



## Governance

Governance is the way we guarantee independence, deliver our mission and account for our actions

## Executive Board

The Executive Board, chaired by the Director-General, and consisting of executive and non-executive directors, is responsible for the delivery of BBC services and day-to-day operations across the organisation.

### Executive directors at April 2014



**Tony Hall, Lord Hall of Birkenhead, CBE**  
Director-General since April 2013.



**Helen Boaden**  
Director of Radio since April 2013.



**Anne Bulford OBE**  
Managing Director, Finance and Operations since June 2013.



**Danny Cohen**  
Director of Television since May 2013.



**Tim Davie**  
CEO, BBC Worldwide and Director, Global since April 2013. Appointed to Executive Board 1 April 2014.



**James Harding**  
Director of News and Current Affairs since August 2013.



**James Purnell**  
Director, Strategy and Digital since March 2013.

**Non-executive directors**



**Dame Fiona Reynolds DBE**  
Senior Independent Director. Appointed January 2012. Chairman of the Remuneration Committee, Fair Trading Committee, and Nominations Committee for non-executive appointments. Master of Emmanuel College, Cambridge.



**Simon Burke**  
Appointed January 2011. Chairman of the Audit Committee. Chairman of Bathstore.com



**Sir Nicholas Hytner**  
Appointed April 2014. Director of the National Theatre and Trustee of the Royal Opera House.



**Alice Perkins CB**  
Appointed April 2014. Chairman of Post Office Ltd and Coaching Partner at JCA Group.



**Sir Howard Stringer**  
Appointed January 2014. Non-executive director of Talk Talk Group.

This is the membership of the Executive Board as at April 2014. Throughout the reporting year membership has changed. Please refer to p102 for further details.

The Executive Board delegates some of its responsibilities to four sub-committees:

In general, the committees meet four times a year, although this can vary depending on the business to be considered.

**Audit Committee**  
The Audit Committee oversees financial reporting, internal control and risk management. The committee is made up of three non-executive directors. The Director-General, Managing Director, Finance & Operations, Director of Risk and Assurance, and external audit representatives also attend.

**Fair Trading Committee**  
The Fair Trading Committee ensures that the BBC complies with its fair trading obligations. It is made up of three non-executive directors, one of whom is nominated as chairperson. Other individuals may be invited to attend all or part of any meeting as and when appropriate. This may include (but not be limited to) the Managing Director, Finance & Operations, BBC Group General Counsel, Head of Fair Trading & Competition Law, external advisers and other relevant BBC members of staff.

**Nominations Committee**  
The Nominations Committee oversees the process of proposing, appointing and dismissing members of the Board, except the Chairman, who is appointed by the BBC Trust. Membership of the committee depends on whether non-executive or executive appointments are being made.

**Remuneration Committee**  
The Remuneration Committee decides the remuneration of executive members of the Board. It is made up of at least three non-executive directors and the Director-General, Managing Director, Finance & Operations, Director of HR and Director of Employment may also attend.

# Risks and opportunities

Risks and opportunities affect the ability of the BBC to fulfil its Charter obligations and public purposes. The Executive Board prioritises the BBC's risks and monitors whether we are taking too much or too little risk.

As we approach the start of negotiations on licence fee funding and Charter review, the BBC must put forward a compelling vision for the Corporation for the next ten years. At the heart of this vision will be our audiences and we will rest our case on the quality of our programmes and the excellence of the service we provide. If we fail to make a compelling case we run the risk

of not serving our audiences by bringing the best programmes and services to everyone.

The main risks to properly serving our audiences are set out in three categories below, but it is clear that they are all interdependent.

## Audiences

<p>Failure to continue to improve the quality, distinctiveness and innovation of our output in all genres whilst delivering a streamlined BBC could limit our ability to meet audience needs and expectations in an ever more competitive marketplace.</p>	<ul style="list-style-type: none"> <li>■ detailed monitoring of audience performance and reaction</li> <li>■ strategy review focusing on creative ambition and with targeted reinvestment in key genres</li> <li>■ development of new online products responding to creative and audience opportunities</li> <li>■ responding to audience demand for more live and interactive experiences</li> <li>■ strategies to build long-term value with under-served audiences</li> <li>■ to work with a broader range of media and cultural partners</li> </ul>
<p>Failure to uphold our editorial values and standards in all our content could impact on maintaining high levels of audience trust and damage our brand.</p>	<ul style="list-style-type: none"> <li>■ effective editorial compliance processes, further strengthened following publication of reviews</li> <li>■ wide-reaching training</li> <li>■ serious consideration of complaints and their implications</li> </ul>
<p>Inability to build an ever more creative, dynamic and cohesive organisation could limit our ability to attract, develop and retain the best creative talent and our contribution to creative and digital economies.</p>	<ul style="list-style-type: none"> <li>■ proactive articulation of what we offer as an employer to the widest population and most diverse talent in the marketplace</li> <li>■ developing our leadership population to continue building a creative, innovative and collaborative environment</li> <li>■ enable managers to recognise and reward significant additional contribution, growth in skill, capability and experience throughout the year</li> <li>■ actively review and monitor strategies to attract, develop and retain on-air talent, reflecting the different market conditions within each genre and service area</li> </ul>
<p>Failure to deliver content when and how it is demanded, or to anticipate the next big trends in technology and content consumption, could threaten our connection with audiences.</p>	<ul style="list-style-type: none"> <li>■ regular evaluation of our product portfolio to ensure it best reflects audience demand</li> <li>■ immersive experience across devices, tailored to different audience needs</li> <li>■ anticipating long-term trends in audience preferences and industry developments</li> <li>■ renewed engagement with key industry partners</li> </ul>
<p>A lack of transparency or the inability to respond swiftly, reasonably and proportionately to significant events or criticisms could impact on our brand reputation and our efficient delivery to audiences.</p>	<ul style="list-style-type: none"> <li>■ response to major incidents under continual review to ensure alignment with best practice</li> <li>■ regular rehearsals of response procedures</li> <li>■ ability to get immediate advice to the Director-General to ensure effectiveness, speed and proportionality of response</li> </ul>

## Delivery

Failure to deliver a flexible, agile and strong governance structure with clear accountability will hinder us in making the organisation simpler, more creative and better able to take focused, value for money decisions.	<ul style="list-style-type: none"> <li>■ pan-BBC review of management structures completed, focusing on single points of accountability and clear decision-making routes</li> <li>■ greater clarity on relationship between Executive Board and BBC Trust following the completion of governance review</li> <li>■ strengthened Executive secretariat function following appointment of Company Secretary</li> </ul>
Delayed and ineffective implementation of major projects could compromise the delivery of the BBC's overall ambitions.	<ul style="list-style-type: none"> <li>■ Corporate Project Management Office overseeing delivery of major projects</li> <li>■ independent assurance over portfolio of projects</li> <li>■ act on lessons learnt from previous projects</li> </ul>
Technical failure, infrastructure interdependencies, industrial action or the actions of third parties, including suppliers, could lead to interruption of broadcast services.	<ul style="list-style-type: none"> <li>■ strong business continuity policies and practices, regularly assessed and rehearsed</li> <li>■ good union relationships with regular dialogue</li> <li>■ focus on resilience in key procurements and major projects</li> <li>■ exit plans and contingency plans for key suppliers</li> </ul>
Failure to keep pace with changes to the information security threat could increase our exposure to vulnerabilities, especially in light of advances in technology and content delivery.	<ul style="list-style-type: none"> <li>■ continuous security improvement programmes established both in-house and in third-party IT support company</li> <li>■ global staff awareness and education campaigns carrying key security messages</li> <li>■ development of effective monitoring and forensic capabilities</li> </ul>
Inadequate controls could endanger the health and safety of individuals, the natural environment and our reputation.	<ul style="list-style-type: none"> <li>■ well developed safety procedures with comprehensive written guidance, supported by expert advisers</li> <li>■ robust health and safety training in the UK and overseas, including for staff operating in inhospitable locations</li> <li>■ with other broadcasters, working to inform the consultation on key proposed safety legislation changes affecting production and to clarify the impact on the media industry</li> <li>■ implementing environmental sustainability strategy to reduce impacts from BBC operations</li> <li>■ working with other broadcasters to raise standards in the industry as a whole</li> </ul>
Failure to comply with the broad range of legal and other regulatory requirements, or to keep pace with changes, may result in penalties.	<ul style="list-style-type: none"> <li>■ training plans regularly refreshed to ensure compliance with newly introduced legislation</li> <li>■ continuing to study and plan for impacts of new legislation, including working with the industry to monitor and develop best practice solutions for achieving effective compliance</li> </ul>

## Financial

Developments in the UK and global economic situation impact us and all our stakeholders, and could lead to reduced financial flexibility, potentially impacting on our ability to meet all our ambitions within our means.	<ul style="list-style-type: none"> <li>■ contingency planning and business modelling, incorporating potential variations in funding and inflation</li> <li>■ tight management of the implementation of phased savings targets, to enable delivery of strategic vision within available funding</li> <li>■ planning for new funding responsibilities (e.g. World Service)</li> </ul>
As competitors achieve scale and consolidate, there is risk of revenue falling and existing businesses being disrupted, routes to market being diminished and access to potential partners being reduced.	<ul style="list-style-type: none"> <li>■ mature commercial subsidiary with significant global experience and a regionally focused structure to drive strong, sustainable financial returns, support the BBC and promote UK creativity and innovation</li> <li>■ new global brands and globally branded channels strategy implemented with key partners to showcase BBC production and commissions</li> <li>■ develop services to enhance content availability to UK audiences</li> </ul>
Inability or failure to adequately plan for the range of potential changes to our funding model could limit our capability to deliver distinctive content to future audiences.	<ul style="list-style-type: none"> <li>■ engagement with the Government's Charter and licence fee review process</li> <li>■ participation in the Government review of options regarding licence fee enforcement</li> </ul>

### The BBC's accountability and internal control processes

The Executive Board is responsible for the operational management of the BBC (excluding the Trust Unit). This includes safeguarding its assets and achieving value for money by ensuring there is a process in place for managing significant risk issues to the BBC.

The Executive Board is responsible for establishing, maintaining and reviewing the effectiveness of the BBC's system of internal control and for ensuring that necessary actions are taken to remedy any significant failings or weaknesses identified. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Our system of control is designed to manage (rather than eliminate) the risk of failure to achieve business objectives and to provide reasonable assurance that assets are safeguarded, transactions are appropriately authorised and material errors or irregularities are either prevented or detected on a timely basis.

Key elements of our system of internal control include:

*Risk identification and management:* The Executive Board co-ordinates and monitors risk management activity within the BBC. Our process for identifying, evaluating and managing significant risks to the BBC, which accords with the Turnbull guidance (Internal Control: Guidance to Directors), has been in place for the year ended 31 March 2014 and up to the date of approval of this BBC Annual Report and Accounts. The key elements of risk management and oversight activity within the BBC are shown on pages 88-90. These include consideration of a wide range of risks including editorial, operational and financial risks.

*Strategy and financial reporting:* The Executive Board approve a business plan that aims to deliver the Trust-approved BBC strategy. Comprehensive monthly, quarterly and annual reporting processes, both within business groups and up to the Executive Board, include financial monitoring against plan, regular reforecasting, analysis of variances and performance reviews tracking achievements against business plan and strategy.

*Business policies:* Formal policies and procedures are in place for all material business processes to ensure compliance with all applicable laws and regulations, that risks are managed and that timely, relevant and reliable information is available across the business.

*Cash management:* The BBC undertakes regular treasury and cash reporting, which analyses funding requirements and liquidity.

*Authorisation procedures:* Clearly stated formal authorisation limits and processes cover all financial transactions.

*Project governance:* The importance of assurance in supporting project governance and, ultimately, successful project delivery is recognised. It is now a requirement of all major projects in the BBC to put in place a robust set of checkpoints and reviews with the aim of providing senior stakeholders with assurance that the project is on track to deliver, and to identify appropriate actions to be taken if the project is off course. The roles and expected interventions of assurance providers, (e.g. Internal Audit or independent technical experts), are defined within the overall project plan. The Project Sponsor is responsible for ensuring that the programme of assurance is sufficient for the project throughout its lifecycle, with independent review and challenge provided by Internal Audit and the BBC Programme Management Office.

*Staff capability:* Processes are in place to ensure that our staff are professional and competent. These include recruitment policies, performance appraisals and development programmes.

### The BBC's internal audit process

Internal audit, Risk management and Investigation Services combine to form our Business Assurance function, which is led by the Director of Risk and Assurance. Internal Audit's authority and independence is assured by the Director of Risk and Assurance's independent and direct access to the Director-General and to the Executive Audit Committee (EAC).

Internal audit regularly tests the BBC's control systems and core business processes to ensure they are fit for purpose and consistently applied. The work plan, which is based on a continuing assessment of key risks, is agreed annually with the EAC and covers financial, operational and compliance controls, including the exercise of the BBC's right of audit over external suppliers such as the independent production companies and service providers. Any significant control failings or weaknesses identified are reported to appropriate levels of management. The status of corrective actions is reported back to EAC.

### Whistle-blowing arrangements

We have a 'whistle-blowing' (protected disclosure) policy to facilitate the confidential communication via a number of routes of any incident in which there is a suspicion that the BBC's codes have been breached. We recognise that there could be sensitivities regarding actual or suspected incidents and so we provide a 'whistle-blowing' hotline administered by an independent external company to ensure anonymity.

Each incident or suspicion reported is independently investigated in a confidential manner, a response is communicated and action taken as appropriate. The EAC is responsible for ensuring that there are appropriate arrangements in place for the proportionate investigation of matters reported and for appropriate follow-up action.

# Governance report

## Good governance is about leadership, accountability and openness

### BBC Governance review

A major change this year has been the implementation of the review of BBC Governance, making clearer the respective roles of the Trust and the Executive. We are also working to make the operations of the BBC simpler, with proper individual accountability for decisions and the scrapping of some 60 BBC boards.

### BBC corporate governance framework

The BBC's corporate governance framework is defined in the Royal Charter (the Charter). You can see the Charter on the BBC Trust's website at: [bbc.co.uk/bbctrust/about/how\\_we\\_govern/charter\\_and\\_agreement/](http://bbc.co.uk/bbctrust/about/how_we_govern/charter_and_agreement/)

The Charter requires the Executive Board to have regard to generally accepted principles of good corporate governance. And whilst the BBC is not a listed company, it has nonetheless

opted to adopt best practice and follow the provisions of the Financial Conduct Authority's Listing Rules (in accordance with the 2010 Corporate Governance Code) and the Financial Reporting Council's 2012 UK Corporate Governance Code in order to be consistent with companies quoted on an EU regulated market.

The Executive Board has complied with the requirements of the Charter which has also secured substantial compliance with the UK Corporate Governance Code. The last external evaluation of the Board was completed in 2009; therefore, provision B.6.2 of the UK Corporate Governance Code has not been complied with. The BBC, jointly with the BBC Trust, did conduct an internal review of governance during the year. The Executive Board believes that this does not compromise the quality of the governance arrangements in place during 2013/14 or the execution of the Executive Board's responsibilities.

### Areas of the UK Corporate Governance Code not relevant to the BBC

**Make up of remuneration (UK Corporate Governance Code principle D.1.1):** The BBC sets levels for executive remuneration that should be sufficient to attract, retain and motivate directors of the quality required to run the organisation successfully, in line with this principle. However, this principle also requires aligning executive remuneration to the notion of enhancing shareholder value by making performance-related elements of remuneration a significant proportion of total remuneration. By virtue of the BBC's licence fee funding and its public purposes, the amount of variable (or performance-related) remuneration that may be earned should be limited. Variable pay in the form of bonuses for BBC executive directors have been suspended indefinitely, with the exception of Tim Davie (appointed on 1 April 2014) in his capacity as the Chief Executive Officer of BBC Worldwide.

**Interaction with shareholders (UK Corporate Governance Code principles B.7.1, B.7.2, D.2.4 and section E):** The BBC is not a profit-oriented company with shareholders and so provisions relating to interaction with shareholders clearly do not apply. In some circumstances, however, it is possible to consider, by analogy, the way in which the BBC Trust engages with licence fee payers. This is set out in the Trust's review and assessment in Part One of the Annual Report and Accounts.

### Areas where compliance with the Charter overrides the UK Corporate Governance Code

**Division of responsibilities between Chairman and Chief Executive (UK Corporate Governance Code principle A.2.1 and A.3.1):** As permitted by the Charter, the Chairman of the Executive Board is the Director-General, the chief executive officer of the BBC. This does not comply with the UK Corporate Governance Code which requires a clear division of responsibilities at the head of the company between the running of the board and the executive responsible for the running of the company's business. Whilst the Director-General acts as both Chairman and Chief Executive, the strategic oversight by the BBC Trust ensures that no single individual has unfettered powers.

**Board balance and independence (UK Corporate Governance Code principle B.1.2):** At 31 March 2014 the Executive Board comprised 11 directors, of whom seven were executive directors and four non-executive directors providing a balance of executive and non-executive directors so that no individual or small group of individuals can dominate decision taking. This complies with the Charter which specifies that non-executive directors must not be less than one third and not equal to or more than one half of the members of the Executive Board. However, this does not comply with the UK Corporate Governance Code which requires that at least half the board, excluding the Chairman, should be independent non-executive directors. All non-executive directors are considered independent for the purposes of the UK Corporate Governance Code.

**Evaluation of the Chairman (UK Corporate Governance Code principle B6.3):** The Director-General of the BBC, being the Chairman of the Board, has his performance evaluated by the Trust. This is performed by the Chairman of the Trust as opposed to the Senior Independent Director, as stated in the UK Corporate Governance Code.

# Nominations Committee

For the final quarter of the year the Remuneration Committee only comprised of two members which, despite being a quorate, is non-compliant with principle D.2.1 of the UK Corporate Governance Code. Two new non-executive directors were appointed as members of the Remuneration Committee in early 2014/15, therefore the BBC are now compliant with this principle.

There are also a few areas of the UK Corporate Governance Code that are either not appropriate to the circumstances of the BBC or where compliance with the Charter overrides compliance with the UK Corporate Governance Code.

## Cost of compliance

In 2013/14, the BBC incurred compliance costs estimated at £16.2million (2013: £14.9million) to ensure that we complied with all relevant legislation. This includes the BBC's annual £2.9million subscription to Ofcom. During the year a number of enquiries continued, the costs incurred to 31 March 2014 on these enquiries was £2.0million (2013: £4.9million).

## Executive Board

The Executive Board meets monthly (except for August), although additional Board meetings are convened during the year as and when required. Summary minutes of the monthly meetings are available online at: [bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/](http://bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/)

In practice, the Executive Board delegates some of its responsibility to other managerial groups and, in accordance with the requirements and provisions of the Charter, the following Committees continued to operate last year:

- Audit Committee
- Fair Trading Committee
- Nominations Committee
- Remuneration Committee

Any delegation from the Executive Board is stated in the relevant standing orders for each group and a framework for reporting and review is established. See: [bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcom.html](http://bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcom.html)

The Executive Board, its sub-committees and other boards to which it delegates responsibility are responsible for the delivery of BBC services and day-to-day operations across the organisation.

## Induction, performance and development

All new directors receive an induction programme including Board procedures and directors' responsibilities. All directors have access to external independent advice if they wish.

The BBC Trust assesses the performance of the BBC's management and its services including an ongoing review of progress and an annual performance day. The BBC Trust's review and assessment for 2013/14 can be found in Part One.

All the executive directors have their own personal and divisional objectives, and their performance against them is reviewed by the Director-General each year.

## Board appointments

The Nominations Committee oversees the process of proposing members of the Board. Appointments are made by the Executive Board, with non-executive appointments requiring the approval of the Trust. The only exception is the Chairman, who is appointed by the BBC Trust. Membership of the Nominations Committee is dependent on whether it is dealing with executive or non-executive appointments.

The Nominations Committee oversaw a number of appointments during the year. Two executive appointments were made: Danny Cohen, Director, Television (effective 7 May 2013) and James Harding, Director of News and Current Affairs (effective 12 August 2013). Helen Boaden, Director, Radio (effective 15 April 2013) and Anne Bulford, Managing Director, BBC Finance and Operations (effective 21 June 2013) were appointed during 2012/13.

Following approval from the BBC Trust, the Board appointed three new non-executive directors during the year: Sir Howard Stringer from 1 January 2014, and Nicholas Hytner and Alice Perkins from 1 April 2014. The term of office for non-executive directors Sally Davis and Brian McBride were concluded during the year (as planned).



# Report of the Senior Independent Director



“We are filled with a renewed sense of determination and optimism.”

**Dame Fiona Reynolds**

2013 was a year of looking forward and looking back. The BBC Trust appointed Tony Hall as the 16th Director-General of the BBC and Chairman of the BBC's Executive Board. Arriving back at the Corporation on 2 April 2013, Tony brought with him a surge of optimism. He took over from Tim Davie, who had achieved much in a five-month stint as Acting Director-General. The Board set about moving forward under Tony's leadership and initiated a new strategy with a clear and unifying vision for the BBC, focused on making us accessible, inspiring and invaluable for all our audiences.

The early months of this year, however, were marked by a focus on the past. Investigations into past decisions on severance payments to departing staff and the failed Digital Media Initiative (DMI) project consumed much of the Board's time. These investigations were painful but only added impetus to the internal energy that was already being applied to remedying these difficulties. During the year we held a major review of remuneration policy and practice, led by Sally Davis, the then chair of the Executive Remuneration Committee. I report separately on the details of this review and the issue of severance pay on page 77. We also strengthened project management and overhauled the way we oversee complex major projects, learning from the lessons of DMI. We have drawn greater assurance from the evidence of tighter management and more open reporting of projects that is already resulting.

The composition of the Executive Board has changed significantly this year. Five out of seven executive directors were newly appointed to the Board in 2013. From outside the BBC we welcomed Anne Bulford (Managing Director, Finance and Operations), James Harding (News and Current Affairs) and James Purnell (Strategy and Digital). Danny Cohen (Television) joined the Board from his role as Controller of BBC One, and Helen Boaden (Radio) and Tim Davie (BBC Worldwide and Global) took on new roles.

Following the review of BBC governance conducted jointly with the BBC Trust, we also made significant changes to the non-executive membership of the Board. Sally Davis's term of office ended in December 2013 and Brian McBride's in March 2014: we warmly thank them both. Replacing them are Sir Howard Stringer, former CEO and Chair of Sony; Alice Perkins, Chair of the Post Office; and Nick Hytner, Director of the National Theatre. These new non-executive directors join Simon Burke and me in an expanded non-executive group on the Board. We plan to appoint a further non-executive to help us with the digital challenge in the coming year.

### Executive Board and Committee attendance

	Executive Board		Audit Committee		Fair Trading Committee		Nominations	Remuneration	Committee
	Ordinary	Extraordinary	Member	Attendee	Member	Attendee	Committee Member	Member	Attendee
Number of meetings for the period	11	1	5		3		4	9	
<b>Executives</b>									
Tony Hall	11	1		3			4		9
Lucy Adams	8	0					2		8
Helen Boaden	10	1							
Anne Bulford	8/9	1		5		2/2			5/7
Danny Cohen	10	0							
James Harding	6/7	1							
Roger Mosey	1/2	0/0							
Zarin Patel	3/3	0/0		1/2		0/1			
James Purnell	11	1							
Fran Unsworth	4/4	0/0							
<b>Non-executives</b>									
Brian McBride	11	1	3				3	9	
Simon Burke	11	1	5				3		1/1
Dame Fiona Reynolds	11	0	5		3		3	9	
Sally Davis	8/8	1			3			8/8	
Sir Howard Stringer	2/2	0/0							

This table does not include business conducted offline and update meetings where no formal business was considered.

Together, the new Executive Board is committed to working as a team to bring energy, leadership and direction to the BBC. We are determined to create the conditions that will guarantee the highest quality of distinctive broadcasting, easily accessible to everyone who enjoys BBC programmes and products. We want to inspire our audiences and engage our staff in the new, purposeful direction for the BBC.

In the coming year we will face further challenges, not least the fact that our new strategy will place significant demands on us culturally, organisationally and financially. But we are filled with a renewed sense of determination and optimism: the BBC continues to inform, educate and entertain, and at our best we are sensational. Delivering more, better and more personally are our watchwords for the future.

**Dame Fiona Reynolds**  
**Senior Independent Director**  
 19 June 2014

# Remuneration report



“We have appointed the very best people on salaries that are significantly discounted against the commercial sector.”

**Dame Fiona Reynolds**

## Annual statement of the Chair of the Executive Remuneration Committee

2013/14 was a challenging year for the BBC. We came under intense scrutiny over the payment of substantial severance payments to senior managers. It was also a year of senior management change with a number of new Executive Board appointments in which we were determined to attract the most talented leaders on salaries that demonstrated value to the licence fee payer.

We accepted the findings of the NAO review of senior manager severance payments. This added to the existing internal impetus to intensify the challenge and scrutiny of senior manager pay, benefits and contractual terms. As a result the Executive Remuneration Committee (ERC) expanded its scope to include responsibility for the BBC's subsidiaries; introduced new policies and practices for senior salaries including severance; improved the governance of severance and pay; and introduced greater challenge and scrutiny of salaries and severance at a greater depth within the organisation.

In line with the new policies agreed, the BBC implemented a cap of £150,000 on severance payments in September 2013, ceased the practice of making payments-in-lieu-of-notice (PILON) in addition to severance and extended the scope of the newly established Senior Manager Remuneration Committee (SMRC) to include responsibility for approving all pay increases above £75,000, all discretionary severance payments and contractual severance payments above £75,000. The SMRC provides regular updates to the Executive Remuneration Committee and since the increased governance was introduced in September 2013 there has been a modest reduction in the headcount and pay bill of those earning £75,000 or more. Since September 2013, there have been no cases of severance paid above £150,000 and no cases where payment-in-lieu-of-notice (PILON) has been paid in addition to severance.

We have continued with our policy of discounting senior manager and executive salaries by between 20% and 80% against the commercial sector, aligning ourselves more closely with the commercial public sector. We no longer provide a car allowance or funded private medical insurance to executive directors and senior managers joining the BBC. The majority of Executive Board members are not entitled to receive either benefit and all of our executive directors have accepted contractual terms that cap severance at £150,000 and reduce the employer notice period to six months.

2013/14 saw significant change for the BBC's Executive Board; six of the seven BBC directors were newly appointed to their role in the 2013 calendar year. Throughout the year the ERC has reviewed the BBC's progress towards senior manager reductions against targets set by the 2011 BBC Executive and Senior Management Pay Strategy to be met by 31 December 2015. Since 2009, the BBC has reduced senior manager headcount and the senior manager pay bill by more than a third. Since January 2012, we have continued to make steady progress towards our targets, reducing by a further 74 heads (15.3%) against a target of c70 heads and reducing the pay bill by £6.6million (11.5%) against a target of c£9million.

We have appointed the very best people on salaries that are significantly discounted against the commercial sector; reflecting our ability to attract talented leaders motivated by the creative challenge and public responsibility of leading the BBC.

There is more to do. We have an ambition to further reduce the percentage of employees at senior management grades from 410 (down from 640 in August 2009) and the numbers of senior managers earning more than £150,000. To achieve these ambitions the Committee will continue to challenge the BBC's senior management to deliver value and transparency to licence fee payers. We believe we can attract the very best leaders and highly talented staff through a combination of our extraordinary output, compelling creative position and strong public service ethos.

**Dame Fiona Reynolds**  
**Senior Independent Director**  
19 June 2014

#### Key decisions 2013/14

- No salary increase for Executive Board members
- Reduction of Executive Board employer notice period from 12 months to 6 months
- Implementation of a £150,000 redundancy payment cap
- Introduction of enhanced governance of all salary proposals over £75,000 per annum
- Introduction of enhanced governance for redundancy payments over £75,000

#### Strategy for 2014/15

- Removal of the Director, HR role from the Executive Board
- Appointment of the CEO, BBC Worldwide and Director, Global role to the Executive Board
- Continuation of the Executive and Senior Manager Remuneration Strategy 2011-2015

This report sets out the BBC's remuneration policy and details the annual remuneration received by the staff members of the Executive Board (the executive directors) for the financial year 2013/14. It has been prepared on the basis that the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and Listing Rules apply to the BBC wherever these disclosure provisions are relevant. The sections on pensions and remuneration received by the Executive Board members have been audited by KPMG LLP.

## The remuneration policy for executive directors

### 1. Remuneration Committees: constitution and operation

The BBC Trust is responsible for setting the remuneration strategy for the Executive Board and for all aspects of the remuneration of the Director-General and the non-executive directors.

The Executive Remuneration Committee (ERC) is responsible for implementing the agreed strategy for all executive members of the Executive Board, with the exception of the Director-General. Its members are non-executive directors: Sally Davis (Chairman until 31 December 2013), Dame Fiona Reynolds and Brian McBride (until 31 March 2014). Dame Fiona Reynolds took over the chairmanship of ERC from Sally Davis on 1 January 2014.

Complying with the UK Corporate Governance Code 2010 and 2012, the ERC takes specialist advice from external professional advisers on some matters, particularly those relating to market practice. During the year, independent advice was received from Towers Watson on matters related to market comparability of executive remuneration.

The ERC established the Senior Manager Remuneration Committee (SMRC) in September 2012, giving it responsibility for aligning the operational needs of the BBC within the strategic framework set by the Trust and implemented by the ERC. Since 1 July 2013, the SMRC has been required to approve all redundancies of £75,000 or more and any severance payment that is not contractual or that includes a payment that is outside of policy. The SMRC is also responsible for approving all salary adjustments or new salaries for any employee earning a full-time salary of £75,000 or more since 1 September 2013.

SMRC members during 2013/14 were: Tony Hall, Director-General (Chair); Anne Bulford, Managing Director, Finance & Operations; Lucy Adams, Director, HR; and non-executive directors Sally Davis<sup>1</sup>, Dame Fiona Reynolds and Brian McBride<sup>2</sup>.

### 2. Executive Board membership and structure

In 2013/14, the BBC made the last of the current round of appointments to the new Executive Board under Tony Hall's leadership. This was the role of Director, News and Current Affairs. The Committee approved the salary for this appointment.

As at 31 March 2014, the Executive Board comprised seven executive directors and four non-executive directors – details of the Executive Board membership and full remuneration is provided in Table 1 below.

The Director, HR role is no longer a member of the Executive Board after 31 March 2014. The CEO, BBC Worldwide & Director, Global role was appointed to the Executive Board with effect from 1 April 2014.

### 3. Executive director pay components

The ERC is committed to striking the balance between setting appropriate levels of pay for Executive directors that attracts, motivates and retains the best people to lead the BBC and providing value for the licence fee payer. The BBC's executive pay strategy should be fair, transparent and broadly consistent with the approach to pay for all employees at the BBC. Progress continues to be made towards these goals, including the phased diminution of historic differences in approaches to pay and benefits between senior and other staff.

The BBC receives regular feedback regarding senior pay from employees during annual pay negotiations through the trade unions and via the annual staff engagement survey. This feedback is taken into account when setting the pay strategy for the executive directors.

When reviewing the pay for the executive directors, the Committee considers each component of the total remuneration package broken down as follows:

<sup>1</sup> Sally Davis was the non-executive director on the SMRC until 31 December 2013 when her term expired. Fiona Reynolds and Brian McBride replaced Sally Davis on SMRC between 1 January and 31 March 2014.

<sup>2</sup> Brian McBride's term as non-executive director ended on 31 March 2014.

Component	Purpose and link to strategy	Operation	Maximum opportunity
Base pay	<p>Base pay is aligned to the market median for total direct remuneration (salary, annual bonus and annualised long-term incentive).</p> <p>A discount of 50-80% against total direct remuneration in the commercial sector is applied to executive director roles.</p>	<p>Three factors are used to determine the level of base pay set for an executive director or senior manager:</p> <ul style="list-style-type: none"> <li>■ would the rate be consistent with the discounted market rate for the job?</li> <li>■ does the personal performance of the executive justify the level of base pay?</li> <li>■ is the level affordable to the BBC and not deemed excessive?</li> </ul>	<p>There is no prescribed maximum salary or maximum increase.</p>
Variable pay	<p>Discretionary performance bonuses to a maximum of 10% of base pay were historically paid to executive directors.</p> <p>Executive directors employed in the BBC's commercial businesses are contractually entitled to a performance related annual bonus funded by the commercial business and not the licence fee. It is reward for the achievement of short-term strategic goals and profit growth each year.</p>	<p>Executive directors with roles in the public service part of the business are no longer entitled to receive a performance bonus.</p> <p>Payment of contractual bonus in the BBC's commercial businesses is subject to an agreed level of performance linked to financial metrics. The levels of profit performance attracting threshold, target and maximum bonus are set by the BBC ERC. No payment is made for performance below the threshold. Payment of 0-100% of the maximum opportunity is made between the threshold and the maximum targets.</p>	<p>No executive director in the public service has received a bonus since 2008.</p> <p>The maximum bonus payable to an executive director employed in a BBC commercial business is 70% of salary where target bonus is 50% of salary.</p>

Component	Purpose and link to strategy	Operation	Maximum opportunity
Benefits	<p>Pensions are offered in accordance with the all employee pension arrangements.</p> <p>In addition to pensions, the other main contractual benefit is life assurance.</p> <p>In April 2012, the BBC removed the car allowance benefit for all new executive directors and senior managers to ensure that future policy aligns with arrangements for all BBC employees. Entitlement to private health care was also removed for all executive directors with effect from April 2011 for the same purpose.</p>	<p>Executive directors who were already in receipt of a car allowance have retained it.</p> <p>Executive directors who received a car allowance payment in 2013/14 were: Lucy Adams, Helen Boaden and Danny Cohen.</p> <p>Danny Cohen had his car allowance frozen on promotion to the Executive Board</p> <p>The Director-General is entitled to a car and driver under earlier arrangements but has no entitlement to a personal car allowance or fuel allowance. During 2013/14 all other executive directors have had shared access to a car and driver.</p>	<p>Current policy provides a defined contribution scheme with no salary cap.</p> <p>Existing members of a defined benefit pension scheme are capped at the maximum salary for their pension scheme or are subject to a cap in pensionable salary growth. The Scheme is closed for new joiners.</p> <p>The maximum car allowance benefit received by any executive director is £12,900 per annum. This is a historical benefit.</p>
Employment contracts and severance	<p>Employment contracts of executive directors have a maximum notice period of six months, but are subject to earlier termination for cause.</p>	<p>There is no contractual entitlement to any additional remuneration in the event of early termination other than in the case of termination for reason of redundancy.</p>	<p>In the event of redundancy, all executive directors are entitled to payments equal to one month per year served up to a maximum payment of £150,000.</p>
Other remuneration	<p>There is no entitlement to any other remuneration.</p>	<p>Consideration is given to the reputational risks to the BBC and the level of payment is agreed by the Executive Remuneration Committee on a case-by-case basis.</p>	<p>There is no prescribed maximum.</p>

**Pension**

Executive directors who joined the BBC before 1 December 2010 are eligible to participate in the BBC Pension Scheme (the Scheme), which provides for pension benefits on a defined benefit basis. Executive directors who joined the BBC on or after 1 December 2010 are eligible to join LifePlan which is the BBC's defined contribution arrangement. The BBC pays matching contributions to LifePlan for employee contributions between 4% and 5%. Employee contributions between 6% and 7% are matched plus an additional 1%. Employee contributions of 8% or more receive the maximum employer contribution of 10%. There is no maximum pensionable salary for contributions to LifePlan.

Executive directors who decide not to join LifePlan or are not already an existing member of the Scheme are, subject to meeting the relevant criteria, automatically enrolled into the National Employment Savings Trust (NEST). The BBC and employees currently pay 1% of qualifying earnings to NEST. Individuals can choose to opt out of this.

Executive directors' pension arrangements may be reviewed and amended in response to changes in legislation or similar developments.

Features of the BBC's pension arrangements, including normal pension age, are provided in the table below.

Details of the BBC Pension Scheme are available at [bbc.co.uk/mypension/](http://bbc.co.uk/mypension/) and details of LifePlan can be found at [friendslife.co.uk/microsite/bbc/](http://friendslife.co.uk/microsite/bbc/)

Scheme	'Old' benefits defined benefit	'New' benefits defined benefit	CAB 2006 defined benefit	CAB 2011 defined benefit	LifePlan defined contribution	National Employment Savings Trust (NEST) defined contribution (auto enrolment arrangement)
Date closed	30 September 1996	31 October 2006	30 November 2010	1 January 2012	Open to all eligible employees	Open to all eligible employees
Accrual	60ths accrual	60ths accrual	1.67% accrual adjusted in line with inflation	1.67% accrual adjusted in line with CPI	BBC will contribute a maximum of 10% of salary if employee contributes 8% with lower sliding scale	BBC will contribute 1% of qualifying earnings
Salary	Final pensionable	Final pensionable	Career average revalued earnings	Career average revalued earnings		
Normal pensionable age	60	60	65	65	N/A	N/A
Earnings cap	DOJ before 1 June 1989 uncapped, capped otherwise	Capped at £141,000	Capped at £141,000	Capped at £138,000	Uncapped	Minimum earnings £5,668pa Maximum earnings £41,450pa
Pensionable salary growth before the Earnings cap is applied	Limited at 1% p.a.	Limited at 1% p.a.	Limited at 1% p.a.	No restriction	N/A	N/A
Employee contribution (% of pensionable salary)	7.5%	7.5%	4%	6%	Minimum employee contribution is 4%	1% of qualifying earnings

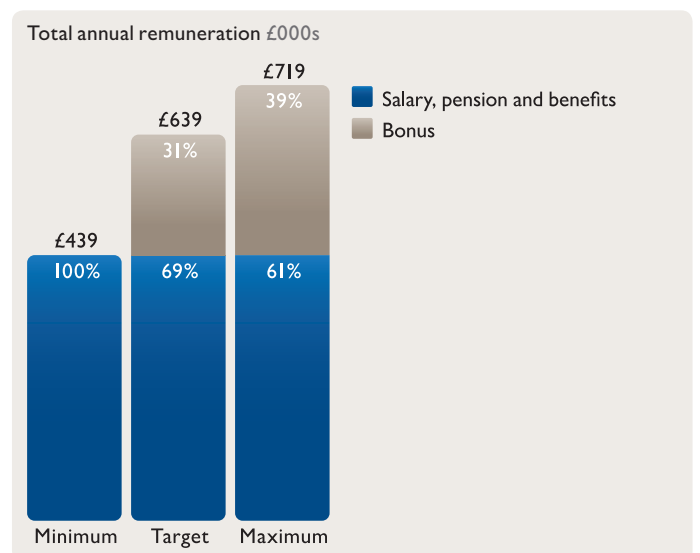
**Severance pay**

A detailed report on severance pay by the Senior Independent Director is available online: [bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc\\_review\\_severance\\_payments\\_2013\\_14.html](http://bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc_review_severance_payments_2013_14.html)

**Variable remuneration in 2014/15 for BBC Worldwide**

The chart represents the potential earnings of the CEO, BBC Worldwide & Director, Global for the year.

- Minimum: a base salary of £400,000, pension related single figure of £37,000 and taxable benefits of £2,000
- Target: the minimum payment plus a bonus of 50% of base salary (£200,000)
- Maximum: the minimum payment plus a bonus of 70% of base salary (£280,000)





#### 4. How does the executive pay policy in the public service differ from that for all other BBC employees?

The ERC has ceased the payment of bonuses to all executive directors in the public service and is moving away from the previous two-tier benefit structure by phasing out private medical insurance and car allowances, with no new executive director or senior manager receiving these benefits since August 2011 and April 2012 respectively. These changes have simplified and equalised pay arrangements across our employee population. A full range of benefits can now be purchased by all staff at all levels of the organisation under our flexible benefits arrangements.

BBC graded staff are entitled to an annual pay review which is negotiated and agreed with the National Joint Council of Trade Unions. These people may also be entitled to a progression payment, depending on their salary position within range after three years and six years in post, assuming a satisfactory level of performance during this period.

Executive directors and senior managers are not automatically entitled to any form of annual increment nor are they entitled to any form of progression payment. All senior salaries are discounted against those of equivalent commercial organisations and the BBC is increasingly aligning senior pay to the commercial public sector.

The ERC uses the BBC pay multiples, ratios of the DG and executive directors' median earnings to the BBC median earnings, as a cap to ensure that the BBC continues to reduce the level of remuneration for executive directors relative to other members of staff.

#### 5. The executive pay strategy and policy for 2013/14 – progressing towards greater consistency and transparency Continued reduction of executive and senior manager pay and salary discounts

Throughout 2013/14, the ERC worked to manage and reduce both senior managers' pay and numbers by ensuring compliance with the BBC Executive and Senior Management Pay Strategy. This was agreed with the Trust in July 2011 with targets to be delivered by the end of 2015. Since January 2012, the BBC has reduced by 74 senior managers against a target of c70 and by £6.6million against a target of c£9million.

The BBC continues the practice of discounting BBC executive directors' pay against the commercial sector and has maintained the freeze in pay of executive directors. The agreed discount remains at between 50% and 80% below commercial sector comparisons. In order to ensure that levels of pay are consistent with the agreed strategy the committee obtains and reviews external market pay data via an independent advisor. This information was reported to the Trust and provided assurance of our continued delivery against the policy: we maintained a discount against commercial sector executive roles of 72% for the last two years. This discount also reflects the substantial additional amounts of variable pay (including bonus and long-term incentives) provided in the commercial sector that are not available to executive directors working for the public service BBC.

Further to the National Audit Office review 'Severance payments and wider benefits for senior BBC managers' published in June 2013, the ERC commissioned a full review of executive directors' severance terms and practices in 2013 and expanded the remit of the SMRC to include responsibility for the BBC's approach to severance arrangements for senior managers.

As a result of this review, the ERC has changed the employer notice period for all executive directors from 12 months to six months, aligning it with senior manager notice periods, implemented a cap on redundancy payments of £150,000, ceased the practice of making payments-in-lieu-of-notice (PILON) in addition to severance and capped outplacement support and legal fees for compromise agreements at £5,000 and £2,000 respectively. The SMRC are also required to provide regular reports on senior severance cases to the ERC. A full report on the implementation of the NAO recommendations can be found at: [bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc\\_review\\_severance\\_payments\\_2013\\_14.html](http://bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc_review_severance_payments_2013_14.html)

#### 6. Consideration of BBC Trust views

The ERC consults with the Trust on all matters relating to the executive director pay strategy to ensure alignment with the licence fee payers' expectations. The ERC provides regular reports to the Trust outlining progress against senior manager reduction targets, and seeks feedback from the Trust.

The committee provides an annual assurance report to the Trust for consideration and feedback.

Members discussed the report, which covered executive director pay, benefits and terms and conditions. It was noted there had been no 'in role' salary increases for executive directors and that the discount factor against remuneration of commercial sector competitors was within the range agreed by the Trust.

## Executive Board annual remuneration report

### I. Annual remuneration of the Executive Board – detail of remuneration received (audited)

Table 1 provides full details of the remuneration received by all Executive Board members and the total remuneration for Trustees for 2013/14 compared to previous year. Table 2 details pension benefits for those members of the Executive Board who are members of a defined benefit scheme.

**Table 1: Executive Board remuneration**

	2013/14					Total remuneration including pension related single figure £000
	Fee/ base pay £000 (Note 14)	Taxable benefits £000 (Note 15)	Other remuneration £000	Compensation for loss of office £000	Pension related single figure £000 (Note 17)	
<b>Executive directors</b>						
<i>Executive directors as at 31 March 2014</i>						
Tony Hall (Note 1)	449	18	–	–	–	467
Lucy Adams (Note 2)	320	16	–	–	42	378
Helen Boaden	340	15	–	–	59	414
Anne Bulford (Note 3)	304	–	–	–	–	304
Danny Cohen (Note 4)	287	9	–	–	31	327
James Harding (Note 5)	217	–	–	–	–	217
James Purnell (Note 6)	295	–	–	–	22	317
<b>Total executive directors as at 31 March 2014</b>	<b>2,212</b>	<b>58</b>	<b>–</b>	<b>–</b>	<b>154</b>	<b>2,424</b>
<i>Former executive directors serving on the Executive Board in 2013/14</i>						
Tim Davie (Note 7)	1	–	–	–	–	1
Graham Ellis (Note 8)	8	2	–	–	–	10
Roger Mosey (Note 9)	25	2	–	–	–	27
Zarin Patel (Note 10)	81	3	–	–	–	84
Fran Unsworth (Note 11)	66	5	–	–	–	71
<b>Total former executive directors serving on the Executive Board in 2013/14</b>	<b>181</b>	<b>12</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>193</b>
<b>Total former executive directors on the Executive Board prior to 2013/14</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total executive directors</b>	<b>2,393</b>	<b>70</b>	<b>–</b>	<b>–</b>	<b>154</b>	<b>2,617</b>
<b>Non-executive directors</b>						
<i>Non-executive directors as at 31 March 2014</i>						
Simon Burke	37	–	–	–	–	37
Brian McBride	33	–	–	–	–	33
Dame Fiona Reynolds (Note 12)	47	–	–	–	–	47
Howard Stringer (Note 13)	8	–	–	–	–	8
<b>Total non-executive directors as at 31 March 2014</b>	<b>125</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>125</b>
<i>Former non-executive directors serving on the Executive Board in 2013/14</i>						
Sally Davis	28	–	–	–	–	28
<b>Total former non-executive directors serving on the Executive Board in 2013/14</b>	<b>28</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>28</b>
<b>Total former non-executive directors on the Executive Board prior to 2013/14</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total non-executive directors</b>	<b>153</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>153</b>
<b>Total Executive Board</b>	<b>2,546</b>	<b>70</b>	<b>–</b>	<b>–</b>	<b>154</b>	<b>2,770</b>
<b>Total Trustees</b>	<b>525</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>526</b>
<b>Total</b>	<b>3,071</b>	<b>71</b>	<b>–</b>	<b>–</b>	<b>154</b>	<b>3,296</b>

2012/13								
Fee/ base pay £000	Taxable benefits £000	Other remuneration £000 (Note 16)	Compensation for loss of office £000	Total remuneration £000	Pension related single figure £000 (Note 17)	Total remuneration including pension related single figure £000		
–	–	–	–	–	–	–	Appointed to Executive Board 2 April 2013	
172	9	–	–	181	12	193		
340	14	81	–	435	61	496		
–	–	–	–	–	–	–	Appointed to Executive Board 21 June 2013	
–	–	–	–	–	–	–	Appointed to Executive Board 7 May 2013	
–	–	–	–	–	–	–	Appointed to Executive Board 12 August 2013	
10	–	–	–	10	–	10	Appointed to Executive Board 19 March 2013	
<b>522</b>	<b>23</b>	<b>81</b>	<b>–</b>	<b>626</b>	<b>73</b>	<b>699</b>		
397	11	–	–	408	41	449	Stepped down from Executive Board 1 April 2013	
74	4	–	–	78	9	87	Stepped down from Executive Board 14 April 2013	
166	6	–	–	172	–	172	Stepped down from Executive Board 6 May 2013	
352	14	–	–	366	40	406	Stepped down from Executive Board 21 June 2013	
–	–	–	–	–	–	–	Appointed to Executive Board 1 April 2013. Stepped down from Executive Board 11 August 2013	
<b>989</b>	<b>35</b>	<b>–</b>	<b>–</b>	<b>1,024</b>	<b>90</b>	<b>1,114</b>		
1,081	38	154	1,153	2,426	58	2,484		
<b>2,592</b>	<b>96</b>	<b>235</b>	<b>1,153</b>	<b>4,076</b>	<b>221</b>	<b>4,297</b>		
40	–	–	–	40	–	40		
35	–	–	–	35	–	35	Left 31 March 2014	
43	–	–	–	43	–	43		
–	–	–	–	–	–	–	Joined 1 January 2014	
<b>118</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>118</b>	<b>–</b>	<b>118</b>		
36	–	–	–	36	–	36	Joined 1 January 2012. Left 31 December 2013	
<b>36</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>36</b>	<b>–</b>	<b>36</b>		
61	–	–	–	61	–	61		
<b>215</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>215</b>	<b>–</b>	<b>215</b>		
<b>2,807</b>	<b>96</b>	<b>235</b>	<b>1,153</b>	<b>4,291</b>	<b>221</b>	<b>4,512</b>		
531	1	–	–	532	–	532		
<b>3,338</b>	<b>97</b>	<b>235</b>	<b>1,153</b>	<b>4,823</b>	<b>221</b>	<b>5,044</b>		

### Notes to Table I: Executive Board remuneration

#### Note 1: Tony Hall

Tony Hall joined the BBC on 2 April 2013 as Director-General.

#### Note 2: Lucy Adams

Lucy Adams resigned from her role as Director, HR. Lucy came off the Executive Board with effect from 31 March 2014 and left the BBC on 4 April 2014. The Director, HR role is no longer on the Executive Board.

#### Note 3: Anne Bulford

Anne Bulford joined the BBC on 1 June 2013 as Managing Director, Finance & Operations. This was a new executive director role encompassing Finance, Legal, Human Resources and Operations that was appointed to the Executive Board on 21 June 2013. The remuneration reflects her earnings from 21 June 2013.

#### Note 4: Danny Cohen

Danny Cohen was promoted to the role of Director, Television, joining the Executive Board with effect from 7 May 2013. His remuneration reflects his earnings as Director, Television.

#### Note 5: James Harding

James Harding joined the BBC on 12 August 2013 as Director, News and Current Affairs.

#### Note 6: James Purnell

James Purnell joined the BBC on 19 March 2013 as Director, Strategy & Digital in a new executive director role.

#### Note 7: Tim Davie

Tim Davie was Acting Director-General from 11 November 2012 until Tony Hall assumed the role on a permanent basis on 2 April 2013. Base pay includes a temporary acting allowance equivalent to £50,000 per annum received whilst Acting Director-General.

#### Note 8: Graham Ellis

Graham Ellis was appointed Acting Director, Audio & Music with effect from 1 December 2012. Base pay includes temporary acting allowance. Graham stepped down from the Executive Board on 14 April 2013. The remuneration reflects earnings from 1 April 2013 up to 14 April 2013.

#### Note 9: Roger Mosey

Roger Mosey was appointed Acting Director, Vision with effect from 20 August 2012. Base pay includes temporary acting allowance. Roger stepped down from the Executive Board and became Director, Editorial Standards when Danny Cohen assumed the role of Director, Television on 7 May 2013. The remuneration reflects his earnings from 1 April 2013 to 6 May 2013. Roger has since left the BBC.

#### Note 10: Zarin Patel

Zarin Patel resigned from the Executive Board with effect from 21 June 2013 and left the BBC on 31 October 2013. The remuneration reflects her earnings from 1 April 2013 to 21 June 2013.

#### Note 11: Fran Unsworth

Fran Unsworth was Acting Director, News between 11 November 2012 and 20 December 2012 and also covered this role whilst Helen Boaden was on leave between 19 March 2013 and 31 March 2013. On both occasions, Fran did not join the Executive Board or receive any additional remuneration and was therefore excluded from the table previously. Fran was appointed Acting Director, News and Current Affairs, joining the Executive Board, with effect from 1 April 2013. Fran stepped down from the Executive Board when James Harding assumed the role of Director, News and Current Affairs on 12 August 2013. The remuneration reflects her earnings from 1 April 2013 to 11 August 2013.

#### Note 12: Dame Fiona Reynolds

Dame Fiona Reynolds joined the Board on 1 January 2012 as a non-executive director and assumed the role of Senior Independent Director on 1 December 2012.

#### Note 13: Howard Stringer

Howard Stringer joined the BBC on 1 January 2014 as a non-executive director.

#### Note 14: Pension

Employee pension contributions are ordinarily made via a salary sacrifice arrangement as an employer contribution, with a corresponding reduction in salary. Base salaries for executive directors have not been adjusted to reflect the impact of salary sacrifice to enable like-for-like comparison with prior years before salary sacrifice was introduced.

#### Note 15: Taxable benefits

Taxable benefits are: car allowance/benefit, private medical insurance and taxable expenses.

#### Note 16: Other remuneration 2012/13

In 2012/13, the BBC published the legal and related costs borne by the BBC in respect of those directors that gave evidence to the Pollard Review. These figures were published inclusive of income tax and National Insurance due, pending agreement of that figure with HMRC. Agreement has now been reached with HMRC regarding the associated tax and National Insurance due and the costs of the fees paid on behalf of executive directors in 2012/13 has changed. The total cost has reduced from £294,000 to £235,000.

#### Note 17: Pension related single figure

The pension related single figure represents the value of pension savings made during the year on behalf of directors. It is a new reporting requirement. The valuation is based on the calculation which tests pension savings against the annual allowance (AA), in line with HMRC regulations. The director's own contributions are deducted and for defined benefits the figure is calculated as 20 times (rather than 16 as applies for AA purposes) the increase in the accrued pension over the year after adjusting for inflation. In some cases this may result in a zero value.

## Defined benefit schemes

Details of defined benefit entitlements are shown below.

**Table 2**

Executive Directors	Age as at 31 March 2014	Section	Accrued pension 31 March 2014 (or retirement/ leaving the BBC if earlier) £000	Accrued pension 1 April 2013 (or joining the Board if after) £000	Director defined benefit contributions (via salary sacrifice) £000 (Note 7)	Pension-related single figure £000 (Note 8)
Lucy Adams	49	CAB 2006	11	8	6	42
Helen Boaden	58	Old benefits	74	69	16	59
Danny Cohen <sup>1</sup>	40	CAB 2006	15	13	6	31
Tim Davie <sup>2</sup>	46	CAB 2011	3	3	–	–
Graham Ellis <sup>3</sup>	60	Old benefits	10	10	1	–
Roger Mosey <sup>4</sup>	56	Old benefits	133	137	9	–
Zarin Patel <sup>5</sup>	53	New benefits	34	33	3	–
Fran Unsworth <sup>6</sup>	56	Old benefits	95	94	6	–

### Notes

- 1 Danny Cohen was appointed as a director on 7 May 2013. The pension shown includes the period before he was appointed as a director.
- 2 Tim Davie became an active member of the CAB 2011 section as at 1 January 2012 and retains a deferred pension in the new benefits section for service up to that date. The accrued pension shown relates to CAB 2011 only.
- 3 Graham Ellis came off the Board on 14 April 2013. The accrued pension shown includes the period of Scheme membership before he was appointed as a director where he continues to build up benefits.
- 4 Roger Mosey came off the Board on 6 May 2013 and left the BBC on 30 September 2013. The accrued pension shown includes the period after he came off the Board.
- 5 Zarin Patel stepped down from the Executive Board on 21 June 2013 and left the Scheme on 31 October 2013.
- 6 Fran Unsworth was temporarily appointed as a director from 1 April 2013 to 11 August 2013. The accrued pension shown includes the period before she was a director.
- 7 Directors' defined benefit contributions are made via salary sacrifice arrangement as an employer contribution, with corresponding reduction in salary. Base salaries for executive directors have not been adjusted to reflect the impact of salary sacrifice to enable like-for-like comparison with prior years before salary sacrifice was introduced. To avoid double-counting, the salary sacrifice contribution is treated as a contribution from the director for the purpose of calculating the pension-related single figure.
- 8 The pension-related single figure has been calculated on a pro rata basis to reflect the period each director served as a member of the Board.
- 9 Tony Hall and Anne Bulford are not currently contributing to a BBC pension arrangement and do not receive any payments in lieu of pension related benefits in respect to their current period of employment.
- 10 James Harding was appointed to the Board on 12 August 2013 and was subsequently automatically enrolled into the National Employment Savings Trust. The BBC matches 1% of James' qualifying earnings. The employer contribution for 2013/14 was £149.05.
- 11 James Purnell is an active member of LifePlan. In 2013/14 the employer contribution to this scheme was £22k.

**2. Comparative pay across the BBC public service: how does executive director pay compare to that of other BBC employees?**

In 2011, the BBC voluntarily agreed to report the top to median earnings multiple as proposed in the Hutton report 'Fair Pay in the Public Sector'. Since 2011, the BBC has published these figures on an annual basis.

The table below provides a summary of the Director-General to BBC median earnings and executive directors' to median earnings figures since 2011. The Director-General multiple has reduced again from 11.0 to 10.9.

	2014	2013	2012	2011
Director-General earnings	10.9	11.0	16.5	16.8
Executive directors' median earnings	8.2	8.1	8.7	8.9

Earnings calculation includes: basic pay, bonus, continuing allowances, overtime, and other.

Over the past two years there have been a number of changes in membership of the Executive Board which has impacted on the published multiples. On 31 March 2013, three of the seven executive director roles were filled on a temporary basis. Although these interim appointments attracted a temporary acting allowance, the acting executive directors were paid less than the permanent members of the Executive Board. As a result of these acting arrangements, the multiple was temporarily reduced to 8.1 in March 2013.

By August 2013, all of the permanent appointments were in place and the new Executive Board was complete. The multiple of median earnings within the BBC to the median earnings of the executive directors for 2014 is 8.2.

Over the past five years, the Director-General's earnings, in real terms, have been reduced as illustrated in the following chart, and earnings growth at the most senior levels of the BBC has been minimised.

The following tables provide a summary of the changes to the Director-General's cash earnings for 2013/14 versus the change in pan BBC median earnings over the same period. This demonstrates a positive increase in median earnings across the BBC whilst there has been no change in the earnings of the Director-General. In addition, through the BBC Executive and senior manager reduction programme, the BBC has achieved a reduction in total cash earnings and earnings as a proportion of total salary costs for BBC executive directors and senior managers.

	2014 £000	Change from 2013
Director-General cash earnings	450	0.0%
Pan BBC median earnings	41	1.0%

	2014		2013	
	Salary and allowance costs £m	Percentage of paybill	Salary and allowance costs £m	Percentage of paybill
Executive director cash earnings	2.49	0.3%	2.30	0.3%
Senior manager cash earnings	50.73	6.0%	54.25	6.6%
All other BBC staff cash earnings	786.09	93.7%	759.90	93.1%
Total	839.32		816.45	

These tables refer to the BBC public service and are exclusive of employees in the BBC's commercial business. For the purposes of the calculations, annualised values have been used. Employer pension costs, employer national insurance contributions and restructuring costs are not included in these values.

### Delivering the strategy in 2014/15

During 2014/15, the ERC will continue to review, challenge and assess senior pay strategy and practice at the BBC in line with the agreed executive and senior manager strategy 2011-2015 to ensure that the number and paybill of the most senior managers at the BBC continues to reduce. The committee will consider all potential executive director appointments and severance cases to ensure alignment with BBC policy and the current remuneration strategy.

### Outside interests

In 2013/14, with the prior agreement of the Director-General and the Nominations Committee, executive members of the Executive Board were permitted to hold one remunerated external directorship with up to 15 days per year permitted to fulfil these duties.

Remuneration which arises from directorships may be retained by the individual. Executive directors may also hold non-remunerated posts outside the BBC.

These arrangements are currently under review.

During the year no executive director held any other remunerated external directorship. To see the Executive Board's register of interests visit: [bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/](http://bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/)

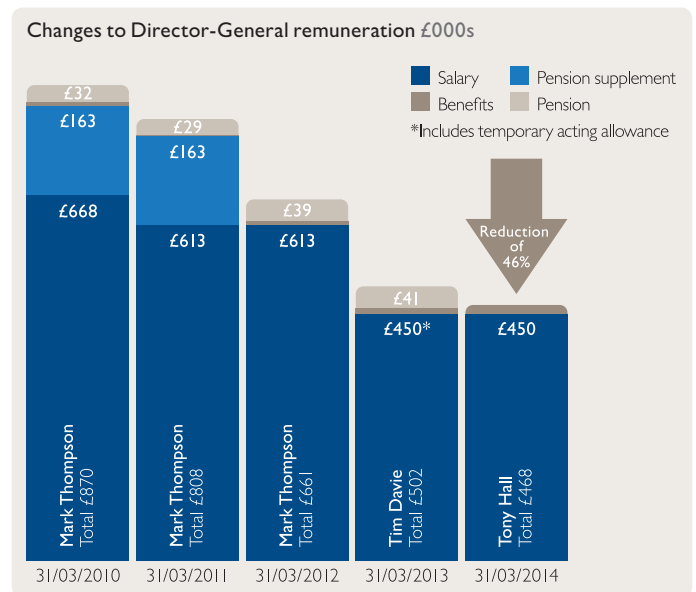
### The BBC's commercial businesses

The BBC has staff employed with three commercial subsidiaries:

- BBC Worldwide
- BBC Studios and Post Production
- BBC Global News

The remuneration policy for the subsidiaries includes the contractual provision of an annual bonus available to eligible staff, including directors. The full cost of base pay and incentive plans are self-funded by the commercial revenues of each subsidiary company and are not subsidised by the licence fee.

Remuneration within the commercial subsidiaries is not governed by the BBC's remuneration policy and governance arrangements. The BBC's SMRC approves all remuneration for the most senior staff in the commercial businesses with the exception of the executives for BBC Worldwide for whom the BBC's ERC approves all remuneration.



# Audit Committee report



“Our activities continue to be focused on ensuring the BBC has effective controls – and applies those controls – to protect and use wisely its licence fee money.”

**Simon Burke**

## Report of the Chairman of the Executive Audit Committee Overview

The BBC has faced a number of challenges in recent years and this year has seen the settling in of a new management team and a renewed focus on the future. Alongside this I have maintained the Audit Committee’s focus on ensuring the integrity of the BBC’s financial reporting and the appropriateness of its system of internal control.

We have sought to learn from previous incidents, such as failure of the DMI project, by looking specifically this year at project assurance processes across the BBC. We are satisfied that actions are being taken to strengthen project management capability and to build in independent project assurance – both technical and governance – at key stages in the life of BBC projects. This is an area to which we will continue to pay close attention.

We are also working to refine risk assessment and mapping across the BBC and to integrate this better with the various assurance activities undertaken not just by Internal Audit but other specialist assurance providers and management functions. For example, as part of our review and approval of the Internal Audit plan we discussed how well it addressed key strategic risks and whether there were any assurance gaps which we needed to address.

The BBC is facing a challenging time financially and we have made sure that sufficient Internal Audit effort is also directed at core financial and operational processes providing us with assurance that these are working as intended.

We endeavour at all times to keep the interests of our audience and the licence fee payers at the forefront of our thinking.

## Role

The main purpose of the Executive Audit Committee (EAC) is to examine, on behalf of the Board, whether the financial statements of the BBC have been prepared with integrity and if the BBC is maintaining and operating a sound system of internal control and risk management. In order to gain assurance on these matters, the EAC has responsibility for:

- monitoring and reviewing the integrity of the financial statements of the BBC and the significant reporting judgments contained within them
- reviewing the effectiveness of the BBC’s system of internal control
- reviewing the process for the management of risk
- reviewing the assurance processes in place to test and monitor the operation of controls designed to manage key risks
- reviewing the appropriateness of the BBC’s relationship with the external auditor, including auditor independence, fees and the provision of non-audit services
- making recommendations regarding the appointment of the external auditor

The EAC’s Standing Orders set out in more detail our responsibilities. These are reviewed annually and were last updated in March 2014: [downloads.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcommittee/pdf/executive\\_audit\\_committee\\_standing\\_orders\\_2013.pdf](http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcommittee/pdf/executive_audit_committee_standing_orders_2013.pdf)



### Membership

The EAC comprises three non-executive directors, of whom one must have recent and relevant financial experience. The members who served during the financial year are:

Simon Burke  
Fiona Reynolds  
Brian McBride

The committee considers that Simon Burke has significant, recent and relevant financial experience. When appropriate, we augment the skills and experiences of our members with advice from internal and external audit professionals – for example, on matters such as developments in financial reporting. Our meetings are also attended by the Director-General, the Managing Director, Finance and Operations, the BBC's Legal Counsel, the Director of Risk and Assurance and representatives from internal audit, risk management and the external auditors. We also meet privately, without any member of management present, with both Internal Audit and the external auditors on a regular basis.

### Meetings

We held five meetings during 2013/14, at key times in the reporting and audit calendar.

Minutes from our meetings are made available to the Executive Board and to the BBC Trust. Additionally, the Chairman of our Committee reports back to the Board after each meeting on any issues where action or improvement is required. We also produce a formal report to the Board each year and provide our views on the integrity of the financial statements before the Annual Report is approved by the Board as a whole.

### Key areas of focus for EAC in the past year

We spent our time on the following areas:

#### Internal controls

We reviewed the effectiveness of the system of internal controls, taking account of the findings from internal and external audit reports. Our work in this area was influenced by the Director of Risk and Assurance's reports on the effectiveness of internal control, identified frauds and losses and assurance mapping. We considered a number of specific areas during the year:

- we sought assurance from management that control issues identified by Internal Audit are being addressed. This is an area we follow up at every meeting to ensure that agreed actions in respect of any weaknesses found are being properly addressed. We would like to see these dealt with more speedily and are working with management to achieve this
- we focused in particular on controls relating to payroll and employee access, including the development of systems for ensuring that access to buildings and confidential material is granted and removed on a timely basis when employees join, move or leave roles
- how the BBC is progressing the delivery of its DQF savings programme and the assurance activities, connected with this programme

### Major reviews

We reviewed implementation of the actions recommended by external and internal reviews in respect of child protection, and the use of freelance and personal service company arrangements by the BBC. We received regular reports on progress and asked for internal audits to be carried out where appropriate.

### Financial reporting

We reviewed the Group financial statements and how these are positioned within the wider Annual Report. To assist this review we considered reports from management and from the internal and external auditors to assist our consideration of:

- the quality and acceptability of accounting policies, including their compliance with accounting standards
- key judgements made in preparation of the financial statements
- compliance with legal and regulatory requirements
- the clarity of disclosures and their compliance with relevant reporting requirements
- whether the Annual Report as a whole is fair, balanced and understandable and provides the information necessary to assess the BBC's performance and strategy

### Risk management

We considered the processes for managing significant risks within the BBC. This work is influenced by the assessment of the BBC's principal risks set out on pages 88-90. During the year we had detailed presentations from management on:

- how the BBC is managing its information security risks
- how the BBC is managing its key strategic projects

We continue to have an interest in project assurance so that we can ensure that the lessons learned from DMI are taken forward. Our review of the Internal Audit plan considered how audit work on project assurance was integrated with management's own project assurance activities. We satisfied ourselves that project assurance activity covers both governance and technical assurances.

### Fraud detection processes and whistle-blowing arrangements

We reviewed the levels of fraud and theft reported and detected and the arrangements in place to prevent, minimise and detect fraud and bribery. We are pleased to note that no significant frauds were uncovered in the past year.

### Internal audit

We continued to oversee the work of Internal Audit. This is a regular item at each of our meetings. During the year we have:

- approved the plan of work for the coming year, ensuring that it strikes a balance between providing assurance over core business processes and assurance over key projects and areas of significant corporate risk
- considered the trends and themes emerging from the outcomes of audits, focusing on any unsatisfactory results and management's plans to address these
- considered the resource requirements for Internal Audit
- held regular private discussions with the Director of Risk and Assurance

### Relationship with external auditors

We oversaw the relationship with the external auditors, including the scope and approach to their work, their fees, their performance and independence (including the approval and compliance with policy on non-audit work). Specific areas of focus this year have included:

- audit risk identification and alignment of this with management risk assessment
- our challenge to the auditors on how they addressed these audit risks
- our private discussions with the auditors without management present
- our review of the effectiveness of the external audit process which we carried out through a survey of key stakeholders
- formal tender for the provision of external audit services, subsequently won by Ernst & Young (more detail on this is provided later in this report)

### Significant financial judgements and reporting for 2014

We considered a number of areas where significant financial judgements were taken which have influenced the financial statements:

We identified through discussion with both management and the external auditor the key risks of misstatement within the BBC's financial statements. We discussed these risks with management during the year, and with the auditor at the time we reviewed and agreed the external auditors' audit plan during the year and also at the conclusion of the audit. We set out in the box below how we satisfied ourselves that these risks of misstatement had been appropriately addressed.

#### Level of provisions

The financial statements include provisions in relation to restructuring of £53.7million as part of the BBC's DQF programme. Judgements in this area are largely related to the timing of recognition of these provisions, the quantum recognised and the amount which has been utilised in previous years. Other provisions totalling £56.4million require judgements regarding the assumptions used in quantifying the BBC's exposure to claims from various parties, and the likelihood of success of those claims.

We reviewed and discussed the level of provisions with management. This included consideration of new provisions and any release and utilisation of existing provisions. Management confirmed to us that they have applied a consistent approach to the recognition and release of provisions across the BBC Group. We also considered the views of the external auditors in respect of the provisions and associated disclosures in the accounts. We concluded that we were satisfied with the level of provisions carried and the disclosure in respect of those provisions.

#### Pension scheme deficit valuation

The financial statements include a significant liability for the deficit of £1,508.5million in the BBC's defined benefit pension scheme. Judgements are required regarding the underlying assumptions used by the actuaries in calculating the pension deficit, combined with a change in accounting standard which leads to a prior year adjustment. Changes in these assumptions can result in large swings in the final numbers disclosed.

We took advice from independent actuaries and the external auditor on the appropriateness of the assumptions used, including how these compare with those used by other organisations. We focused in particular on the assumptions used regarding discount rates, inflation rates and mortality/life expectancy and obtained an understanding of how changes in these assumptions would affect the financial statements. We also considered any movements in these from prior years. We are satisfied that the assumptions used in the financial statements are reasonable, appropriate to the BBC and supported by independent actuarial specialists.

#### Treatment of property assets

The BBC holds a significant property portfolio which combines properties held under freehold with those held under finance and operating leases. Within this it is also holding some vacant buildings as it rationalises its property estate. Judgements relate to the future intentions for those vacant buildings and related timescales, which can change the appropriate accounting treatment and affect the carrying value on the balance sheet.

We reviewed the overall BBC property strategy, along with detailed reports from management which explained the treatment for the most significant buildings, including the projected timescales for future activity and rationale for treatment. We also considered the auditors' views on the accounting treatment for these buildings. We are satisfied that the treatment of these properties within the financial statements is consistent with management intention and is in line with accepted accounting standards.

#### Other areas of financial statement risk

Other areas where an inappropriate decision could lead to significant error include:

- the recognition of commercial revenue on new contracts and
- the treatment of expenditure related to capital contracts

We consider that the BBC's existing financial control systems should ensure that such items are properly treated in the financial statements. We have discussed the external auditors' findings in these areas and also drawn on relevant Internal Audit work. There were no issues of concern reported to us in these areas and consequently we are satisfied that the systems are working as intended.

Management confirmed to us that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The external auditors reported to us the misstatements that they had found in the course of their work and we are satisfied that no material amounts remain unadjusted. We confirm that we are satisfied that the auditors have fulfilled their responsibilities with diligence.

After reviewing the presentations and reports from management and consulting where necessary with the auditors, we are satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). We are also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised and challenged, and are sufficiently robust.

#### Appointment of our external auditors

The EAC periodically considers the reappointment of the external auditor and the rotation of the Group Audit Partner in order to ensure that the external audit remains effective and independent.

KPMG LLP has been the BBC's auditor since 1995. Their appointment as external auditor to the BBC was subject to previous testing by the EAC through a formal tender process in 2008. Subsequent internal reviews extended the appointment to the current year. The Corporate Code requires a rotation of the Group Audit Partner every five years. In view of recent changes in the BBC management team and ongoing system developments, the mandate of the audit partner had been extended by two years to maintain continuity and enhance audit quality. A new partner from KPMG was appointed for the 2013/14 audit.

As anticipated in last year's report, we have, during the year under review, carried out an external audit tender process. This was managed by a team including the Chairman of our Committee and the Managing Director, Finance and Operations. We sought interest from established audit providers on our supplier framework including all the 'Big Four' audit firms as well as other smaller and more specialist providers. Due to the BBC's complexity, geographical spread and size, we took forward those expressions of interest from firms we judged able to provide the necessary audit resources to audit the BBC effectively.

Those firms participating in the process were required to submit their audit proposals against the following criteria:

- organisation and capability
- audit approach and delivery
- audit quality
- resourcing and engagement team
- fees and value for money

The selection process comprised three stages:

- interviews with key stakeholders in the BBC
- written proposals
- presentation to a selection committee comprising the Audit Committee chairman, the Managing Director, Finance and Operations and five others.

We concluded that Ernst & Young best met the criteria for appointment, including independence. Accordingly, we recommended them for appointment as the BBC's external auditors for a period of three years with the option to extend this for a further two years. The Trust, and subsequently the Secretary of State for Culture, Media and Sport, have approved this appointment which takes effect for the financial year 2014/15.

#### Independence of our external auditors

The EAC has set, and regularly reviews, a policy to safeguard and support the external auditors' ability to remain impartial and objective. This policy defines the types of services which the external auditors can and cannot provide. Additionally, it includes fee thresholds above which any proposed non-audit work to be carried out by the external auditors must be approved in advance by the EAC. It also defines when work must be submitted for competitive tender.

Our external auditor, KPMG, was not considered for work which might have compromised its ability to give independent opinion on the BBC's financial statements. Recruitment from KPMG into any senior management position in the BBC required the prior approval of the EAC. These arrangements will apply to Ernst & Young for the duration of their team as our external auditor.

**Simon Burke**  
Chairman of the Executive Audit Committee  
19 June 2014

# Fair Trading report

## Membership and remit of the Executive Fair Trading Committee

The key function of the Executive Fair Trading Committee (EFTC) is to oversee the BBC Executive's compliance with our Fair Trading obligations. The EFTC comprises three non-executive directors: although during 2013/14, up to 31 December 2013, there were only two non-executive directors sitting on the committee, these being Dame Fiona Reynolds (Chair), and Sally Davis (until December 2013) and one vacancy. Alice Perkins replaced Sally Davies on the EFTC in April 2014. The EFTC meetings are also attended by the Managing Director, Finance & Operations, Group General Counsel, Assistant General Counsel, Head of Fair Trading & Competition Law and the Director of Risk and Assurance. See page 94 for the Executive Board and Committee attendance table.

Responsibilities of the EFTC include:

- keeping under review the BBC's Fair Trading Guidelines
- dealing with Fair Trading complaints against the BBC through the appointment of a Fair Trading Complaints Panel which is chaired by and includes a majority of non-executive directors
- reviewing ongoing compliance with the BBC's Four Commercial Criteria
- commissioning the annual Fair Trading audit by independent auditors

The BBC has a detailed operational Fair Trading framework which applies to all our activities and is outlined in our Fair Trading Guidelines, found at: [bbc.co.uk/aboutthebbc/insidethebbc/howwework/policiesandguidelines/fairtrading.html](http://bbc.co.uk/aboutthebbc/insidethebbc/howwework/policiesandguidelines/fairtrading.html)

These arrangements are subject to annual audit by independent auditors and separately have been accredited with the ISO 9001:2008 quality standard. The auditor's report is set out on page 114.

The BBC Agreement requires the BBC Executive to ensure that all our commercial services meet the following criteria.

Commercial services must:

- fit with public purposes
- show commercial efficiency
- not jeopardise the good reputation of the BBC or the value of the BBC brand
- comply with the BBC's Fair Trading Guidelines, and in particular avoid distorting the market

Having received reports from relevant senior management, the BBC Executive is satisfied that BBC Worldwide and BBC Global News have met the above criteria for the period 1 April 2013 to 31 March 2014. In the case of BBC Studios and Post Production, the BBC Executive considers it appropriate to await the outcome of additional work reviewing the operations of BBC Studios and Post Production (which is currently being undertaken at the direction of the BBC Trust) which will help inform the Executive's view of BBC Studios and Post Production's compliance with the above criteria.

The BBC has a published Fair Trading complaints and appeals process, which can be found at: [bbc.co.uk/bbctrust/governance/complaints\\_framework/fair\\_trading.html](http://bbc.co.uk/bbctrust/governance/complaints_framework/fair_trading.html)

The BBC received one Fair Trading complaint during the year. Details of this complaint, and of previous Fair Trading complaints and those that went to appeal to the BBC Trust can be found in our Fair Trading Bulletin at: [bbc.co.uk/aboutthebbc/insidethebbc/howwework/policiesandguidelines/fairtrading/complaints\\_bulletins.html](http://bbc.co.uk/aboutthebbc/insidethebbc/howwework/policiesandguidelines/fairtrading/complaints_bulletins.html) and on the BBC Trust's Complaints and Appeals Board page: [bbc.co.uk/bbctrust/our\\_work/complaints\\_and\\_appeals/cab.html](http://bbc.co.uk/bbctrust/our_work/complaints_and_appeals/cab.html)



“The BBC has a responsibility to ensure that we trade fairly and pay regard to the impact of our activities on the wider market.”

**Dame Fiona Reynolds**

### **Report of the Chairman of the Executive Fair Trading Committee**

As a public service broadcaster, funded by the licence fee, the BBC has a responsibility to ensure that we trade fairly and pay regard to the impact of our activities on the wider market. The BBC has a well-established Fair Trading regime which is subject to both internal and external scrutiny.

At a time of change, the Fair Trading team has worked closely with staff throughout the BBC to ensure that new internal processes and initiatives comply with Fair Trading requirements. In particular, the Fair Trading team was involved in the development of the BBC Store project in the lead up to gaining regulatory approval from the Trust in March.

This year there was one Fair Trading complaint. Following a response from the Executive Fair Trading Committee, the complainant appealed to the BBC Trust. The BBC Trust did not uphold the appeal but did direct the BBC Executive to re-examine its arrangements in the relevant business area and to report back to the Trust within six months. This is being taken forward by the Executive. It also tasked the Trust Unit with developing a plan with the Executive to improve processes as part of the Trust's forthcoming triennial review of its Fair Trading Policies and Framework.

In anticipation of this review, the Executive Fair Trading Committee has done some preparatory work to ensure that the Fair Trading regime remains up to date in the fast moving external environment, and that its processes are efficient and effective.

The Fair Trading regime continues to operate effectively with an unqualified audit opinion. The Committee will continue to ensure that the BBC's regulatory requirements are adhered to through an approach to compliance which is robust, efficient and proportionate. Fair Trading will also be kept high on the Executive Board's agenda. All stakeholders, including licence fee payers and those who might be affected by the BBC's activities, can be confident that the BBC remains committed to, and compliant with, our Fair Trading obligations.

**Dame Fiona Reynolds**

**Chairman of the Executive Fair Trading Committee**

19 June 2014

### **Independent Fair Trading Auditors' report to the BBC for the year ended 31 March 2014**

We have audited, in our role as the BBC's Fair Trading auditors, the system of internal controls established within the BBC to provide the BBC with reasonable assurance that the BBC Executive ('the Executive') has complied with the requirement of the BBC Trust's Fair Trading Policies & Framework and the Fair Trading Guidelines for the year ended 31 March 2014 ('the Fair Trading Arrangements').

Our instructions for this engagement, including the scope of work to be undertaken, were agreed with the BBC's Executive Fair Trading Committee (the 'EFTC'). These instructions include agreement that our audit should be conducted in accordance with International Standard on Assurance Engagements ('ISAE') 3000, agreement on the limit of our liability in respect of this work and agreement that our duty of care in respect of this work is solely to the BBC. We are satisfied that the agreed scope of our audit was sufficient to enable us to express the opinion set out below.

#### **Respective responsibilities of BBC Trust, BBC Executive and Fair Trading auditors**

The Trust is responsible for ensuring that the Executive trades fairly. It is also responsible for preparing the section within the BBC's Annual Report entitled 'Trading Fairly' which includes a statement on Fair Trading.

The Executive is charged by the Trust with establishing and operating a system of internal controls designed to ensure compliance with the BBC's Fair Trading Arrangements for the year ended 31 March 2014, including identifying and assessing risks that could threaten Fair Trading and designing and implementing responses to such risks.

As the BBC's Fair Trading auditors, it is our responsibility to form an independent view, based on our audit work, as to the extent to which the BBC has established, and applied, a system of internal controls which provide reasonable assurance that it has complied with the requirements of its Fair Trading Arrangements for the year ended 31 March 2014. 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 application of the system of internal controls. We have also reviewed whether the Trust's 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.

Our opinion has been prepared for and only for the BBC in accordance with our instructions which were agreed with the EFTC on behalf of the BBC. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any person other than the Trust or the Executive to whom this report is shown or in to whose hands it may come, and no other person shall be entitled to rely on our opinion, save where expressly agreed by our prior consent in writing.

#### **Our approach**

We have performed a reasonable assurance engagement as defined in ISAE 3000. The objective of a reasonable assurance engagement is to perform such procedures as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express a conclusion on the BBC's compliance with its Fair Trading Arrangements for the year ended 31 March 2014.

Our work consisted of enquiry and testing 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 control had been applied.

#### **Inherent limitations**

As with any system of control, it is not practicable to ensure that no errors or irregularities have occurred without being detected. Our audit work was designed to give the Executive reasonable assurance as to the adequacy of the system of internal controls which was in place and being applied to deliver compliance with the requirements of its Fair Trading Arrangements for the year ended 31 March 2014. 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**

Based on the results of our procedures, in our opinion the BBC has established and has applied a system of internal controls that provide reasonable assurance that it has complied with the requirements of the Fair Trading Arrangements for the year ended 31 March 2014.

**Deloitte LLP**  
**Chartered Accountants**  
**London**  
19 June 2014