

BBC PROTOCOL
C1 - FINANCIAL PLANS,
BUDGETS & DELEGATIONS

January 2007

FINANCIAL PLANS, BUDGETS AND DELEGATIONS

1 Scope

- 1.1 This protocol applies to the financial planning and budget setting process for the BBC as a whole, including UK Public Service Broadcasting Services, the World Service, non-service activities, and the commercial services.

2 Duties of the Trust

- 2.1 Under the Charter, the Trust is the guardian of the licence fee revenue and the public interest in the BBC (Charter, Article 22). The Trust has the ultimate responsibility for the BBC's stewardship of the licence fee revenue and its other resources (Charter, Article 22(a)).
- 2.2 In exercising all its functions, the Trust must act in the public interest and it must, as part of its general duties:
- (i) represent the interests of licence fee payers; and
 - (ii) exercise rigorous stewardship of public money (Charter, Article 23).
- 2.3 The Trust has the general function of considering high-level financial strategies and budgets proposed by the Executive Board in respect of the BBC's services and activities, both in the UK and overseas (Charter, Article 24(1) (b)).
- 2.4 Among the Trust's specific functions are the following:
- (i) setting multi-year purpose remits, and approving strategies which include high-level budgetary allocations (Charter, Article 24(2)(a));
 - (ii) approving individual strategic or financial proposals where they stand to have significant implications for the fulfilment of the purpose remits and strategies referred to above or for the overall financial position of the BBC (Charter, Article 24(2)(e)).
- 2.5 As an aspect of the Trust's general duty to exercise rigorous stewardship of public money, the Trust must keep under review the financial needs of the BBC. In its exercise of this duty the Trust must ensure that the Executive Board are not authorised to spend, overall, more public money than is needed for appropriate discharge of the Board's functions (Agreement, Clause 77). (See also Protocol C5.)

3 Role of the Executive Board

3.1 The Executive Board is responsible under the Charter for, among other matters, the following:

- (i) making proposals to the Trust for anything which is for the Trust to approve under Charter Articles 24(2)(a), (d) or (e) (Charter, Article 38(f));
- (ii) the conduct of the BBC's operational financial affairs (except those relating directly to the Trust and the Trust Unit) in a manner best designed to ensure value for money (Charter, Article 38 (h)).

4 Approach

4.1 The duties imposed by the Charter and Agreement on the Trust in relation to financial planning and budget setting reflects the general principle that the Trust is the sovereign body within the BBC (Charter Article 9) but is not, in general, involved in the day to day management of the BBC. Therefore the Trust will mainly concern itself with considering and reviewing high-level budgets and plans while the Executive Board will review the detailed budget allocations.

4.2 The Trust will:

- (i) require the Executive Board to submit on an annual basis a financial strategy, for the Trust's approval;
- (ii) require the Executive Board to refer certain matters arising during the year to the Trust for its approval;
- (iii) monitor the Executive Board's performance against the approved financial plans.

4.3 Once the high-level financial plans for a year have been approved by the Trust, the Executive Board will have responsibility, and financial freedom, to manage operations subject to a referral framework designed to ensure that certain transactions, or variations from budget, are referred to the Trust for approval (see Matters arising during the year, below).

5 Procedures

Annual financial strategy

Content of annual financial strategy

5.1 The Trust will require the Executive Board to submit to the Trust each year for approval:

- (i) High-level financial strategy which reflect BBC remits and strategies over several years:
 - a. for the BBC as a whole;
 - b. for the World Service as a whole; and
 - c. for each service which has been issued a service licence and other significant activities; (including non-service and commercial activities).
- (ii) High-level *annual* budgetary allocations:
 - a. for BBC as a whole;
 - b. for the World Service as a whole;
 - c. for each service which has been issued a service licence; and
 - d. other significant activities within the BBC overall budget.

5.2 Taken together, these strategies must:

- (i) support the BBC's purpose remits and service strategies as approved by the Trust;
- (ii) include a rolling three year financial overview (i.e. which must be updated annually);
- (iii) include an annual high-level budget linked to service provision; and
- (iv) include content that as a minimum covers the information requirements set out in **Annex A**.

5.3 The Executive Board will, in agreement with the Trust Unit, adopt a process and timetable, which allow sufficient time for the Trust to scrutinise the proposals in advance of the start of the financial year to which the annual budget refers.

5.4 The Trust will refer examination of the Executive Board's proposed financial strategy and budgets to the Trust's Finance & Strategy Committee, which may seek further information and explanations as appropriate before deciding on whether to recommend Trust approval.

Trust approval

5.5 The Trust may approve such plans and budgets where it considers they are:

- (i) appropriate to the BBC's overall Public Purposes and its financial health; **AND**
- (ii) in accordance with Trust-approved strategies (including the priorities set by purpose remits, service licences and any applicable Trust directions); **AND**

- (iii) in accordance with any applicable directions from the Secretary of State or Foreign Secretary.

Matters arising during the year

- 5.6 The Trust will approve a referral framework designed to ensure that certain matters arising during the year are referred to the Trust for approval. This framework is set out in Annex B. The framework recognises that the level of proposed financial expenditure may not always be the deciding factor in whether a referral is required. Expenditure on any one investment may be large but non-contentious and therefore remain under the authority of the Executive Board. Equally, relatively small sums can be of great importance and will require Trust approval.
- 5.7 Where there is a difference of opinion between the Trust and the Executive Board on whether a matter should be referred to the Trust for approval, the Trust's decision shall be final (Charter, Article 9(2)).

Performance monitoring

- 5.8 The Trust will monitor the BBC's performance against the approved financial plans in accordance with Protocol C2.

Minimum information requirements for financial plans

- A1 The financial plans and budgets submitted by the Executive Board to the Trust in accordance with Protocol C1 must include appropriate information to enable the Trust:
- (i) to carry out forward-looking and risk-based analysis;
 - (ii) to assess the economic structure of the BBC.
- A2 Without prescribing the overall contents and format of the financial plans and budgets, which will reflect the Executive Board's judgement on what is relevant to giving an informed view of the financial affairs of the BBC, the information should include:
- (i) strategic objectives;
 - (ii) challenges and risks facing the BBC from external and internal environment:
 - in the short term
 - in the longer term
 - (iii) management of those risks;
 - (iv) income projections and sensitivities;
 - (v) analysis of planned expenditure:
 - by service (linking to service licence budgets and strategies)
 - by genre
 - by other major cost type (e.g. property)
 - (vi) capital expenditure forecasts;
 - (vii) cash flows including debt requirement;
 - (viii) commercial business forecasts:
 - turnover
 - profits and profit margins
 - cash flows
 - (ix) World Service financial budget (see Protocol B4).

Referral framework

- B1 This Annex sets out the referral framework within which matters should be referred to the Trust's Finance & Strategy Committee (and where the Finance and Strategy Committee believes it appropriate, the Trust) for approval.
- B2 The conditions for referral set out below in B7 are designed such that financial proposals must be referred to the Trust for approval where:
- (i) the proposals are of a scale and nature that might have significant implications for the fulfilment of the purpose remits and strategies which include high-level budgetary allocations or for the overall financial position of the BBC; or
 - (ii) the proposals are outside the normal course of business of the BBC; or
 - (iii) the proposals are novel and contentious.
- B3 The Executive Board will be responsible, in the first instance, for:
- (i) determining whether any of the criteria referred to in B7 are met; and
 - (ii) for ensuring that sufficient time is allowed for the Trust to consider the issues and reach a decision.
- B4 In addition, the Executive Board must submit revised financial proposals to the Trust for approval where:
- (i) circumstances change significantly subsequent to the approval of a budget for a particular period or activity; or
 - (ii) the Executive Board wishes to vary approved budgets outside the limits set within the referral framework.
- B5 Where a referral to the Trust is necessary, the Executive Board will liaise with the Trust Unit to agree a process and timetable which is appropriate to the circumstances of each case. As a guide, the normal process will be for the Executive Board to submit a paper to the Trust via the Finance & Strategy Committee which explains the proposals, including the basis for the referral to the Trust.
- B6 Where a matter is required to be referred to the Trust, the Trust's approval must be received before any contractual or financial commitments are made.

Referral categories

- B7 Investment proposals require referral to the Trust if they fall within any of the following categories:

1. Asset¹ additions or disposals where **at least one** of the following measures exceeds **£50 million**:
 - Net book value of the addition / disposal
 - Market value of the addition / disposal
 - Sales proceeds / Consideration paid

2. Corporate acquisitions or disposals (including joint ventures and share holdings) which either:
 - will result in entry by the BBC to a completely new market or area of activity **OR**
 - where at least one of the following measures exceeds **£50 million**:
 - i. net book value of addition / disposal
 - ii. market value of addition /disposal
 - iii. sales proceeds / consideration paid

3. Any other major new financial commitments which individually exceed **£50 million** but excluding those which:
 - are renewals or retenders of existing service contracts where the financial commitment does not exceed **£150 million**
 - relate to content or sports rights

4. Major changes in expenditure between public services such that a service would be taken outside its permitted budget tolerance and/or any monetary cap (as stipulated in the relevant service licence)

5. Financial commitments that are novel and contentious such that they may lead to:
 - serious risk of damage to the BBC's brand or reputation
 - public perception that BBC's independence has been compromised
 - serious risk of disruption to any services

In respect of financial commitments concerning talent, programme rights or acquisitions, the interpretation of "novel and contentious" should be considered in respect of commercial rather than editorial considerations.

6. Significant changes to the scale of operation or funding of any initiative previously approved by the Trust where such change:
 - exceeds 10% of the approved budget or in the case of a service licence the limits imposed in that licence **OR**
 - is in breach of any conditions imposed by the Trust when giving its approval which may include the specification of a lower financial limit for excess items.

¹ Assets refer to both tangible and intangible assets