



National Audit Office

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British Broadcasting Corporation

# The BBC's approach to managing the cost of its support functions

Report by the Comptroller and Auditor General

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

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# Summary

**1** We estimate that in 2010-11 the BBC spent some £730 million on its support functions, equivalent to 20 per cent of the BBC's licence fee spending. These functions provide the services necessary to support the BBC in delivering programmes to licence fee payers, for example, the human resources function.

**2** In assessing the BBC's approach to managing the cost of its support functions, this report focuses on the support functions in **Figure 1** overleaf, which cost £500.5 million in 2010-11. The BBC classifies some of the cost of its support functions as overheads. The report also examines, therefore, how the BBC reports overheads in its annual report and accounts, and its plans to reduce the proportion of the licence fee spent on overheads. Our methods are set out in Appendix One.

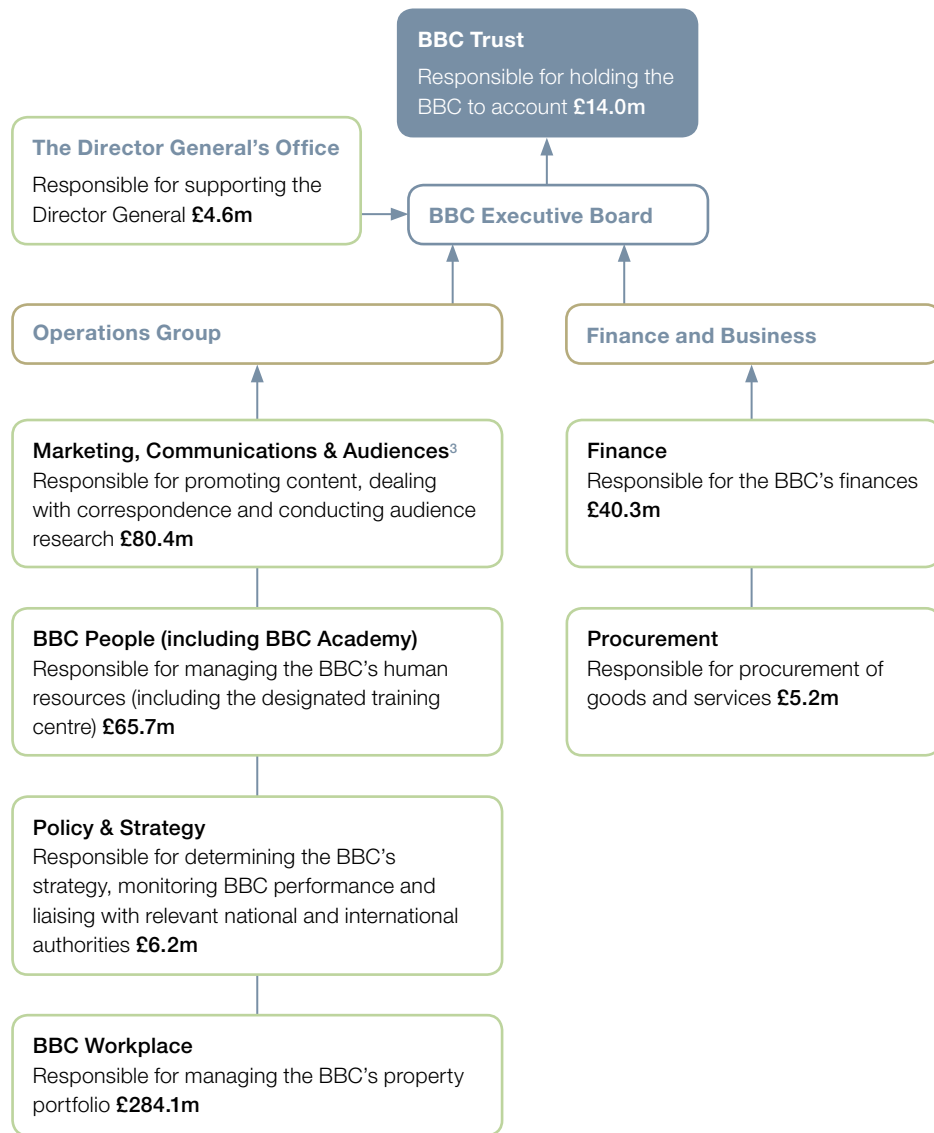
## Key findings

### The cost of the BBC's support functions

**3** **Over the five financial years 2006-07 to 2010-11, the BBC has reduced or held static the cost of all but one of the eight support functions we examined, after allowing for inflation.** Inconsistency in how the BBC monitors its support functions means that it cannot show that the support functions' performance has been unaffected, although overall performance in terms of audience measures has been broadly stable since 2007-08. While the cost of BBC Workplace has increased by 39 per cent over the period after allowing for inflation, the total cost of the remaining seven support functions has decreased by 23 per cent. BBC Workplace is responsible for managing the BBC's estate and accounts for 57 per cent of the spending we examined. Its cost increased from £205.1 million to £284.1 million due to a transitional period in the reorganisation of its estate. New buildings, including MediaCity in Salford and the extension to Broadcasting House, have recently been completed and the BBC plans to dispose of its surplus accommodation, including Television Centre, over the period to 2015.

**Figure 1**

The areas of the BBC covered by this report and their costs in 2010-11



**NOTES**

- 1 The green boxes contain the support function, explanation of support function responsibilities and function spend in 2010-11.
- 2 This diagram shows only those support functions included in the scope of this report. It therefore does not include the BBC's spending on technology, which amounted to £232.6 million in 2010-11.
- 3 From February 2011, 'Marketing, Communications & Audiences' separated to become two divisions: Marketing & Audiences; and Communications. For the purpose of this report we have used the former structure, to allow comparison with prior years.

Source: National Audit Office

#### **4 Comparing the costs of the BBC's support functions with those of the wider public sector gives a mixed picture and suggests that there is scope for savings.**

We used efficiency indicators to compare the BBC's support functions to the last Cabinet Office benchmarking survey of back-office functions (based on 2009-10 data). The indicators for Marketing, Communications & Audiences, and for Procurement, were better than average but those for BBC People were lower than average. For both Finance and BBC Workplace one indicator was above average and one was below average. The results of such benchmarking exercises need to be treated carefully. However, the BBC has conducted its own benchmarking and the results are broadly in line with our findings. Following the cost of the television licence fee being frozen, the BBC plans to make savings of 25 per cent from its annual spending on support functions by 2016-17.

### Challenging the cost of support functions

#### **5 The cost of the television licence fee has a direct impact on the funding available to the BBC, and this largely drives its approach to finding savings.**

In the case of its support functions, the BBC has also created incentives to make savings through committing to spend more of the licence fee on producing programmes. The BBC Trust challenges the value for money of BBC spending and sets the BBC's overarching efficiency targets. The BBC sets detailed cost reduction targets that are given force by reducing budgets.

#### **6 The BBC support functions we have examined have been subject to a significant degree of scrutiny by the BBC:**

- **The BBC has used a range of techniques to challenge the cost of its support functions to good effect.** It has undertaken a range of reviews into the structure and performance of its support functions. These reviews have varied in scale and scope from annual evaluations of the performance of BBC Workplace to a thorough organisational review of the scale and structure of the Marketing function.
- **Four of the eight support functions we examined, accounting for 79 per cent of the costs we examined, have used forms of benchmarking to inform their understanding of the scope for savings.** These have ranged from commissioning consultants to compare the BBC's performance with that of similar organisations to taking part in established benchmarking surveys. There is scope to follow-up the reviews in a more structured way as the BBC could not generally provide evidence of how benchmarking exercises had influenced the cost reduction strategies of the support functions.
- **The BBC has taken steps to improve how it manages major contracts, which in 2010-11 accounted for 24 per cent of the costs we have examined.** We reported on how the BBC manages strategic contracts in 2009 and found that the BBC had made limited use of its contractual rights to test value for money. Since then, the BBC's Strategic Relationships Board has implemented a programme of reviews of all strategic contracts to assess how far services are being delivered as planned and make use of the BBC's contractual rights.

**7 Although the BBC has reduced the cost of the majority of its support functions, there are areas where it could strengthen its approach to challenging costs.** By addressing these areas the BBC would be able to provide greater assurance that it is delivering value for money from its support functions:

- **The BBC does not have a coordinated and consistent approach to challenging the cost of its support functions.** Different support functions have used different approaches to challenging costs and by definition some will have been better than others. For example, the support functions we examined initiated their own benchmarking reviews, and some take part in annual benchmarking exercises, but there is no pan-organisation approach. More recently, however, the Operations Group has introduced a consistent method of challenging costs in its support functions.
- **The BBC's approach to challenging costs is not informed by a target operating model that clearly defines the level of service required by the BBC.** A target operating model defines the structure, systems and processes of an organisation, based on its business strategy and objectives. Some of the support functions we have examined questioned whether their activities were essential to the BBC. However, they did not seek to establish how far they contribute to the BBC's overarching strategy and objectives.
- **The BBC's approaches to challenging the costs of its support functions are not based on assessing what the support services should cost to deliver.** The BBC plans to find savings of 25 per cent from its support services by 2016-17 to help deliver the overall savings required by the licence fee settlement. All the support functions we examined have challenged their costs by assessing the impact of cuts necessary to live within the externally imposed cost constraints. By setting cost reduction targets in this way, rather than trying to establish what it should cost to deliver the level of service required by the business, based on the target operating model, the BBC cannot be confident that its targets are pitched at the right level.
- **The BBC has strong processes to monitor the cost of its support services. However, we saw limited evidence of the support functions combining information on cost and performance, which limits the BBC's ability to identify scope for further savings.** The support functions we examined used a consistent, risk-based approach to monitor spending against budgets. However, most had not established key performance indicators beyond those that underpin major contracts. In addition, only one of the eight support functions we examined routinely combines information on cost and performance to assess value for money. Using information in this way would allow the BBC to better target cost reductions on those areas which contribute relatively less value. The BBC plans to introduce a 'value dashboard', which it hopes will allow all areas of the BBC to link information on cost and value and monitor the value of services delivered.

## Reporting overheads

**8 The BBC has committed to reducing its overhead costs to less than 10 per cent of the licence fee by 2013-14.** In 2010-11, the BBC spent £421.0 million on overheads, 12 per cent of its £3.6 billion licence fee spending. The BBC's overheads as a percentage of licence fee spending have remained constant at 12 per cent since 2007-08.

**9 The BBC's target to reduce overhead costs shows a clear commitment to licence fee payers, but it is of limited practical use to the BBC.** The way the BBC measures and reports overheads is not aligned with how it manages those costs, which are allocated to different areas of the business solely for public reporting purposes.

**10 The BBC cannot be confident that its target to reduce overheads is pitched at the right level and it could lead to unintended consequences.** The BBC has told us that the target to spend less than 10 per cent of licence fee funding on overheads is intended to promote greater awareness of the need to reduce overheads, rather than establish an ideal level of spending. However, there is no rationale underpinning the target and there is a lack of alignment between the BBC's reporting of overhead costs and its management of these costs through its support functions.

**11 The BBC uses a consistent definition and has improved the transparency with which it reports overheads since we last examined this area, but it could still be clearer.** There is no universal definition of overhead costs and the BBC does not classify support function costs as overheads where they relate directly to the production of programmes (for example, the cost of providing accommodation for programme-making). We reported on how the BBC defines and reports overhead costs in 2006 and concluded that the BBC's accounts included a limited explanation of what costs were classified as overheads in the accounts. The BBC has since improved the published description but could go further to clarify which costs are included in the overheads figure and explain why some support costs are not.

## Conclusion on value for money

**12** The BBC has reduced the cost of most of its support functions over the last five years and plans to make further savings. Its current approach to challenging the cost of its support functions is broadly effective in improving value for money.

**13** The BBC, however, is overly reliant on financial constraints arising from the level of licence fee funding to provide the main impetus for savings. To deliver value for money into the future the BBC needs to be consistent and rigorous in defining the service it requires from its support functions; identify what that service should cost; and adjust its costs accordingly. The BBC's separate target to reduce its overheads demonstrates a clear commitment to licence fee payers. Without evidence that it is pitched at the right level, however, it is not clear that the target will deliver value for money.

## Recommendations

Our recommendations are intended to assist the BBC in developing its approach to challenging the cost of its support functions and reporting its spending on overheads.

- a** **The BBC's approach to challenging costs is focused on achieving specified levels of savings rather than an analysis of what activities should cost.**  
The BBC should:
- define the structures and processes necessary to deliver its overarching objectives (a target operating model) and make sure that the activities of each support function contribute to those objectives; and
  - make sure benchmarking results, which suggest there may be scope for further savings, are used in developing cost reduction strategies.
- b** **Although the BBC has been challenging its costs, the approaches used by individual support functions have varied.** To capture best practice across the organisation, the BBC should:
- develop a consistent and coordinated approach to challenging costs that is adopted across the BBC. The recent work by the Operations Group is a helpful step in this direction; and
  - establish a clear organisational plan for benchmarking its activities.
- c** **The BBC has established effective arrangements to monitor the cost of its support functions. However, only one of the eight functions we examined combined information on costs and performance to monitor value for money.** Monitoring unit costs would allow the BBC to identify and investigate variations in value for money across the BBC. The BBC should develop a range of performance indicators for its support functions, integrate these with its existing cost reporting and, where appropriate, perform internal benchmarking.
- d** **The BBC's target to spend less than 10 per cent of licence fee funding on overheads is not supported by a clear rationale.** The target is of limited practical use to the BBC in managing its costs and represents a risk to value for money because the BBC does not know whether 10 per cent is the right level. There could therefore be unintended consequences. If the BBC persists with this target it should prepare detailed analysis to establish the reductions in spending on the support functions necessary to deliver the required reduction in overheads and satisfy itself that these are deliverable.
- e** **While the target to reduce overheads is a clear commitment to licence fee payers, its value is limited without clearly explaining what costs are included and why.** The BBC should develop clear criteria for deciding which costs should be classified as overheads and provide a transparent explanation in its annual report and accounts.