

# BBC Governance

## The Trust

The Trust's role is to set priorities for the BBC and ensure they are properly delivered by the Executive within agreed policies and budgets

The Executive runs the day-to-day operations of the BBC

Part Two of the BBC's Annual Report and Accounts provides more information on how the Executive has undertaken its corporate governance responsibilities

**A different system of BBC governance came into force when the new Charter took effect on 1 January 2007. The Board of Governors was replaced by the Trust, and a formally constituted Executive Board was created. Under the new system the Trust is formally established as the representative of the licence fee payer, and there is greater separation between the Trust and the BBC Executive than there was between the Governors and BBC management.**

### Overview

As Trustees we are committed to upholding the highest standards of corporate governance at the BBC. In this section we set out how the governance of the BBC has been managed over the past year by the Trust and by the Governors.

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### Governance under the Trust

The BBC Charter and Agreement sets out our obligations as Trustees, including:

- representing the interests of licence fee payers and carefully assessing their views
- maintaining the independence of the BBC
- exercising rigorous stewardship of public money
- taking proper account of the competitive impact of the BBC on the wider market
- making sure the BBC operates openly and transparently
- ensuring that the BBC's Public Purposes are effectively promoted
- setting the framework for handling complaints, and hearing appeals where appropriate.

The way we work as BBC Trustees is set out in a series of published protocols. The protocols describe how we should manage our responsibilities – for example, to conduct our business in an open and transparent way, to set the strategic direction of the BBC, and to undertake value-for-money investigations.

The Trustees have also agreed a Code of Practice, setting out the principles and policies by which we conduct our business. This covers such things as conflicts of interests, Trustees' expenses, and political activity by Trust members. In addition we have adopted Standing Orders governing the way we conduct our meetings. The Trust will review its own performance and that of its committees on an annual basis. The first review will be carried out by April 2007 and reported in next year's Annual Report and Accounts.

### Statement of Trust responsibilities in respect of the *Annual Report and Accounts*

The Charter requires that an annual report and statement of accounts is prepared and audited. The Executive Board's responsibilities are detailed in their responsibility statement on page 95 of Part Two of this *Annual Report and Accounts*. In summary, the Executive Board is responsible for preparing the financial statements and statements of compliance with applicable corporate governance codes and remuneration regulations and delivering these to the Trust within Part Two.

In preparing its corporate governance disclosures the Executive Board has elected to comply with the 2003 Financial Reporting Council Combined Code and the disclosure provisions of the Companies Act 1985 and, where applicable, the Financial Services Authority Listing Rules which apply to a company listed on an EU regulated market.

In order to comply with those requirements the Annual Report must include disclosures on the governance arrangements of the Trust as well as those of the Executive Board. These disclosures, which are audited, are included in Part One of the *Annual Report and Accounts* and are the responsibility of the Trust.

Additionally, the Charter requires the Trust to prepare a statement of its expenditure and include this within Part One.

### Statement of disclosure of information to auditors

The Trustees who held office at the date of approval of the *Annual Report and Accounts* confirm that, so far as they are each aware, there is no relevant audit information in respect of the Trust governance disclosures, remuneration disclosures and Trust statement of expenditure of which the BBC's auditors are unaware; and each Trustee has taken all the steps that they ought to have taken as a Trustee to make themselves aware of any relevant audit information and to establish that the BBC's auditors are aware of that information.

This statement was approved by the Trust on 19 June 2007.

### Trust Committees

The full BBC Trust meets monthly but we do much of our work in small committees of Trustees who report back to the full Trust. These committees have decision-making powers.

The Trust Committees are:

Finance and Strategy Committee (see below)

Audiences and Performance Committee (see page 34)

Audience Councils Committee (see page 34)

Public Value Test Steering Group (see page 36)

Remuneration and Appointments Committee (see page 38)

Fair Trading Policy and Appeals Committee (see page 41)

Editorial Standards Committee (see page 43)

The members of each Committee and their attendance during the period since the Trust commenced are shown in the table on page 34.

As well as formal meetings of the Trust and Committees, the Trustees have been involved in a range of activities, including meeting licence fee payers and stakeholders as well as BBC staff. The four Trust members with special responsibilities for the nations also chair the Audience Councils in that nation. Attendance at these meetings was as follows: Alison Hastings (England) 3/3; Rotha Johnston (Northern Ireland) 3/3; Janet Lewis-Jones (Wales) 3/3; and Jeremy Peat (Scotland) 3/3.

### Finance and Strategy Committee

This Committee supervises and scrutinises issues of finance, business strategy and risk management including reporting and investment proposals from the Executive. It meets monthly.

The Committee's early activities have included scrutinising and advising the Trust on the Executive's proposals for Freesat (see page 30), assessing the budgets and financial plans for the BBC for 2007/2008, and approving a programme of value-for-money studies for the 2007/2008 year (see page 29). The Committee also oversees the Trustees' conflicts of interest and the Trust Unit's own financial affairs.

More information about our Committees, including their terms of reference, is provided on [bbc.co.uk/bbctrust](http://bbc.co.uk/bbctrust)

**Trust and Committee attendance, 1 November 2006 to 31 March 2007**

	Trust	Finance and Strategy Committee	Audiences and Performance Committee	Audience Councils Committee	Public Value Test Steering Group	Remuneration and Appointments Committee	Fair Trading Policy and Appeals Committee	Editorial Standards Committee
Number of meetings in the year	7	4	2	3	3	1	3	3
Michael Grade (to 27 Nov 2006)	1/1							
Chitra Bharucha	7/7		2/2	3/3		1/1		3/3
Diane Coyle	7/7				3/3		3/3	3/3
Dermot Gleeson	6/7	4/4	2/2			1/1		
Alison Hastings	6/7		2/2	3/3	1/3			
Patricia Hodgson	7/7	4/4	1/2		3/3			
Rotha Johnston	6/7	3/4		3/3			2/3	
Janet Lewis-Jones	7/7	4/4		3/3		1/1		
David Liddiment	6/7		2/2					3/3
Mehmuda Mian Pritchard	5/7 <sup>1</sup>						2/3	3/3
Jeremy Peat	7/7	3/4		3/3	3/3		3/3	
Richard Tait <sup>2</sup>	4/7				2/3			3/3

<sup>1</sup>Agreed absence due to conflict with pre-arranged meetings of the Independent Police Complaints Commission

<sup>2</sup>Agreed leave of absence from November 2006 – January 2007 (inclusive) owing to illness

**Audiences and Performance Committee**

This Committee assesses the performance of the BBC's publicly funded services in delivering public value. It reviews how the BBC is performing among different audience groups and identifies challenges arising for the BBC from this work.

The Committee has new tools to help it in its assessment of BBC performance. These include purpose remits and service licences which provide the framework for the Trust to set out the public's expectations of the BBC and measure performance through a system which is transparent and consistent.

The Committee's early activities included approving plans for the purpose remit consultation (see page 11) and approving the purpose remit and service licence consultation documents and use of audience research. It also met with representatives of the Executive to discuss the performance of the BBC's public services over the past year, making recommendations to the Trust. The Committee will carry out regular detailed reviews of the BBC's public services. The first review will cover [bbc.co.uk](http://bbc.co.uk).

The Committee also monitors the performance of the BBC World Service in line with long-term objectives agreed with the Foreign and Commonwealth Office and the Operating Agreement published by the Trust in June 2007.

**Audience Councils Committee**

This Committee oversees and reviews the work of the BBC Audience Councils established by the Royal Charter. The Committee shares best practice and learning across the work of the Audience Councils and identifies cross-nations issues and concerns. It also approves membership of Audience Councils on behalf of the Trust. It meets quarterly with the Chair rotating periodically among the National Trustees.

**Trust advisory bodies**

In undertaking their work the Trustees draw on a wide range of views. This includes Audience Councils, which are constituted in the Charter and other more informal bodies such as the Central Religious Advisory Committee (see page 35).

**Purpose remits**

Purpose remits explain how the BBC should fulfil its six Public Purposes. The remits set priorities for the BBC in consultation with licence fee payers, and show how the BBC Trust will judge performance against those priorities using measures based on audience perceptions. The purpose remits are currently in draft form and will be finalised later in 2007.

**Service licences**

The Trust issues a service licence for each BBC service which sets out how that service should help the BBC to deliver its Public Purposes and gives a headline budget for the service.

## Audience Councils

The Charter defines the role of the Audience Councils as bringing the diverse perspectives of licence fee payers to bear on the work of the Trust through the Councils' links with many different communities within the UK.

There are Audience Councils in England, Scotland, Northern Ireland and Wales (Audience Council England is supported by a network of Regional Audience Councils). Council members are selected from licence fee payers who have an informed interest in the work of the BBC, and an understanding of the interests, concerns and diversity of the audience in their nation. Members are volunteers and do not have any professional affiliation to the BBC. Each Audience Council is chaired by the Trust member for that nation.

In addition to regular meetings, the Audience Councils carry out wide-ranging programmes of activities in order to identify ways in which the BBC can better serve audiences. Each Audience Council submits a report to the Trust every year on the BBC's performance in each nation and advises on issues arising. The Audience Councils also play a key role in Trust-led public consultations. Some of their findings in 2006/2007 are set out on page 25.

## Central Religious Advisory Committee (CRAC)

The Central Religious Advisory Committee (CRAC) has advised the BBC on religious policy and programmes since 1923. It was the first of the BBC's advisory committees and it has traditionally played a dual role – advising the Board of Governors on broad policy issues and advising management on programming. However this dual role is open to question under the new governance arrangements, which are based on the principle of greater separation between the Trust and the Executive.

We are therefore reviewing the arrangements as part of our current consultation on how we should engage with audiences (see page 24). The issue is how and on what terms CRAC might continue to fulfil a useful advisory role that is consistent with the principle of separation; and how its work should fit with the Trust's wider mechanisms for engaging with diverse audiences. We hope that CRAC will itself make a submission

to the consultation. In December 2006 the Governors agreed that CRAC should continue in an informal capacity while the review was under way. CRAC is chaired by Bishop Graham James, Bishop of Norwich.

## Promoting equality and diversity

The BBC aims to provide services to all the people and all communities across the UK. In doing so we believe it is important that both the way in which the BBC operates, and its output, reflect the wide diversity in those communities. In this respect diversity should be seen as including ethnicity, disability, gender, age, faith, sexuality, class, political affiliation and regional differences.

The BBC is also subject to certain equalities legislation concerning some aspects of diversity. The BBC is required by law to promote equality positively. It must work to eliminate unlawful discrimination in three areas – race, disability and gender – in respect of its public functions. These public functions include such things as TV licensing, arrangements for digital switchover, and certain regulatory functions of the Trust. For each area the BBC has to develop, publish and implement an Equality Scheme. The Disability Equality Scheme was published in December 2006, and the Gender and Race Equality Schemes in April and May 2007 respectively. The Trust is responsible for overview and scrutiny of the Schemes which run for three years and will be subject to annual review by the Trust.

In exercising regulatory control of the BBC, the Trust has set itself a number of tasks. These include:

- issuing and consulting on a draft protocol on engagement with licence fee payers, covering, for example, public meetings, website and consultations
- ensuring that all its communication and involvement activities are accessible
- ensuring that all disabled people have fair access to the Trust's complaints processes, and are consulted with and/or involved in policy decisions that may have an impact on them.

Further details of the three Schemes can be found on the Trust website, [bbc.co.uk/bbctrust](http://bbc.co.uk/bbctrust). The Trust will monitor its performance and report on this in the *Annual Report and Accounts 2007/2008*.

The Audience Councils bring the diverse views of communities from throughout the UK to the Trust's attention

The concept of public value will drive many of our decision-making processes and our performance-monitoring activities

#### Public Value Test (PVT)

Some BBC activities may produce a positive public value, but have a negative impact elsewhere – for example, on commercial broadcasters or media suppliers. In order to ensure that the right balance is struck between these competing interests, we apply a Public Value Test before we consent to the BBC starting a new service or making a significant change to an existing service. The test considers the positive or negative public value created and the positive or negative market impact. There are two parts to the test – a public value assessment, and a market impact assessment.

#### Public value assessment

The public value assessment measures the likely public value of the proposed change by assessing:

- the value licence fee payers would place on the change as individuals
- the value it would deliver to society as a whole through its support for the BBC's public purposes
- its cost and the value for money it offers.

This assessment is overseen by the Trust, and always includes public consultation.

#### Market impact assessment (MIA)

The market impact assessment measures the likely effect of the proposed change on other players in the market (or markets) affected. This assessment is carried out, or commissioned, by Ofcom. The work is overseen by a joint steering group made up of members drawn from the Trust and from Ofcom.

#### Applying the Public Value Test

We consider the outcomes of both assessments and make a provisional decision on the proposed change. We publish this decision and consult on it. Once we have considered the results of the consultation, we make our final decision. Before we agree to any proposed change, we must be satisfied that any likely adverse impact on the market is justified by the likely public value it creates.

#### Measuring Public Value

The term public value is a relatively new concept, first used by an American academic, Mark Moore, in 1995 as a new way of addressing management of public bodies. The British Cabinet Office adopted the term as a framework for considering public sector reform in 2002. The notion of public value was incorporated into the new BBC Charter and Agreement. Public value will drive many of the Trust's decision-making processes and other activities, including the Public Value Test and performance monitoring of the BBC's publicly funded services.

The BBC's public value performance measurement framework has a number of components:

- most fundamental are the **six Public Purposes** of the BBC (see page 9)
- the Charter and Agreement has established **five content characteristics** – high quality, engaging, challenging, original and innovative – for the UK public services
- the BBC Trust has established **four drivers of public value** – Reach, Quality, Impact and Value for Money – in which the content characteristics are incorporated.

The aim of this framework is to bring as much evidence as possible to inform the Trust's judgements. The Trust has already actively applied its first Public Value Test (PVT) and believes that the concept of public value will help inform much of their work in the future. The Trust will be conducting work to further develop the concept of public value in the coming year.

#### Public Value Test Steering Group

This Trust Committee oversees the process for each PVT: examining the proposal from the Executive, engaging with Ofcom and the Joint Steering Group regarding the market impact assessment, and making recommendations to the Trust on the outcome of the PVT. It meets monthly and as necessary.

The PVT is a further tool of governance that the new Charter has introduced. The Trust uses this tool to assess any proposals from the Executive to significantly change an existing service or to create a new service (see box).

In April the Trust, advised by this Steering Group, approved the plans of the Executive to launch on-demand services giving audiences new powers to watch and listen to BBC output over the internet (see page 7).

### Trust Unit

The Trust is supported in its work by the Trust Unit, which provides independent and objective advice, calling on outside experts when necessary. The Trust Unit is independent of BBC management. Its director is appointed by the Trust and the staff are outside the BBC management chain. The Unit is made up of professional staff with expertise across a range of disciplines who advise Trustees on the conduct of their duties and support their work in key areas. The Trust Unit had a staff of 42 at 31 March 2007.

### Statement of Trust expenditure

	Note	3 months to 31 March 2007 £000
Trustee remuneration	1	209
Staff costs – Trust Unit	2	865
Other operating costs	3	1,564
<b>Direct Trust expenditure</b>		<b>2,638</b>
Ofcom regulatory fees	4	875
Ofcom MIA fees	5	620
<b>Total Ofcom fees</b>		<b>1,495</b>
<b>Total Trust expenditure</b>	<b>6</b>	<b>4,133</b>

### Notes

- 1 Although the Trust came into existence on 1 January 2007, new Trustees were appointed with effect from November 2006 and their remuneration therefore reflects this five-month period. Remuneration of Trustees that were previously Governors is included from 1 January 2007
- 2 Staff costs include wages and salaries, social security costs and employer pension contributions
- 3 Operating costs include direct expenditure on activities such as research, legal advice and other specialist advisory services
- 4 Ofcom allocates its costs of television and radio regulation between the BBC and the commercial channels. The Trust Unit bears the BBC's share of that allocation
- 5 Ofcom MIA fees cover Ofcom's direct and indirect costs in undertaking the market impact assessment for the Public Value Test undertaken in the period
- 6 The expenditure above represents direct external spend by the Trust. Additionally the Trust made use of shared services provided by the BBC which included the use of property, finance, HR and information services

### Report of KPMG LLP to the BBC Trust ('the Trust')

In accordance with the terms of our engagement letter dated 1 May 2007, we have examined the expenditure statement ('the Trust expenditure statement') for the period from 1 January 2007 to 31 March 2007 which has been prepared, further to the requirements of the BBC Charter dated October 2006, by the Trustees of the Trust and is their sole responsibility. The Trust expenditure statement has been prepared by the Trustees of the Trust applying the recognition and measurement requirements of UK Generally Accepted Accounting Practice.

Our responsibility, in accordance with the terms of our engagement letter, is to form an independent opinion, on the basis of the work performed, and to report our opinion to the Trust. Our examination was less in scope than an audit and hence provides a lower level of assurance than an audit.

Our report has been prepared for the Trust solely in connection with the Charter. Our report was designed to meet the agreed requirements of the Trust and particular features of our engagement determined by the Trust's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Trust for any purpose or in any context. Any party other than the Trust who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

In our opinion, the expenditure as shown in the Trust expenditure statement has been accurately extracted from the books and records of the Trust on the basis set out in the notes to the Trust expenditure statement.

Yours faithfully

**KPMG LLP**  
**Chartered Accountants**  
**19 June 2007**

The Trust is funded from the BBC's licence fee income. The expenditure shown here has been extracted from the full financial results of the BBC (set out in Part Two)

In this report we explain our responsibilities for the remuneration of the Executive Board and set out the fees we receive as Trustees

#### Trust Remuneration report

This report sets out the Trust's role regarding the remuneration policy for the Executive Board and details the remuneration received by the members of the Trust. Information on the remuneration received by the Governors prior to the Trust's formation is provided on pages 48–49.

The BBC is exempt from the requirements of the Directors' Remuneration Report Regulations 2002 and those of the Financial Services Authority, but this report has been prepared as if those requirements apply wherever the disclosure provisions are relevant and applicable. The sections on pensions and remuneration received by the Trustees are audited.

#### Remuneration and Appointments Committee: constitution and operation

From 1 January 2007, under the Royal Charter, the Trust and Executive Board have specific responsibilities for the remuneration of members of the Executive Board.

The Remuneration and Appointments Committee is a sub-committee of the Trust and advises the Trust on the remuneration policy for the executive directors and Director-General, including the application of the policy in relation to the Director-General, and also on the fees for the non-executive directors. The Committee is chaired by Chitra Bharucha and the other members are Michael Lyons, Dermot Gleeson and Janet Lewis-Jones.

The Executive Board also has a Remuneration Committee and its constitution and responsibilities are set out in Part Two on page 92.

The meetings of the Trust's Remuneration and Appointments Committee are advised by the Secretariat and Governance team in the Trust Unit. As required, and at the invitation of the Committee, the Director-General (Mark Thompson), the Director, BBC People (Stephen Kelly) and the Chair of the Executive Board's Remuneration Committee (Marcus Agius) attend to advise on matters relating to the Executive Board and the wider BBC. The Director-General is not present when his own remuneration is considered. The Remuneration and Appointments Committee has access to

internal remuneration expertise through the BBC's Head of Reward, who also attends the meetings as required.

Complying with the 2003 FRC Combined Code on Corporate Governance, the Remuneration and Appointments Committee takes specialist advice from external professional advisers on remuneration matters. The Trust's Remuneration and Appointments Committee has appointed Towers Perrin as its advisers.

#### Members of the Trust: remuneration policy

The members of the Trust receive a fee determined by the Secretary of State for Culture, Media and Sport. They are additionally reimbursed for expenses incurred on BBC business, and any tax arising on those expenses is settled directly by the BBC. The fees and taxable benefits are reported in the table on page 39.

#### Pensions

The Chairman is eligible to participate in a pension scheme, however as no permanent Chairman was in place during this period there were no pension contributions made by the BBC.

#### Non-executive directors: remuneration policy

Under the new Charter and Agreement the Trust is responsible for setting the policy and level of fees for the non-executive directors. It approved the appointment, including the terms of the appointment, of the five current non-executive directors in November and December 2006. For convenience, the fees received by the non-executive directors during 2006/2007 are set out in Part Two alongside other members of the Executive Board. In line with best practice, the Trust will review the level of fees every other year, with the first review due in 2008/2009.

#### Executive Board: remuneration policy

The current remuneration policy for the executive directors and Director-General was approved by the Board of Governors and adopted by the Trust under the transitional arrangements in the BBC Charter. It is intended to offer remuneration that attracts, motivates and retains the key talent required to lead the BBC and to deliver outstanding public service broadcasting. The main elements of remuneration are base pay, annual bonus and pension.

The base pay and bonus plans for the period for the executive directors and Director-General on the Executive Board were set by the Board of Governors in July 2006, and confirmed on

their appointment to the new Executive Board. The remuneration policy and remuneration received are set out in Part Two.

Details of remuneration received by the Governors for the nine month period to 31 December 2006 is set out on page 49

### Remuneration received

The remuneration of the members of the Trust during the year is shown below:

	Fee/ base pay £000	Expenses/ benefits £000	Total 1 November 2006 – 31 March 2007 £000
<b>Trustees</b> (appointed 1 November 2006 unless otherwise stated)			
Chitra Bharucha <sup>1</sup>	53	12	65
Diane Coyle	15	1	16
Dermot Gleeson <sup>2</sup>	9	–	9
Alison Hastings	17	2	19
Patricia Hodgson	15	–	15
Rotha Johnston	17	–	17
Janet Lewis-Jones	17	1	18
David Liddiment	15	–	15
Mehmuda Mian Pritchard	15	–	15
Jeremy Peat <sup>2</sup>	10	1	11
Richard Tait <sup>2</sup>	9	–	9
<b>Total Trustees</b>	<b>192</b>	<b>17</b>	<b>209</b>

<sup>1</sup>Chitra Bharucha was Acting Chairman of the BBC Trust following Michael Grade's resignation on 27 November 2006 and received fees at the Chairman's level during this period

<sup>2</sup>The Trustees' appointments commenced on 1 November 2006. Dermot Gleeson, Jeremy Peat and Richard Tait also continued their duties as Governors until 31 December 2006 (the fees for the Board of Governors are reported on page 49). They received fees as Trustees from 1 January 2007

There were no payments in respect of termination or compensation for loss of office paid to or receivable by members of the Trust during the year.

Details of remuneration received by members of the Executive Board is provided within Part Two, page 94

More information on the financial performance of the BBC's commercial services is set out in Part Two

#### Trust oversight of BBC commercial services

**The BBC undertakes some activities on a commercial basis. The aim is to generate revenue to reinvest in the public services to the benefit of the public.**

The basis on which the BBC may undertake commercial activity is set out in the BBC Agreement. Clear separation is required between its public and commercial services. Commercial activity cannot take place directly within the Corporation but must be carried out through commercial subsidiaries. The overarching commercial company is BBC Commercial Holdings. BBC Worldwide is the main commercial subsidiary, but some activity is carried out in BBC Resources and BBC World.

The Executive Board is responsible for overseeing the BBC's commercial activities. BBC Worldwide (which reports to the Executive Board) is governed by a Board with an independent chair and two further independent non-executives plus three public service directors from the BBC (serving as non-executives).

BBC Worldwide's main activities are commercial television channels, sales of television programmes, magazine publishing and home entertainment. On a smaller scale it also operates a children's business and a new media business. It operates worldwide but its priority markets for significant growth are USA, Canada, Australia and India.

The business has grown steadily and the strategy is to increase the rate of growth and, in particular, profitability.

#### Trust oversight of commercial activity

The Trust approved a five year strategy for BBC Worldwide, including high level targets and budgets, in March. It has also set the framework within which new commercial services are approved and overseen. In March the Trust adopted and published a protocol which set the framework for the commercial services' activities and accountability to the Trust and the Executive Board.

The BBC Agreement sets four criteria which the BBC's commercial services must meet. They must:

- fit with the BBC's public purpose activities
- exhibit commercial efficiency
- not jeopardise the good reputation of the BBC or the value of the BBC brand
- comply with BBC fair trading guidelines and in particular avoid distorting the market.

The protocol explains how these criteria are applied in practice. While the Trust sets the framework and requires reporting, most operational decisions are taken under this framework either by the Board of BBC Worldwide (where the non-executive members play an important role) or by the Executive Board. In a small proportion of cases the Trust's approval is required for new service proposals.

#### Trust fair trading report

**The BBC's fair trading regime governs all the trading activities of the BBC. It is designed to ensure that the BBC's commercial and trading activities are conducted 'fairly'. While the BBC is subject to European and UK competition law and European law on state aid, the BBC has for a number of years voluntarily embraced additional requirements in recognition of its unique status.**

#### I The BBC's fair trading arrangements

The BBC's fair trading arrangements are in transition. Under the previous governance system, the BBC had adopted a Fair Trading Commitment and operated under Fair Trading Guidelines which translated the Commitment into a detailed operational framework. The Governors' Fair Trading Compliance Committee (FTCC) exercised oversight.

On 1 January 2007, oversight of fair trading passed to the Trust. The Charter and Agreement requires the Trust to adopt a statement of policy on fair trading and to hold the Executive Board to account for compliance with it. This statement has to be adopted by 1 July 2007 and the Trust launched a public consultation on 20 February 2007.

In the meantime, the Trust decided that the existing fair trading regime should remain in force. For the period of this report, therefore, the BBC was subject to the obligations set out in the Fair Trading Commitment and Guidelines.

## 2 Trust oversight of fair trading compliance

Since 1 January 2007 responsibility for monitoring fair trading compliance and handling fair trading appeals has lain with the Trust's Fair Trading Policy and Appeals Committee (FTPAC). The Trustees on this Committee are: Jeremy Peat (Chairman), Diane Coyle, Rotha Johnston and Mehmuda Mian Pritchard.

Since 1 January 2007 responsibility for day-to-day fair trading compliance by the BBC and handling of fair trading complaints has passed to the Executive, which has set up a Fair Trading Compliance Committee (see Part Two, page 77).

The FTPAC is advised by independent fair trading auditors and advisers. The independent auditors conduct an annual Fair Trading Audit to determine whether the BBC has established and applied a system of internal controls which provide reasonable assurance that it has complied with the Fair Trading Commitment.

The auditors' activities include:

- meeting fair trading representatives and other individuals with significant fair trading roles in each division
- evaluating each division's fair trading system of internal controls
- reviewing and testing a sample of commercial activities
- testing the adequacy of processes to record and track fair trading issues through to resolution/completion
- assessing and testing the adequacy of fair trading training programmes within each division
- reporting their findings and conclusions to the FTPAC.

The auditors' opinion based on their audit for the year ended 31 March 2007 is set out below.

## 3 Fair trading compliance

The Trust considers that the policies in the BBC's Fair Trading Commitment are consistent with the requirements of the Charter and Agreement. Through the FTPAC, and formerly the FTCC, they have gained reasonable assurance that the system of controls and procedures designed to ensure that these policies are applied throughout the BBC have been operating effectively throughout the year. The BBC Executive has reported in Part Two on its own measures to ensure compliance.

### *Fair trading appeals*

The Trust considered one fair trading appeal during the year, in relation to a complaint from the Kent Messenger Group. While noting that the issues raised did not amount to a serious breach of the BBC's Fair Trading Guidelines in terms of the scale of the activity or likely impact on the market, breaches of procedure were found and the Committee upheld the appeal. Findings of all appeals are published at: [bbc.co.uk/bbctrust/appeals/fair\\_trading\\_appeal\\_findings.html](http://bbc.co.uk/bbctrust/appeals/fair_trading_appeal_findings.html).

### *Fair trading audit*

The independent fair trading auditors' report is set out below.

### **Independent Fair Trading Auditors' report to the BBC Trust for the year ended 31 March 2007**

We have audited, in our role as the BBC's Fair Trading Auditors, the system of internal controls established within the BBC to provide the BBC Trust with reasonable assurance that the BBC has complied with its published Fair Trading Commitment for the year ended 31 March 2007.

Our instructions for this audit, which include the scope of work to be undertaken, were agreed with the Governors' Fair Trading Compliance Committee which on 1 January 2007 was succeeded by the BBC Trust's Fair Trading Policy and Appeals Committee. These instructions include agreement that our audit should be conducted in accordance with relevant Auditing Standards, agreement on the limit of our liability in respect of this work and agreement that our duty of care in respect of this work is solely to the BBC Trust. We are satisfied that the agreed scope of our audit was sufficient to enable us to express the opinion set out below.

The Trust considered, and upheld, one fair trading appeal during the year

We ask external auditors to provide an opinion on whether the BBC has established, and applied, a system of internal controls which provide reasonable assurance the BBC has complied with its Fair Trading Commitment

**Respective responsibilities of Governors, BBC Trust, management and auditors**

Until 31 December 2006 the Governors were responsible for ensuring that the BBC meets all the requirements of competition law and trades fairly. The Governors established the BBC's Fair Trading Commitment, determined the objectives of the system of internal controls designed to ensure compliance with this Commitment and monitored the outcomes of those controls. On 1 January 2007, upon creation of the BBC Trust, the BBC Trust assumed these responsibilities. The BBC Trust is also responsible for preparing the BBC Trust's Fair Trading Report for the year ended 31 March 2007, as included in the BBC Trust's *Annual Report and Accounts*.

The BBC's management is charged with operating a system of internal controls designed to ensure compliance with the Fair Trading Commitment, including identifying and assessing risks that could threaten fair trading and designing and implementing responses to such risks.

As the BBC's Fair Trading Auditor, it is our responsibility to form an independent view, based on our audit work, as to the extent to which the BBC has established, and applied, a system of internal controls which provide reasonable assurance that it has complied with its Fair Trading Commitment during the year. We have reviewed specific decisions reached by the BBC on fair trading issues only in so far as this is necessary to form an opinion on the system of internal controls. Our audit was not designed to express an opinion on the quality of the specific decisions taken by the BBC with regards to fair trading. We have also reviewed whether the BBC Trust's Fair Trading Report reflects our findings of the BBC's compliance with its system of internal controls, and we report if it does not.

This opinion has been prepared for and only for the BBC Trust. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Basis of audit opinion**

We have carried out a programme of procedures and tests designed to provide us with the necessary assurance to support our audit opinion. Our work consisted of enquiry and assessment to enable us to form a view as to whether an appropriate system of internal controls was in place. We also reviewed the processing of a sample of material transactions to provide us with reasonable assurance that the system of internal controls had been applied.

As with any system of control, however effective, it is not practicable to ensure that no errors or irregularities have occurred without being detected. Our audit work was therefore designed to give reasonable assurance, but not certainty, as to the adequacy of the system of internal controls which were in place and being applied to deliver compliance with the Fair Trading Commitment during the year. Further, because fair trading issues require judgements which ultimately might be tested in a court of law, competition authority or elsewhere, there is always a risk of challenge even where the system of internal controls has been followed and decisions have been taken with the greatest care.

**Opinion**

In our opinion the BBC has established and has applied a system of internal controls which provide reasonable assurance that it has complied with its Fair Trading Commitment for the year ended 31 March 2007.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants**  
**19 June 2007**

### Upholding editorial standards

The Trust's role in upholding editorial standards involves oversight and approval of management's guidelines. We also consider complaints on appeal after the BBC's complaints process has been exhausted.

#### Editorial Standards Committee (ESC)

The Trust's Editorial Standards Committee (ESC) was set up on 1 January 2007. Before then, issues of editorial standards were dealt with by the Governors' Programme Complaints Committee. This report reflects the work of both bodies.

The Trust's role regarding editorial standards is to commission editorial guidelines from the Executive Board, monitor compliance and ensure that an effective editorial complaints and appeals process is implemented. It may commission special projects to inform itself and also may consider topics of editorial concern.

The ESC supports the Trust in these functions and in particular determines editorial complaints on appeal. The Committee is chaired by Richard Tait and the other members are Chitra Bharucha, Diane Coyle, David Liddiment and Mehmda Mian Prichard.

#### Editorial compliance

Every six months the BBC Executive reports to the ESC on editorial compliance issues. The ESC considered the first of these reports in May 2007. The Committee welcomed the launch of the BBC College of Journalism and its website. Creating the College was one of the recommendations of the Neil Report following the Hutton Inquiry. Other welcome developments included guidance for BBC staff on issues including conflict of interest, personal blogs, and user-generated content. The Committee also noted new guidelines to assist viewers with hearing loss.

The Committee noted 38 breaches of editorial compliance upheld either by BBC management or by the ESC compared to 50 in the previous year. Serious compliance issues relating to premium rate phone services (PRS) were raised in editions of *Blue Peter* and *Saturday Kitchen* (see box).

#### *Blue Peter* and *Saturday Kitchen*

In November 2006, because of a fault with the phone lines, a child visiting the *Blue Peter* studio was asked to pretend to be a caller to a *Blue Peter* premium rate phone competition, and was named the winner. The BBC Executive accepted this was a serious error of judgement and made a public apology.

Following a newspaper report in February 2007 it was established that viewers of the BBC One programme *Saturday Kitchen* had been misled into believing they were calling a live programme.

The BBC Executive gave the Trust an interim report about both programmes. The Executive made a further report in May, including a review of the use of PRS by all BBC output over the previous two years. The Trust published the report. It described the *Blue Peter* breaches as particularly serious and said that the culture of the BBC must be such that any proposal to mislead audiences is instantly dismissed as wholly inappropriate. The Trust also agreed with the Director-General that he commission an external auditor to carry out sample checks. The Trust was pleased that management had moved swiftly to address the problems and get a thorough review under way with a commitment to learn from these breaches. It welcomed the actions of the BBC Executive which included an on-air apology for the serious errors that had occurred in *Blue Peter*.

The Trust announced the appointment of Ronald Neil to carry out a longer term policy review of how and when the BBC uses PRS and associated programme activity. The Trust will consider the review's recommendations in the autumn of 2007.

"The culture of the BBC must be such that any proposal to mislead audiences is instantly dismissed as wholly inappropriate"

Sir Michael Lyons  
BBC Chairman

The ESC also noted that Ofcom upheld four programme standards complaints against the BBC and resolved five others. New systems were put into place at Radio 1 following complaints to Ofcom. Ofcom also upheld six fairness and privacy cases by first-party complainants against the BBC.

The ESC will continue to scrutinise rigorously progress by the Executive in ensuring editorial compliance at all levels and in all genres. There is a particular need to ensure that the staff of independent companies supplying the BBC understand and comply with BBC editorial guidelines. The ESC will also continue to monitor the work of the Executive's Complaints Management Board in analysing compliance breaches and disseminating lessons learned.

#### **BBC three-stage complaints process**

In February 2005 the BBC established a three-stage complaints process for editorial complaints.

##### **Stage 1**

Anyone can choose to complain to either BBC Information or the programme or content division within 12 weeks from the broadcast or publication. The BBC will aim to provide a substantive reply to any complaint within ten working days. (Details of some issues raised at this stage in the last year are included in Part Two.)

##### **Stage 2**

If the complainant is dissatisfied with the Stage 1 response (and the complaint is about a specific item broadcast or published by the BBC and concerns a possible breach of the BBC's editorial standards) then they can write to the independent Editorial Complaints Unit (ECU) within 12 weeks.

##### **Stage 3**

If the complainant disputes the ECU's ruling they may appeal within eight weeks to the BBC Trust's Editorial Standards Committee (ESC).

#### **Editorial complaints**

Complaints received dropped from 150,000 to just under 124,000. Coverage of the conflict between Israel and Hezbollah fighters in the Lebanon in 2006 generated 5,300 complaints, some of which came to the Committee on appeal. Management responded to 90% of all complaints within the target of ten working days. However, this was below the management target of 93% – a cause of some disappointment to the Committee, given the lower volume of complaints. The Committee also noted a small fall in the overall satisfaction rating of complainants contacting BBC Information and scoring the service at least 8 out of 10 from the highest score of 69% in January to March 2006 to 59% in the same period in 2007 (measured in an independent survey by Ipsos MORI). The Committee will monitor the new processes put in place by the Executive to improve performance.

The independent Editorial Complaints Unit (ECU) hears editorial complaints from people who are not satisfied with the response from BBC information. It received 187 complaints and upheld 31 in full or in part. If complainants are unhappy with decisions by the ECU they can appeal to the ESC (formerly to the Governors' Programme Complaints Committee). There were 32 such appeals in 2006/2007, of which two were upheld, four partially upheld, and in a further case the ESC agreed to uphold a matter already upheld by the ECU. The 32 appeals represented 0.03% of complaints to the BBC in the period. Although Trustees appreciate that a decision not to appeal to the Trustees may not mean the complainant is necessarily satisfied with the outcome, the small percentage of appeals indicates that the majority of complaints are successfully handled by BBC management.

The Committee is concerned at the time taken to deal with complaints by the ECU. Turnaround times have improved following a restructuring of the ECU and the Committee expects further improvement next year.

#### **Trust research**

The Trust will be undertaking research with the public about what they wish to see in a best practice complaints system, and what may inhibit them from complaining (see page 51).

The BBC has a three-stage complaints process for editorial complaints. The final stage allows appeal to the Trust's Editorial Standards Committee

“Every day we talk about the BBC, someone will always bring some news from the BBC, it’s always a topic of discussion at work, in taxis. I always quote from the BBC – I really believe in them.”

Response from Tehran taken from focus group work into audience perceptions of BBC World Service, commissioned by the Audiences and Performance Committee. Male, Tehran, contributing to Trust research.