

# Compliance

The Board of Governors has clear responsibilities under the BBC's Charter to ensure that the BBC behaves responsibly and follows all applicable regulation and codes of practice.

They must satisfy themselves that the BBC:

- complies with all legal obligations
- has an appropriate management structure
- maintains sensible controls to protect its assets
- adheres to its own guidelines and codes of practice

On the following pages the Board of Governors and independent auditors report formally on the BBC's policies, procedures and compliance as follows:

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## 1 Fair trading

### Governors' Fair Trading Compliance Committee (FTCC)

During the year the FTCC was comprised exclusively of Governors of the BBC: Rt Hon The Lord Ryder (Chair), Professor Fabian Monds, Dame Ruth Deech and Baroness Hogg (retired February 2004).

The key responsibilities of the FTCC are to:

- agree and keep under review the BBC's Fair Trading Commitment
- agree and keep under review the BBC's Fair Trading Guidelines
- through the Governance & Accountability department, appoint independent auditors to test the BBC's compliance with its Fair Trading Commitment
- consider reports from the independent auditors or other independent experts as appropriate, the Head of Fair Trading, Head of Business Assurance and Senior Executives on matters relating to compliance with the BBC's Fair Trading Commitment
- consider significant external challenges to the BBC's Fair Trading Commitment
- consider the Governors' and independent auditors' annual reports and opinions on Fair Trading
- consider the Governors' annual report and independent auditors' opinion in respect of the World Service Trading Protocols
- report to the Board of Governors on the work of the Committee

### Governors' statement on fair trading

#### **Commercial activities and fair trading**

The BBC's core purpose is to provide public service broadcasting funded by the licence fee. Licence payers' investments, built up over many years, have produced a critical mass of talent and production capability for the BBC, together with an unparalleled archive of past programming. These assets have a secondary value, over and above their use on public service channels and outlets. The BBC has a responsibility to ensure that this value is properly developed commercially, and used to the benefit of licence payers.

In pursuing commercial activities the BBC is, like other organisations, fully subject to both domestic and European competition law. However, unlike other organisations, the BBC's responsibility to trade fairly is reflected in further and more demanding requirements arising from its Royal Charter. In particular, the Charter requires the avoidance of cross-subsidy between the BBC's publicly funded and commercial activities.

#### **Fair trading compliance procedures**

The BBC's fair trading obligations are embodied in its Fair Trading Commitment, compliance with which is scrutinised throughout the year by a standing committee of the Board of Governors, the FTCC. Compliance with the Fair Trading Commitment is underpinned by the BBC's Fair Trading Guidelines which were reviewed and updated during the year, and were previously called the Commercial Policy Guidelines.

The Committee is advised directly by independent auditors commissioned and managed by the Governance & Accountability department, and by the BBC's Head of Fair Trading and Head of Business Assurance, if necessary without the mediation of BBC management. All subsidiaries and commercial operations report to the Committee on their activities, and relevant staff with commercial responsibilities are required by the Committee to be trained in the BBC's fair trading policies.

The FTCC regularly reviews the independence of its external auditors with advice from the Head of Business Assurance. The Committee holds discussions with the external auditors, PricewaterhouseCoopers LLP, without management being present and reviews the level of non-audit fees paid to its external auditors. Any significant work is put out to competitive tender.

The management of the BBC's fair trading arrangements is regularly tested by the British Standards Institute and these arrangements have been accredited with the ISO 9001:2000 quality standard. The last assessment conducted in December 2003 confirmed that the procedures are continuing to operate effectively.

By their nature, fair trading judgements are complex, reflecting the constantly developing environment in which the media industry operates. Through the FTCC, the BBC's Board of Governors brings informed scrutiny and balanced judgement to bear on the important issues of policy that arise from the BBC's engagement in commercial ventures.

In its response to the Richard Lambert Review of BBC News 24 against the conditions of its approval, the BBC offered to consider on fair trading grounds the relationship between BBC News and BBC World every year. This would include commissioning a triennial benchmarking exercise for independent consultants to confirm that marginal cost pricing remains market practice, and annual verification by external auditors that the marginal cost principle is appropriately applied in dealings between BBC News and BBC World. A benchmarking exercise was completed in April 2004 by independent consultants which confirmed that marginal cost pricing remains market practice. In addition, following a report from external auditors, the Board of Governors is satisfied that the marginal cost principle has been applied appropriately.

#### **Fair trading complaints**

Among the responsibilities of the Head of Fair Trading is advising the FTCC and the Executive Committee on any fair trading complaints which have been laid against the BBC. He may be contacted at BBC, Media Centre, 201 Wood Lane, London W12 7TQ. The FTCC publishes a quarterly bulletin of the BBC's response to any allegations of breaches of the Fair Trading Commitment.

#### **Events of the year**

##### *External challenges*

During the year there were no formal investigations of the BBC's commercial activities by external bodies eg, the Office of Fair Trading (OFT) or the European Commission. However, a number of complaints were made to the Board of Governors or to the Head of Fair Trading alleging that the BBC was in breach of its guidelines. These included the following:

- Faces Casting Agency, which supplies artists, extras and other parts to productions, wrote alleging that the BBC appeared to be operating a "closed-shop in terms of artists obtaining employment".

The BBC responded explaining that the selection process had been refined to make it more transparent and is overseen by the BBC's Procurement department. The selection criteria are available for public inspection and will be subject to periodic review. Provided agents meet the criteria, they will be able to apply to be included on the list of agents that the BBC may use.

- BAB Copying, a stationery and office furniture supplier to a local BBC office, wrote to the Board of Governors raising concerns about the manner in which the BBC undertook its selection of a UK-wide stationery supplier.

BAB Copying claimed that it had been supplying stationery locally through the Birmingham BBC office for over 30 years but had now become aware that their contract would not be renewed as, following a procurement exercise, a national contract had been awarded to another company.

The BBC responded explaining that as a publicly funded organisation, the BBC is subject to the EU Public Procurement Regulations. The BBC had complied with these Regulations and, as required by the Regulations, an advertisement was placed in the Official Journal of European Communities (OJEC). There is no requirement to notify companies that an advertisement has been placed.

The letter also confirmed that pre-existing contracts with BAB Copying would, of course, be honoured.

- The Chairman of the FTCC received a letter from IPC tx Limited challenging the BBC's decision not to agree to IPC's request for trailing two of its magazines.

Following consideration by the Committee, a response was sent to IPC confirming that in the Committee's view BBC management had been correct to refuse to trail these two magazines as they did not comply with the BBC's guidelines.

The Committee however recognised that the guidelines would benefit from review to ensure clarity and an internal review was therefore commissioned with advice from the Fair Trading auditors. This review has now been completed and the guidelines have been updated.

- The Head of Fair Trading received a letter from ntl:Broadcast which raised a number of concerns relating to the tender process by BBC Sport for the production of horse racing for *Grandstand*. The letter expressed concern about the transparency of BBC Resources' costs and its level of pricing in bidding for this tender. The letter also alleged that BBC Resources was implying to independent producers that any bids which included BBC Resources would be treated more favourably by BBC Sport.

The Head of Fair Trading wrote to ntl:Broadcast confirming that he was satisfied that both BBC Sport and BBC Resources acted fairly and in a manner consistent with the BBC's fair trading requirements. The selection of a partner by BBC Sport was based on fair, objective criteria. The investigation also confirmed that BBC Resources' prices were fairly based and consistent with the BBC's Commercial Policy Guidelines.

ntl:Broadcast subsequently wrote again alleging, *inter alia*, that the BBC does not appear to operate a level playing field and that there appeared to be a policy of keeping revenues in-house in the BBC. The letter also raised a number of specific instances which purported to support this.

The Head of Fair Trading undertook a detailed investigation of all the points raised and confirmed, *inter alia*, that the BBC does not have a policy of keeping revenue "in-house", nor has it unfairly tilted the competitive playing field to the detriment of ntl:Broadcast as alleged.

All external challenges are reported in the *BBC's Fair Trading Bulletin* which is available online at [bbc.co.uk/info](http://bbc.co.uk/info).

### Governors' opinion

The Governors consider that the policies contained in the BBC's Fair Trading Commitment are consistent with the requirements of the Royal Charter and the accompanying Agreement. Through the FTCC, they have gained reasonable assurance that the framework of controls and procedures designed to ensure that these policies are applied throughout the BBC has been operating effectively throughout the year.

### Independent Fair Trading Auditors' report to the Governors of the BBC for the year ended 31 March 2004

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 Governors with reasonable assurance that the BBC has complied with its published Fair Trading Commitment for the year ended 31 March 2004.

Our instructions for this audit, which included the scope of work to be undertaken, were agreed with the FTCC. 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. We are satisfied that the agreed scope of our audit was sufficient to enable us to express the opinion set out below.

### Respective responsibilities of Governors, management and auditors

The Governors are responsible for ensuring that the BBC meets all the requirements of competition law and trades fairly. They have established its Fair Trading Commitment, determine the objectives of the system of internal controls designed to ensure compliance with this Commitment and monitor the outcomes of those controls. They are also responsible for preparing the Governors' statement on fair trading compliance, as included in this *Annual Report and Accounts*, which includes a statement on fair trading.

The BBC's management is charged by the Governors 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 Auditors, 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 Governors' statement on fair trading 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 in accordance with our instructions which were agreed with the Secretary of the BBC on behalf of the FTCC. 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 assurance that we were seeking. 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 the Governors 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 2004.

**PricewaterhouseCoopers LLP**  
Chartered Accountants

London  
17 June 2004

### Governors' report on BBC World Service Trading Protocols

BBC World Service is responsible for commissioning and scheduling its own programmes and for making programmes for its language services, but purchases English language programme making and technical and support services from other divisions of the BBC (the Supplier Divisions). BBC World Service also receives services from and supplies services to the BBC's commercial subsidiaries (the Subsidiaries).

It was agreed by a joint Foreign and Commonwealth Office (FCO)/BBC World Service Working Group that the BBC would draw up guidelines to govern the trading relationship between BBC World Service and other parts of the BBC, in order to ensure that BBC World Service maintains its distinctive voice and to preserve the clear separation between Grant-in-Aid and licence fee income. These Trading Protocols were approved by the FTCC in 1997. Each of the Supplier Divisions then drew up detailed agreements with BBC World Service, specifying:

- the services to be provided
- criteria to ensure the quality of the services
- the cost of the services

The FTCC is responsible for monitoring and reviewing compliance with the Trading Protocols. The FTCC receives regular reports from management on the effectiveness of the systems and procedures in place to ensure compliance with the Trading Protocols.

KPMG LLP (the external auditors) has reviewed a summary of the value of transactions and the related cash flows which have taken place during the year between BBC World Service and the Supplier Divisions and the Subsidiaries. KPMG LLP has reported to the Governors that, in their opinion, the information contained in the summary of transactions for the year ended 31 March 2004 has been accurately extracted from the books and records of BBC World Service and the Supplier Divisions and the Subsidiaries and has been properly prepared on the bases of cost allocation and apportionment methods set out in the agreements between BBC World Service and the Supplier Divisions and the Subsidiaries and, on this basis, there has been no material cross-subsidy between Grant-in-Aid and licence fee funds or between Grant-in-Aid and the BBC's commercial subsidiaries.

### Governors' statement on BBC World Service Trading Protocols

Following regular reports to the FTCC by the Head of Fair Trading and internal and external auditors, the Governors are satisfied that:

- the Trading Protocols reflect the requirements of the FCO/BBC World Service Working Group
- agreements are in place which are consistent with the Trading Protocols
- there has been no material cross-subsidy between Grant-in-Aid and licence fee funds or between Grant-in-Aid and the BBC's commercial subsidiaries

## 2 Financial statements

### Statement of the Board of Governors' and Executive Committee's responsibilities for the preparation of the financial statements

The Governors and Executive Committee are required by the BBC's Charter to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the BBC and of its income and expenditure for that period. In preparing those financial statements, the Governors and Executive Committee are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis unless it is inappropriate to do so

In addition, the Governors and Executive Committee have voluntarily decided to comply with the accounting and disclosure provisions of the Companies Act 1985 and, where applicable, of the Financial Services Authority Listing Rules. They are also responsible for keeping adequate accounting records and taking such steps as are reasonably open to them to safeguard the assets of the BBC and to prevent and detect fraud and other irregularities.

### Report of the independent auditors to the Governors of the British Broadcasting Corporation (BBC)

We have audited the financial statements on pages 99 to 135. In addition to our audit of the financial statements, the Governors have engaged us to audit the information in the Governors' remuneration report that is described as having been audited, which the Governors have prepared as if the BBC were a listed company and which is thus compliant with Schedule 7A to the Companies Act 1985.

This report is made solely to the BBC's Governors, as a body, in accordance with the Royal Charter for the continuance of the BBC which came into force on 1 May 1996 (the Charter). Our audit work has been undertaken so that we might state to the BBC's Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the BBC and the BBC's Governors as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Governors and Executive Committee and Auditors

The Governors and Executive Committee are responsible for preparing the *BBC Annual Report* and the Governors' remuneration report. As described earlier on this page, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors are established in the United Kingdom by statute, by the Auditing Practices Board, our profession's ethical guidance and, in accordance with the terms of our appointment, the Companies Act 1985 and the Charter.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Governors' remuneration report to be audited have been properly prepared in accordance with the Companies Act as if that Act had applied to these financial statements. We also report to you if, in our opinion, the BBC has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Governors' and Executive Committee remuneration and transactions with the BBC is not disclosed.

In addition to our audit of the financial statements, the Governors have engaged us to review their corporate governance statement as if the BBC were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the statement on pages 86 to 90 reflects the BBC's compliance with the seven provisions of the Combined Code specified for audit review by those rules and we report if it does not. We are not required to form an opinion on the effectiveness of the BBC's corporate governance procedures or its internal controls.

We read the other information contained in the *Annual Report*, including the corporate governance statement, and the unaudited part of the Governors' remuneration report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Governors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Governors and Executive Committee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the BBC's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Governors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Governors' remuneration report to be audited.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of UK Public Service Broadcasting (the 'Home Services' in the Charter) and the BBC as at 31 March 2004 and of the deficit of the BBC for the year then ended and the financial statements and the part of the Governors' remuneration report to be audited have been properly prepared in accordance with the provisions of the BBC's Charter and the Companies Act 1985 as if that Act had applied to these financial statements.

### **KPMG LLP**

Chartered Accountants  
Registered Auditor

London  
17 June 2004

### **3 Risk and control processes**

The Governors are appointed as trustees for the public interest to ensure that the BBC is properly accountable to Parliament and the public. Part of this role requires the Governors to satisfy themselves that the BBC is applying the highest standards of corporate governance.

The BBC has complied throughout the year ended 31 March 2004 with the Combined Code, issued by the London Stock Exchange in June 1998, which sets out the principles of good governance. During 2003 the Code was revised to include the recommendations arising from two reviews which sought to improve the effectiveness of boardrooms and strengthen the corporate governance framework. The Higgs Report reviewed the role and effectiveness of non-executive directors and the Smith Report, set up by the Financial Reporting Council, developed the existing code provisions for audit committees.

The BBC recognises the importance of, and is committed to, applying the highest standards of corporate governance and voluntarily complies with the Combined Code to the extent that it is applicable. Although the Revised Code is not applicable for the financial year under review, the BBC has made significant progress in formalising and revising existing policies, procedures and documentation in response to the revisions. Overall, the requirements of the Combined Code apply to the BBC with two exceptions. Firstly, those requirements relating to the appointment of non-executive directors are inapplicable as the Governors are appointed by the Queen in Council and their remuneration is set by the Secretary of State for Culture, Media and Sport. Secondly, those requirements relating to shareholders can only be applied to the licence-paying public, rather than shareholders through the stewardship of the Board of Governors.

The BBC follows the seven principles of public life set out in the Nolan Committee reports on Standards in Public Life.

How the BBC has applied the remuneration principles is detailed within the remuneration report on pages 91 to 94.

## Board structure

The Governors are members of the Corporation and act as trustees for the public interest while the Executive Committee takes responsibility for day-to-day operations. Details of the Board of Governors and Executive Committee are summarised on pages 8 to 9 and 10 to 11. A register of interests for both Governors and Executive Committee is maintained and may be inspected by written application to the Secretary of the BBC, BBC Media Centre, 201 Wood Lane, London W12 7TQ.

The Board of Governors refer some matters to sub-committees. The main responsibilities of these sub-committees are explained elsewhere in this *Annual Report and Accounts*.

- Governors' Programme Complaints Committee (page 78)
- Governors' Fair Trading Compliance Committee (page 82)
- Governors' Audit Committee (page 89)
- Governors' Remuneration Committee (page 91 to 92)
- Governors' Property Committee (page 90)

The attendance record of individual Governors at full Board and sub-committee meetings is detailed below:

	Board of Governors	Programme Complaints Committee	Fair Trading Compliance Committee	Audit Committee	Remuneration Committee	Property Committee
<b>Number of meetings in the year</b>	10	11	5	5	5	7
Deborah Bull <sup>1</sup>	6*					
Gavyn Davies <sup>2</sup>	8**				5	6*
Dame Ruth Deech	9		5			
Dermot Gleeson	10			5		7
Baroness Hogg <sup>3</sup>	7**		1†	3***	3††	
Professor Merfyn Jones	9					
Professor Fabian Monds	10	10	4			
Dame Pauline Neville-Jones	10	9		5	5	
Rt Hon The Lord Ryder	10		5		4	6
Angela Sarkis	8	9				
Sir Robert Smith	7	9		4		3
Ranjit Sondhi	10	10				

<sup>1</sup> Started 1 August 2003

<sup>2</sup> Resigned 28 January 2004

<sup>3</sup> Retired 9 February 2004

\* out of a possible 6

\*\* out of a possible 8

\*\*\* out of a possible 4

† out of a possible 3

†† out of a possible 5

The Board of Governors have continued to evaluate their effectiveness and have initiated a programme of review including the consideration of different aspects of the Board and its sub-committees' performance and operational administration.

The Governance & Accountability department support and develop the relationship of the Board of Governors with the organisation. The key responsibilities of Governance & Accountability in this respect are to:

- provide independent advice to the Board of Governors, with a focus on the performance of the BBC's public services including performance against objectives and the *BBC Statements of Programme Policy*

- provide administrative support for the Board of Governors in conjunction with the Executive Committee
- facilitate the Board of Governors' public accountability and responsibility

## Relationship and communication with licence payers and Parliament

The BBC seeks to keep the public informed about its services and the way in which it operates, and to be open and candid about successes and failures. The BBC will withhold information only where there is a genuine matter of copyright, contractual or commercial confidentiality at stake or where legitimate considerations of privacy apply.

Information is made available, and audience views obtained, in a variety of ways, many of which are discussed on pages 74 to 81. These include the *BBC Statements of Programme Policy* and other publications, internet services and public events.

The BBC lays its *Annual Report and Accounts* before Parliament. Governors or BBC Executives may be, and frequently are, called before a Parliamentary Select Committee to answer MPs' questions about the BBC's activities and plans. The *Annual Report and Accounts* is also available to any member of the public.

Approval for new channels and services, public or commercial, must be sought from the Secretary of State for Culture, Media and Sport.

BBC World Service is funded by Grant-in-Aid and is accountable to Parliament through the Foreign and Commonwealth Office (FCO). Although it is editorially independent, its aims and priorities are agreed with the FCO.

## Accountability and internal control

The responsibilities in relation to internal control are clearly defined. The Board of Governors is ultimately responsible for the proper use of public money whilst the Executive Committee is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The respective responsibilities of the Board of Governors and Executive Committee and the external auditors are set out on pages 85 to 86. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board of Governors and Executive Committee consider that there is an ongoing process for identifying, evaluating and managing significant risks faced by the BBC. The process has been in place for the year ended 31 March 2004 and up to the date of approval of this *Annual Report and Accounts*.

## Financial reporting and going concern

A review of the financial position of the BBC is included on pages 97 to 98. This provides an assessment of the BBC's performance and current position.

The going concern basis has been adopted in the preparation of the financial statements as the Board of Governors and the Executive Committee believe that the BBC has adequate resources to continue its operations for the foreseeable future.

## Compliance

The key aspects of the control environment operating throughout the year are described below under the following headings:

### ■ Risk management

The management of risk within the BBC is considered to be most effectively managed through the engagement of the entire Executive Committee. For that reason, risk management is not delegated to a sub-committee.

Each of the BBC's top risks has a nominated owner on the Executive Committee who is responsible for ensuring that progress on the management of their given risk is reported to all of the Executive Committee. The BBC's top risks and associated action plans have been reviewed during the year. An annual update on each of these key risks is provided to the Executive Committee with a progress report every six months. The Audit Committee, on behalf of the Board of Governors, considers the operation of the risk management process including the management of the BBC's top risks.

The director of each division has a clear responsibility for the identification and management of risks facing their business. Divisional management has reviewed the risks associated with the achievement of its divisional objectives. Consideration of these risks includes a review in each division of the impact of the BBC's top risks and reporting on the management of those risks via reports to the Executive Committee. The risks identified, and the actions planned in response, are maintained in a risk register in each division which is verified by the Risk and Internal Control Managers.

### ■ Internal Audit

The BBC has an Internal Audit department of 27 staff incorporating Operational Audit, Systems Audit and Occupational Risk Audit. Internal Audit's authority is derived from its joint independent reporting relationship to the Audit Committee and to the Director-General. The scope of Internal Audit includes the examination and evaluation of the adequacy and effectiveness of the BBC's systems of internal control and the quality of performance in carrying out assigned responsibilities. The work programme of Internal Audit is unrestricted, covering all BBC public service activities and, in addition, BBC Commercial Businesses, BBC World Service & Global News, BBC pension schemes and BBC charities. Internal Audit exercises the BBC's right of audit, where such right is provided by contract, over external parties including independent production companies and other key suppliers of outsourced services.

Internal Audit undertakes regular testing of control systems and core business processes under a plan agreed with the Audit Committee. The audit plan, which is reported twice a year, is based on a continuing assessment of key risks, monitoring compliance of key systems and processes, and ensuring value for money to the licence payer. The results of testing are reported at each meeting of the Audit Committee which scrutinises the operation of the BBC's controls throughout the year.

### ■ Divisional controls

The divisions' management has responsibility for ensuring that existing controls and procedures are followed. Key controls over major business risks include maintaining and regularly updating risk registers, performance review and exception reporting. Reviews by Internal Audit monitor the operation of divisional and subsidiary controls, to ensure that they are consistently applied and as a minimum meet the BBC-wide control policy.

### ■ BBC business and broadcast continuity

The BBC Business & Broadcast Continuity team work with the BBC divisions and partnering companies to protect and to mitigate risk to the various business areas in the BBC. This is achieved through the implementation of a robust system of business continuity planning, rehearsal and disaster recovery preparedness. In some instances specific projects are initiated to improve operational resilience where the risk is deemed high. The BBC's business demands that it is positioned to not only broadcast and inform in virtually any circumstance, but that other lines of business continue with a minimum of disruption. This is particularly important in light of current geopolitical events. The safety and security of BBC people and assets remain the priority in contingency planning.

### ■ Computer systems

The BBC has established controls and procedures over the security of data held on computer systems. Arrangements are in place for computer processing to continue and data to be protected and retained in the event of the failure of the BBC's own systems for whatever reason. The Internal Audit function includes a specialist Systems Audit team who review the continuing integrity of all systems within the BBC including computer and broadcast critical systems.

### ■ Controls over outsourced transaction processing

The majority of the BBC's finance transaction processing is outsourced to a service company, Media Accounting Services Limited (Medas), a wholly owned subsidiary of EDS which is independent of the BBC.

The collection of the licence fee is outsourced to Capita.

The BBC monitors the provisions that Capita have put in place to ensure the collection of the licence fee in the event of business interruption.

Safeguards are in place to ensure the integrity of the BBC's transaction processing and collection data and to provide alternative methods in the event of a failure of the core processes.

The Director of Finance, Property & Business Affairs has established monitoring procedures to review the performance of key suppliers of outsourced services on a regular basis. These include review by Internal Audit through a programme of work informed by continuing assessment of key risks and issues. Performance data, financial reporting and compliance statistics are reported to the BBC on a monthly basis.

### ■ Whistle-blowing

The BBC has a 'whistle-blowing' or 'protected disclosure' policy. The policy facilitates the anonymous communication to the BBC of any incident in which there is a suspicion that there has been a breach of the BBC's codes. The process is administered by an independent external company to ensure anonymity. Each reported incident is notified to the Head of Business Assurance who ensures that every incident is investigated, a response communicated and action taken as appropriate.

### ■ Financial reporting and business performance

Individual divisions are responsible for ensuring compliance with the BBC's financial reporting system.

The BBC has a comprehensive system for reporting financial results and business performance. During the year each division prepares monthly reports and accounts. These results are reviewed locally and are scrutinised by Group Financial Control. The consolidated results of the BBC are reviewed at the Executive Committee and the Board of Governors' meetings each month.

Each financial year the divisions prepare detailed budgets for the following financial year and update long-term plans. The annual budget of each division is reviewed by the Director of Finance, Property & Business Affairs. The overall BBC budget is submitted by the Director-General and the Executive Committee to the Board of Governors for approval. The performance of each division is subject to continuous monthly monitoring and at the end of every year each division is subject to a rigorous performance review to verify how effectively they have met their objectives.

#### ■ Fraud awareness

Although incidents of fraud are rare, the BBC takes its responsibilities to minimise the risk of fraud, and the consequential loss to the licence payer, very seriously. During the year the BBC has completed a substantial external review of its anti-fraud measures. The anti-fraud policy, clarifying overall and ultimate responsibility for ensuring that the appropriate controls are in place to minimise the risk of fraudulent activity, and the fraud response plan have been updated.

An anti-fraud group has been set up, chaired by the Head of Business Assurance and includes representatives from Policy & Legal, BBC People and operational and financial input from across the divisions. The key objectives of the group are to embed measures to minimise the risk of fraud and raise overall fraud awareness across the BBC. Divisions are responsible for reporting any suspicions of fraudulent activity to the Investigations Unit and ultimately to the Head of Business Assurance.

#### **Governors' Audit Committee**

During the year the Audit Committee comprised exclusively of Governors: Dame Pauline Neville-Jones (Chair), Dermot Gleeson, Sir Robert Smith and Baroness Hogg (retired February 2004). The Audit Committee complies with the recommendations within the Smith Report that at least one member of the Audit Committee has significant, recent and relevant financial experience. Members of executive management attend meetings by request of the Audit Committee.

The key responsibilities of the Audit Committee are to:

- review management's and Internal Audit's reports on the effectiveness of systems for internal financial control, financial reporting and risk management
- review the Internal Audit work programme and ensure that the internal audit and risk management function is adequately resourced and has appropriate standing
- approve the appointment or dismissal of the Head of Business Assurance
- consider management's response to any major external or internal audit recommendations
- consider the appointment of the external auditors and assess independence, ensuring that key partners are rotated regularly
- oversee the process for selecting the external auditors

- recommend the audit fee to the Board and approve any fees in respect of non-audit services provided by the external auditors and ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity
- discuss with the external auditors the nature and scope of the audit and review the auditors' quality control procedures and steps taken by the auditors to respond to changes in regulatory and other requirements
- review the external auditors' management letter and management response
- review the performance and effectiveness of the external auditors
- review and challenge, where necessary, the actions and judgements of management in relation to the annual financial statements and financial review
- satisfy itself that all regulatory compliance matters have been considered in the preparation of the *Annual Report and Accounts*
- review the BBC's procedures for handling allegations from whistle-blowers
- review the Audit Committee's terms of reference and effectiveness on an annual basis

In reviewing the financial statements of the BBC the Audit Committee considers any significant issues and the appropriateness of accounting policies adopted in relation to significant or unusual transactions where more than one policy may apply.

The Chair of the Audit Committee reports to the full Board of Governors after each meeting of the Committee.

#### **Independence of external auditors**

The BBC complies with the guidance governing the conduct of external audit set out in the Combined Code and recommendations from the Smith Report for audit committees. The external auditors appointed by the BBC are KPMG LLP as financial auditors and PricewaterhouseCoopers LLP act as the fair trading auditors (see pages 82 to 86). Both the Audit Committee and KPMG LLP themselves have safeguards in place to avoid the possibility of the auditors' objectivity and independence being compromised.

The Audit Committee regularly reviews the independence of its external auditors ensuring that key partners are rotated regularly. The Audit Committee holds discussions with the external auditors without management being present. The Audit Committee reviews the level of non-audit fees paid to KPMG LLP. Any significant consulting work is put out to competitive tender. Recruitment from KPMG LLP into any senior management position in the BBC requires the prior approval of the Audit Committee.

The BBC's policies in relation to services procured from the external auditors are:

- all non-audit services proposed to be commissioned from the external auditors must be notified to, and approved by, the Audit Committee
- above an established *de minimus* level the planned work must be submitted to competitive tender and, in the event that the external auditors are to be awarded the contract, the prior approval of the Audit Committee must be obtained
- the external auditors are specifically excluded from being considered for certain types of work where the effect could be to prejudice their ability to express an independent and objective opinion

## **Value for money reviews**

During the year the BBC has extended its programme of reviews to include a greater focus on value for money (VFM) reviews across the BBC. The key focus of these reviews is value for money and scrutiny over public expenditure. The Audit Committee has put in place a rolling programme of VFM reviews to be performed by Internal Audit and external agencies including the National Audit Office (NAO). The first of the VFM reviews commissioned from external agencies by the Audit Committee is the NAO's review of the BBC's investment in Freeview. The Board of Governors will lay before Parliament the NAO's findings and the BBC's response this summer.

## **Governors' Property Committee**

The Governors' Property Committee was formally established as a sub-committee of the Board of Governors in October 2003.

The Property Committee supervises management's implementation of the BBC's property strategy including monitoring the progress of the redevelopment of Broadcasting House, London. However, the Audit Committee remains the authority by which the Corporation determines satisfactory compliance with internal and external controls including property projects.

During the year the Property Committee was comprised exclusively of Governors of the BBC: Gavyn Davies (resigned January 2004), Rt Hon The Lord Ryder, Sir Robert Smith and Dermot Gleeson. The Property Committee meets as required.

The key responsibilities of the Property Committee are to:

- satisfy itself that major property projects within the agreed property strategy are progressing according to plan and budget
- be informed of any significant variances or changes in advance of requests by management to the full Board of Governors for approval of increased expenditure (in line with the investment guidelines covering approval levels)
- be informed in advance of any proposal by management to dispose of property assets
- be informed of any significant issues and ensure, where necessary, these are referred to the Audit Committee for further scrutiny

## **Governance arrangements for Commercial Businesses**

In July 2002 the Secretary of State for Culture, Media and Sport approved the establishment of a new subsidiary, BBC Commercial Holdings Limited, to coordinate and manage the activity and financing needs of the principal commercial subsidiaries. The BBC's public service aims are enshrined in the company's Memorandum of Association and many of its powers, including the power to appoint directors, are exercisable subject to prior approval of the Board of Governors.

The Board of Commercial Holdings Limited Audit Committee (CHAC) was established in September 2003 with the responsibility to consider all Audit Committee papers relating to the Commercial Businesses. The CHAC members are independent of the operational management of the Commercial Businesses. Matters of significance are taken and discussed by the Governors' Audit Committee.

The objective of the CHAC is to ensure that the BBC Commercial Businesses meet the highest standards of corporate governance particularly with respect to internal control and risk management and operate within the framework of the Governors' Audit Committee. The Chair of CHAC reports to each Governors' Audit Committee meeting.

## **Events of the year**

The BBC's system of controls, as stated above, is designed to manage risks rather than eliminate them entirely. During the year the BBC has reviewed lessons learnt from the following incident and has updated controls where considered appropriate.

### ■ The Hutton Inquiry

The BBC's response to the Hutton Inquiry is covered in detail on pages 4 to 5.

## **4 Other corporate governance responsibilities**

### **Human resources**

The BBC continues to hold the Investors in People (IIP) accreditation across the whole BBC which it regards as one of the key processes for evaluating progress in people management and development. It is taking active steps to improve its performance in all areas by a programme of rigorous self-assessment every year. The BBC invests a considerable amount of money and time in training and developing its staff as detailed on pages 72 to 73.

The BBC monitors staff views through an annual staff survey. It also has various consultation mechanisms including, at corporate level, the BBC Forum. Regular meetings are also held with the recognised unions: BECTU (Broadcasting Entertainment Cinematograph and Theatre Union), the NUJ (National Union of Journalists) and AMICUS (formerly the AEEU).

### **Internal communication**

Progress in improving internal communication is measured by an annual survey of staff opinion conducted by MORI. The latest of these, conducted in December 2003, showed that the BBC continues to make further progress in the key areas of internal dialogue, understanding, attitude and behaviours. The BBC is now very firmly in MORI's group of top ten organisations in the UK for internal communications and the BBC's practice has attracted international interest in this area during 2003/2004.

### **Occupational risk management**

The BBC has continued to seek continuous improvement in its delivery of risk management performance, including health and safety, and has reinforced its professional support structure and competencies to reflect the wider occupational risk management role. BBC Occupational Risk Management will focus more strongly on the delivery of policy and associated guidance, the delivery of enabling projects, and the monitoring and management of legislative and BBC policy compliance.

The principles of good risk management and the health and safety measures developed to deliver them have led to an improving statistical trend in health and safety performance. UK reportable accidents for the past 12 months decreased from 47 to 38 as defined by the UK Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1995 – RIDDOR. Sadly, in April 2003, during the coverage of the war in Iraq, where at its height the BBC deployed 329 people, there were two major incidents leading to two fatalities and a major injury. Following the hostilities and

due to the heightened terrorist threats the BBC has put in place additional measures in support of its health and safety policies including a specific, professional support team for high risk areas, standard operating procedures for overseas bureaux in hostile environments, security advice for new build projects and the commissioning of a review of the Corporation's security strategy.

Of the above RIDDOR reportable events, the BBC reported one fatality as a result of an asbestos related occupational disease and two major injuries. Taking the accidents which occurred to BBC employees in the UK, the accident incident rate per 100,000 employees for 2003/2004 was 134, representing a 29% reduction from the incident rate in the previous year of 188.

Suspected cases of occupational related ill health of staff referring and seen by BBC medical officers also continued the downward trend from the previous year. In 2003/2004, the incidence rate of suspected cases of occupational illness (of all types) was 17.51 per 1,000 employees per annum. This compares with 17.78 per 1,000 employees per annum in 2002/2003.

The UK Health and Safety Executive (HSE) served an Improvement Notice in respect of insufficient corporate arrangements under the Construction (Design and Management) Regulations 1994. This area of the Corporation's policy and arrangements were consequently enhanced to comply with the enforcement notice. The BBC had no convictions for health and safety offences.

An Executive sub-committee has been established to review progress on achieving consistency and compliance on all occupational risk areas and to champion issues across the BBC. In addition, an independent Occupational Risk Audit team was established within Internal Audit.

As part of the BBC's compliance programme a number of reviews and audits have been undertaken including a review of policy, organisation and arrangements for the property vehicle (the legal entity which is the mechanism for management of the BBC/Land Securities Trillium Partnership) to ensure clarity of responsibilities, and that monitoring and review processes are in place and adequate to the risks. These will continue to be a part of the commitment to improved health and safety and ensures that the BBC continually reviews progress against the recommendations arising from monitoring and audit activities.

The HSE undertook a series of planned inspection visits to the BBC's television production and broadcasting activities in London, focusing on the Government's Revitalising Health and Safety strategy. The HSE's report confirming their observations and recommendations was formally presented to the BBC at the end of May 2004.

Several major initiatives were launched during the year including the use of web-based Display Screen Equipment training and assessment tools, an events management system, integration of health and safety content and Safety Adviser attendance within the BBC-wide Leadership Programme and the establishment of a Learning Board for health and safety. Greater emphasis has been placed on seeking improvements to the procurement processes, for example in the management of pre-vetted contractors and the development of ergonomic guidelines and advice to BBC Property and departmental managers on furniture selection and procurement. Work also continues on projects to improve the effectiveness of internal

monitoring mechanisms through the increased use of database and web technology.

Good progress was made on the action plans following completion of fire risk assessments for all BBC buildings and, as part of a major risk reduction project for our key properties, on means of escape for disabled people. Work is already underway to prepare for the changes to the Noise at Work Regulations. Although the changes will become law in 2006, the broadcast and entertainment industry will have until 2008 to comply. The Electrical Safety Project continued with the publication of five of 21 Electrical Safety Guidance Notes (a further eight are in the drafting stages) covering all aspects of electrical safety in the BBC.

The BBC continues to promote knowledge of, and contribute to, the development of safe practices within the broadcast and production industries through joint industry bodies as well as publication of health and safety material on the internet.

### **5 Governors' remuneration report**

This report sets out the BBC's policy on the remuneration of the Board of Governors and of members of the Executive Committee. Although the BBC is exempt from the requirements introduced by the Directors' Remuneration Report Regulations 2002 and those of the Financial Services Authority, the report has been prepared as if those requirements did apply wherever the disclosure provisions are relevant and applicable. Only the following sections of the Governors' remuneration report are subject to audit: Remuneration received and Governors and Executive Committee pensions.

#### **Governors' Remuneration Committee: constitution and operation**

The remuneration policy for members of the Executive Committee is set by the Remuneration Committee, a sub-committee of the Board of Governors. This Committee deals with all matters relating to the remuneration of members of the Executive Committee and is accountable to the Board of Governors for the determination and maintenance of overall remuneration policy and review and agreement of Executive Committee basic salaries, bonus awards and benefits, including pension arrangements. The Committee considers the performance of individual members of the Executive Committee before recommending their annual remuneration and bonus awards to the full Board of Governors.

The members of the Committee during the year were Gayn Davies (Chairman, resigned January 2004), Baroness Hogg (retired February 2004), Dame Pauline Neville-Jones and Rt Hon The Lord Ryder. Michael Grade has been a member of the Committee since his appointment as BBC Chairman. Sir Robert Smith also became a member of the Committee in May 2004. In addition, meetings are attended by the Director-General who advises on matters relating to the other members of the Executive Committee and the overall performance of the BBC and by the Director of BBC People. Neither is present when matters concerning their own remuneration are considered.

In its constitution and operation the Committee complies with the Combined Code on Corporate Governance. The Committee places high value on the independence of its decision-making processes. In consultation with the Director of BBC People, the Committee takes specialist advice from external professional advisers on particular remuneration matters, particularly external market practice. During the year, the Committee nominated

and received independent advice from the Hay Group on comparative market data to assist in the determination of pay and benefits for the Executive Committee.

### Governors: remuneration policy

The Governors receive a fee determined by the Secretary of State for Culture, Media and Sport. They are additionally reimbursed for expenses incurred on BBC business. Expenses regarded by the Inland Revenue as taxable are settled in full by the BBC, including any related tax payments, and reported as benefits in the table on page 93. The increase in annual remuneration notified for 2003/2004 was 2.25% (2002/2003 2.5%).

### Executive Committee: remuneration policy

The remuneration policy for Executive Committee members tries to balance the BBC's status as a public corporation (and the expectation that all areas of spend, including executive remuneration, must deliver value to the licence payer), with the fact that the BBC operates in a competitive, commercial environment and needs to offer remuneration that enables it to attract, retain and motivate high calibre individuals with the skills and abilities required to lead the BBC.

In doing so, the remuneration policy seeks to:

- remunerate individuals fairly for individual responsibility and contribution, while providing an element of performance-related pay, reflecting the underlying performance of the BBC
- take into account wider salary policy and employment conditions within the rest of the BBC and the relationship that should exist between the remuneration of Executive Committee members and that of other employees
- have regard to the market median levels of total cash reward of relevant comparator organisations in both public and private sectors

The Committee's approach to policy going forward will continue to reflect these principles, underpinned by regular review and monitoring of remuneration policy and practice in organisations outside the BBC.

External data reviewed by the Committee shows that salaries paid at main board level across the private sector as a whole, and in the media industry in particular, are significantly higher than in the BBC for organisations of similar size and complexity, while the opportunities for annual and long-term bonus payments are also much greater. Conversely, the pay levels for senior civil servants and other public sector managers are generally lower. The remuneration levels set by the Governors fall between the pay of the most senior managers in the public sector and those in comparable commercial businesses to reflect the BBC's unique position as a publicly-funded organisation operating and competing in a commercial industry.

### Elements of remuneration

#### Basic salary

Basic salaries are reviewed in August each year, taking into account external market levels and internal comparisons as well as the individual's responsibilities and performance. The basic salary is paid as a fixed sum monthly in cash.

### Annual bonus

The Committee recognises the importance of maintaining a balance between basic salary and an annual bonus scheme reflecting individual performance and contribution. Annual bonuses continue to have a maximum level of 30% of base salary and individual awards are based on a mix of qualitative and quantitative targets and measures.

The achievement of BBC-wide objectives accounts for up to 30% of the maximum bonus, with the same level of award applying to all members of the Executive Committee, thereby reinforcing the value and importance of collective performance. Achievement of divisional objectives accounts for up to 40% and individual performance and contribution for the remaining 30% of any award. For the year under review the targets related primarily to objectives which were set by the Board of Governors and published in the *BBC Annual Report and Accounts 2002/2003*.

In the case of the Commercial Businesses (BBC Worldwide Limited and BBC Ventures Group Limited), the annual bonus plan is directly linked to the achievement of specific financial performance targets relating to sales, cash flow and profit before interest and tax (PBIT). Whilst the maximum annual bonus opportunity is 30% in common with other members of the Executive Committee, the framework is based on:

- for the Chief Executive of BBC Ventures Group Limited, up to 80% of any award for the achievement of PBIT and cash flow targets and up to 20% for individual performance
- for the Chief Executive of BBC Worldwide Limited, up to 67% of any award for the achievement of sales, cash, and PBIT targets and up to 33% for individual performance

Bonuses are reflected in the financial statements on an accruals basis for the performance period under review. Actual payments are made in July each year.

A long-term incentive plan is also in place for the Chief Executive of BBC Worldwide Limited which provides for a bonus of up to a maximum 20% of salary based on the achievement of headline BBC cash flow targets over a three-year period. The three-year plan period in the scheme which commenced in April 2001 ended on 31 March 2004 and generated a payment to Rupert Gavin of 13.53% of salary. Any awards under the plan are reflected in the financial statements on an accruals basis.

### Benefits

In addition to salary and bonus, the main contractual benefits provided are a car and fuel allowance, private health insurance, pension and life insurance. With the exception of the post of the Director of Nations & Regions, it has been the policy for some years that new appointees to the Executive Committee are not eligible for provision of a chauffeur-driven car. The Director-General's contract provides for a chauffeur-driven car, but no additional entitlement to a personal car or fuel allowance.

## Pensions

All members of the Executive Committee are eligible to participate in the BBC Pension Scheme which provides salary-related pension benefits on a defined benefit basis, with an accrual rate of 1/60th of the final salary per year of service, subject to the Inland Revenue earnings cap where appropriate. Only basic salary is pensionable. The Scheme provides for early retirement on medical grounds and life insurance cover of four times salary.

A variety of special arrangements have been made for those individuals who have joined the BBC late in their careers whose earnings exceed Inland Revenue limits, including funded and unfunded arrangements outside the BBC Pension Scheme.

## Employment contracts

The policy of the Remuneration Committee is for the contracts of employment of Executive Committee members to contain a maximum notice period of one year. Each contract expires on the 60th birthday of the director which is the normal BBC retirement age, but is subject to earlier termination for cause or if notice is given under the contract. There is no entitlement to any additional remuneration in the event of early termination other than in the case of termination on grounds of redundancy.

## Outside interests

Where there is no potential for conflict of interest and with the prior agreement of the Board of Governors, members of the Executive Committee may hold external directorships. In principle, no more than two external directorships can be held at the same time, of which only one should be in a commercial organisation. Governors assess such requests against rigorous criteria to ensure that conflicts of interest do not arise. Remuneration which arises from directorships agreed since the introduction of this policy in 1997, or subsequent to appointment, is paid to the BBC. During the year only two Executive Committee members held appointments as executive director of an external organisation.

## Remuneration received

The remuneration of the Board of Governors or the Executive Committee members appointed or leaving during the year is included in respect of their period of membership only.

Governors	Fees £000	Benefits £000	Total 2004 £000	Total 2003 £000
Deborah Bull (appointed 1 August 2003)	10	3	13	–
Gavyn Davies (resigned 28 January 2004)	68	22	90	99
Dame Ruth Deech	16	5	21	9*
Sir Richard Eyre (retired 31 May 2003)	3	1	4	17
Dermot Gleeson	16	2	18	23
Baroness Hogg (retired 9 February 2004)	13	3	16	18
Professor Merfyn Jones	28	6	34	7*
Professor Fabian Monds	28	2	30	28
Dame Pauline Neville-Jones	28	6	34	34
Rt Hon The Lord Ryder	37	2	39	30
Angela Sarkis	16	9	25	9*
Sir Robert Smith	28	1	29	28
Ranjit Sondhi	24	1	25	21
	315	63	378	323
Governors who retired during 2002/2003	–	–	–	28
	315	63	378	351

\* Appointed Governor part-way through 2002/2003

Executive Committee	Salary £000	Annual bonus £000	Taxable benefits £000	Total 2004 £000	Total 2003 £000
Jenny Abramsky	218	40	18	276	274
Jana Bennett <sup>1</sup>	235	43	27	305	444*
Glenwyn Benson (resigned 8 June 2003)	36	–	3	39	238
Mark Byford	270	100	14	384	306
Stephen Dando	231	61	2	294	272
Andy Duncan <sup>2</sup>	239	55	15	309	301
Greg Dyke (resigned 29 January 2004)	316	–	5	321	464
Carolyn Fairbairn <sup>2,3</sup>	202	53	16	271	169
Roger Flynn (resigned 31 March 2004)	239	61	15	315	314
Rupert Gavin	287	59	27	373	362
Ashley Highfield	238	53	17	308	294
Pat Loughrey	205	46	36	287	280
Peter Salmon	212	49	28	289	279
Richard Sambrook	235	43	14	292	287
John Smith	238	63	26	327	300
Caroline Thomson	187	48	15	250	236
John Willis <sup>4</sup> (appointed 9 June 2003)	183	47	91	321	–
Alan Yentob <sup>5</sup>	235	45	21	301	321
	4,006	866	390	5,262	5,141
Payments under long-term incentive plans <sup>6</sup>				39	45
Members who resigned during 2002/2003				–	175
				5,301	5,361
Payments to former directors <sup>7,8</sup>				910	130

\* Appointed to the Committee part-way through 2002/2003

- 1) Included in the remuneration for Jana Bennett is £11,887 being the final balance of relocation costs incurred during the year (2003 £167,000)
- 2) The 2003 bonus figures for Andy Duncan and Carolyn Fairbairn include a payment of £5,000 each reflecting their contribution to securing the Digital Terrestrial Television (DTT) licences
- 3) Carolyn Fairbairn took a period of unpaid leave in 2003
- 4) Included in the benefits for John Willis is £72,440 in respect of payments made in connection with his relocation from the USA in order to take up his appointment with the BBC
- 5) The 2003 bonus figure of Alan Yentob includes an additional payment of £20,000 in respect of his on-screen presentation activity during that year
- 6) The long-term incentive plan is in respect of Rupert Gavin
- 7) Greg Dyke resigned from the Executive Committee on 29 January 2004 but remained a member of BBC staff until 29 February 2004. He was paid £488,416 in line with his contractual entitlement, including £384,000 in lieu of notice
- 8) Roger Flynn resigned from the Executive Committee on 31 March 2004. His current contract expires on 30 September 2004 when he is due to be paid £301,625 in line with his contractual entitlement, including £241,325 in lieu of notice

## Governors and Executive Committee pensions

The BBC provides pension benefits to the Chairman of the Governors and to Executive Committee members. Details of defined benefit entitlements to Executive Committee members who served during the year are shown in the first five columns of the following table. The BBC also makes contributions to money purchase schemes in respect of certain members as shown in the last two columns. Gavyn Davies waived his entitlement to pension benefits.

Executive Committee member (age at 31 March 2004)	Defined benefit schemes					Defined contribution schemes	
	Annual values		Transfer values <sup>5</sup>			BBC contributions to money purchase schemes	
	Accrued pension at 31 March 2004 £000pa	Increase in accrued pension over year £000pa	Transfer value of accrued pension at 31 March 2004 £000	Transfer value of accrued pension at 31 March 2003 £000	Increase in transfer value less directors' contributions over year £000	2004 £000	2003 £000
Jenny Abramsky (57)	135	9	2,719	2,566	140	–	–
Jana Bennett (48)	3	2	36	14	18	41	37*
Glenwyn Benson <sup>1</sup> (56)	28	4	570	497	60	28	26
Mark Byford (45)	99	12	1,154	774	369	–	–
Stephen Dando (42)	5	2	37	18	15	52	50
Andy Duncan (41)	5	2	36	18	14	42	40
Greg Dyke <sup>2</sup> (56)	7	2	122	92	26	56	59
Carolyn Fairbairn (43)	11	2	95	61	30	31	18
Roger Flynn (41)	5	2	36	18	14	42	40
Rupert Gavin (49)	9	2	112	75	33	52	36
Ashley Highfield (38)	6	2	39	21	14	42	40
Pat Loughrey (48)	93	10	1,229	888	330	–	–
Peter Salmon (47)	36	3	462	337	121	34	32
Richard Sambrook (47)	100	10	1,303	936	352	–	–
John Smith (46)	97	11	1,183	814	352	–	–
Caroline Thomson (49)	47	3	687	543	139	26	24
John Willis <sup>3,4</sup> (57)	1	1	24	–	20	31	–
Alan Yentob (57)	127	14	2,566	2,294	257	–	–
						477	402
Members who resigned in 2002/2003						–	22
						477	424

\* Appointed part-way through 2002/2003

1) Glenwyn Benson resigned as a director on 8 June 2003, but was still an active member of the pension scheme as at 31 March 2004. The accrued pension has been calculated and valued as at 31 March 2004

2) Greg Dyke left the BBC and the scheme on 29 February 2004. The accrued pension on leaving the scheme has been valued as at 31 March 2004

3) John Willis was appointed during the year. The increase in transfer values and in accrued pension in the above table is in respect of the period from his appointment on 9 June 2003

4) The accrued benefits shown for John Willis assume that he will complete the two-year service period required before benefits can be claimed

5) The transfer value of accrued pension benefits represents the estimated cost to the pension scheme of providing the pension benefit accrued to date. The value is affected by a number of factors, which include age of individual, pensionable salary, years of pensionable service and investment market conditions at the date of calculation (in accordance with Actuarial Guidance Note GN11). It is not a sum paid or due to the individual and therefore cannot be meaningfully added to remuneration. The effect of the investment market conditions on the transfer value varies according to the person's age. For older members the calculation reflects the yields on index-linked gilts, while for younger members the calculation reflects the dividend yield on the FTSE All-Share Index

## 6 Programmes, channels and promotions

### Governors' Programme Complaints Committee

During the year the Governors' Programme Complaints Committee (GPCC) was comprised exclusively of Governors: Sir Robert Smith (Chair), Professor Fabian Monds, Dame Pauline Neville-Jones, Angela Sarkis and Ranjit Sondhi.

The GPCC is responsible for fulfilling the Charter requirement that the Board of Governors ensures that complaints are properly handled by the BBC. This remit is fulfilled by the independent oversight of both the strategic approach to complaints handling, and monitoring the effectiveness of its processes, to ensure both serve the public interest and reflect best practice. In particular this involves:

- an understanding of good practice in complaints handling
- an annual review of the BBC's complaints-handling processes and performance, with the periodic review of the complaints-handling strategy resulting from issues raised in the annual review

- review of a quarterly complaints report from BBC Information
- review of the quarterly Complaints Bulletin published by the Programme Complaints Unit

In line with the GPCC's responsibility for monitoring the effectiveness of complaints handling by BBC management, it is also the specific function of the GPCC to consider appeals against decisions and actions of the Programme Complaints Unit (PCU) or of the Directors of BBC Divisions in dealing with serious editorial complaints. In considering appeals, it receives independent advice on editorial matters from an external adviser.

The GPCC reports its activities to the full Board of Governors. For further information on complaints handling during 2003/2004, see pages 78 to 79.

### Upholding editorial standards

The Governors ensure that the BBC maintains high editorial standards, monitoring its compliance with the *BBC Producers' Guidelines* and with the Code of Impartiality and Accuracy included in them.

The issues raised by Andrew Gilligan's report at 6.07am on the *Today* programme on 29 May 2003 are covered in the section on the Hutton Inquiry on pages 4 to 5. Likewise, the lessons learned by the BBC and the steps it has taken since to strengthen its editorial controls are also covered in the same section.

Outside the Hutton Inquiry, the Governors were satisfied that in 2003/2004 overall the BBC met the standards expected of it. During their annual review of editorial issues in April this year they noted a range of matters that had tested the BBC's editorial standards over the year.

In July last year, the Governors requested a review of the BBC's guidelines for staff writing in external publications and new rules were approved by the Board of Governors and implemented in November last year. Details of these new rules can be found on page 5.

The Governors noted action taken by management to safeguard the BBC's impartiality following an article by Robert Kilroy-Silk in the *Sunday Express*. Management judged that the views expressed undermined the perception of Robert Kilroy-Silk as an impartial presenter of a daily discussion programme dealing with topical issues. The programme was suspended and subsequently Robert Kilroy-Silk stood down as presenter.

In 2003 the Governors strengthened their oversight of impartiality across the BBC's output. New measures included commissioning an independent monthly tracking survey of public perceptions of BBC impartiality and independent reviews of editorial output on specific issues. The monthly tracking survey has been in operation since February 2004 and will report to the Board of Governors quarterly. The survey will help inform the Governors in their assessment of the BBC's performance in this area. The Board of Governors commissioned independent reviews of editorial output on two separate issues over the year. In April 2003, Chatham House conducted an independent review of the BBC's coverage of Israel and Palestinian issues. The findings concluded that BBC coverage achieved impartiality and balance and was informative and reliable. The second editorial review, of rural affairs, was in three parts: independent panel review; focus group research; and content

analysis. This format has been approved by the Board of Governors as the template for future reviews. The independent panel reviewing rural affairs output concluded that the BBC took rural affairs seriously but that the diversity of rural areas was not always understood by metropolitan-based broadcasters (for further information see page 21). The report's findings and its recommendations have been communicated to production areas across the BBC, not just BBC News, and steps have been taken to improve the BBC's coverage. A progress report of implementation was presented by management to the Board of Governors in May 2004.

The Governors noted the importance of careful observation of the watershed, and the trust which audiences placed in the BBC to schedule appropriately. They were concerned, therefore, about a serious breach of standards in relation to an *EastEnders* storyline featuring rape. In particular, an intense interaction between one character who had been a victim of rape, and another recalling her memories of her mother being raped, had been inappropriate for pre-watershed viewing. Complaints to the Programme Complaints Unit about the episode were upheld. The Board of Governors learned that discussions between Editorial Policy, the programme and the Channel Controller took place only very close to broadcast and that action was being taken to improve the mechanisms for discussion between the relevant departments at an early stage when contentious subjects are proposed for programmes scheduled for broadcast pre-watershed. More broadly, the Governors noted that a BBC project group is considering how the BBC might better label challenging content in a context where the use of video recorders would erode the current effectiveness of the watershed.

#### New service approvals

All new BBC public services launched since 1 January 1997 require the approval of the Secretary of State for Culture, Media and Sport. The key terms of the approval are also contained in the Statement of Programme Policy for each of these services.

*The BBC Statements of Programme Policy 2003/2004* included a large number of measurable commitments. The table on pages 58 to 67 shows how the BBC met these and details any exceptions. The Digital Curriculum service is separately reported below as it is yet to be launched.

In 2003, the Secretary of State for Culture, Media and Sport launched an independent review of BBC Online, led by Philip Graf. The BBC awaits publication of the review.

In 2004, the Secretary of State for Culture, Media and Sport launched two independent reviews, one of the BBC's digital television services and the other of the BBC's digital radio services. The consultation process closed on 11 June 2004.

#### Digital Curriculum

In approving the Digital Curriculum service in January 2003, the Secretary of State for Culture, Media and Sport set the BBC a number of conditions, including meeting the undertakings given by the BBC itself. Each year, the BBC will report on its compliance with those conditions that are relevant to activity during the year. Work on developing the service began in 2003/2004 (leading up to the planned launch in 2006) and

during the year the BBC took the following steps to comply with specific conditions of the approval or undertakings:

- In October, the BBC agreed with the Government's education technology agency, BECTA, the approach to defining the broad areas for each subject to be covered, and published this on the BBC's website.
- In October, after a competitive EU tender, the BBC signed a managed service contract with Microsoft for the provision of the technical platform for the service.
- The BBC is developing content in compliance with the conditions set by the Secretary of State for Culture, Media and Sport. Fifty per cent of the content will be commissioned from external suppliers. During the year, a selection process was carried out under EU Public Procurement Regulations and a list of preferred suppliers is being published this summer.
- The BBC has started to work with the Government's Curriculum Content Online Advisory Board in developing the service. The Board includes representation from others in the industry.

#### UK programme quotas

Under the Communications Act 2003 the BBC has a duty to secure that not less than 25% of the amount of time allocated to the broadcasting of qualifying television programmes is allocated to the broadcasting of a range and diversity of independent productions. This provision was formerly contained in the Broadcasting Act 1990 which required the Director-General of Fair Trading to report to the Secretary of State periodically on the extent to which the BBC had, in his opinion, performed that duty. Following the Communications Act 2003, Ofcom has assumed this duty and will report on performance for the period 2003/2004 onwards.

The Director-General of Fair Trading's report for the period 1 April 2002 to 31 March 2003 was published in October 2003. It concluded that while the BBC has achieved a satisfactory range and diversity of independent productions, it had not met the quota, achieving only 21%.

As noted in last year's legal compliance report, the number of takeovers by broadcasters of major independent producers has the effect of removing their status as independents for the purposes of UK legislation and makes it increasingly difficult for the BBC to meet the quota. If such production companies had been counted towards the 2002/2003 total, the BBC would have met its quota. The relevant secondary legislation has been amended to reinstate such companies. The BBC fully expects to exceed its quota for 2003/2004 although Ofcom has yet to report on the BBC's performance for the year. Producers (such as Planet 24) owned by UK broadcasters are still unable to claim independent status.

#### EU programme quotas in the calendar year 2003

European Community legislation requires Member States to ensure that broadcasters reserve for European works a majority proportion of their television transmission time excluding the time devoted to news, sports events, games, adverts, teletext services and teleshopping. The legislation also requires broadcasters to reserve at least 10% of their transmission time for European works (excluding works of the kind described above) made by independent producers.

The BBC exceeded EU quotas in the calendar year 2003. Of the relevant BBC One and BBC Two output, 83% was of European origin (81% in 2002) and 15% was made by European independent producers (13% in 2002). Of the relevant output of all BBC channels (including BBC Choice, now BBC Three, BBC Four, CBeebies, the CBBC Channel and BBC News 24), 86% was of European origin and 21% was made by European independent producers.

### European channel broadcasting regulation

The BBC broadcasts two television channels in Europe, BBC Prime and BBC World. Both channels were originally operated by European Channel Broadcasting Limited but on 1 December 2002 the Secretary of State for Culture, Media and Sport approved the transfer of the business and assets of the BBC World channel to a new company, BBC World Limited, which became a wholly-owned subsidiary of BBC Commercial Holdings Limited. BBC Prime continues to be operated by European Channel Broadcasting Limited, a wholly-owned subsidiary of BBC Worldwide Limited. Both channels are now licensed by Ofcom as television licensable content services.

In accordance with the principles on which the Secretary of State for Culture, Media and Sport's approval was originally granted:

- arm's length trading relationships were maintained between the BBC on the one hand and companies responsible for the BBC World and BBC Prime channels on the other
- the companies concerned with operating the two channels complied fully with the BBC's Fair Trading Guidelines and with applicable provisions of EU law
- the programmes shown on the two channels complied, where applicable, with the relevant Ofcom (formerly ITC) codes and the BBC-made programmes shown on those channels were produced in accordance with *BBC Producers' Guidelines*

### On-air promotions: Office of Fair Trading undertaking

Following the 1992 report of the Monopolies and Mergers Commission (on the publicising in the course of broadcasting, of goods supplied by the broadcaster), the BBC gave an undertaking to the Office of Fair Trading (OFT) to use only still trails to give information about BBC magazines. The terms of the undertaking also commit the BBC not to exceed more than seven minutes as an aggregate across a seven day period in relation to on-air promotions of BBC magazines on its television services. Although the legal obligation applies only to BBC magazines, the Governors' Fair Trading Commitment commits to apply the spirit of the undertaking to all on-air promotions of commercial products.

From 1 April 2003 to 31 March 2004 the total on the BBC's television services for all BBC magazines (including *Radio Times*) was 2 hours, 27 minutes and 10 seconds of transmission, which averages out at 2 minutes, 50 seconds in a seven day period. The total for all commercial products (including BBC Worldwide Limited and independent products) was 4 hours, 2 minutes and 20 seconds of transmission, which averages out at 4 minutes and 40 seconds in a seven day period.

Trails for non-BBC products have also been tracked. In the same period as above, there was 20 minutes and 50 seconds worth of promotion for independent products. This averages out to 24 seconds per seven day period on the BBC's television services. The BBC continues to anticipate a review of the OFT undertaking, although no date has yet been announced.

### 7 Cost of compliance

Historically the BBC's cost of compliance has not been significant. However, one impact of the Communications Act 2003 will be to increase these costs. We will be reporting on these costs in future years.

### 8 Donations and acknowledgements

BBC policy is not to make political donations.

The UK Public Service Broadcasting policy is not to make donations to charities. In addition to broadcast appeals detailed on pages 79 to 80, donations to charities by BBC Commercial Businesses amounted to approximately £1,000 during the year (2003 £9,000). A total of £0.1million (2003 £1.1million) in copyright royalties was paid to Golden Jubilee Events Limited in respect of an agreement between the BBC, Golden Jubilee Events Limited and BBC Worldwide Limited in regard to producing, staging and broadcasting the Golden Jubilee musical concerts at Buckingham Palace in June 2002. Golden Jubilee Events Limited is a subsidiary of the Queen's Golden Jubilee Trust, to which all of its profits are donated.

The BBC acknowledges financial grants from the European Commission for various technical research projects.

### Board of Governors

17 June 2004