

## Benchmarking the BBC's overhead and indirect cost rates

August 2020

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# 1 Introduction

## 1.1 Background

The BBC's mission is "to act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain."<sup>1</sup> The BBC's Charter sets out its five public purposes: to provide impartial news and information to help audiences across the UK understand and engage with the world around them, to support learning for people across age groups, to show creative and high quality output and services across genres, to reflect, represent and serve the diverse communities of the UK, and to represent the UK and its culture and values to the world.

The Royal Charter is the constitutional basis for the BBC. The current charter began on 1 January 2017 and ends on 31 December 2027. The Agreement between the Secretary of State for Culture, Media and Sport and the BBC sits alongside the Charter and provides clarity in respect of issues such as the BBC's funding and its regulatory duties.

The Charter stipulates that the majority of the BBC's activities are funded by the licence fee, and the Secretary of State determines the level of the licence fee for the relevant Settlement Period.<sup>2</sup> A mid-term review of the Charter will be carried out by the Government, focussing on governance and regulatory arrangements. This review will not look at the BBC's mission, purpose or the method by which it is funded.<sup>3</sup>

## 1.2 Objective and scope of this report

In July 2018, Ernst & Young LLP produced a report benchmarking the BBC's overhead rate against other organisations (the "EY 2018 report"). This report concluded that not only was the BBC's overhead rate and indirect cost rate more efficient than the average organisation within the comparator groups, but also that the BBC's overhead rate and indirect cost rate was in the most efficient quartile of these groups.<sup>4</sup>

This report updates the analysis carried out in the EY 2018 report, by considering the BBC's overhead and indirect cost rates in comparison with two benchmark comparator groups and comments on any movements over the last two years, as well as the BBC's relative position. It also considers the costs reported for the companies and organisations with high or low overhead rates and indirect cost rates to ensure comparability with the BBC. Lastly, it verifies the calculation of the BBC's overhead rate of 4.8% by reviewing the BBC's annual expenditure for the year ended 31 March 2020, based on the BBC's financial statements for 2019/20. All analysis in this report relates to the BBC's Public Service Broadcasting ("PSB") entity only, and excludes validation or comparison of the commercial entities, such as BBC Studios, within the BBC Group.

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<sup>1</sup> [The BBC's mission statement](#)

<sup>2</sup> [The BBC – About us](#) and [The Royal Charter](#)

<sup>3</sup> [The BBC – About us](#)

<sup>4</sup> A quartile is a statistical metric that describes the division of a sample into four equal sub-samples based on the values of the data, and how they compare to the entire set of observations of the sample

In order to perform this analysis, Deloitte has undertaken the following steps:

- Identified the BBC's direct and indirect costs (specifically considering overhead costs) using the BBC's financial statements for 2019/20 to calculate the BBC's overhead rate and indirect cost rate;
- Defined comparator groups: In conjunction with stakeholders from the BBC, Deloitte has identified two benchmark comparator groups with which the BBC's overhead rate and indirect cost rate can be compared and benchmarked;
- Collected data on the overhead rate and indirect cost rate for each of the companies in the benchmark comparator groups; and
- Undertaken analysis to consider the BBC's relative efficiency ranking in relation to each of the two benchmark comparator groups.

The rest of this report is separated into the following sections:

- Section 2 discusses the BBC's cost categories, and associated definitions of the overhead and indirect cost rates;
- Section 3 discusses the approach used to undertake this analysis and includes information on data sources used and methodology;
- Section 4 sets out the findings of the benchmarking analysis; and
- Section 5 provides a conclusion and Deloitte's validation of the BBC's overhead rate calculation.

### 1.3 Executive Summary

The BBC has engaged in a sustained efficiency drive over the last ten years, with a view to maximising spend on content. Over this period, the BBC has delivered annual average cost savings of 4%.<sup>5</sup> This has been achieved in a significantly changing media landscape, e.g. due to increased competition from global subscription video on demand services, and pressure on Licence Fee income. During this period, the BBC has taken on new commitments (including funding of World Service, S4C and BBC Monitoring, as well as its response to the cessation of government funding of free licences for the over-75 population), whilst continuing to work towards £800 million of cumulative savings by 2021/22.

This report finds that the BBC's overhead rate of 4.8% and indirect cost rate of 17% are in the top quartile of the benchmark comparator groups. This is in line with the findings of the EY 2018 report. Further, it notes that the BBC's overhead costs have seen a 32% reduction from £274m in 2014/15 to £173m in 2019/20, whilst cost expenditure in other categories including Content and Distribution spend has broadly remained the same. This indicates that the BBC has continued to drive efficiencies in its overhead and indirect costs.

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<sup>5</sup> BBC Group Annual Report and Accounts 2018/19, pages 89 and 90

## 2 The BBC's overheads

In its Annual Report, the BBC categorises its PSB expenditure into four categories:

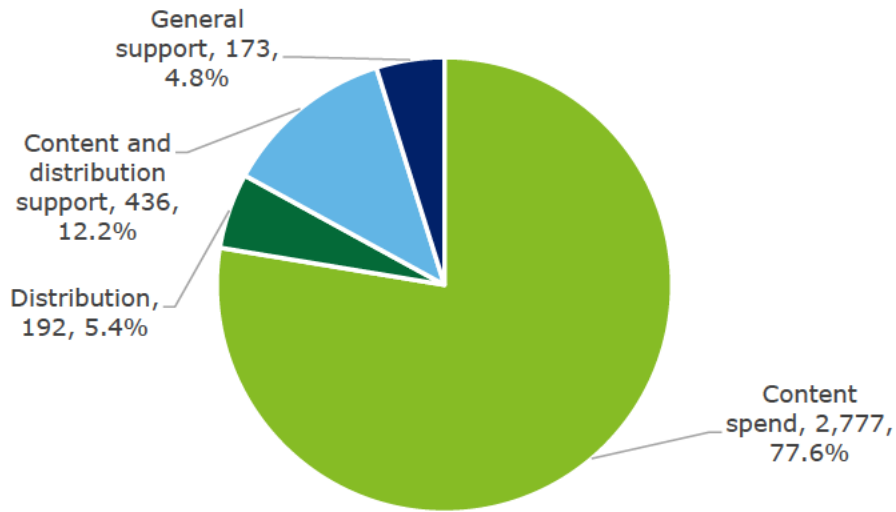
1. **Content spend:** This includes the expenditure that is incurred to acquire and create content across the BBC's services (TV, radio and digital);
2. **Distribution:** These are costs that are incurred to deliver the BBC's content to its audiences;
3. **Content and Distribution Support:** These costs directly support the content and distribution activities – for example, divisional finance functions which manage production and distribution of content; and
4. **General Support:** These costs relate to shared corporate functions that cannot be directly attributed to the BBC's audience facing activities, and include functions such as Central HR and IT, Corporate Finance and Legal.

Content spend and Distribution costs make up the BBC's **direct costs** whilst Content and Distribution Support and General Support make up the BBC's **indirect costs**. These costs together comprise BBC's controllable expenditure.

The BBC defines its overhead costs as controllable costs which do not directly support the delivery of its output and services. Therefore, by the BBC's definition, these overhead costs are solely comprised of General Support costs. We have reviewed the costs that are excluded from controllable costs (and therefore General Support costs) to ensure it is appropriate to exclude these from the calculation of the BBC's overhead rate, which is calculated by dividing its General Support costs by total controllable costs. Our analysis in this report uses the BBC's definition of overhead rate, and also uses the indirect cost rate (defined as indirect costs divided by total controllable costs).

The BBC identifies costs that it considers not directly controllable, and which are therefore *excluded* from the overhead rate calculation as well as the indirect cost rate calculation. These costs include TV licence fee collection costs, pension deficit reduction costs, and other obligations including funding of S4C and BBC Monitoring. Further, costs that are incurred to generate third party income (for example, the cost of sale of a fully funded external production) or intra-group income are also not reported under controllable expenditure. The costs excluded from the BBC's controllable costs have been reviewed to confirm that it is appropriate to exclude these costs. These non-controllable costs have therefore not been included in Figure 1 below, or in any of the analysis that calculates the BBC's overhead rate or indirect cost rate.

Figure 1: The BBC's total controllable expenditure using the BBC's financial statements for 2019/20



As seen in Figure 1, Direct costs (Content spend and Distribution) account for 83% of the BBC's total controllable expenditure, with a focus of 78% on Content spend. The BBC's indirect costs account for 17% of the BBC's total controllable expenditure. In comparison, the BBC's last benchmarking exercise in 2018 showed direct costs of 82% and indirect costs of 18%, implying that the BBC is now focussing a larger proportion of its controllable expenditure on content creation and its direct functions, and is continuing to drive efficiencies in its overhead and indirect costs.

Figure 2: The BBC's overhead rate

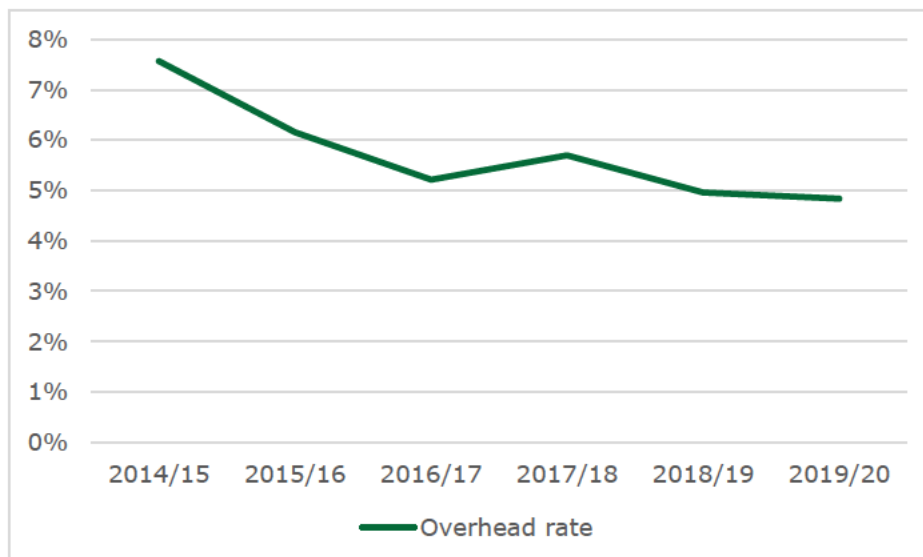
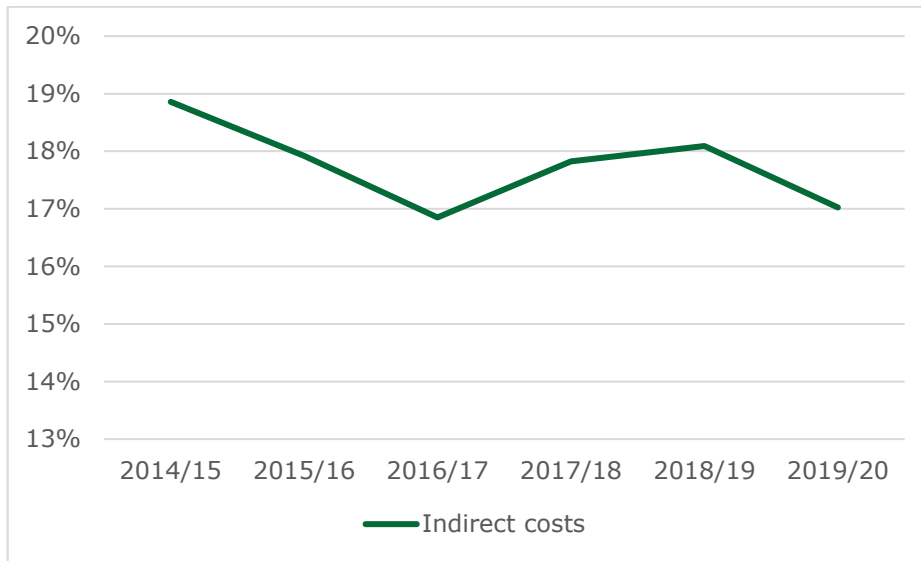


Figure 3: The BBC's indirect cost rate



As seen in Figure 2 and Figure 3, the BBC's overhead rate and indirect cost rate have both shown a declining trend over the last few years. The BBC's overhead rate has reduced from 7.6% in 2014/15 to 4.8% in 2019/20 and the BBC's indirect cost rate has reduced from 18.9% in 2014/15 to 17% in 2019/20. This is largely driven by a reduction in General Support costs, whilst keeping other cost categories broadly constant. For example, whilst Content spend and Distribution costs (direct costs) have remained fairly constant (£2,992m in 2014/15 to £2,969m in 2019/20) and Content and Distribution Support costs have increased (£409m in 2014/15 to £436m in 2019/20), General Support costs have seen a 32% reduction from £274m in 2014/15 to £187m in 2019/20.

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.<sup>6</sup>

Given that several overhead and indirect costs are often fixed (such as Property costs or Technology costs), this further enforces that the BBC has been focussed on driving efficiencies in its overhead costs, especially considering that the overall controllable expenditure has remained broadly the same, and possibly even reduced in real terms (i.e. after accounting for inflation).

<sup>6</sup> [BBC 2018 Efficiency report](#)



# 3 Approach

As discussed in Section 2, the BBC categorises its indirect costs by specifically splitting up these costs into those that directly support its audience facing activities (Content and Distribution Support costs), and General Support costs. Most other media and telecommunications companies do not report their expenditure categories to this level of granularity. Therefore, it is not possible to benchmark the BBC's overhead rate specifically against a large comparator benchmark group of media and telecommunications companies.

In order to benchmark the BBC's support costs against other organisations, two benchmark comparator groups have been used:

1. A set of organisations from regulated industries, as well as non-profit organisations that disclose their specific overhead costs and operating expenditure. For this group, we are able to calculate an overhead rate that is comparable to that of the BBC; and
2. A set of commercial media and telecommunications companies that do not specifically report overheads in the same way as the BBC, but report their overall indirect costs. For this group, we calculate an indirect cost rate that is comparable to that of the BBC.

## 3.1 Calculating the BBC's overhead rate and indirect cost rate

In order to compare the BBC's costs to the two benchmark comparator groups discussed, the appropriate rates need to be calculated from the BBC's financial statements for 2019/20 of controllable expenditure.

### 3.1.1 Overhead rate

This is defined as the BBC's General Support costs as a proportion of its total controllable expenditure. As seen in Figure 1, this is 4.8%.<sup>7</sup>

### 3.1.2 Indirect cost rate

This is defined as the BBC's total indirect costs (i.e. the sum of Content and Distribution Support and General Support costs) as a proportion of its total controllable expenditure. As seen in Figure 1, this is 17%.<sup>8</sup>

## 3.2 Defining the two comparator benchmark groups

The two comparator benchmark groups are briefly described below.

### 3.2.1 Comparator group 1: Regulated and non-profit organisations

This group contains 25 organisations for which directly comparable overhead cost data is available. Of these 25 organisations, 14 are regulated companies (including electricity distribution network operators that report business support costs to Ofgem), and 11 are non-profit organisations including charities, and organisations funded by the Government.

### 3.2.2 Comparator group 2: Commercial media and telecommunications companies

This group consists of 48 companies for which data on indirect costs (defined as selling, general, and administrative "SG&A" costs, or "SG&A") is available. These are broadcasting and media companies, and private sector telecommunications companies.<sup>9</sup>

Whilst it has not been possible to compare the BBC's overhead rate to other commercial media and telecommunications companies, our conclusions are based on two broad groups

<sup>7</sup> General Support costs of £173m divided by total controllable costs of £3,578m (£173m + £436m + £192m + £2,777m).

<sup>8</sup> Indirect costs of £609m (£173m + £436m) divided by total controllable costs of £3,578m.

<sup>9</sup> Several of these company's accounts have been reviewed to check whether overhead data is specifically available. However, this data has not been available in the sample of companies that have been reviewed.

which include companies that all have some characteristics that make them fundamentally comparable to the BBC (such as being from the media and telecommunications sector, operating in a regulated industry, or being a non-profit organisation). These groups have been created with large enough sample sizes such that conclusions of statistical indicators, such as the most efficient or least efficient quartile, can be made without having to rely heavily on any one company.

### 3.3 Data

Data for these two comparator groups has been collected using both manual and automated processes.

#### 3.3.1 Comparator group 1

For this group, data has been collected mostly manually, as these are smaller organisations that are often not recorded on financial information provider platforms, such as Capital IQ.<sup>10</sup>

Desk research has been used to find comparable cost information on overhead costs as well as total operating expenditure. The most recently available statutory and regulatory accounts have been used to find cost data for this group, and the Notes to Accounts sections have been used to ensure that comparable data is being used to benchmark these organisations to the BBC's overhead costs.

For electricity distribution network companies, support costs and total expenditure is taken from Ofgem, as they report these costs to Ofgem on a yearly basis. For these companies, the overall cost base of operating expenditure has been defined as "totex" (total expenditure). Totex comprises both operating and capital expenditure, and is a concept used by Ofgem to incentivise companies to use the most cost efficient solution, rather than the most appealing solution with reference to their yearly accounts. Given the nature of electricity companies and the fact that capital expenditure is an important part of expenditure for their direct activities, we consider it reasonable to assume totex as the cost base to which overheads are compared.

Further, as totex is greater than operating expenditure, this approach portrays the electricity distribution network companies' overhead rates as *more* efficient than would be the case if we were to use operating expenditure as the relevant controllable cost base.<sup>11</sup> As a result, the BBC's overhead rate is compared to a more stringent group, making for a prudent comparison.

The benchmark range calculated can be considered comparable to the BBC's overhead rate of 4.8%.

#### 3.3.2 Comparator group 2

Cost data including SG&A costs and total controllable expenditure has been collected using Capital IQ. This data has been collected from the most recently published financials for each company on a Last Twelve Months basis.<sup>12</sup> Total controllable expenditure is defined as the sum of SG&A costs and Cost of Goods Sold ("COGS"). A sample of these results were checked against the companies' annual reports to ensure that the correct and relevant values were being pulled from the database by the platform. In addition to data available on Capital IQ,

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<sup>10</sup> Capital IQ is a platform owned by S&P Global. It provides research, financial data, and analysis on private and public companies to help finance professionals perform an analysis. It also provides data on macro and economic indicators.

<sup>11</sup> This is because using the totex as the relevant controllable cost base means that the overhead rate is calculated by dividing the support costs by a larger number than if only operating expenditure were used as the relevant controllable cost base. This leads to a smaller overhead rate for the electricity distribution network companies, and therefore compares the BBC's overhead rate to a more efficient group.

<sup>12</sup> Capital IQ allows users to download data from the last published reports (annual or quarterly). Therefore if a firm's most recent annual report is published as of March 2019, but quarterly reports have been published since then up to December 2019, Capital IQ will consider the quarterly reports published to then disclose Last Twelve Months of data as of December 2019.

we manually collected data for some other public service broadcasters in the comparator group.

The indirect cost rates for these companies was calculated by dividing the total indirect costs (SG&A costs) by the total controllable costs. The benchmark range calculated can be considered comparable to the BBC's indirect cost rate of 17%.

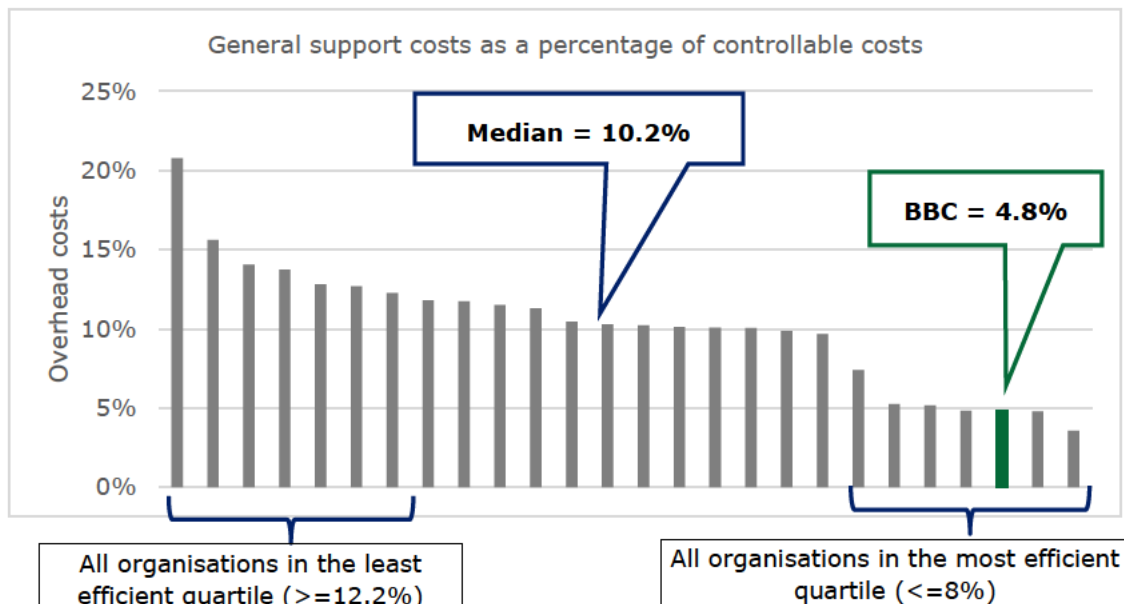
# 4 Findings

This section reports the findings of the benchmarking analysis. Across both the comparator groups, the BBC's support cost rates (both overhead rate and indirect cost rate) are more efficient than the average organisation, and are in fact in the most efficient quartile.

## 4.1 Group 1: Regulated and non-profit organisations

As discussed in Section 3.2.1, this group comprises organisations within regulated industries and non-profit organisations that specifically disclose their overhead costs. The overhead rate for this group was compared against the BBC's overhead rate of 4.8%, calculated using the BBC's financial statements for 2019/20.

Figure 4: The BBC's overhead rate in comparison with other organisations in Group 1 (total number of comparator organisations = 25)



*Note: i) Companies in the top and bottom quartile have also been reviewed to ensure that the costs being compared to the BBC's overheads costs are comparable; ii) Controllable costs are defined as operating expenditure for all organisations except electricity distribution network operators for which controllable costs are defined as totex.*

As seen in Figure 4, the BBC's overhead rate is within the top quartile. Only 2 out of the 25 comparators out-perform the BBC on overhead efficiency, with the BBC's overhead rate of 4.8% being only 1.2 percentage points higher than the most efficient comparator. In comparison, in the EY 2018 report, the BBC's overhead rate was ranked 7<sup>th</sup>, and its overhead rate of 5.7% was 2.8 percentage points higher than the most efficient comparator. This suggests that the BBC's overhead rate has improved relative to that of its peers in the respective comparator groups, and that the BBC has continued to drive efficiencies to lower its overhead rate.

A distribution of Group 1 overhead rates has also been considered and is shown in Table 1.

Table 1: Distribution of the overhead rate for Group 1

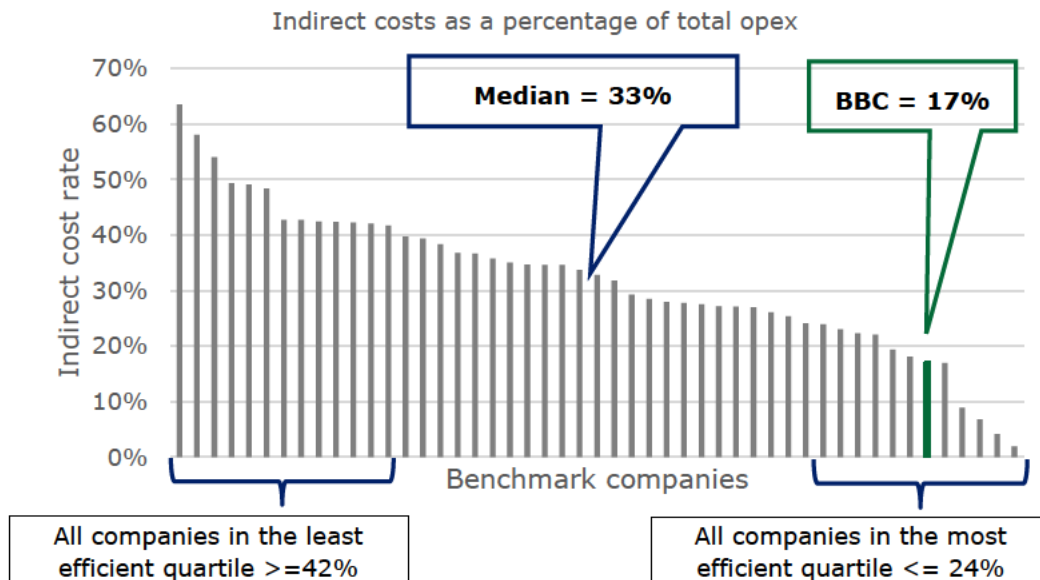
<b>Most efficient</b>	3.6%
<b>Top quartile</b>	8.0%
<b>Median</b>	10.2%
<b>Bottom quartile</b>	12.2%
<b>Least efficient</b>	20.8%

Based on Figure 4 and Table 1, it can be seen that the BBC is in the top quartile of this group, and its overhead rate is only 1.5 percentage points greater than the most efficient.

**4.2 Group 2: Commercial media, and telecommunications companies**

As discussed in Section 3.2.2, this group comprises commercial media and telecommunications companies that do not disclose overhead costs that are comparable to the BBC's General Support costs, but rather only disclose their overall indirect costs (SG&A costs). The indirect cost rates for these companies are calculated by dividing their SG&A costs by the sum of their SG&A costs and COGS. This is then compared to the BBC's indirect cost rate of 17% as per the BBC's financial statements for 2019/20.

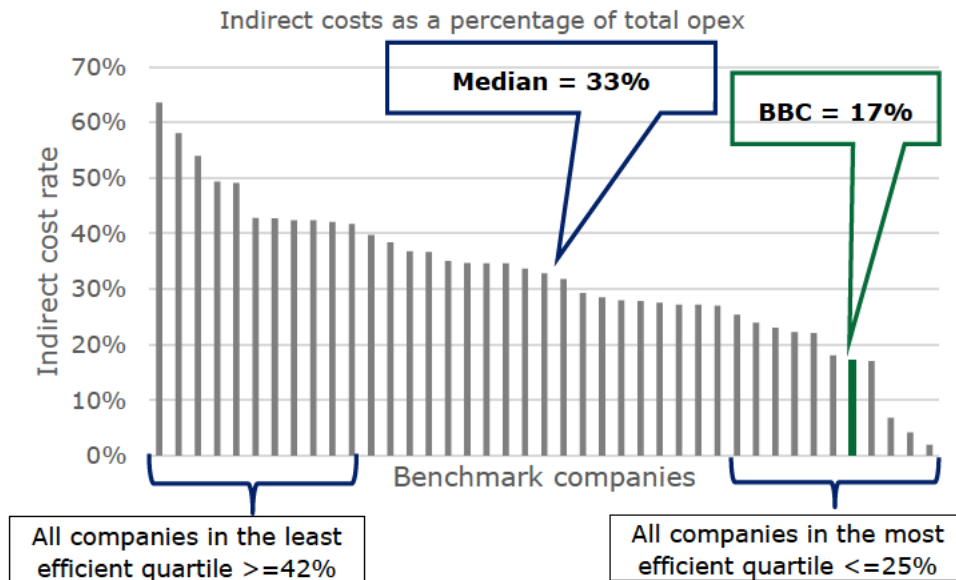
Figure 5: The BBC's indirect cost rate in comparison with other companies in Group 2 (total number of comparator companies = 48)



As seen in Figure 5, the BBC's indirect cost ratio at a level of 17% is one of the most efficient and within the top quartile. Of the 48 companies in this comparator group, only 6 companies' indirect cost ratios out-perform that of the BBC's. Further, given that different companies disclose the breakdown of their SG&A costs to different extents, comparisons with the BBC should not be made by heavily relying on any one company, but rather on the whole distribution of indirect cost rates.

The 48 companies in the comparator group are a mix of commercial media, telecommunications and infrastructure companies across the globe. A subset of 40 companies, whose primary business is media, was selected from this group for targeted comparison with the BBC.

Figure 6: The BBC's indirect cost rate in comparison with a subset of the Group 2 companies where the primary business is media (total number of comparator companies = 40)



A distribution of Group 2's indirect cost rates is shown in the first column of Table 2. Further, the distribution of the indirect cost rates for the 40 media companies that are a subset of Group 2 is shown in the second column of Table 2.

Table 2: Distribution of the indirect cost rate for Group 2 and for the TV and radio subset of Group 2

	Group 2 – all	Group 2 – media only
<b>Most efficient</b>	2%	2%
<b>Top quartile</b>	24%	25%
<b>Median</b>	33%	33%
<b>Bottom quartile</b>	42%	42%
<b>Least efficient</b>	64%	64%
<b>Number</b>	48 companies	40 companies

A further subset comprising of 16 European media companies was also considered. However, this sample size is small and therefore the results have not been shown. Nevertheless, the BBC's indirect cost rate is also in the top quartile of this European media subset.

## 5 Conclusions

Our findings show that the BBC's overhead rate of 4.8% and indirect cost rate of 17% are in the top quartile of the benchmark comparator groups, as well as of the Global and European media subsets of Group 2. These findings are in line with the EY 2018 report, which showed the BBC's overhead rate and indirect cost rate in the top quartile.

This indicates that the BBC has continued to drive efficiencies in its overhead and indirect costs. Given the BBC's position relative to the comparator groups, further opportunities to reduce overhead and indirect cost rates may be limited, although we note that these continue to be areas of focus for the BBC.



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