



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.

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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.