



House of Commons

Committee of Public Accounts

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# **BBC Procurement: The BBC Trust's response to the Nineteenth Report from the Committee of Public Accounts**

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**Third Special Report of Session 2007–08**

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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), Emma Sawyer (Senior Committee Assistant), Pam Morris (Committee Assistant), Anna Browning (Committee Secretary) and Alex Paterson (Media Officer).

### Contacts

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# THIRD SPECIAL REPORT

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The Committee of Public Accounts reported to the House on *BBC procurement* in its Nineteenth Report of Session 2007–08, published on 13 May 2008 as HC 221. The BBC's response was received on 15 July 2008, and is published below as an Appendix to this Report.

## Appendix: The BBC's response

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### Introduction

In its recent report the National Audit Office (NAO) concluded that the BBC had adopted good procurement practices to significantly improve the way it buys goods and services to deliver better value for money from procurement.

The BBC Trust is committed to ensuring that the BBC delivers value for money for licence fee payers in all its activities and will continue to look at ways in which the BBC's procurement practices can be further improved so that the BBC Executive can deliver even greater savings in the future.

Pursuant to its duties of oversight of the BBC, the BBC Trust has provided this response. However, where matters raised fall into the operational scope of the Executive Board, the Trust has requested that the Executive provide the required response.

The Trust is satisfied that the responses given below by the Executive are appropriate given the issues raised in the PAC's conclusions and recommendations.

**1. The BBC is achieving significant procurement savings, but could secure more in a number of areas.** Savings across the range of goods and services bought in 2006–07 varied from less than 3% to more than 12% and conceal increased spending in some categories such as the use of temporary staff. Overall 5% was saved, but in five of the BBC's seven categories of spending the savings were lower. For example, the BBC spent some £232 million in the Production Resources and Technology and Broadcast Equipment categories, but saved £7 million (3%). Within six months the BBC should:

- assess the scope for savings in those areas where it has recently saved least, such as Production Resources, Technology and Broadcast Equipment and Marketing Services;
- check whether planned reductions in the use of temporary staff have been achieved, and whether having a managed service system has reduced costs of employing those temporary staff that are needed; and

- identify what areas of procurement spending should fall in line with planned reductions in staff numbers.

### **BBC Executive Response**

During 07/08, savings of £13.7m were delivered in the production resources category which represents 9.5% of total spend. Savings delivered in 07/08 for the technology and broadcast equipment and the marketing services categories as a percentage of spend were 4.2% and 5.6% respectively. This is the seventh year of savings within these areas although the lower rates achieved does reflect the maturity of these categories.

The planned reduction to £35m for the use of temporary staff has been achieved. Furthermore, the cost of employing temps has been reduced by 6%, which in part reflects lower agency mark ups due to having a managed service system.

There are a number of areas where charging is based on activity related to headcount—examples include: finance and accounting services; HR services; and provision of technical equipment.

**2. The BBC could save money by aggregating its requirements and reducing its supplier management costs.** Some £207 million a year of the BBC’s spending is not through centrally negotiated contracts, with some £26.5 million of this spread across 14,000 suppliers. Its 38,000 exceptional purchases—for goods and services not available through central contracts—cost six times the average to process. While enabling a wide and geographically dispersed range of suppliers to compete for its business, the BBC should:

- establish clear criteria for assessing which areas of spending should and should not be aggregated into central contracts;
- remind all purchasing staff, including those on temporary contracts, of the availability and cost advantages of central contracts, and the high cost of exceptional requests; and
- provide feedback to those individuals, and their managers, who persistently fail to use the most appropriate procurement route and secure explanations.

### **BBC Executive Response**

Whilst there is always more that could be done to further centralise suppliers, which can reduce central costs, the NAO’s report notes “that there is a balance to be struck between centralising contracts and keeping the supply base open, competitive and innovative in order to attract smaller businesses”.

All staff, including production staff on location, are encouraged to use the central contracts wherever possible. However this is not always the case and a number of criteria are considered in assessing whether or not it is appropriate to source a contract locally rather than via the centralised route. These include:

- geographical location;
- availability of supply;
- where it will deliver best value for the BBC.

There is a very robust centralised procurement system on which all staff, including those on temporary or freelance contracts, are trained before use. On receipt each exceptional request is reviewed. Where appropriate, staff are advised of the availability of preferred suppliers and the request is denied so that the user can use the correct channels.

Where there is no appropriate preferred supplier the exceptional request is accepted and set up on the system. However a monthly report of exceptional requests is provided to the sourcing and divisional purchasing teams for follow up with purchasing staff.

**3. The BBC has been paying for unused licences for its electronic purchasing system.** In the light of the Comptroller and Auditor General's report, the BBC has now introduced quarterly reviews and withdrawn 780 licences from staff who were not regularly using the system. The BBC should review all systems it operates under licence to establish whether it is paying for other licences that are not being used.

### **BBC Executive Response**

The SAP purchasing system is owned and reviewed by BBC Finance on a quarterly basis, when users are removed from the system after an extended period of non use.

Within the Future Media and Technology division, for major licensing agreements with flexible maintenance arrangements (such as those with Microsoft), the BBC annually reviews the licence usage and increases or decreases its licence volume according to the terms of the vendor's End User Licensing Agreement.

Where flexible maintenance arrangements are not available (such as with Oracle) the BBC maintains a central list of licence allocations in order to manage the re-deployment of licences where possible.

All commercial off-the-shelf applications installed on the 'BBC Standard Desktop' are monitored regularly. Any applications installed that show as not being used for 6 months or more are removed and made available to other business areas of the BBC as appropriate.

**4. Despite the savings available from using eAuctions, the BBC had run only five in 2007–08.** This Committee has previously highlighted the potential price savings from using eAuctions and the BBC is saving £3 million a year (14%) from the 19 it conducted in the two years to April 2007.<sup>1</sup> The BBC should look for further opportunities to use

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<sup>1</sup> Committee of Public Accounts, Thirty-third Report of Session 2006–07, *Assessing the value for money of OGbuying.solutions*, HC 275, page 6, para 11

eAuctions. To drive that process the BBC should establish criteria, for example when its requirement is for similar goods, to identify when eAuctions are appropriate.

### ***BBC Executive Response***

The BBC recognises the value of conducting eAuctions and where the right circumstances are present an eAuction will be run. A total of 25 events have been run to date, 6 of which were conducted during 07/08. There are limited new opportunities to run eAuctions each year; during the planning stage for all procurements and as part of the business case sign off the suitability of eAuctions is assessed based on the following criteria:

- suitability and comparability of goods and services across the supply base;
- size and number of suppliers involved in the tender; and
- suitability of the market, for example dependency on key talent or unique services.

**5. The benefits of the BBC's procurement arrangements may be lost when activities are outsourced.** Some 45% of BBC spending is on services outsourced to other providers. To get best value from this spending the BBC should satisfy itself that these suppliers are using good procurement practice, and look for opportunities for the BBC and suppliers to aggregate their buying power to the benefit of both. The BBC should, for example, benefit from any reduction in the costs incurred by the providers of its outsourced services.

### ***BBC Executive Response***

Most of the BBC's strategic contracts include as part of the governance process the obligation on suppliers to demonstrate continuous improvement over the life of the contract to reflect for example future lower cost of IT and cheaper supply arrangements. There are profit share provisions to encourage suppliers to deliver cost savings opportunities some of which will come from their supply base. All contracts include open book provisions.

The National Audit Office are currently conducting a review in order to ascertain the Value for Money achieved from the strategic contracts.

**6. Despite the BBC Trust having now operated for a year, little has changed in how the value for money of BBC activities are reviewed and the BBC spending remains closed to proper independent scrutiny.** It is still the case that the Trust alone decides what value for money reviews are conducted on how the BBC spends the public's money. We remain convinced that the only effective way to provide proper scrutiny is for the Comptroller and Auditor General to have the same powers to identify and undertake studies that apply to the other value for money work we examine. As the Trust has never rejected a topic suggested by the Comptroller and Auditor General, we see no reason why it should object to the Comptroller and Auditor General having such powers.

***BBC Trust Response***

The Trust has a responsibility to ensure that value for money is achieved by the BBC through its spending of the licence fee. It also has an explicit duty to safeguard the independence of the BBC. The Trust believes that the arrangements with the NAO—enshrined in the Royal Charter & Agreement—allow these two equally important obligations to be properly fulfilled.

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