



Financial management at the BBC

Report by the Comptroller and Auditor General
presented to the BBC Trust Finance Committee,
4 October 2012



National Audit Office

BRITISH BROADCASTING CORPORATION

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**Report by the Comptroller and
Auditor General presented to the
BBC Trust Finance Committee,
4 October 2012**

*Presented to Parliament by the Secretary of
State for Culture, Media and Sport
by Command of Her Majesty
November 2012*

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BBC Trust response to the National Audit Office value for money study: Financial management at the BBC

Introduction

As the BBC's governing body, the BBC Trust (the Trust) receives value for money investigations into specific areas of BBC activity. These investigations are carried out by the National Audit Office (NAO), or by other organisations commissioned by the Trust, and help us ensure licence fee payers are getting the best possible return from their licence fee.

We carefully examine the findings from each value for money report we receive and require the BBC Executive (the Executive) to provide us with a full response and action plan that explains the actions it will take in response to the recommendations made.

BBC Trust views on the report findings

We thank the NAO for undertaking this review and, in particular, welcome the NAO's overall conclusion that the BBC's approach to financial management provides effective support to the business in delivering value for money. We also welcome the NAO's finding that the BBC exhibits strong financial leadership and governance, with effective challenge at senior levels including from the Trust and non-executive directors.

The NAO concludes the BBC's financial management is effective in supporting the business but makes a number of recommendations for the BBC to improve its financial and risk reporting arrangements. These recommendations are helpful and timely given the significant financial risks facing the BBC and we will closely monitor their implementation. We also intend to challenge the Executive to go even further in some areas where other work indicates that financial and risk management can be strengthened, for example, by improving the quality of information available to senior managers in relation to freelancers and continuing to improve the way the BBC reports on its efficiency programme.

The NAO concludes that the BBC's financial reporting is complicated by the Trust and Ofcom requiring information to be reported in different ways and recommends we work with Ofcom to explore the scope for harmonising reporting requirements. For the Trust to scrutinise the BBC's performance it requires certain information about BBC activities, however, we seek to rely on data the Executive produces for its own management reporting requirements wherever possible. We will look to work with Ofcom to establish whether there is an opportunity to harmonise our reporting requirements but, in practice, the extent to which this can be achieved will be limited by our different responsibilities.

The Executive's response to this NAO report sets out the high-level actions it plans to undertake to address the NAO's recommendations, a majority of which it plans to deliver in the context of its Finance Effectiveness and Delivering Quality First programmes. We are content that these high-level actions are an appropriate response to the NAO's findings and we will require the Executive to report to the Trust on the progress made against the agreed actions.

BBC Trust
November 2012

BBC Executive response to the National Audit Office value for money study: Financial management at the BBC

BBC Executive views on the report findings

The BBC Executive welcomes this report, and notes with satisfaction the positive conclusion on value for money which recognises both the BBC's promotion of a culture of financial accountability and its strong financial leadership.

However, we are not complacent and are keen to continue to improve and to build upon the strengths recognised by the National Audit Office (NAO). We are already implementing a programme of transformation of our Finance and Business function – the Finance Effectiveness Programme – to make it more effective, and deliver greater value for money. We are glad to see that the recommendations made by the NAO are fully consistent with our planned improvements.

Responses to the NAO's recommendations

Recommendation a

The BBC should be able to monitor more frequently how its spending decisions align with its strategic and editorial objectives to better manage its finances.

Agreed. Although progress has been made recently in this area, for example our most recent budget shows the BBC's content spend by editorial priority and demonstrates the alignment of those plans to our Delivering Quality First proposals, we will look to see if there are further opportunities to improve how we monitor spend against our strategic and editorial objectives and how we integrate financial and performance reporting. This will help ensure senior management have a clearer overall picture, as a matter of routine. However, we need to be aware that direct relations between audience performance and cost are frequently not easy to establish, and there are many non-financial factors which influence editorial performance.

Recommendation b

The BBC should streamline its reporting arrangements by mandating greater consistency across the organisation where feasible, and improving the functionality and flexibility of its financial systems.

Agreed. As part of our Finance Effectiveness Programme, we will ensure that the same financial reporting templates are largely used by all divisions, with the only exceptions being fully justified by specific characteristics and where there is a compelling business case to justify the exception, for example key metrics will not be the same for content and non-content areas.

In addition, we are upgrading our financial systems over the next eighteen months, so that we can produce simpler, more standardised reports, and to obtain greater alignment of Finance, People and Procurement data. This will help improve the quality of the BBC's financial reporting and performance management.

Recommendation c

The BBC should strengthen its arrangements for reporting risks by being clear about the level of risk it is prepared to tolerate and identifying those risks most in need of action.

Agreed. Whilst we are already setting out the level of risk we are willing to tolerate for different types of risk and we do identify the risks we most need to mitigate, we will make this information clearer in our reports to the Executive Board and the Trust. We will also make sure that we further integrate risk assessments at different levels of the organisation.

BBC Executive
November 2012



National Audit Office

British Broadcasting Corporation

Financial management at the BBC

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

Amyas Morse
Comptroller and Auditor General
National Audit Office

20 November 2012

This report examines whether the BBC's finance function is fit for purpose and equipped to meet the challenges ahead. It is underpinned by an assessment model developed by the National Audit Office.

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The National Audit Office study team consisted of: Iain Forrester, Liz Fox, Oliver Lodge, Danny Slater and Poppy Sparham, under the direction of Peter Gray.

This report can be found on the National Audit Office website at www.nao.org.uk/bbc-financial-management-2012

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Key facts

£3.9bn

is the BBC's total
spending on public service
broadcasting in 2011-12

20%

is the planned reduction
in total annual expenditure
by 2017

£44m

was the cost of the
BBC's finance function
in 2011-12

£3.6 billion was the BBC's income in 2011-12 from the television licence fee

45 per cent is the reduction in the BBC's annual spending on its finance function over the last five years

20 per cent is the planned reduction in the number of BBC finance staff by 2014

£8 million is the planned reduction in annual cost of the BBC's finance function by 2017

Summary

1 The BBC's mission is to “enrich people's lives with programmes and services that inform, educate and entertain”. To support it in meeting this aim, it receives funding through the television licence fee – £3.6 billion in 2011-12, and also generates additional funding through commercial activities – £0.3 billion in 2011-12.

2 The BBC Trust is responsible for ensuring that the BBC delivers value for money from its spending of the licence fee. The Trust approves the BBC's strategy and the level of resources required to pursue that strategy, as well as approving significant financial decisions. The BBC's executive board, chaired by the Director-General, is responsible for implementing the strategy and for operational and financial management. The executive board is supported by a finance and business division, which manages all aspects of the BBC's finances.

3 The BBC is unlike many public sector organisations in that it operates in a highly competitive and creative environment. It operates alongside private sector production companies, broadcasters and publishers but also has responsibilities for supporting the wider media industry by providing training and investing in emerging technologies. The BBC also has a greater degree of flexibility than many public sector organisations. For example, it works in an industry where it is common for people to operate on a freelance basis and move freely between employers. In addition, it operates in an environment where, to be successful, it needs to provide space for editorial creativity and hence appropriate risk-taking.

4 Although the BBC has a relatively stable source of income, it faces some significant financial management challenges. In 2010 the government froze the level of the licence fee at £145.50 until 2016-17 and transferred a number of new funding responsibilities to the BBC. In January 2011, the BBC launched the Delivering Quality First programme to identify savings totalling 20 per cent of its annual spending by 2016-17. It plans to deliver these savings without closing any services and while maintaining the quality of its output wherever possible.

5 The BBC also faces a number of other challenges; in particular it:

- has a significant deficit in its pension fund. It has taken steps to try to address the deficit through reform of its pension schemes and making additional contributions. In 2011-12 the BBC's pension deficit increased by £251 million to £1.2 billion. An interim funding check published by the pension scheme trustees in August 2012 suggested the deficit may well increase further. A full revaluation of the pension fund is scheduled for April 2013;
- is in the midst of a major reorganisation of its estate. The BBC has recently redeveloped Broadcasting House in central London and moved a number of teams to MediaCity, a new development in Salford. It is also planning to leave Television Centre and its other properties in west London; and
- needs to be responsive to technological developments to ensure it is continuing to deliver its services in a way that best meets the needs of licence fee payers. The rapid take-up of devices such as smartphones and tablets is changing the way that people access the BBC's services.

6 The BBC recognises that its finance function will play a critical role in meeting the challenges it faces. In 2011 it announced a programme, Finance Effectiveness, to restructure and improve the service delivered by its finance activity. The BBC spent £44 million on its finance function in 2011-12 and, through its change programme, plans to save 20 per cent (£8 million) from its annual spending on this activity by 2016-17.

7 This report examines whether the BBC's finance function is fit for purpose and equipped to meet the challenges ahead. It is underpinned by an assessment model developed by the National Audit Office. The model is based on good practice in financial management and covers five areas: financial governance and leadership; financial planning; finance for decision-making; financial monitoring and reporting; and financial and performance reporting. We have based our expectations for the BBC's level of financial maturity on its relative stability and the challenging environment in which it operates. The report focuses in particular on:

- the BBC's use of information in financial decision-making; and
- the BBC's financial leadership, skills and control environment.

8 A description of the study methods is at Appendix One.

Key findings

9 **The BBC has successfully challenged its costs through a series of efficiency programmes.** Between 2004-05 and 2007-08 the BBC made sustainable efficiency savings of £347 million and in 2007-08 it launched another efficiency programme to find a further £487 million of sustainable efficiency savings by 2012-13. We reported on this programme in November 2011 and found that the programme was on track to exceed its target. The BBC has broadly improved its performance over the same period, maintaining audience numbers and increasing audience approval ratings (paragraphs 1.9 and 1.10).

Informed decision-making

10 The BBC has used its strategic and editorial priorities to guide decisions on the allocation of resources. However, its financial systems do not allow it to easily monitor spending against these priorities. The BBC's priorities are set out in its strategy, and it used them to decide where it should focus the initial tranche of savings following the licence fee settlement. Its finance systems do not, however, allow it to produce automated reports showing spending against its priorities. Preparing this analysis requires significant manual effort. The BBC's ability to track spending against its priorities will become more critical as resources become squeezed, and unless it routinely links its spending to its strategic objectives it will not be well placed to make informed trade-offs. This is particularly important as it has not yet identified where all the savings required under Delivering Quality First will come from (paragraphs 2.2 to 2.5).

11 The BBC does not integrate its performance reporting with financial reporting. It has a well-established performance framework which provides a common means of monitoring performance across all of the BBC's services. The framework consists of four indicators: quality, reach, impact and value for money. However, the BBC reports performance against these indicators independently of its financial reporting, which limits its ability to understand the value for money of services and identify where there is the greatest scope for savings. We have previously recommended that the BBC should combine information on cost and performance to monitor value for money. The BBC plans to implement this recommendation in the context of its Delivering Quality First programme (paragraphs 2.6 to 2.8).

12 The BBC is developing a better understanding of the factors that influence its costs, but there is scope for it to make better use of the information it has. The BBC's budgeting process is detailed and robust and, following previous recommendations, it has pursued opportunities to benchmark its costs and processes both internally and with other organisations. We have, however, previously found that the BBC's approach to challenging its costs is not based on an assessment of what its services should cost to deliver, and it is not clear that the results of benchmarking work have so far influenced its cost reduction plans. This means that the BBC cannot be confident that its savings targets are pitched at the right level (paragraphs 2.9 to 2.11).

13 The BBC has a sound understanding of the factors affecting its likely income, which aids financial planning. Over the last five years the BBC has forecast its income to within 1 per cent. Income from the television licence fee accounted for more than 90 per cent of its total income in 2011-12 and is relatively stable. The BBC conducts detailed research to understand the impact of changes in viewer behaviour on the level of income it receives and to improve the targeting and efficiency of licence fee collection activities. The BBC's remaining income comes from commercial activities and is largely made up of a dividend paid by its wholly-owned commercial subsidiary, BBC Worldwide. BBC Worldwide has a right to exploit BBC programming commercially but must trade with the BBC on commercial terms. While it is difficult to establish true market prices in the absence of competition, the BBC has arrangements to test the prices at which it sells programme rights to BBC Worldwide (paragraphs 2.12 to 2.15).

14 The BBC's internal financial reporting and planning processes are slow and resource intensive. It takes between five and six weeks from the end of each month for that month's financial results to reach the executive board. While individual divisions consider financial reports earlier, the delay has the potential to hinder the BBC's ability to take decisions at corporate level in year, should it need to do so. In addition, the process of agreeing the BBC's budget consumes more management time than in comparable organisations. The BBC's financial reporting is complicated. It is subject to a number of regulatory reporting requirements, which include those from the BBC Trust and Ofcom. The BBC has identified some cases in which reporting for Ofcom, some of which is derived from statute, requires duplication of work. There are also inconsistencies in both the format and content of reporting used by different divisions, which create additional work for finance staff. Compiling financial reports is made more time-consuming by limitations in the BBC's financial systems, which mean staff frequently have to produce reports themselves, leading to greater inefficiency (paragraphs 2.16 to 2.19 and 2.22).

15 The BBC has consistently underspent against its budgets. Underspends in programme-making divisions have largely been due to scheduling changes, but the BBC has also underspent on other centrally controlled costs. The BBC has devolved responsibility for managing budgets to divisions, and allows significant flexibility to try to avoid a "spend it or lose it" culture. Some degree of underspend may also be prudent to allow room for the management of unexpected demands on resources. This flexibility, however, needs to be coupled with close scrutiny when budgets across the organisation are set and scrutiny of in-year forecasts to ensure it is clear how much resource is potentially available for reallocation (paragraphs 2.23 and 2.24).

16 The BBC has robust systems for gathering information on risks but it is not clear about the level of risk it is prepared to tolerate. The BBC systematically records risks against a number of themes and reports a bottom-up assessment of the most significant risk themes to its executive board every six months. Although the process is thorough, the report does not set out the levels of risk the BBC is prepared to accept and it does not always align with the Director-General's separate top-down report of the most significant risks facing the organisation. Greater clarity about which risks are most important and what level of risk is tolerable would help the BBC to focus management attention where it is most needed (paragraphs 2.20 and 2.21).

The BBC's financial leadership and skills

17 The BBC has strengthened its governance over financial management matters and has forged an effective relationship with the BBC Trust. The BBC's internal audit department undertakes an extensive risk-based programme of work and reports directly to the audit committee, which has taken a close interest in the implementation of the resulting recommendations. The respective roles of the BBC Trust and the non-executive directors have been more clearly defined, following a 2011 review of the BBC's governance arrangements conducted by the BBC Trust. Communication between the BBC Trust and the non-executive chairman of the BBC's audit committee has also improved (paragraphs 3.3 to 3.5).

18 The BBC has taken steps to ensure that financial matters are subject to more robust challenge and accountability. Previous work by the Committee of Public Accounts raised concerns that the BBC did not subject spending decisions to sufficient challenge. Our review suggested that the BBC was making more effective use of the skills and independence of its non-executive directors to help it scrutinise and challenge major financial decisions. It has also devolved accountability for financial management to divisional directors to encourage all parts of the organisation to take responsibility for financial matters. Some divisions have also tried to further devolve accountability to operational managers (paragraphs 3.7 and 3.8).

19 The BBC has strengthened its approach to approving major projects in response to recommendations made in our previous reports. Following our reports on the BBC's Digital Media Initiative and the BBC's management of three major estate projects, the BBC Trust amended its arrangement for approving spending on projects. The BBC has also introduced a standard process for the approval of spending on all major projects, which was followed in all cases we reviewed. All decisions are considered by the BBC's finance committee, which provides effective challenge and requests additional information where required (paragraphs 3.15 to 3.18).

Conclusion on value for money

20 The BBC's approach to financial management provides effective support to the business in delivering value for money and has helped it to meet past savings targets consistently. The BBC exhibits strong financial leadership and has taken steps to promote a culture of financial accountability throughout the organisation. It has established strong governance arrangements and there is effective challenge at senior levels, including from the BBC Trust and non-executive directors. Limitations in the BBC's financial reporting systems, however, mean that information is not managed in the most efficient way. This hampers the BBC's ability to take timely decisions and make the best use of its finance staff.

21 The BBC operates in a fast moving and competitive environment and is facing significant financial challenges, in particular the requirement to achieve sustainable savings of 20 per cent of its annual spending by 2016-17 and to manage its pension fund deficit. It is reviewing the structure and operation of its finance function but to raise its financial management maturity to the required level the BBC needs to align its financial planning and reporting more closely with its strategic priorities. By strengthening this link between financial management and the achievement of its objectives the BBC will be better placed to support the achievement of value for money in the future.

Recommendations

22 Our recommendations are intended to be taken forward in the context of the BBC's Finance Effectiveness programme.

- a** **The BBC should be able to monitor more frequently how its spending decisions align with its strategic and editorial objectives to better manage its finances.** It used its strategic and editorial priorities to inform its decisions on where to make savings for its efficiency programme. However, it did so as a one-off exercise and does not examine spend against priorities on an ongoing basis. This limits its ability to make informed trade-offs.
- b** **The BBC should streamline its reporting arrangements by mandating greater consistency across the organisation where feasible, and improving the functionality and flexibility of its financial systems.** The BBC's financial reporting process is slow, in part due to a high number of regulatory reporting requirements, but also because of inconsistencies in the format and content of divisional reports and lack of flexibility in the BBC's financial systems. By streamlining reporting the BBC will both improve efficiency and help make sure that the executive board is able to be responsive to developments and take decisions in a timely way.
- c** **The BBC should strengthen its arrangements for reporting risks by being clear about the level of risk it is prepared to tolerate and identifying those risks most in need of action.** The BBC has a robust system for gathering information on the risks facing the organisation. But is not clear what level of risk it can accept and the lack of alignment between the reports and the Director-General's assessment of risk means it is difficult to distinguish which risks are the most significant. Being clearer about which are the most important risks will help make sure management time is directed where it is most needed.
- d** **The BBC Trust and Ofcom should work together to explore the scope for harmonising regulatory reporting requirements.** At present the BBC is required to report a range of information in different forms that are often inconsistent. For example, Ofcom requires the BBC to provide information annually, whereas the BBC Trust and the BBC's internal reporting requirements are based on the BBC's financial year. These arrangements create additional effort and consume resources that could be better used.

Part One

The BBC's financial challenges

The BBC

1.1 The BBC's mission is to “enrich people's lives with programmes and services that inform, educate and entertain”. The BBC must promote six public purposes, which are set out in its current Royal Charter for the period 2007–2016 and described in **Figure 1**. The BBC's funding is primarily provided through the television licence fee, which provided £3.6 billion in 2011-12, but it also generates funding from commercial activities, £0.3 billion in 2011-12.

1.2 The BBC is overseen by the BBC Trust, which holds it to account for fulfilling its public purposes. The Trust sets the strategy for the BBC, determines the level of resources required to implement that strategy and measures performance against it. The Trust also has some specific regulatory functions, including reviewing the value for money of the BBC's spending of licence fee funding and ensuring that arrangements for the collection of the licence fee are efficient, appropriate and proportionate. The executive board, chaired by the Director-General, is responsible for providing the BBC's services in line with the strategy approved by the Trust. The executive board is also responsible for editorial and creative output, and for the operational and financial management of the BBC.

Figure 1

The BBC's public purposes

Public purposes

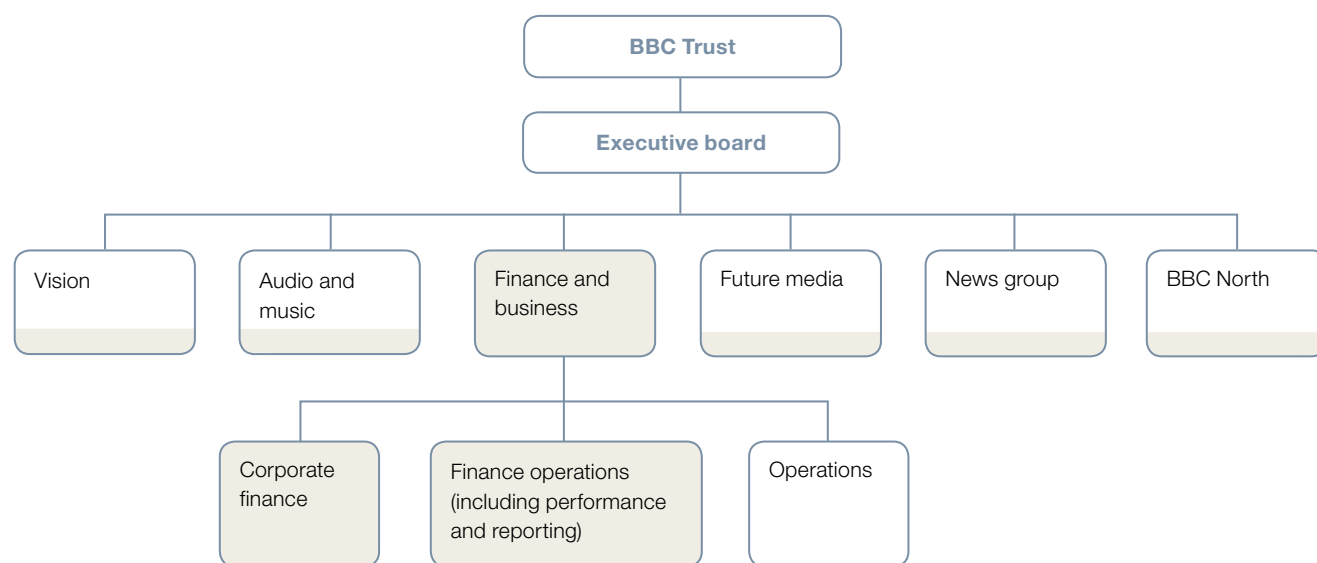
- Sustaining citizenship and civil society.
- Promoting education and learning.
- Stimulating creativity and cultural excellence.
- Representing the UK, its nations, regions and communities.
- Bringing the UK to the world and the world to the UK.
- In promoting the other purposes, helping to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television.

Source: BBC Royal Charter

1.3 The BBC's executive board is supported by a finance function overseen by the BBC's chief financial officer, who has overall responsibility for financial management and control. The chief financial officer reports to the Director General, who signs off the BBC's accounts for the executive board. The finance activity consist of a central finance function and embedded teams that work within each BBC division. The central finance function covers both corporate finance – which provides financial leadership and supports senior management – and finance operations – which manages shared financial and accounting services. The embedded teams report to both their respective divisional boards and the chief financial officer. The BBC spent £44 million on its finance function in 2011-12. **Figure 2** shows the structure of the BBC. In September 2012, the BBC announced that its finance division would merge with its operations division to form a new finance and business division.

Figure 2

The structure of BBC governance and finance



NOTES

- 1 Finance and operations were previously two separate divisions but were merged in September 2012.
- 2 The shaded sections show where embedded finance staff operate within the different groups of the BBC.

Source: BBC Trust

1.4 In 2005, the BBC initiated a programme, termed Future Finance, to reform its finance function. The programme created a new specialist BBC finance centre in Cardiff to carry out accounting and some reporting functions. It also introduced simpler business processes and established the embedded finance teams. Future Finance followed the earlier outsourcing of much of the BBC's financial processing and accounts preparation work. Between 80 and 90 per cent of the BBC's financial transactions are processed under a contract which costs around £10 million a year. Through its reforms the BBC has reduced the cost of its finance function by 45 per cent over the last five years, after allowing for inflation.

The BBC in numbers

1.5 The BBC spent £3.9 billion on its public service activities in 2011-12. Of this, it spent £2.4 billion on content, including £2.2 billion on television and radio. **Figure 3** overleaf shows how spending on content is split across the BBC's television and radio stations. It spends 62 per cent of all money spent on content on BBC One and BBC Two. Among radio stations, its largest spending is on Radio 4 and on English local radio as a whole.

The BBC's operating environment

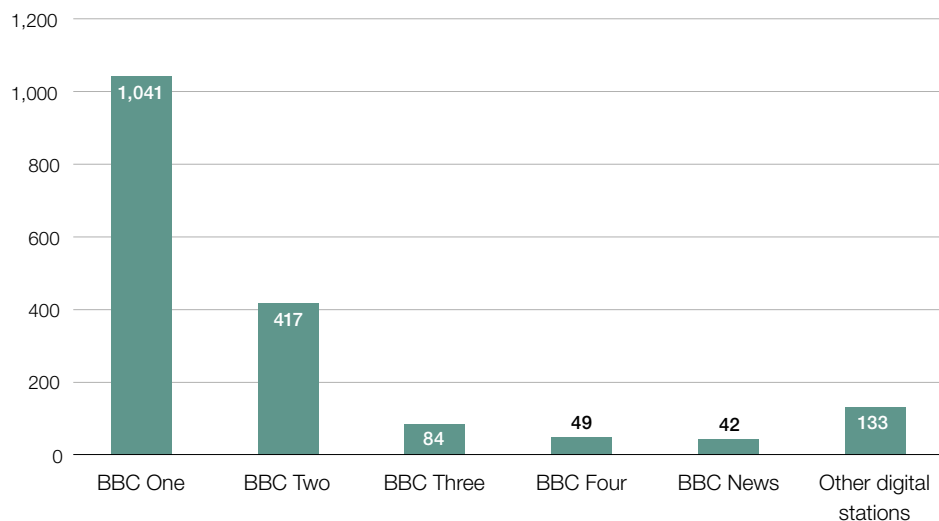
1.6 The majority of the BBC's income comes from the television licence fee. In 2011-12, income from the licence fee accounted for £3.6 billion of the BBC's total income of £3.9 billion. Ninety-seven per cent of UK homes own television sets and the estimated percentage of those evading the licence fee is steady at around 5 per cent.

1.7 The BBC's spending on public service programme content remained relatively stable over the period from 2007-08 to 2010-11, with a drop of 6 per cent in 2011-12, as set out in **Figure 4** on page 15. The BBC attributes the reduction in part to the cycle of major sporting events reducing its commitments in 2011-12, and allotting some money to 2012-13 instead for the London Olympics and other events. Although spending on content has fallen, **Figure 4** also shows that, after allowing for inflation, the BBC's total public service spending did not decrease between 2008 and 2012. Spending on content for its television, radio and online services accounted for 64 per cent of the BBC's spending in 2011-12.

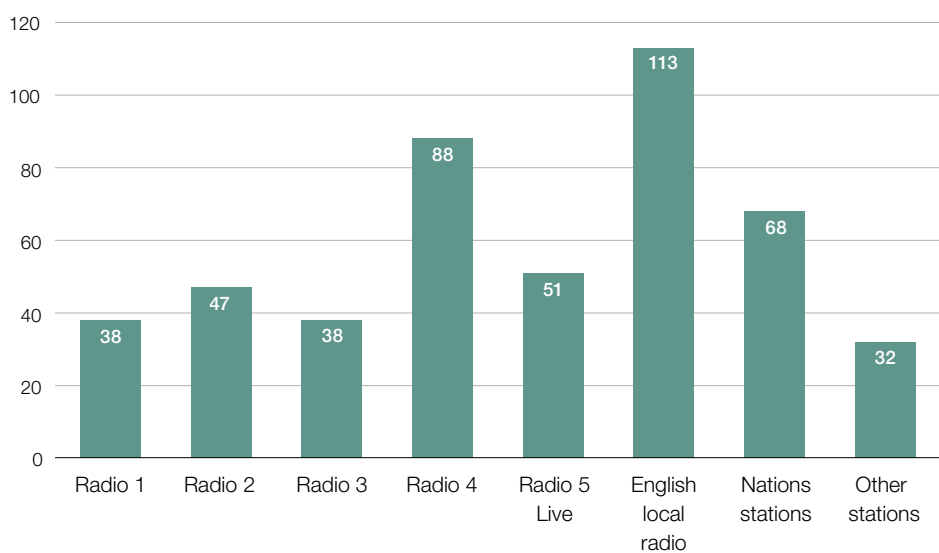
Figure 3

Of the £2.4 billion spent on content during 2011-12, £1.5 billion was spent on BBC One and BBC Two

Television cost (£m)



Radio cost (£m)



NOTES

- 1 Other digital television stations comprise BBC HD, BBC Alba, BBC Parliament, CBBC, CBeebies and the BBC's Red Button services.
- 2 English local radio consists of 40 local radio stations serving different areas of the country.
- 3 Nations radio stations comprise Radio Scotland, Radio Nan Gàidheal, Radio Wales, Radio Cymru and Radio Ulster/Foyle.
- 4 Other digital radio stations comprise 1Xtra, Radio 4 Extra, Radio 5 Live Sports Extra, 6Music and the Asian Network.

Source: BBC annual report and accounts

Figure 4

The BBC's spending on public service activities, 2008–2012

| Cost | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Change 2008–2012 |
|------------------------|--------------|--------------|--------------|--------------|--------------|---------------------|
| | (£m) | (£m) | (£m) | (£m) | (£m) | (%) |
| Content | 2,729 | 2,684 | 2,639 | 2,610 | 2,446 | -10 |
| Distribution | 204 | 214 | 227 | 207 | 208 | 2 |
| Infrastructure/support | 631 | 535 | 579 | 559 | 618 | -2 |
| Other | 294 | 197 | 216 | 223 | 577 | 96 |
| Total | 3,859 | 3,629 | 3,661 | 3,599 | 3,849 | 0 |

NOTES

- 1 All figures shown as 2011-12 equivalents after adjustment for inflation using GDP deflator.
- 2 Content comprises spending that directly relates to the production of the BBC's programmes or other services, such as web pages. Content costs include central services such as newsgathering. Distribution is the costs incurred in providing that content to audiences. Infrastructure and support costs comprise spend on learning support and community events, marketing, press and publicity and other overheads excluding restructuring.
- 3 The large spending on 'Other' in 2011-12 includes £101 million of restructuring costs, largely relating to initiatives in the BBC's Delivering Quality First efficiency programme. There is a further increase due to the reclassification of some costs into public service broadcasting expenditure that had previously been held elsewhere in the BBC's group structure.
- 4 Figures may not sum due to rounding.

Source: BBC annual report and accounts

1.8 Over the last five years, there has been little change in how the BBC allocates its spending between television, radio and online services (**Figure 5** overleaf). The proportional decreases over the five-year period were similar for all types of content, though television saw the biggest single-year fall in 2011-12 for the reasons discussed in paragraph 1.7. Between 2007-08 and 2011-12 the BBC spent approximately 20 per cent and 7 per cent of its content spending on radio and online content respectively.

1.9 The BBC has challenged its costs through a succession of efficiency programmes. Between 2004-05 and 2007-08 it focused on back-office costs and made sustainable efficiency savings of £347 million. Following this it launched a further efficiency programme, termed the Continuous Improvement programme, which runs until 2012-13. We reported on this programme in November 2011 and found that the BBC was on track to exceed its target to find sustainable efficiency savings of £487 million.¹

1.10 Although the BBC was unable to demonstrate the impact of individual efficiency savings, it has broadly maintained its performance across the periods covered by the efficiency programmes. Between 2004-05 and 2011-12, overall audience approval ratings for the BBC rose from 6.5 to 7.0 out of 10. Furthermore, in 2011-12 weekly reach for BBC television channels was 86.6 per cent of the population, matching its 86.6 per cent weekly reach in 2004-05.

¹ Comptroller and Auditor General, *The BBC's efficiency programme*, National Audit Office, November 2011.

Figure 5

The BBC's spending on different content types, 2008–2012

| Cost | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Change 2008–2012 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|---------------------|
| | (£m) | (£m) | (£m) | (£m) | (£m) | (%) |
| Television | 2,014 | 1,984 | 1,930 | 1,909 | 1,766 | -12 |
| Radio | 505 | 495 | 489 | 495 | 475 | -6 |
| Online | 125 | 120 | 134 | 129 | 115 | -8 |
| Other | 86 | 85 | 86 | 77 | 90 | 5 |
| Total content spend | 2,729 | 2,684 | 2,639 | 2,610 | 2,446 | -10 |

NOTES

- 1 All figures shown as 2011-12 equivalents after adjustment for inflation using GDP deflator.
- 2 Other chiefly consists of spend on Welsh television channel S4C, orchestras, and research and development.
- 3 Figures may not sum due to rounding.

Source: BBC annual report and accounts, 2006-07 to 2010-11

Current financial challenges

1.11 The BBC operates in a fast moving and competitive environment. It operates alongside commercial production companies, broadcasters and publishers across the television, radio and online media sectors while also having responsibilities for supporting the wider media industry by providing training and investing in emerging technologies.

1.12 The BBC also has a greater degree of flexibility than many public sector organisations, for example it works in a sector where it is common practice for large sections of the workforce to operate on a freelance basis and move freely between employers. To be successful it also needs to provide space for creativity and appropriate risk-taking. It also devolves decision-making to a greater degree than many government departments.

1.13 Although the BBC's services and funding have been relatively stable, it faces a number of significant challenges that will demand strong financial management:

- **Meeting savings targets.** The BBC needs to find savings of at least 16 per cent of its annual spending (£555 million) by 2016-17 as a result of the most recent licence fee settlement. In October 2010 the government froze the level of the television licence fee at £145.50 until 2016-17 and transferred new funding obligations to the BBC, including the BBC World Service. In January 2011, the BBC launched the Delivering Quality First programme to identify savings totalling 20 per cent of its annual spending (£700 million) by 2016-17, with the additional 4 per cent (£145 million) to be reallocated to priority areas.

The BBC plans to make 57 per cent (£400 million) of the savings by improving productivity and 29 per cent (£205 million) by reducing the scope of its services. It does not plan to close any services and plans to maintain the quality of output wherever possible. The remaining savings will come from increasing its commercial income and through better management of working capital. Making further efficiency savings on top of those found in previous efficiency programmes can be particularly challenging, as we have reported in our work on the Department for Work and Pensions' cost reduction plans.²

- **Pension deficit.** The BBC is facing a deficit in its pension fund. In 2010-11, it took action to reduce its pension deficit by announcing a number of reforms to the pension schemes it offers to its employees. Although the reforms were successful in reducing the deficit to £921 million in 2010-11, and the BBC made additional pension contributions during the year, its pension deficit increased by £251 million to £1,172 million by the end of 2011-12. The main reasons for the increase were a lower than forecast return on scheme assets and changes in actuarial assumptions. An interim funding check published by the pension scheme trustees in August 2012 suggested the deficit may well increase further. A full revaluation of the pension scheme is due in April 2013.
- **Rationalising its estate.** The BBC is in the midst of a significant programme of changes to its estate. Over the last ten years, the BBC has undertaken a significant redevelopment of Broadcasting House in central London and moved a number of teams, including BBC Sport, BBC Children and BBC Radio 5 Live, to MediaCity, a new development in Salford. It is also planning to leave Television Centre and is considering the future of its other properties in west London.
- **Responding to changes in technology and its environment.** The rapid take-up of devices such as smartphones and tablets is changing the way that people access the BBC's services. A growing number of people now use BBC iPlayer to view and listen to programmes after they have first been broadcast. The BBC needs to be responsive to broadcasting developments to continue to deliver its services in a way that best meets the needs of licence fee payers. In addition, longer term shifts in viewer behaviour could affect the level of funding the BBC receives. The BBC's analysis suggests that a 1 per cent reduction in the number of households with televisions would result in an annual £30 million fall in income.

1.14 To help meet these challenges the BBC announced a new finance reform programme in 2011. The Finance Effectiveness programme is intended to both improve the service provided by the BBC's finance function and to reduce annual spending on finance by 20 per cent (£8 million) by 2016-17. To achieve these savings, the BBC plans to reduce the number of staff in its finance function by around 20 per cent. It also intends to move all accounting and reporting activity to its finance centre in Cardiff.

² Comptroller and Auditor General, *Reducing costs in the Department for Work and Pensions*, Session 2010-2012, HC 1089, National Audit Office, June 2011.

Scope of the examination

1.15 This report examines the BBC's approach to financial management and the extent to which this supports the BBC in meeting the challenges it faces. The report is underpinned by an assessment model developed by the National Audit Office. The model is based on good practice in financial management and covers five areas: financial governance and leadership; financial planning; finance for decision-making; financial monitoring and forecasting; and financial and performance reporting.³ Given the nature of the organisation, its operating environment and the challenges it currently faces (described in paragraphs 1.11 to 1.13), we would expect the BBC to have a high level of maturity in financial management.

1.16 The report considers:

- how well the BBC uses information to inform its decision-making (Part Two); and
- whether the BBC has the leadership, skills and capacity needed to meet its financial management challenges (Part Three).

³ More information on the financial management maturity model is available at: www.nao.org.uk/help_for_public_services/financial_management/fmmm.aspx

Part Two

Use of information in decision-making

2.1 This part examines how the BBC uses information to inform its financial decision-making. In particular, it considers:

- how the BBC uses its strategy to inform financial decisions;
- how the BBC monitors spending and performance;
- the BBC's understanding of its costs and income;
- how the BBC reports information to its boards;
- how the BBC manages risk; and
- the BBC's budgeting process.

Effective strategic decision-making

2.2 The BBC plans to reduce its annual spending by 20 per cent by 2016-17. To achieve this aim without closing any services (paragraph 1.13) the BBC needs to target cuts so that they have the least possible impact on the achievement of its strategic aims.

2.3 In December 2010, the BBC Trust approved the BBC's strategy for the period 2011-12 to 2016-17. This strategy contained four overarching objectives for the BBC. As well as articulating those strategic objectives, the strategy also set out five editorial priorities to provide a focus for where the licence fee would be spent (**Figure 6** overleaf).

2.4 The BBC used the strategic and editorial aims in preparing its high-level plans for reducing its spending by 20 per cent under the Delivering Quality First programme. At the request of the BBC Trust, the BBC set out in its budget how its plans aligned with the editorial priorities, as shown in **Figure 7** overleaf. The reductions in spending for the priority areas are relatively small compared with the planned 24 per cent average reduction in costs for other new content.

Figure 6
The BBC's strategic and editorial priorities



Source: *The BBC's Strategy: Putting Quality First, December 2010*

Figure 7
The alignment of the BBC's planned savings with its editorial priority areas

| Editorial priority | Response in Delivering Quality First plans |
|---|--|
| The best journalism in the world | Reduction of 2 per cent over the three-year period once exceptional Olympics-related spend is removed. |
| Inspiring knowledge, music and culture | Planned reductions of 8 per cent include the final savings from the BBC's previous savings programme. |
| Ambitious UK drama and comedy | No reductions in spending on drama on BBC One and BBC Two, or on comedy across the BBC. |
| Outstanding children's content | 10 per cent reduction in annual spend. No scope reductions from children's channels. |
| Events that bring communities and the nation together | Spend on major events to vary from year to year but not otherwise decrease over the period. |

NOTE

1 These reductions compare to a 24 per cent average reduction on other new content.

Source: *BBC Budget 2012-13 to 2014-15*

2.5 The BBC's financial systems do not allow it to produce routine reports showing spending against its strategic and editorial priorities. While such information can be produced, it requires a significant amount of manual effort. As the challenge to squeeze costs increases this information will be critical to allow the BBC to understand the trade-offs between the cost of its various activities and their contribution to the BBC's strategic and editorial priorities. This is particularly important as the BBC still needs to identify £25 million of savings in the final two years of the current licence fee period, and to make decisions about where the £145 million that is to be reallocated to priority areas (paragraph 1.13) will be spent.

Performance monitoring

2.6 The BBC has a well-established framework for monitoring its performance. Each activity is monitored against a range of measures for four indicators: quality, reach, impact and value for money (**Figure 8** overleaf). This framework should provide a consistent approach for describing performance across the full range of the BBC's service and one which is well understood by staff at all levels. The BBC collects robust data on elements of its performance, including independently gathered audience numbers and audience appreciation surveys for individual programmes. Having such detailed information allows the BBC to quickly develop a rounded view of the performance of individual programmes and services.

2.7 The BBC does not integrate its performance reporting with financial reporting. It reports its performance against indicators for each service and for genres of programming such as drama or comedy. But this information is reported separately from financial information. The BBC's overall budget documents, and those of the majority of its divisions, do not include any information on the performance indicators. Reports to the board do not place performance information in any financial context beyond using cost per viewer hour measures. This makes it harder for the BBC to judge the value for money of its services and to take decisions about where there is the greatest scope for savings.

2.8 We have previously recommended that the BBC should combine information on cost and performance to monitor value for money. The BBC has begun the process of implementing this recommendation for the monitoring of its Delivering Quality First programme over the next five years.

Figure 8

The BBC's public value performance indicators

| Indicator | Definition | Example measure for online services | Example measure for television services |
|-----------------|---|--|---|
| Quality | A measure of the characteristics of public service broadcasting – excellence, distinctiveness, originality and innovation | Average audience appreciation index score | Average audience appreciation index score |
| Reach | A measure of the uptake of BBC services by the population | Percentage of UK adults using the service | Share of audience |
| Impact | A measure of the extent to which BBC programmes are memorable, challenging, engaging and supportive of the BBC's purposes | Numbers of users following links from BBC sites to external websites | Responses to questions in Pulse audience survey |
| Value for money | A measure of the efficiency and effectiveness of the BBC in delivering public value for the licence fee payer | Weekly cost per unique user | Cost per viewer hour |

Source: Trust service day presentations by BBC divisions

Understanding its costs

2.9 Our previous reports on the BBC have recommended that it should do more to benchmark its costs. Our report on the BBC's continuing drama programmes, for example, found that although the BBC shared lessons between drama programmes, it did not undertake formal benchmarking of production costs or processes.⁴

- The work conducted for this audit, and our more recent reports, suggests the BBC has taken a number of initiatives forward. In the last two years, the BBC has commissioned benchmarking of its radio programmes, which built on previous internal comparisons and compared the costs of a larger proportion of programmes. This follows our report on the efficiency of radio production, which recommended that the BBC do more to benchmark programme costs.⁵
- In our 2012 report on the BBC's support functions, we reported that several of the functions had conducted their own benchmarking exercises.⁶ The BBC also commissioned an exercise in 2011 to compare its procurement processes to those of other organisations.
- The BBC challenges the cost of in-house television productions through what it terms the Window of Creative Competition scheme. Under this scheme, a proportion of schedule slots are offered to both internal and external bidders through open competition.

4 Comptroller and Auditor General, *The BBC's management of the costs of producing continuing drama*, National Audit Office, March 2011.

5 Comptroller and Auditor General, *The efficiency of radio production at the BBC*, National Audit Office, January 2009.

6 Comptroller and Auditor General, *The BBC's approach to managing the cost of its support functions*, National Audit Office, May 2012.

- The BBC has a similar Window of Creative Competition scheme for Radio 4, opening 10 per cent of slots to competition. It is currently extending the scheme to cover more of its radio stations.

2.10 The BBC is not, however, making as effective use of these comparisons as it could. Our recent report on the BBC's support functions suggested that the BBC did not make full use of the benchmarking exercises it had conducted. It could not generally provide evidence of how benchmarking exercises had influenced the cost reduction strategies of its support functions.⁷ More generally, we found that the BBC's approaches to challenging the costs of its support functions were not based on assessing what the support services should cost. This means that it cannot be confident that its savings targets are pitched at the right level.

2.11 While the BBC examines differences between total costs per hour of different programmes, it has accepted that it has less knowledge of the detailed factors that influence these costs. The costs of producing programmes are dependent on how efficiently resources such as production staff, studios and other equipment are used. Programme makers may understand how they use resources for their own programmes, but the BBC's financial systems do not give it an overarching view of how efficiently resources are utilised across its portfolio.

Understanding its income

2.12 The vast majority of the BBC's income comes from the television licence fee, making forecasting more straightforward. The BBC has forecast its income to within 1 per cent of actual income in each of the last five years (**Figure 9**). Income has increased steadily over the period and the BBC has been able to predict changes successfully.

Figure 9

The accuracy of the BBC's forecasts of income over the last five years

| Financial year | Income (£m) | Forecast income (£m) | Variance (£m) | Variance (%) |
|----------------|-------------|----------------------|---------------|--------------|
| 2007-08 | 3,245 | 3,234 | 11 | 0.3 |
| 2008-09 | 3,374 | 3,373 | 1 | 0.0 |
| 2009-10 | 3,452 | 3,475 | -23 | -0.7 |
| 2010-11 | 3,622 | 3,629 | -7 | -0.2 |
| 2011-12 | 3,795 | 3,794 | 1 | 0.0 |

NOTE

¹ Forecasts refer to budgeted figures put in place at the beginning of the financial year.

Source: National Audit Office analysis of BBC data from executive finance reports and published accounts

⁷ Comptroller and Auditor General, *The BBC's approach to managing the cost of its support functions*, National Audit Office, May 2012.

2.13 The BBC has a good understanding of the factors likely to impact on the collection of the licence fee. To aid financial planning the BBC produces sensitivity analyses of predictions for numbers of households, the proportion of households with television sets and the numbers not paying the licence fee. It conducts detailed research to improve the targeting and efficiency of collection activities and in 2011 the BBC extended the contract for collecting the licence fee held by Capita, including payment by results clauses designed to increase collection rates.

2.14 The BBC receives some income in the form of a dividend from BBC Worldwide. BBC Worldwide is a commercial subsidiary which sells BBC programming for broadcast abroad and exploits the BBC's brands. The BBC offers BBC Worldwide the option to buy programme rights on a first refusal basis, but must trade on commercial terms. As many programme rights do not go to competition, the BBC cannot easily determine what the rights might be worth on the open market.

2.15 The BBC has strengthened its arrangements for testing the value of programme rights offered to BBC Worldwide. Following a BBC Trust review of the BBC's commercial operations in 2009, the BBC forecasts the likely value of each programme's rights, assessing its worldwide commercial value on the basis of historic performance of previous series or programmes of a similar type. It then uses that forecast to determine the price charged to BBC Worldwide for the rights. The BBC opens up a proportion of programmes each year to competitive bidding between Worldwide and commercial competitors. The winning bids are used to validate the forecast model.

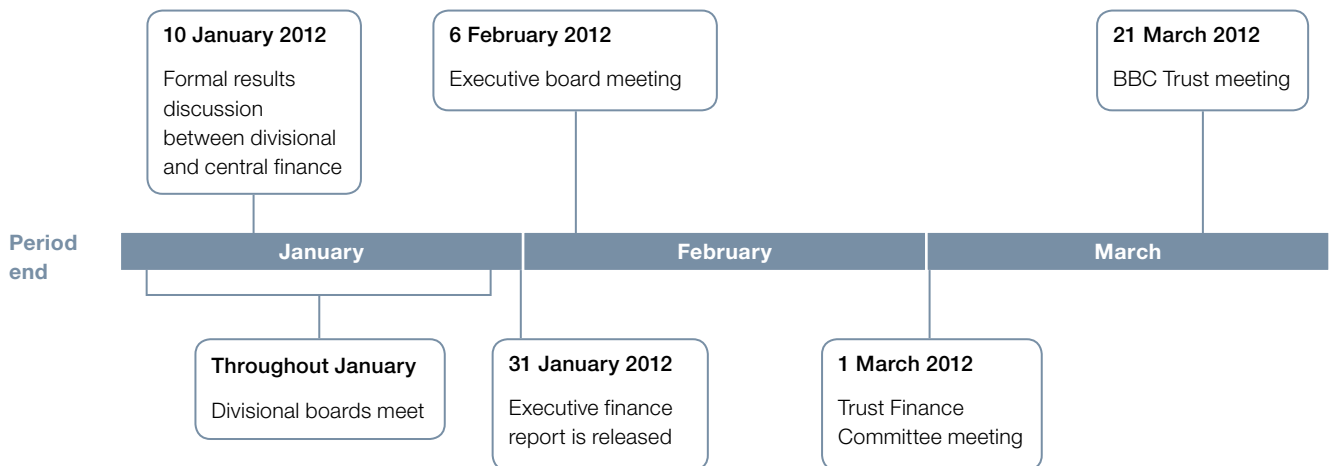
Board reporting

2.16 The BBC's reporting processes are slow, because its financial systems are unable to easily produce the required data and because of inconsistencies between reporting requirements, both internal and external. Some financial information is reported to divisional and group boards relatively quickly during the year, allowing those boards to take timely decisions. The executive board does not, however, view monthly reports until five or six weeks after the end of the month in question (**Figure 10**). The results are presented to the Trust several weeks later. Such delays reduce the executive board's ability to re-allocate resources in-year should circumstances require it.

2.17 Due to limitations with its financial systems, the production of management information often requires significant effort from staff. A finance benchmarking exercise carried out by PricewaterhouseCoopers (PwC) in 2011 found that more senior finance staff in the BBC spent longer on reporting tasks than those in other similarly complex organisations. In addition, in carrying out our interviews we were told of one instance where BBC staff had opted not to request information that would be useful in running the business due to the effort it would take. The limitations in the reporting systems both reduce efficiency and mean that the BBC may not be able to produce the information it needs to run its business.

Figure 10

Timeline for the examination of the BBC's financial results – December 2011 example



Source: BBC board minutes and timetables

2.18 Internal inconsistencies in demands for information within the BBC add to the burden of reporting. Divisions have their own boards and reporting requirements and these can differ both between different divisions and between divisions and central finance. While some differences between divisional requirements are because they operate in different ways, there is scope to better align reporting requirements. PwC's finance benchmarking report found that only 11 per cent of BBC monthly reports were standardised compared to a peer top quartile of 54 per cent. One of the aims of the Finance Effectiveness programme is to simplify reporting and introduce greater standardisation.

2.19 Reporting within the BBC is further complicated by a number of regulatory requirements to report information in different ways. For instance, the BBC Trust requires the BBC to report spend against Service Licences, which specify the requirements for each radio, television or online service that the BBC provides. Ofcom requires information on levels of news and current affairs programming and the amount of production that takes place outside of London. Ofcom's definitions for production outside of London include the percentage of spending and talent based in other locations rather than solely where production occurs. It also requires reporting to be provided annually, rather than on the basis of the BBC's financial year. The BBC has also identified duplication of reporting effort due to geographical regions not being defined with the same boundaries for all reporting. In some cases reporting requirements are derived from statute, but there may still be scope to harmonise the requirements.

Risk reporting

2.20 The BBC has robust systems for reporting risks but could improve its risk reports by doing more to highlight which risks require action. Staff in its divisions systematically record risks allotted to a set of risk themes. For example, themes include editorial compliance, technology and licence fee collection. The risk and assurance department then uses the records and consultation with key divisional staff to compile six-monthly risk reports. The reports give each risk theme an overall score from low risk to high risk.

2.21 The BBC includes only the risk themes deemed to be medium to high risk in its risk reports to the board. There is no indication of the level of risk the BBC is more willing to accept, and as a result the reports' effectiveness in highlighting the most important risks is lessened. In addition to the BBC Trust receiving these bottom-up reports, it receives an update from the Director-General on the key risks facing the BBC each month and the two sometimes differ. This difference suggests that top-down views could be better incorporated in the risk identification process and that the BBC's reports could be better at assessing what risks are most important. This would in turn help the BBC to focus management attention on where it is most needed.

Budget setting

2.22 The BBC's approach to budget setting is slow, but resulting budgets tend to be detailed and comprehensive. PwC's benchmarking report (paragraph 2.18) found that the BBC's budgeting process took 223 days compared with a median of 120 days for similar organisations. This is largely because the BBC's budgets go through ten iterations before being finalised, compared to a median of four, thereby consuming more management time. While comparatively slow, the BBC does complete its budgets for each financial year before that year begins, and its three-year budget contains a high level of detail. The BBC-wide budget includes forecast balance sheets, income statements and cash flows and a comprehensive attempt to quantify spending commitments.

2.23 We compared the BBC's annual results to its forecasts over the past five years. The BBC has underspent against its budget by at least 3 per cent in each of the last four years (**Figure 11**). This compares to an average underspend against forecast by major government departments of 2.5 per cent.⁸ The BBC has consistently underspent on programme content and on distribution over the last five years. Its average annual content underspend over the period was £102 million (4 per cent). Some programme content underspends have resulted from rescheduling or cancelling programmes, for instance the cancellation of the Formula 1 Bahrain Grand Prix in March 2011 meant that the BBC did not incur expected costs. This contributed to an underspend on content costs in 2010-11.

⁸ Comptroller and Auditor General, *Ministry of Justice Financial Management Report, Session 2010-11*, HC 187, National Audit Office, July 2010.

2.24 Underspends on broadcast programmes have been offset by the BBC consistently spending more than forecast on programmes not completed or not broadcast by year end, sometimes due to scheduling changes. The BBC has also, however, underspent on other centrally controlled costs. The BBC has devolved responsibility for managing budgets to divisions and has given them a high degree of flexibility to try to avoid a “spend it or lose it” culture where divisions would be motivated to spend everything in order to maintain their budgets. This flexibility, however, needs to be coupled with close scrutiny when budgets across the organisation are set and scrutiny of in-year forecasts to ensure it is clear how much resource is potentially available for reallocation.

Figure 11

The accuracy of the BBC’s forecasts of spending on content and total spending over the last five years

| Financial year | Content spend (£m) | Forecast content spend (£m) | Variance (£m) | Variance (%) |
|----------------|-----------------------|-----------------------------------|------------------|-----------------|
| 2007-08 | 2,380 | 2,482 | -102 | -4.1 |
| 2008-09 | 2,504 | 2,589 | -85 | -3.3 |
| 2009-10 | 2,507 | 2,593 | -86 | -3.3 |
| 2010-11 | 2,549 | 2,639 | -90 | -3.4 |
| 2011-12 | 2,446 | 2,539 | -93 | -3.7 |

| Financial year | Total spend (£m) | Forecast total spend (£m) | Variance (£m) | Variance (%) |
|----------------|---------------------|---------------------------------|------------------|-----------------|
| 2007-08 | 3,269 | 3,283 | -14 | -0.4 |
| 2008-09 | 3,212 | 3,392 | -180 | -5.3 |
| 2009-10 | 3,282 | 3,496 | -214 | -6.1 |
| 2010-11 | 3,591 | 3,724 | -133 | -3.6 |
| 2011-12 | 3,451 | 3,605 | -154 | -4.2 |

NOTES

- 1 Forecasts refer to budgeted figures put in place at the beginning of the financial year.
- 2 All figures shown as unadjusted.

Source: National Audit Office analysis of BBC data from executive finance reports and published accounts

Part Three

Financial governance, control and skills

3.1 This part examines the BBC's capability in financial management. In particular, it considers:

- the BBC's systems of governance and control;
- the level of financial skills throughout the BBC, BBC Trust and non-executive directors; and
- its oversight of major spending decisions.

Governance and control

3.2 Effective governance and financial controls help to support the efficient and effective operation of a business by making sure that decisions receive appropriate challenge and accountabilities and responsibilities are clear.

3.3 The BBC's executive board has responsibility for the effectiveness of the BBC's system of internal control. Our observation of the board and review of board minutes suggested that the BBC's five non-executive directors play a significant role in challenging the executive on financial management issues, drawing upon their wider skills and knowledge in finance, public policy and entertainment.

3.4 The BBC Trust provides effective challenge to decisions taken by the BBC executive. As part of its role in setting the strategic direction for the BBC, the Trust must approve strategically important spending decisions. Our observation of the Trust finance committee and review of the minutes suggested that the committee was well informed on the decisions it had to make. In some cases the Trust finance committee had not approved plans where it judged the financial case not to be strong enough or had sought further analysis where it felt the information submitted was incomplete.

3.5 Following a 2011 review of governance arrangements conducted by the BBC Trust, the respective roles of the Trust and the BBC non-executive directors are better defined. The level of communication between the BBC Trust and the chairman of the audit committee has also improved; for example, the chair of the BBC audit committee now attends the Trust finance committee quarterly meetings and has regular meetings with the trustee responsible for value for money.

3.6 The BBC has consistently produced annual accounts on which its external auditors have issued unqualified audit opinions. The BBC also has an internal audit function, which carries out a programme of work determined through an analysis of risks. Through its work the internal audit function has concluded that the BBC generally has a sound system of internal control. Our review of internal audit's processes suggests that the audit committee has appropriate arrangements in place to track implementation of internal audit's recommendations.

Developing financial management skills

3.7 The BBC has sought to improve the quality of financial management advice available throughout the extended organisation. Divisions each have embedded finance teams, including finance partners for senior operational staff. The divisional directors that we interviewed were positive about the service offered by embedded staff. Finance partners' lines of responsibility to finance and ultimately to the chief financial officer mean that the finance function is in a position to influence operational decisions. One of the objectives of Finance Effectiveness is to further increase the influence on the business exerted by the embedded finance staff.

3.8 Some BBC divisions have tried to further devolve responsibility for financial matters; for example, in audio and music the divisional director and finance director hold six-monthly reviews with radio station controllers to discuss stations' financial figures. Discussion at these reviews follows a set format and does not include editorial matters. While there are differences between the structures of different BBC divisions, such an approach could be adopted more widely in the BBC to integrate financial management further into operational decisions.

3.9 In January 2012 the BBC launched the Finance Effectiveness programme to better equip the organisation for the financial challenges ahead. It expects programme implementation to take place through the second half of 2012 and the first half of 2013. The main planned elements of the programme include:

- Introducing an improved performance management process through a value dashboard with key measures.
- Developing the capability of embedded finance staff to take more of a role in operational decisions.
- Investing in systems and simplifying and standardising reporting processes and policies where possible, to improve the effectiveness of the finance function.
- Achieving around £3.4 million of annual net savings by 2013-14 through a reduction in staff and related costs.

3.10 The Finance Effectiveness reform programme will change the mix of finance skills that the BBC needs. One of the aims of the programme is for finance staff outside of its specialist processing function in Cardiff to do less routine reporting work than at present. This would free more senior embedded and central finance staff to spend more time applying their knowledge of the business more strategically. At present 249 of the BBC's 600 finance staff are qualified accountants.

3.11 The BBC has done some work to identify the skills that will be required once new ways of working are introduced. It has not yet conducted a detailed skills assessment of current staff skills against those requirements. Staff at the specialist finance centre will take on more complicated work requiring a higher level of business knowledge. Other finance staff in BBC central finance and within divisions will be working together with non-finance staff in new ways and taking on work which requires new strategic skills. Therefore both elements may need new staffing or training to meet new requirements and deliver the level of service necessary to help the BBC meet the financial challenges it faces.

3.12 The BBC has schemes in place to improve finance skills across the organisation. It organises regular finance update courses for staff within finance and operates a scheme whereby finance staff can take placements elsewhere in the BBC to develop their knowledge and skills. It also offers courses on finance skills, such as managing budgets, to staff throughout the BBC. Take-up of the budgeting course was limited to 37 people in 2011, suggesting that the courses are not widely used.

Oversight of major spending decisions

3.13 We have previously reported on weaknesses in the BBC's approach to approving major projects. In our reports on the BBC's estates projects⁹ and on its Digital Media Initiative,¹⁰ we found that some approvals were given without considering all available options or likely costs. Additionally, the BBC did not set out in advance the intended benefits of approved projects.

3.14 Given the high degree of internal freedom in the BBC, it is particularly important that it ensures that major spending decisions are always subject to enough oversight. The BBC created the Programme Management Office in 2009 to improve its oversight of major projects and to share lessons by drawing on skills and knowledge from across the BBC. The Programme Management Office has senior support, including sponsorship by executives.

9 Comptroller and Auditor General, *The BBC's management of three major estate projects*, National Audit Office, February 2010.

10 Comptroller and Auditor General, *The BBC's management of its Digital Media Initiative*, National Audit Office, February 2011.

3.15 Our review suggests the BBC has taken steps to address the issues raised in our previous work and this has had a positive impact. It has strengthened its processes for approving spending on projects. The level at which cases are considered depends on the size of the planned investment. Cases where planned spending exceeds £50 million or where plans are of strategic importance must be approved by the relevant group board, the central finance committee and the BBC Trust. Less costly plans go through the lower levels of challenge.

3.16 Our examination of newer cases suggested that the BBC has now addressed serious issues which led to previous approvals of incomplete cases. The Programme Management Office has introduced standard templates for approval cases specifying all elements that need to be included. Based on examination of a sample of five recent approval cases and five post-investment reviews, these templates were generally well followed. Detailed cost and risk information was included in all cases for the preferred option proposed, though not always for alternative options. Where options lacked detail, the finance committee requested additional information to fill the gaps.

3.17 All of the investment cases included some details of the benefits expected from the planned activity, but the BBC could further improve benefits specification. Benefits are now an element of the standard template. Each approval case that we looked at followed the template by including expected benefits. However, in certain cases some benefits included were not well defined and it was not clear how they would be measured.

3.18 The BBC undertakes detailed reviews of completed and ongoing projects as a matter of course, but could better use the reviews to highlight good practice. Project teams have to conduct a post-investment review at the project's completion or a project milestone. The level of detail in reviews we examined was greater than we found in our previous reports and more regular reviews should help to improve project management. The level of detail on the reasons for success and failure was not, however, consistent across all reviews.

Appendix One

Our audit approach

1 This report provides an overview of the BBC's financial management against a model developed by the National Audit Office. Our work focuses on the BBC's skills and capacity for financial management and on its use of information to inform decision-making.

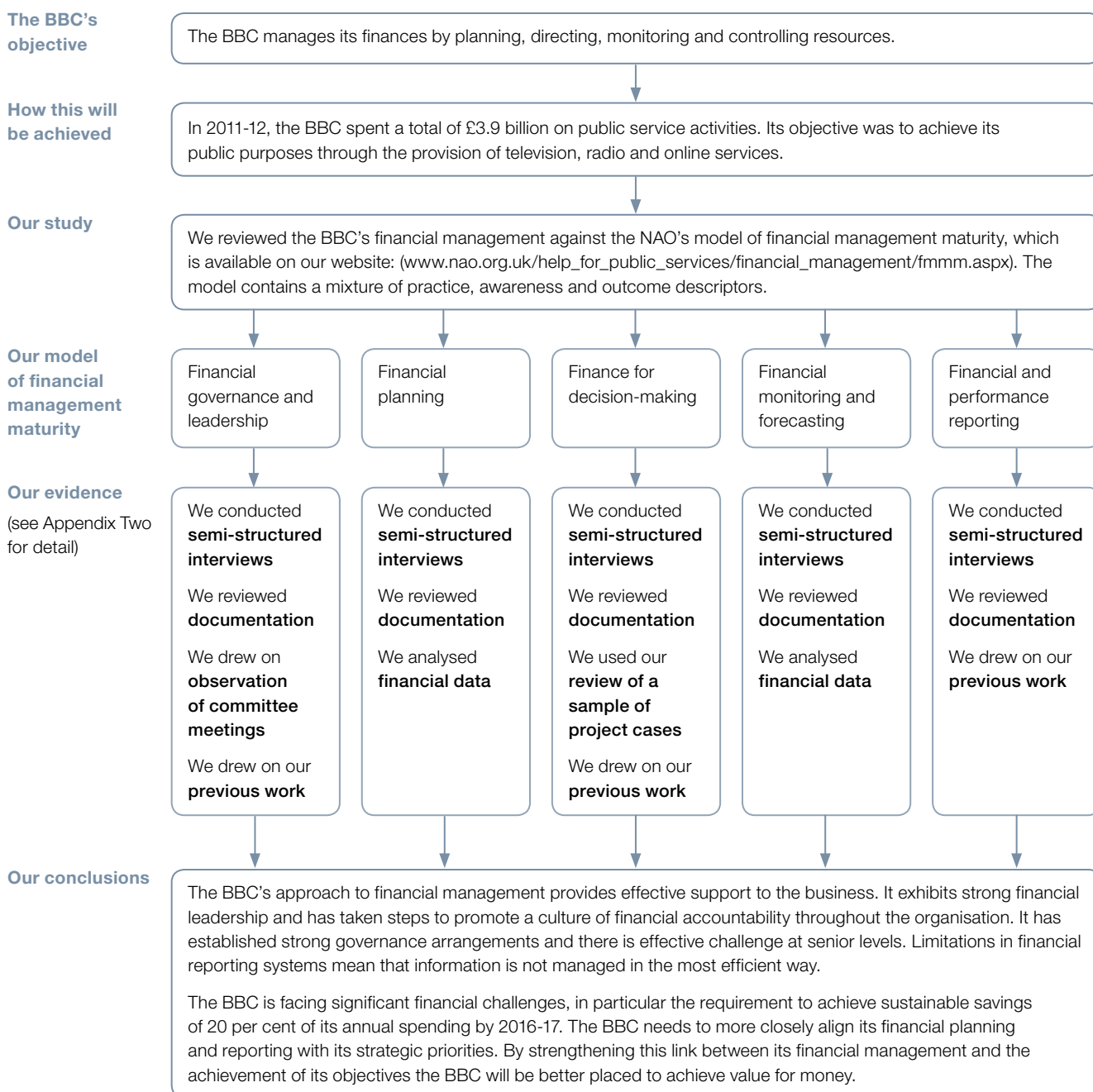
2 In making our assessment we applied the NAO's financial management maturity model. The model looks at the practice and awareness of financial management and relates that to the outcomes that organisations might expect. The model uses a series of descriptors to help readers understand how the organisation currently operates and the scope for improvement. Within the model, we assessed financial management by asking 16 key questions grouped under five aspects (see **Figure 12**):

- Financial governance and leadership
- Financial planning
- Finance for decision-making
- Financial monitoring and forecasting
- Financial and performance reporting

Our audit approach is summarised in Figure 12. Our evidence base is described in Appendix Two.

Figure 12

Our audit approach



Appendix Two

Our evidence base

We based our independent conclusion on the financial management of the BBC on our assessment against the criteria outlined in the NAO's financial management maturity model. We collected our evidence between March and June 2012. Our audit approach is outlined in Appendix One.

1 We assessed the BBC's current financial governance and leadership, the financial management challenges that it faces, its financial monitoring and forecasting, and its financial and performance reporting.

- We **conducted a number of semi-structured interviews** with key personnel at the BBC. Our interviewees included the Director-General, other members of the executive management team, the trustee with lead responsibility for value for money, a non-executive director and members of the finance team. The purpose of these meetings was to gain a strong understanding of the processes, procedures and governance structures in place relevant to financial management across the BBC's activities. We used these interviews to identify and validate documents which we reviewed to support our analysis of the BBC against our financial management maturity model.
- We **observed meetings** of the BBC's executive board, finance committee and executive audit committee, and a meeting of the BBC Trust finance committee. In all cases we attended purely as an observer to see how the BBC's governance arrangements worked in practice.
- We **reviewed a range of documents** including financial and non-financial monitoring reports and external performance assessments and benchmarking exercises relating to specific elements of the BBC's activities. We reviewed these documents to obtain an understanding of how the BBC approaches financial management, where its strengths are, and where there are gaps. We also looked at the BBC's plans for its Delivering Quality First programme and Finance Effectiveness programme to get an understanding of planned changes in place.
- We **spoke to the BBC's financial auditors**, KPMG, to obtain their views on the BBC's financial management informed by their audit work.

2 We assessed the BBC's current position in relation to financial planning.

Much of the work already outlined provided evidence relevant to this set of criteria.

In addition:

- We **walked through processes** for some elements of the BBC's budget-setting process, to understand the detail of its financial planning.
- We have **analysed documents relating to budgets and forecasts**, including the budgets for individual divisions of the BBC and for the BBC as a whole, and the BBC's monthly executive finance reports. We used the executive finance reports to analyse the accuracy of the BBC's forecasting of its income and expenditure.
- We **analysed financial and other data**, either publicly available from external sources, or provided by the BBC at our request. In particular, we have analysed the BBC's key financial metrics and annual accounts, to examine the BBC's financial position and performance.

3 We assessed the BBC's use of finance for decision-making. In addition to relevant evidence provided by the methods detailed above:

- We **reviewed project-specific documents**. We selected a sample of five project approval cases and five post-investment reviews from the last two years. We used the NAO's investment option appraisal maturity matrix to assess the evidence on the BBC's processes for approving major projects and for reviewing those projects. We considered whether the BBC had put into place measures to address past findings in this area.

