



## The efficiency of radio production at the BBC

Review by the Comptroller and Auditor General presented to the BBC Trust's Finance and Compliance Committee



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## BBC Trust response to the National Audit Office Value for Money Study

### Background to this study

As part of its role under the Royal Charter 2006 the BBC Trust acts as the guardian of the licence fee revenue and the public interest in the BBC. We commission Value for Money investigations into specific areas of BBC activity to ensure that licence fee payers are getting the best possible return on every pound of their licence fee.

Each year the Trust commissions a series of Value for Money reviews after discussing its programme with the Comptroller and Auditor General – the Head of the National Audit Office (NAO). The reviews are undertaken by the NAO or other external agencies reporting to the Trust.

In general, the public judges the BBC very much on its 'output', in the case of this study the radio programmes on the ten networks stations and six Nations stations. It is part of the Trust's job to ensure that the BBC's systems are such as to work towards the best output possible within the available budget. This study, commissioned by the Trust's Finance & Strategy Committee on behalf of the Trust and undertaken by the NAO, considers how the BBC identifies the scope for efficiency gains and how it assesses the impact of efficiency measures on service performance across these radio stations.

The Trust thanks the NAO for undertaking this review and for the report's conclusions and recommendations.

### Our views on the NAO's findings

The Trust welcomes the NAO's findings and recommendations. We note the NAO's recognition of the savings already achieved, £18m of net cash releasing savings in the three years to March 2008, and the BBC's plans for further savings in coming years in response to the 3% per annum net cash-releasing efficiency target set by the Trust for the BBC.

The main recommendation from this study is that the BBC could be more systematic in its approach to assessing the potential for further efficiencies and for identifying any likely impact of these on performance. We support these findings. The Trust gives continuing priority to strengthening the transparency of decision making within the BBC. A systematic approach to reviewing the cost effectiveness of expenditure is key both to this and to demonstrating value.

We recognise that this is not easy, with a range of performance measures to be considered and evaluated alongside the costs of production. Indeed, the Trust has been instrumental in ensuring that achievement of the new savings targets it set for the BBC is to be measured not only in terms of cost savings but also in terms of the ongoing quality of service performance. This is to ensure that decisions over where to spend money – or cut costs – are taken alongside consideration of the potential impact on services.

This can mean that the least expensive programming option is not necessarily the best outcome for audiences. Nevertheless we agree that the BBC Executive could do more to evidence how they reach their assessments on what constitutes an appropriate cost for programmes, particularly for those genres where costs do vary significantly across the different radio stations. There is more scope for careful use of comparative data.

The Trust has discussed the NAO's findings and recommendations with the BBC Executive and considered their response, which is published in this document. We note the comments of the BBC Executive on the need to balance the costs of detailed benchmarking against the potential benefits likely to accrue. While this is a reasonable concern, we will still expect to see evidence that the BBC Executive is taking forward these recommendations. It is not sufficient for the BBC to accept that different services and programmes cost different amounts without attempting to understand and appropriately explain those differences in the context of the remit of those services.

As a means of overcoming some of the difficulties in benchmarking with commercial companies, the Trust will engage with RadioCentre, asking them to participate in an ongoing scheme moderated by the Trust. As part of the Trust's own programme of service reviews, the Trust will also be reviewing the performance of Radio 2 and 6 Music during 2009-10, looking at a range of performance criteria as set out in the relevant service licences.

The Trust will continue to strive to ensure that the BBC's approach to ensuring efficient radio production delivers the best value to the licence fee payer. Following on from this report we shall be asking the Executive to provide us with more detail on the actions they propose to take, with suggested timings, and shall be seeking a report back on their progress in twelve months time. In particular we will require an update on:

- the progress made with regard to enhanced use of cost comparison data
- the actions arising from the additional talent valuation review which the Executive have promised to undertake
- the periodic reviews of key genre and how these are being used to inform guide prices
- the actions arising from the planned comparison of processes and costs of production inputs.

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## BBC Executive Response to the National Audit Office Value for Money study

The BBC Executive welcomes this review, through which the National Audit Office (NAO) looked at the efficiency of radio production at the BBC. We are pleased that the NAO has recognised the contribution that the radio stations have made to the value for money programme of the corporation. In recent years, the BBC has made great strides in achieving efficiencies in radio production, particularly through fully embracing digital ways of working whilst maintaining audience reach and delivering strong share of radio listening. Through its value for money programme, the national networks and nations stations delivered £18m cumulative savings (net of implementation costs) from 2005 to 2008. They are also committed to efficiency measures that will release £68.7m (net of costs) over the period to 2012-13. In addition, we will continue to look for all opportunities to maximise the value for money of radio output.

As we deliver our efficiency programme in the period to 2012-13, our approach will take into consideration specific factors unique to radio in general, and to BBC radio in particular, that are not fully set out in the NAO report:

1) Radio production is primarily a continuous process, producing output on a daily or weekly basis, year round. While they can usefully be analysed at programme level, radio production costs, unlike those within the TV economy, are less dependent on specific projects with discrete budgets. Even for primarily discrete productions, such as radio drama, because of the small size of the programme budgets and the resource mix, programmes are produced and managed on a portfolio basis. Enhancing efficiency, therefore, requires active management, not only of costs

allocated to individual programmes (as identified in the report) but also of the resources involved across the stations and departments. In the Nations, where members of staff work at the same time for television, radio or online programming, this is even more important.

2) BBC radio stations considered in this report reach over 66% of the UK population and, through their range, serve different public purposes and different audiences. Across those services are programmes as diverse as The Archers, Terry Wogan's breakfast show, Good Morning Scotland and coverage of the London Jazz Festival on Radio 3. Whilst working hard to deliver efficiencies, we need to ensure that this special contribution to the creative economy, recognised for its cultural value around the world, is nurtured and protected. Therefore any efficiency targets must recognise the sensitivities of changes to output that is particularly highly valued by audiences, as assessed by the different dimensions of reach, quality, impact and value for money.

3) The report acknowledges that driving efficiency within a creative production environment is not a simple equation but relies on the interplay of production process and editorial ambition – the costs of a programme can be driven as much by the underlying audience proposition and station remit as by production efficiency. The service licences for each service create the framework which guides specific editorial decisions and any efficiency measures must remain within this. For instance, the Radio 2 service licence specifically asks "... and through commissioning documentaries that provide an understanding of the context in

which music is created and its cultural impact”. This will increase the cost of Radio 2 relative to a commercial station that does not have such an imperative. The service licence for Radio 3 states that it should “commission new work from composers, musicians and playwrights and draw on the best talent from across the world to create its output” This will increase the cost of music programming on the network relative to a station that doesn’t have this requirement.

4) Finally, in many areas of radio production, costs are so low that a relevant consideration in efficiency initiatives is the cost of both the efficiency project and ensuring accurate and detailed allocation of costs compared with the possible benefit that can be derived. Activity must be at a level where costs do not outstrip benefits.

## Response to NAO recommendations

The Executive accepts the broad principles of the recommendations that we do more to use the information available to us to identify opportunities to deliver efficiencies and to share best practice. We will take any actions that can further enhance value for money for licence fee payers while maintaining the high quality, range and distinctiveness of our radio output.

## Comparisons between the costs of programmes to identify the scope for efficiency savings

The Executive accepts the recommendations made in this area in principle.

As expressed above, the unparalleled range of output and remit of the different services make it very difficult to compare programme costs across and within services. Such comparison, which does not allow for consideration of the broad range of measures in the performance framework, cannot easily identify where reductions in cost would not be detrimental to the audience value, whether in terms of reach, quality, impact or value for money.

Therefore, whilst comparing cost per hour of different types of output (on which the NAO’s methodology has focussed) is one reasonable consideration in production efficiency, it is only part of the equation. The most expensive programming is not necessarily the least efficient and variations in costs need to be evaluated by the full range of measures in the public value framework before conclusions can be made.

Where programmes carried by different networks or on the same service are broadly similar, comparing their costs can be useful to identify areas where efficiency savings could be made, and such work is already underway across the in-house production community. Guide prices for commissioners have always been informed by the regular conversations between producers and commissioners about production cost and this will continue. Periodic reviews for key genre, as noted by the NAO for Radio 4 drama, or that undertaken by Radio 2 for comedy, also inform the guide prices.

Benchmarking costs requires careful selection of the way categories are drawn up so as to ensure comparisons are relevant. For example in considering dramas, it is essential to make a distinction according to the size of the cast, which itself depends on the number of characters in the play, or to the slot in which the programme is to be broadcast. In taking forward our efficiency work and the recommendations of the NAO, it is critical that we get to a more detailed analysis than has been presented in the report. The Audio & Music Board will therefore consider how to establish programme groupings which are as homogenous as possible so that we can usefully compare and review production costs and processes across networks. As well as comparing costs in this way, we will also compare the processes and costs of the inputs to production (staff and studio resources for example).

We are already undertaking the following actions:

- Following the study of talent cost commissioned by the Trust and published in June 2008<sup>1</sup>, we are also commissioning a talent valuation review, on the basis of which we will implement a new strategy for talent management that should help us deliver further efficiencies. This review should report by May 2009.
- We are commissioning a new benchmarking review, similar in scope to the study undertaken on our behalf by Magentum in 2007, so that that we can track any changes and identify scope for more detailed consideration of discrepancies between comparable programmes strands. This review should report June 2009.

Any cost benchmarking is only useful if the information that it provides gives actionable insight. The best means of ensuring this will be to engage programme-makers at all levels and we will begin this process by sharing more information at the Radio Network.

<sup>1</sup> Independent review of talent costs conducted by Oliver and Ohlbaum Associates Ltd (O&O) for the BBC Trust, June 2008, available at [http://www.bbc.co.uk/bbctrust/research/value\\_for\\_money/talent\\_review.html](http://www.bbc.co.uk/bbctrust/research/value_for_money/talent_review.html).

## Evaluation of the effect of proposed savings on the BBC performance

As acknowledged by the NAO, radio station controllers and the respective Boards have considered the likely impact of the continuous improvement savings initiatives on target reach, quality and impact. This was a core part of the iterative process by which we developed the efficiency plans, ensuring that we achieve genuine efficiencies not just reduction in cost. In effect, our existing methodology, which is to drive efficiency savings through “continuous improvement”, gives the opportunity to adjust plans throughout implementation in the light of audience performance. We agree with the NAO that, in order to build on progress made and experience gathered across the networks, we need to assess and document more systematically the likely, and actual, overall impact of the initiatives on the public value criteria throughout the course of the efficiency programme.

We will continue to develop the performance framework so that further savings and reprioritisation can be visibly monitored against agreed measures. Each station will also continue to drive their own efficiency measures to meet allocated targets, and will review these for their impact on audience performance

## Spreading good practice

The NAO recommends that the BBC should share ideas and good practice more widely across the radio production community. We agree with this. The BBC Radio Network is one of a number of groups where such practices can be shared. The project groups of the WI and Salford change projects give us additional opportunities to share lessons and to identify more opportunities that the significant technology investments and opportunities for process changes afford in a digital environment. The A&M Board has recently considered the changes made by BBC Scotland’s radio production teams in the move to Pacific Quay and will consider which changes might be applicable to the network radio stations.

## Exploring with commercial radio stations how to establish benchmarking arrangements

The BBC works regularly with the commercial sector on topics of common interest, such as on the development of DAB, and on training and development opportunities, and is keen to extend these partnerships as much as appropriate.

However, opportunities for pursuing benchmarking with commercial radio are very limited for the following reasons:

- In some genres, e.g. drama, there are no commercial radio stations providing this output; in other genres, e.g. music, comparisons can only be limited as the scale and remit of the programmes are very different. For example, the drivetime shows on commercial music stations rarely include the range of content featured in BBC drivetime (e.g. in-depth business news and sports bulletins, live music performances).
- The type of data we can share is limited by competition law: the BBC and commercial radio use common suppliers for distribution; independent production and compete for talent and staff.
- Such analysis will be expensive and time – consuming both for the BBC and for commercial operators. The extent of these benchmarking studies will be restricted by the willingness of other organisations to share data that they may consider commercially sensitive, or to spend resources if they do not see a direct interest in doing so.

Despite these limitations, we fully recognise the value of benchmarking and have started to explore what can be done in the area of benchmarking talent costs with the commercial sector (following the independent review of talent costs, already mentioned).

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This report has been prepared under clause 79(3) of the Agreement between the Secretary of State for Culture, Media and Sport and the BBC dated July 2006.

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# SUMMARY

**1** In 2007-08 the BBC spent £462 million, 14 per cent of its licence fee income, on 16 radio stations – ten Network stations (of which four are digital only) broadcasting to the whole United Kingdom (Network stations) and two stations each for Northern Ireland, Scotland and Wales (Nations stations). Each station broadcasts a diverse mix of programmes and all are accountable to the BBC Trust against the station goals set out in Service Licences issued by the Trust.

**2** We looked at what the BBC is doing to maximise the efficiency of radio production across its different stations. Specifically, we reviewed whether the BBC has effective procedures for delivering efficiency in radio production by focusing on:

- whether the BBC makes use of cost comparisons to identify the scope for efficiency gains;
- the efficiency gains the BBC is planning to deliver; and
- whether the BBC assesses the impact of efficiency initiatives on performance.

**3** Our review covers the ten Network stations and the six Nations stations. We have not evaluated matters relating to content and target audiences, which are matters of editorial judgement for the BBC.

**4** BBC Nations and Network radio achieved savings of £11.7 million by 2007-08 against a target of £11.6 million, and contributed cumulative cash releasing savings of £18 million, net of implementation costs, to the BBC's efficiency programme for the three years to March 2008. Efficiency is a combination of cost and performance but the BBC's primary goal was to deliver

financial savings and divisions were not required to measure whether reductions in costs had been secured without a decrease in the quality of outputs. The BBC has recognised that, under the current efficiency programme, it will need to measure performance as well as savings to demonstrate that genuine efficiencies have been achieved.

**5** The BBC's target for Nations and Network radio, for its current efficiency programme for the five years to April 2013, is to reduce expenditure on Network and Nations radio through efficiency savings amounting to £21.1 million, generating cumulative cash releasing efficiency savings, net of implementation costs, of £68.7 million (£57.4 million from the ten Network stations and £11.3 million from the six Nations stations). To meet this target the BBC can make efficiencies by spending less to secure the same quality of output, or by altering the mix of programmes in the schedule as long as the station continues to meet the BBC objectives set out in its Royal Charter and in the Service Licences issued to each station by the BBC Trust.

**6** Managing the efficiency of radio production requires, as a first step, an understanding of the costs of production before engaging in a process for identifying how costs can be reduced without an unacceptable impact on performance. Each BBC radio station is different and stations broadcast a diverse range of programmes. However, programmes can be grouped together by genre (for example, drama, music, or comedy), enabling cost comparisons within and between stations (recognising that a genre can include a wide range of outputs – for example, music covers the Chart Show on Radio 1 and Celtic Heartbeat on Radio Wales).

**7** In 2006 the six Nations stations completed an exercise to compare their costs, to identify best practice in the way that they worked and to inform the setting of efficiency targets. In 2007 the Network stations commissioned benchmarking of programmes across Network and Nations stations but the exercise has not yet been used to inform target setting or the identification of savings initiatives. Using the data collected for the wider 2007 benchmarking exercise we examined the cost of comparable programmes and identified a wide range of cost variations. We used BBC classifications of programmes, for example, drama and comedy, while recognising that the classifications themselves are often broad. For example, the goals of music programmes on Radio 1, Radio 2 and Radio 3 are very different.

**8** There is a range of cost variations for similar classifications of programmes, from music, where the average cost per hour of music programmes on Radio 2 is 54 per cent higher than the next highest Network station, Radio 1, and more than twice the cost for Radio 3. In-house dramas in London and in Manchester and the North are over 50 per cent higher than the other English regions and Wales, and over three times those in Scotland. Whilst Radio 3 pays almost 29 per cent more for an hour of in-house produced drama than for independent productions, the cost of drama produced in-house by the BBC for Radio 4 is similar to the cost of drama Radio 4 commissions from independent production companies. In addition, for most breakfast and evening drive-time programmes on Network stations, the BBC's costs are significantly more expensive than commercial programmes in the same slots, largely because of the costs of presenters and other staff, reflecting an editorial choice on the BBC's part to take account of the nation-wide remit of its Network stations.

**9** Such cost comparisons are a starting point for examining radio production efficiency, but need to be considered in the context of the audience expectations, the remit of the service as determined by its Service Licence, and the audience targeted. These comparisons can then help to identify those areas of the business where there may be greatest scope to deliver efficiency savings, subject to the BBC's assessment of any impact on programme quality and service distinctiveness.

**10** When the BBC commissions programmes it seeks to promote efficiency by setting guide prices. Guide prices reflect BBC judgements about what programmes should cost and the value that they are intended to bring to the programme schedule. The BBC has undertaken exercises to inform the revision of guide prices for 2009-10 for Radio 4's drama and factual programmes and Radio 2's comedy programmes, although these were based on budgeted rather than actual costs, and such analysis is not undertaken routinely across all stations.

**11** BBC radio stations are governed by the BBC's public value performance framework when evaluating the impact of potential efficiency savings on performance. The framework is made up of four measures: *reach*, *quality*, *impact*, and *value for money* which the BBC Governors and, subsequently, the BBC Trust has required the BBC to use since 2004 when measuring performance at station level. While the BBC confirmed that efficiency initiatives have been prioritised according to the likely effect on the four aspects of the performance measurement framework, there is a lack of supporting documentation on that prioritisation exercise. The BBC's use of the framework to assess progress against efficiency targets in radio is still being developed, particularly for the *impact* indicator.

**12** To provide a sound platform for planning and monitoring its efficiency programme, the BBC needs to have specific costed plans. The Nations and Network radio stations have set targets for how much they need to deliver and the implementation costs they expect to incur in each of the five years of the efficiency programme. Each station has identified the broad areas in which they will seek to make efficiencies and to develop detailed costed plans with reference to specific initiatives as part of the annual budget setting process.

**13** While BBC radio stations have diverse programming and audience objectives they do have some similar programme types as well as some common elements of the production process. The BBC seeks to identify and disseminate good practice in making efficiency savings amongst the Network radio stations and amongst Nations stations. While there is a pan-BBC group that brings together the Controllers and Heads of radio, there is no evidence of good practice being shared in a systematic way.

## Conclusion on value for money

**14** The BBC is seeking to maximise the value for money it achieves from the £462 million a year it spends on Nations and Network radio while maintaining or improving the performance of those services for listeners. To achieve its aim the BBC needs to be able to identify where costs can best be reduced whilst maintaining overall performance. The BBC has already achieved savings and identified the scope for more. There is limited documentary evidence, however, that it has systematically assessed the potential impact of savings on its radio output and it has done limited work to examine significant cost variations. The BBC is not therefore making full use of opportunities to increase the value for money it is achieving. On the basis of variations in costs for comparable programmes, it is likely that a systematic analysis of the costs and performance of the most expensive programmes would help the BBC to identify areas where it could make further efficiency savings.

## Recommendations

**a** **The BBC has explored its data on the costs of radio production for some programme types but has not made full use of its data to identify the scope for potential efficiency savings across its Network and Nations stations.**

The BBC should, in a rolling programme:

- i** compare the costs of comparable programmes to highlight areas where there may be scope for further efficiency savings (paragraphs 38 to 45);
- ii** identify the reasons for cost variations between programmes, establish whether variations are due to differences in editorial ambition or efficiency and assess the scope for further efficiencies (paragraphs 38 to 45);
- iii** inform guide price ranges for programme genres by analysis of actual cost data (paragraph 48).

**b** **Without evaluating the effect of proposed savings initiatives using its performance measurement framework the BBC will not be able to demonstrate it is delivering efficiency gains.**

The BBC should:

- iv** assess and document the likely and actual overall impact of efficiency savings initiatives on each of its public value criteria (*reach, quality, impact, and value for money*) (paragraph 73);
- v** complete the work it is now doing to establish indicators and baselines for measuring performance against each of the public value criteria (paragraph 74).

**c** **While each station has identified efficiency initiatives there is a need for a more systematic sharing of ideas and good practice.**

The BBC should:

- vi** use the existing Radio Network to identify and spread good practice in radio production efficiency (paragraph 66).

**d** **The BBC does not have arrangements with commercial radio stations for assessing its radio production efficiency relative to them.**

The BBC should:

- vii** explore with commercial radio stations how they might establish benchmarking arrangements to identify where and how savings can be made (paragraph 52 to 54).

# MAIN REPORT

## Introduction

**15** This review is part of a programme of value for money work agreed with the BBC Trust by the Comptroller and Auditor General, head of the National Audit Office, under an agreement between the Secretary of State for Culture, Media and Sport and the BBC<sup>1</sup>. The review looks at what the BBC is doing to maximise the efficiency of radio production across its Network and Nations stations.

**16** In 2007-08, the BBC spent £462 million – 14 per cent of its licence fee income – on its Network radio stations for the United Kingdom and its Nations stations for Northern Ireland, Scotland, and Wales. This funding was for the 16 radio stations, both analogue and digital (**Figure 1**).

**17** The BBC is funded largely through the television licence fee. The most recent licence fee settlement covering the period 2007-08 to 2012-13 came into effect from 1 April 2007. In October 2007, following the new licence fee settlement, the BBC announced a five year efficiency programme – with the explicit goal to reduce costs whilst maintaining the quality of output. The BBC intends to deliver three per cent efficiencies every year from 2008-09 to 2012-13. For Nations and Network radio the BBC has set a target of £76 million (£69 million net of implementation costs).

- Network radio is required to deliver cumulative efficiency savings of £63 million, or £57.4 million net of implementation costs. Net efficiency savings represent nearly 1.4 per cent per annum of the cost of Network stations over the next five years.<sup>2</sup>
- Nations radio stations have a target to deliver cumulative savings of £13 million, or £11.3 million net of implementation costs. Net efficiency savings represent 3.2 per cent of the cost of Nations stations over the same period.

**18** The BBC also uses the licence fee to fund 38 local radio stations, such as Radio Merseyside and Radio Lincolnshire, serving the geographical regions in England and the Channel Islands. In 2007-08 the BBC spent £136 million on English local radio. Because of differences in its purpose and output English local radio is not the primary focus of this examination, but is drawn upon for illustrative purposes.

## Radio at the BBC

**19** The BBC's radio stations are the responsibility of two BBC Groups.

- **Audio & Music** is the BBC group responsible for the Network stations – **Radios 1 to 5 Live** and the **Asian Network**, broadcast in both analogue and digital; and the digital only stations – **1Xtra, 5 Live Sports Extra, 6 Music, and Radio 7**. Each station has a station controller.<sup>3</sup>

### 1 The BBC's radio service

**Network radio**  
(£362 million  
spend in 2007-08)

Six stations broadcast in analogue and in digital (BBC Radio 1, 2, 3, 4, 5 Live and the Asian Network) and four only in digital (1Xtra, 6 Music, Radio 7, 5 Live Sports Extra). All ten broadcast to the whole of the United Kingdom.

**Nations radio**  
(£100 million)

In Northern Ireland, Radio Ulster and Foyle; in Scotland, Radio Scotland and nan Gàidheal; and in Wales, Radio Wales and Radio Cymru.

Source: National Audit Office

<sup>1</sup> A 'Framework Agreement' under Article 49 of the BBC Royal Charter 2006 between the Secretary of State for Culture, Media and Sport and the BBC – Command 6872, dated July 2006.

<sup>2</sup> The annual percentage saving is calculated with reference to controllable costs, described in paragraph 61.

<sup>3</sup> Responsibility for the BBC Network radio stations is organised as follows: Controller Radio 1, 1 Xtra, and the Asian Network; Controller Radio 2 and 6 Music; Controller Radio 3, Proms, and performing groups; Controller Radio 4 and Radio 7; and Controller Five Live and Five Live Sports Extra.



## BOX 1

The variety in BBC Network and Nations Service Licence requirements for music programmes.

### Network stations

Station	Qualitative requirements	Quantitative requirements
Radio 1	Radio 1 should offer a range of new music, support emerging artists – especially those from the UK – and provide a platform for live music.	<p>Radio 1 should:</p> <ul style="list-style-type: none"> <li>■ broadcast at least 60 hours of specialist music each week</li> <li>■ ensure that at least 40 per cent of the music in daytime is from UK acts each year</li> <li>■ ensure that at least 45 per cent of the music in daytime is new each year</li> <li>■ broadcast from around 25 major live events and festivals in the UK and abroad each year</li> <li>■ broadcast at least 250 new sessions each year.</li> </ul>
Radio 2	Radio 2 should offer entertaining popular music programmes.	<p>Radio 2 should:</p> <ul style="list-style-type: none"> <li>■ ensure that at least 40 per cent of the music in daytime is from UK acts each year</li> <li>■ ensure that at least 20 per cent of the music in daytime is new each year</li> <li>■ broadcast at least 260 hours of live music each year</li> <li>■ broadcast a broader range of music than any other major UK radio station, with over 1,100 hours of specialist music programmes each year.</li> </ul>
Radio 3	The remit of Radio 3 is to offer a mix of music and cultural programming in order to engage and entertain its audience. The core of programmes should be around classical music with jazz and world music also featuring in Radio 3 output.	<p>Radio 3 should:</p> <ul style="list-style-type: none"> <li>■ ensure that at least 50 per cent of the station's music output will consist of live or specially recorded music each year</li> <li>■ broadcast at least 500 live or specially recorded performances each year</li> <li>■ commission at least 30 new musical works each year.</li> </ul>
1Xtra	The remit of 1Xtra is to play the best in contemporary black music with a strong emphasis on live music and supporting new UK artists.	<p>1Xtra should:</p> <ul style="list-style-type: none"> <li>■ ensure that at least 60 per cent of the music played on the station in daytime is new</li> <li>■ ensure that at least 35 per cent of all music played in daytime is from the UK each year</li> <li>■ broadcast at least 50 live music events each year.</li> </ul>
6 Music	The remit of BBC 6 Music is to entertain lovers of popular music with a service offering music from the 1960s to the present day. Its programmes juxtapose current releases outside the mainstream with earlier recordings, including music from the BBC Sound Archive. It should provide context for the music it plays, and support live music and new artists.	<p>BBC 6 Music should:</p> <ul style="list-style-type: none"> <li>■ ensure that at least half of all music played each year is more than four years old</li> <li>■ broadcast at least 400 hours of archive concert performances each year</li> <li>■ ensure that at least 15 per cent of music broadcast is concert tracks and sessions from the BBC's music archive each year</li> <li>■ broadcast at least 275 new sessions each year.</li> </ul>

## BOX 1 *Continued*

<b>Asian Network</b>	The music played on the Asian Network should include a broad range of South Asian-influenced music, with a particular emphasis on new and live music and British Asian artists.	The Asian Network should: <ul style="list-style-type: none"> <li>■ ensure that content is approximately 50 per cent speech and 50 per cent music each year</li> <li>■ ensure that at least 40 per cent of the music in daytime<sup>4</sup> is from UK artists each year.</li> </ul>
<b>Nations stations</b>		
<b>Radio Scotland</b>	Radio Scotland should support Scottish music, culture and arts and should commission work from new and established talent. BBC Radio Scotland should broadcast styles of music-making found and popular within Scotland.	There are no specific quantitative requirements with respect to music programmes.
<b>Radio nan Gàidheal</b>	Radio nan Gàidheal should support Scottish and Gaelic music and arts, and should commission work from new and established talent.	There are no specific quantitative requirements with respect to music programmes.
<b>Radio Wales</b>	Radio Wales should support Welsh music and arts, and should commission work from new and established talent. It should broadcast music-making found within Wales.	There are no specific quantitative requirements with respect to music programmes.
<b>Radio Cymru</b>	Radio Cymru should support Welsh music and arts, and should commission work from new and established talent. It should broadcast a wide range of music.	There are no specific quantitative requirements with respect to music programmes.
<b>Radio Ulster &amp; Foyle</b>	Radio Ulster & Foyle should provide support for music and the arts in Northern Ireland and should commission work from established and emerging talent.	There are no specific quantitative requirements with respect to music programmes.

Source: National Audit Office summary of Service Licences

### NOTE

Radio 4, 5 Live, 5 Live Sports Extra, and Radio 7 are not listed as the Service Licences for these stations do not include any specific requirements with respect to music programmes.

**23** Service Licences also set out how the BBC Trust will assess the performance of the stations. Performance is measured at a station level against the BBC's performance measurement framework of *reach, quality, impact and value for money*. The principal means of measuring performance – surveys to establish who listens to programmes and public perceptions of quality, impact and *value for money* – are carried out at a station level. Performance is not routinely measured for individual programmes due to the high cost of collecting information on audiences that are small relative to the total UK population or where the programmes vary within the standard quarterly reporting periods used by Radio Joint Audio Research Limited, known as RAJAR<sup>5</sup>, to collect details on listener numbers.

## Our examination

**24** Against the background of the efficiency savings targets for BBC Radio, this report examines whether the BBC is in a position to maximise the efficiency of radio production by looking at:

- the costs of BBC radio production;
- whether the BBC makes use of cost comparisons to identify the scope for efficiency gains;
- the efficiency gains the BBC is planning to deliver; and
- whether the BBC assesses the impact of efficiency initiatives on performance.

<sup>5</sup> Radio Joint Audio Research Limited – RAJAR – is jointly owned by the BBC and the Radio Centre, the representative body for the commercial radio sector.

The methods we used are set out in Appendix 2. We have not sought to evaluate matters relating to content, performance and target audiences, which are matters of editorial judgement for the BBC.

**26** The cost of the BBC’s Network and Nations radio stations for 2007-08 is set out in **Figure 4**, which shows that the majority of expenditure – 76 per cent – was on programme making, described as the cost of content in Figure 3.

## The costs of BBC Network and Nations radio production

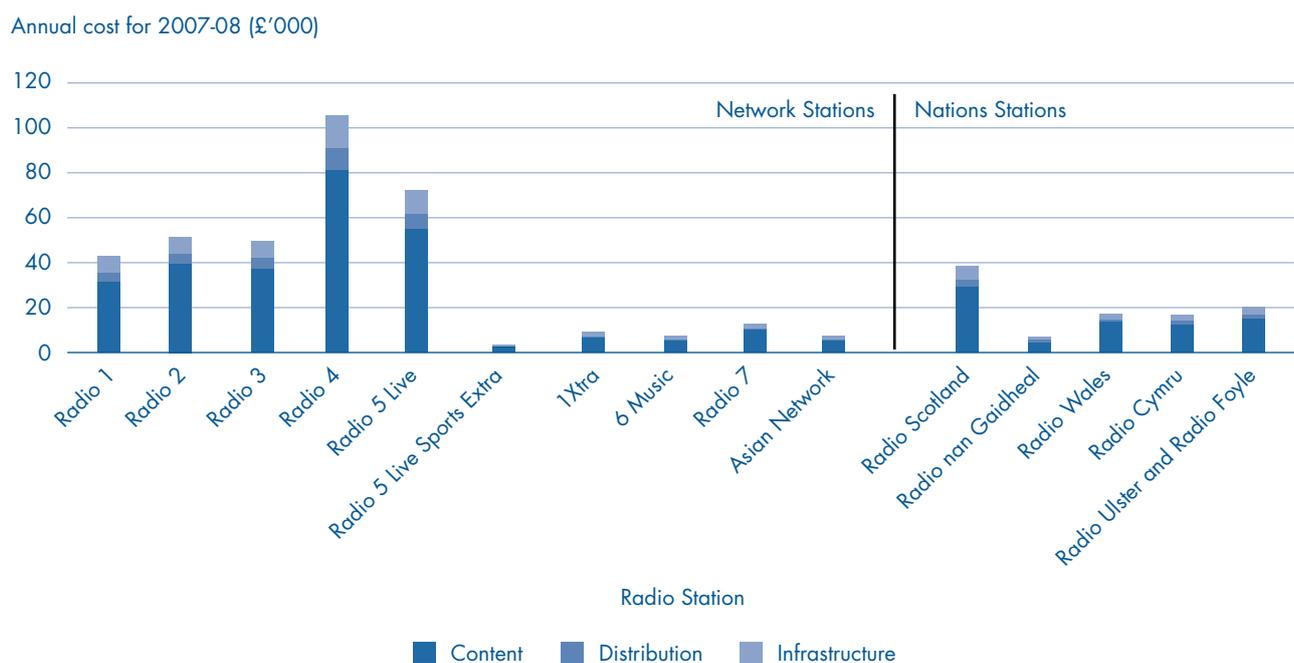
**25** The BBC breaks down the costs of its radio stations into those costs related directly to programme making and running stations, those for transmitting programmes and the share of overheads allocated to radio (**Figure 3**).

### 3 The costs for which radio stations are accountable to the BBC Trust

Type of costs	Description	Spend in 2007-08
The cost of content	All costs of making a programme. Includes costs such as staff costs and the cost of studios, equipment and information technology; travel costs; programmes commissioned from independent producers and local production related costs. In addition, content cost covers the cost of running the station, including costs for commissioning and scheduling, and an allocation of costs incurred elsewhere in the BBC, for example for copyright payments and news gathering.	£351 million
Distribution costs	The costs of physically transmitting programmes to their audience. For each station this is based on a share of centrally negotiated costs.	£41 million
Infrastructure and support costs	Other costs including costs of marketing and corporate overheads (e.g. finance) apportioned across stations.	£70 million

Source: National Audit Office

### 4 The cost of Network and Nations stations in 2007-08



Source: National Audit Office analysis of data in the BBC’s annual report and accounts for 2007-08

27 Details on listener numbers are collected by RAJAR. RAJAR collects and analyses, on a quarterly basis, information on listener numbers, known as ‘reach’. RAJAR analysis for the year to March 2008 shows that 35 million people aged 15 and over in the United Kingdom – some 68 per cent of this population – listened to at least one of the BBC’s Network or Nations stations. **Figure 5** sets out the reach information for each station. Stations in the commercial sector reached over 31 million listeners for the same period, 62 per cent of the population.

**5** Listener numbers for the BBC – March 2008

Radio station	Reach <sup>1</sup>	Reach percentage <sup>2</sup>
Network Stations		
Radio 1	11,067,000	22
Radio 2	13,632,000	27
Radio 3	1,795,000	4
Radio 4	9,561,000	19
Radio 5 Live	6,022,000	12
Radio 5 Live Sport Extra	648,000	1
1Xtra	595,000	1
6 Music	520,000	1
Radio 7	813,000	2
Asian Network	535,000	1
Nations Stations		
Radio Scotland <sup>3</sup>	1,008,000	24
Radio Ulster and Radio Foyle	539,000	39
Radio Wales	453,000	18
Radio Cymru <sup>4</sup>	139,000	6

Source: National Audit Office summary of RAJAR data, year to March 2008

NOTES

- 1 Reach is the number of people aged 15 and over who tune in to a radio station for at least one quarter hour over the course of a week.
- 2 Reach percentage is reach as a percentage of the population in the transmission area covered by the radio station.
- 3 RAJAR does not measure reach for Radio nan Gàidheal, in Scotland.
- 4 The reach percentage for Radio Cymru is based on the population of Wales, and not the number of Welsh speakers.

28 The BBC’s principal measure of value for money for radio is the cost per listener hour. Cost per listener hour provides the BBC with a picture of the costs of programming relative to the size of audience reached. Cost per listener hour is a useful measure as it combines cost and audience size and allows the BBC to judge the value achieved from its spending on stations in terms of reach. However, a station could have a low cost per listener hour without necessarily being efficient in the sense that it only incurs the minimal costs needed to meet the required quality of output and to reach the desired audience. Cost per listener hour could encourage a focus on maximising value by expanding reach rather than reducing costs. The BBC Trust has previously recognised the need for cost per listener hour to be treated with some caution as it could skew decision making by focusing on attracting large audiences<sup>6</sup>.

29 As the BBC is seeking to make cash releasing savings cost per hour is the measure we have used throughout this report. By using cost per hour we can consider the whole costs of delivering a programme, as the BBC needs to do when it considers altering the nature or mix of its output to secure efficiency savings. The BBC’s consideration will also, of course, have to take into account the effect of changes on service delivery.

30 **Figure 6** illustrates how cost per hour and cost per listener hour provide different pictures of station costs, as described in paragraph 28 above. For example, Radio 4 has the second lowest cost per listener hour (£0.01) but has the highest cost per hour (£9,900). In contrast, Radio nan Gàidheal has the second highest cost per listener hour (£0.12), but one of the lowest costs per hour (£1,200).

### Comparing the costs of radio programmes to identify the scope for efficiency gains

31 Many factors impact upon production efficiency; it is not simply about minimising cost but involves editorial judgements about factors such as audience needs and production quality. Fundamentally, however, managing the efficiency of radio production requires as a first step an understanding of the costs of production before engaging in a process for identifying how costs can be reduced without an unacceptable impact on performance. The BBC therefore needs to collect and analyse its cost information and that of organisations producing comparable output and relate the resulting data to assessments of performance.

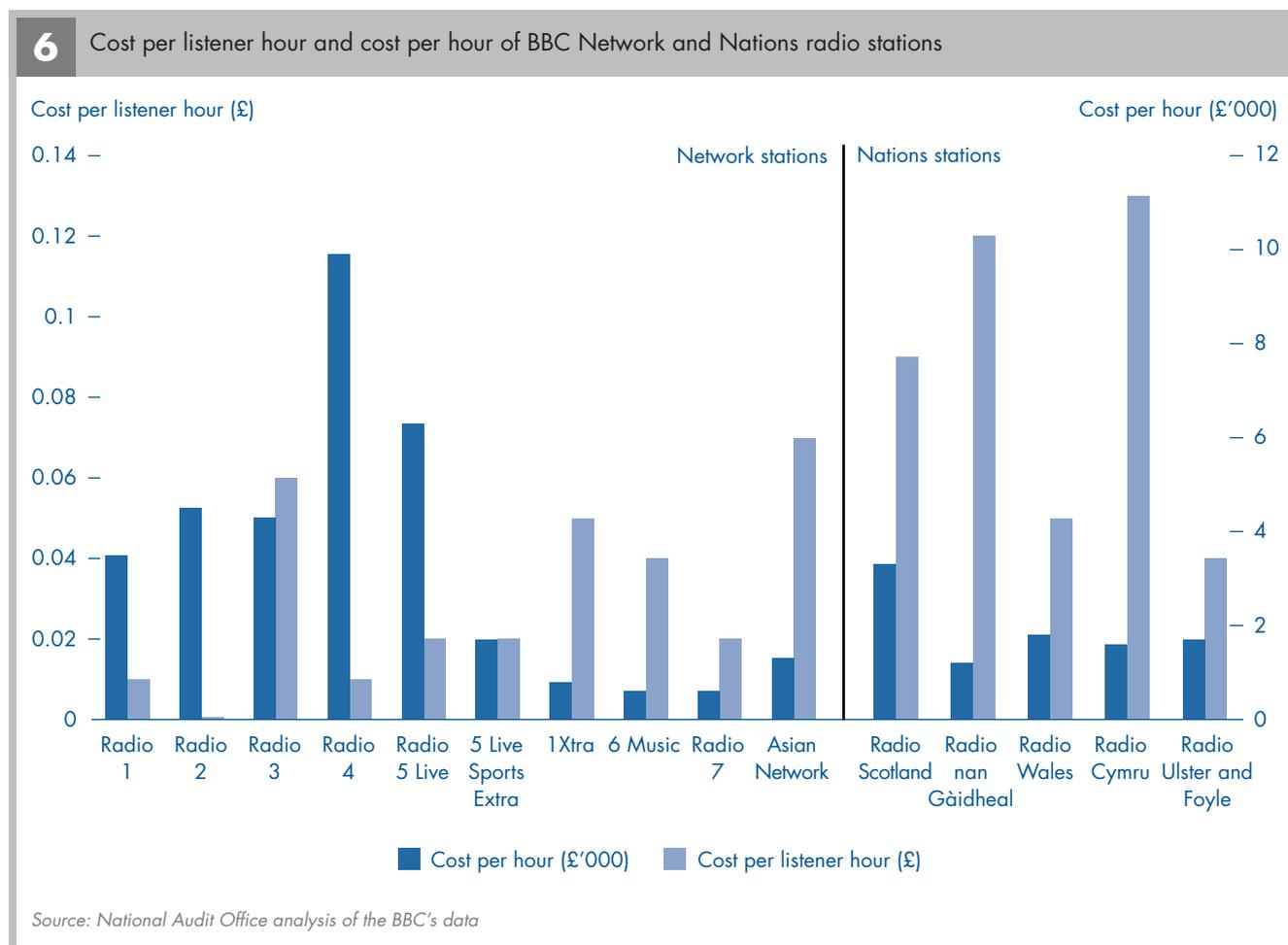
6 On-screen and on-air talent, Oliver & Ohlbaum report to the BBC Trust, May 2008.

**32** In 2006 Nations radio conducted a benchmarking exercise across its stations which helped to inform the setting of efficiency targets. The exercise was used by Heads of Radio to identify areas where efficiency gains might be possible without adversely affecting output, such as making better use of weekend staff to focus on week-day output.

**33** In 2007, in addition to commissioning specific analysis of the costs of drama and factual programmes on Radio 4, the BBC commissioned consultants to consider the cost of stations across Network and Nations radio. The exercise generated helpful data, although the BBC has not yet followed through on this work to identify savings initiatives, and the timing was such that it did not influence the setting of efficiency targets. As BBC radio stations have diverse remits and audience targets, station by station comparisons of total costs can be too broad to be of use. Even within programme genre – such as drama and music – variations can exist. Music for example encompasses programmes such as Chris Evans on Radio 2, which includes speech and features as well as music, the Early Music Show on Radio 3; and Celtic Heartbeat on Radio Wales. Comparisons can be made, however, between similar programmes.

**34** To present the costs of making similar programmes we analysed the sample data collected by the BBC for the 2007 benchmarking exercise. We worked with the BBC to check data were comparable. This exercise has identified variations in the cost of similar programmes as a starting point for further investigation by the BBC. We analysed the BBC's data by comparing:

- programme cost by genre, within and across stations;
- the cost per hour of output across locations;
- the cost of programmes made by independent production companies with those made in-house by the BBC; and
- the cost of BBC programmes against commercial radio programmes for breakfast and evening drive-time programmes.



**35** The cost data presented in Figures 7 to 14 include all direct production cost components such as staff costs (including presenters and producers), studios and outside broadcasts, and information technology. Not all stations feature in each figure for two reasons. First, there are variations in output between stations. Second there are difficulties in obtaining comparable data for Nations and Network stations which manage their costs in different ways because of the different nature of their operations, delivering content to audiences through more integrated television, radio and online services. Staff costs, including artists, represent the most significant element of the costs of producing programmes. Of the £351 million cost of content (Figure 3), artists fees represent 11 per cent and other staff costs 32 per cent.<sup>7</sup>

**36** We have used two measures – median and ranges – in the graphs below, as explained in **Box 2**.

**37** The cost variations do not mean that simply reducing cost will increase efficiency, but they show where there may be scope for savings. We have not investigated the reasons for the cost variations identified as this is a matter for the BBC, balancing editorial aspirations and a more detailed review of the component costs of producing individual programmes.

## Programme cost by genre within and across stations

### Music

**38** **Figure 7** shows that the median cost per hour of music programmes<sup>8</sup> on Radio 2 is £1,486, 54 per cent higher than the next highest, Radio 1, and more than twice the cost for Radio 3. For Nations stations, similar analysis shows that the median cost of producing an hour of music on Radio Scotland is 65 per cent higher than that of Radio Ulster.

### BOX 2

#### The cost analysis graphics (figures 7 to 14) explained

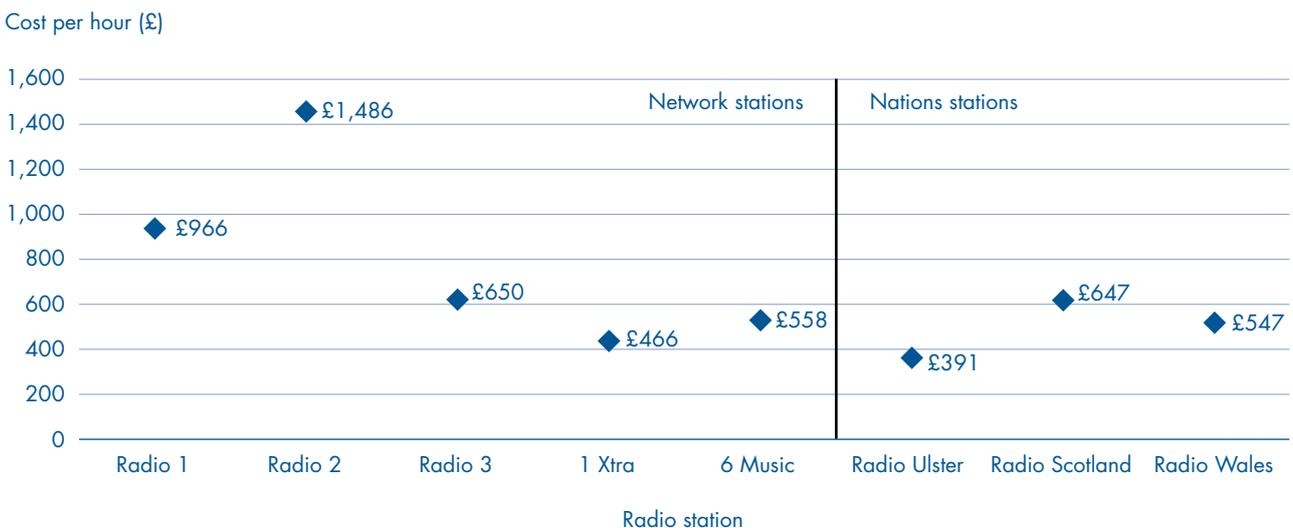
We arranged the programmes in order of cost per hour, so that we could calculate the **median average** cost per hour and the **range** of costs per hour.

We used the **median cost per hour of programmes**, which is the middle number in any range of numbers, and so is not affected by atypically high or low programme costs. It therefore gives a more representative value than a simple average or mean, which would be influenced by extremes.

We used the **range of costs per hour**. This shows the range of costs per hour for typical programmes. The inter-quartile range (the middle 50 per cent) of programmes is shown, giving an indication of how comparable costs are for the core of programmes.

Source: National Audit Office

## 7 The cost per hour of music output – median



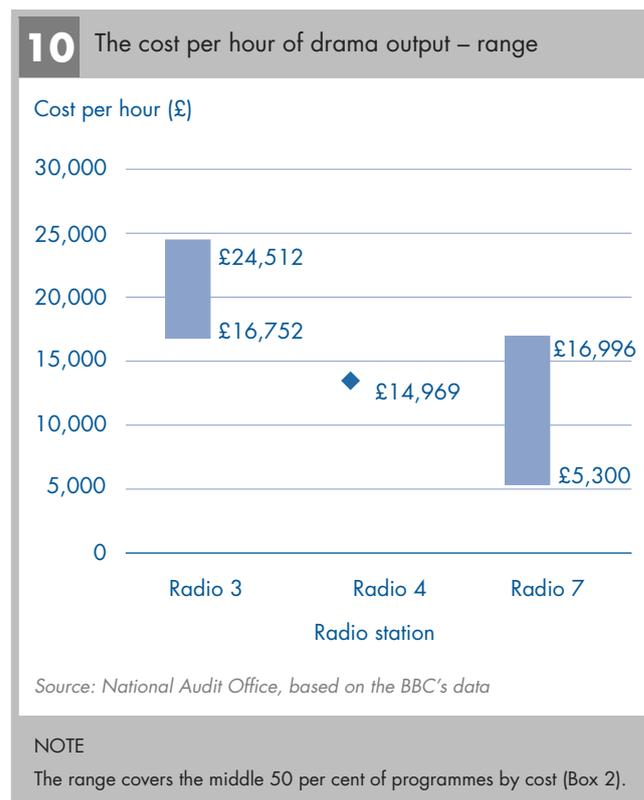
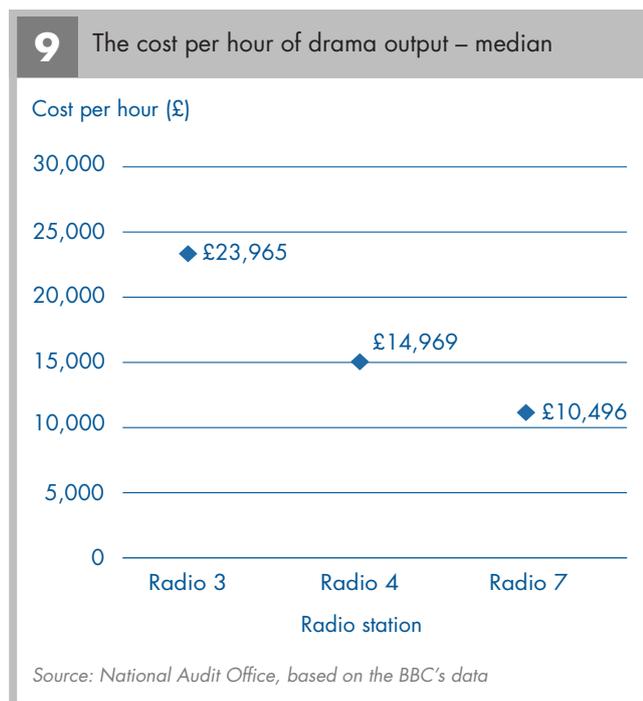
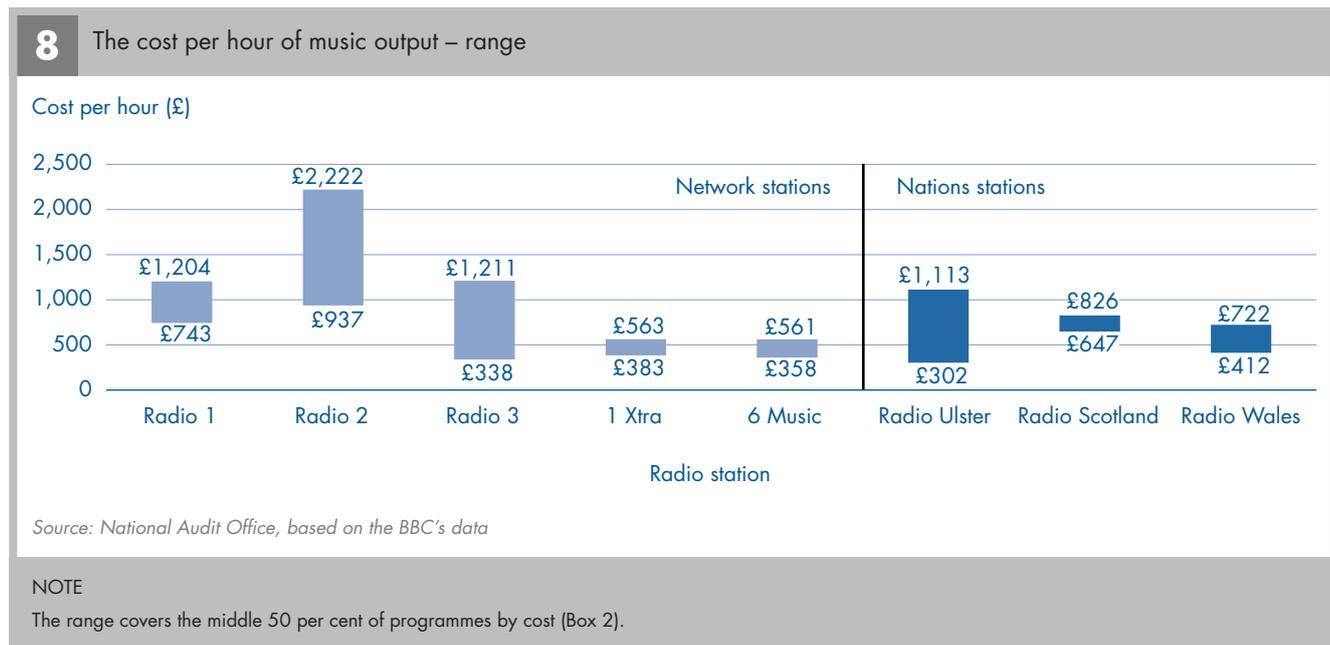
Source: National Audit Office, based on the BBC's data

<sup>7</sup> These figures relate to in-house productions only.  
<sup>8</sup> Disc based music only and disc based music plus guests and features.

39 **Figure 8** shows that the music programmes with the widest range of costs are on Radio 2 (from £937 to £2,222) and Radio 3 (from £358 to £1,211); the cost per hour of Radio Ulster’s programmes ranges from £302 to £1,113. Much less of a range exists for 1Xtra, 6 Music and Radio Wales. Radio Scotland has the smallest range, from £647 to £826 per hour.

### Drama

40 Our analysis of drama productions (**Figure 9**) shows that the median cost per hour of drama on Radio 3 is £23,965, 60 per cent higher than that for Radio 4 (£14,969, the cost per hour of *The Archers*). **Figure 10** shows that the cost per hour of drama outputs on Radio 7 ranges from £5,300 to £16,996. Similar analysis for Radio 4 shows that there is no range, as *The Archers* occupies the entire middle 50 per cent of this station’s output (see Box 2 for an explanation of the range calculation).



**41** Detailed benchmarking analysis commissioned by Radio 4, in October 2007, based on budgeted costs, found that the main cost drivers of Radio 4 drama which affect impact performance quality and reflect editorial aspiration were artists and scripts. However, the analysis found that production cost is independent of these editorial factors and that dramas on Radio 4 which are similar in terms of budgeted costs of artists, scripts and copyright appear to have significant differences in production costs. Similar analysis has not been carried out to investigate the range of costs of drama on Radio 3 or on Radio 7, or the reasons for variation in the costs of drama across stations.

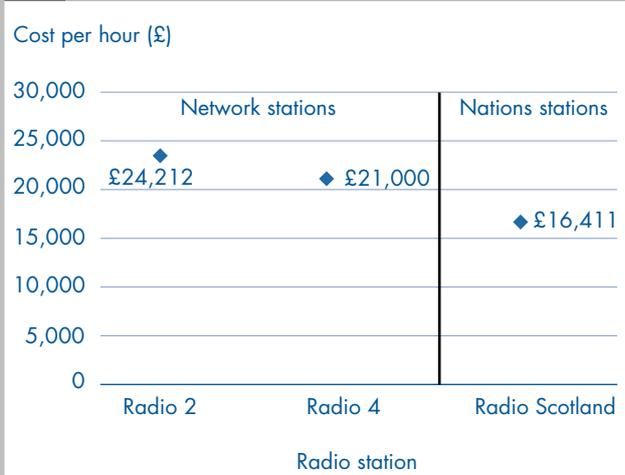
### Comedy

**42** **Figure 11** shows that the median cost per hour of comedy programmes on Radio 2 is £24,212, 15 per cent higher than those on Radio 4 (£21,000) and almost 50 per cent higher than on Radio Scotland. The range of programme costs for comedy (**Figure 12**) also indicates that Radio 2 and Radio 4 both have similarly large ranges in comparison to Radio Scotland. In 2007, the BBC compared the budgeted cost of a sample of independently produced comedy programmes commissioned by Radio 2 with those commissioned by Radio 4. The exercise identified that while talent cost was a key cost driver it was not the full reason for variation in cost across the networks and that further investigation was required.

### Cost of programmes made by independent production companies and those made in-house by the BBC

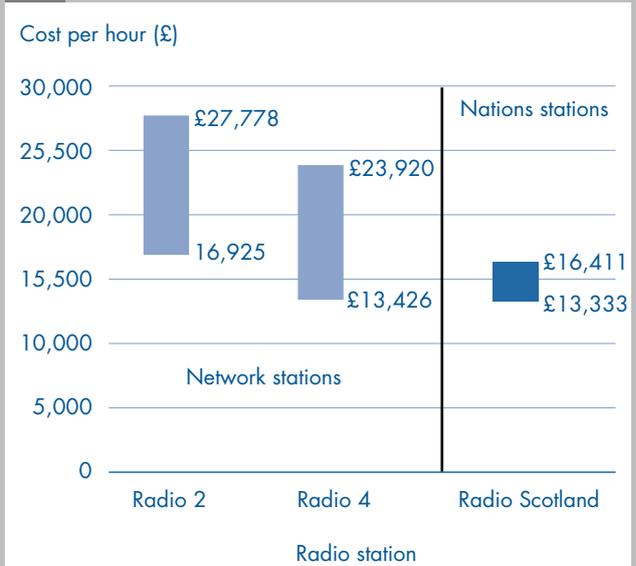
**43** We analysed the cost of plays – one aspect of drama – by source of production. **Figure 13** shows that the median cost per hour of in-house productions of plays for Radio 3 and Radio 4 are £23,965 and £24,000 respectively. This is higher than plays commissioned from independent production companies (for Radio 3, by 29 per cent; for Radio 4, by 8 per cent). The cost of independently produced plays is 20 per cent higher on Radio 4 than it is on Radio 3.

**11** The cost per hour of comedy output – median



Source: National Audit Office, based on the BBC's data

**12** The cost per hour of comedy output – range



Source: National Audit Office, based on the BBC's data

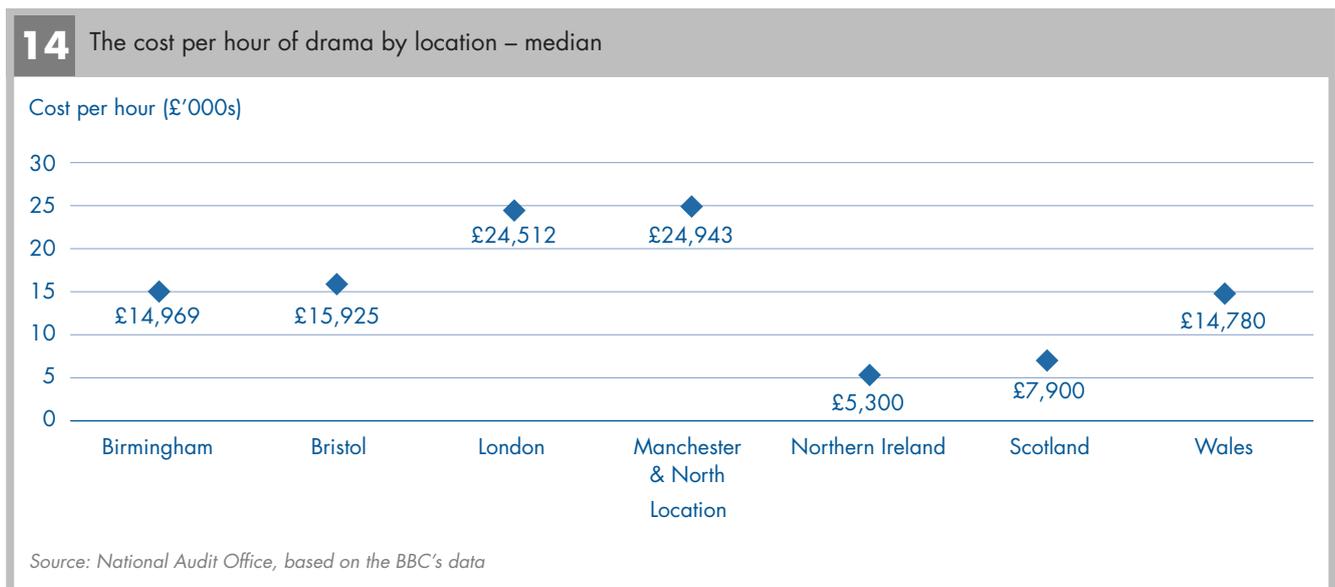
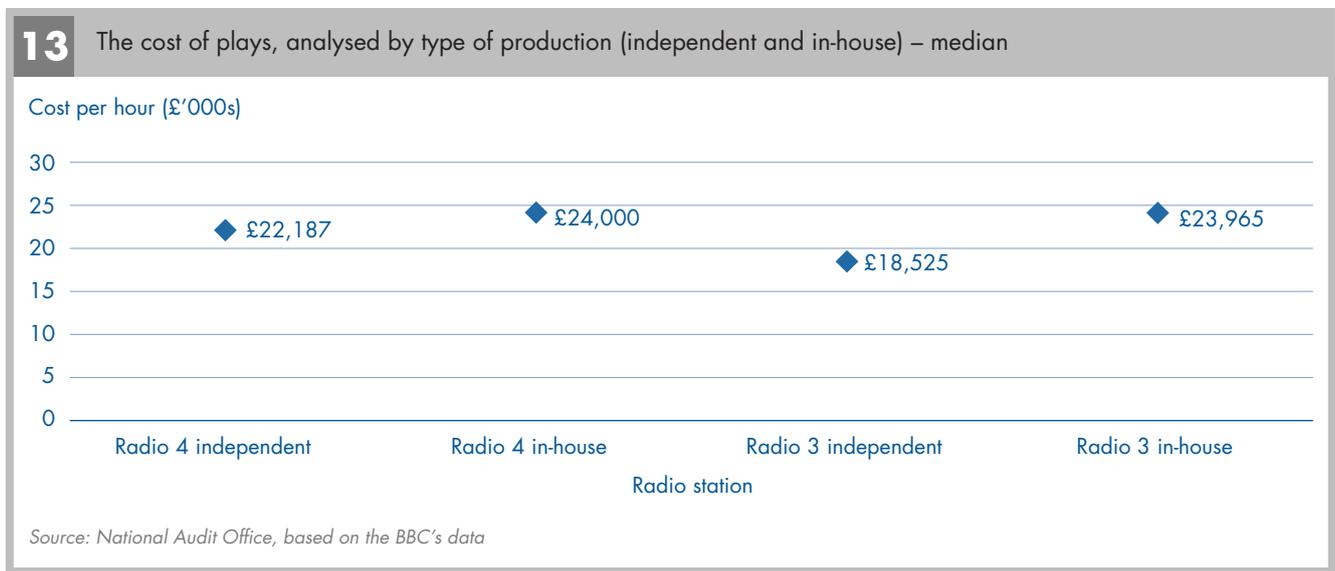
**NOTE**

The range covers the middle 50 per cent of programmes by cost (Box 2).

**44** The analysis of Radio 4 drama budgeted costs commissioned by the BBC in 2007 (paragraph 41) showed that the independent production companies are commissioned to produce a greater proportion of dramas with lower artist and script costs than those commissioned from the BBC's in-house production departments. The analysis did not fully explain the extent to which the variation in costs between in-house and independent drama is due to producing different outputs or to differing levels of efficiency.

### Cost by programme type by location

**45** The BBC produces programmes at a number of locations. Programmes are made locally for each of the Nations stations and the Network stations commission programmes to be made in the Nations and across locations in England. Because of its high costs relative to other genres we looked at the cost of producing drama at different BBC locations, whilst recognising there are differences between the number and the type of programmes produced in each location. **Figure 14** shows that the median cost per hour of drama is at least 54 per cent higher in London and in Manchester and the North than it is in Birmingham, Bristol and Wales and is at least three times more than Northern Ireland and Scotland.



**NOTE**

The above analysis is based on relatively small sample sizes for some of the locations. For example, nine hours of programmes produced in-house in Northern Ireland and ten each for Manchester and the North and Bristol.

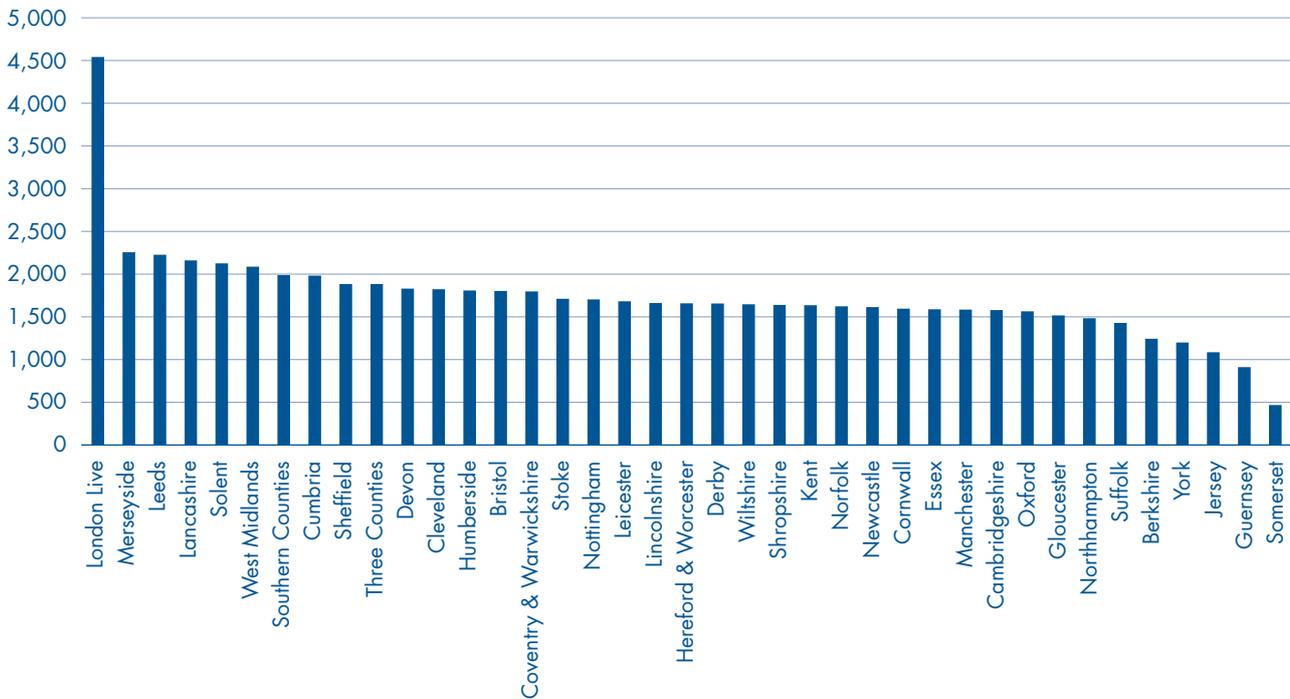
## Cost Templates

**46** One way of reducing the range of costs for producing similar programmes is to use a ‘templating’ approach that specifies cost levels based on the types of programmes being produced. The BBC has adopted such an approach to resource allocation at station level to reflect the similar nature of the output across the 38 stations that cover the English local regions, on which the BBC spent £136 million in 2007-08. Such an approach is made possible by the fact that all the English stations are governed by the same Service Licence and have the same remit. The budget for each local station is built up using a template based on the range and type of the station. On average, the template accounts for around 95 per cent of the costs of radio production that are within the control of the English local radio stations (that is, excluding costs transferred from elsewhere in the BBC). Adjustments are made to take account of specific local circumstances such as the length of time a station is on air. A large city station that runs overnight (London, for instance) will receive additional funding. The resulting funding of BBC local radio at **Figure 15** shows less variation between most stations than between the costs of Network and Nations stations.

**47** For Network and Nations radio a templating approach to costs at station level would be problematic given the diversity in remit and the scale and sector of the audiences targeted. A templating approach could be employed at a programme genre level, however. Comparison of outturn costs across stations for similar programmes could be used to inform the development of a range of costs for particular programmes that managers might expect to see, given the programme’s aims. At present in Network stations Controllers issue commissioning ‘guide prices’ when buying programmes from independent production companies or commissioning in-house productions. In the past the guide prices have been set based on individual stations’ commissioners’ judgement of a reasonable price for a programme at a specific time in the schedule. The extent to which these judgements have been informed by data on historic or budgeted costs varies across stations.

**15** The cost of English local radio for 2007-08

Station cost in 2007-08 (£'000)



Source: National Audit Office, based on the BBC’s data

**48** Radio 4 recognised that its guide prices may not appropriately reflect production costs, the impact of certain programmes on audiences, and the strategic importance of certain times in the schedule. In 2007, it commissioned work (paragraph 41) to understand the reasons for a divergence between the guide prices and the actual prices paid, and inform where appropriate a revision in the guide prices from 2009-10 for the following types of programmes: drama; factual documentaries and factual magazine shows; one to one interviews; and studio discussions. This exercise, based on a review of budgeted costs in 2007-08, gave more accurate information so that Controllers could make their commissioning decisions for 2009-10 based on better data, and the guide prices have now been revised. However, comprehensive and systematic analysis by programme type has not been carried out across all Network and Nations radio.

## The scope for efficiency savings highlighted by benchmarking

**49** The analyses in Figures 7 to 14 above illustrate variations in the cost for comparable programme genres within and between the BBC's radio stations. We have not set out to reach conclusions on the efficiency of individual radio stations or programmes, which would require further analysis of performance and editorial intent, which are matters for the BBC. Instead we have used the data to illustrate the ranges of costs as a broad indicator of where the BBC could start to look for efficiency savings.

**50** In considering where and how the BBC might identify efficiency savings, the most expensive programmes by genre could be a reasonable place for the BBC to start, recognising that variations in cost may reflect editorial judgments about content and audience needs. This is not to suggest that the most expensive programmes are produced inefficiently.

**51** The BBC currently plans to deliver efficiency savings that will reduce the expenditure on Network and Nations stations by £21.1 million by 2013. These efficiency plans already include savings from the most expensive programmes. However a systematic analysis of the costs of the most expensive programmes could help to target areas where further efficiency savings may be possible.

## Cost of BBC programmes against commercial radio programmes for breakfast and evening drive-time slots

**52** In 2006, as part of the BBC's corporate exercise to consider the efficiency savings potentially available for the period from April 2008 to March 2013, the BBC engaged with other public service broadcasters in a benchmarking exercise for television programmes. The comparison, by an independent consultancy co-commissioned by all participating broadcasters, looked at the cost of making programmes by genre across different channels. The BBC has not attempted a similar exercise for radio, as comparisons with the radio sector are more difficult, there being no commercial public service radio stations. As part of our review, we worked with the BBC and the commercial sector to make cost comparisons, although the different goals of commercial and public service radio stations mean the results of this exercise should be treated with caution<sup>9</sup>.

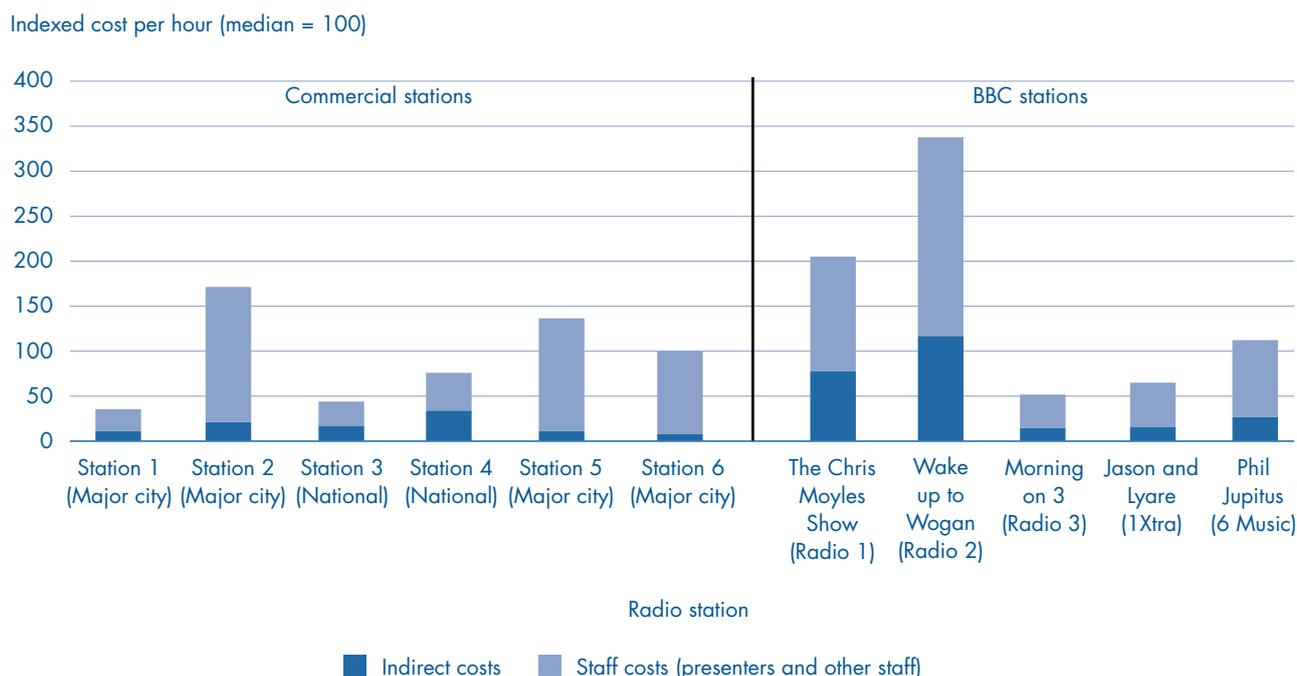
**53** We sought to make comparisons at a programme level, as the value of comparisons at a station level is limited by the diverse remits and purposes of the BBC's stations and the commercial stations. We identified two specific types of programme – breakfast shows (0700 to 1000) and drive-time (1600 to 1900) – that the BBC and the commercial sector both broadcast. Both programme slots are cornerstones of the radio schedules, attracting listeners in the morning or in the evening as they go home after work, although there may be differences in the precise format of the programmes broadcast at these times. We do not audit the commercial stations but we analysed the data they provided to gain assurance that the costs included all elements in the BBC's costs such as presenters, staff, and overhead costs such as accommodation, recognising that there might be differences in the allocation of overheads which we could not analyse. The cost breakdowns are shown in **Figure 16 and Figure 17 overleaf**.

<sup>9</sup> The methodology annex to this report explains our approach to data from the commercial sector in detail.

**54** Figure 16 and Figure 17 show that staff costs, including presenters' remuneration, represent the bulk of programme expenditure, regardless of whether programmes are broadcast by the BBC or the commercial sector. To understand the cost drivers for the BBC stations in Figure 16 and Figure 17 we asked the BBC for a breakdown of the costs for the 'staff and presenters' element in those figures. Although the BBC told us that it was willing in principle to share any information with the National Audit Office, it was constrained by its responsibilities under the Data Protection Act and confidentiality clauses in some presenters' contracts, such that its legal advice was that it could only provide us with data on individual presenters if the Comptroller and Auditor General was party to a Data Transfer Agreement with the BBC. This agreement would limit his ability to report on the information provided and the Comptroller and Auditor General did not wish to accept constraints on his discretion to report on his findings.

**55** To provide some information on presenter costs, the BBC told us that for the BBC programmes featured in Figure 16, the presenter element of the staff and presenter costs for the BBC stations is 77 per cent and the staff element 23 per cent; for Figure 17 the figures are 79 per cent and 21 per cent respectively. We have not examined presenters' remuneration further as this area was covered in a report in May 2008 commissioned by the BBC Trust from independent consultants. The BBC Trust, on the basis of the report from its consultants<sup>10</sup>, concluded that the systems used by the BBC to challenge the costs of pay packages for presenters could be improved with greater use of independent information, through, benchmarking against commercial competitors. The BBC has, as yet, not carried out any such benchmarking for radio.

**16** The cost per hour of the BBC's breakfast shows compared with those of the commercial sector



Source: National Audit Office analysis of the BBC's data and that supplied by the commercial sector

NOTES

- 1 All costs have been indexed around the cost of the median station in the sample, which has the value 100.
- 2 Staff costs include presenter costs as well as production staff.
- 3 The presenters for the breakfast shows broadcast on 1Xtra and 6 Music have moved on since this analysis was completed, which might have a corresponding impact on the split of staff costs between the costs of presenters and the costs of other staff.

10 On screen and on air talent, Oliver and Ohlbaum report to the BBC Trust, May 2008.

## The BBC's efficiency achievements and targets

**56** The current efficiency programme was preceded by a three year efficiency programme, ending in March 2008. BBC Nations and Network radio were required to contribute annual savings of £11.6 million by 2007-08 (£2.2 million from Nations and £9.4 million from Network radio) to the BBC's overall target. Together Nations and Network radio achieved annual savings of £11.7 million, which were the subject of independent review by KPMG, delivering cumulative savings of £18 million, net of implementation costs, over the three years to 31 March 2008.

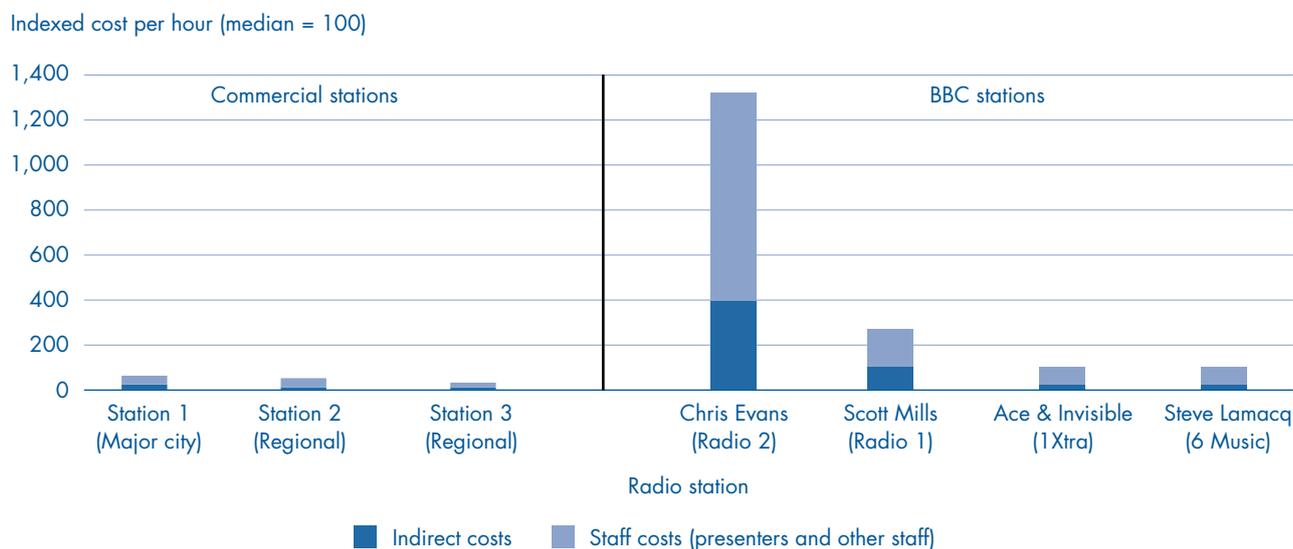
## Efficiency targets for Network and Nation stations

**57** Over the five years April 2008 to March 2013 the BBC is planning efficiency savings of £21.1 million from Network and Nations radio. As some of the initiatives will contribute savings year on year, the total cash cumulative releasing efficiency savings is £68.7 million, net of implementation costs, from Nations and Network Radio (£57.4 million from Audio & Music's Network stations and £11.3 million from Nations and Regions stations). The BBC

set these targets taking into account achievements under its previous efficiency programme (paragraph 56); a corporate assessment of each group's potential for savings over the programme's life; and external drivers of efficiency such as technological change. The BBC has identified a baseline of 2007-08 costs so it can monitor achievement against the targets.

**58** For **Network** radio BBC Corporate Finance set Audio & Music an efficiency target which Audio & Music allocated to each of the network stations and also set a target for work across Audio & Music at group level. Of the £57.4 million of efficiency savings Audio & Music has targeted over the next five years, £15.6 million relates to costs managed by the Director of Audio & Music (rather than the individual station Controllers), such as BBC performing groups, 'Proms in the Park' and costs such as expenses and telephone costs. Audio & Music has also targeted a further £6.8 million of efficiency savings on its Radio Resources division.<sup>11</sup> To identify how much each Network station could contribute to the remaining £35.0 million, stations participated in a series of joint exercises to identify cost saving initiatives, although the process was not informed by cost benchmarking (paragraph 33).

### 17 The cost per hour of the BBC's drive-time shows compared with those of the commercial sector



Source: National Audit Office analysis of the BBC's data and that supplied by the commercial sector

#### NOTES

- All costs have been indexed around the cost of the median station in the sample, which has the value 100.
- Staff costs include presenter costs as well as production staff.

<sup>11</sup> Radio Resources provides staff and an extensive range of studios, outside broadcast units and broadcasting equipment to the BBC's Network stations.

**59** For the Nations BBC Corporate Finance set each of the BBC Nations a target for efficiency savings across the range of their outputs – not only radio, but also television and online services. The Controller of each Nations station allocated an efficiency target to their radio stations, based on their assessment of the scope for savings that could be achieved by each station. For example, the BBC assessment was that there was less scope for Radio Ulster and Foyle to make efficiency savings than the other Nations stations. BBC Radio Scotland and nan Gàidheal, however, have a higher cumulative financial savings target to deliver, reflecting the BBC's view that savings can be delivered earlier through new ways of working introduced as part of its move to Pacific Quay, a new purpose built facility in Glasgow. The Nations stations drew on a benchmarking exercise (paragraph 32) to inform their understanding of the level of savings that could be achieved and how they might be delivered.

**60** **Figure 18** sets out the cash releasing efficiency savings targets for each of the Network and Nations radio stations.

**61** **Figure 19** shows the cash releasing efficiency targets for the current efficiency programme as a percentage of annual controllable costs. This presents a more accurate picture of the scale of the task facing each station as it excludes areas of cost, such as newsgathering and accommodation, which are the responsibility of other areas of the BBC. Figure 19 shows that Radio Scotland and nan Gàidheal has the highest proportionate target of 4.1 per cent, reflecting the opportunity to reduce costs at the new Pacific Quay complex in Glasgow. The next highest targets are for Radio Wales and Radio Cymru (3.2 per cent), Radio 2 and 6 Music (2.5 per cent) and the Asian Network (2.3 per cent). These targets reflect the implementation of long term talent and programme strategies as well as productivity. The BBC confirmed that Radio 4 has the lowest target of 0.8 per cent to reflect its view of the strategic importance of Radio 4 to the BBC.

## Delivering efficiency targets

**62** To provide a sound platform for meeting its efficiency targets the BBC needs to have specific costed plans. The Nations and Network radio stations have set targets for how much they want to deliver and the implementation costs they expect to incur in each of the five years of the efficiency programme. Each station has identified the broad areas in which they will seek to make efficiencies over the five year period and has developed detailed costed plans with reference to specific initiatives as part of the annual budget setting process for the first two years of the programme. The BBC plans to develop detailed plans alongside the annual budget setting process for later years to allow flexibility in the efficiency programme.

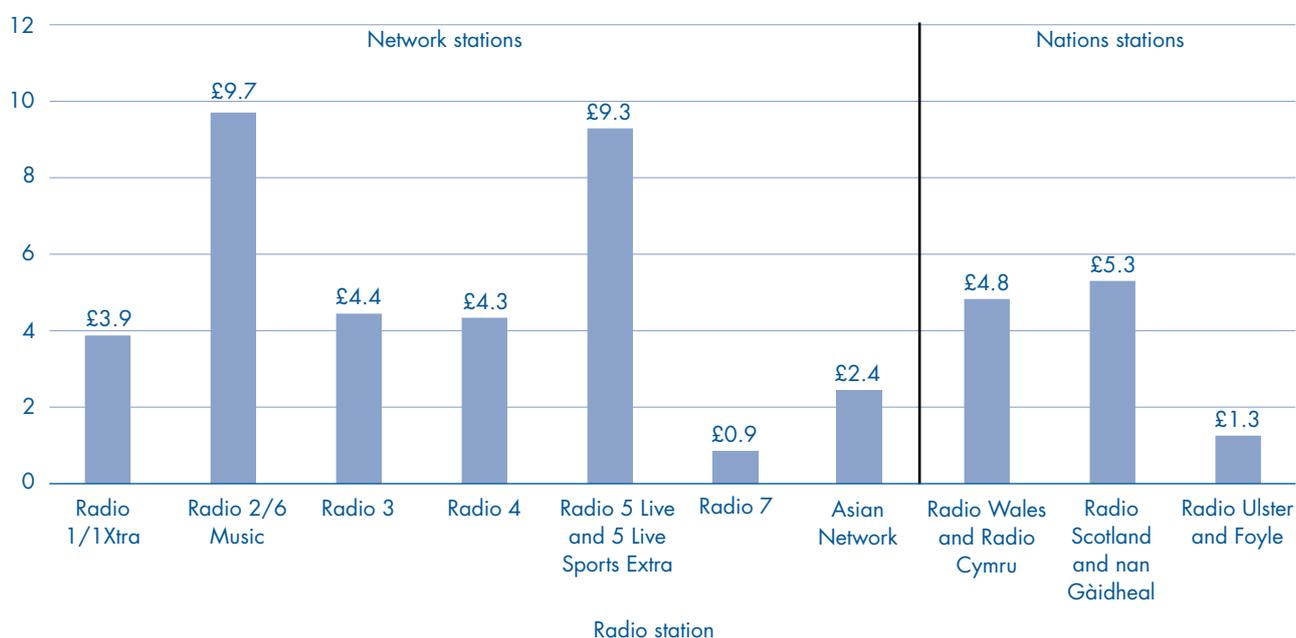
**63** Each station has identified a number of initiatives that could be used to contribute towards efficiency savings. The initiatives identified by the stations largely fall into five broad areas covering two different types of efficiency, summarised in **Box 3** and **Box 4** on page 24.

**64** The current savings initiatives also include reductions in the scale of some output, examples of which are shown in Box 4. These 'allocative' efficiencies allow the BBC to reduce some specific services or programmes if it satisfies itself that overall BBC performance will not be impaired. The BBC Trust requires that changes in the mix of output do not damage core station performance.

**65** There may be scope for many of the efficiency initiatives considered by individual stations to be shared and adopted by other stations within BBC Radio. For example, following a pilot by Radio 7 in 2001, the use of multi-skilled assistant producers to reduce the level of programme production staff resources has been introduced for other Network and Nations stations. The introduction of assistant producers led to programmes and teams changing both their ways of working and their team structures, reducing the number of higher paid producers working on programmes.

### 18 Savings targets for April 2008 to March 2013

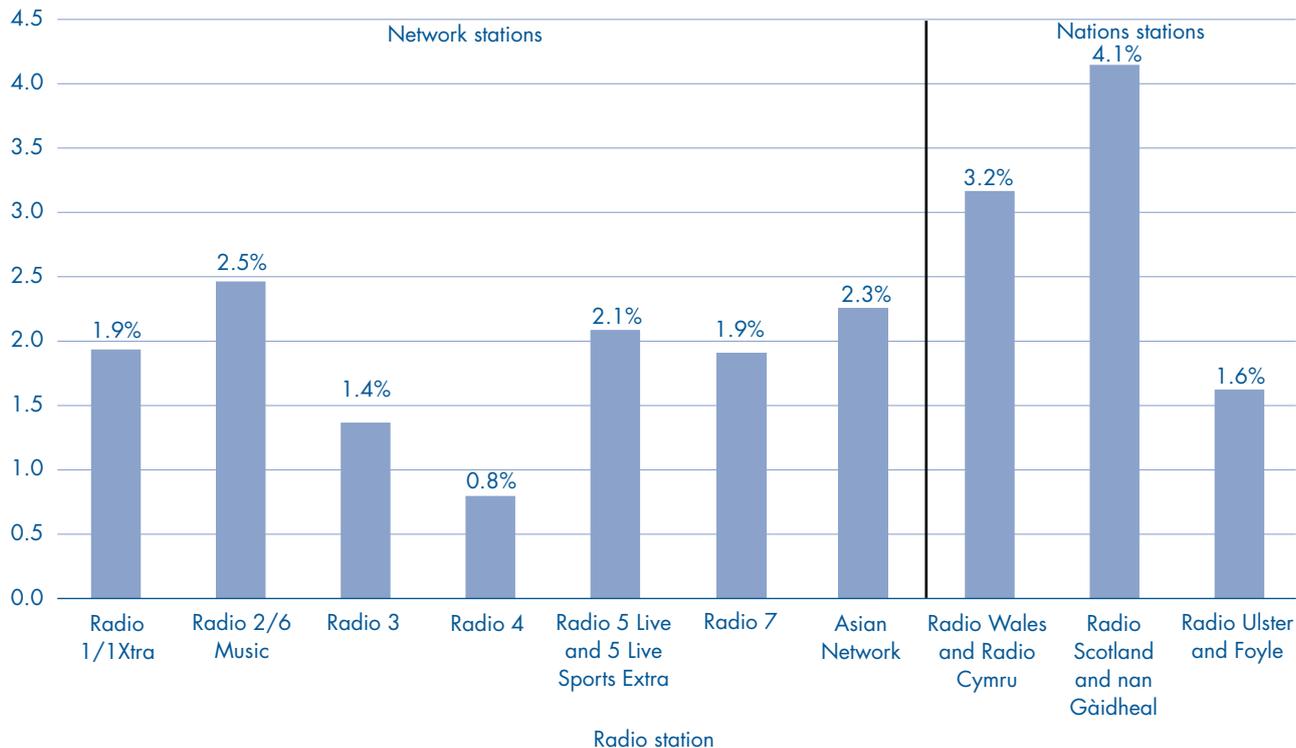
Net efficiency saving (£ million) – 2008-09 to 2012-13



Source: National Audit Office summary of the BBC's efficiency targets

### 19 Annual cash releasing savings target as a percentage of controllable cost for 2007-2008

Annual savings as a percentage of a station's controllable costs (%)



Source: National Audit Office analysis of the BBC's plans and cost information

**BOX 3****Examples of productivity initiatives to deliver the efficiency targets**

**Productive efficiencies** are savings which arise from providing the same activities for a lower financial input while holding performance constant. In BBC Radio productivity efficiency savings will be made by:

**Merging management teams and sharing resources – for example**

- moving the production of Radio 5 Live news bulletins and summaries from the Radio Newsroom into Radio 5 Live news programmes to enable closer integration between the production teams and those writing/producing the news bulletins will generate savings of £400,000 over 2008-09 and 2009-10

**Making more efficient use of staff by simplifying the production process and making use of multi-skilled staff**

- Radio Scotland has introduced a new role – a Content Assistant – which replaces four previous roles. The number of staff involved has been reduced as a result, leading to a saving of £200,000. The new role has also enabled others to specialise in more complicated programming and outside broadcasts, saving £130,000 per annum.

**Embracing and benefiting from new technology and new ways of working**

- merging two separate London based reading units to allow more effective use of internal studio facilities, reducing the number of external studios required, saving £100,000.

*Source: National Audit Office summary of the BBC's efficiency plans*

**66** The introduction of the assistant producer role is an example of efficiency ideas being shared across stations, but the BBC does not have a formal mechanism operating to facilitate routine sharing of ideas and experiences. The principal BBC forum which draws together representatives from all of the Network and Nations stations is the Radio Network. The Radio Network meets six times a year to discuss aspects of radio on a pan-BBC basis and as such could provide a forum for sharing efficiency plans and ideas. There is no record, however, of any discussions at the Radio Network of efficiency initiatives or how new practices or ideas may be spread across other BBC radio stations.

**BOX 4****Examples of allocative efficiency initiatives to deliver the efficiency targets**

**Allocative efficiencies** (reprioritisation) are savings which arise from a change in the mix of activities, with a consequent reduction in input costs, but which still achieve the BBC's overall objectives. In BBC Radio allocative efficiencies will be made by:

**Reducing the volume of originated programmes and making effective use of repeats**

- reducing the number of drama originations on Radio 4 and replacing them with some of the narrative histories from the same station.

**Making scheduling changes to reduce the volume of complex programming – for example**

- reducing the cast size and the length of episodes of the Asian Network drama serial, *Silver Street*. Together with productivity efficiencies to make better use of studios and staffing these measures will generate savings of £300,000 over 2008-09 and 2009-10; and
- commissioning enhanced abridgements rather than full dramatisation of novels for *Women's Hour* drama, saving approximately 10 per cent of the cost of a full dramatisation as fewer cast members are required.

*Source: National Audit Office summary of the BBC's efficiency plans*

**Assessing the impact of efficiency initiatives on performance**

**67** The BBC Trust requires efficiency savings to be performance neutral. The BBC is therefore planning to deliver financial savings whilst, as a minimum, maintaining 2007-08 levels of performance. It therefore needs to both evaluate the likely impact of savings proposals on performance at the stage of determining which initiatives it will deliver, and then to measure the actual impact on performance. Measuring the impact on performance is particularly important with respect to allocative efficiencies (see Box 4) as these involve making changes to the programming schedule.

**68** The BBC has two frameworks for assessing the impact of proposed efficiency initiatives – **Service Licences** and its **public value performance measurement framework**. Each BBC radio station operates under a Service Licence agreed with the BBC Trust. These Service Licences specify minimum conditions relating to the nature and mix of programmes each station should deliver. The performance measurement framework sets out how the BBC should measure the public value of its programmes.

**69** We examined how the BBC applies these frameworks to assess the impact of efficiency initiatives on performance.

## Service Licences

**70** BBC Radio is required to comply with the conditions set out in each of the Service Licences issued by the BBC Trust. We confirmed that all of the Network and Nations stations considered the impact on performance requirements in the Service Licences as part of the process of developing and considering risks associated with currently proposed savings initiatives. Stations identified and eliminated initiatives which risked breaching Service Licence conditions. None of the proposed initiatives breach the current Service Licences.

**71** The Service Licences are subject to review and amendment by the BBC Trust to reflect changing circumstances or BBC priorities. Where changes are considered to pose a substantial risk to performance the BBC Trust undertakes a full public value test. In two instances, revisions to the Services Licences in 2008 by the BBC Trust were not considered sufficiently substantial to require a public value test, allowing Network radio stations to make savings in ways that would have breached the conditions in the Service Licences for 2007.

- Radio 4's 2007 Service Licence required the station to 'broadcast at least 730 hours of original drama and readings each year'. Following a review by the Trust the station's Licence for 2008 has been amended and the station is now required to 'broadcast at least 600 hours of original drama and readings each year.'
- Radio 4 has considered reducing the number of drama originations by 125 hours, to achieve an efficiency saving while meeting editorial priorities but has decided not to do so, for editorial reasons, though such a reduction would be possible within its new Service Licence.

- Radio 7's Service Licence for 2007 required the station to 'commission and broadcast at least 10 hours of original new comedy each year' and to 'commission and broadcast at least 20 hours of original new drama each year'. The station's 2008 Service Licence requires it to '...broadcast some original new comedy and drama' as the Trust did not wish to regulate at the level of detail of the 2007 Service Licence. As one of its initiatives to deliver efficiency savings, Radio 7 has considered reducing its costs by reducing comedy and drama originations by fifty per cent. Such a reduction is now possible under the 2008 Service Licence.

## The BBC's application of its public value performance measurement framework

**72** In addition to identifying whether initiatives impact on Service Licence conditions we looked to see how the BBC went about evaluating the likely impact of savings plans with respect to the BBC's performance measurement framework. The four components of the BBC's performance measurement framework, which it introduced in 2004, are set out in **Box 5**.

### BOX 5

#### The BBC's public value performance measurement framework for radio

**Reach:** the radio station should contribute towards the maintenance of combined BBC weekly reach at over 90 per cent by aiming to maintain its own *weekly reach*, particularly amongst its stated target audience. It should contribute towards 'on-demand' listening – for example, programmes that are available to the public via the internet after they have been broadcast.

**Quality:** audience *approval* of the radio station and perceptions of it as *high quality and innovative*. Also, the proportion of *originated programmes* across all hours.

**Impact:** audience perceptions of the radio station as *engaging and challenging*.

**Value for money:** the radio station's *cost per listener hour*.

*Source: National Audit Office, adapted from BBC Trust Service Licences*

**73** The BBC requires efficiency initiatives to be prioritised using the four elements of the performance framework in Box 5 – *reach, quality, impact* and *value for money*. The BBC told us that this had been done and that Controllers’ judgements were subject to internal challenge. As there is limited supporting documentation, there is not clear evidence that the public value framework has been applied in a systematic way.

**74** The BBC recognises that to measure the effect on performance as savings initiatives are implemented, performance needs to be measured from an agreed baseline. All stations have been required to identify performance baselines in Efficiency Technical Notes<sup>12</sup>, against which they will be held to account for the delivery of efficiency savings by the BBC Trust. The BBC has concluded that, given the data sources available to the BBC, it is neither cost effective nor feasible to measure the impact of specific initiatives on performance. The BBC therefore seeks to monitor performance at an overall station level.

- **Network stations** are using industry accepted measurements for measuring *reach* and *quality* and have developed baselines with reference to prior year data for both. They have still to establish measurements for *impact*, one of the four elements of the BBC’s public value performance framework.
- **Nations stations** have identified performance indicators and baselines for *reach, quality* and *impact*. The measures for *quality* and *impact*, however, do not reflect the full range of stations’ output. *Quality* will be measured as audience perception of “best for regional news” and *impact* as “reflects local interests”.

<sup>12</sup> Efficiency Technical Notes (ETNs) set out how efficiency gains will be measured in financial and performance terms. They enable the BBC to monitor progress towards the efficiency targets.

# APPENDIX ONE

## Service Licences for BBC radio stations

Radio Station	Service Licence remit	Availability
<p>BBC Radio 1</p> 	<p>The remit of Radio 1 is to entertain and engage a broad range of young listeners with a distinctive mix of contemporary music and speech. It should reflect the lives and interests of 15 to 29 year olds but also embrace others who share similar tastes. It should offer a range of new music, support emerging artists – especially those from the UK – and provide a platform for live music. News, documentaries and advice campaigns should cover areas of relevance to young adults.</p>	<p>Radio 1 should be available every day for general reception in the UK on FM, DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>
<p>BBC Radio 2</p> 	<p>The remit of Radio 2 is to be a distinctive mixed music and speech service, targeted at a broad audience, appealing to all age groups over 35. It should offer entertaining popular music programmes and speech-based content including news, current affairs, documentaries, religion, arts, comedy, readings and social action output.</p>	<p>Radio 2 should be available every day for general reception in the UK on FM, DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>
<p>BBC Radio 3</p> 	<p>The remit of Radio 3 is to offer a mix of music and cultural programming in order to engage and entertain its audience. Around its core proposition of classical music, its speech-based programming should inform and educate the audience about music and culture. Jazz, world music, drama, the arts and ideas and religious programming should feature in its output.</p> <p>The service should appeal to listeners of any age seeking to expand their cultural horizons through engagement with the world of music and the arts.</p>	<p>Radio 3 should be available every day for general reception in the UK on FM, DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>
<p>BBC Radio 4</p> 	<p>The remit of Radio 4 is to be a mixed speech service, offering in-depth news and current affairs and a wide range of other speech output including drama, readings, comedy, factual and magazine programmes. The service should appeal to listeners seeking intelligent programmes in many genres which inform, educate and entertain.</p>	<p>Radio 4 should be available every day for general reception in the UK on FM, Long Wave, Medium Wave in some parts of the UK, DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>
<p>BBC Radio 5 Live</p> 	<p>The remit of BBC Radio 5 Live is to be BBC Radio's home of continuous news and live sports coverage. It should aim to bring its audience major news stories and sports events as they happen, and provide context through wide-ranging analysis and discussion. Programming should be designed to inform, entertain and involve. The service should appeal to news and sports fans of all ages and from all ethnic backgrounds and areas across the UK.</p>	<p>BBC Radio 5 Live should be available every day for general reception in the UK on AM, DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>

Radio Station	Service Licence remit	Availability
<p>BBC Radio 6 Music</p> 	<p>The remit of BBC 6 Music is to entertain lovers of popular music with a service offering music from the 1960s to the present day. Its programmes juxtapose current releases outside the mainstream with earlier recordings, including music from the BBC Sound Archive. It should provide context for the music it plays, and support live music and new artists.</p>	<p>BBC 6 Music should be available every day for general reception in the UK on DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>
<p>BBC Radio 7</p> 	<p>The remit of BBC 7 is to provide speech-based entertainment. Its schedule should include comedy, drama, stories, features, readings and programmes for children. Most output should come from the BBC archive, but the station should commission some original content, particularly of types of output rarely found on BBC Radio. The station should also be the home of children's speech radio from the BBC.</p>	<p>BBC 7 should be available every day for general reception in the UK on DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>
<p>BBC 1Xtra</p> 	<p>The remit of 1Xtra is to play the best in contemporary black music with a strong emphasis on live music and supporting new UK artists. The schedule should also offer a bespoke news service, regular discussion programmes and specially commissioned documentaries relevant to the young target audience (15 to 24 year olds), particularly – although not exclusively – those from ethnic minorities.</p>	<p>BBC 1Xtra should be available every day for general reception in the UK on DAB digital radio and digital television platforms and it may be simulcast on the internet.</p>
<p>BBC Asian Network</p> 	<p>The remit of BBC Asian Network is to provide speech and music output appealing to British Asians, with a strong focus on news and current affairs. It should be primarily in English, but some programming should be provided in a range of South Asian languages. The primary target audience is British Asians under 35 but the station should also appeal to anyone with an interest in British Asian issues, music and culture.</p>	<p>BBC Asian Network should be available every day for general reception in the UK on DAB digital radio, Medium Wave in parts of the country (various frequencies), digital television platforms and it may be simulcast on the internet.</p>
<p>BBC Radio Ulster/ Foyle</p>  	<p>The remit of BBC Radio Ulster/Foyle is to be a speech-led service, covering a wide range of genres and reflecting all aspects of life and culture within the region. Its programming should combine extensive coverage of local issues, interests and events with coverage of national and international developments.</p>	<p>BBC Radio Ulster/Foyle should be available every day for reception across Northern Ireland on FM and more widely on DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>
<p>BBC Radio Wales</p> 	<p>The remit of BBC Radio Wales is to be a speech-led service for adults, covering a wide range of genres and reflecting the issues, events, culture and interests of the people of Wales. Programmes should focus on local and national concerns but also address matters of UK and international significance.</p>	<p>BBC Radio Wales should be available every day for reception across Wales on Medium Wave and FM and more widely on DAB digital radio and digital television platforms, and it may be simulcast on the internet.</p>

Radio Station	Service Licence Remit	Availability
BBC Radio Cymru 	The remit of BBC Radio Cymru is to be a comprehensive speech and music radio service for Welsh speakers, covering a wide range of genres and reflecting the issues, events, culture and interests of the people of Wales. Programmes should focus on local and national concerns but also address matters of UK and international significance.	BBC Radio Cymru should be available every day for reception across Wales on FM and more widely on DAB digital radio and digital television platforms, and it may be simulcast on the internet.
BBC Radio Scotland 	The remit of BBC Radio Scotland is to be a speech-led service for all adults covering a wide range of genres and reflecting the issues, events, culture and interests of the people of Scotland. In addition to local and national concerns, output should also address matters of UK and international significance from a Scottish perspective. BBC Radio Scotland should offer some highly targeted local programming, and support for BBC community stations.	BBC Radio Scotland should be available every day for general reception in Scotland on FM, Medium Wave and more widely on DAB digital radio and digital television platforms, and it may be simulcast on the internet.
BBC Radio nan Gàidheal 	The remit of BBC Radio nan Gàidheal is to deliver a comprehensive speech and music service for Gaelic speakers covering a wide range of genres and reflecting the issues, events, cultures and interests of the people of Scotland from a Gaelic perspective, and through the medium of the Gaelic language.	BBC Radio nan Gàidheal should be available every day for general reception across Scotland on FM and more widely on DAB digital radio and digital television platforms, and it may be simulcast on the internet.

# APPENDIX TWO

We carried out fieldwork for this report between June and October 2008, using the methods set out below, to examine what the BBC is doing to maximise the efficiency of radio production across its different stations. Specifically, we reviewed whether the BBC has effective procedures for delivering efficiency in radio production.

## Semi-structured interviews with station controllers and other key BBC radio personnel

We interviewed Jenny Abramsky (Director, Audio & Music, until September 2008), Tim Davie (Director, Audio & Music, from September 2008), and Pat Loughrey (Director, Nations & Regions).

We interviewed station Controllers and heads of departments for:

- Radio 1/1Xtra Asian Network
- Radio 2/6 Music
- Radio 3/Proms
- Radio 4/7
- Radio 5 Live Sports Extra
- Radio Resources
- Radio Speech Production
- BBC News

In addition, we interviewed senior staff for each of the three Nations in Nations and Regions, including in each case the overall Controller for the Nation and heads of individual radio stations for BBC Northern Ireland, BBC Scotland, and BBC Wales.

These interviews covered the BBC's approach to establishing the scope for efficiency savings, the use of cost comparisons, the application of the BBC's

## Methodology

performance measurement framework and the approach to identifying, prioritising and developing possible efficiency initiatives.

### Interviews with third parties

We interviewed stakeholders not examined in the study to gain wider views on radio production efficiency and the BBC:

- Head of BBC English Local Radio
- BBC World Service
- BBC Corporate Finance
- OFCOM
- Radio Centre
- Radio Academy
- Radio Independents Group

### Review of BBC documents

We analysed relevant BBC documents including:

- Efficiency Technical Notes setting out targets and broad delivery plans for each radio station
- papers relating to the process of identifying the scope for efficiency savings and the setting of efficiency targets
- BBC Audio & Music and Nations board papers
- BBC Trust and Corporate Finance guidelines on planning, delivery and measurement of efficiency savings plans
- BBC Radio Service Licences and Statements of Programming Policy
- papers relating to potential efficiency initiatives under consideration

## Collection and analysis of data on costs of producing BBC radio programmes

We performed cost analysis work based on a sample of programme data from the BBC's Proteus system, as used in the Magentum consultancy report 'Programme Price Benchmarking within the BBC' (November, 2007), with the aim of illustrating how benchmarking could be used to identify areas where there is scope for efficiency savings to be made.

The data sample contained cost and timing information for programmes on the BBC's analogue and digital Network stations and Nations stations. In addition, a number of other variables for each programme (e.g. genre, location of production, number of presenters/actors involved) were included. Some of the additional information was from Proteus and some was added by Magentum. The sample was of programmes over a three-month period in 2006-07, though where programmes were part of a long series the costs for the whole year were included. The sample used for this analysis covers 58 per cent of the BBC's radio broadcast hours in 2006-07; the majority of programmes outside of the sample constituted short series or one-off programmes that are not repeated.

We removed obvious data errors such as duplicate programmes and misclassifications. The BBC's outlier analysis was used to further identify and correct errors. For the purposes of comparability, programmes which have common elements have been analysed together. The majority of analysis has been within individual genres (e.g. drama, comedy, music).

Within genres we looked at all stations for which five or more distinct programmes of the genre were included in the sample, to provide a sufficient basis for comparisons. For each station, programmes were placed into order of cost per hour. We calculated the average programme cost (median) on the basis of the cost of a median hour of programming, with programmes weighted according to the number of hours for which they were broadcast, as well as the inter-quartile range of costs.

The medians and ranges for different stations for each particular genre of programming were used to illustrate both the differences in costs between stations and the ranges of costs within each station.

We also illustrated how programmes could be compared within genres using other differentiating factors to identify more specific cost differences. We determined the range and median cost of an hour of drama for each station, as above, separately for in-house productions and for

independent productions. We also calculated the median cost of an hour of drama for each different location where the BBC produces drama (e.g. Birmingham, Scotland).

## Commercial radio benchmarking

We discussed with a number of commercial radio stations whether they might provide information on the costs of producing programmes for their stations. Specifically we invited them to provide breakdowns of costs for breakfast and drive-time programmes on national and large regional stations, with the aim of comparing costs to equivalent programmes on BBC Radio. We do not audit the commercial stations but we analysed the data they provided to gain assurance that the costs included all elements in the BBC's costs such as presenters, staff, and overhead costs such as accommodation. For the information provided, we sought supporting calculations to allow us to determine if costs could be compared on a like-for-like basis with BBC programmes (e.g. whether depreciation of buildings was included). We obtained up to date information from the BBC on the staff and other costs of their programmes for these timeslots. We spoke with the following commercial organisations.

- Bauer Media
- GCAP – Global Media Group
- Guardian Media Group
- TIML Radio

We used the two sets of information to illustrate the similarities and differences between the costs, and types of costs, of programmes on BBC and commercial radio.

## Review of best practice in delivering, measuring and reporting efficiency savings

We drew upon existing guidance on the management of efficiency programmes to inform our understanding of good practice in delivering efficiency savings against which to compare the approach in BBC Radio. This included:

- Her Majesty's Treasury: Measurement of SR04 efficiencies – guidance on efficiency methodologies;
- National Audit Office Efficiency Toolkit (available at <http://www.nao.org.uk/efficiency/toolkit/index.htm>); and
- *The Efficiency Programme: A second review of progress, Volumes I and II*, HC 156 I & II, Session 2006-2007.





