



The BBC's management of the costs of producing continuing drama

Report by the Comptroller and Auditor General presented to the BBC Trust's Finance and Compliance Committee, 3 March 2011



DEPARTMENT FOR CULTURE, MEDIA AND SPORT

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of producing continuing drama**

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General presented to the BBC Trust's
Finance and Compliance Committee**

*Presented to Parliament by the Secretary of
State for Culture, Olympics, Media and Sport
by Command of Her Majesty
March 2011*

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The BBC's management of the costs of producing continuing drama

BBC Trust response to the National Audit Office Value for Money study 'The BBC's management of the costs of producing continuing drama'

Background to this study

As the BBC's governing body, the BBC Trust acts to get the best out of the BBC for licence fee payers. In part this means ensuring that the BBC continues to provide excellent value for money. We commission Value for Money investigations into specific areas of BBC activity to help ensure that licence fee payers are getting the best possible return on every pound of their licence fee.

Each year the Trust commissions a series of Value for Money reviews after discussing its programme with the Comptroller and Auditor General – the head of the National Audit Office (NAO). The reviews are undertaken by the NAO or other external agencies, reporting to the Trust. The Trust carefully examines the findings from each study and requires a full response and action plan from the BBC Executive explaining how it will take forward the specific recommendations made.

This study, commissioned by the Trust's Finance & Compliance Committee on behalf of the Trust and undertaken by the NAO, looked at the BBC's management of the costs of producing continuing drama.

The six continuing dramas examined, Casualty, Doctors, EastEnders, Holby City, Pobol y Cwm and River City, provide hundreds of hours of original programming

each year to millions of viewers. The Trust is under an obligation to ensure that all BBC activities continue to represent value for money. In view of the risk of complacency that surrounds any recurring spend, the Trust was keen for this value for money study to take place to identify whether the Executive was managing these productions efficiently.

The Trust thanks the NAO for undertaking this review.

Our views on the NAO's findings

The Trust is pleased to note progress in reducing the absolute cost of producing these six dramas. The BBC's reduction of 20% (in real terms) in the cost of producing an hour of continuing drama, while at the same time increasing audience approval, is an excellent achievement, and one of which the BBC can feel proud.

The Trust also welcomes the NAO's statement that the BBC has a strong culture of monitoring performance and strong mechanisms in place to establish and manage performance budgets.

We note that the NAO has expressed a reservation in its conclusion on value for money – it cannot state "whether the BBC is delivering value for money because it

has not set audience-related performance objectives when deciding the funding for individual continuing dramas" (which feeds into the NAO's first recommendation). Having given careful consideration to this recommendation the Trust is of the view that setting of performance objectives at a programme level is not always appropriate.

The Trust considers that the setting of some output-based objectives (e.g. number of episodes, budget) is appropriate at a programme level, but other audience-focused outcome-based objectives are better suited to being set at channel/genre level. Too much micro-management of audience objectives (for example in the form of reach or impact) at individual programme level runs the risk of creating not only perverse or unintended consequences but also of excessive bureaucracy. The Trust remains absolutely committed to ensuring value for money from programmes but is not convinced that the first NAO recommendation provides the best way in which to demonstrate this.

We consider that the robust scrutiny of performance, using a varied range of metrics by channel/genre, is an essential tool to ensure value for money. We intend to undertake some further work to understand how other creative organisations address the issues raised by this recommendation and will consider further whether the BBC could enhance its approach to objective setting.

The NAO recommends that the BBC ensure that "efficiency targets reflect the extent to which individual programmes are able to deliver savings". The Trust agrees that it is important that efficiency targets are adapted to each programme, and has been clear with the Executive that a blanket efficiency target across areas is not appropriate. However, three similar dramas sharing the same target is not necessarily evidence that blanket targets have been applied. We note that the Executive does set differential targets throughout its portfolio of programmes; in its response to this report, it notes that the BBC revisited those efficiency targets and confirmed that they are appropriate for each of the relevant programmes.

The NAO recommends that the BBC should seek "at least two alternative quotes for contracts, even where alternative suppliers in a region are limited". The Trust agrees that alternative quotes are an important part of ensuring value for money. The Trust therefore welcomes the Executive's response that it will ensure that alternative quotes are sought as often as possible.

The NAO recommends that the BBC "conduct process benchmarking regularly" and "produce a standardised template for reporting expenditure to aid comparison". The Trust agrees that benchmarking is another key way to ensure value for money, and will ask the Executive to consider how its current internal benchmarking can be further improved. The Trust notes, however, that external benchmarking in this area requires the voluntary participation of other players in the industry.

Specific Trust recommendation

The NAO makes a specific recommendation to the Trust concerning the reporting approach used by the Executive. The NAO says that "The BBC relies on cost per viewer hour to report the value for money ... the BBC Trust should require the BBC to use a range of measures". The Trust agrees with the NAO that a single metric can never convey the whole picture.

Cost per viewer hour is a useful measure, as it can allow comparison across genres and channels. However, when considering the value for money of a programme, it is also important to consider other metrics such as cost per hour, reach and audience appreciation. The Trust already considers these, particularly in its service reviews, but will consider further with the Executive how such other measures might be incorporated in more routine monitoring and reporting.

Action plan

The Trust has discussed the recommendations with the Executive and considered its response, which is published in this document. The Trust is satisfied that the Executive's proposed actions are an appropriate initial response to the NAO's findings, but will require the Executive to provide a more detailed action plan for Trust review. Progress against this plan will be reported to the Trust.

BBC Trust
March 2011

The BBC's management of the costs of producing continuing drama

BBC Executive response to the National Audit Office Value for Money study 'The BBC's management of the costs of producing continuing drama'

The BBC Executive welcomes this study, in which the National Audit Office (NAO) reviewed our management of the costs of producing continuing drama.

The review covered the continuing drama programming on Network Television and the continuing drama to support local audiences in Scotland and Wales.

The continuing drama series, EastEnders, Holby City, Doctors and Casualty, are a key part of the drama genre's entertainment strategy for Network Television, endeavouring "to make the popular good and the good popular". Representing over 300 hours of original programming a year, they attract significant audiences, audience awards and deliver exceptional value. The cost per viewer hour of these shows ranges from just 3.5 pence per person for EastEnders, through to 9.4 pence per person for Casualty. The former plays a primetime role delivering to significant and diverse audiences and the latter provides a backbone for the Saturday night schedule. As the NAO notes in its report, the series production costs are tightly controlled and the BBC has made progress in reducing the

cost of producing an hour of continuing drama over time – with a 20% reduction in total across all continuing dramas over the past 8 years, whilst at the same time, audience appreciation for these shows has increased (from 77 to 82)¹.

In addition, the value of these shows extends far beyond the simple cost and viewer statistics. They play an important role in our national culture, enabling us to reflect the various aspects of the diverse life in modern Britain. This is particularly true of EastEnders which is regularly the most watched drama in the country; testimony to this are the audiences it received for its live episode in 2010, with 16.4 million viewers on first transmission and a further 3.1 million in repeat viewing, and recognition as the best in class by BAFTA, RTS and NTA in 2010.

These shows are also an invaluable part of the television ecosystem, from Doctors – the only successful home grown daytime drama in the UK – to Casualty the longest running medical drama in the world. They are pivotal in our schedules, providing a launch pad for new dramas

¹ The BBC monitors audience reactions using a variety of means, including a monthly survey called 'Pulse'. The Pulse is made up of a specially selected panel of people. About 15,000 adults and 1,500 children go online each month to complete the questionnaire, which takes about five to six minutes. At least 5,000 log on every day. Audience appreciation is calculated using the Appreciation Index (AI). Viewers grade their appreciation of a programme on a scale of one to ten, where ten is the most appreciated and one the least. Each score is then multiplied by ten. All the scores are added together and then divided by the number of participants to arrive at an average. The AI usually lies somewhere between the low 60s and the high 80s. Most programmes return an AI of between 75 and 80. Higher AIs tend to be achieved by programmes with a particular or specialist appeal - children's programmes, for example. For any programme, a score in excess of 85 is excellent. A score of more than 90 is exceptional. Any programme that falls below 60 has received a poor AI. A score below 55 is very poor.

and a fantastic training ground for new talent; for example Tom Hooper, the winner of the 'best director' and 'best film' Oscars for *The King's Speech* at this year's Academy awards is one of a number of Oscar and BAFTA nominated and winning actors and craft talent who learnt their trade on *EastEnders* and the other continuing dramas.

In the Nations our two continuing dramas are important in enabling the BBC to deliver its strategy to represent and deliver to all audiences. With *River City* we have been successful in attracting new audiences in Scotland. In Wales we produce *Pobol y Cwm* supporting the BBC in its commitment to Welsh language programming.

The BBC Executive welcomes the finding by the NAO that the BBC has taken important steps towards delivering value for money from these programmes, with a 20% reduction in cost per hour over time, whilst increasing audience approval. We are pleased to see the NAO recognising that the BBC has a strong culture of monitoring performance, that it has strong mechanisms in place to establish and manage programme budgets. As the NAO notes, only "one of the ten completed series has gone over budget" in the last two years. It should be noted that this additional expenditure was separately approved.

Response to the NAO's recommendations

The BBC Executive has reviewed the NAO's recommendations and notes that many are to strengthen processes already in place.

Recommendation a

The BBC does not set formal outcome-related objectives for its continuing dramas. In the rapidly changing environment in which it operates the BBC needs to develop clear measures for demonstrating it is delivering value for money. Commissioners should:

- agree and document what continuing dramas are expected to achieve given the resources committed and their place in the schedule. Such expectations should include measurable objectives and take account of wider trends in viewing behaviour; and
- when evaluating performance against these objectives, consider the impact of any material external factors affecting performance.

The BBC Executive agrees that setting outcome-related objectives is important. Indeed the BBC does set and monitor measurable audience-related objectives at channel and genre level and, as emphasised by the NAO, has a strong culture of performance management. Our system, which relies on a basket of metrics, but also, of critical importance, on judgemental and editorial criteria, ensures we deliver value across the portfolio of programmes.

However, we do not believe that setting targets on a drama by drama basis, as recommended by the NAO, would be effective or desirable; indeed it might even have a negative impact on the quality and originality of our output – the ability to take risks is important in a creative environment, and it is important this is not discouraged by using targets to drive behaviour.

In addition, although we might be able to use some historic information to set broad performance targets at a series level, monitoring those will not be straightforward. Even for these shows which are long-term in nature and predictable in terms of their place in the schedule, they exist within a dynamic ecosystem. The scheduling decisions of our competitors, the news agenda of the day, even the weather are typical events we cannot predict but which could affect the audiences to these shows, as acknowledged by the NAO. It would therefore be very difficult, when evaluating performance, to understand what the relative role of external and internal factors is so as to make real use of these targets at a show level.

We do believe that it is across a portfolio of programmes rather than for each individual programme, that we can determine whether we deliver value for money. Accountability therefore lies with the genre and channel controllers. This is why we do set measurable audience-related objectives at genre and at channel level, which, alongside other criteria, enable the BBC to monitor value for money.

Recommendation b

BBC Vision has set the same efficiency target for three of its four continuing dramas. Uniformly reducing budgets can mean the scope for efficiency targets is not effectively identified. The BBC needs to satisfy itself that efficiency targets reflect the extent to which individual programmes are able to deliver savings.

The BBC Executive agrees with this recommendation and actively looks at target setting as part of its current annual planning process. BBC Vision does set differential targets across the portfolio of Drama programmes, and indeed has done so in Continuing Drama where it was decided to set a lower target for Doctors whilst maintaining the other shows at the same rate. This decision follows a rigorous annual review process whereby our Commissioners and Production teams review the achievement of the efficiency agenda to date and assess the risks around the delivery of the future year targets. Further differentiation of targets is part of that process. We are in year 3 of our current 5 year efficiency agenda and at this stage our assessment of risk and opportunity has reinforced our decision to hold the efficiency target of EastEnders, Casualty and Holby City at 5%. This is of course, something we will continue to monitor.

Finally in its report the NAO states that “BBC Vision has set targets to keep the proportion of expenditure on cast and scriptwriters at or below 2008-09 levels for each genre of programming and has passed this target to its continuing dramas but three of the four programmes have not met this target in 2009-10 and 2010-11.”

It is important to note that our target is part of our strategy to reduce spend on talent across the BBC. Within Vision we manage this target at a total genre level and do not formally pass on and manage this target at a show by show level. Whilst we set guidelines for each show, the ultimate accountability is at the genre level and to date we are reporting that Drama will meet these targets.

Recommendation c

The BBC has not tested the market value of contracts awarded without full competitive tender by seeking a range of quotes from the market.

There may be valid reasons for awarding a contract for goods or services without a full competitive tender exercise but the BBC should make sure it is paying the best possible price by following its procurement guidelines and seeking at least two alternative quotes for contracts, even where alternative suppliers in a region are limited.

The BBC Executive will take on board the NAO's recommendation and will ensure that even when a full competitive tender is not appropriate, alternative quotes are sought whenever possible. We note that in a very small number of instances, this will not be possible, either due to urgency or to the unavailability of adequate alternative suppliers, or where it is clear that costs would outweigh benefits. However, BBC management will ensure that the reasons for not seeking alternative quotes are strong and documented.

It should be noted that of the total value of contracts reviewed by the NAO, 82% in value were secured either through a competitive tendering process or via the BBC's own, competitively tendered framework agreements.

Recommendation d

Although the BBC has shared lessons between individual continuing dramas, it does not undertake formal benchmarking of production costs or processes, which could help it to identify further opportunities to make efficiency savings. The BBC should:

- conduct process benchmarking regularly, both across continuing dramas made by the BBC and, if practically feasible, those made by independent production companies; and
- produce a standardised template for reporting expenditure to aid comparison of the costs of individual programmes and help identify areas where further savings can be made.

As recognised by the NAO, the BBC already has numerous ways in which it looks at sharing lessons through both internal and external benchmarking (the latter when this is compatible with the rules and practices of a competitive market).

Within Vision there is a single person responsible for ensuring best practice and challenge across the Network Continuing Drama shows. This has been important in ensuring lessons are learned across the shows and provides a robust challenge to both cost and process. Regular meetings with key stakeholders (such as Procurement, Commercial Agency and the Talent Unit) support this; production visits extending to the Nations as well as to other industry players and regular meetings of key production staff have enabled our teams to share and implement new ways of working.

In addition, across the BBC (including both Vision and Nations representation) a Pan UK Production Board is responsible for aligning production strategy, resource, technology and where possible business processes. Financial benchmarking has also been conducted, e.g. on freelancer rates used.

The BBC Executive will now consider how the benchmarking work that takes place across all our continuing dramas can be further formalised and improved and whether this could be encompassed within the terms of reference of the Pan UK Production Board.

It should be noted that formal benchmarking with the external market remains a challenge, an issue shared by the NAO in their fieldwork for this study. We have done this wherever it was possible, within the limits of competition rules and market practices.

Finally, as recommended by the NAO, the BBC will review the cost reporting templates used by the continuing drama teams and ensure they are all similar, without any unjustified inconsistencies, so that our cost comparisons can be as accurate and as useful for driving further efficiencies as possible.

Recommendation e

The BBC relies on cost per viewer hour to report the value for money of its television programmes publicly, which could lead to high costs being masked by large numbers of viewers.

The BBC Trust has committed to give greater emphasis to measures of quality as part of the BBC's strategy to 2016-17. In taking forward changes to the BBC's performance measurement framework, the BBC Trust should require the BBC to use a range of measures to report against value for money, including the cost of producing an hour of programming.

We are constantly reviewing the best ways of measuring and reporting value for money and impact on licence fee payers.

Cost per hour is one of the range of measures we use but it has significant drawbacks; for instance with a 'fewer, bigger, better strategy', investment in a programme can often provide better value through increased quality and increased reach and the ability to use the programme over more than one outlet/broadcast; therefore an increase in the cost per hour of production could deliver better value for money if it allowed for more extensive use of the programme, through repeats or multimedia exploitation.

However, it is the right measure to monitor how production teams deliver value for money. Cost per viewer/listener hour brings further information, which goes some way to addressing this pitfall, and is at present the lead measure for Value within the 'Reach, Quality, Impact and Value' (RQIV) framework for television and radio. Through Delivering Quality First, we are also reviewing the effectiveness of an Audience Value per pound spent measure, which captures consumption (reach) and quality, in addition to cost. However, as recognised by the NAO, purely financial and quantitative measures cannot be the only way of monitoring the value our programmes deliver to audiences.

BBC Executive
March 2011



National Audit Office

British Broadcasting Corporation

The BBC's management of the costs of producing continuing drama

Report by the Comptroller and Auditor General

This report has been prepared at the request of the BBC Trust under clause 79(3) of the Broadcasting Agreement between the Secretary of State for Culture, Media and Sport and the BBC dated July 2006.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

18 February 2011

This review by the National Audit Office was prepared on behalf of the BBC Trust under an agreement between the Secretary of State for Culture, Media and Sport and the BBC. It examines the BBC's approach to delivering value for money through its management of the costs of producing continuing dramas.

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Contents

Summary **4**

Part One

Introduction **10**

Part Two

How the cost and performance of continuing drama has changed over time **14**

Part Three

Controlling the cost of continuing dramas **25**

Appendix One

Methodology **33**

The National Audit Office study team consisted of:

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This report can be found on the National Audit Office website at www.nao.org.uk/bbc-drama-2011

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Summary

1 In 2009-10, the BBC spent £102.5 million making six continuing dramas – commonly known as soaps – for broadcast across the United Kingdom. Casualty, Doctors, EastEnders, and Holby City are produced by BBC Vision for broadcast on BBC One; River City is produced by BBC Scotland and broadcast on BBC One Scotland; and Pobol y Cwm is produced by BBC Wales for broadcast on the Welsh language channel S4C. The six programmes are long-standing, ranging from 8 to 36 years old.

2 This review by the National Audit Office was prepared on behalf of the BBC Trust under an agreement between the Secretary of State for Culture, Media and Sport and the BBC. It examines the BBC's approach to delivering value for money through its management of the costs of producing continuing dramas. We did not evaluate the content of the programmes or the decisions to commission them as these are matters of editorial judgement. Our methods are at Appendix One, with a fuller version available at www.nao.org.uk/bbc-drama-2011.

Main findings

3 Good financial management helps organisations to direct and control resources to deliver value for money. In looking at the BBC's management of the cost of producing continuing drama we have examined how the cost and performance of the programmes has changed over time, how the BBC allocates resources to the programmes and how it controls resources once they have been allocated.

How the cost and performance of the continuing dramas has changed over time

4 The link between the cost and the audience's reaction to individual programmes is not straightforward. Performance may be affected by a wide range of factors, some of which are beyond the BBC's control, such as what is shown on other channels and wider trends in viewer behaviour. For example, the growth in the number of households with digital television, which provides access to over 40 television channels, has contributed to a general fall in viewers across the five terrestrial television channels. This complex and rapidly changing environment in which the BBC operates presents challenges for it in assessing the value of its spending.

5 In its annual report the BBC reports the value for money of television programmes using cost per viewer hour, which represents the cost of providing one hour's worth of a particular programme to each viewer. Taken on its own this measure suggests that the value for money of the six continuing dramas we examined has been falling. The average cost per viewer hour across the six programmes has increased in real terms (that is, allowing for inflation) by 8.9 per cent over the last eight years as a result of falling viewer numbers.

6 As a measure of value for money, however, cost per viewer hour has limitations. It focuses on only one measure of value – the number of people watching the programme – at the expense of others such as audience approval. In addition, rising viewer numbers could result in a reduced cost per viewer hour even if the total cost of production is increasing. Likewise, falling viewer numbers could mask reductions in total production costs, which is what has happened across the BBC's continuing dramas.

7 The BBC therefore uses a range of measures in monitoring performance, including the level of audience approval and the cost of producing each hour of programming. The average cost of producing an hour of continuing drama has fallen by 20.0 per cent in real terms over the last eight years. It has declined more rapidly in the last two years, during which time the BBC has been implementing its current five-year efficiency programme.

8 The decline in the proportion of television viewers watching the six continuing dramas has slowed over the last two years and, although it is difficult to draw definitive conclusions, this suggests that the efficiency programme has not had a negative impact on viewer numbers in the short term. It is also the case that the people who do watch seem to enjoy the programmes, as the level of audience approval has increased by an average of 6.5 per cent over the last four years.

On how the BBC allocates resources to the continuing dramas

9 BBC commissioners agree the amount (the 'price') the BBC is willing to pay to produce each year-long series of a continuing drama with production teams, who must produce the commissioned programme within the available funding.

On how the BBC targets efficiency savings

10 The BBC makes sure the efficiency savings it requires from continuing dramas are delivered by reducing the price paid by the commissioners. Once a price has been agreed the production team treats the resulting budget as both a limit and a target and aims to allocate all the available funding to produce the best programme possible. If production teams do deliver further savings, they can use them to meet future efficiency targets.

11 In seeking efficiencies it is important to target savings through an assessment of costs, benefits and risks. Commissioners in BBC Scotland and BBC Wales work with production teams to identify the scale of efficiency savings that they believe individual programmes can deliver.

12 The BBC Vision commissioners must maintain an arm's-length relationship with in-house production teams because they also commission programmes from independent producers. They have, however, set different targets for some of the programmes in their portfolio based on their understanding, informed by discussions with production teams, of where savings can be delivered. For example, *Doctors* is not expected to make savings other than absorbing the impact of inflation because the commissioners and production teams consider there is limited scope to make savings from what is a relatively low budget.

13 The remaining three BBC Vision continuing dramas have the same 5 per cent target. BBC Vision commissioners review the delivery of efficiency targets each year with production teams, and have considered the possibility of applying differentiated targets in future years but have to date chosen not to.

On how the BBC assesses performance

14 When setting the price for continuing dramas, the commissioners agree the required number and length of episodes with production teams. The commissioners and production teams regularly review performance data, such as audience size, the proportion of television viewers watching the programmes and the level of audience approval. They also compare the performance of programmes against similar programmes broadcast on other channels. Commissioners do not, however, set formal audience-related objectives for what individual programmes are expected to deliver.

15 The BBC sets audience-related objectives against which to assess performance at a channel level. It believes that this is the most appropriate level at which to hold people to account given the broad range of factors that can affect the performance of individual programmes. Setting objectives at a programme level would make decision-making more transparent, and provide a clear baseline against which to measure the impact of cost reductions.

On how the BBC controls the cost of producing the continuing dramas

16 Although the production teams do not use a consistent approach, all six continuing dramas had strong mechanisms for establishing detailed budgets and then monitoring and reporting expenditure against these budgets. Consequently, the production teams delivered programmes on time and largely within budget, with 33 of the 46 completed series we examined coming in on or under budget and one of the remaining 13 more than 5 per cent over budget. In the last two years one of the ten completed series has gone over budget.

17 Although series budgets are generally well managed, when additional episodes are commissioned the production team adds their budget to the budget for the series. For the live episode of EastEnders in 2010, commissioners approved £500,000 additional funding for the episode, which ultimately cost £696,000; the difference was paid for from the 2009-10 series budget for EastEnders.

18 Production teams are not responsible for managing the full cost of producing the continuing dramas. The proper allocation of central costs can help organisations identify the true cost of activities, and make sure responsibility for costs lies with those best placed to manage them. The BBC deducts fixed percentages from the funding available to continuing dramas to cover centrally managed costs. The percentage ranges from 10.6 per cent to 33.9 per cent due to differences in how BBC Vision, BBC Scotland and BBC Wales manage their business. We have not examined the appropriateness of these differences because they go beyond the scope of this work but the BBC needs to satisfy itself that they represent value for money.

19 The approaches to producing all six continuing dramas are similar and all incur costs in broadly the same categories. We analysed where costs are incurred throughout the production process, and the differences could largely be explained by editorial decisions such as the number of regular cast members, the split between studio-based and location filming and the number of cameras used. We also examined the processes used by production teams to control costs.

20 Competitive Tendering: the BBC's central procurement team supports individual production teams in procuring services by issuing procurement guidelines and operating a competitively tendered framework of suppliers. We examined 16 contracts with a total value of £10.7 million to assess the BBC's approach to procurement across its continuing dramas. Of the contracts we examined, five (£6.4 million) had been procured competitively and eleven (£4.3 million) had been awarded without competition but with a documented rationale. Even where a full competitive tender is not adopted it is good practice to test the price against the market by seeking a range of quotes, but this was not done.

21 Managing talent costs: expenditure on cast and script writers is the most significant cost in producing the six continuing dramas. It accounts for an average of 32 per cent of the planned cost in 2010-11, and BBC Vision, BBC Scotland and BBC Wales have overarching strategies to help control and reduce these costs across their portfolios of programmes. BBC Vision has set targets to keep the proportion of expenditure on cast and scriptwriters at or below 2008-09 levels for each genre of programming and has passed this target to its continuing dramas, but three of the four programmes have not met this target in 2009-10 and 2010-11. The BBC has told us that it manages expenditure on cast and scriptwriters at a genre level and does not therefore hold individual production teams to account for meeting these targets. BBC Scotland and BBC Wales do not set targets at an individual programme level.

22 Managing the cost of freelancers: the BBC has established clear boundaries for the rates it is willing to pay freelance production staff, which it has told us are based on its understanding of wider market rates. Individual continuing dramas define their own acceptable ranges within the boundaries set by the BBC and use these to negotiate rates on a case by case basis.

23 Benchmarking: although the BBC shares good practice between production teams in a variety of ways, production teams do not undertake formal benchmarking across the six continuing dramas.

Conclusion on value for money

24 The BBC has taken important steps towards delivering value for money from these long running programmes. The series production costs are tightly controlled, the average cost of producing an hour of continuing drama has fallen by 20.0 per cent in real terms over the last eight years, and the programmes are delivered on time and largely within budget. To strengthen its approach, the BBC could be more systematic in comparing and challenging production costs and processes.

25 Value for money is the optimal use of resources to achieve an organisation's intended outcomes. We cannot say whether the BBC is delivering value for money because it has not set audience-related performance objectives when deciding the funding for individual continuing dramas. Whilst the BBC has a strong culture of monitoring performance, by setting out what programmes are intended to deliver it would demonstrably link the resources committed and what it is trying to achieve, and be better able to demonstrate whether it is delivering value for money.

Recommendations

On the BBC's continuing dramas

- a** **The BBC does not set formal outcome-related objectives for its continuing dramas.** In the rapidly changing environment in which it operates, the BBC needs to develop clear measures for demonstrating it is delivering value for money. Commissioners should:
- agree and document what continuing dramas are expected to achieve given the resources committed and their place in the schedule. Such expectations should include measurable objectives and take account of wider trends in viewing behaviour; and
 - when evaluating performance against these objectives, consider the impact of any material external factors affecting performance.

- b BBC Vision has set the same efficiency target for three of its four continuing dramas.** Uniformly reducing budgets can mean the scope for efficiency targets is not effectively identified. The BBC needs to satisfy itself that efficiency targets reflect the extent to which individual programmes are able to deliver savings.
- c The BBC has not tested the market value of contracts awarded without full competitive tender by seeking a range of quotes from the market.** There may be valid reasons for awarding a contract for goods or services without a full competitive tender exercise but the BBC should make sure it is paying the best possible price by following its procurement guidelines and seeking at least two alternative quotes for contracts, even where alternative suppliers in a region are limited.
- d Although the BBC has shared lessons between individual continuing dramas, it does not undertake formal benchmarking of production costs or processes, which could help it to identify further opportunities to make efficiency savings.** The BBC should:
 - conduct process benchmarking regularly, both across continuing dramas made by the BBC and, if practically feasible, those made by independent production companies; and
 - produce a standardised template for reporting expenditure to aid comparison of the costs of individual programmes and help identify areas where further savings can be made.

On reporting the achievement of value for money more widely

- e The BBC relies on cost per viewer hour to report the value for money of its television programmes publicly, which could lead to high costs being masked by large numbers of viewers.** The BBC Trust has committed to give greater emphasis to measures of quality as part of the BBC's strategy to 2016-17. In taking forward changes to the BBC's performance measurement framework, the BBC Trust should require the BBC to use a range of measures to report against value for money, including the cost of producing an hour of programming.

Part One

Introduction

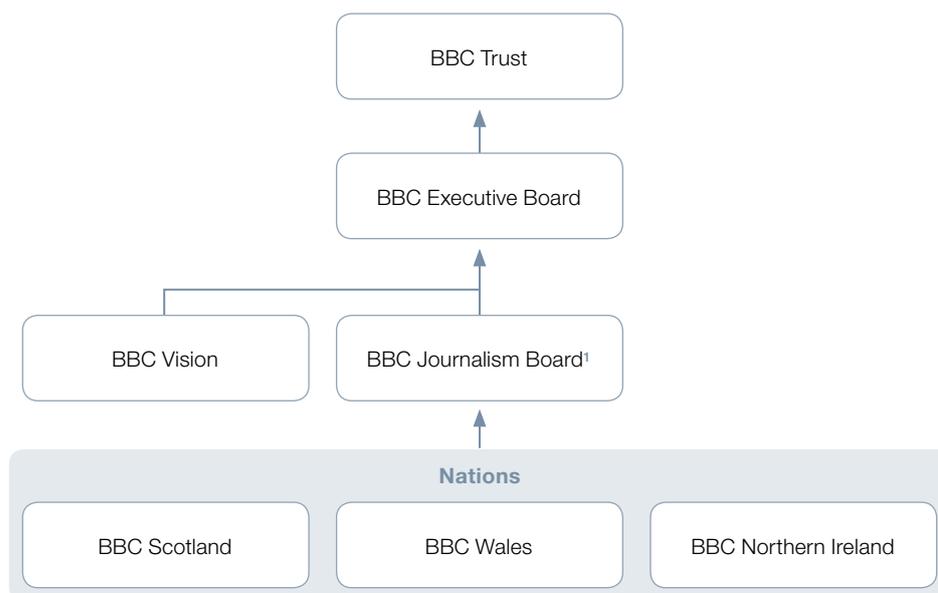
The BBC's continuing dramas

1.1 This report focuses on six continuing dramas produced by the BBC at a cost of £102.5 million in 2009-10 for broadcast across the UK and in the Nations.

1.2 **BBC Vision** is the BBC division responsible for making television programmes broadcast across the UK on the BBC channels. BBC Scotland, BBC Wales and BBC Northern Ireland, known collectively as the **Nations**, are responsible for outputs in Scotland, Wales and Northern Ireland respectively. **Figure 1** shows how BBC Vision and the Nations fit within the BBC's governance structure. The Executive Board has overall responsibility for BBC output and is ultimately accountable to the BBC Trust for value for money.

Figure 1

BBC Governance Structure as at January 2011



NOTE

¹ As at January 2011 the Director of Nations reports to the BBC Journalism Board as much of the Nation specific programming relates to news and current affairs.

1.3 We examined all six continuing dramas produced in-house by the BBC. EastEnders, Holby City, Casualty and Doctors are produced by BBC Vision and broadcast across the UK on BBC 1. River City and Pobol y Cwm are produced by BBC Scotland and BBC Wales respectively for broadcast in the Nations. The BBC also broadcasts one continuing drama, Waterloo Road, produced by an independent production company. **Figure 2** provides further details on each of the dramas we examined.

Figure 2
The BBC's six continuing dramas

Continuing drama	Type	Channel	Standard weekly episodes ¹ (minutes)	Total cost ² 2009-10 (£m)	Budget ² for 2010-11 (£m)	Filming location	First aired
BBC Vision							
Casualty	Medical drama	BBC1	1 x 50	22.8	21.8	Bristol	1986
Doctors	Medical drama	BBC1	5 x 30	11.7	11.1	Birmingham	2000
EastEnders	Community drama	BBC1	4 x 30	29.9	29.8	Elstree, London	1985
Holby City	Medical drama	BBC1	1 x 60	20.2	18.6	Elstree, London	1999
Nations							
Pobol y Cwm ³	Community drama	S4C ⁴	5 x 20	9.8	10.1	Cardiff	1974
River City	Community drama	BBC1 Scotland	1 x 60	8.1	8.1	Dumbarton	2002

NOTES

- 1 Number of weekly episodes may change throughout the year, for example, during the Christmas period.
- 2 Costs and budgets are in nominal terms.
- 3 The total cost is inclusive of centrally managed costs (paragraph 3.2), but excludes the cost of broadcasting repeats (paragraph 2.3). For Pobol y Cwm the total cost also includes funds contributed by S4C except where they relate to broadcasting repeats (paragraph 1.8).
- 4 S4C is a Welsh television service, provided by the S4C Authority – an independent body accountable to Parliament for S4C's output and the proper management of S4C.

Source: National Audit Office analysis of BBC information

1.4 *Pobol y Cwm* was originally broadcast on the BBC Wales channel but transferred to S4C when the channel was launched in 1982. Under the Broadcasting Act 1990 the BBC is required to supply the S4C Authority, the independent body accountable to Parliament for S4C's output, with a minimum of 10 hours of Welsh-language programming a week, of which *Pobol y Cwm* forms part. As part of the *Spending Review 2010*, the Government has proposed that the BBC will fund the majority of S4C from 2013-14. S4C is currently funded through a grant (£101 million in 2009-10) from the Department for Culture, Media and Sport and some commercial revenue (£3 million in 2009-10).

1.5 The six continuing dramas we examined have been broadcast for between eight and 36 years. With the exception of *Doctors*, which is aired in the daytime, the continuing dramas are shown in the evening.

How is continuing drama made?

1.6 There are two discrete, well defined processes for bringing continuing drama to the screen: commissioning and production. **Figure 3** describes a number of generic roles within the commissioning and production processes. For all six of the programmes we examined, the roles and responsibilities of key individuals were documented and matters such as delegated financial limits were set out so that responsibilities and lines of communication are understood and the team can operate effectively.

1.7 Commissioners and production teams are supported by the BBC's Marketing, Communications & Audiences department, which provides performance information to commissioners and production teams. It acquires data on the number of viewers and the proportion of the total television audience watching the programme (audience share) from the Broadcasters' Audience Research Board (BARB). It also receives data on audience opinions (the Appreciation Index), which is compiled by Pulse – an audience research panel launched by the BBC in 2005. The Marketing, Communications & Audience department makes information and analysis available to commissioners and production teams via the BBC's intranet.

1.8 Once commissioners agree a price the BBC is prepared to pay for a programme, the production teams establish a detailed budget. The production budget is based on the price agreed by the commissioners, less an amount to cover centrally managed costs (paragraph 3.2), plus any additional funding available to the production team. Such funding typically comes from BBC Worldwide, which sells the rights to broadcast the programme overseas or on another channel after it has been first broadcast. For most of the BBC's continuing dramas such additional funding is not significant. Of the £102.5 million spent on producing the six programmes in 2009-10, £0.6 million was contributed to the BBC Vision continuing dramas by BBC Worldwide for the rights to broadcast the programmes overseas and £1.1 million was contributed to BBC Wales by S4C to cover the cost of 30 episodes of *Pobol y Cwm*. In this report we have focused on how the BBC has managed the cost of producing the six continuing dramas and not how the programmes have been funded.

Figure 3

Key roles in making continuing drama

The commissioning process

Commissioners decide which television programmes to commission and agree the 'price' the BBC is prepared to pay for each year-long series of episodes, which represents the total annual cost to the licence fee payer.

BBC Vision has separate commissioning teams for each 'genre' or type of programming. Drama is one genre; others include Entertainment, Comedy and Factual. BBC Vision commissioners work with both BBC in-house and independent production teams and must therefore maintain an arm's-length relationship with production teams. Commissioners in the Nations work more closely with production teams and across a range of genres.

Channel Controllers work with the commissioners to identify programmes to commission.

The production process

Executive Producers lead production teams and are ultimately responsible for delivering the commissioned programme within an agreed budget.

Series Producers are responsible for the editorial aspects of the production such as the stories and scripts; they report to the Executive Producer.

Line Producers are responsible for delivering the programmes on time and within budget; they report to the Executive Producer and, where there is one, a Production Consultant.

Production Consultants within BBC Vision and BBC Scotland oversee a portfolio of programmes.

NOTES

- 1 The costs of commissioners and channel controllers are managed centrally and are not charged to individual continuing dramas.
- 2 The costs of production consultants are managed centrally and charged to individual programmes by deducting a percentage from the price agreed by the commissioners (paragraph 1.8).
- 3 The costs of the executive producers, series producers and line producers form part of the budget managed by the production teams except where the individuals work across more than one programme.

Source: National Audit Office

Part Two

How the cost and performance of continuing drama has changed over time

2.1 The effective allocation of resources requires an understanding of the relationship between cost and performance, particularly when trying to reduce the cost of services whilst minimising the impact on quality.

2.2 Throughout this part of the report we analyse the cost and performance of the six continuing dramas over time. Although all the programmes are produced in year-long series, the dates where series begin and end production, as well as the dates where they begin and end transmission, vary across the dramas. To aid comparison, we have classified the different series by the financial year in which the bulk of production activity falls.

2.3 In analysing the cost of producing the continuing dramas we have excluded the cost associated with broadcasting repeats as this does not directly relate to the production process and not all the programmes are repeated. The BBC broadcasts repeats of individual episodes for three of the six continuing dramas – EastEnders, Pobol y Cwm and River City – and also broadcasts a weekly omnibus, containing the week's episodes back-to-back, for EastEnders and Pobol y Cwm. When programmes are repeated, the BBC must pay additional fees to cast and script writers and incurs some additional editing costs. In 2009-10, these fees and costs amounted to £5.5 million for EastEnders, £0.8 million for River City and £2.1 million for Pobol y Cwm, which is paid for by S4C.

Has the BBC reduced its expenditure on the continuing dramas over time?

2.4 The total amount the BBC has spent on producing the six continuing dramas has fallen in real terms by 5.6 per cent over the last eight years, from £108.6 million to £102.5 million (**Figure 4**). In some cases changes to the length and number of episodes commissioned each year means that costs are not comparable. For example, **Figure 4** shows that the amount spent on producing Doctors has increased from £4.3 million to £11.7 million (172.1 per cent), which is explained by an increase in the number of episodes made each year – from 75 to 232. We have therefore also looked at the cost per hour of producing each programme (paragraph 2.16), which in the case of Doctors reduced from £118,000 to £109,000.

Figure 4Total annual cost¹ of the continuing dramas

	Total cost ²							
	2002-03 (£m)	2003-04 (£m)	2004-05 (£m)	2005-06 (£m)	2006-07 ³ (£m)	2007-08 (£m)	2008-09 (£m)	2009-10 (£m)
Casualty	23.6	27.5	26.7	25.5	23.1	25.1	23.6	22.8 ⁴
Doctors	4.3	12.7	10.6	10.2	9.4	10.9	11.3	11.7
EastEnders	35.8	36.2	34.7	34.1	33.0	33.6	31.5	29.9
Holby City	24.6	24.1	23.6	21.4	19.9	21.4	19.2	20.2 ⁴
Pobol y Cwm	9.6	9.5	9.4	9.5	10.0	10.5	10.2	9.8
River City	10.7	10.0	9.5	9.4	4.6 ⁵	9.9	8.7	8.1
Total	108.6	120.0	114.5	110.1	100.0	111.4	104.5	102.5

NOTES

- 1 Costs are indexed for inflation to 2010 prices using the Retail Price Index (RPI).
- 2 The total cost is inclusive of centrally managed costs (paragraph 3.2), but excludes the cost of broadcasting repeats (paragraph 2.3). For Pobol y Cwm the total cost also includes funds contributed by S4C except where they relate to broadcasting repeats (paragraph 1.8).
- 3 In 2005 the BBC introduced the 'Future Finance Programme' which changed the way that centrally managed costs are charged to continuing dramas from 2006-07.
- 4 The total costs shown for Casualty and Holby City for the 2009-10 series are estimated because all the costs for these series had not been charged at the time of our review.
- 5 The River City production team changed its filming schedule in 2006 and the costs we have allocated to the 2006-07 series relate to fewer episodes than were produced in that period.

Source: National Audit Office analysis of the BBC's financial information

2.5 Although the cost of producing the six continuing dramas has reduced in real terms, this is partly affected by wider cost trends in the media sector. However, the BBC aims to deliver efficiency savings of 3 per cent a year before inflation over the five years of the efficiency programme it established in 2008 and the continuing dramas contribute to these savings. In the last two years the total cost of producing the six continuing dramas has reduced by 8.0 per cent in real terms.

2.6 Commissioners apply efficiency savings by reducing the price paid to the production teams. Production teams aim to allocate all the available funding to make the best programme possible. In effect the budget operates as both a limit and a target. Any savings made by production teams in one area of the production are spent in others or used to offset future efficiency targets. For example, the 2008-09 series of Holby City came in £450,000 under budget and this was used to contribute to the planned efficiency saving for the 2009-10 series.

Does the BBC target efficiency savings?

2.7 An effective cost reduction strategy targets reductions by determining what matters most, based on an accurate, realistic assessment of the costs, benefits and risks of the options.¹ Uniform top-slicing of budgets or indiscriminate cost-cutting can lead to higher overall costs by displacing costs to other areas or missed opportunities to maximise potential efficiency savings. We examined the approach taken to targeting efficiency savings by the commissioners in the Nations and BBC Vision.

- Commissioners in the **Nations** target the efficiency savings required of their continuing dramas by working with the production teams to identify where savings can be made and agree the extent of those savings.
- **BBC Vision** commissioners work with both BBC in-house and independent production teams and must maintain an arm's-length relationship with production teams. They do not therefore have a detailed understanding of production budgets. They do, however, agree differentiated targets for some of the programmes in their portfolio based on their understanding of where savings can be delivered, which is informed by discussions with the production team. For example, *Doctors* has not been subjected to an annual reduction because after discussions with the production team the commissioners judged there was limited scope for delivering savings from what is already a relatively small budget. Instead *Doctors* must absorb the impact of inflation. BBC Vision commissioners have, however, applied the same 5 per cent efficiency target to the remaining three BBC Vision continuing dramas for 2009-10 – *EastEnders*, *Holby City* and *Casualty*.

The BBC Vision commissioners and the production teams review the delivery of the efficiency targets and associated risks for individual programmes each year. In doing so they have considered applying differentiated targets for all continuing dramas but to date have chosen not to. As further efficiencies become more difficult to identify, it will become even more important to target efficiency savings.

How has the relationship between cost and performance changed over time?

2.8 The relationships between cost and performance are complex not least because the performance of television programmes can be affected by a broad range of factors, some of which are outside the BBC's control. For example, the number of people watching a particular programme could be affected by the programmes scheduled before and after it and on alternative channels, as well as by seasonal fluctuations in the number of people watching television.

¹ *A Short Guide to Structured Cost Reduction*, National Audit Office, June 2010.

2.9 The amount spent on the production of a programme can, however, have an impact on quality and by extension on the audience reaction. For example, a larger budget could allow a larger cast, or more established cast members, and more experienced writers to develop and script storylines. It could also provide for a greater use of stunts, special effects and filming on location. All of these factors can improve the look and content of a programme and therefore appeal to viewers.

2.10 We examined the impact of the BBC's approach to managing the cost of producing the continuing dramas over time by looking at the movement in the cost per hour of the six programmes over the last eight years (paragraph 2.16). Whilst recognising the number of factors affecting performance we also looked to see whether changes in the cost of the continuing dramas had affected the performance of the programmes. To do this we reviewed information provided by the Marketing, Communications & Audiences department on audience numbers, the proportion of the total television audience watching the programme (audience share), and on audience perceptions of the programme. We also examined the combined measure of cost and performance used by the BBC to report value for money, cost per viewer hour.

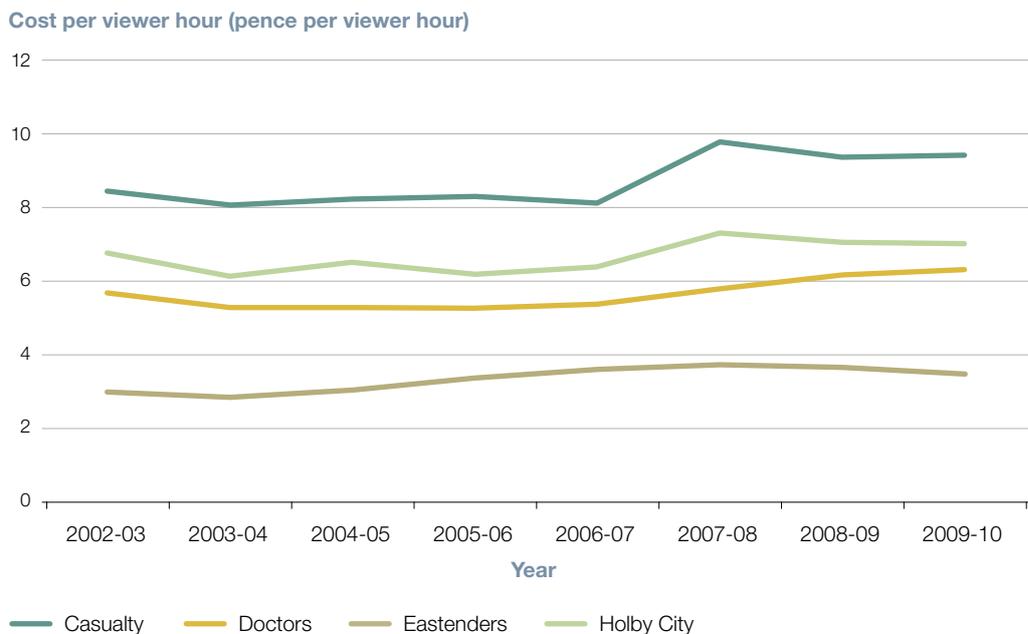
Cost per viewer hour

2.11 Cost per viewer hour is a useful indicator of cost and performance and is used by the BBC to report the value for money of its total expenditure on television programmes in its annual report. It is the cost per hour of providing a programme divided by the audience number, and represents the cost of providing one hour's worth of that programme to each viewer. In calculating the cost per viewer hour we have included the number of viewers watching the original broadcast and recordings of it within seven days. We have not included viewers watching any repeats, recordings of repeats or on iPlayer as we have not included the associated costs in our analysis (paragraph 2.3).

2.12 Although the cost per hour of producing the continuing dramas has reduced in real terms over the last eight years (paragraph 2.16), a general fall in viewer numbers, caused largely by wider trends in viewing behaviour (paragraph 2.18), means that the average cost per viewer hour has increased by 8.9 per cent in real terms. Due to the significant differences between the cost per viewer hour of the BBC Vision continuing dramas and those made by the Nations we have analysed them separately.

2.13 There is a general increase of 9.7 per cent in the cost per viewer hour of the BBC Vision continuing dramas over the last eight years. **Figure 5**, overleaf, shows that this ranges from an increase from 6.7 pence to 7.0 pence for *Holby City* to an increase from 3.0 pence to 3.5 pence for *EastEnders*. Figure 5 also shows that the average cost per viewer hour across the four programmes has remained broadly stable from 2007-08, suggesting that the BBC's efficiency programme has been successful at reducing cost without accelerating the decline in viewer numbers.

Figure 5
Cost per viewer hour – BBC Vision



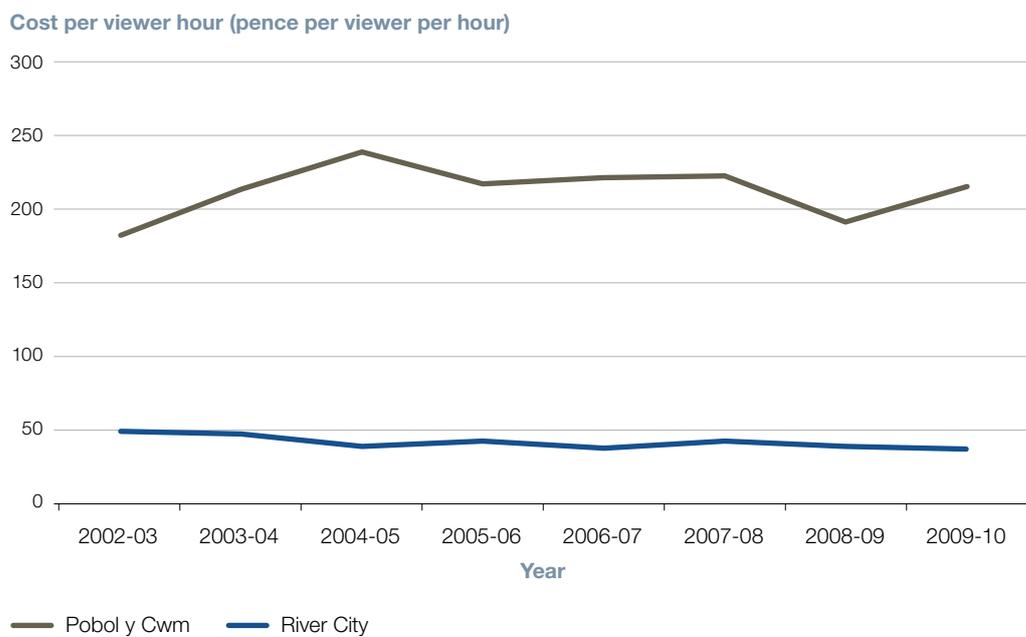
NOTES

- 1 Costs are indexed for inflation to 2010 prices using the Retail Price Index (RPI).
- 2 In 2005, the BBC introduced the 'Future Finance Programme' which changed the way that centrally managed costs are charged to continuing dramas from 2006-07.
- 3 The cost per viewer hour is based on the total cost of production, which includes centrally managed costs (paragraph 3.2), but excludes the cost of broadcasting repeats (paragraph 2.3).
- 4 The total costs used to calculate the costs per viewer hour of Casualty and Holby City for the 2009-10 series are estimated because these projects have not yet been closed.

Source: National Audit Office analysis of BBC financial and performance information

2.14 Continuing dramas produced by the Nations are made to satisfy the demands of a smaller audience, so although production costs are low relative to most BBC Vision continuing dramas, they have higher costs per viewer hour. **Figure 6** shows that the cost per viewer hour of River City has decreased, while the cost per viewer hour for Pobol y Cwm has increased, although this must be seen in the context of the relatively small number of viewers, as small changes in viewer numbers can have a disproportionately large effect on the cost per viewer hour.

Figure 6
Cost per viewer hour – Nations



NOTES

- 1 Costs are indexed for inflation to 2010 prices using the Retail Price Index (RPI).
- 2 In 2005, the BBC introduced the 'Future Finance Programme, which changed the way that centrally managed costs are charged to continuing dramas from 2006-07.
- 3 The cost per viewer hour is based on the total cost of production which includes centrally managed costs (paragraph 3.2), but excludes the cost of broadcasting repeats (paragraph 2.3). For Pobol y Cwm the total cost also includes funds contributed by S4C, except where they relate to broadcasting repeats (paragraph 1.8).

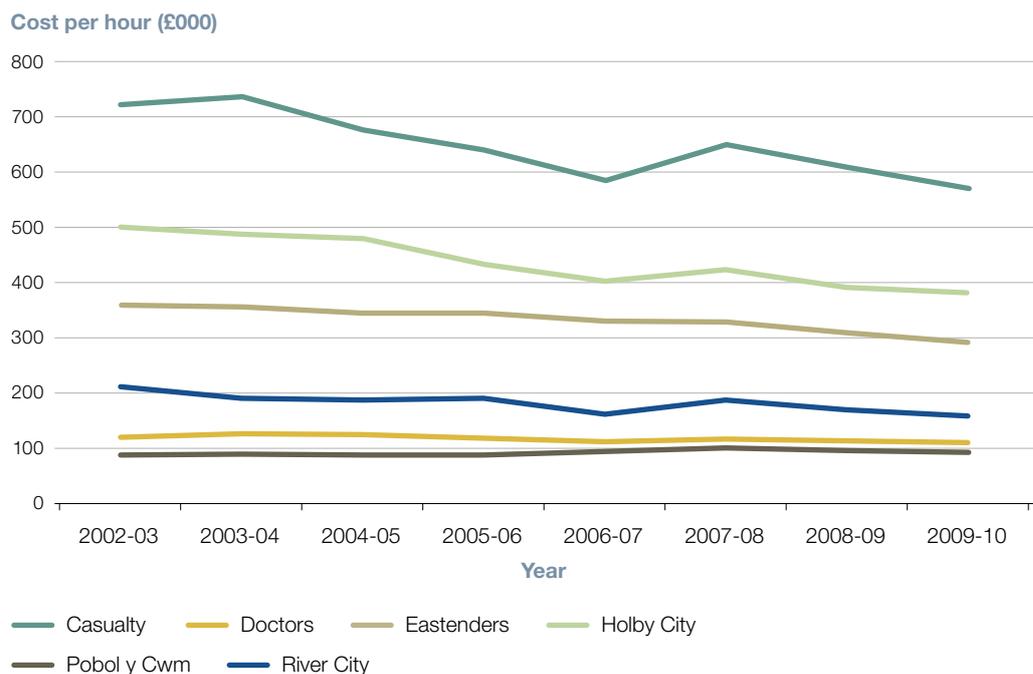
Source: National Audit Office analysis of BBC financial and performance information

2.15 Although a useful measure of value for money, cost per viewer hour has some limitations. The focus on viewer numbers as the sole measure of value ignores other qualities important to a public service broadcaster. The BBC Trust, in its response to the BBC's recent strategy review, *Putting Quality First*, highlighted that the BBC needed to be "willing to see the reach of particular programmes and services fall in favour of higher quality and distinctiveness". An over-reliance on cost per viewer hour could also result in high costs being masked by large audience numbers or reductions in cost being obscured by a fall in the number of viewers, which is why the BBC uses a range of measures when monitoring the performance of its continuing dramas (paragraph 2.10).

Cost per hour

2.16 Given the limitations of cost per viewer hour we also examined cost per hour. Although the cost per viewer hour has increased across almost all of the continuing dramas, the average cost of producing one hour of continuing drama has fallen by 20.0 per cent in real terms over the last eight years. **Figure 7** shows that the BBC has reduced the cost per hour in real terms of five of the six continuing dramas, with changes for individual programmes ranging from a slight increase from £87,000 to £90,000 per hour for *Pobol y Cwm* to a decrease from £210,000 to £156,000 for *River City*. Figure 7 also demonstrates that the cost per hour of the programmes has generally declined more quickly following the introduction of the BBC's efficiency programme from 2007-08. The average cost per hour has fallen by 10.9 per cent since 2007-08.

Figure 7
Cost per hour of continuing drama



NOTES

- 1 Costs are indexed for inflation to 2010 prices using the Retail Price Index (RPI).
- 2 In 2005, the BBC introduced the 'Future Finance Programme' which changed the way that centrally managed costs are charged to continuing dramas from 2006-07.
- 3 The cost per hour is based on the total cost of production which includes centrally managed costs (paragraph 3.2), but excludes the cost of broadcasting repeats (paragraph 2.3). For *Pobol y Cwm* the total cost also includes funds contributed by S4C except where they relate to broadcasting repeats (paragraph 1.8).
- 4 The total costs used to calculate the costs per hour of *Casualty* and *Holby City* for the 2009-10 series are estimated because these projects have not yet been closed.
- 5 The total costs used to calculate the costs per hour of *Pobol y Cwm* include funds contributed by S4C (paragraph 1.8).

Source: National Audit Office analysis of the BBC's financial information

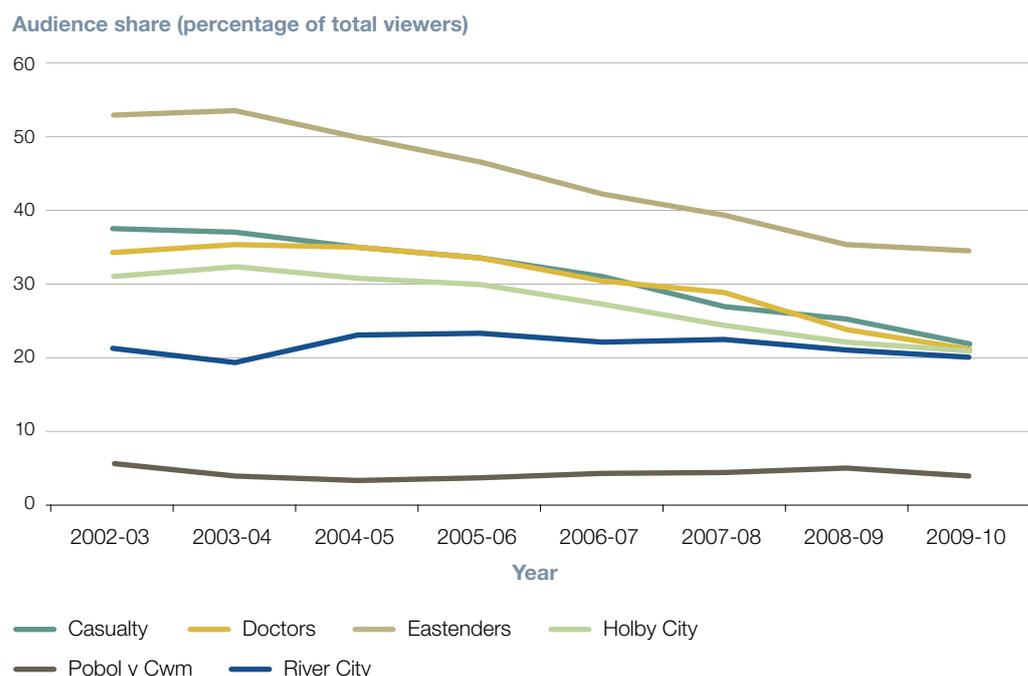
2.17 This report is primarily concerned with the processes the BBC has employed to control cost and these are explored in Part Three. Illustratively, however, individual continuing dramas have used a range of means to reduce costs. For example, the Holby City production team reduced the number of regular cast members from 18 in 2007-08 to 17 in 2008-09. The Casualty production team has also reduced the number of regular cast members from 18 in the 2007-08 series to 16 in the 2009-10 series while also reducing the number of stunts.

Audience size

2.18 Continuing dramas are intended to appeal to a broad audience. To eliminate the impact of wider changes in the number of people watching television, we analysed the performance of individual programmes in terms of audience share. Audience share represents the number of viewers watching a programme as a proportion of the total number of viewers watching television at that time. It therefore shows the performance of the BBC's continuing dramas relative to that of other programmes aired at the same time on other channels.

2.19 Over the last eight years the average audience share secured by the six continuing dramas has fallen by 10.0 percentage points. Although the audience share for River City and Pobol y Cwm has remained broadly stable, **Figure 8** shows that it has steadily decreased for each of BBC Vision's continuing dramas (EastEnders, Casualty, Holby City, and Doctors).

Figure 8
Audience share



Source: National Audit Office analysis of BBC performance information

2.20 Since the BBC introduced its efficiency programme in 2007-08 the decline in audience share has slowed. Although it is difficult to draw definitive conclusions, this suggests that the reduction in cost has not had a negative impact on the viewers' perception of the programmes, at least in the short term.

2.21 Although the quality of a programme will have an impact on the number of people who watch it, there are many other factors at play. The viewing environment has changed as a result of the growth of multi-channel television, such as subscription services and Freeview, the digital terrestrial television service. In the second quarter of 2010, 92.7 per cent of UK households had digital television which provides access to over 40 television channels.² The BBC considers that the wider choice of channels is the principal reason for the decline in audience numbers and share for terrestrial channels although it has not sought to quantify this impact. Over the last eight years the average weekly viewing time for the five terrestrial channels³ declined by 21.7 per cent, over the same period the average number of viewers across all six continuing dramas fell by 28.9 per cent.

Audience approval

2.22 A greater choice in the number of channels available could also mean people are more likely to approve of the programmes they choose to watch and this may help to explain the 6.5 per cent increase in the average level of audience approval across the six continuing dramas in the last four years. Audience approval is measured through the Appreciation Index, presented as a score out of 100, which since 2004 has been collected through the Pulse survey (paragraph 1.7).

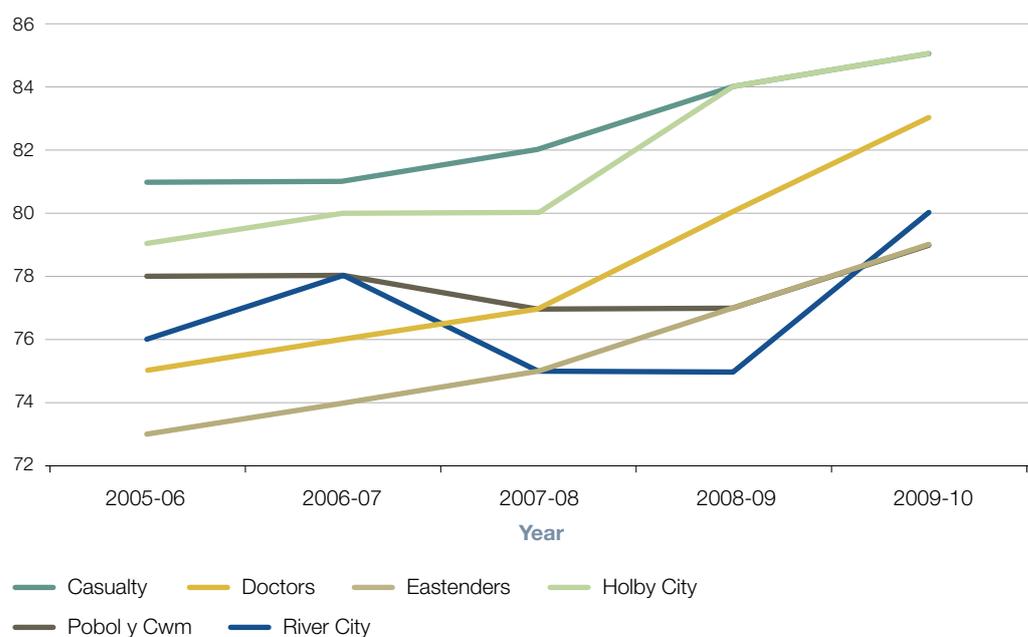
2.23 The average appreciation score has increased by 5.0 points, from a score of 77 to 82 (an increase of 6.5 per cent), but within this individual programmes have fared differently. **Figure 9** shows that improvements in the Appreciation Index score over the last four years for individual continuing dramas have ranged from a one point increase for *Pobol y Cwm* (1.3 per cent) to an eight point increase for *Doctors* (10.7 per cent). It is not possible to say what impact the BBC's efficiency programme has had on audience approval but in the last two years approval has continued to increase.

² *The Communications Market: Digital Progress Report, Digital TV, Q2 2010*, Ofcom, October 2010.

³ The five terrestrial television channels are BBC1, BBC2, ITV (including GMTV), Channel 4 (including S4C) and Channel Five.

Figure 9
Appreciation Index

Average Appreciation Index score (out of 100)



NOTE

1 The scores for Pobol y Cwm come from an audience appreciation panel commissioned by S4C and not the BBC's Pulse survey (paragraph 1.7).

Source: National Audit Office analysis of Pulse survey data

Does the BBC set objectives for the performance of continuing drama?

2.24 Commissioners agree and document the price and expected outputs for each continuing drama with the production teams, including the length and frequency of episodes, and the total number of episodes. The BBC considers that production teams also have a clear understanding of the expected quality of programmes due to the well established nature of the continuing dramas.

2.25 In addition, commissioners and production teams regularly monitor the quality of individual continuing dramas using information on audience size and perceptions. Although, substantive intervention by commissioners is infrequent, they have previously used performance information to identify a consistent decline in the audience numbers for EastEnders and changed the production team to improve the programme's performance.

2.26 The BBC does not, however, set formal audience-related objectives for individual continuing dramas. The BBC does not consider it is appropriate to hold the production teams of individual programmes formally to account for performance which can be affected by factors beyond their control and considers that accountability should be at the channel level where there is a greater evening out of such factors. It therefore sets measurable, audience-related objectives for each channel that cover the portfolio of programmes on that channel, although these do not include targets for the cost per hour, which is managed at a genre level, or cost per viewer hour of programmes.

2.27 Given the continuous nature of the BBC's spending on its continuing dramas, with their regular slots in the BBC's schedule, setting objectives at a programme level could help the BBC to set spending priorities by providing a direct link between the resources committed and what the BBC is seeking to achieve. In addition, it would help the BBC assess the extent to which its efficiency savings are affecting the quality of individual programmes and provide a transparent basis for discussions about performance.

2.28 We raised a similar point in our 2009 report on the BBC's management of its coverage of major sporting and music events.⁴ That report highlighted that the BBC did not identify the intended benefits of individual events when approving the budgets. In response the BBC stated that all business cases for the coverage of events now incorporated measurable, audience-related objectives. The BBC accepted that, when reporting whether these objectives have been achieved, managers should set out material external factors affecting performance.

2.29 In assessing performance against objectives it would be important to recognise the dynamic nature of the creative process, which could lead to changes in the BBC's expectations for individual programmes, as well as factors beyond the control of production teams such as changes in the wider viewing environment.

⁴ *The BBC's management of its coverage of major sporting and music events*, National Audit Office, December 2009.

Part Three

Controlling the cost of continuing dramas

3.1 Once resources have been allocated they must be managed so that the intended outcomes are delivered within the set price. We examined how production teams manage the cost of producing continuing dramas.

Do production teams manage the full cost of producing continuing dramas?

3.2 Production teams are not responsible for managing the full costs of producing the continuing dramas. Once the commissioners have agreed the price of a continuing drama with the production team (paragraph 1.7), the BBC deducts an amount to cover centrally managed costs. The production team establishes a budget based on the price, less the contribution to central costs, plus any additional funding (paragraph 1.8). This budget represents the resources that are controlled by the production team to deliver the number of episodes agreed with the commissioners.

3.3 Allocating central costs can help organisations identify the full cost of specific activities whilst making sure responsibility for specific costs lies with those best placed to manage them. To reduce the administrative burden of recharging centrally managed costs between different parts of the organisation the BBC deducts fixed percentages from the price paid by commissioners for individual continuing dramas. These fixed percentages cover both overheads and direct costs of production that the BBC considers are better managed centrally, for example, the studio costs for *Casualty*. Managing such costs centrally means production teams have limited incentive to minimise them.

3.4 The percentage deducted to cover centrally managed costs varies across the six continuing dramas with BBC Vision deducting 10.6 per cent from the price of its programmes, BBC Wales deducting 27.0 per cent and BBC Scotland deducting 33.9 per cent. The different percentages reflect differences in the way the BBC Vision, BBC Wales and BBC Scotland manage their business, for example, in how they manage the cost of the facilities to edit film and prepare it for broadcast (known as post production):

- BBC Scotland owns central post production facilities and the cost of these is included in the amount deducted from River City's budget;
- BBC Wales also owns central post production facilities but the Pobol y Cwm production team manages these costs within its production budget; and
- BBC Vision does not own central facilities so production teams have to contract for these services and therefore also manage these costs within their production budget.

3.5 We have not examined the appropriateness of these differences because they go beyond the scope of this work but the BBC needs to satisfy itself that they represent value for money.

Do production teams establish detailed budgets and monitor performance?

3.6 Setting a detailed budget is a key step in establishing effective financial controls. It allows resources to be managed effectively and creates a baseline against which performance can be monitored. We examined the processes for both establishing the production budget and managing it across all six continuing dramas.

3.7 All six continuing dramas we examined had strong processes for establishing detailed budgets, although they did not use a consistent format for reporting expenditure. The price paid by the commissioners less the amount to cover centrally managed costs acts as an upper limit and production teams break this down into line-by-line budgets for specific costs and further into production blocks – a small and discrete number of episodes to be filmed together over a defined period. Although different production teams break the budgets down into different cost categories, managing budgets in this way provides early warning of any cost overruns and allows production teams to adjust the budgets for future production blocks to compensate. Budgets are challenged with reference to the previous year's budget and actual expenditure and signed off by staff who sit outside the individual production teams.

3.8 Production teams manage budgets closely and have a strong record of delivering within budget. Regular trade-offs are made between the editorial ambition of the programme and the available budget from as early as the discussion of the long-term story lines to the final draft of the script. Between 2002-03 and 2009-10 across the six continuing dramas we examined, 33 of the 46 completed series came in on or under budget. In the remaining 13 cases, nine of the overspends were under 2 per cent with one more than 5 per cent (5.2 per cent). In the last two years one of the ten completed series has gone over budget (1.1 per cent).

3.9 Although series budgets are generally well managed, when additional episodes are commissioned the production team adds their budget to the budget for the series, even though there are discrete commissioning decisions. One such example is the live episode of EastEnders commissioned during the 2009-10 series to mark the 25th anniversary of the programme, which was broadcast on 19 February 2010 and watched by 16.4 million television viewers, with a further 3.1 million watching the repeats.

3.10 The idea for the live episode was developed by the EastEnders production team and agreed by the commissioners. The commissioners approved additional funding of £500,000 for the programme but it ultimately cost £696,000 and the 40 per cent difference was absorbed by the budget for the 2009-10 series of EastEnders.

What are the key cost drivers of continuing dramas?

3.11 All six of the BBC's continuing dramas incur costs in broadly the same categories of expenditure. We examined the principal cost drivers for the continuing dramas to identify and explore any differences. **Figure 10**, overleaf, sets out the amount spent in each major cost category and the proportion of the production budget it represents.

3.12 The cost of each continuing drama is driven largely by the editorial ambition of the programme. Clearly the size of the cast, the single largest element of the total planned cost – ranging from 18 per cent (River City) to 27 per cent (Holby City) – will have a significant impact on the cost of the programme. Other differences can also be explained by editorial characteristics such as the number of cameras used and the proportion of filming undertaken on location as opposed to in the studio. Such characteristics are agreed when the programme is commissioned but for the six continuing dramas are well established features of the programmes. Specific examples of cost differences explained by editorial characteristics are:

- continuing dramas that use more cameras spend a higher proportion of their budget on 'filming and post production'. EastEnders uses between three and four cameras for each filming crew and 'filming and post production' accounts for 30 per cent of the budget managed by the production team. For Casualty and Holby City, which generally use one camera, 'filming and post production' represent 16 and 18 per cent of the budget respectively;
- the proportion of the budget that is spent on 'location' varies considerably between continuing dramas. For Casualty, where 40 per cent of a series is filmed away from the studios, 6 per cent of the budget is spent on 'location'. On EastEnders only 1 per cent of the budget is spent on 'location' because 8 per cent of a series is filmed away from the studios; and
- the proportion of the budget that is spent on art and effects was the highest for Casualty (17 per cent), reflecting a greater use of stunts relative to the other dramas.

Figure 10Analysis of the 2010-11 budgets¹ for the six continuing dramas

	BBC Vision						Nations					
	Casualty (£m) (%)		Doctors (£m) (%)		EastEnders (£m) (%)		Holby City (£m) (%)		Pobol y Cwm (£m) (%)		River City (£m) (%)	
Talent – cast	5.2	24	2.4	22	6.9	23	5.1	27	2.5	25	1.5	18
Talent – script and story	1.3	6	1.3	12	2.6	9	2.4	13	0.6	6	0.6	8
Filming and post production	3.6	16	2.7	24	8.8	30	3.3	18	1.6	15	1.3	16
Production management	2.8	13	1.6	14	3.1	10	2.3	12	2.0	19	1.2	15
Arts and effects	3.7	17	1.5	13	4.6	15	2.7	15	1.2	12	0.8	10
Location	1.4	6	0.5	4	0.3	1	0.6	3	0	0	0.1	1
Travel and subsistence	1.6	7	0.1	1	0.4	1	0.2	1	0.1	1	0.1	1
Miscellaneous	0.2	1	0.0	0	0.2	1	0.3	1	0	0	0.4	5
Total managed by production team³	19.7	90	10.1	90	26.9	90	16.8	90	8.0	79	6.0	75
Contribution to centrally managed costs ²	2.1	10	1.1	10	2.9	10	1.8	10	2.2	21	2.1	25
Total cost³	21.8	100	11.1	100	29.8	100	18.6	100	10.1	100	8.1	100

Talent – cast includes fees paid to regular cast members, semi-regular cast members, extras and other cast-related costs such as stunt artists, stunt arrangers and chaperones.

Talent – story and script includes fees paid to writers and advisors.

Filming and post production includes expenditure on cameras, sound and lighting equipment studio costs, facilities to prepare the filmed footage for broadcast and related operational staff.

Production management includes expenditure on producers, directors, and support staff.

Art and effects includes expenditure on make up, props, stunts and wardrobe.

Location includes expenditure on facilities and transport for filming on location.

Travel and subsistence includes expenses for cast and crew.

Miscellaneous includes expenditure on, amongst other things, printing, publicity and training.

NOTES

- 1 Budgets are in nominal terms and do not include the cost of broadcasting repeats (paragraph 2.3).
- 2 Costs included in centrally managed costs vary between continuing dramas made by BBC Vision and the Nations (paragraph 3.4) complicating comparison, for example, the cost of post production facilities is included in the 'contribution to centrally managed costs' category for River City, but in the 'filming and post production' category for other programmes.
- 3 Totals do not cast in all cases due to rounding.

Source: National Audit Office analysis of the BBC's financial information

3.13 To meet the efficiency targets imposed by commissioners, production teams must challenge the individual cost categories described in Figure 10. We looked at how the BBC had challenged significant elements of cost through:

- the use of **competitive tendering** for procuring services;
- the **management of talent costs**;
- controlling the rates paid to **freelancers**; and
- the use of **benchmarking** to help identify good practice.

Competitive tendering

3.14 Production teams can choose between using in-house and freelance resources to deliver different elements of the production process or to contract with external suppliers for equipment and staff. Where production teams make the decision to contract out elements of the production process they are supported by the BBC's central procurement team, which issues procurement guidelines and manages a range of competitively tendered framework contracts with suppliers.

3.15 We reviewed a sample of 16 contracts (with a total value of £10.7 million) to assess the BBC's approach to tendering. We examined whether bids were received from a number of potential contractors and then evaluated on a consistent basis. Where a contract was awarded on the basis of a single tender we established whether, in line with its procurement guidelines, the BBC obtained any quotes to market test the proposed price, as distinct from a full competitive process, and whether a justification for this approach was documented. We did not assess the reasonableness of the justification. We found that:

- for five contracts (£6.4 million) the BBC completed a full competitive tendering exercise and evaluated a range of bids;
- for seven contracts (£3.0 million), three of which were awarded under competitively tendered framework contracts (£2.4 million), the BBC had justified a single tender action but there was no evidence it had sought any alternative quotes; and
- for four contracts (£1.3 million), the BBC had awarded the contract to the existing supplier without tendering competitively and had justified this approach but had not sought any alternative quotes.

Management of talent costs

3.16 The BBC has a strategy to manage the cost of cast and presenters, the Talent Management Strategy. Separate divisions within the BBC, such as BBC Vision and the Nations, have their own strategies for managing talent costs that contribute to the overarching strategy. Within its strategy, BBC Vision includes the cost of script writers as well as cast. In 2010-11, budgeted expenditure on cast and script writers represents an average of 32 per cent of the planned cost of the six continuing dramas and is the largest category of expenditure.

3.17 BBC Vision's strategy contains a target that, for each genre of programming, the percentage of the total expenditure on cast and script writers should not exceed that in 2008-09, the baseline year for the BBC's analysis. In its strategy for the drama genre BBC Vision has passed this target to the individual continuing dramas. **Figure 11** shows that one out of the four BBC Vision continuing dramas, *Holby City*, is on track to deliver the target envisaged in the Talent Management Strategy. The BBC has told us that the targets are intended as guidelines and that it manages expenditure on cast and scriptwriters at a genre level.

3.18 The strategies for the Nations also contain high level targets but BBC Scotland and BBC Wales do not break these down to individual programme level. **Figure 12** shows that the proportion of the budget spent on cast and script writers has increased from 30 per cent in 2008-09 to a planned 31 per cent in 2010-11 for *Pobol y Cwm*, and for *River City* it is forecast to remain at the 2008-09 level of 26 per cent in 2010-11.

Figure 11
Progress against BBC Vision's Talent Management Strategy

	Expenditure on cast and script writers as a percentage of total expenditure		
	2008-09 (baseline)	2009-10	2010-11 (based on planned expenditure)
Casualty	28% (£6.3 million)	● 27% (£6.1 million)	● 30% (£6.5 million)
Doctors	28% (£3.0 million)	● 29% (£3.5 million)	● 33% (£3.7 million)
EastEnders	29% (£8.7 million)	● 32% (£9.7 million)	● 32% (£9.5 million)
Holby City	40% (£7.5 million)	● 40% (£7.7 million)	● 40% (£7.5 million)

NOTES

- 1 Instances of dramas meeting or planning to meet the objectives of the Talent Management Strategy are highlighted in green, instances of dramas failing to meet objectives for talent costs are highlighted in red.
- 2 Costs and planned expenditure are in nominal terms and do not include the cost of broadcasting repeats (paragraph 2.3).

Source: National Audit Office analysis of the BBC's financial information

Figure 12
Expenditure on cast and script writers in the Nations

	Expenditure on cast and script writers as a percentage of total expenditure		
	2008-09	2009-10	2010-11 (based on planned expenditure)
Pobol y Cwm	30% (£2.9 million)	30% (£2.9 million)	31% (£3.1 million)
River City	26% (£2.2 million)	27% (£2.1 million)	26% (£2.1 million)

NOTE

¹ Costs and planned expenditure are in nominal terms and do not include the cost of broadcasting repeats (paragraph 2.3).

Source: National Audit Office analysis of the BBC's financial information

Use of Freelancers

3.19 The BBC relies heavily on freelancers for all in-house television productions, not just continuing dramas. We did not examine whether the BBC is securing the intended benefits of using freelancers, such as securing greater flexibility and promoting skills transfer, because this cannot be done in the context of our examination of the six continuing dramas. Across the six programmes we examined, 13.5 per cent of the budget is spent on freelancers. Freelancers are paid a daily or weekly rate so that costs are only incurred when production takes place. The production teams for continuing dramas use freelancers across all aspects of production – for example, directors, producers, script supervisors, costume designers, camera operators, electricians, and make-up artists.

3.20 The BBC has 'rate cards', which set out a minimum and maximum rate that the BBC is prepared to pay for individual roles, such as directors, script consultants and production assistants. Individual rate cards are negotiated for each role by a central team within the BBC. The BBC has told us that it sets rates based on its understanding of the market informed by its collective experience of negotiating with individuals, but could not provide evidence to support this.

3.21 Production teams define the range they are willing to pay within this broader range based on the editorial ambition of the continuing drama and the level of experience they require. Production teams negotiate with freelancers on a case by case basis. The agreed rate will depend on the budget available, the length and intensity of the schedule, working hours, and the experience of the individual.

Benchmarking

3.22 Benchmarking can be a valuable technique for identifying good practice and effective operating processes to improve performance and financial control. There are two broad types of benchmarking:

- **Cost benchmarking** – to compare costs between similar organisations and projects.
- **Process benchmarking** – to compare processes and procedures between similar organisations and projects.

3.23 The BBC does not systematically benchmark the costs of producing its continuing dramas. BBC Vision has a production consultant to oversee its four continuing dramas and support them in preparing budgets, but individual production teams report expenditure in different ways (paragraph 3.7) making direct comparisons more difficult. Although the BBC's portfolio of continuing dramas have different editorial ambitions, comparing the costs could highlight areas where savings could be made within the context of each programme's remit and identify good practice. Benchmarking the costs of producing the BBC's continuing dramas against continuing dramas produced by commercial channels is more problematic due to the commercial sensitivity of individual contract prices and rates of pay.

3.24 Although the BBC has not sought to benchmark production processes formally, it has shared lessons between individual programmes in a variety of ways. BBC Vision's production consultant is tasked with reviewing the production processes across the four BBC Vision programmes and production teams from the Nations and BBC Vision visit each other periodically, although it is not clear what impact these measures have had. Production teams also told us that good practices are shared through the movement of staff between productions. For example, the Casualty production team moved to a more efficient filming schedule when a new series producer joined the team.

Appendix One

Methodology

Our fieldwork took place between July and October 2010

Method	Purpose
<p>1 Analysis and evaluation of cost and performance data</p> <p>We analysed data from the BBC's financial system (SAP) and data supplied by the BBC's Marketing, Communications & Audiences department.</p>	<p>To understand the movement in the production cost of the continuing dramas over time and the relationship between their cost and performance.</p> <p>To identify the key cost drivers of continuing dramas.</p>
<p>2 Review of key documents</p> <p>For each of the continuing dramas we reviewed the BBC's documents relating to the allocation and control of resources.</p>	<p>To understand the production process from commission to transmission.</p> <p>To understand the mechanisms in place to control costs.</p>
<p>3 Interviews with BBC staff</p> <p>Semi-structured interviews with key personnel involved in the production process for both BBC Vision and the Nations, including: commissioners, production teams, central finance and the Marketing, Communications and Audiences department.</p>	<p>To understand and evaluate how the roles and responsibilities of key teams and staff were discharged.</p> <p>To clarify our understanding of the production process and follow-up on issues coming out of our data and document review.</p>
<p>4 Independent challenge</p> <p>We commissioned an independent consultant with experience of television production.</p>	<p>To provide informed independent challenge to our conclusions and findings.</p>