

# Setting strategy

The Trust set a number of priorities for the Director-General for 2013/14. We report on progress below, as well as identifying our priorities for 2014/15.

### ★ Quality and distinctiveness

We highlighted for particular attention:

- The quality, variety and originality of new drama on BBC One, especially in peak
- The quality and prominence of current affairs on BBC One and BBC Two

The Executive has made a number of internal management changes that are designed to promote creativity and innovation in all genres. These include new development teams or 'Creative Labels', an innovation unit, BBC Productions awards (to boost creativity in in-house production) and a 'Charter of Editorial Commitments' to improve the BBC's relationship with, and speed of response to, independent producers.

In October, the Director-General signalled that high-quality British drama was a major editorial priority, and proposed changes to BBC Three in part to redirect more funding into BBC One drama.

The Trust welcomes this intention to further increase ambition in drama and will look to see a positive outcome for audiences.

We reviewed the quality and prominence of current affairs output as part of our service review of network news and current affairs, published in April 2014.

We found that the BBC makes more current affairs programmes, has larger audiences and is perceived as better than other providers for being high-quality and relevant, and for keeping audiences informed of issues.

However, we also found that audiences expect more from the BBC's current affairs and that there was a relatively low audience awareness of much of the BBC's current affairs output. They want it to do more to cover stories and issues which stand out. The challenge facing the BBC's current affairs output is therefore to make greater impact and increase audience awareness of what it does.

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We highlighted the need for:

- A clear and sustainable response to the National Audit Office's (NAO) review on severance payments to put a stop to any future excessive payments
- Sufficient rigour in the final years of the Delivering Quality First (DQF) savings plans, in particular to make sure that back-office functions can be pared back as promised

The BBC's full response to the NAO's review on severance payments can be found on our website. At its heart is a new policy that caps any future pay-offs at £150,000, along with significant improvements to internal controls and processes. Any future exceptions to the new policy need to be identified and justified in the Annual Report.

On the DQF savings programme, significant progress has been made in the course of the past year to remove three-quarters of the savings that had previously been considered 'at risk', largely through major savings in operational (non-content) areas and contracts. The programme has so far saved £374million each year and is on track to release the planned £700million of annual savings.

The NAO is to conduct a progress report in this area later in the year, and we hope they will be able to provide additional assistance to the BBC in meeting its targets in the final years of the plan.

In the meantime, the BBC will need to find additional savings to fund the new initiatives put forward by the Director-General. The Trust will subject some of the resulting proposals to further regulatory scrutiny where they affect services (for example BBC Three). We welcome the Executive's benchmarking exercise aiming to identify potential further efficiency savings.

#### What's next?

Our priority for the BBC in this area remains to improve the quality, variety and originality of new drama on BBC One, particularly in peak time.

#### What's next?

We want to see a further reduction in senior manager numbers and, while doing so, to establish what the Executive thinks the BBC's overall headcount ought to be in future.

## Serving all audiences

We highlighted in particular our desire for:

- A clear strategy for free-to-air platforms
- Improvements in the representation of women on air
- Improvements to the quality and prominence of current affairs output for each different part of the UK

The Executive has presented a strategy for its investment and involvement in different free-to-air platforms (Freeview, Freesat and YouView) to the Trust. We captured the results of that work in our review of the BBC's participation in YouView (see page 28) as well as in the new distribution framework that will be put out for public consultation later in the year. This framework will establish the key principles and parameters for future BBC management decision-making in a way that the rest of the market can easily understand.

There have been notable individual examples of a new commitment from the Executive to improve the representation of women on air, and some broader initiatives, such as the commitment for 50% of local radio stations to have a female breakfast presenter by the end of 2014. However, content analysis suggests a continuing gender imbalance in BBC output and we consider that there needs to be a co-ordinated plan from the Executive to address this as part of a wider diversity strategy.

On current affairs, the Executive has done some work for each part of the UK to develop new formats and to promote local journalism. In Scotland in particular, additional funding has been put in place to cover the referendum campaign. The Trust's review of nations radio (to start in 2015) will include an assessment of news and current affairs provision in each nation.

### Openness and transparency

We highlighted the particular importance of:

- The BBC's response to the general issues revealed by the Pollard report (which investigated whether there were any failings in the BBC's management of a dropped Newsnight investigation into Jimmy Savile)
- The pursuit of new creative partnerships with other major cultural organisations and institutions

We welcome the work that the Executive has done in response to the Pollard report, including:

- Changes to the organisational structures in news
- Bolstered management of major investigations
- New appointments from outside the BBC
- A redesign of the managed programmes risk list

The challenge will be to make sure these individual changes add up to the broader change in culture that the Trust asked for in response to Nick Pollard's report. From that point of view, the wider management changes made by the Director-General – to reduce internal bureaucracy and require individual responsibility from senior managers – are extremely welcome.

We also welcome the work that has been done to promote and develop new partnerships with institutions as diverse as Arts Council England (the Space), Birmingham City Council, the BFI, PACT (BBC Store), and Spotify (BBC Playlister).

As these partnerships develop, we are looking to the Executive to set out a clearer plan for an overall strategy to build on them, and on other successes, and make the BBC an even bigger catalyst for the success of the UK's cultural and creative sector.

### What's next?

We want the BBC to make measurable progress in reflecting better the diversity of the UK population in the BBC's workforce and its output, in particular increasing the number of women on air.

#### What's next?

We want the BBC to pursue more partnerships with other cultural and creative organisations across the UK.



# ★ Quality and distinctiveness

We assess the performance of BBC services by looking at how audiences use and appreciate them, and we ensure BBC editorial standards remain high.

#### Overview

The public expects a different, higher standard of content from the BBC. So, increasing the distinctiveness and quality of all its services is a particular priority for the Trust. Maintaining high editorial standards is one key aspect of distinctiveness, and the Trust sets more detailed and demanding requirements for impartiality, accuracy and fairness than Ofcom sets for all other

Here we report on how BBC services performed in terms of audience numbers and appreciation, and then on how they complied with the BBC's editorial standards.

#### Service performance

Ninety-six per cent of UK adults used BBC services each week, and overall they continued to rate the quality of content highly, despite the continuing budget cuts. The time people spend with the BBC – on both radio and TV – has declined, as it has for other major broadcasters, probably as a result of audiences having a wider choice of entertainment of all types. Of greater concern is that, while most people continue to trust the BBC far more than other broadcasters, levels of trust have not fully recovered from the impact of the controversies regarding Jimmy Savile's time at the BBC. Regaining the full confidence of audiences is a key priority.





## Performance summary

### Television – audience appreciation

Audience appreciation of BBC television, while remaining high, has fallen slightly for the first time in a number of years.

## How the BBC measures up 83.1 82.6 82.1 2011/12 2012/13 2013/14 Source: BBC Pulse Survey

#### Next steps

Our service review found that audiences' demands for range and variety are not entirely being met. We have asked the Executive to make a number of improvements in this area and will monitor the changes made.

#### Fresh and new

The number of people who believe the BBC offers something 'fresh and new' has remained stable, but the public still expect more from the BBC.



2012/13

2013/14

How the BBC measures up

2011/12

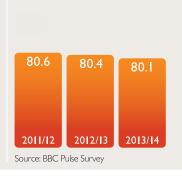
How the BBC measures up

#### Next steps

■ The distinctiveness of the BBC's output remains a priority and our review of TV services has asked for an improvement in this area.

### Radio – audience appreciation

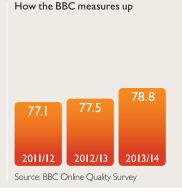
Audience appreciation of BBC radio remains high, but has fallen slightly in the last two years.



Next steps
■ We will consider how BBC radio can maintain and increase its quality in our speech and music radio service reviews in the coming year.

#### BBC Online – audience appreciation

Audience appreciation of the BBC's online services increased slightly this year.



Our review of BBC Online last year highlighted a number of actions for the Executive, including improving the site's linking to external sites. This year the number of 'clickthroughs' to other sites fell slightly, so we will continue to monitor this area closely.



# ★ Quality and distinctiveness

#### Television

Even though increasing numbers of people own tablets and other devices, watching television is still enormously popular, with the average viewer watching 3 hours 47 minutes of TV each day. While the amount of 'timeshifted' viewing continues to rise slowly, by far the majority of TV is still watched live.

The performance of BBC television remains strong, although this year 'audience appreciation' (AI) scores declined slightly, and the number of viewers fell. In total, 84% of people watched some BBC TV each week in 2013/14, down from 86% in 2012/13.

#### BBC One

BBC One remains the nation's most widely viewed TV channel, watched by 75% of UK adults this year, compared with 78% in 2012/13. BBC One produced some very high quality and distinctive programmes, including Sherlock, Mrs Brown's Boys, Last Tango in Halifax, Britain's Great War and Penguins – Spy in the Pod. But BBC One's average Al score fell and there was also a slight decline in the audience's perceptions of its programmes being fresh and new.

As BBC One is the BBC's flagship TV channel, we are continuing to put pressure on the Executive to ensure it offers the distinctive, high-quality content audiences expect from the BBC, with improving the quality, variety and originality of peak-time drama a particular priority.

#### BBC Two

BBC Two's average Al score was stable, whilst its scores for 'fresh and new' increased. There were a number of very distinctive and popular dramas including Line of Duty, The Fall and Peaky Blinders, and the factual entertainment show The Great British Bake Off was enormously popular.

BBC Two's total audience numbers declined slightly this year, partly due to changes in the daytime schedule. However, more people watched the channel in peak time.

#### Daytime on BBC One and Two

To make savings, children's programmes were removed from BBC One in January 2013 and it became the primary channel for new daytime programming. As a result, the average audience for daytime on BBC One programming increased this year, although quality scores went down slightly. BBC Two's daytime audience declined, following the decision to remove new programming from the daytime schedule.

#### **BBC** Three

Slightly fewer people watched BBC Three this year, with 26% of the target audience of 16 to 34-year-olds watching each week, down from 29% in 2012/13. There is some evidence to show younger people are increasingly watching content online and BBC data indicates iPlayer now accounts for 6% of all viewing of the channel.

The Executive wants to make savings by closing BBC Three as a TV channel and instead creating an online service. When we consider these proposals, our priority will be to represent the interests of licence fee payers. We will conduct a public value test, including a public consultation, so that everyone will have the opportunity to have their say.





#### **BBC** Four

BBC Four bucked the trend of the rest of the BBC's TV channels, reaching the same number of people as last year – 14% of adults each week – despite significant cuts in its budget.

Saturday night foreign drama continued to lead the way, with programmes such as *The Bridge* recording an average AI score of 92 and the channel's highest audience of the year at 1.6 million viewers.

#### Children's - CBBC, CBeebies

In 2013 we published a review of the BBC's children's output, which plays a vital role in fulfilling the BBC's public service remit. We found that CBBC and CBeebies perform very well but the key challenge continues to be to maintain reach and impact in a media environment in which older children have a lot more choice. To achieve this, we expect regular promotion of children's output on mainstream BBC services as well as providing some content that will appeal to children on these services.

Since we published the review, the proportion of children aged 6-12 who watch CBBC each week fell, from 30% last year to 25% this year. Even at this level, the channel remains highly popular amongst its target age group.

CBeebies' reach amongst its target audience of children aged 0-6 also fell this year, down from 43% to 40%, although its Playtime app for tablets and mobiles has been highly successful, and it still reaches far more children than other pre-school channels.

#### **BBC ALBA**

BBC ALBA performed strongly, and was watched by 18% of the Scottish population each week, up from 16% last year. It did extremely well with Gaelic speakers, with 72% watching the channel each week, and audience approval remained high.

#### Radio

Listening to the radio remains very popular in the UK, with nine out of ten adults tuning in every week. However, the time they spend listening to the radio continues to decline and this may be a long-term trend. This is reflected in BBC Radio listening – 67% of UK adults tuned in each week, but for less time, with listening hours falling most among younger adults. Listeners' perceptions of the quality of BBC Radio remained very high, with an average Al of 80.

We will review BBC music and speech radio services in 2014/15 as part of our rolling programme of service reviews.

#### BBC Radio I and IXtra

Radio I's remit is to serve younger audiences, and we have continued to press the Executive to ensure it does so. In 2012/13, the station made a number of changes to its presenter line-up to increase its appeal to younger age groups, and this year, while the median age remained stable at 30, younger listeners now account for a slightly greater proportion of the total audience. The station has been successful in reaching young audiences in new ways: the Radio I YouTube channel now has more than I million subscribers, and the station has more than I.7 million followers on Twitter.

Radio IXtra continued to reach an audience of more than I million each week and, unlike many other stations, the amount of time people spent listening to it was largely stable.





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#### BBC Radio 2

Radio 2 continued to perform very strongly indeed. It remains the UK's most popular radio station, with 29% of UK adults listening each week, up from 28% last year. In contrast to many other stations, people are continuing to tune in for the same number of hours each week and listeners also continued to rate the quality of Radio 2 programmes very highly.

The station has an important responsibility to ensure that its speech output and music mix is distinctive and focuses on promoting the BBC's public purposes. We will consider how well it is achieving this in our forthcoming service review.

#### BBC Radio 3

Radio 3 continued to reach around 2 million people each week and they rated it very highly. The station offers a large amount of new music commissions, and a continuous and very high proportion of live and specially recorded performances, together with drama and other output. An example of Radio 3's output was a collaboration with the South Bank Centre, with a pop-up studio giving the public access to the station for a fortnight and including 15 live concerts and three world premieres.

Our service review will include an assessment of Radio 3's distinctiveness.

#### BBC Radio 4 and 4 extra

Radio 4 performed very well again this year. As well as increasing its Al score, now at 81.3, it also increased its audience – a record 11 million people tuned in each week.

Our review of BBC network news and current affairs, published in April 2014, found that audience numbers for radio news programmes remain very high, and the quality of Radio 4's news and current affairs output was very highly rated.

We are keen for Radio 4 to reach more people who would appreciate its programmes but do not currently listen outside the south of England, including in the devolved nations. This year the station increased its audience in some parts of the country, and we expect it to continue to look for ways to broaden its appeal across the UK without compromising its distinctiveness.

#### BBC Radio 5 live and 5 live sports extra

5 live continued to attract an audience of just over 6 million each week, while 5 live sports extra attracted 1 million. Since our service review, published in 2012, 5 live has made progress in providing more serious news coverage. Our review of network news and current affairs highlighted its role in facilitating public discussion and debate on topical issues.

#### BBC 6 Music

6 Music's audience continued to grow, and it is the UK's most popular digital-only station, with almost 2 million listeners each week. The station has a very loyal audience – people are tuning in for longer and its average AI is one of the highest of any BBC radio station.

#### **BBC** Asian Network

When we completed our service review of the Asian Network in May 2012, we said that the challenge for the station would be to grow its audience while operating with a much lower budget. The station's audience increased from 528,000 in 2012/13 to 588,000 this year.

#### Nations and local services

Our service review of the BBC's national radio stations in 2011 challenged the Executive to give each station a more distinct role. Since then, several stations have significantly refreshed their schedules and this has led to some positive results.

Radio Wales' weekly reach was stable this year at 18%, while audience appreciation increased. Radio Cymru has just made changes to its schedule and we will monitor the impact of this on listeners.

Radio Ulster/Foyle is also refreshing its schedule and developing the breadth of the local news agenda. It continued to perform very well, reaching 36% of the population of Northern Ireland, up slightly on last year.

Radio Scotland reached fewer people this year, down to 20% from 22% in 2012/13, although the time they spent listening to the station remained fairly stable. Our Audience Council in Scotland advised us that there had been positive developments following our service review, including new weekend speech programming and better coverage of cultural events.

The Gaelic station Radio nan Gàidheal's audience fell to 64% among Gaelic speakers this year, which may be linked to the universal availability of the Gaelic TV station, BBC ALBA, since 2011. The station will review its schedule in the coming year, including an increase in Gaelic-learning content.

As part of the BBC's savings plan, in January 2013 BBC Local Radio introduced a programme broadcast across all English regions on weekday evenings and we have been monitoring its impact on audiences. The number of people tuning in has fallen only slightly. Our Audience Council in England told us that the new programme maintains the spirit of BBC Local Radio. We also welcome Local Radio's introduction of political reporters to many of its stations and an increased focus on holding local figures to account.

#### **BBC** Online and Red Button

This year, 53 million unique browsers accessed BBC Online each week in the UK, with mobiles and tablets now accounting for more than half of all usage.

While the total number of people using BBC Online is still growing, it is doing so quite slowly. It is now used by around 49% of UK adults each week, which has increased only slightly on the previous year. We expect the BBC's development of its online offer for younger audiences to broaden its appeal and will monitor and report on this. BBC Red Button is used by 33% of UK adults and this is fairly stable compared with last year.

In our recent service review, we asked BBC Online to enable users to navigate more easily across the site, and to increase the number of 'clickthroughs' to external sites to allow users to find relevant content beyond BBC Online. In fact, clickthroughs fell slightly this year, largely driven by a decline in clicks from Sport and lower clickthrough rates from the growing number of mobile and tablet users. We are encouraging the Executive to continue to look for ways to increase the traffic it is driving to other sites.

#### News and current affairs

Nothing the BBC does is more important than its journalism: it is at the heart of the BBC's public service mission and the Trust will ensure it remains the core of the BBC's principal services. This year we published our first service review of network news and current affairs. We found that four out of five adults get news each week from the BBC and they rate it well ahead of other news providers for its key characteristics of range, authority and expertise. Young adults have always been difficult for news broadcasters to reach but a proliferation of sources of 'news' online has made the challenge all the greater. We have asked the BBC to ensure that its journalism is made available in forms that audiences want, wherever they want it.

Our review also confirmed that current affairs output on TV and radio covers an impressive range of domestic and foreign stories and that the BBC is perceived as the best at producing high-quality, relevant content, and keeping audiences informed. However, we found relatively low recognition of much BBC programming and we have asked the Executive to increase the impact of this output. To help this, we will amend the BBC One service licence to secure the presence and volume of high-quality current affairs in the schedules.

While audiences rate BBC News much more highly than other news providers, perceptions of accuracy and impartiality fell a little this year. These are important indicators which we will continue to monitor closely.

#### **BBC** World Service

The BBC World Service continued to reach 191 million adults around the world this year. More people accessed the service on television and online, while, as in previous years, the number of listeners to its radio services declined.

Nonetheless, radio remains the single most popular way of accessing the World Service, with 128 million listeners, although it lost 17 million listeners this year, mostly short-wave listeners from India, Nigeria and Pakistan. World Service TV had 59 million viewers each week, up from 42 million last year, with BBC Arabic and BBC Persian channels and many other new services growing. The World Service website was accessed by 18.8 million people, 4.8 million more than last year, with significant growth for the Ukrainian and Russian sites due to the crisis in Ukraine and the Sochi Olympics.

The Trust is responsible for setting the strategic direction of the World Service and for safeguarding its editorial independence. In April 2014, the World Service became funded by the licence fee and we have established an operating licence which sets out its remit, scope, budget and main commitments. As with other BBC services, we will review the performance of the World Service regularly.

The new BBC newsroom studio at New Broadcasting House





#### Editorial standards

The overwhelming majority of the BBC's content complies with the Editorial Guidelines, through which we set demanding standards.

The public expects the highest editorial standards from the BBC and people expect to be able to rely on its output to inform, educate and entertain them. They also expect it to be accurate, fair, independent of commercial or political pressures and, above all, impartial. Upholding these standards is one of the Trust's most important roles, and where the BBC makes mistakes we expect lessons to be learned.

#### Editorial complaints

Through our Editorial Standards Committee we uphold the BBC's standards by considering editorial complaints and reports about serious editorial breaches. Below we report on two that were of particular significance.

#### Panorama: North Korea Undercover

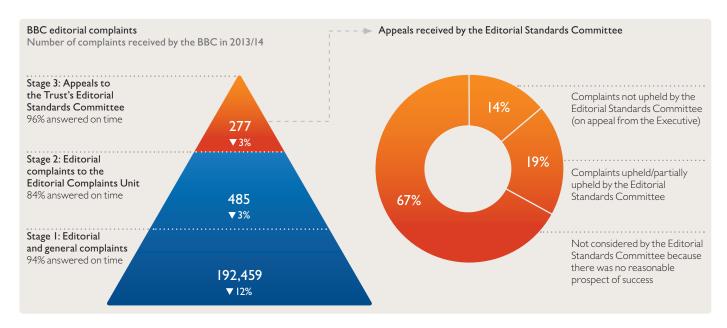
In the making of this programme, an undercover team from *Panorama* travelled to North Korea with a group of current and former students from the London School of Economics. We received two complaints about the programme on behalf of a student and the LSE who questioned whether they were treated fairly by the BBC in the organisation of the trip and whether their privacy was infringed. They also questioned the accuracy and impartiality of statements made by the BBC about the programme after it aired.

The Trust found that there was a strong public interest in the programme, that the BBC was not reckless and had spent considerable time evaluating the risks created by the trip, and that the correct referral procedures and processes had been followed. However, the BBC had failed to consider a number of important issues – or failed to deal with them appropriately – resulting in unfairness to the student and to the LSE in the way the programme was made. We were satisfied that the BBC staff had not set out to be deliberately misleading in their statements after the broadcast, but it is best practice when the BBC becomes aware that it has publicly presented incorrect facts for it to correct those facts.

We concluded that the Guidelines relating to fairness, contributors and consent, and conflicts of interest had been breached. The BBC subsequently apologised to the complainants.

#### The Great Bear Stakeout

This programme, transmitted on BBC One in April 2013, contained misleading footage, which was reported to us by the Executive. The programme showed accurate footage of a mother bear and cubs, but it also showed a guide apparently watching and commenting on the scene. In fact the guide had not been present – his contribution was filmed later as if he had been. On becoming aware of this, the show's Executive Producer posted an apology on the programme's web page. We commended the speed of this response, as well as other actions the BBC had already taken. Nevertheless, this was a serious breach of the Editorial Guidelines relating to accuracy.



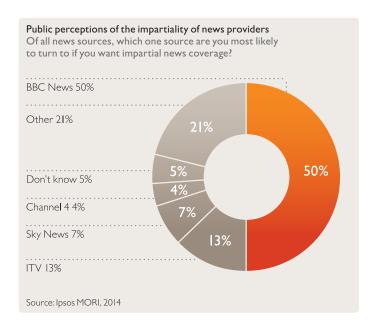
#### **Impartiality**

Impartiality is central to the BBC's role as a public service broadcaster, funded by the licence fee. It is one of our principal concerns in terms of editorial standards, particularly in relation to news and current affairs.

Each year, the BBC runs a survey of perceptions of the impartiality and trustworthiness of BBC News compared with other media. In this year's results, released in June, 50% of respondents said that BBC News was the source they were most likely to turn to for impartial news coverage. This is a much higher figure than for any other broadcaster and remains at around the same level as last year.

The Trust held an impartiality seminar on Africa in November 2013, with guests from inside and outside the BBC. The seminar highlighted some of the tensions felt by audiences about all media reporting of Africa.

In June we published an impartiality review, 'Rural Areas in the UK', led by an independent author, Heather Hancock. Taken as a whole, it found the BBC's coverage of rural issues in news, current affairs and factual programming was impartial, with strong specialist output on network TV and radio. It also found that services in the devolved nations and those in Welsh and Gaelic featured a wide range of voices. However, it found that network output relied on too narrow a range of organisations and charities and concluded that the range of rural voices used should be broadened. It also found that many news stories tended not to be considered from a rural perspective and that there was a particular deficit in coverage of rural issues in England. We have therefore asked the Executive to address this, including how it will ensure staff are able to report on rural issues with knowledge and confidence.



The BBC remains the UK's most popular source of impartial news



# **★** Value for money

In this second year of the Delivering Quality First (DQF) strategy, the BBC has continued to save money – amounting to £374million of ongoing savings – without compromising the overall popularity of its programmes and online content.

### A more efficient BBC

The BBC has delivered more than half of DQF's savings already and has worked to fully plan savings that were previously unidentified or considered difficult to achieve; these have now been reduced by three-quarters.

From April 2014 the BBC assumed responsibility for funding the World Service (£245million); this is on top of the extra responsibilities taken on this year for S4C, BBC Monitoring, broadband rollout, and Local TV (amounting to £250million). With a flat licence fee, the BBC needs to find further annual savings and commercial income of £326million in the next three years to meet these obligations and manage any inflationary pressures on the budget. And it needs to do this while continuing to deliver excellent programmes and content.

To this end, we welcome the Director-General's plans to benchmark costs across the BBC and will be looking for further progress in a range of other areas including headcount control and estate management as the new property strategy is implemented.

Our research shows that most people believe the BBC offers good value for money  $-\,58\%$ , which is slightly higher than last year. People's perception of value for money is, unsurprisingly, strongly influenced by the range of content they consume on TV, on radio and online, with around 71% of those who use BBC services on all three of these platforms concluding that the BBC is good value for money.

Nevertheless, value for money continues to be a concern for many licence fee payers and we will continue to listen to our audiences to ensure that the annual savings the BBC needs to achieve do not have an unintended impact on the quality and range of the BBC's services. We will also maintain our focus on improving how the BBC is run, through our programme of value for money reviews which makes an important contribution to holding the Executive Board to account. Some of these reviews are conducted by the National Audit Office (NAO) on our behalf; to support their work, the NAO has unrestricted access to BBC information.

In the following sections, we summarise our value for money work over the past year and set out our plans for the year ahead.





## Performance summary

#### Savings

2013/14 represents the second year of the BBC's DQF strategy and the BBC has already delivered over half the savings and additional income required.

How the BBC measures up

£374m

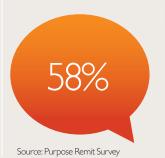
#### Next steps

- From April 2014 the BBC took on £245million funding responsibility for the World Service.
- The BBC will continue the DQF efficiency programme to deliver the remaining savings required to help fund this and other additional obligations.

#### Perceptions of value for money

As last year, nearly six in ten people perceived the BBC to represent good value for money, although the affordability of the licence fee remains a concern for some.





#### Next steps

- We will continue to ask the Executive to make further savings and improve the way the BBC is run.
- We will commission value for money reviews into the BBC's risk management and talent pay.

#### Reducing the pay gap

The pay multiple shows the difference in median earnings of BBC staff, and the Director-General.

The multiple has remained broadly level with last year.

#### How the BBC measures up



#### Next steps

- The BBC will ensure that its staff are fairly rewarded and motivated to deliver their best work for licence fee payers.
- Our aim is to see the multiple fall over time.
- As more public sector organisations begin to publish their multiple, we will be able to see how the BBC multiples compare with the public sector trend.

# **₤** Value for money

#### Financial strategy and annual budget

The Trust approves the BBC's high-level strategy and budget, and we hold the Executive to account for the BBC's financial and service performance.

#### Cost savings

When the DQF plan was developed in 2012, the savings target of £700million was based on the pre-DQF budget for 2012/13 rather than the 2011/12 outturn. This approach meant that the impact of DQF cost savings could be tracked separately from initiatives which were already planned for the year ahead.

We have also asked the Executive to report savings against a baseline of 2011/12 actual expenditure rather than the pre-DQF 2012/13 budget, to establish with clarity the extent to which costs have reduced. This year, the BBC has reported ongoing annual savings of £374million. This is a significant achievement, particularly as the savings come on top of the BBC's previous efficiency programme, which, by 2012/13 had delivered £580million of ongoing annual savings.

As well as being on track to deliver the agreed savings, the BBC also plans to make further savings before the end of the licence fee period in order to fund new editorial priorities.

The Trust has been tracking the impact of cost savings on the BBC's services by monitoring audience numbers and audience perceptions of quality. As we move towards the final years of the plan we have also asked the Executive to assess the impact on editorial and financial controls to check that the savings initiatives are not having an unintended impact in these areas.

#### Property strategy

This year the BBC began the process of decommissioning Television Centre following moves to MediaCityUK in Salford, and New Broadcasting House in central London. These moves are part of a plan to reduce significantly the BBC's footprint in London, and to help towards the target that, by 2016, half the money spent on network TV programming should be spent outside the capital.

We are expecting to see proposals for the BBC's exit from much of the remaining White City campus later this year. As part of these plans, we look to the Executive to ensure that all unused and under-used office space in west London is sub-let or otherwise disposed of as soon as possible. A prompt and orderly handover to new tenants will help ensure that we get maximum value from the BBC's White City campus for licence fee payers.

We have asked the Executive to report key property benchmarks to us as part of their regular performance reports to help us monitor progress.

#### Pay

The amount the BBC pays senior executives and talent (on-screen and on-air) plays an important part in people's perceptions of whether or not the BBC delivers good value for money. This year the pay multiple, which compares the pay of the Director-General with the median pay of staff, was broadly stable, falling slightly from II.0 to I0.9. This is down from I6.5 two years ago. The pay multiple for the Executive Board as a whole was also broadly stable.

#### Senior executive pay

This year, we suggested that the NAO look at severance arrangements for senior executives. They found that, although the BBC exceeded its target of a 20% cut in the number of senior managers it employs, the amount paid by the Executive in lieu of notice exceeded contractual entitlement in 22 of the 150 cases reviewed by the NAO. The total additional cost of these cases was £1.4million in the three years to December 2012.

From September 2013, the Director-General – in agreement with the Trust – introduced a cap of £150,000 on individual severance payments for all staff, and for new starters, a cap equal to the lower of £150,000 or 12 months' salary.

#### Employing freelancers

Last year, the BBC commissioned accountancy firm Deloitte to carry out a review of the way freelancers are paid. The review found that, although there was a high standard of compliance and no evidence of tax avoidance, an overarching policy in relation to the engagement of freelancers should be established. In response to that recommendation, the BBC worked with HMRC this year to develop specific guidance on how to determine whether a freelance or a staff employment arrangement is appropriate for each individual.

With this guidance in place, we will request a follow-up review in 2014/15 to ensure it is being applied consistently throughout the BBC, and that Deloitte's remaining recommendations, for example on increasing the disclosure of freelancer engagements to HMRC, have been fully implemented.

#### Headcount

This year, headcount increased for the first time since the BBC launched the DQF strategy. Given that, up until this year, £153.3million has been spent on restructuring, we have asked the Executive to explain what progress has been made in reducing headcount in previous years and identify the appropriate number of staff required to deliver the BBC's objectives.

#### Report on Executive Board remuneration

This is the report of the Trust Remuneration and Appointments Committee on Executive Board remuneration in 2013/14. The amount paid to members of the Executive Board for 2013/14 is detailed in the Executive Board's Remuneration Committee report in Part Two of this Annual Report.

#### The Director-General

The Director-General of the BBC is the organisation's chief executive officer and editor-in-chief; he is also Chairman of the BBC's Executive Board. There were two people in the post of Director-General during the 2013/14 reporting period. Tim Davie was acting Director-General from 11 November 2012 to 1 April 2013. Tony Hall became Director-General on 2 April 2013.

The Director-General's remuneration is usually made up of a base salary and a pension. However, Tony Hall is currently in receipt of a BBC pension from his previous employment with the Corporation, and has not joined the BBC pension scheme. The Director-General is provided with a car and driver for business journeys.

Tony Hall's base salary is £450,000 per annum, with no bonus potential. The same salary (pro rata) was paid to Tim Davie whilst he was acting Director-General.

We publish how much the Director-General gets paid compared with the median salary of BBC employees to illustrate how top executives' pay relates to the salaries of those in the rest of the BBC. In 2013/14, this multiple remained broadly steady at 10.9 (2012/13: 11.0).

#### Non-executive directors

In the 2013 Governance Review the Trust and the Executive agreed to appoint an additional two non-executive directors to the BBC, bringing the total number to six.

The non-executive directors receive a fee determined by the Trust. Fee levels are set with reference to rates paid by other UK corporations, but at a level such that the non-executive directors are not financially dependent on the BBC.

Each non-executive director receives a base fee. The chair of each committee receives an additional fee for undertaking that task, and the senior non-executive director also receives an additional fee. Non-executive directors are reimbursed for expenses, and any tax arising on those expenses is settled directly by the BBC.

In November 2012, non-executive directors proposed and the Trust agreed that their fees should be reduced. Further information about non-executive directors' fees can be found in Part Two.

Last year we stated that we would review non-executive directors' fees in December 2013; we decided to postpone this review, however, until after the appointment of the two new non-executive directors. The final appointment is expected to happen in the early summer of 2014.

#### **Executive directors**

The Executive Board's Remuneration Committee sets the remuneration for individual executive directors, within a strategy agreed by the Trust. Each year the Executive reports formally to us, explaining how this strategy is being followed.

During 2013/14, there were a number of changes in the Executive Board. We therefore considered the remuneration both of existing Executive Board members, and members appointed during the current reporting period. We are satisfied that the Executive's approach complied with the remuneration strategy, including the commitment to pay no bonuses to Executive Board members, and to gradually reduce the pay multiple, which is calculated by comparing the median earnings of BBC staff with the median earnings of executive directors.

Further information on the remuneration packages for executive directors, including the current pay multiple, is provided in Part Two.

# **₤** Value for money

#### In-depth value for money reviews

Value for money reviews commissioned by the Trust will play a key role in delivering the Governance Review's ambition for the Trust to focus on its oversight and regulatory functions by more explicitly and openly holding the Executive Board to account.

#### Digital Media Initiative

This year we commissioned an independent review of the failure of the Digital Media Initiative (DMI).

The aim of DMI was to improve production efficiency by enabling BBC staff to develop, create, share and manage video and audio content and programming on their desktop. It was closed in May 2013 and its remaining assets were written down at a total cost to the BBC of £98.4million. Following this costly failure, the Trust commissioned PricewaterhouseCoopers (PwC) to undertake a comprehensive review of DMI's management and reporting to identify what lessons could be learned and applied to future projects.

PwC found that there was no single event or issue that caused DMI to fail; rather, serious weaknesses in project management and reporting, a lack of focus on business change, together with piecemeal assurance arrangements, meant that it took the BBC too long to realise that the project was in serious trouble and unlikely to deliver its objectives.

The NAO published a memorandum on DMI, following up its original 2011 report on the project. It confirmed PwC's findings, concluding that the Executive did not have a sufficient grip of the programme.

As a consequence, on all projects, reporting arrangements have been strengthened to include points of external challenge, project management guidance has been updated, and project assurance arrangements are routinely reviewed to ensure they are coherent.

### Distribution

Also this year we commissioned a review of distribution, which was undertaken by media consultancy Mediatique. The review examined whether the BBC's distribution of television, radio, and online services (such as iPlayer) are cost effective, what governance structures are in place, and how well prepared the BBC is to respond to future challenges. It found that, overall, expenditure on distribution represents good value for money but that the teams within the BBC responsible for different distribution contracts should work more efficiently together (see the 'serving all audiences' section for further details).

#### Future value for money reviews

Following a previous Trust review in 2008/09, we asked the Executive to reduce the overall cost of talent, particularly at the top end. Since then, the total amount paid to presenters and performers on screen and on air fell for the fifth year in a row, to £194million, bringing the total annual saving to £35million (15%).

Having seen five years of reductions in this pay bill, now is the right time to review the BBC's position in the market, and to test the Executive's strategy for talent pay. We have begun the process of commissioning a review from independent specialists, and will report our findings later on in 2014/15.

We also plan to commission a review of how the BBC manages risk in order to ensure the Executive Board has put in place the right structures and processes to identify, assess, and mitigate risks, and to deliver value for money to licence fee payers in doing so. We intend to commence this review in the coming year.

In addition, the NAO will conduct two value for money examinations at the BBC in 2014.

- Managing the BBC's estate: this study will provide a strategic overview of the cost, management and performance of the BBC's estate following a period of renewal and consolidation. The BBC's estate represents a significant cost and the configuration and effective utilisation of the estate is critical to supporting new and more efficient ways of working.
- Delivering Quality First: this review will examine the BBC's progress in reducing costs through DQF and how the BBC is measuring the impacts of cost reductions on service delivery and quality.

In each case, the NAO will provide reports to the Trust. We will arrange for them to be published and put before Parliament, and will also consider what further work is required in response.

### Licence fee collection

In 2012/13 the BBC implemented the new licence fee collection contract with Capita; the contract is forecast to deliver savings to the BBC of £220million over its eight-year life. This year, the cost of collecting the licence fee fell below 3% for the first time, to 2.7%; this contributed to a reduction in the combined cost of collection and evasion from 8.5% in 2012/13 to 8.2% in 2013/14. We will continue to ensure that collection arrangements are efficient, appropriate and proportionate.

#### Significant financial proposals

Following the Governance Review this year, which concluded that the separate roles of the Trust and the Executive Board should be made clearer, the threshold at which we review significant financial proposals was raised. As such, the Trust no longer expects to approve individual investment decisions except where they are worth more than £100million and affect the overall direction or reputation of the BBC.

This year, under the previous arrangements, we received and approved four proposals from the Executive. In July, the Trust approved the procurement, until 2020, of transmission services for the BBC's domestic analogue and digital radio networks; this contract also included the build-out of the DAB digital network to cover 97% of the population.

The next significant proposal was a retendering of the BBC's UK-wide facilities management contract in October. This was followed a month later with a proposal to replace one of the BBC's core IT systems, underpinning finance, HR, training, and procurement.

Finally, in December, we approved the extension of the existing technology framework contract with service provider Atos; this is to allow the Executive time to restructure the provision of IT facilities into six different services, co-ordinated by a service integration and management function. We expect proposals for a number of the individual IT services to come to the Trust for approval as the Executive finalises their procurement during 2014/15.

#### Trading fairly

It is important that the BBC conducts its activities fairly and that it takes proper account of its effect on others in the market. The Trust sets the policy framework for fair trading, holds the Executive to account for its compliance with those requirements, and acts as final arbiter in the event of complaints.

We monitor the BBC's adherence to the fair trading policy during the year and approve the appointment of auditors who conduct an annual audit of its fair trading systems and processes. Their report is published in Part Two.

We are required to review the BBC's fair trading policy framework every three years, and we are currently conducting the second of these reviews. We will hold a public consultation later in the year on our findings and on any changes we propose as a result.

In August 2013, we considered a fair trading appeal concerning the BBC's arrangements for studio supply in the London area. At the request of the appellant, details of the appeal remain confidential but an extensive Trust investigation resulted in a number of follow-up actions including a review by the Executive of its studio supply arrangements in the London area and a clearer definition of the test of commercial efficiency that we apply to the BBC's commercial subsidiaries.

#### Overseeing the BBC's commercial activities

The Trust oversees the BBC's commercial strategy, sets the framework for scrutinising new commercial service proposals and monitors compliance with conditions set out in the BBC Agreement.

#### **BBC** Store

In July 2013, the BBC submitted proposals to the Trust to make available a broader range of BBC programmes, on a commercial basis, via a BBC-branded website, 'BBC Store'.

In March 2014, having completed both the commercial and public service regulatory assessments, including taking advice from Ofcom, we approved the proposals for BBC Store.

#### New framework for commercial services

One of the conclusions to emerge from the governance review was that we should build on the existing service licence system by creating public documents that set the boundaries of the BBC's commercial work and allow us to hold the BBC to account for its performance. We have begun developing a framework document for the BBC's commercial services and will consult publicly on it later in 2014, with a view to implementing the new framework towards the end of the year.

#### Lonely Planet

In 2013, BBC Worldwide sold the Lonely Planet business that it had acquired in 2007 (75% was acquired in 2007; the remaining 25% in 2011), making a significant loss on the transaction.

We commissioned and published an independent review which found that, against the backdrop of a sustained strong performance from BBC Worldwide, mistakes had been made both in the acquisition and subsequent operation of Lonely Planet. We identified a number of lessons to be implemented and we will ensure that these are reflected in the new commercial framework.

#### Overseeing other activities

In April 2013, S4C, the Welsh language broadcaster, became funded substantially from the licence fee. We undertake an annual performance assessment of S4C as part of our overall duty to oversee the licence fee. We publish our assessment separately alongside the S4C Annual Report.

New funding arrangements also came into effect for BBC Monitoring and we have been kept informed about its performance against criteria agreed with users of the service in government and the BBC.

£150million of licence fee funding was ring-fenced and provided to government to spend on its programme to extend the coverage of super-fast broadband. DCMS is responsible for the delivery of that programme. We are kept informed of progress, and would only seek to intervene if there were clear evidence of any value for money problem or any inconsistency with the BBC's public purposes.

In accordance with the licence fee settlement agreed in 2010, the Trust has a funding agreement with Comux UK Ltd, the company that Ofcom has licensed as the multiplex operator for local television services. £16.8million out of a maximum budget of £25million was allocated to Comux during 2013/14. In February 2014 we initiated an audit to assess compliance with the funding agreement.

# Serving all audiences

The BBC's services reached 96% of the UK's population but could do more to reflect the diversity of its audiences.

The BBC should make its content widely available to all licence fee payers in ways that are convenient to them. It should also ensure that its programmes, and the make-up of its workforce, reflect the diversity of the UK.

#### Delivering BBC content

The Trust oversees the ways in which the BBC distributes its programmes and services and we must do everything we reasonably can to ensure that audiences can access these programmes and services in a range of convenient and cost-effective ways (whether on TV, online or on the radio).

The central issue for the BBC is that it needs to balance the principle of universal access, free at the point of use – providing the content people want in the way they prefer – with the cost of providing all content on every platform.

This year we began to develop a framework to set out clearly the BBC's distribution activities and to become the basis on which we hold the BBC to account for its performance. We will hold a public consultation on the proposed framework once it is ready later in the year, with a view to implementing it towards the end of 2014/15.

Diane Coyle and David Liddiment visiting the BBC Asian Network studio



## Performance summary

#### Reach of BBC services

The BBC should make its content widely available to all licence fee payers in ways that are convenient to them.

The BBC maintains near universal reach, despite audiences having a huge choice of other channels and services.

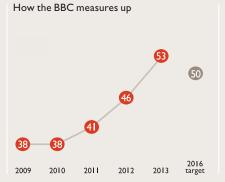
#### How the BBC measures up

Source: BBC Cross Media Insight Survey

Next steps
■ The BBC's ability to innovate and adapt its services, providing highquality content for everyone, will remain key to its success in the coming years.

#### Out of London – % of network spend

The BBC is ahead of schedule in meeting its 2016 target to produce more television outside London.

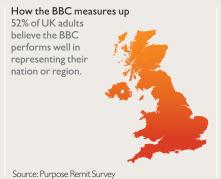


#### Next steps

■ This remains an important priority in order to address the perception amongst audiences outside London that the BBC could represent them better.

#### Representing the nations and regions

The BBC has made progress in improving audience perceptions in the nations and regions, but viewers and listeners around the UK still want to be better represented in programming.



#### Next steps

■ We will continue to monitor through audience research how BBC programming is reflecting the UK as a whole.



#### YouView

In June 2010 we approved the BBC's participation in YouView, a joint venture to develop and promote a common standard for internet-connected digital terrestrial television devices. YouView offers the public subscription-free access to on-demand services through a broadband connected digital box. Our approval was given subject to various conditions to ensure YouView does not distort the market, for example by crowding out other players, and to protect free-to-air viewing of an increasing choice of programmes. While certain principles (concerning free-to-air, and platform access) were enshrined in the objectives of the joint venture and the shareholders' agreement, others were subject to a separate review, to be conducted a year after launch by the Trust. These were:

- The implementation of accessibility and usability features
- The effects, if any, on the incentives of joint-venture partners to syndicate their content to other platforms
- The steps taken by the joint venture to provide appropriate information and signposting about the suitability of content wherever possible
- Cross-promotional activity, with reference to the Trust's Competitive Impact Code on Cross-Promotion.

YouView devices launched in July 2012 so we began our review in July 2013, including discussions with industry stakeholders and joint-venture partners. We concluded that the joint venture was operating in accordance with the terms we approved and consistently with the aims of the project. The findings from the review were published in May 2014.

We also had to approve the terms of the new shareholder agreement for YouView. In April 2014 we approved the heads of terms, and the final full agreement is due to be signed later in 2014/15. Our main objective in all the discussions on the new agreement was to ensure that it upheld the original aims of the venture and reflected the principles behind our original approval.

#### Representing the whole of the UK

The BBC aims to produce more programming from across the UK and less from London. This is to bring economic benefits to the UK's nations and regions as well as to represent the UK more fully culturally.

We set the BBC a target of making 50% of network television spend outside London by 2016, with 17% spent in Scotland, Wales and Northern Ireland. We are pleased to see that, again, the BBC is ahead of schedule with 53% of programming made outside London and 20% in the devolved nations. This remains an important priority in order to address the perception amongst audiences outside London that the BBC could represent them better.

We recognise that building sustainable creative communities is a long-term commitment, and we accept that there may be fluctuations in levels of programming from each region or nation as the BBC prioritises finding the best programming for its audiences in the normal course of creating content.

#### Representing the diversity of the UK within the BBC

In July 2014 the Executive will publish a report accounting for progress during 2013/14 against its diversity strategy: Everyone Has a Story 2011-2015. We note that the Executive has made some progress against its target of 12.5% for black, Asian and minority ethnic staff (BAME), with a 0.2% increase from last year in both leadership grades and other staff. To build upon this the Executive has established a mentoring scheme, Rise, for BAME staff.

We are nonetheless concerned by the lack of progress in the employment of disabled staff. The BBC continues to fall short of its target of 5.5%. As at March 2014, 3.8% of staff were registered as disabled and the number of disabled staff in senior grades has disappointingly dropped this year. There has been some progress in terms of disabled staff retention and we have asked the Executive to continue with these efforts. However, rates of promotion and transfer for disabled staff have decreased whilst the rate of redundancy amongst disabled staff has increased. We expect the Executive to prioritise this area.

In terms of recruitment, the Executive has focused on diversifying its leadership grades and have identified new models of recruitment. We also welcome the establishment of new partnerships with Job Centres and the Stephen Lawrence Trust to recruit BAME talent and help prepare young people to apply for BBC Apprenticeship schemes.

Having a more diverse staff is desirable in itself. But the objective is BBC programmes that, in terms of writers, producers, directors, actors performers, reporters, presenters and contributors, look and sound more like the people of an increasingly diverse UK.

# Openness and transparency

The Trust believes that the BBC has nothing to lose and everything to gain by being open about what it does, how it spends its money, how well it is performing and, when things sometimes go wrong, how it has learned from it.

In 2010, we gave the BBC the strategic objective of setting new standards of openness and transparency. The BBC has begun to make progress against this objective, for example in the amount of information routinely published about senior manager and talent pay. The 'About the BBC' section of the BBC's website was refreshed in January 2014, and now includes blogs from senior managers and updates explaining how the BBC is making decisions.

A 'mystery shopping' exercise by the Trust in 2013 suggested that the new system for handling audience complaints is an improvement, while a Corrections and Clarifications webpage means the BBC is now more open about any mistakes made.

We continue to promote increasing openness and transparency in the Trust's work. This included consulting publicly on the new World Service operating licence before it was introduced for the coming year.

We believe that an important part of openness and transparency is to share insights and information with industry stakeholders and other interested parties. We again held our annual discussion session with senior industry figures on the future direction of the BBC. Throughout the year, as well as consulting audiences on reviews of major services – BBC Television and News – we met regularly with industry stakeholders and other interested parties across the UK.

The Trust also engaged with industry stakeholders more widely on a range of other issues, including the additional guidelines for reporting on the Scottish independence referendum.

The Trust and Executive reviewed together the BBC's governance. We jointly recognised that the BBC needed to be more open about the way in which it is run and held to account. In December 2013, we committed to a series of measures to bring greater clarity to our respective roles: that the Executive runs the BBC day-to-day and the Trust holds them to account on behalf of licence fee payers.

The Trust committed to streaming live some of our sessions, and, for the first time, we published the annual objectives we set for the Director-General, so that audiences can judge for themselves how he is performing against these priorities, as well as against his longer-term strategic objectives.

We also decided that in 2014/15, the principle of openness and transparency should be embedded in a wider objective for the BBC to improve value for money by being simpler, more efficient and more open. We will report on openness and transparency as part of this new broader objective next year.



