



## Managing our finances

The BBC must account for how it responsibly uses the licence fee and other income

# Review of the Managing Director, BBC Finance & Operations



“This year we have built on our impressive track record of delivering efficiencies whilst maintaining the production of outstanding programmes and services. The BBC is currently well placed to meet its targets as well as to continue to invest in its future.”

**Anne Bulford**

## Delivering efficiencies whilst prioritising our most valued output

The BBC has just completed its fourth year with the colour licence fee at £145.50 and is in the middle of delivering a major efficiency project, Delivering Quality First (DQF), which is on track to deliver an annual total of £700million in annual recurrent savings. Staff across the BBC continue to work hard to deliver these efficiencies, which allows the BBC to fund a range of new obligations. This year has been one of a continued focus on successfully delivering efficiencies whilst ensuring our most creative outputs are prioritised.

In 2013/14, the BBC started to fund a number of new obligations from the licence fee, specifically Broadband rollout, S4C, Local TV and BBC Monitoring, at a combined cost of £250million. The delivery of the first £374million of the £700million DQF savings target has meant that these costs have been absorbed without the need to utilise the BBC's cash balances. As a result we start 2014/15 in a strong position with sufficient cash reserves to fund the World Service (at an annual incremental funding requirement of £245million from 1 April 2014) without compromising the quality or range of our output.

The delivery of these savings has also given the BBC the foundation from which to make a number of key strategic decisions this year for our licence fee funded activities, targeting increased investment in the strategic priorities announced by the Director-General in October 2014.

## A track record of delivering efficiencies

DQF builds on the BBC's long track record of successfully delivering savings and meeting efficiency targets. Across our Value For Money (2005-2008) and Continuous Improvement (CI) (2008-2013) programmes, we delivered nearly £1billion of real terms recurring savings, and these have already been reinvested in our content and essential infrastructure. This has been achieved whilst maintaining focus on the quality of services provided, optimising value for money rather than simply maximising savings in order to become the cheapest provider.

CBeebies presenter Cat Carey



Cast of *Ambassadors*



2012/13 was the first year of our DQF programme, which has an annual savings target of £700million by 2016/17. We planned to achieve a significant proportion of the savings by this year and progress has been made with audited savings of £374million delivered. We are on track to achieve the full £700million by 2016/17.

We are doing this by taking advantage of new technologies and ways of working to reduce costs, increasing commercial income, and addressing concerns around talent costs and top management pay and expenses.

In delivering our savings we have sought to protect our production activities as much as we can. We have found productivity savings through the reprocurement of key supplier deals, by improving our asset utilisation and by controlling talent spend. We have exited both Television Centre and our White City building. We have streamlined our facilities management workflows and invested in new systems and processes to deliver savings in our Finance division.

#### Enhancing and simplifying our governance structure

As an organisation, we have demonstrated that we are able to optimise our cost base and deliver against efficiency targets set, however, we need to go further in order to be confident that the BBC is a well-run organisation. We recognise that there have been failures in the past, such as the Digital Media Initiative (DMI) and in the level of some individual severance payments made to former executives and senior managers.

We have learned lessons from these and made changes to our governance structures and processes to deliver a simpler, more creative BBC. Since April, we have implemented a new way of working with the BBC Trust with a clearer definition of individual responsibilities. The Trust is now focussed on challenging the strategy for the BBC and making sure we are answerable to licence fee payers whilst the Executive takes full responsibility for the running of the BBC. This means a reduction in meetings with fewer, but more effective updates to the Trust and ensuring the Executive Board are the key decision makers.

In addition, we have simplified our meeting structures to streamline decision making and reduce bureaucracy. As an organisation, we will be much clearer on how decisions are made and who in the organisation is accountable for them.

We now have in place a cap of £150,000 on all severance payments and have also removed pay in lieu of notice in all but the most exceptional of circumstances. Dame Fiona Reynolds, our Senior Independent Director, has reviewed our severance deals and her findings have been published online: [bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc\\_review\\_severance\\_payments\\_2013\\_14.html](http://bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc_review_severance_payments_2013_14.html).

#### Breakdown of UK PSB Group expenditure 2013/14

	2013/14 £m	%	2012/13 £m	%
Service licences – direct content spend	2,315	61	2,443	64
Other direct content spend	91	3	87	2
Property and technology	271	7	357	9
Distribution	217	6	222	6
Other infrastructure and support	325	9	318	9
LF collection costs	102	3	111	3
Digital Switchover	7	–	57	1
Broadband rollout / S4C / Local TV	242	6	–	–
Costs to fund other income	230	6	232	6
Lease cost reclassified	(81)	(2)	(82)	(2)
Restructuring costs	10	–	23	1
Pension deficit payments	49	1	49	1
<b>Total</b>	<b>3,778</b>	<b>100</b>	<b>3,817</b>	<b>100</b>

#### Future challenges

The delivery of efficiencies, both through the ongoing DQF programme and the historical CI programme, means we start 2014/15 in a strong position with sufficient cash reserves to meet our immediate obligations. As an organisation however, we face new competitive pressures in an evolving media landscape and structural change in audience behaviour, and this means the BBC's strategic context is changing. We have set ourselves three overall goals to address these challenges and stay ahead of the trend:

- innovating online
- making the most creative content and
- serving all our audience

This will enable us to continue to build on our track record of delivering savings pushing both efficiency and creativity as hard as we can. We must, however, be mindful that given our constraints and financial risks, these savings alone cannot fully fund the investments needed and consequently, difficult decisions in relation to scope reductions have to be made. The most significant of these is the proposed move of the BBC Three linear channel to an online platform only, which will be subject to a public consultation in 2014, as part of a public value test undertaken by the BBC Trust.

# Financial overview

## How we use the licence fee

The way in which the BBC is funded places significant responsibilities on the BBC as an organisation. Specifically, it has to:

- provide value for money by focusing expenditure on the programmes and services the public most wants from the BBC;
- ensure that its output is then delivered as cost efficiently as possible;
- ensure effective and efficient collection of the licence fee; and
- maximise funding from other sources, most significantly BBC Worldwide, the BBC's commercial trading operation, in a manner consistent with the terms of its Charter and other obligations.

### Adjustment to last years published results

Changes in accounting standards for pension costs mean our comparative figures have been restated this year. The change predominantly impacts the interest calculation on our plan assets and means that our previously reported surplus before taxation of £367million has reduced to £196million and the previously reported net liabilities position of £60million has improved to a net assets position of £40million.

### Results for the year

Our results this year once again show that we have successfully managed the financial challenges facing us so as to ensure a sound base for meeting our future commitments and delivering our strategic ambitions. Disposal of commercial businesses including Lonely Planet mean total income for the year has fallen from £5,102million to £5,066million, but this was offset by lower overall operating costs resulting in group surplus of £154million for the year (2012/13 restated: £157million). Through our efficiency programmes and a step-down in activity following the London Olympics last year, our operating costs have fallen from £4,808million to £4,722million.

## Summary consolidated income statement

For the year ended 31 March 2014

Income statement classification	What is it?	2014	Restated 2013	What has happened this year?
		£m	£m	
<b>Licence fee income</b>	The total of licence fees collected	<b>3,726</b>	3,656	Reduced Digital Switchover funding and limited household growth
<b>Other income and revenue</b>	Commercial (mainly BBC Worldwide) income and Grant-in-Aid for World Service	<b>1,340</b>	1,446	Fall in sales in Worldwide partially offset by Global News
<b>Total income</b>		<b>5,066</b>	5,102	
<b>Operating costs</b>	The cost of producing all content and of running the BBC	<b>(4,722)</b>	(4,808)	Fall reflecting additional cost of Olympics last year
<b>Exceptional impairment of tangible and intangible assets</b>	One-off significant item	–	(52)	Prior year write off of DMI
<b>Restructuring costs</b>	Sums provided to fund future efficiency initiatives	<b>(16)</b>	(44)	Release of accounting provision in 2013/14 as a result of lower actual restructuring costs than originally budgeted for completed moves
<b>Total operating costs</b>		<b>(4,738)</b>	(4,904)	
<b>Share of results of associates and joint ventures</b>	Our share of the profit of the businesses where we control less than 50%	<b>23</b>	23	
<b>Gain on sale of operations and disposal of fixed assets</b>	Profit on asset disposals	<b>4</b>	111	Profit last year principally from the sale of Television Centre and Lonely Planet
<b>Other gains and losses</b>	Share of net liabilities of joint ventures	<b>(17)</b>	–	The BBC's accounting share of the net liabilities of UKTV not previously recognised
<b>Net financing costs</b>	The net interest on the BBC's pension assets and liabilities, interest on loans and fair value movements on derivatives	<b>(149)</b>	(136)	Higher accounting charge for the BBC pension plan liabilities
<b>Tax</b>	The net tax liability of the BBC on its taxable profits	<b>(35)</b>	(39)	
<b>Group surplus for the year</b>		<b>154</b>	157	

Due to the adoption of IAS 19 (revised) during 2014, the 2013 comparatives have been restated. Further information is available in the financial statements.

### Income

Total licence fee income collected increased by £16million from £3,706million to £3,722million as a result of modest household growth.

Licence fee income is adjusted for the costs of the Digital Switchover (DSO) initiative to give net licence fee income. In the year, net licence fee income increased by £70million to £3,726million. 2012/13 was the final year of DSO, although there was some limited ongoing activity this year where none was originally scheduled. Savings against DSO funding are paid over to the Government, and deducted from our income. In 2012/13 the savings amounted to £50million with a £4million carry over of cost into 2013/14.

	2013/14 £m	2012/13 £m
Licence fee collected	3,722	3,706
DSO overspend/(savings)	4	(50)
Net licence fee	3,726	3,656

### Licence fee collection

Effective financial management is a key part of the BBC's unique relationship with its audiences. This includes spending the licence fee efficiently and collecting a television licence fee from everyone who is required to buy one.

Collection costs have reduced as the new contract with Capita continues to deliver savings – costs were £102million this year, down from £111million last year, falling below 3% of licence fee collected for the first time. Total cost savings of £220million will be delivered over the eight years of the contract, which started in 2012, releasing funding to be spent on our programmes and services.

CBBC's *My Life Race for Rio* featuring Reece, Hattie and Julia who are all trying to gain a place in the Paralympics



### Licence fee statement

As in previous years, we also prepare a licence fee revenue statement audited by the National Audit Office (NAO). This account sets out the amounts we collected in the year and paid over to HM Government. Alongside their audit work, the NAO examines our collection arrangements and reports on them to Parliament. More on the licence fee revenue statement can be found on our website: [bbc.co.uk/aboutthebbc](http://bbc.co.uk/aboutthebbc).

### Commercial trading

The licence fee is supplemented by income from the commercial exploitation of licence fee funded content and infrastructure through three commercial subsidiaries – BBC Worldwide, BBC Global News and BBC Studios and Post Production (S&PP).

	Headline income		Headline result	
	2013/14 £m	2012/13 £m	2013/14 £m	2012/13 £m
UK PSB Group	269	277	n/a	n/a
BBC Worldwide	1,042	1,116	157	156
BBC Global News	101	92	(7)	(1)
S&PP	29	38	(3)	(1)

Cast of *WIA* inside New Broadcasting House



### BBC Worldwide

BBC Worldwide exists to support the BBC public service mission and to maximise income to the Group on its behalf. It returned £174million to the BBC in 2013/14, up from £156million in 2012/13. This was primarily through investment in BBC commissioned content and dividends. Returns from BBC Worldwide to the BBC support an ongoing commitment to manage financial performance sustainably, protecting the interests of licence fee payers.

Despite mixed market conditions and a significant adverse impact from foreign exchange, BBC Worldwide's overall financial performance was good. Headline sales of £1,042million (2012/13: £1,116million) declined by 7% (or 5% after adjusting for exchange rate movements), principally due to disposals and a new intra-BBC revenue share arrangement for BBC.com. Headline profit of £157million (2012/13: £156million) was up 1% (or 12% if exchange rate movements are discounted), with headline operating margin improving to 15% (2012/13: 14%). Revenue growth was strongest across sales to digital clients, advertising sales and in emerging markets. BBC Worldwide's best performing programme in the year was *Sherlock* Series 3. The *Doctor Who* 50th anniversary episode was also a global highlight, transmitting in 15 languages in 98 countries, with 3D screenings in 23 countries, and generating unprecedented interest amongst fans across the world.

BBC Worldwide entered a new phase this year, with a new organisational structure and a new strategy. BBC Worldwide's ambition is to grow the BBC brand around the world, increasing its global presence and future profitability, resulting in sustainable and rising returns to the BBC and the UK creative industry. BBC Worldwide announced that it will concentrate on three core areas: increasing spend on and delivering value from content, developing and rolling out a focused portfolio of new global BBC genre brands and consolidating global digital services.

In its first year, the new BBC Worldwide strategy showed good signs of progress:

- content investment was £201million (2012/13: £176million), reaching BBC Worldwide's target of £200million one year early. It continued to invest in the core BBC genres of drama, natural history and factual entertainment. Major investments included *Atlantis*, *Doctor Who*, *Orphan Black*, *The Musketeers* and *Hidden Kingdoms*.
- three new global genre brands were announced by BBC Worldwide: BBC First, BBC Earth and BBC Brit. Each will showcase premium content from the three core genres of, respectively, drama, premium factual and factual entertainment. Plans for a mix of linear and over the top launches in lead markets in the new financial year, prior to wider roll out, are underway.
- in digital, regulatory approval was received for the launch of BBC Store, to be funded and operated by BBC Worldwide. BBC Store will launch in the UK next year. Meanwhile, BBC Worldwide announced plans for a series of investments in BBC.com, and the end of the pilot of its Global BBC iPlayer app, as it focuses on the BBC.com site. This will help support the BBC in achieving a global reach of 500 million per week by 2022.

The business moved to regional operation at the start of the year, further increasing its focus on international markets. Successful international expansion included the launch of new channels, with BBC Knowledge marking a debut in Vietnam, as well as a Memorandum of Understanding signed with China's state broadcaster CCTV for the development of natural history titles.

BBC Worldwide is also an important source of revenue for UK independents, and in the year paid £116million (2012/13: £91million) to independent rightsholders in upfront rights investment, profit share and royalties – the vast majority of which was in the UK.

The Queen behind the screen of the BBC newsroom at the Royal opening of New Broadcasting House



### BBC Global News

BBC Global News operates two commercially funded international news services, BBC World News and bbc.com, and saw a strong increase in use of its services during 2013/14. Digital reach for News content was up 25%, with bbc.com achieving a record 1.3 billion page views in March from 96 million unique browsers, whilst TV distribution increased to 388 million households. BBC Global News services were the main driver of increased audiences to the BBC's World Service Group: the total weekly audience grew from 256 million to 265 million. The business has continued to nurture key on-screen talent, and seen great success in the social media arena as BBC World News has welcomed its five millionth Facebook fan and been identified as the most shared news brand on Twitter. As a result of the business' continued planned investment programme, building on the relaunch of the BBC World News Channel in January 2013, the business returned an operating loss close to plan of £7million in 2013/14 (2012/13: loss of £1million).

### Studios and Post Production

It has been a transformational year for Studios and Post Production (S&PP), moving from its historic home at Television Centre and successfully establishing operations at new core locations – Elstree Studios and South Ruislip – whilst new studios are being built at Television Centre.

The company delivered an impressive range of creative projects for numerous broadcasters, media companies and content owners – including full studios and post production services on *Strictly Come Dancing*, *EastEnders*, *Children in Need* and Channel 4's Winter Paralympics. It hosted a variety of independent productions including Sky's *A League of Their Own* and ITV's *The Chase* and built new production facilities for Channel 4's *Deal or No Deal* in Bristol. In addition, BBC S&PP's award winning Digital Media Services team digitally restored the original black and white televised film footage of the Queen's Coronation and cult classic *The Professionals*, as well as completing many other media handling projects.

Whilst the company has achieved £29million in sales from its new locations and smaller studio footprint, it has delivered an operating loss of £3million for the year against a £1million operating loss the previous year (after accounting for BBC pension deficit contributions but before exceptional items). A level of loss was always budgeted for this year of relocation and changing operations and is being funded through S&PP cash reserves which were retained in anticipation.

Radio 5 live commentators Jonathan Agnew and Geoffrey Boycott at the Old Trafford Ashes Test, July 2013



BBC Two drama *Line of Duty*



## Expenditure

## UK Public Services Broadcasting (UK PSB) Group expenditure

2014 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m	2013 Total £m
BBC One	1,023.7	51.0	236.4	–	1,311.1	1,463.2
BBC Two	400.0	28.8	93.0	–	521.8	543.1
BBC Three	81.0	5.9	22.4	–	109.3	121.7
BBC Four	48.9	4.3	12.7	–	65.9	70.2
CBBC	76.1	5.5	19.3	–	100.9	108.7
Cbeebies	28.7	4.6	9.3	–	42.6	43.0
BBC ALBA	5.2	1.3	1.5	–	8.0	7.8
BBC News Channel*	48.7	8.0	9.5	–	66.2	61.5
BBC Parliament	1.7	7.2	1.5	–	10.4	10.5
BBC Red Button	13.5	21.9	4.1	–	39.5	41.8
<b>Television</b>	<b>1,727.5</b>	<b>138.5</b>	<b>409.7</b>	<b>–</b>	<b>2,275.7</b>	<b>2,471.5</b>
BBC Radio 1	40.2	5.8	6.8	–	52.8	54.2
BBC Radio 2	47.8	5.7	7.3	–	60.8	62.1
BBC Radio 3	40.8	5.8	10.1	–	56.7	54.3
BBC Radio 4	91.8	9.0	19.8	–	120.6	122.1
BBC Radio 5 live	49.2	5.7	11.6	–	66.5	76.0
BBC Radio 5 live sports extra	2.4	1.4	1.4	–	5.2	5.6
BBC Radio 1Xtra	5.6	1.6	2.6	–	9.8	11.8
BBC Radio 6 Music	7.9	1.6	2.5	–	12.0	11.5
BBC Radio 4 extra	4.1	1.6	1.7	–	7.4	7.2
BBC Asian Network	6.6	1.8	2.4	–	10.8	13.0
BBC Local Radio	115.4	10.8	23.4	–	149.6	152.5
BBC Radio Scotland	22.6	3.2	6.4	–	32.2	32.7
Radio nan Gàidhail	3.8	1.4	1.0	–	6.2	6.3
BBC Radio Wales	13.4	1.4	3.8	–	18.6	18.8
BBC Radio Cymru	11.7	1.6	3.5	–	16.8	17.6
BBC Radio Ulster/BBC Radio Foyle	17.4	1.3	4.9	–	23.6	23.8
<b>Radio</b>	<b>480.7</b>	<b>59.7</b>	<b>109.2</b>	<b>–</b>	<b>649.6</b>	<b>669.5</b>
<b>BBC Online**</b>	<b>106.5</b>	<b>18.8</b>	<b>49.1</b>	<b>–</b>	<b>174.4</b>	<b>176.6</b>
<b>Spend regulated by service licence</b>	<b>2,314.7</b>	<b>217.0</b>	<b>568.0</b>	<b>–</b>	<b>3,099.7</b>	<b>3,317.6</b>



## Total UK PSB Group expenditure

2014 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m	2013 Total £m
<b>Spend regulated by service licence</b>	<b>2,314.7</b>	<b>217.0</b>	<b>568.0</b>	<b>–</b>	<b>3,099.7</b>	<b>3,317.6</b>
Licence fee collection costs	–	–	–	102.1	102.1	111.1
Orchestras and performing groups	22.8	–	5.1	–	27.9	29.2
S4C	23.4	–	5.7	76.3	105.4	30.0
Development spend	45.2	–	10.0	–	55.2	50.5
BBC Monitoring	–	–	–	7.2	7.2	–
UK PSB Group pension deficit reduction payment	–	–	–	48.6	48.6	48.6
Costs incurred to generate intra-group income	–	–	–	169.3	169.3	164.8
Costs incurred to generate third-party income	–	–	–	60.6	60.6	67.4
<b>Other content related spent</b>	<b>91.4</b>	<b>–</b>	<b>20.8</b>	<b>464.1</b>	<b>576.3</b>	<b>501.6</b>
Restructuring costs	–	–	–	9.6	9.6	23.1
<b>Total UK PSB Group content expenditure</b>	<b>2,406.1</b>	<b>217.0</b>	<b>588.8</b>	<b>473.7</b>	<b>3,685.6</b>	<b>3,842.3</b>
Digital Switchover (Digital UK Limited)	–	–	–	–	–	12.5
Digital Switchover (DSHS Limited)	–	–	–	7.2	7.2	44.4
Local TV ***	–	–	–	16.0	16.0	–
Broadband rollout****	–	–	–	150.0	150.0	–
<b>Total UK PSB Group expenditure</b>	<b>2,406.1</b>	<b>217.0</b>	<b>588.8</b>	<b>646.9</b>	<b>3,858.8</b>	<b>3,899.2</b>
Lease reclassification****	–	–	–	(81.0)	(81.0)	(81.9)
<b>UK PSB Group expenditure</b>	<b>2,406.1</b>	<b>217.0</b>	<b>588.8</b>	<b>565.9</b>	<b>3,777.8</b>	<b>3,817.3</b>

\* Included within BBC News channel are production costs of £26.8million, Newsgathering costs of £21.2million and other costs of £0.7million (2013: production costs of £27.2million, Newsgathering costs of £17.8million and other costs of £0.2million).

\*\* BBC Online spend is monitored by annexe (relating to editorial areas of the service). Non-annexe spend covers costs relating to central editorial activities such as the BBC Homepage, technologies which operate across the service and overheads. The spend for each annexe was: News, Sport & Weather £47.8million (2013: £43.8million), Childrens £9.3million (2013: £8.5million), Knowledge & Learning £15.7million (2013: £18.7million), TV & iPlayer £11.1million (2013: £12.2million) and Audio & Music £11.7million (2013: £13.3million), giving a total annexe spend of £95.6million (2013: £96.5million). Non-annexe spend was £10.9million (2013: £6.5million).

\*\*\* Under the terms of the latest licence fee agreement, The BBC has committed to contribute funding toward broadband rollout across the UK and funding for the development of Local TV channels.

\*\*\*\* In order to reflect the full cost of UK PSB Group expenditure by service, finance lease interest is included, although it is not included in the Group operating expenditure.

## Infrastructure and support costs are made up of:

	2014 £m	2013 £m
Property	141.2	181.6
HR and training	38.6	45.4
Policy and strategy	9.1	12.0
Finance and operations	70.3	67.7
Marketing, audiences and communication	71.9	68.7
<b>Total central costs</b>	<b>331.1</b>	<b>375.4</b>
Technology	130.3	175.1
Libraries, learning support and community events	32.0	33.6
Divisional running costs	62.7	64.5
BBC Trust Unit	12.0	11.9
Other	20.7	14.9
<b>Total infrastructure/support costs</b>	<b>588.8</b>	<b>675.4</b>

### World Service

2013/14 was the final year of Foreign & Commonwealth Office (FCO) funding for the World Service prior to becoming licence fee funded. As well as delivering planned savings of £12million in the year a further reduction in Grant-in-Aid income of £2million on £240million from the FCO was mitigated by savings in restructuring costs and accommodation spend.

After its move to New Broadcasting House last year and its co-location with BBC News teams, the organisation will continue to pursue building synergies and therefore savings with the wider BBC.

### Focusing spend

The BBC concentrates its expenditure on the production of programmes and other content and its delivery to audiences and users, and the essential infrastructure to support this. Year-to-year spend can vary significantly because of the cycle of major sports events, and total content spend reduced by 4.9% to £2,406million (2012/13: £2,530million) this year which was largely due to additional investment in our coverage of the London Olympics last year.

No service licences spent above the regulated baseline threshold during 2013/14. BBC Parliament service licence was the only service to underspend by more than 10% as it delivered additional efficiency savings, especially in its overheads, without compromising editorial performance.

The BBC must invest in technology and property infrastructure to enable new ways of working which will deliver both enhanced content and financial efficiency savings to fund the BBC's DQF strategy. Last year the write down of DMI increased our expenditure for these two areas to £357million, and expenditure this year is lower at £271million. This is to be expected given the historical spend on technical infrastructure in MediaCity UK and in New Broadcasting House, the financial benefits of which continue to be seen. Our expenditure on all infrastructure and support costs reduced by nearly 13% this year, as it fell from £675million to £589million. An analysis of these costs are set out in the table on page 123.

### Delivering efficiencies

Halfway through the DQF programme, more than half of the savings target of £700million has been delivered with savings to date of £374million, higher than our targeted figure for this point of £367million.

Our annual savings achievement is reviewed by our auditors, KPMG LLP. It will also be examined by the NAO in 2014/15 following up on their report, of November 2011, which commended the way the BBC manages the delivery of efficiencies.

We are doing this by taking advantage of new technologies and ways of working to reduce costs, reprocuring key contracts, increasing commercial income, and addressing concerns around talent costs and top management pay and expenses. Throughout our efficiency programmes, there has been particular focus on rationalising and modernising our operating estate which will continue as part of DQF.

We have sought to protect our production activities as much as we can, but we have found productivity savings in Television by reviewing procurement deals, by improving our asset utilisation and by controlling talent spend. We have also mitigated the impact of inflationary increases in our long-term sports rights deals.

We have placed particular emphasis on finding savings in those of our activities that do not directly face our audiences. We have re-procured our security contracts, and exited both Television Centre and our White City building. We have also put new rosters and supplier management arrangements in place to streamline our Facilities Management workflows and eliminate duplication, and we have reviewed our Marketing and Audience activities. We have invested in new systems and processes to reduce headcount in our Finance division.

The speed of delivery of our plans for West London, as well as the redevelopment of Television Centre, both carry a level of risk. However, we are still on track to deliver the remaining savings by 2016/17.

All these savings are essential to generate the cash required to continue to develop the BBC's content and distribution, and thus ensure we are able to continue to provide licence fee payers with the quality and range of services they are entitled to expect from the BBC into the foreseeable future.

## Balance sheet

Prudent financial management means we have ended the year with £526million of cash and cash equivalents. This provides a sound base as we absorb World Service's running costs in 2014/15 and deliver on our other strategic ambitions. The provisions we hold for restructuring costs have fallen to £54million (2012/13: £81million) as provisions raised predominantly in 2012/13 were utilised in 2013/14.

The rationalisation of our estate has continued this year, and will continue in future years as we exit White City and refurbish Television Centre. This is reflected in lower plant, property and equipment values and higher depreciation charges outweighing additions in the year.

## Future pension costs

The accounting pension deficit (as defined by IAS 19) has reduced to £1,516million compared to £1,617million a year ago. The major reasons for the reduction is the payment of additional amounts under the agreed pension deficit recovery arrangement as well as changes in the valuation assumptions. The accounting valuation is only a 'snapshot' at a particular date in time, and is therefore sensitive to short-term market fluctuations.

The most recent actuarial valuation was completed in 2013 and showed a funding shortfall of £2,054million and a plan has been agreed between the BBC and the pension scheme Trustees detailing the contribution amounts to be paid by the BBC over a 12-year period commencing in 2014. The next formal actuarial valuation of the Scheme is expected to be performed as at 1 April 2016. We are continuing to look at ways to reduce the volatility in the Scheme to provide greater stability for long-term financial planning. We believe the agreed funding plan represents a sensible and affordable plan to address the deficit, without adversely affecting programmes or pension scheme members. We will continue working with the Trustees to ensure the Scheme delivers best value to members and licence fee payers.

## Summary consolidated balance sheet

For the year ended 31 March 2014

Balance sheet classification	What is it?	2014 £m	Restated 2013 £m	What has happened this year?
Non-current assets	Mainly the BBC's property, plant, equipment and investments	1,702	1,783	Increased depreciation on new infrastructure offset by additions in the year
Current assets	Programme and other stocks and amounts to be received in the next 12 months	2,258	2,166	Increase in prepayments to acquire future programme-related rights
Current liabilities	Amounts to be paid in the next 12 months	(1,038)	(1,149)	Reduction in provisions through utilisation and releases
Non-current liabilities (excluding pension liabilities)	Amounts to be paid after the next 12 months	(1,098)	(1,144)	Reduced borrowings and long-term provisions
<b>Net assets (excluding pension liabilities)</b>		<b>1,824</b>	<b>1,656</b>	
Net pension liabilities	The net deficit of the BBC Pension Scheme	(1,516)	(1,616)	Decrease to reflect changes in assumptions and contributions paid during the year
<b>Net assets</b>		<b>308</b>	<b>40</b>	
Represented by:				
BBC reserves	The net resources available to the BBC for future use	308	40	

### Cash

The BBC's cash balance of £526million at the end of the year will be used to help fund a number of imminent financial pressures and, together with future efficiency savings, deliver our Strategic Initiatives. These include:

- the new obligations for World Service in 2014/15 of £245million;
- the continuing obligations for S4C, Local TV and Broadband, budgeted in aggregate at £230million in 2014/15;
- circa £103million of spending on our Strategic Initiatives including iPlayer+, myBBC, increased investment in the arts and our television drama portfolio; and
- the next annual pension deficit recovery payment (£100million).

### Tax

The BBC is a committed and prudent tax payer in all the countries in which it operates. Its commercial operations undertake appropriate and legitimate tax planning measures in accordance with the spirit and intention of all laws and regulations.

### Summary consolidated cashflow statement

For the year ended 31 March 2014

Cash flow classification	What is it?	2014 £m	2013 £m	What has happened this year?
Net cash inflow from operating activities	Surplus of the BBC's income over its operating costs	336	338	
Net cash used in investing activities	Cash invested in intangible assets and property, plant and equipment (PPE)	(243)	(40)	Higher intangible asset purchases in the current year exacerbated by higher proceeds from property, plant and equipment disposals last year
Net cash used in financing activities	Net interest paid on the BBC's borrowings	(136)	(129)	
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(43)</b>	169	
<b>Cash and cash equivalents at the beginning of the year</b>	The BBC's cash balance at the beginning of the year	<b>575</b>	407	
Effect of foreign exchange rate changes on cash and cash equivalents	The impact of foreign exchange rates on the BBC's cash	(6)	1	Adverse movements in exchange rates impacting the sterling value of our cash
Movement in cash held as restricted funds	DSO savings to be paid over to DCMS or received for Licence Fee stamps	–	(2)	
<b>Cash and cash equivalents at the end of the year</b>	The BBC's cash at the end of the year	<b>526</b>	575	

# Looking forward

As we head into the Charter Review process we face a challenging three years. In addition to delivering our DQF strategy, our strategic context is changing as we respond to pressures from new competitors and structural changes in audience behaviour.

Although there are signs of recovery in the UK economy, we continue to see ongoing challenges in licence fee collection and strong commercial pressures from global competitors.

Our financial management has provided us with a solid base with which to face these future challenges which will be further boosted as we build on our track record of delivering efficiencies. We must, however, be mindful that given our constraints and financial risks, we cannot deliver these ambitions through efficiencies alone and we will have to make scope reductions.

This is my first review as Managing Director of Finance and Operations and I look back on my first year as one where we have continued to produce outstanding programmes and services whilst building on our impressive track record of delivering efficiencies. Delivery of all our savings targets by 2016/17, to enable us to deal effectively with 26% lower funding in real terms for our UK public services caused by the freeze in the licence fee and all the new obligations, whilst continuing to invest in the future of the BBC, is a very tough challenge requiring difficult choices. We have made good progress to date and remain on track to meet our targets.

**Anne Bulford**  
Managing Director, BBC Finance and Operations  
19 June 2014

BBC Two's *Peaky Blinders* won the BAFTA Television Craft award for Director – Fiction



BBC Natural History Unit production *Beyond Human*



# Summary financial statement

The summary financial information comprises the BBC's summary income statement on page 118, summary balance sheet on page 125 and summary cash flow statement on page 126. These include the key headline data from the full annual financial statements which are available online in the download centre at: [bbc.co.uk/annualreport](http://bbc.co.uk/annualreport)

The summary financial information presented within Part Two of the BBC's Annual Report does not constitute the full financial statements of the BBC for the financial years ended 31 March 2014 and 2013 but represents extracts from them. These extracts do not provide as full an understanding of the financial performance and position, or financial and investing activities, of the BBC as the full annual financial statements.

The independent auditor of the BBC, KPMG LLP, has issued an unqualified audit opinion on the full financial statements for the years ended 31 March 2014 and 2013.

## Statement of the Executive Board's responsibilities in respect of Part Two of the BBC's Annual Report and summary financial information

The Executive Board has accepted responsibility for preparing Part Two of the BBC's Annual Report and the summary financial information included therein. The summary financial information is intended by the Board to be consistent with the full annual financial statements of the Corporation.

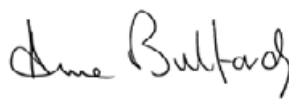
In considering the consistency of the summary financial information with the full annual financial statements, the Executive Board has elected to:

- use headings and sub-totals in the summary income statement, summary balance sheet and summary cash flow statement that include, as a minimum, the headings and sub-totals shown in bold type in the corresponding primary statements in the full annual financial statements;
- include a brief description of the respective headings;
- ensure that the amounts reported in the summary financial information agree with the corresponding amounts reported in the full annual financial statements;
- include the comparative amount for the immediately preceding financial year for all amounts reported in the summary financial information;
- include an explanation of "what has happened in the year" reflecting the main transactions and events reported in the full annual financial statements as they affect the respective heading; and
- include any other information necessary to ensure that the summary financial information is consistent with the full annual financial statements for the financial year in question.

The summary financial information, the Strategic report and Governance and finance report (including Executive remuneration report) was approved by the Executive Board and signed on its behalf on 19 June 2014 by:



Tony Hall  
Director-General



Anne Bulford  
Managing Director, BBC Finance and Operations

# Auditor's report

## Independent statement of KPMG LLP to the British Broadcasting Corporation

We have examined the summary financial information of the British Broadcasting Corporation ('the BBC' or 'the Corporation') for the year ended 31 March 2014 which comprises the Consolidated income statement on page 118, the Consolidated balance sheet on page 125 and the Consolidated cash flow statement on page 126 of Part Two of the BBC's Annual Report.

This statement is made solely to the Corporation on terms that have been agreed with the Corporation. Our work has been undertaken so that we might state to the Corporation those matters we have agreed to state to it in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation for our work, for this statement, or for the opinions we have formed.

## Respective responsibilities of directors and KPMG LLP

As explained more fully in the Statement of Executive Board Responsibilities on page 128, the Executive Board have accepted responsibility for preparing the summary financial information within Part Two of the BBC's Annual Report which are intended by them to be consistent with the full annual financial statements of the Corporation.

Our responsibility is to report to the Corporation our opinion on the consistency of the summary financial information within Part Two of the BBC's Annual Report with the full annual financial statements of the Corporation.

## Basis of opinion

Our examination of the summary financial information consisted primarily of:

- agreeing the amounts and disclosures included in the summary financial information to the corresponding items within the full annual financial statements of the Corporation for the year ended 31 March 2014, including consideration of whether, in our opinion, the information in the summary financial information has been summarised in a manner which is not consistent with the full annual financial statements of the Corporation for that year; and
- considering whether, in our opinion, information has been omitted that it is necessary to include to achieve consistency with the full annual financial statements of the Corporation for the year ended 31 March 2014.

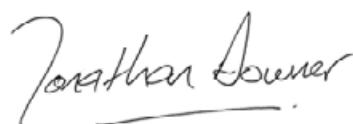
We also read the other information contained in Part Two of the BBC's Annual Report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial information.

This engagement is separate from the audit of the annual financial statements of the Corporation and the report here relates only to the consistency of the summary financial information with the annual financial statements and does not extend to the annual financial statements taken as a whole.

As set out in our Audit report on those financial statements, that Audit report is made solely to the BBC's Trustees on terms that have been agreed. Our audit work has been undertaken so that we might state to the BBC's Trustees those matters we are required to state to them in an auditor's report and, in respect of the separate opinions in relation to the Remuneration reports and reporting on Corporate Governance, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the BBC and the BBC's Trustees as a body, for that audit work, for the Audit report, or for the opinions we have formed in respect of that audit.

## Opinion on summary financial information

On the basis of the work performed, in our opinion the summary financial information is consistent with the full annual financial statements of the Corporation for the year ended 31 March 2014.



**Jonathan Downer**  
For and on behalf of KPMG LLP, Chartered Accountants  
15 Canada Square, London E14 5GL  
19 June 2014