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Annual Report and
Accounts 2005/2006



Purpose, vision and values

The BBC's purpose is to enrich people's lives with programmes and services that inform, educate and entertain

The BBC's vision is to be the most creative organisation in the world

Values

- Trust is the foundation of the BBC:
we are independent, impartial and honest
- Audiences are at the heart of everything we do
- We take pride in delivering quality and value for money
- Creativity is the lifeblood of our organisation
- We respect each other and celebrate our diversity
so that everyone can give their best
- We are one BBC: great things happen when we work together

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Chairman's statement



This is the last annual report from the BBC Board of Governors, which is to be replaced under the new draft Royal Charter by the BBC Trust. I would like to pay tribute to the work of all Governors over the last 80 years. The fact that the independence of the BBC endures is due in no small part to their robust stewardship – sometimes in the face of fierce onslaught from political and commercial vested interests.

The pressing need for modernisation of the BBC's governance arrangements was recognised by my predecessor as Chairman, Gavyn Davies, and the Board has been able to build on the work he and his fellow Governors began. This work will be completed by the Trust using the new tools at its disposal under the new Charter: Purpose Remits, Service Licences and Public Value Tests (for the details of these, see *The BBC now and in the future*, page 9).

At the heart of the new arrangements is an explicit recognition that the Trust exists to represent the interests of licence fee payers, not the narrow interests of the BBC as an institution. Although the new structures will not be in place until the new Charter takes effect, in January 2007, the present Board of Governors fully supports the changes and is already operating within the spirit of the new Charter.

As a result, the relationship between the Board and the Executive – those charged with the day-to-day running of the BBC – has begun to change. There is now real separation between the two bodies, enabling the Board to exercise independent oversight of the work of the Executive. This will intensify in the future as the Trust uses its new powers to ensure rigorous, independent and fully transparent scrutiny of the work of the Executive.

The main function of the Trust will be to ensure that licence fee payers' expectations of the BBC are fulfilled in terms of the quality and value for money of its services, and that the BBC remains focused on fulfilling its six public purposes as set out in the new draft Charter. In representing the interests of licence fee payers, the Trust will recognise that these interests go beyond their direct interest in the BBC. Licence fee payers do not exist solely on a media diet provided by the BBC. They value the choice of services provided by others, and the Trust will ensure that the BBC operates in a way that fully recognises this.

I have no doubt that the BBC Executive will sometimes be disappointed by the outcome of a Public Value Test – just as private sector interests will sometimes be disappointed. Our job as BBC Trustees will be to ensure that the widest interests of licence fee payers take precedence over either of those interests.

The White Paper published earlier this year after two years of public debate, research and evidence-gathering represents a vote of public confidence in the BBC. The new ten-year Charter and the maintenance of licence fee funding offer the BBC an enviable degree of stability in a fast-changing media landscape. The missing piece in the jigsaw is the licence fee settlement.

For the first time, the BBC has been completely open with the public about the licence fee bid. Its size was based on a fully costed business plan at the time of publication, reflecting the Government's plan for the BBC set out in last year's Green Paper. In the subsequent discussions with the Government, the BBC has made clear that its overriding concern is to be able to meet the needs and expectations of licence fee payers at the lowest possible cost. Achieving the highest possible settlement

should not be regarded as a badge of honour for those representing the licence fee payers on the Board of the BBC.

Much of our work as Governors this year has been focused on financial and organisational change in preparation for the new Charter. As a result I am confident that the BBC is in good shape structurally to begin the next stage of its development. The BBC will end the current Charter having met its commitment to achieve a broadly zero debt position. The self-help target of £3.3 billion imposed by the Government for the period of the current Charter is on track and will be exceeded. And the Director-General's additional value-for-money savings target for 2005/2006 has been exceeded, making more secure his overall target of achieving £355 million of ongoing gross annual savings by 2007/2008.

In this report we give an objective assessment of management performance during the year under review. Where more needs to be done we say so. But the general picture is encouraging. The overall reach of the BBC's television and radio services is broadly stable at 92.7%, and the reach of the BBC's online services continues to grow rapidly. In an increasingly competitive context, where audiences are presented with much increased choice, this is a real achievement. And the achievement is greater because it reflects no lessening of overall quality – indeed quite the contrary. The BBC can take justified pride in the growing high quality of its overall output this year – a judgement reflected in the many awards it has won.

This performance has been delivered against a background of understandable staff concern over the job reductions and changes in working practices flowing from the Director-General's value for money

programme, which is designed to release money to invest in more and better output. It has also been delivered in the context of the exhaustive – and sometimes exhausting – process of Charter Review.

This is not to say that the picture is completely positive. One issue repeatedly raised with us in our consultations with audiences around the UK this year is the problem of limited digital coverage. Those licence fee payers affected have expressed justified disquiet that while they contribute to the cost of the BBC's digital output they are unable to receive the services. We have encouraged management to speed up their plans – working with commercial partners – to develop a satellite equivalent of Freeview that would solve these problems.

I'm proud to be the last Chairman of Governors and to have been appointed as the first Chairman of the new Trust. At the heart of my vision for the BBC is the recognition that the survival of a licence-fee funded BBC depends not on economic theory or political dogma but on the ability of the BBC to retain the support of the overwhelming majority of the people of the UK through the content and services it offers.

These can take many forms as the BBC delivers its historic public service remit to inform, to educate and to entertain. But they must all share the aspiration to set new standards of quality, whatever the genre or distribution mechanism.

Earlier this year I took part in the memorial service for Ronnie Barker, whose long career with the BBC exemplifies what I mean. The list of his BBC hits is astonishing: *The Navy Lark*, *The Frost Report*, *The Two Ronnies*, *Porridge*, *Open All Hours* – these are among the greatest achievements of BBC comedy. Ronnie Barker was not just

a brilliant comic actor; he was also an exceptionally talented writer. He was a modest man, and even as an established star he would sometimes submit scripts to the BBC under an assumed name – he said he wanted to make sure they were accepted because of their quality, not because of who had written them. Ronnie Barker's contribution to the BBC proved beyond doubt that quality and popularity are not mutually exclusive. Maintaining support from licence fee payers over the ten years to come will depend on the BBC remembering that this is what distinguishes BBC output.



Michael Grade
Chairman
14 June 2006

Director-General's report



The BBC is living between two worlds: the world of traditional radio and television broadcasting and the dizzying new world of digital media. Our challenge is to strike the right balance of resources and creative energy between these two worlds and to set the right pace of change.

Move too quickly and we risk underserving the millions of licence fee payers who still rely on us first and foremost for outstanding television and radio. But move too slow and we may find ourselves falling behind and losing contact with some of our audiences altogether.

2005/2006 was a year in which the digital revolution shifted up another gear. Month after month, the BBC's website set new records for reach. Page impressions are now more than three billion a month. Live streaming, downloads, podcasts... the public seized on each new technology and each new trial – not for the sake of the technology itself, but as a new way of receiving outstanding BBC content.

On 7 July 2005, the story of London's agony and fortitude was told brilliantly across the BBC's services, from BBC London 94.9 and Radio Five Live to BBC News 24 and the *Ten O'Clock News*. But 7 July marked a new high-water mark both for bbc.co.uk as a whole and for rich audio-visual content – sound and pictures streamed live to users across the internet. Interestingly, what the public most wanted to access that day was not the BBC's own professional reports but shaky images of tube tunnels and a shattered bus captured on mobile phones.

The BBC's journalism used to be a largely one-way form of communication. Now eyewitnesses can uplink their testimony within seconds and bloggers can take any national or global debate far beyond the

radio or television studio. BBC News remains the most popular and trusted provider of news in the UK and – through BBC World Service, bbc.co.uk and BBC World – around the globe. Its reach now exceeds 250 million people every week. But technology and audience expectations are changing the rules of the game by the week.

That is why, despite the constant pressure of events – a General Election, the terrible earthquake in Pakistan, the ongoing drama in Iraq and more besides – many of our editors and journalists took time in 2005/2006 to think hard about what comes next for BBC News. Their conclusions formed part of what we called Creative Future, an attempt to scope the story of each of our major areas of content over the next five years or so.

Creative Future has plenty to say about technology and its creative impact: the need, for instance, for commissioners to think about projects across television, radio and the web, to explore user-generated content, to think about how on-demand should affect what we make and how we make it.

But it also reminded us that what counts most of all for audiences is creative ambition and integrity. Technology is the means: for the BBC, the end should always be the quality of the content itself.

There were plenty of programmes on BBC television this year which showed what we can achieve when we combine innovation with talent and conviction. *Bleak House* was a phenomenon, a Dickens adaptation with as much depth as any the BBC has ever made, but conceived as an edgy, contemporary-feeling serial earning its place in the midweek BBC One schedule next to

EastEnders, itself in the midst of a creative revival. And those were only two highlights in the strongest year for BBC television drama in more than a decade, which included *To The Ends of The Earth*, *Bodies*, *Life on Mars*, *ShakespeaRe-Told*, and *Dr Who* with a brilliant new Doctor.

Despite another heady series of *Little Britain*, BBC One comedy breakthroughs proved elusive, although across television there was a real sense of new talent and new ideas arriving on the scene: *The Catherine Tate Show*, *Extras*, BBC Scotland's *Still Game* and *The Thick Of It* stood out in a strong year on BBC Two, Three and Four. From Jonathan Ross to *Strictly Come Dancing*, entertainment remained potent on BBC One, while BBC Two's line-up of panel shows such as *QI* and factual entertainment formats such as *The Apprentice* continued to strengthen. Of our digital services, BBC Four in particular thrived during 2005/2006, discovering a broader, bolder mix of programmes with drama and comedy complementing its main diet of documentary and culture.

Factual output was strong across the BBC. *Planet Earth* was another brilliant combination of technical innovation with visual artistry and storytelling of the highest order. *Arena's* ravishing two-parter about the young Bob Dylan, *No Direction Home*, and *Facing the Truth* from BBC Northern Ireland, which brought together those thrown into confrontation by the troubles, were highlights from a powerful and diverse documentary offer.

Of all of the BBC's services, in some ways Radio 1 has the hardest mission: striving to offer a distinctive and valuable line-up in one of the most crowded parts of the broadcasting market – and to what in many ways is the UK's most discerning and demanding audience. The station's

new strategy helped it to feel more confident and more relevant in 2005/2006. Radio 2 consolidated its position as the country's most popular radio station, while Radio 3 built on the success of *The Beethoven Experience* with *A Bach Christmas*. The story of the Brixton Angels – convicts inside one of Britain's toughest jails coming together to sing Bach – was one of the most touching broadcast moments of the year.

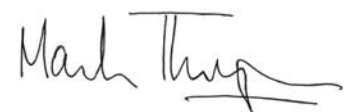
Meanwhile, Radio 4 experimented successfully with more topical debates and more distinctive and high-profile drama. In deciding to abandon its early morning medley of UK themes, the station also sparked off a classic BBC row as an apparently minor change at the schedule's margins came to stand for something much larger and more important for listeners. After careful reflection, the Radio 4 team decided to stick to their original judgement, and in my view they were right to do so. But there was an important lesson here for the BBC: you cannot hope to please all of the people all of the time, but – especially at a time when they have so much choice – the BBC must never take its audience for granted.

Our digital radio services continued to build their relationships with listeners, and there was strong, innovative content around our sports coverage and children's offering, as well as from our national and regional services. There have been launches too: the first modules of the Digital Curriculum (now named BBC jam) are receiving a very positive response from students and teachers alike, and in the last two months we have begun a pilot BBC high-definition TV service – another broadcasting first, and another way of trying to improve the quality that the public receives from the BBC.

It was also a year when the debate about the future of the BBC reached a climax with the publication of a Government White Paper. This presents a picture of a strong BBC, but not one which exists in isolation from the rest of the market. Despite the picture some of the BBC's rivals like to paint, we see the future as increasingly dominated by partnerships – with other public bodies, with independent producers, with other public broadcasters and with our audiences. The transformed relationship with PACT and the memoranda of understanding signed with various bodies over the course of the past year are evidence of this new approach.

Although the BBC has a good deal to be proud of in 2005/2006, we cannot afford to sit back and congratulate ourselves. Audiences are urging us on: rightly, they raise their standards all the time. We have Creative Future to implement, digital switchover to lead, and we have changes to make to our own management systems to respond to the introduction of the BBC Trust.

We have just had one of the busiest years in our history. But in many ways the real challenge starts now.



Mark Thompson
Director-General
14 June 2006

The BBC now and in the future

Overview

The draft Royal Charter signals far-reaching change at the BBC. The new BBC Trust which will replace the Governors has an explicit duty to represent the interests of licence fee payers. As a result, there will be much sharper separation between those charged with the oversight of the BBC and those charged with delivering its services.

Another significant change is that, for the first time, the new Charter will include a definition of the public purposes of the BBC. These are:

- Sustaining citizenship and civil society
- Promoting education and learning
- Stimulating creativity and cultural excellence
- Representing the UK, its nations, regions and communities
- Bringing the world to the UK and the UK to the world
- Building digital Britain (helping to deliver the benefits of emerging communications technologies and services and taking a leading role in the switchover to digital television)

However, some things, such as funding the BBC via a licence fee, will stay the same. This section outlines the current arrangements and the changes ahead.

Licence fee

Licence fee payers provide by far the greatest part of the money the BBC spends – including concessions there are 25 million – and the new governance structure (see below) will significantly strengthen the influence of licence fee payers in the direction of the BBC. The level of the licence fee is set by the Government.

Parliament

Parliament scrutinises BBC affairs through debates on the floors of both Houses and through select committee hearings, where BBC Governors – in future, BBC Trustees – and members of BBC management are called to account for the BBC's performance. The Charter renewal process has been subject to parliamentary scrutiny throughout its course.

The Royal Charter

The BBC is incorporated under a Royal Charter that sets out the BBC's objects and constitution. An accompanying Agreement sets out its obligations in greater detail. The current Royal Charter and Agreement are due to expire at the end of 2006. The new Charter and Agreement will run for ten years until the end of 2016 and licence fee funding will also continue for that period. The new Charter explicitly recognises the independence of the BBC.

BBC governance

The new draft Charter and Agreement impose radical changes on the governance of the BBC.

Under the current Charter, there are 12 BBC Governors, appointed by the Queen on advice from ministers in accordance with Nolan principles that public appointments should be made on merit. All are part-time. They bring a broad range of experience and expertise to the BBC Board. National Governors for Scotland, Wales and Northern Ireland each chair Broadcasting Councils, and the Governor with special responsibility for the English Regions chairs the English National Forum. The views of people in the nations and regions on BBC programmes and services are made known through these bodies. The World Service and Global News Consultative Group gives the Governors an independent review of the range and quality of the output of BBC World Service and BBC World.

Under the new Charter, the Board of Governors will be replaced by the BBC Trust and there will also be a new formally constituted Executive Board with its role and responsibilities defined in the Charter. The functions of the two bodies will be clearly separated with operational responsibility resting with the Executive Board. The Trust, as the body responsible for the strategic direction of the BBC, will scrutinise the strategies put forward by the Executive Board. The Trust will set Purpose Remits, issue Service Licences (see page 9) and hold the Executive Board to account for its performance in delivering BBC services against the terms and conditions of these documents.

BBC Trust

The BBC Trust will have ultimate responsibility for the licence fee. It will embody the public interest, represent the views of licence fee payers, safeguard the independence of the BBC and ensure that the BBC fulfils its distinctive public purposes. The Trustees will approve or reject broad BBC strategies, determine top-level annual budgets, and assess the performance of the BBC Executive Board and hold it to account. The Trustees will issue Service Licences setting out the remit and budget of each BBC service, and will commission Public Value Tests (see page 9) when the Executive Board proposes significant changes to existing services or the introduction of new services.

There will be 12 Trustees, appointed by the Queen on advice from ministers in accordance with Nolan principles. The Trustees will include members dedicated to the interests of England, Scotland, Wales and Northern Ireland assisted by Audience Councils. The Trust will be expected to be open and transparent in everything it does, and actively to seek the views of, and engage with, licence fee payers. Its independence will be underpinned by a full-time Trust Unit, based on the existing Governance Unit (see page 8).

Ofcom, the communications regulator, already regulates some aspects of the BBC and will continue to do so. For example, the BBC follows Ofcom's standards and fairness codes (except for due accuracy and impartiality, which remain the sole concern of the Governors – and, in future, of the Trustees). Under the new Charter, Ofcom will conduct the Market Impact Assessments when the Trust commissions Public Value Tests.

BBC Governance Unit

The Governance Unit supports the work of the Board of Governors, providing independent and objective advice. It will continue this service for the BBC Trust, renamed the Trust Unit. The Unit is independent of BBC management. Its director is appointed by the Board of Governors – in future, by the BBC Trust – and the Unit's staff are outside the BBC management chain. The Unit provides support across a range of BBC activity including accountability to audiences, performance oversight, financial scrutiny, compliance, and complaints and appeals – both editorial and fair trading.

In addition, the Unit uses external advisers for specific projects. For example, during 2005/2006, independent advisers carried out a review of coverage of the Israeli–Palestinian conflict, and accountants from PA Consulting advised on the progress of BBC management's efficiency measures and scrutinised the BBC's licence fee bid prior to its approval by the Board.

The Governance Unit has a staff of 33. In 2005/2006, the total cost of the Governance Unit was £8.3million (£8.4million 2004/2005). This included £1.3million for the national and regional advisory councils (£1.2million 2004/2005).

The Director of Governance is currently reviewing the Unit's budget and resources against the responsibilities of the new BBC Trust.

Executive Board

Under the current Charter, the operations of the BBC are managed by an Executive Board made up of BBC executive directors. It is chaired by the Director-General, who is the BBC's chief executive and editor-in-chief. The Executive Board answers to the Board of Governors, which appoints the Director-General.

Under the new Charter the Executive Board will be reconstituted and strengthened by the appointment of a significant minority of non-executive directors, nominated by the Board and approved by the Trust. Their role is to support the Executive Board as 'critical friends' and to bring an external perspective and expertise to its work. The Executive Board will be responsible for the delivery of services, the direction of editorial and creative output, the operational management of the BBC, and delivering value for money.

BBC

The BBC's 14 divisions produce or commission all BBC output. There are nine broadcasting divisions. They manage the BBC networks and their programme commissioning and production. These divisions are:

- Television
- Radio & Music
- News
- Nations & Regions
- Sport
- Factual & Learning
- Drama, Entertainment & Children's
- New Media & Technology
- Global News (including BBC World Service and BBC World)

In addition, there are five divisions providing professional support:

- BBC People
- Finance
- Marketing, Communications & Audiences
- Strategy
- Operations

The BBC's commercial subsidiaries – which sell goods and services around the world to maximise licence fee investment – are held under an umbrella company, BBC Commercial Holdings Limited:

- BBC Worldwide Limited
- BBC Resources Limited
- BBC World Limited

The profits these subsidiaries produce are returned to the BBC for investment in programme making.

Television, radio, online

Across the UK, the BBC operates eight television channels and ten radio networks, 46 local and national radio stations, and the interactive services bbc.co.uk and BBCi.

Internationally, BBC World Service broadcasts on radio in 33 languages; BBC World delivers a global television news service; and the online site bbcnews.com offers news and audio for international audiences. BBC Worldwide also operates a portfolio of commercial television channels in international markets, some BBC branded, some operated as joint ventures with other broadcasters. These services are not supported by the licence fee but are paid for either by Grant-in-Aid from the Government or by advertising.

In addition to broadcast and online services, the BBC works in the community in many different ways, including through BBC Children in Need which raises large sums to help disadvantaged children in the UK.

Delivering the BBC's public purposes

Purpose Remits

For each of the BBC's six public purposes (see page 6) the Trust will publish a Purpose Remit setting out high level pan-BBC priorities for the BBC in delivering the purposes and how success will be measured. In developing these remits the Trust will consult publicly.

Service Licences

The Trust will also issue Service Licences detailing the budget and remit of each BBC service, how they contribute to the delivery of the BBC's public purposes, and how performance should be measured. All the licences will be published.

Performance measurement framework

To ensure that BBC services are delivered in line with remits and Service Licences, a new performance measurement framework has been developed. This is based partly on measuring licence fee payer perceptions and partly on empirical measurements of financial and audience data. The aim is to reach assessments that are objective, rigorous and transparent, taking into account four factors: reach, quality, impact, and value for money.

- **Reach** is a measure of usage. It records the percentage of the population who view, listen to or use a service for a given time over a given period (for the BBC, usually 15 minutes over the course of a week). Reach differs from the traditional audience measure: share. Share is the percentage of the total audience watching or listening to a particular channel or service over a given period of time. However, reach is generally

accepted as a better measure of universality and therefore more appropriate to the BBC, which has always made universality (for everyone and freely available to everyone) one of its key principles.

- **Quality** is largely a measure of audience perception, but also includes some empirical data. It is tracked through surveys that record the proportion of the audience who believe a particular programme or service is of "high quality" and contains "fresh ideas and approaches". Assessments of quality also include empirical measures of originality in the sense of the proportion of hours that are new and UK-originated.
- **Impact** is another measure of audience perception. It is tracked through surveys that record the proportion of the audience who believe a particular programme or service is "enjoyable" and "stimulating". Impact attempts to measure the effect that BBC output has on enriching the lives of individuals and citizens.
- **Value for money** is primarily an empirical financial assessment. It is measured in two ways. One is to divide the total cost of a programme or other output by the number of viewers, listeners or users to produce a cost per viewer/listener/user. The second way is to divide the total cost by the number of viewing or listening hours to produce a cost per viewer/listener hour. Broader measures are also taken into account, such as audience perceptions of how wisely the BBC spends the licence fee. The new performance measurement framework started to come into use in autumn 2004 and continues to be developed. The framework was assessed

by the National Audit Office in 2005. When the new Charter is in force, the new measurement framework will form the basis for the BBC's Annual Report.

Public Value Test

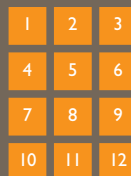
Public Value Tests will be applied by the Trust if BBC management wishes to introduce new services or make significant changes to existing services. The tests are a recognition that while BBC services aim to create positive public value, they may also impact the market. The tests will assess the potential positive public value of the proposed change and weigh it against an assessment of its potential negative market impact. Only if the potential public value created outweighs the potential negative market impact will the Trust agree to the proposed change being implemented. The Market Impact Assessments will be conducted by Ofcom and overseen by a joint steering group including Ofcom and the BBC Trust. The Trust will publish the evidence and reasoning behind its decisions.

Public value survey

In addition to regular performance monitoring, the BBC Trust will, every three to five years, commission a major independent survey involving around 10,000 respondents. The surveys will provide valuable indicators of important trends and needs. The Trust will publish the results, together with any action they choose to take as a result.

Board of Governors

The BBC Governors, led by the Chairman of the BBC, represent the public interest. They hold management to account and ensure the BBC's independence. They are appointed by the Queen on advice from ministers in accordance with Nolan principles that public appointments are made on merit. The Governors are accountable to licence fee payers and to Parliament. Under the new BBC Charter, the Governors will be replaced by a new body, the BBC Trust (see page 6, The BBC now and in the future).



1 Michael Grade CBE

Chairman

BBC Chairman since May 2004 and Chairman Designate of the BBC Trust since March 2005. Chairman of Pinewood Shepperton and Chairman of Hemscott Group both since 2000, Director of Charlton Athletic FC since 1997. Former journalist and theatrical agent. At LWT from 1973 to 1981, latterly as Director of Programmes; President, Embassy Television in Hollywood from 1981 to 1984; at the BBC from 1984 to 1987, latterly as Managing Director of Television Designate; Chief Executive, Channel 4 from 1988 to 1997; at First Leisure Corporation from 1997 to 2000, latterly as Chief Executive; Chairman, Camelot from 2002 to 2004; Director, SMG from 2003 to 2004; at The Television Corporation, latterly as interim Chairman from 2003 to 2004. Broadcasting Press Guild Harvey Lee Award for outstanding contribution to broadcasting 1997. Fellow of the RTS and BAFTA, and Vice-President of BAFTA since June 2004. Born 1943.

2 Anthony Salz

Vice-Chairman

Vice-Chairman since August 2004. Chairman of the Fair Trading Compliance Committee; Chairman of the Remuneration Committee and member of the Finance and General Purposes Committee. Until January 2006 joint senior partner of the law firm Freshfields Bruckhaus Deringer, continuing as a partner until April 2006. Chairman of the Tate Gallery's Corporate Advisory Group from 1997 to 2002 (continuing as a member of that group) and a trustee of the Tate Foundation. Trustee of the Eden Project. A director of Habitat for Humanity GB. Trustee of the Paul Hamlyn Foundation. Born 1950.

3 Deborah Bull CBE

BBC Governor since August 2003. Member of the Governors' Programme Complaints Committee and the Remuneration Committee. Principal Dancer, Royal Ballet from 1991 to 2001. Director, Artists' Development Initiative, Royal Opera House from 1999 to 2001. Creative Director, ROH2 since 2002. Former member of Arts Council England. Has written and presented programmes and series for BBC Television and BBC Radio, including *The Dancer's Body* in 2002, and published books on the arts and nutrition. Born 1963.

4 Sir Andrew Burns KCMG

The BBC's International Governor since July 2005. Member of the Audit Committee. Non-Executive Director of J P Morgan Chinese Investment Trust since 2003 and Chairman of the Council of Royal Holloway, University of London since 2004. Former diplomat – posts held include Ambassador to Israel 1992–1995, Deputy Under Secretary of State FCO 1995–1997, Consul-General Hong Kong and Macau 1997–2000, High Commissioner to

Canada 2000–2003. President Canada UK Colloquia and Chairman Hestercombe Garden Trust, both since 2004. Born 1943.

5 Baroness Deech DBE (Ruth)

BBC Governor since October 2002. Member of the Audit Committee and the Fair Trading Compliance Committee. Independent Adjudicator for Higher Education since 2004. Principal of St Anne's College, Oxford from 1991 to 2004, having been a Fellow and Tutor in Law there since 1970. Honorary Bencher of the Inner Temple, a Mandela Rhodes Trustee, and Fellow of the Royal Society of Medicine. Former Chairman of the Human Fertilisation and Embryology Authority. Born 1943.

6 Dermot Gleeson

BBC Governor since November 2000 (reappointed August 2004) and BBC Trustee Designate. Chairman of the Finance and General Purposes Committee; member of the Audit Committee; Alternate Chairman of the BBC Pension Scheme Trustees. Chairman of M J Gleeson Group plc. Chairman of the Major Contractors Group from 2003 to 2005. A former director of the Housing Corporation and of the Construction Industry Training Board. Former Head of the Home Affairs Section of the Conservative Research Department and a member of Christopher Tugendhat's cabinet in the European Commission 1977 to 1979. Born 1949.

7 Professor Merfyn Jones

The BBC's National Governor for Wales since January 2003. Member of the Fair Trading Compliance Committee, the Governors' Programme Complaints Committee, and the Councils and Advisory Bodies Committee. Historian and broadcaster. Professor of Welsh History at the University of Wales, Bangor, specialising in the modern and contemporary history of society and politics in Wales. Pro-Vice-Chancellor of the University from 1998 and Vice-Chancellor from 2004. Author of a number of books and articles. Born 1948.

8 Professor Fabian Monds CBE

The BBC's National Governor for Northern Ireland since August 1999 (appointed for a second four-year term from July 2003). Member of the Governors' Programme Complaints Committee, the Fair Trading Compliance Committee, and the Councils and Advisory Bodies Committee. Chairman of the trustees of BBC Children in Need. Specialist in communications, information systems and entrepreneurial studies. Chairman of the Northern Ireland Centre for Trauma and Transformation in Omagh. Former Chairman of Invest Northern Ireland and former Pro-Vice-Chancellor of the University of Ulster. Born 1940.

9 Jeremy Peat

The BBC's National Governor for Scotland since January 2005 and BBC Trustee Designate. Chairman of the Audit Committee, member of the Finance and General Purposes Committee and of the Councils and Advisory Bodies Committee. Chairman of the BBC Pension Trustees. Panel member of the Competition Commission and Director of the David Hume Institute. Former Group Chief Economist at the Royal Bank of Scotland. Former economic adviser to the Treasury and the Scottish Office. Visiting Professor, Edinburgh University School of Management; Honorary Professor, Heriot Watt University; Fellow of the Royal Society of Edinburgh; member of the Council of the Scottish Economic Society. Born 1945.

10 Angela Sarkis CBE

BBC Governor since October 2002. Member of the Governors' Programme Complaints Committee. Independent consultant; member of the House of Lords Appointments Commission, and adviser to the Department for Education and Skills on teacher workload management and school leadership. Former non-executive director on the National Offender Management Board at the Home Office. Former Chief Executive, Church Urban Fund and former Vice-President of the African Caribbean Evangelical Alliance. Chairman, NCVO Diversity Project and a founder member of the Social Exclusion Unit. A former trustee of BBC Children in Need. Born 1955.

11 Ranjit Sondhi CBE

BBC Governor since August 1998 (appointed for a second four-year term in August 2002) with special responsibility for the English Regions. Chairman of the English National Forum and of the Councils and Advisory Bodies Committee. Senior Lecturer at the University of Birmingham's Westhill College. Trustee of the National Gallery and Chairman of the Heart of Birmingham Primary Care Trust. Previous positions include Deputy Chairman of the Commission for Racial Equality and member of the Independent Broadcasting Authority and the Radio Authority. Born 1950.

12 Richard Tait CBE

BBC Governor since August 2004 and BBC Trustee Designate. Chairman of the Governors' Programme Complaints Committee. Professor of Journalism and Director of the Centre for Journalism Studies, Cardiff University. Former Editor-in-Chief of ITN and Editor, Channel 4 News. At the BBC, edited *Newsnight*, *The Money Programme* and the 1987 General Election results programme. Vice-Chairman, International Press Institute; Fellow, Society of Editors and the Royal Television Society. Born 1947.

Executive Board

The Executive Board manages the operations of the BBC. It is chaired by the Director-General. The Executive Board answers to the Board of Governors, which appoints the Director-General. The Executive Board is supported by three sub-groups: the Executive Direction Group, the Journalism Board and the Commercial Board. Under the new BBC Charter, a significant minority of non-executive directors will be appointed to the Executive Board (see page 6, The BBC now and in the future).



1 Mark Thompson

Director-General since June 2004. Chairs the Executive Board and the Executive Direction Group, made up of all the BBC's divisional directors. Previously Chief Executive, Channel 4 since 2002. Former BBC positions include Director of Television; Director of National & Regional Broadcasting; Controller BBC Two; Head of Factual; Head of Features; Editor, *Panorama*, and Editor, *Nine O'Clock News*.

2 Mark Byford

Deputy Director-General since January 2004. Chair of the Journalism Board which brings together all the BBC's journalism at an international, UK, national, regional and local level. Trustee of the BBC Pension Scheme. Former BBC positions include Director, Global News and World Service; Director of Regional Broadcasting; Head of Centre, Leeds, and Home Editor, Television News.

3 John Smith

BBC Chief Operating Officer since June 2004, responsible for all the BBC's commercial and resourcing subsidiaries, as well as leading its property strategy. From March 2005, also Chief Executive Officer of BBC Worldwide Limited. Formerly BBC Director of Finance, Property & Business Affairs. *AccountancyAge* Financial Director of the Year in 2001. Non-executive director at Severn Trent plc and Chairman of their Audit Committee. Previously with British Rail Group, overseeing demergers. Member of the Accounting Standards Board until November 2004.

4 Jenny Abramsky CBE

Director of Radio & Music since April 2000. Responsible for BBC Radio 1, 2, 3, 4, Five Live, BBC Asian Network, BBC 6 Music, iXtra, Five Live Sports Extra, BBC 7, television classical music, Music Live, the BBC Proms and the three BBC orchestras based in England. Previous BBC positions include Director of Continuous News; Director of Radio; Controller, BBC Radio Five Live; Editor, Radio News & Current Affairs, and Editor, *Today*.

5 Jana Bennett OBE

Director of Television since April 2002. Responsible for the BBC's television channels – BBC One, BBC Two, BBC Three and BBC Four; related interactive programming; and overseeing content on the UKTV joint venture channels and BBC America and BBC Prime. Previously General Manager and Executive Vice-President at Discovery Communications Inc. in the US; Director of Production at the BBC; Head of BBC Science; Editor, *Horizon*, and Senior Producer on *Newsnight* and *Panorama*.

6 Tim Davie

Director of Marketing, Communications & Audiences since April 2005. Responsible for all the BBC's marketing, publicity, press and PR, audience services and audience research activities. Trustee, BBC Children in Need since September 2005. Director of Freeview and also Digital UK. At PepsiCo from 1993, latterly as Vice-President, Marketing and Franchise, PepsiCo Europe. Joined Procter & Gamble's marketing department in 1991.

7 Ashley Highfield

Director of New Media & Technology since October 2000. Responsible for bbc.co.uk, interactive television services, new platforms (broadband, mobile, etc), the BBC's technology portfolio, technical innovation, and research and development. Previously Managing Director of Flextech Interactive, the pay-television company's new media division. Former positions include Head of IT and New Media for NBC's European Channels.

8 Zarin Patel

Group Finance Director since January 2005. Responsible for financial strategy, planning, control, corporate reporting activities and licence fee collection. Trustee of the BBC Pension Scheme. Former BBC positions include Head of Revenue Management and Group Financial Controller. Trained as a chartered accountant with KPMG, where she spent 15 years before joining the BBC in 1998. Governor, University of the Arts London and member of their Audit Committee.

9 Caroline Thomson

Director of Strategy since April 2005, incorporating previous responsibilities as Acting Director, Strategy and Distribution since December 2004, and Director Policy and Legal (formerly Public Policy) since May 2000. Lead Director of the Charter Renewal Task Force since June 2004. Trustee of the BBC Pension Scheme. Director of Freeview and also Digital UK. Non-executive director of The Pensions Regulator. Former positions include Director of Strategy & Corporate Affairs, BBC World Service; Commissioning Editor, Science and Business at Channel 4, and political assistant to Roy Jenkins.

Stephen Dando, former Director, BBC People, announced his resignation in January 2006 and left the BBC in April 2006. Jeremy Nordberg was appointed Acting Director during the recruitment of a new Director.

Governors' review of objectives

Overview

Our responsibilities as Governors include setting annual objectives for the BBC. We review management's performance against these objectives periodically in the course of the year and publish a formal assessment in the *Annual Report*. This Report follows that pattern and in this section we report on performance against our 2005/2006 objectives.

In future, however, the Trust that will replace the Governors will use a new set of tools to hold the BBC to account (see page 6, *The BBC now and in the future*). The Trust will have to decide if it wishes to continue the current system of annual objectives in addition to the new accountability tools.

In the meantime, we have rolled forward many of last year's objectives – amended as appropriate – into 2006/2007. These objectives can be found on page 21.

408,415 hours

of BBC Television and Radio broadcast
in 2005/2006 – 46.6 hours of output for
every hour of every day



Beethoven

Thinking cross-platform: *Beethoven*, BBC Two's drama-documentary complemented Radio 3's *Beethoven Experience* which broadcast all the composer's music over a single week



Extras

Bringing fresh comedy to the BBC: Ricky Gervais and Stephen Merchant, creators of *The Office*, wrote, directed and appeared in their new comedy, *Extras*

Objective one

Programme strategy

Ensure that BBC management develops a five-year editorial strategy for BBC programmes and services focused on maximising public value.

In 2005/2006 this will include:

- Beginning to reduce the volume of repeats on BBC One in peak time
- Undertaking work to better understand audience concerns regarding derivative programming, and specifically, reducing the volume of makeover and lifestyle programmes on BBC One in peak time
- Beginning to increase overall investment in original UK comedy and drama

We are encouraged by the good start made in achieving this objective. In March 2005 the Director-General launched Creative Future, an ambitious and broad-ranging review of key programme genres. This aims to translate the BBC's public commitments on quality, creativity and excellence into an editorial strategy covering the next five to seven years and embodying the public purposes of the BBC as set out in the new Charter. Emerging insights from this work have been presented to the Governors for discussion during the year. In April 2006 the first public announcements from the Creative Future project were made.

These noted the extremely rapid pace of change in audience expectations and in technology and examined how they would affect key areas of output: journalism, drama, music, sport, comedy, entertainment, children and teens, and knowledge-building. Major themes from the work included: a need to think 'cross-platform' – that is, across TV, radio and the internet for audiences at home and on the move; a need to shift investment and creative focus towards 24/7 services; a need to recognise that on-demand will be a key driver of how the BBC delivers content in the future and also how it commissions it; a need to re-invent the BBC's approach to the internet; and finally, a need to develop a new relationship with audiences as partners and participants.

Further work will be done in the coming year to translate the findings into innovative service strategies. We and subsequently the Trust will scrutinise these as they develop and ensure that, where appropriate, Public Value Tests are carried out. Innovation is, of course, not an end in itself. Audiences expect high quality from the BBC as well as innovation and we will ensure that audience views on the quality of any new output are fully taken into account by management.

In the meantime, we note that BBC One continues to make progress towards reducing repeats in peak time. The level in 2005/2006 was 8.9% (9.7% in 2004/2005). In the longer term, significant further reductions are expected – cutting BBC One repeats in peak time to around 5%. But these reductions will not show in full on screen until 2008 because of the time it takes for the results of new commissioning to come through and for the results of the Director-General's efficiency drive to produce the new investment funds needed. In the current year we do not expect to see a reduction of much more than 0.4%

(to below 8.5%) and this is reflected in our amended objective for 2006/2007.

Research under way by BBC Television shows that audiences have positive as well as negative feelings about repeats. While there is a low tolerance of peak-time repeats on BBC One, nearly half the respondents say they appreciate an opportunity to catch up on missed programmes, and nearly two-thirds agree that there are some programmes they would always be happy to see repeated. In taking forward its work in this area the BBC needs a clear repeats policy that takes full account of licence fee payers' attitudes and changes in technology – particularly the move towards on-demand. Management are working on this.

For some time we have been concerned about a decline in audience perceptions of quality of BBC Television output and we are pleased to see some evidence that perceptions are improving – the number of people disagreeing with the statement: "the BBC sets the standards for programme making in the UK" fell from 26% to 23% between Q4 2003 and Q4 2005.

One factor affecting perceptions of quality is audience concern over derivative programming. In an effort to achieve a better understanding of the issues, the Governance Unit asked BBC Audience Research to re-examine existing data – in particular the BBC's Pulse survey (a daily online questionnaire involving 15,000 representative television viewers). The findings were presented to us in March 2006. The research made clear that audience concern reflects not just copycat programming but also tired and worn formats demonstrating a lack of originality and innovation. Management had already begun to develop a long-term strategy to refresh and raise the ambition of the early

Total broadcasting spend 2005/2006 (£million)

	2006	2005
Television	1,443	1,456
Radio	218	221
bbc.co.uk	72	69
BBC jam	36	8
Interactive TV (BBCi)	18	17
Local radio and regional television	370	356
Programme related spend	338	339
Overheads and Digital UK	315	282
Restructuring	107	51
Transmission and collection costs	320	309
Total	3,237	3,108

For further explanation of these figures see Note 2b on pages 106 to 107

Objective two

Driving digital

Ensure that BBC management drives the market for free-to-air digital television, digital radio and new media whilst continuing to serve the needs of the analogue-only audience by:

- Raising awareness of how the BBC's digital services add value to the overall portfolio
- Improving their availability
- Working in partnership with the commercial sector to drive take-up

The key role of the BBC here has been underlined by the Government's decision to place a sixth public purpose on the BBC in the new Charter; that of "building digital Britain", and we can report positive progress made during the year.

The BBC has a number of roles to play. These include: continuing to encourage take-up through the provision and marketing of high quality digital content; raising public awareness of, and providing public information on, all aspects of switchover; and maintaining active support of Digital UK, the body coordinating the switchover to digital television in the UK.

The UK now has the highest digital television penetration of any country in the world and the BBC's marketing efforts have undoubtedly helped in this achievement. By the end of 2005, some 70% of homes in the UK had at least one set capable of receiving digital television and 24% had converted all their sets.

Of the remaining analogue-only homes, more than three-quarters were aware of Freeview. However, awareness of the BBC's digital channels in these homes has shown a slight fall. This almost certainly reflects the probability that these homes, by definition, now contain a higher proportion of those hardest to convince.

About one in three homes in the UK had become fully digital (that is, able to receive all BBC services through television and broadband) by the end of 2005. Reaching this figure is a significant milestone, but there is much still to do. For example, the growth of broadband has been impressive; however it appears that most of this growth comes from narrowband households upgrading, rather than new households gaining access to the internet. In other words it does not signal much of a lessening of the internet digital divide.

For the BBC there is a growing issue of how best to focus its marketing effort. On the one hand there is the pressing need to encourage people to take their first steps into the digital world; on the other there is the need to encourage those who have already made the move to go further and become fully digital. There is some concern that the latter group may become irritated by messages designed for the former.

We are encouraged to note from survey evidence that the BBC digital channels are seen as "good use of the licence fee" by an increasing proportion of audiences. BBC News 24 in particular is seen as "good use of the licence fee" by nearly 70% of the audience (although this has decreased slightly this year). Awareness of digital radio is growing and sales of DAB sets are growing rapidly – more rapidly than the increase in reach of BBC digital stations. This perhaps reflects the fact that sets are bought primarily for improved reception,

evening part of the peak-time schedule on BBC One and we asked them to take these findings into account in this work – by concentrating their efforts on programmes or formats that may have reached the end of their creative life. This is reflected in the revised wording of our objective for 2006/2007.

In line with our 2005/2006 objective, the volume of makeover and lifestyle programming in BBC One peak time fell to 6.5% in 2005/2006 (from 7.7% in 2004/2005). This reflected, in particular, management's decision not to re-commission *Changing Rooms* and *Groundforce*. However, we believe that some lifestyle programming should remain part of the mix on BBC One – it holds particular appeal for audiences the BBC finds hard to reach, including 25 to 34 year olds and some ethnic minority groups.

Also in line with our objective, work is under way to deliver increased investment in comedy and drama. In comedy, BBC One (where six pilots have already been announced) and BBC Two will see the greatest benefits. In drama, the investment is beginning to show on screen, but the longer lead times here mean that substantial change will not be evident until 2007/2008. More than half the extra investment is going to BBC One, with some additional investment in BBC Three.



BBC News 24

Driving digital: Simon McCoy and Kate Silverton presenting BBC News 24, one of the BBC's portfolio of extra channels available to digital viewers



Urban Classic

Building bridges: MC Purple with the BBC Concert Orchestra – a collaboration between 1Xtra, one of the BBC's digital stations, and Radio 3, making connections between very different audiences

5.4p

cost per hour of viewing/listening to the BBC, based on average consumption

and listening behaviour does not automatically change with the purchase of a set. We have therefore asked for marketing effort to include some focus on the content of the BBC's DAB services and their unique value to licence fee payers as well as on access to the services. bbc.co.uk has maintained high levels of awareness and we are pleased to see an increase in awareness of BBCi 24/7 – 48.2% (42.4% 2004/2005) – reflecting the marketing effort put into promoting its core news and children's output.

Technical and financial constraints are restricting opportunities for improving the availability of digital services. Coverage of digital terrestrial cannot be increased beyond the current 73% until digital switchover. Significant further increases in the BBC's DAB network depend on the licence fee settlement. Where digital television is concerned, the BBC is continuing its efforts – with commercial public service broadcasters – to launch a free-to-air satellite service. This would extend the BBC's digital channels to areas not currently reached by Freeview.

In the meantime we are encouraged by the BBC's efforts to drive take-up by building partnerships with manufacturers, retailers and broadcasters across television, radio, mobile and broadband ISPs. In addition, the BBC has been active in the Freeview consortium to ensure that Freeview's technology and content are in good shape for switchover. The BBC has also been closely involved in the set up, launch and communications strategy of Digital UK (formerly 'SwitchCo').

Objective three

Value for money

Ensure that BBC management implements the findings of the value-for-money review by:

- Making savings of £105million in 2005/2006 towards the target of annual savings of £355million by 2008
- Developing a detailed, three-year plan to transform the BBC's processes and make it more efficient and effective in providing services that meet the needs of licence fee payers

Good progress has been made towards this objective. In March 2005 the Director-General announced a three-year efficiency programme which aims to deliver £355million of ongoing gross annual cash savings by 2007/2008. The BBC exceeded its savings target for 2005/2006, comprising £99million of ongoing cash savings and a further £7million of one-off programme genre mix changes. It remains on track to deliver its three-year target of annual savings.

The majority of the cash savings were achieved through post closures across both content and professional service divisions which reduced headcount by 917 and 215 respectively. The second year of the programme is expected to see more savings derived from transformational changes to ways of working.

One-off implementation costs in the original plan were forecast to be £197million over the three-year programme. During the year this forecast rose by £44million to £241million, the increase resulting mainly

from increased pension augmentation costs of post closures. Although actual spend on implementation costs in 2005/2006 was lower than forecast, at £34million, this is a result of timing differences in post closures and the overall one-off implementation costs are expected to remain at £241million.

The savings reported above go beyond the cumulative seven year self-help targets of £3.3billion by 2006/2007 agreed with the DCMS for the current Charter period.

The value-for-money targets are ambitious and require strong change management. We engaged PA Consulting to provide us with assurance that management's three-year plans were sufficiently detailed and robust to drive the transformational change needed to achieve the targets. Management have acted on recommendations from PA Consulting: they have taken full and appropriate ownership for the change programme and introduced a monitoring framework; and strengthened their central change team who engage with leaders at all business levels. Detailed divisional change plans include roadmaps, key milestones and measures with regular reporting of progress against these to both management and Governors.

Progress towards developing a full business architecture – establishing the principles underlying the execution of agreed BBC strategy – has been slower than initially expected. However, significant progress has now been made and it is expected the full framework will be completed in the autumn incorporating the Creative Future recommendations and the licence fee settlement.

1.7 million

contacts from members of the public
to BBC Information in 2005/2006



NewsWatch

Being open and accountable: the *NewsWatch* website gives audiences who may be unhappy with BBC News a way to be heard

Objective four

Impartiality and independence

Ensure that the BBC meets the highest standards of accuracy, fairness and impartiality expected by audiences in all its programmes.

In particular, strengthen editorial processes to deliver high-quality, trusted journalism by implementing the recommendations of the Neil Report and acting on the Governors' independent reviews of impartiality.

In overall terms we are satisfied with performance against this objective. During the year under review BBC news coverage met high standards of accuracy, impartiality and independence, and substantial progress was made in implementing the recommendations of the Neil Report and the Governors' impartiality reviews.

The Neil Report was the result of a management review led by Ronald Neil – a former Director of BBC News and Current Affairs – to consider the editorial lessons of the Hutton Inquiry into the death of Dr David Kelly. The report was published in 2004 and we endorsed its recommendations, which included changes to journalistic practice, the handling of editorial complaints, and the way BBC journalists are trained. In particular it recommended the establishment of a BBC College of Journalism and progress has been made here (see page 64). The other recommendations had already been implemented.

In terms of impartiality, the first major challenge of the year came in May with the General Election. In the event, the number of complaints about impartiality, unfairness and balance was low. The most high-profile complaint came from the Conservative Party and related to *The Heckler* on BBC Three, a study of political heckling produced by BBC News. The programme makers had sent three hecklers to a public meeting addressed by the then Conservative leader Michael Howard. The hecklers had been fitted with radio microphones to record their interventions and these were spotted by the meeting organisers who seized the equipment. The Conservative complaint alleged bias and breach of BBC guidelines. Management rebutted both charges, the complaint was not referred to the Governors, and the programme was broadcast without further complaint.

The suicide bombings in London on 7 July sparked an intense public debate on the BBC use of the word 'terrorist'. The BBC's published *Editorial Guidelines* do not ban use of the word but take the position that: "The word 'terrorist' can be a barrier rather than an aid to understanding. We should try to avoid the term, without attribution. We should let other people characterise while we report the facts as we know them." A number of commentators took issue with this, suggesting that the BBC was, in effect, condoning terrorism by being hesitant about using the word. In the light of this public debate, management reviewed the published guideline. They decided not to make any change to the guideline but to publish a guidance note for BBC programme makers providing additional context on the value of precision and consistency of language. We endorsed this approach, and it was published to supplement the advice in the *Editorial*

Guidelines (the text of the guidance note is available on the advice page of the *Editorial Guidelines* section of bbc.co.uk).

In the summer, a further editorial challenge was created by Live8, the global music event staged to focus attention on issues of Third World debt in the week of the G8 summit. The BBC had to find a way to serve its audiences – who rightly expected to see and hear this event – but also to uphold its commitment to impartiality by not allowing the BBC to be perceived to offer a free ride for a political campaign. The impartiality issues were aired in editorial policy forums within the BBC in the run up to Live8, and raised with us in a report from the Director-General. The outcome was that, in addition to the event itself, a range of material was broadcast that set it in context and enabled viewers and listeners to make up their own minds about the issues involved.

During the course of the year we commissioned a study of the impartiality of BBC News' coverage of the Israeli-Palestinian conflict (see box), and asked management to update us on the progress of implementing the findings of our earlier impartiality study on coverage of the EU (see page 65).

In terms of audience perceptions, results from a regular tracking survey conducted by MORI show that around three-quarters of the UK public (76%) say they trust BBC news programmes the most to give a fair, informed and balanced view on important events and issues compared to any other news programmes. When asked to consider all of the services that the main broadcasters offer, and not just news, over half of those surveyed believe that the words 'Fair', 'Accurate' and 'Trustworthy' are most applicable to the BBC. In a separate survey, around three-quarters of opinion formers (73%) believe the BBC is impartial and independent.



Governors' roadshow

Listening to licence fee payers: BBC Chairman Michael Grade and fellow Governors taking questions at a public meeting in Cardiff. Public accountability activity is an important part of the Governors' role

The proportion of Conservative supporters who believe the BBC is biased against the Conservative Party has fallen from 26% in Q2 2005 to 21% in Q1 2006.

As highlighted by the BBC Chairman in his Goodman Media Lecture in May 2005, the BBC faces new challenges on impartiality as a result of technological and social change. We, in collaboration with BBC management, are leading a project to deliver a set of principles underlying impartiality in the 21st century. The project will seek to identify how to deliver impartiality in ways that are relevant and convincing to the BBC's many different audiences. The focus will be on UK audiences and domestic output and will consider the implications for all genres of programming.

See pages 89 to 90 for further information about editorial compliance.

Programme spend by genre 2005/2006 (£million)

	2006	2005
Factual and learning	394	351
News and current affairs	485	458
Entertainment	253	267
Sport	372	438
Children's	140	134
Drama	427	398
Music and arts	241	245
Speech – Local Radio	182	175
Total	2,494	2,466

Education for children is included in Children's; Film is included in Drama; Religion is included in Factual and learning

BBC News coverage of the Israeli-Palestinian conflict

In October 2005 we commissioned an independent panel chaired by Sir Quentin Thomas, President of the British Board of Film Classification, to "assess the impartiality of BBC News and Current Affairs coverage of the Israeli-Palestinian conflict with particular regard to accuracy, fairness, context, balance and bias, actual or perceived."

The panel presented their report to us in April 2006 and we published it in full shortly afterwards. Its main finding was that there was no deliberate or systematic bias.

The panel went on to say, however, that the audience feel they do not understand the conflict and, perhaps for that reason, do not see it as important or interesting. The panel's view was that impartiality required a full and fair account and in that regard they found the BBC coverage to be inconsistent, not always providing a complete picture and in that sense misleading. The panel made a number of recommendations, including that the BBC should provide licence fee payers with greater context to assist their understanding of the complexities of the conflict.

We passed the report to management and asked them to respond to us by June 2006, with the response set in the context of the Neil Report. The panel report is available on the BBC Governors' website: www.bbcgovernors.co.uk. Management's response will also be published there, together with our own conclusions.

Objective five

Accountability to audiences

Deliver greater transparency and accountability to licence fee payers in 2005/2006 by, in particular:

- Management ensuring that the changes to the complaints handling process are being implemented across the organisation
- Governors developing Service Licences as the key tool for exercising effective stewardship of the public's money







We are encouraged by progress on this objective and look forward to further moves to increase transparency and accountability when the Trust is established.

Changes to the complaints handling system were made in February 2005 and are now well established across the BBC. The aim of the system is to ensure that the BBC handles editorial complaints effectively, including responding to complainants within ten working days. Initially, complaints are handled either by the programme concerned, or by BBC Information. Complainants unhappy with the response have recourse to the independent Editorial Complaints Unit, and, if still unsatisfied, to the Governors' Programme Complaints Committee, the final court of appeal.

In 2005/2006, 91% of all complaints to the BBC received a response within ten working days – an improvement from 88% at the start of the year. For the full report of editorial complaints in 2005/2006, see page 62.

Governors' review of objectives

Audience approval of the BBC

2005/2006		6.6
2004/2005		6.5
2003/2004		6.7
2002/2003		6.8
2001/2002		6.8
2000/2001		6.5

Source: Pan-BBC Tracking Study age 15+
Note: Figures are a mean score out of ten

Combined monthly reach of BBC Television, BBC Radio and bbc.co.uk (%)

2005/2006		94.3
2004/2005		95.6
2003/2004		96.6
2002/2003		96.2

Source: Pan-BBC Tracking Study age 15+, claimed usage

This system, however, is for editorial complaints only and does not cover such things as TV licensing or complaints against off-air events. The new draft Agreement, published alongside the new Charter, requires the Trust to develop and consult on a complaints framework that includes a clear definition of the different categories of complaints. This will be developed during 2006 and consulted on once the Trust is in place.

We have sought to increase our public accountability activity this year. We held our first ever AGM, in London, and since then we have held public meetings in Glasgow, Cardiff and Belfast. During the year we launched our own website: www.bbcgovernors.co.uk. Public consultations have also been a key development this year with a number being launched since summer 2005. Details of these – and of the issues raised by licence fee payers at our public meetings – can be found on the Governors' website.

One area where we wanted to know more about licence fee payers' opinions was their response to the BBC's own licence fee bid (a licence fee rising to £150, in 2005 pounds, in 2013/2014). We also wanted to understand licence fee payers' reaction to the Government's plan to fund targeted help via the licence fee. We commissioned Professor Patrick Barwise to carry out an independent investigation of these two areas. His report, published in April 2006, concluded that:

- There is no 'tipping point' above which willingness to pay would drop dramatically
- The more consumers know about the BBC's proposed new services, the more positive their attitude
- When asked to think about it, and if really forced to choose between paying the licence fee and losing the BBC's services, most licence fee payers would, if they had

to, pay substantially more than the current £10 per month for existing BBC services

- If the licence fee increased to £150 a year (in 2005 pounds) in 2013/2014 the proportion of people willing to pay for existing services would fall from about 75–80% today to about 65–70% in 2013/2014. This rises to 70–75% if the proposed new services are added
- When asked about a licence fee supplement to pay for help for the vulnerable during digital switchover, 53% support and 47% oppose. However, if the Government proceeds with this proposal it would not be the straw that broke the licence fee's back

Service Licences are one of the key accountability tools currently in development. The licences will detail the budget and remit of each BBC service, how they contribute to the delivery of the BBC's public purposes, and how performance should be measured. Our work on these included a public consultation on the framework in the latter part of 2005. The responses to this (which can be found on the Governors' website) are being taken account of in the drafting of the Service Licences themselves. Service Licences are part of the new governance arrangements that will come into force with the arrival of the Trust and the new Charter.

We have done a good deal of work to develop our accountability in preparation for handing over to the Trust. Accountability to licence fee payers is an imperative across the BBC and will be a particular focus for the Trust. Since his appointment, the BBC Chairman has regularly made himself available for questioning by licence fee payers on BBC radio phone-ins and we are developing other new ways to reach out to the audiences with accountability activity. Progress will be monitored over

the current year as part of the Governors' Accountability to Audiences Objective for 2006/2007.

Governors' objectives for 2006/2007

The existing BBC Charter requires us to set and report on annual objectives. The objectives for 2006/2007 focus on major pan-BBC priorities.

Under the new Charter the BBC Trust will have a new set of tools for holding the BBC to account based on Purpose Remits, Service Licences and *Statements of Programme Policy*.

The Trust will take a view on whether or not there is a continuing role for annual corporate objectives for the BBC. In the meantime we have decided that the 2006/2007 objectives should cover the same strategic priorities as those for 2005/2006, updated to reflect progress made during the year as well as new initiatives for the coming transitional year – to be approved where necessary by the Governors or the Trust.

1 Programme strategy

Ensure that BBC management continue to develop and begin to implement the five-year editorial strategy for BBC programmes and services by translating the findings of Creative Future into service strategies and pan-BBC proposals.

In Television, continue progress towards the detailed objectives set in 2005/2006:

- Reducing the volume of repeats in BBC One peak to below 8.5% in 2006/2007 (towards a target of 5% in 2008/2009)¹
- Continue to increase overall investment in original UK comedy and drama
- Refresh BBC One's early evening output, paying particular attention to the lifecycle of programmes or formats

¹ Definition of repeats to include digital transfers from BBC Three and BBC Four, but not digital premieres (eg *Spooks*)

2 Driving digital

Ensure that BBC management prepare for digital switchover and drive the market for free-to-air digital television, digital radio and new media whilst continuing to serve the needs of the analogue-only audience by:

- Raising awareness of how the BBC's digital services add value to the overall portfolio
- Improving their availability
- Working in partnership with the commercial sector to drive take-up

3 Value for money

Ensure that BBC management deliver value-for-money savings whilst retaining quality output. In 2006/2007, this will be measured against the following goals:

- Headcount: Achieving headcount reduction targets of 2,055 in 2006/2007, towards the target of 3,763 for the three years to 2007/2008
- Savings: Making gross cumulative cash savings of £211 million in 2006/2007, which includes new gross cash savings of £112 million, towards a target of annual gross cash savings of £355 million by 2007/2008 (after three years)
- Implementation costs: Incurring implementation costs of no more than £148 million in 2006/2007 from the total of £241 million one-off implementation costs included within the three-year plan
- Business model: Developing a coherent business architecture which underpins the BBC's transformation
- Financial planning: Implementing a financial plan that ensures the most effective allocation of BBC funds to meet the needs of the licence fee payer; begins to set targets for continuous improvement and has the flexibility to deal with new audience priorities and cost pressures. In particular:

- Worldwide to improve return to the BBC by providing double digit growth in underlying profit (ie excluding exceptional items) plus ongoing sales growth and to achieve competitive performance levels, delivering a return on sales of at least 10% and EBITDA (earnings before interest, tax, depreciation and amortisation) margin of at least 22%
- Net licence fee sales to increase by 1.04%, with evasion falling from 4.7% in 2005/2006 to 4.6%

4 Impartiality

Ensure that the BBC meets the highest standards of accuracy, fairness and impartiality expected by audiences. In particular, respond to the Governors' independent reviews of impartiality to ensure strong editorial processes and training that deliver high quality, trusted journalism.

5 Accountability

Focus on improving the BBC's accountability to audiences. In particular:

The BBC Governance Unit to:

- Develop and conduct a major public survey looking at attitudes towards the BBC, for consideration by the BBC Trust
- In readiness for the Trust, work with the Broadcasting Councils and English National Forum to develop an action plan to engage more widely with audiences, build the profile of the Councils, and contribute advice across the range of the BBC's public purposes

BBC Management to:

- Develop new service strategies in response to the Creative Future project ensuring that all audiences are well served and in particular to provide adequate focus on improving perceptions among those audiences less favourable towards the BBC

The BBC at a glance

Television



BBC One aims to be the UK's most valued television channel, with the broadest range of quality programmes of any UK mainstream network.



BBC Two aims to bring challenging, intelligent television to a wide audience by combining serious factual and specialist subjects with inventive comedy and distinctive drama.



BBC Three aims to offer innovative British content and talent, providing a broad mix of programmes aimed primarily at younger audiences.



BBC Four aims to be British television's most intellectually and culturally enriching channel, offering a distinctive mix of documentaries, performance, music, film and topical features.



The CBBC Channel aims to offer a distinctive mixed schedule for 6 to 12 year olds, encouraging the development of existing and new interests, helping children to understand and embrace the world around them.



CBeebies aims to offer a mix of high-quality, UK-produced programmes designed to encourage learning through play for children aged five and under, in a consistently safe environment.

Radio



BBC Radio 1 aims to offer a high-quality service for young audiences combining the best new music, a comprehensive range of live studio sessions, concerts and festivals, and tailored speech output.



BBC Radio 2 aims to bring listeners a broad range of popular and specialist music focused on British talent and live performances, complemented by a broad range of speech output.



BBC Radio 3 is centred on classical music, and also aims to provide a broad spectrum of jazz and world music, drama and arts, and includes live and specially recorded performances.



BBC Radio 4 uses the power of the spoken word to offer programming of depth which seeks to engage and inspire with a unique mix of factual programmes, drama, readings and comedy.



BBC Radio Five Live broadcasts live news and sport 24 hours a day and aims to present events as they happen in an accessible style, with particular emphasis on targeting 25 to 44 year olds.



BBC Five Live Sports Extra is a part-time network providing additional sports coverage through rights already owned by BBC Radio Five Live to deliver greater value to licence fee payers.



1Xtra aims to play the best in contemporary black music, with a strong emphasis on delivering high-quality live music and supporting new British artists.



BBC 6 Music aims to engage with lovers of popular music by offering the best music from the BBC sound archive together with current releases outside the mainstream, complemented by music news and documentaries.



BBC 7 is a speech-based digital radio service offering comedy, drama and readings mainly from the BBC speech archive. It is also the home of children's speech radio.



BBC Asian Network aims to offer a contemporary mix of music and speech, with particular emphasis on challenging debate and live performance, to young British Asians.

New Media



bbc.co.uk aims to provide innovative and distinctive online content, promoting internet use to develop a deeper relationship with licence fee payers and to strengthen BBC accountability.



BBCi offers digital television audiences all-day, up-to-the-minute content including news, weather, learning, entertainment and interactive programming.



BBC jam is a free online service providing high-quality interactive resources structured around key elements of the school curriculum for 5 to 16 year olds.

News



BBC News seeks to provide the best journalism in the world and aspires to be the world's most trusted news organisation: accurate, impartial and independent.



BBC News 24 aims to deliver news, analysis and insight, supported by the BBC's newsgathering operations, all day, every day of the year.



BBC Parliament is the only UK channel dedicated to the coverage of politics, featuring debates, committees and the work of the devolved chambers of the UK.



BBC World Service provides international news, analysis and information in English and 32 other languages on radio and the internet.



BBC World is the BBC's commercially-funded international 24-hour television news and information channel.

Nations & Regions

B B C English Regions

BBC English Regions serves a wide range of urban and rural communities on television, radio and online and aims to be the most trusted and creative local broadcaster in England.

B B C Scotland

BBC Scotland aims to produce a broad range of distinctive television and radio programmes for all age groups that properly reflect the diverse nature of Scotland.

B B C Cymru Wales

BBC Cymru Wales is committed to producing services which reflect the unique culture and history of Wales, and its social and political landscape.

B B C Northern Ireland

BBC Northern Ireland aims to provide something of value for everyone in the community through its broad portfolio of programmes and services that reflect local interests and experiences.

Governors' review of services – Television

Overview

BBC Television is facing sharply increased competition as the number of digital channels grows rapidly. Audiences to BBC One and BBC Two have fallen and the rising numbers watching the digital channels BBC Three and BBC Four have not yet made up the losses. Younger viewers have been lost in disproportionately large numbers – when they switch from analogue to digital they show an increased tendency also to switch away from television. We are reassured by the Director-General's clear focus on winning back younger audiences as a priority for the coming period.

Creatively speaking, BBC One has had an outstanding year. BBC Two is continuing to refine its schedule in order to increase its appeal and reach while staying true to its remit. BBC Three's audience is continuing to grow strongly – the challenge is to broaden reach by appealing to young audiences. BBC Four has had a very good year and its audiences rate it very highly indeed. In children's television, The CBBC Channel is in strong creative health and has continued to increase its audience. CBeebies recorded a reduction in reach, a reflection of both the pressing need for creative renewal of the channel and of the increasing competition for its audience.

BBC Television now draws its material from a wide range of sources inside and outside the BBC. BBC Cymru Wales has made a particularly strong contribution to the BBC's drama output this year.

20 million

people watched at least 15 minutes of *Planet Earth* (BBC One, March–April 2006)



Bleak House

Showing high quality classic drama: cast-members from *Bleak House* – BBC One made a big impact by running this Dickens serialisation as a soap, an approach in tune with the original publication of the novel



Strictly Come Dancing

Making strong family entertainment: cricketer Darren Gough, winner of the 2005 *Strictly Come Dancing*, with partner Lilia Kopylova. The series format has won international success as a British television export

Remit

BBC One aims to be the UK's most valued television channel, with the broadest range of quality programmes of any UK mainstream network. The channel is committed to widening the appeal of all genres by making a range of subjects accessible to a broad audience. BBC One is committed to covering national and international sports events and issues, showcasing landmark programmes and exploring new ways of presenting specialist subjects.

The continuing modernisation of BBC One, the Corporation's flagship television service, remains a key priority for the BBC. During the year under review the channel has had some outstanding creative successes. However, these have not prevented a further erosion of overall audience reach. In all homes, BBC One's average 15-minute weekly reach to viewers aged 4+ fell by 2.2 percentage points, or nearly one million people. Average reach in 2005/2006 was 79.7% or 44.5 million people (81.9%/45.4 million in 2004/2005)¹.

These figures do need to be seen in context. In an increasingly competitive environment BBC One continues to reach more viewers than any other television channel in both analogue and multichannel homes. In multichannel homes, where the choice of viewing is by definition far wider, BBC One is still watched by more than three out of four viewers. The rapid spread of digital, and the inevitable audience fragmentation that accompanies it, means that some degree of erosion of reach may be inevitable over time, and the growth in

reach of the BBC's own digital channels is going some way to replace (though not yet wholly) BBC One's lost viewers. Nevertheless, given the size of the channel's budget and its importance in building licence fee payers' overall satisfaction with the BBC, there is no room for complacency. There is a particular problem with younger viewers who show an increased tendency to move away from television when they switch from analogue to digital. We note management's commitment in the *Statements of Programme Policy* to tackle declining reach with popular drama and family entertainment that brings in a younger audience. This will mean continuing to take creative risks, and maintaining strong resolve when they do not succeed. For example, BBC One was ultimately unsuccessful in its attempt to establish Davina McCall in an unfamiliar setting, but the attempt was worth making.

The creative successes have come from a broad range of genres including drama, entertainment and factual. In drama, three titles – all very different in kind – stand out: *Bleak House*, *Doctor Who* and *Life on Mars*. They have helped BBC One maintain its clear lead among all UK channels as the "channel best for drama" in the BBC's audience research.

Bleak House had everything that audiences expect from a BBC classic costume drama: fine acting (and imaginative casting), strong writing, intelligent direction and the highest production values. What made it different was the decision to run it as a soap, with half-hour episodes stripped across the week and an omnibus edition at weekends. This was an inspired idea that went with the grain of the original publication of Dickens' novel in instalments, each one ending with a cliffhanger, and it helped to draw in large and appreciative audiences.

Programmes such as this define the notion of quality on the BBC.

Doctor Who has continued to delight early evening family audiences on Saturdays – a reinvention of real wit and flair. The potentially problematic departure of Christopher Eccleston from the title role was seized as an opportunity and David Tennant was in place in time to provide a successful Christmas special before starting a new series in 2006/2007. *Dr Who's* television output is extended by a rich website and there have been imaginative experiments with interactive elements – the Christmas special was supported by a specially written interactive adventure accessed via the red button. The audience for this approached half a million. In our consultations with viewers and listeners, they often cite programmes such as *Dr Who* as good BBC family entertainment. *Strictly Come Dancing*, which had another successful series, is another programme that draws similar unprompted praise from audiences.

Life on Mars also used the idea of time travel – this time to reinvent one of the staple television genres, the detective series. It brilliantly played 21st-century sensibilities against 1970s realities (including 1970s fashions) through the plot device of sending a modern-day detective back in time. Its grip on the public consciousness was evidenced by the number of newspaper opinion pieces that used the series title as a jumping-off point for nostalgic articles comparing past and present ways of doing things.

One of the great strengths of BBC One is its range – not just drama and entertainment, but religion, factual, documentary, news and current affairs, children's, sport and more – and the fact that it can demonstrate quality right across the range, not just in a handful



Live8

Showcasing big events: the Live8 concert in Hyde Park, mounted at short notice, was a big – but not insurmountable – test for the BBC



Planet Earth

Bringing natural history into sharp focus: David Attenborough's latest series, *Planet Earth*, brought a close-up view of nature, including unique pictures of a Himalayan snow leopard, rarely seen and never before pictured like this

of genres. Memorable factual output included *Planet Earth*, narrated by David Attenborough, which exploited new technologies in film-making to bring rarely seen facets of nature into astonishing close-up. Cameraman Mark Smith's sequence of a snow leopard hunting a mountain goat high in the Himalayas – the culmination of a year's quest – was an extraordinary achievement. David Attenborough's great gifts as an ambassador for and interpreter of the natural world were also on display in his BBC One series on the world of insects, *Life in the Undergrowth*.

There were a number of major set-piece events during the year. The 60th anniversaries of VE Day and VJ Day were well marked with a mixture of outside broadcasts of the major public events and output exploring the historical context. The ability of the BBC to mount big outside broadcasts at short notice and cope with complex logistical problems was demonstrated over 48 hours in April with exemplary coverage of the funeral of Pope John Paul II in Rome, followed the next day by equally memorable coverage of the wedding of Prince Charles and Camilla Parker Bowles in Windsor. Later in the year, Live8, the Hyde Park concert highlighting poverty in Africa in the week of the G8 summit, was organised at extremely short notice and the BBC's coverage was all the more notable for that.

Africa was also the theme of the BBC's Africa Lives season. This celebration and exploration of African life and culture spread across all BBC channels and platforms but was led by BBC One. It included output from many different genres, including *The Girl in the Café*, a romantic comedy written by Richard Curtis; *Geldof in Africa*, a personal journey by Bob Geldof, and a story line in *Holby City* that sent two characters to Ghana.

Although the output was of variable quality, overall this was a public service enterprise of admirable ambition, and of a scale and scope that only the BBC could have delivered. By chance, Live8 coincided with the Africa season and raised some impartiality issues as a result – our report on page 18 shows how they were managed.

Notable popular arts coverage included *A Picture of Britain*, a celebration of the British landscape as seen through the eyes of artists, writers and composers. This series, a collaboration with Tate Britain, was presented by David Dimbleby, who demonstrated that his distinctive approach works well on material far removed from his usual fare of politics and current affairs. He brought a fresh audience to arts programming on BBC One. Just as memorable, *The Queen, by Rolf* brought BBC cameras into Buckingham Palace to observe Rolf Harris painting an 80th birthday portrait of the Queen – one of the more remarkable combinations of access, cast and occasion to feature anywhere on British television during the year.

Little Britain returned to BBC One for another successful series. However, although the channel has maintained its position among all its UK competitors as the "channel best for comedy" in BBC audience research, there is a pressing need to deliver other new comedies that work for mainstream audiences and meet audience expectations from BBC One in this key programme genre. The Director-General has made BBC One comedy a high priority for additional investment and a number of new pilots are in the pipeline.

EastEnders continues to be an important part of the BBC One schedule and an important driver of perceptions of the channel as a whole. Last year we noted

some question marks over its performance. This year it seems to have stabilised. This was reflected in the steadying of scores for BBC One when audiences were asked which was the best channel for soaps – these scores had declined sharply in 2004/2005 – and by the awards won, including a Bafta. However, ITV maintains a very large lead in this area, reflecting in part its much larger output of soaps. Viewers expressed strong and unprompted appreciation of a special *EastEnders* episode marking Armistice Day.

In a relatively quiet year for sport on BBC One, coverage of the Six Nations Rugby and the Commonwealth Games demonstrated once again that major sporting events remain hugely popular:

The issue of repeats is one that audiences often raise in our consultations and we are encouraged by BBC One's continuing progress in reducing repeats in peak time. For more on this, see our report on pages 15 to 16.

¹The population aged 4+ rose by 400,000 between 2004/2005 and 2005/2006



Springwatch

Tracking the changing seasons: Bill Oddie and Kate Humble involved the audience in recording the coming of spring – many thousands helped build a detailed picture of the season unfolding across the UK



The Catherine Tate Show

Investing in distinctive comedy: Catherine Tate's sketch show, which had its second season in 2005 – part of the BBC's response to audience pressure to develop fresh UK comic talent

6
million

average audience to the final episode of *The Apprentice* (BBC Two, February–May 2006)



Remit

BBC Two sets out to be a mixed-genre channel combining serious factual and specialist subjects with inventive comedy and distinctive drama to bring challenging, intelligent television to a wide audience.

In 2003 we approved a new strategy for BBC Two which aimed to underline its distinctive public service role as a channel offering a more challenging mix of output than BBC One and, in particular, with a strong and distinctive factual core. This was achieved by shifting funding away from entertainment, reducing the volume of lifestyle programmes and increasing the amount of arts and current affairs in peak time.

The repositioning was achieved but at some cost in terms of audience numbers, exacerbated by increasing competition for viewers from the growing number of digital channels. Audience reach has continued to fall, although the rate of decline has slowed and this may be a sign that audiences are stabilising, although there are problems reaching younger and ethnic minority audiences. In 2005/2006, average weekly 15-minute reach to viewers aged 4+ in all homes was 59.1% or 33 million people (61.4%/34 million in 2004/2005)². However, these figures are averages. Reach is higher in analogue-only homes, but very significantly lower in satellite homes. This suggests that BBC Two faces further threats to its audience position as the UK moves towards analogue switch-off.

In last year's *Annual Report* we noted that the new channel controller was reviewing

the implementation of the strategy with a view to broadening its appeal. The results were presented to us in July 2005.

The key challenge identified was connecting with digital audiences and anticipating the expansion of on-demand technologies. While audience appreciation was high, and there had been innovation in music, arts and religion as well as growth in current affairs at 9pm, the amount of original drama and comedy had declined. To counter this, further investment was planned in these two genres, alongside further innovation in factual programmes. At the same time, trials began to explore the potential benefits of on-demand by making programmes available on broadband via the redesigned website. This should increase reach as audiences will be able to watch outside the scheduled slot. We endorsed these proposals for the further evolution of the channel and will continue to monitor progress.

In the year under review, BBC Two carried a broad range of outstanding output. This included *Elusive Peace: Israel and the Arabs*, a three-part series exploring the last eight years of the Middle East peace process through interviews with key protagonists. *Coast*, the result of a collaborative partnership across the BBC, was an ambitious series exploring the maritime history and geography of the UK coastline. Strong comedy included *Extras*, Ricky Gervais' latest excursion into the comedy of self-delusion, and Catherine Tate consolidated her reputation with a new series of *The Catherine Tate Show* which pushed more of her catch-phrases into general usage. William Golding's epic trilogy of novels *To the Ends of the Earth* was adapted into a memorable classic drama. Martin Scorsese's illuminating documentary on Bob Dylan, *Arena: No Direction Home*, created enormous interest. *Holocaust* –

A Music Memorial Film from Auschwitz was a moving tribute to the Jewish musicians who died in the death camps. The Winter Olympics were the highlight of sport on the channel during the year.

Springwatch, presented by Bill Oddie, drew large audiences with its fresh approach to natural history for family audiences. It successfully encouraged viewers to contribute their own observations of nature through its national survey of springtime phenomena.

The Monastery drew large and appreciative audiences as it followed five laymen spending 40 days and nights in a Benedictine monastery trying to discover if the monastic disciplines had something to offer them. This was a surprising, thoughtful and tactful use of reality television techniques to explore serious spiritual themes. *Top Gear*, a longstanding cornerstone of the schedule, brought wit, verve and imaginative production styles to its coverage of cars and everything to do with them. *The Apprentice* and *Dragon's Den* returned for successful second series, inventively opening up the world of business and entrepreneurship to new audiences. *The Apprentice* has been one of the successes of the broadband trial on bbc.co.uk/bbctwo, where entire programmes have been made available for downloading – initial public demand has indicated the potential appeal of non linear programming.

²The population aged 4+ rose by 400,000 between 2004/2005 and 2005/2006



Funland

Commissioning innovative drama: Ian Pulestone-Davies and Frances Barber in the dark comic thriller *Funland* – part of BBC Three's commitment to bring its audiences distinctive new drama



Naked City

Reporting cutting-edge art: 1,700 volunteers assembled naked on the Quayside at Gateshead to be photographed by the US artist Spencer Tunick – a collaboration between BBC Three and the Baltic Centre for Contemporary Art



Remit

BBC Three is dedicated to innovative British content and talent aimed primarily at younger audiences. The channel is committed to a mixed schedule of news, current affairs, music, arts, factual knowledge-building content and coverage of international issues, as well as to high-quality, distinctive new drama, comedy and entertainment.

Audiences to BBC Three are continuing to grow. In 2005/2006, average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 16.1% or 6.8 million people (14.8%/5.6 million in 2004/2005)³.

At its launch in 2003, BBC Three was given an extremely demanding remit – the conditions for approval laid upon it by the Secretary of State were much more detailed than for the other BBC digital television channels. In general terms it has done well and has maintained its commitment to UK-produced content and its remit for innovation and risk-taking. However, it was clear that some parts of the schedule were not delivering value for money, in particular the *7 O'Clock News*. As we noted in last year's *Annual Report*, we asked management to consider the future role of news on BBC Three and their conclusions were presented to us in June 2005.

The main recommendation was to drop the 7pm news and close its website. Although admirably innovative, the bulletin had not succeeded in generating a substantial audience nor had its associated interactive news services. This has not been the case with the channel's other hourly

news offering, *60 Seconds*, which has proved a successful format for delivering news to the younger adult audiences targeted by the channel. Experiments with changing the transmission time of the longer bulletin and altering its format and presentation were not successful in significantly increasing its impact.

A second recommendation from management was to alter the channel's remit. The original wording committed the channel to a number of specific factual sub-genres including education, science, religion and ethics, and business. In practice, the channel management discovered that this large number of narrow commitments was a hindrance rather than a help in delivering high-quality factual content to its audiences. Some of BBC Three's most successful factual output did not fit easily into the specified sub-genres. For example, it was unclear whether *Little Angels* (on parenting skills) or *Body Hits* (on health issues) should be classified as education or science. In management's view, it would be more productive to consolidate its commitments into a single 'knowledge-building' category and to increase its hours commitments in this area.

We endorsed both recommendations. With the agreement of the Secretary of State the wording of the remit was changed (the new wording is at the head of this review).

The channel's commitment to factual knowledge-building output has produced some notable successes in the year under review on the general theme of self-improvement. They include *Honey We're Killing the Kids* (on parents' role in their children's unhealthy eating habits, with a linked exhibition at the Science Museum); *Spendaholics* (on personal debt); and *Dog Borstal* (on training pets).

BBC Three has continued to perform strongly with home-grown comedy. *Two Pints of Lager and a Packet of Crisps*, *Tittybangbang*, *Man Stroke Woman*, *Ideal* and a further series of the channel's established hit *Little Britain* are good examples of the channel's vigour in tackling this difficult and risky genre. Strong drama included the dark comedy *Funland*.

The *Flashmob – the Opera* format was successfully repeated, this time in Sheffield with a version of the Faust story performed in front of the shoppers in the Meadowhall shopping centre. *Naked City*, a collaboration with the Baltic Centre for Contemporary Art on Tyneside, recorded the artist Spencer Tunick's project to assemble 1,700 naked volunteers on the Quayside and photograph them.

BBC Three has done innovative work to extend its output beyond broadcast, for example by premiering the new series of its comedy *The Mighty Boosh* on broadband via bbc.co.uk.

The channel's overall success is to be applauded. However, there are areas for concern. The channel has a specific remit to appeal to younger audiences but the average age of its audience is towards the older end of the target age-range. Management are looking to refocus on younger audiences, and a re-emphasis on risk-taking, distinctive and high quality origination may hold the key here. The channel cannot afford any long-term decline in audience perceptions of its originality.

³The number of individuals in multichannel homes grew by 5 million to 42.5 million between 2004/2005 and 2005/2006



The Jitterbug Years

Tracing history through music: BBC Four used contemporary hits and archive footage to bring alive the story of post-war Britain – part of the channel's Lost Decade season examining British culture from 1945–1955



Fantabulosa

Drama to make you think: Michael Sheen as Kenneth Williams in *Fantabulosa*, a compelling portrait revealing the brilliant comedian's darker side

127 hours

of new educational programming broadcast on BBC Three in 2005/2006



Remit

BBC Four aims to serve audiences in search of even greater depth and range in their viewing. With an ambition to be British television's most intellectually and culturally enriching channel, BBC Four sets out to balance a distinctive mix of documentary, performance, music, film and topical features to offer a satisfying alternative to more mainstream programming.

Audiences to BBC Four continue to rise. In 2005/2006, average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 6.1% or 2.6 million people (4.8%/1.8 million in 2004/2005)⁴.

BBC Four has continued steadily to build its reputation for unashamedly literate, intelligent and challenging output. BBC audience research suggests that BBC Four viewers rate the channel ahead of all its UK competitors, terrestrial as well as digital, for the high quality of its programmes.

The channel has made an impact by developing one-off dramas on contemporary themes and personalities. *Fantabulosa* was a memorably bleak portrait of the comedian Kenneth Williams based on his diaries, and *The Chatterly Affair* an engagingly oblique dramatisation of the 1963 trial for obscenity of D H Lawrence's novel. *The Quatermass Experiment* was the first live drama on BBC television for many years. *A View from a Hill* brought a satisfying chill to Christmas with a fine adaptation of M R James' classic ghost story.

Documentaries are a particularly strong feature of the channel. The *Storyville* strand (shared with BBC Two) has drawn justified praise for its eclectic commissioning. Outside the *Storyville* strand, memorable documentary has included *Monsoon Railway*, an evocative portrait of the Assam and Bengal railway and some of the lives it touches.

BBC Four is the home of international film on the BBC. The channel showed all three parts of *Heimat* (Edgar Reitz's monumental chronicle of modern German history) and has continued its commitment to the World Cinema Awards. This sits alongside support of the Grierson Awards for documentary and the Samuel Johnson Award for non-fiction as part of the channel's wider engagement with these genres.

Innovative comedy is one of the ways the channel seeks to broaden its appeal while staying true to its remit, and the second series of the sharp political satire *The Thick of It* demonstrated what can be achieved here. The channel also seeks to increase its impact with seasons of linked output. The Lost Decade was an eye-opening series of documentaries examining different aspects of life in Britain between 1945 and 1955; the subjects covered included sex, censorship, food, politics, sport, leisure and culture. The Bob Dylan season built imaginatively on the momentum created by the Scorsese documentary on BBC Two with a collection of new and archive films. *Folk Britannia* celebrated the traditional music of the UK through a linked series of documentaries, archive programming and live performances.

⁴The number of individuals in multichannel homes grew by 5 million to 42.5 million between 2004/2005 and 2005/2006

Governors' review of services – Television



Jonny's Hotshots

Encouraging sports participation: England international Jonny Wilkinson shares the secrets of rugby with CBBC viewers

56%

of children in Great Britain aged 7–15
accessed bbc.co.uk/CBBC in December 2005



Remit

The CBBC Channel aims to offer a distinctive mixed schedule for children from 6 to 12 years old, encouraging them to find out more about existing interests or inspiring them to develop new ones, and helping them to understand and embrace the world around them. The channel puts an emphasis on encouraging participation.

Audiences to The CBBC Channel have continued to rise. In 2005/2006, average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 6.0% or 2.6 million people (5.6%/2.1 million in 2004/2005)⁵.

The distinctiveness of the channel remains its high quality, its range (including news, education and drama), its low level of repeats, its freedom from adverts and its high proportion of quality UK-originated material throughout the day. During the year more quality content, particularly drama, received its premiere on The CBBC Channel – and CBeebies – rather than BBC One or Two.

The channel's presentation style is lively and energetic and it works hard to stay in tune with its demanding audiences. In last year's report we noted the reservations raised by Professor Patrick Barwise in his independent review of the channel commissioned by the Department for Culture, Media and Sport (DCMS) about the tone of voice of The CBBC Channel, and we asked management to respond

formally to us. Their report was presented to us in July 2005.

Management identified some specific problems with inexperienced presenters (although making the point that the channel is required to develop new on-air talent) and accepted that occasionally boundaries of taste had been crossed in the Saturday morning show *Dick and Dom in da Bungalow*. However, they assured us that proper controls were in place, including induction training, editorial guidelines and programme review forums. We endorsed their approach to tone and presentation style and supported the overall performance of the channel, which has been a very successful addition to the BBC portfolio and prompts very positive feedback from parents.

The CBBC Channel's philosophy is "learning through fun". An element of learning and life skills development pervades a large part of its output including drama and factual. *Blue Peter*, *Newsround* and *Short Change* demonstrate that there is a serious thread to the channel. *Short Change* deals with consumer issues and equips children to make informed choices. *Newsround* now has an investigative strand, examining problems such as underage drinking in the UK. The *Newsround* Press Pack website was launched, enabling children to learn the basics of journalism and see their work published, and the site has proved extremely popular. The channel also launched *Sportsround*, a weekly sports show that encourages children to take part in sport. In *Jonny's Hotshots*, the England international Jonny Wilkinson gave rugby masterclasses to a group of children. The schedule also includes *Class TV*, a four-hour block of schools programmes transmitted every weekday during term time. These programmes are designed

primarily for use in the classroom and are focused on the school curriculum.

The launch of new digital channels aimed at sections of CBBC's heartland audience means that the channel may have to work hard to maintain its reach in the coming period. However, on the evidence of the last year it is well placed to meet the challenge, and management have embarked on a programme of refreshing the channel, including ending some long-running and successful titles.

⁵The number of individuals in multichannel homes grew by 5 million to 42.5 million between 2004/2005 and 2005/2006



Charlie and Lola

Learning about life: Lauren Child's award-winning children's books about family relationships, brought to CBeebies in a new UK animation



Remit

CBeebies aims to offer a mix of new and landmark, high-quality, UK-produced programmes to educate and entertain the BBC's youngest audience. The service provides a range of programming designed to encourage learning through play for children aged five and under, in a consistently safe environment.

Reach to CBeebies fell slightly during the year, although because the number of homes where the channel can be received is rising, the number of people watching the channel rose⁶. In 2005/2006, average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 8.8% or 3.7 million people (9.0%/3.4 million people in 2004/2005). As many viewers are aged under four these figures underestimate the true size of the audience.

The channel's philosophy is "learning through play" and almost all the programming is linked to the Government's Foundation Stage Curriculum. New programming this year included *Lazytown*, encouraging health and fitness, and *Charlie and Lola*, a new UK animation looking at family relationships through children's eyes – a production of great charm and freshness. *Muffin the Mule* was revived, giving its viewers insight into the value of friends and teamwork. Strong returning series included *Boogie Beebies* (dance and sing-along); *The Roly Mo Show* (drama and storytelling); and *Tweenies* (community and social skills).

CBeebies' interactive service is the second most-used BBC interactive service after

Weekly reach of BBC Television services 2005/2006 (% individuals)

	2005/2006	2004/2005
BBC Television	85.3	86.6
BBC One	79.7	81.9
BBC Two	59.1	61.4
BBC Three	11.8	9.4
BBC Four	4.5	3.0
The CBBC Channel	4.2	3.5
CBeebies	6.4	5.8
BBC News 24	5.4	4.2
BBC Parliament	0.2	0.2

Source: BARB, TNS/Infosys, age 4+ in All Homes, average 15-minute weekly reach 2005/2006

News and the channel continues to find innovative ways to exploit the educational possibilities of online. The *Something Special* website and associated programmes are designed to help children with learning difficulties. The language used in the programmes is supported by Makaton signs and symbols, designed to be understood by children in the early stages of language development and recognised as an effective way of building the communication skills of people with learning difficulties.

CBeebies' success is recognised by parents who consistently rate it as the best channel for children. However, although it remains the market leader among all children's channels, the fall in reach during the year under review is a clear sign that it is starting to face problems in an increasingly competitive digital world. Some of its programme titles have reached the end of their creative life and there is a pressing need to refresh the portfolio. Management have made clear their awareness of the issue in their *Statements of Programme Policy* and we note their commitment to provide more content for the older age range among CBeebies' viewers.

⁶The number of individuals in multichannel homes grew by 5 million to 42.5 million between 2004/2005 and 2005/2006

Governors' review of services – Radio

Overview

The radio landscape continues to change at great speed, with consolidation in the commercial sector, and the rapid spread of new ways of listening. Increasingly, younger audiences are listening via digital platforms, leading to expectations that they will be offered not just music but also supporting visual materials, and BBC Radio has begun to experiment using interactive television. It has also extended its podcasting trial – this will be included in the Public Value Test to be applied to the BBC iPlayer.

Overall, BBC Radio continues to perform strongly – indeed its top performing output attracts audiences on a par with hit television shows. In general terms audiences are strong, although the picture varies across the portfolio and the rising popularity of downloaded music threatens reach to younger listeners who now have somewhere else to go for their music other than radio. The BBC's digital-only stations are generally in good health and are beginning to make a contribution to the overall reach of BBC Radio. We agreed a new remit for BBC Asian Network to deal with some problems there.

We have always regarded distinctiveness as lying at the heart of the remits for Radio 1 and Radio 2. Under the present governance system we believe we have been successful in ensuring that management have delivered distinctive output for the two networks. Using the tools available to the Trust we believe it will be easier both to maintain this – and to provide further objective measures of performance in this regard.



Sunday Surgery

Promoting safer sex: *The Radio 1 Sex Tour*, a collaboration with the Open University, travelled round the UK investigating sexual attitudes as part of Radio 1's *Sunday Surgery* – here, in Londonderry, with *Big Brother* star Kemal



One Big Weekend

Taking music to the audience: Zane Lowe, one of the hosts of Radio 1's *Big Weekend* in Sunderland, taking the best new music to an area often overlooked by the major festivals

356

new sessions and *Live Lounge* performances broadcast on Radio 1 in 2005/2006



Remit

BBC Radio 1 aims to offer an exciting, high-quality service for young audiences. It is committed to playing the best new music and delivering a comprehensive range of live studio sessions, concerts and festival broadcasts. The network aims to cover all the significant youth music genres with a wide-ranging playlist and a diverse team of specialist DJs. It also delivers tailored speech output including news, documentaries and advice campaigns, with integrated online and interactive services.

Radio 1 plays a key role in enabling the BBC to reach young audiences and the success of the station is critical to the success of BBC Radio as a whole. We are pleased that the new strategy we approved for Radio 1 in 2003 continues to bear fruit. The station has reversed the annual declines in audiences recorded between 2000 and 2003. In 2005/2006, Radio 1 had an average 15-minute weekly reach to adults aged 15+ of 10.2 million people or 20.6% (10 million/20.4% in 2004/2005)¹.

This has been achieved with no diminution of Radio 1's commitment to a distinctive schedule with a strong commitment to specialist music, to UK music, to new music and to live music. In order to ensure that distinctiveness is maintained, Radio 1 carries out continuous monitoring of its output and in addition Radio 1 and Radio 2 are monitored by an external agency for a sample week twice a year to assess their distinctiveness – against each other and against key commercial stations. The Governance Unit has studied the external agency's findings which show that Radio 1

retains a distinctive schedule. When compared with key commercial stations, Radio 1's daytime output (which includes peak listening times) carried many more new songs and with less repetition of tracks, a higher proportion of new music coming from UK acts and a much greater commitment to live music. We are strongly of the view that this distinctiveness should be maintained, including in peak time, and that any overlap with Radio 2 should be kept to a minimum.

The station has extended the range and diversity of its live events. Particularly noteworthy was Radio 1's *Big Weekend* from Sunderland, bringing the best new music to an underserved area.

Strong presenters are one of the keys to Radio 1's success and the group assembled in recent years underpins the station's range and creative strength. Presenters such as Zane Lowe (recognised this year with a Sony Gold Award) helped to draw listeners to new music. However, there is evidence that some specialist programming has low awareness and we note management's commitment to tackle this in the *Statements of Programme Policy*.

Although music will always lie at the heart of Radio 1, a substantial proportion of the output is devoted to speech. *Newsbeat*, which provides UK and international news and analysis specially tailored for a young audience, continues to do an excellent job of bringing BBC editorial values to an audience the BBC finds hard to reach via other channels. During the General Election, *Newsbeat* ran three extended specials with party leaders.

The station also continues to run effective social action campaigns. *The Radio 1 Sex Tour* was an ambitious attempt to tackle ignorance among young people on sexual

health. It broadcast live from Wrexham, Glasgow, Sunderland and Londonderry, and included live audiences, celebrity guests, contributions from listeners via texts, emails and phone calls, and a live online chat-room debate. The Open University supported the tour with short online courses. *Don't Panic* was a three-week campaign run during the exam results season offering expert help and advice. The campaign was run in conjunction with the Department for Education and Skills (DfES) helpline. The DfES received almost 12,000 calls, with Radio 1 given as the main reason for calling.

A key challenge for Radio 1 is the increasing popularity of downloaded music which gives fans a destination other than radio for the music they want. The station is experimenting with its own digital offerings as part of the BBC's podcast trial. For the first time content has been made available via mobile phones and there have been experiments with visual material to support the on-air offer.

¹The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



Live and Exclusive

Showcasing the best international talent: the great Motown singer-songwriter Stevie Wonder performing at the Abbey Road Studios for Radio 2's *Live and Exclusive* series

50

the average age of listeners to Radio 2



Remit

BBC Radio 2 aims to bring listeners a broad range of popular and specialist music, with particular support for new and established British artists; live music, through concerts and studio sessions; and songwriting. The network also offers news, current affairs, documentaries, comedy, readings, religious output and social action, designed to appeal to a broad audience.

Radio 2's audience has fallen a little, but it remains the UK's most listened-to radio station with average 15-minute weekly reach to adults aged 15+ of 13.1 million people or 26.5% in 2005/2006 (13.3 million/27.2% in 2004/2005)².

We note management's commitment in the *Statements of Programme Policy* to continue to seek a more ethnically diverse audience for the station through the choice of topics, contributors and interviewees.

As with Radio 1, we are strongly committed to maintaining the distinctiveness of Radio 2, including in peak time. As far as the station's music output goes, its distinctiveness lies largely in the breadth of music played – more than 20 genres of music are offered, including rock, pop, soul, country, jazz, folk, brass band and musical theatre – and in its commitment to live, mostly UK, music throughout the schedule. To ensure that this distinctiveness is maintained, Radio 2 is monitored by an external agency for a sample week twice a year to assess distinctiveness against Radio 1 and against key commercial stations. The Governance Unit has studied the external agency's findings which show that Radio 2's daytime output (which includes peak listening times) carried many more individual tracks than any

other station sampled, had a much lower repetition rate, and played a very high proportion of tracks not played on any other station. The overlap of tracks with Radio 1 was very small. More than 50 live tracks were played – the non-BBC stations sampled played little or no live music. The introduction of Service Licences will provide a further assurance that the distinctiveness of the station will be maintained.

Notable music output included *Stevie Wonder Live and Exclusive* and *Paul McCartney Sold on Song* – both recorded live at Abbey Road Studios. The McCartney session was part of Radio 2's impressive *Sold on Song* initiative to encourage the art of songwriting, which includes a rich website offering advice and guidance for budding songwriters. Another specially recorded session, *David Gilmour Live and Exclusive*, drew 400,000 online downloads. *Radio Ballads* – a powerful blend of memory, speech and music – revived a form pioneered by the BBC Home Service in the 1950s and used to it to bring to life social issues including HIV/Aids, the decline of the steel industry, and the sectarian struggle in Northern Ireland.

A high proportion of Radio 2's output is speech and this also seeks to be distinctive, including documentaries, arts programming, comedy and high-quality news, current affairs and discussion. Notable speech output included *Amadeus*, one of Radio 2's wide-ranging contributions to the 250th anniversary of the birth of Mozart. Peter Shaffer's play was adapted into a powerful eight-part dramatic reading narrated by F Murray Abraham, recreating his Oscar-winning film role as Salieri. *Malcolm McLaren's Musical Map of London* was a surprising and atmospheric portrait of the capital from the godfather of punk.

²The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



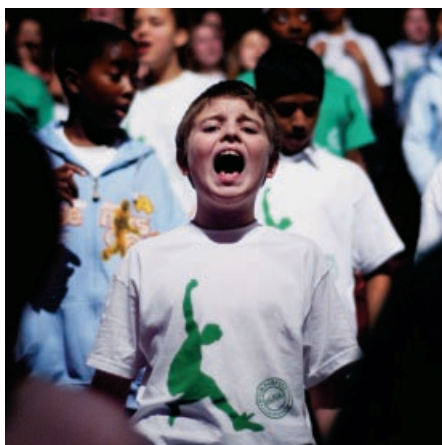
Remit

BBC Radio 3 is centred on classical music, and also aims to provide a broad spectrum of jazz, world music, drama and arts programmes. It focuses on presenting live and specially recorded music from across the UK and beyond, including contributions from the BBC performing groups.

Radio 3's audience is broadly stable: average 15-minute weekly reach to adults aged 15+ was 2 million people or 4.1% in 2005/2006 (2 million/4.2% in 2004/2005)³.

Editorially, Radio 3 has had a year full of innovation, ambition and achievement. Two of the highlights of its year – indeed two of the highlights of the BBC's year – were *The Beethoven Experience* (all the music over seven days) and the *Bach Christmas* (all the surviving music over ten days).

The Beethoven Experience caused some controversy. The nine symphonies, played by the BBC Symphony Orchestra, were made available for free downloading for a limited period and resulted in 1.4 million downloads – far more than had been predicted. As a result, some in the record industry complained that the BBC was unfairly damaging their business by giving away what they were in business to sell. Management accepted that while some stakeholders in the industry had been told of the plan and had not expressed any reservations, there had been no formal consultation – which there would have been had the scale of take-up been correctly anticipated. The download experiment was not repeated during *Bach Christmas*.



Pitch Perfect

Breaking new ground: schoolchildren taking part in a new choral and instrumental work commissioned by Radio 3 in collaboration with BBC Sport as a celebration of football

321 hours

of original comedy broadcast on Radio 4 in 2005/2006



The Raj Quartet

Making classic radio drama: Prasanna Puwanarajah, Mark Bazely and Anna Maxwell Martin in Radio 4's dramatisation of Paul Scott's novel, *The Raj Quartet*

This controversy – from which important lessons were learnt – should not be allowed to overshadow the astonishing ambition of the two projects themselves. The performances – a mixture of historic recordings and specially commissioned concerts – were supported by thought-provoking commentaries from a wide range of speakers, both musicians and non-musicians. For the *Bach Christmas*, Radio 3 invited organists throughout the UK to play the Toccata and Fugue in D Minor on 18 December; and more than 500 did so. There was also a memorable and moving concert from Brixton Prison with prisoners singing the chorale from a Bach Cantata to mark the composer's own brief spell in jail.

The playwright Harold Pinter and the composer James Clarke collaborated on *Voices*, a piece commissioned by Radio 3. The cast included Pinter himself. This dark and disturbing piece – the words of torturers and the tortured set to a haunting radiophonic score – was as compelling as it was uncompromising.

In sharp contrast, *Pitch Perfect* was a new choral and instrumental work involving a large number of schools and two football clubs, commissioned as a celebration of soccer in partnership with BBC Sport. The BBC Singers and the BBC Concert Orchestra rehearsed with the school students – including two mammoth sessions at Highbury Stadium and Stamford Bridge – for a performance on 18 November as part of *Children in Need* night.

The BBC Proms had another strong year, despite the London bombings. Highlights included the Proms debuts of Plácido Domingo and Ravi Shankar.

³The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



Remit

BBC Radio 4's remit is to use the power of the spoken word to offer programmes of depth which are surprising, searching, revelatory and entertaining. The network aims to offer in-depth and thoughtful news and current affairs and seeks to engage and inspire its audience with a unique mix of factual programmes, drama, readings and comedy.

Audiences to Radio 4 are broadly stable. In 2005/2006, average 15-minute weekly reach to adults aged 15+ was 9.5 million people or 19.2% (9.4 million/19.3% in 2004/2005)⁴.

The loyalty of Radio 4 listeners is legendary – and so is their determination to make their views known when changes are proposed to parts of the schedule that some listeners particularly value. When management announced that the 'UK Theme' (a medley of folk tunes played at 5.30am each day) was to be axed to make way for a news briefing, it provoked many newspaper editorials, a vociferous campaign to keep the music, and even questions in Parliament. We did not believe this was a matter of sufficient significance to justify intervention by the Governors. However, this intense sense of ownership by its listeners means that modernising urges for the network have to be handled with particular care and tact.

However, no schedule is incapable of further development and refreshment, and this is as true of Radio 4 as it is of any other part of the BBC. Innovations such as the weekly obituaries programme *Last Word* and the introduction of a *Profile* slot are part of an overall move to make the station

more responsive to events. The same desire can be seen in the move towards fast-turnaround topical drama and a greater sense of timeliness in features.

At the same time, however, many of the familiar landmarks of the schedule are still in place and still performing strongly. *The Archers* – the world's longest-running radio drama – marked its 55th anniversary in January 2006.

Journalism – both mainstream and specialist – continues to provide the spine of the schedule. In *Coming Home*, part of the BBC's output marking the 60th anniversary of the end of World War Two, Charles Wheeler presented five personal interpretations of what the moment meant. In *The Race is On*, Peter White told the story behind the successful London Olympics bid, gaining remarkable access to the decision makers.

Outside journalism, the range of the Radio 4 schedule remains one of its great strengths. This year, for example, saw Melvyn Bragg attract much attention for his *In Our Time* listeners' poll to find the greatest philosopher (the unexpected victor being Karl Marx). Strong new comedy included *Ed Reardon's Week*, the diaries of a failed but admirably undefeated writer; memorable classic serials included a fine dramatisation of Paul Scott's novel about India in the 1940s, *The Raj Quartet*; and the network began an ambitious and engagingly narrated 90-part history of the British empire, *This Sceptred Isle: Empire*. The latter series is supported by a richly detailed website which includes a valuable archive of listeners' personal Empire histories.

⁴The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



Olympic victory

Being where the story is: Radio Five Live gave extensive coverage to the competing bids to stage the 2012 Olympics – and was there in Trafalgar Square when London's victory was announced



Weekend Business

Making news: international media tycoon Rupert Murdoch gives a rare full length interview to Five Live's weekly business show *Weekend Business*



Remit

BBC Radio Five Live broadcasts live news and sport 24 hours a day, aiming to present events as they happen in a modern, dynamic and accessible style. It sets out to cover national and international subjects in depth, using wide-ranging analysis and debate to inform, entertain and involve news and sports fans of all ages, with particular emphasis on 25 to 44 year olds. The network also provides extensive live events coverage, supported by the BBC's global newsgathering operations and portfolio of sports rights.

Audiences to Radio Five Live have slipped. Average 15-minute weekly reach to adults aged 15+ was 5.9 million people or 12.0% in 2005/2006 (6.2 million/12.7% in 2004/2005)⁵.

Radio Five Live has had a good year editorially, in both its sports coverage and its news and current affairs output. Its coverage of the July bombings in London was particularly strong. The station was in the middle of its weekday morning phone-in when the news broke. The presenter, Matthew Bannister, reacted with calm authority and intelligence as he led the output into a rolling news format lasting many hours. All broadcasting is a team effort, but Bannister's performance gave the Five Live team a real edge that day. The strength of the network is demonstrated by the fact that on only the previous day it had broadcast a day of memorably ambitious and vivid multi-location coverage of the announcement in Singapore of the winner of the competition to stage the 2012 Olympics.

The station also carried strong General Election campaign reporting, collaborating usefully with iXtra and the Asian Network. *Weekend Business*, presented by Jeff Randall, scored a notable coup with its interview with Rupert Murdoch. The FIFA President Sepp Blatter, who rarely gives long, live, wide-ranging interviews, gave one to Brian Alexander on *Sport on Five* – and the contents made headlines.

Notable sports event coverage included Wimbledon, the Champions League, and Five Live's commentary on the Oval Test – the decider in the gripping Ashes series. All the station's daytime programmes came live from the Oval and the coverage, which encouraged strong interaction with the audience through text messages and emails, complemented to good effect the more traditional coverage on Radio 4's *Test Match Special*. *Fighting Talk* continues to build its reputation for lively and engaging discussion of sports issues and events.

The main issue for Radio Five Live is its dependence on medium wave where reception is poor in some parts of the UK. We note management's commitment in the *Statements of Programme Policy* to put greater effort into encouraging the audience to listen via digital platforms.

⁵The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



Remit

BBC Five Live Sports Extra is a part-time extension of BBC Radio Five Live, aimed at bringing a greater choice of action to sports fans. It extracts more value for licence fee payers from sports rights already owned by the BBC by offering alternative commentaries to those provided on Five Live.

Five Live Sports Extra has established itself as a valued sister station to Five Live, delivering extra value to licence fee payers from existing BBC sports rights. The BBC does not buy additional sports rights solely for use on Five Live Sports Extra. Its audiences are rising: in 2005/2006, average 15-minute weekly reach to adults aged 15+ was 0.47 million people or 1.0% (0.41 million/0.8% in 2004/2005)⁶.

The service has enabled the BBC to widen choice for listeners, for example by continuing to broadcast sports commentaries when sports coverage on Five Live is curtailed to enable full coverage of breaking news. It also enables the BBC to offer sports fans a greater choice of matches and events, for example an alternative Premiership match to the one broadcast on Five Live on most weekends. It has also offered uninterrupted coverage of Test Match cricket and of the qualifying rounds of Formula One.

⁶The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



Carnival coverage

Extending the experience: IXtra extended its reporting of the Notting Hill Carnival by experimenting with interactive television coverage available via the red button



Remit

IXtra aims to play the best of contemporary black music, with a strong emphasis on delivering high-quality live music and supporting new British artists. IXtra also brings listeners a bespoke news service, regular discussion programmes and specially commissioned documentaries, plus information and advice relevant to the young target audience, particularly – although not exclusively – those from ethnic minorities.

IXtra's audiences are rising: in 2005/2006, average 15-minute weekly reach to adults aged 15+ was 0.36 million people or 0.7% (0.31 million/0.6% in 2004/2005)⁷.

IXtra has continued to build its confidence, ambition and reputation – and to reach audiences the BBC has traditionally found it very hard to attract. It plays a wide range of contemporary black music, the great majority new (ie less than a month from release) and a high proportion of it UK music. Its live music coverage is a notably strong element of the schedule, ranging from small club nights to stadium tours by international stars and events such as the Notting Hill Carnival. Specialist music is well covered, including extended output such as Hip Hop Weekend.

In our last two *Annual Reports* we raised concerns about the quality of some of IXtra's speech output. We are encouraged by the good progress made over the course of the year under review and note management's commitment in the *Statements of Programme Policy* to continue to enhance the depth and range of speech

Weekly reach of BBC Radio services 2005/2006 (% adults age 15+)

	2005/2006	2004/2005
BBC Radio	66.5	66.6
BBC Radio 1	20.6	20.4
BBC Radio 2	26.5	27.2
BBC Radio 3	4.1	4.2
BBC Radio 4	19.2	19.3
BBC Radio Five Live	12.0	12.7
BBC National/Local Radio	20.5	20.8
BBC Five Live Sports Extra	1.0	0.8
IXtra	0.7	0.6
6 Music	0.6	0.5
BBC 7	1.2	0.9
BBC Asian Network	0.9	1.0
BBC World Service	2.6	2.6

Source: RAJAR, age 15+, average 15-minute weekly reach for 2005/2006

programming. In particular, the documentary strand in the weekday current affairs programme, *TX Unlimited*, has broadcast some distinctive journalism on a range of sensitive subjects including anorexia, child soldiers in Africa, and death row in the US. The station did useful work in its first ever full social action campaign, *Between the Sheets*, a month-long series of programmes, interviews, features and documentaries examining all aspects of sexual health.

The station's contribution to the BBC's Africa season was admirably ambitious, broadcasting live from South Africa, Kenya and Ghana, and using music as a way into other subjects.

IXtra has made good use of its website, which is the most popular of those of the BBC's digital stations. It hosts all the BBC's black music message boards – a new project aimed at bringing musical communities together: *Taggerz*, an innovative online animated drama about a gang of graffiti artists, attracted 200,000 unique users over six months. IXtra has also experimented with interactive TV – coverage of the Notting Hill Carnival was available via the red button on digital television.

⁷The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



510
hours

of current affairs programming broadcast
on iXtra in 2005/2006

Curator of the day

Giving talent free rein: Franz Ferdinand singer Alex Kapranos with BBC 6 Music DJ Nemone. Franz Ferdinand members curated the station for a day, choosing music of special significance to the band



Remit

BBC 6 Music aims to engage with lovers of popular music, offering them current releases outside the mainstream, new concert and session tracks, and music from the BBC sound archive. It concentrates on music and artists that are not well supported by other radio stations, and is committed to providing context for the music it plays, through music news, documentaries, debate and stimulating interactive content.

Audiences to BBC 6 Music are rising. In 2005/2006, average 15-minute weekly reach to adults aged 15+ was 0.32 million people or 0.6% (0.25 million/0.5% in 2004/2005)⁸.

The growth of 6 Music's audience confirms its place in the BBC Radio portfolio as a distinctive service highly valued by its listeners. Its standing in the wider music business is demonstrated by its ability to attract big names. Both Franz Ferdinand and Kaiser Chiefs agreed to curate the station for a day – choosing the album of the day, selecting sessions and concert tracks from the BBC archive, and playing music that had influenced them. The station's strong roster of presenters – including Phill Jupitus, Steve Lamacq and Tom Robinson – adds to its authority. Stuart Maconie's *Freak Zone*, catering to more experimental tastes, brings a knowledgeable eclectic flavour to Sunday output.

The station has done well with anniversary specials, among them four days of output marking 30 years of punk, and a day marking the 25th anniversary of the murder

of John Lennon – including an exclusive interview with his widow, Yoko Ono, and a showing of Lennon archive material on the BBC's Big Screen in Liverpool.

One issue of concern is the strong gender imbalance in the audience, which is approximately 70% male. The station aims to appeal to all music lovers, and we note management's commitment in the *Statements of Programme Policy* to broaden the appeal of the network, particularly in respect of the male/female balance of listeners.

⁸The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



Remit

BBC 7 is a speech-based digital radio service offering comedy, drama and readings, mainly from the BBC archive. The network is zoned around types of programmes so people know that at a certain time of day a particular type of output will always be available. BBC 7 also aims to be the home of children's speech radio, with regular live programming for children.

Audiences to BBC 7 are rising and it is the most listened to of the BBC's digital-only stations. In 2005/2006, BBC 7 had an average 15-minute weekly reach to adults aged 15+ of 0.59 million or 1.2% (0.44 million/0.9% in 2004/2005)⁹.

The bedrock of the output remains the BBC archive and the station has found imaginative ways of scheduling this to gain maximum impact. An Oscar Wilde season mined a rich seam of work including drama, fiction and letters; an Alan Bennett season included *40 Years On*, *Kafka's Dick* and *An Englishman Abroad*; the actor Bill Nighy introduced a selection from his impressive range of radio work; and the station broadcast the entire canon of Sir Arthur Conan Doyle's work.

In addition to archive-based output, BBC 7 is tasked with commissioning some original output. New comedy is a specialisation. The BBC New Comedy Awards included a search for new stand-up talent throughout the UK, with the winners given the chance to write for a radio comedy show. A discussion programme, *Serious About Comedy*, was also launched. Science fiction and fantasy is an area where BBC 7 aims



BBC Comedy Award

Searching out new talent: Tom Allen, chosen from 400 contestants as BBC New Talent Stand Up Comedian of 2005. He and five finalists won the chance to write for a BBC Radio comedy show



The Hype Show

Making distinctive music: DJ Kayper, one of the UK leading female DJs, has a regular weekly slot, *The Hype Show*, on BBC Asian Network. Changes have been made to increase its appeal to young British Asians

37%

of adults have listened to the radio via digital television (Q1 2006)

to provide for an underserved audience and, working with the BBC writersroom initiative, the station broadcast ten original 15-minute dramas from UK writers new to national network radio. More than 20 new readings were broadcast, and Boxing Day became Namia Day, with an eight-hour dramatisation of the first four of C S Lewis' *Chronicles of Narnia*. Its star cast included Paul Scofield and David Suchet.

The children's service has continued to develop well, with new opportunities for children to write for radio and appear on air. A Storyteller competition drew 2,000 entries and the winners came into the radio studio to help produce the readings of their stories.

⁹The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006



Remit

BBC Asian Network aims to entertain and inform young British Asians with a contemporary mix of music and speech. While the primary target audience is British Asians under 35, the network strives to have a broader appeal amongst all who share an interest in British Asian issues, music and culture. The network is committed to being the definitive forum for informed debate about news and issues related to British Asians. It plays a broad range of South Asian-influenced music, with a particular emphasis on live performance and new British Asian artists. Programming is provided in a range of South Asian languages, to reflect the linguistic influences on young British Asians.

In 2005/2006, BBC Asian Network had an average 15-minute weekly reach to adults aged 15+ of 0.44 million people or 0.9% (0.5 million/1.0% in 2004/2005)¹⁰.

Some criticisms of the Asian Network were made in the Government's independent review of the BBC's digital services, and during this year BBC management have developed a series of programme changes that took effect in April 2006. The remit of the service has been changed to take account of this (the new remit is at the head of this section).

The main thrust of the changes is to clarify the primary target audience (British Asians under 35) and to establish three areas where performance must improve: editorial ambition, the level of innovation, and ensuring distinctiveness from commercial Asian radio stations.

Key initiatives include measures to increase the distinctiveness of the music output, particularly in daytime programming, including investing in live music and developing new talent; transforming the level of journalism by building strong links with BBC News and emphasising original stories and investigative journalism; and repositioning the tone and style of the language programmes to increase their appeal to the target audience.

We have welcomed these changes, which were the result of widespread consultation with audiences and staff.

There is already some evidence of the journalism becoming more ambitious – for example, the Asian Network sent its own reporters to cover the Pakistan earthquake. Other parts of the output also continue to do well, including the innovative daily soap *Silver Street*. We will keep the progress of the Asian Network towards its new remit under review during the coming year.

¹⁰The number of adults 15+ rose by 0.5 million to 49.4 million between 2004/2005 and 2005/2006

Governors' review of services – New Media

Overview

The future of broadcasting looks increasingly to lie in 'on-demand' – the provision of programmes and other material when, where and how audiences want them, often with an inbuilt interactive element.

During the year under review, management have carried out a large-scale trial of the BBC's experimental BBC iPlayer, which allows users to access BBC television programmes for up to a week after transmission. This will be subject to a Public Value Test before we or the Trust decide whether or not to approve a full launch. There have also been new developments in the provision of BBC material to mobile devices such as phones and PDAs.

bbc.co.uk has made good progress towards re-shaping itself to meet the new tighter remit we set for it last year to ensure a clearer focus on delivering the BBC's public purposes. BBCi – the interactive services in text, video and audio available via the red button – continues to develop. BBC jam (formerly the Digital Curriculum) was launched.

BBC management have a good record of partnership with private sector new media operators and we welcome their commitment to continue to develop this. We have made it clear that the Governors, and in future the Trust, will pay close attention to the BBC's new media activities to ensure that the BBC operates in a way that does not inhibit UK entrepreneurial activity in this sector.



Coast

Supplying new platforms: *Coast*, the BBC Two maritime history series, was supported with innovative content available via mobile phone to viewers who wanted to follow the programme routes on foot

New Media division

The Director-General's Creative Future project proposes considerable changes for the BBC online services. A key recommendation is to relaunch the BBC's website to include more personalisation, richer audio-visual content and more user-generated content. New ways of finding content will be necessary in the coming on-demand world and the BBC is developing better search tools and ways of navigation. In addition it is considering creating easy access points for audiences via broadband portals for key content areas such as sport, music, knowledge building, health and science. We will ensure that these developments undergo the appropriate level of scrutiny and approval.

Broadcasting is already moving rapidly towards 'on-demand' – enabling audiences to access content when, where and how they want. One of the most interesting developments from BBC New Media during the year under review was its trial of the proposed BBC Integrated Media Player or iMP, now part of the BBC iPlayer project. This allows users to download BBC TV programmes on demand for up to seven days after transmission. The trial, using a panel of 5,000 people from across the UK, ran from November 2005 to February 2006 using a selection of BBC programmes, including soaps, comedy, drama, news and factual, and it drew a very positive response.

The technical trial of the BBC iPlayer was carried out in partnership with a number of internet network operators – part of the commitment by bbc.co.uk to develop partnerships with the online community in order to support innovation and growth in the online market by sharing BBC learning. The results are still being assessed by the BBC and its partners.

Monthly reach of bbc.co.uk, BBCi 24/7 services and BBCi enhanced television services (millions)

	2005/2006	2004/2005
bbc.co.uk *	13.7	10.6
BBCi interactive television**	10.7	n/a
BBCi enhanced television***	3.2	3.5

Source: *BMRB Access (monthly reach age 15+ in GB) **TNS/Interactive Television Tracking Study (monthly reach GB adults age 16+ in digital satellite, Freeview and digital cable homes. This new measure was only available from October 2005) ***BARB, viewers age 4+ in digital satellite homes. Digital satellite performance only of BBCi enhanced television programmes (eg Winter Olympics, Chelsea Flower Show)

Early findings already made public show that individuals watched on average two programmes a week – about an hour of content, equivalent to 6% of a typical household's weekly viewing. The main reason for usage was, unsurprisingly, to catch up on favourite programmes, but, significantly, many individuals also used the player to watch unfamiliar output – nearly a third used it to watch a programme they had never heard of. This suggests that the BBC iPlayer could bring new audiences to niche output.

The BBC iPlayer raises significant policy issues, and it will be subject to a Public Value Test, including a Market Impact Assessment by Ofcom, before we or the Trust decide whether or not to approve a full launch.

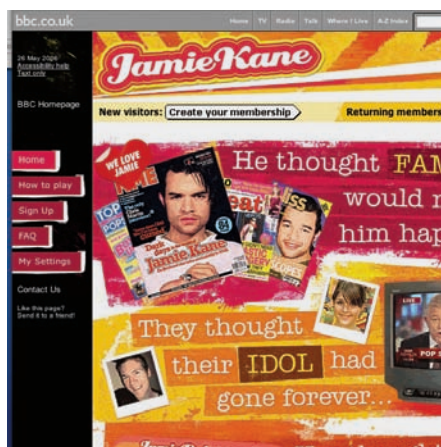
The New Media division is also doing innovative work with emerging platforms, including the delivery of BBC content to mobile devices.

The popular BBC Two maritime history series *Coast*, for example, was supported with mobile content. Details of 12 coastal walks could be downloaded as MP3 files to use as an audio guide. BBC plaques were also placed at selected coastal points giving a number that mobile phone users could call to hear the history of the site, sometimes including dramatic re-enactments of key historical moments.

Another example was the temporary WAP site rapidly set up when the London suicide bombers struck in July. It offered headlines, emergency contact information, transport updates, comments from the BBC News *Have Your Say* site – and images of the aftermath. The site was kept in operation for 18 days and seemed to meet a real need – it generated more than 2.5 million page impressions.

Trials were also carried out of the Creative Archive concept – which is designed to open selected content from the BBC archive for free non-commercial use by licence fee payers. The BBC has worked with other broadcasters to agree common licensing arrangements under which material is released.

Part of the creative archive trial, *Superstar VJs*, was a collaboration with Radio 1 and iXtra, under which 100 programme clips were released. The 15,000 people who registered were invited to use the material in their own compilations and enter them for a competition – with the winner featured on the Radio 1 website. Since then, a range of clips from the BBC News archive have been released and material from other genres, including science and nature is also being released. Users are encouraged to add their own material – pictures, sound and text. The project has obvious potential – not least in education – but also raises significant policy issues in terms of its impact on commercial suppliers of archive material. A Public Value Test will be carried out before we or the Trust approve a full launch.



13.4
million

page impressions to the Glastonbury 2005
website (19 June–2 July 2005)

Jamie Kane

Bringing new content to new audiences: *Jamie Kane* is an innovative web-based interactive fiction aimed at teenage girls – an audience the BBC can find hard to reach with more traditional content



Remit

bbc.co.uk aims to serve the BBC's six purposes, with an emphasis on democratic and educational value, through the provision of innovative and distinctive content, available to all. As a starting point on the internet and a guide to the medium, bbc.co.uk promotes internet use to develop a deeper relationship with licence fee payers and to strengthen BBC accountability.

Usage of bbc.co.uk continues to show strong growth. Average monthly reach was 13.7 million or 53% of the British online audience in 2005/2006, and by the end of that period had reached 56%. This compares with the 2004/2005 average of 10.6 million or 46%. The site is the sixth most popular in the UK based on unique audience reach to home internet users.

In 2004 the Department for Culture, Media and Sport (DCMS) published its independent review of the BBC's online services, carried out by Philip Graf. One key recommendation was that a new and tighter remit, closely aligned to the BBC's public purposes, should be drawn up for the online services (the remit at the head of this section reflects this recommendation). In our response to the Graf Report, we made it clear that one of the cornerstones of this new remit should be the provision of innovative and distinctive content available to all. We have been encouraged by the energy with which this goal had been pursued during the year under review.

A good example is *Jamie Kane*. This 'interactive fiction' for teenage girls is

a whodunit about a young pop singer killed in a helicopter crash. The narrative is structured as a game – it takes two weeks to play – and the story unfolds through clues in emails, message boards, fake weblogs, and real telephone calls. The story is supported by fictitious entries about Kane on BBC music sites and a selection of specially composed music available to download from Jamie Kane's own 'official' website. *Jamie Kane* is a noteworthy achievement, both in terms of its creative use of the videogame format, and of its technical sophistication.

The BBC has made a public commitment to increase its activity with external partners as part of its digital mission – taking advantage of the ability of digital technology to open up content and enable assets to be shared, bringing benefits for licence fee payers and for the BBC's partners. A good example is the collaboration between the BBC and the UK film industry that lies behind the *Film Network* site launched in 2005. The site is a platform for new British filmmakers. It publishes three new short films each week and encourages viewers to discuss the output and to exchange information and ideas, building a community supporting the UK film industry and nurturing new talent. The *Film Network* can also be accessed by mobile devices – users can see very short films specially created for mobiles. In a similar vein, another new site, *Comedy Soup*, encourages users to make their own comic videos and animations and see them published on the site. bbc.co.uk/comedysoup contains free source material from the BBC archive, including images and sound effects available for use by the public.

Another example of the BBC actively reaching out to partners is the BBC Backstage project. This gives web

developers and designers outside the BBC access to BBC content and APIs (application programme interface – the computer protocols and tools for building software applications). The aim is to promote a constructive and open dialogue with the online development community using BBC content and tools to deliver public value. The site actively encourages people inside and outside the BBC to share knowledge, ideas and prototypes and it has generated a large number of new ideas. One of these, the *BBC Homepage Archive*, has been commissioned and is now live (bbc.co.uk/homearchive). The site records how the BBC homepage changes hour by hour and day by day; by giving permanence to an inherently evanescent product, it transforms it into a curiously compelling chronicle of how the world was viewed through a BBC prism at any one moment in time.

An associated development has been the publication online of the BBC Programme Catalogue – an astonishing source of information on more than 900,000 programmes going back to the 1930s. The site – at present still in an experimental form – is searchable, so users can find what programmes, including news bulletins, were broadcast on a given day and who appeared in them. This data can be used in creative ways. One external software developer, for example, has used the catalogue data to design a graphical way to compare the number of BBC appearances by two people over time – an indicator of the individuals' comparative fame or newsworthiness.

The Graf Report noted that the management structure of the BBC could make it difficult for an outsider to engage constructively with the organisation, and changes have made to meet this criticism. These include the appointment of a head



RaW

Promoting literacy: RaW (Read and Write) a three-year BBC campaign to encourage literacy, is supported by the RaW website containing games, quizzes, background material and links to local activities

of External Supply to act as a single point of contact for external content and technology suppliers. bbc.co.uk is committed to a voluntary quota of 25% eligible spend on external production from 2006/2007. For a report on progress see page 150.

An important part of the BBC's digital mission is to open up access to the internet for everyone and valuable work has been done during the year to improve access for people with disabilities. *The My Web, My Way* site is based on a partnership between bbc.co.uk and AbilityNet, a leading UK computing and disability charity. The site provides advice and help to anyone who would benefit from making changes to their browser, operating system, or computer in order to make the internet more accessible. It provides guidance on hardware such as alternative keyboards and mice, and software such as voice recognition, screen reading and word prediction.

A different kind of access is promoted by *Action Network* which provides a way for people to organise community campaigns via the internet. It puts concerned individuals in touch with others in their area who might feel the same way, and provides information, advice, and shared expertise from successful campaigns elsewhere in the UK. The site now contains information on a very wide range of campaigns, including crime, housing, transport and education, and is developing real civic value. The potential editorial risks are well-managed and there is clear labelling to underline the fact that the BBC is an impartial facilitator and does not endorse any of the campaigns itself. A useful by-product is that the site has become a valuable source of news stories for the BBC's local and national news programmes.



Comedy Soup

Finding new way to encourage talent: the *Comedy Soup* website lets users make comic videos and animations using free source material from the BBC archive and see the results published on the site

Our remit for bbc.co.uk makes reference to the important role the service should play as a starting point on the internet and a guide to the medium. In its 2005/2006 *Statements of Programme Policy*, bbc.co.uk committed itself to a major digital media literacy campaign working with partners to increase awareness of the internet and how to get connected. In the event, this particular campaign was not delivered although activity during 2005/2006 included the launch of *Webwise/Computer Tutor*, a user-friendly on-screen guide for those new to the internet which is being used by public libraries hosting learning sessions. During the year, the Factual & Learning division was given overall responsibility for coordinating and delivering the BBC's work on media literacy and in the year ahead they will need to consider how this commitment should best be delivered.

In our response to the Graf Report we promised a major review of bbc.co.uk as a whole every five years and a mid-term review after three. The mid-term review is due in 2007 and we would anticipate the Trust would fulfil this commitment, being informed by detailed audience research, and public consultation and take account of work being done as part of the Creative Future project.

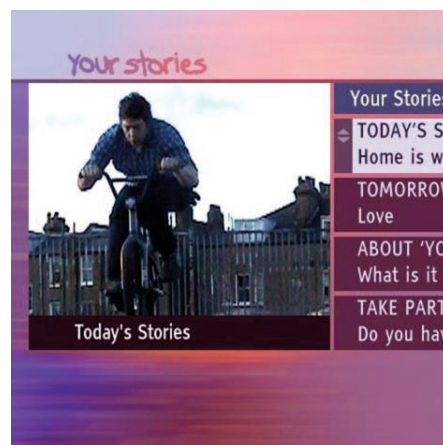
575,000

people in digital satellite homes accessed Proms Interactive 2005 via the 'red button' on their TV remote control



Winter Olympics

Delivering greater choice: the BBC's eTV service gave Winter Olympics viewers more control over what they watched – they could choose which events to follow from the onscreen menu



Your Stories

Encouraging audience creativity: the BBCi Your Stories platform on digital satellite publishes four or five stories a day produced by viewers and linked by a common theme



Remit

BBCi aims to offer all-day, up-to-the-minute news, weather, education, entertainment and other non-linear content to all digital television audiences. It aims to enhance the value of the BBC's television and radio proposition to digital audiences through interactive video, audio, pictures and text.

The BBC offers two kinds of interactive television services: BBCi 24/7 and BBCi eTV (enhanced television). BBCi 24/7 offers news, weather, sport, programme information and so on. These are available all the time. BBCi eTV offers services related to specific television programmes and events – for example, additional coverage of sports events or interactive general knowledge tests.

Average monthly reach in digital TV homes for BBCi 24/7 was 11.05 million in Q1 2006 (there is no comparable data for 2004/2005 due to changes in methodology – see below). BBCi eTV had an average monthly reach of 3.2 million (3.5 million in 2004/2005). Usage in 2004/2005 had been boosted by the Athens Olympics.

The editorial content of the enhanced interactive service has continued to develop well. The lessons from the notable success with Wimbledon and the Athens Olympics were applied not just to sport (the Winter Olympics and the Commonwealth Games) but also to news (the General Election) and to live music events such as Live8 and Glastonbury. The application meant viewers were offered greater choice – for example to see Live8 coverage from other international venues, or Wimbledon play from a range of courts.

The other major application is the so-called 'playalong' format which enables viewers of general knowledge and quiz programmes to take personalised tests or compete against studio contestants via interactive TV. This application has been imaginatively used during programmes such as *Test the Nation* and the National Lottery quiz *Come and Have a Go*.

BBCi produces a number of successful services for children. For CBeebies, the service offers a range of stories and games, all fulfilling the channel's philosophy of "learning through play." During the year under review, BBCi launched a service for older children with CBBC Extra. This offers interactive content, including talent competitions, in a magazine format. BBCi was also the interactive hub for the General Election. It offered news, analysis and constituency results in an innovative mix of video, text and interactivity. *Your Stories* is a BBCi platform for stories produced by the audience. Four or five personal stories are published each day linked by a common theme. The service is available only on digital satellite.

A commitment to improve access time was not met and continued reduction in access times will require additional investment. New Media believes that public value can be better delivered by focusing new investment on other areas. We have however, sought a commitment that access times are at least maintained at 2005/2006 levels.

During the year, New Media introduced a new methodology for measuring reach of BBCi 24/7 to include Freeview and digital cable in addition to digital satellite (the only platform that previously allowed for accurate measurement). Following a validation period the previous methodology was discontinued. Although the new methodology prevents direct comparison

year on year, we are pleased the new approach is a more robust measure and early indications show a growth in reach over the last six months since the new tracking survey was introduced.



BBC jam

Supporting formal learning for 5 to 16 year olds: BBC jam uses characters such as Earwax to attract the youngest learners to its high quality educational content developed in partnership with teachers and private sector educational suppliers



Remit

BBC jam is a free online service centred on the learner, aiming to provide high-quality interactive resources which can be used at home, at school or in the community. Structured around key elements of the school curriculum for 5 to 16 year olds, it aims to offer resources that add value to learning for children of all abilities.

BBC jam, formerly known as the Digital Curriculum, was launched in January 2006. This delivers via the internet – ideally by broadband – high quality video, audio, games and animations linked to key areas of the curriculum and designed to bridge the gap between school and home.

The service is still in its infancy. It was launched with four subjects, building up to a complete portfolio by 2008. It is planned to include some material in languages other than English and Welsh. Reaction to the initial group of subjects is being closely tracked and the findings incorporated into the later releases.

The service has enormous educational potential and complements other successful BBC learning sites such as *BBC Bitesize* (revision) and *BBC Blast* (encouraging creativity) as well as non-BBC e-learning products already on the market. The service is being developed with the education profession and other industry providers – half the content budget will be spent with private sector suppliers.

When the Secretary of State approved the project in 2003 strict conditions



BBC News weblog

Opening up the BBC: the internet diary or weblog kept by the BBC political editor Nick Robinson gives audiences insight into the way news judgements are arrived at and encourages debate about them

were set. We take regular reports to ensure compliance with these conditions as well as conditions set by the European Commission when it approved the service. A compliance report can be found on page 90.

5.3 million

users per week to bbc.co.uk/news in March 2006

bbc.co.uk/news

The online BBC news site has continued to build on its formidable reputation. Increasingly it is becoming the immediate first port of call when big stories break – witness the day of the London suicide bombings when it generated nearly 116 million page impressions – more than twice its previous record.

The service, which is managed by BBC News, and supported by news from local teams around the UK and across the world, continues to innovate with initiatives such as Iraq Day (see our review of BBC News, pages 47 to 48). It is also developing a valuable dialogue with licence fee payers, enabling them to interact with key decision makers in BBC News. The weblogs now written by a number of BBC reporters, including the BBC political editor Nick Robinson, are a good example of BBC News' praiseworthy attempts to achieve greater openness and transparency about the way it operates.

Governors' review of services – News

Overview

BBC News output across television, radio and online has remained strong and confident, with notable responses to breaking stories and set-piece events at home and abroad, and some fine pieces of investigative reporting.

However, the ways audiences use BBC News, and their expectations of the services provided, are changing rapidly and we are encouraged by the division's moves during the year to understand these changes fully so that it can respond appropriately through its Creative Future work. The move to place News 24 at the heart of the BBC television news operation is already paying dividends.

The impartiality and editorial independence of the BBC is something that licence fee payers feel very strongly about, as they made clear to us on many occasions in our accountability work during the year. We are encouraged by BBC News' continuing drive to ensure its journalists adhere to the highest standards of impartiality, accuracy and independence. We have continued our own series of independent reviews of coverage of particularly contentious issues (see pages 18 to 19) and plan, with management, to carry out a major study in this area in 2006/2007 to ensure that the BBC's impartiality and independence are not threatened by some of the new developments made possible by the digital revolution.



One Day in Iraq

Providing context: *One Day in Iraq* went behind the daily headlines and used television, radio and online to bring alive the events of a single day as seen through the eyes of people living in Iraq



Panorama Special – Undercover Nurse

Investigating abuse: Margaret Haywood, a state-registered nurse, went undercover for *Panorama* to investigate complaints from patients about conditions on an acute medical ward in a failing hospital

40.5 million

adults accessed BBC News across BBC television, radio and online in 2005/2006



Remit

BBC News aspires to be the world's most trusted news organisation: accurate, impartial and independent. It aims to be truthful and fair, offering journalism that explores multiple viewpoints and gives voice to a wide range of opinions in order to serve all audiences. BBC News seeks to act in the public interest and to resist pressure from political parties, lobby groups and commercial interests.

Overall audiences to BBC News have fallen somewhat, although the picture varies sharply between media. In very broad terms, audiences for traditional BBC television news bulletins and current affairs programmes are falling, although audiences to BBC News 24 are growing; audiences for online and on-demand news continue to surge, and audiences for BBC radio news remain strong.

Taking all its output together across television, radio and online, BBC News recorded a claimed weekly reach in 2005/2006 of 79% of the UK adult population aged 15+ (81% in 2004/2005); 79% represents 40.5 million adults. Claimed weekly reach reflects the number of respondents who recall having seen/heard/used BBC News in the previous week.

Average weekly 15-minute reach for BBC News (network services only, ie not nations and regions services) was:

- Television – BBC One's four main news programmes: 49.1% (50.6%

in 2004/2005); 49.1% is equivalent to 22.9 million adults

- Television – BBC News 24: 8.6% in multi-channel homes (7.8% in 2004/2005); 8.6% is equivalent to 2.8 million adults
- Radio – 47.6% (47.5% in 2004/2005); 47.6% is equivalent to 23.5 million adults
- Online – 15% of the population (9% in 2004/2005); 15% is equivalent to 8.6 million individuals aged 4+

In news terms the year will be remembered for two stories in particular: the suicide bombs in London, and Hurricane Katrina on the Gulf coast of the US. Overall, BBC News responded well across television, radio and online – both to the initial events and to the subsequent political and social aftermath. The BBC *Ten O'Clock News* was awarded the Bafta for Best News Coverage for its reporting of the 7 July events. The suicide bombings sparked an editorial debate over the BBC's use of the word 'terrorist' (see Governors' review of objectives, page 18). There was strong coverage too of other major events, including the death of Pope John Paul II, a devastating earthquake in Pakistan and Kashmir, and the election of new leaders by the Conservatives and the Liberal Democrats.

Of the set-piece events, coverage of the General Election stands out. For the first time a special edition of *Question Time* brought the three main party leaders face-to-face with a studio audience in the same programme. Jeremy Paxman's leader interviews successfully brought his challenging style to BBC One. BBC News used the General Election to pilot a new system of measuring the audience impact of BBC journalism in terms of promoting informed citizenship. It found that 85% of

respondents agreed that "watching, listening to or reading news and current affairs from the BBC enables me to become better informed about current events and issues facing the country". The coverage drew strong public backing for its fairness and impartiality.

BBC Television News faced a difficult editorial decision in reporting the widespread protests by Muslims that followed the decision of a Danish newspaper to print cartoons depicting the Prophet Muhammad. The question was whether or not to show the cartoons. On the one hand: could the story be told properly without doing so? On the other: would showing the cartoons not risk causing grave offence to some viewers? In the event, news bulletins used a brief sequence of moving pictures of a French newspaper that had reprinted the cartoons in order to give some idea of the context in which the cartoons were published without dwelling on them gratuitously, and bbc.co.uk/news did not show the cartoons, although it did provide links to newspaper websites that had published them.

These decisions provoked many complaints from a number of different viewpoints. Some criticised the BBC for not showing the cartoons in full. Others criticised the BBC for showing any part of them. Others attacked the BBC for – in their view – showing more concern about the sensitivities of Muslims to the portrayal of Muhammad than had been shown to Christians over the portrayal of Christ in *Jerry Springer – the Opera*. We received a report on the coverage from the Director-General at our Board meeting in February. Because this is a matter which could come before the Governors' Programme Complaints Committee, we did not express a view on the central issues.



976
million

page impressions to bbc.co.uk/news in
July 2005

User-generated content

Finding fresh sources of news: when the Buncefield oil storage depot went up in flames viewers sent in many images taken on mobile phones – some were used in BBC News output

Although audience appetite for traditional current affairs television programmes appears to be diminishing, this is still a genre that can deliver impact both editorially and with audiences. On BBC Two, *Children of Beslan* was a moving and sober re-creation of the school massacre in North Ossetia as recalled by the young survivors one year on – it drew the highest appreciation score of any BBC programme that month and has since won a number of awards. *Panorama Special – Undercover Nurse* revealed disturbing failings in the treatment of elderly patients in an acute ward of an NHS hospital in Sussex. The programme, which provoked widespread press follow-up, was watched by 4.6 million people and drew the highest audience appreciation score ever achieved by an edition of *Panorama*. *When Satan Came to Town*, an edition of *Real Story* that investigated wrongful allegations of satanic abuse of children in Rochdale, drew extensive press attention. In order to mount this salutary and important investigation the BBC had to fight a legal battle to have a longstanding gagging injunction lifted. In *Facing the Truth* on BBC Two, Archbishop Desmond Tutu brought face-to-face victims and perpetrators of Northern Ireland's sectarian violence. This BBC Northern Ireland series caused some controversy – before filming began, a number of organisations representing victims and survivors expressed reservations over the wisdom of the enterprise. Archbishop Tutu met them privately to discuss their concerns before the programmes were recorded. In the event, this series, moving and painful by turns, was achieved with admirable integrity, sensitivity and care for the participants.

On Radio 4, the consistent excellence of the *Six O'Clock News* – authoritative, broad-ranging, dispassionate, concise and well crafted, and for many years the gold standard for radio news bulletins – was recognised

with a Sony Gold Award. Edward Stourton's series *A Year in the Arab-Israeli Crisis* provided compelling insight into the day-to-day management of events in the Middle East, based on extensive contact with Israeli and Palestinian cabinet ministers, diplomats and advisers. Other Radio 4 current affairs highlights included a strong series, *Koran and Country*, exploring the contemporary impact of Islam; and Frank Gardner's *Analysis Special – How Islam got political*, a thoughtful exploration of the roots of the radicalisation of some British Muslims.

One Day in Iraq was an innovative attempt, led by the News Interactive team, to get behind the headlines of a long-running story using the combined resources of online, radio and television to report the events of a single day – 7 June 2005 – through the eyes of people living in Iraq. Online, there were diaries from a wide range of people including a medical student in Basra, a water engineer in Baghdad and a British contractor in Mosul, as well as selections from Iraqi newspapers and weblogs. Radio Five Live broadcast audio diaries from Iraq, and BBC News 24 also included coverage. From these widely varied fragments an illuminating picture of daily life in Iraq was constructed – a worthwhile project that added colour and texture to the daily reporting of this important story. The experiment has since been successfully repeated and a similar exercise carried out from Afghanistan.

One potentially significant development during the year was the rapid growth in news material supplied by viewers and listeners – so-called “user-generated content”. The development is largely a by-product of mobile phone technology, enabling audiences to alert the BBC to news events by text message, and increasingly to supply images and video clips from mobile phone cameras too. The rapidly increasing scale of the phenomenon can be seen from

the statistics: in July the London suicide bombs produced about a thousand images and clips emailed in by members of the public on the day of the attack; in December, the huge fire at the Buncefield oil storage depot outside London produced five times that number by lunchtime alone.

User-generated content and “citizen journalism” are valuable both as a source of material and as a way of demystifying the processes by which news is produced. But they also pose potentially significant ethical problems. Verification is an obvious issue and, beyond that, impartiality. BBC News is right to embrace user-generated content both as a new and valuable source of material and as a way of opening up its processes to its audiences. The challenge is to build robust editorial frameworks to ensure that while maximum editorial value is delivered back to licence fee payers from these contributions, BBC journalism's core values of impartiality, accuracy and independence are not put at risk. There are also important health and safety issues to be considered – the BBC should not encourage untrained people to take unnecessary risks to provide material for its news bulletins.

BBC News faces some big challenges. Although it remains editorially strong it will have to work hard to keep up with changing audience expectations – in particular the sharply growing appetite for on-demand news, delivered to audiences when and how they want. It will also have to develop new formats to enable it to reach audiences it now finds hard to connect with – the young, those in digital homes, and those in lower socio-economic groups. And it will have to make progress on these fronts without losing its grip on its core editorial values. These are issues that BBC News has begun to grapple with through its Creative Future work.



The London bombs on BBC News 24
 Delivering breaking news: BBC News 24's coverage of the London bombings in July. The channel won the Royal Television Society's award for News Channel of the Year



Remit
 BBC News 24 aims to deliver news, analysis and insight, supported by the BBC's newsgathering operations across the UK and around the world, all day, every day of the year. It sets out to provide fast, comprehensive coverage of events as they unfold – locally, nationally and internationally – and specialist analysis to put the news in context.

BBC News 24 has continued to make good progress, reflecting changes made by management to place the channel at the centre of BBC News' television operations. We are encouraged by the continued increase in audience reach. In 2005/2006, average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 7.4% or 3.1 million people (6.7%/2.5 million in 2004/2005)¹. We are also encouraged by the channel's growing reputation among opinion formers. News 24's editorial achievements have been recognised by the Royal Television Society's award of News Channel of the Year – a first for News 24.

The channel responded well to the year's big breaking stories. Its coverage of the earthquake in Pakistan and Kashmir included a commendable emphasis on reflecting the experience of families in the UK affected by the disaster.

Our view remains that the distinctiveness of the channel must rest on an agenda that is more analytical, more international and more diverse than that of its competitors, and which gives a higher priority to compelling and serious journalism. With this in mind, we were pleased to

note management's commitment in the *Statements of Programme Policy* to feature more international news coverage than Sky News, and to feature more local and regional news by giving regional perspectives to national stories. Performance against these commitments will be measured by periodic analyses of News 24's output by independent experts.

One issue coming to the fore in News 24 is how far the channel is justified in carrying unconfirmed reports. The question is whether the BBC's traditional caution in this area is entirely appropriate for a continuous news channel where, in the early stages of many breaking stories, it may be a more accurate reflection of reality to report uncertainty and competing explanations of events rather than stick with a single – usually official – version of events unless and until it is definitively proved wrong.

There is some evidence that audiences approach continuous news differently from the way they view set-piece bulletins. From bulletins they expect – particularly from the BBC – a steadfast adherence to the facts and do not lightly forgive inaccuracy. However, with continuous news, audiences seem to be more willing to accept that reporting an unfolding story, especially in its early stages, is likely to involve some degree of uncertainty. This debate has raised very important issues and we will monitor developments closely. The BBC's reputation for accuracy ought not to be put at risk – but, equally, audience expectations should be fully taken into account.

For our report on bbc.co.uk/news see page 45.

¹The number of individuals in multichannel homes grew by 5 million to 42.5 million between 2004/2005 and 2005/2006

Average audience for network news bulletins 2005/2006 (millions)

	2005/2006	2004/2005
BBC One O'Clock News	2.7	2.7
ITVI lunchtime news	1.2	1.4
BBC Six O'Clock News	4.5	4.8
ITVI early evening news	4.1	4.3
BBC Ten O'Clock News	4.6	4.8
ITVI nightly news	2.7	2.8

Source: BARB, TNS/Infosys, age 4+

BBC PARLIAMENT

Remit
 BBC Parliament is the only UK channel dedicated to the coverage of politics. Debates from both Houses at Westminster, the work of the devolved parliamentary chambers of the UK, and some Select Committee hearings are broadcast uninterrupted. The channel also covers the work of the European Parliament.

BBC Parliament has extended its valuable work. For the first time the channel covered the Scottish Parliament live and two further broadband streams were added for live coverage of the House of Lords, Commons debates in Westminster Hall, and Select Committees.

For some years we have been pressing for an improvement in the viewing experience on Freeview where the quarter-screen view is unsatisfactory. We are glad to note management's determination in the *Statements of Programme Policy* to improve matters during the coming year.

Governors' review of services – BBC World Service & Global News

Overview

The BBC's Global News division brings together BBC World Service radio, BBC World television, the BBC's international-facing online news services and BBC Monitoring.

This has been a year of great change in many parts of the division – change driven by the pressing need to respond rapidly and imaginatively to major shifts in technology, audience and geopolitics. This has particularly affected the World Service, which has undertaken one of the biggest transformations in its history. We are encouraged that, despite these upheavals, audiences to the division's news services have reached record levels.

The Global News division has produced thoughtful and accurate reporting and analysis of the major news stories of the year and created extra impact by using its three media to develop a single news theme in a coordinated way.

The Governors are advised independently by the BBC World Service and Global News Consultative Group. Their report is on page 62.



Hurricane Katrina

The best global news coverage: the aftermath of Hurricane Katrina – audiences worldwide turn to the BBC for coverage of stories like this



BBCUrdu.com

Providing a platform: the BBC Urdu-language website received many emails following the earthquake in Kashmir, many from people who had lived through the disaster

163 million

listeners to BBC World Service in an average week in 2005/2006

Global News division

Audiences for the BBC's Global News services are rising despite increasing global competition. Record figures for reach have been recorded by the three services – BBC World Service radio, BBC World television, and the BBC's international-facing online news services. Independent surveys indicate that the total tri-media weekly reach is above 210 million, with some people using more than one service. This is despite the loss of more than 4 million listeners as a result of the closure of ten World Service language services.

We are encouraged that the BBC's reputation for trust and objectivity remains strong. According to independent surveys, the BBC outperformed its international competitors in terms of audience perceptions of trust and objectivity in almost all major markets. The exception was Egypt where CNNI was ahead on objectivity among opinion formers.

The division operates in an increasingly challenging environment reflecting rapid changes in audience expectations, in technology, and in the global social and political landscape. The division has responded by developing a five-year strategy. This includes a searching review to ensure that its services are structured to provide the optimum response to audience need, especially in the area of on-demand services, and an examination of the portfolio of language services. We look forward to considering the divisional strategy later this year.



BBC World Service

BBC World Service's weekly global audience estimate, based on independent surveys, reached 163 million – 10 million more than the previous high in 2001. There were strong rises in key African markets including Nigeria, up 3.6 million to 23.8 million; Tanzania, up 2.7 million to 12.9 million; and Kenya, up 1.5 million to 6 million. Audiences also grew significantly in Indonesia, India and Sri Lanka, although they fell back in Bangladesh and Pakistan, reflecting the continuing growth of television there. The overall figure includes the results of the first national survey in Burma, which gave the BBC a weekly reach of 23.1% with 7.1 million listeners, and increased survey coverage in Nepal, adding 2.6 million listeners this year.

Short-wave audiences still account for two out of three BBC World Service listeners, but audibility on FM is crucial in urban areas where competition from local and national stations is most intense. BBC World Service's long-term strategy to invest in this area is paying off: total FM audiences grew by 12 million. BBC World Service is now available in 150 capital cities on FM, up from 144 in 2004.

BBC World Service announced proposals for radical change during the year. These include the launch of an Arabic language television service in 2007. There were also proposals to increase investment in on-demand new media services, FM radio distribution, overseas news bureaux and more effective marketing. These plans will be funded partly from efficiency savings. BBC World Service delivered its agreed

£7.1 million efficiency savings for the year by implementing new working practices and making savings in distribution and transmission. Additional savings will be found from English programmes and business support areas.

But these efficiency savings are not enough to fund the strategic plan. BBC World Service took the difficult decision to close services in ten languages – Bulgarian, Croatian, Czech, Greek, Hungarian, Kazakh, Polish, Slovak, Slovene and Thai. The reasoning included geopolitical change (which has weakened the justification for some European language services), and the relatively low impact of the BBC services in the Kazakh and Thai languages.

We supported these sweeping changes as the appropriate response to the great challenges faced by the World Service and they were approved by the Foreign and Commonwealth Office. The closure of the language services has meant personal disruption for many individuals. We sincerely thank the staff of those services, past and present, for their contribution to creating and maintaining the BBC's formidable international reputation.

In some areas, BBC World Service broadcasters have faced severe difficulties. Reporting from Iraq and Afghanistan remains challenging. Central Asia has become increasingly volatile. In Uzbekistan some BBC operations were closed. Pakistan took BBC Urdu off FM partner stations after the South Asian earthquake, although a reduced service has now been resumed. During the disturbances in Nepal the authorities stopped FM partner stations broadcasting BBC programmes for a time.

BBC World Service publishes its own annual review which is available online at bbc.co.uk/worldservice/us/annual_review.

Governors' review of services – BBC World Service & Global News



Newshour

Delivering global news to international audiences: George Alaghia hosts an hour-long weekday news programme for BBC World. Target audiences include the USA and Asia



Kashmir earthquake

Responding to the big events: the BBC's global news resources are brought swiftly to bear when big stories such as the Kashmir earthquake happen

BBC international-facing online news sites

Usage of the BBC's international-facing news sites has shown significant increases.

The sites attracted a record 499 million page impressions a month in March 2006 compared to 324 million page impressions in March 2005. This is a rise of 54% over the year.

The sites now attract 32.8 million unique users each month, up from around 21 million unique monthly users a year ago.

Investment in interactive technology made it possible to process much higher volumes of traffic during periods of intense interest, such as the controversy over publication of cartoons depicting the Prophet Muhammad.

Interactivity is now a key part of many programmes. In many African countries, where the use of mobile phones is growing rapidly and texting is relatively cheap, there is keen interest in taking part in long established output such as *Network Africa* and *Focus On Africa*. New interactive programmes and online sites, such as *World Have Your Say* and *Africa Have Your Say*, were launched this year. The programmes are part of a new generation of interactive programming, promoting a global conversation between people of different cultures, languages and backgrounds. Dialogue with audiences is also giving news teams an early warning of issues that may turn into major news stories.

The new daily bi-media programme in Spanish, *BBC Enlace*, produced from the Miami bureau, shows how interactive programming is deepening the relationship with both radio and online audiences. By the end of the year over 30 FM partner stations were taking the programme whose topics – from teenage pregnancy to urban insecurity – are proposed by online users.

BBCUrdu.com received more than 4,000 emails following the Kashmir earthquake. These included numerous eyewitness accounts and videos of the quake.

The international-facing site also received a sharp rise in the amount of user-generated content. It organised a 'laptop link-up' from Muzaffarabad – the city most devastated by the earthquake – in which school children from Bradford and other users of the website put questions to those in the affected area.

The Iraq referendum and elections generated significant user content for BBCArabic.com and other BBC international-facing sites. The websites had panels where people spoke about their voting intentions, fears for security and hopes for the future.

However, online access to the BBC's news services cannot be taken for granted. China still blocks the BBC's news websites, and Iran began doing the same for the first time in January 2006, depriving many Iranians of a trusted source of free and independent information at a time of growing international tension.



BBC World

BBC World – the commercially funded international English language news and information channel – continues to show significant growth in audience reach and household distribution, and is achieving improvements in the quality of its editorial output.

The total weekly audience of BBC World now stands at a record 65 million, up by 6 million from last year. The channel is available 24 hours a day in 138.8 million homes, up from 127.3 million last year (an increase of 9%), while a further 140 million homes are able to see BBC World on a part-time basis. This brings total distribution to 278.8 million homes, up from 270 million last year. Hotel room distribution increased by more than 13% to more than 1.2 million rooms.

We are encouraged by BBC World's progress towards its key objective of gaining 24-hour distribution in North America. Last November the channel signed a major agreement with Discovery to represent the channel in the US. It is early days, but BBC World has already launched on the Cablevision network on a 24-hour basis, providing the channel with access to 2 million subscribers in the New York area. Discussions are continuing with other parties.

Recent US ratings show BBC World news via PBS and BBC America to have a nightly average of 927,000 people watching. BBC World's audience to its evening bulletins is larger than any individual CNN programme, except *Larry King*.



Have Your Say

Giving the audience a voice: initiatives such as the *World Have Your Say* website enable audiences around the world to take part in debates on global issues

Audiences have continued to grow in Europe with a reach of 11.4% in the latest independent survey. In East Asia BBC World reach has grown by more than 30% in a year.

There has been a continued editorial focus on impartial and authoritative news and analysis, with more live news and business coverage. The BBC World debate at Davos attracted a high-profile panel.

Financially, turnover has increased by 25.5% to £36million this year and the loss for the year (before interest, taxation and non-cash pension costs) has fallen by 7.0% to £15million. The loss after interest and taxation is £11million (£11million 2004/2005).



BBC Monitoring

Listening to the world: at the Caversham HQ of BBC Monitoring, mass media from around the globe are sifted and analysed on behalf of a wide range of customers

BBC Monitoring

BBC Monitoring supplies news, information and comment gathered from the mass media around the world. Operating around the clock, it systematically monitors more than 3,000 radio, television, press, internet and news agency sources, translating up to 100 languages, to provide an authoritative view of world events.

BBC Monitoring bureaux in many countries give access to media which are otherwise not generally available. BBC Monitoring's ability to track news sources from some of the most difficult regions of the world paid dividends during a momentous year in key areas including Iraq, Iran and Afghanistan, and countries of the former Soviet Union such as Belarus, Georgia, Ukraine and Uzbekistan. During the year it provided key source material on crucial global events for stakeholders including the Cabinet Office, the Ministry of Defence, the Foreign and Commonwealth Office and the BBC.

BBC Monitoring was the subject of a review by the Cabinet Office on behalf of all stakeholders, of its role, oversight and funding arrangements. The review, led by Sir Quentin Thomas, concluded that BBC Monitoring represented "excellent value for money" and that it should be a "UK objective" to give BBC Monitoring stability and confidence, allowing it to focus on further building an operation that meets its stakeholders' growing needs for so-called 'open source' information.

The outcome is that the Cabinet Office has now taken over from the Foreign and Commonwealth Office as BBC Monitoring's lead stakeholder. A five-year funding agreement is now in place.

A ring-fenced grant replaces the current subscription model of funding. The overall

BBC World distribution to homes with 24-hour reception (millions)

2006	139
2005	127
2004	112
2003	102
2002	101

Source: BBC World Distribution Department, various Data as at March year end

funding increase amounts to an average of £23.8million per year between 2006/2007 and 2010/2011. However, it remains necessary to reduce costs by £2million per annum by March 2007.

Following publication of the review, BBC Monitoring began a transformation of its services. The details of structural changes, new posts and teams were announced in March 2006. The changes include the closure of 69 posts, although many had been left unfilled to minimise redundancies.

Governors' review of services – Nations & Regions

Overview

BBC Nations & Regions seeks to provide high-quality local, regional and network programmes and services that are valued by audiences throughout the UK, connecting them to their communities and contributing to their sense of belonging.

This sense of connection between the BBC and its audiences will be strengthened over the coming years by increased commissioning and production across the UK and through the move of significant parts of the BBC production base out of London. By the end of the next Charter period the BBC plans to spend more than £1 billion a year on programmes made outside London – an increase of more than a third.

Following BBC research that showed an increasing desire for more local television news, a pilot service on broadband and digital satellite was launched in the West Midlands in 2005. The results will be assessed towards the end of this year. A Public Value Test will be undertaken before we or the Trust decide whether or not to agree to a full UK launch.

The BBC's long-term commitment to supporting the UK's minority languages has been recognised in the Government's White Paper. Significant enhancements to services in all indigenous languages are expected in the next Charter period, for example, through a new strategic partnership with S4C and a new digital service in Gaelic.

6,460 hours

of BBC television programmes made and broadcast in the nations and regions in 2005/2006 (excluding repeats)



BBC Radio Devon

Reflecting the community: Simon Furber and John Coates broadcast live from the Navy Days festival in Plymouth celebrating the county's naval heritage



Where I Live

Providing emergency information for local audiences: BBC Where I Live websites, became a crucial information source after the London bombings, helping people affected cope better with the crisis

BBC English Regions

Remit

BBC English Regions aims to be the most trusted and creative community broadcaster in England, serving a widely diverse range of urban and rural communities. It sets out to provide an accessible yet authoritative service of news, current affairs, politics, arts and music, religion, sport and weather on regional television, local radio and online.

The BBC's network of 40 local radio stations in the English Regions has a large and loyal listenership. For more than a third of listeners, BBC Local Radio is their only contact with the BBC's radio services. Audience figures are broadly stable. The average weekly reach of BBC Local Radio was 19.5% or 7.8 million people in 2005/2006 (19.9%/7.8 million people in 2004/2005)¹.

The output is strongly distinctive, most obviously in its reliance on speech – its commercial competitors offer largely music-based output. For example, breakfast output on BBC Local Radio is all speech on weekdays. The quality of journalism is another mark of distinctiveness. BBC Local Radio prides itself on providing a trusted service of local, UK and global news in its bulletins, as well as putting local issues under the microscope and holding to account those with power in the communities that each station serves. The stations also work hard to foster a sense of local community through such things as high-quality coverage of local sport, providing wide-ranging information about what is happening in the community, a strong emphasis on enabling individuals to get involved with helping others, and a stress on involving listeners in contributing to the output. There is also a good range of output in specialist languages appropriate

to the communities served by individual stations – these include Mandarin, Cornish, Guernsey French, Polish and the principal Asian languages. During the General Election, BBC Local Radio did good work, mounting live broadcasts of public meetings across England bringing local electors and candidates together, as well as *Question Time* sessions where listeners could phone into their local BBC studio to question their candidates.

The BBC is committed to extending its network of local radio stations to a limited number of underserved areas, and BBC management is carrying out preparatory work for new stations in Somerset, Dorset and Cheshire.

English Regions' television output is largely concentrated on regional news and current affairs and politics. In 2005/2006, audiences fell a little. Average 15-minute weekly reach for the BBC's early evening news was 20.4% or 9.5 million people (21%/9.75 million in 2004/2005) but remained well ahead of ITV in all English regions. The weekly current affairs strands produced in each English region and broadcast under the umbrella title *Inside Out* have continued to build a reputation for lively and accessible journalism reflecting a wide range of subjects and places. Notable examples included an examination of the finances of the Baltic Centre for Contemporary Art by BBC North East, and an investigation of speed cameras by BBC South West. *Inside Out* drew strong praise from the BBC's Regional Advisory Councils and the English National Forum.

All three arms of BBC London journalism – television, radio and online – responded well to the suicide bombings in the capital in July, both in terms of powerful news coverage and analysis and also in terms of providing continuously updated

information on travel disruption and so on, enabling Londoners to cope better with the crisis.

As we noted in last year's *Annual Report*, the BBC is committed to respond to audience demand for more local (as opposed to regional) television news services. A nine-month pilot of a local BBC television news service delivered via digital satellite and broadband began in December 2005 covering six areas of the West Midlands: Staffordshire, Shropshire, Coventry and Warwickshire, Hereford and Worcester, Birmingham, and the Black Country. In addition to news and information, each service offers content made by local people with the help of BBC or independent producers.

One aim of local television news is to solve the perennial editorial problem of regional news programmes – where the concerns of viewers in one part of a large and diverse region are often very different from those of viewers in another. By concentrating on smaller geographical areas, the local television news services have the potential to deliver the close focus of the BBC's Local Radio stations (the pilots are being overseen by BBC Local Radio editors). The results of the pilot will be assessed towards the end of 2006 and could pave the way for a further 60 local digital TV services across the UK. There has been some opposition to the BBC's local television proposals from private sector media interests, although some regional newspaper groups have entered into partnership arrangements with the BBC. We are committed to applying a Public Value Test, including a Market Impact Assessment carried out by Ofcom, before we or the Trust decide whether to approve a UK-wide launch.

¹The number of adults 15+ in the area covered by BBC Local Radio rose by 0.5 million to 39.8 million in 2005/2006



Colin and Cumberland

Supporting indigenous languages: BBC support for Gaelic broadcasting includes *Colin and Cumberland*, which gives an introduction to the Gaelic language through television and online



Dr Who

Building production outside London: *Dr Who*, starring Billie Piper and David Tennant, is made in Cardiff. The BBC is committed to increasing programme production outside the M25

BBC Scotland

Remit

BBC Scotland aims to produce a rich and broad range of high-quality and distinctive content on television, radio and online for all age groups, properly reflecting the diverse nature of Scotland and celebrating all aspects of Scottish culture and heritage for audiences in Scotland and across the UK.

BBC Scotland's news and current affairs output has continued to perform well. On radio, average weekly reach of *Good Morning Scotland* was 11.4% or 0.48 million people (10%/0.42 million in 2004/2005). On television, average 15-minute weekly reach to the early evening news *Reporting Scotland* was 23.2% or 1.1 million people (24.4%/1.15 million in 2004/2005), down a little on the year but comfortably ahead of ITV. Notable journalism included a week of themed coverage across platforms on the issue of Scotland's future energy needs.

River City is now a well-established part of the TV soap landscape in Scotland and reaches Scottish audiences who may be underserved by other BBC television output. It is appreciated for its freshness and its unique Scottish voice. There is some evidence that a lighter texture could help the programme to win larger audiences and work will progress towards this goal during 2006/2007. Some concern was expressed in our meeting with the Broadcasting Council for Scotland that the long-running drama series *Monarch of the Glen* had come to an end in 2005 without any replacement network commission. It was noted in the discussion that the success of *River City* had helped to develop a strong talent base both on and off air. This strong talent base should place BBC Scotland in a good position to develop new network programmes.

BBC Scotland's support for Gaelic broadcasting has remained strong and the recent BBC White Paper recognised the crucial role the BBC plays in safeguarding Gaelic cultural heritage. There is a regular Thursday evening slot on BBC Two, and Radio nan Gaidheal and the BBC Alba website are well liked. *Colin and Cumberland* gives an introduction to the Gaelic language through television and online. The website engages learners through interactive games and provides an audio guide to pronunciation. In April 2006 we approved the start of planning for a new digital service for Gaelic audiences. This is a joint project with Gaelic Media Services (GMS) and other Gaelic language partners and it will include television, radio and online content.

BBC Scotland's Island Blogging project, which originally provided an online platform for islanders in North Argyll, has now been expanded to cover all Scotland's islands and is available in English and Gaelic. The entries, many illustrated with photographs, open a window into and out of often isolated communities and attract appreciative comments from an international audience.

Audience concern over network news coverage of Scottish issues has been raised with us during our accountability work. As we report elsewhere, BBC News is developing a training module on reporting the devolved UK.

BBC Cymru Wales

Remit

BBC Cymru Wales aims to produce high-quality, distinctive services which reflect the unique culture and history of Wales and its social and political landscape. Its key ambition is to foster an inclusive and participatory engagement with audiences in Wales across the range of its services.

News continues to be the cornerstone of BBC Cymru Wales. The 15-minute weekly reach to the early evening television news bulletin *Wales Today* averaged 22.2% or 0.6 million people in 2005/2006 (26%/0.71 million people in 2004/2005), down on the year although very substantially ahead of ITV.

The reach of Radio Wales slipped a little. Average weekly reach was 17.2% or 0.42 million people in 2005/2006 (18.4%/0.44 million in 2004/2005). Radio Cymru's weekly reach averaged 6.9% or 0.17 million people in 2005/2006 (7.1%/0.17 million in 2004/2005).

BBC Cymru Wales has been notably successful in supplying the network with memorable programming across a range of genres. Drama has been particularly strong and includes some of the highpoints of BBC One, such as *Dr Who* and *Life on Mars*. *Tribe*, for BBC Two, was a remarkable documentary series in which the presenter, Bruce Parry, lived with six of the most isolated tribes in the world. Popular programming for BBC Cymru Wales' own audience included *Wales at War*, presented by John Humphrys, and the returning sitcom *High Hopes*. *Gwynfor: Yr Aelod Dros Gymru* was a well-regarded documentary on the life of Plaid Cymru's former President and first MP Gwynfor Evans, produced for S4C.

The BBC White Paper makes clear the BBC's unique position in regard to the

Average audience for regional news bulletins across the UK 2005/2006 (millions)

	2005/ 2006	2004/ 2005
BBC One lunchtime regional news	3.0	2.9
ITVI lunchtime regional news	1.1	1.4
BBC One early evening regional news	5.3	5.4
ITVI early evening regional news	3.6	3.9
BBC One late evening regional news	4.7	4.9
ITVI late evening regional news	2.5	2.9

Source: BARB, TNS/Infosys, age 4+



Facing the Truth

Helping to bring people together: in *Facing the Truth*, presenter Fergal Keane and Archbishop Desmond Tutu brought victims and perpetrators of sectarian violence in Northern Ireland face-to-face to seek reconciliation

provision of services to support minority languages and we know the high value placed by Welsh speakers on the BBC's commitment to the Welsh language. The BBC has a longstanding obligation to supply 520 hours a year of licence-funded programming free of charge to the Welsh-language television channel S4C. This includes much of S4C's most significant output, such as the channel's popular soap *Pobol y Cwm*, and its news services – including a Welsh language results programme on the night of the General Election. We are working towards a new strategic partnership with S4C.

We have noted the concern expressed to us through the Broadcasting Council for Wales at the lack of universal access to BBC services and, in particular, the fact that less than half the population can receive Radio Wales or Radio Cymru on DAB. A key objective of the BBC's digital radio strategy is that all its services in Wales can be received on DAB, and the BBC is supporting the current attempt by Ofcom to negotiate the release of further spectrum for local multiplexes.

BBC Northern Ireland

Remit
BBC Northern Ireland's aim is to provide something of value for everyone in the community through a broad range of programmes and services which inform and stimulate debate, celebrate and support cultural and sporting life, and reflect local interests and experiences for audiences within Northern Ireland and across the rest of the UK.

Audiences to the early evening television news bulletin *Newsline* are stable. The 15-minute reach averaged 20% or 0.3 million people in 2005/2006 (19.8%/0.3 million people in 2004/2005). BBC Northern Ireland has traditionally faced uniquely strong competition not just locally but also from across the border; and it is the one area in the Nations & Regions where the BBC's early evening news programme does not win larger audiences than its commercial competition. *Newsline* scored some notable scoops during the year, including the completion of IRA weapons decommissioning, and a series of *Newsline Specials*, investigating stories in greater depth, made impact on audiences.

The reach of Radio Ulster and Radio Foyle rose. The two stations' combined average weekly reach was a record 41% or 0.56 million people in 2005/2006 (37%/0.5 million in 2004/2005). This marks a further year of impressive growth – reach in the last quarter of 2005 was 45% or 0.61 million. Radio Ulster remains by some margin the most listened-to radio station in Northern Ireland. The presenter Stephen Nolan won his fourth Sony Gold since joining the station in 2004, and his second RTS award for BBC Northern Ireland.

BBC Northern Ireland has produced successful output for the network across

a range of genres. Perhaps most notable was the BBC Two series *Facing the Truth* in which victims and perpetrators of Northern Ireland's sectarian conflict came face-to-face. Returning network drama included *Messiah IV*. Memorable output for BBC Northern Ireland's own audience included *From Belfast to Dachau*, which won an RTS award, exploring the story of one of the first Allied soldiers to enter the concentration camp; extensive programming marking the death of the Belfast-born footballer George Best; and *Supergoose*, a remarkable wildlife series tracing the migration of Brent geese.

We have noted the concern, expressed to us through the Broadcasting Council for Northern Ireland, over the continuing problem with DAB and DTT availability in Northern Ireland and the lack of carriage on DAB for Radio Foyle. A key objective of the BBC's digital radio strategy is that all its services in Northern Ireland can be received on DAB, and the BBC is supporting the current attempt by Ofcom to negotiate the release of further spectrum for local multiplexes.

Governors' review of commercial activities

Overview

This has been a year of further major change in the BBC's commercial activities following the full scale review in 2004/2005 which recommended wide-ranging restructuring.

One key recommendation was that the BBC did not need to own either BBC Resources or BBC Broadcast. In August 2005 BBC Broadcast, which provided playout and other services, was sold and now operates under the name Red Bee Media Limited. A sale of BBC Resources will not take place before June 2007.

The commercial review recommended that BBC Worldwide should be retained and work has progressed to simplify the company structure and improve its financial performance. Profits from BBC Worldwide are re-invested for the benefit of licence fee payers.

BBC Worldwide publishes its own annual review which is available online at www.bbcworldwide.com



The Office ringtones

Exploiting BBC assets to benefit licence fee payers: BBC Worldwide deals, such as the one with Orange turning *The Office* catchphrases into ringtones, produce investment funds for public service broadcasting

BBC Worldwide

BBC Worldwide is the main commercial subsidiary of the BBC. It exploits the BBC's content assets, brands and intellectual property around the world, bringing value to the BBC for the benefit of licence fee payers. The BBC reinvests the earnings from its commercial activities into public service broadcasting.

Moves to improve Worldwide's transparency and governance include the publication of a more open annual review and the introduction of external non-executive directors. An independent non-executive Chairman, Etienne de Villiers, was appointed in August 2005 and further non-executive appointments will be announced in due course.

BBC Worldwide's target of doubling profit over two years from April 2004 was beaten with profits of £89million – an increase of 144% over the two years and 62% year on year. This was achieved by turning around loss-making businesses and pulling out of, or finding partners for businesses which no longer fitted Worldwide's new remit or which lacked scale, combined with good growth in other businesses and a cost reduction programme.

In 2005/2006 sales were up 11% from £706million to £784million, and BBC Worldwide returned £185million in cash flow – profits and direct programme investment – to the BBC (up 28% from £145million in 2004/2005).

The company expects further growth in 2006/2007, particularly in developing markets and its Global Channels business, as well as a number of new media opportunities such as an advertiser-funded international website, bbc.com and the potential commercialisation of an interactive media player, should these projects be

BBC Worldwide profit before interest and tax (£million)

2005/2006	89.4
2004/2005	55.2
2003/2004	36.7
2002/2003	32.4
2001/2002	25.7

Source: BBC Worldwide. Profit before interest and tax based on continuing operations. Excludes BBC World and beeb.com

BBC Worldwide cash flow to the BBC (£million)

2005/2006	185
2004/2005	145
2003/2004	141
2002/2003	123
2001/2002	106

Source: BBC Worldwide

approved. It is aiming to achieve a profit of £100million in 2006/2007.

In January 2006, BBC Worldwide in partnership with the Indian media company, Mid Day Multimedia Limited, won the licences to broadcast radio on FM in seven major Indian cities.

In March 2006, BBC Worldwide was told by JMC, its distributor in Japan, that it no longer had the financial means to distribute the BBC Japan channel. As a result, it went off the air at the end of April. However, BBC Prime found a new market in Korea.

The Global Channels division achieved a 73% increase in profits, £6.9million up from £4million last year.

BBC Worldwide's share of profits from its video/DVD joint venture with Woolworths plc – 2|entertain Limited, part of the Home Entertainment division – were £27.3million. Sales of its *Little Britain* DVDs have reached 3 million units. BBC Books, also part of the Home Entertainment division, has achieved profits of £1million, a significant improvement on the £3.1million loss of 2004/2005.

The Children's division, which was losing £11million in 2003/2004, again improved upon its 2004/2005 performance, reducing its losses from £6.6million last year to £0.9million. This business is expected to reach profit in 2006/2007.

In June 2005, BBC Worldwide's subsidiary, Broadcasting Data Services (BDS), was sold to BBC Broadcast which was subsequently itself sold.

BBC Worldwide formed a partnership with Pearson Education for its academic, consumer and English language teaching (ELT) businesses. The partnership will publish

BBC-branded educational products and services under a new imprint, BBC Active. BBC Worldwide is seeking partnerships for its interactive learning business and for BBC Books, and to sell Audiocall, which supports functions such as telephone voting, donation and information lines.

BBC Worldwide has begun to exploit new ways of bringing its content to audiences. A good example is the deal with Orange which enables mobile-phone users to download clips from BBC shows including *The Office* and *Little Britain*, and use their catchphrases as ringtones.

BBC Resources

BBC Resources is a wholly-owned subsidiary of the BBC. It supplies production facilities: outside broadcasts; post production; studios; and costumes and wigs. Its customers include the BBC, independent producers, other broadcasters and corporate clients.

As expected, this was a challenging year for the business, which performed well against budget. In 2005/2006 BBC Resources delivered revenues of £128million and PBIT of £6million (£135million and £7million in 2004/2005); and a net cash inflow of £8million (£13million 2004/2005).

BBC production highlights included *Strictly Come Dancing* and *Strictly Dance Fever*, *Planet Earth*, *Life in the Undergrowth* and *Coast, Glastonbury*, the Royal Wedding, the General Election and key sporting events such as Wimbledon, Six Nations and the Open Golf.

Independent production highlights included *Friday Night with Jonathan Ross* for Open Mike, *8 out of 10 Cats* for Endemol, the Live8 DVD Box Set for the Band Aid Trust and EMI, *Come and Have a Go* for 12 Yard, *Lenny Henry* for Tiger Aspect, Formula One for North One, horse racing for Sunset and Vine and snooker for TWI.

Being accountable and responsible

Overview

Increasing the accountability and transparency of the BBC will be an important priority for the new BBC Trust which, under the terms of the new draft Charter, is required “actively to seek the views of, and engage with, licence fee payers” and to ensure that “the BBC observes high standards of openness and transparency”.

As Governors we have already begun the move towards this new relationship with licence fee payers. In 2005/2006 we held our first Annual General Meeting and carried out a wide range of other accountability activities. The Broadcasting Councils and the English National Forum are important ways for licence fee payers to channel their views to us and we have continued to work closely with them. Under the new Charter they will be replaced by new bodies to be called Audience Councils.

In this section we report on the BBC’s responsibilities to provide training both for BBC staff and for people working in other parts of the industry, and to support diversity in its workforce. This section also reports on BBC support for charitable activity, and on the steps taken to reduce the BBC’s negative impact on the environment.

BBC advisory bodies Broadcasting Councils and the English National Forum

The BBC draws on a network of more than 500 licence fee payers around the UK – selected through an independent process – for advice on programmes and services. Broadcasting Councils for Northern Ireland, Scotland and Wales represent the interests of people in the nations. In England, Regional Advisory Councils advise the Governors through the English National Forum (ENF) and are informed in their turn by a network of Local Advisory Councils.

Each Broadcasting Council, and the ENF, is chaired by a BBC national Governor who ensures that their members’ views are fed into our discussions. There are also many informal contacts throughout the year. In the past year the Chairman and senior members of the Governance Unit have attended Council and ENF meetings to brief them on how the new governance arrangements have been developing and to hear their views in response. Representatives of the Council and the ENF also brief us face-to-face on their assessment of BBC performance – the results of the most recent meeting, in April 2006, will be reflected in our work going forward.

The Councils’ primary responsibility is to advise us how well the BBC serves the needs of audiences in the nations and the English regions. As part of this they advise on key objectives for the nations and monitor the BBC’s delivery against these objectives. All the Councils hold a wide programme of outreach activities in order to understand the concerns of audiences in the nations and regions. This informs their assessment of how the BBC has performed. Overall the Councils felt that significant progress had been made against the 2005/2006



Governors' accountability activity

Being open: BBC Governor, Ruth Deech, listens to licence fee payers in Cardiff – one of a series of Governors' public meetings around the UK

objectives. There were, however, some areas of concern.

Digital provision is a concern shared by all Councils. The Broadcasting Council for Northern Ireland noted that clarification was required about the timetable for digital switchover in Northern Ireland, particularly with regard to digital developments in the Republic of Ireland. It also noted the continuing problem with DAB availability in Northern Ireland, and called for Radio Foyle to be carried on the DAB platform at the earliest opportunity. The Broadcasting Council for Wales noted that there was a lack of universal access to the BBC's digital services in Wales. A significant percentage of listeners were unable to access either BBC Radio Wales or BBC Radio Cymru on DAB. In particular, the majority of Welsh speakers were unable to receive Radio Cymru on DAB. They expressed concern about the amount of promotion for the digital services in Wales, given that such a large number could not receive these services. The ENF was concerned that there was a lack of knowledge among licence fee payers about digital switchover. It stressed that the BBC had a key role in educating licence fee payers about digital services, and must help to demystify the process. A call for greater information about digital services for late adopters was made by all the Councils.

The Broadcasting Council for Scotland expressed concerns about the failure, particularly in news and sports coverage, to differentiate between issues that affected the whole of the UK and those which applied elsewhere but did not affect Scotland. The Broadcasting Council for Wales expressed similar concerns about issues which did not apply to post devolution Wales. The Council also wanted network news bulletins to include more stories reflecting Welsh experience. As we report elsewhere, BBC News is planning a

training module on reporting the devolved UK. The Broadcasting Council for Northern Ireland expressed its view that more network-commissioned programming from Northern Ireland – particularly drama – should be made in Northern Ireland. The ENF noted that in BBC network drama there was very little reflection of life in the English regions. The Councils all wanted closer links between network programme commissioners and the nations and regions.

The Broadcasting Council for Northern Ireland noted that a key concern raised by audiences at public meetings was bad language used in some programmes. The Council felt that research into perception of inappropriate language, focusing on regional variations in attitude, could be helpful to the BBC and other broadcasters.

The Council also noted the importance of providing programming in both Irish language and Ulster-Scots and has sought clarification of the new Charter requirement that there should be "appropriate provision" in this area.

The Broadcasting Council for Wales welcomed the review of the schedule of BBC 2W, particularly in light of the increasing number of people watching the service via Freeview who, therefore, had no access to BBC Two Wales. The Council also noted the importance of a close strategic partnership between the BBC and S4C, which would be crucial if audiences in Wales were to receive the best public service broadcasting.

The Broadcasting Council for Scotland noted the low approval for political programmes and believed that in addition to traditional political programmes there was a need to develop innovative programming which would appeal to a wider audience. They welcomed BBC

Scotland initiatives such as Energy Week as a way to engage audiences in current affairs topics. The Council also noted the need for BBC Scotland to develop successful network programmes across all genres now that a number of long-running series had ended.

The English National Forum paid particular attention to the local television pilot being carried out in the West Midlands. They noted that such services would be vital in the future as the BBC tried to connect with communities throughout the UK. They noted, however, that such services need adequate funding.

Under the new draft Royal Charter the Broadcasting Councils and the English National Forum will be replaced by new bodies called Audience Councils – one each for England, Scotland, Wales and Northern Ireland.

The views of the Broadcasting Councils and the ENF are published in more detail in their Annual Reviews. These are available on the BBC Governors' website at www.bbcgovernors.co.uk.

Central Religious Advisory Committee

The Central Religious Advisory Committee (CRAC) advises the BBC on religious policy and programmes.

In preparation for the beginning of the new Charter period and the replacement of the BBC's Board of Governors by the BBC Trust, the BBC's Governance Unit has been carrying out a thoroughgoing review of the BBC's accountability arrangements. This has involved consideration of the role of the BBC's existing system of advisory bodies, such as CRAC.

CRAC has been active in working with the Governance Unit on addressing this

Average monthly licence fee spend

	2006 monthly cost £
BBC One	3.52
BBC Two	1.52
Transmission and collection costs	1.08
Nations and English Regions television	1.04
BBC Radio 1, 2, 3, 4 and Five Live	1.02
Digital television channels	1.00
Local and Nations' radio	0.68
bbc.co.uk	0.36
BBC jam	0.14
Digital radio stations	0.10
Interactive TV (BBCi)	0.08
Total	10.54

Note: Programme related costs such as marketing and overheads have been fully apportioned against channels/networks to show the total cost of BBC output. Excludes exceptional restructuring costs. Figures rounded to the nearest penny.



BBC Complaints website

Being responsive: the BBC has overhauled its complaints system to make it easier for licence fee payers to complain if they are unhappy about any aspect of BBC output



BBC Open Centre, Sheffield

Being accountable: BBC Chairman Michael Grade takes questions from licence fee payers in Sheffield – the exchange was broadcast live on BBC Radio Sheffield

issue throughout the year. At present CRAC has the dual role of advising the Board of Governors on broad policy issues and advising the BBC's management on programming. Under the new governance arrangements, which are based on the principle of much greater separation between the Trust, as the BBC's sovereign body exercising both strategic and regulatory oversight, and the BBC's Executive, which is charged with operational duties, this dual role is open to question. The issue for the future, therefore, is how and on what terms CRAC might continue to fulfil a useful advisory role that is consistent with this principle of separation. Various options have been discussed and work continues on this question which must be resolved in good time for the beginning of the new Charter period.

Although CRAC's principal focus this year has been on its future role it has also undertaken work on matters relating to its current remit. It was consulted on changes to the religious output of the World Service, which involved a greater emphasis on religious journalism rather than worship.

BBC World Service and Global News Consultative Group

The BBC Governors' World Service and Global News Consultative Group provide the Governors with an independent external assessment of the range and quality of BBC World Service and BBC World output.

In 2005/2006 the Group commissioned independent research from Ipsos MORI to review World Service output in English for Africa, Urdu, Romanian, Persian, and Spanish for America. Overall they were satisfied that the World Service output reviewed was of a good standard, with no significant concerns identified.

In the context of the increasing competition from new radio stations in many of the countries reviewed, the Group were encouraged by the findings. The World Service has retained its image as a solid and reliable source of news and its journalism is regarded as providing more detail than other radio stations, including international competitors. However, there were indications that the proliferation of more lively local stations was changing audience expectations of news programmes (notably in Pakistan and Africa) and that some younger non-listeners perceive the World Service presentation to lack dynamism and energy. The Group felt it would be important to monitor the risk of the World Service being marginalised by its listeners.

In the light of polarising world events our research provided an opportunity to gauge how well the World Service was perceived to have handled these difficult issues. We were pleased to conclude that the World Service had maintained its reputation for impartiality and objectivity. There were no accusations of bias on international issues from the respondents. Some issues were raised, however, at a national or regional level. For example, in Africa some respondents felt that the BBC adopted a Western attitude to Africa by regarding the continent as a "problem". The Group has asked World Service management to take account of this issue when producing output.

The online services were singled out as offering an accessible version of the BBC brand with wide appeal. However, some further presentational areas for improvement were identified. These included improving the look of cluttered home pages; making it easier to return to the language service home page; giving clearer instructions for use for the

Learn English and *Participate* pages; and considering a fully functioning English/Urdu dictionary to increase the usability and educational value of the site.

Feedback from the respondents satisfied the Group that their research – while inevitably limited and impressionistic – nevertheless provided a useful indication of a range of listener and potential listener views across the language services. World Service management have been made aware of the key concerns of the respondents.

Responding to complaints

The BBC has a Charter commitment to ensure that the BBC handles comments and complaints properly. The Governors' Programme Complaints Committee (GPCC) is the subcommittee that monitors this. It receives quarterly complaints reports from management and considers an annual review of complaints handling. It also considers serious editorial complaints on appeal.

New complaints system

The BBC launched a major new complaints system in February 2005. Key features of the system include a published code of practice; a commitment to answer initial complaints within ten working days; a complaints website (bbc.co.uk/complaints) which continues to be refined; a clear three-stage process with the GPCC as the final stage; and a Complaints Management Board chaired by the Deputy Director-General to oversee complaints handling within management and share learning at a senior level.

The complaints system was analysed by the BBC's internal audit team this year to evaluate its robustness against internal audit measures. No major areas of concern were found. It found that sampled

11.8 million

adults in homes with digital televisions used BBCi 24/7 in March 2006

27%

of the population watched at least 15 minutes of *Springwatch* (BBC Two, May–June 2005)



Training

Building the next generation of media professionals: the BBC offers highly-regarded training to its own staff – and to many others in the UK broadcasting industry

complaints were handled in accordance with procedures; that there was good awareness of the new system; that there was an effective relationship with Capita – the provider of frontline services; and that management information was robust. A number of areas for further improvement were identified, for example better communication between some areas, and these are being addressed.

The GPCC noted management's achievement in implementing and improving the new complaints system. The GPCC noted the BBC's greater willingness to admit where it had made a mistake. Discussion will continue on ensuring that apologies are appropriately full and clear.

This year the BBC handled more than 150,000 complaints overall, compared with 137,000 the previous year. More than 50,000 of last year's total was accounted for by complaints about *Jerry Springer – the Opera*, which means that the underlying total is up by around 80%. The GPCC considered that the likely primary driver of the increase is the improved accessibility in terms of complaining because of the website. Some notable specific issues this year included complaints during the General Election; the new format for weather reporting; and the controversy surrounding cartoons depicting the Prophet Muhammad.

91% of Stage 1 complaints (ie to the programme or BBC Information) were responded to within the target ten working days of receipt. Special arrangements were put in place to deal with complaints during the General Election.

BBC Information

BBC Information continued to operate 24 hours a day, seven days a week, handling

complaints via telephone, letter and email. It handles the vast majority of complaints at Stage 1. Around two-thirds of complainants score BBC Information at least 8 out of 10 in terms of overall satisfaction with the service in an independent survey conducted by MORI. The GPCC noted that this was a good figure in the context of complaints handling. It welcomed management's proposal to measure public perceptions of the BBC's willingness to embrace complaints during 2006/2007.

Editorial Complaints Unit

The role of the Editorial Complaints Unit (ECU) is to take serious editorial complaints from people who are not satisfied with the Stage 1 response. It considers these independently of programme makers. The ECU considered 206 complaints (0.14% of all complaints): 40 were upheld (19.5%) in full or in part. Upheld findings were published quarterly, together with a note of the action taken in each case. 53% of complaints were responded to within four to seven weeks (48% 2004/2005). The target is to respond to 80% within this time frame.

A review of the ECU was undertaken in response to the changed context of the new complaints system, and new structures and procedures will be implemented during 2006/2007. The GPCC noted that the new procedures should help improve turnaround times.

Governors' Programme Complaints Committee

Part of the GPCC's remit is to hear serious editorial complaints on appeal – ie from people who have been through the two management stages but remain unsatisfied with the response. Fifty-four complaints were escalated to appeal. Of these, eight were upheld in full or in part.

As part of its wider objectives to deliver greater transparency and accountability, the GPCC reviewed its own procedures during 2005/2006, and in March 2006 conducted a public consultation on proposed changes on how it would consider and handle appeals. The proposals were: first, that all parties should normally have the opportunity to comment on material provided to the GPCC in making its decision; second, that with some first-party complaints (where complainants are directly affected by issues for fairness or privacy) the GPCC should have the discretion to hold a hearing. The GPCC will also publish details on its procedures, and it consulted on the drafting of these. The GPCC is currently considering responses to the consultation and plans to implement new procedures later in 2006.

Ofcom

The industry regulator Ofcom can also take complaints on most editorial matters. The notable exception is impartiality and accuracy – the BBC Governors are the sole regulators on these issues. The BBC was found to be in breach of regulatory codes in eight standards cases and ten fairness and privacy cases.

For further information about editorial compliance, see page 89.



BBC World Class

Bringing the world to the UK: as part of the Africa Lives season the BBC World Class project linked up more than 1,700 African and UK schools. This school in Lagos was twinned with one in Loughborough



Serious Amazon

Supporting new talent: the CBBC series *Serious Amazon* sent a group of children – chosen in a nationwide competition – on a testing trip to South America. Special efforts were made to include children from disadvantaged backgrounds

BBC College of Journalism

In 2005 we approved the setting up of a BBC College of Journalism – a demonstration of our determination that BBC journalists should have access to the best training in order to ensure they can meet the highest standards of independence, impartiality and accuracy.

We are encouraged by the rapid progress made since then. Vin Ray, a distinguished BBC journalist, has been appointed Director and work has begun to identify the key skills and knowledge that BBC journalists will need in the future and how best they can be delivered.

The College is not a set of buildings on a campus. Training is delivered – face-to-face or through self-administered online modules – close to where BBC journalists do their work. The aim is to offer all staff continuous learning at every level of their careers.

In March 2006 a module *Israel and the Palestinians* was launched using the BBC's Middle East editor Jeremy Bowen and aimed at 4,000 staff. Future modules will include legal training, reporting the devolved UK, and reporting faith and religion.

A website on journalism issues is being developed as the main entry point for all the College activities as well as a forum for discussion and debate. The College will seek to build strong relationships with key external bodies such as regulatory agencies, think tanks, journalism training schools, and other news organisations.

Training and development

During the year, management completed a major review of training and development strategy. It found that the existing training model was too complex and did not promote a long-term collective strategic approach or encourage innovation. It recommended a new training and development strategy focusing on areas vital to the BBC and the wider broadcasting industry. This has now been implemented.

All training and development funding is now controlled by a newly created Learning Board which sets and monitors spending priorities. The training itself is channelled through four training boards. These cover journalism (including the BBC College of Journalism – see box); leadership and personal effectiveness; production (including engineering); and creativity and audience insight. Each training board is chaired by a member of the Executive Board, who is also a member of the Learning Board.

Industry training

As well as training its own staff, the BBC continues to play an important role as a trainer to the wider broadcasting industry. In 2005 the BBC provided more than 3,800 days of training for 176 organisations. BBC Training & Development also offers a range of free online courses covering aspects of television and radio production – including shooting, lighting, editing, writing, interviewing, and health and safety advice. In addition, the BBC offers free and subsidised training to freelance and contract workers on a range of camera, sound, lighting and new media training. In 2005, 300 UK freelancers benefited from BBC training. The BBC also maintains strategic relationships with Skillset (the sector skills council for the audio-visual industries) and with the Broadcasting Training and Skills Regulator established by Ofcom.

BBC Talent

BBC Talent was launched in 2000 and continues to provide a pathway into the BBC for new talent from across the UK. New schemes in 2005/2006 included finding a new presenter for BBC Radio Coventry & Warwickshire, finding new DJs and radio drama writers for *IXtra* BBC, and a competition to choose the eight children to take part in the CBBC series *Serious Amazon* – to encourage children who might not otherwise have applied. A team from BBC Talent held workshops at 25 schools, many in inner cities.

Awards

In 2005/2006 the BBC received more than 250 programme-related awards across television, radio and new media. These included 24 Baftas (TV, Craft and Children's), 22 Sony Golds, 48 RTS awards (Programme, Educational, Journalism, Sport, Crafts and Design), two Webbies and one Prix Italia award.

Diversity

Management adopted a new diversity strategy in 2005, following a review of activity in the preceding years. Among the key principles of the new strategy is that diversity should be seen as a creative opportunity for the BBC to engage the totality of the UK audience. Diversity should be seen as including ethnicity, disability, age, faith, sexuality, class, political affiliation and regional differences. BBC leaders across the organisation should be held accountable for making diversity happen in their part of the business and diversity should be embedded into the key processes of programme making, creativity, service delivery and creating an inclusive workforce. A Diversity Board, chaired by the Director-General, has been created to establish priorities and monitor progress.

88,969

job applications received by BBC Recruitment in 2005/2006



91.6%

of programming on BBC One was subtitled in 2005/2006

People's War

Capturing community histories: the BBC's *People's War* project enabled many people to record their personal memories of the Second World War – building a valuable archive for future generations

BBC News coverage of the EU

During the year we asked management to update us on progress on implementing the recommendations of the 2005 Wilson report on the impartiality of BBC coverage of the EU. We received management's response in February 2006.

We welcome the significant progress made by management in implementing change in this area.

New training initiatives have included a compulsory EU interactive online course taken by more than 6,000 people. In addition, the College of Journalism is planning a series of seminars and producing two films to be distributed to all programme teams in an effort to get them to think more deeply about their EU coverage.

We welcome the appointment of Mark Mardell as the BBC's first Europe Editor. His work has added significant depth and authority to BBC coverage.

Regular monitoring of BBC coverage of the EU is now carried out by management every six months, assessing such things as accuracy, fairness and use of language. The results and recommendations are considered by the Journalism Board, which is chaired by the Deputy Director-General and brings together the leaders of all the BBC's journalism – national, international, regional and local.

The BBC has had workforce diversity targets for a number of years. These targets are due to be met by December 2007. They include a target of 12.5% for ethnic minority staff in the total workforce and of 7% for ethnic minority staff in senior management grades. By March 2006, the figures stood at 10.3% and 5.3% respectively (10.1% and 4.9% March 2005). There is also a target of 4% for disabled staff in the total workforce. By March 2006, this stood at 2.7% (no change from March 2005). The slow progress on diversity targets in 2005/2006 partly reflects a slowdown in external recruitment.

In October 2005 the BBC held a Disability Leaders seminar which brought together representatives of 24 key disability organisations and senior BBC managers. The seminar considered issues including portrayal, recruitment, and how technology can improve access. A follow-up seminar is planned for 2006 to review progress and maintain the dialogue with disability groups.

Corporate social responsibility

The BBC sets out to deliver public value primarily through its programmes and services, but it also extends its public value through activities that reach out directly into society through a commitment to corporate social responsibility (CSR).

This is how the BBC defines its ambitions in this area: "The BBC's core mission is to enrich people's lives with programmes and services that inform, educate and entertain. In line with this, the BBC aims to be a responsible corporate citizen, acting in the public interest to strengthen and enrich communities across the UK and internationally. CSR means living our values with integrity and ethical consistency towards our own people, our audience, business suppliers and the communities

we operate in, to maintain their faith in the BBC. The BBC's social impact will be most evident through fulfilling our public service duties and through environmental, ethical, charitable and community commitments."

Business in the Community, the organisation that works to improve the positive impact of business in society, publishes a CSR index each year. It provides a benchmark of how companies manage, measure and report their impact on society. In 2006 the BBC's score was 95% (90% in 2005) placing it joint 20th in the top 100 UK companies for CSR (up from 32nd in 2004) and leader in the media and entertainment sector.

The BBC published a CSR report (available online at bbc.co.uk/info/csr) which gives more detail on the wide range of activities through which the BBC puts into effect its CSR policies.

Some of these activities in 2005/2006 are recorded below.

Charitable work: fundraising through appeals

Broadcast appeals are an important public service. They provide BBC audiences with an opportunity to support charities, while offering charities the opportunity to raise money and awareness of their work.

The BBC is advised by the Appeals Advisory Committee (AAC), which is made up of 12 specialist external advisers who represent a broad range of interests across the charitable field. The AAC provides advice on the BBC's appeals policy and assists the BBC in overseeing the major fundraising projects such as Red Nose Day and BBC Children in Need. It also advises on the allocation of the Radio 4 weekly appeals and BBC One *Lifeline* appeals. At the end of 2005,

414,019

visitors to BBC Open Centres and buses
in 2005/2006



Children in Need

Reaching out to the needy: Fearn Cotton with Ruby, a patient at Richard House Children's Hospice in East London, one of the many charities helped by a grant from Children in Need

following the recommendation of a report commissioned by the Governors, the reporting lines for the AAC were transferred from the Board of Governors to BBC management.

The year 2005/2006 featured a number of major appeals. In November 2005, Children in Need raised more than £17million on the night, with the eventual total expected to be double that. The money goes to a wide range of projects working with children in the UK. A *Blue Peter* Treasure Trail Appeal for Childline, also launched in November, has raised £413,033 so far.

In 2005, the BBC was a partner in two appeals coordinated by the Disasters Emergency Committee, an umbrella organisation representing the major overseas aid agencies. The first, in August, raised £25million for a humanitarian response to the food crisis in Niger and adjacent countries, and in October an appeal for the earthquake in Asia raised £59million for relief efforts in northern Pakistan and Indian Kashmir.

Last year audiences also donated more than £1.4million to individual charities featured on weekly and monthly appeals. Listeners donated more than £1,194,000 to charities featured on the weekly *Radio 4 Appeal*, including more than £661,000 to the annual Christmas appeal for St Martin-in-the-Fields.

Viewers of BBC One's monthly *Lifeline* programme donated more than £240,000 to the charities featured over the year. This included £95,061 for the Starlight Children's Foundation, with an appeal fronted by Stephen Fry, and £51,856 for the overseas charity WaterAid.

Charitable work: BBC World Service Trust

The BBC World Service Trust is the BBC's international development charity, which aims to promote development through innovative use of the media in the developing world. Trust projects reach the poorest communities, promoting good health and providing educational programmes through radio and television in local languages. The Trust also helps local and national broadcasters to develop by training journalists and production staff.

The Trust raises its funds not from the BBC but from governments, international agencies, other partner organisations and donations from individuals. In 2005/2006, £16.4million was raised.

The Trust works in partnership with national and local broadcasters, other charities and governments, and now has more than 600 staff working on projects in more than 50 countries worldwide.

Community partnerships

The BBC operates a number of community partnerships, actively seeking out opportunities to join with other local organisations to improve conditions in the communities in which they operate. They include the Community Channel, a free-to-air digital channel wholly owned by the Media Trust, the charity that provides media expertise to other charities.

Through a strategic joint partnership, the Community Channel has access to BBC social action programmes and, where possible and appropriate, develops connections with relevant themes and seasons in the BBC television schedules. It also allows for the exchange of ideas and skills across both organisations.

BBC buses and Open Centres

The BBC buses and Open Centres are a way to connect the BBC more closely to communities, to reach new audiences, to develop media literacy and bridge the digital divide, and to involve more people in local BBC programming.

The first BBC bus began operating in 2001 in Lancashire, in partnership with Lancashire County Council. Its aim was to take the BBC local radio station on the road, to put listeners on air, and to offer opportunities for media and IT training. Its success led to other buses being commissioned and there is now a fleet operating in England, Wales and Northern Ireland. Each bus has half a dozen computers and internet access, and is equipped as a mobile broadcasting studio. Qualified tutors are on board to teach visitors.

The first BBC Open Centre was also launched in 2001 – in Blackburn – to strengthen and extend BBC Radio Lancashire's connection with its local audience by offering opportunities to learn about the media, acquire IT skills and to become involved in community broadcasting. There are now similar centres across England and Wales. In 2005/2006 more than 360,000 people visited the BBC buses and Open Centres in England.

The BBC works with external educational and not-for-profit organisations at each of the locations. The BBC has aspirations to extend the service of BBC buses and Open Centres to other areas where partnerships allow and audience need is greatest.

The BBC and the environment

The BBC works to ensure it complies



BBC Buses

Taking the BBC to the audience: BBC buses, like this one on the road in Cumbria, help to connect the BBC with hard-to-reach communities



Environmental awareness

Purchasing responsibly: the *Radio Times* is printed on paper from sustainable forests, part of a BBC policy to take environmental concerns into account in the way it buys raw materials

77%

of music played on IExtra is new (pre-release or less than one month since release)

with environmental legislation and tries to reduce its environmental impacts and to manage its business risks responsibly. The Business in the Environment Index 2005 places the BBC joint 53rd overall (up from 61st in 2004), and third in the media and entertainment sector (down from second in 2004).

In 2005 management reviewed 72 areas of the BBC supply chain for their environmental and reputational impact. As a result, six categories have been identified as priorities for action and review. These are: timber and timber products; outsourcing of building facilities management; taxis and hire cars; fleet (outside broadcast vehicles and company vehicles); utilities; and outsourcing of the transmission network.

Since November 2005 electricity has been bought from 'Good Quality Combined Heat and Power' sources – these are highly energy efficient and exempt from the climate change levy. The BBC now has a number of sites covered by the EU Emissions Trading Scheme, designed to reduce carbon dioxide emissions. These sites are allocated CO₂ emission certificates and if they emit more CO₂ than allocated the BBC has to buy more certificates in the open market – or, if less CO₂ is emitted, it can sell the excess certificates. In 2005 the Media Village at White City produced 5,103 tonnes of CO₂ less than its allocation – although this reflects the fact that the site is not yet fully occupied.

The BBC is working to increase the amount of timber it buys from sustainably managed forests. BBC Magazines accounts for 95% of this in the form of pulp for paper, and detailed information on sources is now gathered to ensure

an increasing proportion comes from sustainable forests. The other 5% of timber is used in other areas including washroom consumables, furniture, sets and props. For these areas, better sourcing arrangements and monitoring systems are being developed together with improvement targets.

The BBC works closely with its outsourced partners to bring environmental improvements. The partners can often bring specialist expertise and systems for managing environmental risk: they can often fund improvements – for example in energy-efficient equipment and power plant; and have the purchasing power to influence supply chains in environmentally sound ways.

Governors' review of services – Performance against *Statements of Programme Policy* commitments 2005/2006

Overview

In line with the Communications Act 2003 the BBC is required to publish *Statements of Programme Policy* each year, setting out how the BBC will fulfil its public service remit, and to report on performance against them in the *Annual Report*.

In future, this assessment of performance will be enhanced by Service Licences issued by the new BBC Trust. The Service Licences will include conditions and performance measures, and be supported by annual *Statements of Programme Policy*. The Trust will assess delivery against the Service Licences and hold management to account.

The BBC published its *Statements of Programme Policy* covering 2006/2007 in May this year (available at bbc.co.uk/info/statements2006).

These tables summarise performance in 2005/2006 against *Statements of Programme Policy*. All commitments to hours of output specific to different genres are a minimum, unless otherwise stated.

	Commitment	Actual
BBC One:		
Hours of current affairs programmes	90	159 hours
Increase hours of current affairs in peak, working towards 48.5 hours in 2006/2007	–	44 hours in peak (up from 40 hours in 2004/2005)
<i>Panorama</i> specials in peak time	4	4 specials
Start reducing the volume of peak-time repeats of programmes previously seen on this channel below the existing ceiling of 10% of peak time	<10%	8.9% of peak (down from 9.7% in 2004/2005)
Science, natural history and educational programmes will form part of the commitment to hours of new factual programming	650	916 hours
Hours of religious programming on BBC One	80	92 hours
Hours of religious programming across BBC One and BBC Two	112	139 hours
Hours of children's programming	400	672 hours
Hours of sports programming	260	670 hours
Hours of arts and music	45	82 hours
BBC Two:		
Hours of current affairs	240	259 hours
Hours of news	100	673 hours
Hours of arts and music programming	200	350 hours
Hours of factual programming	500	1,438 hours
Hours of religious programming (as part of joint commitment with BBC One)	20	47 hours
Hours of new children's programming	100	153 hours
Hours of sport	430	1,028 hours
BBC Three:		
Hours of new current affairs programmes	15	16 hours
% of hours to be news, current affairs, education, music and arts	15%	28% of hours
Hours of new music and arts programming	50	52 hours
New talent initiatives	6	6 initiatives
Hours of new educational programmes	30	127 hours
Hours of new science, religion, ethics and business programmes	15	20 hours
Channel's output with interactive support	20%	Target met using email, SMS and online messaging
Minimum qualifying hours commissioned from the independent sector	25%	33.1% of qualifying hours
% spend from independent sector on eligible programmes	25%	37% of programme budgets
% eligible budget produced from outside the M25	33%	34.5% of spend
Output specially commissioned for BBC Three	80%	82% of programmes
Programme hours of EU/EEA origin	90%	91% of hours
Spend of EU/EEA origin	90%	94% of spend

Governors' review of services – Performance against *Statements of Programme Policy* commitments 2005/2006

BBC Four:	Commitment	Actual
% of output made in the EU/EEA	70%	95% of hours
Broadcast new documentaries from around the world	30	49 documentaries
Premieres of new international film titles	20	34 premieres

CBeebies:	Commitment	Actual
Hours of mixed genre programmes	4,500+	4,711 hours
Output of UK/EU origin	approx 90%	97% of hours
% of channel investment on new UK programming	75%	77% of spend
% of hours of UK programming that is new material, including output commissioned from outside London	25%	27.3% of hours

The CBBC Channel:	Commitment	Actual
Hours of news	85	97 hours
Hours of drama	650	768 hours
Hours of live presentation	240	313 hours
Hours of factual and schools programming	1,000+	1,388 hours
% of output made in the EU/EEA	approx 75%	88% of hours
% of investment made in the EU/EEA	approx 75%	96% of spend
% of programme budgets allocated to originations, including productions commissioned outside London	approx 75%	95% of spend
% of programme hours allocated to originations, including productions commissioned outside London	approx 25%	33% of hours

BBC News 24:	Commitment	Actual
Number of editions of <i>HARDtalk</i> featuring long-form interviews with newsmakers and cultural figures	200	206 editions
Hours of political debate through programmes such as <i>Straight Talk</i>	35	38.5 hours
Editions of <i>Dateline London</i> , offering an alternative viewpoint on events from foreign correspondents based in London	50	50 editions
Minimum hours of sports news	100	115.8 hours

BBC Parliament:	Commitment	Actual
Hours of proceedings of the Scottish Parliament	100	133 hours
Hours of proceedings of the Welsh Assembly	100	100 hours
Hours of programming from Brussels and Strasbourg (including repeats)	100+	169 hours
Hours of coverage of Westminster's Select Committees	400	427 hours

BBC Television services have a regulatory requirement to meet 'Tier 2' quotas agreed by the Board of Governors with Ofcom each calendar year for independent production, regional programme making, news and current affairs programmes, levels of original production, and regional programming. These quotas and compliance with them are listed in the Compliance section on page 91.

BBC Radio 1:	Commitment	Actual
Hours of news, sport and current affairs	310	339 hours
% of schedule devoted to specialist music or speech-based programmes	40%	43.4% of schedule
% of mainstream music programming that is 'new' (pre-release or less than one month since release)	45%	51% of music
% of mainstream music programming from UK acts	40%	49% of music
Live events and festivals in the UK and abroad	approx 25	27 live events/festivals
New sessions and <i>Live Lounge</i> performances	250+	356 new sessions/ performances
Commission new documentaries	40	43 new documentaries
Hours of opt-out programming from Scotland, Wales and Northern Ireland	approx 200	223 hours
BBC Radio 2:	Commitment	Actual
Schedule split between speech and music	approx 33% speech	37.5% speech
Hours of news and current affairs, including hourly news bulletins	800	829 hours
Hours of specialist music programmes	1,100+	1,210 hours
Hours of musical theatre and film music	60+	70 hours
Hours of arts programming	100+	112 hours
Hours of religious output covering the broad range of faiths	170+	170 hours
BBC Radio 3:	Commitment	Actual
% of music live or specially recorded music	50%	53.2% of music
Live output consisting of live or specially recorded performances	500	595 hours
Commission new musical works	30+	36 new musical works
Commission new documentaries on arts and cultural topics	30	39 new documentaries
Budget spent outside the M25	40%	45.4% of spend
BBC Radio 4:	Commitment	Actual
Hours of news and current affairs	2,500	3,021 hours
Hours of original drama and readings	760	770 hours
Hours of original comedy	300	321 hours
% of new <i>Afternoon Plays</i> that will be first or second commissions from writers new to radio	35%	43% of <i>Afternoon Plays</i>
Hours of documentaries	200	232 hours
Hours of religious programming	200	214 hours
BBC Radio Five Live:	Commitment	Actual
Hours of regional, national and international news coverage	6,000/approx 70%	6,549 hours/ 74.8% of output
Hours of documentaries, plus specially commissioned debates on major news and sports events	approx 50	56 hours

Governors' review of services – Performance against *Statements of Programme Policy* commitments 2005/2006

IXtra:	Commitment	Actual
% of music played that is 'new' (pre-release, or less than one month since release)	70%	77% of music
% of output dedicated to news, documentaries and social action programming	approx 10%	11.3% of output
Approximate % of overall output consisting of speech	approx 20%	23.8% of hours
Number of live music events	50	55 live events
% of music played from the UK	40%	46% of music
BBC 6 Music:	Commitment	Actual
Hours of archive concert performances	400+	530 hours
Number of new sessions recorded through the year	275+	380 sessions
% of music that is concert tracks and sessions from the BBC's music archives	15%	15.7% of music
At least half of the music played will be at least four years old	50%	52% of music played
Hours of rebroadcast and newly commissioned documentaries and essays	550+	612 hours
Number of social action campaigns, with supporting online resource material	3	3 campaigns
BBC 7:	Commitment	Actual
Hours of books and drama	2,800	3,833 hours
Hours of comedy	2,800	3,437 hours
Hours of readings for children	40	40 hours
Hours of original comedy	10	22 hours
Hours of original drama	10	14 hours
Hours of children's programming	1,400+	1,457 hours
BBC Asian Network:	Commitment	Actual
Content will be approximately 50% speech and 50% music	approx 50% speech	50.5% speech
% of music playlist from UK acts	40%	40% of music playlist
Hours broadcast per day in languages other than English	3–5 hours	5.2 hours

bbc.co.uk:

Increase BBC reach of the GB adult internet population

Commitment

50%+

Actual

54% of GB adult internet population (Q1 2006)

Number of users of the BBC *WebWise* site and number of links to support centres nationwide by March 2006

Total of 1 million users across the year
1,000 centres

560,000 users in Q1 2006
Changed methodology: now actual rather than 'claimed' usage

Extend *Skillswise* with major literacy campaign, aiming to attract target users a month between October and March 2006

200,000

250,000 users a month

Further enhance *Ouch!*, the disabled community site, with the aim of ensuring target visitors a month

20,000

40,000 visitors per month

BBCi:

Grow reach of BBCi 24/7

Commitment

–

Actual

33% of adults in homes with digital television (Q1 2006)
Changed methodology – see page 44

Reduce access times

6 seconds

8 seconds in homes with digital satellite television (Q1 2006)
See page 44 for further information

Maintain cost per user reached of BBCi 24/7

8p in homes with digital satellite

4p in homes with digital television (Q1 2006)
Changed methodology – see page 44

BBC jam:

Prepare for the launch of the first materials in January 2006

Commitment

Launch in January 2006

Actual

Launched in January 2006 with four subjects: English, Geography, French and Business Studies

Governors' review of services – Performance against *Statements of Programme Policy* commitments 2005/2006

BBC Nations & Regions:

	Commitment	Actual
Hours of speech and debate across our radio stations	approx 260,000	272,089
Hours of news, politics and current affairs across our television services	5,000+	6,499

English Regions:

	Commitment	Actual
Hours of daily local and regional television news	3,350	3,735 hours
Hours of local and regional non-news programming, including current affairs	250	271.4 hours
Hours of local radio output	230,000	236,379 hours

BBC Scotland:

	Commitment	Actual
Maintain reach of <i>Reporting Scotland</i>	48%	48%
Maintain share of viewing to <i>Reporting Scotland</i>	30%	29%
Over 500 hours of television news and current affairs	500+	516 hours
– including at least 100 hours of current affairs and political coverage	100	153 hours
Hours of radio news and current affairs	2,200	2,225 hours
Hours of music and arts coverage on radio and television, in addition to weekly specialist music strands on radio	270	432 hours
Hours of network programmes provided	200	282 hours
Spend on Gaelic television and online	£2.1million	£2.2million
Hours of schools output across television and radio	17	25 hours
Proportion of network children's output provided by BBC Scotland	18%	18.5%

BBC Cymru Wales:

	Commitment	Actual
Hours of news and current affairs on English language television including <i>Wales Today</i>	500+	509 hours
Hours of news and current affairs on BBC Radio Wales	1,500+	1,552 hours
Hours of news and current affairs on BBC Radio Cymru	1,000	1,045 hours
Hours of news for S4C	180+	223 hours
Hours of coverage of the National Assembly's proceedings for broadcast on S4C	500+	528 hours
Hours of output on BBC Radio Cymru, excluding news and current affairs	7,000+	7,074 hours
Hours on BBC Radio Wales, excluding news and current affairs	5,500	5,704 hours
Hours on television in English and Welsh	500	565 hours
Programmes made by the National Orchestra of Wales	80+	93 programmes
Public concerts by the National Orchestra of Wales	50+	73 concerts
Hours of network programmes provided	125+	159 hours
Hours of Welsh language television delivered to S4C	520	531 hours
– of which hours of original drama	90+	96 hours

BBC Northern Ireland:

	Commitment	Actual
Hours of news and current affairs on BBC Radio Ulster	1,550+	1,736 hours
Hours of news and current affairs on BBC Radio Foyle	380+	380 hours
Hours of news and current affairs on television	325	386 hours
Increase hours of factual programming for BBC One, with more single documentaries covering a range of issues and subjects of interest to local audiences	100	104 hours
Hours of local television	640	635 hours
Hours of local radio	8,400+	8,809 hours
Increase the number of arts documentaries on television from 2004/2005 levels	2	2 arts documentaries
Hours of BBC Northern Ireland schools provision on radio and television	16	16 hours

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.

The Governors must satisfy themselves that the BBC:

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

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

1 Fair trading	76
2 Financial statements	79
3 Risk and control processes	80
4 Other corporate governance responsibilities	84
5 Freedom of information	86
6 Donations and acknowledgements	86
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8 Programmes, channels and promotions	89
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1 Fair trading

Governors' Fair Trading Compliance Committee (FTCC)

During the year the FTCC consisted of the following Governors of the BBC: Anthony Salz (Chairman), Baroness Deech, Professor Merfyn Jones and Professor Fabian Monds.

The key responsibilities of the FTCC during the year were to:

- keep under review the BBC's Fair Trading Commitment
- keep under review the BBC's Fair Trading Guidelines
- through the Governance Unit, appoint independent auditors to test 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
- consider reports from the independent auditors or other independent experts as appropriate, the Head of Fair Trading, the 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 compliance with its Fair Trading Commitment
- consider the Governors' and independent auditors' annual report and independent auditors' opinion on fair trading
- consider the Governors' annual report and independent auditors' review in respect of the World Service Trading Protocols and the BBC News/BBC World trading relationship
- report to the Board of Governors on the work of the Committee

During the year the FTCC implemented a number of reforms to increase separation between the Governors and BBC management, reflecting issues raised in the Government's Green Paper on Charter Review. These are discussed further under fair trading complaints.

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 fee 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 fee payers.

In pursuing commercial activities, the BBC is, like other organisations, fully subject to both domestic and European competition law. In addition to ensuring compliance with European and UK competition law and European law on state aid, and in recognition of its special position as a publicly funded organisation, the BBC voluntarily embraces other requirements within its framework of fair trading.

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. This is underpinned by the Fair Trading Guidelines, which provide a detailed operational framework that builds on the principles of the Fair Trading Commitment. Although the Fair Trading Guidelines include guidance on competition law, complaints which relate primarily to issues of competition law or state aid may also be made directly to the relevant competition authority. The Governors themselves are not a competition authority and therefore have no standing to consider appeals in relation to alleged breaches of competition law.

The Committee is advised by independent auditors commissioned and managed by the Governance Unit. In addition, the Committee consults the BBC's Head of Fair Trading and Head of Business Assurance, if necessary without the mediation of BBC management. All trading subsidiaries and commercial operations report through the Head of Fair Trading to the Committee on their activities, and the Committee requires staff with commercial responsibilities to be trained in the BBC's fair trading policies.

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 most recent assessment, conducted in February 2006, 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 Governors bring informed scrutiny and balanced judgements to bear on the important issues of policy that arise from the BBC's engagement in commercial ventures.

Following its 2003 response to the Richard Lambert Review of BBC News 24 against the terms of its approval, the Governors annually consider the relationship between BBC News and BBC World. This includes a review by external auditors that the marginal cost principle is appropriately applied in dealings between BBC News and BBC World. The Governors are satisfied that the marginal cost principle has been applied appropriately.

Annual Fair Trading Audit

The independent Fair Trading Auditors, commissioned by the Governance Unit on behalf of the FTCC, conduct an annual Fair Trading Audit to determine whether the BBC has established and applied a system of internal controls which provide reasonable assurance that it has complied with the Fair Trading Commitment. In conducting their audit, the auditors undertake a number of activities, including the following:

- meeting with fair trading representatives and other individuals with significant fair trading roles in each division
- evaluating the fair trading system of internal controls that each division has implemented
- reviewing and testing a sample of commercial activities entered into during the course of the year
- testing the adequacy of processes to record and track fair trading issues through to resolution/completion
- assessing and testing the adequacy of fair trading training programmes within each division
- reporting their findings and conclusions to the FTCC

The auditors' opinion based on their audit for the year ended 31 March 2006 is set out below.

Fair trading complaints

In May 2005 the Governors commissioned Spectrum Strategy Consultants to provide independent advice on reform of the complaints and appeals process. In December 2005 the Governors published their conclusions on a revised framework.

Amongst other recommendations the Governors proposed that there should be a clear separation between the handling of complaints and appeals. Under this revised framework the Head

of Fair Trading is responsible for handling all fair trading complaints made against the BBC. The Governors, through the FTCC, are responsible for handling appeals.

Public guidance on the complaints and appeals process can be found at www.bbcgovernors.co.uk/docs/fairtrading.html.

The BBC dealt with external challenges in relation to ten issues during the year. One of these issues is currently under consideration by Ofcom. A further matter remains under consideration by the European Commission. There was no breach of the Fair Trading Commitment found in relation to the remaining complaints, although one external party was found to have been incorrectly advised by a BBC division in one complaint. During the year the FTCC published quarterly bulletins of the BBC's response to any alleged breaches of the Fair Trading Commitment. Details of all complaints are available from the Head of Fair Trading at BBC, Media Centre, 201 Wood Lane, London W12 7TQ, or online at bbc.co.uk/info/policies/fairtrading_complaints.

Events of the year

The Government's White Paper on Charter Review and draft Charter and Agreement were published on 14 March 2006.

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 system 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 British Broadcasting Corporation ('BBC') for the year ended 31 March 2006

We have examined, 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 2006.

Our instructions for this examination, which included the scope of work to be undertaken, were agreed with the Governors' Fair Trading Compliance Committee. These instructions include agreement that our examination 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 examination 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 the Fair Trading Commitment and determined the objectives of the system of internal controls designed to ensure compliance with this Commitment and to monitor the outcomes of those controls. They are also responsible for preparing the Governors' Statement of Fair Trading Compliance, as included in the BBC's *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 Auditor, it is our responsibility to form an independent view, based on our examination, 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 examination 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 Director of Governance on behalf of the Governors' Fair Trading Compliance Committee. 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 in to 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 were 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 2006.

PricewaterhouseCoopers LLP

Chartered Accountants
London

9 June 2006

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 Governors' Fair Trading Compliance Committee (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 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) have received 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 Subsidiaries. KPMG LLP have reported to the Governors that, in their opinion, the information contained in the summary of transactions for the year ended 31 March 2006 has been accurately extracted from the books and records of BBC World Service and the Supplier Divisions and Subsidiaries, and has been properly prepared on the basis of cost allocation and apportionment methods set out in the agreements between BBC World Service and Supplier Divisions and 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 reports to the FTCC by the Head of Fair Trading and by 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 Board of Governors' and Executive Board's responsibilities for the preparation of the financial statements

The Governors and Executive Board 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 the income and expenditure for that period. They have elected to prepare the financial statements in accordance with UK Accounting Standards. In preparing those financial statements, the Governors and Executive Board have undertaken to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the BBC will continue in business

In addition, the Governors and Executive Board 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.

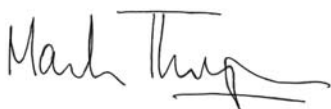
The Governors and Executive Board are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the BBC and enable them to ensure that its financial statements comply with the Companies Act 1985 as if that Act had applied to these financial statements. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Governors and Executive Board are responsible for the maintenance and integrity of the corporate and financial information included on the BBC's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information

The Governors and the Executive Board members who held office at the date of approval of this *Annual Report and Accounts* confirm that, so far as they are each aware, there is no relevant audit information of which the BBC's auditors are unaware; and each Governor and Executive Board member has taken all the steps that they ought to have taken as a Governor or Executive Board member to make themselves aware of any relevant audit information and to establish that the BBC's auditors are aware of that information.

This statement was approved by the Executive Board on 6 June 2006 and by the Board of Governors on 14 June 2006 and signed on their behalf by:



Mark Thompson Director-General



Michael Grade Chairman

Independent Auditor's report to the Governors of the British Broadcasting Corporation (BBC)

We have audited the group and UK Public Service Broadcasting financial statements (the 'financial statements') of the BBC for the year ended 31 March 2006, which comprise the Group Income and Expenditure Account, the Group and UK Public Service Broadcasting Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes (pages 95 to 139). These financial statements have been prepared under the accounting policies set out therein.

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 part 3 of 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') and in accordance with the terms of our engagement. 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 Board and Auditors

The Governors and Executive Board are responsible for preparing the *Annual Report*, the Governors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Governors' and Executive Board's Responsibilities. Our responsibility, in accordance with the terms of our appointment, is to audit the financial statements and the part of the Governors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) 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 1985 as if that Act had been 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 Governors' and Executive Board remuneration and other transactions 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 Corporate Governance Statement on pages 80 to 84 reflects the BBC's compliance with the nine provisions of the 2003 Financial Reporting Council Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether

the Governors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the BBC's corporate governance procedures or its risk and control procedures.

We read other information contained in the *Annual Report*, and consider whether it is consistent with the audited financial statements. This information includes the Chairman's statement on pages 2 to 3, the Director-General's report on pages 4 to 5, the Governors' review of services on pages 24 to 59, the Financial review on pages 92 to 94, the Corporate Governance Statement and the unaudited part of the Governors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and UK Public Service Broadcasting'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and UK Public Service Broadcasting's affairs as at 31 March 2006 and of the Group's surplus for the year then ended; and
- the financial statements and the part of the Governors' Remuneration Report which we have been engaged to audit have been properly prepared in accordance with the provisions of the Charter and the Companies Act 1985 as if that Act had applied to these financial statements.

KPMG LLP

Chartered Accountants
Registered Auditor, London

14 June 2006

3 Risk and control processes

BBC corporate governance framework

The Board of Governors are appointed as trustees for the public interest to ensure that the BBC is properly accountable to Parliament and licence fee payers. Part of this role requires the Board of Governors to satisfy themselves that the BBC is applying the highest standards of corporate governance. To this end the BBC voluntarily complies with the 2003 FRC Code to the extent it is applicable.

The BBC has complied throughout the year ended 31 March 2006 with the 2003 FRC Code, except as noted below.

Overall, the requirements of the 2003 FRC Code apply to the BBC with three exceptions. First, 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. Second, those requirements relating to shareholders can only be applied to the licence fee paying public, rather than shareholders through the stewardship of the Board of Governors.

Third, the BBC has not complied with section 2.4 of the Smith Guidelines within the 2003 FRC Code which states that the Chairman should not be a member of the Remuneration Committee (on the basis that a chairman is not independent). All BBC Governors are independent of management and therefore the Governors determine that the Chairman is independent for the purposes of setting the remuneration of the Executive Board.

The BBC does not have a standing nominations committee. However, a nominations committee was established in 2004 to assist in the appointment of a new Director-General. As noted above, the Governors are appointed by the Queen in Council.

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 86 to 89.

Board structure

The Governors are the members of the Corporation and act as trustees for the public interest, while the Executive Board takes responsibility for day-to-day operations. More information on how the BBC is run can be found on pages 6 to 9. Details of the Board of Governors and the Executive Board members are summarised on pages 10 to 13. A register of interests for both the Board of Governors and Executive Board is maintained. The Board of Governors' register is available online at www.bbcgovernors.co.uk. The Executive Board's register may be inspected by written application to the Director, BBC People, MC2 B4 Media Centre, 201 Wood Lane, London W12 7TQ.

In 2004/2005, the Board of Governors undertook a formal evaluation of its effectiveness, conducted by independent specialists in corporate governance. During 2005/2006, the Board asked the Governance Unit to review progress in key aspects of the Board's activities, including its committees, relationships, accountability, information flows and decision-making processes. An action plan was agreed by the Board in June 2005 and a progress report presented to the meeting of the Board in May 2006. Given the significant changes involved in the forthcoming transition from the Board of Governors to the BBC Trust, the Board determined that

it was not good value for money to undertake an externally facilitated Board evaluation this year.

The Board meets monthly (except August), usually over two days, and the minutes of the meetings have been made available since the June 2005 meeting online at www.bbcgovernors.co.uk.

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

- Governors' Fair Trading Compliance Committee (page 76)
- Governors' Audit Committee (page 83)
- Governors' Finance and General Purposes Committee (page 84)
- Governors' Remuneration Committee (page 86)
- Governors' Programme Complaints Committee (page 89)
- Governors' Property Committee (disbanded May 2005) (page 84)

The terms of reference of these committees are available at www.bbcgovernors.co.uk.

The attendance record of individual Governors at full Board and subcommittee meetings is detailed below:

Number of meetings in the year	Programme		Fair Trading	Audit	Remuneration	Property	Finance and General
	Board of Complaints	Compliance	Committee	Committee	Committee	Committee	Purposes
	11	11	4	6	6	1	11
Michael Grade	11/11				6/6	1/1	11/11
Anthony Salz	10/11		4/4		6/6		9/11
Deborah Bull	11/11	9/11			6/6		
Sir Andrew Burns ¹	8/8			4/4			
Baroness Deech	9/11		4/4	6/6			
Dermot Gleeson	11/11			5/6		1/1	11/11
Professor Merfyn Jones	11/11	11/11	4/4				
Professor Fabian Monds	11/11	11/11	4/4				
Jeremy Peat	11/11			6/6			9/11
Angela Sarkis	8/11	7/11					
Ranjit Sondhi	11/11						
Richard Tait	11/11	11/11					

¹Appointed 1 July 2005

As well as formal Board meetings and subcommittee meetings, Governors have been involved in a range of activities across the year, including performance monitoring meetings, work with BBC advisory bodies, hosting public meetings, and attendance before Parliamentary committees.

BBC Governance Unit

The BBC's Governance Unit is a specialised unit providing discrete professional advice to support the work of the Board of Governors. The Governance Unit is separate from the management of the Executive Board in terms of both reporting lines and management.

The unit is structured around the key areas which support the Governors' roles on performance, compliance and value for money work, and accountability. More information on the Governance Unit and its activities can be found on page 8.

Executive Board attendance

The attendance record of individual Executive Board members is detailed below.

Number of meetings for the period	Number of meetings attended within the period
Mark Thompson	11
Mark Byford	10
Jenny Abramsky	10
Jana Bennett	8
Stephen Dando	11
Tim Davie (started April 2005)	10
Ashley Highfield	10
Zarin Patel	10
John Smith	9
Caroline Thomson	10

Accountability and internal control

The Board of Governors is ultimately responsible for the proper use of public money, while the Executive Board 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 Board and the external auditors are set out on page 79. In addition to the reviews of internal controls carried out by the BBC's Internal Audit function, the BBC Governors appoint external specialists and advisers to undertake further work to provide assurance over the operation of internal controls as required.

The system of controls 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 Board have reviewed the process for identifying, evaluating and managing significant risks faced by the BBC. The process has been subject to ongoing consideration by the Executive Board and developed in line with their recommendations during the year. A process for managing significant risks to the BBC has been in place for the year ended 31 March 2006 and up to the date of approval of this *BBC Annual Report and Accounts* and accords with the Turnbull guidance.

Financial reporting and going concern

A review of the financial position of the BBC is included on pages 92 to 94. The going concern basis has been adopted in the preparation of the financial statements as the Board of Governors and the Executive Board believe that the BBC has adequate resources to continue its operations for the foreseeable future.

Control environment

The key aspects of the control environment operating throughout the year are described below.

■ Risk identification and management

The BBC's framework for the management of risk is subject to continuous development as management assesses risks in relation to the delivery of the BBC's objectives.

The Director of each division has a clear responsibility for the identification and management of risks facing their business. Each division identifies and assesses the key business risks which may have an impact on the accomplishment of its strategic objectives. The risks identified, and the actions planned in response, are documented in a risk register in each division and are reviewed by divisional boards.

The overall management of risk within the BBC is considered to be most effectively managed through the engagement of the entire Executive Board. For that reason, risk management is not delegated to a subcommittee. The Executive Board receives assessments of the management of each of the top BBC risks: this includes the controls and further actions required to manage those risks effectively. The overall assessments are augmented by periodic reports on certain top risks as required by the Executive Direction Group. The BBC's wide-ranging and ambitious change programme, for example, presents a significant opportunity and risk for the BBC. The change risks are monitored in accordance with the BBC's over-arching risk management strategy and are reviewed by the Executive Direction Group on a quarterly basis.

The Board of Governors also has some oversight of the management of risk through the work of its subcommittees. The process for managing risks is reported to the Audit Committee during the year. The Finance and General Purposes Committee receives a report on key risks from the Director-General at each meeting.

■ *Internal Audit*

The BBC has an Internal Audit department which is a core part of the Business Assurance function. Internal Audit's authority, and its independence, is assured from its joint independent reporting relationship to the Audit Committee, the Fair Trading and Compliance Committee, and 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. The work programme of Internal Audit extends throughout all activities of the BBC and includes the exercise of the BBC's right of audit over external parties including independent production companies.

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

■ *Divisional controls*

The divisions' management have responsibility for ensuring that existing controls and procedures are followed. Key controls over major business risks include maintaining and regularly updating risk registers, monthly management reporting, exercise of budgetary controls, 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.

■ *Business and broadcast continuity*

Business Continuity Management (BCM) in the BBC aims to protect the BBC's people, systems and infrastructure; to identify and mitigate, to an acceptable level, risks to the BBC's programmes and services; and to manage any disruption to minimise the effects.

The Business Continuity framework and arrangements make provision for a consistent system of BCM across the BBC, with clear executive sponsorship, and each divisional Director owning responsibility for BCM in their specific division. The BBC's BCM policy and organisation is developed by a small central Business

Continuity Unit, providing guidance and advice for business as usual, projects, new investments and initiatives. Working with nominated representatives from each division, this unit coordinates the corporate BCM arrangements and systems within the BBC and with external agencies, as well as a comprehensive rehearsal and exercise programme. Responsibility for the activation and coordination of the BBC's corporate emergency response arrangements rests with this unit.

In the last year, the BBC's corporate emergency response arrangements were activated successfully on four occasions: industrial action in May, the two London bomb emergencies in July, and the evacuation of Birmingham on 9 July.

■ *Controls over outsourced functions*

Outsourcing of BBC business services has increased over the past year. The outsourcing of key services presents a significant change to the BBC's risk profile and risk is not necessarily outsourced with these services. It is therefore important that the BBC has appropriate processes in place to manage these risks and to ensure continuity of ongoing business operations. During the year, Internal Audit has begun a structured programme of assurance work in relation to the BBC's most significant outsourced contracts.

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 work programme of BBC Internal Audit includes reviews of activity in Medas. The collection of the licence fee is outsourced to Capita Business Services Limited. The BBC monitors the provisions that Capita Business Services Limited has 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.

■ *Financial reporting and business performance*

Individual divisions are responsible for ensuring compliance with the BBC's financial reporting systems and policies. 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 Board's Executive Direction Group and 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-General and the Group Finance Director. The overall BBC budget is submitted by the Director-General and the Executive Board to the Board of Governors for approval. The performance of each division is subject to monthly monitoring, and at the end of every year each division is subject to a rigorous performance review verifying how effectively it met its objectives.

■ *Future Finance*

In the last financial year the Director-General and the Executive Direction Group have engaged in a comprehensive programme of change with the ambition of creating a BBC that is Creative, Digital, Simple and Open. As part of this programme, the BBC's

Finance division has a substantial savings target. Future Finance, a programme of work established to meet this target, will help simplify and standardise business processes.

■ *Fraud awareness*

The BBC takes very seriously its responsibilities to minimise the risk of fraud and the consequential loss to the licence fee payer. The BBC has a clear fraud policy which clarifies responsibilities for ensuring that the appropriate controls are in place to minimise the risk of fraudulent activity and to ensure that all suspected incidents of fraud are thoroughly investigated. The policy is managed by the Anti-Fraud Group which reports to the Audit Committee and to the Executive Board.

As in previous years, a series of anti-fraud workshops have been undertaken across the BBC to identify key fraud risks and to promote fraud awareness. The programme of workshops is a continuing core element in the BBC's anti-fraud strategy.

■ *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.

Governors' Audit Committee

During the year the Audit Committee consisted of the following Governors: Jeremy Peat (Chairman), Baroness Deech, Dermot Gleeson and Sir Andrew Burns (from July 2005).

The Audit Committee complies with the recommendations of the Smith Report with at least one member having significant, recent and relevant financial experience. Jeremy Peat is the member with that experience. The Committee augments the broad range of skills of its four members with regular financial training and advice from financial professionals within the Governance Unit (see page 8) and from external advisers, ensuring that the Committee is kept abreast of recent and relevant financial developments.

The Audit Committee has written terms of reference. Its principal role is to review:

- the effectiveness of the systems of internal control, including consideration of the reports from both management and internal auditors on significant risks to the organisation and the controls exercised over those risks
- the BBC's financial statements, including accounting policies, compliance with legal and regulatory requirements, and the findings of the external and internal auditors
- the BBC's relationship with the external auditors, including their engagement, the scope of and approach to their work, their fees, their effectiveness and their independence, including the observance of the policy relating to the engagement of the external auditors in non-audit work
- the activities and plan of work and the effectiveness of Internal Audit
- the programme of Value for Money reviews commissioned by the Audit Committee from the National Audit Office (NAO) and other external agencies with the objective of ensuring value to the licence fee payer

The Audit Committee met six times during the year. The meetings are usually attended by the Director-General, the Group Finance Director, the Head of Business Assurance (also Head of Internal Audit) and representatives from the external auditors. The Committee meets regularly with the external auditors without any member of management present. The Chairman of the Audit Committee meets routinely with the Head of Business Assurance, alone or with the external auditors, but without management. The Audit Committee is advised by the Governance Unit and has access to independent professional advice as required.

In addition to the review of the reports of the internal auditors relating to the operation of the controls over risks to the organisation, the Committee has reviewed reports from external agencies, including the NAO, on Value for Money studies in specific areas. The PwC review on BBC People: Human Resources Operations was laid, together with the BBC response, before Parliament in April 2006. The NAO reviews on The BBC's Definition of Overheads and BBC Outsourcing, together with the response, will be laid before Parliament with the BBC's *Annual Report and Accounts* in July 2006.

In considering legal and regulatory requirements, the Audit Committee has reviewed developments, including receiving presentations from management and the Governance Unit, on the impact of proposed changes in accounting and reporting standards.

The Chairman 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 2003 FRC Code. The external auditors appointed by the BBC are KPMG LLP as auditors of the financial statements, and PricewaterhouseCoopers LLP as the fair trading auditors (see pages 76 to 78). The Audit Committee, FTCC, PricewaterhouseCoopers LLP and KPMG LLP themselves all 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. 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:

- non-audit services, above a £50,000 threshold, proposed to be commissioned from the external auditors must be notified to, and approved by, the Audit Committee
- above an established de minimis 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 perceived to prejudice their ability to express an independent and objective opinion

Governors' Finance and General Purposes Committee (FGPC)

The Finance and General Purposes Committee was established by the Board in April 2005. The Committee consists of the

following Governors: Dermot Gleeson (as Chairman), Michael Grade, Jeremy Peat and Anthony Salz. Its purpose is to consider and review significant financial, strategic, investment and property-related issues and make recommendations to the Board.

The key responsibilities of the Committee are to:

- scrutinise and make recommendations to the Board on the annual budget
- review investment cases prior to them being considered by the full Board
- review progress against major projects and strategies, including property
- scrutinise proposals from BBC management where prior consideration may assist the deliberation of the Board

Governors' Property Committee

The Governors' Property Committee was disbanded in May 2005 and its responsibilities assumed by the new FGPC. The FGPC has continued to scrutinise the progress of the Broadcasting House project throughout the year. The Audit Committee remains the authority by which the Corporation determines satisfactory compliance with internal and external controls, including for property projects. At its meeting in May, the Property Committee consisted of the following Governors: Dermot Gleeson (Chairman) and Michael Grade, with two vacancies.

Governance arrangements for commercial subsidiaries

During the year under review, in preparation for the new Royal Charter, the Governors agreed new governance structures for the BBC's commercial subsidiaries.

BBC Commercial Holdings Limited, a wholly-owned subsidiary of the BBC, now coordinates and manages the activity and financing needs of BBC Resources Limited and BBC World Limited. An independent non-executive Chairman was appointed to the board of BBC Commercial Holdings Limited during the year. 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) has a responsibility to consider all Audit Committee papers relating to the commercial subsidiaries. The CHAC members are independent of the operational management of the commercial businesses. Matters of significance will also be taken and discussed by the Governors' Audit Committee, referral of which is determined by the Chair of CHAC and overseen by the Head of Business Assurance. The objective of the CHAC is to ensure that the BBC commercial subsidiaries 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 the Governors' Audit Committee on the activities of the CHAC.

BBC Worldwide Limited is the main commercial subsidiary of the BBC. Its activities are described on page 59. During the year, an independent non-executive Chairman was appointed. The Chairman leads the board of directors, ensuring that each director is able to make an effective contribution. In addition, three senior executives from the BBC's Public Service were appointed as non-executive directors. These non-executive directors ensure that the

views of the BBC, the ultimate parent of BBC Worldwide Limited, are taken into account in the decision-making of the board.

Events of the year

Post 31 March 2005, the BBC learned that certain events staged on BBC premises had not complied with requirements of the Licensing Act 2003 (effective November 2005) in regard to performances in front of public audiences. The BBC took immediate steps to ensure compliance with the Act.

4 Other corporate governance responsibilities

Human resources and internal communication

The BBC's human resources division, BBC People, continues to drive the human resources agenda across the organisation. As part of a programme of efficiencies, BBC People is in the process of introducing a new business model and has significantly reduced headcount through the outsourcing of a number of services and a programme of voluntary redundancies.

Regular meetings are held by management with the recognised unions: BECTU (Broadcasting Entertainment Cinematograph and Theatre Union), NUJ (National Union of Journalists) and AMICUS.

Internal communication plays a key role in the BBC's transformation plans. The annual staff survey, conducted by MORI in November 2005, showed that the BBC has further work to do to communicate a clear vision and plan, facilitate better collaboration and teamwork across divisions and to get the best out of employees.

During the year the internal communications function has been revamped and a pan BBC communications strategy is being developed. An internal survey in May 2006 showed a significant increase in support for the way the BBC is responding to change, understanding of individual contribution to change, and being well informed about the BBC's vision for the future.

Occupational risk management

Context of BBC policy on health and safety

The BBC's occupational risk management framework incorporates three policies; health and safety, environment, management and security.

Overall goal of policy on health and safety

Our overall goal is to provide and maintain a safe and healthy environment for our employees, the people we work with and those who visit us. The ways in which this is achieved include: effective identification of risk; setting and review of health and safety targets; measurement and continual improvement of health and safety performance; compliance with legislation, and effective cooperation with competent third parties.

Significant risks and action to control them

Our employees face a very broad range of potential hazards. As well as those connected with familiar aspects of a UK-based environment, including stress, manual handling and driving, there are events (which are attended by tens of thousands of members of the public) and major procurement initiatives (which introduce the problem of ensuring that risks overseen by third parties are managed effectively).

A new set of procedures and arrangements to help deal with the problem of stress has been developed and agreed with our trades unions. Training for managers has been implemented as part of

the leadership training programme and training for individual members of staff has been designed which will complement that given to managers.

Occupational Risk Management and the Live Events team have built on, and improved, the existing guidance for those organising live events. They have, for example, given clearer advice about establishing the roles of different parties at an event, developing clear lines of responsibility, ensuring that contractors are selected and managed effectively, and the need to monitor the implementation of safety arrangements.

However, many in the BBC face more unusual challenges. In the UK there were riots in Birmingham and Belfast, and serious disorder at the G8 Summit. There were the bombings in London on 7 July, and the oil depot explosion and fire at Buncefield. Overseas, our News and Current Affairs teams covered the conflicts in Iraq and Afghanistan, Darfur, Chechnya, and Israel and the Occupied Territories; they also covered disasters such as the Asian earthquake and Hurricane Katrina, as well as other difficult stories such as the avian flu outbreaks.

For the *Planet Earth* series, the Natural History Unit filmed in the world's most challenging environments, some of which were also politically unstable. Many months of preparation went into identifying the hazards that the team would face and how these could be overcome through training, equipment and contingency planning, so that the team could capture safely the breathtaking images that have delighted our audiences.

Our well-established guidelines have been revised to cover high-risk programme making activities wherever they take place and now include undercover investigations and covert filming; armed sieges; riots; chemical, biological or radiological incidents; natural disasters, and outbreaks of serious diseases or pandemics. Safety equipment supplied to staff has included everything from Wellington boots to lightweight body armour. Teams can be supplied with emergency satellite telephones and tracking devices.

Health and safety targets and objectives

In September 2005 the Management Committee for Occupational Risk Compliance (MCORC) expanded on the BBC's previous health and safety targets and objectives and agreed that by 2010 the BBC would aim to reduce (from the position measured in the year 2000):

- the number of working days lost per 100,000 from work-related injury and ill health by 30%
- the incidence rate of reportable accidents by 60%
- the incidence rate of cases of work-related ill health by 20%

The MCORC agreed the following strategic objectives to help achieve these targets:

- by November 2007, to have demonstrated implementation of an integrated system to manage health, safety and security risks across the BBC
- by April 2007, to establish measuring and monitoring arrangements with assigned responsibilities, for all major third parties undertaking BBC business to ensure compliance with legal and BBC requirements
- by July 2006, to update corporate standards and guidelines for the effective management of manual handling risks and to demonstrate implementation by April 2008

- by July 2006, to update corporate standards and guidelines for the effective management of driving risks and to demonstrate implementation by April 2008

Action to achieve goals and targets

The Corporate Occupational Risk Management programme has been developing the safety management system to meet the requirements of the BSI occupational health and safety assessment series specification 18001 (OHSAS 18001). Model risk assessments have been developed to assist programme makers in establishing risk control on productions, and the BBC is creating a new accident reporting system which will allow all staff to record accidents online and enable more effective investigation of root causes of accidents. Safety responsibilities have been described for all staff and a wide range of performance measures have been identified. Arrangements for monitoring major procurements were integral to the procurement process and those for other major suppliers have been reviewed and revised. A list of pre-vetted suppliers of high-risk production services has been prepared and published. Further improvements to controlling occupational risk in the procurement of goods and other services are being developed.

Performance and progress against targets

- The number of injuries reportable to the Health and Safety Executive (HSE) has been reduced from 62 in the year 2000/2001 to 37 in 2005/2006 (38 in 2004/2005). The incident rate fell in the same period from 277 per 100,000 full-time staff to 159 per 100,000 (140 in 2004/2005).
- The incidence rate of suspected cases of work-related ill health has been reduced from 23 per thousand in 2000/2001 to 16.9 in 2005/2006, a reduction of over 25% (16.3 in 2004/2005). The main reasons for suspected work-related ill health have been attributed to stress, upper limb disorders and other musculoskeletal problems.
- There were 113,607 reported absence days through all causes, equivalent to a rate of 2.23% of full-time staff. The cost of this lost time is estimated at about £13.8million (based on average salary costs).
- There were no fatalities during 2005/2006 (two in 2004/2005).

Enforcement

The BBC is in regular contact with enforcing authorities nationally and locally on health, safety and environmental issues. No enforcement action has been taken. The Executive Board receives a monthly report which includes a summary of contact with the enforcing authorities, reportable accidents and other significant safety issues.

Arrangements for consulting with employees

The BBC has carried out an initiative to revitalise health and safety consultation, with the emphasis on local consultation with staff. The initiative has resulted in a clearer accreditation process for representatives and better information sharing. The National Joint Council for Health and Safety includes senior managers and safety representatives: it provides a forum for the discussion of strategic issues and helps speed the development of national health and safety initiatives. Where there are no accredited safety representatives, arrangements have been put in place to consult staff through the regular system of team briefings.

The BBC is represented on national forums which seek to improve safety standards in broadcasting and in other areas of industry and through which best practice is both identified and

promulgated. We continue to be a member of the Broadcasting Joint Advisory Committee and Broadcast Industry Safety Group. Because of the major redevelopment of our building stock, including White City, Pacific Quay and Broadcasting House, we have been an active member of the Construction Clients Federation. The BBC has also been asked to be a member of a new HSE-sponsored working group to develop guidance on the revised Construction, Design and Management regulations.

Nature and effectiveness of training programme

The BBC recorded training given to over 11,000 people on safety issues, and many people receive specialist training in addition to this. More staff are undertaking special training in preparation for work in high-risk environments. In 2004/2005 the BBC had a fleet of 1,600 vehicles and there were 1,187 insurance claims related to these (an incident rate of 74%), costing a total of £840,000. In 2005/2006 the incident rate was 66%, with the cost of incidents being £667,000. An initiative to reduce the value of insurance claims is partially met by a driver training programme. This is targeted at parts of the business where driving is an operational requirement. The BBC expects that there should be a direct relationship between the number of injury accidents and the value of claims, although market research suggests that it will be October 2006 before a direct benefit is measurable.

Audit activity

Audits of specific occupational risk topic areas are conducted through the BBC's Internal Audit department. During the last year a wide range of pan-BBC topics were subjected to review, including the Management of Asbestos, Live Events Arrangements, Child Protection, and Environmental Risk. As a result of the latter, a two-year programme to develop and implement a new, Corporation-wide Environmental Management System meeting the requirements of ISO 14001 is now under consideration. Other audit activity has resulted in improvement to the BBC's procurement process to ensure that only competent contractors are selected to work with and for the BBC. A new three-year rolling programme of audit activity has been endorsed by MCORC. Specific audit activity in the coming year will include a gap analysis against OHSAS 18001, testing understanding of key safety responsibilities, and examining systems for the prevention of falls from height.

5 Freedom of information

The BBC became subject to the Freedom of Information Act (FOIA) on 1 January 2005. In the first year of operation the Information Policy and Compliance (IPC) department received 971 requests for information (RFIs). Of these, the BBC believed 415 (43%) were out of scope of the Act. (The Act only applies to the BBC for information held for purposes other than journalism, art and literature, the so-called content derogation.) All information was withheld in 120 (22%) of requests, including those where the BBC did not believe the Act applied; 932 RFIs (96%) were responded to within the 20 working days statutory time frame, or extended legitimately under the Act. In January to March 2006 the BBC received 226 RFIs, of which 88 (39%) were out of scope.

There were 69 requests for internal reviews of BBC FOI decisions in 2005; six were received in the first three months of 2006. The BBC was notified of 28 cases being referred to the Information Commissioner's Office (ICO) during 2005; 19 cases were notified during the first three months of 2006 (this increase was due to a backlog of cases inside the ICO and does not reflect an increase in complaints). One case has been referred to the Information

Tribunal for a decision on a jurisdictional issue surrounding the content derogation.

The BBC also provides a FOI publication scheme on its website, as required by the Act. The site had 643,309 hits during 2005 and 217,693 hits in January–March 2006.

Data protection

IPC received 49 initial inquiries for personal information in 2005. Of these, 39 translated into formal Subject Access Requests (SARs) under the Data Protection Act. All but four were delivered within the 40-day statutory timetable. This compares with 32 inquiries, translating into 26 SARs in the previous year. There have been 16 inquiries, translating into 11 formal SARs, in the first three months of 2006. There have been no referrals to the ICO on data protection issues during the two years that the IPC has been in existence (April 2004 to March 2006).

6 Donations and acknowledgements

Political and charitable donations

The BBC does not make political donations.

UK Public Service Broadcasting does not make cash donations to charities but provides services in kind. During 2005/2006 services with a cash equivalent value of £228,000 (2005 £509,000) were provided to charities. In addition to broadcast appeals detailed on pages 65 to 66, BBC commercial businesses donated £6,000 to charities during the year (2005 £61,000).

Financial grants

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

7 Governors' remuneration report

This report sets out the BBC's remuneration policy and details the remuneration received by the Board of Governors and members of the Executive Board. The BBC is exempt from the requirements of the Directors' Remuneration Report Regulations 2002 and those of the Financial Services Authority, but this report has been prepared as if those requirements apply wherever the disclosure provisions are relevant and applicable. The sections on pensions and remuneration received by the Governors and Executive Board members are audited.

Governors' Remuneration Committee: constitution and operation

The Remuneration Committee is a subcommittee of the Board of Governors and is accountable to them for the determination and maintenance of overall remuneration policy for the Executive Board. The Remuneration Committee considers the performance of the individual members of the Executive Board and recommends their base pay and annual bonus awards to the full Board of Governors.

The Remuneration Committee is chaired by Anthony Salz, and the other members are Deborah Bull and Michael Grade. The meetings are attended as appropriate by Mark Thompson, the Director-General, and Jeremy Nordberg, the Acting Director, BBC People, to advise on matters relating to other members of the Executive Board and the overall performance of the BBC. Neither is present when matters concerning their own remuneration are considered. The Remuneration Committee has access to internal expertise through Roger Fairhead, the BBC's Head of Reward, who also attends the meetings.

Complying with the 2003 FRC Combined Code on Corporate Governance, the Remuneration Committee takes specialist advice from external professional advisers on remuneration matters, particularly market practice. During the year, the Remuneration Committee received advice from the Hay Group on comparative market data in the determination of pay and benefits for the Executive Board.

Governors: remuneration policy

The members of the Board of 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, and any tax arising on those expenses is settled directly by the BBC. The fees and expenses are reported in the table on page 88.

Executive Board: remuneration policy

The Remuneration Committee recommends to the Board of Governors the remuneration policy for Executive Board members. This policy seeks to balance the BBC's status as a public corporation with the fact that it operates in a competitive, commercial environment.

All areas of spend, including executive remuneration, must deliver value to the licence fee payer and recognise legitimate public interest concerns about the pay of public sector employees. This must be balanced with the need, in an increasingly competitive environment, to offer remuneration that attracts, motivates and retains the key talent required to lead the BBC and to deliver outstanding public service broadcasting. In doing so the remuneration policy seeks to:

- remunerate individuals fairly for individual responsibility and contribution
- determine base pay, benchmarked against the median base pay of relevant comparator organisations, whilst recognising that a moderate premium is necessary to compensate for the limited bonus opportunity and absence of share-based awards compared to the BBC's private sector competitors
- provide a limited element of performance-related pay, reduced from a maximum of 30% to a maximum of 10% of base pay for the Executive Board in 2005/2006, linked to the achievement of key objectives and overall contribution to BBC performance
- take into account remuneration policy within the rest of the BBC and consider the relationship between the remuneration of Executive Board members and that of other employees

Separate arrangements apply for John Smith, Chief Executive Officer, BBC Worldwide, and Chief Operating Officer, BBC, whose prime responsibility is for the BBC's commercial business. In this capacity, he participates in the annual bonus and long-term incentive plans of BBC Worldwide which are established by the Board of BBC Commercial Holdings and driven by profit and return on sales targets and outperformance of major international media sector businesses over one and three-year performance periods. These plans are not funded by the licence fee but by the commercial revenue of BBC Worldwide. The cost to the BBC Public Service Broadcasting Group is restricted to a proportion of John Smith's base pay, reflecting his public service responsibilities for Property, Procurement, and Information and Archives. For 2005/2006 the costs were assessed to be 25% of base pay. He has no bonus entitlement in respect of his public service responsibilities.

Elements of remuneration

The main elements of remuneration are base pay, annual bonus and pension.

Base pay

Base pay is reviewed with effect from 1 August each year, taking into account the external market, individual responsibilities and performance, and internal comparators. The Remuneration Committee receives specialist advice from external professional advisers, the Hay Group, on remuneration matters, particularly market practice. In 2004, the Hay Group identified that BBC executive base pay had fallen significantly below market median levels. A policy was agreed to bring pay into line with the external market in two stages: the first of those stages was made with effect from 1 August 2004 and was reflected in last year's report; the second was made the following year and is shown in this report.

Annual bonus

For 2005/2006, the maximum annual bonus potential has been reduced from 30% to 10% of base pay for the Executive Board, thereby seeking to achieve a better balance between public service values and market competitive rewards.

Bonus awards are based on the delivery of divisional targets and objectives agreed by the Remuneration Committee and the individual's overall leadership support of the Governors' objectives. For 2005/2006, the achievement of divisional value for money targets accounts for up to 50% of the bonus, with divisional transformational measures accounting for the other 50%. An assessment of the individual's overall contribution to, and championship of, the Governors' objectives then results in the retention or a reduction of the bonus awarded.

As summarised above, the annual bonus plan for John Smith is based on the profit of BBC Worldwide. Ten per cent of base pay is paid for achieving the profit target, rising to 50% of base pay if BBC Worldwide exceeds its profit target by 10% or more.

Long-term incentive plan (LTIP)

As summarised above, John Smith participates in the BBC Worldwide long-term incentive plan, which is self-funded entirely by the commercial revenues of BBC Worldwide. No other Executive Board members are entitled to participate in this LTIP, which is available to senior executives of BBC Worldwide only. Any payment from the LTIP is dependent upon BBC Worldwide's profit growth and return on sales compared to a minimum of 15 listed media sector businesses over a three-year performance period. If part of any annual bonus is forgone, the amount is matched by BBC Worldwide and the total amount is put at risk by being invested in the LTIP (the 'matched invested bonus'). At the end of the performance period, the following payments are due dependent upon performance:

- if BBC Worldwide's performance equals the median of comparable companies, 10% of annual salary at the rate on the last day of the performance period plus half of any matched invested bonus is payable
- if BBC Worldwide's performance meets or exceeds the upper quartile of comparable companies, 20% of annual salary at the rate on the last day of the performance period plus 100% of any matched invested bonus is payable
- if BBC Worldwide's performance falls below the lower quartile of comparable companies, no payment will be made (neither the salary-related amount, the bonus forgone nor any matched amount)
- where BBC Worldwide's performance is between lower quartile and median, or median and upper quartile, a pro rata amount is payable

- in the event of leaving voluntarily before the end of the vesting period, the participant is entitled to repayment of the bonus amount forgone, but no matching award

Pensions

Members of the Executive Board are eligible to participate in the BBC Pension Scheme. This generally provides for pension benefits on a defined benefit basis with an accrual rate of 1/60th of the final pensionable salary per year of service, subject to a maximum pensionable salary (£105,600 per annum for 2005/2006) for those who joined the Pension Scheme after 31 May 1989. Only base pay is pensionable. The Pension Scheme provides for early retirement on medical grounds and life assurance of four times base pay to a prescribed limit.

For those joining after 31 May 1989, where their base pay exceeds the maximum pensionable salary a variety of arrangements were put in place, including funded and unfunded arrangements outside the BBC Pension Scheme. For the Executive Board, all of these arrangements were funded through a Funded Unapproved Retirement Benefits Scheme (FURBS).

With the new pensions regime effective from April 2006, the BBC continues to apply a maximum pensionable salary based on the previous Inland Revenue limit. The FURBS arrangements have been replaced by a cash pensions supplement. Additionally, members who reach or exceed the new Lifetime Allowance (LTA) may opt out of the Pension Scheme and instead receive a cash pensions supplement replacing BBC contributions to the Pension Scheme. These arrangements are cost-neutral to the BBC.

Details of defined benefit entitlements and contributions to defined contribution schemes for the Chairman and Executive Board members during the year are shown below.

Governor/Executive Board member (age at 31 March 2006)	Defined benefit schemes					Defined contribution schemes	
	Annual values		Transfer values ³			BBC contributions	
	Accrued pension at 31 March 2006 (£000pa)	Increase in accrued pension over year (£000pa)	Transfer value of accrued pension at 31 March 2006 (£000)	Transfer value of accrued pension at 31 March 2005 (£000)	Increase in transfer value less members' contributions over year (£000)	2006 (£000)	2005 (£000)
Chairman							
Michael Grade (63)	3	2	50	22	23	–	–
Executive Board							
Jenny Abramsky (59)	177	28	3,849	3,026	804	–	–
Jana Bennett (50)	7	2	92	59	27	65	46
Mark Byford (47)	156	22	2,117	1,655	440	–	–
Stephen Dando (44)	8	2	76	55	15	71	56
Tim Davie (38) ^{1,2}	2	2	12	–	6	–	–
Ashley Highfield (40)	10	2	74	54	14	53	43
Zarin Patel (45)	13	2	126	98	22	64	–
John Smith (48)	153	28	2,195	1,619	550	–	–
Mark Thompson (48) ²	3	2	38	15	17	151	111
Caroline Thomson (51)	54	3	1,014	836	171	48	30

¹ Tim Davie was appointed an Executive Board member and joined the Pension Scheme on 11 April 2005

² As at the year end, Mark Thompson and Tim Davie had less than two years' service and so would not be entitled to a deferred pension if they had left the Pension Scheme on this date. However, for comparison with the other Executive Board members, their accrued benefits have been calculated and valued assuming that they will complete the two years' service requirement

³ The transfer value of accrued pension benefits represents the estimated cost to the Pension Scheme of providing the pension benefits accrued to date.

The value is affected by many factors, including age, pensionable salary,

pensionable service and investment market conditions at the date of calculation (in accordance with Actuarial Guidance Note GNI 1). 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 member's age: for older members the calculation reflects the yields on index-linked gilts, whilst for younger members the dividend yield on the FTSE All-Share Index is the more significant determinant

Benefits

In addition to base pay, annual bonus and pension, the other main contractual benefits are a car and fuel allowance, private health insurance, and life assurance. It has been the policy for some years that, with the exception of the Director of Nations & Regions, new appointees to the Executive Board are not eligible for provision of a chauffeur-driven car. The Director-General's contract provides for a chauffeur-driven car, but no entitlement to a personal car allowance and fuel allowance.

Employment contracts

It is the policy of the Governors that the employment contracts of Executive Board members should not include a notice period of more than one year. Each employment contract expires on the 60th birthday of the Executive Board member, which is currently their normal retirement age, but is subject to earlier termination for cause or if notice is given under the contract.

As at 31 March 2006, the unexpired term and notice period of each Executive Board member was a maximum of 12 months. There is no entitlement to any additional remuneration in the event of early termination other than in the case of termination for reason of redundancy.

Outside interests

With the prior agreement of the Board of Governors and where there is no potential for conflict of interest, members of the Executive Board may hold external directorships. In principle, no more than two external directorships may be held at the same time, of which only one should be in a commercial organisation. Any remuneration which arises from directorships is paid to the BBC. During the year John Smith served as a non-executive director of Severn Trent plc. For information on how to obtain the Executive Board's register of interests, see page 80.

Remuneration received

The remuneration of the Governors and Executive Board members during the year is shown below:

	Fee/ base pay £000	Annual bonus £000	Expenses/ benefits £000	Total 2006 £000	Total 2005 £000
Governors					
Deborah Bull	16	–	7	23	20
Sir Andrew Burns (appointed 1 July 2005)	21	–	15	36	–
Baroness Deech	16	–	7	23	25
Dermot Gleeson	16	–	10	26	28
Michael Grade	83	–	27	110	96*
Professor Merfyn Jones	28	–	14	42	36
Professor Fabian Monds	28	–	1	29	31
Jeremy Peat	28	–	6	34	10
Anthony Salz	28	–	7	35	24*
Angela Sarkis	16	–	9	25	22
Ranjit Sondhi	28	–	4	32	32
Richard Tait	16	–	3	19	15*
	324	–	110	434	339
Governors who retired during 2004/2005					64
Total	324	–	110	434	403

Executive Board	Fee/ base pay £000	Annual Expenses/ bonus £000	Benefits/ benefits £000	Total 2006 £000	Total 2005 £000
Jenny Abramsky	295	15	12	322	304
Jana Bennett	321	17	15	353	334
Mark Byford	403	40	13	456	457
Stephen Dando ¹	290	–	2	292	313
Tim Davie (appointed 11 April 2005)	253	19	15	287	–
Ashley Highfield	281	15	15	311	320
Zarin Patel	297	13	14	324	72*
John Smith ²	331	87	26	444	387
Mark Thompson ³	609	–	10	619	459*
Caroline Thomson	276	26	15	317	290
	3,356	232	137	3,725	2,936
Payments under long-term incentive plans				–	47
Members who resigned or left the Executive Board during 2004/2005					766
Total	3,356	232	137	3,725	3,749
Payments to former directors				–	443

* Appointed part-way through 2004/2005

¹ Stephen Dando resigned on 23 April 2006

² John Smith's base pay, bonus and benefits are included at their full rate, although the cost to the BBC Public Service is restricted to 25% of base pay for 2005/2006. In addition to his annual bonus, an equal amount has been forgone and has been invested in the Long Term Incentive Plan for BBC Worldwide, which may vest in March 2008

³ Mark Thompson has waived his right to be considered for an annual bonus award for 2005/2006

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

8 Programmes, channels and promotions

Governors' Programme Complaints Committee

During the year the Governors' Programme Complaints Committee (GPCC) consisted exclusively of Governors: Richard Tait (Chair), Deborah Bull, Merfyn Jones, Fabian Monds and Angela Sarkis.

The GPCC is responsible for fulfilling the Charter requirement that the Board of Governors ensures that complaints are properly handled by the BBC. The GPCC undertakes a range of responsibilities in fulfilling this requirement. These involve:

- ensuring that complaints are handled by the BBC promptly, are investigated rigorously and impartially, and that the process is informed by good practice
- undertaking an annual review of the BBC's complaints handling processes and performance; as a result of issues raised in the annual reviews, undertaking a periodic review of the complaints handling strategy, and making recommendations to the Board of Governors concerning any changes it deems necessary arising from these reviews
- reviewing the quarterly complaints report submitted to the Board of Governors by the Complaints Management Board, chaired by the Deputy Director-General
- reviewing the quarterly Complaints Bulletin published by the Editorial Complaints Unit (ECU)
- raising broader editorial issues arising from its consideration of appeals with, as appropriate, the Director-General or the Deputy Director-General through the Complaints Management Board
- considering certain appeals against the decisions of the ECU in relation to complaints about programmes transmitted, or material carried by services for which the BBC has editorial responsibility

- considering certain appeals against the decisions of a Director of a BBC division in dealing with an editorial complaint where that complaint falls outside the remit of the ECU and is accompanied by evidence to suggest a serious breach of editorial standards

In taking appeals, the GPCC is advised by an independent Editorial Adviser who informs the GPCC about the range of editorial issues relating to complaints and the concerns and/or considerations raised by complainants.

The GPCC's decisions on appeals are communicated to the appellant and to the Complaints Management Board. The GPCC also publishes a quarterly bulletin of its findings. For further information on complaints handling during 2005/2006, see page 62.

Upholding editorial standards

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

In April 2005 the Governors approved the revised guidelines, which came into effect at the end of July 2005.

Undertaking an annual review of editorial issues in April 2006, the Governors were satisfied that in 2005/2006 overall the BBC met the standards expected of it. They recognised the BBC's continued success in bringing challenging and risk-taking programmes to air, including *Pinochet in Suburbia*, *The Secretary Who Stole Millions*, *Soldiers' Wives*, *Naked City* and *Whistleblower*.

The Board noted that particular editorial challenges during the year included:

- Coverage of the London bombings in July 2005: Not only did this break new journalistic ground in terms of images sent in by mobile phones, it also raised important questions of privacy, accuracy and verification. Further guidance was issued on the use of the word 'terrorist'. The Board endorsed the guidance, which does not ban use of the word 'terrorist' but prefers its use to be attributed. The Board also noted the Ofcom resolved finding on images of a seriously injured victim.
- The publication of the cartoons depicting the Prophet Muhammad in various European newspapers: see the Governors' review of BBC News on page 47.
- The General Election of May 2005: The Board noted that considerable guidance and support was provided across the BBC for the campaign. The Board noted that the complaint from the Conservative Party about a claim on *The World at One* that Michael Howard had avoided an interview on *Today* was partially upheld by the Editorial Complaints Unit.
- The global music event Live8: The BBC was careful to work hard to maintain impartiality. The Governors noted that Ofcom upheld complaints about bad language. Since then, further editorial policy guidance has been published on live output to help minimise risks.

The Board noted some Ofcom content standards rulings on Radio 1, for example offensive language in the introduction to *Most Punk*. It noted that while Radio 1 is a challenging contemporary network, it must ensure that it complies with Ofcom and BBC guidelines.

The Board noted that the Governors' Programme Complaints Committee had upheld eight complaints in full or part.

The Board received management's conclusions following its investigation into product placement following claims in *The Sunday Times*. The report concluded that no products had been placed in programmes in return for cash or other benefits. However, there were instances when branded goods were afforded undue prominence. Appropriate training and guidance was being issued.

The Board also noted that the increase in the number of independent commissions envisaged in the Window of Creative Competition will pose new editorial challenges in ensuring that independent productions receive the same level of advice and support as in-house productions. The Board noted that plans are in place to address this.

It also noted the increasing challenges posed by interactivity, including for example publication of BBC staff's personal blogs. Guidelines on blogging have been put in place to mitigate editorial risks.

Reviewing the overall editorial decision-making process, the Governors noted that while there were some individual errors, they were satisfied that overall there was a clear allocation of compliance responsibilities, leading ultimately to the Director-General as Editor-in-Chief, and that advice from the Editorial Policy Unit was given sufficient weight in compliance matters.

In 2005/2006, the Board also maintained its oversight of impartiality across the BBC's output. It received regular reports on the monthly tracking survey which has been in operation since February 2004. It commissioned an independent review of coverage of the Israeli/Palestinian conflict, which was published in May 2006. For further information see review of objectives on pages 18 to 19 and review of BBC News on pages 46 to 49.

Department for Culture, Media and Sport (DCMS) 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 approval are contained in the *Statement of Programme Policy* for each of these services. The BBC's performance against measurable commitments in these *Statements of Programme Policy* is shown in the tables on pages 68 to 75.

There were no new service approvals in 2005/2006.

In accordance with the incorporation agreement of BBC Broadcast, approval was sought, and subsequently given by the DCMS, to the sale of BBC Broadcast Limited (22 July 2005).

BBC jam (previously known as the 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. After just over two years of development, the first elements of BBC jam went live on 27 January 2006. Four commissions were introduced initially and others are being added periodically up to September 2008, building up to an eventual total of over 100 commissions. (A subject for a particular age group, for example English 5–7, may consist of more than one commission.)

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

- Publication of plans: in June 2005 the BBC published the broad commissioning plan for 2007, and in November 2005 the detailed plan of learning outcomes to be covered in 2007 (slightly ahead of the schedule required by the conditions). This followed consultation with the Government's education technology agency, Becta, over which learning outcomes were amenable to Information and Communications Technology (ICT).
- External content spend: the BBC has given a commitment to spend 50% of content funds externally over the period to September 2008. To date, 22 of the 50 commissions in production or completed have gone directly to external companies from the preferred suppliers' list that was compiled in accordance with EU regulations for new media content. In addition, areas of external work have been commissioned by in-house production teams. External spend has not reached 50% to date, but the Board has been assured that this balance will change over the course of the full approval period to meet the requirement.
- Narrowband delivery: the BBC has given a commitment that 70% of the service's overall content will be available via narrowband. The service is fundamentally for broadband delivery, but the BBC has developed a package known as 'jam player' which allows narrowband users to download content to their computers, thereby simulating the broadband experience. This has so far been made available for English for 5–7 year olds, but it is planned to extend it over time to all appropriate commissions.
- UK diversity: the service must support and reflect the diversity of the UK. BBC jam has been developed to meet the curricular needs of all four nations of the UK and was introduced with a Welsh language option and with content made in different parts of the UK.
- Virtual learning environments: the BBC has given a commitment to work with providers of other learning environments and make its content available to their systems. Discussions have been held with Becta about necessary licensing arrangements to facilitate this.
- Promotion of BBC jam in other BBC services must make prominent reference to the Government's Curriculum Online and to alternative sources of supply. The BBC has included such a reference and, where appropriate, a weblink, in promoting the service on its broadcast channels and online.
- The BBC must work with the Government's Curriculum Online Content Advisory Board (CAB) in developing the service. To this end, the BBC has held quarterly meetings with CAB and additional subcommittee meetings.

The BBC has also regularly met industry representatives and individual companies and plans to continue these meetings.

Governors receive monthly reports on BBC jam's compliance against its conditions at their Board meetings, supplemented by six-monthly progress reports by the Director of Factual & Learning at Board of Governors meetings.

A complaint, concerning alleged non-compliance with a condition set by the European Commission when it approved the service, has been under consideration by the Commission since July 2005. The UK Government and the BBC have made a number of submissions to the Commission on this matter which is ongoing.

UK programme quotas

Under the Communications Act 2003, the BBC has a duty to ensure 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. Ofcom is required to report the extent to which the BBC has

performed that duty. In addition, the BBC is required to meet a number of other programme production obligations, the so-called 'Tier 2' quotas, for which Ofcom is required to monitor compliance. Ofcom is expected formally to report the BBC's performance for the calendar year 2005 against these quotas in its 2006 Communications Market Review. However, the BBC fully expects to exceed all of the quotas and its self-assessment figures are provided here.

	Quota	Achievement
Independent production quota¹		
Hours of qualifying programmes across all channels	25%	31%
Hours of qualifying programmes on BBC One	25%	28%
Hours of qualifying programmes on BBC Two	25%	39%
Regional programme making²		
Spend on qualifying programmes	30%	34%
Hours of qualifying programmes	25%	33%
News and current affairs programmes³		
Hours of news on BBC One	1,380	1,467
Hours of news on BBC One in peak time	275	293
Hours of current affairs on BBC One and BBC Two	365	433
Hours of current affairs on BBC One and BBC Two in peak time	105	110
Levels of original production⁴		
BBC One	70%	82%
BBC One in peak time	90%	99%
BBC Two	70%	82%
BBC Two in peak time	80%	97%
BBC Three	80%	81%
BBC Three in peak time	70%	71%
BBC Four	70% approx	73%
BBC Four in peak time	50%	61%
CBeebies	80% approx	79%
The CBBC Channel	70%	85%
BBC News 24	90%	95%
BBC Parliament	90%	99%
Regional programming⁵		
Hours of regional programming	6,580	7,048
Hours of programmes made in the relevant area	95%	99%
Hours of BBC One news	3,920	4,656
Hours of BBC One news in peak time	2,010	2,217
Hours of non-news programming in peak time	1,030	1,084
All non-news programmes adjacent to peak time	355	365

¹ The BBC is subject to a 25% independent production quota across all channels and from 1 January 2005 on BBC One and BBC Two individually

² The BBC quotas for regional production agreed with Ofcom are based on the existing 'Hatch' definition

³ These quotas and performance figures are for network programming only. The news quota specifically excludes overnight transmissions of BBC News 24

⁴ Original productions include all BBC commissioned programmes including repeats. For BBC Three and BBC Four they exclude repeats of programmes first shown on another channel

⁵ These figures represent regional programmes across BBC One and BBC Two

EU programme quotas in the calendar year 2005

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.

Ofcom is expected to formally report the BBC's performance for the calendar year 2005 in its 2006 Communications Market Review. However, the BBC's self-assessment is that it has exceeded the EU quotas. Of the relevant BBC One and BBC Two output, 80% was of European origin (79% in 2004) and 21% was made by European independent producers (21% in 2004). Of the relevant output of all BBC channels (including BBC Three, BBC

Four, CBeebies, The CBBC Channel and BBC News 24), 87% was of European origin and 24% was made by European independent producers (86% and 27% respectively in 2004).

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 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 these channels and BBC Food (a BBC Worldwide Limited channel) are now licensed by Ofcom as television licensable content services. BBC World and BBC Prime complied with the principles on which the Secretary of State's approval was originally granted and all three channels complied with the licence requirements.

On-air promotions: OFT 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) about trailing BBC magazines, including a commitment not to exceed seven minutes as an aggregate across a seven-day period on its television services. Although the legal obligation applies only to BBC magazines, the Governors' Fair Trading Commitment commits to applying the spirit of the undertaking to all on-air trails of commercial products. Following the Commercial Review, trails of magazines on radio, television and bbc.co.uk ceased in December 2004.

From 1 April 2005 to 31 March 2006 the total promotion time for all commercial products (including BBC Worldwide and independent products) was 1 hour, 34 minutes and 30 seconds of transmission, which averages 1 minute and 49 seconds in a seven-day period (2004/2005: 1 hour, 23 minutes and 40 seconds, averaging 1 minute and 37 seconds per seven-day period).

Trails for non-BBC products have also been tracked. In the same 12-month period there were 21 minutes of promotion for products not produced by BBC Worldwide but associated with our programmes. This averages 24.2 seconds per seven-day period on the BBC's television services (2004/2005: 11 minutes and 20 seconds of promotion, averaging 13 seconds per seven-day period).

9 Cost of compliance

As a result of operating in the UK broadcasting market place, and by virtue of being a public body, the BBC incurs substantial costs in ensuring that it complies with all relevant regulation. In 2005/2006, these costs of compliance are estimated to be £16.4million (2004/2005: £17million). Included in this figure is a £3.5million subscription fee paid to Ofcom (2004/2005: £4.7million). It also includes the cost of transmission licences, the fair trading audit, staff employed to monitor compliance and report against commitments including Ofcom requirements, DCMS consents and fair trading. However, these costs are not complete since they do not include any allocation of costs for staff (including relevant staff in the Governance Unit) who do not work solely on compliance, but who may provide information necessary to monitor or report against the commitments. The cost of the Governance Unit is separately disclosed on page 8.

Financial review

Financial performance

In 2000 the BBC set out its financial strategy for the period to the end of the current Charter in December 2006. The strategy set the course for a significant increase in spending on public service broadcasting, to be achieved through efficiency savings, increases in the licence fee, and utilising existing cash and borrowing facilities whilst aiming to return to a broadly zero debt position at the end of the Charter.

Result for the year

As the BBC does not have shareholders it does not aim to make a profit. Group income has increased by £170million to £4,005million driven by a 4.5% increase to the licence fee, and the income and expenditure returned to a surplus of £4million (following deficits in recent years) in line with the financial strategy.

Long-term financial commitments for the current Charter period

To ensure Income and Expenditure is balanced

This year income and expenditure for UK Public Service Broadcasting, before exceptional restructuring costs, was broadly in balance.

Commercial businesses contributed a surplus of £207million (before interest, taxation and non-cash pension costs), up from £91million in 2004/2005, including a profit of £109million on the disposal of BBC Broadcast. The proceeds from the sale of BBC Broadcast also helped move the BBC from net debt of £135million last year to net funds of £50million at 31 March 2006.

Funding sources

Licence fee

The licence fee continues to be the BBC's most important funding source. Licence fee revenue for the year was £3,101million, which was an increase of £160million (5.5%) on 2004/2005. For this period the licence fee, which is set by the Government, was increased by 4.5% (RPI plus 1.5% above inflation increase) plus the BBC contributed an additional 1.0% from efforts to reduce evasion.

Ongoing reductions in evasion together with tight control of collection costs continue to play a key part in increasing licence fee revenues. Evasion was driven down from 5.0% last year to 4.7% despite already operating in a low-evasion environment. Collection costs increased by £1million (in line with the contract with Capita) and remain at 4.9% of licence fee income. At just 9.6%, the combined cost of evasion and collection has fallen to its lowest level since 1991/1992 when the BBC took direct responsibility for licence fee collection from the Home Office. At the end of the year the BBC announced PayPoint plc had been selected as a new contractor to supply over-the-counter services for TV Licensing for a six-year period from April 2007 and it is expected that this will further reduce the cost of collection.

The Government has confirmed that the licence fee will remain in place throughout the next Charter period to the end of 2016 and its level will be set as part of the current Charter review process.

Commercial businesses

In addition to the licence fee, the BBC funds its public service broadcasting activities through cash contributions from its commercial businesses.

As part of the Commercial Review in 2004 the BBC identified that, although BBC Broadcast provides important services to the BBC, it was not essential that it be owned by the BBC. As a result on 31 July 2005 BBC Broadcast was sold for proceeds of £166million and a profit of £109million for the BBC.

BBC Worldwide is a significant element of the commercial businesses and over the last few years has been transforming its operations to focus on seven core business areas. BBC Worldwide's target of doubling profit over two years from April 2004 was beaten with a profit (before interest, tax and non-cash pension costs) of £89million – an increase of 144% over the two years and 62% year-on-year. BBC Worldwide returned £185million in cashflow – profits and direct programme investment – to the BBC (up 28% from £145million in 2004/2005). This was achieved by turning around loss-making businesses and pulling out of, or finding partners for, businesses which no longer fitted or lacked sufficient scale for BBC Worldwide's new remit, combined with good growth in other businesses and a cost reduction programme.

Due to the timing of main sporting events, this year was a quieter year for BBC Resources which delivered revenues of £128million and a surplus (before interest, taxation and non-cash pension costs) of £6million (£135million and £7million in 2004/2005). Ownership options for BBC Resources remain under review and the BBC has committed not to sell the company before June 2007.

BBC World continues to show significant growth in audience reach and household distribution and has made significant progress towards its key objective of gaining 24-hour distribution in North America this year. Turnover has increased by 25.5% to £36million this year and the loss for the year (before interest, taxation and non-cash pension costs) fell by 7.0% to £15million. The loss after interest and taxation is £11million (2004/2005 £11million).

Public service broadcasting expenditure

Spending on programmes

Total spending on programmes at £2,494million increased by £28million this year. Spend on analogue services has fallen by £24million to £1,778million. Additional spend on coverage of the 2005 General Election was offset by a relatively quiet year for sport. Expenditure on digital services continues to grow, increasing by £53million this year. 2005/2006 saw increased investment in first-run children's drama on The CBBC Channel and the launch of BBC jam (the digital curriculum). Spend outside of London overall increased moderately by 2.1% to £865million, but spend on television outside London increased by 6.1%. In particular, BBC Cymru Wales has made a particularly strong contribution to the BBC's drama output this year. A number of new landmark programmes (*Bleak House*, *Doctor Who* and *Life on Mars*) has driven a 4.1% increase in the analogue cost per hour of drama. This is consistent with the strategy to increase overall investment in original UK drama and is a reversal of the longer term trend which has seen the cost of drama decreasing since 2002/2003.

This year overheads excluding exceptional restructuring costs increased by £30million, which is due to the impact on the prior year of significant one-off refunds for National Insurance and property rates. Excluding one-offs, overheads have fallen by £3million in 2005/2006.

Further information on individual channel spend is included in Note 2b, with Broadcasting facts and figures on pages 140 to 150.

Efficiency

In 2004/2005 the BBC embarked on an ambitious value-for-money (VFM) programme in order to maximise efficiency and boost investment in programmes. This identified a challenging three-year target to achieve £355million of cash-releasing efficiencies per year by the end of 2007/2008 on top of those already required by the existing Charter. The BBC has achieved its first year targets, achieving £99million of ongoing cash savings and a further £7million from programme mix changes. One significant area of savings has been a strong performance in reducing headcount with 1,132 posts closed, exceeding the target for the year. Next year's targets are substantial with over 2,000 staff leaving the BBC in 2006/2007. A structured transformation programme is in place to drive change and significant progress has been made in the year including shifting towards a digital production environment using integrated, lower cost digital production tools and techniques; finance process re-engineering; and the outsourcing of the human resources function. One-off implementation costs in the original plan were forecast to be £197million over the three-year programme. During the year this forecast rose by £44million to £241million, the increase resulting mainly from increased pension augmentation costs of post closures.

Long-term financial commitments for the current Charter period

To meet the cumulative seven year self help targets of £3.3billion set for this charter period

The BBC is on track to meet them, and indeed exceed them through the additional VFM savings.

Property

Phase 1 of the redevelopment of Broadcasting House, the new home for News, World Service and Radio in central London, delivered during the year and reoccupation of the refurbished listed original Broadcasting House is ongoing, although late. Work has begun on phase 2 which will include demolition of the old extensions to Broadcasting House and construction of a new building.

Significant progress has been made in the year on the development of the BBC's new Scottish headquarters and broadcasting centre at Pacific Quay in Glasgow. The existing BBC property in Glasgow is being marketed.

During the year the BBC completed the sale and leaseback of two regional properties realising a profit of £2million (2005 £19million), and also disposed of three other surplus properties, realising a combined profit of £5million.

Further rationalisation of the BBC portfolio is anticipated in London. Full and final decisions must await further consideration of the out of London strategy. The BBC is currently working with landowners in the Wood Lane opportunity area to progress an outline planning application for a major mixed use redevelopment in the area.

Pensions

The BBC remains committed to keeping a good quality defined benefit pension scheme for its employees whilst ensuring that it is affordable. The majority of employees belong to the BBC Pension Scheme.

2005 Actuarial valuation

During the year the triennial formal actuarial valuation of the BBC Pension Scheme, as at 1 April 2005, was completed by independent actuaries. This revealed a surplus of £13million (in comparison to total fund assets of £6,406million). The interim valuation as at the same date, and based on the previous full valuation in 2002, had shown a net actuarial surplus of £274million. One of the main reasons for this deterioration in the actuarial position is an increase in longevity; people are living longer and therefore drawing pensions for longer than in the past, which increases the cost of the benefits to be provided significantly. Also, over the longer term, investment returns are expected to be lower than they have been historically and the costs of pensions in payment are likely to continue to rise, creating a potential 'gap' between income and expenditure that needs to be addressed.

As a result, the pension scheme trustees are proposing to make some changes to the pension arrangements in order to protect the benefits of existing members and maintain competitive pensions for new staff in an environment of increasing costs and investment uncertainty. In particular it is proposed that the contributions payable by the BBC and pension scheme members are increased to 17.3% and 7.5% respectively by 1 April 2007, and also that a career average scheme is introduced for new staff. A period of consultation around the proposed changes has begun and any changes will be confirmed in August 2006. The next full actuarial valuation will be brought forward and will be undertaken as at 1 April 2007.

2006 Financial statements

Accounting standards require a market-based valuation to be undertaken at the year end and on this basis the main scheme is showing a net surplus of £170million as at 31 March 2006. This is an improvement of £592million on the valuation at 31 March 2005 of a £422million deficit, mainly due to a better performance of the scheme's assets in comparison to the returns expected (although some of this has reversed since the year end), but somewhat offset by changes in the assumptions underlying the scheme liabilities (such as the increase in longevity referred to above).

Despite this positive valuation, which has benefited from some recent improvements in the investment returns, it is more appropriate to review the funding of pension arrangements on the basis of the actuarial valuation as the volatility in the valuation of the scheme's assets and liabilities that FRS 17 introduced (see Note 8b iv) does not reflect the underlying long-term financial position of the scheme.

Treasury management

The BBC's main treasury management risks are ensuring that the BBC has sufficient liquid funds to meet its obligations as they fall due and that it is compliant with any borrowing limits (in particular those set out in the Charter, by DCMS and any external loan covenants). Note 23 gives more details of the BBC's treasury operations and policies.

Cash and debt

Group net debt reduced from £135million in 2005 to net funds of £50million at 31 March 2006, driven by the cash received on the sale of BBC Broadcast.

DCMS apply a different definition of net debt for UK Public Service Broadcasting which includes licence saving stamp deposits and direct

debit instalments. At the year end BBC Public Service Broadcasting had net funds of £18million (2005 borrowings of £89million) in accordance with the DCMS definition of borrowings, and remained within the borrowing ceiling of £200million throughout the year.

Long-term financial commitments for the current Charter period

To return to 'broadly zero' debt by the end of the Charter

At the year end UK Public Service Broadcasting had net funds of £18million.

During the year the commercial businesses continued to reduce their levels of net debt to £39million (2005 £122million). This was as a result of the increased profitability of the commercial businesses and debt leaving the Group on the sale of BBC Broadcast.

Further information on maturity of borrowings and available facilities is included in Note 23.

Changes in accounting policies

During the year the BBC has implemented a number of new UK accounting standards (FRS 21, 23, 25, 26, and 28). In particular the BBC has voluntarily implemented new standards relating to financial instruments. One of the main effects of this has been to recognise certain assets and liabilities, largely relating to contracts priced in foreign currencies and interest rate swaps, in the balance sheet for the first time. At the year end a net liability of £0.5million exists, which represents an unfavourable movement in exchange rates and interest rates.

International Financial Reporting Standards

For a number of years the BBC has voluntarily prepared its financial statements in accordance with the accounting and disclosure requirements of the Companies Act 1985, applicable UK accounting standards and the Financial Services Authority Listing Rules to ensure that its financial statements are prepared on a basis consistent with that of UK public limited companies. Recent changes in European and UK legislation now require UK listed companies to adopt International Financial Reporting Standards (IFRS) in their group financial statements for years beginning on or after 1 January 2005. For the BBC the first relevant year would have been the year ended 31 March 2006 (in addition, for consistency, the comparatives for the year ended 31 March 2005 would have been restated).

The BBC follows the highest standards in financial reporting, but it has decided not to adopt IFRS in its annual accounts for 2005/2006 for the following reasons:

- The BBC is a public body and from this year must report financial information to Her Majesty's Treasury (HMT) for inclusion in the Whole of Government Accounts (a consolidation of financial information covering the whole public sector) using consistent accounting standards, which are not presently based on IFRS because the approach of HMT in the Whole of Government Accounts is to follow UK accounting standards. The BBC has chosen to continue presenting its accounts under UK accounting standards until full convergence as we do not consider it value for money to produce two sets of financial statements.

- The UK Accounting Standards Board has a strategy for converging UK accounting standards with IFRS which involves, over time, issuing new UK standards that are based on IFRS to replace existing UK accounting standards. A number of UK accounting standards have already been converged with IFRS, for example FRS 21, 23, 25 and 26 which the BBC has implemented during the current year. The other standards that have been converged have not been applicable to the financial statements of the BBC to date.

However, the BBC has continued to review the impact that adoption of IFRS would have on the Group accounts and has presented a summary of the impact adopting IFRS will have on the financial statements. As at 31 March 2006 the BBC calculated that if it had adopted IFRS its net assets would be reduced by £145million to £1,052million.

	£m
Net assets as reported under UK accounting standards	1,197.0
Lease reclassification	(132.8)
Goodwill non-amortisation	3.1
Employee benefits	(15.3)
Deferred tax	(1.0)
Other	1.2
Net assets as they would be reported under IFRS	1,052.2

Some of the IFRS accounting changes, principally the reclassification of certain operating leases as finance leases, would have an effect on the calculation of Public Service Broadcasting borrowings as defined by the DCMS borrowing ceiling. The Public Service Borrowing limit of £200million is set within the BBC Charter and is based on UK accounting standards not IFRS. Borrowings under IFRS would have been £676million, compared with net funds of £18million under UK accounting standards. As accounting standards converge to IFRS, the Charter definition of borrowings would have to change.

For the year ended 31 March 2006 the BBC calculated that if it had adopted IFRS the surplus for the year would be reduced by £43million to a deficit of £39million.

	£m
Surplus as reported under UK accounting standards	3.6
Lease reclassification	(46.6)
Goodwill non-amortisation	3.1
Other	1.0
Deficit as it would be reported under IFRS	(38.9)

A more detailed reconciliation between the BBC's results and financial position under UK accounting standards and what would have been reported if IFRS had been adopted, along with further details of the adjustments, including the IFRS accounting policies and significant assumptions made in implementing those policies (such as the date of transition to the IFRS accounting policies) are available on the BBC's website at bbc.co.uk.



Zarin Patel

Group Finance Director
14 June 2006

Financial statements

Consolidated statement of income and expenditure

for the year ended 31 March

	Note	2006 £m	2005 £m
Income (including share of joint ventures)		4,234.5	3,997.1
Less: share of joint ventures	13b ii	(229.5)	(161.8)
Group income	1	4,005.0	3,835.3
Operating expenditure excluding exceptional restructuring costs		(4,094.1)	(4,022.2)
Exceptional restructuring costs	4c	(119.1)	(50.7)
Total operating expenditure	2	(4,213.2)	(4,072.9)
Group operating deficit		(208.2)	(237.6)
Share of operating surplus of associates and joint ventures		31.2	19.7
Operating deficit: Group and share of associates and joint ventures	3	(177.0)	(217.9)
Profit on sale and termination of operations	5	125.2	28.2
Profit/(loss) on disposal of fixed assets	6	16.0	(43.1)
Deficit before interest and taxation		(35.8)	(232.8)
Interest receivable and similar items	7a	13.5	5.2
Interest payable and similar items	7b	(12.0)	(11.3)
Other net finance income (from defined benefit pension scheme)	8c ii	65.7	65.4
Surplus/(deficit) before taxation and minority interest	1	31.4	(173.5)
Taxation	9	(27.7)	(15.2)
Minority interest		(0.1)	0.5
Surplus/(deficit) for the financial year	18	3.6	(188.2)

All results arise from continuing operations.

There is no difference between the results as disclosed above and the results on an historical cost basis.

Financial statements

Balance sheets

at 31 March

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Fixed assets					
Intangible fixed assets	10	19.3	20.3	–	–
Tangible fixed assets	11	697.2	721.6	493.0	488.1
Investment in programmes for future sale	12	106.5	97.3	–	–
Other investments	13	46.3	40.6	283.9	285.4
		869.3	879.8	776.9	773.5
Current assets					
Stocks	14	462.4	458.8	447.6	439.5
Long-term debtors	15	45.9	106.1	26.9	84.3
Current debtors	15	727.1	674.8	582.8	547.4
Total debtors		773.0	780.9	609.7	631.7
Short-term investments	21	–	41.9	–	22.6
Cash at bank and in hand	21	160.2	38.3	104.6	7.6
		1,395.6	1,319.9	1,161.9	1,101.4
Creditors – amounts falling due within one year	16b	(919.8)	(918.3)	(729.5)	(775.2)
Net current assets		475.8	401.6	432.4	326.2
Total assets less current liabilities		1,345.1	1,281.4	1,209.3	1,099.7
Creditors – amounts falling due after more than one year	16c	(116.8)	(187.6)	(33.3)	(34.7)
Provisions for liabilities	17	(196.2)	(139.6)	(164.5)	(94.9)
Net assets excluding pension asset/(liability)		1,032.1	954.2	1,011.5	970.1
Pension asset	8c i	170.2	–	–	–
Pension liability	8c i	(5.3)	(426.8)	–	–
Net assets		1,197.0	527.4	1,011.5	970.1
Represented by					
Operating reserve excluding pension reserve	18	257.5	188.7	237.0	204.3
Pension reserve	18	164.9	(426.8)	–	–
Total operating reserve	18	422.4	(238.1)	237.0	204.3
Capital reserve	18	771.3	761.8	771.3	761.8
Revaluation reserve	18	3.2	4.0	3.2	4.0
		1,196.9	527.7	1,011.5	970.1
Minority interest		0.1	(0.3)	–	–
		1,197.0	527.4	1,011.5	970.1

The financial statements were approved by the Governors and Executive Board on 14 June 2006 and signed on their behalf by:

Michael Grade
Mark Thompson
Zarin Patel

Chairman
Director-General
Group Finance Director

Financial statements

Consolidated statement of total recognised gains and losses

for the year ended 31 March

	Note	2006 £m	2005 £m
Group surplus/(deficit) for the financial year		3.6	(188.2)
Exchange differences on retranslation of overseas subsidiaries		1.9	(0.5)
Unrealised gain on disposal of business		–	22.8
Actuarial gain on defined benefit pension schemes	8c iii	661.1	80.9
Total recognised gains and losses relating to the year		666.6	(85.0)
Adjustment on adopting FRS 26	18	2.6	–
Total gains and losses since last annual report		669.2	(85.0)

The adjustment to reserves on adoption of FRS 26 relates to the fair value of derivatives existing at 1 April 2005 which have not been recognised in the comparatives, as permitted by the standard.

Reconciliations of movement in reserves

for the year ended 31 March

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Surplus/(deficit) for the financial year	3.6	(188.2)	41.4	(16.5)
Other recognised gains and losses relating to the year (net)	663.0	103.2	–	–
Increase/(decrease) in reserves during the year	666.6	(85.0)	41.4	(16.5)
Adjustment on adopting FRS 26	2.6	–	–	–
Increase/(decrease) in reserves since last annual report	669.2	(85.0)	41.4	(16.5)
Opening reserves	527.7	612.7	970.1	986.6
Closing reserves	1,196.9	527.7	1,011.5	970.1

Financial statements
Consolidated cash flow statement
for the year ended 31 March

Reconciliation of Group operating deficit to net cash flow from operating activities

	2006 £m	2005 £m
Group operating deficit	(208.2)	(237.6)
Depreciation and amortisation	197.3	198.6
Difference between pension charge and cash contribution	135.1	136.8
Loss on disposal of tangible fixed assets	2.4	8.8
Increase in stocks	(6.8)	(38.2)
Increase in debtors	(28.7)	(43.8)
Increase in creditors	47.5	24.4
Increase in provisions	77.5	32.9
Cash outflow on termination of operations	–	(1.7)
Net cash inflow from operating activities	216.1	80.2

Cash flow statement

	Note	2006 £m	2005 £m
Net cash inflow from operating activities		216.1	80.2
Dividends received from joint ventures and associates	13a	19.8	13.6
Return on investments and servicing of finance			
Interest received		13.5	5.2
Interest paid		(9.2)	(11.3)
Interest paid on finance leases		(0.5)	–
Net cash inflow/(outflow) from return on investments and servicing of finance		3.8	(6.1)
Taxation			
Taxation paid		(12.0)	(2.0)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(130.7)	(487.7)
Investment in programmes for future sale		(73.6)	(75.5)
Investment in intangible fixed assets		(0.4)	(0.5)
Repayment of loan to associate undertaking		0.4	0.3
Proceeds from the sale of tangible fixed assets		20.2	382.6
Net cash outflow from capital expenditure and financial investments		(184.1)	(180.8)
Acquisitions and disposals			
Purchase of a subsidiary		(0.8)	–
Purchase of interest in associates and joint ventures		(4.1)	(7.1)
Proceeds from sale of operations		166.1	144.1
Proceeds from disposal of interests in associates		–	21.0
Net cash inflow from acquisitions and disposals		161.2	158.0
Net cash inflow before use of liquid resources and financing		204.8	62.9
Management of liquid resources			
Sale/(purchase) of other liquid resources	20	41.9	(29.3)
Net cash inflow/(outflow) from management of liquid resources	20	41.9	(29.3)
Financing			
Increase in loans		57.0	20.0
Repayment of loans		(135.0)	(50.0)
Capital repayment of finance leases		(9.4)	(3.2)
Repayment of loan notes		(0.5)	(0.1)
Net cash outflow from financing	20	(87.9)	(33.3)
Increase in cash in the year	20	158.8	0.3

Financial statements

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently throughout the year and in the preceding year except where stated. A footnote in italics follows some policies to explain technical aspects of the accounting treatment in plain English.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter and Agreement. Although not mandatory, the BBC has in previous years chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the Financial Services Authority Listing Rules to ensure that its financial statements were prepared on a basis consistent with those of UK public limited companies.

Following changes in company law, if it had continued to report as if it were a public limited company, the BBC would have prepared its Group financial statements in accordance with EU-adopted International Financial Reporting Standards (IFRS) from 1 April 2005. However, as discussed in the Financial review (see pages 92 to 94), reporting under IFRS would be inconsistent with Government reporting. Instead the current financial statements have been prepared under UK GAAP as in previous years.

In line with other companies, the BBC files with Companies House audited financial statements for all its subsidiary companies.

Basis of accounting

The financial statements are presented in accordance with UK GAAP under the historical cost accounting convention as modified by the revaluation of certain plant, machinery, furniture and fittings.

Adoption of new accounting standards

The BBC has adopted the following applicable UK accounting standards for the first time in these Group accounts.

- FRS 21 (IAS 10) *Events after the balance sheet date*. This has had no impact on the statement of income and expenditure or the balance sheet.
- FRS 23 (IAS 21) *The effects of changes in foreign exchange rates*. The principal effect of this change is that transactions are now recorded at the prevailing exchange rate and not the forward contract rate if a related foreign currency contract has been entered into. The gain or loss when the forward contract is discharged flows directly to the statement of income and expenditure.
- FRS 25 (IAS 32) *Financial Instruments: Disclosure and Presentation* and FRS 26 (IAS 39) *Financial Instruments: Measurement*. The principal effect of these standards has been to recognise derivative financial instruments. As permitted under these standards the 2005 comparatives have not been restated and continue to be presented under previously applicable accounting standards.
- FRS 28 *Corresponding amounts*. This has had no impact on the statement of income and expenditure or the balance sheet.

Basis of consolidation

The Group comprises:

- UK Public Service Broadcasting (the deemed parent company) and those subsidiaries incorporated to act solely on its behalf,

notably Centre House Productions Limited, BBC Property Limited, BBC Property Investment Limited and BBC Free to View Limited (UK Public Service Broadcasting Group)

- BBC World Service (and its subsidiaries)
- Commercial subsidiary companies comprising BBC Commercial Holdings Limited and its various subsidiaries (notably BBC World Group and BBC Ventures Group – which includes BBC Worldwide)

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of profits less losses of associates and joint ventures is included in the consolidated statement of income and expenditure and its interest in their net assets is included in the consolidated balance sheet except where the BBC has no obligation to make good its share of their cumulative operating losses.

A separate statement of income and expenditure reflecting the results of UK Public Service Broadcasting has not been presented, as permitted by Section 230 of the Companies Act 1985 as if it were a company.

These accounts of the Group include the results of UK Public Service Broadcasting, BBC World Service and all other businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses over which the BBC has influence but not control (associates) and those which the BBC jointly controls (joint ventures).

Investments in Group undertakings

Other than the BBC World Service, investments are recorded on the balance sheet of UK Public Service Broadcasting at cost less provision for any impairment in value.

The funding of UK Public Service Broadcasting and of BBC World Service is legally separate and cross-subsidisation is not permissible. Accordingly, for the purposes of preparing UK Public Service Broadcasting's balance sheet, UK Public Service Broadcasting is considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

Income

Income, which excludes value added tax, trade discounts and sales between Group companies, is comprised of the following key classes of revenue, which are recognised as follows:

■ Television licences

Income derived from television licences is recognised when receivable from the Department for Culture, Media and Sport. This represents the value of licences issued in the year. The amount which can be paid in cash to the BBC for any year cannot exceed the total amount voted by Parliament for that year. Any excess between the value of licences issued and the amount voted is recognised in the following year.

Financial statements

Statement of accounting policies

■ **Grant-in-Aid from the Foreign and Commonwealth Office**

BBC World Service Grant-in-Aid is recognised when receivable from the Foreign and Commonwealth Office. It is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.

■ **Provision of equipment, facilities and services**

With the exception of long-term contracts, income is recognised when the equipment, facilities and services are provided to customers.

For long-term contracts, the amount of profit attributable to the stage of completion is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in prior years. Provision is made for any future losses as they are foreseen.

■ **Provision of programme making facilities and services**

Recognised on provision of service.

■ **Distribution and advertising income**

Recognised on provision of service.

■ **Licence fees from international television programme sales**

Recognised at the start of the licence period unless the programme rights have not been delivered by that date, in which case, revenue is recognised on delivery of the rights.

■ **Sale of promotional merchandise and income from publishing**

Recognised at the time of delivery or on provision of service. Sales are stated after deduction of the sales value of actual and estimated returned goods.

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service Broadcasting or BBC World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 76 to 78 of this report.

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March. Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end, are taken to the statement of total recognised gains and losses.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those retranslations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

The BBC operates both defined benefit and defined contribution schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution schemes represent the contributions payable by the BBC for the accounting periods in respect of these schemes.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. The assets of the BBC's main scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC.

The BBC pension scheme is a Group wide scheme and UK Public Service Broadcasting and its subsidiary undertakings are unable to identify their shares of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. Therefore as required by FRS 17, *Retirement benefits*, UK Public Service Broadcasting accounts for the scheme as if it were a defined contribution scheme. As a result the expenditure charged under FRS 17 for UK Public Service Broadcasting represents the contributions payable in the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the Group. The BBC makes cash contributions to that fund in advance of members' retirement.

Research and development

Research and development expenditure is written off as incurred.

Intangible fixed assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired) arising on acquisition of a subsidiary or business, is capitalised and amortised on a straight line basis over its useful economic life (usually 20 years), subject to reviews for impairment. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10 *Goodwill and intangible assets* goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

Goodwill arises when the BBC pays more for a business than the sum of the business' net assets acquired, representing the fact that the Group places more value on the business entity as a whole (usually due to expected synergies or earning potential of that business). As such, this

premium is treated as being an asset in its own right and held on the Group's balance sheet, with a presumed economic life of 20 years.

As with any other asset, the profit or loss on sale or disposal (in this case sale/disposal of the business) is calculated after writing off the unamortised amount still held on the Group's balance sheet.

Other intangibles

Other intangibles are capitalised and amortised on a straight line basis over their useful economic life (usually 2–4 years) subject to review for impairment.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental internal direct labour costs incurred on capital projects. Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation and any provision for impairment.

UK Public Service Broadcasting's plant and machinery is stated at the estimated current replacement cost of the assets, as at 31 March 1993, adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as at 1 April 1996, as adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

There is no material difference between the net book value of these tangible fixed assets and their value as determined on an historical cost basis.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings

Freehold land	– not depreciated
Freehold and long-leasehold buildings	– 50 years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to 25 years
Other	– three to ten years

Furniture and fittings	– three to ten years
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The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue them on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation

of investment in programmes for future sale is charged to the statement of income and expenditure over the estimated average marketable life of the programme genre which is generally between two and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

The cost of programmes for sale is charged to the statement of income and expenditure to match the expected timing of income from future sales.

Impairment of fixed assets

The Group reviews the carrying amounts of its fixed assets when there is an indication that those assets may have suffered an impairment loss.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the resulting impairment loss is recognised in the statement of income and expenditure immediately.

Originated programme stocks and work in progress

Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Programme development costs are expensed to the statement of income and expenditure until such time as there is a strong indication that the development work will result in a commissioned programme when any further costs are capitalised as work in progress.

Net realisable value is based upon arm's length contract prices negotiated between the channel controllers and programme makers.

Acquired programmes and film stocks

The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are likely in the foreseeable future, when they are written off according to their expected transmission profile. Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period, whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Other stocks

Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from past events and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions that are payable over a number of years are discounted to net present value at the balance sheet date using a discount rate appropriate to the particular provision concerned.

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Statement of accounting policies

Deferred tax

Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date except as otherwise required by FRS 19 *Deferred tax*. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

Operating leases

Operating lease rentals are written off on a straight line basis over the term of the lease.

An operating lease is a lease in which the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee – the BBC – has not acquired an asset but is hiring it, so the hire charge is included in the BBC's costs.

The BBC receives operating lease income which is also accounted for on a straight line basis over the term of the lease.

Finance leases

Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged in the statement of income and expenditure and the capital element, which reduces the lease creditor.

A finance lease is a lease that transfers substantially all the risks and rewards of owning and operating an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

Reserves

Each year an amount equivalent to the costs expended by the Home and World Services on capital assets over and above depreciation, adjusted for disposals, is transferred to capital reserve so that, at the balance sheet date, the amount of the capital reserve is equivalent to the historical cost net book value of Home and World Services' fixed assets.

The revaluation reserve reflects the difference between the net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost compared with their revalued amount.

The operating reserve is the accumulated surplus of the income and expenditure account to date.

The pension reserve represents the net surplus or liability of the Group's defined benefit pension schemes.

The BBC is careful not to mix UK Public Service Broadcasting and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable

on demand. Liquid resources are current asset investments which are readily convertible into known amounts of cash at, or close to, their carrying values: they comprise money market deposits and liquidity funds with a notice period in excess of one working day.

Financial instruments

The Group does not enter into speculative derivative contracts. However some derivative financial instruments are used with a view to managing the BBC's exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments are initially recognised at cost and are subsequently remeasured at fair value with movements recorded in the statement of income and expenditure.

A limited number of derivative financial instruments are used to hedge the Group's exposure to fluctuations in interest rates. The fair value of interest swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations. The fair value of foreign currency forward contract rates is determined by using forward exchange market rates at the balance sheet date.

The Group does not apply hedge accounting but instead allows the movement on the fair values of the hedging contracts to flow to the statement of income and expenditure as it arises.

The Group's loans are stated at amortised cost using the effective interest rate.

Disclosure of the Group's loans and other financial assets and liabilities is provided within Note 23 to the financial statements.

The BBC's derivative financial instruments comprise forward exchange contracts and interest rate swaps.

Forward exchange contracts provide certainty of future expenses and income in a foreign currency by fixing the exchange rate rather than waiting for the prevailing exchange rate at the time of the transaction or payment. The BBC also enters into interest rate swaps to effectively swap a floating rate loan into a fixed rate loan, again to provide more certainty of interest payments.

Depending on how exchange rates and interest rates move between the time the Group enters into the transaction and the year end, these derivatives can either be profitable ('in the money') or loss-making in their own right. However, the rationale in entering into these derivatives is not to profit from currency markets or interest rate fluctuations, but to provide stability to the BBC's cashflows. The movements relating to these derivatives (ie where they are either in profit or loss-making), are taken to the Group's statement of income and expenditure for the year.

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Notes to the financial statements

Note 1 provides analysis of the different business areas within the BBC.

I Analysis of income, surplus/(deficit) and net assets

Ia Analysis of income, surplus/(deficit) and net assets by activity

UK Public Service Broadcasting Group (referred to as 'Home Services' within the BBC Charter) comprises the UK Public Service Broadcasting operations and those subsidiary companies incorporated to act solely on behalf of those public service operations.

BBC World Service comprises broadcasting and media monitoring activities.

Commercial Businesses comprise businesses which generate external income from exploitation of the BBC's programmes, other assets and skill base.

Note	UK Public Service Broadcasting Group £m	BBC World Service £m	Commercial Businesses £m	Total £m
2006				
	3,242.1	260.5	976.6	4,479.2
	(117.3)	(0.3)	(127.1)	(244.7)
	3,124.8	260.2	849.5	4,234.5
	–	–	(229.5)	(229.5)
	3,124.8	260.2	620.0	4,005.0
	(105.7)	(1.9)	206.9	99.3
				(135.1)
				65.7
				1.5
				31.4
	730.5	158.6	143.0	1,032.1
				164.9
				1,197.0
2005				
	3,084.8	247.7	1,090.3	4,422.8
	(120.1)	(0.5)	(305.1)	(425.7)
	2,964.7	247.2	785.2	3,997.1
	(0.9)	–	(160.9)	(161.8)
	2,963.8	247.2	624.3	3,835.3
	(194.5)	7.1	91.4	(96.0)
				(136.8)
				65.4
				(6.1)
				(173.5)
	689.2	160.1	104.9	954.2
				(426.8)
				527.4

*In accordance with FRS 17 these items are not split between business classes because they are managed centrally across the Group and it is not possible to allocate them on a reasonable and consistent basis

†The actual employer cash contribution to the defined benefit pension scheme is included in the surplus/(deficit) before interest, taxation and non-cash pension costs of each entity. The additional operating cost is the cost to the Group over and above these cash contributions

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Notes to the financial statements

The income from licences represents the value of all licences issued in the year:

Ib UK Public Service Broadcasting Group income

	2006 £m	2005 £m
Licence fee income		
Colour	2,622.3	2,489.2
Monochrome	1.8	2.0
Concessionary	0.9	0.9
Over 75s	459.2	432.3
Quarterly payment scheme premium	16.4	15.9
Total licence fee income	3,100.6	2,940.3
Other income	24.2	23.5
Total external income	3,124.8	2,963.8

Other income includes the provision of content and services to overseas broadcasters, concert ticket sales and exploitation of the programme archive.

During the year 3.3 million (2005 3.2 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2005 £5).

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the relevant Government departments.

Licences in force are those which are still valid as at 31 March each year.

	2006 Number m	2005 Number m
Licences in force		
Colour	20.8	20.6
Monochrome	0.1	0.1
Over 75s	3.9	3.8
Concessionary	0.2	0.2
	25.0	24.7

Licence fees are set by the Department for Culture, Media and Sport.

	2006 £	2005 £
Licence fees		
Colour	126.50	121.00
Monochrome	42.00	40.50
Concessionary	5.00	5.00

From 1 April 2006 the colour and monochrome licence fees were increased to £131.50 and £44 respectively. The concessionary licence remained at £5.

Ic Geographical analysis of UK Public Service Broadcasting Group

UK Public Service Broadcasting Group income and deficit arise in the UK. The net assets used by these operations are located in the UK.

Id BBC World Service income

	2006 £m	2005 £m
Grant-in-Aid	239.1	225.1
Subscriptions	15.8	16.7
Other income	5.3	5.4
Total external income	260.2	247.2

Other income is generated from the sale of programmes, co-production deals, publishing activities and the provision of media monitoring services.

Ie BBC World Service (deficit)/surplus before interest and taxation by activity

	2006 £m	2005 £m
Broadcasting	0.7	7.7
BBC Monitoring	(2.6)	(0.6)
Total (deficit)/surplus before interest and taxation	(1.9)	7.1

If Geographical analysis of BBC World Service

BBC World Service income, operating expenditure and (deficit)/surplus arises primarily in the UK.

Location of BBC World Service net assets:	2006 £m	2005 £m
UK	65.8	66.2
Overseas	92.8	93.9
Net assets	158.6	160.1

Ig Analysis of Commercial Businesses' income by activity

	2006 £m	2005 £m
Children's, new media and home entertainment	133.5	161.0
Television sales	193.5	158.2
Magazines	152.1	163.5
Entertainment and news television channels	112.1	90.8
Provision of playout and channel management services	31.5	108.9
Provision of programme making facilities and services	124.4	135.1
Provision of technology services	–	111.9
Less intra-Group income	(127.1)	(305.1)
Total external income	620.0	624.3

Ih Geographical analysis of Commercial Businesses

This table shows where the customers of Commercial Businesses are based.

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2006				
External income by destination	302.4	147.6	170.0	620.0
Surplus before interest and taxation	167.5	7.6	31.8	206.9
Net assets	106.8	35.9	0.3	143.0
2005				
External income by destination	358.9	115.6	149.8	624.3
Surplus before interest and taxation	69.7	4.1	17.6	91.4
Net assets	75.9	28.5	0.5	104.9

All commercial income originates in the UK as this is where rights for exploitation and the skills and services of the Commercial Businesses are developed.

2 Operating expenditure

2a Analysis of operating expenditure by activity

	Note	Total 2006 £m	Total 2005 £m
UK Public Service Broadcasting Group	2b	3,236.7	3,107.7
BBC World Service*	2c	262.1	240.1
Commercial Businesses	2d	579.3	588.3
Non-cash pension scheme operating costs**		135.1	136.8
		4,213.2	4,072.9

*BBC World Service expenditure of £262.1 million (2005 £240.1 million) excludes £0.3 million (2005 £0.5 million) of expenditure on the provision of services to other BBC Group companies

**In accordance with FRS 17 the non-cash operating costs are not split between the business activities as it is not possible to do this on a reasonable and consistent basis

2b UK Public Service Broadcasting Group expenditure

	Note	2006 £m	2005 £m
Analogue services			
BBC One	(i)	840.4	872.9
BBC Two	(i)	374.1	374.5
National and regional television	(ii)	228.6	213.5
National, regional and local radio		141.3	142.2
BBC Radio 1		17.7	17.8
BBC Radio 2		24.1	23.8
BBC Radio 3		31.1	32.0
BBC Radio 4		71.4	71.3
BBC Radio Five Live	(i)	48.9	53.8
		1,777.6	1,801.8
Digital services			
The CBBC Channel, CBeebies	(iii)	63.2	49.7
BBC Three		92.9	92.9
BBC News 24		23.1	22.9
BBC Parliament		1.9	2.2
BBC Four	(iv)	46.9	41.1
Interactive television (BBCi)		18.2	17.1
IXtra		5.7	5.7
BBC Radio Five Live Sports Extra		1.6	1.6
6 Music		4.4	4.5
BBC 7		5.0	4.8
BBC Asian Network	(v)	7.6	5.4
bbc.co.uk		72.3	69.2
BBC jam (formerly known as Digital Curriculum)	(vi)	35.5	8.3
		378.3	325.4
Transmitted programme spend		2,155.9	2,127.2

table continues

2b UK Public Service Broadcasting Group expenditure continued

	Note	2006 £m	2005 £m
Programme related spend			
Newsgathering		89.5	89.5
Collecting society		60.4	57.2
Orchestras and performing groups		19.0	17.9
Marketing, press and publicity		40.3	49.6
On-air trails		23.7	24.5
Market research and consumer services		12.1	16.0
Libraries, helplines, development and one-off events		93.3	84.2
		338.3	338.9
Total programme spend		2,494.2	2,466.1
Overheads excluding restructuring	(vii)	311.5	281.6
Total output spend		2,805.7	2,747.7
Percentage of output spend on programmes		89%	90%
Licence fee collection costs		153.4	152.0
Transmission costs	(viii)	166.9	157.3
		320.3	309.3
Exceptional restructuring costs	(ix), 4c	106.7	50.7
Digital UK costs	(x)	4.0	–
Total UK PSB expenditure		3,236.7	3,107.7

- (i) Spend on BBC One and BBC Radio Five Live was higher in 2005 due to coverage of the Olympics and Euro 2004.
- (ii) National and regional television spend increased in 2006 to support the BBC's policy of investment in local television initiatives and local politics programming.
- (iii) Spend on the children's channels has increased due to proportionally more quality content, particularly drama, being premiered on The CBBC Channel and CBeebies, rather than BBC One or BBC Two.
- (iv) Spend on BBC Four reflects the continuation of the channel's investment programme in original output, including drama and comedy.
- (v) Increased costs were incurred by BBC Asian Network on new refurbished facilities and the first phase of a new strategy which will see a strengthening schedule with increased investment in journalism.
- (vi) BBC jam, formerly known as the Digital Curriculum, launched in January 2006 with content available in four subject areas. The service will continue to expand over the next two and a half years, with content covering a range of subjects across the curriculum and Key Stages being made available at regular intervals.
- (vii) Overheads are the costs associated with the provision of physical infrastructure and support services across the BBC, which include the cost of accommodation, technology, finance and human resources. The proportion of these costs which are directly attributable to programme making are included within total programme spend, whilst the costs of services provided across the BBC as a whole are shown as overhead spend. In 2000 the BBC adopted a target to increase the proportion it spends on programmes, in relation to its total output spend. Output spend excludes licence fee collection costs, transmission costs, exceptional restructuring costs and Digital UK costs. The BBC targeted to increase the proportion of spend on programming to 85% which was achieved in 2003, and in 2006 the proportion of output spend incurred on programming was 89%. Overheads in 2006 are higher than 2005, as a result of one-off rebates in National Insurance and property rates in 2005.
- (viii) Of the transmission costs, £77.2million relates to analogue services (2005 £76.7million) and £89.7million to digital services (2005 £80.6million).
- (ix) Restructuring costs include those costs relating to the change programme occurring within the BBC which will deliver £355million savings annually from 2008/2009.
- (x) Digital UK costs represent the BBC share of the running costs and marketing expense for Digital UK, the company that will drive switchover in the UK, in line with Government strategy.

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BBC World Service expenditure excludes expenditure on intra-Group activities.

2c BBC World Service expenditure

	2006 £m	2005 £m
Radio	178.4	159.1
Monitoring	26.5	25.2
Transmission and distribution costs	42.8	42.3
Internet activity	14.4	13.5
Total	262.1	240.1

BBC World Service expenditure includes £12.4million of exceptional restructuring costs (see Note 4c).

The expenditure shown for Commercial Businesses relates only to external income and excludes expenditure relating to sales within the BBC.

2d Commercial Businesses' expenditure

	Note	2006 £m	2005 £m
Cost of sales		325.8	323.5
Distribution costs		149.5	136.9
Administrative and other costs		21.7	48.9
Amortisation of programme investment	12	82.3	79.0
Total		579.3	588.3

3 Operating deficit

The operating deficit before interest and taxation is stated after charging/(crediting) the following items:

	2006 £m	2005 £m
Payments under operating leases		
– land and buildings	60.8	59.5
– plant and machinery	4.3	13.2
– other	12.5	10.2
Research and development	16.2	18.8
Programme development	31.7	29.2
Depreciation		
– owned assets	107.1	113.9
– leased assets	6.5	1.7
Loss on disposal of tangible fixed assets*	2.4	8.8
Amortisation of investment in programmes for future sale	82.3	79.0
Amortisation of intangible fixed assets	1.4	4.0
Net exchange differences	(0.5)	(2.8)
Fair value losses on embedded derivatives	5.1	–
Fair value gains on forward foreign currency contracts	(4.3)	–
Auditors' remuneration (KPMG LLP)		
– financial audit – UK Public Service Broadcasting	0.7	0.6
– other	0.5	0.5
– further assurance services	0.3	0.4
– tax advisory services	0.3	0.4
– other non-audit services	0.4	0.3
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	0.4	0.4

*Loss on disposal of tangible fixed assets represents adjustments to depreciation on disposals in the ordinary course of business. Significant disposals are disclosed separately in Note 6

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2006 Number	2005 Number
UK Public Service Broadcasting	18,860	19,647
BBC World Service	2,367	2,347
Commercial Businesses	4,150	5,270
Group total	25,377	27,264

Within the averages above, 2,981 (2005 3,414) part-time employees have been included at their full-time equivalent of 1,717 (2005 1,593).

In addition to the above, the Group employed an average full-time equivalent of 823 (2005 785) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 382 (2005 378) full-time equivalents.

On 31 July 2005 the equivalent of 1,056 full-time employees transferred to Red Bee Media Limited as part of the sale of BBC Broadcast Limited. This transfer is reflected in the average for 2006.

4b Staff costs

	Note	2006 £m	2005 £m
Salaries and wages		988.4	1,038.6
Social security costs		88.4	95.1
Pension costs			
– main scheme (defined benefit)	8c ii	184.9	176.8
– other schemes	8c ii	1.1	1.6
Redundancy costs	4c	129.5	61.5
		1,392.3	1,373.6
Comprising:			
UK Public Service Broadcasting		986.9	909.9
BBC World Service		100.6	84.3
Commercial Businesses		169.7	242.6
Main pension scheme additional operating cost (defined benefit)*		135.1	136.8
		1,392.3	1,373.6

*The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the Group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis

4c Restructuring costs

	Note	2006 £m	2005 £m
Exceptional redundancy costs:			
– UK Public Service Broadcasting	2b	106.7	50.7
– BBC World Service		12.4	–
		119.1	50.7
Non-exceptional redundancy costs:			
– BBC World Service		3.9	3.0
– Commercial Businesses		6.5	7.8
		10.4	10.8
	4b	129.5	61.5

Exceptional redundancy costs relate to the change programme occurring within UK Public Service Broadcasting and the strategic review of BBC World Service.

4d Remuneration of the Board of Governors and Executive Board

The emoluments of the Governors and of the Executive Board members are disclosed on page 88 in the Governors' remuneration report.

5 Profit on sale and termination of operations

	Note	2006 £m	2005 £m
Profit on sale of BBC Broadcast Limited	19	108.8	–
Profit on sale of BBC Technology Holdings Limited		15.2	32.4
Profit on disposal of learning business	19	1.7	–
Loss on termination of operations		(0.5)	(4.6)
Profit on disposal of children's book business		–	0.4
Profit on sale and termination of operations		125.2	28.2

On 31 July 2005, the Group sold BBC Broadcast Limited, a wholly owned subsidiary, for £166.0million consideration to Creative Broadcast Services Limited, a company owned by Macquarie Capital Alliance Group and Macquarie Bank Limited (see Note 19). BBC Broadcast Limited provided playout and channel management services.

On 30 September 2004 the Group sold BBC Technology Holdings Limited to Siemens Business Services Limited. A profit of £32.4million was recorded in 2005 after providing £21.1million for the estimated pension liability in respect of the expected number of BBC Pension Scheme members transferring to Siemens Business Services Limited. During the year, after confirmation of the actual staff transferred from the BBC to the Siemens pension scheme the value of the pension liability was confirmed as £5.9million, resulting in a further profit of £15.2million.

In October 2005 BBC Worldwide entered into an agreement with Pearsons Education to form a partnership named BBC Active. In return for the transfer of the assets of its learning division to the partnership, BBC Worldwide acquired a 15% share in the new partnership together with cash of £6.6million (see Note 19). The Group is accounting for its investment as an associate undertaking.

In August 2005, BBC Worldwide announced its intention to terminate its teacher learning business, which maintained a learning website. During the year ended 31 March 2006 termination costs totalling £0.5million were charged to the profit and loss account, of which £0.3million was in respect of the write off of assets held at 31 March 2005. The balance of £0.2million comprised the cash costs of exiting the business.

During the prior year BBC Worldwide Limited terminated its multimedia publishing business which developed and marketed gaming titles for Playstation, Xbox and Gameboy platforms. This resulted in termination costs of £2.7million of which £1.4million comprised the cash costs of exiting the business and £1.3million comprised the write-down of stocks held at 31 March 2004.

In July 2004 the Group decided to terminate the operations of BBC Vecta Limited. This resulted in a loss on termination of business of £1.9million of which £0.3million comprised cash termination costs.

6 Profit/(loss) on disposal of fixed assets

	2006 £m	2005 £m
Disposal of music publishing rights	9.3	–
Regional properties	1.5	19.4
Other properties	5.2	–
White City site	–	(62.5)
Profit/(loss) on disposal of fixed assets	16.0	(43.1)

In May 2005 BBC Worldwide completed the sale of its current catalogue of music publishing rights held within Investment in programmes for future sale. Consideration of £10.3million was received, with a profit of £9.3million. A cash advance against the deal was received in March 2005.

In 2005 the BBC entered into a sale and leaseback of regional properties; 20 regional properties were disposed in 2005 realising a profit of £19.4million. In 2006, two further regional properties were disposed in this way realising a profit of £1.5million. In 2006 the BBC also disposed of Melbourne House, the Hippodrome and Motspur Park properties realising a combined profit of £5.2million.

In the prior year the BBC changed the terms on which it occupies the White City site. This involved a number of discrete legal steps, including: purchase of the freehold of the White City site from the BBC's joint venture with Land Securities Trillium (LST); cancellation of the existing lease on the White City site and the White City Development Partnership capital; and the sale and leaseback of the White City site with a new third party investment vehicle.

The BBC considers that the substance of these discrete steps is that they formed part of a single property related transaction. This gave rise to a net charge to the income and expenditure account in the year of £62.5million, comprising a £1.5million loss on disposal of the White City site, £8.5million accelerated amortisation of goodwill in the property partnerships and £52.5million from the accelerated amortisation of balances previously shown in long-term prepayments. There was no cash effect from this accelerated amortisation. The BBC expects that the charge recorded in 2005 will be more than compensated in future years through reduced rental payments.

7 Interest

7a Interest receivable and similar items

	2006 £m	2005 £m
Interest receivable	13.5	5.2

7b Interest payable and similar items

	2006 £m	2005 £m
Fair value losses on interest rate swaps	(2.3)	–
Interest payable on bank and other loans	(9.2)	(11.3)
Finance charges payable in respect of finance leases	(0.5)	–
Interest payable and similar items	(12.0)	(11.3)

8 Pensions

8a Group pension schemes

The Group operates several pension schemes. The BBC Pension Scheme (the BBC's most significant scheme) and a small unfunded scheme (which is closed to new members) are contributory defined benefit schemes. Additionally the Group Personal Pension Scheme and other small schemes are defined contribution schemes. Note 8b describes the BBC Pension Scheme and Note 8c explains all the amounts included in the financial statements.

8b BBC Pension Scheme

The BBC Pension Scheme is the main pension scheme of the Group and covers the majority of employees. This scheme provides salary related benefits on a defined benefit basis funded from assets held in separate trustee-administered funds.

The pension scheme trustees manage the scheme in the short, medium and long-term. They make funding decisions based on valuations which take a longer term view of the assets required to fund the scheme's liabilities.

Valuations of the scheme are performed by Watson Wyatt, consulting actuaries. Formal valuations are undertaken every three years, and interim updates of the latest formal valuation are carried out for each financial year end. The most recent formal valuation was carried out as at 1 April 2005 and, consistent with changes in the valuation methodology used by other pension schemes, the actuarial valuation of the assets has changed and has been carried out using a market-based method. The previous formal valuation (April 2002) and its interim updates, including March 2005, were carried out on the basis of an assessed value method (see Note 8b iv).

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The maturity of a scheme provides an indication of the cash requirements of the scheme and the likely attitude of the trustees to risk within their investment policy. The more mature a scheme, the more likely that trustees will favour low risk investments.

8b i Scheme membership analysis and maturity profile

	2006 Number	2005 Number	2004 Number
Contributors	19,864	21,093	21,426
Pensioners	16,803	16,567	16,302
Dependants	3,676	3,622	3,555
Deferred pensioners	16,890	16,241	14,864

8b ii Funding the scheme

The scheme has shown an actuarial surplus for many years which has allowed both the BBC and the scheme members to pay contributions at reduced rates.

As a result of the 2005 market-based valuation by Watson Wyatt, it has been agreed between the Group and the trustees that employer contributions will increase to 7.5% on 1 April 2006 (with employee contributions rising to 6% in summer 2006) and then rise to 17.3% on 1 April 2007 with employee contributions rising to 7.5% on the same date. This is part of the ongoing consultation process with BBC staff on the proposed changes to the pension scheme. Ordinarily the next formal actuarial valuation would be performed on 1 April 2008, however, given the current consultation, the next formal valuation has been brought forward to 1 April 2007. The position will be reviewed again once the results of the 1 April 2007 valuation are known.

	Projections		2006 %	2005 %	2004 %	2003 %
	2008 %	2007 %				
Employer	17.3	7.5	6.0	5.5	5.0	4.5
Employee	7.5	5.5/6.0	5.5	5.0	4.5	4.5

Underlying cost of scheme to BBC

as % of pensionable salaries*	17.3	19.3/18.8	19.3	19.0	19.5	20.4
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*Excludes the cost effectively paid for by the employee

8b iii Scheme cash flows (day-to-day liquidity)

In 2006 cash outflows from the pension scheme exceed its cash inflows, however, this includes an outgoing of £29.8million due to transfers out relating to the sale of BBC Technology.

	2006 £m	2005 £m	2004 £m
Contributions (employer and employee)	112	99	90
Investment income	189	187	167
Cash inflows	301	286	257
Payments of pensions and transfers out	(275)	(239)	(220)
Expenses	(29)	(22)	(20)
Net cash inflow	(3)	25	17

This note considers whether the scheme's assets are sufficient to cover the scheme's liabilities.

The FRS 17 valuation takes assets at their market value and discounts the accrued liabilities by reference to the discount rate of an AA rated corporate bond.

An actuarial valuation assumes the scheme will continue for the foreseeable future.

8b iv Ability to meet long-term commitments and scheme financial position

The most recent formal valuation (as at 1 April 2005) shows a surplus of £13.0million (with assets sufficient to cover just over 100% of the benefits due to members).

FRS 17 valuation	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Scheme assets (Note 8b v)	7,846	6,342	5,880	4,903	6,219
Scheme liabilities (Note 8b vi)	(7,676)	(6,764)	(6,312)	(5,973)	(5,254)
Surplus/(deficit)	170	(422)	(432)	(1,070)	965
Percentage by which scheme assets cover liabilities	102%	94%	93%	82%	118%

Actuarial valuation*	2005 Final £m	2005 Interim £m	2004 Interim £m	2003 Interim £m	2002 Final £m
Scheme assets (Note 8b v)	6,406	6,038	5,668	5,496	5,392
Scheme liabilities (Note 8b vi)	(6,393)	(5,764)	(5,525)	(5,229)	(4,951)
Surplus	13	274	143	267	441
Percentage by which scheme assets cover liabilities	100%	105%	103%	105%	109%

*For the years 2002 to 2005 interim, the actuarial valuation of assets was carried out on an assessed value method which values assets by projecting the income that will be generated by the assets, and discounts both assets and liabilities by reference to a prudent long-term average discount rate which is consistent with the scheme's asset portfolio

The 2005 final actuarial valuation has been carried out using a market-based method which takes assets at their market value on the assessment date and discounts the liabilities by reference to a discount rate consistent with market conditions at that time and the scheme's asset portfolio.

A deferred tax asset or liability will not arise for the Group because most of the Group's public service activity is not subject to taxation.

Financial statements

Notes to the financial statements

Where FRS 17 values are higher than actuarial values in 2004 and 2005 it means the market was anticipating greater future investment returns than were being assumed in funding the scheme's liabilities.

8b v Scheme assets

The allocation of assets by the scheme trustees is governed by a need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the trustees expect will produce higher returns in the long term. The target allocation, based on market values, for equities is 60%, bonds and gilts 30% and property 10%.

Type of asset	Long-term rate of return expected at 31 March (used for market value)	FRS 17 value		Actuarial value* Final		Actuarial value* Interim	
		£m	%	£m	%	£m	%
2006							
Equities	7.7%	5,687	73				
Bonds and gilts	4.4%	1,116	14				
Property	6.1%	890	11				
Cash	3.9%	153	2				
Total assets		7,846					
2005							
Equities	7.7%	4,333	68	4,320	67	4,294	71
Bonds and gilts	4.7%	1,050	17	1,063	17	909	15
Property	6.2%	737	12	737	12	668	11
Cash	3.7%	222	3	286	4	167	3
Total assets		6,342		6,406		6,038	
2004							
Equities	7.9%	4,118	70			4,109	72
Bonds and gilts	4.8%	1,048	18			902	16
Property	6.3%	597	10			556	10
Cash	3.9%	117	2			101	2
Total assets		5,880				5,668	

*As per 8b iv, for the 2004 and 2005 actuarial valuations the scheme assets were valued on an assessed value basis, but for the 2005 final a market-based method was used for the actuarial valuation and therefore the scheme assets would be valued at the same amount for both FRS 17 and actuarial purposes from 2006 onwards.

The last formal valuation was undertaken in 2005. The 2005 and 2004 figures are from an interim update of the 2002 formal valuation.

8b vi Scheme liabilities

The calculation of the scheme liabilities requires a number of assumptions, both demographic and financial, to be made. The key financial assumptions made by the actuaries were:

	2006	2005 Final	2005 Interim	2004 Interim
Key financial assumptions	%	%	%	%
FRS 17 valuation				
The discount rate for the FRS 17 value is taken as the rate for an AA rated corporate bond.	Rate of increase in salaries	4.9	4.7	4.7
	Rate of increase in pension payments	2.9	2.7	2.7
	Inflation assumption	2.9	2.7	2.7
	Discount rate for FRS 17 valuation	5.0	5.5	5.6
	Longevity assumption post-retirement (age 60) – Males	23.5 years	22.0 years	22.0 years
	Longevity assumption post-retirement (age 60) – Females	25.7 years	24.5 years	24.5 years
Actuarial valuation				
The discount rate used in the actuarial valuation of liabilities is that of the expected return on assets held by the scheme and is considered to be a prudent long-term average.	Rate of increase in salaries		4.7	4.5
	Rate of increase in pension payments*		2.5/2.7	2.5
	Inflation assumption		2.7	2.5
	Discount rate for actuarial valuation**		5.45/6.7	6.25
	Longevity assumption post-retirement (age 60) – Males		23.5 years	22.0 years
	Longevity assumption post-retirement (age 60) – Females		25.7 years	24.5 years
Scheme liabilities at present value				
A higher discount rate means a lower value for the liabilities.	FRS 17 valuation	7,676	6,764	6,312
	Actuarial valuation		6,393	5,525

*This increase in new benefit pension payments has been held at 2.5% as in previous years, however, old benefits have been increased in line with the inflation assumption. New Benefits members' pension increase with RPI up to a limit of 5% (for Old Benefits the limit is 10%). This assumption is adopted on the basis that in some years RPI may increase above 5% and New Benefit pension increases will be capped, so on average the increases for New Benefits will be lower than actual RPI

**For the 2005 valuation a dual discount has been adopted since the assets backing the post-retirement benefits have a different split between equities, bonds, property, and cash to those backing the pension liabilities in payment, with the investment assumptions for post-retirement funding being more risk averse and therefore leading to a lower discount rate

8c Pension charges and balances within financial statements

8c i Movement in pension liability during year

	BBC Pension Scheme 2006 £m	Unfunded scheme 2006 £m	Total 2006 £m	BBC Pension Scheme 2005 £m	Unfunded Scheme 2005 £m	Total 2005 £m	
The defined contribution schemes do not give rise to balance sheet pension assets/liabilities as there is no ongoing liability to the employer from these schemes once the contributions due for the year have been settled.	Net pension liability at start of year	(421.8)	(5.0)	(426.8)	(431.6)	(4.7)	(436.3)
	Contributions (from employer)*	49.8	0.2	50.0	40.0	0.2	40.2
	Operating charge for year	(184.9)	(0.2)	(185.1)	(176.8)	(0.2)	(177.0)
	Net finance income/(cost)	66.0	(0.3)	65.7	65.7	(0.3)	65.4
	Net gain recognised in STRGL	661.1	–	661.1	80.9	–	80.9
	Closing net pension asset/(liability)	170.2	(5.3)	164.9	(421.8)	(5.0)	(426.8)

*The contribution shown for the unfunded scheme represents the pensions paid to members during the year. The assumptions for pension scheme liabilities of the unfunded scheme are the same as the main scheme. As the scheme is unfunded there are no assets and hence no expected return on assets

8c ii Pension charges in statement of income and expenditure

The current service cost is the underlying cost to the BBC of pension rights earned by employees during the year.

The past service cost arises from members of the scheme becoming entitled to improved defined retirement benefits, resulting in a charge for years of service before the award of the improvement.

The finance return comprises estimates based on predictions of future performance and economic conditions.

	Defined benefit scheme		Defined contribution schemes £m	All schemes £m
	BBC Pension Scheme £m	Unfunded scheme £m		
2006				
Current service cost	(194.1)	(0.2)	(0.9)	(195.2)
Past service cost	(9.8)	–	–	(9.8)
Gain on settlements and curtailments*	19.0	–	–	19.0
Operating cost	(184.9)	(0.2)	(0.9)	(186.0)
Expected return on pension scheme assets	431.8	–	–	431.8
Interest on pension scheme liabilities	(365.8)	(0.3)	–	(366.1)
Net finance income/(cost)	66.0	(0.3)	–	65.7
Net cost in statement of income and expenditure	(118.9)	(0.5)	(0.9)	(120.3)
2005				
Current service cost	(192.3)	(0.2)	(1.4)	(193.9)
Past service cost	(7.5)	–	–	(7.5)
Gain on settlements and curtailments	23.0	–	–	23.0
Operating cost	(176.8)	(0.2)	(1.4)	(178.4)
Expected return on pension scheme assets	412.7	–	n/a	412.7
Interest on pension scheme liabilities	(347.0)	(0.3)	n/a	(347.3)
Net finance income/(cost)	65.7	(0.3)	–	65.4
Net cost in statement of income and expenditure	(111.1)	(0.5)	(1.4)	(113.0)

*There was a curtailment gain of £19.0million during the year in respect of the transfer for BBC Broadcast Limited employees, 395 of whom have elected to transfer their past service benefits to the Red Bee Media Pension Plan. In addition, there was a further curtailment gain of £3.0million during the year in respect of approximately 180 members who left the Scheme on 31 March 2006 as part of the HR outsourcing exercise. Also there was a settlement loss during the year of around £3.0million in respect of the bulk transfer payment of £29.8million for the BBC Technology Limited employees to Siemens on 16 November 2005

8c iii Pension costs in statement of total recognised gains and losses (STRGL)

These gains and losses arise from actual performance being different from that predicted – for example changes in economic conditions or the demographic profile of BBC employees.

	2006 £m	2005 £m
Actual return less expected return on pension scheme assets	1,249.2	198.7
Experience gains/(losses) arising on scheme liabilities	208.6	(1.4)
Changes in assumptions underlying present value of scheme liabilities	(796.7)	(116.4)
Net gain recognised in STRGL	661.1	80.9

Only defined benefit schemes give rise to gains and losses in the STRGL.

The actual return on scheme assets is significantly higher than the previous year due to very strong market performance in 2006, particularly in the run up to the year end. However, some of these gains have been lost since the year end as the markets have fallen sharply since 31 March 2006.

The gains on scheme assets are offset in part by an actuarial loss due to changes in assumptions relating to the calculation of the scheme's liabilities. The key changes are that longevity rates have been increased as pensioners and dependants are living longer (and therefore drawing pensions for longer) than previously assumed and that the discount rate (taken to be that of an AA rated corporate bond) has fallen from 5.5% to 5.0%.

This note is designed to show trends over several years.

8c iv History of experience gains and losses

	2006	2005	2004	2003	2002
Amount by which the expected return on scheme assets is (higher)/lower than the actual return:					
Amount (£million)	1,249.2	198.7	778.4	(1,607.9)	(532.0)
Percentage of scheme assets	15.9%	3.1%	13.2%	32.8%	8.6%
Experience gains and (losses) on scheme liabilities:					
Amount (£million)	208.6	(1.4)	0.1	(12.4)	26.6
Percentage of present value of scheme liabilities	2.7%	0.0%	0.0%	0.2%	0.5%
Total gain/(loss) recognised in STRGL:					
Amount (£million)	661.1	80.9	778.5	(2,013.4)	(725.4)
Percentage of present value of scheme liabilities	8.6%	1.2%	12.3%	33.7%	13.8%

8d UK Public Service Broadcasting pension charge

UK Public Service Broadcasting, in accordance with the group scheme provision within FRS 17, accounts for the scheme as if it were a defined contribution scheme. This is because it is not possible to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure for UK Public Service Broadcasting of £38.2million therefore represents the contributions payable in the year. These contributions are set based on the funding needs identified from the valuation and benefit from the actuarial surplus (see Note 8b iv). They are therefore lower than the underlying cost.

9 Taxation

9a Analysis of charges for the year

The charge for the year, based on the rate of corporation tax of 30% (2005 30%) comprised:

	Note	2006 £m	2005 £m
Current tax			
UK corporation tax		17.6	7.1
Deduct: double tax relief		(3.2)	(2.7)
		14.4	4.4
Adjustments in respect of prior years		0.3	(8.3)
		14.7	(3.9)
Foreign tax		8.2	3.8
Share of associates and joint ventures tax		8.9	5.5
Total current tax	9b	31.8	5.4
Deferred tax			
Origination and reversal of timing differences		(0.4)	5.3
Adjustments in respect of previous years		(3.7)	4.5
Total deferred tax	9d	(4.1)	9.8
Total charge for the year		27.7	15.2

9b Factors affecting the tax charge

The Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2006 £m	2005 £m
Surplus/(deficit) before tax		31.4	(173.5)
Surplus/(deficit) before tax multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)		9.4	(52.0)
Effects of			
Public Services taxable external income		(2.1)	1.7
Non-taxable deficit in Public Services		38.4	59.4
FRS 17 element of net Group pension charge		20.8	21.5
Commercial activities			
Non-taxable income		(38.4)	(17.2)
Disallowed expenditure		2.1	3.1
UK taxation on intra-group overseas dividends		—	1.6
Capital allowances in excess of depreciation		(3.8)	(3.5)
Tax differential re overseas earnings		1.6	(0.7)
Other		3.5	(0.2)
Adjustments in respect of previous periods		0.3	(8.3)
Current tax charge for the year	9a	31.8	5.4

9c Factors that may affect future tax charges

The Group anticipates that the future tax charge will not alter materially since all licence fee income is free of tax.

9d Deferred tax analysis

	Note	2006 £m	2005 £m
Movement on deferred tax provision/(asset) in the year			
Provision/(asset) at start of year		10.0	(1.9)
Exchange adjustment		(0.4)	0.2
Deferred tax (credit)/charge	9a	(4.1)	9.8
Disposal of subsidiary		(2.4)	1.9
Deferred tax provision at end of year		3.1	10.0
Analysis of deferred tax provision/(asset) at end of year			
Accelerated capital allowances		13.1	15.4
Other timing differences		(3.6)	(0.1)
Deferred tax provision		9.5	15.3
US timing differences		(6.4)	(5.3)
Deferred tax asset		(6.4)	(5.3)
Deferred tax provision at year end		3.1	10.0

10 Intangible fixed assets

Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the premium the purchaser is prepared to pay for the business.

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 April 2005	22.8	0.4	23.2
Additions	0.1	0.3	0.4
At 31 March 2006	22.9	0.7	23.6
Amortisation			
At 1 April 2005	2.5	0.4	2.9
Charge for the year	1.3	0.1	1.4
At 31 March 2006	3.8	0.5	4.3
Net book value			
At 31 March 2006	19.1	0.2	19.3
At 31 March 2005	20.3	–	20.3

The addition to goodwill in the year relates to the final adjustment to the contingent purchase consideration for Origin Publishing Limited. On acquisition of 100% of the share capital of Origin Publishing Limited on 20 February 2004 by BBC Worldwide, contingent consideration of up to £5.1million was payable, based on the performance of the acquired business in the period to 30 September 2005. The full £5.1million was settled in the year ended 31 March 2006 of which £0.8million was paid in cash and the balance of £4.3million settled by way of the issue of loan notes. Of the £5.1million settled, £5.0million had been accrued and recognised as additional goodwill in the year ended 31 March 2005.

Other intangibles comprise of a customer list of names and brand names. Additions to other intangible assets comprise the purchase of customer listings during the year and these are amortised on a straight line basis over 2–4 years subject to reviews for impairment.

11 Tangible fixed assets

11a Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2005	431.5	950.2	146.5	87.2	1,615.4
Additions	6.1	56.1	15.7	65.6	143.5
Brought into service	3.5	52.0	5.8	(61.3)	–
Disposals	(14.8)	(26.7)	(8.0)	(1.4)	(50.9)
Disposal of subsidiary	–	(75.7)	(4.8)	(1.7)	(82.2)
At 31 March 2006	426.3	955.9	155.2	88.4	1,625.8
Depreciation					
At 1 April 2005	225.2	597.4	71.2	–	893.8
Charge for the year	14.6	85.1	13.9	–	113.6
Elimination in respect of disposals	(4.7)	(23.4)	(5.7)	–	(33.8)
Disposal of subsidiary	–	(43.8)	(1.2)	–	(45.0)
At 31 March 2006	235.1	615.3	78.2	–	928.6
Net book value					
At 31 March 2006	191.2	340.6	77.0	88.4	697.2
At 31 March 2005	206.3	352.8	75.3	87.2	721.6

11b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2005	362.1	510.0	120.9	63.7	1,056.7
Additions	6.0	38.9	11.1	37.4	93.4
Brought into service	1.6	34.7	3.0	(39.3)	–
Disposals	(14.7)	(14.6)	(6.8)	(0.4)	(36.5)
At 31 March 2006	355.0	569.0	128.2	61.4	1,113.6
Depreciation					
At 1 April 2005	185.9	327.8	54.9	–	568.6
Charge for the year	11.5	52.0	11.2	–	74.7
Elimination in respect of disposals	(4.4)	(13.7)	(4.6)	–	(22.7)
At 31 March 2006	193.0	366.1	61.5	–	620.6
Net book value					
At 31 March 2006	162.0	202.9	66.7	61.4	493.0
At 31 March 2005	176.2	182.2	66.0	63.7	488.1

11c Land and building at net book value comprise:

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Undepreciated land	18.3	21.7	18.0	21.6
Freehold buildings	105.2	121.4	95.5	110.1
Total freeholds	123.5	143.1	113.5	131.7
Long leaseholds	45.5	52.0	26.3	33.3
Short leaseholds	22.2	11.2	22.2	11.2
	191.2	206.3	162.0	176.2

11d Finance leases

Assets held under finance leases, capitalised and included in tangible fixed assets:

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Cost	15.6	–	14.2	–
Accumulated depreciation	(6.5)	–	(5.9)	–
Net book value	9.1	–	8.3	–

The finance leases relate to IT equipment that was originally leased to the BBC under operating leases. As at 1 April 2005 the contract was varied to allow the assets to be used by the BBC for substantially their entire economic lives. As a result these assets have been capitalised and included in tangible fixed assets.

12 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2005	228.7
Exchange adjustment	1.9
Additions	93.5
Disposals	(4.1)
Elimination in respect of programmes fully amortised	(73.0)
At 31 March 2006	247.0
Amortisation	
At 1 April 2005	131.4
Exchange adjustment	1.1
Charge for the year	82.3
Disposals	(1.3)
Elimination in respect of programmes fully amortised	(73.0)
At 31 March 2006	140.5
Net book value	
At 31 March 2006	106.5
At 31 March 2005	97.3

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £89.0million direct investment in BBC programmes (2005 £74.6million).

Included in the net book value is £3.6million (2005 £2.5million) relating to investments held under a licence agreement.

During the year there were disposals of music publishing rights with a carrying value of £1.0million (see Note 6) and as part of the sale of BBC Worldwide Limited's learning business there was a disposal with a carrying value of £1.8million (see Note 19).

13 Other investments (including BBC World Service net assets)

13a Movements in the year for the Group

	Interests in joint ventures Note 13b £m	Interests in associates Note 13c £m	Total Group £m
Cost			
At 1 April 2005	10.7	0.8	11.5
Exchange adjustment	–	0.1	0.1
Additions	1.5	–	1.5
Disposals	–	(0.4)	(0.4)
At 31 March 2006	12.2	0.5	12.7
Share of post acquisition reserves			
At 1 April 2005	1.7	0.5	2.2
Exchange adjustment	(0.2)	–	(0.2)
Share of profits/(losses) after taxation	30.0	(9.3)	20.7
Dividends received	(19.4)	(0.4)	(19.8)
Adjustment to reflect effective obligations	(5.8)	9.8	4.0
At 31 March 2006	6.3	0.6	6.9
Goodwill			
At 1 April 2005	26.9	–	26.9
Additions	1.5	–	1.5
Amortisation	(1.7)	–	(1.7)
At 31 March 2006	26.7	–	26.7
Net book value			
At 31 March 2006	45.2	1.1	46.3
At 31 March 2005	39.3	1.3	40.6

Joint ventures are businesses the BBC jointly controls with other parties.

13b Interests in joint ventures

13b i Significant joint ventures and their activities

The Group has a 50% equity interest in the following joint ventures which are all incorporated in Great Britain and registered in England and Wales, unless otherwise stated:

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2005
UK Gold Holdings Limited	Channels	Flextech	31 December 2005
UKTV New Ventures Limited	Channels	Flextech	31 December 2005
UKTV Interactive Limited	Channels	Flextech	31 December 2005
JV Programmes LLC ¹	Channels	Discovery	31 December 2005
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2005
Worldwide Media Limited ²	Magazines	Bennett, Coleman and Company Limited	31 July 2005
2]entertain Limited ³	Video/DVD	Woolworths	28 January 2006
DTV Services Limited ⁴	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	31 August 2005
Insight Property Partnership	Property	Land Securities Trillium (Media Services) Limited	31 March 2006
Daunus Limited ⁵	Property	Land Securities Trillium (BH) Limited, Morgan Stanley Delta LLC, Structured Finance Management Limited	30 November 2005

¹ Incorporated in the USA

² Incorporated in India

³ 60% equity interest

⁴ 20% equity interest

⁵ 100% holding of 'A' class shares, representing 10% of the total issued shares of Daunus Limited. The rest of the shares in Daunus Limited are held by the other partners. The BBC holds its investment in Daunus Limited through a subsidiary, BBC Property Development Limited.

For a number of years the BBC, through its subsidiary BBC Worldwide, has had major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK and with Discovery Communications Inc. for new channels around the world and providing new co-production funding for programmes. The joint ventures operated by these alliances are included in the list above. The BBC has no obligation to make good its share of their cumulative operating losses.

The BBC is part of a joint venture, DTV Services Limited, to provide marketing services for digital channels on a terrestrial platform in the UK. The BBC's subsidiary BBC Free to View Limited (see Note 13e) holds the BBC's digital terrestrial multiplex licence and its equity interest in the joint venture to ensure the costs of this joint venture are managed separately from licence fee-funded activities. On 11 October 2005 the Group sold a 13% stake in DTV Services Limited reducing its equity interest to 20%.

The joint venture with Land Securities Trillium (LST), the Insight Property Partnership, provides a range of property and development services to the BBC. Related joint ventures and associate companies have been set up to develop particular BBC properties. In May 2005 the BBC and LST agreed to restructure this partnership. The Insight Property Partnership's contract to provide facilities management and property services to the BBC will expire on 30 June 2006.

In December 2004, BBC Worldwide completed the acquisition of a 50% equity interest in Worldwide Media Limited, a magazine publishing joint venture based in India for total cash consideration of £5.5million. Goodwill of £2.9million arose on the transaction. Contingent consideration paid to the joint venture of up to 245million rupees (£3.0million) may be payable, based on the financial performance of the acquired business in the period to 31 July 2006. Based on the applicable financial targets and the expected short-term financial performance of the business during this period, the full contingent consideration has been recognised in the calculation of goodwill during the year ended 31 March 2006. This additional investment payable to the joint venture has been recorded as an addition to the Group's share of joint venture net assets (£1.5million) and as additional goodwill £1.5million.

The following disclosures represent the Group's equity shares of the assets and liabilities of its joint ventures based on the results for the latest accounting periods as shown above. Where the latest accounting period for the joint venture is more than three months prior to the Group's accounting reference date of 31 March the latest interim financial information has been used.

13b ii Group share of joint ventures results and net assets

Group share of:	2entertain Limited £m	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures £m	Total joint ventures 2006 £m
2006					
Turnover	115.2	40.8	36.3	37.2	229.5
Profit/(loss) before tax	28.2	7.8	11.7	(1.7)	46.0
Taxation	(8.5)	(3.8)	(3.5)	(0.2)	(16.0)
Profit/(loss) after tax	19.7	4.0	8.2	(1.9)	30.0
Fixed assets	5.2	–	–	7.9	13.1
Goodwill	22.6	–	–	4.1	26.7
Current assets	59.3	16.4	34.5	29.5	139.7
Liabilities less than one year	(53.5)	(8.9)	(13.4)	(6.4)	(82.2)
Liabilities more than one year	–	(22.7)	(25.1)	(41.5)	(89.3)
Adjustment to reflect effective obligations	–	15.2	4.0	18.0	37.2
Net book value	33.6	–	–	11.6	45.2
2005					
Turnover	64.0	36.8	31.6	29.4	161.8
Profit/(loss) before tax	16.7	11.0	9.0	(3.1)	33.6
Taxation	(5.1)	(2.8)	(2.7)	(0.1)	(10.7)
Profit/(loss) after tax	11.6	8.2	6.3	(3.2)	22.9
Fixed assets	3.8	–	–	7.4	11.2
Goodwill	24.1	–	–	2.8	26.9
Current assets	68.2	15.6	21.1	25.5	130.4
Liabilities less than one year	(65.0)	(6.6)	(2.9)	(5.1)	(79.6)
Liabilities more than one year	–	(28.1)	(30.4)	(37.8)	(96.3)
Adjustment to reflect effective obligations	–	19.1	12.2	15.4	46.7
Net book value	31.1	–	–	8.2	39.3

*The figures are based on unaudited financial statements

Under the terms of the agreements with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses/net liabilities of the relevant entities and accordingly no share of these is included in the financial statements for the year ended 31 March 2006 (2005 £nil). The share of net liabilities not recognised comprises the £37.2million shown in the table as 'adjustment to reflect effective obligations'. The Group is entitled to its share of any profits or net assets only once the ventures' cumulative profits exceed cumulative losses since incorporation.

Associates are businesses over which the BBC exerts significant influence but does not have overall control.

13c Interests in associates

13c i Significant associates and their activities

The Group holds (directly and indirectly) significant interests in the associates listed below which, except where otherwise stated, are incorporated in Great Britain and registered in England and Wales. A full list of associates is available on request from The Secretary, BBC, Room MC3C3, Media Centre, 201 Wood Lane, London W12 7TQ.

	Holding of issued ordinary shares %	Activity
Parliamentary Broadcasting Unit Limited	33	Content provider
Broadcasters Audience Research Board Limited (BARB)	*	Audience research
The Commonwealth Broadcasting Association	*	Broadcasting forum
Radio Joint Audience Research Limited (RAJAR)	50	Audience research
Frontline Limited	23	Publishing
UKTV Pty Limited (incorporated in Australia)	20	Channels
People and Arts (Latin America) LLC (incorporated in the USA)**	50	Channels
Animal Planet LLC (incorporated in the USA)****	25	Channels
The Animal Planet Europe Partnership**	50	Channels
Animal Planet Japan KK (incorporated in Japan)**	33	Channels
Jasper Broadcasting Inc (incorporated in Canada)	20	Channels
Jasper Junior Broadcasting Inc (incorporated in Canada)	20	Channels
3sixtymedia Limited	10	Production
White City Development Partnership	***	Property

* Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters

** Discovery associate

*** 50% partnership share

**** Animal Planet LLC (Discovery Associate). On 3 April 2006 the Group sold its shareholding

13c ii Group share of associates' turnover and net assets

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2005 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

	2006 £m	2005 £m
Group interests in associates		
Share of turnover	49.6	42.9
Share of fixed assets	52.0	38.8
Share of current assets	28.2	24.5
Share of liabilities due within one year	(22.5)	(19.3)
Share of liabilities due after more than one year	(160.9)	(123.9)
Adjustment to reflect effective obligation	104.3	81.2
Net interests in associates	1.1	1.3

The results include the Group share of the operating profit/(loss) of UKTV Pty Limited of £0.5million (2005 £0.5million), Frontline Limited of £0.5million (2005 £0.7million), Children's Character Books Limited £(0.2)million (2005 £(0.1)million) and BBC World (India) Private Limited of £nil (2005 £0.1million). The Group's share of the remaining associates, including Jasper Broadcasting Inc. and Jasper Junior Broadcasting Inc., operated in partnership with Alliance Atlantis, was £nil (2005 £nil).

Under the terms of the agreements with Discovery and Alliance Atlantis, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses or net liabilities of the relevant entities and accordingly no share of these are included in the financial statements for the year ended 31 March 2006 (2005 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

13d Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Interests in subsidiaries £m	Total £m
At 1 April 2005	160.1	125.3	285.4
Deficit for year	(1.5)	–	(1.5)
At 31 March 2006	158.6	125.3	283.9

Financial statements

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Subsidiary undertakings are businesses the BBC controls.

13e Subsidiary undertakings

The principal subsidiary undertakings of the BBC at 31 March 2006 are listed below. All are wholly owned and incorporated in Great Britain and registered in England and Wales. A full list of subsidiaries is available on request from The Secretary, BBC, Room MC3C3, Media Centre, 201 Wood Lane, London W12 7TQ.

Name of entity		Activity
BBC Commercial Holdings Limited	*	Holding company
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC World Limited	**	Channels
BBC Ventures Limited	**	Holding company
BBC Resources Limited	**	Programme making facilities and services
BBC Free To View Limited	*	Holding company for digital licence
BBC Property Limited	*	Property
BBC Property Development Limited	*	Property
BBC Property Investment Limited	*	Property
Centre House Productions Limited	*	Production financing
Switchco Limited ¹ (Digital UK)	*	Digital switchover

*Directly owned

**Indirectly owned

¹The BBC controls 56% of the voting rights of Switchco Limited and therefore it is a subsidiary. Its results have been consolidated into the Group accounts. Switchco Limited is a company limited by guarantee of which the BBC is a joint member with other broadcasters

14 Stocks

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Raw materials	1.7	2.9	0.2	0.7
Work in progress				
– originated programmes	287.9	281.0	287.8	280.7
– other	1.9	2.4	0.1	0.1
Finished programmes				
– acquired programmes and films	98.5	88.1	98.5	88.1
– originated programmes	61.0	69.9	61.0	69.9
Other	11.4	14.5	–	–
Total	462.4	458.8	447.6	439.5

15 Debtors

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Receivable within one year					
Trade debtors		114.9	119.5	17.1	12.9
Department for Culture, Media and Sport – licence fee debtors		318.2	285.8	318.2	285.8
Amounts owed by subsidiaries		–	–	27.2	28.0
Amounts owed by associates and joint ventures		34.9	10.2	14.5	5.8
VAT recoverable		36.0	35.5	33.9	32.6
Other debtors		28.8	102.3	6.6	78.6
Prepayments		190.8	121.5	165.3	103.7
		723.6	674.8	582.8	547.4
Financial assets	23e	3.5	–	–	–
Total current debtors		727.1	674.8	582.8	547.4
Receivable after more than one year					
Other debtors		2.7	6.1	–	–
Prepayments		40.0	100.0	26.9	84.3
		42.7	106.1	26.9	84.3
Financial assets	23e	3.2	–	–	–
Total long-term debtors		45.9	106.1	26.9	84.3
Total		773.0	780.9	609.7	631.7

Other debtors in 2005 included £56.6million in relation to the sale of the White City site, see Note 6 for details.

16 Creditors

16a Prompt payment policy

It is the BBC's policy to comply with the Better Payment Practice Code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2006 was 35 days (2005 35 days).

Residual creditors and associated costs have been excluded for the purpose of this calculation, as they relate to payments to artists and contributors other than trade creditors.

16b Amounts falling due within one year

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Bank overdrafts and other loans					
Bank overdrafts	21	–	36.9	–	31.2
Unsecured loan notes	23b	5.3	1.5	–	–
		5.3	38.4	–	31.2
Trade creditors					
Programme creditors		74.9	60.1	74.7	58.9
Programme acquisitions		31.3	26.5	31.0	26.3
Salaries and wages		64.4	59.0	41.4	36.0
Residual copyright payments		25.6	21.5	–	–
Other trade creditors		169.8	167.0	119.6	107.2
		366.0	334.1	266.7	228.4
Other creditors					
Amounts owed to subsidiaries		–	–	37.2	51.7
Amounts owed to associates and joint ventures		–	8.5	–	–
Corporation tax		11.5	5.8	4.7	2.3
Other taxation and social security		28.7	28.6	26.8	26.6
Obligations under finance leases	23b	4.8	–	4.7	–
Other		14.7	59.9	11.4	59.9
		59.7	102.8	84.8	140.5
Accruals and deferred income					
Accruals and deferred income		393.5	342.6	285.9	274.7
Licence savings stamps deposits and direct debit instalments		92.1	100.4	92.1	100.4
		485.6	443.0	378.0	375.1
Financial liabilities	23e	3.2	–	–	–
Total		919.8	918.3	729.5	775.2

Other creditors in 2005 included £59.9million in relation to the sale of the White City site, see Note 6.

16c Amounts falling due after more than one year

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Bank and other loans	23b	72.0	150.0	–	–
Trade creditors					
Programme acquisitions		3.6	7.1	3.6	7.1
Other creditors					
Obligations under finance leases	23b	28.5	27.1	3.8	–
Amounts owed to subsidiaries		–	–	25.9	27.6
Other		8.7	3.4	–	–
		37.2	30.5	29.7	27.6
Financial liabilities	23e	4.0	–	–	–
Total		116.8	187.6	33.3	34.7

17 Provisions for liabilities

Group	At 1 April 2005 £m	Provisions disposed £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2006 £m
Licence fee	17.2	–	(17.2)	–	19.5	19.5
Restructuring	47.4	(0.5)	(41.8)	(3.4)	127.7	129.4
Litigation and insurance	13.8	(0.1)	(1.8)	(1.8)	6.5	16.6
Property	11.8	–	(0.7)	(0.9)	3.0	13.2
Pension	21.1	–	(5.9)	(15.2)	–	–
Deferred tax	15.3	(2.6)	(7.0)	–	3.8	9.5
Other	13.0	–	(8.0)	(5.0)	8.0	8.0
Total	139.6	(3.2)	(82.4)	(26.3)	168.5	196.2

Licence fee provisions are made for the expected level of refunds (money repayable on the unexpired portion of a licence where the licence is no longer required) and revocations (where no money is received in relation to a licence sold).

The restructuring provision includes a net charge for the year of £119.1million of exceptional redundancy costs relating to the change programme occurring within the BBC and non-exceptional redundancy costs of £5.2million. In addition, non-exceptional redundancy costs of £5.2million are included in other creditors as there was no uncertainty over the amount or timing of these payments.

Property provisions relate to the cost of returning leasehold properties to their original condition at the end of the lease, and include BBC World Service's liability of £3.4million (2005 £3.3million) to restore Bush House to its original condition.

Pension provisions comprised an amount of £21.1million which crystallised on the sale of BBC Technology Holdings Limited. The final valuation of the pension liability was £5.9million and this liability has been transferred to creditors. The remaining £15.2million was released during the year (see Note 5).

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

Provisions disposed of during the year relate entirely to the sale of BBC Broadcast Limited.

UK Public Service Broadcasting	At 1 April 2005 £m	Provision acquired this year £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2006 £m
Licence fee	17.2	–	(17.2)	–	19.5	19.5
Restructuring	45.6	–	(36.2)	(2.9)	109.6	116.1
Litigation and insurance	12.0	–	(0.8)	(2.0)	2.1	11.3
Property	7.8	–	(0.5)	(0.3)	2.8	9.8
Pension	–	21.1	(5.9)	(15.2)	–	–
Deferred tax	–	–	–	–	3.5	3.5
Other	12.3	–	(8.0)	(4.3)	4.3	4.3
Total	94.9	21.1	(68.6)	(24.7)	141.8	164.5

18 Reserves

Group	Operating reserve excluding pension reserve £m	Pension reserve £m	Total operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2005	188.7	(426.8)	(238.1)	761.8	4.0	527.7
Adjustment on adopting FRS 26	2.6	–	2.6	–	–	2.6
Exchange difference	1.9	–	1.9	–	–	1.9
Surplus for financial year	3.6	–	3.6	–	–	3.6
Actuarial gain on defined benefit pension schemes	–	661.1	661.1	–	–	661.1
Revaluation reserve transfer	0.8	–	0.8	–	(0.8)	–
Pension reserve transfer	69.4	(69.4)	–	–	–	–
Capital reserve transfer	(9.5)	–	(9.5)	9.5	–	–
At 31 March 2006	257.5	164.9	422.4	771.3	3.2	1,196.9
Represented by:						
General Group reserves	256.0	164.9	420.9	617.4	–	1,038.3
BBC World Service reserves	1.5	–	1.5	153.9	3.2	158.6
	257.5	164.9	422.4	771.3	3.2	1,196.9

UK Public Service Broadcasting and BBC World Service are funded from different sources. As such, the reserves relating to BBC World Service are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service activities.

UK Public Service Broadcasting	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2005	204.3	761.8	4.0	970.1
Surplus for financial year	41.4	–	–	41.4
Revaluation reserve transfer	0.8	–	(0.8)	–
Capital reserve transfer	(9.5)	9.5	–	–
At 31 March 2006	237.0	771.3	3.2	1,011.5
Represented by:				
UK Public Service Broadcasting reserves	235.5	617.4	–	852.9
BBC World Service reserves	1.5	153.9	3.2	158.6
	237.0	771.3	3.2	1,011.5

Under the accounting standard FRS 10 *Goodwill and intangible assets* any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2005 £6.8million) remains offset against the operating reserve.

The Group has adopted FRS 26 *Financial Instruments: Measurement* this year and has also taken the exemption in the standard to not restate comparatives. This therefore requires an adjustment to reserves for balances existing at 1 April 2005 not previously recognised. The fair value gains and losses on the Group's financial instruments between this date and the year end (for stand alone derivatives such as forward exchange contracts and interest rate swaps, and derivatives embedded within contracts) have been taken to the current year's statement of income and expenditure.

The cumulative translation differences at 31 March 2006 were £1.9million. In accordance with FRS 23, any differences relating to prior years have not been separated out and remain within the operating reserve.

19 Sale of businesses

	Learning business 2006 £m	BBC Broadcast Limited 2006 £m	Total 2006 £m
Investment in programmes for future sale	1.8	–	1.8
Net assets disposed	2.8	48.9	51.7
Profit on disposal	1.7	108.8	110.5
	6.3	157.7	164.0
Of which:			
Cash consideration received	6.6	166.0	172.6
Less transaction costs	(0.3)	(8.3)	(8.6)
Net proceeds from sale of businesses	6.3	157.7	164.0

20 Reconciliation of net cash flow to movement in net funds/(debt)

	2006 £m	2005 £m
Increase in cash in year	158.8	0.3
Net cash (inflow)/outflow from management of liquid resources	(41.9)	29.3
Net cash outflow from decrease in loans and finance leases	87.9	33.3
Change in net debt resulting from cash flows	204.8	62.9
Non-cash increase in finance leases	(15.6)	–
Non-cash increase in unsecured loan notes	(4.3)	–
Change in net debt	184.9	62.9
Net debt at the beginning of the year	(135.3)	(198.2)
Net funds/(debt) at the end of the year	49.6	(135.3)

21 Analysis of changes in net (debt)/funds

Liquid resources are current asset investments that are readily disposable without disrupting the BBC, and are either readily convertible into known amounts of cash at, or close to, their carrying amount, or are traded in an active market. In relation to the BBC, liquid resources are sterling amounts on deposit.

	At 1 April 2005 £m	Cash flows £m	Non-cash changes £m	At 31 March 2006 £m
Net cash				
Bank overdrafts	(36.9)	36.9	–	–
Cash at bank and in hand	38.3	121.9	–	160.2
	1.4	158.8	–	160.2
Liquid resources				
Short-term investments	41.9	(41.9)	–	–
Gross funds	43.3	116.9	–	160.2
Debt				
Loans from third parties	(150.0)	78.0	–	(72.0)
Unsecured loan notes	(1.5)	(0.5)	(4.3)	(5.3)
Finance leases	(27.1)	9.4	(15.6)	(33.3)
Net (debt)/funds	(135.3)	204.8	(19.9)	49.6
Made up of:				
Public Service (including World Service)	11.6	113.8	(15.2)	110.2
Commercial Businesses	(121.7)	87.8	(4.7)	(38.6)
Centre House Productions Limited	(25.2)	3.2	–	(22.0)
Net (debt)/funds	(135.3)	204.8	(19.9)	49.6

The debt and repayments on finance leases held by Centre House Productions Limited are offset directly by cash held on matching deposits, and the income from them, such that there is no long-term cash flow effect.

22 Reconciliation of net funds/(debt) to the Department for Culture, Media and Sport (DCMS) borrowing ceilings

Public Services in this context represent the UK Public Service Broadcasting Group and BBC World Service.

	Note	Public Services 2006 £m	Public Services 2005 £m	Commercial Businesses 2006 £m	Commercial Businesses 2005 £m
Net funds/(debt)	21	110.2	11.6	(38.6)	(121.7)
Licence savings stamps deposits and direct debit instalments*	16b	(92.1)	(100.4)	–	–
Funds/(borrowings) as defined by DCMS borrowing ceiling		18.1	(88.8)	(38.6)	(121.7)
Borrowing ceiling		(200.0)	(200.0)	(350.0)	(350.0)

* The BBC must be able to repay the licence savings stamps deposits and direct debit instalments on demand and they are therefore included in the Public Service Borrowings.

The Public Service borrowing limit of £200million is set within the BBC Charter. As at 31 March 2006 and 31 March 2005, and throughout the financial year, the BBC was in compliance with this borrowing ceiling.

When the DCMS granted a £350million borrowing limit for BBC Commercial Holdings Limited in July 2002, three financial covenants were defined which are required to be met as at 31 March each year. As at 31 March 2006 and 31 March 2005 BBC Commercial Holdings Group was in compliance with each of these covenants. Compliance with the borrowing ceiling is detailed in the table above.

23 Financial instruments

The Group has adopted FRS 25 (IAS 32) *Financial Instruments: Disclosure and Presentation* and FRS 26 (IAS 39) *Financial Instruments: Measurement* for the first time in this financial year.

Accounting and disclosures for the current year are in accordance with FRS 25 and FRS 26, and as permitted under both standards the comparatives have not been restated and continue to be presented under previously applicable accounting standards (FRS 4 and FRS 13).

Had FRS 25 and FRS 26 been applied in the prior year the effect would have been to restate the 2005 balance sheet for derivatives existing at 31 March 2005, and the prior year statement of income and expenditure for the movement in the fair value of derivatives between 1 April 2004 and 31 March 2005.

23a Financial risk management

The Group's financial risk management operations are carried out by a Group Treasury function, within parameters defined formally within the policies and procedures manual agreed by the Executive Board. Group Treasury's activity is routinely reported and is subject to review by internal and external auditors.

Group Treasury uses financial instruments to raise finance and to manage financial risk arising from the BBC's operations in accordance with its objectives which are:

- to ensure the business of the BBC, both Public Services and Commercial, is fully funded in the most efficient manner and remains compliant with borrowing limits
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements

The Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and liquid resources, borrowings and various items such as trade debtors and creditors that arise directly from its operations. The Group finances its operations from these financial instruments. The Group does not undertake speculative treasury transactions.

Currency risk

The Group is principally a domestic organisation with the majority of transactions, assets and liabilities being in the UK and sterling based. However, the Group undertakes some transactions in currencies other than sterling. Due to movements in exchange rates over time, the amount the Group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction. The Group enters into forward currency contracts to manage this currency risk. These allow the Group to settle transactions at known exchange rates, thereby eliminating much of this uncertainty.

A forward currency contract is a contract to buy or sell foreign currency in exchange for sterling at a specific rate on a specific date. Companies typically enter into forward contracts to lock into a particular exchange rate, thereby eliminating currency risk that may be associated with a future purchase or sale.

The Group has one significant overseas operation, BBC Worldwide America, which operates in the USA and whose revenues and expenses are denominated exclusively in US dollars.

An interest rate swap is a contract between two parties to change the basis of their interest rate payment or receipts either from fixed to floating rates or vice versa. Companies typically enter into these arrangements to reduce the exposure to interest rate risk by fixing a floating interest rate thereby giving certainty to the level of future interest payments. Alternatively, a company may believe that interest rates may fall and wish to convert a fixed rate loan to a floating rate.

Interest rate risk

The Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the Group has been borrowing at floating rates of interest and then used interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

Market price risk of financial assets

The Group invests surplus cash in money market funds and money market deposits, therefore it is not subject to market price risk.

Credit risk

Due to the unique way in which the BBC is funded via the licence fee, the BBC does not believe that it is exposed to major concentrations of credit risk.

Liquidity risk

The BBC is subject to limits on its borrowings imposed under the Charter and by the DCMS. The BBC's Group Treasury manages the Group's borrowings in order to comply with these limits together with the terms of the individual debt instruments. The BBC holds its surplus liquidity in readily convertible financial instruments with highly rated financial institutions.

23b Fair values of financial instruments

	Carrying value 2006 £m	Fair value 2006 £m
Amounts receivable within one year		
Trade debtors	427.7	427.7
Other debtors	4.9	4.9
Derivative financial instruments	3.5	3.5
Amounts receivable after more than one year		
Derivative financial instruments	3.2	3.2
Cash at bank and in hand	160.2	160.2
Amounts payable falling due within one year		
Loans	(5.3)	(5.3)
Trade creditors	(252.8)	(252.8)
Programme acquisitions	(36.6)	(36.6)
Obligations under finance leases	(4.8)	(4.8)
Derivative financial instruments	(3.2)	(3.2)
Amounts payable falling due after more than one year		
Loans	(72.0)	(72.0)
Programme acquisitions	(3.6)	(3.6)
Obligations under finance leases	(28.5)	(28.5)
Derivative financial instruments	(4.0)	(4.0)
Provisions for liabilities and charges	(3.4)	(3.4)

As at 31 March 2006 there are no significant differences between fair value and carrying value of any of the Group's financial instruments. The fair value of forward currency contracts, interest rate swaps, and embedded derivatives are based on market prices and exchange rates at the balance sheet date. The remaining financial instruments are carried at cost or amortised cost in accordance with FRS 26 which approximates to fair value.

At 31 March 2005 there were no significant differences in value between the book and fair value of the Group's financial instruments except for derivatives which were not recognised on the balance sheet in accordance with applicable standards at that time.

The fair value of these derivatives was an unrealised loss of £7.8million on forward exchange hedging contracts and an unrealised gain of £3.3million for interest rate swaps. These, along with £7.1million of unrealised gains on embedded derivatives at 31 March 2006 result in an adjustment to reserves on adoption of FRS 26 of £2.6million.

23c Financial assets

After taking account of the various interest rate swaps and forward foreign currency contracts entered into by the Group, the maturity profile of the Group's financial assets at 31 March 2006 was:

	Effective interest rate %	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Greater than 5 years £m	Total 2006 £m
2006								
Cash at bank and in hand	4.5	160.2	—	—	—	—	—	160.2
Trade and licence fee debtors	—	427.7	—	—	—	—	—	427.7
Other debtors	—	4.9	—	—	—	—	—	4.9
Derivative financial instruments	0.8	3.5	2.6	0.3	0.3	—	—	6.7
		596.3	2.6	0.3	0.3	—	—	599.5

The Group's financial assets are subject to floating rate interest. Included within derivatives are forward foreign currency contracts (which are not subject to interest) and interest rate swaps (which have the effect of converting the variable rate loans to fixed rate loans for the whole term of the loans).

As at 31 March 2005 the Group's financial assets, excluding short-term debtors, amounted to £80.2million, all of which were subject to floating rate interest.

23d Financial liabilities

The Group arranges its borrowings to meet forecast cash flows such that it has access to sufficient funds to meet its commitments. Short-term flexibility is achieved by overdraft facilities. The maturity profile of the Group's financial liabilities at 31 March 2006 was:

	Effective interest rate %	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Greater than 5 years £m	Total 2006 £m
2006								
Trade creditors	—	252.8	—	—	—	—	—	252.8
Programme acquisitions	—	36.6	3.6	—	—	—	—	40.2
Obligations under finance lease	4.7	4.8	3.3	1.1	—	—	24.1	33.3
Derivative financial instruments	0.1	3.2	1.7	0.6	0.7	0.9	0.1	7.2
Loans	4.9	5.3	72.0	—	—	—	—	77.3
Provisions	3.5	—	—	3.4	—	—	—	3.4
		302.7	80.6	5.1	0.7	0.9	24.2	414.2

The above includes contractual liabilities, including those held within provisions.

The Group's financial liabilities are subject to fixed rate interest, except for the interest rate swaps included within derivatives which fix the interest rate of the Group's commercial loans. All interest rates are unchanged for the term of the liabilities, except for a £350million multicurrency revolving credit facility agreement where interest is payable at LIBOR plus 0.375%, rising to LIBOR plus 0.45% once the facility is more than 50% utilised. Included within the loan balance above is £47million against this facility (see Note 23f).

Defeasance deposits are amounts deposited with banks by Centre House Productions Limited which earn the exact amount of interest needed to cover the capital repayment and interest element of each of the finance leases. The defeasance deposits are 'ring-fenced' and therefore cannot be used for any transactions apart from the agreed capital and interest payments.

The finance leases include £24.1million (2005 £27.1million) relating to Centre House Productions Limited. Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £250.4million at 31 March 2006 (2005 £263.0million), are structured such that the principal on deposit and the interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly it is not included as borrowing for the purposes of compliance with the BBC's borrowing limits.

The maturity profile of the Group's financial liabilities at 31 March 2005 was:

	Overdraft £m	Bank loans £m	Unsecured loan notes £m	Finance leases £m	Creditors £m	Provisions £m	Total 2005 £m
2005							
Within one year	36.9	–	1.5	–	–	2.7	41.1
Between one and two years	–	–	–	–	7.5	2.5	10.0
Between two and five years	–	150.0	–	–	1.3	6.8	158.1
Greater than five years	–	–	–	27.1	1.7	12.4	41.2
	36.9	150.0	1.5	27.1	10.5	24.4	250.4

As permitted under FRS 25 and FRS 26 the comparatives have not been restated and continue to be presented under previously applicable accounting standards (FRS 4 and FRS 13).

After taking account of the various interest rate swaps and forward foreign currency contracts entered into by the Group, the interest rate profile (ie maturity or re-pricing date) of the Group's interest-bearing financial liabilities at 31 March 2005 was:

	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Fixed rate liabilities		
				Amount £m	Weighted average interest rate %	Weighted average period until maturity Years
2005						
Sterling	250.4	34.2	–	216.2	4.6	3
Total	250.4	34.2	–	216.2		

23e Derivative financial instruments

	Assets 2006 £m	Liabilities 2006 £m
Greater than one year		
Forward foreign currency contracts	1.3	(3.4)
Interest rate swaps	1.2	(0.2)
Embedded derivatives	0.7	(0.4)
	3.2	(4.0)
Less than one year		
Forward foreign currency contracts	1.6	(3.0)
Interest rate swaps	–	–
Embedded derivatives	1.9	(0.2)
	3.5	(3.2)

At 31 March 2006 the Group had entered into a net commitment to purchase foreign currencies amounting to £90.0million (2005 £95.0million) that mature in the period through to 2012 in order to fix the sterling cost of commitments through this period (mainly Euros and US dollars). After taking into account the effects of these forward foreign exchange contracts, the Group had no significant currency exposures.

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature in March 2008.

In total, £246.0million of swaps were entered into to cover all facilities, which is £174.0million (2005 £58.0million) more than the current level of borrowings of £72.0million (2005 £188.0million).

In accordance with FRS 26, the Group has reviewed contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. Any such embedded derivatives have been recognised at fair value.

23f Borrowing facilities

As at 31 March 2006 the UK Public Service Broadcasting had available a £100million loan facility which is available as either a revolving LIBOR-based loan or an overdraft to May 2006 with an option to extend the facility to May 2007. The loan facility bears interest at a margin of 0.2% and the overdraft facility bears interest at bank base rates plus 1%.

In addition to this loan facility UK Public Service Broadcasting has access to uncommitted money market lines, from individual banks, totalling £24million (2005 £24million) with interest payable at a margin of between 0.125% and 0.5% over LIBOR.

BBC Commercial Holdings Limited's liabilities comprise a £350million multicurrency revolving credit facility agreement repayable in full in March 2008. At 31 March 2006 £47.0million (2005 £125.0million) was drawn down by way of advances. Interest is payable at LIBOR plus 0.375%, rising to LIBOR plus 0.45% once the facility is more than 50% utilised. Of the total amount £100million is available in the form of letters of credit to be issued in favour of the European Investment Bank to support their lending under the facilities detailed immediately below. As at 31 March 2006 a further £25.0million (2005 £41million) was utilised by way of letters of credit issued to support the borrowing under these facilities.

The European Investment Bank has made a loan facility available to BBC Commercial Holdings Limited, for an amount of £25.0million. This loan is repayable in one single instalment by June 2007. £25.0million was drawn under this facility at 31 March 2006 (2005 £25.0million). The interest rate applicable on the facility is determined with reference to the European Investment Bank's own funding cost and carries no margin above this funding rate. The lending under the facility is supported by a letter of credit issued by the commercial banks under the £350million revolving credit facility referred to above.

In addition BBC Commercial Holdings Limited had a facility of £20.0million which was available as an overdraft at 1% over the Bank's base rate, or a money market line, with a margin of 0.3%. The facility is due for review in January 2007.

Money market lines are short-term borrowings.

24 Commitments

24a Contracts placed for future expenditure

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Fixed asset additions	79.9	27.7	67.5	21.5
Programme acquisitions and sports rights	918.3	987.7	861.9	945.1
Independent programmes	96.3	85.3	85.7	76.2
	1,094.5	1,100.7	1,015.1	1,042.8

Fixed asset additions includes a commitment of £43.3million for the design, build and installation of the full technology solution for BBC Scotland's new broadcasting headquarters at Pacific Quay. Of this amount £29.6million is expected to be paid within one year.

24b Operating leases

Operating lease commitments payable in the following year, analysed according to the period in which the lease expires:

An operating lease is a lease where the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee (the BBC) is hiring rather than buying an asset.

	Land and buildings 2006 £m	Land and buildings 2005 £m	Other 2006 £m	Other 2005 £m
Group				
Within one year	2.7	2.9	1.4	3.3
In two to five years	8.3	6.3	8.5	5.9
After five years	41.4	35.9	3.2	2.6
	52.4	45.1	13.1	11.8
UK Public Service Broadcasting				
Within one year	2.1	1.8	0.5	1.7
In two to five years	6.1	3.8	2.6	2.8
After five years	40.9	35.7	1.0	0.8
	49.1	41.3	4.1	5.3

24c Other financial commitments

In the ordinary course of business the BBC enters into a large number of contracts with artists and writers and with providers of other services including licence fee collection and channel distribution.

25 Contingent assets and liabilities

At 31 March 2006 the Group had unprovided contingent liabilities estimated to be £6.3million (2005 £5.4million) in respect of guarantees and indemnities. Of this, £1.6million relates to UK Public Service Broadcasting. The remainder relates to BBC Worldwide's joint venture, Worldwide Media Limited. BBC Worldwide Limited has guaranteed bank loans in respect of this joint venture which were 366million rupees (£4.7million) on 31 March 2006. This debt may rise to 400million rupees (£5.2million) over the next two years.

In January 2006 the BBC received a reminder of a claim originally made in 2000 by the contractor engaged to build and install gas turbines at TVC for an additional £3.1million. Given the length of time that has elapsed since the original claim and the sporadic pursuit by the contractor of this claim, the BBC considers the likelihood of the claim succeeding as remote and therefore has not provided for this claim in the accounts.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 17) for its best estimate of any damages and costs which may be awarded.

26 Post balance sheet events

On 3 May 2006 BBC Worldwide completed the disposal of 61% of its interest in Origin Publishing Limited to a management buyout team. BBC Worldwide retains a 39% interest which will be accounted for as an associate.

On 30 April 2004, BBC Worldwide exercised a put option to require Discovery to purchase the Group's entire 25% shareholding in Animal Planet LLC. The net book value of the Group's investment in this associate at 31 March 2006 is £nil (2005 £nil). On 3 April 2006 consideration of \$80million (£45.8million) was received by BBC Worldwide in respect of its 25% holding in Animal Planet LLC.

27 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8 *Related party disclosures*. Under the provisions of FRS 8 the BBC has not disclosed transactions between Group entities where more than 90% of those entities' voting rights are controlled within the Group. UK Public Service Broadcasting does not underwrite any of the activities or liabilities of the subsidiaries.

In all transactions, the terms of trade were negotiated on an arm's length basis.

27a Transactions with joint ventures and associated undertakings

Included in the statement of income and expenditure is income from UKTV of £45.8million (2005 £51.8million) relating to the sale of programmes and dividends. Also included is income of £27.9million (2005 £30.5million) relating to the sale of programmes to JV Programmes LLC. Net income from 2|entertain Limited of £23.5million (2005 £15.6million) was received for licensing of programmes, other commissions and dividends. There is also £5.9million (2005 £6.3million) of income from various other joint ventures and associates relating to the sale of programmes. Included in the statement of income and expenditure is income of £0.8million (2005 £0.8million) from BBC Haymarket Exhibitions Limited relating to management fees and dividends. In addition, Frontline Limited charged £2.0million (2005 £3.1million) for the distribution of BBC Worldwide Limited's magazines and paid a dividend of £0.4million (2005 £0.6million). Also included is a charge for £0.3million (2005 £0.4million) from Parliamentary Broadcast Unit Limited, for the purchase of broadcast licences.

The BBC, Crown Castle UK Limited and British Sky Broadcasting Limited are partners in DTV Services Limited. In the year the BBC paid DTV Services Limited £1.3million (2005 £0.9million) for marketing services.

The BBC and Land Securities Trillium Limited are partners in the Insight Property Partnership and the White City Development Partnership. The partnerships charged the BBC £104.8million for property services during the year (2005 £153.2million).

In July 2003, the BBC granted a head lease on Broadcasting House to Daunus Limited (a company in which the BBC holds a 10% interest (see Note 13b) and Morgan Stanley Gamma Investments. During the year the BBC has paid rent of £11.5million to Daunus Limited and received £1.0million (2005 £14.9million) for reimbursement of Broadcasting House development costs.

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 15 and 16. In all transactions the terms of trade were negotiated on an arm's length basis.

Related parties include Governors, the Executive Board and other senior managers, their immediate families and external entities controlled by them

Transactions between the BBC and these related parties are explained in this note.

27b Other transactions

In the normal course of business the BBC transacts with other parties which are related to it by virtue of its senior employees being married or closely related to employees of the BBC or individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Governor or employee is not a party to the approval process.

Baroness Deech, Governor, has a daughter who is a journalist in BBC News. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Professor Merfyn Jones, Governor, has a son who is a researcher in BBC News. His remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Ranjit Sondhi, Governor, is married to Anita Bhalla, who has been employed by the BBC since 1987 in various production and broadcasting roles. Her current role is Head of Political Community Affairs for the English Regions. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity. His daughter is an actress and works occasionally on BBC Radio and Television programmes. Her fees are based on the BBC's standard artists and contributor terms and conditions.

Deborah Bull, Governor, is sole Director of Deborah Bull Limited. Subsequent to her appointment, Deborah received, through Deborah Bull Limited, payments totalling £2,853 (2005 £8,650) for contributions to various BBC programmes. No amounts were outstanding at the year end (2005 £nil).

The wife of Richard Tait, Governor, is a BBC Radio 4 commissioning editor. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Michael Grade, Chairman, is non-executive Chairman of Pinewood Shepperton and non-executive Chairman of Hemscott plc. In the year ended 31 March 2006 the BBC paid £2,494,051 (2005 £2,148,763) to Pinewood Shepperton for the use of studios and related facilities. At the year end £16,105 was outstanding (2005 £5,554).

Menna Richards is controller of BBC Wales. Her sister has a controlling interest in Torpedo Limited. BBC Wales made payments on contracts to the value of £323,895 with Torpedo Limited for the provision of independent radio and television programmes in the year. These amounts had been paid in full by 31 March 2006. Also, BBC Wales entered into artists' contracts worth £56,267 with her husband Patrick Hannan. These amounts had been paid in full by 31 March 2006.

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Table 1: Average 15-minute weekly reach: BBC and competitors

The table shows the percentage of people who watch or listen to television or radio for at least 15 minutes in an average week.

	All homes		All multichannel homes		Analogue terrestrial homes	
	2005/2006 (55.8m ¹) %	2004/2005 (55.4m ¹) %	2005/2006 (42.5m ¹) %	2004/2005 (37.5m ¹) %	2005/2006 (13.2m ¹) %	2004/2005 (17.9m ¹) %
Total BBC Television and Radio reach²	92.7	92.9	–	–	–	–
BBC Television	85.3	86.6	83.6	84.5	89.7	90.2
BBC One	79.7	81.9	77.1	78.7	86.7	87.2
BBC Two	59.1	61.4	52.9	53.3	74.7	75.3
BBC Three	11.8	9.4	16.1	14.8	–	–
BBC Four	4.5	3.0	6.1	4.8	–	–
The CBBC Channel	4.2	3.5	6.0	5.6	–	–
CBeebies	6.4	5.8	8.8	9.0	–	–
BBC News 24	5.4	4.2	7.4	6.7	–	–
BBC Parliament	0.2	0.2	0.2	0.3	–	–
Other channels (total)³	58.6	52.0	81.2	81.4	–	–
All ITV	75.9	77.5	74.4	75.1	–	–
ITV1	73.0	76.0	70.5	72.7	79.6	81.3
ITV2	16.9	13.9	23.0	21.4	–	–
ITV3 ⁴	8.6	3.3	11.7	5.0	–	–
ITV4 ⁵	4.8⁵	–	6.3⁵	–	–	–
CITV ⁶	0.1⁶	–	0.2⁶	–	–	–
All Channel 4	65.5	64.6	62.2	59.7	–	–
Channel 4	62.3	62.6	57.9	55.8	72.6	71.4
E4 ⁷	13.6	8.4	18.4	13.0	–	–
More 4 ^{7,8}	7.0⁸	–	9.1⁸	–	–	–
five	43.4	43.9	43.0	42.9	43.1	44.5
All Sky channels	31.7	30.7	45.1	48.4	–	–
Sky One	14.2	14.8	19.6	22.8	–	–
Sky News	4.1	4.0	6.0	6.3	–	–
Discovery ⁷	5.2	5.1	7.0	8.0	–	–
Nickelodeon ⁷	3.9	4.4	5.7	7.0	–	–
Nick Jr.	2.9	2.6	4.1	4.1	–	–
UK Gold ⁷	11.2	11.0	15.8	17.2	–	–
UKTV	22.5	20.4	31.5	32.0	–	–
BBC Radio	66.5	66.6				
BBC Radio 1	20.6	20.4				
BBC Radio 2	26.5	27.2				
BBC Radio 3	4.1	4.2				
BBC Radio 4	19.2	19.3				
BBC Radio Five Live	12.0	12.7				
BBC Radio Five Live Sports Extra	1.0	0.8				
1Xtra	0.7	0.6				
BBC 6 Music	0.6	0.5				
BBC 7	1.2	0.9				
BBC Asian Network	0.9	1.0				
BBC Local Radio (including Nations)	20.5	20.8				
BBC World Service ⁹	2.6	2.6				
All commercial radio	62.2	63.8				
Virgin AM/FM	5.1	5.1				
Classic FM	12.1	12.6				
talkSPORT	4.4	4.6				
All local commercial radio	50.6	52.5				

Source: Television: BARB TNS/Infosys, age 4+; Radio: RAJAR, age 15+, both average for the year

¹People aged 4+ as at March, source: BARB

²Combined weekly reach to BBC Television and Radio, age 4+, source: BARB/RAJAR

³Excludes BBC One, BBC Two, ITV1, Channel 4 and five

⁴ITV3 launched in November 2004

⁵ITV4 data covers the period November 2005 to March 2006

⁶CITV data covers the period March 2006

⁷Includes the first transmission and +1 hour time-shifted channels

⁸More 4 data covers the period October 2005 to March 2006

⁹UK only

Table 2: Average audience share: BBC and competitors

The table shows the percentage of hours of viewing or listening in an average week.

	All homes		All multichannel homes		Analogue terrestrial homes	
	2005/2006 (55.8m) %	2004/2005 (55.4m) %	2005/2006 (42.5m) %	2004/2005 (37.5m) %	2005/2006 (13.2m) %	2004/2005 (17.9m) %
Total BBC Television and Radio share²	42.7	43.1	–	–	–	–
BBC Television	34.9	36.2	29.8	29.7	48.0	47.9
BBC One	22.9	24.4	19.2	19.7	32.5	32.9
BBC Two	9.4	9.6	7.0	6.7	15.5	15.0
BBC Three	0.6	0.5	0.9	0.8	–	–
BBC Four	0.2	0.2	0.3	0.3	–	–
The CBBC Channel	0.4	0.3	0.6	0.5	–	–
CBeebies	0.9	0.8	1.3	1.3	–	–
BBC News 24	0.4	0.4	0.6	0.6	–	–
BBC Parliament	0.0	0.0	0.0	0.0	–	–
Other channels (total)³	30.5	27.3	42.4	42.5	–	–
All ITV	23.6	23.9	21.6	20.9	–	–
ITV1	21.1	22.3	18.2	18.5	28.7	29.2
ITV2	1.5	1.2	2.0	1.8	–	–
ITV3 ⁴	0.9	0.3	1.2	0.5	–	–
ITV4 ⁵	0.3⁵	–	0.4⁵	–	–	–
CITV ⁶	1.6⁶	–	2.0⁶	–	–	–
All Channel 4	11.4	10.6	10.2	8.8	–	–
Channel 4	9.8	9.8	8.1	7.6	14.2	13.8
E4 ⁷	1.4	0.8	1.8	1.0	–	–
More 4 ^{7,8}	0.4⁸	–	0.6⁸	–	–	–
five	6.3	6.5	5.2	5.2	8.8	8.8
All Sky channels	6.3	6.5	9.2	10.2	–	–
Sky One	1.4	1.5	1.9	2.2	–	–
Sky News	0.4	0.4	0.6	0.6	–	–
Discovery ⁷	0.5	0.4	0.7	0.7	–	–
Nickelodeon ⁷	0.4	0.4	0.5	0.6	–	–
Nick Jr.	0.4	0.3	0.5	0.5	–	–
UK Gold ⁷	1.1	1.2	1.6	1.8	–	–
UKTV	2.9	2.6	4.0	4.0	–	–
BBC Radio	54.9	54.0				
BBC Radio 1	9.3	8.5				
BBC Radio 2	15.9	16.3				
BBC Radio 3	1.2	1.2				
BBC Radio 4	11.7	11.3				
BBC Radio Five Live	4.4	4.6				
BBC Radio Five Live Sports Extra	0.1	0.1				
1Xtra	0.2	0.1				
BBC 6 Music	0.2	0.1				
BBC 7	0.3	0.2				
BBC Asian Network	0.3	0.3				
BBC Local Radio (including Nations)	10.9	10.9				
BBC World Service ⁹	0.6	0.6				
All commercial radio	43.1	44.1				
Virgin AM/FM	1.6	1.5				
Classic FM	4.2	4.2				
talkSPORT	1.8	1.7				
All local commercial radio	32.8	34.3				

Source: Television: BARB TNS/Infosys, age 4+; Radio: RAJAR, age 15+, both average for the year

¹People aged 4+ as at March, source: BARB

²Combined share of viewing/listening to BBC Television and Radio age 4+, source: BARB/RAJAR

³Excludes BBC One, BBC Two, ITV1, Channel 4 and five

⁴ITV3 launched in November 2004

⁵ITV4 data covers the period November 2005 to March 2006

⁶CITV data covers the period March 2006

⁷Includes the first transmission and +1 hour time-shifted channels

⁸More 4 data covers the period October 2005 to March 2006

⁹UK only

Table 3: Subtitling output on BBC Television

	Subtitled hours		Actual for year		Target for year	
	2005/2006	2004/2005	2005/2006 %	2004/2005 %	2005/2006 %	2004/2005 %
BBC One	13,144	12,643	91.6	87.4	90.0	85.0
BBC Two	9,516	9,355	91.7	88.5	90.0	85.0
BBC Three	2,542	2,293	78.3	69.0	70.0	60.0
BBC Four	2,534	2,162	77.0	65.4	70.0	60.0
The CBBC Channel	3,286	2,912	75.7	65.8	70.0	60.0
CBeebies	3,866	3,768	82.3	78.6	70.0	60.0
BBC News 24	6,149	5,382	70.4	60.4	70.0	60.0

Note: BBC Parliament is not subject to Ofcom subtitling targets on the basis of audience size

Table 4: Audio description on BBC Television

	Audio described hours		Actual for year		Target for year	
	2005/2006	2004/2005	2005/2006 %	2004/2005 %	2005/2006 %	2004/2005 %
BBC One	719	599	8.2	6.7	6.9	6.0
BBC Two	628	540	7.4	6.1	6.9	6.0
BBC Three	615	452	18.9	13.6	6.9	6.0
BBC Four	332	251	10.1	7.6	6.9	6.0
The CBBC Channel	552	271	12.7	6.1	6.9	6.0
CBeebies	431	384	9.2	8.0	6.9	6.0

Note: Targets have been set for 10% of programming output to be audio described by 2008/2009

Note: BBC News 24 is not subject to audio description targets due to the narrative nature of the output

Note: BBC Parliament is not subject to Ofcom audio description targets on the basis of audience size

Table 5: Signing on BBC Television

	Sign interpreted hours		Actual for year		Target for year	
	2005/2006	2004/2005	2005/2006 %	2004/2005 %	2005/2006 %	2004/2005 %
BBC One	308	269	3.5	3.0	3.4	3.0
BBC Two	312	269	3.7	3.0	3.4	3.0
BBC Three	117	104	3.6	3.1	3.4	3.0
BBC Four	129	112	3.9	3.4	3.4	3.0
The CBBC Channel	172	146	4.0	3.3	3.4	3.0
CBeebies	176	200	3.8	4.2	3.4	3.0
BBC News 24	336	276	3.8	3.1	3.4	3.0

Note: Targets have been set for 5% of programming output to be signed by 2008/2009

Note: BBC Parliament is not subject to Ofcom signing targets on the basis of audience size

Table 6: BBC Network Television hours of output by genre

The table shows the number of hours of each genre broadcast on each channel. It includes origination, acquired programmes and repeats.

	BBC One		BBC Two		BBC Three		BBC Four	
	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005
Factual and learning	1,880	1,748	1,438	1,343	1,419	1,321	1,100	997
Education (formal) ¹	–	–	1,579	1,567	–	2	–	1
News and weather	2,508	2,446	673	620	114	143	8	9 ²
Current affairs	159	160	259	267	62	87	234	245 ²
Entertainment	433	559	810	781	903	882	234	187
Sport	670	787	1,028	946	36	4	–	–
Children's	672	675	1,168	1,353	–	–	–	–
Drama	1,036	880	166	173	258	368	295	190
Film	654	839	735	964	200	191	199	258
Music and arts	82	53	350	297	145	145	1,136	1,261
Religion	92	86	47	33	1	10	16	26
Continuity	259	234	322	320	119	118	82	80
Total network hours (excluding opt-outs)	8,445	8,467	8,575	8,664	3,257	3,271	3,304	3,254
Included in total network hours are acquired programmes of	1,476	1,471	1,597	1,919	287	299	522	542
Included in total network hours are parliamentary programmes of	64	51	131	145	–	–	–	–
	The CBBC Channel		CBeebies		BBC News 24		BBC Parliament	
	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005
Education (formal) ¹	583	562	88	77	–	–	–	–
News and weather	–	–	–	–	8,468	8,468	8,760	8,760
Children's	3,458	3,468	4,107	4,110	–	–	–	–
Continuity	313	320	516	530	292	292	–	–
Total network hours	4,354	4,350	4,711	4,717	8,760	8,760	8,760	8,760
Included in total network hours are acquired programmes of	646	762	866	700	178	178	135	327
Included in total network hours are parliamentary programmes of	–	–	–	–	–	–	8,760	8,760

¹Education (formal) includes Education for children, Open University and BBC Learning Zone

²Hours restated from 2004/2005 due to reclassification

Table 8: BBC Network Television hours of repeats

The table shows the number of hours of repeats shown on BBC One and BBC Two.

	BBC One		BBC Two	
	2005/2006	2004/2005	2005/2006	2004/2005
Hours of programmes in peak	1,643	1,643	1,643	1,643
Repeats in peak	146	159	450	533
Of which narrative repeats	4	2	47	38
Of which digital transfers	12	5	70	99
% repeats in peak time	8.9%	9.7%	27.4%	32.5%
Total hours of network programmes	8,445	8,467	8,575	8,664
Repeats	2,602	2,683	4,567	4,771
Of which narrative repeats	337	457	187	175
Of which digital transfers	176	175	453	379
% repeats in all hours	30.8%	32.0%	53.3%	54.0%

Repeats include transfers from BBC's digital channels (but not digital premieres)

Table 9: BBC Network Radio hours of output by genre

The table shows the number of hours of each genre broadcast on each radio station.

	BBC Radio 1		BBC Radio 2		BBC Radio 3		BBC Radio 4		BBC Radio Five Live	
	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005
Music	8,219	8337 ¹	7,328	7,375	8,073	8,068	–	–	–	–
News and weather	304	307	476	455	75	80	2,374	2,380	6,549	6,423
Sport	35	30	–	–	–	–	655	502	2,009	2,138
Factual	89	63	21	10	–	–	1,305	1,283	–	–
Current affairs	–	–	353	340	–	–	1,194	1,210	56	53
Drama	–	–	12	13	89	93	1,081	1,074	–	–
Arts	115	84 ¹	112	105	309	315	430	448	–	–
Entertainment	73	44 ¹	69	78	–	–	509	486	–	–
Religion	–	–	192	187	59	67	298	289	–	–
Schools	–	–	–	–	–	–	209	208	–	–
Children's	–	–	–	–	99	86	26	26	–	–
Presentation	148	148	197	197	56	51	54	54	146	146
Total hours	8,983²	9,013 ²	8,760	8,760	8,760	8,760	8,135	7,960	8,760	8,760

	BBC Five Live Sports Extra		iXtra		BBC 6 Music		BBC 7		BBC Asian Network		Total network radio	
	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005
Music	–	–	7,718	7,726	8,238	8,203	–	–	2,844	2,746	42,420	42,455
News and weather	–	–	306	306	325	326	–	–	1,240	1,246	11,649	11,523
Sport	1,209	1,001	80	77	–	–	–	–	390	390	4,378	4,138
Factual	–	–	–	–	–	5	–	–	6	6	1,421	1,367
Current affairs	–	–	510	505	–	–	–	–	1,690	1,704	3,803	3,812
Drama	–	–	–	–	–	–	3,495	3,184	120	122	4,797	4,486
Arts	–	–	–	–	–	–	–	–	–	–	966	952
Entertainment	–	–	–	–	–	–	3,158	3,466	–	–	3,809	4,074
Religion	–	–	–	–	–	–	–	–	572	643	1,121	1,186
Schools	–	–	–	–	–	–	–	–	–	–	209	208
Children's	–	–	–	–	–	–	1,457	1,460	–	–	1,582	1,572
Presentation	–	–	146	146	197	226	650	650 ¹	234	235	1,828	1,853
Total hours	1,209	1,001	8,760	8,760	8,760	8,760	8,760	8,760	7,096	7,092	77,983	77,626

¹Hours restated from 2004/2005 due to reclassification

²BBC Radio 1 operates nations' opt-outs

Table 10: BBC Network Radio hours of output by origin

The table shows where in the UK programmes were made and broadcast.

	Programmes produced in:											
	London		England (excluding London)		Northern Ireland		Scotland		Wales		Total	
	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005	2005/2006	2004/2005
BBC Radio 1	8,763	8,755	2	3	72	81	73	91	73	83	8,983	9,013
BBC Radio 2	5,529	5,561	3,150	3,115	13	2	64	80	4	2	8,760	8,760
BBC Radio 3	6,496	6,572	1,064	1,050	78	70	361	327	761	741	8,760	8,760
BBC Radio 4	6,339	6,080	1,553	1,602	41	47	133	161	69	70	8,135	7,960
BBC Radio Five Live	8,505	8,529	252	228	3	3	–	–	–	–	8,760	8,760
BBC Five Live Sports Extra	1,209	1,001	–	–	–	–	–	–	–	–	1,209	1,001
1Xtra	8,758	8,758	2	2	–	–	–	–	–	–	8,760	8,760
BBC 6 Music	8,500	8,500	260	260	–	–	–	–	–	–	8,760	8,760
BBC 7	8,737	8,730	10	3	13	17	–	10	–	–	8,760	8,760
BBC Asian Network	780	780	6,316	6,312	–	–	–	–	–	–	7,096	7,092
Total network radio hours	63,616	63,266	12,609	12,575	220	220	631	669	907	896	77,983	77,626
Nations and regions hours	8,760	8,760	227,619	222,772	8,809	8,740	11,961	11,617	15,375	15,367	272,524	267,256
Total radio hours	72,376	72,026	240,228	235,347	9,029	8,960	12,592	12,286	16,282	16,263	350,507	344,882

Table 11: Average weekly bbc.co.uk page impressions

The table shows page impressions viewed in an average week and includes pages accessed from the UK and abroad.

	2005/2006 Millions	2004/2005 Millions
UK and international page impressions¹		
News and sport	268.1	187.0
Education ²	27.5	15.5
Other bbc.co.uk	343.2	228.1
Total bbc.co.uk	638.8	430.6
BBC World Service, accessed via bbc.co.uk sites	29.0	19.2
BBC World Service, accessed via key partners ³	3.1	1.2
Total BBC World Service	32.1	20.4

Source: BBC server logs, BBC World Service

¹Includes page impressions from international-facing site (average weekly figure for 2005/2006 was 55.4 million), funded by Grant-in-Aid, also includes page impressions for the Global News Division home pages from December 2005 (weekly average was 35.2 million)

²Education comprises all schools and lifeskills sites (excluding BBC jam)

³Key partner websites host BBC World Service text and audio

Table 12: Average weekly reach of BBC New Media (millions of users)

	2005/2006 Millions	2004/2005 Millions
Unique users (server log based)¹		
bbc.co.uk unique users (UK only)	12.3	8.7
bbc.co.uk unique users (UK + international)	24.3	17.3
Claimed usage (survey based)		
bbc.co.uk ²	13.7	10.6
BBCi (interactive television – 24/7) ³	10.7⁴	n/a ⁵
Average monthly reach		
BBCi (interactive television – enhanced TV programmes) ⁶	3.2	3.5

¹Source: BBC server logs, based on cookie data

²Source: BMRB Access, Monthly Omnibus Survey, GB adults age 15+

³Digital satellite performance only of BBCi 24/7 'always on' digital text services available on Digital Satellite, Freeview and Digital Cable

Source: TNS News Media Tracker GB 16+

⁴Cross platform (Digital Satellite, Freeview and Digital Cable) measure only

available from October 2005

⁵Comparable data not available. New methodology from October 2005

⁶Digital satellite performance only of BBCi interactive TV programmes (eg Olympics, *Little Britain*). The number and size of services available each month fluctuates and therefore so does the number of viewers interacting
Source: BARB, viewers aged 4+ in digital satellite homes

Broadcasting facts and figures

Table 13: Weekly audio visual (AV) requests from bbc.co.uk

The table shows the number of hours of streaming and downloads of BBC programming per week.

	2005/2006 millions	2004/2005 millions
UK and International AV consumption hours in million		
Radio – live streams	2.3	1.4
Audio on-demand downloads	1.3	0.9
Other broadband and narrowband video and audio streams	1.0	0.6
Total AV from bbc.co.uk	4.6	2.9

Source: BBC server logs

Table 14: Comparative cost per hour of viewing/listening

The table shows the cost per hour to a viewer/listener of watching/listening.

	2005/2006 pence	2004/2005 pence
BBC ¹	5.4	5.0
Sky multichannels ²	50.6	44.0
Video/DVD hire ³	81.8	81.5

Source: BARB, RAJAR, BBC Strategy estimates

¹Based on the cost of the licence fee to a household (£126.50 per year in 2005/2006), total hours of viewing/listening to BBC output and average 2.32 people in household

²Based on the cost of basic multichannels (family package), total hours of viewing to Sky channels and average 2.73 people in household

³Based on the average cost per video/DVD hire (£2.94)

Table 15: Cost per hour of BBC-originated programmes by service

	2005/2006 £000	2004/2005 £000
Television channels		
BBC One	162.9	174.4
BBC Two	99.3	97.7
BBC Three	146.4	157.5
BBC Four	73.6	62.6
The CBBC Channel	75.3	42.2
CBeebies	59.1	63.3
BBC News 24	5.0	5.3
BBC Parliament	0.5	0.5
Radio stations		
BBC Radio 1	3.3	3.1
BBC Radio 2	4.0	3.9
BBC Radio 3	4.1	4.3
BBC Radio 4	11.5	11.4
BBC Radio Five Live	6.6	7.3
BBC Five Live Sports Extra	1.3	1.6
1Xtra	0.7	0.7
BBC 6 Music	0.5	0.5
BBC 7	3.7	3.8
BBC Asian Network	1.1	0.8
Nations and Regions		
Television (BBC One/BBC Two/BBC Three/BBC Four)	31.7	31.2
Radio (Local radio/Nations radio)	0.6	0.6

Table 16: Cost per hour of BBC-originated programmes by genre

	2005/2006 £000	2004/2005 £000
Analogue television programmes		
Factual and learning	108.5	110.6
Education (formal) ¹	107.1	93.0
News and weather	43.3	42.8
Current affairs	130.6	116.8
Entertainment	199.3	196.1
Sport	158.4	199.8
Children's	80.2	93.3
Drama	526.3	505.4
Film	–	280.3
Music and arts	133.6	151.0
Religion	105.3	108.3
Digital television programmes		
Factual and learning	143.1	132.8
Education (formal) ¹	116.0	–
News and weather	4.1	4.0
Current affairs	117.5	123.6
Entertainment	226.3	190.8
Sport	27.6	73.9
Children's	72.7	44.3
Drama	500.3	582.8
Film	104.3	–
Music and arts	65.4	74.6
Religion	124.1	102.1

¹Education (formal) includes education for children, Open University and BBC Learning Zone

Table 17: BBC News 24 costs

Note 2b (page 107) sets out the cost of BBC services and channels. Certain categories of expenditure, including newsgathering, are not allocated to individual services and channels. Had part of this expenditure been allocated to BBC News 24, its costs would have been as follows:

	2005/2006 £m	2004/2005 £m
Total production costs	23.1	23.0
Newsgathering ¹	19.1	18.4
Central costs	6.6	6.7

¹Included in newsgathering allocation is £3.3million of regional spend (2004/2005 £3.2million)

Note: 1,049 hours of BBC News 24 programming were shown on BBC One and 268 hours on BBC Two (2004/2005: 928 hours on BBC One and 225 hours on BBC Two)

Table 18: BBC distribution costs

	2005/2006 £m	2004/2005 £m
Analogue	76	77
Digital	89	80
Total distribution costs	165	157

Table 19: BBC spend outside London

The table shows the cost of BBC programmes made in the nations and regions.

	2005/2006 £m	2004/2005 £m
Television		
England	286	266 ¹
Northern Ireland	45	41
Scotland	106	112 ¹
Wales	68	57 ¹
	505	476
Radio		
England – local radio	128	129
Northern Ireland	13	16
Scotland	26	27
Wales	23	23
	190	195
Other programme costs incurred outside London	48	51
Other costs, including transmission	122	125
Total spend in the nations and regions	865	847¹
Included within television originations is network spend of	300	283 ¹
Included within radio originations is network spend of	47	49

¹TV figures restated on transmission rather than delivery basis, consistent with Ofcom reporting

Table 20: Creative spend outside the BBC

	2005/2006 £m	2004/2005 £m
Independent programme productions transmitted	353	328
External programme facilities and resources	241	245
Acquired programmes transmitted	80	84
Artists, contributors and copyright	276	283 ¹
Performing groups	29	28
	979	968

¹Figure restated from 2004/2005

Table 21: TV programming produced by independent producers as a percentage of eligible hours

	2005 %	2004 %
Target	25	25
Actual	31	30

There is a statutory requirement for 25% of eligible hours of TV programming to be produced by independent producers. It is Ofcom's responsibility to report BBC's performance against this requirement: the 31% in 2005 is the BBC's self assessment figure (see Compliance, page 91).

Table 22: Top ten external producers for BBC Television by spend

- 1 Hat Trick Productions
- 2 Kudos Film and Television
- 3 Talkback Thames
- 4 Tiger Aspect Productions
- 5 Endemol
- 6 Lion Television
- 7 Wall to Wall
- 8 Zenith Entertainment
- 9 Open Mike Productions
- 10 Mentorn

The BBC spent £335million on external programme production in the financial year 2005/2006 (£311million in 2004/2005).

Table 23: Radio programming produced by independent producers as a percentage of eligible hours

	2005/2006 %	2004/2005 %
Target	10.0	10.0
Actual	14.2	13.4

The BBC has made a voluntary commitment to 10% of eligible hours of radio programming being produced by independent producers. Data based on financial year.

Table 24: Top five external producers for BBC Radio by spend

- 1 Unique
- 2 Somethin' Else
- 3 Smooth Operations
- 4 Pier Productions
- 5 Classic Arts Productions

The BBC spent £16.0million on external programme production in the financial year 2005/2006 (£15.3million in 2004/2005).

Table 25: New Media content produced outside the BBC as a percentage of eligible spend

	2005/2006 %	2004/2005 %
Target	–	n/a
Actual	17.2	–

The BBC has made a voluntary commitment to 25% (by value) of eligible online content being sourced from outside the BBC from 2006/2007. BBC New Media had an external spend of £8.3million in 2005/2006.

General notes

– new Ofcom genres will be introduced in the BBC's next *Annual Report and Accounts (2006/2007)*

Terms

Peak time (television)	18:00–22:30 BBC One and BBC Two
Repeat	A re-broadcast of a programme previously shown on the same or another BBC television channel
Narrative repeat	Re-broadcast of a programme within seven days of first transmission
Digital transfers	Re-broadcast of a programme on BBC One or BBC Two previously shown on one of the BBC's digital channels (eg BBC Three or BBC Four)
Digital premiere	A programme commissioned for BBC One or BBC Two but first shown (premiered) on one of the BBC's digital television channels (eg <i>Spooks</i>)
Originations	Programmes produced for transmission on the BBC
Acquisitions	Programmes originally produced for transmission by a different broadcaster, either in the UK or overseas
Weekly reach (radio)	The percentage of adults in the UK aged 15+ who tune to a radio station within at least one 15-minute period in an average week (as measured by RAJAR)
Weekly reach (television)	The percentage of individuals in the UK aged 4+ who watch at least 15 consecutive minutes of television in an average week (as measured by BARB)
Share (radio)	The percentage of total hours of listening in an average week
Share (television)	The percentage of the total viewing audience

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Textphone: 08700 100 212
Fax: 0141 307 5770
Website: bbc.co.uk/info

For information about how to receive the BBC's digital services

Telephone: 08700 10 10 10*
Website: bbc.co.uk/digital

For general television and radio reception advice

Write to:
BBC Reception Advice
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Textphone: 08700 100 212
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To share your views on our television programmes

Write to:
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BBC Birmingham
Birmingham B1 1RF
Telephone: 0870 908 3199
(operational when programme is on air)
Email: pov@bbc.co.uk
Website: bbc.co.uk/pov

To share your views on our radio programmes

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BBC
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London W1A 1QT
Telephone: 08700 100 400*
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Email: feedback@bbc.co.uk
Website: bbc.co.uk/radio4/feedback

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Write to:

Ofcom Contact Centre
Riverside House
2A Southwark Bridge Road
London SE1 9HA
Telephone: 020 7981 3040
Fax: 020 7981 3334
Email: contact@ofcom.org.uk
Website: www.ofcom.org.uk

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The National Broadcasting Councils in Scotland, Wales and Northern Ireland and the English Regional and Local Advisory Councils assist BBC Governors in their overview of the BBC. Under the existing Charter, you can write to them with your views through:

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BBC Broadcasting Council for Scotland
Room 3152
BBC Broadcasting House
Queen Margaret Drive
Glasgow G12 8DG

The Secretary
BBC Broadcasting Council for Wales
BBC Broadcasting House
Llandaff
Cardiff CF5 2YQ

The Secretary
BBC Broadcasting Council for Northern Ireland
BBC Broadcasting House
Ormeau Avenue
Belfast BT2 8HQ

The Secretary
BBC English Regions
BBC Birmingham
The Mailbox
Birmingham B1 1RF

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Head of Performance
BBC Governance Unit
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Write to:
Diversity Database Project
Administrator
BBC
MC2 C5 Media Centre
Media Village
201 Wood Lane
London W12 7TQ
Telephone: 020 8008 4287
Fax: 020 8008 4282
Email: diversity.database@bbc.co.uk
Website: bbc.co.uk/info/policies

To find out about getting work experience at the BBC

Write to:
BBC Work Experience
MC2 C6 Media Centre
Media Village
201 Wood Lane
London W12 7TQ
Email: work.experience@bbc.co.uk
Website:
bbc.co.uk/jobs/workexperience

To find out about job vacancies at the BBC

Write to:
BBC Recruitment
PO Box 48305
London W12 6YE
Telephone: 0870 333 1330*
(9.30am–5.30pm Monday–Friday)
Email: recruitment@bbc.co.uk
Website: bbc.co.uk/jobs

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For general enquiries or direct debit payments
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The BBC also publishes the *BBC Statements of Programme Policy* which sets out the BBC's commitments and plans for the year ahead. This is available on the BBC's website at bbc.co.uk/info/statements2006. It is also available in Welsh, in an audio version, and in Braille.

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