



Report by the
Comptroller and
Auditor General

Foreign and Commonwealth Office: Financial Control and Accountability of BBC External Services

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Contents

Foreign and Commonwealth Office: Financial Control and Accountability of BBC External Services

	<i>Pages</i>
Report	1 – 12
Background	
Role of External Services within the BBC	
Efficiency Review	
The pattern of broadcasting	
The Prescription	
Accountability and financial control	
Funding	
Efficiency	
Management and control of resources	
Effectiveness	
Access by NAO	
Summary and conclusions	
Appendices	
1. 1984 Review of BBC External Services summary of recommendations	13
2. Letter dated 1 February 1985, Secretary of State — Chairman of Governors Letter dated 31 January 1985, Chairman of Governors — Secretary of State	14
3. Statement of objectives	15

Foreign and Commonwealth Office: Financial Control and Accountability of BBC External Services

Report

Background

1. BBC External Services broadcast to countries overseas in English (through the World Service) and in 36 foreign languages. Output amounts in total to some 730 hours of programmes a week. External Services also sell recorded material to domestic radio stations overseas and monitor public broadcasts of a number of other countries. The net cost of BBC External Services is borne directly upon public funds by grants-in-aid paid by the Foreign and Commonwealth Office (FCO); in 1985–86 these grants-in-aid totalled £88.2 million, on Class II Vote 3. In addition FCO spend some £11 million a year on their operation of transmitter and relay stations (excluding Headquarters overheads). Grants-in-aid of broadcasting increased from £39 million to £81 million between 1979–80 and 1985–86 (see Fig 1), an increase in real terms of over 25 per cent (see Fig 2).

2. This report records the results of an examination by the National Audit Office (NAO) of FCO arrangements for controlling and funding External Services in the light of a joint departmental — BBC review which reported in October 1984. It also draws attention to the refusal on constitutional grounds by the BBC to allow NAO access to External Services records for the purpose of examining economy, efficiency and effectiveness in the use of resources paid for from public funds.

Role of External Services within the BBC

3. The BBC is incorporated under Royal Charter (Cmnd 8313). This places on the Governors responsibility for the management of External Services and for the programmes transmitted. The BBC also operates within the terms of a Licence and Agreement (Cmnd 8233) under which it is required in respect of External Services to plan and prepare programmes in the national interest and to transmit them to such countries and in such languages as the Government may from time to time prescribe (the “prescription” see paragraph 12 below). FCO are the prescribing department.

4. The BBC manages External Services through an External Broadcasting Directorate (EBD), one of nine which make up the Corporation. Rates of pay and grading structures are common throughout the BBC and there is a substantial interchange of staff among the Directorates. Some 60 per cent of the running costs of External Services originates directly in EBD, the remainder originates in other Directorates and is allocated to EBD on the basis that External Services are only charged the marginal extra costs to the Corporation of providing services to EBD. All significant capital expenditure originates in Directorates other than EBD. A Treasury Minute of 2 April 1981 precludes the BBC from using any part of the income from the Home Services Licence fee income to finance External Services.

Fig. 1

Grants-in-aid of External Services

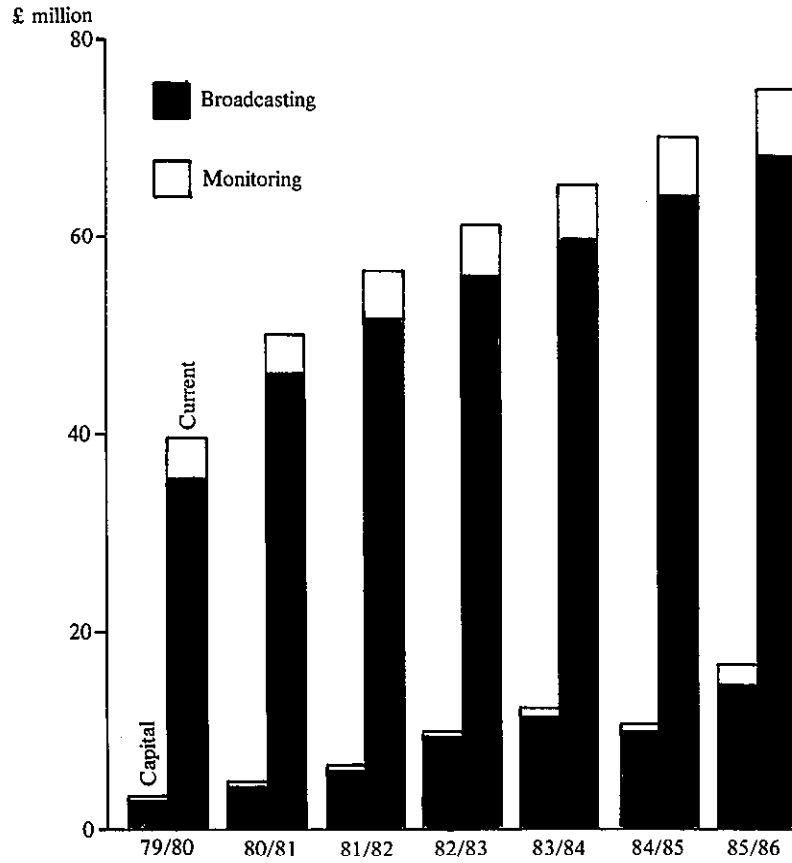
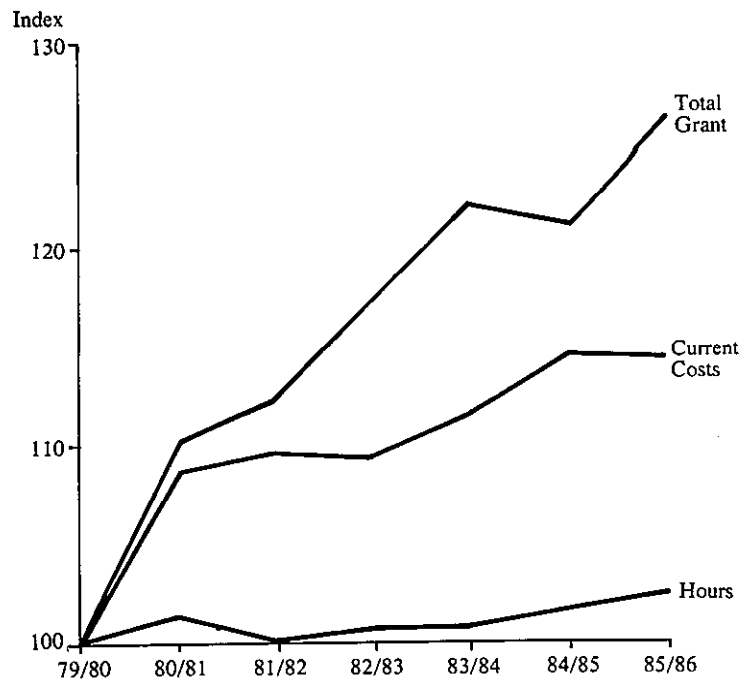


Fig. 2

Grants-in-aid of broadcasting at 1979 - 80 prices (1979 - 80 = 100) and hours broadcast



Efficiency Review

5. In each of the years 1980 – 81, 1981 – 82 and 1982 – 83 the forecast cash limit for the FCO grants-in-aid proved inadequate and had to be increased when the Estimates were prepared to cover general pay settlements negotiated between the BBC and the trades unions. In 1980 – 81, current expenditure exceeded the Estimate by some £2 million, offset by capital savings, and in 1982 – 83 a Supplementary Estimate of £1.83 million was needed.

6. Because of the difficulties these overspends created for the control of public expenditure, FCO decided to institute a review of External Services to include consideration of efficiency and effectiveness. In July 1984, the BBC Board of Governors agreed to a review but, in recognition of the Governors' constitutional responsibility to keep the Corporation's work under constant and effective review, FCO accepted that the review should take place at the invitation of the Governors.

7. In consultation with the BBC, the Secretary of State appointed a review team made up of representatives of Treasury, FCO, the Prime Minister's Efficiency Unit, the BBC and the BBC's external auditors. The terms of reference for the review were:

“To examine the extent to which the BBC External Services meet the objectives laid down in the Licence and Agreement, taking into account the relationship with the BBC's Board of Governors and with the Departments of State;

to consider how efficiency and effectiveness can be improved further;

to consider the effects of new technological developments on the future of external broadcasting;

and to report to the BBC's Board of Governors and the Secretary of State for Foreign and Commonwealth Affairs.”

The review team were also asked to identify areas where improvements or economies could be made.

8. In general the review team sought to identify systems which, starting from a clear statement of objectives, would ensure that all management levels of External Services would be aware of the purpose of their activities and would be seeking to achieve specific aims and targets. The Review also sought to establish better management accountability for performance through satisfactory monitoring procedures. The Review did not question the long standing editorial independence of the BBC and recognised the constitutional position of the External Services as an integral part of the Corporation.

9. The Review concluded that the relations between FCO and the BBC and between the Board of Governors and the External Services needed to be clarified, and to some extent redefined. There was a need for FCO to inform themselves more thoroughly about how the grants-in-aid were spent. The Review also concluded that within External Services there was scope for greater concentration on management skills to complement the existing high levels of editorial and engineering skills, leading to improved value for money. The Review made 38 detailed recommendations to raise the levels of efficiency and effectiveness of External Services, to improve planning, control and monitoring, and to enhance financial control and accountability to FCO (see Appendix 1).

10. Because of the common themes which underlay the recommendations, the Review urged that they be regarded as an integrated package and this approach was endorsed by FCO, Treasury and the Efficiency Unit. To set a timetable for implementing their recommendations, the Review suggested that about a half should be acted upon within six months, and 35 within a year of their report being accepted. The Report was published in February 1985, together with an exchange of letters between the BBC Chairman and the Secretary of State which agreed that nothing in the Report should be interpreted as implying any dilution of the Governors' management responsibilities under the Charter and Licence and Agreement, or of the traditional editorial independence of External Services (see Appendix 2).

The pattern of broadcasting

11. The pattern of External Service broadcasting has remained essentially the same for a number of years. Total hours broadcast has gradually increased, and the number of vernacular services has reduced. The Review found that the pattern of broadcasting had been subject to a number of reviews, direct or indirect, during the preceding decade, starting with a scrutiny by the Civil Service Department in 1974. This was followed in 1976 by a Programme Analysis and Review of the Projection of Britain and in 1976-77 by the Central Policy Review Staff report on the UK's Overseas Representation. In 1978 an official Working Party attempted to rank the vernacular services in order of priority, and, on the basis of this exercise, proposals to end certain vernacular services were announced in 1979. These were subsequently modified leading to fewer reductions in 1981. Constraints on public expenditure led to a further examination of the vernacular services and subsequent adjustments to them led to the total number of hours broadcast a week being reduced from 725 in 1981 to 716 in 1982, the same level as in 1980 but in four fewer language services. Since then the number of hours broadcast a week has increased to some 732.

The Prescription

(Recommendations 1-4)

12. Under the Licence and Agreement, FCO are responsible for prescribing the languages and hours broadcast by External Services, after consulting the BBC. The Prescription was seen by the Review as the basic contractual relationship between the Government and the BBC. It lays down the primary geographical target areas, the languages to be used and the duration of transmissions which together account for over 90 per cent of the current expenditure costs of the services provided from the grant-in-aid of broadcasting.

Table 1

External Services

Prescribed services

- World Service
- Vernacular Services
(36 Languages)

Services not prescribed

- Some English by Radio
- Transcription Service
- Topical Tapes Service
- Monitoring Service

13. The Review found that the annual Prescription referred only to the World Service and the vernacular services, although other services were provided as shown in Table 1. There was no formal procedure for reviewing the Prescription in the round and for deciding priorities. FCO point out that the Monitoring Service is prescribed on the basis of regular meetings between BBC and FCO. The Review recommended that FCO should carry out an early detailed review of each service and activity and should prescribe all activities funded by them, with annual Prescription reviews. Accordingly, FCO established an internal Prescription Committee which meets every six to nine months to review the Prescription, and after consultation with External Services to make recommendations to Ministers. The Committee has before it information on changing political perceptions and other matters furnished by geographical departments and Posts overseas and on technical matters and costs provided by the BBC. As a result of three meetings held during 1985 and 1986, FCO ranked the vernacular services in three broad priority groupings and identified a number of changes in output to reflect changes in their priorities.

14. Following each Prescription Committee meeting, FCO entered into discussions with the BBC regarding the Committee's proposals, which, in NAO's view, had the effect of re-opening the issues and led FCO to alter their intentions. The FCO have pointed out that proposals are discussed with the External Services before recommendations are made to Ministers in order to check their practicality in terms of transmission and cost, and to see whether any alternative solutions are possible. They explained that the Committee's proposals for cuts in services have usually been made in order to free funds to implement increases in others within existing financial resources. However the NAO found that the External Services were often able to offer alternative savings to maintain the level of output in those services threatened.

15. Indicative of the BBC's ability to avoid reductions was the survival of the French service at existing levels in 1985. The Prescription Committee identified the case for this reduction in June 1985, after which FCO discussed the matter with the BBC before, in December 1985, formally notifying it of Ministers' decision to make the reduction. After further discussions, however, FCO accepted that the level of service should remain as it was on the basis that the BBC would make compensating savings by changing the organisational structure of the service and relinquishing a management post. (The question of such compensating savings is considered further in paragraphs 24 – 26).

Accountability and financial control

(Recommendations 5 – 7)

16. The Review found that the role of the Governors had been limited by the Prescription and the method of funding, whilst FCO had until recently limited their involvement in reviews of services and resource allocation. In this situation the Review found the division of responsibility between FCO and the BBC needed "to be clarified and to some extent redefined". An example of this was the procedures for considering capital projects where, notwithstanding abundant opportunities for analysis and critical review, the Review found evidence of important questions not being asked, or asked only at a late stage; of cost estimates not being critically examined; and of benefits not being clearly stated. The Review addressed a number of their recommendations to remedying this situation. (For example Appendix 1, recommendations 5 and 6).

17. In considering questions of accountability the Review assumed that although it might be argued that External Services were not strictly speaking a Non-Departmental Public Body (NDPB) as generally defined, FCO's Accounting Officer had a responsibility to monitor compliance by the BBC with the conditions of the grants-in-aid. The Review, therefore, made many of the recommendations referred to in the following paragraphs with the aim of improving the amount and quality of information available to the Accounting Officer. The BBC however, do not accept that External Services and FCO have a relationship similar to that between a NDPB and a sponsor department on account of their Royal Charter. In the NAO's view, this has led to their rejecting some recommendations in the name of managerial independence and to their implementing others in a manner which seems to NAO unlikely to secure the improved control and accountability intended by the Review. The main areas of difficulty and the present position are summarised below.

18. The financial relationship between FCO and the BBC is governed by the Licence and Agreement and a detailed Financial Memorandum. The Review recommended that the Memorandum, which was last revised in March 1982 should be revised again within six months:

- (a) to reflect Government policy that the terms and conditions of grants-in-aid should include a statement of the appropriate financial management and manpower control systems;
- (b) to provide for the BBC to supply a more systematic and detailed breakdown of financial and management information to FCO; and
- (c) to raise the financial authority delegated to the BBC to sanction current and capital expenditure and keep it under review.

19. The intention of the Review appears to have been that the additional financial information provided by the BBC under the revised Memorandum would enable FCO to satisfy themselves as to the economical utilisation of resources paid for from public funds, including, for example, the BBC's controls over staff numbers and the grading of posts including upwards drift within the grading structure.

20. NAO found in June 1986 that the BBC was continuing to resist certain revisions to the Memorandum on the grounds that its responsibilities and independence would be infringed by a requirement to provide certain management information to FCO including information about staff numbers and grades. Nevertheless, the BBC subsequently accepted almost all the revisions requested by FCO. They had recently started to provide some of the additional financial information required by FCO who were considering how best to make use of it. NAO noted that FCO, with Treasury approval, had anticipated agreement to the revised Memorandum by doubling to £100,000 the BBC's delegated powers to approve expenditure and that the BBC was seeking to extend this delegation further to £250,000 to bring it into line with the level of delegated authority from the Board of Governors to the rest of the BBC.

21. The Review drew attention to the fact that approximately 40 per cent of External Services running costs originated in other BBC Directorates (some £25 million in 1985-86). Of this, some £13 million were costs wholly attributable to EBD (mainly the direct costs of Bush House and the transmitter stations) and £12 million the apportioned marginal costs of shared

services. These apportionments are verified by the BBC's appointed auditors. The Review expressed concern that though the Financial Memorandum provided for the basis of these allocations to be examined and approved by a committee of representatives from FCO, Treasury, Home Office and the BBC, FCO had never activated these arrangements. After resistance from the BBC, who saw a meeting as neither necessary nor justified, the committee to review the apportionments met in August 1985, when the BBC explained the general basis on which shared costs were apportioned.

22. Although the Committee was satisfied that the principle of apportionment was working, FCO asked the BBC to provide an example of how the apportionment system worked in practice. The BBC responded by furnishing a schedule of costs in a particular directorate, but all figures except those relating to EBD had been obliterated on the grounds that this information was beyond the remit of the Committee. As a result the Committee was unable to satisfy itself about the detailed relationship between total costs and the proportion borne by EBD. NAO found that the BBC had refused further FCO requests for additional information and the matter remained unresolved. Although the BBC informed FCO in May 1986 that it had found savings of £300,000 per annum as the latest result of its own regular process of reviewing apportioned costs, no information was provided to FCO as to the source of these savings which seemed to have had no counterpart in earlier years.

Funding

23. The Review recommended that the grants-in-aid for External Services should be determined at the same time and for the same period as the Home Services Licence fee (currently three years). However, the Review recognised the difficulties changing from annual determination would pose for the management of public expenditure and that it could not be justified unless it led to improvements in the management and efficiency of the External Services. Treasury agreed to the change on condition that the BBC accepted and implemented all the Review recommendations as an integrated package (see para 10). NAO found the BBC's response to have been couched only in general terms. It stated that many recommendations had been implemented, (without saying which) and claimed that others presented difficulties in terms of BBC corporate practice or required detailed internal study. Nevertheless FCO formally construed this and other responses on detailed aspects of implementing the recommendations as acceptance by the BBC of the recommendations as a whole, and as a result, with Treasury agreement, they implemented three-year funding with effect from 1985-86 on condition the recommendations package concept was maintained. There was some urgency since decisions were required during the 1985 Public Expenditure Survey to match the Licence Fee period.

Efficiency

24. The Review drew attention to the BBC's practice in relation to "minor changes in broadcast hours" of not offering FCO specific offsetting savings. Increased costs had been absorbed, according to the BBC, "within existing resources". FCO had not examined how any such extra costs had been absorbed or how staff had been redeployed.

25. NAO found that this remained standard BBC practice. The clear risk is that the level of efficiency in External Services could be low enough to allow unwelcome cuts in particular services to be avoided by offering up "reductions" in existing generous or over-generous provisions in, for example, staff resources (paragraph 15). It seems unlikely that a lean, tight level of

provision would be able to provide such compensating savings. FCO, however, told NAO that in their view if increases in services could be achieved without cuts in others whilst still meeting FCO requirements, so much the better. FCO argued that the BBC's ability to absorb costs even while increasing output may indicate increased productivity or reflect managerial decisions on programme content and supporting services.

26. In May 1986 the BBC once again informed FCO that as the result of a number of internal reviews of services, including External Services, the latest round of shared services reviews, reduced pension fund contributions and fuel prices, a refund of income tax and the benefit of the strengthened pound, it was in a position to finance certain changes in the prescription proposed by FCO and to suggest others, thereby preserving services which FCO might otherwise reduce. FCO told NAO that they had asked the BBC, informally, whether they could see details of the reviews and had been told that they were internal papers not intended for external use or scrutiny.

Management and control of resources

(Recommendations 9 – 12)

27. The Review conducted a number of case studies of activities accounting for some 43 per cent of External Services current expenditure and which were representative of the main work in terms of financial and staff resources. The Review concluded that over a period longer than three years, and within the existing prescription, it would be possible to make net savings of £1.6 million a year and 151 staff and recommended accordingly.

28. NAO found that FCO had monitored implementation of the recommendations arising from these case studies by asking the BBC for details of the savings which might be expected to accrue in practice. The BBC responded with a list of the recommendations it had accepted which would, over five years, result in savings of £1.1 million a year and 104 staff. FCO accepted the External Services explanation that the balance of savings recommended in the Case Studies were not possible because the Review's assumptions were unreasonable or could not be implemented without an unacceptable reduction of broadcasting standards. The BBC undertook further activity reviews, but FCO were not made aware of the methodology employed, nor of the detailed outcome including savings, if any. (The single exception is the review of the French service referred to in paragraph 15). Since the Review specifically confirmed that its examination was representative it seemed to NAO that further studies, properly pursued, had the potential to at least double the level of financial and staff savings. They were told by FCO, however, that, because further studies would involve smaller cost centres than those covered by the Review the scale of savings would necessarily be less.

29. On the basis of the case studies and examination of their internal budgetary control systems the Review found BBC management controls to be deficient in that:

- (a) they lacked a system for reviewing expenditure programmes annually, concentrating rather on proposals for varying the mass of historically authorised expenditure only at the margins;
- (b) demands for the allocation of expensive physical resources, eg broadcasting studios, were not ranked in order of priority and were capable of being more efficiently matched to supply;
- (c) costs of proposed capital projects were not examined critically nor were benefits clearly stated;

(d) in EBD, there had been a significant underlying increase in new and upgraded posts over the preceding five years without equivalent compensating surrenders or downgradings of posts; and

(e) also in EBD, there was an unexpectedly high incidence of discretionary merit awards — enjoyed by 25 per cent of monthly paid staff — and of personal salaries — awarded to 16 per cent of senior staff although these appeared to be lower than the BBC overall average.

30. The Review recommended that awards of discretionary and special salaries should be reviewed. But the BBC in practice declined to do so on the grounds that the awards followed its general policy and practice and were in any case scrutinised annually. Although these were factors of which the Review had been aware when making its recommendations, FCO nevertheless concluded that the BBC had implemented the recommendations “in the spirit of the Review”.

31. The Review made nine significant recommendations designed to improve the control and management of resources. Some of these depended for their implementation on the agreement of a new Financial Memorandum (paragraph 20) and are therefore still outstanding. All the recommendations were the subject of a joint FCO-BBC action plan for implementation drawn up in November 1985 which NAO found to be expressed in non-specific language.

Effectiveness

(Recommendations 13 – 15)

32. As a basis for their examination of effectiveness the Review asked FCO and the BBC for a statement of the current objectives of External Services (Appendix 3). The Review found that the main aim of the External Services was to enhance Britain’s standing abroad and form among listeners a better understanding of the UK. In order to achieve this they must:

- (a) provide a credible, unbiased, reliable, accurate, balanced and independent news service;
- (b) give a balanced view of national and international developments;
- (c) represent British life accurately and effectively; and
- (d) increase the understanding and spreading of English.

33. Clearly there are substantial difficulties for FCO and the BBC in seeking to determine how far External Services are effective. Some of these difficulties are inherent in the largely qualitative and judgemental aspects of some of the objectives; others reflect the problems of canvassing or confirming audience opinion and the impossibility of any accurate measurement of audiences in closed societies. The Review nevertheless considered a wide range of available information on these matters and noted that it was clear that the BBC had a high reputation abroad for the quality, accuracy and impartiality of its output.

34. Though this broad overall conclusion was favourable, given the nature of the objectives, the Review was unable to say whether the External Services were meeting the agreed objectives. The Review recommended that FCO and the BBC should seek more information in order to measure performance more clearly against the agreed objectives.

35. As recommended in the Review FCO have established a Committee which has reviewed a number of services using substantial amounts of information furnished by FCO Posts overseas and by the BBC. It seemed to NAO that this information was not sufficiently drawn together and analysed to provide an effective — but as far as possible quantified — basis for the conclusions reached on the extent to which particular services did or did not meet the overall agreed objectives. This is a difficult task which will require full use of all available information; and it is important that the judgments and conclusions reached are fully taken into account in determining the annual Prescription and maintaining an appropriate balance of External Services output, targets and priorities.

36. The BBC operates a programme of audience research surveys and the Review recommended the establishment of a joint FCO/BBC committee to direct the programme. NAO found that this had been done but noted the BBC's insistence that the primary consideration of commissioning research should remain the needs of the programme makers rather than the need to satisfy FCO about the effectiveness of External Services in achieving the aims and priorities reflected in the Prescription. FCO pointed out that the BBC had agreed that in future audience research would be more closely co-ordinated with the reviews of individual services.

Access by NAO

37. The National Audit Act 1983 provides that the C&AG may carry out examinations into the economy, efficiency and effectiveness in the use of resources by any authority or body whose accounts are open to his inspection under an agreement made before or after the coming into force of the Act. The Act also requires departments to use their best efforts to secure such agreement to access by the C&AG. The BBC is, however, amongst a number of bodies excluded from the operation of some parts of the Act although the full legal position on the C&AG's access to External Services is the subject of current dispute between the legal advisers of the BBC on the one hand and FCO and the Treasury on the other.

38. For a number of years before the passing of the 1983 Act an agreement with the BBC provided for some inspection rights by the C&AG over External Services, but uncertainty over the intended scope of such access, together with consistent opposition by the BBC to any question of value for money examinations, meant that in practice it was never effectively implemented. A revised basis of access for the C&AG under the 1983 Act is however being sought by FCO by incorporating appropriate provisions as part of the revised Financial Memorandum (paragraphs 18–20). The BBC for its part maintains the C&AG has no right of access for the purpose of economy, efficiency and effectiveness examinations of External Services.

39. Resolving these continuing difficulties over the C&AG's access to External Services is a matter in the first instance for FCO. They have, however, told the NAO that there is nothing so far to indicate that the BBC would ever willingly agree to such access for the purpose of carrying out independent examinations of economy, efficiency and effectiveness. FCO have added that, at the end of the day, they would have to balance the likely benefits of the C&AG's access against other considerations such as the traditional editorial and managerial independence of the BBC and the need to retain the co-operation of the External Services on other matters.

Summary and conclusions

40. External Services broadcasting and monitoring is based on a pattern of world wide coverage which has for some years remained unchanged in its

essentials. Total hours of broadcasting shows a long-term upward trend, whereas the number of vernacular services has declined. In this time, there have been marked increases in the amount of broadcasting by other countries and the technical difficulties arising from this overcrowding in the shortwave bands has required increasingly more sophisticated and expensive transmission facilities. More broadcasting by others has also brought with it more monitoring on the part of the External Services. Over the past six years External Services running costs have risen by 15 per cent in real terms, largely due to higher wage and transmission costs, whilst output in terms of broadcast hours has risen only by some 2.5 per cent. FCO point out that at the same time the External Services' estimated regular audience worldwide (excluding China) has increased from 80 to 120 million, the largest of any international broadcaster including the Americans and Russians whose output is almost three times as large.

41. FCO became responsible for administering the grants-in-aid of External Services in 1977. They carried out an internal review in 1979-80 of the pattern of services which led to an announcement in November 1979 that seven vernacular services would be ended. These changes were subsequently modified, leading to fewer reductions in 1981. Changes at the margin have also been considered from time to time, but until very recently FCO were content even here in the main to react to BBC initiatives. Consequently, and notwithstanding External Services' high reputation for professional broadcasting skills and editorial quality, it was not clear to NAO that the present level of output, distribution across target audiences, and operational priorities have been fully reconsidered against rising costs to ensure that today External Services represent the most effective use of the limited resources available. But FCO have pointed out that these matters are considered in their annual Top Management Rounds starting in 1985-86.

42. There is some evidence, however, of a welcome change in this aspect of overall FCO control and accountability for the grants-in-aid paid to External Services, as reflected in the start made in 1985 in reviewing priorities across different services (paragraph 13) and in seeking to ascertain the effectiveness achieved (paragraphs 34-36). In the NAO's view these developments, however, appear to have some way to go in the face of determined BBC resistance to any significant changes in coverage and priorities.

43. At the level of financial control and managerial efficiency, FCO, as a result of the stress they place on the BBC's managerial independence have left matters largely in the hands of the BBC. In the NAO's view over the years this has led to the BBC going beyond managerial responsibility and assuming a degree of independence which in all important respects it has been unwilling to give up, with the result that FCO have been unable fully to discharge their primary accountability for the grants-in-aid. Again, however, steps are now being taken to restore the appropriate balance between FCO and BBC responsibilities in this area. It is important that these developments are sustained.

44. Progress has been variable and slower than expected in implementing the recommendations of the Review; in particular

- (a) Further improvements are needed to enable FCO to prescribe services more effectively including the ability to verify marginal costs and other information quoted by the BBC in support of savings and

other arguments advanced to avoid changes in the level of services (paragraphs 13 – 15).

(b) There is as yet no acceptance on the part of the BBC that it should observe the same standards of accountability as are required for other grant-aided bodies (paragraph 17).

(c) Agreement is still outstanding on the terms of the revised Financial Memorandum establishing effective procedures for satisfactory standards of financial control, including the more systematic provision of financial and other management information by the BBC (paragraph 20).

(d) Though the revised Memorandum is yet to be agreed, and a number of other measures recommended by the Review are still outstanding, the BBC has been given increased financial authority and greater certainty and flexibility of funding. The BBC has obtained these benefits without implementing some of the essential improvements considered necessary for FCO fully to discharge their prescription and financial responsibilities which were intended to accompany such benefits (paragraphs 20 and 23).

(e) FCO are unable independently to satisfy themselves about the correct allocation and apportionment of the £25 million a year charged by BBC to the grants-in-aid in respect of services provided from elsewhere in the Corporation and they should seek corroborative evidence from the BBC's auditors (paragraphs 21 – 22).

(f) Until FCO obtain and examine more information about the External Services' deployment of resources there will continue to be reservations about the organisation's efficiency (paragraphs 24 – 26).

(g) Recommendations to overcome deficiencies identified in External Services management and control of resources need to be firmly pursued and fully implemented and there appears to be scope for further savings (paragraphs 27 – 31).

(h) The effectiveness of External Services requires further critical analysis and review, as a factor in deciding future levels of services (paragraphs 33 – 36).

45. In the NAO's view the situation as disclosed in the Review, and the experience in seeking to implement its many recommendations, have underlined the need for independent access to BBC External Services for the purpose of satisfying Parliament about economy, efficiency and effectiveness in the use of resources met directly from public funds (paragraphs 37 – 39). FCO should therefore continue to use its best endeavours to resolve the legal disagreement on interpretation of the National Audit Act 1983 and obtain BBC agreement to NAO access to External Services.

Appendix 1

BBC External Services Summary of recommendations

The Prescription

1. FCO should prescribe all activities funded by them after consultation with the BBC.
2. FCO should conduct an early detailed review of each service and activity.
3. FCO should carry out annual reviews as a basis for decisions on the prescription.
4. For decisions on changes to the prescription BBC should provide the relevant marginal costs.

There was one other minor recommendation in this area.

Accountability and financial control

5. FCO should revise the Memorandum on the External Services' finance, including provision for increased amounts of financial and management information from BBC and agreement on the responsibilities of BBC, FCO and the Treasury in relation to External Services' capital expenditure (three recommendations).
6. At all stages of approval of the External Services' capital projects consideration should be given to the full range of alternatives, and discounted cash flow and sensitivity analysis should be used when appropriate.
7. The Common Services Apportionment Committee should be activated.

There were four other minor recommendations in this area.

Funding

8. The grant-in-aid should be determined at the same time and for the same period as the Home Service Licence fee.

There was one other minor recommendation in this area.

Efficiency, management and control of resources

9. The External Services should introduce an annual budgeting system to review all proposed expenditure.
10. The award of discretionary salary elements and special personal salaries in the External Services should be reviewed (two recommendations).
11. Net savings of £1.6 million a year should be made within the present prescription in the areas covered by the case studies.
12. Top Management in EBD should assume more direct responsibility for efficiency and financial control (four recommendations).

There were five other recommendations in this area.

Effectiveness

13. FCO and the BBC should review the External Services' objectives every three years or at other times if events warrant it.
14. FCO should identify target areas which more clearly reflect relative priorities.
15. FCO should establish a committee to review all the External Services' activities over a three year cycle.
16. The Monitoring Service should be reviewed when modernisation is completed.

There were three other recommendations in this area.

There were also two miscellaneous recommendations.

Appendix 2

Review of BBC External Services

Letter dated 31 January 1985, Chairman of Governors — Secretary of State

The Board of Governors have now examined the report of the Review of the BBC External Services set up jointly by yourself and the Board. My colleagues and I welcome this thorough and thoughtful examination of the activities of the External Services. I know that you wish to publish the main report; the Board has no objection to you doing so.

I should add, however, that the Governors consider it most important that there should accompany the report a clear and unequivocal statement of their constitutional position in relation to the External Services.

The Board of Governors understand and share the Government's concern to secure value for money, and support those proposals in this report which may improve the efficiency and economy with which the External Services are run.

Responsibility for the management of the External Services, as a part of the BBC, and for the programmes they transmit, is vested in the Board of Governors by the Royal Charter. The Board wish to make it clear that nothing in the Report should be interpreted as implying any dilution of their management responsibilities, or of the traditional editorial independence of the External Services, both of which will be maintained as heretofore.

Letter dated 1 February 1985, Secretary of State — Chairman of Governors

Thank you for your letter of 31 January. I am delighted the Board of Governors have accepted the Report on the Review of the BBC External Services and agree to the publication of the main Report, arrangements for which are in hand.

We are all agreed that the review team have done a thorough and useful job. They have confirmed the External Services' high reputation abroad for the quality, accuracy and impartiality of its output, which serves to enhance Britain's image abroad, and were impressed by the dedication, professional skills and motivation of the External Services' staff. The review team have however identified a number of areas where improvements could be made.

I welcome the Report and, like you, support those proposals which are intended to improve the efficiency and economy with which the External Services are run. The relationship between the Government and the BBC in respect of the External Services, including the Government's responsibilities for prescription and funding, and the management responsibilities of the Board of Governors, are clearly laid down in the Royal Charter and the Licence Agreement. I agree that nothing in the review Report implies any change in this relationship or any dilution of the Board's management responsibilities or of the traditional editorial independence of the External Services.

I hope the Report will provide a firm foundation for the future development of the BBC External Services and that the recommendations will lead to improvements in the efficiency, effectiveness and economy with which the Services are run. I suggest the FCO's Information Department and the External Services' management should get together soon to agree on the detailed implementation of the Report's recommendations.

As agreed, your letter and mine will be attached to the Report in confirmation of our mutual acceptance of its contents and our determination to act on its recommendations.

Appendix 3

Statement of objectives

The general objects of the BBC External Services, as a constituent part of the BBC, are defined in the Royal Charter and Licence and Agreement, in particular in clauses 3a, 3f and 16 of the Charter and 13(5) of the Licence and Agreement. In order to meet these broad obligations, the detailed objectives of the BBC External Services are as follows:

1. To provide an external broadcasting service to target audiences overseas in as many languages and for as many hours as are prescribed by the FCO (including the World Service in English) as part of the pattern of priorities arrived at in consultation with the prescribing departments, and to plan and prepare such broadcasts in the national interest. These should include:

(a) a credible, unbiased, reliable, accurate, balanced and independent news service, covering international and national developments;

(b) a balanced British view of these developments and of world problems in general, taking into account British Government policy and, in particular, Britain's membership of the European Community, the Commonwealth and NATO;

(c) an accurate and effective representation of British life, institutions and achievements in the many fields of human activities — political, social, economic, industrial, scientific, literary and artistic, thereby promoting, where appropriate and relevant, British trade, industry, technology and expertise.

2. To transmit such broadcasts by whatever means are most effective and appropriate to ensure the best audibility for the audiences in the prescribed countries.

3. To make programmes of a high professional quality, relevance and interest, to attract and retain audiences, and thus to enhance Britain's standing abroad and form amongst listeners a better understanding of the UK, its values, way of life, policies and politics.

4. To increase and improve the understanding and spreading of English, in particular by means of specially devised radio and television programmes and supporting material.

5. To promote the sale and distribution of BBC programmes and support material, so as to gain wider audiences, and to recover as far as possible the costs incurred.

6. To provide an efficient and effective monitoring service:

(a) to monitor the broadcasts of selected foreign and overseas countries for news and information on political, social, economic, military, and other required matters; meeting, as far as possible, the priority requirements of the principal customers of the service;

(b) to provide the British Government and the BBC with regular and expeditious documentation of the significant content of such broadcasts;

(c) to provide a 24-hour service of urgent and immediate news items selected from monitored material;

(d) to collaborate closely with the FBIS of the USA, and, where practicable, agencies of other friendly countries, in an agreed division of monitoring effort and exchange of monitoring material to achieve as far as possible a comprehensive systematic and economic global coverage;

(e) to maintain up-to-date schedules of the broadcasting activities of the foreign and overseas countries, and to keep the British Government and the BBC informed;

(f) to recover costs and achieve a financial return on Monitoring Service outputs where these can appropriately be sold commercially.

7. To achieve the objectives specified above as efficiently as possible within the restraints of the grant-in-aid, in accordance with good accounting and effective management practice, the requirements of the Charter, Licence and Agreement and the Memorandum on BBC External Services Finance and Principles Governing Expenditure.

8. To advise HMG on the best methods of achieving high quality broadcasting throughout the world both within the agreed pattern of prescription and expenditure and beyond it, and to look to the consequences of anticipated technological advances.

9. To advise HMG on the state of international broadcasting, on developments (technological, programmatic, geographical and political) planned by other external broadcasters; on the allocation of frequencies under the ITU, such as the various cycles of WARC; and on the state of jamming and how to counter it.