



## **Reducing costs through 'Delivering Quality First'**

Report by the Comptroller and Auditor General  
presented to the BBC Trust Value for Money Committee,  
26 February 2015



**BRITISH BROADCASTING CORPORATION**

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'Delivering Quality First'**

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Auditor General presented to the  
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26 February 2015**

*Presented to Parliament by the Secretary of  
State for Culture, Media & Sport  
by Command of Her Majesty  
March 2015*

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# BBC Trust response to the National Audit Office value for money review: Reducing costs through 'Delivering Quality First'

## BBC Trust response

The BBC Trust welcomes the National Audit Office's conclusion that the BBC has delivered value for money from its cost reduction programme, Delivering Quality First.

As the governing body of the BBC, the Trust is responsible for ensuring that the licence fee is spent efficiently and effectively. One of the ways we do this is by receiving and acting upon value for money reports such as this one from the NAO.

### **The BBC has so far delivered £351 million of recurring annual savings**

Delivering Quality First is the BBC's response to the 2010 licence fee settlement, which reduced the funding available for the BBC's core public services. To address this, the Programme is targeting £700 million of annual savings before the end of 2016-17.

Two years into the five year Programme, the BBC has already delivered over half of the required savings; these £351 million of cost reductions are sustainable savings that will repeat every year. These cost reductions have, so far, been achieved without a significant impact on the BBC's overall audience numbers or appreciation scores although, with many of the more challenging savings yet to come, there is clearly more work for the Trust and the Executive to do.

The NAO's findings on the success of the Programme's cost reductions are consistent with their 2011 review of the BBC's previous efficiency programme, which it concluded was also a "clear success".

### **The Programme was robustly established**

Before approving the Programme, the Trust commissioned Ernst & Young to review the Executive's proposals and the process used to determine them. Ernst & Young concluded that the process was rigorous and the resultant cost saving proposals were robust and challenging.

The Trust also carried out a public consultation to gather licence fee payers' views on where the savings should be made. The strongest reaction amongst the 18,000 respondents related to the savings in local radio. As a result the Trust asked the BBC Executive to scale back the proposed cuts to local radio services; the Executive responded by reinstating three quarters of the reduction in content budgets.

### **Rigorous reporting has supported implementation**

The NAO found that the BBC has established a well-designed reporting system with clear accountabilities and external review to ensure that cost reductions are robust and genuine.

At a divisional level, divisional directors are responsible for delivering their share of the Programme's cost reductions. To reinforce this, budgets are prepared with planned savings already deducted. The NAO found that created a clear line of accountability.

At a corporate level, a central database tracks implementation of specific measures, and is used to report progress to the Executive Board and the Trust. The database is also used to undertake assurance work to confirm the savings are genuine. Of savings already delivered, £323 million (86 per cent) have already been reviewed by KPMG. No significant errors were found.

Alongside these measures the BBC has established a system of monitoring performance to ensure the audience impact of the Programme is tracked; a task which the NAO described as "inherently difficult". This information has helped to demonstrate continued strong performance and identify where action is required to bring performance back on track.

Beyond this reporting system, where the Trust has identified concerns we have asked the Executive to investigate further. For example, the BBC Executive is currently in the process of assessing the Programme's effect on editorial and financial controls, and identifying the number of staff required to deliver the BBC's objectives.

**We welcome the NAO's recommendations and will monitor their implementation closely**

The NAO has identified a need to improve the way best practice is shared across the organisation. We endorse this recommendation and look to the BBC Executive to continue and extend its efforts in sharing cost saving processes and opportunities between divisions.

This will augment the BBC Executive's on-going efforts to benchmark any BBC activity which isn't already the subject of competitive tendering. The NAO has recognised that this programme of additional benchmarking has helped the BBC to identify further opportunities for savings.

**Ultimate success will depend on how remaining efficiency plans are implemented**

The NAO points out that as the BBC moves towards the later years of the plan a higher degree of savings are expected to come from improved productivity. This is because it takes time to plan changes to structures and processes which are a prerequisite of such savings.

We agree with the NAO that these efficiencies will be challenging to achieve. We believe the BBC needs to be ambitious if it is to meet licence fee payer expectations to maximise investment in content but there is undoubtedly a limit to which savings can be made before the quality and scope of BBC services begins to suffer. It is of utmost importance therefore, that the BBC Executive and BBC Trust continue to track key performance metrics to ensure that cost savings are not having an unintended impact on the audience.

Once the current programme of savings has been delivered, there will need to be a careful, evidence-based analysis of the extent to which further efficiencies are possible and as the NAO recommend, the sustainability of existing savings will also need to be kept under review.

# BBC Executive response to the National Audit Office value for money review: Reducing costs through 'Delivering Quality First'

## BBC Executive response

The BBC welcomes this report from the NAO on our "Delivering Quality First" ("DQF") savings programme. The NAO found that DQF has so far delivered value for money; by March 2014 the programme had already delivered annual savings of £374 million, exceeding our interim milestones, with limited impact on audiences.

The Programme, approved by the Trust following a public consultation on the proposals, was a direct response to the October 2010 licence fee settlement between the BBC and the Secretary of State for Culture, Media and Sport. The BBC will deliver £700 million savings per annum by 2016-17 through DQF. This is required to fund the BBC's new financial responsibilities, deal with the freeze in the licence fee at the April 2010 level until March 2017 and allow the BBC to invest in new digital initiatives and high quality programmes.

The NAO notes that the BBC did not achieve a small proportion of the sustainable savings planned for the period to March 2014. This was due to lead times in delivering transformation and restructuring. In order to deal with this planned re-phasing the BBC made one-off savings and accelerated certain planned scope changes to cover the shortfall. We have plans in place to deliver our target of £700 million of sustainable, annual savings

by 2016-17. The "slippage" mentioned by the NAO will have no effect on the final amount of sustainable savings delivered.

Overall, this report confirms that the systematic approach we are following to generate productivity savings through property rationalisation, procurement savings, more efficient staffing models and a wide range of other initiatives without affecting audience performance is successful. We are doing more for less: we have delivered £1.1 billion per year of savings since 2007 and are on track to deliver £1.5 billion per year by the end of this Charter.

Our efficiency record is strong, as attested both by this review and by the NAO's report on our previous efficiency programme. We are proud to be fostering a culture of continuous improvement. We have robust plans in place to deliver our remaining savings, of which 85% are productivity gains. However we are well aware, as noted by the NAO, that the challenge is increasing and that further savings will involve further scope changes.

In this context, the NAO makes recommendations for the BBC to manage the risks in achieving further cost reductions. We have already started to implement these recommendations.

## **Recommendation a**

**Assess the sustainability of savings after 2016-17.**

Agreed. The BBC recognises that some savings categorised as sustainable might be reduced over time by future market conditions or high inflation. We are continuously reviewing our cost base. This will also form part of our financial and strategic planning for the next charter and licence fee settlement.

## **Recommendation b**

**Collect and analyse detailed savings data held by divisions to identify lessons and opportunities that can be shared across divisions.**

Underway. As noted by the NAO, the BBC central team has started to implement this recommendation. We are already holding "lessons learned" sessions so BBC divisions can share experience and best practice. We have sufficient information in the BBC's efficiency database to enable us to group savings into useful themes to enable comparisons across divisions.

## **Recommendation c**

**Make its current review of benchmarking a routine activity that is carried out across the BBC to help understanding what activities should cost.**

Implemented. We have already made significant progress in the coverage of benchmarking activities. Through our new "compete or compare" framework, we will use a range of methods (benchmarking, open procurement, lean methodologies) on an ongoing basis to ensure we deliver best value for money.

## **Recommendation d**

**Share lessons from its process improvement work more widely.**

Agreed. The central team responsible for the monitoring of the DQF programme will collect and share these lessons across the BBC.

## **Recommendation e**

**Include an assessment of the impact of savings initiatives on internal services in its reporting on Programme implementation.**

Agreed. We have been monitoring and reporting the impact of the DQF programme on our internal services through a separate process. We will now integrate this information into DQF reports.



National Audit Office

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British Broadcasting Corporation

# Reducing costs through 'Delivering Quality First'

Report by the Comptroller and Auditor General

This report has been prepared under Clause 79 of the Broadcasting Agreement, as amended, between the Secretary of State for Culture, Media & Sport and the BBC dated July 2006

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

6 February 2015

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This report examines the BBC's progress so far in cutting costs through its 'Delivering Quality First' programme, and the impact on performance.

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This report can be found on the National Audit Office website at [www.nao.org.uk](http://www.nao.org.uk)

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## Key facts

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**£700m**

annual savings the BBC plans to make by the end of 2016-17 compared to its 2011-12 funding plans

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**£374m**

savings reported by the BBC in 2013-14

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**£351m**

sustainable savings in 2013-14 after deducting one-off savings

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**£145.50** annual cost of a television licence (fixed until the end of 2016-17)

**£576 million** estimate of savings needed in 2016-17 to absorb the impact of the 2010 licence fee settlement

**£124 million** target for additional savings to reinvest in new content and technologies

**£2 billion** total net savings the BBC forecasts it will make by the end of 2016-17 through its cost reduction programme

**£289 million** total estimated cost of implementing the cost reduction programme

**£10.2 million** forecast savings that the BBC identified as being difficult to achieve or not yet having a plan as at September 2014

**344** number of planned or ongoing savings initiatives

# Summary

**1** The BBC plans to cut annual costs by £700 million by the end of 2016-17 through a savings programme called Delivering Quality First ('the Programme'). The Programme was a direct response to the October 2010 licence fee settlement between the BBC and the Secretary of State for Culture, Media & Sport. The settlement extended the BBC Trust proposal to forego planned increases from April 2011 to March 2013 by freezing the fee for colour televisions at £145.50 until March 2017. Prior to 2010-11, fees had increased each year. The settlement also gave the BBC new financial responsibilities, including funding the BBC World Service and contributing to the cost of rolling out rural broadband and local television.

**2** The Secretary of State estimated in 2010 that, by 2016-17, the settlement would result in a real-term cut of £576 million, or 16%, in licence fee funding available for public service broadcasting compared to 2011-12 BBC funding plans. To absorb the impact, and release additional funds to reinvest in new programmes and digital innovation, the BBC set a target to cut costs by £700 million by 2016-17 through the Programme. The BBC Trust approved the Programme in May 2012 following a public consultation and a review of the BBC's proposals that it commissioned from Ernst & Young.

**3** The BBC designed the Programme to achieve its financial target while minimising the impact on audiences. Starting in 2012-13, the main ways it plans to make savings through the Programme are:

- making **productivity savings**, for example by simplifying processes, reducing staff numbers and introducing new ways of working;
- **reducing the scope of its activities**, for example by reducing the number of new daytime programmes it commissions or acquires, and providing fewer 'Red Button' television services; and
- **increasing commercial income** by increasing the number of programmes being produced that have a high commercial value.

**4** This report examines the BBC's progress so far in cutting costs through the Programme, and the impact on performance. We also assess what the BBC is doing to find new ways to make savings, including developing a culture of continuous improvement. The BBC announced plans in October 2013 for further cost reduction following a strategy review. By March 2017, it plans to make additional annual savings of £100 million to reinvest in content.

**5** Our assessment draws on our previous work on structured cost reduction, including our 2011 report on the BBC's preceding efficiency programme. We reviewed the BBC's approach to planning the Programme and the robustness of the methods and processes it uses to measure, validate and evaluate savings. We also reviewed whether the BBC uses systematic processes to track the costs of implementing the Programme and measure the impact of cost reduction on its performance. We examined a sample of internal processes and savings initiatives to understand the BBC's approach, but did not examine every cost-cutting initiative in detail. Further information about how we assessed the BBC's performance is in Appendices One and Two.

## **Key findings**

### Progress in reducing costs

**6 The overall savings of £374 million reported by the BBC up to the end of 2013-14 exceeded its milestone target of £367 million, although annual sustainable savings were 4% less than planned.** To contribute towards the BBC's long-term target, savings must be sustainable, meaning that they accumulate year on year. The gross savings reported by the BBC in 2013-14 included one-off savings, such as releasing unused contingency set aside for decommissioning analogue television, and using unallocated cash reserves to keep within divisional budgets. Our analysis of BBC data showed that gross sustainable savings in 2013-14 were £351 million (paragraphs 2.2 to 2.3).

**7 The BBC has slipped against its interim milestones for making sustainable savings because it made fewer productivity savings and earned less commercial income than it planned.** The BBC made sustainable productivity savings of £188.3 million in 2013-14, which was 9% less than planned. The reasons for this shortfall included time lags between implementing savings initiatives in its Television division and realising these savings. The BBC offset the delay in achieving sustainable savings by the earlier achievement of planned reductions in scope, such as broadcasting fewer live Formula One races, and making additional one-off savings. Additional commercial income of £5.6 million was significantly below the target of £22.1 million. The BBC told us that commercial income was less than planned due to the time needed to commission and produce public service broadcasting output that is also commercially attractive in overseas markets. However, it plans to address some of the shortfall by making more productivity savings (paragraphs 2.4 to 2.6).

**8 The BBC established a well-designed reporting system with clear accountabilities, supported by external review, to provide assurance that reported savings are genuine.** The BBC set divisional budgets with planned savings already deducted. If based on a good understanding of costs, this provides a clear line of accountability for achieving savings targets. The BBC uses a regularly-updated central database to track and report on savings for individual divisions and the whole organisation in a consistent format. The information on this database has been regularly reviewed. The BBC also commissioned KPMG to review reported savings to March 2014. KPMG compared data held on the BBC's central database with individual savings plans and checked the supporting evidence for all savings exceeding £1 million, which covered 86% of savings to that point (paragraphs 2.7 to 2.8).

**9 The BBC cut public service broadcasting staff costs by 17% during the first two years of the programme, despite staff numbers falling by only 1% overall.** The BBC successfully cut payroll costs for public service broadcasting during the first two years of the Programme by 17% in real terms, to £873 million in 2013-14. Some of this reduction is attributable to initiatives that pre-date the Programme, such as reducing senior manager numbers and costs as well as lower restructuring costs in 2013-14. The average number of full-time equivalent public service broadcasting staff fell by 2% (324) in 2012-13 but increased by 1% (138) in 2013-14. The increase in staff numbers in 2013-14 was partly as a result of the BBC recruiting staff to support a new digital strategy. In response to the increase, the BBC Trust asked the BBC to examine its overall staff needs to inform future recruitment and retention plans (paragraphs 2.15 to 2.16).

**10 To inform its savings plans, the BBC could make more use of data held by individual divisions about how they have cut costs.** Divisions hold detailed information about savings initiatives. The BBC holds some information on individual initiatives centrally but does not collect detailed information from divisions on the source of savings. Further analysis of how individual divisions are improving productivity could help the BBC see trends, challenge existing costs and identify approaches that could be applied to other divisions to help increase savings. During our study, the BBC started to formalise how divisions share lessons about cost reduction (paragraphs 2.10 and 2.23).

## Impact on performance

**11 The Programme has so far had a limited impact on audiences according to the BBC's performance measures.** The BBC assessed the potential impact of the Programme on audience perceptions prior to its implementation. It used existing audience metrics, such as 'reach', which measures the number of viewers and listeners as a proportion of the population, to model the impact of the Programme on its main broadcast services. To date the BBC's overall performance, when measured against the BBC's main metrics, appears to have been mostly unaffected. The metrics suggest, however, that the Programme contributed to a temporary reduction in BBC Two's reach below forecast levels between October 2012 and June 2013. It may have also contributed to the reach of BBC Three, CBBC and CBeebies falling below forecast levels as part of a number of factors, but difficulties in attributing cause and effect with the data available mean it is not possible to say this conclusively (paragraphs 2.29 to 2.31).

**12 The BBC collects information on the performance of internal services but does not include it in its routine reporting on the Programme's impact.** The Programme has changed the resourcing and operating of internal services, such as finance and human resources. The BBC tracks how well most of its main internal services perform. For example, it prepares reports for management on the performance of outsourced services and internal service agreements. However, this information is not integrated with reporting on the implementation of the Programme (paragraph 2.32).

## Future plans

**13 Although the BBC has developed plans for most of its remaining savings, these plans involve significantly greater challenges compared to the initial years of the Programme.** The BBC made most of its planned scope savings during the initial years of the Programme. It is therefore now relying on improved productivity for 85% of future savings. It has made significant progress in reducing the value of future savings that it has categorised as 'difficult to achieve' or 'unsupported', from £191 million to £10.2 million as at September 2014. Sources of productivity savings to date, which totalled £188.3 million in 2013-14, include renegotiating contracts and limiting pay increases. The BBC's plans for future productivity savings involve more significant and potentially riskier changes to organisational structures and ways of working. If the BBC is not able to make planned productivity savings, it risks having to make further reductions to scope (paragraphs 2.19 to 2.21).

**14 Some cost reductions secured up to the end of the Programme in March 2017, when the current licence fee settlement ends, might not be sustainable in later years.** For example, when contracts expiring after 2016-17 have to be renewed, changes in the wider market could increase some costs and offset previous savings. Savings from controlling pay could also be eroded if changes in the economy put upward pressure on pay (paragraph 2.22).

**15 The BBC has made progress in assessing opportunities to improve productivity and is updating and extending its use of benchmarking.** At the time of our review, the BBC was carrying out an organisation-wide review of benchmarking activity. It intends to use the results to prioritise plans for further benchmarking in areas it has not yet covered or where it needs to update previous work (paragraphs 2.26 to 2.28).

**16 The BBC has made progress since our previous report in helping teams to challenge costs, but it could apply a more systematic approach to sharing lessons.** In February 2012, the BBC brought together a group of staff with expertise in improving processes to help teams requesting assistance to improve their performance and meet savings targets. Extending this support to teams that have not requested assistance with improving their processes but could potentially benefit from it could lead to further savings (paragraphs 2.23 to 2.25).

## **Conclusion on value for money**

**17** Delivering Quality First, the BBC's ongoing cost reduction programme, has so far delivered value for money in that overall reported savings of £374 million are broadly in line with forecasts, exceed implementation costs and appear to have had a limited impact on performance. The BBC has made savings from sources such as renegotiating existing contracts, limiting salary increases and reducing the number of more expensive senior staff.

**18** Around 85% of remaining savings require productivity improvements. Making these savings will involve more challenging and potentially disruptive changes to structures and ways of working. The BBC has taken a systematic approach to how it can achieve these future savings, but it will need to continually review the implementation of its plans to minimise the risk of having to make further reductions to content. To help deliver its plans and address its need for further savings beyond the programme, the BBC will need to build on its existing benchmarking work to make it a more systematic and routine part of its business operations and cost management.



## Recommendations

- 19** To manage the risks to achieving further cost reductions, the BBC should:
- a** **Assess the sustainability of savings after 2016-17.** Some savings made during the Programme have a fixed term, for example savings from renegotiating contracts. There is therefore a risk that future market conditions could potentially reduce or reverse some savings made during the Programme. The BBC will need to assess the longer-term sustainability of savings beyond 2016-17 as part of its financial planning for the next licence fee settlement.
  - b** **Collect and analyse detailed savings data held by divisions to identify lessons and opportunities that can be shared across divisions.** BBC divisions hold detailed information on savings initiatives. The BBC had not previously collated detailed data centrally but started to formalise sharing it across divisions during our study. Analysis of this data will help the BBC identify sources of savings that could be replicated across the BBC and the scope to scale up the savings already made.
  - c** **Make its current review of benchmarking a routine activity that is carried out across the BBC to help understand what activities should cost.** The BBC is undertaking an organisation-wide review of benchmarking to identify where further work may be needed to compare and challenge costs. This is a more systematic approach than the BBC has used previously. Undertaking this type of review more routinely will help the BBC improve its understanding of its costs and savings opportunities.
  - d** **Share lessons from its process improvement work more widely.** The BBC has used the Programme to help embed a culture of continuous improvement into its working practices by providing specialist advice on process improvement to teams requesting assistance. Sharing lessons from this improvement work more widely within the BBC could help it identify further savings opportunities.
  - e** **Include an assessment of the impact of savings initiatives on internal services in its reporting on Programme implementation.** The Programme is changing the way that some internal services are delivered. The BBC tracks the performance of most of its internal services but does not integrate this information with reporting on the implementation of the Programme.

# Part One

## The Programme

**1.1** The BBC plans to cut annual costs by £700 million by the end of 2016-17 compared to its 2011-12 funding plans through a savings programme called Delivering Quality First ('the Programme'). This part describes:

- the need for savings;
- the development of the Programme; and
- the Programme plan.

### The need for savings

**1.2** The Programme was a direct response to the 2010 licence fee settlement. Licence fees, which totalled £3.7 billion in 2013-14, are the BBC's main source of income. The fee for an individual licence is set by the Secretary of State for Culture, Media & Sport. The total value of licence fees that the BBC collects each year is determined by the level of the fee, the number of households who must pay it and evasion rates.

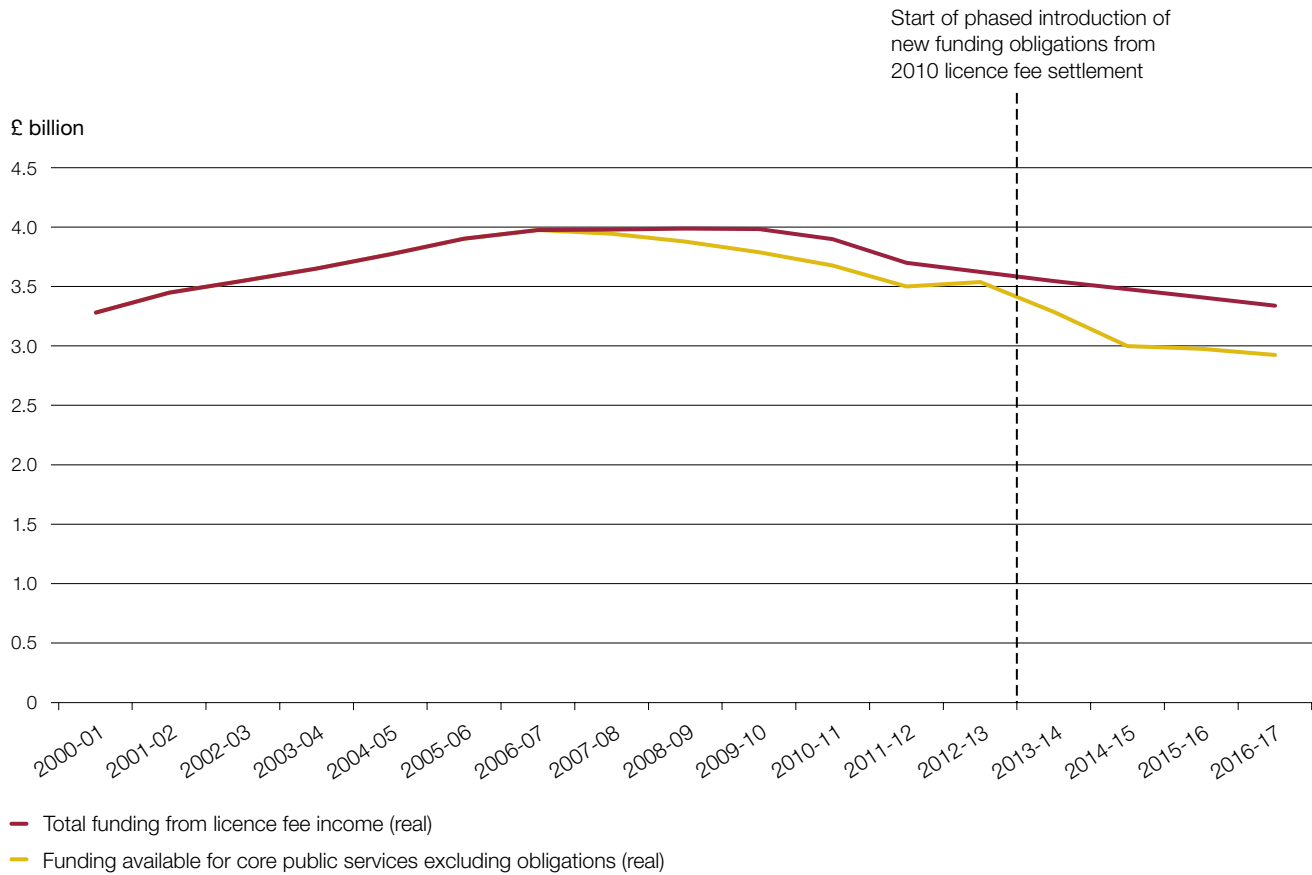
**1.3** In October 2010, as part of the most recent licence fee settlement with the BBC, the Secretary of State fixed the colour television licence fee at £145.50 until March 2017. The BBC had already offered in September 2010 to hold the fee at this level for 2011-12 and 2012-13. This was a significant change as the fee had previously increased each year. The 2010 settlement also gave the BBC new financial responsibilities. These included paying for the BBC World Service, which at the time was funded by the Foreign & Commonwealth Office, and supporting the future roll out of local television. Some future licence fee income would therefore be diverted to other purposes, reducing the amount available to fund the BBC's core public service broadcasting output in real terms from around £3.5 billion in 2012-13 to less than £3 billion in 2016-17 (**Figure 1** overleaf).

**1.4** The Secretary of State estimated that after deducting amounts allocated for other purposes, licence fee income in 2016-17 would be £576 million lower in real terms compared with 2011-12 BBC funding plans (**Figure 2** on page 13). This was equivalent to a 16% cut compared with the forecasts the BBC had made before the revised licence fee settlement. The BBC increased the target amount it planned to save to £700 million by 2016-17. This was so it could release funds for digital innovation and for reinvestment in new output – including drama, newsgathering and the BBC Proms.

**Figure 1**

Actual and forecast licence fee income, 2001-02 to 2016-17

The BBC forecast that the 2010 licence fee settlement would result in a reduction, after adjusting for inflation, in licence fee income available to core public services



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total forecast licence fee funding available for the BBC's core public services and obligations in real terms (£m)	3,699	3,621	3,546	3,478	3,409	3,339
Forecast funding available for the BBC's core public services excluding obligations in real terms (£m)	3,499	3,538	3,287	2,999	2,976	2,923

**Notes**

- 1 We have calculated the real term figures against a 2011-12 base using retail price index for the period up to 2011-12. The BBC assumed 3% inflation over the period of the Programme in its forecasts.
- 2 Adjusted figures show licence fee income after excluding the ring-fenced funding of digital switchover (from 2007-08) and the phased introduction of new funding obligations from the 2010 licence fee settlement.
- 3 Forecast licence fee is based on BBC assumptions about growth in the number of homes with televisions and the rate of licence fee evasion.

Source: National Audit Office analysis of BBC data

**Figure 2**

## The financial impact of the 2010 licence fee settlement

To absorb the impact of the licence fee settlement and release additional funds to reinvest in new content and technology, the BBC set a target to make annual savings of £700 million by 2016-17

Additional funding responsibility	Estimated cost in 2016-17	
	(£m)	(£m)
BBC World Service	255	
Ring-fenced financial support for rolling out rural broadband	150	
S4C (Welsh language channel)	54	
BBC Monitoring	18	
Financial support for local television services	5	
<b>Estimated total funding for additional responsibilities</b>		<b>482</b>
Net impact of licence fee income rising less than forecast inflation and previous funding responsibilities ending <sup>1</sup>		94
<b>Estimate of savings needed in 2016-17 to absorb the impact of the 2010 licence fee settlement</b>		<b>576</b>
Target for additional savings to reinvest in new content and technologies		124
<b>Total savings target for 2016-17</b>		<b>700</b>

**Notes**

- 1 The BBC's assessment of the impact of the settlement took into account its estimates of future household growth and evasion, and financial support for digital switchover ending after 2012-13. The BBC's obligation for supporting digital switchover formed part of the previous licence fee settlement and was £200 million in 2011-12 and £86 million in 2012-13.
- 2 The BBC set the baseline for the savings target as the 2011-12 forecast licence fee and assumed 3% inflation over the period of the Programme in determining the net impact of inflation. All other figures are in cash terms.
- 3 The BBC World Service was funded by the Foreign & Commonwealth Office until April 2014.
- 4 S4C is a Welsh language channel that until April 2013 received most of its funding from the Department for Culture, Media & Sport. The Secretary of State did not finalise annual funding for S4C beyond 2014-15 in the October 2010 settlement, but estimated that it would be around £54 million by 2016-17. In October 2011, the BBC Trust, the S4C Authority and the Secretary of State for Culture, Media & Sport agreed that funding for S4C in 2016-17 would be £75 million, which increased the total funding required to cover settlement obligations to £503 million.
- 5 BBC Monitoring, which provides news and information services for clients that include media organisations, the UK government, foreign governments and universities, was funded by the Cabinet Office until April 2013.

Source: National Audit Office analysis of BBC data

**1.5** Delivering Quality First is the programme the BBC developed during 2011-12 to meet its £700 million savings target. Starting in 2012-13, it was the latest in a series of BBC savings programmes going back to the mid-1990s. We reported in September 2011 on the progress of an earlier programme, known as 'Continuous Improvement', which the BBC was part-way through implementing.<sup>1</sup> We found it was on track to exceed the 3% annual savings target for that programme.

### **Developing the Programme**

**1.6** The BBC developed a comprehensive approach, with assistance from Deloitte, to analyse how it could meet the £700 million savings target while minimising the impact on audiences (**Figure 3**). It created nine 'workstream groups' covering all of the BBC's existing cost base. These groups included staff with experience in finance, strategy and quality. A central team oversaw their work and coordinated the detailed review and validation of savings plans, to identify likely savings and impact on outputs. This helped the BBC to make informed decisions about how savings proposals aligned with its strategic priorities.

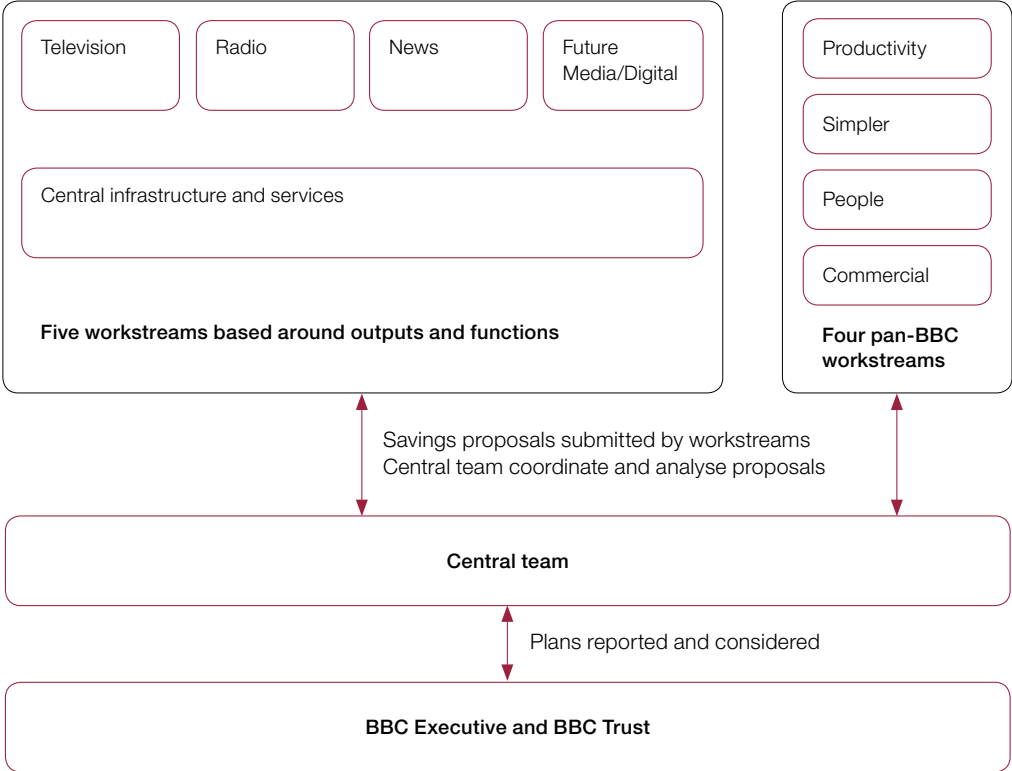
**1.7** The BBC Trust carried out a public consultation on the Programme proposed by the Executive. In response to the feedback it received, it required some changes to limit the Programme's impact, for example on local radio. As part of the approval processes it also commissioned Ernst & Young to review the proposed Programme in late 2011. Ernst & Young concluded that the BBC was managing the Programme effectively.<sup>2</sup> They also reported that the BBC had demonstrated a detailed understanding of its cost base and drivers, and used internal and external benchmarking.

<sup>1</sup> Comptroller and Auditor General, *The BBC's efficiency programme: Report presented to the BBC Trust's Finance and Compliance Committee, 8 September 2011*. Presented to Parliament by the Secretary of State for Culture, Media & Sport, November 2011.

<sup>2</sup> Ernst & Young, *Testing the BBC's DQF Efficiency Programme*, Ernst & Young review, November 2011.

**Figure 3**  
The BBC's structure for planning the Programme

The BBC developed nine workstreams to identify savings across the organisation



**Notes**

- 1 The BBC used the 'Simpler' workstream to consider ways of making the BBC an easier organisation to work within.
- 2 Workstream groups were headed by lead directors from unrelated areas and staffed by people from across the BBC to encourage proposals that crossed divisional boundaries. For example, the Future Media/Digital workstream was led by the director of BBC Wales and included people from six BBC divisions.

Source: BBC documentation

## The Programme plan

1.8 The BBC concluded through its detailed review that it could cut annual costs by £700 million in three ways (**Figure 4**):

- **Productivity savings:** producing content more efficiently, for example by simplifying processes and reducing the number of senior managers it employs.
- **Scope reduction:** which involves doing less, for example broadcasting repeats instead of commissioning new material and providing fewer 'Red Button' television services.
- **Increase commercial income:** increasing the number of programmes it produces that have a high commercial value to increase income and reduce the scale of savings needed from improved productivity and scope reduction.

1.9 **Figure 5** shows the BBC's planned savings in each year of the Programme up to 2016-17. The BBC planned to achieve more than half the £700 million gross savings target by the end of 2013-14.

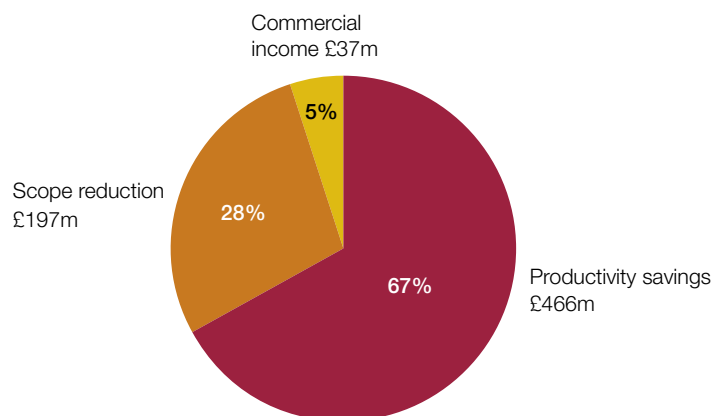
1.10 Since launching the Programme, the BBC has announced that, in addition to the £700 million savings target, it plans to make further annual savings of £100 million by March 2017 to reinvest in content. These plans arose as part of a review of strategy and content priorities by the Director-General of the BBC.

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### Figure 4

The BBC's target by type of saving

The BBC plans to generate around two-thirds of savings by improving productivity



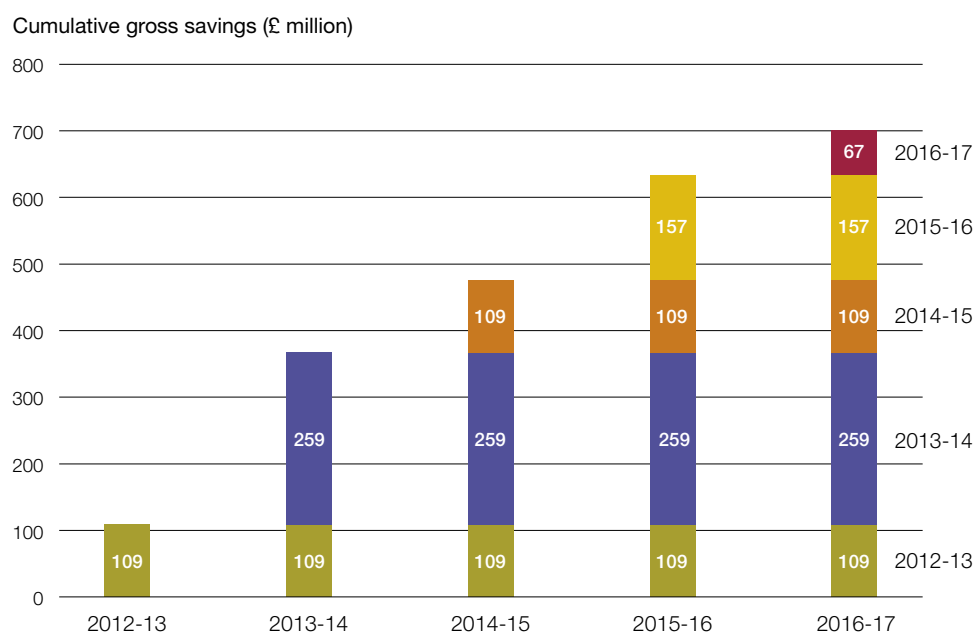
#### Note

1 This is the revised plan as at May 2012 following the BBC Trust's request to reduce scope cuts in radio by £7.9 million. In its revised plans for the Programme, the BBC excluded £30 million savings arising from an earlier savings programme.

## Figure 5

### The BBC's planned savings by year

The BBC plans to make over half of its savings by the end of 2013-14



	2012-13	2013-14	2014-15	2015-16	2016-17	Total
<b>Cumulative gross savings</b>	<b>109</b>	<b>367</b>	<b>476</b>	<b>634</b>	<b>700</b>	<b>2,301<sup>1</sup></b>
Implementation costs	(45)	(78)	(57)	(32)	(34)	<b>(289)<sup>2</sup></b>
Cumulative net savings	64	289	419	602	666	<b>2,012</b>

#### Notes

- 1 The BBC also forecast £14 million in early sustainable savings in 2011-12.
- 2 The BBC has allocated funding to divisions for each year to cover implementation costs of £246 million. However, the BBC forecasts that it will spend £289 million over the Programme, including £21 million for early costs incurred in 2011-12. It plans to allocate the remainder to divisions before the end of the Programme.
- 3 This chart shows planned savings at March 2014 in cash terms. The BBC's plans at the start of the Programme were not yet complete and included £100 million of unplanned savings that had yet to be allocated to divisions.
- 4 Totals do not always reconcile due to rounding.

Source: National Audit Office analysis of BBC data



## Part Two

### Performance against plans

**2.1** This part examines the BBC's progress against its savings plans up to March 2014. We examine:

- savings reported by the BBC and areas where performance has varied from milestone targets;
- the quality of evidence underlying reported savings;
- the risks and opportunities to achieving the remaining savings; and
- the impact on performance.

#### Reported savings

**2.2** At the end of 2013-14, the BBC reported that the Programme had resulted in annual savings of £374 million.<sup>3</sup> This exceeded its milestone target of £367 million by 2% (**Figure 6**). It did not externally report the savings net of implementation costs. We found that implementation costs in 2013-14 were £62 million, giving a net in-year saving of £311 million. Implementation costs in 2013-14 were less than forecast but total implementation costs over the first two years of the Programme were in line with plans.

**2.3** To contribute towards the £700 million target, savings must be sustainable, meaning that they accumulate year on year. The BBC's central savings database records whether individual savings are sustainable or one-off. We found that sustainable savings to March 2014 were £351 million (**Figure 7** on page 20). This was £16 million (4%) below the BBC's plans for sustainable savings to this point. The BBC made one-off savings to offset predicted delays in achieving sustainable savings during the initial years of the Programme. Such savings in 2013-14 included £12 million from releasing unused contingency funding as part of closing television analogue transmission and £8 million from buying fewer programmes in 2013-14.

<sup>3</sup> BBC data shows that annual savings at the end of 2013-14 were £373.4 million. The BBC has rounded this up to £374 million in its reporting. In our analysis we rounded the overall saving to the nearest million, which is £373 million.

**Figure 6**

## Performance of the Programme to March 2014

The BBC exceeded its milestone savings target in the first two years of the Programme

	2012-13			2013-14			Total over the two years		
	Target (£m)	Actual (£m)	Variance (%)	Target (£m)	Actual (£m)	Variance (%)	Target (£m)	Actual (£m)	Variance (%)
Saving	109	125	15	367	373	2	476	499	5
Implementation cost	(45)	(59)	31	(78)	(62)	(21)	(123)	(121)	(2)
<b>Net saving</b>	<b>64</b>	<b>66</b>	<b>4</b>	<b>289</b>	<b>311</b>	<b>8</b>	<b>353</b>	<b>378</b>	<b>7</b>

**Notes**

- 1 The BBC also incurred early costs of £22 million in 2011-12 against a target of £21 million when it was planning the Programme and made sustainable savings of £18 million against a forecast of £14 million.
- 2 All figures are in cash terms.
- 3 Variances do not always reconcile due to rounding.

Source: National Audit Office analysis of BBC data

**Scope, productivity and commercial income**

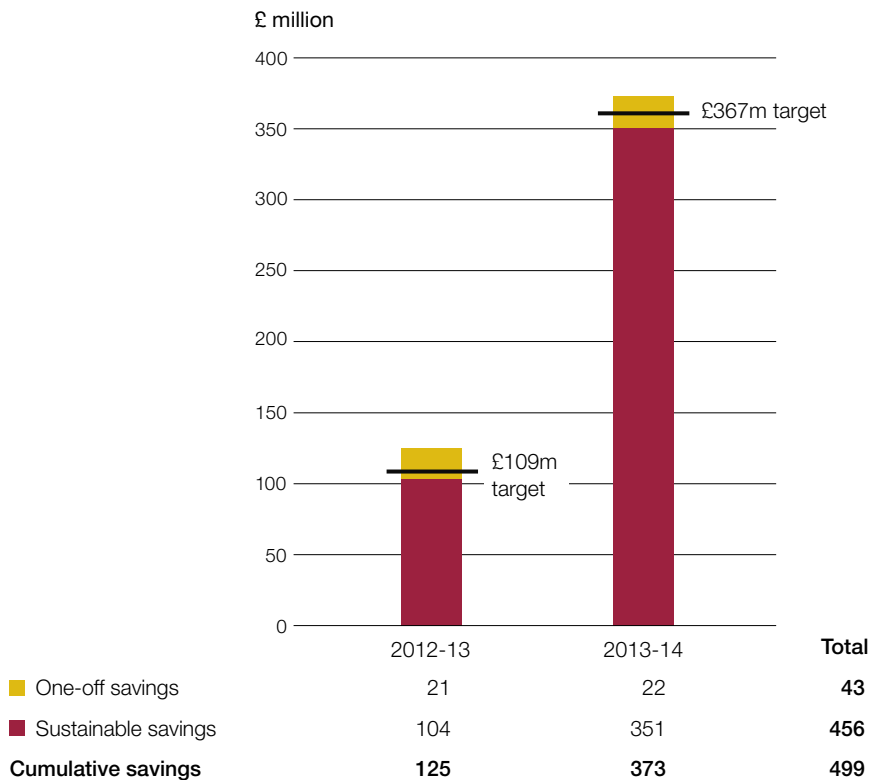
**2.4** We compared the savings that the BBC reported in 2013-14 with its milestone targets for reducing scope, improving productivity and increasing commercial income. The BBC saved £152 million through scope reduction, exceeding its target by 33%. However, productivity savings of £216 million were 6% below target. Additional commercial income of £5.4 million was 76% below target.

**2.5** One-off annual savings do not count towards the BBC's overall savings target of £700 million. We therefore analysed performance against targets for sustainable savings. We found that sustainable productivity savings were £18.0 million (9%) less than the BBC's target of £206.4 million (**Figure 8** on page 21). This was due mainly to time lags between its Television division implementing savings initiatives and realising the savings. The division made early one-off savings to offset the predicted delay in achieving sustainable savings. Sustainable commercial income of £5.6 million was also significantly below the BBC's target of £22.1 million. The BBC told us that commercial income was less than planned due to the time needed to commission and produce public service broadcasting output that is commercially attractive in overseas markets.

**2.6** The BBC offset the lower than forecast productivity savings and commercial income by saving more through reducing the scope of some of its services and through one-off savings. The value of sustainable scope savings reported in 2013-14 was, at £157.5 million, 13% (£18.1 million) higher than forecast. The BBC achieved this by renegotiating the scope of several contracts that resulted in reduced prices. This included reducing the number of live Formula One races it broadcasts on television as part of its contract extension and reducing the number of interactive 'Red Button' services on satellite television to concentrate on online distribution. Savings from reducing scope can be achieved more quickly than productivity improvements as it does not necessarily involve restructuring or changes to ways of working.

**Figure 7**  
Sustainable and one-off savings

The savings reported by the BBC are predominantly comprised of sustainable savings but also include some one-off savings



**Notes**

- 1 All figures are in cash terms.
- 2 Totals do not always reconcile due to rounding.

Source: National Audit Office analysis of BBC data

**Figure 8**

## Sustainable savings in 2013-14 by type

Higher than planned savings from scope reduction in 2013-14 were offset by lower productivity savings and commercial income

	Planned	Actual	Variance	
	(£m)	(£m)	(£m)	(%)
Productivity	206.4	188.3	(18.0)	(8.7)
Scope reduction	139.3	157.5	18.1	13.0
Increased commercial income	22.1	5.6	(16.5)	(74.7)
<b>Total</b>	<b>367.8</b>	<b>351.4</b>	<b>(16.4)</b>	<b>(4.5)</b>

**Notes**

- 1 The planned savings for sustainable savings initiatives is shown as £367.8 million. This is slightly higher than the BBC's overall target of £367 million savings in 2013-14 as the overall target includes adjustments for one-off savings and rounding.
- 2 All figures are in cash terms.
- 3 Differences in savings achieved against forecast do not always reconcile due to rounding.

Source: National Audit Office analysis of BBC data

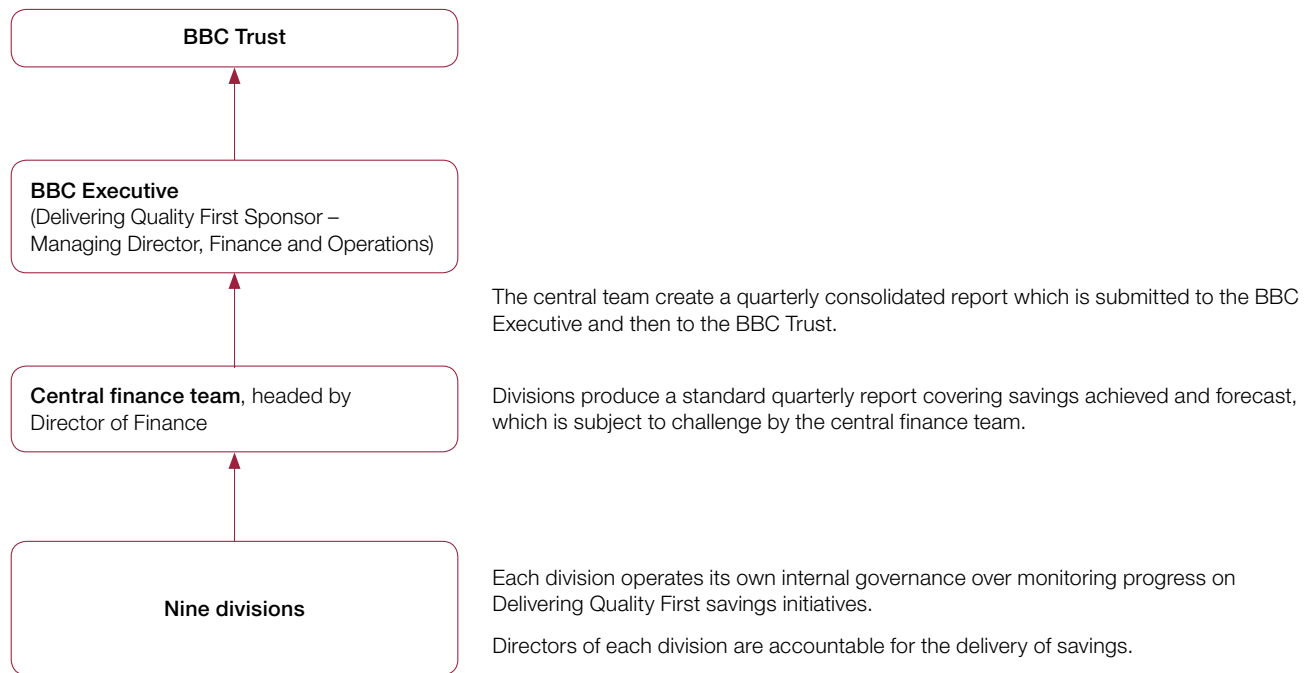
**The evidence for reported savings**

2.7 The BBC established appropriate monitoring and reporting processes to track progress against plans:

- The BBC set divisional budgets with the planned savings already deducted. Divisional directors are individually accountable for their budgets and savings targets to the BBC's Managing Director of Finance and Operations, who has overall accountability for the Programme. Removing forecast savings from budgets and monitoring spending against them can be an effective way of getting assurance that real reductions in spending have been achieved.
- To give its central Programme team a clear overview of performance against plans, the BBC set up a central database, called 'Clearview'. This was to track the implementation of the 344 savings initiatives that were planned or already active within the Programme. The system allows the BBC to produce reports in a consistent format on achieved and forecast savings for individual divisions and for the organisation as a whole. Divisions add data on the progress of their savings initiatives to the database, which is regularly updated. They also include implementation costs, amounts reinvested and risks to future savings plans.
- The BBC established appropriate arrangements for reporting on savings (**Figure 9** overleaf) with the BBC's central Programme team providing appropriate review on divisional progress.

**Figure 9**  
Reporting arrangements

The BBC has an appropriate reporting structure in place



Source: National Audit Office analysis of BBC documents

**2.8** The BBC obtained external assurance over savings recorded on Clearview up to March 2014 by commissioning KPMG to review them. KPMG compared data held on Clearview with individual savings plans. It also checked supporting documentation for evidence that individual savings exceeding £1 million, which covered 86% (£323 million) of savings reported in 2013-14, were genuine. KPMG did not identify any significant reporting errors. BBC Internal Audit also reviewed the governance arrangements for the Programme in June 2014, and concluded that they were appropriate.

**2.9** As the BBC seeks to make more challenging productivity savings through the Programme, it is important that its reporting on progress and risks is timely and robust. There are some areas where it could strengthen its approach including:

- BBC Internal Audit found that some information on delivery risks was inaccurate. It identified in June 2014 that 2 of the 12 savings initiatives it reviewed had been incorrectly rated as on track, yet one of them had been delayed and the forecast for the other was that it would miss its target. These inaccuracies arose from divisions not entering all relevant information on to Clearview at the right time. The BBC now sends quarterly reminders to divisions to update Clearview.
- The BBC provided limited guidance to divisions on what to include in implementation costs, which creates the risk of inconsistent reporting.

## Source of savings

**2.10** We found that divisions hold detailed information about the source of savings beyond the three main categories of productivity, scope and commercial income but the BBC does not collate and make use of this detailed information centrally. This limits the BBC's ability to identify trends and further savings opportunities by, for example, identifying sources of savings in one division that could be replicated elsewhere.

**2.11** The central database does hold some information about individual savings initiatives, but these can cover savings from several sources that are not recorded centrally. There was, however, enough information in the database to allow us to group savings initiatives into broad types and create indicative estimates of how the BBC had made savings. Under the terms of the Broadcasting Agreement that governs our reporting on the BBC, we cannot examine editorial decisions, such as reducing scope, and have no rights of access to examine activities carried out by its commercial subsidiaries. We therefore focused our analysis on productivity savings.

**2.12** **Figure 10** overleaf shows the results of our analysis. It indicates that the main source of productivity savings was reducing the direct cost of making programmes and other content, for example by negotiating multi-year deals to control prices. Procurement and contract management were another important source of savings. We also identified £1.8 million that are not from cash-releasing savings but where divisions appeared to have used cash reserves to cover in-year shortfalls.

**2.13** The information we reviewed indicates that measures that can be taken relatively quickly, such as renegotiating contracts and limiting pay increases, have been an important source of savings to date. Achieving future savings targets will require more fundamental changes in organisational design and working practices. The BBC is already making such changes in some areas, for example by integrating its news operations with the BBC World Service to improve productivity.

**2.14** Some divisions have carried out their own analyses. Television is the BBC's largest division, accounting for around one third of the BBC's annual spend on public service broadcasting. It contributed £132.9 million (36%) to reported savings in 2013-14. Its analysis shows that it made most of its savings to date by reducing the scope of its activities and services, as productivity savings are taking longer to implement. This generated savings of £77.7 million, which is equivalent to 58% of the total (**Figure 11** on page 25). The main sources of productivity savings included renegotiating contracts and changing how it managed productions to reduce programme costs. The division also made staff related savings of £4.1 million in 2013-14 (3% of the division's reported savings) by integrating its support functions.

**Figure 10**

## Source of productivity savings reported in 2013-14

Source of saving	Saving in 2013-14 (£m)		Explanation/examples
<b>Sustainable savings</b>			
Content production savings (excluding scope savings)	73		Producing programmes and other content for less, for example by negotiating multi-year commissioning deals to control prices or replacing senior staff with those in more junior grades.
Procurement and contract management	36		Cutting costs by re-tendering or renegotiating contracts, such as for radio transmission services.
Reducing support and overhead costs	35		Reducing staff in marketing or production support for local television and radio.
Keeping costs below inflation	27		Keeping annual cost increases, such as payroll costs, at or below the 1.5% inflation rate that the BBC uses for divisional budgeting purposes.
Property savings	13		Reduced running costs, for example, by vacating Television Centre.
Other sustainable savings	4		
		<b>188</b>	
<b>One-off savings</b>			
Television savings	14		Associated reductions in productivity costs, such as lower production overheads, due to one-off lower scope spend on programmes in 2013-14.
Closure of analogue television transmission	12		Release of unused contingency funding as part of closing television analogue transmission.
Use of reserves	2		Using cash reserves to offset shortfalls against targets.
Other one-off savings	1		
		<b>28</b>	
<b>Total</b>		<b>216</b>	

**Notes**

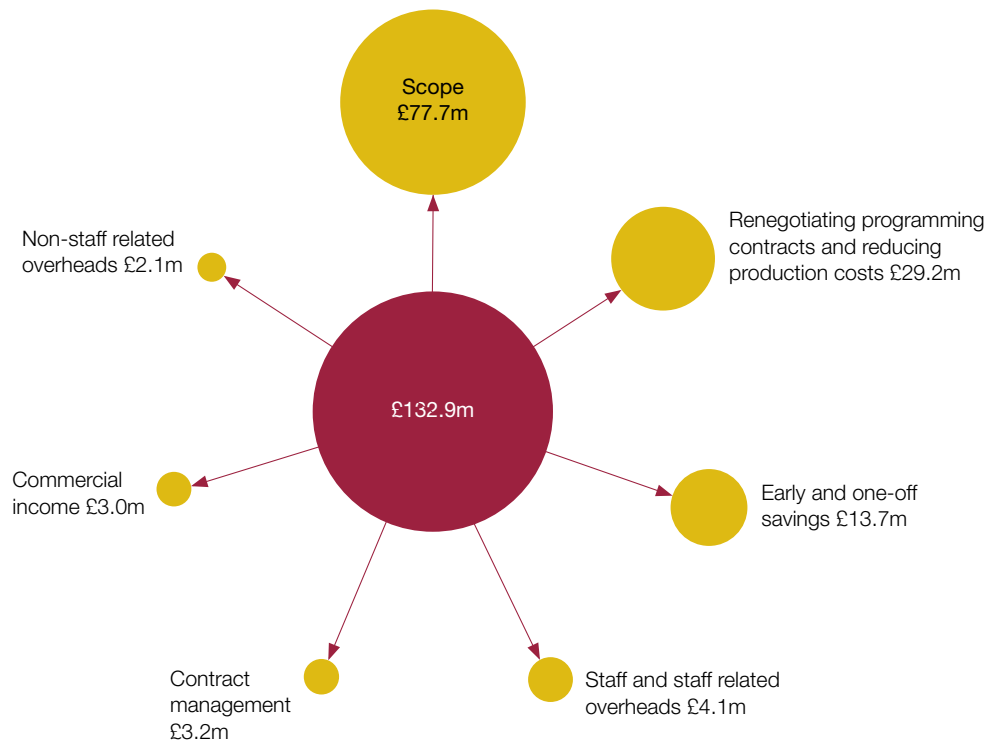
- 1 Based on our review of centrally-held information on the 217 initiatives that contributed to the £373.4 million savings reported at end of 2013-14. From those, we made judgements on the main source of each initiative if sufficient information was available.
- 2 The BBC reported that it made £28 million in one-off productivity savings in 2013-14. After adjustments in Clearview for changes and cancellations of some scope saving initiatives, the BBC made £22 million in one-off savings in 2013-14.
- 3 All figures are in cash terms.
- 4 Totals do not always reconcile due to rounding.

Source: National Audit Office estimate using BBC data

**Figure 11**

Source of savings from the Television division in 2013-14

Savings within Television have come from a wide range of sources

**Notes**

- 1 All figures are in cash terms.
- 2 Total does not reconcile due to rounding.

Source: National Audit Office analysis of BBC data

**Savings from staff reductions**

**2.15** We estimate that around £58 million of Programme savings reported in 2013-14 resulted from reducing staff costs and numbers.<sup>4</sup> Staff costs fell by 17% in real terms between 2011-12 and 2013-14, from £1,054 million to £873 million (**Figure 12** overleaf). Half of this related to the BBC incurring higher restructuring costs in 2011-12, such as provisions for redundancy payments. Of the remainder, the BBC achieved this by capping annual wage increases and continuing to reducing senior managers' numbers, an initiative that had begun prior to the Programme. The BBC reports that between 2011-12 and 2013-14 the number of senior managers fell by 14% from 477 to 410 and we estimate that senior managers' salary costs fell by the same proportion in real terms to £52 million. In some areas, the BBC has also introduced new ways of working that reduced staffing requirements, such as integrating production and commissioning support teams in its Television division.

<sup>4</sup> Based on actual departures and average full cost of BBC staff at the end of 2013-14.



**Figure 12**

BBC staff costs and staff numbers in the core public services since the start of the Programme

**Staff costs have fallen but overall staff numbers have not changed much**

	2011-12	2012-13	2013-14
<b>Staff costs</b>			
In nominal terms (£m)	1,054	961	922
In real terms (£m)	1,054	931	873
Real year on year change	–	(124)	(58)
Real percentage change	–	(12)	(6)
<b>Staff numbers</b>			
(full time equivalent)	16,858	16,534	16,672
Year on year change	–	(324)	138
Percentage change	–	(2)	1

**Notes**

- 1 Staff costs are adjusted against a 2011-12 base using retail price index to account for inflation.
- 2 Staff costs and figures relate to the public sector broadcasting element of the BBC.
- 3 Totals may not reconcile due to rounding.

Source: National Audit Office analysis of BBC annual accounts

**2.16** The number of full-time equivalent public service broadcasting staff employed by the BBC fell by 186 (1%) over the first two years of the Programme (Figure 12). The BBC plans to have closed a total of 1,900 posts by the end of 2016-17 as part of the Programme, which it estimates will cost £135 million in redundancy payments. By March 2014, it had accepted redundancies from 1,247 staff, of which 1,050 had left. The BBC has largely offset redundancies by taking on new staff for new digital services and technologies and recruiting temporary staff for events such as the Commonwealth Games and the Scottish Referendum. Following an increase in staff numbers in 2013-14, the BBC Trust asked the BBC to examine its staff requirements to inform future recruitment and retention plans. Its review was still in progress at the time of our report.

**Performance of individual divisions**

**2.17** Six of the BBC's ten divisions reported in 2013-14 that they had met or exceeded their interim savings forecasts (Figure 13). For example, BBC North was 10.5% (£5.5 million) ahead of its interim target of £52.2 million, mainly as a result of successfully renegotiating several sports rights contracts. BBC Scotland's savings of £6.4 million were 11.5% (£0.8 million) less than its interim target of £7.2 million. BBC Scotland had planned to save £1.8 million by broadcasting one of its regional programmes nationally to avoid the cost of producing other content for the national slot. However, the BBC cancelled this plan and BBC Scotland is developing alternative savings plans.

**Figure 13**  
Target and actual savings reported by divisions in 2012-13 and 2013-14  
Four divisions reported a shortfall in 2013-14 compared to just one in 2012-13

Division	2012-13			2013-14						
	Annual actual saving as a percentage of in-year spend	Actual (£m)	Target (£m)	Variance (£)	Variance (%)	Annual actual saving as a percentage of in-year spend	Actual (£m)	Target (£m)	Variance (£)	Variance (%)
North	8.2	48.7	37.0	11.7	31.8	12.8	57.7	52.2	5.5	10.5
Television	2.0	23.1	20.5	2.6	12.8	11.5	132.9	135.3	(2.3)	(1.7)
Strategy and Digital	4.5	8.3	7.8	0.5	6.1	8.6	21.1	21.2	(0.1)	(0.3)
Radio	3.2	6.7	5.9	0.8	13.9	8.5	17.9	17.6	0.2	1.3
Finance and Operations	3.3	30.9	34.3	(3.3)	(9.8)	8.2	66.5	64.7	1.8	2.9
Wales	1.5	1.8	1.8	0.0	0.0	6.5	7.4	7.4	0.0	0.0
Scotland	0.3	0.4	0.4	0.0	0.2	4.7	6.4	7.2	(0.8)	(11.5)
Northern Ireland	1.6	1.2	1.2	0.0	0.0	4.3	3.0	3.3	(0.2)	(7.4)
News and English Regions	0.8	4.3	0.1	4.1	2,855.2	3.8	21.2	19.5	1.8	9.1
Central	n/a	0.0	0.0	0.0	0.0	n/a	39.1	39.1	0.0	0.0
Total	3.2	125.4	109.0	16.5	15.1	10.0	373.2	367.5	5.9	1.6

**Notes**

- 1 The BBC has nine operating divisions, with the 'central division' holding savings not allocated down to divisions, including those from keeping pay at below inflation.
- 2 All figures are in cash terms.
- 3 Variances do not always reconcile due to rounding.

Source: National Audit Office analysis of BBC data

**2.18** The number of divisions reporting a shortfall against their individual savings targets was higher in 2013-14 than in the previous year. In 2013-14, four divisions reported a shortfall compared with just one – the finance and operations division – in 2012-13. However, the value of the shortfall across these four divisions in 2013-14 was, at £3.5 million, only £0.2 million higher than the previous year.

## Remaining savings

**2.19** The BBC has developed plans for most of its remaining savings. At the end of 2013-14, it reported that less than 2% (£5.5 million) of the remaining £349 million savings target were 'unplanned', with a further 5% (£18.8 million) the BBC considers to be 'difficult to achieve' (**Figure 14**). In comparison, the BBC reported £191 million of savings as being 'difficult to achieve' or 'unplanned' at the end of 2011-12. Our review of a sample of 13 savings initiatives showed that plans were in place at the end of March 2014 except for those that the BBC had classed as difficult to achieve or unplanned.

**2.20** Some of the BBC's remaining savings plans involve significant challenges:

- The BBC is relying largely on productivity savings to meet 85% of its remaining savings target, having made most of its scope savings during the initial years of the Programme. It has categorised £116.9 million (39%) of future productivity savings as having at least some risk to delivery. For example, the BBC expected to save around £16 million in 2016-17 from its Digital Media Initiative.<sup>5</sup> The BBC found other ways to make savings after cancelling this initiative in 2013, such as by digitising material within the Television division. However, in other areas, such as developing a digital archive, it has yet to develop alternative plans.
- Some planned savings require significant changes to divisional structures which could create operational risks. Its Television division delayed some of its savings initiatives to allow time to complete restructuring work.
- BBC divisions have not met their commercial income targets to date and are forecasting that they will achieve only £21 million of the planned £37 million increase by 2016-17. Its Television division, which has a target of £30 million, has reported that the time needed to commission and produce public service broadcasting output that is commercially attractive in overseas markets is affecting its ability to generate further commercial income. The BBC plans to address this by increasing productivity savings, but if this is not successful it will have to further reduce the scope of its services or make more productivity savings.

**2.21** At the end of September 2014, the BBC reported that it was on track to meet its 2014-15 target and had put in place plans to further reduce its risks to remaining savings. The BBC rated £10.2 million as being 'difficult to achieve' or 'unplanned', compared to £24 million at the end of March 2014.

<sup>5</sup> We reported on the BBC's management of the failure of this project in Comptroller and Auditor General, *British Broadcasting Corporation: Digital Media Initiative*. Memorandum presented to the BBC Trust, January 2014.

**Figure 14**

## Remaining savings by type and the risk rating

**The BBC plans to source most remaining savings from improved productivity**

BBC's risk assessment	Productivity (£m)	Scope (£m)	Commercial (£m)	Total (£m)
Confident savings will be delivered	180.6	25.3	0.2	206.2
Some risk to savings	93.9	10.3	14.2	118.5
Difficult to achieve	17.5	0.3	1.0	18.8
Not yet planned or identified	5.5	0.0	0.0	5.5
<b>Total</b>	<b>297.5</b>	<b>35.9</b>	<b>15.5</b>	<b>348.9</b>

**Notes**

- 1 Remaining savings are based on BBC forecasts and sustainable savings achieved at the end of March 2014.
- 2 At the end of 2013-14, the BBC forecast scope savings of £193.4 million. This was 2% (£3.6 million) lower than planned at the start of the Programme. It also forecasts additional commercial income of £21.1 million, which was 43% (£15.9 million) lower. The BBC has offset this £19.6 million shortfall from increased productivity savings. It is forecasting total savings of £485.6m, which is 4% higher than planned savings of £466 million.
- 3 All figures are in cash terms.
- 4 Totals do not always reconcile due to rounding.

Source: National Audit Office analysis of BBC data

**2.22** The BBC will need to monitor the sustainability of savings beyond 2016-17 as part of the next licence fee settlement. It has made savings from measures such as fixing contract costs against rising prices, for example for sports rights, but only for the period covered by each contract. The BBC will need to renegotiate some contracts after 2016-17 or find new sources of savings. Savings from controlling pay could also be eroded if changes in the wider economy put upward pressure on wages.

**Developing further opportunities for savings**

**2.23** To help meet or exceed the savings target for the Programme, the BBC has taken steps to encourage a culture of continually challenging costs as part of, but not exclusively through, the Programme. For example, the BBC:

- Launched its 'Simplicity' initiative to give BBC staff an opportunity to submit ideas about how to make their day-to-day work easier.
- Hired external consultants to review processes and help improve ways of working, for example in its finance centre in Cardiff.
- Is seeking to improve its approach to sharing good practice between divisions. In response to a BBC Internal Audit recommendation in June 2014 to formalise information sharing about cost reduction, the BBC started holding workshops that bring together all divisions. It also set up a database within Clearview to capture lessons learned.

**2.24** The BBC created a new team, in February 2012, called 'Spark' to help divisions improve performance, develop new ways of working and make sustainable savings. This team is made up of 18 staff with expertise in process management, such as lean improvement techniques. It provides internal consultancy to teams in BBC divisions. Its main focus has so far been on helping teams achieve savings in support of the BBC's £700 million target rather than achieving a longer-term cultural change to continuously challenge costs. It has nevertheless helped improve ways of working. For example, we found that the assistance the Spark team gave BBC South West had led to improvements (**Figure 15**).

**2.25** The Spark team has provided demand-led support to teams that have requested it. For example, the Spark team helped BBC Radio 5 Live meet its aim of staff spending at least 10% of their time on output beyond traditional radio, such as online content for other BBC services. The BBC's online news team was not included in the project, however, and Radio 5 Live staff received little feedback on how the news team was using this additional content and its quality. By sharing lessons from the Spark team's improvement work more widely, the BBC could potentially identify further savings and other benefits from its improvement work.

**2.26** We have previously recommended that the BBC make greater use of benchmarking to help assess whether costs are consistent within the organisation and comparable with other organisations. This included areas such as drama production,<sup>6</sup> covering major events<sup>7</sup> and in managing its previous efficiency programme.<sup>8</sup> In response, the BBC committed to making more use of benchmarking to improve its understanding of what activities should cost.

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### **Figure 15**

#### BBC South West's use of the Spark team

Management in BBC South West asked the Spark team to help improve its news story development and reporting. With the team's input, journalists now produce reports to share across television, radio and online services. Previously, the BBC had at times sent staff from the three operations to cover the same story. By minimising duplication, journalists now have more time to spend on new stories and the region has more flexibility about who it sends to cover news stories. The BBC plans to adopt this approach in other English regions.

Although the Spark team helped improve ways of working, we identified opportunities for further improvements. For example, the metrics used by the South West team were focused mainly on what it produced, for example the number of new stories it reported in a news programme, rather than measuring how well its new processes were working to produce these outputs. Understanding how its new processes were working would enable the team to identify whether further improvements could be made to its newsgathering operations.

Source: Site visit, interviews and documentary evidence collected by the National Audit Office

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6 Comptroller and Auditor General, *The BBC's management of the costs of producing continuing drama: Report presented to the BBC Trust's Finance and Compliance Committee, 3 March 2011*. Presented to Parliament by the Secretary of State for Culture, Media & Sport, March 2011.

7 Comptroller and Auditor General, *The BBC's management of its coverage of major sporting and music events: Report presented to the BBC Trust's Finance and Compliance Committee, 13 January 2010*. Presented to Parliament by the Secretary of State for Culture, Media & Sport, January 2010.

8 Comptroller and Auditor General, *The BBC's efficiency programme: Report presented to the BBC Trust's Finance and Compliance Committee, 8 September 2011*. Presented to Parliament by the Secretary of State for Culture, Media & Sport, November 2011.

**2.27** The BBC has used internal and external benchmarking in several areas to help develop its savings plans for the Programme, including reviews of:

- BBC local radio station operations: the BBC commissioned an external review, which was carried out during November and December 2011. It compared working practices across the BBC's nine local radio stations with those in commercial radio. The reviewers concluded that BBC local radio could save between £9 million and £11 million a year without affecting the quality of its output, compared to locally-managed spend of £71 million in 2010-11. The BBC forecasts savings of £6.1 million annually in local radio by the end of 2016-17.
- Finance operations: the BBC commissioned an external review in 2011 of its finance function against other organisations. This focused on three main functions: business insight, compliance and control and transactional control. The results helped to inform the BBC's restructuring of its finance function and the BBC estimates that it will save over £4 million annually by 2016-17 through this restructuring.

The BBC also has ongoing benchmarking monitoring, for example it commissions an annual review of the costs of the BBC's largest buildings in its estates with other organisations' buildings of broadly similar types and locations since 2010.<sup>9</sup>

**2.28** To develop a better understanding of which areas of spend have been benchmarked, the BBC initiated a central review of benchmarking and other market testing during 2014. At the time of our report, this review was still under way. The provisional results are enabling the BBC to identify further opportunities for savings and establish what areas have not yet been covered and where previous work could be updated. During 2014, the BBC also announced a new approach called 'compete or compare'. It is designed to provide a more systematic approach to cost comparison by making greater use of benchmarking and opening up BBC programming to more competition.

## **Impact of savings on performance**

**2.29** Measuring the Programme's impact on performance is inherently difficult because of the complex range of other influences on audience behaviour and perceptions. These other influences include editorial decisions unrelated to the Programme, content produced by competitors and rapidly changing trends in how people access television and radio content online. There can also be a lag between when savings are made and their impact on content. As a result, performance metrics may not necessarily provide complete clarity around the Programme's impact.

<sup>9</sup> We reported the latest benchmarking data from 2012-13 in Comptroller and Auditor General, *Managing the BBC's estate: Report presented to the BBC Trust Value for Money Committee, 3 December 2014*. Presented to Parliament by the Secretary of State for Culture, Media & Sport, January 2015.

**2.30** Recognising the inherent limitations, the BBC has tried to monitor in broad terms the Programme's impact on audience behaviour and perceptions using its existing performance measurement framework. The main measures it has used to track the Programme's impact for the BBC as a whole, and individual services, are quality (audience perceptions of various aspects of the quality of programmes and channels) and reach (the extent to which services are used by audiences). The BBC produced forecasts against which to monitor performance for each service using historic data, its estimate of the impact of the Programme's scope changes and its assessment of the impact of factors such as technological changes and wider market trends. The forecast ranges vary in size for different services, reflecting variations in the level of statistical uncertainty in the data. For services with smaller audiences, data based on survey results is more uncertain owing to greater volatility in the number of people being surveyed, and forecast bands are therefore wider.

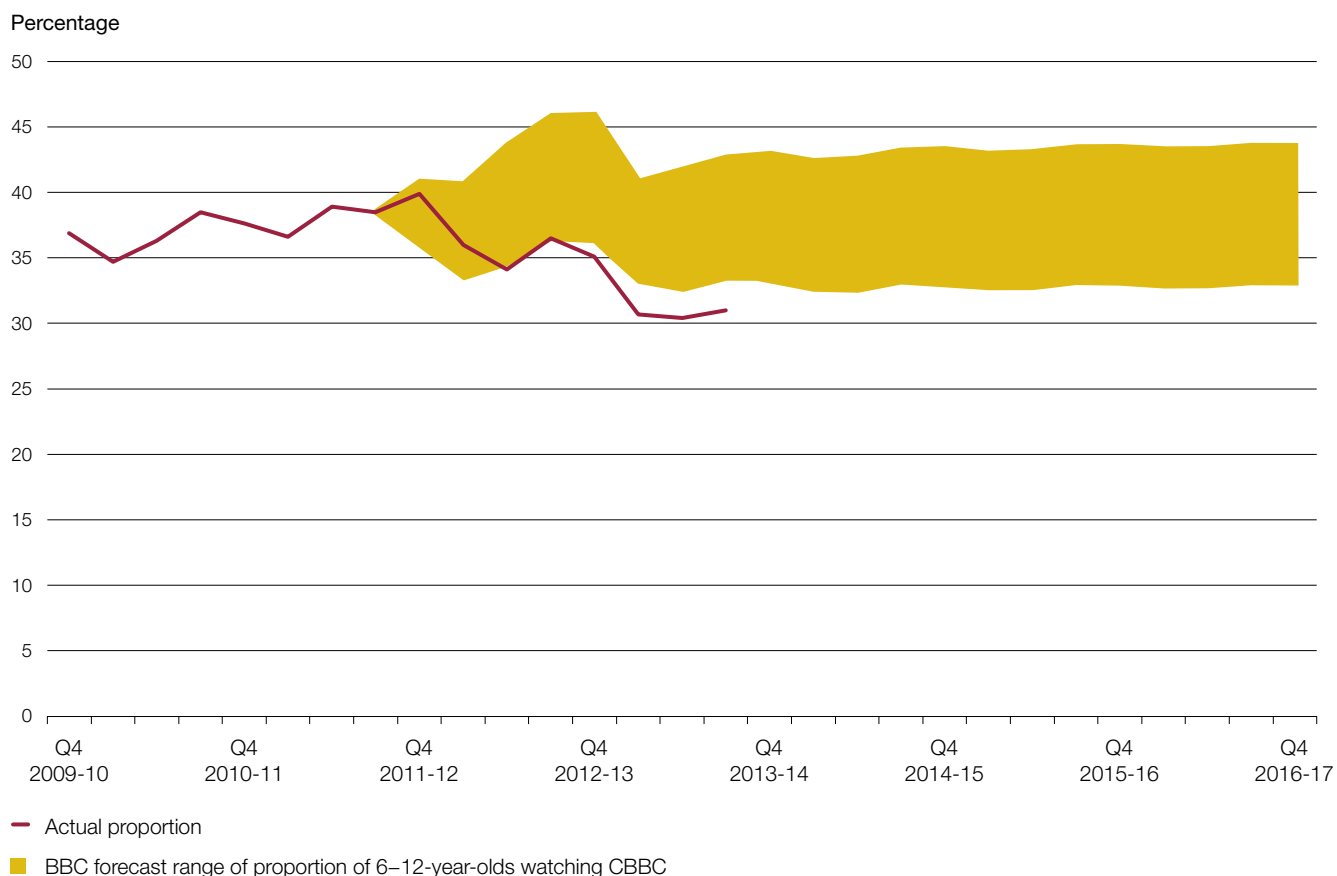
**2.31** Information collected by the BBC indicates that for most services, the impact of the Programme has been within the forecast range. For example, overall the BBC has broadly maintained its performance across quality and reach since the Programme began, with 96% of UK adults continuing to use BBC services each week. However, inherent statistical difficulties in attributing cause and effect with the data available and time lags mean that the results do not show conclusively that there has been no impact on performance. For example, small scale impacts may not be identifiable, particularly for smaller services that have wide forecast ranges. If performance falls below the forecast range for two consecutive quarters, the BBC investigates to identify the potential causes. By the end of 2013-14, the BBC had investigated the performance of seven television and radio services during the Programme period. Of those, it had identified one case (BBC Two reach) where the impact of the Programme was greater than forecast and a further three where Programme impact could not be ruled out as a factor:

- **BBC Two:** Changes to daytime schedules resulting from the Programme and other factors that are not related to the Programme, such as moving some programmes to BBC One, resulted in fewer people watching BBC Two than the BBC forecast between October 2012 and June 2013. Since then, the number of people watching BBC Two has returned to forecast.
- **CBBC and CBeebies:** Since the start of 2012-13, fewer children have watched the BBC's children's channels (**Figure 16**), with the number staying below the BBC's forecast from the middle of 2012-13. The BBC considers that this is not a result of the Programme but is due mainly to the impact of competition and changing viewing habits among children. However, it is not possible to say conclusively that the Programme had no impact owing to difficulties in attributing cause and effect with the data available. At the start of 2014-15, the BBC revised its forecasts to reflect an industry-wide reduction in television viewing by younger viewers. The reach of its children's channels are within these revised forecast ranges.
- **BBC Three:** During 2013-14, the number of people watching BBC Three fell below forecast. The BBC identified the main factors as increased competition, changing viewing habits and underperforming programmes. However, the BBC cannot rule out that the budget cuts resulting from the Programme have had an influence owing to difficulties in attributing cause and effect with the data available.

**Figure 16**

## Forecast and actual reach of CBBC

From the fourth quarter of 2012-13, the reach of CBBC in the 6–12 year-old category fell below the range that the BBC predicted at the start of the Programme



Source: BBC data

**Impact on internal services**

**2.32** The Programme is changing the way the BBC operates internal services, such as finance and human resources, as it aims to reduce support costs by £167 million. In response to a lack of integrated information about the Programme's impact on internal services, the BBC Trust asked the BBC Executive at the end of 2013-14 to assess the Programme's effect on editorial and financial controls to establish whether there were any unintended impacts. We found that the BBC's reporting on the Programme to the Executive Board and the Trust does not, however, include performance measures for internal services. The BBC tracks the performance of most internal services through other operational reports that are submitted to the Executive Board and the Trust, but these are not integrated into its reporting on the Programme. These include reports on performance against the contracted targets for outsourced services or on measures outlined in internal service agreements. However, at the time of our report, the BBC was not reporting on the performance of some of its human resources or archiving operations but was developing metrics for them.



# Appendix One

## Our audit approach

**1** This study examined the BBC's progress in delivering its cost reduction programme, 'Delivering Quality First' (the 'Programme'). We reviewed whether:

- the BBC is achieving its savings as planned; and
- the BBC has made progress in embedding a culture of continually challenging costs through Delivering Quality First since our 2011 report on the BBC's previous efficiency programme.<sup>10</sup>

**2** We applied an analytical framework with evaluative criteria that considers whether the BBC is managing this Programme effectively to underpin its delivery of savings and to assess the steps the BBC has taken to embedding continuous improvement through Delivering Quality First. We drew on previous work on structured cost reduction including our short guide and our 2011 BBC report.<sup>11</sup>

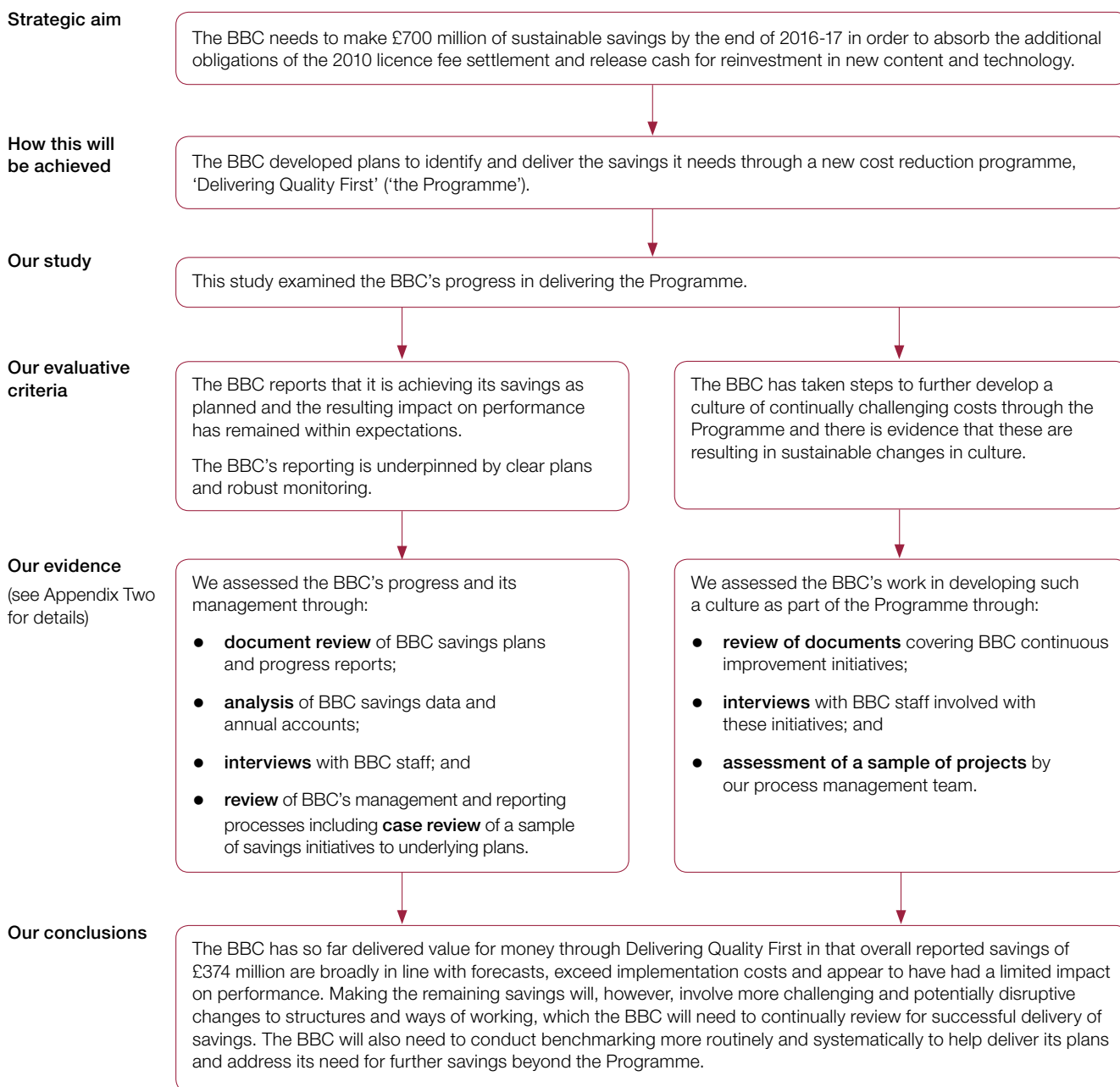
**3** Our audit approach is summarised in **Figure 17** and our evidence base is described in Appendix Two.

<sup>10</sup> Comptroller and Auditor General, *The BBC's efficiency programme: Report presented to the BBC Trust's Finance and Compliance Committee, 8 September 2011*. Presented to Parliament by the Secretary of State for Culture, Media & Sport, November 2011.

<sup>11</sup> *A Short Guide to: Structured Cost Reduction*, National Audit Office, June 2010.

**Figure 17**

Our audit approach



# Appendix Two

## Our evidence base

**1** We reached our conclusions on the progress the BBC has made in its cost reduction programme, 'Delivering Quality First' (the 'Programme'), after analysing evidence collected between June and October 2014. Our audit approach is outlined in Appendix One.

### **Document review**

**2** We reviewed a number of BBC documents to understand the background to the Programme, how the BBC developed its plans and the BBC's management of the Programme. The documents included:

- BBC Executive proposals and BBC Trust reviews during 2011 and 2012;
- internal and external reviews of the Programme such as those by Ernst & Young, KPMG and BBC Internal Audit;
- BBC progress reports across the whole of the BBC and at divisional level;
- BBC guidance on process and monitoring; and
- BBC documents on its work on developing continuous improvement.

### **Interviews with BBC staff**

**3** We carried out semi-structured interviews with BBC staff involved with the development and management of the Programme to understand areas including how the BBC:

- developed its plans during 2011 and 2012;
- measured its progress in savings against targets;
- measured the impact of the Programme savings on performance;
- reported on progress; and
- is continuing to encourage a culture of continually challenging costs.

4 We also interviewed staff responsible for implementing and managing savings initiatives in each of the BBC's nine divisions to understand:

- how divisions are managing and monitoring their savings; and
- their current progress and remaining risks.

### **Analysis of BBC savings data**

5 We obtained extracts from 'Clearview', the BBC's central database for tracking Programme savings, at the end of March 2014. The information we collected included the actual and forecast savings for each initiative along with its target and sustainability, the confidence in achieving the remaining savings, savings reinvested and the costs of implementation.

6 We analysed this data to understand the progress the BBC has made against its targets, the composition of the savings made to date and the level of risk in its remaining savings at both pan-BBC and divisional level. We also triangulated this data with information contained in reports to the BBC's central Programme team, the BBC's Executive Board and the BBC Trust on the performance of the Programme.

7 We also used this data to estimate the main sources of the BBC's savings at the end of 2013-14. Beyond the main savings categories of productivity, scope and commercial income, the BBC does not hold this information centrally. We reviewed centrally-held information on the 217 savings initiatives that contributed to the £374 million savings reported at the end of 2013-14. From those, we made judgements on the main source of each initiative if sufficient information was available.

### **Analysis of BBC financial accounts**

8 We used information from the BBC's annual accounts to determine the trend in licence fee income, staff costs and staff numbers.

9 We also estimated the Programme savings that the BBC made in 2013-14 from staff reduction. We calculated the average full cost of BBC staff working on public sector broadcasting activities using staff costs and numbers in the 2013-14 annual accounts. We then multiplied this by the number of leavers that the BBC reported as having resulted from Programme cuts at the end of 2013-14 to calculate our estimate.

### **Review of BBC management and reporting processes**

**10** We reviewed the systems the BBC uses to track implementation costs and measure the impact of cost reduction on its performance through interviews and document review.

**11** We examined a sample of savings initiatives to understand some of the different approaches the BBC was taking to achieve savings and to assess its confidence in achieving these savings against their respective plans. We selected a judgmental sample of 13 out of the 344 planned or ongoing initiatives at the end of 2013-14, with at least one from each division. We did not examine every savings initiative in detail.

**12** We attended the quarterly review meetings between the BBC's Programme team and eight of the nine divisions to observe how the BBC centrally reviewed progress.

### **Review of BBC's work on embedding a culture of continuous improvement**

**13** We obtained an understanding of the BBC's work in this area through interviews reviewing documents.

**14** Our process management team also visited a sample of three projects with a focus on changing working practices, two of which had assistance from the BBC's in-house experts (the 'Spark' team). During the visits to these areas, our team assessed the degree to which these changes had led to a culture of continual improvement at that time.