



National Audit Office

British Broadcasting Corporation

Financial management at the BBC

Report by the Comptroller and Auditor General

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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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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.