

BBC performance

Finance and business

We take a strategic look at the BBC's finances and approve the BBC's budget and long-term financial plans

For management's more detailed review of BBC financial performance see Part Two

As Trustees we have responsibility for the oversight of the BBC's financial and business performance. We also report here on the Governors' objectives for 2006/2007 dealing with value for money and driving digital take-up.

BBC in the wider economy

The BBC is a major presence in the UK media sector with expenditure of £3.3 billion in 2006/2007. Of this, £1.1 billion was spent outside the BBC within the UK creative industry (with independent production companies, artists and other programme resources). The window of creative competition has opened up new opportunities to independent producers, while in particular sectors such as children's programming the BBC's commissioning role is becoming increasingly important in supporting original UK programming.

The BBC's contribution to a thriving UK media sector is not simply through its direct expenditure. The BBC also contributes in other ways such as through the provision of specialist industry training (see Part Two, page 81) and the regular flow of staff between BBC and commercial players.

The BBC also increasingly contributes to the wider economy throughout the UK. During 2006/2007 it spent £864 million outside London in the nations and regions. This year also saw the relocation of the BBC's finance division to Cardiff, while on 31 May 2007 we finally approved the contract for a new broadcasting centre in Salford.

BBC financial performance

Under the Charter, the Trust has the ultimate responsibility for the BBC's stewardship of the licence fee revenue and its other resources. This means we are required to keep under review the financial needs of the BBC and ensure that value for money is achieved by the BBC through its spending of the licence fee.

We do this in two ways – through an ongoing process of review of budgets and financial plans and also through a more targeted series of studies on particular aspects of value for money.

Each year we take a strategic look at the BBC's finances and have a duty to approve the BBC's budget and its long-term financial plans.

We may set management a number of financial objectives within which they must manage their operations.

The Governors set management a series of value-for-money objectives for 2006/2007. These were:

- Deliver value-for-money savings whilst retaining quality output. Reduce headcount by 2,055
- Make cumulative cash savings of £211 million, including new cash savings of £112 million, towards a target of annual cash savings of £355 million by 2007/2008. Incur implementation costs of no more than £148 million
- Develop a coherent business architecture
- Set targets for continuous financial improvement
- Improve Worldwide's return to the BBC: ensure double-digit profits growth and ongoing sales growth; at least 10% return on sales; and EBITDA¹ margin of at least 22%
- Increase licence fee sales by 1.04% and reduce evasion to 4.6%

Most of these objectives were met and the BBC is on track to deliver the savings planned for the final year of its three-year efficiency programme. £128 million in cash savings were made in 2006/2007, making a cumulative total of £228 million – £17 million above target. Costs of implementing the programme were £106 million – £42 million below estimate. However, the headcount reduction target was missed by 8%. The target was 2,055 and the out-turn 1,891.

The BBC has developed a business model designed to reinforce a culture of continuous improvement. The intention is to apply the

¹Earnings before interest, taxes, depreciation and amortisation

operating principles beyond the current three-year efficiency programme to secure further value-for-money benefits.

BBC Worldwide met all our financial planning objectives. The double-digit growth target for profits was comfortably achieved. Profits, excluding exceptional items, rose by 27.5% from £79million to £101million. Sales increased by 3.2%, and a return on sales achieved of 12.4% against a target of 10%. The EBITDA margin was 27% against a target of at least 22%.

The objectives of increasing licence fee revenue and reducing the evasion rate were not met. Net licence fee sales grew by 0.3% against a target of 1.04%, and the evasion rate rose from 4.7% to 5.1%. The rise in the evasion rate accounts for the missed revenue target. A contributory factor may have been the transition from Post Office to PayPoint collection. Around 3% of customers are thought to have delayed payment as a result of the switch – but this is forecast to be a one-off effect.

On a more positive note, the cost of licence fee collection fell by £20million and the combined cost of collection and evasion amounted to 9.2% – the lowest since the BBC took over licence fee collection in 1991/1992.

Specific value-for-money studies

The Trust also fulfils its stewardship responsibility through the commissioning of a series of independent value-for-money reviews each year. We agree the areas on which these reviews will focus in dialogue with the Comptroller and Auditor General – the head of the National Audit Office (NAO). The reviews are then undertaken by the NAO or other external agencies. For the purposes of these reviews editorial decisions are out of scope. The findings from each review are published in full on bbc.co.uk/bbctrust and presented to Parliament.

During 2006/2007 four reviews were completed under the previous programme of studies agreed by the Governors. The full reports from each study, including the BBC's response to all recommendations made, can be found on bbcgovernorsarchive.co.uk, but we give a brief overview below:

1 BBC's definition of overheads (July 2006):

This study considered whether the definition of overheads was a useful measure to demonstrate whether the BBC was achieving best value for licence fee payers. The Governors were pleased that the NAO considered that the use of overheads measurement had proved useful to the BBC in its past efficiency programmes. We will take forward the recommendations from that review as we work on the reprioritisation plans and set management new efficiency targets.

2 BBC outsourcing: the contract between the BBC and Siemens Business Services for the provision of technology services (July 2006):

This assessed whether the BBC was well placed to meet its strategic objectives for outsourcing technology services, to review how the partnership with Siemens was progressing and to enable lessons learnt from this contract to be applied to future outsourcing deals. The Governors welcomed the NAO's acknowledgement that the deal had been a financial success for the BBC but agreed there was scope for improvement in technology governance arrangements. Following the report the Governors took a close interest in management's efforts to address the review's recommendations, monitoring progress through regular updates to the Audit Committee.

3 BBC's management of risk (November 2006):

This assessed whether the BBC's overall approach to risk management allows the organisation to understand fully and respond effectively to the risks it faces. The NAO concluded that the BBC had an appropriate framework for managing risk.

4 BBC independent television commissioning

(November 2006): This assessed the effectiveness of the independent commissioning process. Deloitte concluded that the complicated commercial and regulatory environment has some limiting effect on the BBC's ability to improve value for money in independent commissioning. Notwithstanding that, we were pleased to note that the report concluded that "the BBC takes value-for-money considerations very seriously and is doing much to drive value-for-money improvements in independent commissioning."

We are planning five reviews for 2007/2008 (see page 51).

We commission a series of independent value-for-money studies as part of our stewardship duties

All of our value-for-money reports are published in full on our website

We have a duty to help deliver to the public the benefit of emerging technologies and services, and to take a leading role in the switchover to digital television

We have approved the BBC's proposals to develop, jointly with other broadcasters, a satellite platform guaranteeing subscription-free access to any digital services

Driving digital take-up

The Royal Charter contains a new Public Purpose for the BBC which requires it to take a leading role in the switchover to digital television and sets out a broader role for the BBC in helping to deliver to the public the benefit of emerging technologies and services. Recognising the growing importance of these issues, the Governors set four specific objectives for management.

The Governors set management a series of objectives in 2006/2007 for driving digital take-up. These were:

- Preparing for digital switchover and driving the market for free-to-air digital television, digital radio and new media while continuing to serve the analogue-only audience
- Raising awareness of the value added to the overall portfolio by the BBC's digital services
- Improving their availability
- Working with the commercial sector to drive take-up.

In general terms we are pleased with progress. Take-up of digital television, DAB and broadband continues to rise, and availability of digital terrestrial television (DTT) has reached the maximum coverage possible until switchover starts – 73%. In 75% of homes at least one television set has been converted to digital, and in 42% all sets have been converted. The launch of the BBC iPlayer and of Freesat should produce further progress in driving digital.

Overall awareness of digital switchover stands at 82%, although levels are very much lower in some regions (51%, for example, in Ulster). Management have explained that these regions will be among the last to switch; awareness is much higher in areas switching first (96% in Border), reflecting the concentration of marketing effort there.

We have some concerns over figures showing a decline in the awareness of the BBC's digital services. Management have suggested to us that this reflects the rapid approach of switchover and a consequent shift in the marketing emphasis – away from messages promoting BBC digital

services and towards generic messages promoting switchover itself.

We have stressed our concern that management, working alongside Digital UK, should maintain a sharp focus on reducing the 'digital divide'. This means targeted marketing aimed at hard-to-reach groups such as lower income groups, some ethnic minorities, and the over-75s.

Although this is the last year in which we will monitor objectives in this way, the Trust's Digital Protocol requires the Executive to report to us quarterly on digital progress. The Public Purpose remit for emerging communications will also measure many areas currently monitored through the objective.

Freesat

In April we gave BBC management the formal go-ahead to develop and launch Freesat. This is a satellite platform, developed as a joint venture with other UK broadcasters, guaranteeing subscription-free access to digital services, including those from the BBC. The only payment will be a one-off charge for equipment and installation.

Although we are not required to undertake a full Public Value Test for activities that do not constitute BBC content services, we applied similar principles in reaching our decision. We weighed up Freesat's likely benefits to the public, the public value it could create, and the potential market impact. Our consultations demonstrated widespread public support for the proposal. We gave our approval subject to conditions relating to quality control, the transparency and integrity of the use of licence fee funding, and technical co-existence with other digital television platforms.

We have asked BBC management to move swiftly in developing their plans to ensure that licence fee payers, particularly those outside Freeview coverage areas, gain maximum benefit in the lead up to digital switchover.

82%

of adults are aware of digital switchover

Source: Digital UK, Q1 2007

“I know he can go on that [CBeebies website] and it’s a safe website and he won’t be wandering off.”

Spontaneous comment on bbc.co.uk. Female, 30–49, Inverness, contributing to Trust consultation on service licences.