

Trust follow up review of BBC talent costs

The Trust's approach to talent

The Trust recognises that without the very best talent, both new and established, the BBC would not be able to provide the sort of programmes in news, learning and entertainment that viewers expect, but at the same time, we take our work to secure value for money for licence fee payers very seriously. Twelve months on from the original report into talent costs, the Trust's follow up review into the BBC's use of on-screen and on-air talent is designed to help us ensure that the BBC is doing everything it can to get the best value from the money it spends on talent, without compromising the high quality of its programmes. This also means in some cases we need the BBC to invest in new talent to provide BBC programme makers with greater choice and to help grow a diverse pool of talent for the UK's media and creative industry as a whole.

The Trust understands public concern over the high salaries reported for top talent on the BBC, particularly in the context of the current economic climate. For this reason, the Trust has sought specific assurances as part of this review that the BBC is doing everything possible to deliver talent cost savings wherever it can. The Trust will always start from the position that information about the BBC and its activities should be made available to the public, but we also have to balance that presumption against the impact on individuals and the wider talent market by releasing such information. The Trust accepts the BBC's case that disclosure of individual talent deals would not ultimately be in the public interest. It would risk pushing up talent costs in the market and would be likely to undermine the BBC's ability to negotiate good value talent deals. This would make it more difficult for the BBC to retain the best creative talent on-screen and on-air. But the Trust will continue to keep talent costs under review and publish updates in future annual reports.

The Trust's 2008 review of the BBC's role in the on-screen and on-air talent market

In June 2008, in response to public concern around the high level of fees paid to some talent on the BBC, the Trust published an independent report on the BBC's role in the on-screen and on-air talent markets. The report showed that the BBC was, on the whole, securing value for money in talent deals and that it was not distorting the market for on-screen and on-air talent. The report showed that the BBC was not paying more than the market rate for its top talent, and in some cases it was paying less. The report was less conclusive on radio talent costs, as without comparable commercial radio stations, attempts to benchmark the BBC's talent costs have been much more difficult. However, recognising the need for the BBC to not only develop and attract the very best talent, but to demonstrate real value for money in doing so, the Trust made a number of recommendations that were

designed to improve the BBC's abilities to continue to deliver in both of these areas. These are set out in the Trust's terms of reference to the follow up review which can be found later in this document.

The Trust's 2009 follow up review on talent costs

We have published the BBC's report to the Trust, with our terms of reference, alongside this summary report.

When we published our report and recommendations on talent costs last year, we promised to conduct a short follow up review on the BBC's progress 12 months later. After setting terms of reference for the BBC to report on its actions since last year, we set out below our analysis of the BBC's report and our conclusions based on the progress made by the BBC so far.

The Trust's conclusions on talent costs

The BBC's strategic approach to talent

The Trust welcomes the BBC's report which sets out significant progress in this area including the development of divisional approaches to talent, plans for a diverse pool of talent to reduce its reliance on a small number of highly paid presenters, together with the creation of a pan-BBC oversight group to ensure greater control and consistency when agreeing talent fees.

We are also pleased to note that the BBC has undertaken to go beyond cost per viewer or listener hour measures, to use more rounded assessments including audience surveys, for the assessment of all talent deal referrals - for example where there is a request to increase fee levels, or to sign significant new deals. The Trust expects all talent fee deals to be fully justified by the value provided to licence fee payers as a whole, including the reach and audience engagement that talent brings.

We expect the BBC to approach the design of its systems, processes and cost management to ensure an effective and consistent approach to talent cost decisions. This is to ensure that improvements in talent costs can continue to be made when the economy begins to improve.

Improving value for money

To ensure the BBC has been making real progress in reducing top talent fees, the Trust asked the BBC to demonstrate its achievements in this area and we are satisfied that the BBC has taken positive steps to reduce its top talent spend.

Although we welcome the BBC's progress in identifying savings and making improvements in its approaches to developing new talent and improving value for money, we believe the recent economic downturn provides a very different landscape to the one in which our previous recommendations on talent were shaped. The Trust has therefore challenged the BBC to reflect current market

conditions in its deals with talent. We believe the BBC should focus its efforts on making reductions in deals at the top end of the spectrum.

Improving transparency

The Trust supports transparency in the BBC's provision of services to licence fee payers. For reasons outlined above, the Trust accepts that it would not be appropriate to disclose the details of individual talent deals or salaries.

However, we understand heightened public concern in these difficult economic times that the BBC should be paying no more than is necessary to secure the best talent for its programmes on-screen and on-air, and that public accountability for how the BBC spends licence fee money on its talent is key in ensuring continued public support and trust. In pursuing greater openness, the Trust would therefore welcome increased public disclosure of the BBC's overall spend on talent in its Annual Report which should show how costs are distributed from those at the very top of the scale, through to the many thousands of contributors at the lower end of the talent cost range. It should be possible to provide this information in broad categories of spending without disclosing private and commercially confidential information. We also believe an explanation of the BBC's policy and its approach to spending on top talent would help both the Trust and the public in holding the BBC to account for maintaining a proper level of control on talent costs over time.

Radio

We welcome the BBC setting out a renewed commitment to benchmarking radio talent costs. Although we are mindful of the real difficulties in comparing the BBC's radio operations with the commercial sector, the Trust expects to see clear progress in implementing regular benchmarking studies to maintain accurate market intelligence in this area. As highlighted by a recent report into the BBC's network radio costs published by the National Audit Office, we expect regular benchmarking work to enhance the BBC's ability to control its costs in this area.

We are also pleased to note the BBC's work on developing talent market studies and benchmarking for journalism, and we expect to see concrete progress in this area over the coming months.

Indie Talent Costs

Although we recognise that the BBC has little or no direct control over talent costs incurred through its independent commissions, we do know it is able to monitor top talent fees and retains approval rights over key contracts. We therefore welcome the BBC's report of its active engagement with independent content producers and expect the BBC to be able to drive further value from the money it spends on talent through commissioning independent content.

Staff talent

We note that the BBC has also ensured that salaries for top talent on staff contracts will be rigorously managed. We believe this is a positive addition to the BBC's overall approach to talent costs and expect any evaluation of existing deals to include both direct salary payments and other ad-hoc work, such as freelance presenting work on other BBC shows.

Summary

In June last year, the Trust published an independent report into the BBC's role in the on-screen and on-air talent market. On the basis of this report the Trust found that, on the whole, the BBC was not paying more for its top TV talent than other broadcasters were willing to pay, and that a number of its top talent deals were agreed at levels below the market rate. However, we also found there was room for improvement and made a number of recommendations to improve the BBC's processes around talent fee setting and negotiation in particular.

We have followed up on the actions we set out for the BBC last year, and we have generally been pleased with the progress made on our recommendations. But although the BBC has taken positive steps to strengthen its approach to talent negotiations and the processes it uses to control talent costs, we cannot ignore the recent economic downturn and the opportunity this presents for the BBC to do more to reduce its spend in this area. So we believe it is right for the BBC to go further than it already has in meeting the Trust's recommendations last year, and that it should look to reduce its overall talent spend on a like for like basis during the current licence fee period, with a particular focus on reducing its spend on talent at the top end.

We also expect the BBC to bring forward clear plans to increase transparency and accountability through the disclosure of its spend on talent costs overall in the BBC's Annual Report. This should show how costs are distributed from those at the very top of the scale, to the many thousands of contributors at the lower end of the talent cost range, so licence fee payers can more easily understand how their licence fee is being spent. We believe an explanation of the BBC's policy and its approach to spending on top talent would help both the Trust and the public in holding the BBC Executive to account for maintaining a proper level of control on talent costs over time.

Next Steps

The Trust will continue to monitor the BBC's progress on implementing improved processes to develop new talent and to set and control its talent costs. We intend to publish a short statement on the BBC's progress in the Trust's annual report each year, focusing on value for money and the BBC's approach to developing and nurturing new talent, but we will report sooner on any significant developments should they arise.

BBC Trust Talent Costs – Terms of Reference

A short follow up review to check progress against recommendations made alongside the Trust's independent report into the BBC's role in the on-screen and on-air talent market (the 'Talent Costs Report') published in June 2008.

Background

On 2 June 2008, the BBC Trust published an independent study into the BBC's use of on-screen and on-air talent to understand the BBC's role and impact in the talent market. The Trust commissioned the study from Oliver & Ohlbaum Associates. The report found that, on the whole, the BBC was securing good value for money talent deals. In addition, it found no evidence that the BBC was distorting the talent market through its activities in securing and paying for on-screen and on-air talent. However, there were areas where it was found that the BBC could do better, and the Trust subsequently asked for a number of improvements to the BBC Executive's talent strategy and contract processes based on O&O's findings. The Trust's findings can be found here:

http://www.bbc.co.uk/bbctrust/research/value_for_money/talent_conclusions.html

When the Trust published the Talent Costs Report, it also made a commitment to a short review of progress in 12 months' time. This review will be carried out by the BBC Executive in accordance with terms of reference provided by the Trust. The Trust will look at progress made against its requirements as set out to the BBC Executive in June 2008, and the review will form the basis of an ongoing report which will in future form part of the Trust's Annual Report and Accounts.

Terms of Reference for the Follow Up Review

Summary

The Trust asked the BBC Executive for improvements in the following two areas:

1. Improvement of Information Systems and Evaluation Procedures
2. Process and Pre-Planning Improvements

It also asked for further work to be carried out to understand the following issues:

- Consider the BBC's approach to entertainment and comedy and whether this leads to an over-reliance on a limited number of talent;
- With respect to talent price setting in Radio, News and Current Affairs, understand whether improvements could be made to the BBC's understanding of market context, and related opportunities to lower talent rates.

The Trust found that the Network Radio talent market was a particularly complex area to analyse because there were fewer direct commercial comparisons. For this reason, the Trust stated it would specifically include radio in the talent costs follow up review.

Detailed terms of reference

These terms of reference have been developed in discussion with the BBC Executive to ensure they meet the Trust's overall objectives of getting the best out of the BBC and securing improved value for money for licence fee payers.

1 Improvement of Information Systems and Evaluation Procedures

- 1.1 The BBC should develop a methodology for capturing and tracking talent spend by sub-genre to improve reporting. It should ensure key managers are involved in the process and set clear targets. The BBC should also build on previous work in understanding systematic outturn inflation for returning strands.
- 1.2 Introduce a regular audience survey to measure the value of specific talent. This will help in negotiating talent deals, particularly high value deals, and provide intelligence on alternatives for talent in low competition areas.
- 1.3 Improve the recording of competitor intelligence for use in future valuations and negotiations.
- 1.4 Develop a standard template for talent contract approvals to ensure metrics and market intelligence are used widely and consistently.

2 Process and Pre-Planning Improvements

- 2.1 For all returning strands, bulletins and radio slots the BBC should seek to identify alternative talent before commissioning. This would help in identifying alternatives for key talent, especially in intensely competitive and high fee areas.
- 2.2 The BBC should implement regular audience surveys to measure the value of specific talent, together with consistent metrics and independent research for high value deals. These measures will assist in improving internal challenge for talent deals by providing more relevant data for decision makers.

3 Specific Issues for the BBC's Strategic Reviews

- 3.1 The Trust asked the BBC Executive to consider its approach to entertainment and comedy and whether this led to an over-reliance on a limited number of talent. As part of divisional talent and individual genre strategies, the BBC should consider the importance of talent churn, fee rates and inflation and the introduction of new talent initiatives and targets.

3.2 With regards to price setting in radio, news and current affairs, the BBC should attempt to establish a new industry benchmarking programme. It should consider the intensity of competition and rates in divisional talent strategies and improve the monitoring of the market in these areas to assess opportunities to lower fee rates.

4 Securing Value for Money for Licence Fee Payers

4.1 The Trust expects this follow up review to demonstrate in real terms the savings in talent costs made across specific genres since the Talent Costs Report was published in June 2008.

4.2 The Trust would also like to see what actions the BBC Executive have taken to walk away from talent deals that do not represent good value for money, and the steps it has taken towards better succession planning and building a pool of talent for the benefit of audiences and industry as a whole.

4.3 We would also expect to see improvements made to talent contracts to ensure the BBC can protect its position to the maximum possible extent where the behaviour of individual talent falls short of the standards expected of them.

5 Timetable

5.1 We expect to publish the talent costs follow up review in June 2009 as part of the Trust's annual report and accounts.

Response to Trust Terms of Reference

The BBC Trust provided the BBC Executive with Terms of Reference for its follow up review to assess the implementation of the O&O actions one year on. The following sets out the actions the BBC has taken against each of the Trust's recommendations

1. Improvement of Information Systems and Evaluation Procedures

1.1: The BBC should develop a methodology for capturing and tracking talent spend by sub-genre to improve reporting. It should ensure key managers are involved in the process and set clear targets. The BBC should also build on previous work in understanding systematic outturn inflation for returning strands.

O&O praised the depth of information captured by the BBC's contracting and payment systems (ACON and SAP) and noted that these are superior to the systems in place at other broadcasters. However, it believed the BBC could go

further in reporting, using and sharing this data to better inform decision making processes.

As a result, we have made several changes to our reporting systems that improve the quality of information captured and the way it is presented. We are also ensuring that we better capture all correspondence and negotiation information on talent deals as they are developed and approved. This can then be summarised to monitor trends such as the volume of deals that require referral.

This information enables genre/networks to better manage talent costs and also forms part of the data used to analyse cases for approval.

In addition to the divisional approaches to talent, a pan-BBC group has been established, composed of the Finance Director and Head of Business Affairs for each division, chaired by the Director of Vision Operations & Rights, to review upcoming deals, to establish which had cross-divisional elements, and to identify which division (and individual) would lead on the deal for the BBC as a whole. The attendees would ensure that their editorial colleagues were aware of upcoming deals and would establish the level of interest/work for the talent in the division – feeding back to the identified lead for the deal. This group will also monitor the overall implementation of the BBC talent spend plans, and ensure the frameworks are implemented consistently across the BBC.

1.2 Introduce a regular audience survey to measure the value of specific talent. This will help in negotiating talent deals, particularly high value deals, and provide intelligence on alternatives for talent in low competition areas.

A key driver of O&O's conclusions was its valuation of key talent. This involved a estimation of the "market rate" for a piece of talent, using audience survey information (% more/less likely to view), multiplied by an average audience for the type of show/slot – calculating how large any additional audience brought to the programme would be – and then by multiplying by the relevant advertising rate to equal the incremental revenue brought in by the talent. This represents the value of the talent to a commercial broadcaster (less standard overheads) which can then be compared to the BBC rates. This analysis found that the BBC was paying no more, and in some cases significantly less than the market rate for leading TV talent.

As a result, O&O recommended that the BBC consider the "market value" of key talent, based on audience research. The BBC has explored the best way to conduct this research and has agreed that every talent deal that comes to Finance Committee for approval must have had audience research carried out, leading to a market valuation, although, as O&O note, this is only valid where a viable competitive market exists for the talent. However, it was also recommended that valuations should be conducted for deals of lower value where commercial competition is identified as a key driver of the talent's cost.

It must be noted that this valuation is for comparison (and competitor insight in negotiations) and does not necessarily reflect the way the BBC values talent. The valuation is only to be used to set a BBC rate in context and will not be used as a justification for increasing rates up to the “market rate”. We will continue to look for opportunities to improve and make these valuations more sophisticated.

1.3 Improve the recording of competitor intelligence for use in future valuations and negotiations.

O&O attempted to carry out benchmarking with other broadcasters but experienced little cooperation. However it was recognised within the BBC the value that could be added by carrying out formalised benchmarking with others in the industry for controlling inflation.

The BBC previously carried out some benchmarking in the 1990s, but the other participants withdrew in 2002.

O&O were able to conduct a benchmarking exercise in Radio through the Radio Centre, with similar analysis carried out by the National Audit Office. While there were difficulties directly comparing BBC radio talent with Commercial radio talent, the BBC is considering how, following O&O’s market analysis, it should approach benchmarking on an ongoing basis.

Despite the inherent difficulties, the BBC is continuing to explore opportunities for formal benchmarking of talent spend.

It has been agreed that every talent deal that comes to a divisional board or Finance Committee for approval will contain a realistic list of the alternative opportunities for the talent including detail on the value of the opportunity, the likelihood of it being accepted and any additional evidence. This information will be as robust and well sourced as possible.

1.4 Develop a standard template for talent contract approvals to ensure metrics and market intelligence are used widely and consistently.

In the past, the supporting data used in the preparation and approval of talent deals varied between individual cases leading O&O to identify a risk of selecting metrics that support the proposed deal. As a result a number of additional metrics have been added to those already used in deal approval and there is now standardisation and consistency to deals. All deals will get appropriate scrutiny and boards may require additional metrics before approval can be given.

To implement this, the BBC has developed a new standardised approval form for talent deals, listing the metrics required. This ensures that independent data is used throughout our deals with talent to inform and strengthen our business dealings and negotiations.

2 Process and Pre-Planning Improvements

2.1 For all returning strands, bulletins and radio slots, the BBC should seek to identify alternative talent before commissioning. This would help in identifying alternatives for key talent, especially in intensely competitive and high fee areas.

One of O&O's key recommendations was that the BBC needs to take a much more proactive approach to succession planning. This has also been identified by the divisions as an area that requires increased focus.

For every talent deal that comes to a divisional board or higher for approval several potential successors/ alternatives and their estimated rate (which should generally be lower) will be identified. We are also working to create a culture of succession planning in all our talent management, especially within returning series. Ultimately, this will lead to the BBC being less dependent on particular individuals in particular shows.

Each divisional now identifies more formally the range of opportunities that can be offered to new talent and the division's approach to diversity.

2.2 The BBC should implement regular audience surveys to measure the value of specific talent, together with consistent metrics and independent research for high value deals. These measures will assist in improving internal challenge for talent deals by providing more relevant data for decision makers.

In addition to the regular audience surveys outlined in section 1.2, the BBC is commissioning additional independent research as required.

The new deal approval and referral process requires a consistent set of metrics to be used when evaluating talent deals, and ensures that every deal, especially those of high or increasing value is subject to independent, informed challenge.

Beyond individual deals, the new reporting framework ensures that divisions monitor their talent spend on a regular basis. This adds an additional layer of internal challenge to the process.

3. Specific Issues for the BBC's Strategic Reviews

3.1 The Trust asked the BBC Executive to consider its approach to entertainment and comedy and whether this led to an over-reliance on a limited number of talent. As part of divisional talent and individual genre strategies, the BBC should consider the importance of talent churn, fee

rates and inflation and the introduction of new talent initiatives and targets.

Although, as O&O recognised, the BBC's editorial positioning in the entertainment and comedy genres was not directly in the scope of its report, the BBC has considered the way it should work with talent in these genre, the value delivered to audiences and how this might develop in the future.

Entertainment is actively succession planning on all key brands and talent. Recasting has been used to reinvent long running formats and to achieve efficiencies. Active discussions are taking place to look at the talent involved in other long running Entertainment programming and recasting options where editorially appropriate without damaging the programme brand is a key plank in how Entertainment will meet its efficiency targets.

Entertainment is actively developing new formats in 2009 and looking for opportunities to develop new talent. The rates paid to top talent have also been reduced.

Both within Entertainment and Comedy and across the BBC, new talent is essential for the future of the BBC, and equally the BBC's role in finding, supporting and developing new talent is critical for the wider UK creative ecology. Many of the UK's most famous and celebrated performers worked for the BBC early in their careers – and are more likely to return later in their careers for particular projects as a result.

The BBC is using the breadth of its output to create opportunities for new talent. This includes developing talent on digital channels before moving them to BBC One and BBC Two and introducing new talent in supporting roles in established programmes.

As we introduce new talent we look at how we can develop them across the output and offer them opportunities that may not be available elsewhere.

The BBC is also working to identify a pool of diverse performers to nurture with an agreed development plan, identified opportunities, training (if appropriate) and key milestones. Each Division has diversity objectives and will be measured against them at the end of each year.

3.2 With regards to price setting in radio, news and current affairs, the BBC should attempt to establish a new industry benchmarking programme. It should consider the intensity of competition and rates in divisional talent strategies and improve the monitoring of the market in these areas to assess opportunities to lower fee rates.

As noted in the BBC Executive's response to the Trust, we continue to believe that competition for BBC News talent from other broadcasters, newspapers & policy development/PR/think tank sectors is more intense than was identified in the report.

However, the BBC is looking at initiating a new benchmarking programme. Alongside this, the BBC is also looking at other approaches to monitor competitive intensity and rates and opportunities for talent.

4. Securing Value for Money for Licence Fee Payers

4.1 The Trust would like to understand what steps the BBC Executive has taken to reflect the changes in economic conditions since the Talent Costs Report was published in June 2008.

Talent are a key ingredient to overall programme costs, and can make a big difference in delivering what audiences want from the BBC. The amount the BBC spends on talent can never be determined precisely as large parts of it are determined by editorial judgement

Since the Trust published its review in June 2008 the economic climate has worsened impacting both the BBC and the wider talent market. In response, the Executive have committed to significantly reducing the amount it spends on top talent and managing its spend on talent within the continuous improvement savings that it has already committed to. To deliver this, all divisions agreed that any talent deal that involves an increase must be approved off by a senior manager and include a clear justification of why the spend is justified under current market conditions. In addition any deal over £100k now has to be signed off by the Divisional Director as a minimum.

The BBC is also asking Independent Producers to adopt a similar approach so that the same pressure on talent fees is established within indie programmes as it is with in-house. This will be achieved through applying efficiencies to programme prices overall, and through involvement in the negotiation of key talent deals. The independent sector is actively engaged in driving down talent costs, and welcomes BBC engagement and support.

Management and accountability for meeting these targets sits with the director in each group.

4.2 The Trust would also like to see what actions the BBC Executive have taken to walk away from talent deals that do not represent good value for money, and the steps it has taken towards better succession planning and building a pool of talent for the benefit of audiences and industry as a whole.

4.3 We would also expect to see improvements made to talent contracts to ensure the BBC can protect its position to the maximum possible extent where the behaviour of individual talent falls short of the standards expected of them.

The BBC Executive addressed these points in discussions with the Chairman and Finance and Compliance Committee.