

Public Accounts Committee report on BBC strategic financial management BBC response

The BBC is independent from Government. The BBC is accountable for its use of licence-fee payers' money through the Public Accounts Committee. The following response to the Committee's 2nd report of Session 2021-22 (BBC Strategic Financial Management) was provided to the Committee by the BBC on 10 September 2021 and is reprinted here for completeness.

Background

On 20th January 2021 the National Audit Office [published its report](#) examining the BBC's strategic financial management.

The BBC's Director-General, Tim Davie, [gave evidence](#) to the Public Accounts Committee at a session focused on the report on 22nd March 2021. Glyn Isherwood (Interim Chief Operating Officer) and Charlotte Moore (Chief Content Officer) also appeared as witnesses.

The PAC subsequently published [its own report](#) on 21st May 2021.

Overview

Following on from the Committee's recent report we would like to acknowledge the important themes covered and reassure the Committee we are focused on the challenges we face and committed to providing the best value for all audiences.

As the NAO report notes, the BBC is the UK's most used media brand – reaching over 90% of adults on average per week. The figure for 16-34 year-olds reach is 80%. This reach pays tribute to the new initiatives we have introduced to capitalise on the opportunities of the new marketplace, most recently with BBC Sounds and improvements to iPlayer.

During Covid the BBC saw record numbers of people come to the BBC – this was especially evident in news: BBC News online reached record numbers of users – over 19m adults a week on average, with peaks of over 24m; audiences for the News at Six are the largest in almost 20 years; and BBC One's 6.30 regional bulletin continues to be the UK's most watched news programme. At the same time, our Lockdown Learning initiative brought a record 5.8 million visitors to BBC Bitesize in a week when it launched in January.

As our [Annual Report and Accounts 2020-21](#) show, almost 100% of adults use us every month and the public chooses the BBC around 250 million times every 24 hours, with over 28 million people coming to us each day on average for evening entertainment. We are the most trusted source of news in the country. Within a crowded news arena, 40% of people still name the BBC first for impartial news – way ahead of the nearest providers on 7%.

We believe the case for the BBC remains compelling, but we know we must earn the right to exist through the value we provide.

We would like to reassure the Committee again that our commitment to reform is beyond question. We are making tough choices. Our ['Across the UK'](#) plan represents the boldest and most ambitious reshaping of the BBC in our history. Our latest efficiency programme is on track to deliver nearly £1 billion of annual recurring savings by March 2022. In one year to March 2021, we have reduced our headcount by 1,200 roles.

We understand the Committee's desire for further details of our plans. We have published a number of documents since our evidence session which provide answers to these questions, including the Annual Plan and our Annual Report & Accounts, which we have linked to above for the Committee's reference.

Response to the Committee's conclusions

Below follows a more detailed BBC response to the PAC report's main findings.

- 1. The BBC appears complacent about the threat it faces from declining audiences. Each year people spend less time watching BBC TV and 200,000 more households choose to opt out of paying for the licence fee. Yet when pressed, the BBC seem unconcerned by the decline, maintaining that overall the number of users it reaches is high compared to other broadcasters. Nor was the BBC able to demonstrate to us a clear understanding of why increasing numbers of households are forgoing the TV licence. The BBC recognises that the rapid shift to online media and changes in consumer habits during the pandemic has seen people discover more choice elsewhere. However, it does not appear to have a sufficiently detailed plan for how to address this; it was, for example, unable to articulate why bringing BBC Three back to terrestrial TV would help stop viewers moving away. Addressing audience decline and better understanding the value it can bring is critical to the BBC's financial health: as the BBC's own research has shown, people are less likely to pay the licence fee if they do not view licensable content.**

We would like to reiterate to the Committee that there is no complacency at the BBC. We have taken great pains to stress that we recognise the jeopardy for the BBC is high. We have also explained very clearly how the challenges we face are directly driving our strategy to deliver more value to all audiences.

In relation to households choosing not to pay the licence fee, we would like to draw the Committee's attention to the Director-General's answers that highlight we are monitoring this closely¹, given the licence fee represents the majority of our income. While there can be reductions in numbers of households paying for a licence, there is also forecast growth in the overall number of households.

We would also like to highlight that the BBC has a coherent strategic plan on how to face the challenges posed by a shift to online media and the changes to consumer habits. We are acutely aware of the shifts in the market and ensuring that we serve all audiences in this more competitive landscape is central to the BBC's decision-making. We are grateful to have the opportunity to articulate this again to the Committee, and draw the Committee's attention again to the findings of the NAO report that for example credited how the BBC has *"introduced new initiatives to capitalise on the opportunities offered by this new marketplace, including BBC Sounds and improvements to the iPlayer service"*. This includes the expansion of online TV services, making content available on iPlayer for 12 months instead of 30 days, and the Britbox partnership with ITV.

We detailed the key planks of our strategy to the Committee, including focusing the power of our big brand content to reach underserved audiences, growing BBC Sounds and making iPlayer a destination in its own right. This approach is working. More than 900,000 16-34 year-olds used BBC Sounds for the first time in the last six months. iPlayer has set new records in the past year, with 6.1bn requests to stream programmes in 2020/21 - up 28% on the year before. Our evidence also highlighted how rapid growth in iPlayer consumption among younger audiences more than offset the year-on-year decline in broadcast TV for the first time this January.

Restoring BBC Three as a broadcast channel will help us reach and deliver more value to audiences – particularly a significant group of younger viewers who maintain a strong habit of watching linear TV but are lighter users of on-demand services. We have published [detailed audience research](#) and a [comprehensive proposal](#), supported by modelling and responses to our consultation, which demonstrates how the new channel will be distinctive, increase viewing of BBC Three content in this age group, appeal to currently underserved groups, and improve the ability of audiences to find and watch BBC content – be that linear or on demand.

¹ Public Accounts Committee Oral evidence: BBC strategic financial management, HC 939, Q28, p 16

- 2. The BBC's plans for an increased presence in the nations and regions seem unclear and disjointed. In March 2021, the BBC announced that it would increase programming spending outside of London by £700 million by 2027–28. However, the BBC is also planning a number of efficiency measures around the UK, including making 600 redundancies in its Nations & Regions division and reducing its regional news output. As a result of this inconsistency, it remains to be seen whether this means that the number of people it employs outside of London will increase or decrease. We are also sceptical about the BBC's claim that viewers outside of London will have more of a voice as a result of relocating jobs to the regions, where these jobs are of national relevance, such as the production of national news. More generally, we are not clear how the BBC intends to find an additional £700 million for the nations and regions, given that it does not yet know the outcome of its licence fee negotiations, or how it will rationalise its estate in line with its new regional plans. We are also concerned that due to the apparent lack of clear, joined-up plans, there may be a risk that the BBC could end up making staff redundant in one area only then to rehire them in a separate area down the line, leading to unnecessary voluntary redundancy pay-outs.**

Our Across the UK plan could not be clearer: it represents the biggest creative and journalistic rebalancing of the BBC's footprint in our history. It will bring us closer to audiences across the length and breadth of the country, shifting at least 1,000 jobs out of London and turning the BBC into a genuinely UK-wide organisation with a much stronger presence in the nations and regions, delivering an extra £850m in estimated economic benefits.

We were able to share our thorough plan for "Across the UK" with the Committee at our session and more detail about how this will be achieved is available in our [Annual Plan](#).

The Director-General was clear in our oral evidence that our plans to invest an extra £700m outside London by 2027/28 was a separate process to the changes in our Nations & Regions division previously announced as part of our savings programme. Local services are part of the BBC's DNA but all departments have had to find efficiencies given the 30% reduction in our budget over the past decade. We can confirm the changes announced last year in Nations & Regions have all been completed. No services have closed and we have transformed our ways of working, rolling out a new standard operating model for how we run regional news rooms which ensures greater value for money. Now those savings have been made it is the right time to look to the future.

We do not see any inconsistency in investing more Across the UK, while at the same time making efficiencies in our operations. Our value to audiences is not measured by the number of people we employ doing something but instead by the content and its value to licence fee payers. Additionally our plans are designed to deliver more local output in places that we don't do as much in today. This will in fact require new investment in people with different skills in different parts of the country working on different output (including recruiting new community journalists based in towns and areas that have never benefitted from any regional TV presence). This will mitigate against any risk of unnecessary redundancies, as we set out in our evidence.

The BBC already does more than any other broadcaster to reflect the different nations and communities that make up the UK and these transformative plans will give our audiences outside London an even greater voice. Despite the cut in our funding we have already made substantial moves out of London. As the Director-General noted in his evidence in the Committee, the move to Salford ten years ago had a significant impact on the editorial nature of Radio 5 Live and other output. This is reflected both on-air and in the backgrounds of those who work on the programmes. And in terms of headcount, in 2009-10, 41% of the BBC's PSB staff were outside London in the nations and regions, compared to 52% in March 2020 (and in March 2021). We expect Across the UK to deliver similar benefits on an even greater scale, delivering new diverse voices and authentic storytelling.

The [independent economic research recently produced by KPMG](#) also illustrates how communities can be empowered by BBC investment. Our presence in Salford has played a role in cultivating a creative and digital cluster there over the past decade, with creative employment increasing 142% and a 70% growth in the number of creative and digital businesses. A similar cluster is emerging in Cardiff, where the BBC has opened Central Square and Roath Lock. Building on our development at, and impact of, Pacific Quay, we also have plans to expand our physical studios operations in Glasgow, and explore strategic partnerships in other UK cities, including Belfast, partnering with local communities, councils and education providers to develop technical skills locally to operate our studios. This experience and learning gives us confidence that our Across the UK plans can deliver further multiplier effects and a stronger voice for more communities.

3. There is considerable uncertainty over the BBC's financial future, which its financial plans do not appear to address adequately. The BBC Director-General has four new strategic priorities for the organisation—delivering high-quality content, developing the online presence further, growing commercial income, and a renewed commitment to impartiality. These will require increased investment, but the BBC was short on detail on how these will be paid for, other than through commercial returns and the BBC taking tough choices in areas such as content where it will probably have to make fewer programmes but ensure that their impact is high. The BBC is committed to making further savings in future, but appears unable to achieve its existing £1 billion savings target in full. In parallel, the BBC is currently negotiating with government on the future level of the licence fee. The BBC has not, however, modelled the impact on its finances of potential fundamental changes to the licence fee from 2022–23. We would expect to see clearer financial plans from the BBC, including how future investment will be paid for.

The BBC acknowledges the financial pressures that we face and has robust plans in place to address these, as set out in our recently published Annual Plan and Annual Report & Accounts 2020-21.

As we discussed with the Committee, our goal is to ensure that the organisation is run as efficiently and effectively as possible, and we have an impressive financial record of directing as much money as possible to content and our audiences whilst ensuring a sustainable and more creative BBC.

The National Audit Office's report set out how the BBC has achieved substantial savings over recent years and that we were on track to meet our efficiency targets. In 2020/21 we reported delivery of c£880m of annual recurring savings since 2016/17—beating our £800m target by 2021/22 a year earlier than planned. It is important to note that our original savings target was increased to £950m due to the impact of Covid and we now expect this to be delivered during 2021/22.

We have done a lot to make the BBC simpler, leaner, and more efficient. We have maintained our overheads at industry-leading levels – under 5% of our total costs – and will continue to improve our systems and processes to manage rising costs as best we can. The pandemic and our emergency response as a broadcaster have also radically changed ways of working across the BBC, which has allowed us to identify further operational efficiencies. Blended remote and office working and the use of technology should allow us to further reduce our property footprint, subject to lease commitments, creating more dynamic working environments and reducing travel between BBC sites.

There is a limit to how much further detail we can provide on our funding plans while Licence Fee negotiations are ongoing with the Department for Digital, Culture, Media & Sport, as the Committee's report acknowledges. However we draw the Committee's attention to our Annual Plan and the BBC's Annual Report & Accounts, which are audited annually by the NAO.

4. At times, the BBC has deferred difficult measures and ducked the hard choices necessary over cuts to frontline content. The BBC is candid about its view that, having driven down costs in back-office functions, it now sees no scenario in which it can avoid making tough choices about frontline services such as content. While we recognise that these choices are difficult, the BBC was unable to name any recent content cuts or future plans to cut content,

despite plans to only produce 80% of its current programming. At this stage, we would expect to see a clearer articulation of which programming the BBC views as a priority going forward. This seems to be part of a general pattern of avoiding hard choices. For example, the BBC delayed more than once planned redundancies in its News and Nations & Regions divisions and its reforms to staff terms and conditions resulted in savings of less than 0.1% of the total staff pay bill over seven years.

The BBC has had to make many difficult choices and changes, some of which were noted elsewhere in the Committee's report.

Examples include reducing our headcount by 1,200 in the space of a year, the restructure of our Nations & Regions teams and the revolutionary changes we are making in areas like News production through the introduction of story-led teams. As the Director-General noted in our evidence, this is a 'traumatic' reform process similar to what many media organisations across the world are experiencing in adjusting to the new landscape. It will however allow the BBC to produce the same amount of news content distributed more efficiently across multiple platforms.

We also continue to make tough choices in our content investment strategy. We regularly rest or decommission much loved titles to be able to fund new programmes and invest in more young titles. This means we had to stop producing the likes of *Holby City*, *Watchdog*, *Crimewatch*, *All Together Now*, *Poldark* and many other long running programmes.

Competition in the market and price inflation also means that we could no longer afford many hit shows - such as *The Great British Bake Off*, *The Voice*, and *The Great Pottery Throw Down*, to name a few – and we often forgo many development projects before they make it to the screen.

Furthermore, we are not able to nurture and grow as many new formats and shows as we would want, and we're unable to return scripted titles as quickly and as often as we'd like in order to sustain the range and breadth in our programming.

We would again draw the Committee's attention to our editorial priorities as clearly outlined in the Annual Plan – including the priority to produce distinctive, high-impact British content which no-one else in the world can make.

As the NAO noted in their report on BBC Pay in 2019, the number and cost of senior managers at the BBC has been cut significantly since 2010/11 and many senior roles at the BBC attract pay packages below the market average. It's well known that the BBC pays less than commercial broadcasters, also acknowledged by the NAO. People want the best talent on the BBC, and while we can never compete with some of our commercial competitors when it comes to pay, we do operate in a competitive market. We do not guarantee talent at any cost however, and would point the Committee's attention to the significant reductions in the salaries of the highest on air earners. The cost of people on this year's disclosed list has decreased by almost 10%, since last year.

- 5. The BBC appears unambitious about setting targets for the financial returns generated by its commercial subsidiaries. The BBC's net returns from its commercial activities, at under 6% of licence fee income, are not at a level to make a significant contribution to its overall income position. The BBC has recently set its main commercial subsidiary, BBC Studios, a target to grow its financial returns by a further 30% over the next five years. However, the BBC concedes there is potential to go a lot further than this and acknowledges that it does not know where the ceiling is on its commercial returns. The BBC could be more ambitious in its commercial plans by, for example, setting targets for how it will make greater use of its archive. The BBC considers that greater access to investment capital would help it to compete better and generate further growth in its commercial returns. However, its commercial borrowing is subject to limits, imposed by DCMS, which date to 2003.**

Building commercial income is one of the BBC's four main priorities, set out by Tim Davie in his first week as Director-General, and this work is well underway. We have announced a stretching target to increase BBC Studio's financial returns by 30% over the next five years. Based on available market insight we estimate that this target is above projected market growth.

BBC Studios has already confirmed that it's on track to reach its current target of £1.2bn returns to the BBC by 21/22. The largest parts of this return are content investment and cash dividends. Growth in content investment represents more money going into new and existing productions, while cash dividends are paid out of profits and represent the overall growth of BBC Studios across a number of markets and lines of business.

We noted in our evidence that this compares extremely favourably with public service broadcasters across the globe – most would be delighted to have a commercial subsidiary delivering returns of that size at EBITDA margins of 13%. We also explained that while commercial income represent 6% of the licence fee, it is highly material in certain genres like natural history, which are mostly funded by co-production income. Only 19.5% of the funding of natural history series *Seven Worlds, One Planet* came from the licence fee thereby bringing excellent value to the licence fee payer, who sees all the benefit of that investment on screen.

In a highly competitive global media market, where pressures include content inflation increasing costs for making content and major industry change impacting both BBC Studios and our customers, we believe the goal of achieving a 30% increase in commercial returns is suitably ambitious. It represents a significant uplift on the 18% increase delivered between 2017/18 to 2021/22 and expected outperformance of the market. As the Director-General told the Committee, we will endeavour to over-perform if we can. This will to a significant extent reflect our ability to invest for growth via debt funding, as outlined below.

Commercial returns are already delivering significant value for licence-fee payers. The National Audit Office noted in its report that for every £1 the BBC spent on commissioning network TV programmes from its own funding in 2019, £1.30 was available to producers to spend on TV content thanks to commercial contributions.

We recognise the call by the Committee to make use of the BBC's archive. As audiences across the world move from broadcast to online services, there is an increasing opportunity to bring British content directly to audiences, through direct-to-consumer online services, rather than solely through distribution deals of programmes to third parties. BBC Studios has already begun taking advantage of this opportunity, launching BritBox in the US in 2017 before rolling it out to wider markets including Australia in 2020 and South Africa in 2021. Most recently BBC Studios has launched BBC Select, a new ad-free subscription streaming video channel focused on UK factual programming, in the US and Canada earlier this year.

BBC Studios is also putting plans in place to realise new digital revenue streams for the medium to long term outside the UK by establishing complementary focused digital services built around British content. This includes exploring future commercial possibilities for both audio and news, areas where BBC content has a unique proposition.

We agree with the Committee that the BBC's current commercial borrowing cap of £350m is out of date and needs revisiting. More access to investment capital would allow the business to generate further growth and compete with other international content creators who do not have to operate with such limits. Discussions with the Government on the BBC's access to capital are ongoing as part of the Licence Fee negotiations. It is however, important to note that the Licence Fee income remains by far the most significant portion of the BBC's funding and the most desirable model to ensure a properly funded, universal BBC.

Summary responses to the Committee's recommendations

PAC Recommendation	BBC response
1) <i>'The BBC should identify what more it needs to do to fully understand why increasing numbers of households are watching the BBC less and legally choosing not to have a TV licence. It should update the Committee on its plan to reverse the decline in its audiences within three months.'</i>	Our recently published Annual Report and Accounts 2020-21 shows the BBC's strong record on reach and relevance in the last year. The BBC is used by almost 100% of adults on average every month, making it one of the most-used UK public services. Going forward the BBC has a coherent plan to continue to enhance the offer to audiences through new initiatives such as BBC Sounds and iPlayer development. Furthermore, we draw the Committee's attention to our "Across the UK" plans which will bring us closer to audiences, create jobs and investment, and develop and nurture new talent. The BBC is of course monitoring closely the reductions in numbers of households paying for a licence alongside the overall growth in the number of households and will continue to maximise value for all Licence Fee payers.
2) <i>'The BBC must be clear and transparent about what it is trying to achieve with its plans to increase its presence in the nations and regions, in terms of, for example, the value that this is designed to generate, both locally and nationally. These plans appear to be contradictory and muddled; We recommend that the BBC write to the Committee with a new, clear, achievable plan, within 6 months.'</i>	Our goals for getting closer to audiences wherever they live across the country have been articulated in our Across the UK plans and Annual Plan . We will continue to keep the Committee updated as they are implemented.
3) <i>'The BBC should set out how it will achieve its £1 billion savings target by March 2022, and produce a revised financial plan on completion of the licence fee negotiations, incorporating the outcome of these negotiations and detailing how it will pay for new investment while continuing to make savings'</i>	Our financial plans are detailed in our recently published Annual Plan and Annual Report and Accounts 2020-21. We will update our plans when the licence fee negotiations have concluded and we have certainty about the level of investment available over the coming period.
4) <i>'The BBC needs to take decisions about those areas of content it plans to cut from its programming and the financial and audience consequences of these cuts as a matter of urgency, and should write to the Committee within six months with more details of its plans in this area.'</i>	The BBC has set out proposals detailing the content and areas of programming we would like to focus on with sufficient investment, including in our Annual Plan. The Director-General was also clear in our evidence that we will identify how we can have more impact by making less. Specific decisions will ultimately be dictated by the licence fee settlement and it would be premature to make such decisions while talks with DCMS are ongoing. We expect more

PAC Recommendation	BBC response
	information to be available when negotiations have concluded.
5. <i>(a) 'Recognising the new international commerciality of competition, the BBC should be much more ambitious in its targets for commercial returns and be more ambitious in marketing and exploiting its archives, both for old and new programming; and write to the Committee, outlining its plans, within six months.'</i> <i>(b) 'As part of the current licence fee negotiations, the BBC and DCMS should work together to review the current borrowing limits to identify whether they continue to meet the BBC's business needs and future investment plans.'</i>	Building commercial income is one of the BBC's top priorities. We have announced stretching commercial goals – the most ambitious in our history. We want to achieve and – if possible – outperform these targets before making new commitments. We agree our commercial borrowing limits should be reviewed. We are making a case to Government to increase the commercial borrowing limit in order to invest in commercial growth on behalf of the licence fee payer, as part of the licence fee discussions.