



The BBC's management of strategic contracts with the private sector

Review by the Comptroller and Auditor General presented to the BBC Trust's Finance and Strategy Committee

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BBC Trust response to the National Audit Office Value for Money Study 'The BBC's Management of Strategic Contracts with the Private Sector'

Background to this study

As part of its role under the Royal Charter 2006 the BBC Trust acts as the guardian of the licence fee revenue and the public interest in the BBC. 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.

This study, commissioned by the Trust's Finance & Strategy Committee on behalf of the Trust and undertaken by the NAO, looked at the effectiveness of the BBC's arrangements for managing its various strategic contracts. In particular it considers whether the BBC is securing the service enhancement and financial objectives it outlined when it entered into individual strategic contracts and whether the BBC has taken adequate steps to maximise the value for money of its portfolio of strategic contracts.

The Trust thanks the NAO for undertaking this review and for the report's conclusions and recommendations.

Our views on the NAO's findings

The Trust welcomes the NAO's encouraging findings. We are pleased to note that by the end of March 2008 the BBC had identified total savings of £157m since the start of the contracts, exceeding its original forecast of £135m. We also note the report's conclusion that, across five contracts the NAO examined, the BBC's approach to relationship management was "above average compared to other organisations in the public and private sectors".

Notwithstanding this, the Trust fully accepts that there are ways in which the BBC can further enhance its approach to contract management and we welcome the recommendations in this report. We recognise the complexities involved in managing contracts of this size and the diverse nature of those contracts but agree that there is more that could be done to ensure greater consistency in approach to contract management across the portfolio of contracts.

The review acknowledges the formation of the BBC's Strategic Relationships Board with the aim of improving the management of contracts, sharing issues and providing a focal point for reporting. We note that this Board is still in its early days and we expect it to develop a more prominent role in contract management, taking account of the report's recommendations. In particular we expect to see more senior management involvement in underperforming contracts and a more robust annual review of contracts, taking account of performance, forecast costs and forecast savings together with a view on how the strategic relationship with partners is progressing.

The Trust has discussed the NAO's findings and recommendations with the BBC Executive and considered their response, which is published in this document. The Trust is satisfied that the proposed Executive's actions are an appropriate response to the NAO's findings and will review progress made in implementing these actions on a regular basis. In addition the Trust has required the Executive to produce an action plan, including timetable, for implementation of recommendations. Progress against this will be reported to the Trust.

The Trust's response to the recommendation directed at the Trust

The NAO make a specific recommendation concerning the BBC Trust:

"The BBC Trust approves strategic contracts in part on the basis of forecast savings, but it does not follow up specifically on whether forecast savings for strategic contracts have been delivered."

The Trust monitors savings at the level of the whole BBC and not at an individual contract level. This is consistent with the governance arrangements of the BBC under which the Trust has oversight responsibility and the Executive Board has responsibility for day to day operational management. In addition to considering the totality of savings achieved across the BBC, the Trust has other methods for ensuring value for money within the BBC through studies such as this one and through specific service reviews and public value tests.

Under the financial protocols which govern the respective responsibilities of the Trust and the Executive, there is a requirement for the Executive to bring back to the Trust any previously agreed investment cases that are forecast to overspend by more than 10% against their approved value. This requirement refers explicitly to the cost of the contract and not to variations in the planned savings. However, when giving initial approval for a new strategic contract the Trust can stipulate when and how the Executive should report back on the performance of that contract.

We believe it remains appropriate for the Executive rather than the Trust to be responsible for regularly monitoring savings performance on an individual contract by contract basis. However we will seek assurance from the Executive that this has happened and request that significant individual variances are brought to the Trust's attention through the regular reports that the Trust receives on performance against efficiency savings targets. Further we will also look at the performance of the portfolio of the contracts on an annual basis prior to the annual budget approval by the Trust and in this context request data on performance for each significant contract.

The Trust will continue to strive to ensure that the BBC's approach to contract management delivers the best value to the licence fee payer.

January 2009

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Management response to the National Audit Office Value for Money Study 'The BBC's Management of Strategic Contracts with the Private Sector'

The BBC Executive welcomes this review by the NAO that looked at the effectiveness of the BBC's arrangements for managing its strategic contracts. This review complements the review undertaken by the NAO in 2007 which focussed on the procurement of the BBC's spend on goods and services not covered by outsourced contracts with strategic partners.

The BBC's portfolio of strategic contracts spans 17 discrete service contracts with a combined value in 2007-08 of £715m and delivering combined savings in excess of £700m over the life of the contracts. Cumulative savings on the portfolio to March 2008 amount to £157m exceeding the savings target of £135m. The portfolio is diverse, ranging from the collection of the licence fee to the provision of satellite services. Many of these relationships, like the out-sourced technology contract and the broadcast and playout contract, are unique and challenging in their scope and complexity.

In 2007 the BBC formed a Strategic Relationships Board, consisting of senior contract managers and chaired by Procurement, to oversee the management of the BBC's portfolio of strategic contracts. Prior to that date the BBC had managed its strategic contracts as standalone business operations without any systematic portfolio management processes. The role of the Strategic Relationships Board is to develop and monitor a consistent approach to contract and relationship management across the range of contracts in line with best practice and also to create opportunities to deliver further value. Additional savings of more than £150m have been identified across the portfolio over the

next 5 year period, which are over and above the savings identified in the original business cases of the contracts.

Best practice contract management as a professional discipline is still developing as outsourcing non-core business operations becomes more common place in the public and private sectors. The Executive acknowledges that the BBC is still in the process of developing a fully unified and integrated approach to managing its portfolio of major contracts and is encouraged by the NAO's conclusions that across the five contracts the NAO examined in detail the BBC is above average in its approach to managing its major contracts. The NAO review will assist the Executive in further developing its approach.

Response to NAO recommendations

The Executive is pleased to note that most of the recommendations made build on plans already in place, or acknowledged as areas for development by the BBC.

The BBC has secured just over 90% of its performance objectives, but has not achieved the performance and innovation it requires for the price it is willing to pay in some contracts.

The BBC is pleased to have achieved high standards of performance across its portfolio of contracts with over 90% of its performance objectives being achieved.

Performance standards are established prior to and during the procurement process and at the time the contract is let the highest appropriate standards available from the market are negotiated. There will be times when performance measures are not met as some measures are designed to stretch the supplier and encourage continuous improvement. For example, performance measures may be missed when new processes and systems are rolled out which disturb the business as usual operation, or when exceptional and unexpected circumstances arise. In addition, there are times when performance measures need to be revised to keep pace with what is often a dynamic and changing service delivery environment. The BBC expects performance standards to be met and works closely, and will continue to work closely, with the supplier to ensure that this is the case in line with this recommendation. This will continue to be monitored through the annual review process for each contract.

The BBC has secured significant innovation in the procurement of many of its strategic contracts, for example, the off-shoring of financial transaction processing and the centralisation of its HR administrative services. Ongoing innovation is something that both the supplier and the BBC strive to deliver and there are provisions around innovation and innovation forums explicitly written in to a number of the more recent contracts e.g. Red Bee and Steria. The Executive will consider how best to continue to drive innovation from its portfolio of contracts and will use the annual review process to identify, prioritise and track future changes.

Although the BBC has examples of good practice in contract management, it has yet to apply this consistently across the portfolio of strategic contracts and needs to do more work to match its resources to areas of greatest need and opportunity.

The contract management resource across the portfolio has built up over time and the overall cost represents less than one per cent of annual contract expenditure. The BBC has recruited a mix of contract managers appointed internally and from external organisations drawing from established expertise in contract management. The Executive have embarked on a process to develop the expertise of our contract management resource and is working on a set of core competencies at all levels of contract management, which will set a standard across the portfolio. This will include examining the specific skills and resource required for managing individual contracts. We will also develop a structured approach to continuing professional development in line with this recommendation.

The BBC may not have visibility of risks that arise where strategic supplies are dependent on the services provided by other strategic suppliers, and the BBC has no systematic process for identifying these risks.

The risk and interdependencies across the major contracts are understood and managed by the relevant operational managers within the contract teams. These risks are captured on the risk registers of the individual contracts, however, the risks and interdependencies of the portfolio of contracts are not separately captured on a consolidated risk register. The Executive will develop its approach in line with this recommendation, and the NAO's report on the BBC's Management of Risk from 2006, to ensure that all risks and interdependencies are additionally captured and reviewed on a central register.

Open-book access rights to suppliers' financial records, which are secured at a financial cost in contract negotiations, will only enhance contract management if they are effectively applied. For all but one of the contracts we examined the BBC has open-book audit rights but has not exercised them.

Open-book provisions are important for an open and transparent relationship with any supplier and the BBC uses these provisions across the portfolio of contracts where they apply. Data is routinely requested and interrogated as part of the contract governance processes. In addition, as part of all procurement exercises since and including the Siemens contract, detailed cost data is contractually agreed to be shared on an annual basis, and in an approved format.

An open-book audit is an independent validation of the accuracy of data supplied by a supplier. We have already undertaken one audit on JCI and two further audits are in progress with Siemens and Capita TVL. We will continue to use open book audits when appropriate and where there is a clear financial benefit over and above any cost implications.

Although individual contracts have risk registers, the BBC does not maintain a joint risk register with the suppliers for each contract so there is a lack of clarity about the responsibility for management of shared risks.

A risk register is maintained for each strategic contract which feeds in to the overall risk management framework of the BBC. Joint risks and responsibilities are discussed regularly with suppliers during governance meetings and more formal reviews. To ensure that this is transparent going forward, all contracts will be required to maintain a joint risk register which will be reviewed on a quarterly basis through the governance process.

Although the BBC identifies key deliverables on a contract by contract basis it does not have business-wide criteria by which it identifies the relative importance of deliverables to its business.

The initial business case for each new outsourcing project identifies the critical success factors that will deliver the BBC's objectives. These are translated into performance measures which are established at the time the contract is let, through market testing, through the procurement phase in negotiation with bidders, and sometimes with the help of external advice. Each contract is very different and the NAO acknowledge in their report that they would not expect to see uniformity given the range of diversity of the BBC's strategic contracts. It is also the case that best practice evolves over time and that performance measures may need to be revised and renegotiated as the business changes.

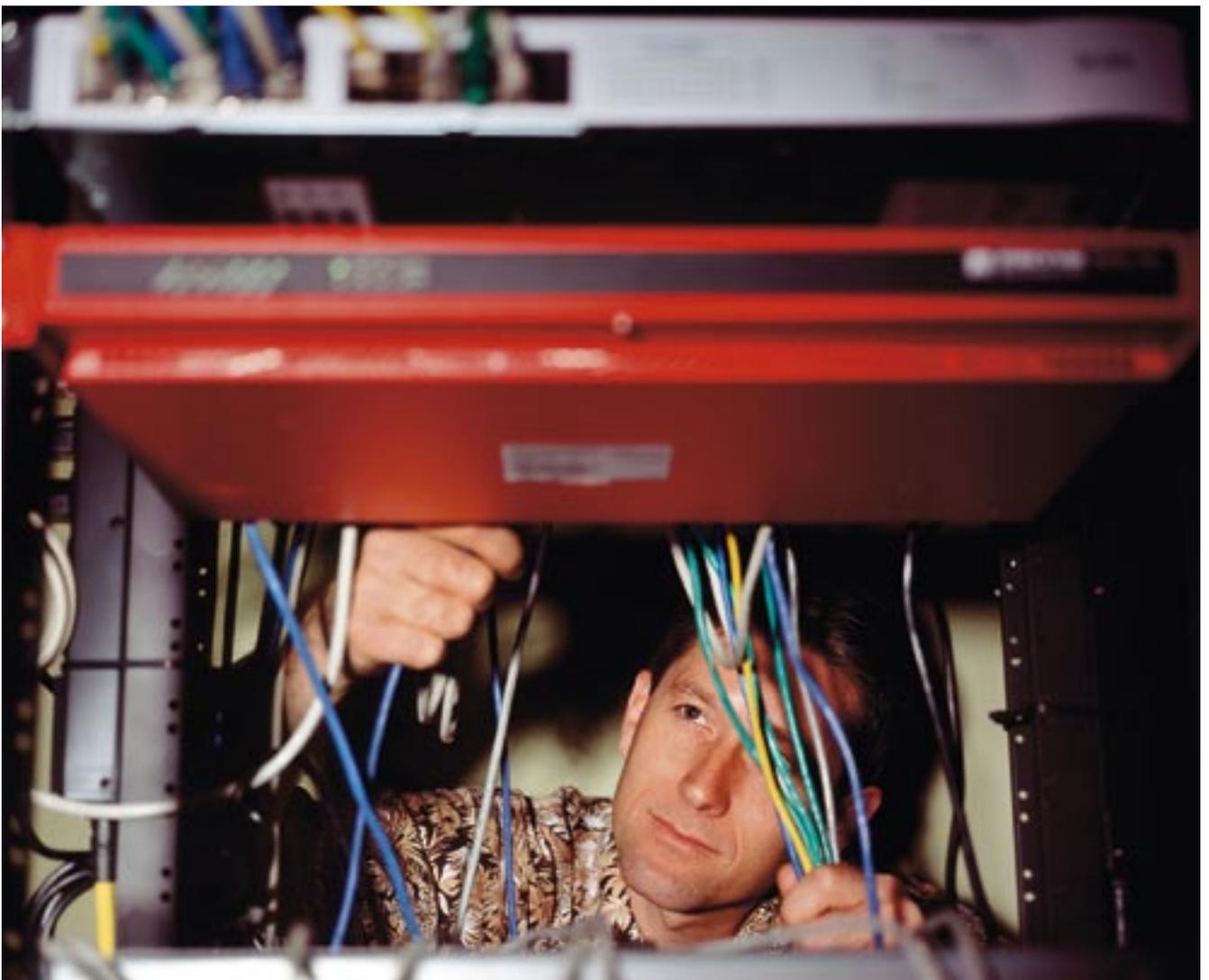
For the purpose of management reporting the Executive agree that it is important that focus is given to the right number and type of performance measures. The Strategic Relationships Board will undertake a review of all measures across each of the contracts in this context. It is important to note that any wholesale review of performance measures will need to take account of the maturity of the contract and may need to form part of any future re-tender process.

BBC management does not routinely validate performance information provided by suppliers, even where reported information has a bearing on payments to the supplier.

Some performance information is validated across all of the contracts in a number of ways through automated systems validation; internal audits; external audits; and ad hoc requests for data when the routine process of review raises questions. However performance is not routinely validated across all indicators as part of a systematic programme of validation. The Executive will investigate introducing a process of sample validation across the key contracts considering the cost and benefit of such an approach by individual contract.

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This report has been prepared 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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27 November 2008

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SUMMARY

1 Over the last decade the BBC has built up a portfolio of 17 'strategic contracts' with private sector suppliers to provide it with key services including the transmission of its radio and television programmes, information technology and financial and accounting services. In 2007-08 the BBC spent £715 million with these suppliers, a fifth of its annual licence fee income. The BBC defines strategic contracts as those which have an annual value of at least £2 million, a term of at least five years and which make a key contribution to its business. The BBC's aims in managing these contracts are to control expenditure to planned levels, achieve financial savings, maintain or improve the quality of service received and to secure the longer-term benefits, such as innovation, which are facilitated by strategic contracts.

2 We examined whether the BBC is securing the service and financial objectives it outlined when it entered into the individual strategic contracts and whether the BBC has taken adequate steps to maximise the value for money of its portfolio of strategic contracts.

3 Spending on the strategic contracts in 2007-08 was £715 million, almost exactly in line with the BBC's start of year forecasts of £713 million, and approximately £91 million (15 per cent) higher than forecast by the BBC when contracts were originally let, mainly because of suppliers winning additional project work. Most of the current contracts forecast financial savings over the previous costs of provision. By the end of March 2008 the BBC had identified total savings of £157 million since the start of the contracts, exceeding its original forecast of £135 million.

4 The BBC measures the performance of its suppliers against Performance Indicators for levels of service set out in the contracts. The BBC has linked performance against some of these Indicators to payment to the supplier, based on its view of the importance of the service measured to the BBC. The Indicators linked to payment are set at the minimum satisfactory levels of service the BBC expects from suppliers. Performance indicators are the core of the BBC's monitoring of the service provided by its strategic suppliers, and monitoring is itself a demand on BBC resources. Performance indicators are set contract by contract, and while we would not expect to see uniformity given the range and diversity of the BBC's strategic contracts, there are variances in both the number of indicators and the expenditure evaluated by each indicator, at the level used by the BBC for internal reporting:

- the total number of performance indicators ranges from one to 250 for a contract;
- the number of indicators linked to payment to suppliers ranges from one to 47 for a contract;
- in 10 contracts the BBC has linked all performance indicators to payment to the supplier. In five contracts there is a mixture, with a total of 335 indicators having no financial sanction if they are not met; and
- the average expenditure covered by each payment-linked indicator ranges from £265,000 to £14.7 million.

5 During 2007-08, supplier performance was better against those indicators which are linked to payment, than those without such a link; across the portfolio of contracts, suppliers met 91 per cent of the indicators linked to payment and 82 per cent of the indicators not linked to payment. On individual contracts, the position on payment-linked indicators is as follows:

- in four contracts (with a value of £59 million in 2007-08) the BBC secured 100 per cent of its specified service standards;
- in eight contracts (with a value of £571 million in 2007-08) the BBC secured between 90 per cent and 99 per cent of its specified service standards. Within these eight contracts are the five largest by value. The largest contract by value was with Siemens (£232 million in 2007-08) which met 93 per cent of specified service standards; and
- in three contracts (with a value of £51 million in 2007-08) the BBC secured 86 per cent, 84 per cent and 74 per cent of specified service standards.

The BBC does not systematically validate the performance information reported by its suppliers.

6 For longer-term, high-value and strategically important contracts, the development and management of relationships with suppliers is particularly important to secure flexibility, innovation and added value over the life of the contract. Overall, across five contracts examined, the BBC's approach to relationship management was above average compared to other organisations in the public and private sectors. The engagement of senior managers varied however, across the five contracts, as did the extent to which the BBC and the supplier had a shared understanding of the status of the relationship. Having appropriately skilled staff is essential in building effective relationships, but as the BBC has not fully identified the distinct relationship management needs for its portfolio of contracts and does not therefore have a resourcing plan for each contract, it has experienced skills gaps in some contract management teams. Few of the BBC's contract managers have received formal training in contract or relationship management.

7 Securing increased access to innovation through the expertise of suppliers is a key objective of strategic contracts, which are intended to facilitate partnership working and investment in long-term projects. While some suppliers offered innovative approaches to delivering services when the BBC let the contracts, for some of the contracts we examined, the BBC had not yet achieved innovation to the extent that it had anticipated, notably in the contract for technology services.

8 The BBC introduced a new approach to managing its portfolio of strategic contracts in early 2007 to improve coordination of its portfolio. The Strategic Relationships Board, chaired by the BBC's Director of Procurement, brings together contract managers to discuss common issues and acts as the focal point of contract monitoring and identifying and reporting future savings. The Board does not, however, have executive authority for enforcing compliance with minimum standards across contract management teams and, while the BBC has information on individual contract costs and performance, the Board has not finished collating cost and performance data for the portfolio of contracts. There was variability in the extent to which management of the six case study contracts we examined reflected good practice, as illustrated by [Figure 1 overleaf](#). For example, in only two of the contracts did the BBC systematically validate supplier performance, and, whilst each of the six contracts contained exit provisions, four of the contracts did not have adequate contingency plans in the event the contract is terminated early.

1 BBC compliance with good practice for six contracts examined as case studies

	Invoking service credits (paragraph 36)	Obtaining user perspectives (paragraphs 38 to 40)	Validating supplier performance (paragraph 41)	Use of contractual provisions for reviewing prices paid (paragraphs 42 to 44)	Managing risk (paragraphs 55 to 57)
Steria (Finance)	●	●	●	●	●
Capita (HR)	●	●	●	●	●
Arqiva (Transmission)	●	●	●	●	●
Capita (Licence fee collection)	●	●	●	●	●
Red Bee (play out and broadcast)	●	●	●	●	●
Johnson Controls (facilities management)	●	●	●	●	●

Source: National Audit Office case study evaluation of the BBC's management of contracts

KEY

- In line with good practice with minimal room for improvement
- Some evidence of good practice but with room for improvement in at least one significant area
- Little evidence of good practice with room for improvement in more than one significant area

VFM conclusion

9 The BBC's value for money objectives for its strategic contracts are to control expenditure to planned levels, achieve financial savings, maintain or improve the quality of service received and secure innovation. In 2007-08 spending was in line with forecasts and the BBC has exceeded its savings target from its portfolio of strategic contracts. To the extent that performance indicators are linked to payments, the BBC has secured the contractually agreed minimum levels of service for 91 per cent of the indicators it specified when it entered its strategic contracts. Suppliers however met only 82 per cent of performance indicators not linked to payment. The BBC has not, therefore, achieved the full range or level of performance specified in its strategic contracts. In addition, the BBC has not secured as much innovation as anticipated on some contracts. There is a risk that the number of the BBC's performance indicators, and the range of expenditure covered by each indicator, limits managers' ability to distinguish between desirable and genuinely 'key' service deliverables, and to target management and supplier attention and resources accordingly.

10 The BBC is looking to develop a more strategic approach to the management of its portfolio of strategic contracts to improve the value for money it achieves from the £715 million a year it spends on these contracts. At present, however, the BBC has not finished collating information on costs and performance for all its strategic

contracts, or routinely validated information provided by suppliers. The variability of contract and relationship management across the portfolio indicates that the BBC has further to go to achieve the best practice approach it is seeking in managing its portfolio of contracts.

Recommendations

- a** The BBC has secured just over 90 per cent of its performance objectives, but has not achieved the performance and innovation it requires for the price it is willing to pay in some contracts (paragraphs 23, 24, 37, 49, 50).

The BBC should:

- i identify the source of any shortfalls in performance, for example whether they flow from the contract, processes or relationships between individuals;
- ii draw up an action plan for improving performance, including measurable targets for service improvement or innovation sought; and
- iii apply lessons learned from management of its contracts to procurement of future strategic contracts.

- b** Although the BBC has examples of good practice in contract management, it has yet to apply this learning consistently across the portfolio of strategic contracts, and needs to do more work to match its resources to areas of greatest need and opportunity (paragraphs 51, 52 and 64).

The BBC should:

- i define the core competencies that its strategic contract managers need and review the capabilities of existing contract management teams based on these competencies;
- ii develop a structured approach to continuing professional development for contract managers which is supported by compulsory training;
- iii assess the specific relationship requirements for each of its strategic contracts, and set out how the relationship will be developed and its effectiveness measured; and
- iv set out clear lines of accountability to the BBC Finance Committee for managers' compliance with BBC standards in contract management.

- c** The BBC may not have visibility of risks that arise where strategic suppliers are dependent on the services provided by other strategic suppliers, and the BBC has no systematic process for identifying these risks (paragraph 62).

The BBC should:

- i map out the inter-dependencies and cross-cutting risks between its strategic suppliers; and
- ii report annually to its Finance Committee on these strategic and cross-cutting risks to provide assurance that it has identified all such risks and clarity on the responsibility for, and progress in, managing those risks.

- d** Open-book access rights to suppliers' financial records, which are secured at a financial cost in contract negotiations, will only enhance contract management if they are effectively applied. For all but one of the contracts we examined the BBC has open-book audit rights but has not exercised them (paragraph 44).

For those contracts where there are open-book provisions, the BBC should exercise its rights to open-book audit to protect its interests and embed transparency and accountability in working practices.

- e** Although individual contracts have risk registers, the BBC does not maintain a joint risk register with the suppliers for each contract, so there is a lack of clarity about the responsibility for management of shared risks (paragraph 56).

To provide clarity of responsibility in the management of joint risks, the BBC and its suppliers should, in line with good practice and the BBC's own guidance, maintain joint risk registers with suppliers for each contract.

- f** Although the BBC identifies key deliverables on a contract by contract basis it does not have business-wide criteria by which it identifies the relative importance of deliverables to its business (paragraph 22).

The BBC should review existing performance indicators for relative importance to the business, and establish criteria for identifying the most important performance indicators, while taking account of the objectives of each contract.

- g** BBC management does not routinely validate performance information provided by suppliers, even where reported information has a bearing on payments to the supplier (paragraph 39 and 41).

To gain assurance about the accuracy of performance information provided by suppliers BBC management should validate the accuracy of performance information provided by suppliers, particularly where payments are affected by performance. The cost of validating performance must be proportionate to the benefits and the BBC may wish to review a sample of information for each supplier.

- h** The BBC Trust approves strategic contracts in part on the basis of forecast savings. It does not follow up whether forecast savings for individual strategic contracts have been delivered (paragraph 29).

The Trust should satisfy itself that the savings proposed as part of business cases are achieved and if not, explore why not.

MAIN REPORT

Main report

11 The BBC's core purpose is the commissioning, production, scheduling and transmission of programmes and online content to inform, educate and entertain its viewers, listeners and users. The BBC is responsible for achieving value for money from licence fee income, which was nearly £3.4 billion in 2007-08. By minimising costs on support services it can maximise investment in programmes.

12 The BBC uses part of its licence fee income to procure goods and services through 17,000 private sector suppliers. The vast majority of these are short-term contracts for the supply of routine goods and services, which we examined in our 2007 report on BBC Procurement.¹ Over the last decade the BBC has also entered longer-term contractual relationships with private sector suppliers. The BBC defines these 'strategic contracts' as those which have an annual cost of at least £2 million and a term of at least five years. In 2007-08 the BBC had 17 strategic contracts (see Appendix 1).²

13 The BBC is accountable to the BBC Trust for the value for money of its expenditure under the licence fee. The review is part of a programme of value for money work agreed with the BBC Trust by the Comptroller and Auditor General, head of the National Audit Office, under an agreement³ between the Secretary of State for Culture, Media and Sport and the BBC.

14 The aim of our review has been to assess the effectiveness of the BBC's arrangements for managing its strategic contracts. The report is about the management of current contracts and does not cover the original procurement of the contracts. The methods we used are set out at Appendix 2.

The BBC's strategic contracts

15 Strategic contracts provide the BBC with key support services including the transmission of its radio and television programmes, information technology and financial and accounting services. A full list of the contracts and suppliers is at Appendix 1. In 2007-08 the BBC spent approximately £715 million through its strategic contracts (**Figure 2**), a fifth of its licence fee income.

16 The BBC's objectives for managing its strategic contracts are to secure value for money services, access longer-term benefits such as innovation and continuous improvement and secure benefits that would not normally be available outside strategic contracts.

17 Until 2007, the BBC managed its strategic contracts as standalone business operations without any systematic portfolio management processes. In 2006, BBC Internal Audit identified a need for an overarching strategy and the co-ordination of strategic contracts. Also in 2006, reports by the Committee of Public Accounts and the Comptroller and Auditor General on the BBC's contract with Siemens Business Services identified a number of generic lessons for the management of the BBC's strategic contracts⁴ and we have followed-up those lessons in paragraphs 33 to 66 below.

¹ *BBC Procurement*, Review by the Comptroller and Auditor General presented to the BBC Trust's Finance and Strategy Committee, October 2007.

² During the 2007-08 financial year the BBC entered into two further strategic contracts, with Eaga, to provide help with digital switchover to the elderly and vulnerable members of society, and RMS, for a card based payment and savings scheme which allows payment of the licence fee by cash instalments. The contracts were not operational during 2007-08 so do not feature in this report.

³ A 'Framework Agreement', under Article 49 of the BBC Royal Charter 2006, between the Secretary of State for Culture, Media and Sport and the BBC – Command 6872 dated July 2006.

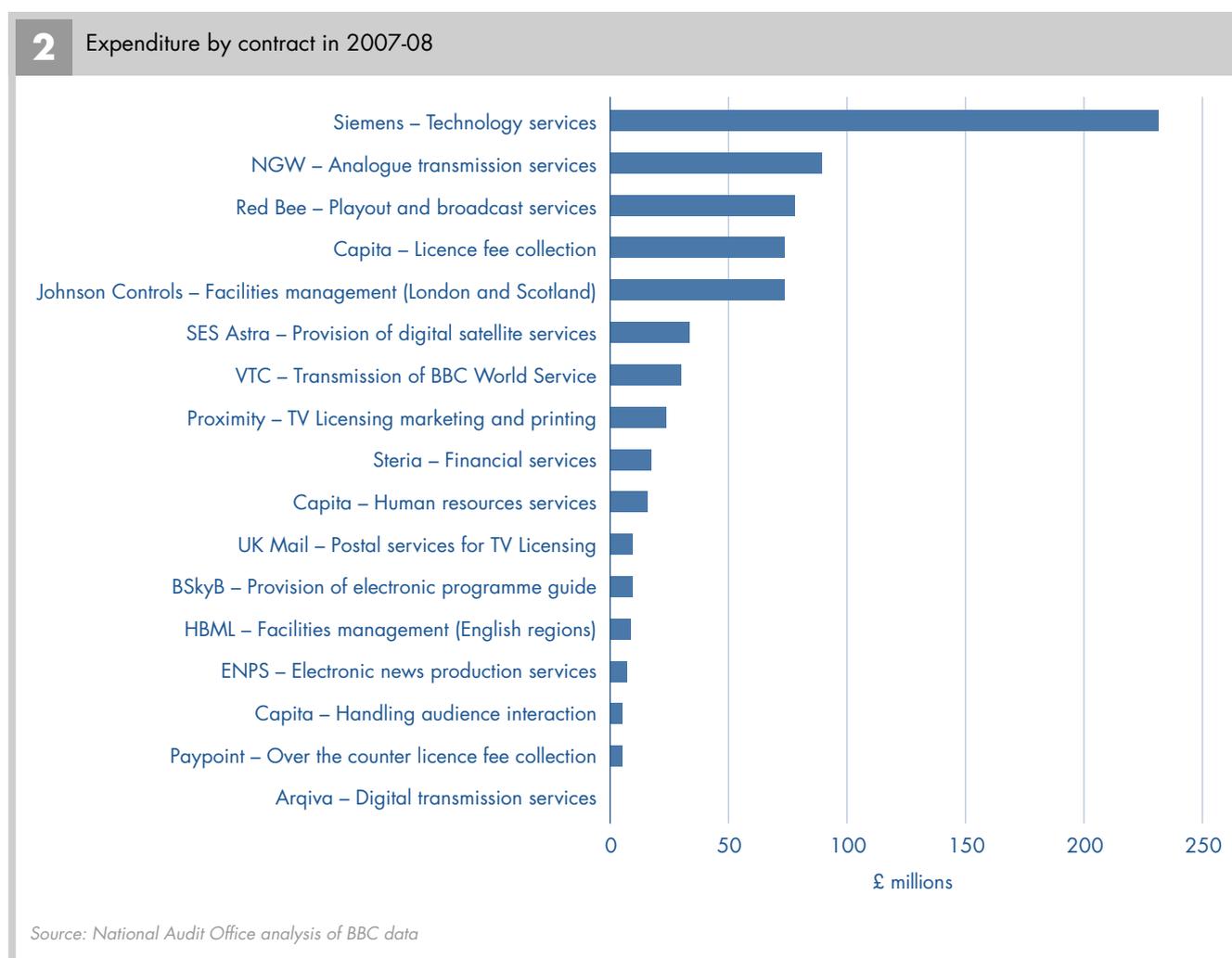
⁴ *The contract between the BBC and Siemens Business Services for the provision of technology services*, Review by the Comptroller and Auditor General presented to the BBC Trust's Finance and Strategy Committee, June 2006. *BBC outsourcing: the contract between the BBC and Siemens Business Services*, the Committee of Public Accounts, Thirty-fifth Report of Session 2006–07, 28 June 2007 as HC 118.

18 In response to the reviews in 2006, the BBC established the Strategic Relationships Board in January 2007 to: work together on common issues and demonstrate consistency of approach across the portfolio; map and prioritise interdependencies and risks; share information and experiences; create opportunities for savings/deliver further value; and consider succession planning. The Board is chaired by the BBC’s Director of Procurement, and its members are the managers of the BBC’s 17 strategic contracts. The operational management of individual strategic contracts and suppliers is the responsibility of Executive sponsors, who are usually BBC divisional Directors. The BBC’s accountability and contract management model is at **Figure 3 overleaf**.

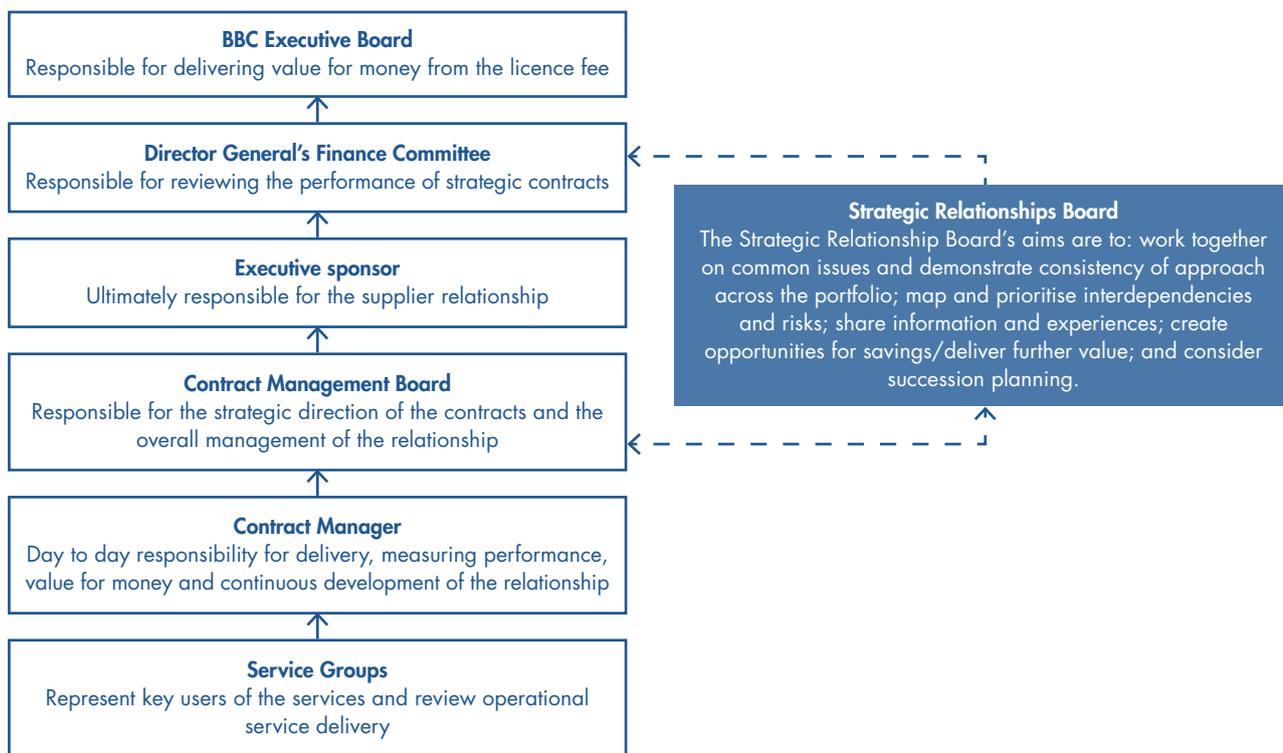
19 Against this background, we have examined whether the BBC’s new arrangements for management of strategic contracts have met the BBC’s service and financial objectives and whether the BBC has taken adequate steps to maximise the value for money of its portfolio of strategic contracts, by reviewing:

- the service and financial performance of the contracts;
- how the BBC manages individual contracts; and
- progress in establishing portfolio management.

20 As part of our review we examined case studies of six of the BBC’s strategic contracts and commissioned advice from consultants on the effectiveness of the BBC’s approach to relationship management. The six case studies are at **Figure 4 overleaf**.



3 Roles and responsibilities for strategic contract management



Source: BBC

4 Case study contracts examined

Supplier	Service provided	Internal users of the service	External users of the service
Arqiva	High power digital terrestrial television transmission services and the expansion of Digital Audio Broadcasting transmission services.	None	Licence fee payers, who receive television and radio signals
Capita (Human Resources)	Human Resources administration, occupational health, recruitment, outplacement and relocation.	All BBC employees	None
Capita (TV Licensing)	Collection of the licence fee.	BBC Finance	Licence fee payers
Johnson Controls Ltd	Facilities management services to BBC buildings in London and Scotland.	BBC employees based in London and Scotland	None
Red Bee	A variety of broadcast critical services, including payout of channels; continuity between programme schedules; audience access services via sign and subtitling; and an increasing range of new media and on demand services.	BBC divisions which rely on Red Bee to put programmes out on air	Licence fee payers, who receive television signals
Steria	Financial services.	All BBC employees	Suppliers to the BBC

Source: National Audit Office

The service and financial performance of individual contracts

21 The core of contract management is securing financial and service performance from suppliers that meet contractually agreed levels. While the BBC had information on individual contract costs and performance, it had not collated data on the costs, savings and service levels for all of its 17 strategic contracts to get an overall picture of performance. We therefore gathered this data for 2007-08 and reported it at **Figure 5**.

Service delivery

22 The BBC generally measures service delivery for its strategic contracts by monitoring supplier performance against targets, each of which has a performance indicator, based on the levels of service that the BBC contracted for when procuring the service. Gathering, analysing, reporting and validating data for performance indicators is costly. Having too many performance indicators could represent excessive monitoring and lead to a lack of focus on the most important indicators, and having

5 Services delivery and costs for 2007-08 and savings for 2007-08 and from the start of the contract to 31 March 2008 for each of the BBC's strategic contracts¹

	Service delivery		Costs		Savings			
	2007-08		2007-08		2007-08	Start to 31 March 2008		
	Total Performance indicators met	Performance indicators with service credits attached met	Business case forecast	Actual cost	Business case forecast	Actual savings	Business case forecast	Actual savings
	%	%	£m	£m	£m	£m	£m	£m
Contract and start date								
Siemens, Apr '05	83	93	181.8	232.0	27.5	34.3	82.5	104.1
NGW, Mar '98	99	99	87.6	89.8	n/a	n/a	n/a	n/a
Red Bee, Jul '05	92	91	53.3	78.0	n/a	n/a	n/a	n/a
Johnson Controls, Jul '06	96	96	78.5	73.5	0.6	0.7	0.6	0.7
Capita (Licence Fee), Apr '02	94	94	59.3	73.5	n/a	n/a	n/a	n/a
SES Astra, Oct '96	100	100	33.6	33.7	n/a	n/a	n/a	n/a
VTC, Mar '97	86	86	30.0	30.0	2.1	2.1	4.3	4.3
Proximity, Jan '02	n/a	n/a	24.0	24.0	n/a	n/a	n/a	n/a
Steria, Nov '06	93	90	15.3	17.9	10.5	7.9	4.5	4.3
Capita (HR), Dec '06	74	74	14.8	15.6	4.0	3.6	6.6	6.1
UK Mail, Sep '06	100	100	11.0	10.0	0.58	0.15	0.58	0.15
BSkyB, Nov '98	n/a	n/a	9.6	9.6	n/a	n/a	0.0	n/a
HBML, Apr '04	100	100	5.1	8.7	0.9	0.9	2.1	2.1
ENPS, Aug '96	100	100	7.7	6.7	0.39	0.45	0.63	0.69
Capita (Audience), Dec '03	97	97	5.4	5.7	1.3	0.9	6.8	6.8
Paypoint, Apr '06	84	84	6.0	5.3	20.0	21.2	26.6	27.8
Arqiva, Sept '06	95	95	0.85	0.5	0.0	0.0	n/a	n/a
Totals	–	–	623.85	714.5	67.87	72.2	135.21	157.04

Source: National Audit Office analysis of BBC data

NOTES

- 1 Ranked by actual cost in 2007-08.
- 2 Savings figures are measured against forecasts made when contracts were let and are not necessarily related to levels of expenditure, but rather to the previous cost of providing the service or elements of the service.
- 3 The number of performance indicators included in the analysis is at the level used by the BBC for internal reporting.
- 4 Capita (Licence fee) forecast expenditure in the business case is in 2001-02 prices.

too few could fail to capture detail on performance at an appropriate level. For each of the BBC's strategic contracts we analysed, at the level used by the BBC for internal reporting; the number of performance indicators; the number of indicators which the BBC has linked to payment to the supplier; and the expenditure covered by each of the indicators which are linked to payment. We did this to assess the consistency of the BBC's approach to defining key deliverables across its portfolio of strategic contracts (Figure 6). Whilst we would not expect to see uniformity, given the range and diversity of the BBC's strategic contracts, for the 15 contracts with performance indicators we found as follows.

- The number of performance indicators ranges from one to 250 for a contract. The facilities management contract with HBML has a single performance indicator which would limit performance evaluations to a simple 'met' or 'not met', whereas the contract with Johnson Controls, which is also a facilities management contract, has five indicators.
 - In 10 contracts the BBC has linked all performance indicators to payment to the supplier, but in five contracts (Siemens, Red Bee, Steria, Capita (Audience services) and VTC) there is a mixture, with 335 indicators having no financial sanction if they are not met. For example, all of the 31 indicators in the contract with Capita for human resources services are linked to payment, but 90 of the 121 indicators in the contract for financial services with Steria, would result in no financial sanction if they were not met. Both contracts are for administrative services with a high number of transactions, and have similar levels of spending.
 - The average expenditure covered by each performance indicator which is linked to payment to the supplier ranges from £265,000 to £14.7 million for each of the indicators. For the technology services contract with Siemens, each payment-linked indicator covers an average of £8.3 million expenditure, but for the contract with Red Bee for playout and broadcast services the average expenditure per payment-linked indicator is £1.7 million. Both of these contracts are for complex, technology services.
- 23** When a performance indicator is linked to payment in the contract, the BBC is entitled to claim a rebate, a 'service credit', from the supplier if the supplier does not meet the agreed performance standard set out in the contract. The BBC attached service credits to indicators based on its view of the importance to the business of the element of service measured by the indicator. During 2007-08, supplier performance was better against those indicators linked to payment than those without such a link. Across the portfolio of contracts, suppliers met 91 per cent of the 249 indicators linked to payment, and 82 per cent of the 335 indicators not linked to payment.
- 24** On individual contracts, the position on payment-linked indicators, as shown by Figure 5, is:
- In four contracts, with spending of £59 million in 2007-08 (SES Astra, UK Mail, HBML and ENPS), the BBC secured 100 per cent of its specified service standards;
 - In eight contracts, with spending of £571 million in 2007-08 (Siemens, NGW, Red Bee, Johnson Controls, Capita (Licence Fee), Steria, Capita (Audience) and Arqiva), the BBC secured between 90 per cent and 99 per cent of its specified service standards. Within these eight contracts are the five largest by value. The largest contract by value was with Siemens (£232 million in 2007-08) which met 93 per cent of specified service standards.
 - In three contracts, with spending of £51 million in 2007-08 (VTC, Capita (Human Resources) and Paypoint), the BBC secured 86 per cent, 74 per cent and 84 per cent respectively of specified service standards.

6 Number of performance indicators, number of performance indicators linked to payment and average expenditure covered by each indicator linked to supplier payment in 2007-08

Contract	No of performance indicators	Number of performance indicators linked to payment	Average expenditure covered by each indicator linked to payment £000
Siemens, Apr '05	250	28	8,335
Steria, Nov '06	121	31	577
Red Bee, Jul '05	64	47	1,660
VTC, Mar '97	33	32	938
Capita (HR), Dec '06	31	31	501
NGW, Mar '98	21	21	4,276
Paypoint, Apr '06	20	20	265
Capita (Audience), Dec '03	14	9	633
Capita (Licence Fee), Apr '02	9	9	8,167
SES Astra, Oct '96	7	7	4,814
UK Mail, Sep '06	6	6	1,667
Johnson Controls, Jul '06	5	5	14,700
ENPS, Aug '96	2	2	3,350
HBML, Apr '04	1	1	8,700

Source: National Audit Office analysis of BBC data

NOTES

- 1 This analysis excludes three contracts: two which do not have any contractually defined performance targets (BSkyB, because the contract is based on a tariff endorsed by the regulator, Ofcom, and Proximity, which the BBC monitors through achievement of annual sales targets); and the Arqiva (transmission) contract since there was little expenditure on this contract during 2007-08 as it was not fully operational.
- 2 The number of performance indicators included in the analysis is at the level used by the BBC for internal reporting.
- 3 The five Johnson Controls indicators are an aggregation of 26 measured services.

25 In 2007-08, as a result of missed performance targets, strategic suppliers paid the BBC some £1.1 million in service credits, with payments on individual contracts ranging from £3,500 to £318,000. We examine the reasons for performance indicators being missed and the management of that performance in paragraph 37 and **Figure 9 on page 16**, and the absence of validation of service performance in paragraph 41.

Costs

26 Contract managers are responsible for monitoring whole life costs to confirm that expenditure is in line with forecasts. During 2007-08, spending of £715 million on strategic contracts was in line with start of year BBC

forecasts of £713 million. Spending was, however, approximately £91 million (15 per cent) higher than initially forecast in the pre-contract business cases in which the BBC assessed the benefits and costs of awarding contracts. The largest variances, by value, between costs forecast in business cases and actual costs during 2007-08 were in the contracts for information technology services (Siemens) and for broadcasting programmes (Red Bee) (**Figure 7 overleaf**). Both these contracts allow the supplier to bid for additional project work; and in both cases, the fact that expenditure was greater than expected when the contracts were let is mainly attributable to suppliers winning additional work over the duration of the contracts.

27 The BBC Trust's approach to reviewing investment decisions is that additional expenditure on existing contracts should be referred by BBC management to the Trust for approval if the scale of the activity exceeds 10 per cent of the approved budget or is in breach of any conditions imposed by the Trust when giving its approval. On these criteria, four contracts should have been referred to the Trust for approval (Figure 7). However none of the contracts was referred because, although they individually appear to breach the Trust protocol governing approvals for 2007-08, they included expenditure that had already been separately approved by the Trust. The Trust and BBC management have agreed that there is ambiguity in the referral threshold and it needs to be revised to clarify whether:

- it is projected annual or lifetime overspends that trigger a referral;
- inflation should be taken into account; and
- total expenditure against approved budget should include or exclude additional work won by that contractor.

Savings

28 Part of the BBC Trust's deliberations over which supplier should be appointed for individual strategic contracts is whether the proposed contract will deliver savings against the previous cost of providing the service. The BBC entered 10 of its 17 strategic contracts with the

expectation that they would deliver quantified financial savings. The BBC did not anticipate savings for the remaining seven contracts on the basis that: they were for new services so there were no baseline costs (Arqiva and National Grid Wireless); the contract is based on a tariff endorsed by the regulator, Ofcom (BSkyB); there is a monopoly supplier that offers fixed, non-negotiable charges (SES Astra); or in the BBC's view there were no opportunities for ongoing savings beyond those savings secured through the procurement process (Proximity, Capita (TV Licensing) and Red Bee).

29 Savings from strategic contracts are subsumed within reports to the BBC's Executive Board on progress against wider divisional savings targets. As the BBC has not separately collated savings data for all strategic contracts to determine whether savings forecasts have been met, neither BBC management nor the Trust routinely receives the information they would need to assess the achievement of savings forecast in the individual business cases approved by the Trust.

30 BBC practice, once savings targets have been agreed, is to remove the amount from divisional budgets. BBC savings data show that the strategic contracts had delivered life-time savings of £157 million up to 31 March 2008, £22 million higher than the aggregate business case forecasts of £135 million (Figure 5). Excluding the Siemens Contract, savings from the portfolio as a whole were in line with the savings forecast.

7 Contracts where expenditure in 2007-08 exceeds the annual costs agreed in the original business case by more than 10 per cent

Contract	Start date	Actual cost	Variance against business case	
		£m	£m	%
Red Bee	July 2005	78.0	+24.7	+46
Siemens	April 2005	232.0	+50.2	+28
Capita (License Fee) ¹	April 2002	73.5	+14.2	+24
Steria	November 2006	17.9	+2.6	+17

Source: National Audit Office analysis of BBC data

NOTES

1 Capita (Licence Fee) forecast expenditure in the business case is in 2001-02 prices.

2 Expenditure on the HBML contract in 2007-08 was 71 per cent above the business case forecast but the contract's relatively small scale meant that it did not require Trust approval.

31 The Siemens contract – the BBC’s largest by value – delivered savings of £104.1 million to 31 March 2008, including an additional £38.7 million in savings on renewals of desktop computers not reflected in the original savings forecast. The BBC identified this additional saving in response to the recommendation in the Comptroller and Auditor General’s 2006 report on the Siemens contract that the BBC should provide a more complete and accurate picture of the financial benefits of the deal. The additional savings over the lifetime of the Siemens contract should be £129 million. Without these additional but unforecast savings the BBC would have missed its savings targets for both the Siemens contract and the portfolio of strategic contracts as a whole.

32 As a test check on the accuracy of the BBC’s claimed savings figures, we checked savings targets to original documentation in business cases for the contracts which were considered and approved by the BBC Trust. We also looked at the savings claimed for the contract with Siemens, which accounted for approximately two-thirds of the total life-time savings across the portfolio of strategic contracts between August 1996 and the end of March 2008. We found that the BBC had overstated savings attributable to the Siemens contract by £10 million, and we have adjusted Figure 5 above to reflect this. This sum represented the amount taken out of the technology budget to make up for a shortfall in the savings flowing from the Siemens contract, but it was not a saving produced by the Siemens contract. The shortfall arose because the BBC judged in the light of experience that the annual savings for the contract would be £5.7 million below its forecast of £27.5 million.

How the BBC manages individual contracts

33 Having considered the performance achieved through strategic contracts in paragraphs 21 to 32 above, we then examined the BBC’s management of six individual contracts as case studies to determine how well the BBC applies good practice in four key areas:

- managing performance by using contractual terms;
- managing relationships with strategic suppliers;
- resourcing contract management teams; and
- managing contract risk.

34 We examined six contracts as case studies: Arqiva (Transmission); Capita (Human Resources); Capita (TV Licensing); Johnson Controls (Facilities management); Red Bee Media (Playout and broadcast services); and Steria (Finance and Accounting), described in Figure 4 above. These contracts were selected to give a cross-section of service types and levels of expenditure.

Managing performance by using contractual terms

35 In procuring strategic contracts the BBC seeks to insert contractual terms by which it can influence the quality of service received and price paid for that service. This section considers how the BBC has applied those terms, which may have been secured at a financial cost in contractual negotiations.

Service credits

36 As set out in paragraphs 22 and 23 above, the BBC attaches service credits to some, but not all, of its performance indicators. Service credits are the BBC’s main contractual tool to incentivise suppliers to meet required service levels and standards. The BBC normally sets service credits as a proportion of annual service charges and some of the BBC’s contracts allow suppliers to earn credits back if they improve performance. In five of our case studies, the BBC had invoked service credits when suppliers missed those indicators linked to payment. **Figure 8** shows service credits as a proportion of annual expenditure and percentage of performance indicators met in 2007-08 for the six case study contracts.

8 The proportion of performance indicators with service credits attached that were not met in 2007-08, and service credits received as a proportion of annual expenditure for the six case study contracts

	% indicators with service credits not met	Service credits as % of annual expenditure
Capita (Human Resources)	26	1.7
Steria	10	0.5
Arqiva	5	0.3
Red Bee	9	0.2
Capita (Licence Fee)	6	0.1
Johnson Controls ¹	4	0.0

Source: National Audit Office analysis of BBC data

NOTE

1 On the facilities management contract, service credits are payable if Johnson Controls meet less than 95 per cent of performance indicators for the year.

37 While service credits provide the BBC with a financial remedy for under-performance, their effectiveness is ultimately determined by their ability to incentivise suppliers to bring service levels in to line with the standards that the BBC requires. Of the six case study contracts we examined, we found as follows for 2007-08.

- Arqiva, Johnson Controls and Red Bee met over 90 per cent of performance indicators. There is no firm evidence of whether the service credits acted as effective incentives, but contract managers in the BBC and the suppliers, who have different financial interests in the operation of service credits, regarded the service credit regimes for these contracts as, overall, effective and fair.

- In the contract for financial services, the BBC was unable to measure Steria’s performance against four of the 31 indicators with service credits attached and 21 of the 90 indicators not linked to payment during 2007-08, because the systems which will facilitate reporting against these indicators are still being developed. For the indicators where performance data could be produced, Steria met 90 per cent of performance indicators with service credits attached, and 94 per cent of indicators not linked to payment.

9 Examples of steps the BBC is taking to improve performance in the Capita (Human Resources) contract

Example of under-performance	Contributing factor	Impact	Actions taken by BBC contract managers to secure improvements
The Human Resources service contract included a target to answer 92 per cent of calls made by BBC employees within 15 seconds which Capita were unable to meet.	Over-ambitious performance target which drives the wrong behaviour	Mystery shopping carried out by the BBC showed that setting the target at this level has encouraged Capita’s staff to focus on the number of calls they handle at the expense of the quality of the service they provide.	BBC and Capita HR renegotiating performance indicators.
Capita failed the indicator related to the acceptance rate of all jobs offered by the BBC every month during 2007-08.	Unrealistic performance indicator	The acceptance of a post in the BBC can be due to factors outside Capita’s control.	BBC and Capita HR renegotiating performance indicators.
Capita routinely miss the target for the accurate and timely entry of leaver details on to the BBC’s accounting system.	Complexity of BBC processes	Staff receive incorrect pay and the volume of calls to the HR helpdesk increases.	BBC looking at how internal payroll processes can be simplified.
Capita missed targets for answering calls to the Human Resources helpdesk due to an increase in the volume of calls following problems with the transfer of the finance contract to Steria from the previous supplier.	Inter-dependencies between strategic suppliers	Negative impact on the relationships between the BBC and Capita HR, and Capita HR and Steria.	Two tripartite meetings between Capita, Steria and BBC contract managers have been held to discuss inter-dependencies.
Capita’s target to deal with 80 per cent of calls to the HR helpdesk at the ‘first point of contact’ has been interpreted differently by contract management staff at the BBC and Capita.	Misunderstandings between BBC and supplier over how service levels measured	BBC interpretation of calls being dealt with ‘in one hit’ is that neither party needs to call back. Capita’s interpretation is that the call needs to be handled by the call answerer, leading to complex issues that should be escalated to specialists being dealt with by inexperienced front-line staff, resulting in a lower quality of service.	BBC and Capita HR renegotiating performance indicators.

Source: National Audit Office case study review

- In the contract for collecting the licence fee, Capita met 94 per cent of performance indicators; the areas where Capita did not meet the required performance standards occasionally included answering calls, responding to correspondence and replying to e-mails from the public. The main incentive mechanism for this contract is revenue collected, as the more Capita collect, the greater their return (subject to minimum targets being achieved). The BBC accepted, however, that the service credit regime had not always incentivised the supplier to meet contractually-defined quality standards as the cost to Capita of improving performance could exceed the value of the service credit. During 2007-08 Capita had to give the BBC £43,000 in service credits as a result of missing contractually-defined performance standards on this contract against total contract expenditure of £73.5 million.
- Capita (Human Resources) met the lowest percentage of performance indicators in 2007-08, and had the largest proportion of service credits to annual expenditure on the contract. All of Capita's indicators for this contract have service credits attached. Figure 9 illustrates some of the reasons why the Capita (human resources) contracts have not met agreed standards and the actions the BBC is taking to try and secure improvements, including renegotiating some performance indicators which are now considered to be inappropriate by both the BBC and Capita. The BBC has not sought adjustments to contract price to reflect changes in performance standards but considers the outcome of the negotiations to be cost neutral to the BBC and Capita.

User satisfaction

38 Feedback from service users is an important part of the information the BBC uses to assess performance. It can give a qualitative richness to indicate whether systems and processes are not only working as intended but that they are also meeting users' actual needs. In his report on the BBC's contract with Siemens Business Services, the Comptroller and Auditor General reported that the BBC and Siemens experienced low response rates to user surveys. The BBC and Siemens re-designed the user survey and response rates have since increased, from five per cent in January 2006 (as reported in the Comptroller and Auditor General's report) to 17 per cent in March 2008, with 190 responses from the 1,100 surveys sent out.

39 We considered the extent to which the BBC had used customer surveys to assess user satisfaction with our case study contracts. Three of the six contracts we examined (Red Bee, Capita (TV Licensing), and Johnson Controls) had used customer surveys.

- The latest Red Bee annual survey (in March 2008) received a response rate of 42 per cent on the 132 surveys issued to BBC staff.
- Capita speak with 500 members of the public each month to survey performance.
- To meet a performance indicator on levels of user satisfaction, Johnson Controls survey 10 per cent of building users annually. These surveys are conducted as face-to-face interviews by Johnson Controls staff and results reported to the BBC. Face-to-face interviews carried out by the supplier of the service carry the risk of unconscious bias in reporting responses, but the BBC does not seek to validate the results by, for example, contacting a sample of respondents to confirm their accuracy.

The results of customer surveys during 2007-08 for the Red Bee, Capita (TV Licensing) and Johnson Controls contracts showed that respondents were generally satisfied with the level of service they had received. For example in each month of 2007-08 over 80 per cent of survey respondents rated the service they received from Capita (TV Licensing) as excellent or good.

40 The position on assessing user satisfaction on the remaining three case study contracts is:

- The Capita (Human Resources) contract includes three performance indicators related to user satisfaction, but the BBC has decided that it is not practical to report against these indicators. The BBC considers that an annual survey of users is a more effective mechanism for collecting customer feedback, but the latest annual survey was in October 2006. Since June 2007, the BBC has undertaken quarterly Mystery Shopping exercises on aspects of the Human Resources contract to assess user experience, but it has not sought feedback direct from users of the service.
- The contract with Steria has not yet reached the date when the annual customer survey is due, so the BBC has no quantified data on user satisfaction for this contract.
- Customer surveys are not appropriate in the contract with Arqiva as it is a contract for a transmission network, measured and monitored wholly on availability of service.

Performance validation

41 One of the wider lessons for the BBC’s outsourcing contracts identified in the Comptroller and Auditor General’s report on the BBC’s contract with Siemens Business Services was that the BBC should introduce processes to validate the accuracy of performance information provided by suppliers.⁵ Of the six case study contracts we examined, the BBC had undertaken audits of the TV licensing contract but had not audited the performance information or systems used to produce it for the remaining five. Of these five contracts, for the contract with Arqiva for transmission services, where performance is based on availability of service, the BBC receives automated notification of the failure and an audit of performance data is not required. Although the BBC had undertaken some performance reviews on aspects of the remaining four case study contracts, largely on the contracts with Red Bee and Johnson Controls, these did not form part of a plan designed to provide assurance on performance information provided by the suppliers.

Contractual provisions for reviewing prices paid

42 Benchmarking clauses allow the purchaser to take account of changes over time in the market price for goods and services sourced through contracts. In four of the six case study contracts we examined the BBC had included provisions in the contract to benchmark costs against market prices (**Figure 10**), generally starting three years after the commencement of the contract.

43 Of the case studies, only the contract with Red Bee had reached the point at which benchmarking could be applied. For this contract, the BBC had engaged consultants to undertake the benchmarking exercise, and the results were not yet available at the time of our audit. For the contract with Capita for Human Resources services, the BBC has decided not to apply benchmarking provisions when they fall due in late 2008, on the basis that it first needs to improve service delivery. Capita did not meet 26 per cent of targets during 2007-08.

44 In line with good practice, five of the six case study contracts we examined included open-book provision which provide the BBC with access to suppliers’ financial records to enable the BBC to understand and challenge the composition of charges. The Comptroller and Auditor General’s report on the Siemens outsourcing contract recommended that the BBC implement open-book accounting from the outset to protect its interests and

10 Case study contracts with benchmarking and open-book provisions included in the contracts

Contract and start date	Benchmarking	Open-book
Steria, July 2007	✓	✓
Arqiva ¹ , September 2006	✓	✗
Capita (TV Licensing), April 2002	✗	✓
Capita (Human Resources), April 2006	✓	✓
Johnson Controls, July 2006	✗	✓
Red Bee, April 2005	✓	✓

Source: National Audit Office case study review

NOTE

¹ Although the Arqiva contract does not include open-book provisions, Arqiva are obliged to provide the BBC annually with a fully updated version of the cost model for the contract, which includes actual costs incurred and updated forecasts for all future costs. This provides the BBC with some transparency over Arqiva’s costs.

embed transparency and accountability in working practices. Of the five case study contracts with open-book provisions, the BBC has undertaken an open book audit of the Johnsons Controls contract, but not of the remaining four, although it has set in train an open book audit of Capita (TV Licensing) which is due to be completed by the end of 2008.

Managing relationships with strategic suppliers

45 The aim of strategic relationship management is to go beyond a transactional buyer-seller relationship to create a deeper relationship over a longer period, which features trust and collaborative working between the two parties. Developing a strategic relationship with a supplier can secure additional benefits such as increased cost savings and access to innovation. BBC *Guiding principles on the award and delivery of strategic contracts* state that one of the overarching aims of outsourcing is to establish a long term external relationship that offers a range of ongoing benefits and opportunities which would not otherwise be available. There is no direct link between strength of relationship and performance against performance indicators, but a strong working relationship can help when things go wrong as both parties will be more committed to resolving problems quickly and effectively.⁶

⁵ *The contract between the BBC and Siemens Business Services for the provision of technology services, Review by the Comptroller and Auditor General presented to the BBC Trust’s Finance and Strategy Committee, June 2006.*

⁶ *Managing the relationship to secure a successful partnership in PFI projects, Report by the Comptroller and Auditor General, HC 375 Session 2001-2002.*

46 We assessed the quality and effectiveness of the BBC's approach to relationship management for five of its strategic contracts (Red Bee, Capita (Human Resources), Steria, Siemens and Johnson Controls⁷). We benchmarked the BBC's approach to managing the five strategic contracts against 149 other private and public sector organisations and ranked the BBC, overall, above average. Two strategic relationships, for Red Bee and Johnson Controls, were excellent and the process defined by the BBC for relationship management was generally appropriate for the management of strategic suppliers. Variations in the application of the BBC's approach across the relationships reviewed suggested, however, that there should be a greater focus within the BBC on securing consistency of relationship management.

47 The BBC has developed strong strategic relationships with Red Bee for the provision of play out and broadcast services and with Johnson Controls for facilities management services. The BBC's management of these relationships exhibited a number of areas of good practice such as high levels of senior management engagement, a good understanding by both parties of the strategies and goals of the other, and clear and consistent communication between the parties at all levels of seniority. The relationships are characterised by trust and high levels of collaborative working. For example the BBC and Red Bee jointly scoped the system and operational requirements for the BBC's High Definition channel which launched in December 2007. One of the factors which has supported the strong relationship with Red Bee is that many Red Bee employees were, prior to the outsourcing of broadcast services, employed by the BBC and are therefore familiar with BBC processes and personnel. **Figure 11 overleaf** sets out some of the factors which have contributed to the development of the effective relationships with Red Bee and Johnson Controls.

48 In two of the contracts (Capita (Human Resources) and Siemens), the BBC had not yet developed an effective strategic relationship with the suppliers. On the Capita contract, senior management engagement had been below that seen in the better managed relationships, and the relationship had not been operating as a collaborative partnership, with the BBC focussing at an operational level at the expense of developing a strategic relationship. Two meetings have, however, been held, in April 2007 and October 2008, between senior executives at the BBC

and their counterparts in the wider Capita group, to try and establish a higher level relationship across the three strategic contracts the BBC has with the Capita group. On the Siemens contract, there were differences in the views of the BBC and the supplier regarding the status of the relationship (**Figure 12 overleaf**).

49 As the BBC has noted (paragraph 45, above), one of the benefits of a strong relationship may be increased access to innovation through the expertise of an experienced supplier. Securing innovation was an explicit objective of the partnership with Siemens and the BBC does track innovation offered by Siemens, but BBC managers consulted as part of our study considered that the BBC had not yet received the levels of innovation it had anticipated. Because of what Siemens perceived to be a lack of trust and understanding of the BBC's intentions for the relationship, Siemens had delayed giving the BBC access to the innovation capabilities of its technology centre in Germany from which the BBC expected to secure innovation in the area of broadcast technology, although the BBC now has some access to this facility.

50 BBC managers indicated that innovation has not yet been a strong feature of the relatively new Capita (Human Resources) or Steria relationships as management focus has been on getting basic performance issues right. These suppliers did, however, provide the BBC with new approaches to delivering the services as part of the procurement process, for example the centralisation of the BBC's human resources administration, an increased use of information technology and off-shoring of the finance and accounting services contract. There has been some sharing of innovation in the Red Bee relationship and examples of good joint working on innovation, for example Red Bee helped to deliver iPlayer and High Definition Television.

Resourcing contract management teams

51 Organisations should assess which contracts offer the most potential for securing additional benefits through investing in developing the relationship, and use the assessment to inform decisions on the number and skills of staff required to manage contracts. The BBC has not yet segmented its portfolio of strategic contracts by the depth of relationship that is required to secure most value from the contract.

⁷ Of the six case study contracts we examined, we did not commission reviews of the Arqiva relationship because it is largely a technical contract, with little scope for development, or the TV Licencing contract with Capita as the BBC had recently carried out a similar exercise.

11 Factors which contributed to effective relationships with Red Bee and Johnson Controls

Success factor	Why it is important	How it was achieved with Red Bee	How it was achieved with Johnson Controls
Clarity of vision	Provides a consensus among partners about the desirability and importance of joint working, with realistic joint aims and clarity over the service that is required.	Both parties share a mutual understanding of the objectives of the other party; for example the BBC understands (and supports) Red Bee's desire to secure other commercial contracts and reduce its dependence on BBC contracts, and Red Bee understands that it needs to ensure commercial competitiveness.	Both parties share a mutual understanding of the purpose of the relationship.
Senior management commitment and ownership	Commitment and ownership of the relationship from senior management on individual contracts suggests a clear focus across the organisations on the need to develop a strategic relationship.	There is management commitment to the relationship, for example both the Client Board and Strategic Direction Forum are chaired by the BBC Executive Sponsor.	BBC senior management are committed to the long term success of the relationship and invest a suitable amount of time in meeting counterparts at Johnson Controls, sharing strategies both internally and with the supplier's team and assessing the appropriateness of governance structures.
Trust between the two organisations	Trust, at an individual and organisational level, is required to enable the two parties to work together to create joint benefits. Where there is a lack of trust one party may act in a way which benefits them to the detriment of the other party.	BBC and Red Bee managers have aligned goals for the contract and relationship and are committed to making the relationship work.	Johnson Controls appreciate that BBC management are committed to the relationship and are willing to share business strategies. The BBC provided references for Johnson Controls when they were bidding for a contract with another organisation.
Clear understanding of roles and responsibilities and communication channels	A clear understanding of the roles and responsibilities of staff at all levels of seniority at the two parties is essential to allow clear, effective and efficient communication between the parties.	Red Bee and BBC contract management staff share a common understanding of their roles and responsibilities, as set out in the contract.	Communication channels between the two organisations are set out in the contract, understood at all levels of seniority and work well.

Source: National Audit Office

12 The BBC and Siemens have different views of the strategic nature of the relationship and as a result the BBC has not secured the expected levels of innovation

BBC's view	Siemens's view	Impact
<p>The BBC brought in a new contract manager in May 2007 and focused on securing value by pushing down costs on its commodity purchases from Siemens. This has been achieved and the BBC recognises it needs to refocus on the strategic relationship.</p> <p>The BBC think that Siemens are not providing adequate innovation and are attempting to encourage them to innovate more by awarding projects through competition.</p>	<p>Siemens think that in the last 12 to 18 months the BBC has changed the emphasis of the relationship, away from being a strategic relationship to one that is purely cost and performance focused.</p> <p>Siemens are concerned at the reduction in project revenues from the BBC due to contracts being awarded to other suppliers or being managed in-house.</p>	<p>Siemens have not opened up their ability to innovate to the BBC due to the lack of trust and understanding of the BBC's intentions for the relationship.</p> <p>The BBC acknowledges there needs to be a refocus on the strategic aspect of the relationship and they have recently started to invest effort in building a strategic relationship.</p> <p>When the BBC awards work to providers other than Siemens on non-financial grounds it risks missing the financial savings that are available through the contract with Siemens.</p>

Source: National Audit Office

52 The BBC does not yet have a defined set of core competencies for managing its strategic contracts, although it is developing one, and there is no continuing professional development programme or any mandatory training courses in contract management. Four of the six BBC contract managers we interviewed had received no formal training in contract management and none had received training in relationship management. The BBC has experienced gaps in the skills of its contract management staff, with BBC staff having to be replaced on some contracts because they did not have the necessary commercial and contract management skills.

53 Continuity of personnel from procurement to contract management stages is important in that it retains knowledge within the team of contract mechanisms, opportunities and risks. BBC guidelines state that the contract manager who will be managing the ongoing relationship should be part of the procurement management team to facilitate a structured transition from procurement to the service delivery phase. The BBC contract management teams were involved in the procurement phase in four of the case study contracts. The BBC has, however, experienced some breaks in continuity of staffing, and the current contract managers in the Capita (Human Resources) and Steria Financial Services contracts were not involved in the procurement of those contracts.

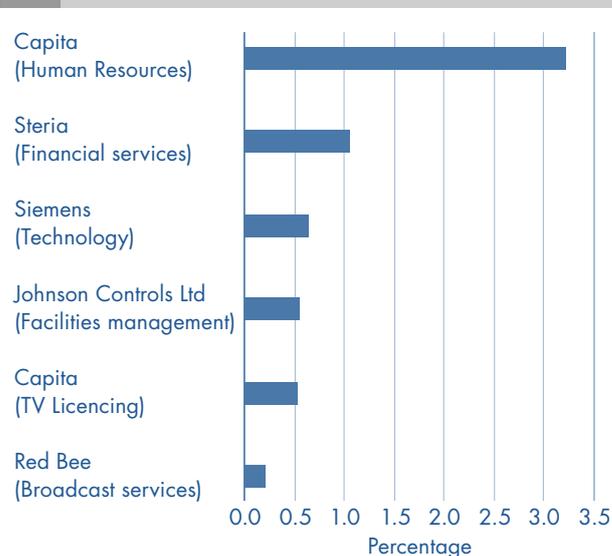
54 The BBC does not routinely collect or monitor its expenditure on contract management. The BBC was, however, able to produce an estimate of expenditure in 2007-08 for the six contracts we examined in detail, as well as the Siemens technology contract (Figure 13). The BBC estimates that it generally spends less than one per cent of annual contract expenditure on managing its strategic contracts, although in 2007-08 it spent significantly more (3.2 per cent) on managing the contract with Capita (Human Resources), on which the BBC was experiencing some performance problems (Figure 9).

Managing contract risk

55 The Comptroller and Auditor General’s report on the Siemens outsourcing contract recommended that every contract⁸ should have a documented risk register which should be maintained and regularly updated. A risk register provides a formal trail of risks, responsibilities and mitigating actions to support risk management and reporting. With the exception of the contract with Arqiva for transmission of digital television signals, a risk register was maintained for each of the case study contracts.

56 Good practice is that a shared risk register should be maintained with the supplier to provide a complete understanding for both parties about risks to implementation and ongoing service delivery, and enable a joint approach to managing risk. A shared register also provides clarity of who is responsible for managing each risk.⁹ Although the BBC had discussed contract risks with the supplier in each of the six case studies, for four contracts (Arqiva, Capita TV Licensing, Johnson Controls and Red Bee) joint risk registers were not maintained.

13 BBC expenditure on the operational management of six of its strategic contracts as a percentage of annual contract spend in 2007-08



Source: National Audit Office analysis of BBC data

NOTE

The Arqiva (transmission) contract has been excluded from this analysis since there was little expenditure on this contract during 2007-08 as it was not fully operational.

⁸ BBC Outsourcing: The contract between the BBC and Siemens Business Services for the provision of technology services, NAO review presented to the BBC Governors’ Audit Committee, June 2006.

⁹ Effective partnering, Office of Government Commerce, 2003.

57 A key risk in strategic contracts is that the BBC is not prepared for the failure of one of its contracts. The absence of an exit plan or adequate contractual terms to protect the BBC's interests, for the BBC's initial outsourcing of its finance and accounting function, increased the cost and complexity of transferring service delivery to Steria in June 2007, after Steria won the re-tender. Contracts should therefore contain an Exit Schedule, covering areas such as: ownership of/access to intellectual property; transfer and/or use of any assets; and arrangements in the event of early termination. Although each of the six case study contracts contain Exit Schedules, exit plans were not fully developed in four of the six contracts – Capita (Human Resources), Capita (TV Licensing), Red Bee and Johnson Controls – particularly in relation to early termination of the contract.

Progress in establishing portfolio management

58 As set out in Paragraph 17 above, in 2006 the BBC realised that it needed to introduce central management of its strategic contracts as a portfolio to secure the most value from these contracts. To this end, it established the Strategic Relationships Board in 2007, to work together on common issues and demonstrate consistency of approach across the portfolio; map and prioritise interdependencies and risks; share information and experiences; create opportunities for savings/deliver further value; and consider succession planning. The Board was also given the responsibility of facilitating the central reporting of strategic contract performance.

Central reporting of cost and performance

59 In September 2006 the BBC decided that all strategic contracts should have a formal performance review every year by the Director General's Finance Committee. These reviews would cover financial and service performance, risk, relationship management, contract change and the future strategy for the contract. Once these annual reviews of individual contracts have been completed, the Strategic Relationships Board plans to provide the Finance Committee with an annual overarching report that links common issues across contracts. Previously, the BBC had not sought to collect cost and performance information centrally for its portfolio of strategic contracts.

60 The first of these annual reviews of performance, on the contract with Red Bee Media, was completed in April 2008. The review concluded that Red Bee had

delivered solid service quality and performance across the core services established at the start of the contract. The Strategic Relationships Board intended to submit the remaining reviews to the Finance Committee by September 2008, but the deadline later moved to December 2008. The BBC has decided that three contracts do not require annual reviews: SES Astra and ENPS (because they are commodity based contracts); and BSkyB (because the contract is based on a tariff endorsed by the regulator, Ofcom). As at November 2008, nine of the fourteen reviews had been completed.

Managing interdependencies and risks across the portfolio

61 The Strategic Relationships Board was set up with an explicit responsibility to identify and own the inter-dependencies between strategic contracts and their associated risks. The Strategic Relationships Board has provided a forum for contract managers to discuss and identify pan-portfolio risks and interdependencies between the BBC's strategic contracts, and there are some examples of good practice. For example the inter-dependencies between Siemens (technology services) and Johnson Controls (facilities management) are well managed and work effectively; a joint working group has been set up and there is frequent communication at an operational level between Siemens and Johnson Controls.

62 More generally, however, the Strategic Relationships Board has not maintained a portfolio level risk register or mapped out the linkages and interdependencies. Linkages between strategic suppliers which are not sufficiently understood can increase the risk of service failure. They can also affect the relationships between the BBC and its strategic suppliers, and between the suppliers themselves. For example, there has been a lack of clarity at the BBC about who is responsible for managing the interdependencies between the Capita (Human Resources) and Steria (Financial Services) contracts (**Figure 14**).

14 An example of the impact of interdependencies between strategic suppliers – Capita (Human Resources) and Steria (Finance)

Steria processes overtime payments but when mistakes are made the employee will ring Capita to complain as there is only one Human Resources telephone number. This has an impact on Capita's performance against its performance indicators for dealing with helpdesk calls, and also Capita's relationship with the BBC and Steria.

Source: National Audit Office

63 The BBC has recognised the portfolio level risks associated with the expiry of ten of its strategic contracts in the period 2012 to 2015. The re-tendering of these contracts will place a strain on BBC resources and the BBC has set up a working group to consider the associated risks and resource implications.

Sharing information and experiences and demonstrating consistency of approach across the portfolio

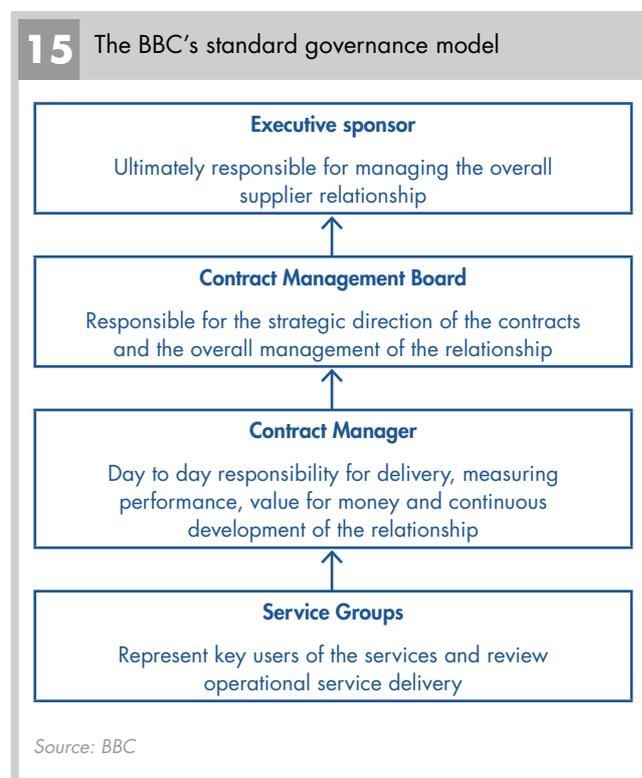
64 The Strategic Relationships Board was given the responsibility of applying minimum standards across the contracts. It has acted as a useful forum for contract managers to share knowledge and experience and discuss areas of good practice. The Strategic Relationships Board does not, however, have executive authority and contract managers are not accountable to it for their approach to contract management or compliance with the standards or guidance it issues. The Strategic Relationships Board has been unable to enforce compliance with minimum standards across contract management teams. For example joint risk registers and fully developed exit plans were not in place for all of the case study contracts (see Paragraphs 56 and 57 above).

65 The Strategic Relationships Board was also given the responsibility of securing assurance that the governance structure of major contracts is consistent with the BBC's governance model (Figure 15) or appropriate for the type of contract covered. Governance arrangements were working well in four of the six case study contracts we examined. But governance arrangements had not yet been fully implemented in the contract with Steria for finance and accounting services, and had not been fully effective in the contract with Capita for Human Resources services.

- **Steria:** the Service Group had not been established in line with the documented governance model for this contract, and a tripartite agreement between Steria, Capita and the BBC, which was intended to support the management of inter-dependencies between contracts, had not been signed.
- **Capita (Human Resources):** The BBC and Capita found that the contractually defined governance framework resulted in too many lower level issues being escalated to senior management. The BBC and Capita were, at the time of our review, implementing new governance arrangements with the intention of providing a clearer separation of strategic and operational activities.

Identifying opportunities for savings

66 The Strategic Relationships Board was given the responsibility of coordinating reviews of individual strategic contracts, to identify ways of securing additional savings beyond those which were anticipated when the contract was awarded. These reviews, which were completed by contract managers, identified opportunities for the BBC to secure total cumulative savings of £157 million over the five year period 2008-09 to 2012-13 across its portfolio. This figure was approved as an overall savings target by the BBC Finance Committee in November 2007, and progress against it is to be reported annually by the Strategic Relationships Board.



APPENDIX ONE

The BBC's seventeen strategic contracts

Supplier	Start year	End year	Description
Siemens	April 2005	2015	Provides technology services, (those formerly supplied by BBC Technology), such as provision and management of IT commodities, specialist technology projects and technological support for programme production.
Arqiva	September 2006	2031	High power digital terrestrial television transmission services and the expansion of DAB transmission services. Arqiva will gradually replace the NGW service.
Capita (TV Licensing)	April 2002	2012	Manages collection of the licence fee. Previously outsourced to Envision.
ENPS	June 1996	2015	Electronic news production services – client/server network.
Johnson Controls Ltd	July 2006	2011	Provides building management services in London and Scotland, outsourced under a Total Facilities Management model.
Red Bee Media	April 2005	2015	Provides broadcast critical services to the BBC, including playout of channels; continuity between programme schedules; audience access services via sign and subtitling; and an increasing range of new media and on-demand services.
VTC	April 2006	2012	Transmission services for BBC World Service.
Proximity	Rolling 12 month contract	Retender 2012	TV Licensing Marketing & Print – encompasses advertising, PR, Direct mail, printing, web design and communications planning.
NGW	Four separate contracts	Four separate contracts	Provision of terrestrial transmission services for analogue radio, analogue TV and digital sites.
Capita Human Resources	April 2006	2016	Manages HR Admin, occupational health, recruitment, outplacement and relocation.
BSkyB	June 1998	2008 (May)	Electronic Programme Guide. Provision of onscreen schedule information.
SES Astra	Seven contracts, the earliest of which commenced in January 1996	All contracts expire in 2012	Provision of digital satellite services.
Steria	November 2006	2017	Provides financial transaction processing for the BBC. Second generation outsource; previously was outsourced to Medas (in 1996).
Paypoint	April 2006	2012	Over the counter licence fee collection, supplying a branded payment collection network.
Capita (Audience Information)	December 2003	2008	Handling audience interaction – complaints, enquiries, ticketing. Was re-appointed in 2003 after a benchmarking exercise.
UK Mail	September 2006	2010	Postal services for TV Licensing.
HBML	April 2005	2011	Facilities management services for the English regions. Building management.

APPENDIX TWO

The methods we used

We carried out fieldwork for this report between June and September 2008, using the methods set out below, to examine whether the BBC is securing the service and financial objectives it outlined when it entered into the individual strategic contracts and whether the BBC has taken adequate steps to maximise the value for money of its portfolio of strategic contracts.

Interviews covering strategy, monitoring and risk management

We interviewed the BBC's Group Finance Director, the Director of Procurement and Revenue Management, the Head of the Strategic Contracts Group, the Head of Risk and representatives from BBC Internal Audit and the Trust Unit. These interviews covered the BBC's approach to managing and monitoring the performance of strategic contracts, the operation of the Strategic Relationships Board and the distribution of responsibilities between the BBC's central Procurement team and individual BBC Divisions for managing strategic contracts, risks and interdependencies between contracts.

Collection and analysis of data on contract performance

While the BBC had financial and performance information on individual contracts, it had not collated data on the costs, savings and service levels for each of its 17 strategic contracts to get an overall picture of performance. We therefore collected baseline and outturn performance data on service delivery, costs and savings from business cases presented to the BBC Trust and from strategic contract managers in BBC divisions. To check the accuracy of the data we:

- checked forecast costs and savings data provided by the BBC back to the original business cases for the six case study contracts outlined below, plus the Siemens contract as it is the largest by value;

- confirmed that data on actual costs was extracted from the BBC's financial accounting system, which is audited each year by the BBC's financial auditors;
- looked in detail at the savings claimed for the contract with Siemens which accounted for approximately two-thirds of the total lifetime savings across the portfolio between August 1996 and the end of March 2008;
- performed a test check on individual performance indicators back to supporting documentation for a sample of contracts.

Case studies of BBC contracts

We carried out case studies of six of the BBC's strategic contracts to assess the effectiveness of the BBC's approach to managing its strategic contracts against good practice. We selected the following contracts to give a cross-section of service types and levels of expenditure:

- Steria (finance and accounting services)
- Capita (human resources)
- Johnson Controls (facilities management)
- Capita (television licensing)
- Arqiva (transmission)
- Red Bee (play out and broadcast services)

For each contract we interviewed BBC contract managers and their counterparts in the supplier and reviewed provisions within the contracts relating to performance measurement, benchmarking and open-book rights to determine how well the BBC applies good practice in:

- managing performance by using contractual terms;
- resourcing contract management teams; and
- managing contract risk.

Review of relationship management

We commissioned the consulting firm PMMS, who have experience in supplier relationship management at private and public sector organisations, to review the BBC's management of relationships with its strategic suppliers. PMMS conducted interviews with executive sponsors, contract and relationship managers and operational representatives from both the BBC and its suppliers across a sample of five case study contracts. Of the six case study contracts outlined above, we did not commission reviews of the BBC's relationship with Arqiva because it is largely a technical contract, with little scope for development, or the relationship with Capita (TV Licensing) as the BBC had recently carried out a similar exercise.

The contracts we commissioned PMMS to review were:

- Capita (human resources)
- Johnson Controls (facilities management)
- Red Bee Media (play out and broadcast services)
- Siemens Business Services (technology)
- Steria (finance and accounting)

PMMS assessed whether the BBC's approach to relationships management was in line with best practice by benchmarking the BBC's processes and capabilities against 149 organisations across a range of public and private sector organisations. For each of the five contracts which they reviewed, PMMS examined whether the BBC had developed partnership behaviours with and between its strategic suppliers to deliver innovation and added value.

Review of BBC documents

We reviewed relevant BBC documents including:

- Papers presented to the Trust on the BBC's approach to outsourcing
- Papers relating to the creation and operation of the Strategic Relationships Board
- Guidelines for contract managers on the management of strategic contracts
- Internal Audit reports on the BBC's overall management of major contracts and the management of individual strategic contracts
- Business cases for strategic contracts approved by the Board of Governors or the BBC Trust.

Follow-up of NAO and PAC recommendations on the contract with Siemens Business services

We carried out a follow up review of actions the BBC had taken in response to recommendations on contract management made by the National Audit Office and the Committee of Public Accounts in their respective reports on the BBC's contract with Siemens Business Services.

Liaison with experienced procurement professionals

We liaised with Peter Smith from Procurement Excellence and a former President of the Chartered Institute of Purchasing and Supply several times during the design, fieldwork and drafting stages of the study.

