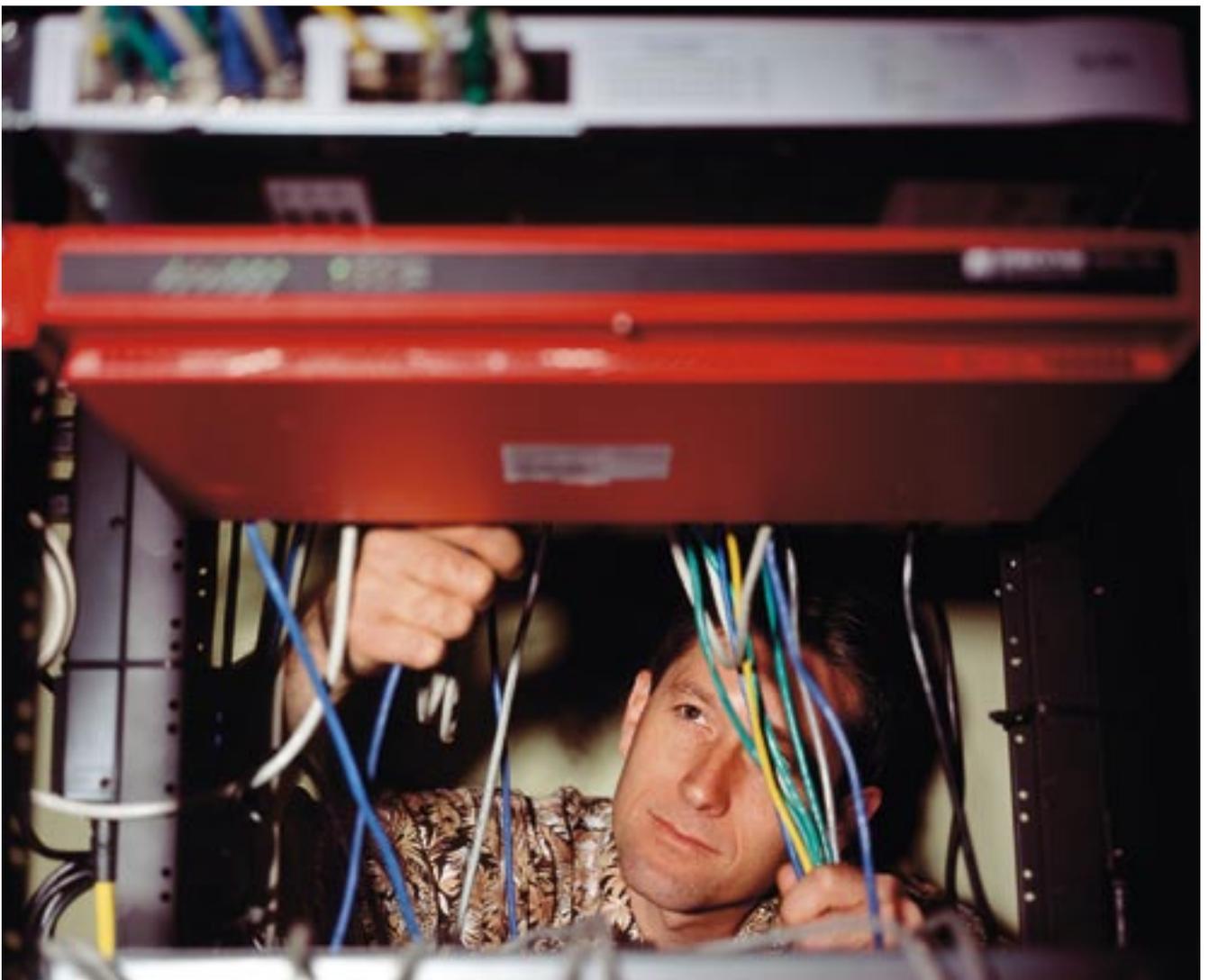


The BBC's management of strategic contracts with the private sector





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.