



House of Commons
Culture, Media and Sport
Committee

**BBC Annual Report
2008–09: BBC Trust's
response to the
Committee's Fifth
Report of Session
2009–10**

**Second Special Report of Session
2010–11**

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The Culture, Media and Sport Committee

The Culture, Media and Sport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Culture, Media and Sport and its associated public bodies.

Current membership

Mr John Whittingdale MP (*Conservative, Maldon*) (Chair)
Ms Louise Bagshawe MP (*Conservative, Corby*)
David Cairns MP (*Labour, Inverclyde*)
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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/cmscom.

Committee staff

The current staff of the Committee are Tracey Garratty (Clerk), David Griffiths (Second Clerk), Elizabeth Bradshaw (Inquiry Manager), Jackie Recardo (Senior Committee Assistant), Luisa Porritt (Committee Assistant), Gabrielle Henderson (Committee Support Assistant) and Laura Humble (Media Officer).

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Second Special Report

On 30 March 2010 the Culture, Media and Sport Committee published its Fifth Report of Session 2009–10, *BBC Annual Report 2008-09*.¹ The Committee has now received a response from the BBC Trust, which is published below as an Appendix.

Appendix: Reply from the BBC Trust

In March 2010 the Culture, Media and Sport Select Committee published its report “*BBC Annual Report 2008–09*.” This is the BBC Trust’s response to those recommendations where we feel we can offer a useful contribution to the Committee’s work.

As noted by the Committee, the Trust is currently conducting a review of the BBC’s Strategy, on which we have consulted publicly. As we are mid-way through this process we are sure the Committee will understand that we are unable to comment in this response on those areas currently under consideration. Where we have covered issues in our initial conclusions, published on 5 July and available on our website², we have referred to them.

BBC Trust response to specific Committee recommendations

3. We are disappointed that the BBC Trust and the BBC Executive took so long to provide to us information on reach targets. We are further concerned that BBC services may be failing to fulfil the reach aims in some of their Service Licences, something that does not appear to have been addressed by either the Trust or the Executive in the Annual Report or in its oral or follow-up evidence to us. (Paragraph 24)

Service licences set out the reach aims of each service, often specifying that the service should either aim to maintain or increase reach. These aims are designed to ensure services contribute to the BBC’s overall target that BBC services as a whole reach 90 percent of the population. This target has been set by the Trust through service licences in line with our role to set the overall strategic direction for the BBC and performance is reported in the annual report. The Trust has not set reach targets for individual services as it is a matter for BBC management to establish the relative contribution each service should make to this overall target.

4. We agree with Sir Michael Lyons that there is a direct obligation for the BBC to show that it demonstrates value to all licence fee payers and that measuring audience reach is a useful component of that. However, the proportion of those who do not use any BBC television or radio service for at least 15 minutes per week, and the figures for some services which are used only by a minority of their own target audiences, indicates to us that this value is not being delivered to enough people. (Paragraph 33)

In a UK where over 91 percent of households now have multichannel television, the BBC as a whole reaches some 97 percent of the population each week. This is an impressive achievement. We recognise that changes such as video on demand will continue to change the media landscape and audience behaviour, and will continue to emphasise the importance of reach to the whole population in this context. Reach trends for individual services should be considered alongside other performance measures relating to quality, delivery of the public purposes and value for money.

5. The BBC should be more transparent in setting out its reach targets, including the figures for minimum level of reach considered necessary to serve its target audiences. It should also consider publishing additional measures of reach likely to provide a better indicator of the proportion of the public watching entire BBC television programmes, and the time licence fee payers spend on individual services each week, rather than just 15-minute reach figures. (Paragraph 34)

The Trust regularly monitors the reach of individual BBC services and publishes its assessment of performance in the BBC annual report. In line with the Committee's recommendation we will review the information we provide and consider whether additional measures of reach would give a better indication of performance.

The Trust shares the Committee's objective of transparency but does not set reach targets for individual services. We set an overall target that BBC services as a whole should reach 90 per cent of the population but it is a matter for BBC management to determine how each service should contribute to this target.

8. We commend the BBC on its increased targets for the proportion of network output to be produced in Scotland, Wales and Northern Ireland, and note that the proportion of spend in television in the nations and regions has generally been rising. However, the fact remains that the BBC is spending less now than before. After rising by £100m to £984m in 2007/08, licence fee spend in the nations and regions decreased by £40m to £948m in 2008/09. (Paragraph 49)

Over the past few years, the BBC Trust has looked in detail at the BBC's approach to its work in the Nations and Regions. We have conducted a review into the impartiality of network news coverage, approved a new approach to local provision across the BBC's services, and revised the BBC targets for out of London production.

In May 2008, the Trust agreed that in future the BBC should adopt more challenging targets for measuring and meeting its targets for network production in the nations by using Ofcom's definition instead of the existing BBC one.

This decision formed part of a renewed commitment by the BBC to move more network television production out of London to draw on the talent and skills of the whole UK. Including the impact of moving several departments to Salford in 2011, the Trust now expects the BBC to ensure that 50% of network production will be made outside London under the Ofcom definition by 2016.

Although the proportion of network television expenditure invested outside London has gone up, total expenditure in the nations and regions (of which network television is only one component) has gone down. The 2008-09 annual report shows that total expenditure in the Nations and regions fell from £984 million in 2007-08 to £948 million in 2008-09. In the same year around 35% of eligible spend, according to Ofcom definitions, was in the Nations and Regions. This figure includes network and non-network television, radio, on-line and an allocation of overhead expenditure. The Accounts for 2009-10 show that the proportion of eligible spend in the Nations and regions has risen to 38% while overall spend has further decreased to £903m due to the BBC's ongoing efficiency programme.

The decrease in expenditure in 2008/09 was mainly due to changes in the level of overhead allocation, efficiency savings, the move of some Radio 2 operations out of Birmingham and a reduction in expenditure on radio sports rights.

Total investment in the Nations and regions is likely to fluctuate year on year for a variety of reasons. For example, peaks and troughs in commissioning and the impact of efficiency saving measures have an impact, while the overall nations and regions investment reported in the Annual Report is subject to variations in expenditure on non-network television, radio, on-line and overhead allocation, as well as a range of year-end accounting adjustments. The ongoing efficiency programme will also have an impact.

Underpinning this broad approach is a policy of creating sustainable growth throughout the UK. We acknowledge that this will take time but fluctuations in spend should be viewed in this context.

10. We consider that some of the claims regarding BBC Three made by the BBC Trust and Executive are not fully supported by the evidence. The BBC has been more ready to highlight favourable over unfavourable information and its implications. In particular, we note that the Trust's claim of "BBC Three's effectiveness in reaching young people" is not supported by its audience reach. We are also surprised that the test of the value of BBC 6 Music and the Asian Network in the latest strategy review appears not to have been applied to BBC Three. (Paragraph 63)

The Trust's assessment of BBC Three was informed by our review of this service which was completed in June 2009. We ran a public consultation and carried out audience research looking at trends in reach, quality, value for money and the service's contribution to the public purposes. On the basis of this analysis we concluded that BBC Three had become an important part of the BBC's television portfolio, both in terms of its reach to younger audiences (which has increased significantly in recent years and was higher than comparable broadcasters) and its willingness to innovate and take creative risks.

Around 43 per cent of viewers consider BBC Three's programmes to be 'original and different' – higher than Channel 4 which has a remit to take creative risks, and much higher than BBC One. BBC management's YouGov research provided to the Trust as part of our review, shows that audiences perceive BBC Three to be better than comparable broadcasters with regards to statements such as 'not afraid to take risks and try new things'. Among 16 to 34 year olds, BBC Three scored 7.1 out of ten, ahead of the highest comparable broadcaster, E4, which scored 7. This view was also reflected by respondents to our public consultation - nearly two thirds of whom told us that BBC Three is performing well at providing programmes that feature fresh and new ideas.

In our recently published initial conclusions on the strategy review we endorsed BBC Three's role as an important part of the current TV portfolio.

13. We welcome the BBC's move towards greater transparency regarding its staff and talent costs, including the disclosure of senior BBC managers' headcount and payments to talent in bands. However, the BBC's commitment to this level of transparency is long overdue. This Committee has been one of a number of voices pushing for some time for greater openness. We believe that the information released by the BBC should be expanded, at minimum, to include a breakdown of headcount by salary band not just

for senior managers but all BBC employees, and the number of individuals in each payment band for talent. We further recommend that additional payment bands for talent should be introduced, disclosing the number of individuals and total payments for those earning £250,000 to £500,000; £500,000 to £750,000; £750,000 to £1m; £1m to £5m; and £5m plus. We do not expect to see any entries in the £5m plus category. (Paragraph 77)

The BBC Trust is committed to being as transparent as possible about the way that the BBC spends the licence fee. We also recognise the public interest in the amount the BBC pays to staff and artists. In our initial conclusions on the strategy review, we make clear that we want to accelerate the changes we are making to increase transparency and value for money.

Licence fee payers have a right to know more about how their money is spent on management salaries and talent costs. We will ask the BBC to disclose more detail about how these costs are structured and have challenged them to provide greater transparency about who is at the top end of the talent pay scale. The Trust believes the BBC should release the names of the talent who receive the very highest incomes from the BBC, although this should not go to the level of divulging individual salaries. As such we have asked that:

- Full and formal records of all public service senior managers' pay, anonymised in bands, together with a clear, costed summary of the overall pay/grade structure. Much of this information has already been released in response to Freedom of Information requests. We now will ask for progress to be tracked and reported annually.
- Aggregate costs of presenters' and other talent salaries in the narrower bands recommended by the Committee. We agree with the Committee that the current bands are not sufficiently transparent in explaining how talent pay is broken up. Equally, we remain convinced by the argument that publication of all individual talent payments at all levels would be likely to have an overall inflationary effect, reducing the value delivered to licence fee payers.

While all the above information would be provided in aggregate, without individuals' names attached, for on-air talent we also believe the BBC should be clearer about who the very highest paid individuals are.

We recognise that this will not be simple. Terms of trade with independent producers do not currently allow for sight of talent salaries. Some existing BBC contracts contain confidentiality clauses that would prevent immediate publication. But given the BBC's reliance on public funding, there is an over-riding public interest justification for greater transparency about who is at the top end of the talent pay scale, although this should not go to the level of disclosing individual salaries. We are therefore challenging the Director-General to work urgently on a plan to deliver this level of transparency.

We welcome the fact that the BBC is already making progress in reducing the costs of talent, with this year's Annual Report showing that £7.2m has been saved since 2008/9. We expect further transparency should help that trend to continue.

14. The reward packages of the Director General and senior management of the BBC are seen to be out of step with the current economic climate and the need for public sector pay restraint. The BBC must look to cutting its costs, and leadership on this should come from the top of the organisation. We therefore welcome the BBC's commitment to making a 25% cut in the BBC senior management pay bill by 31 July 2013. However we recommend that the BBC's remuneration policy should include benchmarks not only with the private sector but also with senior management pay scales in the public sector. (Paragraph 82)

In addition to our commitment to reduce the total paybill for senior managers across the BBC by 25%, the Executive Board has also made explicit that future executive roles will be benchmarked against a mix of public and as well as private sector roles and offered at an explicit discount to the private sector. The 'discount factor' that we have set ranges from 20% - 80% depending on the seniority of the role in question.

The BBC Trust has always been clear that our approach to senior remuneration at the BBC is that it must balance the need to attract the high calibre people to deliver the services that licence fee payers expect with the need to demonstrate value for money. Our remuneration review³, released in October 2009, aims to do exactly that.

Our initial conclusions on the BBC's strategy review make clear that we agree with the Committee that it is important that the top management of the BBC responds to public concern and shows leadership to the rest of the BBC in tough times. We will ask the Director-General to accelerate existing work to reduce the senior pay bill by 25% – so that it is completed within eighteen months, by which time we expect there to be a different, simpler management and pay structure in place. In the meantime the Director-General and all members of the BBC Executive Board have each volunteered that for this year and next they will forego a month's salary. In parallel, Trustees will take an equivalent 8.3% pay cut for those two years.

As reported in the Annual Report and Accounts for this year, progress has already been made. Bonuses have been suspended indefinitely and the most senior directors have had their salaries frozen for four years, taking home around 5% less in real terms than they did two years ago. Although senior manager numbers grew in the first half of the year, by March – five months after the measures were announced – the BBC had reduced the number of senior managers by 15 (2.3%) and the total paybill for the period dropped by £6.8million (8.6%).

Since March there has been further progress. As of the end of May, the number of senior managers had been reduced by 24 and the total paybill dropped by £7.76 million.

3 http://www.bbc.co.uk/bbctrust/assets/files/pdf/review_report_research/pay/exec_remuneration_review.pdf