



National Audit Office



# BBC Outsourcing: The contract between the BBC and Siemens Business Services for the provision of technology services

NAO review presented to the BBC Governors' Audit Committee, June 2006, by the Comptroller and Auditor General, and a response to the review from the BBC

# The contract between the BBC and Siemens Business Services for the provision of technology services

## BBC response to the National Audit Office Value for Money study

The BBC is currently undergoing significant change as an organisation. Many of these changes relate to the outsourcing of key support services such as Finance, HR and Technology. The BBC has been able to secure significant financial benefits and high service levels from these deals and the Governors are keen to ensure that these benefits continue over the life of the contracts.

At the request of the Governors' Audit Committee, the contract between the BBC and Siemens Business Services for the provision of technology services, approved by the Board of Governors in September 2004, has been subject to a value for money study by the National Audit Office (NAO). The study was undertaken to assess whether the BBC is well placed to meet its strategic objectives for outsourcing technology services, to review how the partnership with Siemens is progressing and to enable lessons learnt from this contract to be applied to future outsourcing deals and contract negotiations. This study is part of a programme of studies, commissioned by the Governors, to be undertaken by the NAO and other external agencies, assessing value for money across the BBC.

The Board of Governors is satisfied that the partnership has delivered a number of major benefits to the BBC and the services provided have delivered value for money. Governors also recognise some important learning points for the future from the NAO's work. The Board thanks the NAO for undertaking this study and providing the BBC with some valuable conclusions and recommendations. In particular:

### Service delivery

The BBC views broadcast continuity as a key risk for the Corporation and it is therefore a key objective of the deal with Siemens. The Board is pleased that the NAO has confirmed that 100% of

broadcast critical performance targets, and 95% of key service targets, have been achieved in the first year of the contract, highlighting the quality of service delivery the BBC enjoys through the partnership.

The Board welcomes the NAO's recommendations for strengthening performance management and an internal review has commenced to ensure these issues are being addressed.

### Financial benefits

The Governors welcome the NAO's acknowledgement that the BBC's estimated savings in the first year of the 10-year contract are in excess of £20 million and that an additional £4 million is expected from 2006/2007 onwards as redundancy savings are realised. This year on year saving, together with the £150 million Siemens paid for BBC Technology Ltd at the outset of the partnership, shows that the deal has been a financial success for the BBC.

Management have, however, recognised 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 use of the term 'guaranteed savings', in the original submission to the Board, was inexact. While the revised savings figures would not have changed the investment decision, the Board of Governors has indicated to BBC Management the importance of adequate controls and processes to ensure that information put to the Board is full and accurate and that any subsequent amendments are reported to the Board. The Governors welcome BBC Management's constructive response (see below) and the measures proposed to address these points.

The Siemens contract was approved before the creation of a Governance Unit. This unit now provides the Board with

additional resources, independent of BBC Management, to examine investment proposals in detail and review their progress over time.

### Partnership working

Both Siemens and the BBC view the partnership as working well and have taken steps to ensure more active engagement of Board-level Executives.

The Board of Governors agrees that there is scope for improvement with technology governance arrangements. Indeed, the Governors' Audit Committee had earlier identified the same issue and has been reviewing technology governance since December 2005. The Governors are satisfied that significant steps are being taken by BBC Senior Management to ensure appropriate governance is given to this contract, and other projects, and welcomes the creation of a Technology Partnership Executive chaired by the Director-General.

The Governors have committed the BBC to a process of open scrutiny with assistance from the NAO. The Governors will ensure that the recommendations and the valuable lessons the NAO has identified are incorporated in future contracts, where appropriate.

The attached statement from BBC Management outlines what actions are being taken to address the report's conclusions. It has been considered and approved by the Board of Governors.

**Board of Governors  
June 2006**

# The contract between the BBC and Siemens Business Services for the provision of technology services

## BBC Management response

### Introduction

The Technology Framework Contract with Siemens sets out to be an innovative strategic partnership to deliver technology services to the BBC and enable it to meet its ambitious change agenda. The contract commenced in April 2005 and, as part of the deal, Siemens purchased BBC Technology Ltd for £150 million. The contract will also deliver substantial financial benefits over the 10 years of its term.

The NAO review examined whether the BBC is well placed to meet its strategic objectives for outsourcing technology services under Siemens. It is pleasing to note that the NAO report recognises that the deal is already delivering benefits. The NAO has made some valuable observations and recommendations within the report which the BBC is already taking steps to address.

### Responding to the report's key findings and recommendations

#### (1) On service delivery

##### *Performance management*

The NAO has reported that the percentage of performance targets met has been high. In the first year, broadcast critical performance targets have been met 100% of the time, key performance targets 95% of the time and other performance targets 90% of the time. The BBC fully accepts the recommendations that improvements could be achieved in this area by reviewing the cost and benefits of maintaining a large number of performance indicators and by validating the accuracy of performance information on a sample basis.

A review has already commenced to address this, and the BBC has found the NAO's framework for performance measurement ('FABRIC') particularly useful in developing this review.

##### *Projects*

As recognised by the NAO, the BBC is using the partnership with Siemens to deliver some parts of the technology transformation needed to help the BBC deliver its challenging change agenda over the next decade. For example, the contract includes 41 new Service and Technology Transformation projects, for which risk for delays and cost overruns is either split between Siemens and the BBC (3 projects) or wholly owned by either Siemens (26 projects) or the BBC (12 projects). There are also some older 'in flight' projects started by BBC Technology and now being delivered by Siemens.

The majority of these projects have either already been delivered or are on track to be delivered on time and budget. Some of these projects have inevitably experienced delays or minor cost overruns, but these are being actively managed.

The BBC understands the importance of strong project governance and will continue to work with Siemens to ensure effective action is taken to improve project delivery to time and budget in line with the NAO recommendation.

##### *Customer satisfaction*

The BBC recognises the importance of excellent customer service. There are a number of ways in which the BBC and Siemens measure customer satisfaction. For example, the contract contains two key service targets designed to measure BBC staff satisfaction through user surveys. One of these surveys is still being tested and the other has received a low response to date.

The BBC accepts that the low response rate to the survey means we cannot fully demonstrate that we have achieved excellent customer satisfaction in the first year of the contract. We support the NAO's recommendation to re-emphasise to staff the importance of the user

surveys. The BBC will also look at finding the most effective method of conducting these surveys to improve the response rate. This is now a key objective for year 2 of the contract.

#### (2) On financial benefits

##### *Guaranteed savings*

While acknowledging that the contract with Siemens is already delivering benefits to the BBC, both financial and transformational, the NAO report highlights the fact that total savings under the contract could not, in practice, be guaranteed.

In fact the Siemens contract had been structured to secure guaranteed unit prices which would give guaranteed savings only for a given volume of activity. This pricing model ensured that, whatever the future volumes of service demanded by the BBC, the contract would always be price competitive. Management acknowledges that the use of the term 'guaranteed savings' was inexact and regrets that this inappropriate terminology might have given rise to the impression that there would be an absolute saving at any volume of demand. Responsibility for controlling volumes in order to drive out savings clearly rests with the BBC and management have implemented a programme of work to ensure that this is achieved.

##### *Change to the savings profile*

The report also highlights that the original case for approval put to the Governors noted an annual saving of some £35.2 million. In the subsequent due diligence process, this savings figure was revised to £27.5 million. This revision reflected the correct exclusion from the baseline for the deal of a saving of £7.7 million, which related to a one-off project which could not reasonably be attributable to the Siemens contract. While the actual net present value

comparisons to assess the deal were based on the correct baseline, the narrative still included the higher annual saving figure. BBC Management accepts the savings figure should have been updated, and regrets that this was not identified so that it could be reported to the Executive and the Governors. Management are satisfied that appropriate controls and processes are in place to ensure this will not recur.

This process error did not, however, undermine the rationale for the deal nor the relative preference for Siemens over the other bidders. It is important also to note that Siemens demonstrated a much stronger cultural fit, a better approach to partnering with the BBC and offered the most innovative proposals to service delivery than other bidders.

#### *Savings achieved*

The relationship with Siemens is already delivering significant savings one year into its 10-year term and this is in addition to the £150 million that was received for the sale of BBC Technology Limited at the start of the contract. However, the BBC acknowledges that the savings are below the forecast level of £27.5 million for the first year of the contract.

A major reason for the shortfall was that, after completion of the post-contract verification process, the BBC identified that some £4.5 million of services included in the baseline had not been included in the Siemens pricing offer. This omission (representing around 2.5% of the original baseline cost of the services), while clearly not desirable, was within an acceptable auditable level of materiality for a post-contract verification. It is also important to note that identification of these additional costs had no impact on the financial decision between the two bids as the adjustment applied equally to both shortlisted proposals.

Going forward, it is important to note that the BBC's technology requirements are

evolving all the time in a rapidly changing market and this will inevitably have an impact on the savings profile of the deal over the 10 years. In addition, savings of £3.9 million were delayed from the first year as the BBC negotiated the redundancy programme with the unions. BBC Management feels confident that, over the life of the deal, this shortfall will be more than recouped and may even be eliminated as early as next year.

#### *Measuring financial benefits*

The savings from the relationship with Siemens are far reaching and go beyond the monetary savings on technology costs. The BBC is capturing other technology-related savings through its Change Programme. As the report states, we are measuring savings from the contract by tracking cost reduction against the baseline but savings can also arise from purchasing a larger quantity at a lower price or from an improved quality of service.

The BBC acknowledges that we are currently underdeclaring the broader savings from the contract by focusing on cost reduction and we will look to extend this to capture a fuller picture of the savings, including those from transformational technology projects.

#### *Financial management process*

The BBC recognised in the first weeks of the technology framework contract that the billing information being provided by Siemens was not sufficiently detailed to track the charges from this very complex contract. We reacted quickly and, by October 2005, we were able to secure the appropriate level of detail and these early problems were largely eliminated.

#### *Open book accounting*

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. We knew from the procurement process that Siemens would be investing heavily in the BBC contract in the early stages and decided that exercising our open book access rights in this period would be of limited benefit; we have, however, used our open book provisions for some new projects in this period.

The BBC concurs with the NAO that these access rights are important to protect its interests, and embed transparency and accountability in working practices, and we will consider how best to utilise them going forward in line with the recommendations in the report.

#### *Provisions to keep prices competitive*

The NAO reports that there are a number of mechanisms within the contract designed to keep prices competitive during the life of the deal. The pricing for the contract in the first year of operation was arrived at as a result of a comprehensive EU tendering process and so we believe that the baseline rate card is robust. In addition, going forward, UK published RPI applies to those service bundles where annual price increases are allowed in the contract. Benchmarking prices at key points within the contract also enables the BBC to keep pricing competitive. With these mechanisms we can demonstrate that both the starting point and the trajectory of price growth have elements of control built into them.

An additional mechanism to control cost, recommended by the NAO but not included in this contract, is a profit share arrangement if the rate of return exceeds a specified level. This can be a useful mechanism in the right circumstances but it can also lead to overpricing.

The BBC will always consider all control mechanisms in future contracts and select those that are most appropriate to the service being provided.

### (3) On partnership working

#### *Board-level engagement*

The BBC and Siemens both agree that the partnership has worked well to date. Both parties also accept that a more active engagement of Board-level Executives is necessary going forward to underline the importance of the partnership and align strategic priorities.

The BBC is setting up a Technology Partnership Board, chaired by the BBC's Director-General and attended by the Group Financial Director; the Director for New Media and Technology, the Chief Technology Officer and the Siemens Executive Director responsible for the deal. In addition, the BBC has been working on strengthening its Technology Governance Framework, of which the Siemens contract governance is a major component.

#### *Extending the contract*

The Siemens contract is still in its infancy and its rollout across the BBC is critical to its future success. We have worked hard throughout the first year to establish a good communication and support network and we recognise, as highlighted in the NAO report, that the BBC needs to continue to build on this to ensure that contract benefits are maximised.

#### *Risk registers*

The BBC has been maintaining a joint risk register for all those contract risks which are shared between Siemens and the BBC. However, a separate contract risk register for those risks which are only relevant to the BBC has not been maintained to date. Technology management has ensured that relevant risks are reported in the BBC's corporate risk register.

Since the NAO review, the joint risk register has been finalised and fully approved and this is now subject to

regular review. In line with the NAO recommendation, the BBC has also taken steps to ensure that a BBC specific contract risk register is in place.

#### *Contingency plans for early termination*

As recognised by the NAO report, the contract with Siemens contains detailed provisions to support re-competition and a smooth transition when the contract expires. The BBC is currently developing a contingency plan to be used in the event of early termination of the contract, in line with the NAO recommendation.

# The contract between the BBC and Siemens Business Services for the provision of technology services



This report has been prepared under Clause 10B of the amendment to the Agreement between the Secretary of State for Culture, Media and Sport and the BBC dated 4 December 2003.

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A link to this report can be found on the National Audit Office website at [www.nao.org.uk](http://www.nao.org.uk)

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## SUMMARY

1 In October 2004, following an open procurement competition, the BBC entered a 10-year framework contract with Siemens Business Services (Siemens) for the supply of technology services previously provided by the BBC's wholly owned subsidiary BBC Technology Ltd. The contract was worth an estimated £1.5 billion over 10 years and the BBC expected it to deliver savings of £275 million over that period. As part of the deal, Siemens purchased BBC Technology for £150 million. There was a planned transition period from October 2004 to March 2005, with the contract formally starting on 1 April 2005.

In 2005-06, the BBC estimates it spent some £450 million<sup>1</sup> to support a range of technology needs. The contract with Siemens accounts for some £190 million of that amount and broadly covers the services previously provided by BBC Technology, including:

- provision and ongoing management of IT commodities, such as desktop computers and telephony services;
- specialist technology projects; and
- technological support for programme production and broadcast functions, for example to enable digital content development and editing, and uplinking programme content to broadcasting satellites.

2 This report examines whether the BBC is well placed to meet its strategic objectives for outsourcing technology services. While recognising that the contract is at an early stage, we assessed performance over the first year of the contract and considered whether the BBC is equipped to realise the anticipated benefits. We have considered three principal dimensions of the outsourcing arrangement: service delivery; financial benefits; and partnership working.

## Findings

### On service delivery

- 3 Our main findings are:
- Siemens has delivered the level of service required by the BBC under the contract for its key service targets 95 per cent of the time. It has also met the other performance targets 90 per cent of the time. The performance measurement system was tested before each measure became live. Although the BBC looks at the data when it is submitted, to see if it appears broadly reasonable, and data accuracy is checked when a target is not met, there is no ongoing detailed validation by the BBC of the performance information supplied by Siemens. There are 376 performance targets in use and the BBC recognises that gathering and analysing the data to support performance information is costly. It is planning to review targets to check whether they remain relevant to its business needs [paragraphs 20, 21, 28 and 29].

1 The £450 million includes broadcast specific high value technology, such as studio cameras, and commodity items, such as video tapes, which the BBC traditionally buys directly from manufacturers.

- The BBC is using the contract to engage in forward-looking technology transformation projects. As a framework, the contract provides the BBC with the flexibility to commission new work to reflect changing business requirements. There are also 41 projects identified during contract negotiations and specified in the contract that make up the Service and Technology Transformation programme. Five of these projects have since been cancelled by agreement [paragraph 24].
  - As of May 2006, eight projects have been delivered, of which five were late and three were over budget. Of the 28 projects still under way, nine are delayed and 10 are over budget. Siemens bears the risk of cost increases on all the projects which have run over budget to date. However, delays in the completion of some projects mean that some of the intended benefits to the BBC of the Service and Technology Transformation programme will not be available until later than planned [paragraphs 24 and 25].
  - Siemens also took over responsibility for delivering 68 'in-flight' projects started by BBC Technology to timescales and budgets agreed between the BBC and BBC Technology. Fifty-four of the 68 projects have been delivered, or are on target to be delivered, according to time and budget and 14 have experienced delays or cost increases [paragraph 26].
  - The contract contains two key service targets designed to measure BBC staff satisfaction with Siemens, both through monthly user surveys. One survey was first issued to 500 BBC staff in January 2006 but received only 24 responses. The other survey is still being tested. Although there are other means the BBC can use to build a partial picture of user satisfaction, after the first year it only has a limited end user perspective of the success or otherwise of the contract [paragraph 22].
- 4 The contract incorporates a number of provisions designed to incentivise performance. These include:
- a gradual increase in the level of performance required and a service credit regime which reduces the service charge paid by the BBC if performance falls below specified levels [paragraphs 30 and 32]; and
  - a performance benchmarking system (from year four onwards) for services which account for two-thirds of the estimated contract spend and for which the BBC and Siemens agree there are market comparators available. Under the contract, Siemens's performance could be compared to the average of the top 50 per cent of comparable services. However, performance could be up to 7.5 per cent below this average before Siemens was required to improve [paragraph 31].
- ### On financial benefits
- 5 Our main findings are:
- In September 2004, when the Governors approved the contract, they were told it would deliver average guaranteed annual savings of £35.2 million. However, in practice the savings could not be guaranteed. Although the contract specified the unit prices and day rates to be charged for technology services, it did not provide a guarantee that a specific level of savings would be achieved. When the contract was signed in October 2004, the estimated savings were £27.5 million because the baseline spend (based on spend with BBC Technology) against which savings are measured was recalculated to remove £7.7 million of non-recurring expenditure.<sup>2</sup> By April 2006 estimated savings for 2005-06 (the first year of the contract) were £21.8 million because spend under the contract was higher than forecast [paragraph 35].
  - The BBC also expected to make separate annual savings of £3.9 million in 2005-06 by reducing demand for technology equipment through its redundancy programme. The redundancy programme was delayed while the BBC discussed the programme with its unions and the BBC now anticipates that the savings will be realised from 2006-07 onwards [paragraph 36].

2 £35.2 million is calculated against a baseline cost of £190 million and £27.5 million against a baseline cost of £182 million.

- The BBC is measuring savings by tracking cost reduction against baseline spend. However, measuring cost reduction alone may not give the BBC a complete picture of financial benefits over the life of the deal. For example, savings can also arise from purchasing a larger quantity, or improved quality of services under the new supplier for the same overall cost [paragraph 37].
- The BBC has taken steps to strengthen its financial management processes relating to the deal by obtaining more detailed billing information. It also plans to centralise control over project funding and employ technology service advisors to better manage BBC Divisions' technology spend [paragraphs 40 to 43].

6 The deal with Siemens does not include a provision to share profits if the rate of return exceeds a specified level. However, the contract does include the following provisions designed to keep prices competitive over the life of the deal [paragraph 44]:

- Incentivised savings – Siemens is required to identify projects with potential savings of £81 million over the life of the contract. If proposals are unacceptable to the BBC, Siemens is not required to put forward alternatives [paragraph 45].
- A gain share mechanism – this stipulates that any net savings resulting from gain share projects are split equally between Siemens and the BBC [paragraph 46].
- Open book accounting – the BBC does not consider that there is a benefit to open book accounting in the first 18 months of the contract as the BBC and Siemens do not expect Siemens's rate of return to be positive in this period. The BBC sees that there are benefits to open book accounting for new projects and has exercised its rights selectively in this respect. Otherwise the BBC has not used its open book access rights and does not know Siemens's actual rate of return [paragraphs 47 and 48].
- Price benchmarking – as with performance benchmarking, this applies to two-thirds of estimated spend and prices could be up to 7.5 per cent above the average of those examined before Siemens was required to reduce them [paragraph 49].

## On partnership working

7 Our main findings are:

- The BBC and Siemens consider the partnering relationship to be constructive but the BBC recognises that greater engagement of Board-level executives is needed and has made plans to achieve this [paragraphs 51 and 54].
- There is a need to improve the level of understanding of Siemens's role among BBC Divisions. Applying the contract to BBC Divisions which still provide some of their own technology services could extend the benefits of the contract [paragraphs 51, 56 and 57].
- The BBC intended to reward Siemens for high levels of partnership behaviour over and above routine service performance through a balanced scorecard. However, the two parties have been unable to establish an effective way of measuring high-level partnering performance [paragraph 53].
- For shared contract risks, a joint risk register is being produced, but the BBC has no separate register for the contract for those risks which rest with the BBC, although some risks are reported in its corporate risk register [paragraph 55].
- The contract contains provisions to support a re-competition when it expires, but the BBC does not currently have contingency plans in the event of early termination and recognises that these should have been in place from the outset [paragraph 60 and 62].



## CONCLUSIONS AND RECOMMENDATIONS

**8** It is clear that the deal is delivering benefits, however, it is too early to say whether the BBC will achieve the full value for money expected from the contract over its 10-year life. Savings are being achieved, though currently below the forecast level, and reported performance against key service targets is high, although some technology projects are currently not on track. The BBC could have made more use of the transition period to test and bed in the arrangements it needs to manage the contract effectively. Going forward there are measures in place which have the potential to drive value for money by promoting high service levels and reducing costs and the BBC has been working to strengthen these arrangements. Our recommendations are designed to help it in that process.

**9** The BBC should:

- a** Establish an up-to-date estimate of savings over the life of the contract, inform the Governors how this estimate has changed since the contract was approved and update the Governors if the estimate changes significantly in the future.
- b** As well as measuring cost reduction, provide a more complete picture of the financial benefits of the Siemens deal by, for example:
  - estimating what the quantity of service provided by Siemens would have cost under BBC Technology while demonstrating that the service quality meets business needs;
  - estimating the impact of technology transformation projects.

**c** Strengthen performance management by:

- validating the accuracy of performance information provided by Siemens, on a sample basis to keep costs to a minimum;
- drawing on FABRIC<sup>3</sup> good practice when conducting its planned review of performance indicators, placing particular emphasis on the costs of maintaining, and the utility of measuring 376 performance indicators; and
- emphasising to staff the importance of responding to user satisfaction surveys.

**d** Improve the level of understanding of Siemens's role among BBC Divisions and assess the costs and benefits of, and barriers to, increasing the take-up of the Siemens contract across all BBC Divisions.

**e** Work more closely with Siemens to understand the reasons for project overruns and ensure effective action is taken to improve project delivery to time and budget.

**f** Draw up a contingency plan to be used in the event of early contract termination.

**g** Improve its risk management processes by finalising the joint risk register and producing its own separate risk register for the contract.

<sup>3</sup> *Choosing the right FABRIC – a framework for performance information* (HM Treasury, Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics).

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## CONCLUSIONS AND RECOMMENDATIONS CONTINUED

### Lessons for other outsourcing contracts

Our review of the Siemens contract provides potential lessons for other outsourcing deals. The BBC should:

- 1 use precise language to express anticipated financial benefits and be clear about the probability that these benefits will be realised when asking for the Governors' approval to outsource business functions;
- 2 update the Governors if the forecast of financial benefits is revised before the contract is signed;
- 3 where appropriate, engage senior management at Board level from the outset to underline the importance of the partnership and co-ordinate strategic priorities;
- 4 ensure from the start of the contract that information provided by the supplier is sufficiently detailed to allow the BBC to validate the bills;
- 5 introduce processes to validate the accuracy of performance information;
- 6 draw up contingency plans to be used in the event of early contract termination;
- 7 produce its own risk registers for contracts;
- 8 consider whether open book access provisions could be strengthened by securing access to income and expenditure forecasts as well as historical data;
- 9 implement open book accounting from the outset to protect its interests and embed transparency and accountability in working practices;
- 10 consider introducing a contractual provision to share profits if the rate of return exceeds a specified level, as one of a number of mechanisms to safeguard value for money over the life of a deal.

# MAIN REPORT

## Background

**10** In October 2004, the BBC outsourced its technology function to Siemens Business Services (Siemens) in a deal which is the largest of the BBC's outsourced contracts with an estimated cost of £1.5 billion over ten years.<sup>4</sup>

**11** Prior to October 2004, the BBC's technology services were either 'self-provided' or provided by BBC Technology Ltd, a wholly owned subsidiary of the BBC. In 2003, following a review of all the BBC's subsidiaries and benchmarking of the prices charged by BBC Technology, the BBC concluded that selling BBC Technology and entering a 10-year outsourced contract would offer better value for money and better meet its future technology needs.

**12** The BBC issued a notice in the Official Journal of the European Union in December 2003. The BBC received 31 applications and in February 2004 invited nine bidders to negotiate, of which three were shortlisted. Siemens won the competition because the BBC concluded that it offered a stronger technological solution, a better cultural fit with the BBC, a competitive price for the sale of BBC Technology, and savings from the start of the contract. Following approval from the BBC Governors, Siemens was announced as the preferred bidder in July 2004. Its final offer was to pay a cash sum of £150 million<sup>5</sup> for the acquisition of BBC Technology, and deliver savings of £275 million, in cash terms, over the life of the contract. The contract was signed in October 2004.

**13** The BBC Governors were satisfied that the competitive procurement process delivered value for money at the start of the contract, but asked the National Audit Office to examine whether the BBC is well placed to deliver the anticipated benefits over the contract's 10-year life. We did this by assessing:

- whether the BBC is equipped to realise the anticipated benefits of the contract in the future; and
- early performance against the BBC's objectives (while recognising that the contract is at an early stage).

**14** Our approach is set out in [Appendix 1](#) and was informed by good practice, set out in [Appendix 2](#), drawn from reports on outsourcing by the Committee of Public Accounts and the National Audit Office, and guidance by the Office of Government Commerce.

## The Technology Framework Contract between the BBC and Siemens

**15** The Technology Framework Contract is for the provision of technology services by Siemens to the BBC, the World Service and the BBC's commercial subsidiaries. The contract with Siemens broadly covers the services previously provided by BBC Technology, and accounted for some £190 million of the estimated £450 million<sup>6</sup> it spent on technology in 2005-06. The contract runs for 10 and a half years, from 1 October 2004 to 31 March 2015.

<sup>4</sup> The BBC's other outsourced functions are property services, licence fee collection, transmission, playout (the stage between the production of a programme and its transmission which involves the packaging of programme content so that it can be broadcast to viewers), finance and call centres.

<sup>5</sup> The net proceeds from the initial cash sum were £121 million following adjustments for inter company debt, tax, working capital, deal costs and separation costs.

<sup>6</sup> The £450 million includes broadcast specific high-value technology, such as studio cameras, and commodity items, such as video tapes, which the BBC traditionally buys directly from manufacturers.

There was a planned transition period from October 2004 to March 2005, designed to give Siemens and the BBC the opportunity to put in place the people, structures and processes needed to manage and run the contract. The contract, and the relationship with Siemens, is managed by the BBC's Technology Group and formally started on 1 April 2005.

**16** For some services under the contract, Siemens's supplier status is exclusive, while for others it is preferred or non-exclusive. For a preferred service, the BBC must ask Siemens to bid for work before any third party. These arrangements are in place until 2010. For a non-exclusive service, the BBC may purchase from either Siemens or third parties.

**17** The contract provides for a range of technology commodities, such as desktop computers and telecoms, and more specialist project work. Some commodity services have a fixed price while for others the unit price increases if volumes fall into a lower band and decreases if volumes rise into a higher band. Prices can be re-negotiated if volumes rise 40 per cent above or fall 20 per cent below contracted levels. For project work, the BBC either commissions work on a time and materials basis or agrees a fixed price with Siemens for completion of the project. The day rates for project work were arrived at through the competitive tendering process.

**18** The BBC expects the contract with Siemens to provide a flexible and secure technology infrastructure and services to meet its business needs over the next 10 years. This vision is supported by a set of strategic objectives specified in the contract. These are to:

- deliver emergent technologies and innovation;
- maximise value for money and identify opportunities to reduce the service charges paid by the BBC;
- accommodate changes to the BBC's service requirements;
- deliver excellent 'customer service'; and
- provide maintenance and support of a resilient technology infrastructure and continuity of services for a live broadcast environment.

We have addressed these objectives under the headings of: whether the BBC is well placed to meet its service objectives; whether the BBC is well placed to meet its financial objectives; and whether the BBC and Siemens are taking the contract forward through partnership working.

## Is the BBC well placed to meet its service objectives?

### Early performance

**19** When the BBC entered into the contract with Siemens, it took the opportunity to introduce new performance measures and change some of the existing measures to bring them into line with current business needs. Consequently, the level of service under Siemens cannot be compared with that under BBC Technology. However, the percentage of performance targets met has been high and BBC Management considers that overall service delivery has improved under Siemens.

**20** Under the contract, there are 29 key service targets, 27 of which are currently in use (the remaining two relate to user satisfaction surveys which are covered in paragraph 22). The targets cover a range of requirements, such as helpdesk response times and internet availability. There is a full list at [Appendix 3](#) and a summary of performance in [Figure 1](#) below. Failure to meet these targets results in service credits which reduce the amount paid by the BBC to Siemens.

#### 1 Summary of performance against key service targets in the first year

- Performance against key service targets was measured 262 times. Siemens achieved targets 250 times (95 per cent).
- Targets were not met 12 times, which resulted in the BBC receiving some £30,000 in service credits.
- 100 per cent broadcast continuity for content platforms such as television and radio has been achieved, which the BBC sees as a key objective of the deal.

*Source: National Audit Office analysis of BBC data*

#### NOTE

Not all measures were in use from the start of the contract, so the number of measures against which Siemens's performance was measured each month has varied.

**21** The contract also includes 446 other lower-level performance targets which cover different aspects of Siemens's delivery, for example the speed of installation for desktop computers and fault resolution times. Of these, 349 are currently in use because some measures are not applicable from the start of the contract or are scheduled to be introduced in the third year. Failure to meet these

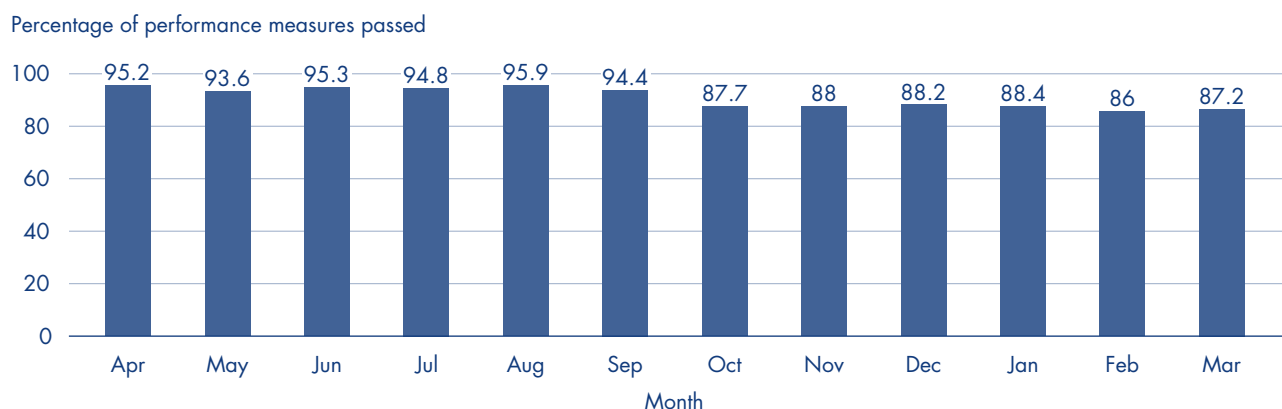
lower-level targets does not result in service credits, although the contract allows the BBC to promote some of these to key service targets (to a maximum of 40). In accordance with the contract, the required performance levels were increased after the first six months. Since this increase in October 2005 the percentage of targets met by Siemens has fallen (Figure 2), but overall some 90 per cent of performance targets were met in the first year.

**22** One of the key objectives for the deal was to deliver excellent customer service to BBC staff. Under the contract, there are a range of lower-level measures relating to customer satisfaction, but in terms of key service levels, the means of measuring satisfaction is through two user surveys which should be distributed by Siemens at monthly intervals to BBC staff. One of the surveys covers satisfaction with the service helpdesk and was first issued to 500 BBC staff in January 2006 but received only 24 responses. The other survey covers call-off project support and is still being tested. Although the BBC can build up a partial picture of user satisfaction from other performance measures, the low survey response rate has made it difficult for the BBC to assess the overall level of user satisfaction with Siemens. The BBC and Siemens are now revising the survey approach.

**23** The deal was intended to help the BBC meet its future technology requirements by giving it access to Siemens's capacity to invest in new technology and innovate. Among the BBC staff we consulted, the consensus was that some innovation had been achieved in the first year but they wanted more going forward. Some of the investment in technology was written into the contract, but the framework provides the BBC with the flexibility to commission new work under call-off arrangements to reflect changing business requirements.

**24** There are also 41 projects written into the contract which make up the deal's Service and Technology Transformation programme, at an estimated annual cost of £4.5 million. The programme is intended to provide the BBC with technological infrastructure needed to support its business and the ability to move with changes in broadcast technology, for example multi-platform broadcasting. The programme is also intended to generate cost efficiencies and improve management information systems. Progress in delivering the Service and Technology Transformation programme in the first year is summarised in Figure 3 overleaf.

## 2 Siemens's performance against non-key service targets



Source: National Audit Office analysis of BBC performance data

### NOTE

From October 2005 performance standards were increased.

### 3 Progress in delivering Service and Technology Transformation projects

	Total	To time	Delayed	To budget	Over budget	Both delayed and over budget
Delivered	8	3	5	5	3	2
In progress	28	19	9	18	10	4
	<b>36</b>	<b>22</b>	<b>14</b>	<b>23</b>	<b>13</b>	<b>6</b>
Cancelled by agreement	5					
<b>Total</b>	<b>41</b>					

Source: National Audit Office analysis of BBC data

**25** Under the contract Siemens bears the risk of cost increases for 27 projects, Siemens and the BBC share the risk for three and the BBC has retained the risk for 12. As of May 2006 all ongoing projects for which the BBC holds the financial risk remain on budget. The delays in the completion of projects does mean, however, that some of the intended benefits to the BBC of the transformation programme will not be available until later than planned.

**26** Siemens also took over responsibility for delivering 68 'in-flight' projects started by BBC Technology to timescales and budgets agreed between the BBC and BBC Technology, subject to information provided by the BBC being accurate and complete. Fifty-four of the 68 projects have been delivered or are on target to be delivered according to time and budget and 14 have experienced delays or cost increases as shown in **Figure 4**.

### 4 Progress in delivering 'in-flight' projects

Status of project	Number of projects
Delivered as at May 2006	33
According to time and budget	25
Either delayed or over budget	8
Projects under way as at May 2006	35
On target for delivery to time and budget	29
Either delayed or over budget	6
<b>TOTAL</b>	<b>68</b>

Source: National Audit Office analysis of BBC data

### The capacity to deliver the BBC's service objectives

**27** Going forward, the BBC has a number of mechanisms to support the delivery of its service objectives. These include a new system to measure performance and a number of contractual provisions designed to incentivise service delivery, including a programme of continuous improvement, service credits and performance benchmarking.

**28 The performance measurement system.** One of the Service and Technology Transformation programme projects was to introduce a new performance measurement system to assess Siemens's performance. With 376 'live' performance targets there is a question of manageability and the BBC recognises that gathering and analysing the data to support performance information is costly. It is good practice to review regularly the costs and benefits of performance information systems<sup>7</sup> and, as part of a planned annual review of the contract, the BBC has confirmed that it intends to review each target to check whether the target remains relevant to business needs.

**29** The performance measurement system was tested before each measure became 'live'. The BBC looks at performance data when it is submitted by Siemens to see if it appears broadly reasonable and, when a performance target is not met, the BBC and Siemens determine the causes of failure and check whether the data reported by the system is accurate. However, there is no ongoing detailed validation by the BBC of the performance data supplied by Siemens.

<sup>7</sup> *Choosing the right FABRIC – a framework for performance information* (HM Treasury, Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics).

**30 Continuous improvement and increasing service targets.** Under the contract, Siemens is required to prepare a programme of continuous improvements to services and to refresh technology. The BBC controls the rate at which technology is refreshed and has agreed that laptops will be refreshed every three years, desktops and printers every four years, and servers and local area networks every five years. In addition, performance levels for some targets increase from the third year of the contract (Figure 5).

**31 Performance benchmarking.** From the fourth year of the contract, the BBC can benchmark Siemens's performance for services which represent just over two-thirds of the first year's contract spend. The remaining one-third is not subject to benchmarking because Siemens and the BBC agreed that comparable benchmarks were not available. Under the contract, Siemens's performance could be compared to the average of the top 50 per cent of comparable services. Performance could be up to 7.5 per cent below this average before Siemens was required to improve.

**32 Service credits.** When negotiating the deal, the BBC aimed to avoid a punitive service credit regime, recognising the need to balance a financial incentive for Siemens to meet targets, with a system that promotes partnership working.

**33** Service credits are applicable to expenditure on commodities but not on projects. Each of the key service targets carries service credits and, in line with good practice, there is a limit on the maximum service credit available. The BBC and Siemens agreed the ceiling at 5 per cent of the monthly bill on commodities. Although the BBC recognises that the maximum available amount would not necessarily reflect the damage done to its business, it aimed for an amount that would be sufficient to significantly affect Siemens's profit from the deal. To illustrate, the average monthly bill for commodities in year one of the contract was £11.68 million. The maximum amount of service credit the BBC could apply for this would be £0.58 million. Over the course of the year this would equate to £7.01 million out of a commodity spend of £140.19 million and a total spend of £190.32 million.

## Is the BBC well placed to meet its financial objectives?

### Early performance

**34** The BBC expects the prices set out in the Technology Framework Contract to bring significant annual cost savings compared with baseline spend under BBC Technology.<sup>8</sup> There are broadly two types of spend under the contract: spend on technology projects, and spend on commodities such as desktop computers and telecoms. When the BBC produced its estimate of cost savings, all of the savings related to commodity spend.

### 5 Some service levels increase over the course of the contract

Key service level	Year one target (per cent)	Year three target (per cent)
Number of projects delivered on schedule	90	95
Availability of bbc.co.uk	99.5	99.95
Availability of Radio 1, Radio 6, Radio 7, World Service	99	99.95
Percentage of broadcast critical incidents resolved	97 within 20 minutes	97 within 10 minutes
Number of severe gaps in compliance with ISO1779 (security standards) annually	2	0

Source: BBC

<sup>8</sup> When the deal was negotiated, Siemens and the BBC produced an estimate of future annual expenditure based on Siemens's prices and existing levels of service. This estimate was set against comparable spend under BBC Technology (which became the baseline) and the difference between these figures became the estimate of future annual cost savings.

**35** When the Governors approved the deal in September 2004, they were told that it would deliver guaranteed average annual cost savings of £35.2 million. However, in practice the savings could not be guaranteed. Although the contract specified the unit prices and day rates to be charged for technology services, it did not provide a guarantee that a specific level of savings would be achieved. When the contract was signed in October 2004, the estimated savings were £27.5 million because the baseline spend was recalculated to remove non-recurring expenditure. By April 2006 estimated savings for 2005-06 were £21.8 million in real terms because spend under the contract was higher than forecast (**Figure 6**). BBC Divisions' technology commodity budgets have been reduced by £20 million to realise the benefit of the estimated savings.

**36** In addition to providing more competitive prices, the framework contract allows the BBC the flexibility to reduce costs which were previously at fixed levels under the contract with BBC Technology (**Figure 7**).

**37** The savings in paragraphs 35 and 36 relate to cost reduction which gives the BBC a basis for assessing by how much to reduce Divisional technology budgets year on year, and provides BBC Divisions with an incentive to drive down costs by controlling the volume of commodities purchased. However, measuring cost reduction alone may not give the BBC a complete picture of financial benefits over the life of the deal. For example, efficiency savings can arise from purchasing a larger quantity, or improved quality of services under the new supplier for the same overall cost.

**38** As well as reducing technology costs, work commissioned under the Siemens contract is generating savings in other areas of the BBC. For example, the BBC expects that spend on travel and subsistence will reduce through the use of video-conferencing facilities currently being introduced by Siemens.

## 6 Reconciliation of the adjustments to estimated annual cost savings

Source	Average annual savings (£ million)	Explanation
<b>Approval papers to the Governors September 2004</b>	35.2	Calculated assuming baseline expenditure of £190 million under the previous arrangement with BBC Technology.
	(7.7)	Although forecast spend under Siemens remained unchanged, estimated savings reduced because the baseline cost was adjusted from £190 million to £182 million to remove non-recurring costs.
<b>Forecast savings when the contract was signed October 2004.</b>	27.5	Calculated assuming baseline expenditure of £182 million under BBC Technology.
Reductions in forecast savings since the contract was signed.	(4.5)	Estimated savings reduced as spend under Siemens was higher than forecast. This was because expenditure which was sub-contracted under BBC Technology was not included in the original forecast spend.
	(1.2)	Estimated savings reduced further because the volume of commodities purchased under the framework contract was higher than anticipated.
<b>Estimate of first year savings as at April 2006</b>	21.8	

Source: BBC

## 7 Savings from increased flexibility under the contract with Siemens

Under the contract with BBC Technology, the level of expenditure on desktop computers was fixed, irrespective of usage. Under the contract with Siemens, reduced usage results in lower charges. The BBC expected to make annual savings of £3.9 million from reduced demand for technology equipment in 2005-06, resulting from its redundancy programme. The redundancy programme was delayed while the BBC discussed the programme with its unions and the BBC now anticipates that the savings will be realised from 2006-07 onwards.

Source: National Audit Office

## Financial management

**39** Since the contract was signed in October 2004 the BBC has been developing and improving its financial management processes relating to the Siemens deal to:

- monitor the accuracy of Siemens billing; and
- control the spend under the contract.

**40 Monitoring Siemens's billing.** Both Siemens and the BBC recognised the need for improved billing when the first bill under the Technology Framework Contract was received in May 2005 and asked BBC Internal Audit to carry out a review. Internal Audit reported that the monthly bills from Siemens' did not provide enough detail for the BBC to be able to check their accuracy and confirm that the anticipated cost savings were being delivered. We confirmed that, since October 2005, the BBC's technology contract management team have been provided with more detailed billing information and that the BBC are checking the accuracy of Siemens's early invoices.

**41 Controlling spend.** The BBC currently operates a decentralised budgeting system, which means that BBC Divisions are responsible for managing their own technology spend, some of which is outside the contract. The BBC does not know the exact value of projects commissioned by Divisions outside the contract but estimates that total technology spend was around £450 million in 2005-06 and £190 million of this was paid to Siemens. The BBC anticipates that savings could be made by procuring some of the products and projects

purchased from other suppliers through Siemens. These savings could arise from more competitive prices under the contract or from lower administrative costs from not having to go through an additional procurement process. Expanding the coverage of the Siemens contract is also covered in paragraphs 56 to 57.

**42** The amount spent in 2005-06 on new projects and on commodities under the framework contract with Siemens was £178.7 million,<sup>9</sup> some 14 per cent more than the £156.7 million forecast. The BBC has explained that this was principally due to a greater number of projects being required as its technology requirements crystallised and new technologies (such as high definition television) becoming available.

**43** The BBC estimates that additional savings could be made through more rigorous volume control and is appointing a team of Technology Service Advisors to help BBC Divisions better manage commodity spend.<sup>10</sup> It is also planning to transfer control over project spend from the Divisions to the BBC's Technology Group recognising that Siemens's contracted margin is 12.25 per cent for commodity spend and 23 per cent for projects. The BBC anticipates that centralising control over project spend will:

- provide it with a complete picture of the value of projects commissioned by the Division outside the Technology Framework Contract;
- safeguard against project duplication;
- lead to more successful, more productive projects; and
- facilitate the spread of good practice across the BBC.

## Contractual value for money incentives

**44** The prices set out in the Technology Framework Contract were arrived at following a competitive procurement process. Elsewhere, public sector organisations have kept prices competitive by introducing an overall profit-sharing provision, which is invoked if the private sector partner makes a return which exceeds a specified level. The contract with Siemens does not include a profit-sharing provision but includes the following provisions designed to keep prices competitive over the life of the deal.

<sup>9</sup> An additional £11.6 million was paid to Siemens for 'in-flight' projects, adding up to the total spend under the contract of £190 million as at paragraph 41 above.

<sup>10</sup> The Technology Service Advisors' role is to reduce the volume of commodities purchased through the contract, help to ensure that appropriate equipment is purchased, use existing assets to their full potential and, where applicable, encourage Divisions to procure technology through the Siemens contract rather than from an alternative supplier.

**45 Incentivised savings.** Between years four and ten of the contract, Siemens is required to propose ways of achieving total net savings of £81.5 million over and above those savings already anticipated when the contract was signed. Siemens is required to show that the proposal would result in cost savings but if the BBC rejected a proposal because it decided it was unacceptable, Siemens would not be required to put forward an alternative.

**46 Gain share.** The gain share provision is designed to incentivise Siemens to identify and propose new projects over and above those proposed under the incentivised savings element of the contract. It does this by stipulating that any net savings resulting from gain share projects are split equally between Siemens and the BBC.

**47 Open book accounting.** The BBC has open book accounting rights that allow it to access and review financial information relating to the contract, including Siemens's income, expenditure and profit from the deal. This gives the BBC the means to examine the rate of return to establish whether it is still in line with the level anticipated when the deal was competitively procured. The open book provision could, however, have been strengthened by providing the BBC with access to Siemens's income and expenditure forecasts (as well as historical data). This would help the BBC to monitor anticipated returns and the sustainability of the deal.

**48** The BBC has exercised its open book rights selectively to price some new projects but otherwise it has chosen to forego these rights for the first 18 months of the contract. It does not believe that there is a benefit to open book accounting during this period because it does not expect Siemens's rate of return to be positive at this stage. As a result, the BBC does not know Siemens's actual rate of return.

**49 Price benchmarking.** From the fourth year of the contract, the BBC can benchmark the price charged by Siemens for some services. Benchmarking could result in some cost savings but will not ensure that all prices stay competitive. The services which can be benchmarked represent just over two-thirds of estimated spend under the contract. The remaining one-third of services are not subject to benchmarking because Siemens and the BBC agreed that comparable benchmarks are not available. Prices would be compared to the average of the top 50 per cent of comparable service and prices could be up to 7.5 per cent more expensive than this average before Siemens was required to reduce them.

## Are the BBC and Siemens taking the contract forward through partnership working?

**50** The report by the Committee of Public Accounts on *Managing the Relationship to Secure a Successful Partnership in PFI Projects* highlighted the importance of developing a successful partnership in achieving value for money over the life of contracts.<sup>11</sup> Although the contract between the BBC and Siemens is not a PFI contract, similar principles apply.

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"Co-location ensures close working and regular dialogue such that should any disputes arise, they can be resolved quickly"

(Siemens comment)

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"There is good understanding [of the contract] at a senior and managerial level but this is not always shared at the more junior working or operational level"

(BBC comment)

## Progress in establishing a partnering relationship

**51** To encourage partnership working the BBC and Siemens teams are co-located, although there is still work to be done to establish the partnership at an operational level in BBC Divisions. In particular there is a need to improve the level of understanding of Siemens's role among BBC Divisions. Both BBC and Siemens management recognise this and are developing plans to promote the partnership throughout the BBC. These include, for example, the new Board-level governance arrangements (paragraph 54), and promotion of the benefits that the partnership with Siemens can bring (**Figure 8**).

**52** The scope for Siemens to win new business under the framework contract gives Siemens a financial incentive to develop the partnership. In the first year of the contract, Siemens was the exclusive supplier for around 77 per cent of BBC spend, preferred supplier for 21 per cent and non-exclusive supplier for two per cent (paragraph 16).

11 *Managing the Relationship to Secure a Successful Partnership in PFI Projects*, Committee of Public Accounts Forty-Second Report, HC 460 Session 2001-02.

## 8

## Partnership: Digital Fabric

The Digital Fabric project aims, over a two-year period from October 2004, to deploy a new infrastructure which will allow different software applications to interact with each other, and provide the basis for the future rationalisation of applications across the BBC. Current projected costs are £6.2 million.

The BBC expects the project to deliver cost savings by reducing the number of changes that need to be made to applications while Siemens anticipates that the project will provide opportunities to develop solutions which it could offer to customers other than the BBC.

Siemens considers that the establishment of a strong partnership with the BBC allowed it to get the best deal when it went to the market with the BBC's requirement. The BBC gave Siemens the freedom to use its expertise and knowledge to negotiate with vendors to get the best deal. Previously, the BBC had gone to the market for a similar requirement and negotiated directly with vendors, but had been unable to identify a suitable vendor.

*Source: National Audit Office*

**53** The contract includes a balanced scorecard which is also designed to provide a financial incentive to reward Siemens for high levels of partnership behaviour over and above routine service performance. The BBC can reward Siemens up to £0.5 million in any contract year, however, in practice the BBC and Siemens have been unable to establish an effective way of measuring high-level partnering performance. The scorecard has not been used since January 2006 and work is under way to develop a revised approach.

**54** We consulted BBC and Siemens staff involved in overseeing and implementing the contract on how well the partnership is working.

- Broadly, the people we consulted considered that: the roles and responsibilities between the BBC and Siemens are clear; there is a shared understanding of required outputs; and the BBC and Siemens share information freely and transparently. To support the contract, the BBC has drawn up a user guide to assist those people involved in the provision of services and in the relationship with Siemens.

- The BBC's Chief Technology Officer and his Siemens counterpart considered the relationship to be constructive. But the BBC and Siemens do not yet have the Board-level engagement necessary to drive the partnership forward. To this end, the partners are now setting up a new Technology Partnership Board on which will sit three BBC Board members – the Director-General, the Finance Director and the Director of New Media and Technology – and the BBC's Chief Technology Officer. Siemens will be represented by its Executive Director responsible for the deal, the Managing Director and the Finance Director. The group will meet twice a year to agree strategic priorities for the contract and raise the profile of the contract inside the BBC.

**55** Clarity in the management of risk is also likely to influence the success of the partnership. For shared risks we confirmed that the BBC and Siemens were producing a joint risk register, but one year into the contract this had not been finalised. The BBC has no separate register for the contract for those risks which rest with the BBC, although some risks are reported in its corporate risk register.

### Expanding the coverage of the contract

**56** When the BBC's technology requirements were provided by BBC Technology, parts of some BBC Divisions, in particular News, World Service, Radio and Music, and Nations and Regions, provided their own technology. These 'self-serve areas' were not explicitly included under the original contract, although being a framework there is provision for them to benefit from it. The self-serve areas spend around £50 million a year on technology. From summer 2007, one part of the Nations and Regions Division, BBC Scotland's IT and engineering support services, will be brought into the contract under call-off arrangements. In this case, the BBC estimated that the Siemens bid offered annual savings of £0.5 million calculated against a current spend of £28.1 million on the 'in-house' comparator.

**57** The BBC considers that applying the contract to more of these self-serve areas has the potential to extend the anticipated benefits of the contract, and grow the partnership with Siemens to make the deal more sustainable. The BBC has not yet carried out a cost-benefit analysis of incorporating the self-serve areas into the contract to support this.

## Maintaining business continuity

### During the contractual term

**58** Good practice guidance encourages organisations to plan effectively for possible early termination. The BBC has included safeguards within the contract designed to preserve business continuity and provide compensation if the partnership disintegrates. Some business critical services are ‘controlled’, meaning that the BBC has only released limited responsibility to Siemens. Siemens cannot move staff and assets from these controlled services to other assignments without BBC prior approval. In addition the BBC has secured the right to ‘step in’ and take over services for a period of time if a Siemens failure creates an immediate and serious threat to the BBC’s business or operational effectiveness. Pre-step in rights also exist which compel Siemens to investigate, report on remedial steps and provide the BBC access to Siemens’s information and individuals.

**59** The Comptroller and Auditor General’s report on the National Savings and Investments’ deal with Siemens<sup>12</sup> highlighted the importance of having a parent company guarantee to place the onus on the supplier to take remedial action in the case of financial difficulty. In line with this, the BBC’s contract with Siemens includes a parent company guarantee to provide a disincentive for Siemens to pull out of the partnership before the end of the contract term.

**60** The Comptroller and Auditor General’s report on the National Savings and Investments’ deal with Siemens<sup>13</sup> also recommended that organisations should have contingency plans in place in case private sector partners default, and that such plans should be drawn up and maintained even where default is unlikely. For the first year of its contract with Siemens, the BBC did not have contingency plans in the event of contract termination, but these plans are now being developed.

### At the end of the contract

**61** Reports by the Committee of Public Accounts on the Inland Revenue/EDS Strategic Partnership<sup>14</sup> and the NIRS2 Contract Extension<sup>15</sup> concluded that it could be difficult to create effective competition for a large contract with a strong incumbent supplier. Good practice guidance on outsourcing<sup>16</sup> sets out what an organisation can do to promote effective competition when a contract expires and support a smooth transfer of services to a successor provider.

**62** In line with this good practice, and drawing on lessons learned from other BBC outsourcing deals, the BBC’s contract with Siemens includes provisions to support re-competition and the transfer of services. Most importantly, Siemens’s responsibilities are set out in an exit plan; ownership and access rights to tangible property and intellectual property are made clear; arrangements are in place to transfer key staff; and the contract has information-sharing provisions designed to level the playing field between Siemens and prospective bidders. These contract provisions should help the BBC to manage the end of the contract but success will also depend on the BBC’s ability to promote competitive tension in the market place and manage the relationship between Siemens and other bidders.

<sup>12</sup> PPP in practice: National Savings and Investments’ deal with Siemens Business Services, four years on, HC 626, Parliamentary Session 2002-2003.

<sup>13</sup> PPP in practice: National Savings and Investments’ deal with Siemens Business Services, four years on, HC 626, Parliamentary Session 2002-2003.

<sup>14</sup> Inland Revenue/EDS Strategic Partnership: The Award of New Work (28th report 1999-2000).

<sup>15</sup> NIRS2 Contract Extension (38th report 2001-2002).

<sup>16</sup> For example, the Office of Government Commerce successful delivery toolkit.