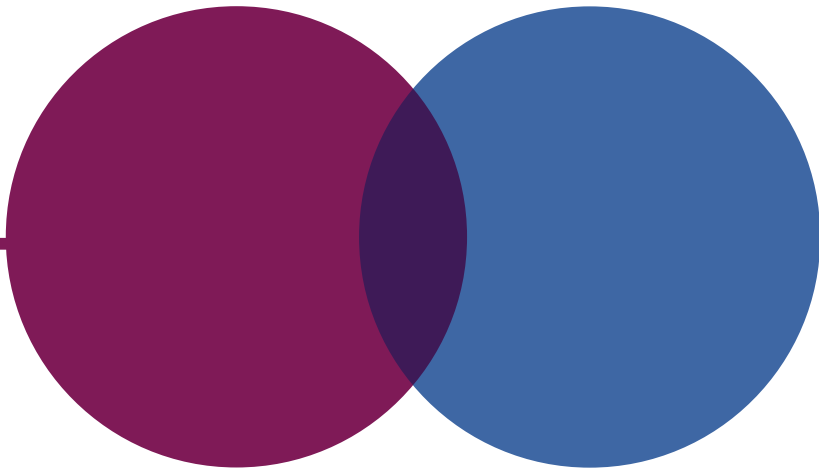




National Audit Office



BBC savings and reform

BBC

REPORT

**by the Comptroller
and Auditor General**

**SESSION 2021-22
17 DECEMBER 2021
HC 958**

Key facts



£3.75bn

BBC income from licence fee 2020-21



£1bn

BBC target for annual savings by 2021-22, increased in 2020 from £800 million



£971m

Annual savings forecast to be delivered by 2021-22



52%

Proportion of the £971 million from reductions and changes to content, and the scope of the services



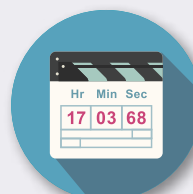
36%

Proportion of the £971 million from productivity improvements



12%

Proportion of the £971 million from income generation



12%

12%: Real-terms reduction in BBC content spending between 2016-17 and 2020-21



22%

Increase in the proportion of BBC 1 programming hours that are repeats between 2016-17 and 2020-21, in part due to COVID-19 pandemic from March 2020

Summary

1 The BBC is the UK's main public service broadcaster (PSB), providing a wide range of television, radio and digital services.¹ The BBC's mission, as set out in its Royal Charter, is to inform, educate and entertain. Under its Charter, the BBC undertakes five public purposes. These include providing impartial news and information and reflecting the UK, its culture and its values to the world. The BBC is independent of government but is sponsored by the Department for Digital, Culture, Media & Sport (the Department) and regulated by Ofcom, the communications regulator.

2 The BBC is primarily funded by payment of the television licence fee, receiving £3.75 billion from this in 2020-21. However, in recent years it has experienced a fall in both its audience share and in the number of people buying a licence as people do not need to buy a licence if they do not watch any licensable content.² Between 2016-17 and 2020-21, its income from the licence fee fell in real terms by more than 8%. As of December 2021, the BBC and government were negotiating on the level of the licence fee after 2021-22.

3 The BBC's cost pressures are heightened by the high level of inflation in the television and film industry. Additionally, the BBC is seeking to invest in developing its services to provide greater value to audiences and meet the needs of those viewing groups it regards as under-served. In September 2020, the BBC announced its new strategic priorities aimed at delivering value for all its audiences (**Figure 1** overleaf).

1 Public service broadcasting is defined as the collective output of specified television services designed to meet purposes and objectives set by Parliament.

2 Live programmes shown on any TV channel or on online TV services, such as ITV Hub or Amazon Prime Video, and programmes shown on BBC iPlayer.

Figure 1

The BBC's strategic priorities

In September 2020, the new Director-General set four key strategic priorities, all enabled by creating a modern, highly efficient BBC



Source: Tim Davie's introductory speech as BBC Director-General, 3 September 2020

4 To fill the gap in its finances resulting from the 2015 licence fee settlement, the BBC is undertaking a five-year programme to deliver targeted savings of just over £1 billion a year by 2021-22. The BBC is seeking to close the gap in its finances through a combination of:

- **productivity improvements:** measures where the BBC sets out to produce the same or additional output with either reduced or less costly inputs. For the BBC, these improvements can include reducing the amount of accommodation it occupies, greater use of technology, improved contracting for goods and services, workforce restructuring and keeping content prices at the same level;
- **reductions to the content and scope of BBC services:** measures where the BBC does fewer things. Examples include cancelling certain television programmes or reducing spending in certain areas to focus on output most valued by its audiences;
- **changes to the scheduling mix:** measures to change the mix or quality of content while avoiding an adverse impact on overall performance. Examples include switching funding from genres or programmes which are more expensive and/or less popular with audiences to higher-performing and/or less expensive output, without reducing content hours. This is a new category of savings separately identified by the BBC from 2017-18; and

- **income generation from third parties:** the BBC is seeking to increase the financial contributions made by other organisations working in partnership on BBC-commissioned television programmes and the dividends received from its commercial subsidiaries, without detracting from its core, public service values.
- 5 This report examines the BBC's:
- progress in delivering its savings (Part One);
 - approach to delivering the savings in the three specific BBC divisions – Content, Nations and News – which have delivered most of the BBC's savings since 2019-20 (Parts Two and Three); and
 - plans to deliver further savings and reform after 2021-22 (Part Four).

Key findings

The BBC's performance against its savings targets

6 The BBC is forecast to exceed its original savings target of £800 million a year by 2021-22 and is largely on track to meet its increased target of £1 billion a year.

In February 2017, following the 2015 licence fee settlement, the BBC introduced a programme to deliver £800 million savings a year by 2021-22. In 2020, with less than two years left of this programme, it increased this target to £1,012 million, reflecting both the estimated financial impact of the COVID-19 pandemic and its decision to continue to offer free licences to some over-75s. In September 2021, the BBC forecast that it would deliver savings of £971 million a year by March 2022, only 4% (£41 million) below its increased target and substantially above the original £800 million. This is the latest in a series of savings programmes the BBC has undertaken in recent years, responding to falls in its income following both reduced licence fee settlements and a decline in the number of households paying the licence fee (paragraphs 1.3 and 1.6 to 1.8 and Figure 4).

7 The BBC has made fewer new savings from improvements in productivity over time.

In its previous savings programmes, the BBC focused primarily on productivity improvements to deliver savings. For example, 70% (£505 million) of the savings delivered under the previous “Delivering Quality First” savings programme, which ran for five years to 2016-17, came from such improvements. Over time, the BBC has found it increasingly difficult year-on-year to make savings through productivity improvements and its overhead and indirect costs now compare well against comparable organisations. As a result, in September 2021, the BBC estimated that 36% (£350 million) of the annual savings due by 2021-22 would come from productivity improvements (paragraph 1.10 and Figure 5).

8 The BBC is now making a greater proportion of its cost reductions from audience-facing parts of its business. Until 2019-20, the BBC sought to limit reductions in the amount of television and radio content it offers. Instead, it focused on drawing savings from improvements in productivity, particularly in its back-office divisions. The BBC's decision to make savings from productivity improvements first means that it now needs to deliver most of its savings from its more audience-facing operations. As a result, in September 2021 the BBC estimated that 52% of its annual savings of £971 million by 2021-22 would come from cuts to content and the scope of services (41%) and from changes to the scheduling mix (11%). This contrasts with 28% under the previous savings programme (paragraph 1.11 and Figure 5).

9 The BBC has sought to enhance its content spending by seeking third-party funding for productions. As of September 2021, the BBC forecast that £116 million (12%) of the £971 million annual savings would come from income generation, a significant increase on the £14 million (2%) delivered under the "Delivering Quality First" savings programme. This increase has mainly been driven by a rise of 84% since 2016-17 in the amount of third-party funding of BBC-commissioned productions to £385 million in 2019-20, although this funding fell significantly in 2020-21 due to the impact of the COVID-19 pandemic. The BBC's increased use of third-party funding potentially poses a risk to the long-term value for money that it can realise from its intellectual property as the BBC has traded some of its rights to content. It has traded potential but uncertain long-term returns, in order to secure guaranteed funding to meet short-term cost pressures (paragraphs 1.12 and 2.9 and Figure 9).

10 The BBC has reduced the amount of broadcast television it offers licence fee payers while also expanding options for accessing this content. BBC spending on content has fallen by 12% in real terms since 2016-17, mainly due to the impact of COVID-19 in 2020-21. This fall has coincided with a period of high inflation in the television and film industry. Although the amount of new broadcast television content provided by the BBC's Content division increased by almost 3% between 2016-17 and 2019-20, this increase arose from acquiring more completed television programmes from other companies. Over the same period, the amount of new content the division itself commissioned fell by 5%. There has also been an increase in the volume of repeats shown across the BBC's three main television channels over the same period. There was a 22% increase in the proportion of repeat programming on BBC 1. This was partly due to COVID-19, but also because of the BBC's strategy for addressing changing audience viewing habits within a finite budget. The reduction in content has occurred in parallel with the BBC introducing measures designed to improve audience access to that content, including the increased availability of content on iPlayer and the launch of BBC Sounds. Prior to the COVID-19 pandemic, the BBC experienced declines in its audience figures in the face of increased competition and changes in audience viewing habits, and there is a risk that the reduced volume of content will further this decline (paragraphs 2.7, 2.8 and 2.10 to 2.12, and Figures 8 and 10 to 12).

11 The BBC's pay reforms have not been a major part of its savings programme.

Between 2016-17 and 2020-21 the BBC's staff costs fell by less than 2% in real terms as a result of measures it took. These measures included reforms to the terms and conditions of its workforce. According to the BBC, these reforms were designed to improve fairness, transparency and consistency and had a broadly cost-neutral effect on its pay-bill. The BBC spent almost £180 million on making more than 1,800 staff redundant when delivering savings between 2017-18 and 2020-21. Despite this, the overall number of BBC staff fell by less than 1% between 2016-17 and 2020-21, mainly because the BBC recruited more than 1,100 staff as part of a Foreign, Commonwealth & Development Office-funded expansion of the BBC World Service. Excluding these new externally funded posts, the underlying size of the BBC workforce fell by almost 6% between 2016-17 and 2020-21 (paragraphs 1.14 to 1.16 and Figure 7).

The BBC's implementation of its savings programme

12 The BBC's approach to the planning and delivery of its savings could be improved.

The BBC initially takes a top-down approach to setting savings targets, with its divisions then identifying and implementing the measures required to meet these targets. In some areas, divisions did this without use of complete data. The BBC reduced staff numbers in the English regions, but its decisions on where to make these reductions did not always draw on underlying data about each region. The staffing reductions may have contributed to the BBC's difficulties in providing a full service in times of high staff absence, including the temporary suspension of local breakfast news bulletins in England during summer 2021. We found no evidence that the BBC is taking a consistent approach to applying lessons from implementing savings measures across the organisation. There are also certain areas, such as in the Nations and News divisions, where the BBC does not consider that there is any further useful benchmarking it can do, either internally or externally, to identify potential savings, and it uses only general market intelligence data. When deciding on any changes to its schedule of television and radio programmes, the BBC assesses the potential audience impact and monitors how the changes then perform. However, in terms of specifically monitoring the impact of its savings programme, the BBC does not record the impact of individual savings measures on, for example, content hours or audience engagement as, in cases involving measures relating to back-office functions, it considers there is no direct link between these measures and such impacts (paragraphs 1.17 to 1.20 and 3.12 to 3.14).

13 The extent to which the BBC has achieved savings from transformation varies between different parts of the organisation. Under its Modernising BBC News initiative, the BBC intends to completely transform how its News division produces content, with the focus switching to producing story-led content which can be shared more easily across its radio, television and online platforms, and with greater use being made of audience data to understand the types of stories that audiences want. The Nations division has also made significant changes in, for example, its radio scheduling, but in some areas change has been more incremental. For example, although news operations in Wales are also implementing the Modernising BBC News initiative, its other news operations have delivered savings without introducing such a radical transformation (paragraphs 3.4, 3.11 and 3.15, and Figure 13).

14 The BBC's delivery of savings has been slower than planned in its News and Nations divisions. The BBC delayed implementing more significant savings measures in its Nations and News divisions more than once. This was initially because it prioritised coverage of Brexit and the UK general election. It then had to delay the savings measures again to ensure that it could respond to the COVID-19 pandemic. It was also aware that the measures were likely to be difficult to implement due to potential opposition from staff, as they involved significant redundancies, and from the public. The BBC did not start implementing the savings measures until July 2020. According to the BBC, each month of delay cost it about £1.7 million a month in lost savings in its News division. Although the BBC will complete redundancies in its Nations division by the end of 2021-22, the Modernising BBC News initiative will still not be fully introduced by then. According to the BBC, this is due, in part, to the difficulties in introducing changes when many staff have been working remotely during the pandemic. These delays have affected BBC News's investment plans and the delivery of measures designed to serve its audiences better (paragraphs 3.6 and 3.10).

The BBC's future delivery of reforms and savings

15 The BBC plans to embark immediately on a new savings programme in 2022-23, but the outcome of ongoing licence fee negotiations could significantly increase the amount of savings it will need to deliver. In January 2021, we reported that the BBC had not fully analysed potential changes to the licence fee and the possible impact of these on its operations.³ Subsequently, the BBC has undertaken financial modelling which showed that the gap between its income and its expenditure by 2027-28 would require it to make savings of at least a roughly similar magnitude to those it has delivered in previous savings programmes. The BBC has also identified that it needs to make fundamental changes and accelerate its pace of work to meet its new strategic priorities. Delivering these changes will require increased investment, including, for example, one-off transition costs of about £60 million for its “Across the UK” initiative. The BBC has included funding for the relevant investment in its current budget. However, as of December 2021, the exact extent of annual savings and investment needed to deliver them was still unknown as negotiations with the government on the licence fee settlement continued. In addition, general inflation had increased significantly since March 2021 when the BBC undertook its financial modelling, and the scale of the challenge facing the BBC is likely therefore to have been heightened by this (paragraphs 4.2 to 4.5).

16 The BBC expects it will have to make a lower proportion of its savings from productivity improvements and further reductions to content and services.

According to the BBC, if it is required to deliver substantial savings again, its delivery of previous productivity improvements means that the scope for delivering further such improvements will be more limited and it will have to make significant cuts to content and services, including across television, radio, Nations and news. In September 2020, the new BBC Director-General stated that the BBC had been spreading itself too thinly and would need to make less content in future, re-allocating money saved to content with a higher impact among audiences. The BBC therefore intends to continue to take account of audience considerations when deciding on any future cuts to its content (paragraphs 2.3 and 4.6).

³ Comptroller and Auditor General, *The BBC's strategic financial management*, Session 2019–2021, HC 1128, National Audit Office, January 2021.

17 There is scope for further productivity improvements from new technology and changes in how the BBC works arising from COVID-19. To continue providing services during the COVID-19 pandemic, the BBC changed certain aspects of its operations. For example, it increased the amount of content it produced remotely online. As of December 2021, the BBC was considering the extent to which these could be sustained and used to deliver further savings. It was also assessing the extra investment that would be required and the challenges involved in making the changes permanent. There is also scope for further savings to be made by greater standardisation of the BBC's operations in areas such as local news production, where new ways of working have so far only been introduced in Wales (paragraphs 3.11 and 4.7).

18 The BBC expects that increased commercial returns will make a relatively small contribution to its future savings. In March 2021, the BBC announced that it planned to increase the returns from its main commercial subsidiary, BBC Studios, by 30% to £1.52 billion in total over the five years from 2022-23. The BBC considers this to be an ambitious target as such an increase would likely be above projected market growth. Despite this, achieving the new target would only be equivalent to around £50 million a year in extra income. Growth beyond this would require investment that would need to be funded by an increase in the borrowing limits placed on its commercial bodies by the Department. In October 2021 the government agreed to increase these limits, subject to the confirmation of oversight arrangements (paragraphs 4.8 to 4.10).

Conclusions on value for money

19 The BBC has consistently made savings over the past decade. It has exceeded its original target of £800 million in annual savings by 2021-22 and is largely on course to achieve its revised target of £1 billion, which reflected the estimated financial impact of the COVID-19 pandemic. The focus for savings has necessarily shifted: in the early years of its current savings programme, the BBC successfully protected audience-facing services, but it has found this increasingly challenging to maintain. The BBC has reduced spending on its content while its audience numbers have fallen and it is not yet clear what the longer-term impact of this will be.

20 With a new licence fee settlement due, the BBC is likely to need to make considerable further savings. It will need to do this while also simultaneously delivering on its far-reaching reforms, attempting to address the decline in audience figures and taking advantage of the opportunities to improve productivity which have arisen from its response to the COVID-19 pandemic. To increase its investment in future reforms, the BBC also plans to grow its commercial income. Overall, the BBC must now balance the need to proceed at pace in delivering savings and reform with taking care that its decisions about how to achieve this do not further erode its position with audiences.

Recommendations

21 In order to maximise its ability to deliver the savings likely to be required by the new licence fee settlement, the BBC must:

- **improve the information it collects on its savings programme to include data on the impact of its savings measures.** This should include consideration of the risk that relatively short-term content savings measures reduce the long-term value for money of the intellectual property generated;
- **undertake more consistent identification and dissemination of lessons arising from its delivery of savings measures;**
- **expand its use of internal cost and efficiency benchmarking** for areas such as Nations and News where external benchmarking is limited; and
- **ensure it implements the lessons from the COVID-19 pandemic and pursues further standardisation of operations across the organisation** in order to deliver further savings while also ensuring that it has sufficient capacity to continue its operations and deliver a resilient service to its audience.