BBC Value for Audiences

February 2021

Contents

Executive Summary

The BBC connects every Nation of the UK, every region and local area, on TV, radio and online. We strive to serve all audiences, of all ages, wherever they live. We are a trusted provider of public information and a forum for discussion and debate. We help keep the UK entertained and informed. We remain the most-used media brand in the UK.[1]

Over the past decade, as a result of a freeze on the cost of a TV licence from 2010, the withdrawal of Department for Work and Pensions ('DWP') funding of licences for over-75s ('o75s') and the BBC being asked to fund new obligations, the BBC's UK services have effectively seen a c30% reduction in income. At a time of increasing competition for audiences, and at a time of hyper-inflation in parts of the media market, the BBC has been required to take on more obligations with less income, leaving it even less to spend on programmes and services.

In order to continue to deliver value to all audiences, the BBC has made significant savings. A series of efficiency plans have focused on improving productivity and reducing the cost of running the organisation, including some major one-off transformational changes (e.g. exit of buildings, major supplier re-negotiations and outsourcing). BBC overheads now benchmark better than at least 75% of comparators used by Deloitte in their 2020 review of the BBC's overhead and indirect cost rates.

However, driving efficiency and value for money is a constant process. We know we must continue to take action to address on-going financial pressures and do more for audiences. The BBC is looking ahead for new ways to find and deliver savings that can be re-invested into delivering the BBC's priorities and providing more value. Given the BBC's last ten years of work to deliver significant gains in productivity, further savings will involve difficult choices that will impact programmes and services. In its 2021 *BBC Strategic Financial Management* report, the National Audit Office stated "Despite high levels of inflation in the entertainment industry, the BBC has been able to maintain its content spending, but this will be a challenge for the future". Our focus on audience value as the BBC's overall strategic priority will help make these choices.

This document provides the evidence and case studies behind the BBC's recent efficiency and effectiveness programmes. It draws on a number of external and independent reports to do so, from the NAO, Ofcom, and a number of independent third-party reviews of BBC activity. The facts evidenced in this report show that since 2010/11, the BBC has maintained audience value for licence fee payers while dealing with an effective 30% reduction in income. In summary, these are some of the key initiatives outlined in this document which show how the BBC has achieved this.

By being a smarter saver

- Halving the number of senior managers
- Reducing the senior manager paybill by 40%

[1] National Audit Office, *The BBC's strategic financial management, 2021*

- After the cancellation of the Digital Media Initiative (DMI), 29 major projects have been completed, averaging 9% below budget
- Saving 45% of the cost of our major strategic contracts, saving c£300 million a year
- Reducing the costs of managing the BBC's property estate by 22%
- Cutting the BBC's overheads from 7.6% to 4.8%
- Reducing talent spend from 15.3% to 10% of our content spend.

By being a smarter seller:

- Growing BBC commercial income by 50% to a record £1.6 billion
- Increasing commercial returns to the licence fee payer by 50% to a record £276 million
- Increasing on-screen value for every £1 of licence fee spent from £1.35 to £1.47.

By being a smarter spender:

- Increasing the proportion of BBC income spent on content and distribution-related activities from 92.7% (£3,355m) to 95.2% (£3,405m)
- Investing in key digital services like iPlayer, Sounds and News & Sport Online
- Shifting the proportion of TV spend outside London from 40% to 50%, and from 13% in Scotland, Wales and Northern Ireland to 20%
- Increasing our investment in key areas of output such as Children's and across the Nations, including the BBC Scotland channel.

The combination of these activities means the BBC continues to provide great value for money for UK audiences, despite an effective cut in income of c30%:

- The licence fee costs less in real terms now than in 2010/11
- The cost for each BBC hour consumed by UK audiences is lower at 6.6p in 2019/20, compared to 7.6p in 2010/11
- Compared with the market, the BBC continues to be very good value for money. Each hour of BBC TV watched by a household costs it around 9p, on average. For an equivalent subscription video-on-demand service that is around 15p, and for an equivalent pay TV service it starts at well over 50p per hour
- Radio also provides great value for money. Each hour of BBC radio listening costs each household about 3p, on average
- Taken together, a bundle of subscriptions providing advertising-free high-quality services comparable with those offered by the BBC across video, audio and news would cost over £400 per year in comparison to a current licence fee of £157.50
- Despite an explosion in competition, more people use the BBC than any other media brand: 91% of UK adults a week and 97% a month
- Among young people, 80% of 16-34 year olds (12.5 million) use the BBC every week and 93% (14.6 million) every month, on average – more than any other brand for media
- Adults spend close to 18 hours a week with the BBC on average, making the BBC the UK's most used media brand
- The BBC is at the heart of UK life. The UK public chooses the BBC around 250 million times a day. Every single minute of the day and night, the BBC is being used by 5 million people, on average, and 45 million across an average day.

1 Introduction

The BBC provides strong value for money compared to its competitors. This is despite continued pressure on licence fee income, competition from non-linear entrants and above CPI inflation (the average measure of inflation) within significant elements of its cost base.

The BBC has flexed its spend and commissioning approach to manage these pressures to deliver world-class, distinctive content to UK audiences. It is playing a pivotal role as a national broadcaster during the coronavirus crisis, and has reshaped its audience offer for a more digital world.

The BBC benchmarks strongly against comparators in terms of overheads and indirect costs as a proportion of overall controllable spend, meaning the great majority of its income goes towards making content for its broad audience.

Successive savings programmes have been required to offset the decline in licence fee income, fund additional obligations transferred as part of previous licence fee settlements and above-average inflation in the increasingly competitive content market, and to allow the BBC to invest in its priorities. Savings achieved to date have been delivered primarily through productivity initiatives (e.g. coordinated procurement, outsourcing and improvements in technology). In more recent years, as such opportunities have reduced, the BBC has had to turn to making difficult choices which directly affect its audience offer in order to deliver further sustained cost savings.

Against this background, to preserve the value it delivers to audiences, the BBC has striven to be smarter about how it saves and spends its income, and how it finances content through relationships with external partners. The BBC's most recent efficiency programme is on course to deliver £958 million of savings by 31 March 2022. All of this has been achieved while preserving the range of TV, audio and online channels which deliver a rich and broad content offer to our diverse audiences, supported by slimmed-down support operations.

This document sets out the story of a BBC that spends its money efficiently and spends it on the right things, and looks ahead to future sources of efficiency and effectiveness.

2 The BBC's financial context

Over the past decade, the BBC has faced large cuts to the licence fee in real terms and a significant increase in competition for audiences.

A fall in income to spend on core services

The largest downward force on income was the freeze of CPI indexation on the price of the TV licence between 2011 and 2017. Not only did this cause a material loss of income during the period, but it has resulted in a sustained knock-on impact to income beyond 2017, estimated to have reduced annual income by c£0.6 billion by 2019/20. Further, the reduction in o75s funding from the DWP resulted in a loss of income to the BBC of c£0.2 billion in 2018/19 and c£0.4 billion in 2019/20. In sum, these reduced annual income by c£1.1 billion by 2019/20.

A number of additional financial obligations have also been levied on the BBC during the period ('Obligations'). Since 2010/11, the annual cost of funding these Obligations from licence fee income has increased by c£0.3 billion.

In total, this £1.4 billion reduction in funding reflects a c30% reduction in licence fee available to spend on services for UK audiences in 2019/20 compared to 2010/11.

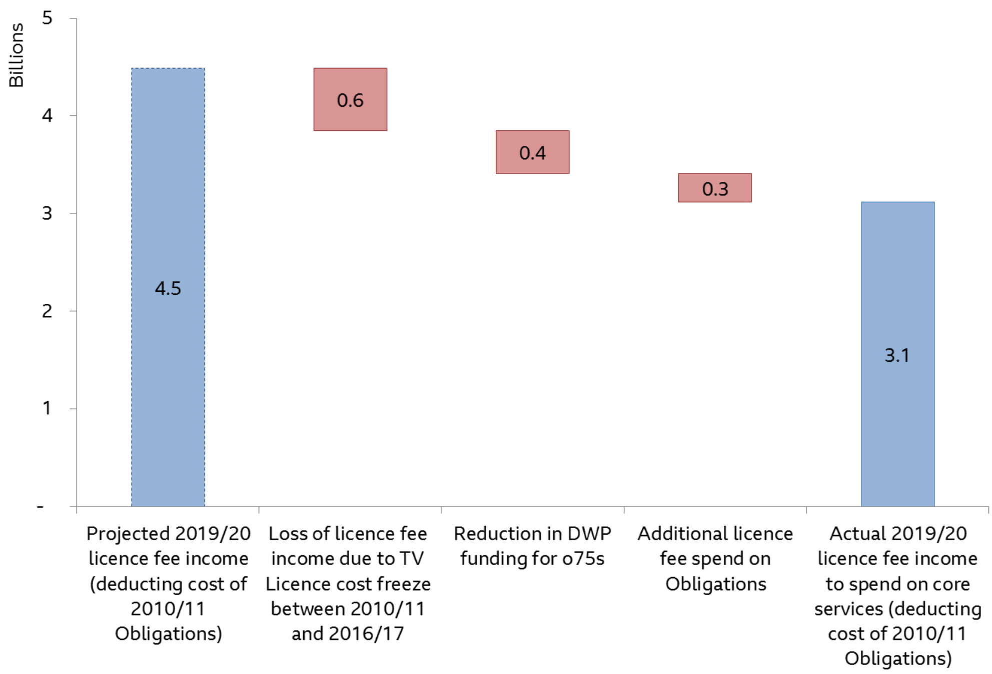

Fig 1: Comparison of projected 2019/20 licence fee income with CPI inflation of TV licence prices, no loss of o75s DWP funding and no increased Obligations, vs. actual income to spend on core services

Figure 2 below shows the increasing impact over the period on BBC income of the CPI inflation freeze (2010-2017), reduction of DWP funding for o75s and the increase in the cost of licence fee funded Obligations.

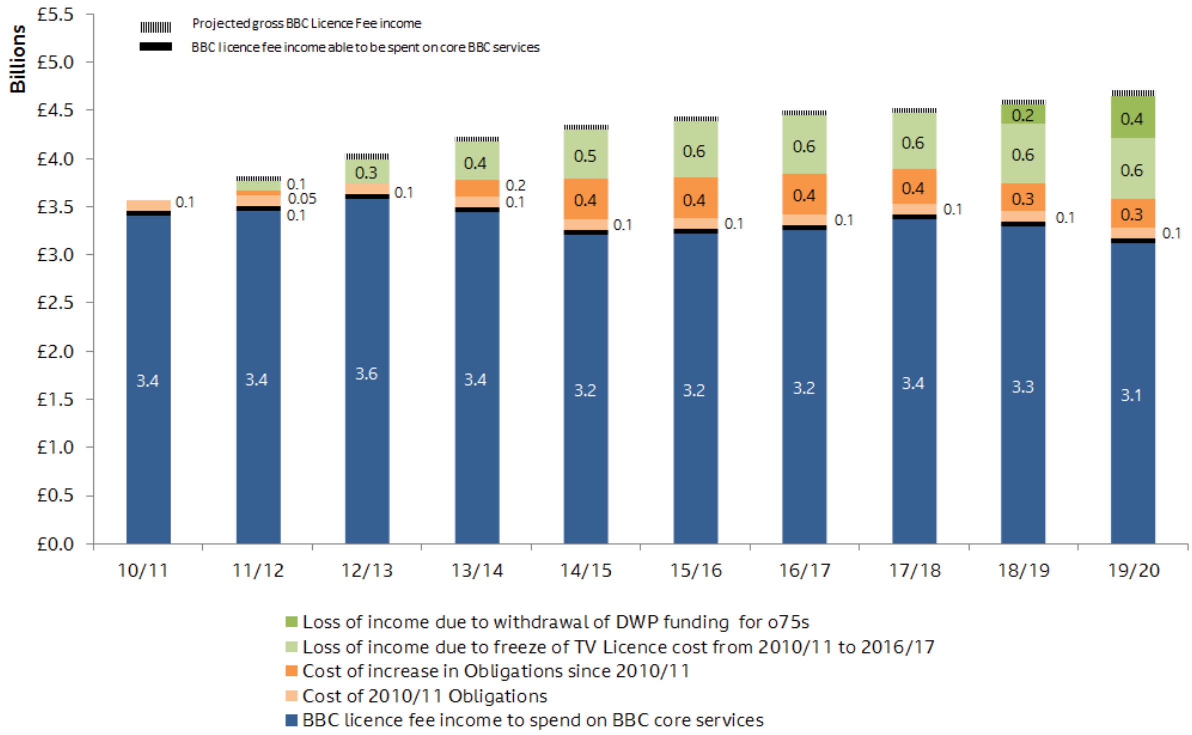

Fig 2: Impact of CPI inflation freeze, reduction of DWP funding for o75s and increasing Obligations on income available for core services 2010/11 to 2019/20

This analysis is backed up by two independent reports. Firstly, Enders Analysis noted in their November 2020 report, *BBC licence fee settlement: Further cuts will wound the sector*, that previous licence fee settlements had "left the BBC with more obligations and less to spend on them" and determined that "licence fee income is already around 30% lower than it would have been had it kept pace with inflation and not been given additional spending obligations".

Also research by the Voice of the Listener & Viewer (VLV)[2], an independent, non-profit making membership-based charity, published in March 2020, reported that "the BBC's real (inflation-adjusted) public funding for services aired for UK audiences has been slashed by 30% in the past decade."

Figure 3 below shows the increase in Obligations that the BBC has had to fund out of the licence fee since 2010/11.

[2] https://www.vlv.org.uk/news/vlv-research-shows-a-30-decline-in-bbc-public-funding-since-2010/

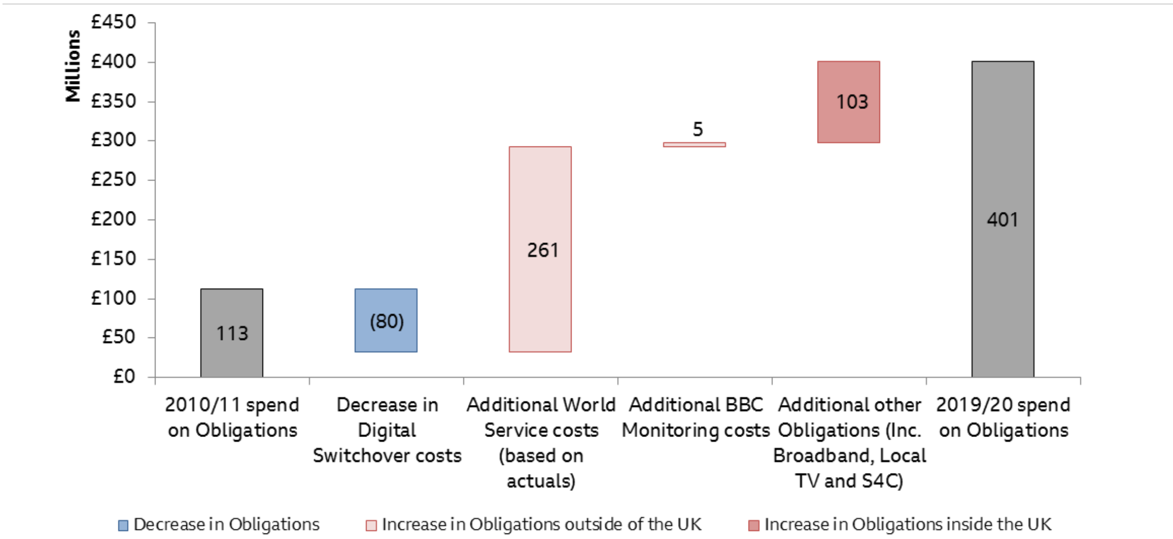

Fig 3: Increase in BBC Obligations since 2010/11

Increasing market pressures

The BBC has seen a slowing down of growth in total households needing a TV licence, a small increase in licence fee payment evasion, and a drop in the overall Television Penetration Rate ('TVP')[3]. Together, these have caused a reduction in the growth of TV licences issued and licence fee income. Since 2016, the TVP rate has fallen from 95.7% to 93.8%.

The prolonged period of downward pressure on licence fee income has coincided with the unprecedented competition for audiences, not only from Subscriber Video On Demand ('SVOD') and pay TV services such as Netflix, Amazon and Disney+ and Sky, but also from the rapid rise of social media and gaming.

Driven by an ambition to aggressively grow international market share and with numerous financing options, competitors have invested heavily in the UK market, often while incurring very significant debt or operating large cross-subsidies. This has inflated demand for talent both on and off screen.

Between 2013 and 2019, total UK SVOD revenues increased by over 300% to more than £1.2 billion. Netflix is the SVOD market leader with global revenues of more than £20 billion (and over £700 million in the UK), whilst Sky's revenue increased by over £10 billion between 2014 and 2020, and both continue to see significant year-on-year growth.

This dramatic rise in competition for quality UK content has led to above-average inflation within significant elements of the BBC's cost base, particularly in content costs such as drama and sport, as well as an increased pressure on our ability to retain talent. Over the

[3] TVP rates are based on BARB's reported TVP rates, adjusted to reflect licensable content consumption – all figures audited annually by the NAO.

period 2013/14 to 2017/18 the gross cost-per-hour of BBC commissioned non-continuing drama rose from £1.1m to £1.7m.

As the leading broadcaster of UK content, the BBC is naturally susceptible to any market and audience erosion. But as outlined in this report, despite these pressures, there is strong evidence to show that the BBC's audience value has held up.

Regulatory limits

Further, the BBC's ability to change quickly to meet audience demand is limited by its large number of quotas, obligations and targets. Under the terms of the Royal Charter and Agreement, in effect from 1st January 2017, the BBC is required to comply with a number of regulatory quotas as set out in Ofcom's Operating Licence. There are currently 148 different regulatory quotas and targets across TV, radio and online. These cover areas such as first-run origination hours, News hours, religious programming and Music & Arts originations. Ofcom have committed to working with the BBC to look at how to improve the operating licence to meet the challenges of delivering better outcomes for audiences in a linear and digital world, rather than focusing on input metrics.

On-going quest to sustain strong audience value

In response to increasing competition for audiences and the BBC's commitment to maintaining its broad offer across through national and regional TV and Radio, News, Children's, iPlayer and Sounds, the BBC has effectively been required to take on more obligations with less income, leaving it less to spend on programmes and services.

More recently, the BBC has been quick to realign both its operations and finances to the challenge presented by the coronavirus pandemic as it hit and continued to evolve. As detailed in the 2019/20 BBC Group Annual Report and Accounts ('ARA'), the BBC refocused its operations and resources around the needs of its audiences, providing a trusted news source, educational support, distraction and escapism. The BBC's response has continued into 2021 as it has rolled out its biggest education offer in its history.

Over the past ten years, in order to meet these challenges the BBC has used both proven and innovative ways to enhance the value of the licence fee in three ways:

- By being smarter at saving – driving organisational efficiency
- By being smarter at selling – using commercial growth to partially offset above-average inflation in significant elements of its cost base
- By being smarter at spending – making the most effective use of the licence fee to provide value for audiences.

This means the BBC continues to provide great value for money for UK audiences. In an evolving media and digital landscape, with ever more discerning audiences, and given our commitment to maintaining a rich offer valued by all licence fee payers, we will continue to explore opportunities for future efficiencies and ways to maximise value.

3 The BBC as a smarter saver

A track record of driving organisational efficiency

As acknowledged by the NAO in their 2021 report, *The BBC's Strategic Financial Management*, the BBC has executed considerable savings programmes, and that while delivering savings the BBC has sought to limit reductions in content, in favour of improvements in efficiency and productivity.

In *A Simpler BBC* report, published in October 2018, the BBC reviewed its 2011/12 to 2016/17 savings programmes and reported that by 2016/17, c£762 million of sustainable ongoing savings were being delivered across the organisation. The 2015 NAO report, *Delivering Quality First*, described the savings programme as having "delivered value for money" with "limited impact on audiences".

The BBC is currently driving further savings via its 2017/18 to 2021/22 savings plan, which is aiming to deliver nearly £1 billion of annual recurring savings by the end of the 2021/22 financial year. Over the five years between 2017/18 and 2021/22, the BBC expects to have delivered cumulative total savings of nearly £3.1 billion.

The savings generated between 2011/12 and 2021/22 will help fund the overall reduction in licence fee income and increased Obligations, whilst also funding reinvestment into the BBC's operations and content for audiences (e.g. iPlayer, BBC Sounds).

Savings achieved to date have been delivered primarily through productivity initiatives. As shown in Fig 4 below, since 2011/12 savings initiatives have delivered, on average, annual incremental productivity savings of c2.3%, when measured against the BBC's controllable cost base.[4] Major efficiency initiatives were delivered early in the decade, providing a substantial efficiency dividend. As those large and more easily achieved savings have been made, opportunities for further productive efficiencies have reduced in the latter years.

[4] Controllable cost base excludes Obligations such as the S4C contribution, Broadband & Local TV rollout and World Service.

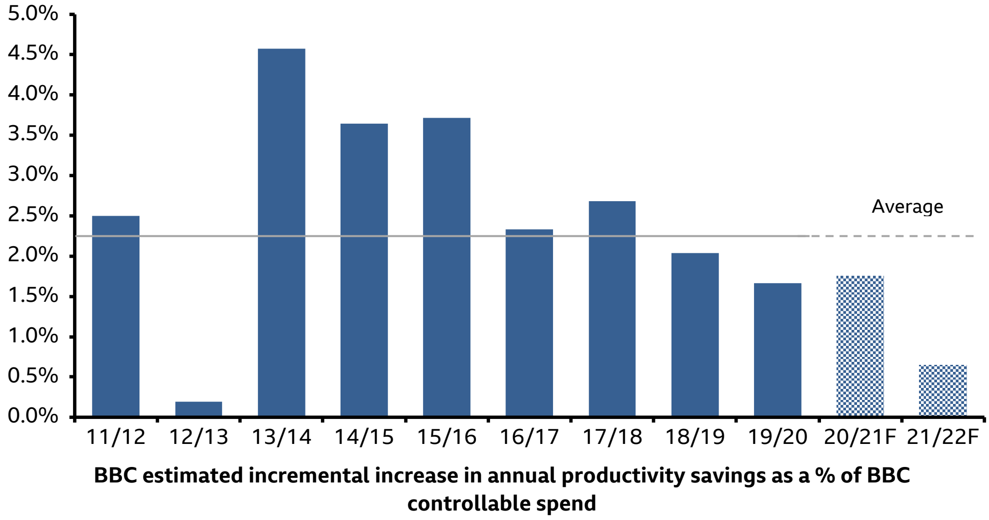

Fig 4: BBC estimated incremental annual productivity savings as a % of BBC controllable spend (F = Forecast)

Whilst identifying appropriate comparators is difficult, the BBC's estimated average annual productivity savings rate of 2.3% compares favourably with HM Government's estimated average incremental efficiency and reform savings of under 1% p.a. between 2010/11 and 2014/15,[5] and the objective set by the Government for the NHS to make annual re-investable efficiency and productivity gains of at least 1.1% over the five years from 2019.[6]

Reducing the BBC's overheads

As a result of the savings programmes mentioned above, the BBC has removed significant levels of costs over time. In July 2018, in *Benchmarking the BBC's overhead rate*, Ernst & Young calculated that the BBC's overhead rate[7] amounted to 5.7% of its controllable spend, thus putting the BBC within the top quartile of the regulated and non-profit organisations against which it was compared.

This analysis was updated by Deloitte in August 2020 in their *Benchmarking the BBC's overhead and indirect cost rates* report. Deloitte found that the BBC's 2019/20 overhead rate had improved to 4.8%, once again placing the BBC in the top quartile of comparators and closing the gap on the most efficient comparator in 2020. This meant that in 2019/20, over 95% of the BBC's spend was on acquiring and creating content, delivering content and directly supporting content and distribution activities.

[5] https://www.gov.uk/government/news/government-saves-186-billion-for-hard-working-taxpayers-in-2014-to-2015
[6] The NHS Long Term Plan (2019)
[7] The BBC defines its overhead costs as controllable costs which do not directly support the delivery of its output and services. The overhead rate is calculated by dividing overhead costs by total controllable costs.

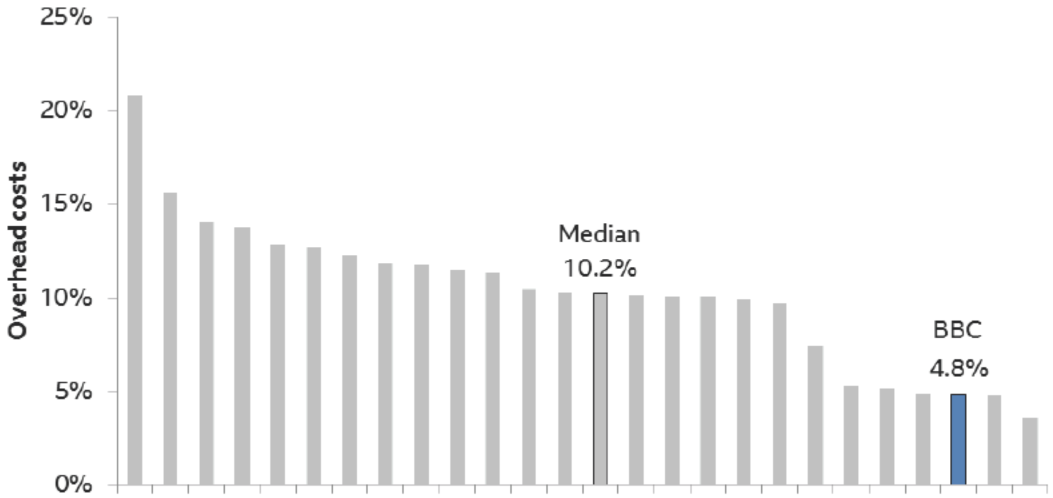

Fig 5: BBC overhead costs as a % of total controllable costs in 2019/20 – BBC vs peers

The BBC's achievement in minimising the percentage of its controllable costs spent on overheads is significant given that in 2014/15 the rate was 7.6%.

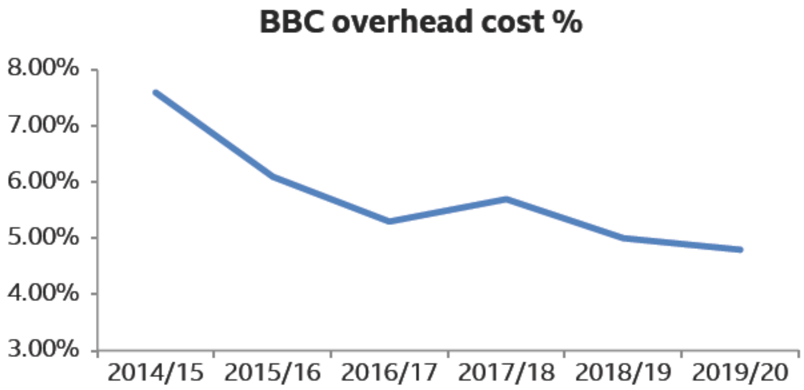

Fig 6: BBC overhead costs as a % of total controllable costs over time

Further, Deloitte found that the BBC's indirect costs rate[8] of 17% also ranked within the top quartile of comparators.

Improving and extending competition

As described in *A Simpler BBC*, the BBC began a "Compete or Compare" process, which aimed to increase the proportion of the BBC's cost base that is open to competition or where not competed, benchmarked. Today, the great majority of the BBC's total cost base (including content and content distribution costs) is procured competitively in the market-place, or is comparable to private and public sector benchmarks. In January 2020 coverage of the cost base via Compete or Compare stood at 94.5%, an improvement of 14.5% since 2014/15. As highlighted in *A Simpler BBC*, further coverage gains are becoming

[8] The BBC defines its indirect costs as content and distribution support costs and overhead costs. The indirect cost rate is calculated by dividing indirect costs by total controllable costs.

increasingly difficult as the remaining addressable cost base either has no competitive external market or no data to benchmark against (e.g. BBC Monitoring services are without equivalent in the competitive external market).

The move to increased contestability in the television market, in particular, has brought new creative opportunities to a wider range of suppliers. It has also helped to create fair competition that helps to manage costs. Up to 62% of relevant hours have now been contested and the BBC is well on track to meet its Charter & Agreement commitment to secure competition for 100% of relevant hours by the end of 2027.

A shift to scope-driven savings

As noted above and in *A Simpler BBC*, savings delivered between 2011/12 and 2016/17 were largely focussed on productivity, as the BBC looked to optimise organisational efficiencies, cut costs and modernise.

Increasingly though, as productivity savings have been delivered and opportunities in this area have become limited, the BBC has been forced to increase scope cuts – i.e. cuts to programmes and services – to deliver its savings plans. As shown in Figure 7 below, continuing productivity savings totalled c£528 million by 2016/17 (66% of total continuing savings), compared to only c£246 million in Scope savings (31% of total ongoing savings). In contrast, by 2021/22, continuing productivity savings for the 2017/18 to 2021/22 period are forecast to total c£353 million (37% of total ongoing savings), compared to c£408 million in scope savings (43% of total ongoing savings).

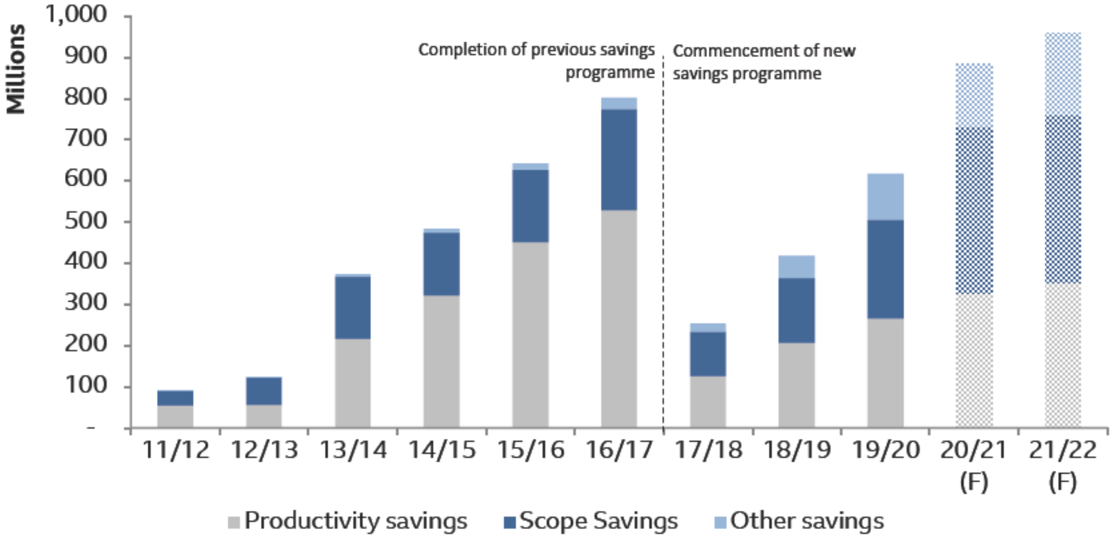

Fig 7: Annual savings by type (F = Forecast)

The increase in scope savings has required difficult choices on content such as the loss of Formula 1 and sharing of other sports rights, the loss of programmes like *The Great British Bakeoff*, and the closure of BBC Three as a broadcast channel. In addition, a minimum 800 post reductions – primarily content-related roles – are being delivered across BBC Nations and News, as these divisions modernise their operations to deliver in an increasingly non-linear environment.

The BBC generates other savings in addition to scope and productivity savings, such as utilising third-party investment in programmes to reduce the proportion of programming costs funded by licence fee payers, and adjusting the mix of content spend to take advantage of cheaper price points.

Key achievements delivered through the BBC's efficiency endeavours to date are outlined below around the following topics: Property, Project Management, People, Senior Managers, Talent Pay, Procurement and Technology.

Property

A key part of the BBC's business strategy is to reduce its property estate and create modern and efficient working environments for staff.

As referenced in *A Simpler BBC*, and supported by the NAO's 2014 report, *Managing the BBC's estate*, the BBC has made good progress in rationalising and upgrading its property estate.

As at the 31st March 2020, the net cost of managing the BBC's estate was £213 million, compared to £273 million in 2014, a 22% reduction.

Since 2010, the BBC has disposed of 218 (net) property related assets, contributing £13.1 million of savings in rent and service charges over the period.

Informed by recent new ways of working, such as remote working, the BBC will seek further opportunities to reduce and reshape its property footprint to reduce costs, improve environmental performance, provide greater accessibility and increase activity across the whole UK.

Project Management

The ambitious and complex nature of some of the BBC's projects can present significant risk and cost management challenges. As acknowledged by the NAO, the renewal of the EastEnders set (the E20 project) is due to be completed later than planned and significantly over budget, due to higher than expected inflation in the construction sector and the risk profile of the project. Processes and mechanisms are in place to capture lessons learnt from across the project portfolio to inform future project delivery.

Overall, though, the BBC's Critical Project Portfolio (CPP) has performed well during the period. Across 29 completed projects during the period 2012/13 to 2019/20, and after learning the lessons from the cancellation of the Digital Media Initiative (DMI) project, total actual costs incurred were £587 million, against an overall budget of £646 million, meaning the portfolio of projects was brought in 9% below budget. These projects delivered £1.28 billion of financial benefits, which equates to a benefit-to-cost ratio of £2.18 per £1.00 invested.

As a recent example, the BBC successfully completed the construction, fit out and relocation to Cardiff Central Square in 2019/20. The programme will allow for the transformation of BBC Wales' broadcasting and production operations, delivering new technology and ways of working. It has been completed within budget and is on track to deliver its stated benefits, despite having to deal with the unprecedented impact of the coronavirus pandemic and subsequent lock-down of activities across the UK. The building has been awarded 'BREEAM Outstanding' status for consideration given to the environment during design and construction.

This investment by the BBC is not only already proving a catalyst for creative enhancement within the organisation, it has also proved an economic catalyst for the region. As referenced in BOP Consulting's April 2018 report, Economic Impact of the new BBC Wales broadcasting centre in Central Square, Cardiff, the move to Central Square is on track to deliver £1.1 billion to the GVA (Gross Value Added) of the Cardiff City region over the next decade. This equates to an additional 1,900 FTE jobs being undertaken by people in the city throughout this period – a new example of the beneficial multiplier effect of the licence fee.

The stronger project oversight arrangements put in place following the Digital Media Initiative (DMI), referenced in the NAO's *Management of BBC's critical projects (2016)* report, have allowed the BBC to take timely corrective action where a project is at risk of being not delivered as planned. Recent decisions include pausing the Belfast New Broadcasting House project and cancelling the development of a Campaign Management System (CMS) project.

As part of its commitment to reviewing previous projects, the BBC will continue to apply lessons learnt to its current and future projects.

People

Although BBC staff levels have remained relatively stable between April 2017 and April 2020, there have been some major strategic changes to the make-up of its workforce. This includes the transfer of 1,605 roles out of the BBC Public Service as part of the formation of BBC Studios as a commercial subsidiary, creation of an additional 1,071 government-funded roles to support the expansion of the World Service (W2020) and investment in digital skills and supporting apprentices.

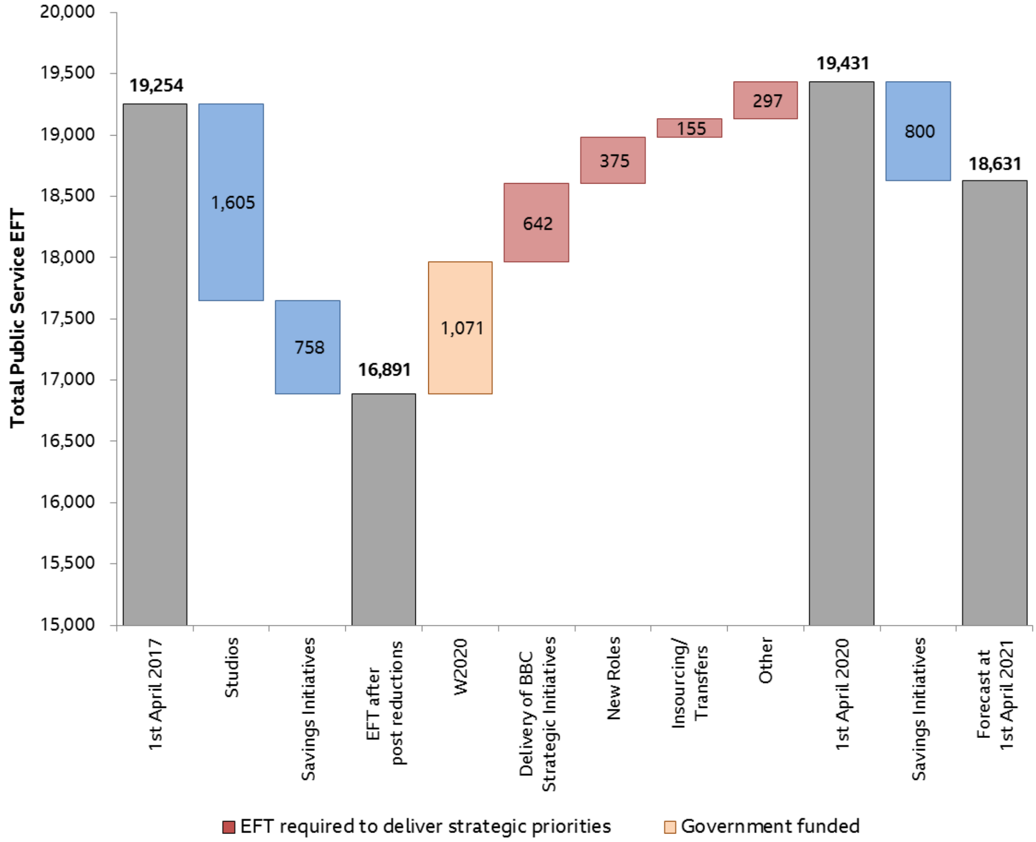

Fig 8: Movement in BBC PSB EFT from 1st April 2017 to 1st April 2021

There are a number of major restructuring and redundancy programmes in progress across the BBC, including restructures in News, BBC Nations and the pan-BBC voluntary redundancy programme. The BBC expects these to deliver a net reduction of a minimum 800 roles by 31st March 2021. Further, as part of continuing efforts to deliver staff savings, the BBC plans to utilise opportunities afforded by new ways of working and technology to reduce EFT further beyond 2022.

Since 2018, the BBC has bolstered its recruitment of apprentices and trainees, increasing their number from 353 in 2018 to 420 in 2020.

The BBC has also made significant progress in reforming pay, grading and terms and conditions. A new job framework for staff has been introduced, which has led to a large reduction in the number of job titles. All jobs now have market-informed pay ranges based on benchmark data. The new job framework is overseen centrally to ensure consistency, and every member of staff has had their pay reviewed to ensure it is fair relative to others in the same job.

In their 2019 report, *Managing the BBC's paybill*, the NAO commented that this progress was a "considerable achievement". In the Equality and Human Rights Commission's

November 2020 report[9], whilst it acknowledged that the BBC had made significant improvements to its pay practices in recent years, it noted that as with every organisation, there are areas for improvement.

Senior Managers

Considerable work has been undertaken to reduce the number of Senior Managers since 2010/11. This process is on-going across the organisation.

In 2018, the BBC undertook a review of senior leadership, using the same approach as for staff. This resulted in new job descriptions and market-informed pay ranges for senior leaders. As part of its review, the BBC Public Service set and achieved a market-informed target that Senior Managers should total no more than 1.5% of its workforce.

Over the period from 2010/11 to 2019/20, across the Public Service there has been a reduction in Senior Managers from 522 to 253 (52%). Over the same period the annual paybill for Senior Managers has fallen by £29.1 million (from £73.3 million to £44.2 million, a 40% reduction).

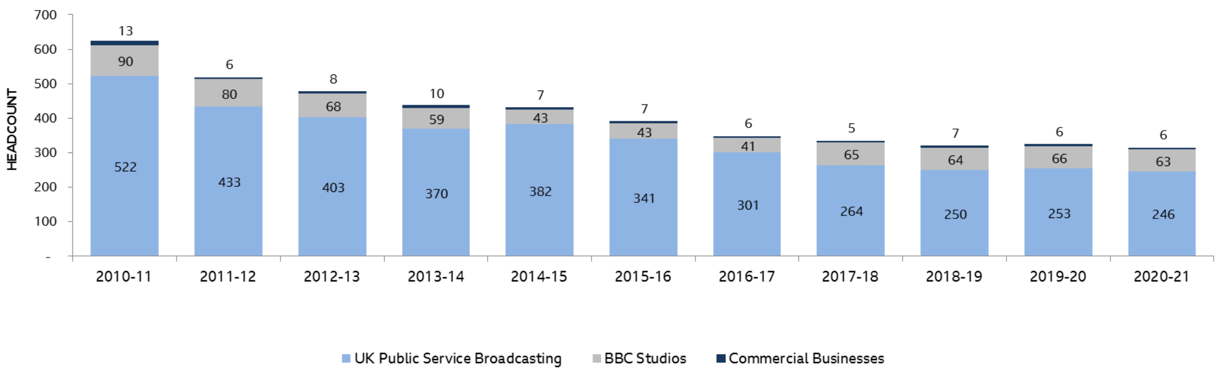

Fig 9: Movement in BBC Senior Manager headcount between 2010/11 and 2020/21

Although the BBC has already significantly reduced its count and proportion of Senior Managers, it continues to look for opportunities to simplify its structure as the organisation changes.

Talent Pay

Since 2008/09 the BBC has taken steps to reduce its talent pay bill and in 2017 began publishing salary data for on-air talent earning over £150k per annum.

As a consequence of this focus, talent spend as a proportion of content spend has reduced from 15.3% in 2010/11 to 10% in 2019/20.

As seen in Figure 10 below, despite inflationary pressures, the BBC reduced its spend on talent earning over £100k per annum by c30% between 2010/11 and 2016/17, the year

[9] Equality and Human Rights Commission: Investigation into unlawful pay discrimination at the BBC (2020)

before BBC Studios separated from the BBC Public Service. Further, the average spend on individual talent over £100k decreased by c17% between 2010/11 and 2016/17.

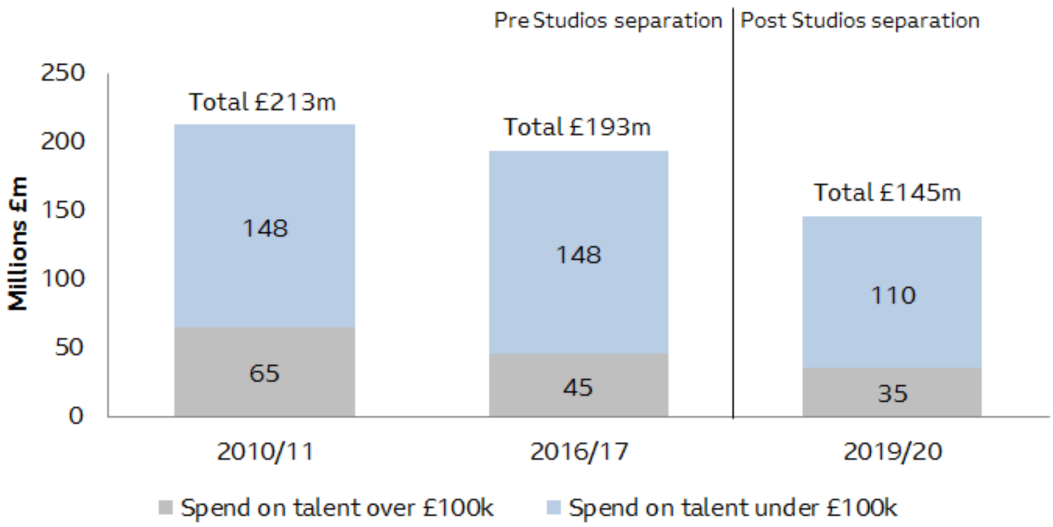

Fig 10: Evolution of BBC Public Service spend on talent over and under £100k

The NAO acknowledged in its 2019 *Managing the BBC's paybill* report that the BBC has tightly monitored and controlled pay for those on-air roles and its senior managers, including all those earning over £150k, whilst in their 2021 report, *The BBC's Strategic Financial Management*, they further stated that "there is little scope for further significant cost savings in these areas".

In Talent Pay Reviews in 2015 and 2019, the NAO also observed that the BBC has improved its strategic planning and control of spend relating to on-air roles and does not pay more than the market rate. Going further, the NAO highlighted in their *Managing the BBC's paybill* report that "Agents told us that the very best sports pundits working for commercial channels could earn four to seven times the amount the BBC can pay for television, depending on the sport and rights package, and presenters 15%-25% more for radio, depending on the artist and project." As a result there is continued talent flight, exemplified by some highly publicised talent departures in recent years.

Procurement

The BBC's Procurement function is critical to delivering efficiencies. Procurement best practice ensures the BBC achieves best possible value when purchasing from the market. As noted in *A Simpler BBC,* for every £1 spent on the procurement team, the BBC gets £14 back through negotiation and focused management of contracts.

Between 2012/13 and 2019/20, the BBC reduced spending on major strategic contracts from £684 million to £379 million, respectively, a saving of 45%. This is mainly due to savings delivered from re-procurement and negotiations relating to contract extensions.

Through careful management of the portfolio and astute sourcing and procurement decisions, in 2019/20 the BBC made savings of £122 million[10] on strategic contracts ('STaR')[11] with outsourced providers (Fig 11). Further savings of £66 million were achieved in 2019/20 on goods and services by working closely with BBC suppliers, managing demand and running planned sourcing activities.

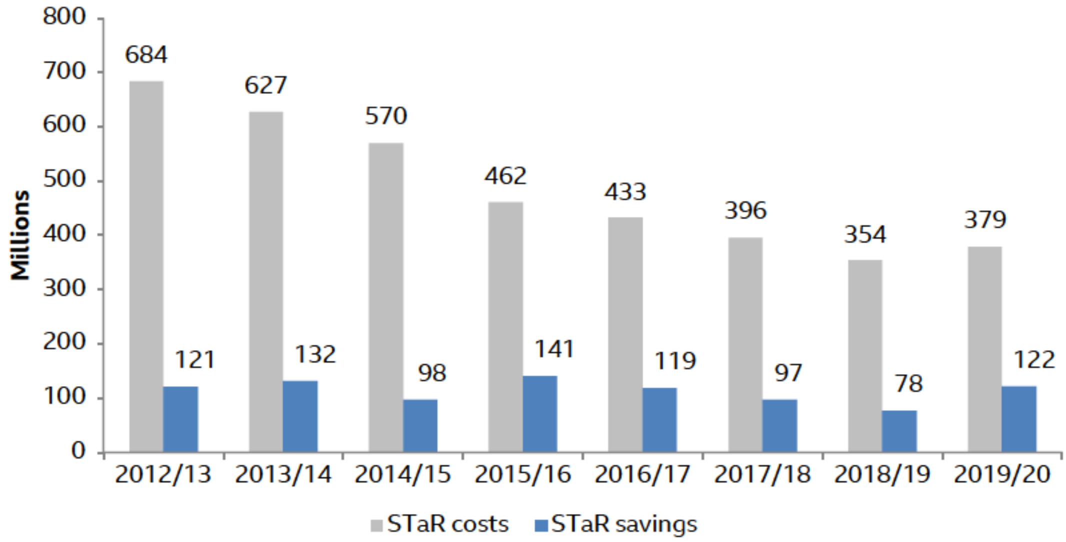

Fig 11: BBC Strategic contract portfolio (STaR), costs & savings 2012/13 to 2019/20

Working closely with suppliers to improve performance, automation and transformation of the procurement process has been instrumental in reducing spend. Compared to 2013/14, the BBC has reduced annual spend by £166 million on its major technology infrastructure provider, £39 million on playout and access services and £7 million on its business processes.

Procurement frameworks, in particular, have provided value for money and timely access to the technology and broadcast markets. This has supported the development of the infrastructure for the new broadcasting centre at Cardiff Central Square.

Significant savings achieved in 2019/20 reflect a stepping up of the savings agenda in response to the BBC's financial challenges. Overall this reverses the trend of previous years which saw diminishing savings as many contracts underwent 3rd or 4th rounds of re-procurements, typically providing fewer opportunities for radical change and savings.

Although significant savings have been achieved to date, the Procurement function continues to review existing operations, processes and contracts to find future savings.

[10] Updated figure following adjusted contract outturn update; £99m reported in the BBC Annual Report & Accounts for 2019/20 based on information available at point of publication.
[11] STaR contracts are the BBC's portfolio of strategic contractual relationships with outsourced providers, which meet one or more of the following criteria: the service is of strategic and operational importance, committed spend exceeds £5m and contract duration is 5 years or greater.

Technology

The BBC's technology division generated £109 million of savings between 2017/18 and 2019/20 through contract management and renegotiation, and active operational management.

Efficiency savings include the migration of "on premise" applications to cloud-based and Software-as-a-Service solutions, streamlining and hosting volumetric efficiencies (e.g. through Amazon Web Services) and the consolidation of workloads into a virtualised hosting environment.

The BBC technology team was able to rapidly adapt to the coronavirus pandemic as it successfully managed the relocation of over 15,500 staff from BBC premises to working effectively from their own homes. It was a significant feat that the BBC's IT system was resilient enough to withstand this scale of transition, much helped by the fact a Zoom rollout programme was underway before the first coronavirus lockdown.

In addition, technology has facilitated more efficient ways of working across News and BBC Nations, including:

- Introducing ViLoR (Virtual Local Radio) to help reduce cost and time, improving audio quality and simplifying the sharing of media
- Investing in more mobile/flexible kit which has increased live capability across TV output, reducing costs and allowing journalists to get stories to audiences faster
- Moving flagship news shows (e.g. *Newsnight*, *Marr*) to more automated studios.

The BBC has a track record of investing in new and emerging technology to improve the creation and delivery of its content as well as the processes and systems that support it.
BBC Research & Development has led the way with innovative technology and collaborative ways of working. As required by the BBC's Royal Charter and Agreement it provides a centre of excellence for R&D in broadcasting and new media. To achieve this most effectively and cost efficiently, the department collaborates with a wide range of partners in universities, businesses and other broadcasters with whom there is sharing of knowledge, exchange of best practice and the development of next-generation systems and standards. Beyond 2020/21, the BBC will aim to remain at the forefront of technological advancements as it looks to exploit its growing digital platform capabilities and increase its use of technology to help transform the way it works.

Looking ahead

The scale of productivity gains across the areas highlighted above will be difficult to replicate in future years, e.g. in large renegotiations of contracted costs, and HR and Production model reforms which cannot be replicated to the same extent. However, the BBC continues to challenge itself to spend licence fee income wisely, preserving as much money as possible to put towards the things that its audiences value most.

4 The BBC as a smarter seller

In order to maximise value for licence fee payers, the BBC seeks to generate supplementary income through international markets, secondary windows in the UK and other strategically aligned commercial operations. Through being a smart seller the BBC is able to add to, rather than detract from, the delivery of public service objectives and activities, as well as generate a financial return.

The BBC has three main commercial subsidiaries; BBC Studios, BBC Global News and BBC Studioworks. The total BBC Group commercial income in 2019/20 was £1.6 billion, up significantly year on year and by 50% since 2014/15. This was driven by a 63% increase in commercial income through BBC Studios (with growth partially driven by the move of production from in-house to BBC Studios).

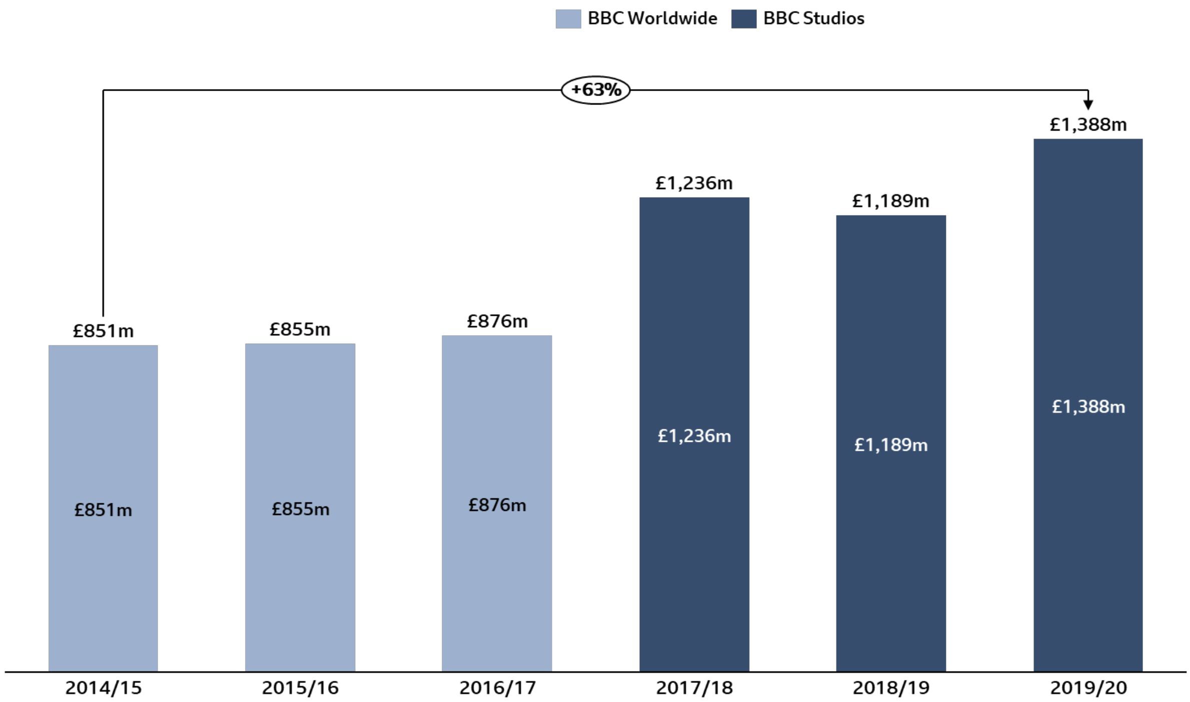

Fig 12: Commercial income through BBC Worldwide and subsequent merged entity BBC Studios income (including intragroup income) 2014/15 to 2019/20

The total returns back to the BBC have been above £200 million per annum since 2014/15, and were the highest ever in 2019/20 at £276 million. This return is made up of both dividend returned to Commercial Holdings (£71 million), which in turn returns to BBC Public Service, and contributions to BBC programmes (£188 million), as well as other amounts from rights archive payments, brand fees, retransmission fees, and fees for distribution rights for radio content.

i) BBC Studios

BBC Studios, the largest of the three subsidiaries, was created in 2018 and brings together the UK's most awarded production company and a world-class distribution arm (previously BBC Worldwide). Trading in over 200 countries, BBC Studios also has 33 channel feeds across 120 markets, subscription video-on-demand services (including Britbox), and global formats and franchises including *Dancing with the Stars*, *Top Gear* and *BBC Earth*.

2019/20 was the best ever year for BBC Studios, in which it achieved £1,388 million in revenues (+17% YoY) and EBITDA (a measure of profit) of £181 million (+14% YoY).

BBC Studios contributes cash to the BBC Group through dividends distributed out of profits generated through the commercial success of the business. It also contributes indirectly through investment into BBC Public Service programming, acting in its capacity as producer and distributor. Total returns to the Group for both of these components have been above £200 million for the last six consecutive years and are currently at record levels (£276 million in 2019/20). Although growth is partially attributable to the integration of BBC Worldwide and BBC Studios in 2018 and the acquisition of UKTV in 2019, content sales are also higher than ever before.

BBC Studios supports the BBC Public Service strategically as well by being the primary supplier of BBC non-news content, making around 2,500 hours of high-quality content each year across genres. It champions British content around the world and is also a committed partner to the UK's independent production sector.

The BBC's integration of BBC Studios and Worldwide created a global business that is better positioned to be able to compete against major UK and global competitors who operate integrated production-distribution businesses. It is now better able to generate high-quality content and exploit the associated intellectual property. The delivery of cost savings was not one of the primary reasons for the merger as both entities were already implementing significant cost reduction programmes (BBC Studios had already reduced headcount by 300 in 2016/17 and was expected to make on-going efficiencies of £2 million a year, while BBC Worldwide had a target of delivering savings of £38 million a year by 2021/22). The activities of the two businesses were also distinctive and complementary, limiting the scope for savings.

Both during and since the merger, BBC Studios has continued to make important strategic decisions and investments. This includes the acquisition of UKTV, in which BBC Studios took control of UKTV's entertainment channels and the catch-up service UKTV Play. This has enabled greater control and simplification of how rights are managed and value is driven across the Group, as well as increased investment into original productions. Throughout this period the share of audiences and share of commercial impacts (SOCI) continues to be strong and the company continues to be profitable, contributing to the financial success of BBC Studios.

Britbox US, a BBC Studios and ITV partnership venture, launched in North America with much success in 2017 and now at 1.5 million subscribers, has been the fastest-growing niche SVOD service in North America. Further international rollouts of Britbox are being planned and a successful launch took place in Australia at the end of 2020. A UK version of Britbox (operated as a commercial partnership between the BBC and ITV, but majority owned by ITV) was launched at the end of 2019 and is already performing ahead of plan.

All of BBC Studios lines of business are profitable and deliver in line with expected commercial rates of return. This was reviewed by Ernst & Young's independent Commercial Review which benchmarked returns against market rates. However, despite the substantial revenue achieved and effective margin management, the dividend return to the Group is £1 for every £20 of pre-tax sales generated.

Therefore, whilst an important contributor to the Group both strategically and financially, even with substantial growth it is unlikely that BBC Studios could become a large-scale substitute for licence fee income. In 2019/20 BBC Studio's returns to the BBC, in terms of dividends remitted and investment into programming, equated to just 7% of total Public Service income. Moreover, the coronavirus pandemic has also had an impact on a number of key areas of the BBC Studios business, and whilst BBC Studios is working to minimise the overall financial impact, the effects are still likely to be significant. Figure 13 illustrates the point using 2018/19, a more 'normal' year pre-pandemic.

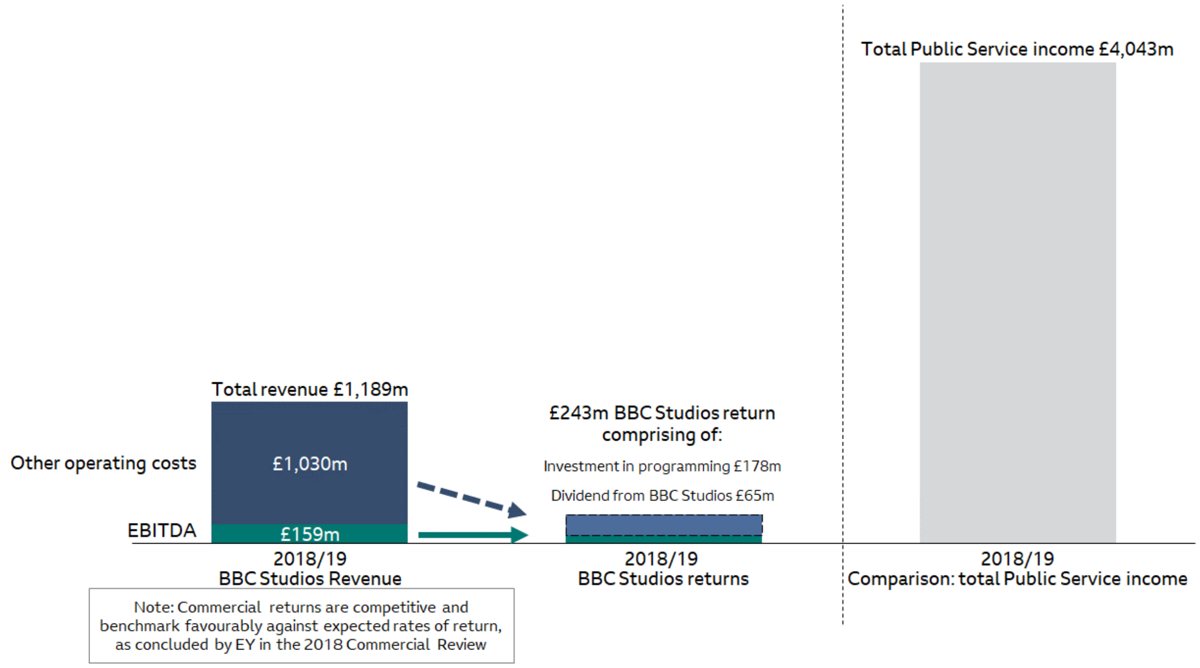

Fig 13: Comparison of BBC Studios Revenue, BBC Studios returns and total PSB Income[12]

ii) BBC Global News

BBC Global News is the BBC's commercial news subsidiary and operates the international 24-hour TV channel BBC World News, and bbc.com. The primary purposes of the

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[12] NB: 2018/19 represents the most recent full year not impacted by coronavirus. 2019/20 dividend paid £3m.

subsidiary are to operate news services sustainably outside of the UK, extend the reach of BBC News on TV and online in English, and uphold and enhance the reputation of BBC News as one of the most trusted sources of journalism in the world.[13]

Monetising news globally is difficult, particularly now that large states such as Russia and China are investing heavily into English-language news. The global advertising market for news has changed rapidly in recent years and these changes have been accelerated by the Covid-19 pandemic.

BBC Global News provides independent news, and seeks to reflect the UK and its values of accuracy, impartiality and fairness to citizens of other countries across the globe. Audiences have increased considerably over the last five years. In 2020, the BBC World News TV channel reached a record 112 million people per week (+12% YoY), in addition to record reach of 45 million per week (+6.8% YoY) across bbc.com and social media.

BBC Global News has been consistently profitable for the last five years, generating annual revenues of around £115 million. However, changes in the way people access news and downward pressure on global advertising revenues have been putting the financial model under pressure. This has been exacerbated by the coronavirus pandemic, which has had a dramatic impact on the ability to generate income in 2020 despite demand being higher than ever before. It is expected that this, in addition to existing market factors, will have a significant impact on financial performance in 2020/21 and beyond. At the same time, some news providers have begun to have significant success through a direct to consumer subscription model. We will continue to consider how GNL can best operate in the market to ensure long-term commercial success in the face of current global news market challenges.

iii) BBC Studioworks

BBC Studioworks provides television studios and post-production services to all the major UK broadcasters and production services within London and the South East of England. It works with a broad range of companies, ensuring competitively priced access to studio space that is essential for not only BBC programming but also for the wider creative industry, at a time when many other studios in the area have closed either temporarily or permanently. BBC Studioworks' contribution to the wider creative industry is demonstrated by the fact that 60% of its external revenue is generated through contracts with independent production companies.

Total income in 2019/20 was £40 million (+8% YoY) with an EBITDA of £8 million and bringing a dividend return back to the Group of £400k. Performance has been driven by a mix of new business growth and a continuing portfolio of clients including chat shows (*The Graham Norton Show*, *The Jonathan Ross Show*), gameshows (*Pointless* and *The Chase)*, panel shows (*Celebrity Juice* and *Have I Got News For You)*, continuing drama (*EastEnders*), and entertainment shows such as *Saturday Night Takeaway*.

[13] https://reutersinstitute.politics.ox.ac.uk/sites/default/files/2020-06/DNR_2020_FINAL.pdf

Looking forward, the market is expected to be challenging due to increasing competition from across the country, accelerating skills shortages and the undetermined impact of the coronavirus pandemic. BBC Studioworks will continue to mitigate this through the rigorous management of both the current portfolio of work and clients and new business generation focused outside London.

iv) Third-party investment into BBC content

Price efficiency and increased third-party investment have been fundamental in delivering higher value content to licence fee payers for the same level of spend. BBC prices for programmes have remained relatively flat over the past few years, despite market price inflation, especially in scripted and premium entertainment and factual programming. The BBC has also been able to attract a significant and increasing amount of third-party investment into the slate over the years, almost tripling the overall amount in drama since 2014/15. This income consists of co-production investment from local and international broadcasters and SVOD providers, producer and distributor advances and tax credits. In 2019/20, £1.47 of on-screen value was delivered for every £1 of Public Service spend, compared to £1.35 in the previous year.

As part of deals for third-party investment into content, the BBC endeavours to secure maximum rights for channels and services for UK audiences, trading off secondary windows and international rights.

v) Other external Income

The BBC also pursues other avenues for income, within the fair trading rules of the BBC's Charter, in order to reduce the cost to the licence fee payer. These are services not provided to the commercial subsidiaries, and are charged at market price. In 2019/20 the other income streams external to the Group totalled £182 million. Over half of this income comes from returns to the BBC from programming where the public service owns the rights, including royalties and licencing fees from content and formats.

Other sources include production income from optimising capacity of broadcasting facilities and leasing equipment to overseas broadcasters so that they can broadcast news from the UK, advertising revenue from overseas, ticketed live events, such as The Proms, and Radio 2 Live in Hyde Park, and sales from optimising distribution capacity. Such activities support the continued delivery of public service activity and minimise the impact of reduced income on audiences.

Looking ahead

Over the past six years, the BBC has reaped significant financial benefits from the success of its commercial subsidiaries and its ability to attract third-party investment in its programming. Looking beyond 2020/21, the BBC expects to increase its commercial income to provide licence fee payers with even better value for money.

5 The BBC as a smarter spender

Since 2010/11, the BBC's savings programmes have allowed it to adapt to growing financial challenges and radical changes in audience behaviours and preferences.

Financially, the savings have covered a significant drop in the BBC's income to spend on UK audiences. Detail on the BBC's financial challenges is outlined in the *BBC's Financial Context* section above.

In order to adapt to changing audience behaviours and preferences, approximately £976 million of the cumulative savings generated since 2016/17 have also funded new investment into audience-facing priorities and modernisation.

This new investment has been used to respond to changing audience tastes and consumption behaviour. In addition to the total £976 million of new investment, other spend has also been remixed within divisions and spend areas in order to continue being relevant and efficient. The following section outlines some of the ways in which this has been achieved, and how the BBC continues to provide distinctive and wide-ranging services across the UK.

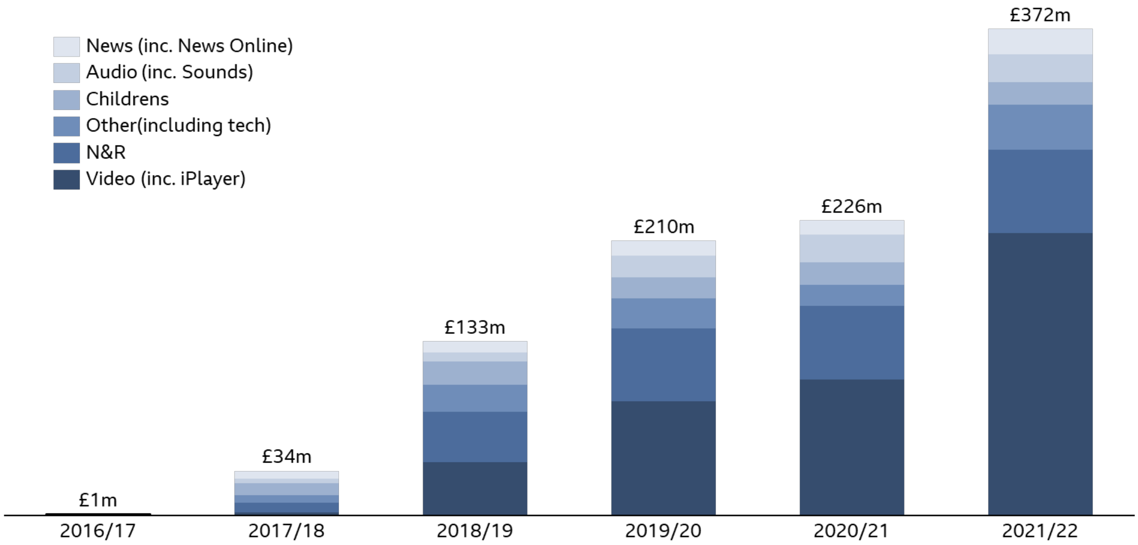


Fig 14: £976m new investment spend split from 2016/17 to 2021/22

i) Investments and reprioritisation

The way that media is accessed and consumed has changed dramatically over the past 10 years, not just for younger audiences but increasingly for older audiences too. Now c60% of households have access to an SVOD service[14], and for 16 to 34s only around a third of viewing is via broadcast[15]. Similarly, 34% of the UK adult population uses an audio

[14] BARB Establishment Survey, Q3 2020
[15] https://www.ofcom.org.uk/__data/assets/pdf_file/0010/200503/media-nations-2020-uk-report.pdf

streaming service[16] (rising to 51% of 20-24 year olds), and 65% access news online.[17] Consequently the BBC has moved at pace to increase investment into online services and content in order to remain relevant and continue serving all audiences.

Ultimately, audiences come to the BBC for world-class content, and despite savings pressure and above average inflation within significant elements of its cost base, BBC spend on content has been prioritised and increased between 2014/15 and 2019/20, both in absolute terms as well as the proportion of spend.

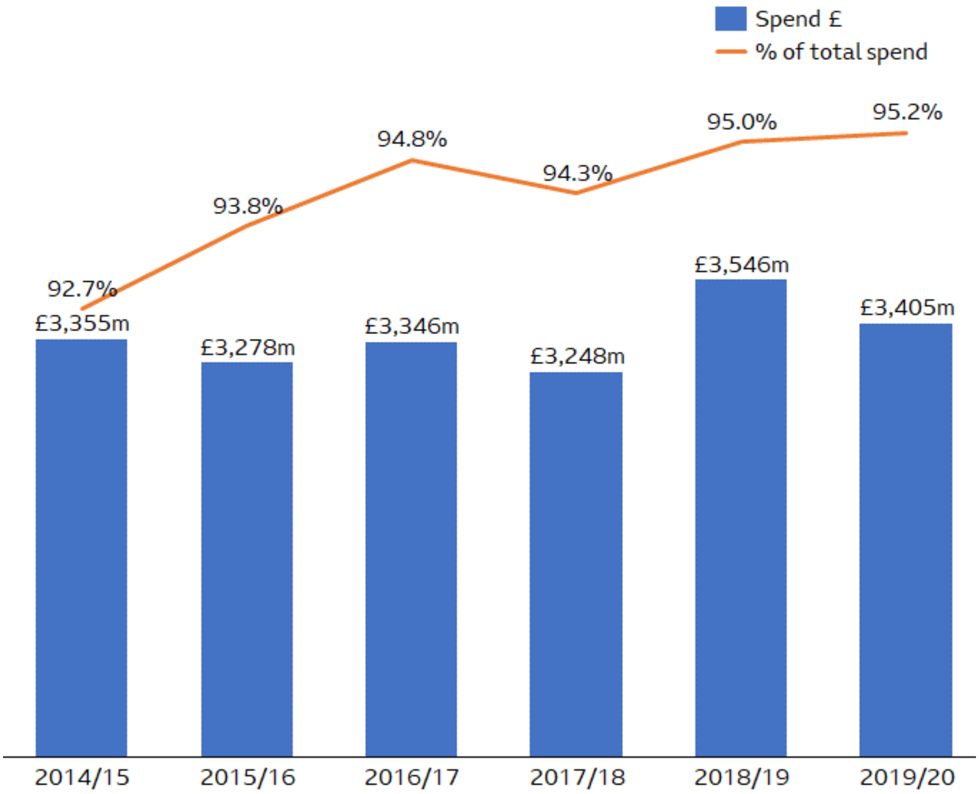


Fig 15: BBC spend on content and the delivery of content between 2014/15 and 2019/20 and percentage of total spend (excluding obligations and other items, such as licence fee collection costs).

Video
Overall, video content and iPlayer investment accounts for £215 million of the £372 million new investment spend each year. iPlayer, which launched in 2007 and blazed a trail in online video consumption, continues to be at the heart of the BBC's strategy. The BBC has expanded the volume of content available on iPlayer, into titles and series that work well both online as well as on broadcast, to maximise value for money across channels and services. *RuPaul's Drag Race*, *His Dark Materials*, *Race Across the World*, *Ghosts* and *Eating with My Ex* are just a few examples of new commissions which are performing well with audiences. There have also been titles that were no longer performing well enough with audiences for the spend that have been decommissioned (or not renewed).

[16] BPI "All About the Music, 2020"
[17] https://www.ofcom.org.uk/__data/assets/pdf_file/0013/201316/news-consumption-2020-report.pdf

Demand for high-quality, immersive drama series has increased over the last few years particularly from younger audiences and on video-on-demand services. The BBC continues to deliver high-impact and must-watch drama to audiences (e.g. *Dracula, The Bodyguard,* and *The Night Manager),* and we remix spend into new content that caters for underserved and younger audiences as well as mass audiences (e.g. *Peaky Blinders, Doctor Foster, Gentleman Jack*). A significant share of spend also goes into continuing dramas, such as *EastEnders* and *Casualty,* that resonate with audiences and are some of the most watched titles in the UK, including among younger age groups.

Audience expectations have also changed in terms of content availability. In 2019 iPlayer was transformed from a catch-up to a destination service, as the standard availability of programmes increased from 30 days to 12 months. This was approved by Ofcom who agreed that it could deliver significant public value over time and help ensure the BBC remains relevant in the face of changing viewing habits.

The BBC has also secured a landmark framework deal with independent producers, allowing for the availability of programmes to be extended beyond the standard window for costs calculated according to set principles, providing flexibility, negating the need for ad-hoc negotiations and setting the BBC up to better cater for changing audience behaviours, as they shift to more on-demand viewing.

These milestones, in addition to its continued content remix and reinvestment, enabled the BBC to enhance iPlayer over the past year by offering a selection of full-series boxsets of new and returning titles (e.g. *Normal People*, *Gavin & Stacey)*, archive titles (e.g. *Waterloo Road, Spooks, Merlin, Two Pints of Lager & A Packet of Crisps)* and acquisitions (e.g. *The Fresh Prince of Bel-Air*). These titles have driven huge volumes of viewing and offer excellent value for money on a low cost-per-household basis.

The Children's 2020 plan, running from 2017 to 2020, also marked an increase of £34 million over three years into children's content alongside a transformation to become a digital first and multi-platform media service. The investment stretched across video, live online programme extensions, blogs, vlogs, podcasts, quizzes, guides, games and apps. *Newsround* has also become digital-first, the number of titles on the slate has been reduced to bring focus and more investment per title without compromising on range and quality, and there has also been a move away from a channel focus towards an iPlayer-first approach.

Audio and News

While many audiences continue to use traditional radio, many more are increasingly consuming online or looking to new types of audio content. BBC Sounds, funded through savings, launched in 2018 to bring together live and on-demand radio, music and podcasts into a single personalised product. This has transformed how BBC audio can be consumed and has brought new and innovative types of content to audiences. BBC Sounds has been a significant success; a record number of accounts (3.7 million) are using the service weekly at the start of 2021. It has launched a number of popular and innovative podcasts including *That Peter Crouch Podcast, Brexitcast* and recently *The Coronavirus Newscast*. Further, 2020 has seen the launch of the new music stream Radio 1 Dance.

News is also undergoing major reform to change how it operates to serve all audiences equally on all platforms, to improve operational efficiency and to deliver £80 million of savings by 2021/22. The transformation includes moving to a new 'story led' model of journalism to reduce duplication, to be more focused on audience priorities, and to ensure journalism goes further across digital output as well as TV and radio.

The new model will put audiences at the heart of editorial decision-making, empowering journalists to shape the tone and platform for different audience needs at the moment of commissioning, without being constrained by traditional programming divides. This will ensure that the BBC's best journalism reaches the broadest possible audience across all platforms.

These reforms to journalism and programming will free up greater resources to deliver a new digital news strategy. Access to online information is a central part of delivering the public service mission; something which has been emphasised during the coronavirus pandemic.

The power of the portfolio

Across all of these services, markets and platforms, the BBC has a unique strength in its ability to bring together a portfolio of assets to extract more value, be more effective and give audiences an even better experience of content. This is being done in several ways; firstly by commissioning across the BBC ecosystem for both linear and on-demand, using the same content in multiple places to reach more audiences. Titles have also been leveraged within the linear channels, for example *Top Gear* moving from BBC Two to BBC One and *The Repair Shop* moving from daytime to peak, in order to maximise audience reach.

Secondly, common brands and programming are used across TV, audio and online, for example *Obsessed with …*, a companion podcast for TV titles such as *Peaky Blinders* and *Killing Eve*. The BBC also cross-promotes content and services across platforms to make sure relevant content is reaching more audiences and reducing the need for off-platform marketing spend.

Finally, there has also been consistent investment into the technology that supports an improved and unified audience experience with the BBC, including account management, sign-in, personalisation, and recommendation engines that help audiences find content they may not have come across otherwise. The number of registered BBC accounts supporting this unified experience[18] has increased from just 0.5 million at the start of 2011 to over 52.2 million accounts at the start of 2021.

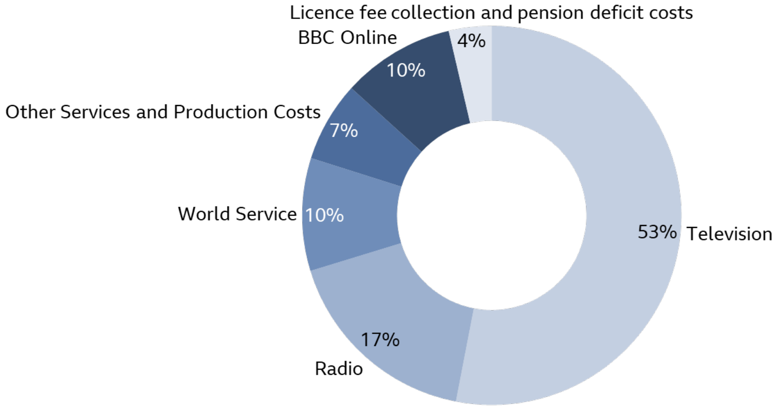
In 2020, *WebCore* started rolling out, a common platform that will make all websites feel more uniform in style and format and automatically bring together all of the BBC's output

[18] UK licence fee area only, excluding ex-UK

on a given topic in one place. This will support more audience-led journeys and reduce the need for manual effort and resource at the same time.

ii) Maintaining a broad offer

The licence fee covers the whole breadth of the BBC. Figure 16 presents how the 19/20 monthly licence fee of £12.88 per household was spent across the breadth of services that the BBC provides.



Per household in 2019/20	£12.88
Television	£6.83
Radio	£2.22
World Service	£1.24
Other Services and Production Costs	£0.88
BBC Online	£1.24
Licence fee collection and pension deficit costs	£0.47

Fig 16: How the licence fee is spent, 2019/20: £12.88 per household

One of the greatest challenges in continuing to deliver a rich and broad content offer is the commitment to do so for ***all*** audiences. This is a challenge that makes the BBC unique, and distinct from its competitors who focus on driving growth commercially, and in doing so target either specific audience groups or subsectors. This continued focus on universality has meant that the BBC invests into content that would not exist otherwise, offering unique public value, supporting niche creative sectors, and creating new jobs and opportunities. This includes investment into local media services, education, and media research and development.

The BBC's Nations services continue to provide a strong voice for towns, cities and parts of the UK that have seen a decline in commercial media and journalism coverage. The BBC currently has 39 local England radio stations, 7 Nations radio stations (including 3 in local languages), 2 dedicated TV channels in Scotland, a wide range of localised online content, production hubs in Glasgow, Cardiff, Belfast, Salford, Bristol, Birmingham and London, and a continuing pledge to embed and distribute around the UK.

Given the challenges of operating efficiently with the dis-economies of scale of multiple local services, the BBC has looked to more innovative solutions and partnerships. For example, the BBC developed ViLoR (Virtual Local Radio), a technical solution which moved broadcast infrastructure to a shared central location, reducing the cost and time needed to update individual local radio stations whilst improving audio quality and simplifying the sharing of media.

In the UK's nations and regions, production also continues to grow. Today, over half of the BBC's spend and staff are outside the M25, and the proportion of TV programmes produced in Scotland, Wales and Northern Ireland has more than doubled in the past decade. Partnerships, such as the agreement with NI Screen and Screen Scotland, have been highly successful in shaping local production cost effectively to deliver titles such as *The Fall* and *Line of Duty,* and supporting the local creative communities.

Launched in February 2019, the BBC Scotland channel reached more viewers on average per week in Scotland than any other TV channel outside BBC One, Two, ITV, Channel 4 and 5 in its first year of operation. Its on-going investment has brought great benefit to Scotland's production sector and to the creative economy as a whole.

Educating the nation's young people is core to the mission of the BBC and another vital part of the BBC's breadth and range. BBC Bitesize has offered free online study support to children of school age for more than a decade and BBC Teach provides free classroom resources to schools. The commitment to this has been illustrated by the response to school closures in the recent pandemic by delivering the biggest education offer in BBC history, including 14 weeks of Bitesize daily lessons shown on CBBC and available online, providing invaluable resources to children and their families across the country. This educational offer was targeted to take into account the different curriculums across the UK's four nations.

Looking ahead

Over the past ten years the BBC has had to review and reposition the way it spends to evolve with changing audience preferences and behaviours. The repositioning has not only been achieved through efficiencies but also through the reprioritisation of spend, which has often required tough decisions on content and services.

Although the BBC has made some significant progress in catering for changing audiences, there is much more to do. Now, more than ever, the BBC will need to continue to review the performance of its content and how it supports the creation and delivery of that content to ensure that it provides value for audiences.

6 The BBC's value for audiences

This document has set out the story of a BBC that strives to spend its money efficiently and spend it on the right things. However, the success of that approach can best be determined by looking at what matters most – the value provided for audiences. Ultimately, the mission and purposes of the BBC are delivered by audiences consuming its output. It is these outcomes that matter most, in a market that has changed radically in the last ten years.

The BBC is better value for money for audiences than a decade ago

The BBC is providing much more to audiences now, for less. The licence fee costs less in real terms today, at £157.50 per year, than it did in 2010/11 when the cost was the equivalent of £178 in 2019/20 prices. The cost for each BBC hour consumed by audiences is lower at 6.6p in 2019/20 compared with 7.6p in 2010/11. More BBC services are available now than in 2010/11, including the new BBC Scotland TV channel and a range of apps, such as BBC Sounds.

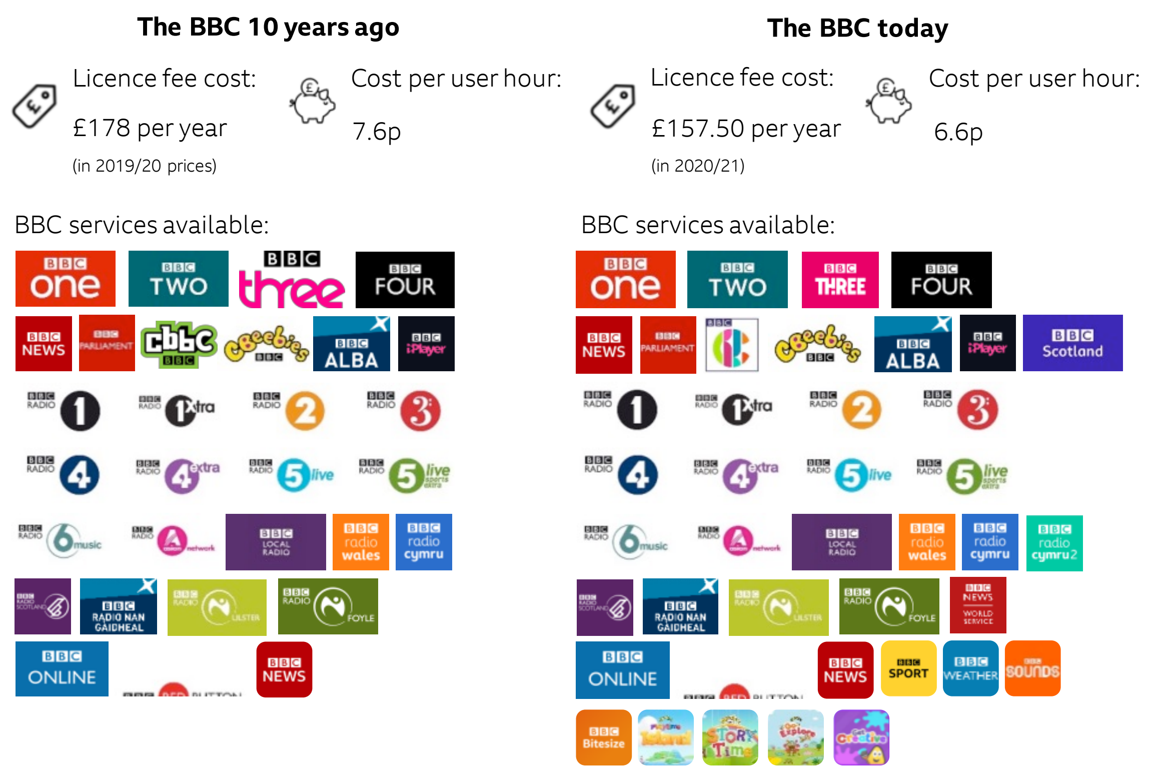


Fig 17: What the BBC offered ten years ago compared with what the BBC offers today[19]

[19] BARB, BARB Establishment Survey, RAJAR, GfK Cross-Media Insight, Ipsos MORI Kids CMI, AT Internet, ONS, BBC Annual Reports and Accounts 2010/11 and 2019/20. BBC World Service funding transferred to the licence fee from April 2014.

The BBC provides better value for money than other media providers and leisure activities

The value for money delivered by the BBC compares very favourably with other media offerings. Each hour of BBC radio listening costs households about 3p, on average. Each hour of BBC TV watched by a household costs it around 9p, on average. In contrast, for an equivalent SVOD service, the cost per hour consumed by the household is around 15p, on average. And for a pay TV service, the cost starts at well over 50p per hour, on average.

If one was to purchase the range of media offered through the licence fee, then a bundle of subscriptions providing advertising-free high-quality services comparable with those delivered by BBC across video, audio and news would cost £453.45 per year[20] in comparison with the current licence fee of £157.50.

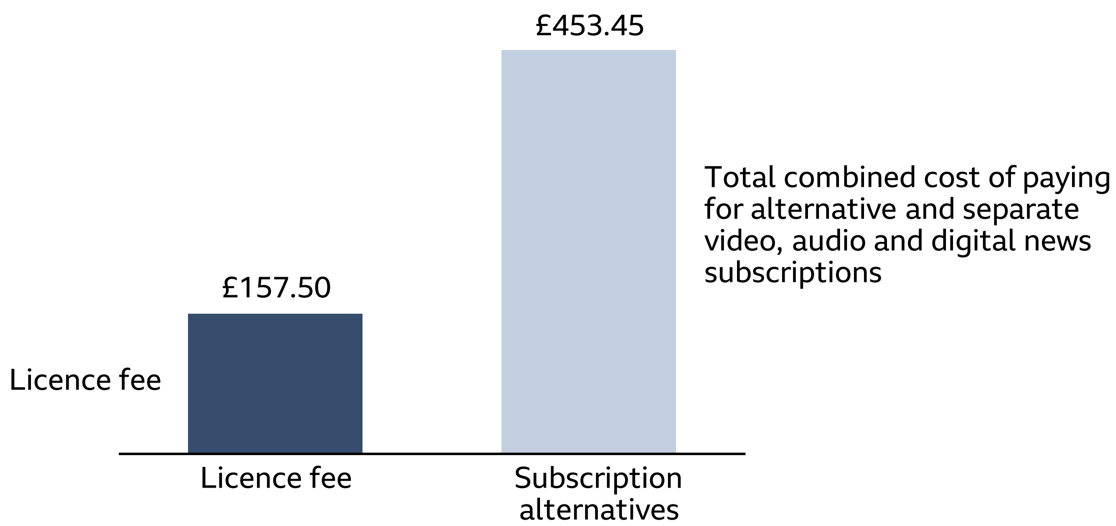


Fig 18: Comparison of the licence fee with a bundle of comparable, advertising-free, quality UK services by available from commercial alternatives

Furthermore, the services that the BBC provides deliver excellent value for money when compared with other leisure activities. The price paid for the licence fee in 2020/21 is equivalent to the price of only five Premier League match tickets, three London theatre tickets, six zoo visits or 22 cinema tickets. Additionally, at 7p per user hour, the licence fee is less than all of these other leisure activities on a per user hour basis.[21]

[20] Comprises the average cost of an annual subscription, taken from a small sample of large media providers in the UK who offer subscription video on demand, advertising-free music streaming or digital news subscriptions. Excludes short-term introductory saving. Comparative bundle does not include the same level of sports broadcasting as offered by the BBC.

[21] BBC: BARB, BARB Establishment Survey, RAJAR, Ipsos MORI Kids CMI, AT Internet, ONS, BBC Annual Reports and Accounts 2019/20; premierleague.co.uk; Society of London Theatre; London Zoo; UK Cinema Association.

The BBC is the biggest media brand in the UK

Despite an explosion in competition in the media market in recent years, more people continue to use the BBC for media than any other brand. 91% of UK adults use the BBC per week and 97% per month, on average. And among young people, 80% of 16-34 year olds (12.5 million) use the BBC per week and 93% (14.6 million) per month, on average – more than any other brand for media.[22]

The BBC also has the largest share – close to 25% – of all the time UK adults spend across video, audio and online combined, including YouTube, social media, general browsing, shopping and search. By contrast, Netflix is around 4% of this time. Even within broadcast and on-demand TV, the BBC has the largest share – comprising around 30% of the hours viewed by UK adults, compared with ITV, the next nearest, on around 20%. Netflix is further behind on an estimated 11%.[23]

UK adults overall spend close to 18 hours a week with the BBC on average[24] – not only does this make the BBC their most-used media brand, it also makes the BBC the public service that adults spend most time with on average per week.

The BBC is at the heart of UK life

The BBC provides a service of constant and deep value to people of the UK. The UK public chooses the BBC around 250 million times a day.[25] Every single minute of the day and night, the BBC is being used by 5 million adults, on average, and by a total of 45 million across all ages over the 24 hours.[26]

[22] Compass by Ipsos MORI, 16+ and 16-34, 2020.
[23] Compass by Ipsos MORI, 16+, Apr-Dec 2020.
[24] BARB, BARB Establishment Survey, RAJAR, AT Internet, ONS, 2019/20.
[25] Kids CMI (Q1-Q3 2020) and Compass by Ipsos MORI (Jan-Nov 2020).
[26] Data based on all ages 0+ and taken from Kids CMI (Q1-Q3 2020) and Compass by Ipsos MORI, 2020.

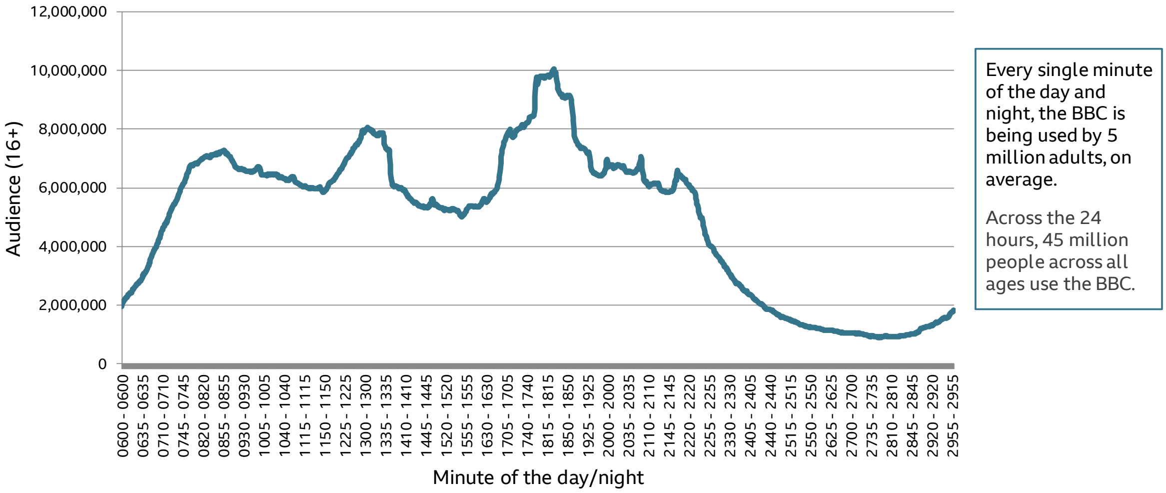


Fig 19: Average number of adults using the BBC at each minute of the day and night[27]

The BBC is central to daily life in the UK. On an average day, 17.7 million people start their day with the BBC and 28.5 million come to the BBC for evening entertainment.[28] The BBC is the place the UK comes to in order to find out about what is happening at home and abroad. More people, by far, get news from the BBC than from any other source – eight in ten news consumers per week (the next nearest is ITV at 45%).[29] And the BBC is the place where everyone can keep up with national passions – the BBC shows around 1% of the hours of sport broadcast on broadcast TV in the UK but delivers around 30% of all TV sport viewing.[30]

The people of the UK come to the BBC at times of annual, national and international importance. The BBC is part of Christmas Day for 44 million people, and last year 20 million saw in the New Year with the BBC.[31] In a year dominated by the Covid-19 pandemic, the UK has come together through the BBC to stay informed. According to tracking by Ofcom across March 2020 to January 2021, the BBC has consistently been considered to be the most important source of information/news about the coronavirus outbreak for people, far ahead of the next nearest (official sources – such as scientists, NHS, WHO, Government).[32]

[27] Data in the chart is from Compass by Ipsos MORI and shows the average audience per minute in Feb, May, Aug and Nov 2020.
[28] BARB, 4-15, Compass by Ipsos MORI, 16+, 2020.
[29] Ofcom, News consumption in the UK: 2020 report.
[30] BARB, 4+, 2019/20.
[31] Christmas Day and New Year's Eve 2020: Compass by Ipsos MORI, 16+; BARB as viewed, 4-15.
[32] Populus, c.2,100 UK adults per wave, 20 waves of fieldwork from Mar 2020 to Jan 2021, published by Ofcom. Across the 20 waves of fieldwork, when respondents accessing news/information about the Coronavirus outbreak were asked to name their most important source, 46% cited the BBC, well ahead of the next nearest (officials on 13%).

When audiences have a choice, time and time again they choose the BBC:[33]

- Three times the audience watched the 2018 World Cup final on BBC One (8.0m average audience) than on ITV (2.5m)
- 13.1m watched the 2018 Royal Wedding ceremony on BBC One – over three times as many as watched on ITV (3.5m) and Sky News (0.4m) combined
- Announcing the start of the first lockdown on 23 March 2020, the Prime Ministerial statement achieved an overall television audience on the day of 28.0m – close to two-thirds of whom (18.0m) watched on BBC TV channels (BBC One, BBC News and BBC Scotland) (compared with 5.6m on ITV, 2.1m on Sky News, 1.7m on Channel 4 and 0.6m on Channel 5)
- Announcing plans to ease the first lockdown on 10 May 2020, the Prime Minister's statement saw an overall television audience of 27.6m on the day – over 70% of whom (20.1m) watched via BBC TV channels (BBC One, BBC News and BBC Scotland) (compared with 4.9m on ITV, 1.4m on Sky News, 0.8m on Channel 4 and 0.4m on Channel 5)
- When the Queen gave her Covid-19 message on 5 April 2020, 24m tuned in that day – over 60% of whom (14.8m) were watching on BBC TV channels (BBC One and BBC News) (compared with 5.3m on ITV, 2.5m on Channel 4, 0.7m on Sky News and 0.6m on Channel 5)
- And as the 2019 UK General Election results came in overnight, BBC TV's results coverage reached 16.0m – more than double that of ITV (7.2m), and seven times that of Channel 4 (2.2m) and Sky News (2.2m).

The BBC ranks ahead of UK and international TV channels and VOD services

Recent years have seen the rise in the UK of big-budget content from global streaming giants. Yet, BBC One is still rated as number one for quality. In an international survey, people were asked to rate the main TV channels/VOD services in their country in terms of the quality of programming offered to the people of their country. Figure 20 displays the results for the UK. This shows that 78% of UK adults said BBC One shows high-quality programmes, ahead of the other main TV channels and VOD services in the UK.[34]

[33] BARB, 4+. Figures are average audience apart from General Election 2019, which is 3 min+ consecutive reach for overnight results programming 12/13 December 2019, as follows: BBC TV 21:55 Thu to 06:00 Fri; ITV 22:00 Thu to 06:00 Fri; Channel 4 21:55 Thu to 06:00 Fri; Sky News 21:00 Thu to 06:00 Fri.

[34] Populus, 501 UK adults, June/July 2020.

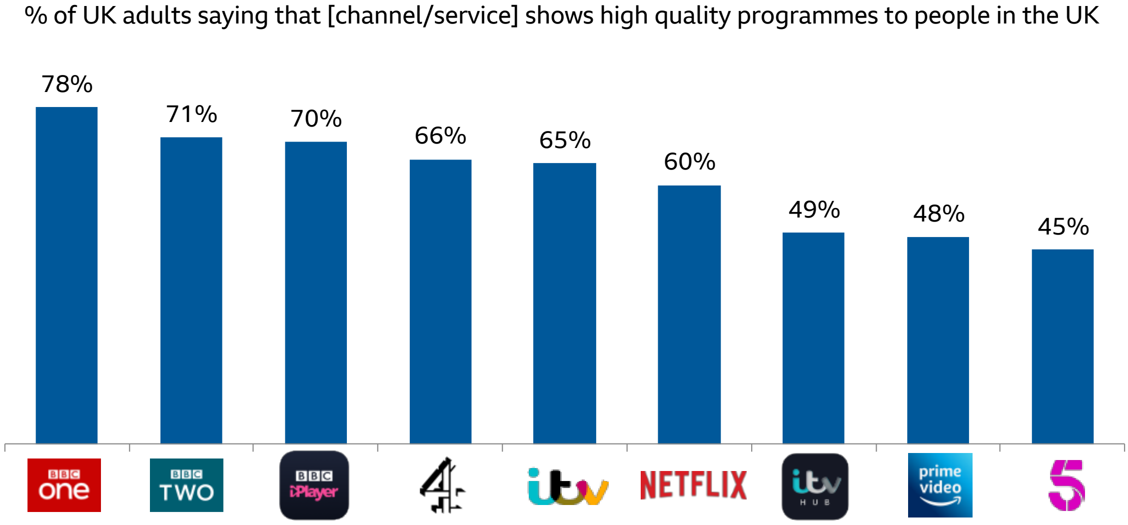


Fig 20: Main UK TV channels/VOD services ranked by % of UK adults rating as showing high quality programmes to UK people (% saying 'strongly agree'/'tend to agree'). Populus, 501 UK adults, June/July 2020.

In the same study, respondents were also asked to rate the main TV channels/VOD services in their country in terms of importance to the people of their country. Looking at the UK channels/services in Figure 21, BBC One again ranks highest, with 83% of UK adults rating the channel as important to people in the UK for media.

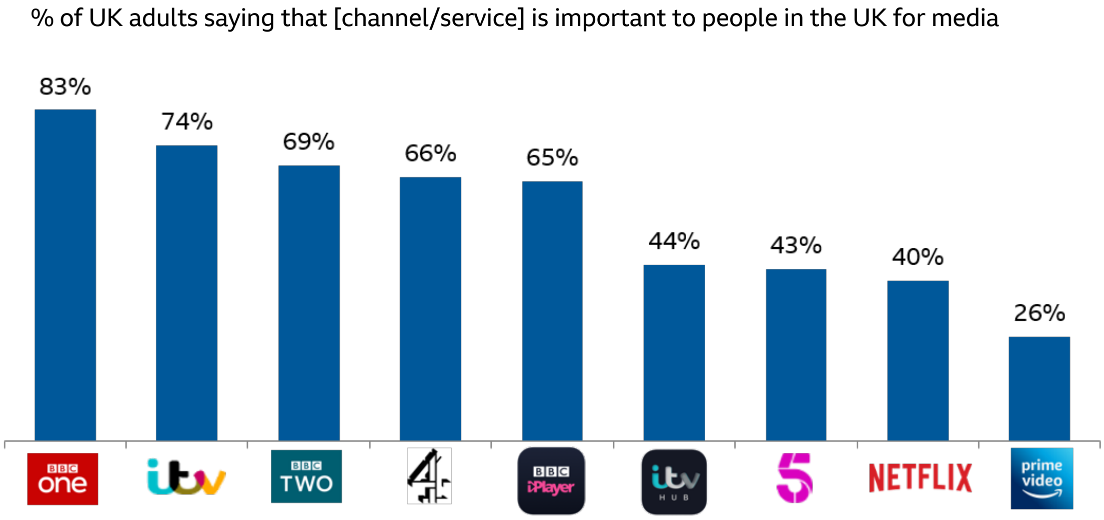


Fig 21: Main UK TV channels/VOD services ranked by % of UK adults rating as important to people in the UK for media (% saying 'very important'/'fairly important'). Populus, 501 UK adults, June/July 2020.

Internationally, these results saw BBC One emerge as a global leader. As Figure 22 shows, with 83% of UK respondents rating BBC One as important to people in the UK for media, BBC One along with ABC (rated as important to people in Australia by 84% of Australia's respondents) are the two highest-ranking channels out of 80 top channels/VOD services across 11 countries.[35] Overall, it is publicly funded channels that take the top positions on this measure.

[35] Populus, c.500 adults per country (5,640 respondents across 11 countries), June/July 2020.

% of adults saying [channel/service] is important to people in their country for media

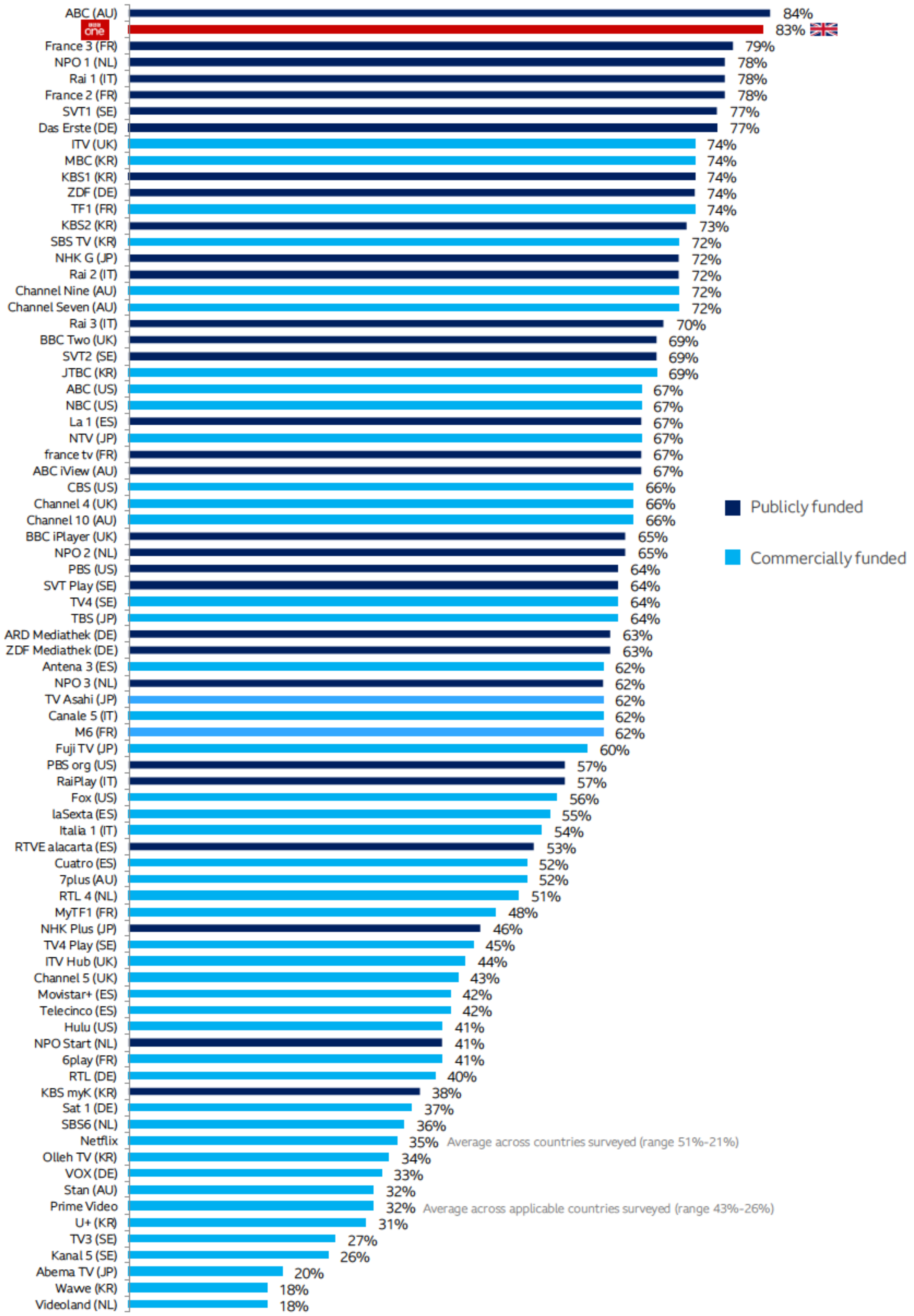


Figure 22: Respondents were asked to rate each of the main TV channels/VOD services in their country in terms of importance to people in their country for media (ranking for % saying 'very important'/ 'fairly important'. Populus, c.500 adults per country (5,640 respondents across 11 countries), June/July 2020.

7 Looking forward

The BBC has faced a number of downward pressures on its income (freeze in the licence fee, removal of funding for free TV licences for over-75s), while at the same time having to fund more obligations (World Service, S4C). During this period the level of competition from new entrants into the SVOD market has been intense, increasing the competition for audiences (especially among the 16-34s) and driving up the cost of talent and content.

To meet this challenge, the BBC has delivered savings programmes that have minimised the impact on audiences. The BBC continues to make substantial savings, such as the on-going restructuring programmes across News and BBC Nations.

But, as evidenced in this report, additional savings through productivity gains are becoming increasingly difficult and scope savings are now the predominant form of savings for the BBC. In order for the BBC to deliver its public service commitments, support the creative industries and continue to invest in high-quality, world-class, distinctive content for UK audiences, it will have to do more with less income to spend on programmes and services.

The challenges facing the BBC are on-going, and the BBC is not complacent. Further significant transformation plans are being developed to improve quality and impact. As highlighted in the NAO's 2021 report, *The BBC's strategic financial management,* further significant savings over the next few years will be required to enable the BBC to deliver against the organisation's new strategic priorities and increase the pace of change.

As the BBC looks forward, and pending finalisation of detailed plans for the delivery of our strategic priorities over the coming months, the BBC will:

- Keep audience value as the primary focus of its strategy, which will help guide choices in content and delivery in the future
- Seek to break new ground in the way it creates and distributes its content to enable further efficiencies
- Focus on increasing commercial revenues to help offset inflation in the market and deliver growing returns to the licence fee payer
- Explore opportunities presented by technological developments, including increased automation and to enhance its digital offer
- Use lessons learnt from the Covid-19 pandemic to inform future ways of working, including how and where we work and travel, with the aim of flexing the property portfolio and geographical footprint to further deliver economic and environmental benefits across the whole UK
- Ramp up investment in new, diverse talent on and off-air to ensure it is well-positioned to develop and access a strong future pipeline
- Closely manage what it spends on its strategic contracts.

These plans will look to identify further opportunities for productivity savings, while maintaining or increasing the value we deliver our audiences.