



House of Commons

Committee of Public Accounts

**BBC outsourcing: the
contract between the
BBC and Siemens
Business Services: The
response of the BBC
Trustees to the
Committee's Thirty-
fifth report of Session
2006–07**

**First Special Report of
Session 2006–07**

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The Committee of Public Accounts

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Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Pam Morris (Secretary), and Alex Paterson (Media Officer).

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FIRST SPECIAL REPORT

The Committee of Public Accounts reported to the House on *BBC outsourcing: the contract between the BBC and Siemens Business Services* in its Thirty-fifth Report of Session 2006–07, published on 28 June 2007 as HC 118. The BBC's response was received on 10 October 2007, and is published below as an Appendix to this Report.

Appendix: The BBC's response

1. In the first year of the contract with Siemens, savings were £22 million, 38% lower than the BBC's original forecast. Contrary to the advice provided by the BBC to the Board of Governors when seeking approval for the deal, the annual savings achievable under the contract were not guaranteed. When the BBC Governors approved the White City property deal in 2001, costs totalling £60 million were excluded from the approval submissions. BBC management is responsible for ensuring that business cases in support of decisions are accurate and complete, and should establish robust quality assurance arrangements for all submissions on major expenditure decisions.

BBC Response

The Trust welcomes the NAO's acknowledgment that the BBC's savings in the first year of the 10 year contract were £22m. However, we recognise that the savings made so far through the Siemens contract, while substantial, are not fully in line with the figures reported to the Governors in September 2004, and that the term 'guaranteed savings', in the original submission to the Board was inexact.

Whilst the Governors' stated at the time the report was published that the revised savings profile would not have changed the investment decision, they indicated to BBC Management the importance of adequate controls and processes to ensure that information put to the Board, now the Trust, is full and accurate and that any subsequent amendments are reported to the Board.

All key BBC investment decisions are now subject to scrutiny by the BBC's Finance Committee, chaired by the Director General and attended by the Group Finance Director and the Director of Future Media and Technology. Additionally, all items of business that require approval by the Trust must be approved in advance by the Executive Board.

The Siemens contract was approved before the creation of a Governance Unit (now the Trust Unit) which provides the Trust with additional resources, independent of BBC Management, to examine investment proposals in detail and review their progress over time.

With regard to the White City development, the £60m referred to by the PAC was not part of the construction project, which was completed on time and within budget. This additional cost was known about at the time of the original investment case but was agreed separately. The BBC accepted the PAC's recommendation in June 2006 that total direct

project costs should be included in investment cases and took steps at that time to ensure that they were included in subsequent investments presented to the Governors and the Trust.

2. The BBC's estimates of the annual savings from the contract with Siemens have fluctuated widely from £21.8 million to £40 million. These widely varying estimates do not inspire confidence in the BBC's forecasting. To provide assurance about its latest estimate the BBC should:

- ask BBC Internal Audit to confirm the accuracy of the latest savings estimate;
- report regularly to the new BBC Trust on progress against the new target; and
- consider falling technology commodity prices when calculating and reporting savings to avoid overstating the benefits ascribed directly to the Siemens contract.

BBC Response

We do not agree that estimates of annual savings have fluctuated from £21.8m to £40m. £21.8m was not an estimate of annual savings for the term of the contract; it was the estimated savings for the first year of the contract only.

The increase in the estimated annual savings going forward to £40m (from the initial forecast of £27.5m) is due to the BBC identifying additional ways that the contract can and is delivering savings. This is a positive reforecast. The contract is highly complex and some of the implicit savings were omitted from the original savings projections. The NAO report acknowledges that "measuring cost reduction alone may not give the BBC a complete picture of financial benefits over the life of the deal (para 5)."

In response to the recommendations;

- Saving of £27.8 million in 06/07 was realised and accounted for in the BBC's financial statements and audited by KPMG.
- Director of Future Media and Technology reported the latest savings projection to the BBC Trust's Finance & Strategy Committee on the 4 of September 2007 as part of the overall development of the BBC's Six Year Financial Plan. This plan is subject to review by an external consultant.
- From 08/09 we are able to benchmark our technology commodity prices and thereafter we expect to avoid any overstated benefits ascribed directly to the Siemens contract. In addition, it should be noted that advances in technology make it very difficult to compare the price of a product at one point in time with its replacement 18 months later.

3. Although the BBC expects the contract with Siemens to deliver significant savings, many areas of the BBC are still buying technology services and commodities from other suppliers. The BBC should institute controls over services purchased by divisions through the contract so that technology services and commodities available through the technology framework contract are procured through the contract where they are available and offer better value for money than procurement outside the contract.

BBC Response

The BBC accepts this recommendation and, whilst it recognises that in order to secure value for money it may need to procure some services and commodities outside of the technology framework contract, controls have been put in place to ensure consistency of approach across the BBC. This work includes the centralisation of technology funding and new governance arrangements.

4. The contract with Siemens does not provide for the BBC to share profits if Siemens's return exceeds a specified level. For future contracts of this type the BBC should include a provision for profit sharing above an agreed level.

BBC Response

The contract with Siemens provides the BBC with the flexibility to renegotiate the price of the contract if the annual contract value exceeds a certain threshold (40% of defined areas) of the original baseline.

In addition, the contract also requires Siemens to propose a range of additional savings in years 4–10 of the contract. Whilst the BBC is not obliged to accept these proposals, it clearly would if the benefits outweighed any associated risk. Siemens has proposed a range of possible additional savings a year earlier than the contract required them to and work is ongoing to investigate the viability and impact of these proposals.

5. The BBC has chosen not to exercise its rights of open book access to check how profitable the contract is for Siemens. Benchmarking provisions, aimed at keeping the contract competitive, do not apply to a third of the services provided. For this and future outsourcing contracts the BBC should ensure the contractors' profits are not excessive through the robust enforcement of the terms of its contracts.

BBC Response

Open book accounting is an important feature in all the BBC's major outsourcing contracts and we utilise our open book access rights at different points in these contracts. The BBC knew from the procurement process that Siemens would be investing heavily in the early stages and decided that exercising the open book access rights would be of limited benefit. However, the BBC agrees that these access rights are important to protect its interests and has started to use them on major projects.

The Technology Framework Contract is explicit around profit margins and the BBC now has access to that material.

6. The BBC has been slow to introduce effective management of the contract. Even though it had a six-month transition period from the previous service provider to Siemens, the BBC did not put in place adequate arrangements to check the accuracy of invoices received, validate claimed performance levels or engage its senior management in driving the contract. From the outset, future outsourcing arrangements should include:

- senior management engagement in strategically important contracts;

- validation of performance information provided by the supplier;
- effective procedures to check the accuracy of supplier's bills; and
- contingency plans in the event of early contract termination.

BBC Response

The BBC accepts the PAC's conclusion. Whilst the BBC and Siemens both agree that the partnership has worked well to date, both parties also accepted at the time the report was published that a more active engagement of Board-level Executives was necessary to underline the importance of the partnership and align strategic objectives. The BBC has set up a Technology Partnership Board, chaired by the BBC's Director-General and attended by the Group Finance Director, the Director for New Media and Technology and the Siemens Executive Director to address this recommendation.

7. 60% of the key technology projects commissioned directly from Siemens in the first year of the contract suffered delays or went over budget. While the financial risk for those projects over budget was borne by Siemens, the opportunity cost of missed service improvements is felt directly by the BBC. The BBC should establish why projects have over-run to improve project delivery and disseminate lessons to those who commission and manage projects.

BBC Response

Whilst some delays and cost over-runs can be expected with technology projects, especially with the field-leading innovative projects that the BBC undertakes, the BBC accepts the PAC's recommendation that lessons must be learnt in order to improve project management. The new governance arrangements are designed to ensure this happens.

8. Following Michael Grade's departure from the BBC, the BBC had to put in place new mechanisms with him and with the Board of ITV to protect the confidentiality of BBC information. It is good practice for contracts to contain provisions protecting the BBC's intellectual property and the confidentiality of sensitive information and providing for cooling-off periods for departing senior staff. The Department of Culture, Media and Sport should formulate terms of appointment for BBC Trustees and the new Chairman of the Trust which contain adequate safeguards when individuals leave, including, for example, provision for an appropriate interval between departure and taking up positions with competitors.

BBC Response

The terms of appointment of BBC Governors were a matter for DCMS, and the Governors were not required to sign confidentiality agreements. However, following his departure Michael Grade gave a written undertaking of his commitment to protect the confidentiality of any sensitive information he had access to during his time as Chairman.

DCMS are also responsible for setting the terms of appointments to the Trust. However, following Michael Grade's departure, the Trust voluntarily introduced its own arrangements within a Code of Practice to make explicit the confidentiality requirements

on Trustees. This includes a requirement for all new Trustees to sign a confidentiality agreement. The Code of Practice also contains a ‘cooling off’ period of 3 months following a Trustee’s departure and all Trustees have signed up to both of these provisions.

9. In spite of the new governance arrangements for the BBC, it is still not subject to full independent scrutiny by the Comptroller and Auditor General on behalf of Parliament.

While the Comptroller and Auditor General now has an improved role in discussing and suggesting studies for the BBC Trust’s value for money programme, the Trust retains the last word in determining which topics are subject to value for money examinations. The Comptroller and Auditor General should have the same rights of access to the BBC as to other publicly funded bodies enabling him to identify and select subjects for examination and report to Parliament independently of the BBC.

BBC Response

Under the new Charter the Trust has an explicit duty to commission value for money reports. However, ensuring value for money for the licence fee payer is not the Trust’s only duty—protecting the independence of the BBC is also one of its key Charter responsibilities and the Trust believes that the current arrangements with the NAO allow both duties to be satisfactorily fulfilled. The Trustees continue to explore ways in which the relationship with the NAO can continue to be developed to mutual benefit.

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