

Mark Thompson
BBC Director-General
Room 5126
White City

20 March 2009

Dear Mark

As you know, yesterday the Trust approved new investment in BBC Online of £30.7 million over the next three years. The Trust also approved the necessary change in annual expenditure for the service budget for bbc.co.uk as required by the Service Licence.

Our decision to approve this investment reflects the findings of our service review last year that audiences value this service very highly, that it plays a critical role in the BBC's ability to build public value by delivering its public purposes, and that it makes a positive contribution to Britain's economy, both because of the BBC's commitment to the 25% external production quota and the value it creates for businesses as a source of information.

Before approving this investment we had to consider whether or not it would require a Public Value Test. This was necessary as the proposal will entail a change to the service's budget, which is a key characteristic of its Service Licence. We then had to consider whether the change was significant with regard to its impact, financial implications, novelty and duration.

After careful consideration of these factors we have decided that a PVT is not required in this case. The Trust has examined the case you put forward concerning market impact and concluded that there is limited risk of the new investment, which is incremental in existing areas of BBC activity, adding materially to the market impact of BBC Online.

The Trust is, however, aware of continuing commercial concerns, not least among small operators, the impact on which it can be hard to assess when considering the service as a whole. We believe that these concerns can be most effectively addressed by the new system of management controls being developed by Controller, BBC Online and which was a requirement of our service review. This will require those working at the genre and sub-genre level to assess both prospectively and retrospectively the likely competitive impact of any investments they make, and the Executive to make regular reports to the Trust.

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The Trust proposes to subject these reports to detailed scrutiny, which will include taking external advice as appropriate and we will consider the case for PVTs in particular areas of investment as circumstances demand.

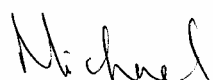
The Trust is satisfied that any potential adverse market impact of the new investment would be justified by the public value created. The ongoing assessment of competitive impact was a key factor in our decision that a PVT was not required as it provides an ongoing assurance that this position remains correct. We are awaiting final details of this system from the Executive in May but, to underline the importance we attach to its effectiveness, we advise you now that, should it appear or prove to be inadequate in its oversight of competitive impact, the Trust will regard this as a serious breach of the BBC Online service licence and will have to consider an appropriate sanction, which might include withholding authorisation to spend in the particular area of concern.

It is essential that the new system of management controls commands the confidence of not only the Trust but also external stakeholders. In our review of BBC Online we committed to reviewing the new management system within a year of its implementation. This will provide an important opportunity during the spring of 2010 for the Trust to consult with stakeholders on their views as to the effectiveness of the system.

We are satisfied that by focusing investment on high priority areas such as News, Children's provision, Knowledge and enhanced search and navigation, the BBC will deliver real value to audiences. As you know, we ring-fenced investment for Learning as the investment here must await the Trust's approval of the strategic assessment exercise you are currently engaged in.

I am sure that you will share my desire that BBC Online continues to create public value for licence fee payers, but will understand the need to monitor, and minimise, the risk of negative market impact.

Yours sincerely



Sir Michael Lyons,
Chairman, BBC Trust