

# Financial review

The BBC is in good financial health. We are spending much more on programmes and have launched several new services.

We financed the extra spending partly from an above-inflation licence fee increase, but mostly from self-help measures. These included reductions in licence fee evasion, reductions in overheads and increased contributions from our commercial subsidiaries.

## Income

### Licence fee

The licence fee is our most important source of income. In 2001/2002 it provided £2,533million, up £162million on the previous year. Of this, £43million was raised from our own improvements in collection effectiveness. The rest came from inflation (£83million) and the above-inflation settlement (£35million) agreed last year by the Government. This RPI +1.5% annual increase in the licence fee will continue until Charter renewal.

The improvements in collection of the licence fee saw evasion fall to a record low. However, the DCMS has revised the way evasion is calculated to include businesses and other official premises in addition to the traditional catchment of households. This new calculation shows a much bigger opportunity for licence fee sales in the next few years. Under the new method evasion fell from 8.8% at the start of the year to 7.9% at 31 March 2002.

During the year we appointed a new main contractor for licence collection, Capita. The change in contractor saw a significant reduction in collection costs including a rebate from Consignia for non-performance of contractual obligations. Next year the BBC will be investing in a new database which Capita will operate and maintain on its behalf.

### Commercial earnings

As part of the current licence fee settlement, the Government challenged the BBC to increase the amount it raised from commercial operations. This year the three commercial subsidiaries have together contributed £130million in cash to the BBC and generated savings in support costs of over £12million for the BBC. Next year the newly incorporated BBC Broadcast Limited, offering playout and channel management services, will also contribute to the BBC's finances.

### BBC Worldwide Limited

The BBC's programmes are a valuable asset. BBC Worldwide, which is wholly owned, generates commercial income from the distribution of television programmes, the operation of commercial channels and the publishing of magazines, books, videos, DVDs, audio tapes, CDs and other licensed products.

BBC Worldwide increased its sales by 12% to £660million and its profit before interest and taxation increased to £25.7million. However, its importance to the BBC lies in the £106million cash it returned this year, the majority of which is invested directly into programmes.

In 1997 we set a target for BBC Worldwide to quadruple its cash flow to the BBC to £210million by 2007. This year's result means that BBC Worldwide is exactly on track to achieve that target.

### BBC Resources Limited

BBC Resources has made significant progress following its restructuring at the end of last year when some of the business was transferred into BBC Technology Limited and into BBC Nations & Regions operations. Its activities are now focused on the traditional programme facilities areas of studios, outside broadcasts, post-production and graphic design.

Although BBC Resources recorded a small loss for the year, it was cash positive for the first time, contributing £8million in cash for the BBC to use in programme making. The business expects to record its first profit next year.

### BBC Technology Holdings Limited

BBC Technology commenced trading on 31 March 2001, providing technological solutions in media, broadcast and interactive applications to the BBC and external customers. It has had a successful first year in which, despite difficult market conditions, it achieved its business plan and contributed £16million of cash to the BBC. This business also expects to record a profit next year.

### Costs

We promised to increase the percentage of licence fee income spent on programmes from 76% to 85% by 2004. We actually achieved 85% this year, a full two years early.

This year we started to see the results from the new single SAP accounting and business system, which halves the cost of financial management and has also led to a reduction in procurement costs of £10million.

This, together with other savings across the BBC, means that overheads are now £67million lower than two years ago and the BBC remains on course to achieve the target of reducing overheads by £166million by March 2004.

### Spending on programmes

Programme spend increased by £270million in 2001/2002, mostly on drama and entertainment.

We also launched BBC Four, CBBC and CBeebies as new digital television channels, and BBC Five Live Sports Extra and 6 Music, new digital radio services.

We promised to increase programme spend by £450million in the two years to 2002/2003. We are on course to meet that target next year.

Spending on digital services was £330million, of which £100million was on BBCi (internet services). Over 87% continues to be focused on analogue.

### Result for the year

The BBC does not have shareholders and therefore does not aim to make a profit. Operating surpluses and deficits simply represent timing differences between income and expenditure. The operating deficit has been caused by increasing spend on services ahead of increases in income.

### Assets

#### Property

In October 2001 the BBC agreed a 30-year deal with Land Securities Trillium (LST) covering four million square feet of BBC property – over half the BBC's estate. It transfers the burden and risks of property management to LST, allowing the BBC to concentrate on programme making. It also reduces the BBC's property operating costs, provides funds for the property redevelopment programme and releases cash for the core broadcasting business. Through this deal the BBC will save £83million on its operating costs in the six years to 2006/2007.

The major strategy to upgrade the estate moved ahead in the year. Construction has begun at White City of half a million square feet of space. Planning applications are lodged with Westminster City Council for the redevelopment of Broadcasting House. New space has been secured for the BBC in Birmingham and Norwich and improvements have been made to the quality of several local radio buildings.

#### Cash

The cash balance remains high at £227million (in addition to the £130million of licence payers' advance deposits under the TV licence savings stamp scheme). Effective treasury management has contributed £22million in interest income this year. The healthy cash position enables the BBC to continue with the planned increase in programme spending in 2002/2003.

### Pension fund assets

The balance sheet has significantly increased in value since our previous published financial statements. The application of new accounting rules now requires us to include the significant surplus on the BBC's pension scheme. This surplus fell from £1,708million at 31 March 2001 to £965million at 31 March 2002, mainly reflecting the general fall in equity market values. The surplus continued to allow the BBC and pension fund members to contribute at a low rate for now and the scheme is continuing as a final salary 'defined benefit' scheme.



**John Smith**

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### Financial statements

As a public service broadcaster, the BBC strives to adopt the highest standards of reporting and transparency of information. Although not mandatory, we comply with the Companies Act 1985, UK Accounting Standards and the reporting requirements of the UK Listing Authority so that we publish financial information to the extent expected of public companies in the UK. The pages that follow include that information in detail. We are also subject to a range of regulatory requirements, and the Governors report on compliance with these on pages 60 to 69.

These financial statements are available online. Copies may also be obtained by writing to The Secretary, BBC, Broadcasting House, Portland Place, London W1A 1AA. In line with other UK companies, we publish and file with Companies House audited financial statements for all our subsidiaries.