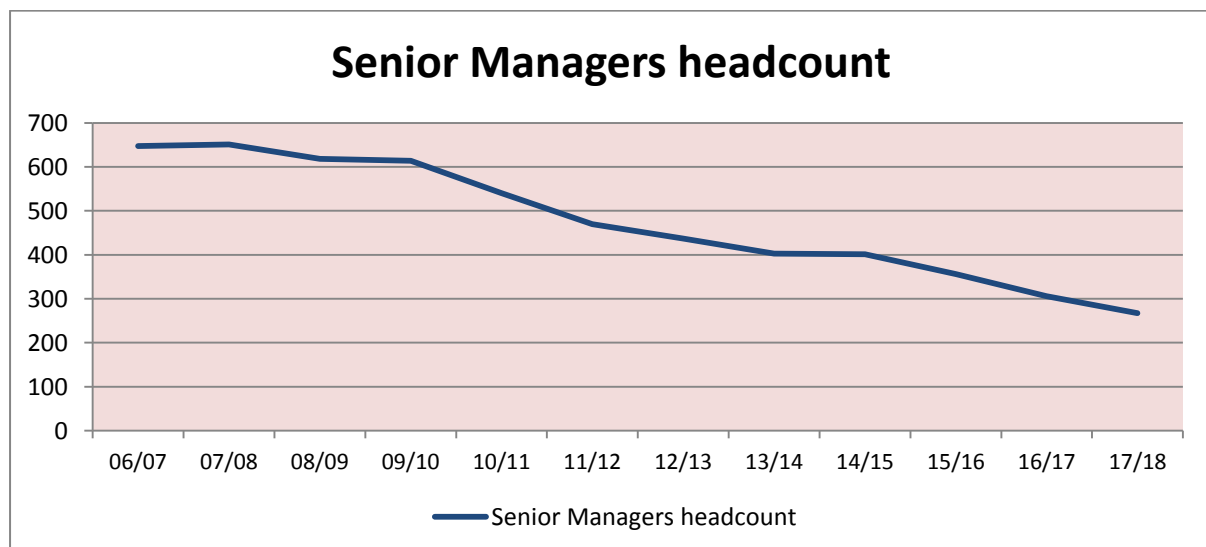
In summary, the BBC is delivering a workforce which better reflects the UK and which is more focussed on serving the audience and building BBC technology capabilities.

Reducing Senior Managers

A simpler organisation inevitably requires a more focused leadership team and fewer managers, especially at senior levels. A simpler BBC also means senior leaders that are more visible, more accountable and more approachable.

Historically, the BBC's Senior Manager population has been comprised of functional and divisional leaders, as well as editorial leaders whose core purpose is to deliver content to audiences. Approximately half of senior manager roles have significant editorial responsibilities, including channel controllers, commissioners and managing editors of major news programmes. As the BBC has evolved – offering multiplatform, multi-media services – so has the need to recruit different skills.

In March 2010, the BBC had 614 Senior Managers within Public Service. In 2012 a commitment was made to cut the cost and size of senior management by £9 million. During 2017/18, the number of senior managers has reduced by a further 39 from the prior year, bringing the total down to 270. Accordingly, the senior manager paybill, including Executive Board members, has reduced by a further £4.5 million from the prior year. This represents a £37.7 million saving since 2009. In all, since March 2010 the senior manager headcount has fallen by 56%.



Employment reforms

The BBC has undertaken a fundamental reform of its terms of employment. The goal was to modernise employee terms and conditions to make them simpler, fairer and more consistent.

A new consistent definition of jobs, structures, and career paths – the Career Path Framework has been introduced. This framework has resulted in the reduction of over 5,000 job titles to about 600, grouped into 27 job families. Market-informed job pay ranges have been developed for all job titles and individuals have been provided with this information for their own job. Where they are in a job title that has over 20 incumbents, they have additionally been provided with information showing the spread of pay.

The BBC has worked with the joint unions and staff over a three year period to improve:

- how the BBC contracts with its staff
- how schedules support 24/7 broadcasting and staff work-life balance
- how staff are rewarded
- policies and allowances, ensuring they are more evenly applied and better support staff

Changes agreed in 2018 are currently in implementation across the BBC. These fundamental reforms provide a foundation for efficient working in a multimedia, 24/7, global environment. At the same time, employees have a transparent framework to understand pay and progression, to ensure fair pay across the BBC, and to help respond to individual questions around equal pay.

The BBC is already one of the most transparent organisations for pay. It has been publishing the salaries and expenses of senior managers since autumn 2009. That list covered those paid over £150,000 (less than 1% of employees). Under the Charter, payments to all individuals, including all on-air talent paid over £150,000 from the licence fee, are now published annually in pay bands.

In 2016/17, the BBC published its first gender pay gap report. This set out the difference in hourly pay between men and women across BBC Public Service Broadcasting. That year, the BBC reported a median pay gap of 9.3% against the national median pay gap of 18%. As at 2017/18, this figure stands at 7.6% - down by nearly a fifth from the previous year. This represents strong progress in the BBC's aim to close the organisational gender pay gap by the end of 2020.

8. Property

Property is a key strand of the BBC's efficiency plan, which is directing even more of the licence fee into programmes and services for viewers.

As of 2018, the BBC occupies 40% less property space than in 1999. Without increasing costs the BBC now has a more modern and smaller property estate fit for 24-hour broadcast in a digital age.

The BBC has delivered a programme to dispose of buildings. Since 1999 the BBC has reduced its estate size from 640,000m² down to 374,000m² – a reduction equivalent to almost 40 football pitches. This progress is shown below.

BBC property metrics

Metric	Target	As per NAO Report (September 2014)	As at 31 March 2018	Estimates after proposed London and Caversham consolidation
Total Net Internal Area of the Estate	355,000m ²	457,500m ²	374,000m ²	352,000m ² **
Vacant Space	Less than 5%	9%	1.9%	n/a
Cost of the Estate	Increase to be less than RPI	£321m against a baseline of £325m	£270m against a baseline of £350m.	£269m against a baseline of £350m.**

** Estimates calculated by deducting floor space and costs of buildings to be vacated from current figures

Exiting Television Centre raised £200 million and cut annual running costs by £30 million. A deal to dispose of part of our London W12 campus (White City 1, Media Centre, and Garden House) was agreed in 2015, raising £87 million in sale proceeds and reducing annual operating costs by a further £33 million. Vacation of leases in other central London properties (Marylebone High Street, Bush House, Henry Wood House) saved £19 million per annum in running costs.

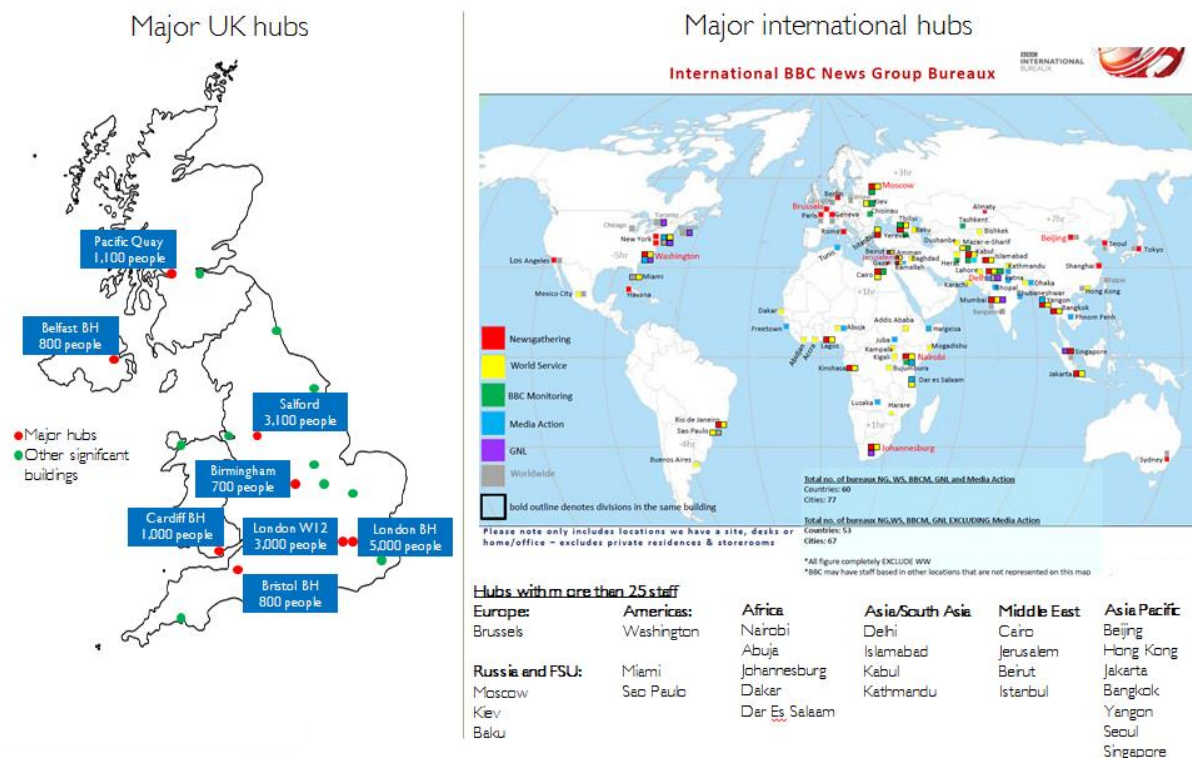
The BBC continues to review property needs. Over 2017/18 the BBC vacated several London buildings, including Grafton House, Brock House, Great Portland Street and Euston Square.

BBC Studios have moved into space in the BBC's West London campus so that as a distinct commercial entity it has a clear base of operations. BBC Monitoring relocated to New Broadcasting House in May 2018, saving property costs at Caversham and delivering operational synergies from closer working with News colleagues. We are now in the process of selling Caversham Park; this will provide additional on-going savings and one-off cash receipts.

In all, the Greater London and Caversham property reduction will save £7 million a year with other London property costs (including utilities) forecast to fall by £7 million, totalling £14 million annual savings by 2021/22.

Outside of the UK, the World Service has also been considering its property footprint, co-locating with Global News Limited and/or BBC Studios where possible and consolidating into hubs in major News locations.

Key BBC property locations



In addition, in March 2017 the BBC completed a new financial deal which secures the long-term ownership and occupation of Broadcasting House in W1 beyond

2033, the term of its current leasing arrangement. This property transaction will deliver value for money for generations. Rental payments are fixed over the remaining lease period leading to approximately a 15% reduction in the current occupancy cost. An immediate reduction in cost of £10 million a year gradually increases to around £34 million under current inflation assumptions by the time the current leasing arrangement ends in 2033. This transaction ultimately paves the way towards outright ownership in 2045.

Property consolidation and refinancing has now saved the BBC around £90 million a year since 2011/12. This is £35 million more than the target across this period.

9. Business Transformation and Procurement

The BBC has taken steps to spend less on running the business through strategic procurement to renegotiate and extend some contracts. In other areas, we have chosen to end contracts where we can improve service and save money by returning services in-house – for example in Technology and Marketing & Audiences.

Technology

Technology services is another area where the BBC is making significant savings. The BBC has moved to a new IT service model managed by a strong in-house operations team which includes responsibility for cyber security. Rather than a single supplier, specialist suppliers now run specific services in a more efficient and flexible way. This change has been driven by the Aurora Programme. Between 2014/15 and 2016/17, the technology contract was renegotiated, delivering savings of more than £90 million over the period.

As part of this, in January 2016 BT was appointed to provide a new, state-of-the-art broadcast network which paves the way for future digital innovation and reduces cost.

In May 2017 we announced a new five year deal with Atos to provide technology services. It supports the BBC's digital transformation and will provide staff with simple to use, quality tools and systems, helping them continue to make world-class programmes and services. The new contract delivers substantial savings of over a third of current costs to the BBC, equivalent to hundreds of millions of pounds over the life of the contract.

The Atos renegotiation is the final contract to be procured under the BBC's Aurora Programme, which has now resourced all of the Corporation's core technology services. The new contract with Atos covers a range of core technology and services staff use in their everyday work, including laptops, phones, business applications, hosting services and a technology helpdesk. It also gives the BBC more control and flexibility over its technology choices, enabling the adoption of new technology as needed, giving staff the tools they need while continuing to make the organisation more efficient.

In January 2018, a new contract commenced for the provision of Playout Services for the BBC's Network TV Channels, Red Button and BBC World News. It is anticipated, after accounting for implementation costs, the savings achieved by this procurement will be £44 million over 10 years, or 20% over the period.

Overall, the contract has started to deliver significant savings while guaranteeing quality and innovation in this business-critical area.

A further example of delivering savings and increasing long term flexibility has been the insourcing of a number of critical broadcast services that manage the distribution of content for terrestrial, satellite and Red Button services previously run by various contractors. These control rooms carry out the satellite tasking operations and bookings for network TV, international radio and for BBC Scotland. Collectively, they cover 29 standard definition (SD) TV services, 18 high definition (HD) TV services and approximately 70 radio services, as well as encoded video and audio content for iPlayer.

Insourcing consolidated a disjointed service, creating structured career paths, as well as better technology and working processes for more than 100 skilled staff. Seven control rooms reduce down to two, at Wood Norton and Central London, saving around £9 million over a ten year period.

The BBC also continues to invest in replacing legacy systems in order to deliver productive efficiency in the future. As an example in 2014/15, we upgraded our SAP financial software. Plans are currently underway to update the Campaign Management System which underpins licence fee marketing campaigns; this will enable more targeted collection of licence fee revenue. We also see opportunities for greater use of Internet Protocol (IP) based systems as an enabler for future efficiency. We are already seeing the benefits of this in the planning of the technology for the new Wales Broadcasting House, currently being built in central Cardiff, as well as in the roll out of our ViLoR (Virtual Local Radio) programme, which is upgrading our local radio stations to digital technology to deliver lower ongoing running costs and increase operational flexibility.

Marketing & Audiences

In January 2016, the BBC's Marketing department in-sourced promotional campaign and trail-making activity. Not only has this achieved annual savings of more than £1 million but the in-house team has improved productivity by producing some 45% more media assets: The number of audience campaigns is forecast to increase by around a third compared to 2014. The allocation of activity between in-house and external is continuously monitored and is expected to secure further savings in the future.

Bringing promotional campaign and trail-making in house has not only improved productivity and helped save money, it has also been a creative success. Since

being established, BBC Creative, the BBC's in-house creative agency, won a Gold Cannes Lion in Film Craft for the 2017 BBC One Christmas campaign, The Supporting Act. They've also won acclaim for other work including the trail for the BBC's World Cup coverage this summer.

From April 2019, we will begin a renegotiated contract term with the incumbent supplier, Capita Business Services Limited ("Capita") for Audience Services. This encompasses a number of different services which enable the BBC to handle and respond to contact from our audiences across all platforms. The services provided range from complaints, enquiries, reception advice and iPlayer technical help, to sourcing and booking audiences for shows. The renewal is expected to deliver a 10% saving against the current contract baseline, i.e. £3.5 million over the full contract term.

Audience Measurement activities are an area of investment by the BBC, as we seek to understand better the way people consume content across multiple platforms and devices – for example content on tablets and mobiles. From October 2018, the BBC will begin a new digital analysis contract with AT Internet. Increasing amounts of viewing and listening are through BBC iPlayer, BBC iPlayer Radio, and – in the future – BBC Sounds; this investment will allow the BBC to better understand this customer behaviour in an integrated way. This will improve BBC services and unlock future efficiency: we will be better able to target content and marketing in order to deliver a more personalised BBC experience.

Procurement

The BBC buys a wide range of goods and services to deliver its programmes and services to its audiences. For every £1 spent on the procurement team, the BBC gets £14 back through its negotiation and management of contracts. Getting more value from suppliers has been a key strand of efficiency plans.

As product requirements have evolved, strategic contracts have been reviewed and renegotiated. New deals regularly deliver savings and value for money for licence fee payers. Only where there are clear benefits to the quality of service and cost has the BBC chosen to outsource to external contractors.

As an example, between 2012/13 and 2017/18 we reduced spending on major strategic contracts from £684 million to £396 million, a saving of 42%. In the main this is due to savings delivered from re-procurement and contract extension. Future years will likely see a levelling-off of spend as incremental savings become harder to achieve once the restructures achieved through

outsourcing have been delivered, especially as some contracts within the portfolio have been re-procured three or four times.



Strategic contract costs are on a downward trajectory and consistently outperform targets. In recent years, spend on goods and services which are not subject to long-term contractual arrangements (mainly addressed through framework agreements) have achieved annual savings in excess of £55 million a year, also above target.

Savings and service gains have also been made by ending some contracted services and bringing them in-house to create 'one stop shops' to support staff. These insourcing decisions have also delivered further cost savings alongside strategic benefits.

Managing contract prices has been an important contributor to savings, but so too has managing supplier performance. Dedicated supplier contract managers are strengthening the BBC's contract management by tracking performance against business requirements. That extends beyond financial savings to add value to services through innovation with our partner organisations.

Automation has been instrumental in securing savings as well as transforming the procurement process. The BBC's procurement team is rated highly by industry, winning "Best Public Sector Outsourcer" as well as the only public body to achieve Global Sourcing Association (GSA) accreditation with merit. The cost of running the department is a third lower than what is considered world class. More and more of BBC controllable costs – currently 84% – are shaped by best procurement practice.

There is still more opportunity to continue to apply pressure to deliver further savings. Work to date has, in many cases, focussed on reducing the rate that the BBC pays for goods and services. We are now increasingly focussing on the volume of goods and services we buy – looking for opportunities to do more with fewer inputs. In areas like technology (which we discuss earlier in this section), there are opportunities to standardise further our approaches to the provision of equipment, while we also benefit from the increased capability and reduced cost of phones, cameras and other equipment.

TV Licensing

The change in legislation to close the TV catch-up loophole¹ has helped us mitigate future changes in TV viewing habits, but as the NAO recognised in its February 2017 report on TV Licensing, pressure on household incomes can also make it harder to collect the licence fee. The current agreement with the government on the future licence fee provides some planning certainty, but also sets challenging financial targets.

The NAO report on TV Licensing noted that the BBC had significantly reduced the cost of collecting the licence fee since 2011, at the same time as improving the reputation of TV Licensing collection. Sir Amyas Morse, Comptroller and Auditor General of the National Audit Office, commented at the time of the report “The BBC has made progress against most of its main performance targets for collecting the licence fee, increasing revenue every year since 2010-11, and reducing collection costs by 25% over the same period.”

The NAO also noted that performance measures relating to reputation had improved and the volume of complaints had halved since 2010, while the operational performance of TV Licensing had improved in most areas through using more efficient, cost-effective customer services. There had been a clear move of enquiries and transactions taking from telephone calls to the TV Licensing website. TV Licensing customers’ increasing use of direct debit payments – 75% paid this way in 2017/18 – compares well to relevant benchmarks.

The NAO concluded that the BBC’s commercial arrangements with external suppliers showed a number of elements of good practice and that the BBC uses key performance indicators that offer incentives for strong operational performance.

¹ Previously a TV Licence was only required to watch live television; following the closure of the loophole a TV Licence is now also required to download or watch catch-up television on iPlayer

The NAO made a number of recommendations in that report that we are currently implementing, including setting new targets for the TV Licensing evasion rate and continued work on modernisation of IT infrastructure.

Other support areas

Finance has made £120 million of cumulative net savings from system and staff changes. Costs have come down by two thirds since 2007. Staff numbers have nearly halved to 354 in 2017/18 from 650 in 2005/06. Following a successful procurement exercise a contract was awarded to IBM for finance processing. The procurement was awarded Offshoring Project of the Year 2016 by the GSA. It has delivered a simplified, efficient and improved service. This commenced in November 2016 and is forecasted to deliver close to £40 million in savings over the five year term or a further 50% reduction in costs versus baseline. This was in part achieved by transferring Infrastructure Management (i.e. administration of essential operational IT systems and process) over to the Atos technology contract where a more favourable price could be achieved via economies of scale.

Human Resources have also delivered savings through a successful HR transformation project. As an example, up until March 2016, Capita provided the BBC's recruitment service, while resourcing for on-air talent (actors etc.) was done in-house. The BBC has now insourced its recruitment services to unify and strengthen its HR function. Annual costs have fallen by £9.6 million as at 2017/18 versus the £27.8 million baseline from 2014/15; this is a cost reduction of more than a third. Between 2014/15 and 2017/18, a cumulative saving of £20.1 million was delivered over the period. These in-sourced services have been relocated to a new HR Service Centre in Birmingham making more efficient use of the property portfolio and creating a unified hub for HR support.

From July 2018, the BBC is undertaking a transformational business change program that is designed to provide insight into our most valuable and unique asset – our people. A new pan-BBC time management and scheduling system is designed to support more standardised ways of working and sustainable, scalable technology capability in resource scheduling, capacity planning, HR and finance processes and management information. At least £9.5 million of savings are expected to be realised in the six years between 2020/21 to 2025/26.

10. BBC organisational changes

Clear leadership accountability

Back in August 2013, the Director-General, Tony Hall announced changes with the express aim of simplifying and speeding up decision-making across the BBC by shutting down at least half of the pan-BBC boards and steering groups. In particular this involved:

- Closing six boards
- Transferring approval powers of 34 boards to single accountable individuals
- Cutting meetings and the number of commercial boards

Wherever possible, a single person is now directly accountable for business-as-usual activities and projects. Individual leaders are now able to take decisions within their delegated limits and understand the process to secure approval for proposals which fall outside those parameters. As a consequence, we have reduced the number of pan-BBC boards by around two thirds.

In September 2017, the decision was made that governance and oversight for the commercial subsidiaries (BBC Worldwide, BBC Global News Holdings, BBC Studios and BBC Studioworks) would be performed by BBC Commercial Holdings. Individual commercial subsidiaries retain their statutory board. This change reduces the duplication of effort and ensures that senior resource is efficiently deployed in respect of the governance and oversight of BBC's commercial group.

The BBC has reduced the number of management layers from the top to the bottom of the organisation.

In the past, in some areas, there have been as many as ten layers of people between the top and the frontline of the BBC. This has been cut to seven layers, with a small number of agreed exceptions to deal with geographical factors or exceptional team sizes. All BBC divisions have now: reviewed their structures to make sure that team sizes are manageable; clarified the team manager role; and reduced the numbers of senior roles wherever possible. Team structures remain under continuous review.

This will mean managers can work collaboratively whilst being responsible for their actions within a less hierarchical and a less siloed BBC. This created a simpler executive management team that properly supports creativity; with fewer divisions, fewer boards and fewer layers.

Fewer Divisions

The streamlining of divisions is a key part of the ambition to create a simpler, leaner BBC. It is also a vital part of the plans to ensure that the BBC is fit for the digital age and sustainable for the long term. Bringing together divisions has allowed us to deliver further savings to focus on content.

Commissioning and services have been reorganised into a new single Content division (BBC One, Two, Three, Four, iPlayer, and Sport from the previous North division); a new Engineering business (digital technology, engineering and Studios technology) has been combined with Finance & Operations to form a wider Deputy Director-General's Group; and a new Radio & Education division has formed, taking in the Children's area from the previous North division and Learning from the Content division. BBC Studios, the new production arm, became a separate commercial entity in April 2017 and subsequently merged with BBC Worldwide in April 2018.

These changes have reduced the number of BBC Public Service divisions; seven divisions in 2014/15 have reduced to five divisions as at 2017/18. The number of commercial entities has reduced from four down to three.

Deputy Director-General's Group

The Deputy Director-General's Group brought together the areas previously under the Finance & Operations division along with all of our Digital & Engineering, Marketing & Audiences and Strategy groups as well as our Commercial, Rights & Business Affairs activities.

This combines all of our professional and distribution functions into a single area, allowing us to manage across the content value chain; from how we contract to get the correct package of rights at the start of the commissioning process, through having the right distribution contracts and arrangements in place, to developing and delivering the marketing plans to make sure our audiences find the content they love. In a world of increasingly personalised content offerings, we can act as one group to develop a joined up approach to personalisation technology, audience measurement and customer relationship management.

Technology – Design & Engineering

D&E has brought together the merged BBC Digital, Engineering and BBC Worldwide technology teams.

The D&E division's global remit is to lead the BBC's digital and technology operations that keep the BBC on-air, online and operational. The creation of the combined division was completed in April 2017, bringing together world class digital innovation, engineering and IT skills into one team.

Merging these divisions was targeted to save £15 million. This programme and other related projects (including the transformation of Information and Archives) have exceeded this target, with £18 million of savings identified to date, including a reduction of over 350 roles. The vast majority of these savings have been delivered and the identified benefits from the merger will be fully realised in 2018/19.

BBC Studios

At its core, the BBC is a programme-maker and production is at the heart of that. There is ever greater competition for good ideas and the BBC established BBC Studios as a commercial subsidiary from April 2017 to help ensure ongoing access to the best range of ideas and intellectual property.

In April 2018, BBC Studios merged with BBC Worldwide to form a single commercial organisation, BBC Studios. As the global market for production and distribution becomes increasingly competitive, this reorganisation brings the BBC into line with the rest of the industry, integrating programme production, sales and distribution in a single entity.

This will create a unified business with a single business plan and combined operating model, allowing the BBC to better support creative talent, produce high quality content, and maximise the value of the BBC's intellectual property for the benefit of UK licence fee payers.

Content

Content is a division set up to establish a simplified and more co-ordinated strategy across the portfolio.

The division brings together the creative, editorial and strategic decision-making for BBC One, BBC Two, BBC Three, BBC Four, BBC Sport and BBC iPlayer. It encourages greater collaboration and flexibility, enabling better prioritisation of resources to meet audience needs.

Radio & Education

Radio & Education brings together network Radio, Arts, Music, Education, Children's, and partnerships.

The division seeks to partner more closely with other great institutions. It seeks to engage with young audiences so they can connect digitally with the BBC, as well as using radio to help people to discover more of our programmes and to reflect the UK to the world through music, arts and the spoken word.

Nations & Regions

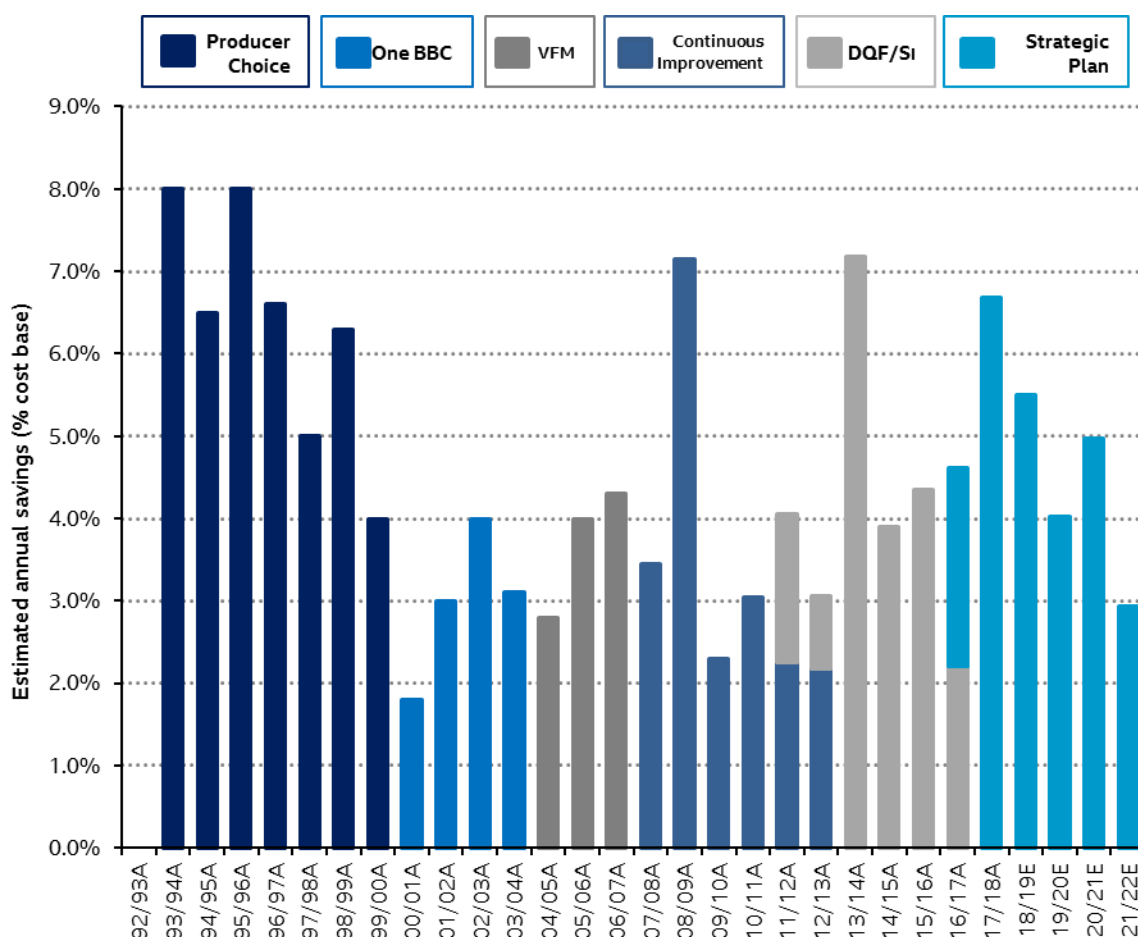
Announced in early 2018, the English Regions operation has transferred from the News division to the Nations & Regions division. The move is to bring all of our teams working on local content together, enabling even greater collaboration, for audiences across the Nations and English Regions. The move will enable the reinvention of local radio in England.

11. Future savings targets

In July 2015, in advance of the new Charter, the Government set the licence fee for the BBC for the five years up to 2021/22. As part of this settlement, the BBC faces a very tough set of financial challenges, meaning it has to find a total of £800 million of annual savings by 2021/22.

This equates to around 20% of this year's budget or an average savings target of 4% a year for five years. Comparing the BBC's plans to reduce costs against the government's shows that BBC nominal expenditure is expected to fall by 6% between 2016/17 and 2019/20 while total government nominal expenditure is forecast to increase by 7% in the same period.

BBC efficiency programmes (1993 – 2022)



The BBC will make productive efficiency savings as far as possible. However, given the BBC's successful past record, as illustrated in the chart above, achieving further efficiency savings will be very challenging.

In 2017/18, more than 94% of core controllable spend was on content, distribution and related support costs with just 5.7% used for the professional

support needed to run the BBC. This means the proportion of the licence fee spent on overheads has significantly reduced, and that there are fewer opportunities to save material amounts in overheads.

In addition, market conditions, including competition for talent and rights, rising audience expectations and increasing need for investment in cyber security are much more challenging than they were in July 2015.

BBC Strategic Plan savings

The BBC is targeting £800 million savings over a five year period and has successfully delivered nearly almost a third. Some £300 million in savings are to be achieved by an annual 1.5% efficiency challenge embedded in all divisions. We will also need to make savings across the BBC to mitigate superinflation in key genres and to fund investment in new content and ways of accessing BBC services.

Forecasting over a five-year period is difficult as many elements are not under the BBC's control, such as inflation. The BBC will respond flexibly to this uncertainty as we progress through our financial plans. But it will not be possible to make savings on this scale without making changes to services which some audiences will notice.

The following table provides examples of the initiatives undertaken to successfully deliver savings in 2017/18, the first steps in delivering the £800 million target.

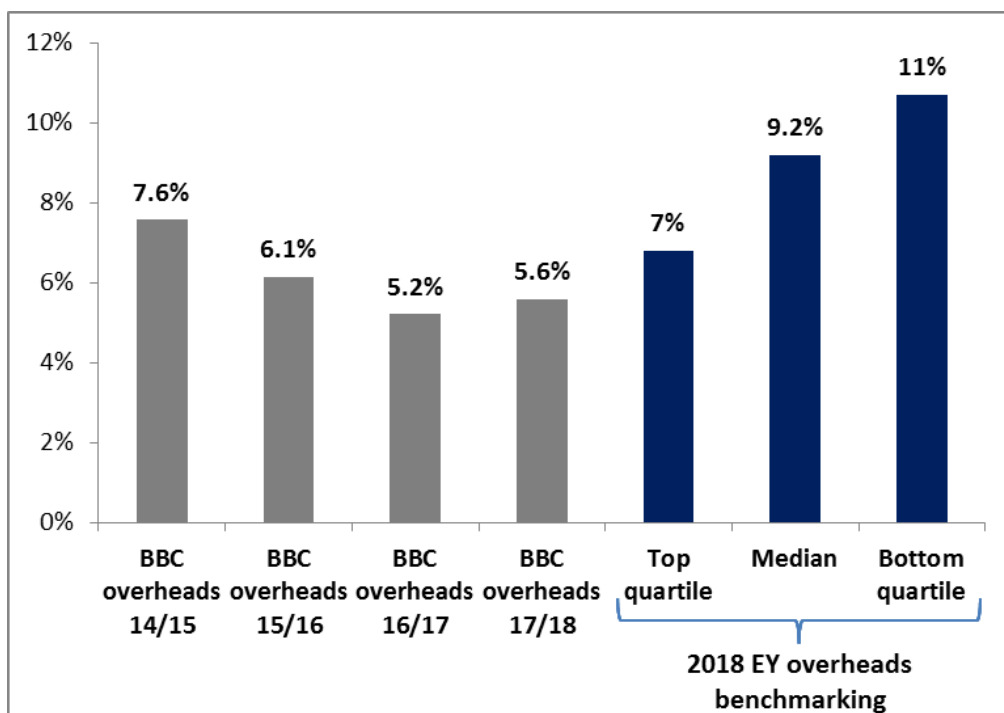
Area	Savings initiatives
TV	Productivity savings of £10 million have been made in 2017/18 with the aim of mitigating the equivalent of 1.5% general inflation of costs. Price efficiencies were delivered by managing to commission some programmes at continued flat pricing despite the general inflation of costs.
Sport	Savings of £2.4 million within sport production were achieved in 2017/18. A number of productivity improvements contributed to this amount, such as the increased use of remote working and improved staffing models to reduce downtime.
Finance	In November 2016, Finance transferred BPO services previously performed by Steria to IBM following a successful procurement of those services. The deal negotiated with IBM represents a significant saving on the previous contract. This led to a reduction of 50% from the baseline costs assumed from the prior contract, which led to £5 million of savings delivered in 2017/18.

Overall however, it is increasingly difficult to find productive efficiencies without looking at the mix of BBC content. In the same period, to meet financial targets, some compromises have already been needed including loss of key titles and some sports rights.

These compromises are necessary because the volume of savings required is higher than that which can be delivered through productivity alone. When [PwC](#) reviewed the potential for long term productivity at the BBC in 2015, they found that achieving savings of just 1% p.a. would not be easy and would require substantial change from the BBC, as well as technology enabled innovation.

Delivering savings beyond 1% p.a. – as we have targeted – is also challenging because the backdrop of productivity savings made in recent years means there is less scope for further efficiencies. EY have benchmarked the BBC’s overheads and concluded that the BBC is within the most efficient 25% of regulated and non-profit organisations in the UK, as well as the most efficient 25% of international telecommunications and media companies. This makes the BBC better than most of government or media companies. As of 2017/18, the BBC spends 5.7% of its total controllable service spend on general support activities.

BBC overhead % of total costs



Benchmarking compares BBC overheads to regulated and non-profit entities

12. Conclusion

We have taken significant steps in recent years to reform the BBC - increasing efficiency and reducing bureaucracy and complexity. This has allowed us to prioritise spend on content and services and fund BBC creativity. The changes also mean we are better placed to meet the significant financial challenges that lie ahead.

Efficiency and modernisation must continue in this Charter and beyond so that the BBC can continue to offer our audiences the programmes and services they love in the digital age, and to safeguard the sustainability of the BBC for the long term.

‘Compete or Compare’ has now tested 94% of the BBC’s cost base. It has been instrumental in finding savings and will continue to play an important role in the identification of new savings. It gives us a sustainable framework for continuous improvement.

We delivered over £1.6 billion in savings over the last Charter period, and this achievement makes it increasingly difficult to find productive savings - to deliver the same or more for less. We are making good progress in addressing the challenge to find another £800 million of annual savings by 2021/22. However, as the landscape in which the BBC engages evolves, this savings challenge will require further tough choices to maintain the BBC’s commitment to creativity and to give audiences the BBC service they expect for the Licence Fee.

The BBC will continue to offer great British content, and be a trusted guide. A simpler and more open BBC will do it in a way that is more efficient, more creative and more relevant to our audiences than ever before.