



PART ONE:

Annual Report and Accounts 2007/08

The **BBC Trust's** review and assessment

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This is the public's BBC and the public pays for it with the licence fee. They have made it absolutely clear they want quality, value and something a bit special in return. The plans we have approved for the future direction of the BBC will safeguard the core values of the BBC at a time of radical change in technology, markets and audience expectations.

”

Sir Michael Lyons

Chairman, BBC Trust

October 2007 (on approval by the Trust of the BBC's new six-year strategic plans)



“

This has been a year when I have been privileged to make contact with licence fee payers around the UK and to begin to understand the strength of their feelings – positive and negative – about their BBC.

”

Sir Michael Lyons
Chairman, BBC Trust
19 June 2008

CHAIRMAN'S INTRODUCTION

The Trust works for the public who own and pay for the BBC. For them, we ensure the BBC is independent, efficient and firmly focused on its public purposes.

To do this, we must equip the BBC properly: we set the strategic direction, the priorities, and the budgets. We make sure the editorial framework is robust and all the boundaries within which the BBC must operate are clear and firmly in place. And most of all, we set the challenge of delivering – as efficiently as possible – quality programmes and services which stand out from the crowd to justify the licence fee. In short, we make sure the BBC is clear what is expected of it, and then we satisfy ourselves it is meeting this expectation. And we aim to do our job armed with a clear understanding of what licence fee payers – in all their diversity – expect and think about their BBC.

This report covers our first full year as BBC Trustees and how we've started to approach our task. You'll see from this report that our focus has centred on three main themes: reaching everyone; increasing the quality and distinctiveness of BBC programmes and services; and rebuilding trust amongst audiences.

The last of these was not originally on our agenda. But as can sometimes happen, the unexpected reordered our priorities somewhat. Editorial integrity and trust in the BBC is fundamental to the contract between the BBC and its audiences. The events of last summer were serious, but we have been reassured by the progress made so far by management in responding to them and the signs of recovery of the public's confidence.

As to 'reaching everyone' and 'quality and distinctiveness', these objectives arose directly from what we heard from licence fee payers and are now cemented within the BBC's long-term strategy.

On page 17 we lay out these and the four other objectives we set the management last October when we approved the Director-General's strategic plans for the next six years. These objectives seek to ensure that the BBC meets all the public's priorities and addresses those areas where it is not performing as strongly as it needs to. This includes reaching those who do not currently value the BBC highly, but without jeopardising the loyalty of those who do.

This is because much of what the BBC does – on television, radio and online – is already of an extraordinarily high standard and highly valued. The public frequently remind us that it's their BBC and, whilst they are not shy in highlighting

what they don't like, they expect us as Trustees to be supportive of what they do like.

We've therefore sought to understand what programmes audiences define as quality or distinctive, particularly on television, and have used those to illustrate to management what the public wants, as well as what they don't. The range of programmes audiences have marked high for quality this year is wide – from the more obvious examples, such as *Cranford* and *Life in Cold Blood*; to the classics like *Question Time* and *Panorama*; and to the new and more risky, such as *The Mighty Boosh* and *The No 1 Ladies Detective Agency*. We cover this topic in more detail later in the report.

The annual efficiency savings of 3% we have set are stretching, but we are confident they are deliverable without affecting quality. Indeed, the only purpose of the money released is reinvestment to increase quality and to serve the public better.

Reaching everyone in the 21st century requires investment in new technology. That the BBC has maintained its overall reach and grown its television reach is a remarkable achievement. Even so, the arrival of the BBC iPlayer has been a landmark event and an important illustration of the public's appetite for on-demand.

BBC iPlayer was of course the subject of our first public value test, and this year we've applied the same to the HD channel and Gaelic Digital Service. In doing so we've held open meetings for others in the industry at the beginning of the process, during the process to discuss our initial conclusions, and after we have reached our final decisions – to explain them and how we have taken on board their input. We've also encouraged the public to give us their views and we've canvassed them via formal research. This robust scrutiny and input from outside the BBC to our independent decision-making processes is a real strength and I believe means we are serving the public better.

This year bbc.co.uk was the subject of our first extensive service review. We found a service strongly appreciated by its users, but one where the financial management needed urgent attention. We will not approve additional investment until satisfied that the right controls are in place and until we have scrutinised in further detail the management's proposals.

The public's influence has been strong throughout the year. Their comments and concerns prompted our review of the network news coverage of the changing United Kingdom, which has led BBC management to introduce changes. The BBC's new commitment to make 50% of its programmes outside of London by the end of this Charter was sparked by what we learned about audience dissatisfaction in those parts of the UK some distance from the

south-east. And the public's concerns about star salaries led us to review the BBC's role in how the media industry decides what to pay those who appear on-air and on-screen. While we found the BBC was generally not paying more than other broadcasters for the top names, it is clear there's some scope for the BBC to do more to keep these fees down. We'll be reviewing progress on this next summer and report again.

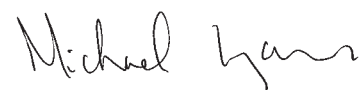
Overall, we want to see a BBC that operates in an open and accountable way. We want the public to feel more reassured that the BBC is working for them. The Trust has been struck by management's constructive and positive response to the increased scrutiny they have faced. It has sometimes been uncomfortable, but we believe that the benefit of this rigour is starting to be recognised by those on the receiving end of it.

We want the BBC to be a good corporate neighbour to others in the UK media sector. We also believe that cooperation with other media providers – which implies a degree of commercial caution by the BBC – may provide a better way of protecting long-term audience interests than increased regulation. This is an important issue and one which we will explore further in the year ahead.

In the months ahead we will complete our review of the BBC's services for children, and will start the same for those aimed at young people. Also this year we will review the arrangements for collecting the licence fee.

Speaking personally, this has been a year when I have been privileged to make contact with licence fee payers around the UK and to begin to understand the strength of their feelings – positive and negative – about their BBC. It's also been a year when I have been able to meet more of the people who make the BBC the cornerstone of public service broadcasting in the UK. I recall in particular attending the Sony Radio Academy Awards earlier this year and the delight in the faces of World Service staff as they won award after award – a well-deserved industry accolade for a service that brings great credit to Britain around the world.

We will continue to set testing challenges so the BBC can demonstrate it is value for money, is high in quality, and distinctive from what else is on offer. Achieving all this is essential for it to remain the cornerstone of public service broadcasting in the UK.



Sir Michael Lyons
Chairman
19 June 2008

The BBC Trust

The Trustees



The BBC Trust is the sovereign body of the BBC – 12 independent Trustees acting in the public interest. The Trust ensures that the BBC remains independent and delivers public value by providing distinctive services of the highest quality for everyone in the UK.

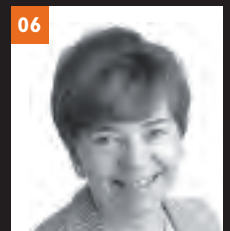
The Trust is responsible for ensuring that the BBC delivers its Public Purposes as set out in the Charter and Agreement, which gives the Trust a set of governance tools to perform this task. These tools include purpose remits, service licences and public value tests.

The Trust sets priorities for the Executive, which manages the day to day operations of the BBC and is headed by the Director General, who is appointed by the Trust.

The Trust exercises supervisory and regulatory functions. These include approving the BBC's high level strategy and budgets; approving the BBC's editorial guidelines; setting the framework for dealing with complaints and, where appropriate, hearing appeals; and ensuring the BBC complies with its fair trading policies.

A key principle of the Trust is to act in an open and transparent manner, and always to understand and take into account the views of the public before making decisions.

Full details of the Trust's role and functions can be found on the Trust website: bbc.co.uk/bbctrust



Nicholas Kroll
Director, BBC Trust

01 SIR MICHAEL LYONS**CHAIRMAN**

Chairman since 1 May 2007. Chairman of the English Cities Fund. Non-executive director of Mouchel plc; Wragge & Co; and SQW Ltd. Former Deputy Chairman and Acting Chairman, Audit Commission. Former Chief Executive of Birmingham City Council; of Nottinghamshire County Council; and of Wolverhampton Borough Council. Led the Lyons Inquiry into the functions and funding of local government. Former Professor of Public Policy, Birmingham University. Former non-executive director, Central Television Limited; former Chairman ITV Regional Advisory Council. Governor; Royal Shakespeare Company. Former Chairman City of Birmingham Symphony Orchestra.

02 CHITRA BHARUCHA**VICE CHAIRMAN**

Acting Chairman to 30 April 2007; Chairman, BBC Trust Audiences Councils Committee and Remuneration and Appointments Committee. Former Consultant Clinical Haematologist and Deputy Director, Northern Ireland Blood Transfusion Service. Former member, General Medical Council; former Chairman, GMC Fitness to Practise Adjudication Panels. Former Northern Ireland member, Independent Television Commission; former member, BBC Broadcasting Council for Northern Ireland; former member, Advertising Standards Authority (Broadcasting). Chairman, Advisory Committee on Animal Feedingstuffs for the Food Standards Agency. Trustee, Marie Curie Cancer Care.

03 DIANE COYLE

Chairman, BBC Trust Public Value and Fair Trading Committee. Economic consultant specialising in new technologies and globalisation. Member, Competition Commission. Former Economics Editor of *The Independent*. Widely published author and broadcaster on economics.

04 DERMOT GLEESON

Chairman, BBC Trust Finance and Strategy Committee. Former BBC Governor. Chairman, M J Gleeson Group plc. Former Chairman, Major Contractors Group; former director of the Housing Corporation, and of the Construction Industry Training Board. Former Head, Home Affairs Section, Conservative Research Department; former member of Christopher Tugendhat's cabinet in the European Commission.

05 ALISON HASTINGS**TRUSTEE FOR ENGLAND**

Chairman, Audience Council England; Media consultant. Former Editor, Newcastle Evening Chronicle. Former member, Press Complaints Commission.

06 DAME PATRICIA HODGSON DBE

Principal, Newnham College, Cambridge. Governor, Wellcome Trust; member of the Higher Education Funding Council for England, and of the Committee on Standards in Public Life. Non-executive director, Competition Commission. Former Chief Executive of the Independent Television Commission. Former BBC executive, who held many senior positions including Director of Policy.

07 ROTH JOHNSTON**TRUSTEE FOR NORTHERN IRELAND**

Chairman, Audience Council Northern Ireland; Entrepreneur in commerce and property. Non-executive director of Allied Irish Bank (UK) plc; Vice Chairman of Invest Northern Ireland; non-executive member, Northern Ireland Office Board. Pro-Chancellor, Queen's University, Belfast. Chairman, BBC Trust Audience Council Committee until March 2008.

08 JANET LEWIS-JONES**TRUSTEE FOR WALES**

Chairman, Audience Council Wales; Vice President, British Board of Film Classification; Trustee, Baring Foundation; Chairman, Membership Selection Panel of Glas Cymru (Welsh Water). Former member, Welsh Fourth Channel (S4C) Authority; and former Commissioner, Postal Services Commission. Served on the boards of the Strategic Rail Authority and of British Waterways.

09 DAVID LIDDIMENT

Chairman, BBC Trust Audiences and Performance Committee; Non-executive Director, All3Media; Associate, The Old Vic Theatre Company. Broadcasting career includes Director of Programmes, ITV; Deputy Managing Director, LWT; Director of Programmes, Granada TV; Head of Entertainment Group, BBC Television.

10 MEHMUDA MIAN PRITCHARD

A Commissioner of the Independent Police Complaints Commission, London and South East Region. Board member, Independent Safeguarding Authority. Former non-executive director of Northern Birmingham Mental Health Trust and of the NHS Litigation Authority. Former solicitor in private practice in Birmingham.

11 JEREMY PEAT**TRUSTEE FOR SCOTLAND**

Chairman, Audience Council Scotland; Chairman, BBC Pension Scheme Trustees. Former BBC National Governor for Scotland. Member of the Competition Commission. Director of the David Hume Institute. Columnist for the *Herald* and *Holyrood* magazine. Former Group Chief Economist at the Royal Bank of Scotland. Former economic adviser to the Government of Botswana, HM Treasury, and the Scottish Office.

12 RICHARD TAIT

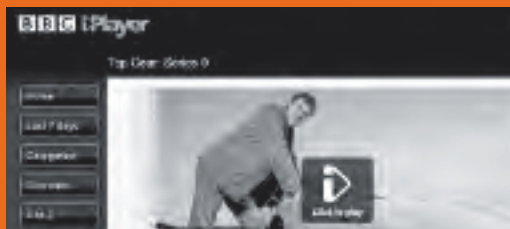
Chairman, BBC Trust Editorial Standards Committee. Professor of Journalism and Director of the Centre for Journalism Studies, Cardiff University. Former Editor-in-Chief, ITN; former Editor, Channel 4 News. At the BBC edited *Newsnight*, *The Money Programme* and the 1987 General Election results programme. Former BBC Governor. Fellow, International Press Institute; Fellow of the Society of Editors and of the Royal Television Society.

Launch of BBC iPlayer

“The BBC iPlayer is a real step forward. It’s quite easy to use... my parents use it.”*

42 MILLION

programmes were accessed using BBC iPlayer in the first three months of 2008



The BBC Trust only allows new BBC services to launch if it considers the service will deliver public value and the positive benefits will outweigh any negative impacts. We approved the BBC iPlayer after a public value test and it has become a highly valued addition to BBC services.

The issue of trust

“I was quite upset when I found that the BBC was involved in the phone scandals. I lost a lot of faith in them...”*

17,000 STAFF

attended the BBC’s Safeguarding Trust training in six months



The BBC’s reputation for editorial integrity is its most valuable asset. That reputation was eroded during the year and we took urgent action to restore public trust in the BBC and prevent any repetition of the events that did the damage.

THE BBC IN 2007/08:

A BBC adapting for the future

“It’s an institution – you rely on it being there... I think we would miss it more than we think.”*

50%

is the new target for the proportion of BBC staff to be based outside London by 2016



The BBC must always be thinking about how to respond to changes in technology, in the way people live and in how they use media. This year we approved a new six year plan for the BBC to ensure it continues to provide something for everyone and good value for all licence fee payers.

A more open and accountable BBC

“It’s excellent that they’re being more open and transparent...”*

53,536 PEOPLE

visited Television Centre in London for a tour of the studios



The BBC wants to get better at listening to what people think and explaining what it does. This year the BBC Trust offered people the chance to give their views before it took major decisions. The Trust has started explaining its decisions on its website.

WHAT STOOD OUT FOR YOU?

A BBC valued across the world

“I listen to BBC radio for international news and its analysis because it is factual without bias or partiality.”†

233 MILLION

used the BBC’s global news services television, radio and online – last year



BBC news audiences value and demand impartiality the cornerstone of the BBC’s reputation around the world. The BBC Trust makes sure editorial standards are of the highest quality. Ensuring impartiality is a key priority for us.

Distinctive high-quality programmes

“I’d give the BBC top marks for natural history. It’s the BBC’s forte... for example in *Life in Cold Blood*.”*

91%

of the audience strongly agree that *Life in Cold Blood* was a high quality programme



When we judge how well the BBC is doing we always take into account what audiences think about the quality and distinctiveness of BBC programmes not just how many people watched or listened.

* Member of public at Trust workshop.

† Housewife, Herat, Afghanistan.

93%

The percentage of adults in the UK using BBC services.

Source: BBC Tracking Study. Claimed reach age 15+ 2007/08.

“

At the heart of BBC culture sit the values of honesty, integrity and straight dealing. These values have won the trust and support of the public over eight decades. Future public support depends on the BBC continuing to instil these values into everyone in the organisation. They must be impressed on people on the day they join and be at the heart of their professional life throughout their time at the BBC.

”

Richard Tait

Trustee, Chairman of Trust s
editorial standards committee

PERFORMANCE OVERVIEW



Members of public at Trust research workshop.

“They do pretty well – all four generations in my family seem to enjoy it.”

Member of public at Trust workshop discussing the BBC.

09

OVERVIEW

This has been a year in which firm foundations have been laid for the remaining years of this licence fee period until 2012. We are clear about what BBC audiences want; we have approved the Executive's strategy for future years; and we have agreed a financial strategy that includes challenging efficiency targets to release money to fund further increases in quality. There are signs that the performance of the BBC is starting to reflect the priorities we have set it, although there are some areas where internal processes must be improved.

In the year under review we have focused on three key themes: reach; quality and distinctiveness; and rebuilding trust.

Reach – a measure of how many people choose to use our services – matters both because it is an indication of the value the BBC is delivering to all licence fee payers and also because the BBC cannot deliver the public purposes laid on it by Parliament unless its services are used by the vast majority of people in the UK.

Quality and distinctiveness matter because audiences have made clear to us that these are the most important issues for them.

And **rebuilding trust** matters because audiences have traditionally placed great trust in the BBC and when this confidence is damaged – as it was by last summer's editorial failings – the cost to a key relationship between the BBC and its audiences is potentially extremely high.

REACHING EVERYONE

The Trust exists to promote and defend the interests of licence fee payers – the public who own and pay for the BBC. A key part of our task is to ensure that the BBC provides everyone in the UK with high-quality output that they value. Only by doing this can the BBC deliver its six public purposes and maintain support for the licence fee.

We are therefore pleased to note the BBC's good performance in terms of reach over the past year. Reach is not the only significant measure of performance, but it is an important one that enables us to track how many people are using the BBC's services. Throughout 2007/08 some **93%** of the population used the BBC's services on a weekly basis. Performance was particularly strong in Television which saw reach increase by **0.6%** to **85%** overall after declines in previous years. The reach of BBC Radio fell slightly but bbc.co.uk continued its upward momentum, as we would expect given the continuing strong growth elsewhere in the sector.

In last year's annual report we noted the changing media behaviour of the young as they switch away from old technologies and into new ones at a faster rate than older audience groups. We are therefore encouraged to note that reach to BBC TV and radio held steady among the 16–34 age group, with notable growth for BBC Two and BBC Three, as well as Radio 1. Online reach has increased to this age group.

Despite this encouraging performance we are aware that competitive pressures are intensifying and that the BBC may find it hard to sustain this performance in coming years. This is why, when we approved the BBC's six-year strategy last year, we set management the explicit objective of maintaining the

maximum reach consistent with the BBC's purposes and values. Simply setting an objective to maximise reach could create a perverse incentive that might work against the high-quality output audiences expect from the BBC.

Our wish that the BBC should maximise reach with high-quality output has played a part in our decisions to approve a number of new services. In carrying out public value tests on both the BBC iPlayer and the HDTV channel we were convinced that each would enable the BBC to reach people with something they valued. The BBC iPlayer – successfully launched this year – enables the BBC to respond to the clear demand from the public to view BBC output at a time of their own choosing. And in the case of the HDTV channel (see page 45) we have found strong evidence that a sizeable portion of the population would value such a service and believe that the BBC's commitment to it – particularly on the free-to-view DTT and DSat platforms – will ensure that all who wish to can enjoy this promising new technology.

During the course of our discussions with the Executive on the six-year strategy we drew heavily on the extensive research and consultation we carried out in 2007 on the draft purpose remits, concentrating on areas where we found audiences had identified significant performance gaps. For example, we found that while the BBC is rated very highly overall for its provision of news and current affairs it is not effectively reaching low approvers of the BBC and we have asked management to find a solution. One purpose where we found some very marked performance gaps was that of *Representing the UK's nations, regions and communities*. Dealing with the weaknesses here is an important focus for our future work. There is more on this later in this section.

“Originality could be doing the same type of thing but to a better quality, like Cranford.”

Member of public at Trust workshop discussing the BBC.



Cranford, a drama on BBC One, was recognised as high quality by audiences.

Audiences expect the BBC to provide a clear alternative to other channels by providing output that is fresh and consistent with the BBC's core values.

Finding from BBC Trust research into audience views on BBC television, autumn 2007.

Increasing distinctiveness and quality

Audiences expect the BBC to set a benchmark for quality programming and content. However, in last year's annual report we reported on research which showed a significant level of audience dissatisfaction: 'Audiences are telling us loud and clear that they want fresh and new ideas and a wide range of enjoyable and entertaining programmes – and that they feel the BBC could do better here.' There was a clear sense that the BBC was not providing enough programming and content that was different from that available elsewhere, given that the BBC is a publicly-funded organisation that can take risks that commercial broadcasters cannot.

We have discussed these issues at length with the Executive and we have set the BBC the objective for the six years of the current licence fee settlement to 'seek to increase the distinctiveness and quality of its output'. We will measure and report each year on progress in delivering this and five other strategic objectives. Different audience groups place widely differing values on the BBC; and further objectives call on the BBC to increase perceived value among middle and low approvers while maintaining perceived value among high approvers.

To help understand better what is driving audience perceptions we carried out more research last autumn. Our research shows that audiences are not calling for a radical change of direction. But they do expect the BBC to provide a clear alternative to other channels by providing output that is fresh and consistent with the BBC's core values. By 'fresh' they mean television that can be familiar but which offers 'a new take' or 'a slight twist' or that is in some way 'a bit different' – although they do also see a place for the genuinely new and ground-breaking. Audience expectations that the BBC should deliver fresh ideas are higher than for other broadcasters because the public believe that the way the BBC is funded frees it from some of the pressures on commercial providers.

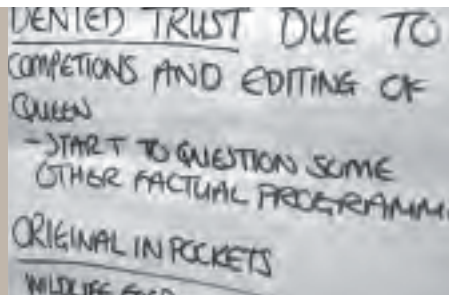
Audiences also believe that multichannel television has complicated the picture. Where once the BBC stood out for the range and depth – as well as the quality – of its output, there is now a strong sense that range is provided by the wide choice available in the multichannel world. At the same time, however, audiences believe that TV schedules are genuinely dominated by 'ratings chasers' such as soaps, big entertainment shows and reality TV, at the expense of serious drama and factual documentaries, which are seen to have declined in volume and prominence.

We take these findings very seriously. We know from our research that a key driver in overall approval of the BBC is the public's confidence that the BBC will meet their high expectations of its output. To underline our determination that the BBC should differentiate itself by the high quality of its output we are publishing findings from our research on television programmes that score highly in terms of viewers' perceptions. We hope this will promote debate about the kinds of programmes the BBC should make. It reflects our belief that performance assessment should focus on quality and distinctiveness as well as reach and share. We provide more detail later in this report on page 21.

Perceptions of quality – measured as approval of BBC services – held steady year on year. We note an appreciable increase in programmes scoring highly on the Appreciation Index (AI) on television and radio. Changes to the composition of the audience panel have resulted in marginal inflation in AI scores, but it is unlikely that the increase is wholly attributable to this. The true extent of the increase – and whether or not it can be maintained or improved – will only become apparent in the future.

"I do trust the BBC at an emotional level – I was raised on them – but because of the way I see the world now and think about their editorial, I question it."

Member of public at Trust workshop discussing the BBC.



From the BBC Trust research workshop.

99%

The percentage of relevant staff who attended the Safeguarding Trust course in the past year. This course is now being provided to the independent sector.

Rebuilding trust

Historically the BBC has enjoyed exceptionally high levels of trust compared with other British institutions, and this reputation for editorial integrity is the BBC's most valuable asset. During the year that reputation was eroded as a result of actions by some programme makers. We have taken steps to ensure that public trust in the integrity of the BBC is restored, and that robust measures are put in place to prevent any repetition of the practices that did the damage.

Premium rate telephone services and on-air competitions

As we reported last year, instances came to light of programme makers misleading audiences over on-air competitions and votes. In May 2007 we published a review by the Director-General, which accepted that serious errors had been made. Further investigation brought other instances to light.

Monarchy: The Royal Family at Work

In July 2007 a trail for a forthcoming documentary series *Monarchy: The Royal Family at Work* was shown to journalists. It appeared to show the Queen angrily walking out of a photo-shoot. In fact, the Queen had not walked out, and the impression that she had done so was the result of misleading editing by the independent production company making the documentary. The BBC apologised to the Palace.

Following these incidents, we agreed with the Director-General a ten-point action plan which he issued in July. His plan included important organisational changes to improve the rigour and consistency of editorial standards across the BBC; an independent inquiry into circumstances surrounding the misleading trail; the suspension of all BBC competitions pending new guidelines; and mandatory training on the BBC's editorial standards for all programme and content staff.

As we reported last year we had already commissioned our own inquiry into the BBC's use of premium rate services (PRS), and we subsequently broadened this inquiry into a more general review of the effectiveness of the Executive's response to this succession of serious lapses in editorial standards. We also asked the Executive to review its compliance processes, taking account of compliance models elsewhere in the industry, to ensure these were robust in all BBC output areas. The Executive advised us in January that they were satisfied that following the significant changes made, including the enhanced role for the Director of Editorial Policy and new management responsibilities for compliance in output divisions, the compliance processes were robust.

Our review reported in May 2008 and has been published in full on our website. It makes clear that the actions outlined in the Director-General's plan must not be thought of as a quick fix but a long-term change to procedures, processes and safeguards throughout the BBC.

ARTIFICE VERSUS DECEPTION

During the year there was much debate over where the boundary should lie between artifice and deception in programme-making. To understand this issue better we commissioned research to discover what the public thinks.

The work showed that TV audiences have a sophisticated understanding of the boundaries between what is acceptable and unacceptable in this area. Viewers want programmes to be engaging and accept that a degree of artifice may be necessary to achieve this – but not surprisingly they draw the line at deception. They are willing to allow more flexibility for entertainment than for factual programmes, and in factual output they expect finer judgements on more sensitive subjects. If a factual programme promises an emotional journey then they expect the journey to be genuine, not faked. Audiences also have higher expectations of some individual presenters than others, and they expect a higher degree of rigour from programmes that promise high impact – a major interview or cultural event, for example.

The research showed that the BBC is more strongly associated with values of honesty, trustworthiness and reliability than other broadcasters and that audiences expect more from the BBC. However they do not want two tiers of standards. They would like all broadcasters, including the BBC, to be subject to the same editorial guidelines. But for the most part, they feel that their high expectations can be met via the application of common sense rather than black and white rules.

“As I’ve got older I’ve found out more about what the media are capable of and I’ve become more sceptical.”

Member of public at a Trust workshop.



Strictly Come Dancing was one of the BBC's popular programmes with phone votes.

The BBC adopted new guidelines governing phone votes during the year while changes in technology now prevent people being charged for votes which are not counted.

SEMINAR ON TRUST IN BROADCASTING

In November we held a seminar, jointly hosted with Ofcom, on trust in broadcasting. It brought together leaders from across the industry to work on ways to rebuild public trust following last year's series of editorial and compliance failures.

Agreements were made to consider a common approach to premium rate telephony; on developing industry-wide training on ethical and editorial standards; and on exploring a common framework of principles to promote best practice in programme-making.

Delegates will meet again later this year to review progress.

At the heart of BBC culture sit the values of honesty, integrity and straight dealing. These values have won the trust and support of the public over eight decades. Future public support depends on the BBC continuing to instil these values into everyone in the organisation. They must be impressed on people on the day they join and be at the heart of their professional life throughout their time at the BBC.

Among the key recommendations of our review is that the BBC Editorial Guidelines should be revised and reissued as a matter of urgency, and that, as a matter of priority, executive producers should be given more support in order to perform their critical role as custodians of BBC standards and values.

Other recommendations include measures to improve risk management – such as communicating experience of 'near misses' much more widely so that lessons can be shared across the BBC by producers working in different genres. We also want the BBC to devise a way of assuring itself that the compliance structures of its independent suppliers are of the highest standard and are effective.

As part of our inquiry into the BBC's use of premium rate services we commissioned an independent review of the economic aspects of the BBC's premium rate services. This work discovered a previously undisclosed practice by Audiocall (a trading division of BBC Worldwide), to retain all money raised from telephone calls mistakenly made by the audience when voting lines were closed, including money that could be due to charity. While the amounts from individual programmes due to charity retained by Audiocall were small, this practice was wholly wrong and it is a matter of regret. The money due to charity has been repaid with interest and the BBC Trust has requested the BBC apologise on air, which it did on 24 May 2008.

The BBC regularly tracks levels of trust. Members of the public are asked how much they agree with the statement 'I trust the BBC'. Following the incidents of summer and autumn 2007 which we have reported above, levels of agreement with this statement dropped. However, by March 2008 trust seemed to have recovered and was back to the levels seen before these events. Encouragingly, the majority of people (78% in March 2008), also trusted the BBC to sort out the situation and do the right thing in the future.



I trust the BBC to be honest and open. The only thing that has put me off is the phone scandal. I still trust them to provide a variety of quality programmes.



Member of public at Trust workshop discussing the BBC.

16.2%

The proportion of the UK's population who live in Wales, Scotland and Northern Ireland.

“

One of the great current challenges for the BBC is to find effective responses to the changing constitutional map of the UK as devolution takes deeper root in Scotland, Wales and Northern Ireland and regionalism rises up the agenda in England.

”

Rotha Johnston

**BBC Trustee, National Trustee
for Northern Ireland**

BBC OUTLOOK

Although the time people spend watching television remains fairly steady, viewing is becoming more fragmented.

87%

The number of homes in the UK that had access to digital television by April 2008.

15

BBC OUTLOOK

The BBC has to satisfy many different and changing demands. In the case of television, for example, traditional linear channels still attract large audiences – and we expect that to continue. But there is also a growing audience for on-demand video delivered via the internet – a development fuelled by the rapid spread of broadband. This year the Trust approved plans for the BBC to meet the challenge of satisfying the new demands created by rapidly changing technology, while still continuing to deliver high-quality services to existing audiences through traditional channels.

In this section we explore how the BBC is adapting to different kinds of change in the UK; not just technological but also social, constitutional and economic.

CHANGE IN THE WIDER MEDIA MARKET

Television

The pace of change in television, already fast, continues to increase. Digital switchover began last year and more than 87% of homes now have access to digital television. On-demand services, including BBC iPlayer, are blurring the boundaries between television and the internet and new channels continue to launch. All this intensifies competition for audiences, and puts pressure on traditional 'linear' television channels.

And there is more to come as the take-up of broadband and the speed of downloads increases, digital switchover progresses and Freesat is taken up.

Although the amount of time people spend watching television remains fairly steady at about 3.5 hours a day, viewing is becoming more fragmented. Less than two-thirds of viewing time is now spent with the five terrestrial channels (BBC One, BBC Two, ITV1, Channel 4 and five). But each of these broadcasters has built portfolios of new channels and overall portfolio reach for each broadcaster has increased over the year. BBC One remains the UK's most watched channel and we are pleased to note that the BBC TV portfolio has increased reach to 85% of the population. Television therefore remains central to the delivery of the BBC's purposes with the unique power to bring together large audiences.

Radio

Radio remains very popular: 90% of adults listen every week. However, overall listening is in slow decline, particularly among the young. 15–24 year olds listen for almost three hours less a week than five years ago. BBC Radio's lead over commercial radio has widened as listening to commercial stations has declined relatively faster.

The commercial radio market is facing many challenges. However, in the face of declining listening figures and increased competition from online media, radio advertising revenue has seen four consecutive quarters of growth. Consolidation has continued and the commercial industry is now led by two large players.

Digital-only stations – including BBC stations – have yet to make a breakthrough. Although growing, reach and audience awareness remain low. In November the government launched the Digital Radio Working Group to look at how to promote digital radio and increase penetration. It remains to be seen whether the arrival later this year of the second national digital multiplex led by Channel 4 Radio will boost the market sufficiently to ensure its long-term viability.

As the internet joins television and radio as a mainstream medium, the BBC's online presence is increasingly important in serving groups such as 18–24 year olds.



The Apprentice is one of the most popular choices for people accessing programmes with BBC iPlayer.

17.2 MILLION

The number of weekly users of the bbc.co.uk internet service in the UK.

Online

The internet is now a part of everyday life for many people in the UK, especially the young. More than half of households have a broadband connection, and there are signs that mobile internet may be about to take off. Broadband offers a much richer experience – watching and sharing videos, game-playing, social networking – and as a result people are increasingly turning to the internet for entertainment, not just for information.

For broadcasters, the internet, already an arena of intense competition, is becoming more so as, for example, newspapers use their sites to post videos and podcasts, effectively turning themselves into digital broadcasters. Video-sharing sites such as YouTube provide new competition in the field of entertainment. As the internet joins television and radio as a mainstream medium, the BBC's online presence is becoming increasingly important for delivery of its public purposes, especially among groups such as 18–24 year olds who spend most time online.

THE BBC IN THE WIDER ECONOMY

In changing media markets there is an important debate to be had on the impact (positive and negative) of the BBC on the wider UK economy. In order to ensure that this debate is properly informed, we commissioned a wide-ranging independent study from PricewaterhouseCoopers (PwC), and we held a seminar with industry experts at the London Business School.

The PwC study is examining the benefits and costs for both the UK as a whole, and as far as possible for each of the UK nations and the English regions. It will cover such things as the effects of the BBC on the wider media market, its impact on quality, its role as a commissioner from independent producers, its effect on content, its role as 'trainer for the industry', its management of the partnerships in which it is involved, its record as a developer of new technologies, the scale of its direct investment in the creative sector, and the impact of the BBC brand on the development of the sector as a whole.

We expect the study to be complete in July 2008. We will use the results to inform our judgements on future priorities and investment decisions and will also ask the BBC Executive to respond to the Trust's conclusion on the report. We will be particularly interested in the potential for the BBC to work more often in partnership with the wider media sector.

A NEW BBC CONTENT STRATEGY

In the context of rapidly changing media markets, and the background of a licence fee settlement less generous than hoped for by the Executive, a key task for the Trust this year has been approving the BBC's six-year strategy (Delivering Creative Future). We led a re-prioritisation exercise that enabled us to approve a content strategy for the BBC retaining many elements of the original BBC licence fee bid.

We accepted that rapid changes in technologies, markets and audience behaviour required a major shift of resources – subject to relevant approvals processes – into online and on-demand offerings. This meant investment in Web 2.0 and BBC iPlayer. We have considered much of the detail of this proposed investment within the context of the bbc.co.uk service review (see page 28). Some proposals – such as those for enhancements to the Nations and Regions web offering – will be subject to a public value test.

We approved investments in television drama, comedy and entertainment – genres of wide appeal. We also approved some new investment in content designed to reach specific audience groups such as children, teens, as well as journalism for those the BBC currently finds hard to reach, and also in content in the UK's indigenous languages. Finally, we approved investment in a more collaborative relationship between BBC Two and BBC Four as an important step towards enhancing the BBC's factual programming – a distinctive and valued feature of its output.

We demanded a clear commitment from BBC management that there would be no increase in the level of peak time repeats on BBC One.



Trustees Jeremy Peat, Mehmda Mian Pritchard and Alison Hastings visiting BBC offices in Manchester for the Trust meeting in September 2007.

3%

The percentage annual recurring efficiency savings target set by the Trust.

To pay for these investments we approved the Executive's proposal to reduce the level of originated programming by 10%. We did so on the understanding that while this would mean more repeats outside peaktime it would benefit audiences – provided management commissioned content that is particularly valued by audiences and which they will appreciate the chance to see again. This approach is consistent with the findings of research carried out on audience attitudes to repeats noted in last year's annual report. However, we received a clear commitment from the Executive that there would be no increase in the level of peak time repeats on BBC One – an important commitment given audiences' clear dislike of peaktime repeats here.

THE TRUST'S OBJECTIVES FOR THE EXECUTIVE

As part of our approval of the BBC's forward strategy we have set the Executive six high-level objectives consistent with our framework of Reach, Quality, Impact and Value for Money (see below).

Reach

1 The BBC should maintain the maximum reach consistent with its purposes and values.

The BBC must provide everyone in the UK with something they value. In an increasingly competitive environment this is likely to become more difficult, so while we want reach maximised this should only be done in a way consistent with the BBC's purposes and values.

Quality

2 The BBC should seek to increase the distinctiveness and quality of its output.

Audiences have high expectations of the BBC and of the quality of its output. Our research has revealed significant weaknesses in the BBC's ability to differentiate itself from other broadcasters by providing content that is fresh and new.

3 The BBC should maintain perceived value among high approvers. The BBC should increase perceived value among middle and low approvers.

There is clear evidence from our research that significant parts of the audience feel the BBC is not serving them as well as it should. The BBC must address this problem, but it must also maintain perceptions of value among those who are currently high approvers.

4 The BBC should restore trust in its output.

Trust is the foundation of the BBC's relationship with licence fee payers. Last year's editorial failings led to a decline in trust in the BBC and the BBC has begun to remedy this as a matter of urgency.

Impact

5 The BBC should increase the delivery of its purposes.

Our research has highlighted key areas of weakness in the BBC's delivery of its purposes (see page 23) and we believe that remedying these gaps must be a top priority in the implementation of the BBC's six-year strategy.

Value for Money

6 The BBC should deliver 3% year-on-year efficiency targets.

Licence fee funding is a great privilege for the BBC and it has a duty to make sure that it spends public money as efficiently and effectively as possible. We believe that this efficiency target, though challenging, is achievable. We will track progress closely to ensure that it is not achieved at the cost of the range of quality programming and content that audiences expect and deserve.

For each objective we have established a high-level set of measures that we will use to track performance on a quarterly basis and report on each year in the annual report. The savings will be reviewed each year by the BBC's auditors and in 2010 by the National Audit Office.

“There is a home-counties and London bias on the BBC – for example we have not had a single snowflake in Wales this week and yet snow in London is all over the news.”

Member of public at Trust workshop discussing the BBC.



The Trustees familiarising themselves with BBC Scotland output during a visit to Glasgow.

82%

The percentage of the UK population who are interested in news about other nations in the UK.

The BBC throughout the UK

As well as technological change, one of the great current challenges for the BBC is to find effective responses to the changing constitutional map of the UK as devolution takes deeper root in Scotland, Wales and Northern Ireland, and regionalism rises up the agenda in England. The challenges take many forms. There is a clear desire from audiences around the UK for a fuller and more accurate representation of their nation or region. This is not just locally, but also to the rest of the UK audience through network programming. There are growing pressures to move more production out of London – not just into the rest of England, but into the devolved nations too. There is an appetite for more programming in the UK's indigenous languages – this year, for example, we have given conditional consent to the launch of a digital TV service in Gaelic (see page 45). And there is much-increased scrutiny of all broadcasters' performance in meeting these challenges – witness, for example, the Scottish Broadcasting Commission set up by the government of Scotland in 2007 with a brief to 'investigate the current state of television production and broadcasting in Scotland and define a strategic way forward for the industry'. The National Assembly for Wales has also established a Broadcasting Commission to look at the future of public service broadcasting in Wales.

The Charter lays on the BBC the public purpose of 'Representing the UK, its nations regions and communities' and this is a responsibility we take very seriously as BBC Trustees. During the course of the year we have launched a number of significant initiatives to ensure that the BBC continues to respond effectively in this important area. The BBC is for the whole of the UK and it should reflect the whole of the UK in its output and in its investment decisions.

Nations' impartiality review

A recurring message from our public meetings and audience research, and from our work with BBC Audience Councils in the four nations, has been concern about the perceived lack of representation of the nations in network programmes and insufficient focus on the devolved nations in network news.

We therefore decided that the first impartiality review we commissioned should "assess whether the BBC's network news and current affairs output was impartial, accurate and clear as to which facts and views applied to the individual nations and to consider if the nations' policies were properly reflected and explained." We commissioned Anthony King, Professor of Government at the University of Essex, to carry out the review. His work was supported by content analysis from Cardiff University School of Journalism and audience research from British Market Research Bureau (BMRB).

The Trust welcomes the review's conclusion that there is little or no evidence that BBC network coverage in this area falls short on grounds of fairness or impartiality. The BBC is also praised for the impartiality of its coverage of politics and policy in all four nations of the UK. This is an important conclusion and central to the Trust's duty to ensure the impartiality of the BBC's output.

Notwithstanding examples of good practice, however, and supported by findings from the Cardiff research, the review highlights concern that BBC network news and current affairs programmes taken as a whole are not reporting the changing UK with the range and precision that might reasonably be expected given the high standards to which the BBC should aspire. There are specific concerns as to accuracy and clarity of reporting, the balance of coverage, and missed opportunities

of drawing on the rich variety of the UK and communicating it to multiple audiences. As examples, political coverage is seen as unduly focused on Westminster in volume and style; there is seen to be a general bias in favour of stories about England or telling stories from an England perspective; and there is evidence that several stories in the nations which may have been significant to the UK were not taken up by the network. Overall, Professor King concludes that the BBC has not responded adequately and appropriately to the UK's changing political, social, economic and cultural architecture.

The significant weaknesses identified by Professor King's assessment must be put right. In the closing sections of his report, Professor King offers a range of suggestions and issues for consideration in resolving the concerns he has highlighted. In its initial response to our review, the BBC's management has expressed commitment to responding to the important concerns raised. We have highlighted a number of issues for immediate action around the accuracy and clarity of reporting, missed opportunities and balance of coverage.

We have asked the Executive to provide a final plan by July which sets out how they will deliver the proposed actions over the next year. We will seek the co-operation of the Audience Councils in tracking the success of action being taken, and within 18 months will ourselves repeat the research undertaken to assess the BBC's progress in improving its performance in this area. (You can find out more about the Audience Councils and their activities on pages 34–35. The map opposite shows their geographical remits.)

The full report is available on our website.

Average levels of affection for the BBC are noticeably lower the further people live from London.



Doctor Who is one of many network programmes currently made in Wales.



The target percentage for network production in the nations by 2016, compared with 7.7% in 2007/08.

Producing more content outside London

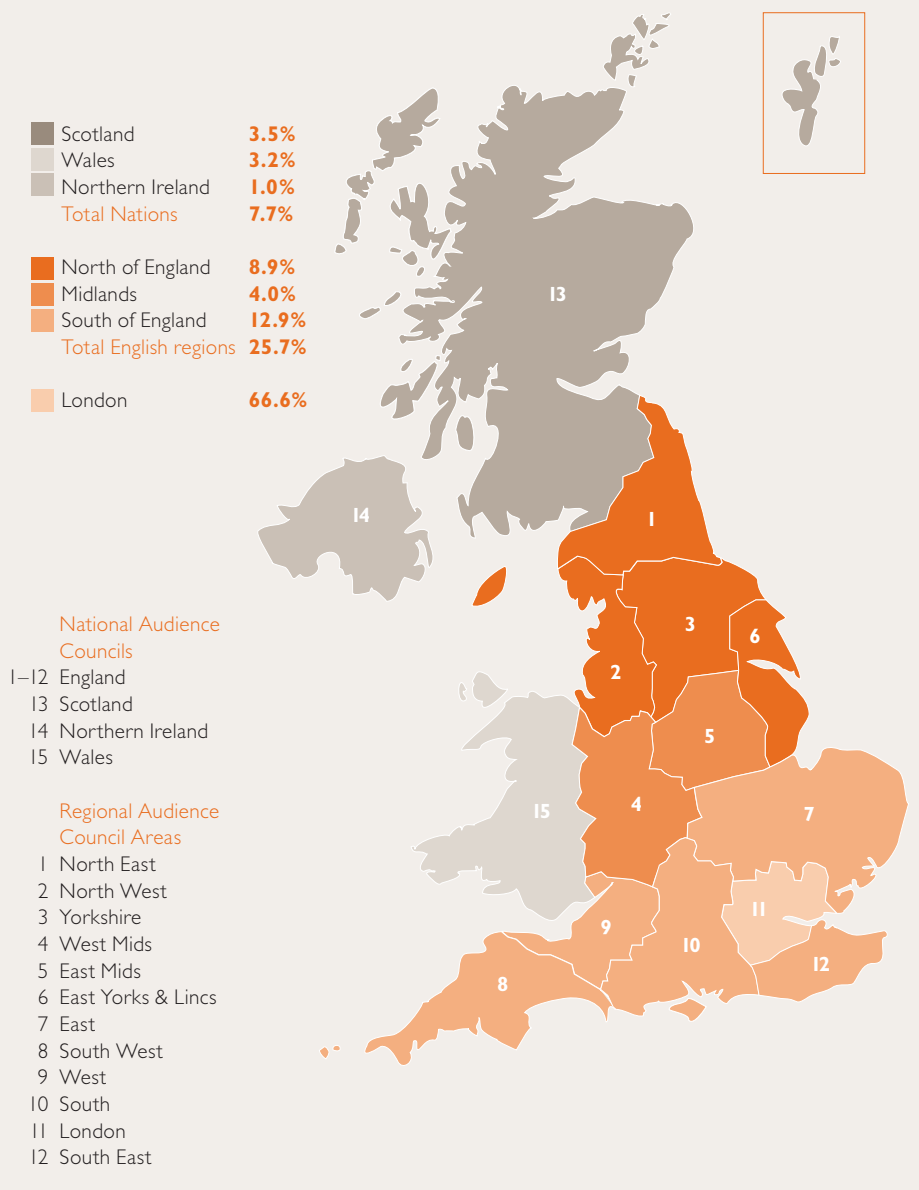
We want the BBC to make significantly more content outside London than it does now, and to base a significantly higher proportion of its staff outside London than it does now. In broad terms our long-term aim is that the BBC should make at least as much content in the nations as reflects their percentage of the population of the UK, and that at least 50% of BBC staff should be based outside London.

In May 2008 we approved plans that will help make these aspirations a reality. In future the BBC will use the Ofcom definition of network production from the nations rather than its own definition. The Ofcom definition is much more challenging: under the previous definition the BBC sourced 15.9% of network production from the nations in 2007/08; under the Ofcom definition the percentage is 7.7%.

Scotland, Wales and Northern Ireland together make up nearly 17% of the UK population. By 2012, network production from the nations (using the Ofcom definition) should reach at least 12% by spend, with the 17% target reached no later than 2016, when the current Charter ends. We will monitor these targets carefully to ensure that the BBC is helping to build strong and sustainable network production in all three nations. We will also look at production in the English regions.

The Executive began a review of the supply of content to network television in September 2007, focusing on ensuring long-term sustainability across the UK. We expect to receive the review's final recommendations later in 2008.

BBC NETWORK PRODUCTION AROUND THE UK



“

It's sort of reassuring that someone is doing this... it's important that someone is making sure that everybody is catered for even if one personally does not like all the programmes that are on.

”

Member of the public at Trust
audience workshop,
Birmingham, April 2008

BBC PERFORMANCE



Sacred Music – an example of specialist factual output that was rated highly by its audience.

“I’d like to find different things on the BBC but I find it tends to be the same.”

Member of public at Trust workshop discussing the BBC.

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BBC PERFORMANCE

Content of quality and distinctiveness

As Trustees we have responsibility for ensuring that the BBC delivers high-quality services to all the people and all the communities of the UK. As part of this duty, each year we assess the performance of the BBC against the priorities that we set to determine whether the BBC is using its resources well and providing services that are valued by the public.

In this section of our report we set out our assessment of BBC performance across a number of areas as follows:

Content of quality and distinctiveness (page 21)

Delivering the BBC’s purposes (page 23)

Individual service performance (page 24)

Financial and business performance (page 29)

In reaching our conclusions we have also been informed by the views of audiences. How we have engaged with audiences and a summary of their views is set out on page 33.

We noted in last year’s annual report that our research had identified that audiences want the BBC to devote more energy to producing fresh and new ideas. Further research we undertook in 2007 has shown that audiences do not want a radical change in direction from the BBC, but they do want it to provide an alternative to ‘ratings-chasers’ such as soaps, make-over, celebrity and reality shows which they feel dominate the schedules of TV generally. While multi-channel TV has led to an increase in viewer choice, audiences feel it has diluted the volume and prominence of genuinely alternative offerings. There is a strong belief that the BBC should do more to provide this alternative.

Audiences also want the BBC to give greater prominence to its original and distinctive programming. Our research suggests that the BBC could do more to effectively promote the full range of its existing television portfolio. When our researchers pointed out the range and depth currently available across all BBC television channels, people reacted positively and recognised that the BBC was showing programmes other broadcasters could not or would not make. But the reality is that the majority of BBC viewing remains to BBC One and Two – so audiences’ actual experience of the range on offer is more limited.

To explore this area further we have used the Executive’s existing audience appreciation data to examine the TV programmes broadcast in 2007/08 which audiences thought were high quality and distinctive, both on the BBC and commercial channels. We used data which rated programmes as ‘original’ and ‘different’ as a proxy for the characteristics of ‘fresh’ and ‘new’. Our aim in doing this is to shift the focus of programme performance assessment towards quality and distinctiveness and away from an almost exclusive focus on reach and ratings. We hope that, by publishing information on which programmes audiences think are high quality and distinctive, this will promote debate within management and beyond about the kinds of programmes audiences want the BBC to make more of.

The highest-quality programmes broadcast over the past year were those dealing with specialist factual topics. 91% of the audience strongly agree that *Life in Cold Blood* was a high-quality programme while *Tiger: Spy in the Jungle* and *The Life of Birds* also rated very highly. Beyond natural history and wildlife, audiences strongly appreciate other types of specialist factual output, notably science, for example *ATOM* and *Earth: The Power of the Planet*, and history, *Sacred Music* and *The Art of Spain*. Music events also score highly, notably *BBC Cardiff Singer of the World 2007* and the *First Night of the Proms*. We are pleased to note that the Executive will be investing an additional £8 million each year into specialist factual output, with a particular focus on science and history.

“There are some things which the BBC has done first like *Strictly Come Dancing*. That was very original but was copied to death.”

Member of public at Trust workshop discussing the BBC.



Audiences consider that successful comedies such as *The Mighty Boosh* make an important contribution to distinctiveness.

Classics such as *University Challenge*, *Mastermind* and *Antiques Roadshow* are seen as part of the core of what the BBC should do.

Audiences value the familiar as well as the new.

In terms of output that rated highly for being distinctive, single and authored documentaries and factual output are highly appreciated. On the BBC, *Stephen Fry: The Secret Life of a Manic Depressive* is a notable example, while on commercial channels, *Autopsy: Emergency Room* (Channel 4), *Ross Kemp in Afghanistan* (Sky One), *Malcolm and Barbara: Loves Farewell* (ITV 1) and *Return of the Tribe* (five) were all seen as highly original TV. Long-running formats and repeats can also be considered as distinctive – *The Royal Institution Christmas Lectures* on five and BBC Two's *Fred Dibnah's World of Steam, Steel and Stone* were both in the top 20 most distinctive programmes of 2007/08.

For UK drama, *Cranford*, *The State Within* and *Life on Mars* stand out, while *Doctor Who* and *Spooks* continue to deliver on quality. We are particularly pleased to note the success, in terms of quality and distinctiveness, of two single dramas on BBC One – *The No 1 Ladies Detective Agency* and *Ballet Shoes*. Audiences also value high-quality US imports such as *The Sopranos* (Channel 4, E4) and *24* (Sky One).

Our findings also show that comedy makes an important contribution to the distinctiveness of TV. BBC successes this year include *Outnumbered*, *The Mighty Boosh*, *The Thick Of It*, *QI*, *Extras* and *Gavin and Stacey*. Long-running series can also do well, notably *Have I Got News For You*, although traditional style sketch show programmes, while still attracting high viewer numbers, did not generally rate as highly in terms of quality and distinctiveness.

We are pleased to note that current affairs programmes are also generally seen as distinctive and high quality. These include the BBC's flagship shows *Panorama* and *Question Time*, while audiences also value *Dispatches* on Channel 4.

New takes on an old format can also be distinctive. Channel 4's food season, and BBC Three's *Kill It*, *Cook It*, *Eat It* were notable examples from this year of food programmes which were considered both high-quality and distinctive. Some property shows also score highly, notably *Grand Designs* on Channel 4.

And viewers do not see any genre as intrinsically non-BBC – as long as the BBC can bring a fresh approach. For example, although viewers in general may criticise celebrity and reality shows, they strongly endorse *Strictly Come Dancing* and *The Apprentice* because their tone, content and execution is seen as being in line with BBC values.

Our research also shows that audiences value the familiar as well as the new. Classics such as *University Challenge*, *Mastermind* or *Antiques Roadshow* are seen as part of the core of what the BBC should do.

There are some clear themes when looking at the lowest rating programmes for quality and distinctiveness. These programmes tend to include repackaged clips – for example list and outtake shows as well as some spin-offs. Although the majority of these programmes were broadcast on the commercial channels, some also featured on the BBC.

We intend to use the analysis from this year as a baseline in order to track the quality and distinctiveness of TV programmes over the coming years and will continue to monitor closely the BBC's performance in this area.

We are pleased to note that the Executive's Statement of Programme Policy for 2008/09 explicitly acknowledges the need for BBC One to offer 'distinctive, enjoyable and entertaining programmes as well as fresh and new ideas' and that its strategic plans include a commitment to 'place more emphasis on the commissioning of distinctive, high-quality and innovative content drawing on new ideas of real creative and editorial ambition'.

“The danger is that if they focus on educating and informing they’ll be in danger of forgetting to entertain. For most people TV should be entertaining.”

Member of public at Trust workshop discussing the BBC.



Birmingham, April 2008. Events such as this enable Trustees to hear directly from audiences their views on BBC services.

In setting priorities for the BBC we drew on audience research that identified those areas where the BBC could do better.

Delivering the BBC's purposes

The Charter sets six public purposes for the BBC. We have translated these into purpose remits that define our priorities for the Executive. The remits were finalised in December 2007 following extensive public consultation and audience research, which identified the following key areas where the public want the BBC to do better:

- * More programmes that are fresh or demonstrate new ideas
- * High-quality news and education programmes accessible to all audiences
- * An improved service for the UK's nations, regions and communities

We used this research as the basis for agreeing the strategic allocation of the licence fee. In April 2008 we approved the Executive's plans for delivering the purpose remits and we will use these to inform our discussions about performance with the Executive in the coming years.

We will also track audience perceptions of how well the BBC is delivering its purposes. In order to establish baseline measures, we asked audiences in February 2008 how well they thought each priority was being delivered. The findings are broadly consistent with those from 2007 which we used to approve the strategic direction for the BBC.

We will repeat the audience survey in 2009, and later this year we will carry out further in-depth audience research to assist us in assessing performance. We will include the results in next year's report.

1 Sustaining citizenship and civil society

In the main, our results show that audiences agree that the BBC delivers news and current affairs output well, and are more likely to name a news service from the BBC than from other broadcasters as standing out for them. However, younger people in lower social grades are significantly less likely to agree that the BBC makes news and current affairs interesting to them. The primary challenge, therefore, is to engage new audiences without jeopardising the support of existing audiences. We have approved the Executive's plans to strengthen on-demand provision, increase the emphasis on quality and distinctiveness and deliver value to all audiences. The new 90-second 8pm news bulletin on BBC One is an imaginative initiative to help meet these goals.

2 Promoting education and learning

Audiences see education as a key strength of the BBC with 70% of people agreeing that they have learned new things while enjoying content on the BBC. And 70% of those responsible for children or teenagers under 18 agree that the BBC has helped support the educational needs of this age group. We note that audiences consider that BBC Bitesize in particular stands out in this area. In December 2007, we approved in principle the strategic direction for learning based on a fresh, skills-based proposition. We will be considering the Executive's application for this in detail later in 2008.

3 Stimulating creativity and cultural excellence

Although the provision of high-quality entertainment is seen as a relative strength of the BBC, there remain concerns about the delivery of fresh and new programmes.

Only half of those we surveyed in 2008 agreed that the BBC does so, falling further still for younger men. We have agreed with the Executive that providing distinctive content is a high priority in the coming period. We are pleased to see this ambition beginning to be reflected in the BBC's programme plans for the coming year.

4 Representing the UK, its nations, regions and communities

Audiences across the UK think the BBC could do more to cater for their nation or region as well as portraying their nation or region to the rest of the UK. We have made it clear that the BBC must serve all its audiences. Initiatives under way to improve performance include increasing programming from around the UK broadcast on the network and more effective representation of the UK's nations and regions on network news. We will consider the Executive's proposal to strengthen on-demand provision for local communities during the course of 2008.

5 Bringing the UK to the world and the world to the UK

Audiences consider this as a real strength of the BBC, particularly in keeping them up to date with what is going on in the wider world and helping them appreciate different cultures and lifestyles. We report on the World Service performance on page 27.

6 Delivering benefits from emerging communications technologies

For those who use particular services such as bbc.co.uk, BBCi and DAB radio, there is high appreciation of the content provided by the BBC on these services. We have approved a number of initiatives this year to help deliver this purpose. (See page 31.)

Audiences recognise that BBC Four provides output which is 'original and different' and a 'place to learn'.



BBC One has rejuvenated the 7pm weekday slot with *The ONE Show*.

23%

The number of 16–34 year olds now watching BBC Three, up from 17% in 2006/07.

Individual service performance

TELEVISION

Audience perceptions of BBC One tend to fluctuate in line with overall perceptions of the BBC – a reflection of BBC One's place as the flagship of the Corporation's output. The fall in perceptions of the channel recorded in late summer 2007 may therefore reflect the concerns over trust at the time. We are pleased to note that since October 2007 levels of trust and approval for BBC One have improved and by March 2008 had reached similar levels to April 2007.

We are also pleased to note that BBC One's overall audience has remained steady, reversing a longer-term fall over previous years. However younger audiences have continued to decline. The number of 16–34 year old viewers has fallen by around 1.5%.

BBC One's remit is to be the BBC's most popular mixed-genre television service across the UK, offering a wide range of high-quality programmes. Memorable BBC One drama and entertainment included *The Street*, *The No 1 Ladies Detective Agency* and *Strictly Come Dancing*. The challenge for the channel is to reach these heights more frequently, and to avoid any risk of becoming stale by providing fresh entertainment and drama that demonstrate high quality and creative ambition. The channel must not become over-reliant on established titles.

The remit of BBC One also includes high-quality factual output. The channel has rejuvenated the weekday 7pm slot with *The ONE Show* and has brought large audiences to landmark series such as *Life in Cold Blood* and *Tiger: Spy in the Jungle*. The channel does however face challenges in attracting similarly large audiences to specialist factual output for topics such as science, history and the arts.

Audiences to BBC Two have grown this year, reversing a long-term decline. Reach to younger audiences (16–34 year olds) has increased with a number of programmes successfully appealing across age groups. BBC Two has also had success in using narrative repeats to increase audience reach such as *Natural World*. We expect this approach to be used more as the BBC seeks to generate the best value from high-quality output.

The challenge for BBC Two is to maintain its appeal to audiences while meeting its commitment to provide programmes of depth and substance. Although BBC Two remains the BBC's strongest channel for arts, history and science, audiences also increasingly perceive it as a channel for entertainment, lifestyle and leisure programmes. Our research on quality and distinctiveness (page 21) suggests that audiences see BBC Two becoming increasingly mainstream. We have approved in principle the Executive's proposal for BBC Two to build a closer relationship with BBC Four to bring high-quality material to a wider audience. We will be addressing the role of BBC Two in detail as part of our review of the television portfolio starting next year.

BBC Three has performed well in terms of reach which now stands at around 17%. Nearly one in four 16–34 year olds now watch the channel. BBC Three has continued to develop its strong reputation for original comedy, most notably *The Mighty Boosh* and *Gavin and Stacey*, and has developed a number of strong factual programme brands such as *Kill it*, *Cook it*, *Eat it*. The number of viewers to the 7pm slot remains an area of concern and reflects, in part, BBC Three's lack of audience inheritance at that time.

In last year's report we raised the issue of BBC Three programme titles and we have since discussed this with the Executive. While it is clearly up to management to decide what to call programmes, there was agreement that using 'shock' titles could actually limit the number of people watching the channel in the longer term and distract audiences from the programme's content. We will be examining the role of BBC Three as part of our review of services for young people starting later this year.

BBC Four performs particularly strongly in audience perceptions as providing output that is 'original and different' and a 'place to learn'. It now reaches 7% of the population although audiences are more aware of the channel itself than of individual programmes or series. This may mean that the output is not being watched by the widest possible audience. The closer relationship that we have approved between BBC Four and BBC Two should help build awareness and extend the reach of BBC Four programmes. We will be examining the role of BBC Four in detail as part of next year's review of the television portfolio.

BBCi continues to play an important role in providing a range of non-linear output through the red button. We will consider the future of BBCi when we have received the Executive's proposals for reorganising BBC services on the Digital Terrestrial Television platform and as part of next year's review of the BBC television portfolio.

The Trust notes the strong performance of the children's channels CBBC and CBeebies in terms of audience reach and share. Both are viewed by a significant proportion of their target audience – an impressive performance given that they compete with more than 20 children's channels in satellite and cable

"I hold it close to my heart. I'd miss radio more than anything."



Member of public at Trust workshop discussing the BBC.

Radio 4 attracts the highest average listening hours of any BBC station.

The percentage of listening to BBC radio stations via digital platforms.

homes. It is also notable that CBeebies is clearly regarded as the best pre-school channel against a number of quality measures.

CBBC faces tougher competition from commercial channels tightly focused on particular groups of children. In our review of bbc.co.uk this year, we noted that the relaunch of the CBBC website in late 2007 appeared to provoke a negative reaction among its users initially. This demonstrates how demanding the children's audience can be and we look forward to understanding more about this important audience and how the BBC provides for it as part of our review of children's services, now under way.

RADIO

BBC network radio stations continue to perform strongly overall, reaching two-thirds of UK adults every week. Listeners are increasingly using digital platforms, such as DAB and online, to listen live or listen again.

Radio 1's reach and share have both grown in the past two years, and we are pleased to note that, alongside this growing popularity, its reputation as a station for new, UK and live music remains strong. Reach among the target audience has also grown in each of the past two years and the station now reaches just under 5 million 15–29 year olds. We will look in more detail at how Radio 1 and **IXtra** serve younger audiences in our review of BBC services and content for younger audiences later this year. The launch of new programmes aimed at teens under the 'Switch' banner is designed to appeal directly to an underserved audience.

Radio 2 remains the most popular station in the UK. Although its reach has fallen very slightly this year, its audience share has been

stable and listeners' approval of the station has increased. Its listeners rate the network highly for the quality of its programmes and the broad range of music it plays. We note the work done by Radio 2 to develop talent and the station's role in developing new artists through its 'Music Club Introduces...' strand.

Radio 3's level of approval has risen in the last year but its average reach and hours of listening are all declining. Schedule changes made in 2007 have not so far increased reach; – which is at 1.9 million. We will continue to track the service's performance in light of these trends, but we note that the only other classical music radio station in the UK, **Classic FM**, is also facing declines in reach and share and this may be due to increased listening to Radio 2 and Radio 4.

Radio 4 is continuing to refresh its output successfully. It has maintained its weekly reach, while share of listening has increased slightly. It attracts the highest average listening hours of any BBC station: just under 13 hours a week. Its listeners continue to have a very high regard for the station. It has the highest mean scores against the public service broadcasting characteristics for all radio services surveyed, scoring highest for 'well-made high-quality programmes.' A decline in reach among 35–55 year olds has been stabilised to some degree but this needs continued focus. We note that a high proportion of listeners listen live digitally, the majority via DAB digital radio. Live online listening is increasing rapidly and faster than any other BBC radio station. Podcasts have become very popular and this does not appear to have affected overall reach levels. Indeed, there is some early evidence that those who 'listen again' on the internet are now listening to more live radio.

The size of audience for **Radio 5 live** is quite dependent on the sporting calendar. However the station's annual average reach has declined while share has risen slightly. Whilst approval is generally strong, there has been a fall in the proportion of high approvers, and the service's reputation as the best for sport has declined slightly. We note that the station is successfully building a digital listenership, decreasing its reliance on medium wave transmissions. It remains to be seen whether, over time, this helps the service stabilise its reach.

Digital radio listening is growing steadily. More than 17% of listening to BBC stations is now via digital platforms – DAB in particular. Listening to podcasts is also growing. However, the overwhelming majority of digital radio listening is to the BBC's analogue services (Radios 1, 2, 3, 4 and 5 live). Awareness of the digital-only services also remains low: only 41% of the population have heard of them, even when prompted, and concerns have grown about the future of DAB within the commercial radio market.

BBC 7 remains the most popular BBC digital station and is the third most listened to digital-only radio service in the UK. We are reviewing BBC 7's children's provision as part of our children's review.

BBC 6 and **IXtra** have built audience over the year but still attract only around half a million listeners a week each. **IXtra** has refreshed its schedule and remains committed to offering speech programming for its target audience, alongside a distinctive range of music. **Radio 5 live Sports Extra's** audience and presence on the multiplex fluctuates according to season. It has the ability to build high levels of reach but falls back when fewer hours are broadcast. We note management's objective to build awareness of **Sports Extra**.

“Their breaking news is great. They’re there when things are happening. They do report it as it is. I don’t think they colour it.”

Member of public at Trust workshop discussing the BBC.



BBC News is performing very well in terms of maintaining reach on TV and radio.

2.8 MILLION

The number of people who listen to one of the 39 local stations and who do not listen to any other BBC network radio.

We note that reach, share and listening are not growing to the **BBC Asian Network** despite the overall growth of the DAB market. A new controller is now in place and we await the outcome of his planned schedule changes.

LOCAL AND NATIONS' RADIO

BBC English local radio stations provide highly valued local news and information to audiences who can sometimes feel underserved by the rest of the BBC. The 39 stations together reach 2.8 million people who do not listen to any other BBC network radio. However, BBC local radio stations face the challenge of maintaining their relevance and appeal while remaining distinctive within local markets and within the BBC radio portfolio. The 39 local radio stations had an average combined weekly reach of 19% of adults in 2007/08. Average weekly reach and share has been trending downwards in recent years and some services serving cities are showing particular declines in common with local commercial services. We also note that the proportion of high approvers of English local radio appears to have risen slightly to 65% in the last year.

BBC Radio Ulster/BBC Radio Foyle remains the most listened to radio station in Northern Ireland, reaching more than 38% of adults and taking over 20% share of listening. It is very highly valued, with an approval score significantly above the overall BBC score in Northern Ireland. Its proportion of high approvers is consistently higher than the other nations' radio services.

BBC Radio Wales's reach has fallen this year, although its share of listening has increased. We note the recent changes to its daytime schedule. **Radio Cymru's** reach and share have both declined in each of the past two years and we note that its reach to all adults within its transmission area is now just 6.2%.

Radio Scotland offers a diverse range of speech, sport and musical genres and changes are being made to modernise and refresh it. However, reach and share to Radio Scotland have slipped significantly and this is a concern. Reach for Radio Scotland was down in 2007/08, to 21.5% from 23.1%, and share of listening has also fallen to 8%. This may be due to increased competition from commercial radio but there may also have been losses to BBC Radios 2 and 4. We note however that the proportion of its listeners who are 'high approvers' of the station has grown this year. The station also rates well for the quality and attractiveness of its programmes.

Due to no RAJAR coverage we have little data on **Radio nan Gàidheal's** performance, we are encouraged by audience research on listening which indicates that reach is stable year-on-year.

JOURNALISM

We are encouraged to see that BBC News is performing very well in terms of maintaining reach on TV and radio, and continuing to grow reach online and on mobile devices. Reach to BBC News has been supported by the strong performance of Radio 1 and Radio 2 at breakfast time. This has led to an overall rise in the reach of BBC news on radio – including among some of the audience the BBC has traditionally found it hard to reach.

Public perceptions of BBC News were affected temporarily by the BBC's broader editorial problems during the summer of 2007 – even though none of these came about as a result of actions by the News division. In terms of impartiality, audience perceptions are steady year-on-year. Three-quarters of the audience say that they trust BBC news programmes to give a fair, informed and balanced view on important events and issues. Audience perceptions of the BBC's trustworthiness are steady year-on-year.

Although BBC News (formerly called News 24) is now clearly ahead of Sky News in terms of viewing, we note that Sky News still has a very good reputation among viewers for being high quality and informative.

We welcome the introduction of the 8pm bulletin on BBC One as an innovative way to reach audiences who may not otherwise choose to watch news. We are also encouraged by the strong performance of the BBC One news at ten o'clock. We have discussed with management the need to balance a response to strong public interest in big crime stories with the duty to cover a range of other topics. We are satisfied that management understands our concerns and that they will aim to strike the right balance in future.

We endorse the Executive's commitment to bring a range of high-quality current affairs stories to mainstream audiences by maintaining *Panorama* at 8.30pm and we have been encouraged by the range and nature of the topics covered. However, we are concerned that current affairs output on BBC Two – notably *This World* – is not gaining strong audiences, despite doing well in industry awards. We have asked management to consider how these programmes could be given greater prominence on BBC Two and we note the commitment in the Executive's 2007/08 Statement of Programme Policy to 'experiment with new approaches to increase the impact of BBC Two's foreign affairs coverage.'

Within the BBC's online services, news, sport and CBeebies are rated particularly highly for quality.



Using a new measure of quality: Net promoter advocacy rating.

Afghan women listening to BBC World Service radio.

The number of people who listen to the BBC World Service each week.

BBC WORLD SERVICE

The World Service is funded through a parliamentary Grant-in-Aid rather than the licence fee. The Trust's role is to agree and publish long-term objectives in agreement with the Foreign and Commonwealth Office and to approve high-level strategy. In June 2007 we issued the World Service Operating Agreement, equivalent to the service licences we issue for the BBC's UK services. Key events during the year included the launch of BBC Arabic TV in March 2008, and the transfer of the international English language news website to commercial operations as BBCNews.com.

We note that the World Service maintained its reach, although at 182 million weekly listeners the overall audience was down slightly on the record levels of 2006/07. The internet is becoming an increasingly important medium for the World Service in many parts of the world. The online audience grew by 34% year-on-year, although we note that the Spanish-language site BBC Mundo is failing to keep up with overall growth in internet access. Attracting new and younger audiences is key to improving performance here.

The World Service continues to be the leading international broadcaster in terms of quality measures such as trust, objectivity and relevance, and in some markets such as Nigeria and Bangladesh, the World Service scores higher on these measures than local media.

The Trust's audiences and performance committee commissioned independent research into the BBC Afghanistan service, and into the English Language Core Service (ELCS) on radio. The Afghanistan service received overwhelmingly positive responses. It is the most trusted source of news, and one of the most popular radio services in the country. However, competition from other

Afghan media, including television, is growing. The challenge is to remain distinctive and relevant at a time of great social, economic and political change. Our ELCS research was carried out in key markets among opinion formers— a priority audience for the World Service. We found that the ELCS is valued for distinctive journalism that complements other news sources. However our research revealed that while there is an appetite for ELCS news-related output there is low awareness of it. Management is working to address this problem.

ONLINE

This year we conducted a major review of bbc.co.uk (see next page). As our review looked in detail at performance over the last three years, we give only headlines in this report on bbc.co.uk in 2007/08.

We are pleased that bbc.co.uk's reach grew by 16.2% over the year, with the site attracting an average of 17.2 million weekly users from the UK alone, and a total of 33.2 million worldwide. While the growth rate was lower than in previous years, the continued increases in reach are encouraging given the increasing competition.

A new and more sensitive measure of quality has been introduced: the Net Promoter advocacy rating. A number of areas of bbc.co.uk receive very high scores on this measure, including news, sport, CBeebies and a number of learning sites. While this is encouraging, we note that local sites tend to score low on this (and other) quality measures, and our research has identified local provision to be one area where audiences believe the BBC should do better. Management is currently refreshing local sites and we will consider their proposals for a new, local broadband video service later this year.

We are happy to note that BBC iPlayer, which launched over Christmas 2007, appears to be on target to meet usage forecasts. Content requests have more than doubled since its launch to 4.7 million a week by the end of March 2008. However, it appears that this would have been unlikely without the introduction of streaming, which outstrips downloads by a ratio of eight to one. We will monitor the effects of streaming on costs, web traffic and user behaviour. We are encouraged by indications that BBC iPlayer may increase reach to niche programming, with shows from BBC Three and BBC Four regularly appearing among the top 20 most requested shows. It is too early for a full evaluation of BBC iPlayer's performance but we are committed to conducting a full review by the end of 2009. We are also closely monitoring the delivery of the Executive's commitment to make the full service available on non-Windows operating systems.

Finally, we welcome moves to refresh the bbc.co.uk site, including the launch of a homepage that users can personalise. Initial reactions have largely been positive and the page has received above average quality scores.

“There is no other site which offers such diverse and yet such comprehensive and in-depth information. The quality is without doubt standard setting.”

Contributor to research for the BBC Trust's review of bbc.co.uk



bbc.co.uk is the only British site consistently among the top ten destinations for UK users.

“The bbc.co.uk site is more trustworthy than other sites because it is not trying to advertise something or sell you something.”

Contributor to research for the BBC Trust's review of bbc.co.uk

BBC.CO.UK SERVICE REVIEW

We review each BBC service in depth at least once every five years. In 2007/08 we reviewed bbc.co.uk, looking at how it performed against its service licence and whether its licence should be revised to reflect users' needs and changes in the market. In broad terms we found bbc.co.uk to be an excellent service, highly valued by its users, and meeting most of its service licence commitments. There were, however, areas that concerned us and where we want to see change.

In the three years that we reviewed bbc.co.uk it performed very well against the public value yardsticks of reach, quality, impact and value for money. Its reach grew despite strong competition. It is the only British site consistently among the top ten destinations for UK users.

We were struck by how highly users value the site for its high quality, range and depth. Audiences describe it as a standards setter and as one of the best sites in the world. Scores for quality support this. During the period under review nearly two-thirds of its users have been 'high approvers' and the site's advocacy rating, expressed as a Net Promoter score, is higher than most other UK sites surveyed.

By providing news and other content of high quality, bbc.co.uk makes a strong contribution to the delivery of the BBC's public purposes. Its performance is particularly strong in the areas of sustaining citizenship, promoting learning, representing the UK and its nations, regions and communities, and of bringing the world to the UK and the UK to the world. In our

view the BBC investment in the service is reasonable and offers good value for money to licence fee payers.

The areas where we want to see change are: **Distinctiveness:** although audiences see bbc.co.uk as distinctive, other operators have concerns about its presence in some markets. We found that management had no agreed definition of distinctiveness or any consistent way of measuring it. We have asked management to adopt our proposals for a rigorous and consistent approach to assessing the distinctiveness of bbc.co.uk

Search and navigation: this is a clear weakness. There is little horizontal navigation, and the BBC's internal search engine is ineffective. We note that management is trying to improve both areas. We questioned whether the BBC should be providing a mainstream external search engine, and we have asked management to review its future.

Linking to external sites: we were disappointed that bbc.co.uk's links to external sites are not leading to more click-throughs in spite of this being identified as a priority in the Graf review of 2004. We have asked management to ensure that users are encouraged to navigate to external sites and we will closely monitor progress.

Encouraging dialogue: users have growing expectations of open dialogue and we hope that management's plans to invest in audience participation and interactivity will meet this need.

Improved management control: we found management control insufficiently strong. Financial accountability was ineffective: the true level of spending only became known

as a result of our review, and was much higher than stated in the service licence. There were also weaknesses in strategic and editorial oversight. We have required management to bring forward proposals to deal with these shortcomings. We also believe management must demonstrate more clearly how bbc.co.uk delivers public value while taking into account potential negative market impact, and we have asked them to develop a system for assessing output that will demonstrate this.

We will not approve new investment in bbc.co.uk until we are satisfied with the Executive's proposals for improved control and we have considered their investment plans in more detail. In October we approved the broad direction of management's plans for the service when we approved the BBC's six-year strategy. In the light of our review we believe a cautious approach to approving more detailed plans is in the best interest of licence fee payers. We will consider the plans taking into account their public value, distinctiveness and competitive impact.

To achieve better accountability we will restructure the bbc.co.uk service licence. During our review concerns were raised over the level of accountability that was possible by having a single service licence for a service as diverse as bbc.co.uk

We do not believe that the service should be governed through more than one service licence, but we will create separate annexes to the service licence covering the main editorial areas: news, sport, nations and local, formal learning, audio and music, and vision.

Full details of the review are on our website.

We have set the BBC new efficiency targets which link savings to service performance to ensure that in cutting costs we do not compromise on quality.



The Trust is reviewing the arrangements for the collection of the licence fee.

£347 MILLION

The value of annual savings achieved over the last three years.

Financial and business performance

As Trustees we are responsible for overseeing the financial and business performance of the BBC. We keep a close watch on the financial needs of the BBC, we ensure the BBC delivers value for money, and we review the performance of the BBC against its financial targets and objectives.

A NEW FINANCIAL AND STRATEGIC PLAN FOR THE BBC

The licence fee settlement announced by the government in January 2007 gave the BBC the advantage of certainty about its income for the following six years, but it also posed some problems. The settlement was lower than the Executive had hoped, and it could create difficulties if inflation rises. We worked with the Executive on a review of plans and budgets and approved a new six-year strategic plan for the BBC (see page 17). This includes a challenging target of 3% efficiencies each year to release cash from existing operations. These savings, added to the increased income we expect the BBC's commercial operations to produce, should allow the BBC to meet audience expectations without any compromise on quality. The review has also enabled us to steer funds to areas we see as priorities. We will closely monitor the performance of the BBC against these plans.

PERFORMANCE AGAINST SAVINGS TARGET

Our new efficiency target for the BBC takes effect from 2008/09. This past year marked the final phase of the BBC's previous three-year objective to deliver annual cash savings of £355 million. The Executive reports on its performance against this target in its review in Part Two (page 84). We were disappointed that the Executive did not meet the target, falling short by £8 million, although the savings they did make are still a significant achievement. The shortfall is expected to be made up in the coming years from actions already under way. We note that some

£4 million of the savings came from property sales and represent a one-off benefit rather than a recurrent saving.

In setting our new efficiency target we have, for the first time, linked savings to service performance to ensure that in cutting costs we do not compromise on quality. We have established clear definitions as to what constitutes efficiency savings and the baselines against which savings will be measured. In doing so we have drawn on guidance available from the wider public sector and on advice from the National Audit Office.

PERFORMANCE AGAINST SERVICE LICENCES

We have reported elsewhere (page 24) how BBC services performed in terms of their content. All the services also have to work within the budgetary limits set out in their service licences. However the financial results reported in Part Two show that 11 services exceeded their budget limits in 2007/08. We were pleased that one of these 'breaches' was in fact an underspend due to greater efficiencies being achieved than initially forecast. However, in the main, the overruns reflect some confusion about how to allocate costs between content and non-content spending. Spending on items such as central infrastructure and support, and development activities are not included in content spend and fall outside the service licence budgetary regime.

In order to resolve this issue we asked the independent accountants KPMG to review the way costs are classified so that all appropriate costs are included in service licence budgets in future. Our new baseline budgets for each service for 2008/09, issued in May 2008, take account of this work and also reflect the efficiency savings we expect the Executive to make and the new investment priorities of the

BBC six-year strategic plan. As we report on page 28 we have raised some specific concerns with the Executive about the strategic and financial oversight of the service bbc.co.uk In the coming year we will expect to see more robust reporting and forecasting of spend by service.

LICENCE FEE COLLECTION

The financial health of the BBC depends on collecting the licence fee efficiently and effectively and keeping evasion within bounds. Over the past year we are pleased to note that the combined cost of collection and evasion is lower than the previous year as a percentage of gross licence fee income. However evasion itself has remained steady at 5.1% with the fall being driven by a reduction in collection costs.

The Trust has a duty to make sure the collection process is not only efficient, but also appropriate and proportionate. We recognise that this is an issue that can arouse strong emotions. We have begun a review to ensure the right balance is being struck between the need to raise the maximum revenue and the need to avoid heavy-handedness, especially with people who do not own a television set and therefore do not need a licence. We expect to report our findings by the end of 2008.

COMMERCIAL BUSINESSES

We are pleased that BBC Worldwide is on track to meet the financial targets set in its five-year plan which the Trust agreed in March 2007. During 2007/08 it generated revenues of £916 million (£810 million 2006/07) and profits of £118 million (£111 million 2006/07) before interest and tax, both ahead of budget. We note however that some investment activity was put back to 2008/09 which is expected to be reflected in lower profits in that year.

“The BBC has to be prepared to walk away from deals that do not offer good value to the audience and to equip itself to do this by continually bringing on new talent.”

Sir Michael Lyons, BBC Chairman, discussing the findings of the Trust's review of talent costs, May 2008.



Trustees watching a rehearsal of the BBC Philharmonic Orchestra during a visit to the BBC's Manchester studios.

£75 MILLION

The value of savings that the BBC has made in the three years to April 2008 from improvements in its procurement processes.

VFM STUDY ON BBC PROCUREMENT

The BBC spent £531 million on goods and services in 2006/07 and we asked the NAO to examine the way this spending is managed.

The NAO found that overall the BBC had very good procurement practices. However, the review made some recommendations for change. These included continuing to develop the use of technology to cut administrative costs; getting better deals from suppliers by negotiating more central contracts and reducing the number of suppliers where spending is of low value; and strengthening the way the BBC assesses its procurement performance by starting to measure user satisfaction.

We accepted the NAO's recommendations. We discussed them with the Executive, and we are content that the Executive's actions are an appropriate response.

VALUE FOR MONEY REVIEWS

Licence fee payers rightly expect the BBC to spend every pound of their licence fee wisely, and we have a duty under the Charter to ensure the BBC achieves value for money in the way it spends the licence fee. To fulfil this duty we commission and publish independent value for money (VFM) reviews in consultation with the Comptroller and Auditor General – the head of the National Audit Office (NAO). The reviews are carried out by the NAO or other independent agencies.

During 2007/08 we completed three such reviews. The full reports are on our website and summaries are included in the shaded boxes on this and on page 31. Additionally we commissioned a review of in-house commissioning – that is, making programmes using the BBC's own staff. We will be publishing this review in the summer 2008 and will report on it next year.

BBC TALENT COSTS

In addition to our formal programme of value for money reviews, in November 2007 the Trust commenced a study of the cost of on-air and on-screen talent. Concerns had been raised that the BBC was using its guaranteed income to overbid for talent, thereby raising costs for the industry as a whole and the public were also asking questions about the fees being paid to some BBC performers.

The study, carried out by independent consultants Oliver and Ohlbaum Associates Limited, reported in June 2008. Its main findings were:

- * There was no evidence of the BBC paying above the market price for leading television talent when competing with rivals. In some cases the BBC might well be paying less than the market price.
- * There was no evidence that the BBC was systematically pushing up prices in the talent market. Where high rates of inflation do currently seem to exist in the BBC, this largely reflects market forces at work in rapidly changing UK media markets.
- * The BBC has systems to ensure it achieves value for money when negotiating talent fees – and has strengthened these systems in recent years.

The Trust also acknowledged that whilst not all talent would be universally popular the BBC should offer something of value to all audiences. There were, however, areas where BBC performance could be improved and where better value could be achieved for licence fee payers in some of its talent deals. The Trust believes there needs to be a more consistent and systematic approach to gathering independent data and subjecting deals to more rigorous challenge. The BBC should be prepared and equipped to walk away from deals that do not offer good value. This means it needs to do more to bring on new talent. The report also highlighted areas such as some parts of network radio and news and current affairs where the Executive will be considering their talent strategy.

The Trust Unit will carry out a review of progress by June 2009 and their report will be published. The report into talent costs is available on our website.

DELIVERING THE BENEFIT OF EMERGING TECHNOLOGIES AND SERVICES

The public purposes of the BBC include a duty to take a leading role in the switchover to digital television within the UK and to help deliver to the public the benefit of emerging technologies and services. We report below on some of the ways the BBC is responding. On page 27 we look at the BBC's online services and consider how services need to adapt and change in response to new technologies.

DIGITAL SWITCHOVER HELP SCHEME

The BBC is required by the government to provide help to certain groups within the public who may find the switchover to digital television particularly hard. The help which the BBC must provide, and the people eligible to receive this help, have been determined by the government but it is up to the BBC to run the help scheme.

“It should be part of the BBC’s remit to spread the word about digital. Not everyone understands digital. So the BBC as the national broadcaster has to be involved in this.”

Member of public at Trust workshop discussing the BBC.



Over 1,100 TV transmitting stations will need to go digital over the period to 2012.

25,000

The number of households in Whitehaven, Cumbria, the first to lose their terrestrial signals in 2007.

The help scheme is designed to help those groups most likely to have difficulty in making the switch to digital television. The scheme is open to anyone who is aged 75 or over, seriously disabled, or blind or partially sighted. It is funded by a ring-fenced allocation of the BBC’s TV licence fee (estimated costs £603 million), and run by the BBC through DSHS Limited, a 100% BBC-owned subsidiary. The BBC is responsible for delivering the scheme, although day-to-day operation is contracted out to a third party, eaga plc.

The Trust’s main role in relation to the Digital Switchover Help Scheme is in holding the BBC Executive to account for ensuring that value for money is achieved in the operation of the scheme. To that end, in February 2008 the Trust set success criteria for the scheme which it will use to monitor and assess the scheme’s performance throughout the life of the scheme, to ensure that licence fee payers’ money is spent in the most cost-effective way.

FREESAT

The launch of Freesat in May 2008 marked an important step forward in making choice in access to digital services available to everyone in the UK. Freesat is a satellite platform developed in a joint venture between the BBC and other UK broadcasters, offering a wide range of digital TV, radio, interactive services and HDTV – for a one-off payment for equipment and installation. It should increase digital take-up in analogue homes including those out of the Freeview coverage areas, and offer a free-to-view digital service in perpetuity. We expect the number of services available via Freesat to rise rapidly to more than 200 by 2009. Early indications suggest that the service will be popular.

VFM STUDY ON BBC PREPAREDNESS FOR DIGITAL SWITCHOVER

Digital switchover, which began in Copeland in 2007 and will end in 2012 with Ulster, Tyne Tees and London, is a lengthy and complex project involving other public and private sector organisations. It will affect almost every home in the UK and we take our duty to ensure its success very seriously. In order to assure ourselves that the BBC is in the best state to fulfil this duty, we asked the NAO to examine the BBC’s preparedness for digital switchover.

The NAO made three key recommendations – all of which the BBC accepted. These were: to strengthen oversight of switchover work through independent representation on the project governance board; to put in place indicators to measure the value for money of the BBC’s £200 million funding for Digital UK; and to incorporate the lessons from the Copeland switchover in the procurement of the national Digital Switchover Help Scheme.

We discussed these recommendations with the Executive and are content that their proposed actions are an appropriate response. We will continue to scrutinise the BBC’s preparations for digital switchover and we will commission a review of the Digital Switchover Help Scheme around 2009 to monitor the operational value for money of the scheme.

VFM STUDY ON BBC SPECTRUM USE

Spectrum is a valuable resource and the BBC uses significant amount to transmit its analogue and digital terrestrial television and radio services across the UK. We asked Deloitte & Touche to look at how efficiently and effectively the BBC uses spectrum with the main focus on Digital Terrestrial Television (DTT) also known as Freeview.

The review noted that the BBC’s priority was to encourage viewers to take up Freeview, and it has achieved this by offering the best possible signal and picture quality. However, given that Freeview is now well established, and demand for spectrum is growing (partly as a result of the success of Freeview), the review concluded that the BBC should reconsider this policy. The review suggested that the BBC should be prepared to make trade-offs between spectrum capacity and picture quality in order to ensure that spectrum is used effectively for competing service demands.

In response the BBC Executive has outlined its plans to increase the efficiency of its use of spectrum through the use of new technology and has agreed to carry out consumer research on the picture quality of BBC services on DTT.

7

The number of formal public consultations the Trust held during 2007/08 on issues ranging from new service proposals to a new complaints framework for the BBC.

“

Even though we've made real progress in giving a greater voice to the public we need to do more. The public want to know they can get involved and they want to know what action has been taken by the Trust as a result, so they can assess whether it's worth their time and effort.

”

Sir Michael Lyons
Chairman, BBC Trust,
speaking at the Voice of the Listener
and Viewer's annual conference
29 November 2007

BBC AUDIENCE VIEWS



104 people from across the UK provided us with their views.

“If people had more of a say, they’d feel more content with the licence fee.”

Member of public at Trust workshop discussing the BBC.

LISTENING TO AUDIENCES

The Trust has a duty to stay in close contact with licence fee payers, and to take their views into account when making decisions. A good part of our work is driven by the extensive audience research we commission¹, as well as by personal contact with licence fee payers at events around the UK and by such things as Trust members taking part in local radio phone-ins. We also carry out regular public consultations on key issues affecting the BBC, and we are assisted in our work by four Audience Councils – one for each of the nations of the UK.

MAKING AUDIENCE VIEWS COUNT

In addition to the work described above, and our annual survey of licence fee payers, this year, we also asked the public to contribute directly to our annual assessment of BBC performance. We did this through a deliberative research workshop held in Birmingham on 7 April 2008. In deliberative research, participants are given an insight into the background of particular issues and then asked to come to conclusions.

We brought together 104 people from across the UK, who together formed a representative sample of the population, and asked them to give their assessment on a range of issues. These included how the BBC is performing against its strategic priorities and objectives; how far it has succeeded in increasing the originality and quality of its output; how far it has been able to restore trust in its output; and how far it has managed to convince sceptical audiences of its value while maintaining the affection of those who value the BBC highly. Before coming to their conclusions, participants heard presentations from the Trust, took part in discussions, and were able to put questions to the Trust Chairman, Sir Michael Lyons. The main conclusions

were as follows:

- * **Some aspects of BBC values and content are highly regarded: people trust the BBC more than its commercial competitors – the independence of BBC news is particularly highly valued – and the BBC is considered educational.** Audiences can identify distinctive content in BBC drama and factual – either because of its high quality, or because other broadcasters do not provide this output to the same extent. Audiences want more family programming, more originality, and better provision for young people.
- * **Audiences were upset and disappointed by the BBC’s breaches of trust but also felt that the BBC’s transparency in dealing with the problems had limited the damage, and it was not seen as doing the BBC permanent harm.** While they valued the BBC as an institution and for some of its content, they did not feel the value was increasing – this reflected their concerns over trust and originality, coupled with the rising cost of the licence fee and the proliferation of choice elsewhere.

You will find quotes from people who took part in the research throughout the report.

SERVING ALL AUDIENCES

It is an important principle for us that the BBC must deliver something of value to everyone in the UK. However, we know that the BBC does better with some audiences than with others. One of the main objectives we have set the Executive is to increase the value the BBC is seen to provide for those who currently place a low value on the BBC while maintaining the position with those who value the BBC highly. To help us understand these issues better, we commissioned research on

the strength of the relationship between different audiences and the BBC.

This confirmed that the BBC continues to do best among better off older audiences. Conversely the BBC has more challenges reaching younger audiences, especially less well off younger audiences, and this problem appears to have worsened over the past five years. The BBC also faces a challenge to reach less well off middle aged audiences. Black and Asian audiences are less likely to feel the licence fee is good value for money than white audiences – to some extent this may reflect age as well as ethnicity, as black and Asian audiences are, on average, younger than the population as a whole.

The research also showed that levels of approval vary according to where people live in the UK. Although the BBC’s share of television viewing is much the same in all parts of the UK, people living in Scotland are much less likely to feel the licence fee is good value for money than other UK audiences, and people in Northern Ireland and Wales are less likely to feel the licence fee is good value than audiences in England.

On the positive side the BBC does better than other broadcasters on measures of audience affinity: nearly 77% agree they would miss the BBC if it were no longer there, compared with just over 71% for ITV, and 64% for Channel 4. However, looking at the results in more detail, it is clear that younger audiences and black audiences also feel a strong affinity with Channel 4 and Sky. Our research will feed into the Executive’s plans to increase approval among audiences who do not place a high value on the BBC.

¹ Results of our research can be found on the BBC Trust website.

We will always explain the reasons for the decisions we make and how we used the information provided by the public in reaching our decisions.



95%

BBC Trust promise to audiences.

Vice chairman Chitra Bharucha finding out what children in Northern Ireland thought about the BBC.

The percentage of respondents who wanted the BBC Trust to report back on its activities to the public.

Our Promise to You

In 2007, after an extensive public consultation, we published *Our Promise to You*¹, which sets out how we will engage with audiences. Our consultation showed that only a small proportion of people are actively interested in giving feedback to organisations – this is a widespread challenge, not something that just affects the BBC. What participation there is tends to be at a local level on issues affecting everyday life such as local council services, schools and hospitals. Only 8% had ever given feedback to the BBC.

However, most people we consulted felt that the Trust, because it represents audiences, should nevertheless create as many opportunities as possible to encourage the public to get involved with its work. Unsurprisingly, we found a much greater willingness to take part in decisions directly relating to value for money and services than to be involved in compliance and regulatory matters.

The consultation revealed low awareness of the Trust and its work – but also a desire for greater understanding, which in turn, it was felt, might encourage more people to take part. We have taken this on board and will work to increase the visibility of what we do in order to encourage public participation. People also told us that we should make it as easy as possible for people to engage with the Trust, and we have undertaken to make our methods of engagement practical, convenient, and easy for those taking part.

Other advice from the public that we have adopted includes being open and transparent when reporting back to the public the outcomes of our engagement; writing our consultation documents in plain language; and not placing too much reliance on online methods of consultation. People also told us they only wanted to take part in our consultations if it was clear what might change as a result, and we have undertaken to make the exact scope of our projects clear at the start. There was also concern that we should not give interests groups too great an influence, and we have promised not to allow such groups to dominate discussions and to consider their views alongside what we learn from open consultation and research.

Building on this work, we are developing a series of measures to assess the effectiveness of our engagement work and we will report progress in future annual reports.

AUDIENCE COUNCILS

The BBC Charter provides for four Audience Councils – one for each nation. The Councils advise the Trust on how well the BBC is promoting its public purposes in their respective nations.

Key parts of the Trust's work over the past year were stimulated by concerns raised by the Councils. These included the Nations' Impartiality Review (see page 18) and the Network Supply Review (see page 19). The Councils also made important contributions to Trust consultations in the course of the year, informed by the many audience engagement events that each Council carries out.

Each Council presents its annual report – briefly summarised below – at a special meeting of the Trust at which the issues that the Councils wish the Trust to progress over the following year are considered.¹

AUDIENCE COUNCIL ENGLAND

Audience Council England commended the content and sense of identity in much of BBC English Regions' output, which has built public value and engaged strongly with audiences.

However, the Council criticised the impact of the BBC's reprioritisation plans on BBC English Regions. Plans for four new local radio stations had been abandoned, and it was felt that this decision, together with other cutbacks, would reduce the BBC's ability to reach out to communities and underserved audiences. It was hoped that the BBC Local proposition would, if approved, help regain lost ground.

The Council felt there was still much to be done to ensure that England in all its diversity was reflected at the national level. The BBC networks were also criticised for continuing to draft in network presenters to report on regional matters, often inaccurately.

There was high praise for BBC Local Radio for its strong links with local communities and its ability to reach audiences sometimes underserved by other BBC services. BBC Local Radio's *Connecting in a Crisis* work during the summer and autumn floods of 2007 prompted particular appreciation.

The Council's audience engagement work events included a series of meetings with young people which gave Council members a deeper understanding of young people's expectations of the BBC and of other broadcasters. Council members also engaged with family groups to explore what they look for in entertainment programming – this will be a focus for further work in the coming year.

¹ The Councils' reports are published as part of each nation's Annual Review document and appear on their websites.

The Audience Councils bring the diverse views of communities from throughout the UK to the Trust's attention.



An Audience Council Scotland event in St Andrews, Fife.

8

The number of events held by the Audience Council for Scotland when seeking views during the Gaelic Services public value test.

AUDIENCE COUNCIL SCOTLAND

Audience Council Scotland reported that BBC Scotland had performed strongly against the Public Purposes in a year of many challenges, including the Scottish general election and the move into the new BBC Scotland HQ at Pacific Quay in Glasgow.

BBC Scotland provided comprehensive, high-quality coverage of the general election and played a useful role in explaining the new PR voting system introduced for the Scottish council elections. However, the Council remains unconvinced that network coverage of Scottish affairs is always sufficiently accurate, comprehensive, or given due weight.

BBC Scotland produces strong output across a range of genres, including learning, the arts, drama, comedy, sport and factual. Audience use of new technology, especially the internet and broadband, has clearly been stimulated by new BBC Scotland content in news, sport, education and music.

Approval of the Gaelic Digital Services (see page 45) was an important step forward. Progress was made in addressing other key issues – particularly the level of network commissions from Scotland, and coverage of Scottish affairs on network news – but, as delivery has not yet begun, these will remain priorities for the coming year. New priorities for audiences in Scotland include coverage of national football and improved radio reception in the Highlands.

Much of the Council's audience engagement work was concerned with the Gaelic Services' public value test. Eight events were organised and awareness of the Trust is now high in the Gaelic world.

AUDIENCE COUNCIL WALES

Audience Council Wales commended BBC Cymru Wales for its success in gaining Network commissions, especially in factual, music and drama. However, the Council felt much remained to be done before Wales was adequately reflected in Network output. The Council continues to be concerned about the inadequate reflection of devolution in Network news and current affairs and will monitor action to address these concerns once the Nations' Impartiality Review is published.

The Council welcomed the launch of Freesat, which greatly increases the availability of digital television in Wales; but serious concerns remained about the availability on DAB of Radio Cymru and Radio Wales, especially in north-west Wales and the South Wales valleys. The lack of a good FM signal for Radio Wales made this an even more serious issue – one consistently raised by the public at The Council's accountability and outreach events.

The Council was pleased by the success of the first year of the three-year BBC-S4C strategic partnership. The BBC is obliged to provide ten hours a week of Welsh language programming for transmission by S4C paid for from the licence fee. The Council considers the fulfilment of the BBC's PSB Welsh language responsibilities central to the renegotiation of the BBC-S4C strategic partnership.

The Council considers it vital that any successor service to BBC jam provides material in the Welsh language as well as English language material tailored to the curriculum in Wales.

AUDIENCE COUNCIL NORTHERN IRELAND

Audience Council Northern Ireland has identified enduring concerns about the treatment and priority given to coverage of the devolved administration and the wider political, legal, economic and cultural arenas. The Council has welcomed the Nations' Impartiality Review, in which it participated fully. It considers there is more progress to be made in this area for audiences in Northern Ireland.

The Council also remains concerned about the low number of hours and spend of local commissions for network television. In the coming year it will work to increase the volume, value and sustainability of locally produced network programming, taking account of cultural representation issues, audience benefits and the development needs of the creative industries in Northern Ireland.

The Council continues to be concerned about the limited representation in network output of life in Northern Ireland. The Council will work to ensure that high-quality, creative and distinctive content, relevant to and reflective of the needs of diverse audiences in Northern Ireland and across the UK, is available on all platforms.

The Council recognises audience concerns about the limited availability of digital services as well as the acknowledged digital divide in Northern Ireland. The Council will work to develop digital access, ensuring that the needs of Northern Ireland audiences are met.



25%

The percentage of the public who say they know at least a little bit about what the Trust does. (Holden Pearmain.)



The BBC Trust, the governing body of the BBC, exists to represent the interests of the licence fee payers and to make sure the BBC is run in their interests, not those of its managers. We guard the editorial independence of the BBC and make sure it is beholden to no outside interest, whether political or commercial.



Sir Michael Lyons
Chairman, BBC Trust

BBC GOVERNANCE



Chitra Bharucha, Vice chairman, BBC Trust.

“As Trustees we do not run the day-to-day operations of the BBC. Our job is to make sure that the Director-General and his staff have clear priorities and that they use their resources well.”

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BBC GOVERNANCE

Delivering value for money

The BBC Trust began work on 1 January 2007 – part of the wide-ranging BBC governance changes introduced by the new Charter. The Trust, as the governing body of the BBC, is quite separate from the Executive which manages day-to-day operations. The Trust represents the public and makes sure the Executive delivers the high-quality public service programmes and services the public want, and also ensures that the BBC is accountable and open. The Trust protects the independence of the BBC from commercial or political influence.

As BBC Trustees we are committed to upholding the highest standards of corporate governance. In this section we set out our assessment of our own performance and also how our governance activities have served the public:

Delivering value for money (page 37)

Serving all audiences (page 42)

Ensuring impartiality (page 43)

BBC’s economic power (page 45)

Other regulatory information (page 48)

Part Two of the BBC’s Annual Report provides more information on how the Executive has undertaken its corporate governance responsibilities.

As Trustees we oversee the BBC’s financial and business performance. We have ultimate responsibility for the BBC’s stewardship of its resources including, most importantly, the money the public pay for their television licences. We keep a close eye on the financial needs of the BBC and ensure that the BBC delivers value for money in the way it spends its income.

We do this in two ways. We keep overall high-level budgets and plans under continual review. Each year we take a strategic look at the BBC’s finances and, once our questions have been answered and any changes we want have been made, we approve the BBC’s budget and its long-term financial plans. We may set management financial objectives to guide the way they manage their operations. The Trust’s Finance and Strategy committee plays a key role here. The committee’s membership is set out on page 48.

We also regularly look in detail at particular areas to ensure they deliver value for money. We have summarised the findings from our specific value for money reviews undertaken in the past year on page 30.

The duty of the BBC to deliver value for money applies to the Trust too. To help ensure this, the Finance and Strategy committee oversees the Trust’s own financial affairs and manages any conflicts of interest involving Trustees.

The Trust is supported in its work by the Trust Unit, which provides independent and objective advice, calling on outside experts when necessary. The Trust Unit is independent of BBC management, its director is appointed by the Trust and its staff are outside the

THE TRUST UNIT

The Trust is supported in its work by the Trust Unit, which provides independent and objective advice, calling on outside experts when necessary. The Trust Unit is independent of BBC management, its Director is appointed by the Trust and its staff are outside the BBC management chain. The Unit is made up of professional staff with expertise across a range of disciplines who advise Trustees on the conduct of their duties and support their work in key areas.

BBC management chain. The Unit is made up of professional staff with expertise across a range of disciplines who advise Trustees on the conduct of their duties and support their work in key areas.

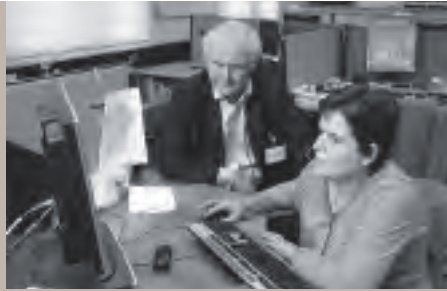
We set out on the next page the Trust’s expenditure and the external auditor’s report on this. This year the direct expenditure incurred by the Trust represents 0.34% of the BBC’s public service expenditure. The Trust has set itself the target of keeping expenditure at or below 0.35% of the BBC’s public service expenditure over the next five years.

The Trust reviewed its own performance to consider how effectively it is operating and meeting its aims. The results of the review are set out on page 39.

The Trust oversees the policy that sets the pay and benefits of the Executive. The Trust manages this through its remuneration and appointments committee, membership of which is shown on page 48. The Trust’s report on remuneration, including Trustees’ own fees, is on pages 39–41.

“The cost of the licence fee just keeps going up and up and the programmes are still the same, which means the value is getting worse.”

Member of public at Trust workshop discussing the BBC.



Dermot Gleeson, Trustee, listening to the calls to BBC Information in Belfast.

0.34%

The proportion of the BBC's public services expenditure which is incurred by the Trust.

STATEMENT OF TRUST EXPENDITURE

	Note	12 months 2007/08 £000	3 months 2006/07 £000
Trustee remuneration	1	642	209
Staff costs	2	4,526	865
Other operating costs	3	6,741	1,564
Direct Trust expenditure	4,5	11,909	2,638
Trust expenditure as % of BBC UK public services spend		0.34%	
Ofcom regulatory fees	6	3,253	875
Ofcom MIA fees	7	491	620
Total Ofcom fees		3,744	1,495

Notes

- The remuneration for previous period includes five months of remuneration for the eight trustees who were appointed with effect from November 2006. Prior to the formation of the Trust the BBC had a Board of Governors. The remuneration of the Governors for the first nine months of 2006/07 is shown within the remuneration tables in Part Two.
- Staff costs include wages and salaries, social security costs and employer pension contributions.
- Operating costs include direct expenditure on activities such as research, legal advice and other specialist advisory services.
- The expenditure shown above for the Trust represents direct external spend by the Trust. Additionally the Trust made use of shared services provided by the BBC which included the use of property, finance, HR and information services.
- Of the Trust expenditure, £1,595,000 relates to spend on the Trust's activities in the four nations which primarily covers support for the four Audience Councils and the 12 regional Audience Councils (2006/07 £244,000).
- Ofcom allocates its costs of television and radio regulation between the BBC and the commercial channels. The Trust Unit pays the BBC's share of that allocation.
- Ofcom MIA fees cover Ofcom's direct and indirect costs in undertaking the Market Impact Assessment for the Public Value Tests undertaken in the period. Market Impact Assessments completed in the year included HDTV and the Gaelic language service.

TRUST HEADCOUNT

	Note	31 March 2008 EFT No	31 March 2007 EFT No
Trustees	2	12	11
Trust Unit staff	3	61.0	42.0
Other staff	4	9.8	21.5

Notes

- EFT means equivalent full-time numbers.
- The current chairman was appointed on 1 May 2007.
- Trust Unit staff are those employed directly by the Trust Unit. Of these, 12 are based outside London providing support to the work the Trust undertakes in Wales, Scotland, Northern Ireland and the English Regions respectively. These 12 staff transferred to the Trust Unit's payroll on 1 April 2007. Previously the Trust was reimbursing the cost of these staff.
- Other staff are staff who provide support to the 12 regional Audience Councils but who are not direct employees of the Trust Unit. The costs of these staff are reimbursed by the Trust. These staff are all based outside London. (The prior year number includes the 12 staff who transferred to the Trust Unit payroll on 1 April 2007 referred to in Note 2 above.)

REPORT OF KPMG LLP TO THE BBC TRUST ('THE TRUST')

In accordance with the terms of our engagement letter dated 3 June 2008, we have examined the above expenditure statement ('the Trust expenditure statement') for the year ended 31 March 2008 which has been prepared, further to the requirements of the BBC Charter dated October 2006, by the Trustees of the Trust and is their sole responsibility. The Trust expenditure statement has been prepared by the Trustees of the Trust applying the recognition and measurement requirements of UK Generally Accepted Accounting Practice.

Our responsibility, in accordance with the terms of our engagement letter, is to form an independent opinion, on the basis of the work performed, and to report our opinion to the Trust. Our examination was substantially less in scope than an audit.

Our report has been prepared for the Trust solely in connection with the Charter. Our report was designed to meet the agreed requirements of the Trust and particular features of our engagement determined by the Trust's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Trust for any purpose or in any context. Any party other than the Trust who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

In our opinion, the expenditure as shown in the Trust expenditure statement, has been accurately extracted from the books and records of the Trust on the basis of the stated assumptions included within the Notes to the Trust expenditure statement.

KPMG LLP

Chartered Accountants
Registered Auditor, London
19 June 2008

"I didn't realise the Trust existed. Who pays their salaries?"

Member of public at Trust workshop discussing the BBC.



Young people giving their views on the BBC to Trustees in Belfast.

In its first year the Trust has started to establish itself as an independent, evidence-based and open body representing licence fee payers.

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BBC GOVERNANCE

TRUST PERFORMANCE ASSESSMENT

The Trust formally reviewed its own performance and the performance of its committees following its first full year of operation. This is in line with its own Standing Orders and with best practice as set out in the Combined Code on Corporate Governance.

The review, led by the Chairman, Sir Michael Lyons, looked at how effectively the Trust is fulfilling its remit and how well its business processes are operating, and assessed the contribution of individual Trustees. The process involved a structured questionnaire completed by all Trustees, individual performance evaluation by the Chairman and discussions at Trust meetings. Trustees were also able to comment on the Chairman's performance. The Chairman gave each Trustee the results of their performance evaluation and presented a report to the Trust bringing together the main themes, alongside an analysis of the questionnaires compiled by the Trust Unit. Ways to improve performance were agreed and are being implemented, and progress will be monitored during the year.

The Trust has made progress in its first full year of work in establishing the Trust as an independent, evidence-based and open body representing licence fee payers across the UK. Meeting and committee structures are generally functioning well and enabling Trustees to contribute their individual skills and experience effectively. All Trustees have demonstrated their commitment to the role, although the demands the work of the Trust makes on their time are often extensive.

The Trust has identified areas where some changes could improve its effectiveness. These included setting aside more time for strategic discussions at Trust meetings and

reviewing the Trust's business calendar. The Trust also felt that it could develop more ways of engaging with stakeholders.

Another evaluation exercise will be carried out in early 2009 by external advisers and the results will be published in next year's report.

TRUST REMUNERATION REPORT

This report sets out the remuneration received by the members of the Trust, the operation of the Trust's Remuneration and Appointments committee and its duties in respect of Executive Board remuneration strategy, the Director-General's remuneration and the remuneration of the non-executive Directors. The BBC is exempt from the requirements of the Directors' Remuneration Report Regulations 2002 and those of the Financial Services Authority, but this report has been prepared as if those requirements apply wherever the disclosure provisions are relevant and applicable. The section on remuneration received by the Trustees is audited.

MEMBERS OF THE TRUST: REMUNERATION POLICY

The members of the Trust receive a fee determined by the Secretary of State for Culture, Media and Sport which is generally reviewed annually. On 1 April 2007, all Trustees in post received an increase to their fees of 0.66% (rounded to the nearest £5), as recommended by the DCMS.

Trustees are additionally reimbursed for expenses incurred on BBC business, for example on travel or accommodation, in line with the Trust's Code of Practice. Some of these out of pocket expenses, together with some support services booked centrally by the Trust Unit, are classed as taxable benefits by HM Revenue and Customs, such as travel

from home to work. Any tax arising on Trustees' expenses is settled directly by the BBC. The higher taxable benefits for the Chairman and Vice Chairman reflect their additional time commitments and duties, their home locations and the requirements to travel to their main BBC place of work.

Since July 2007, the Chairman has had part-time access to a BBC driver and car when working in London on BBC business.

The table on page 40 shows the fees and taxable benefits received by the Trustees during 2007/08.

Pensions

Under the terms of his appointment, the Chairman is eligible to participate in a pension scheme with benefits which mirror those of the BBC Pension Scheme. Sir Michael Lyons has elected not to participate in this scheme, hence the BBC has made no pension contributions. The Chairman instead receives life assurance at a similar level of cover to that of pension scheme members. In addition he receives private medical insurance cover at the same level of cover as BBC senior managers. Other than the Chairman, Trustees are not eligible to participate in the BBC Pension Scheme.

“The Trust has already proved that it has an important role to play in maintaining the high standards of public service broadcasting in Britain and I am glad to serve on it for another two years.”



The value of the remuneration fees received by the Trustees is fixed by the DCMS but paid out of BBC funds.

Richard Tait, Trustee, on being reappointed by the DCMS for a further two years, 11 April 2008.

Richard Tait, Trustee, in Glasgow.

REMUNERATION RECEIVED

The remuneration of the members of the Trust during the year is shown below:

	Fees £000	Taxable benefits £000	Total 2007/08 £000	Total 1 Nov 06 – 31 Mar 07 ³ £000	Appointment term	
					Start date	End date
Trustees						
Chairman						
Sir Michael Lyons ^{1,5}	128	35	163	–	1 May 2007	30 Apr 2011
Vice chairman						
Chitra Bharucha ²	81	22	103	65	1 Nov 2006	31 Oct 2010
National Trustees						
Alison Hastings (England)	40	2	42	19	1 Nov 2006	31 Oct 2010
Rotha Johnston (Northern Ireland)	40	–	40	17	1 Nov 2006	31 Oct 2010
Janet Lewis-Jones (Wales)	40	1	41	18	1 Nov 2006	31 Oct 2010
Jeremy Peat (Scotland) ⁴	40	1	41	11	1 Jan 2005	31 Dec 2008
Trustees						
Diane Coyle	35	1	36	16	1 Nov 2006	31 Oct 2010
Dermot Gleeson ⁴	35	1	36	9	1 Nov 2000	31 Oct 2008
Patricia Hodgson	35	–	35	15	1 Nov 2006	31 Oct 2010
David Liddiment	35	–	35	15	1 Nov 2006	31 Oct 2010
Mehmuda Mian Pritchard	35	–	35	15	1 Nov 2006	31 Oct 2010
Richard Tait ⁴	35	–	35	9	1 Aug 2004	31 July 2010
Total Trustees	579	63	642	209		

¹ Sir Michael Lyons was appointed as Chairman on 1 May 2007 and his fees relate to the period 1 May 2007 – 31 March 2008.

² Chitra Bharucha was Acting Chairman until Sir Michael Lyons was appointed and received fees for acting in that capacity from 1–30 April 2007.

³ The comparator figures for 2006/07 relate to the period 1 November 2006 – 31 March 2007 only as Trustees were appointed on 1 November 2006.

⁴ For their services as BBC Governors from 1 April 2006 to 31 December 2006, Dermot Gleeson, Jeremy Peat and Richard Tait were paid £26,000, £34,000 and £19,000 respectively as disclosed in the 2006/07 Annual Report and Accounts. The figures shown above for their fees for 2006/07 relate to the period January – 31 March 2007 only.

⁵ The chairman also received life assurance at a cost of £3,951 for the period. His private medical insurance cost £1,792 for the period; this is a taxable benefit and is included in the taxable benefits figure within the table.

Members of the Trust are not eligible for payments in respect of termination or compensation for loss of office.

Trustee terms of appointment

The remuneration table also shows the terms of appointment for each of the Trustees. Richard Tait's term was due to end on 31 July 2008 but in April DCMS announced that it had been extended until 31 July 2010.

The Trust decides the remuneration of the Director-General and sets the fees for the BBC's non-executive Directors.



Members of public at Trust research workshop.

Remuneration should take into account the unique opportunities that working at the BBC can offer.

One of the principles governing executive remuneration set by the Trust's remuneration committee.

REMUNERATION AND APPOINTMENTS COMMITTEE: CONSTITUTION AND OPERATION

The Trust's Charter gives the Trust and the Executive Board specific responsibilities for the remuneration of the Executive Board members.

The remuneration and appointments committee is a sub-committee of the Trust and is responsible for setting the remuneration strategy for the Executive Directors, and for making recommendations to the Trust on the remuneration (including the base pay and any bonus) for the Director-General, and fees for the non-executive Directors. The committee's membership is shown on page 48.

The Executive Board also has a remuneration committee and its constitution and responsibilities are set out in Part Two.

The meetings of the Trust committee are advised by members of the Trust Unit. As required, the Director-General, the Director, BBC People, the Reward Director and the Chairman of the Executive Board's remuneration committee, attend for matters relating to other members of the Executive Board. The Director-General is not present when matters concerning his own remuneration are considered.

Complying with the 2006 Combined Code, the committee takes specialist advice from external professional advisers on remuneration matters. The Trust committee has appointed Towers Perrin to provide advice on remuneration strategy and market information as required.

EXECUTIVE BOARD: REMUNERATION STRATEGY

The Trust's remuneration and appointments committee sets the remuneration strategy for Executive Directors which is operated by the Executive Board's Remuneration committee. The strategy is intended to offer rewards that attract, motivate and retain the key talent required to lead the BBC and to deliver outstanding public service broadcasting while recognising the BBC's status as a publicly funded corporation which must deliver value to the licence fee payer. The main elements of remuneration are base pay, annual bonus and pension. The Trust has responsibility for setting the Director-General's base salary and bonus accrual in line with this strategy and has assessed his performance over the year. The salary and bonus awards for the Executive Directors for 2007/08 were decided by the Executive Board's Remuneration committee. The remuneration strategy and remuneration received are set out in Part Two.

The Trust's Remuneration and Appointments committee has set a number of principles against which the strategy should deliver in the coming year. These are that:

- * Remuneration should take into account the unique opportunities that working at the BBC can offer
- * The BBC should follow and not lead the market for executive pay

- * The remuneration framework should reflect the different labour markets for different posts

- * Executive remuneration should be considered alongside remuneration strategy for the BBC as a whole

The Trust's remuneration and appointments committee will receive an annual report from the Executive Board's Remuneration committee to assure itself that the salary and bonus awards made are in line with the strategy the Trust has approved.

NON-EXECUTIVE DIRECTORS: REMUNERATION POLICY

The Charter gives the Trust the responsibility for approving the appointments of the non-executive Directors and setting the policy for, and level of, their fees. In December 2007 the Trust approved the appointment, including the terms of the appointment, for an additional non-executive Director to join the five who were already members of the Executive Board. The fees received by the non-executive Directors during 2007/08 are set out in Part Two; the level of these fees has not changed since they were initially appointed. In line with best practice, the Trust will review the level of fees every other year. The first review will take place in 2008 and take effect from January 2009.

As trustees we are responsible for ensuring the BBC delivers high-quality services to all the people and all the communities of the UK.



Janet Lewis Jones, Trustee for Wales, talking with attendees at an Audience Council Wales event in Cardiff.

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The number of phone ins undertaken by Trustees on local radio during 2007/08 to hear local audience views.

Serving all audiences

The public is made up of many different groups reflecting such things as age, geography, interests, religion and ethnic background. As Trustees representing the public we work to understand everyone's opinions and expectations. Informed by this work, we use our judgement to make the decisions that set the BBC's course.

One of our key priorities is to ensure the BBC delivers fresh, high-quality services to all the people and all the communities of the United Kingdom. We do this by looking in detail at how the BBC is performing among different audience groups and using what we discover to set challenges for the BBC in the future.

We use extensive audience research to inform our work, and we have also consulted the public about the service licences and purpose remits in which we set out what we expect from the BBC. You can find out more about the licences and remits and how they help us govern the BBC on our website.

The Trust's Audiences and Performance committee oversees this work. In the past year it has discussed the performance of the BBC's public services with the Executive, and it has also had detailed oversight of the in-depth service review of bbc.co.uk (see page 28). The committee's members are listed on page 48.

AUDIENCE COUNCILS

Audience Councils are one of the key ways we ensure the views of the public are represented at the highest levels of the BBC. There are four Audience Councils – one each in England, Scotland, Wales and Northern Ireland – with the work of the Council in England assisted by a network of 12 regional Audience Councils (see map on page 19).

Council members are licence fee payers who have an informed interest in the work of the BBC, and an understanding of the interests, concerns and diversity of the audience in their nations. Members are volunteers and do not have any professional link with the BBC. Each national Audience Council is chaired by the Trust member for that nation. A summary of each Council's annual report is on pages 34–35.

CENTRAL RELIGIOUS ADVISORY COMMITTEE (CRAC)

In the previous governance arrangements, the CRAC advised the BBC and Ofcom on religion-related policies and coverage. Membership was drawn from the main Christian denominations and other religions prevalent in Britain. The Trust considered the future of CRAC at the end of 2007, and agreed that it did not sit well with the new governance arrangements. The only formal advisory bodies that the Trust has under the Charter are the four Audience Councils; and under the new consultative model of the Trust, all stakeholders can have their say through consultations on purpose remits, service reviews, public value tests and other matters. CRAC may continue in some form as an advisory body to programme makers – this is currently being discussed on the Executive side.

PROMOTING EQUALITY AND DIVERSITY

The BBC has duties under equality legislation in relation to its 'public functions' – such things as television licensing, the arrangements for digital switchover, and some of the regulatory functions of the Trust. The legislation – the Race Relations Act, the Disability Discrimination Act and the Sex Discrimination Act – means that in these public functions the BBC must have due regard to eliminating unlawful

discrimination, promoting equal opportunity, and promoting good relations between people of different racial groups. For each area the BBC publishes an equality scheme and reports on its performance. The race, gender and disability schemes have recently been updated and will be published on the Trust website.

The BBC has made good progress in meeting its equality duties. Examples include consultations with disabled people and with people from differing ethnic and cultural backgrounds to ensure their needs are taken into account in digital switchover. TV Licensing has improved the accessibility of its television publicity through subtitling, and is making efforts to ensure that its marketing materials accommodate the needs and issues experienced by different groups of people. The Trust now conducts diversity monitoring when it holds public consultations or stages public meetings; and we now also carry out equality impact assessments when considering work of a public nature.

ENSURING A DIVERSE WORKFORCE IN THE BBC

As Trustees we are committed to ensuring the BBC develops a diverse workforce. The 2007/08 report from the Executive on its arrangements for promoting equal opportunities shows that although progress is being made in some areas, there is still work to be done, particularly where black and minority ethnic staff are concerned. We will monitor developments closely.

As trustees we have responsibility for guarding the editorial independence of the BBC and making sure it is beholden to no outside interest, whether political or commercial.



Trustee Mehmuda Mian Pritchard, member of Editorial Standards committee (Manchester September 2007).

“Ensuring impartiality is a key priority for us. We have asked all programme areas – not just news – to consider this.”

Ensuring impartiality

Impartiality is one of the cornerstones of BBC editorial values. The public value it and demand it. It underpins the public trust in the BBC without which the BBC cannot function. Impartiality depends on accuracy, balance, context, distance, even-handedness, fairness, objectivity, open-mindedness, rigour, self-awareness, transparency and truth. It is about breadth of view and completeness.

Ensuring the impartiality of BBC output is a key priority in our work of upholding editorial standards. This work includes overseeing the way the BBC sets and meets its own editorial standards and the way it complies with Ofcom's broadcasting standards.

We approve the Executive's editorial guidelines setting out the values and standards we expect of all BBC content. We are also responsible for ensuring the Executive deals properly with complaints. Where appropriate, we hear appeals. From time to time we commission research to inform our editorial standards work. In the past year we have commissioned a review of the impartiality of the BBC's network news and factual coverage of the four nations of the UK (see page 18). We have also reviewed the Executive's response to last year's serious editorial failures (page 11).

This work is managed through the Trust's Editorial Standards committee, which is also the body that hears appeals on editorial complaints. The members of the committee are listed on page 48.

Editorial compliance

Every six months the Executive reports to the Trust on editorial compliance issues and the committee scrutinises these reports. In 2007/08 the committee noted 56 breaches of editorial compliance upheld either by BBC management or by the committee itself. This compares with a total of 38 in the previous year. While this represents a 47% increase,

these accounted for just 0.045% of complaints received by the BBC.

The committee considered a number of impartiality complaints. Three of these related to *Horizon: Nuclear Nightmares*, broadcast on BBC Two in July 2006, in which scientific evidence of the effects of nuclear radiation was discussed without sufficient reference to alternative opinions. The committee noted the importance of ensuring the impartiality of all output – not just news – and asked all programme areas to give consideration to this.

The committee also upheld a number of complaints about editorial inaccuracies in BBC online journalism. While these did not amount to serious editorial breaches, they highlighted the need for web teams to acknowledge errors pointed out by users and make corrections promptly. The committee asked the Executive to encourage web teams to respond more effectively to these initial complaints to prevent their escalation through the complaints process.

Ensuring editorial integrity and independence can pose particular challenges for BBC programme makers when they work with external partners. One of BBC One's most successful programmes in 2006 was *How Do You Solve a Problem Like Maria?* – a talent contest in which viewers helped choose the star for a commercial West End production of *The Sound of Music*. In July 2007 the committee considered a complaint that the programme had breached BBC guidelines. The complaint cited the involvement of the producers of the West End show, Andrew Lloyd Webber and David Ian, in the BBC production.

In deciding not to uphold the complaint, the committee noted that as this was the first programme of its kind it was likely to test the guidelines and that, given the programme

format, it would have been impossible to avoid some degree of product prominence for the West End show. Although some mistakes had been made initially, the production team had taken steps to address them and it was appropriate to give some latitude to innovative programmes to put mistakes right.

The committee receives reports from the Executive on those breaches of the guidelines that the Executive itself has acknowledged. This allows the committee to determine if any further action is required. Last year the Executive reported breaches of the impartiality and accuracy guidelines in two editions of *Newsnight* broadcast in January and June 2007 and as a result the committee asked to see new guidance on polls, votes and straw polls, and published its findings on the breaches.

The Executive also reported a breach of the guidelines regarding the use of the most offensive language pre-watershed during the *Live Earth* concert broadcast in July 2007. The committee was concerned that following similar editorial breaches during the *Live 8* concert in 2005, Ofcom had noted that the BBC had offered to consider using a delay in future to prevent similar breaches, but a delay was not used for *Live Earth*. The committee decided that any such further breaches of the guidelines would be unacceptable. The committee also noted that the explanation for not using time delay provided by the Executive on the complaints website was inaccurate in detail, and requested changes.

Swearing on air during *Live Earth* was also the subject of a sanction issued by Ofcom against the BBC in April 2008. Ofcom required the BBC to publish an on-air finding. Ofcom upheld a total of 17 programme standards complaints against the BBC and resolved three others. These included a sanction

The BBC can afford to be neutral because they do not have to pander to commercial organisations.



Member of public at Trust research workshop.

57

The number of editorial appeals heard by the Trust – of which two were upheld and seven partially upheld.

against the BBC regarding a competition on *Blue Peter* in November 2006, for which Ofcom fined the BBC for the first time. The Editorial Standards committee noted that a number of breaches related to matters of fair dealing and consent, and is looking to the Executive to ensure that programme makers deal straightforwardly with contributors.

In 2008/09 the committee will continue to scrutinise the Executive's efforts to ensure editorial compliance of all output. There is a particular need to ensure that in secret recordings any obscuring of identities is effective. The Executive must also continue to monitor prominence across BBC television output to ensure the BBC's editorial independence and integrity. The committee will continue to monitor the work of the Executive's Complaints Management Board. This board, which is chaired by the Deputy Director-General and has senior management representation from each programme division, has the authority to order changes in programme areas and to put in place corrective measures to prevent repetition of mistakes

EDITORIAL COMPLAINTS

The BBC process for handling editorial complaints has three stages. At the first stage complaints are dealt with by the programme team or by BBC Information. Complainants dissatisfied with this Stage 1 response can take their complaint to either the independent Editorial Complaints Unit or to a senior member of the appropriate BBC division. Complainants who dispute this Stage 2 ruling can appeal to the Editorial Standards committee (ESC), which hears those complaints it considers appropriate and which are of substance.

The BBC received 123,529 Stage 1 complaints in 2007/08, and the target of responding to 93% of them within 10 days was met. The ESC was pleased to note the improvement from 90% last year.

The Editorial Complaints Unit received 270 complaints in 2007/08, up from 187 in 2006/07, and upheld 47 of these in full or part. The committee was pleased to note that despite the rise in complaints, the unit improved its turnaround times and dealt with 74% of complaints within the target time compared with 42% last year.

The committee itself heard 57 appeals in 2007/08, of which two were upheld and seven partly upheld. The increase in appeals, as well as the complexity of the complaints, affected the committee's own turnaround times. It regrets this and is seeking to improve its performance in 2008/09. The ESC has always measured the time it takes to consider a complaint from the date a request for an appeal has been received to the date the finding was posted to the complainant. Under this measure the ESC dealt with 16% of appeals within its 16-week target turnaround time. The committee's published terms of reference, however, calculate turnaround times from the date the committee agrees to take an appeal to the date it hears and decides the matter. This measure of the time taken to hear complaints disregards preparatory work necessary to determine whether a complaint falls within the ESC's remit as well as administrative procedures following the hearing involved in publishing the finding. On this basis the ESC determined 67% of appeals within 16 weeks.

Improving complaints handling

During 2007/08 the editorial standards committee developed a new complaints framework (see panel on facing page), which will be published in July 2008. The committee will monitor the effectiveness of the new processes, which are designed to make complaints handling more efficient and transparent.

Volume of editorial complaints received at Stage 1

Complaints answered

05/06	150,143
06/07	123,693
07/08	123,529

Findings of editorial appeals heard by the Editorial Standards committee

Upheld

06/07	2
07/08	2

Partially upheld

06/07	4
07/08	7

Not upheld

06/07	26
07/08	48

Training

The Executive reports to the Trust annually on how its arrangements for training staff help deliver the public purposes, as well as contributing to the wider broadcasting industry. We welcome the investment made in the last year to training a highly skilled workforce, particularly the focus on editorial standards where we believe the BBC can have a key role in supporting standards across the industry. The full report, and the Trust's commentary, are available on the Trust's website.

“The Trust believes this service will offer public value and be culturally significant for both Gaelic speakers and Scotland as a whole.”



The Trust has a duty to take account of the competitive impact of the BBC's activities on the wider market.

Jeremy Peat, National Trustee for Scotland, speaking at the time of the Trust's approval of the Gaelic digital service, 28 January 2008.

Jeremy Peat, National Trustee for Scotland.

BBC's economic power

The BBC is a major presence in the UK media sector. It spent £3.5 billion in 2007/08 (£3.3 billion in 2006/07), including £1.2 billion spent outside the BBC on independent productions, artists and other programme resources (£1.1 billion in 2006/07). The BBC is spending more outside London – £994 million was spent in the nations and regions in 2007/08 (£856 million in 2006/07). We know that the public places a high value on the breadth of choice that springs from a thriving UK media market and it is clear that the public interest lies in maintaining this breadth of choice.

Some BBC activities may produce a positive public value, but have a negative impact elsewhere – for example on commercial broadcasters or media suppliers. In order to ensure that the right balance is struck when there are competing interests, we apply a public value test before we consent to the BBC starting a new service or making a significant change to an existing service. The test considers both positive or negative market impact.

The BBC undertakes some activities on a commercial basis. The aim is to generate revenue to reinvest in the public services to the benefit of the public. Commercial activity cannot take place directly within the BBC Corporation but must be carried out through commercial subsidiaries. It is our duty as Trustees to make sure the BBC conducts its commercial trading activities fairly and to prevent the BBC from using its economic power in ways that might stifle enterprise or initiative from elsewhere. We set the framework in which new BBC commercial services are approved and overseen. There are four criteria BBC commercial services must meet. They must:

- * Fit with the BBC's public purposes activities
- * Exhibit commercial efficiency
- * Not jeopardise the good reputation of the BBC or the value of the BBC or the value of the BBC brand
- * Comply with BBC fair trading guidelines and in particular avoid distorting the market

While the Trust sets the framework and requires reporting against it, under the framework most operational decisions are taken either by the Board of BBC Worldwide (the BBC's main commercial subsidiary) or by the Executive Board. In a small proportion of cases Trust approval is required for new service proposals. In October 2007 the Trust approved proposals to launch *bbc.com*, a commercial venture to offer advertising on the BBC's international-facing website for users outside the UK, and BBC Worldwide's acquisition of a 75% stake in the Lonely Planet travel guide business.

We are also responsible for approving the BBC's policy on fair trading and for holding the Executive to account for compliance with this policy. Where appropriate we hear appeals on fair trading complaints.

The Trust's public value and fair trading committee plays a key role in this work. This committee was formed in January 2008 when it took over the duties of the previous fair trading committee and public value steering group. In particular the committee is responsible for monitoring fair trading compliance, hearing appeals and undertaking public value tests. The members of this committee are listed on page 48.

NEW SERVICES APPROVED BY THE TRUST

High definition services

In November 2007 we approved the launch of a BBC high definition television channel. The channel is available on Freesat, and it will launch on cable and Sky satellite as soon as possible, and on Freeview as soon as this is feasible.

We were satisfied that the public value generated by the new service would be sufficiently high and that there was unlikely to be a negative impact on the market. We concluded that when the service launched on Freeview it would be best if this could be done in collaboration with other public service broadcasters.

Gaelic digital service

In January 2008 we gave conditional approval to the launch of a Gaelic digital service. The service – a partnership between the BBC and the Gaelic Media Service – will launch later this year on cable, satellite and broadband but not yet on Freeview. We concluded the service would create value for audiences, particularly in Scotland, although we asked for the service to have a greater educational focus. It was too early to judge whether the public value created would justify carriage on Freeview, taking into account the cost and the potential audience.

We will, however, carry out a performance review before digital switchover in the main Gaelic speaking regions of Scotland in 2010/11. Carriage on Freeview will be one option we will consider then. The review will examine whether the service is providing value for money for licence fee payers and delivering to the intended audience in the best way.

All BBC trading activities are covered by the BBC's fair trading regime.



Diane Coyle, Trustee, listening to calls to BBC Information, Belfast.

3

The number of fair trading appeals commenced during 2007/08.

TRUST OVERSIGHT OF FAIR TRADING ARRANGEMENTS

All BBC trading activities are covered by the BBC's fair trading regime which is designed to ensure that the BBC's commercial and trading activities are conducted fairly. The BBC recognises it plays a unique role in the media market and has chosen to abide by constraints additional to those imposed on it by UK and European competition law and by European law on state aid.

The Trust is required by the Charter to adopt a statement of policy on fair trading and to hold the Executive Board to account for compliance with it. The BBC Trust's Fair Trading Policy and BBC Trust's Competitive Impact Codes came into effect on 1 July 2007.

Prior to 1 July 2007 the Trust continued to operate under the rules of the previous fair trading regime. For the period covered by the report the BBC complied with its published Fair Trading Commitment for the period from 1 April 2007 to 30 June 2007 and with the requirements of the BBC Trust's Fair Trading Policy and Competitive Impact Codes and BBC Management's Fair Trading Guidelines for the period from 1 July 2007 to 31 March 2008.

Responsibility for day-to-day fair trading compliance by the BBC and for handling fair trading complaints lies with the Executive through its fair trading compliance committee.

Responsibility for monitoring fair trading compliance and for handling fair trading appeals lies with the Trust's public value and fair trading committee. This began work in January 2008 succeeding the Trust's fair trading policy and appeals committee, which formerly handled these matters. The members of both committees are listed on page 48.

The Trust believes the BBC's Fair Trading Commitment, the BBC Trust's Fair Trading Policy and Competitive Impact Codes and BBC Management's Fair Trading Guidelines are consistent with the requirements of the Charter and Agreement. Through the work of its committee, the Trust has gained reasonable assurance that the controls and procedures designed to ensure these policies are applied throughout the BBC have been operating effectively throughout the year. The Trust will continue to review the policies in the context of the dynamic media market. The BBC Executive reports in Part Two on its own measures to ensure compliance.

In 2007 the Trust considered one appeal and upheld it in part. In the current financial year the Trust is considering three fair trading appeals – as these are ongoing we cannot report on the findings. Findings of all appeals are published on our website.

The Trust is advised by independent fair trading auditors and advisers. The independent auditors conduct an annual fair trading audit to determine whether the BBC has established and applied a system of internal controls which provides reasonable assurance that it has complied with its published Fair Trading Commitment during the period from 1 April 2007 to 30 June 2007 and with the requirements of its Fair Trading Policy, Competitive Impact Codes and the Fair Trading Guidelines for the period from 1 July 2007 to 31 March 2008. The audit includes a wide programme of reviews, tests and evaluations across all BBC divisions.

INDEPENDENT FAIR TRADING AUDITORS' REPORT TO THE BBC TRUST FOR THE YEAR ENDED 31 MARCH 2008

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 Trust with reasonable assurance that the BBC has complied with its published Fair Trading Commitment during the period from 1 April 2007 to 30 June 2007 and with the requirements of its Fair Trading Policy, Competitive Impact Codes and the Fair Trading Guidelines for the period from 1 July 2007 to 31 March 2008 ('Fair Trading arrangements for the year ended 31 March 2008').

Our instructions for this engagement, including the scope of work to be undertaken, were agreed with the BBC Trust's fair trading policy and appeals committee which in January 2008 was succeeded by the BBC Trust's public value and fair trading committee. 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 Trust, as a body. 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, management and auditors

The BBC Trust is responsible for ensuring that the BBC meets all the requirements of competition law and trades fairly. They are also responsible for preparing the section within the BBC's Annual Report entitled 'Trust oversight of fair trading arrangements' which includes a statement on fair trading.

The auditors' opinion on the BBC's system of fair trading controls is unqualified.



Members of public at BBC Trust research workshop.

External auditors provide an opinion on whether the BBC has established and applied a system of internal controls to ensure compliance with the fair trading regime.

The BBC's management is charged by the BBC 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 2008 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 2008. 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. Our audit was not designed to express an opinion on the quality of the specific decisions taken by the BBC on fair trading. We have also reviewed whether the BBC 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 Trust, as a body, in accordance with our instructions which were agreed with the Trust Unit of the BBC on behalf of the BBC Trust's fair trading policy and appeals committee (which in January 2008 was succeeded by the BBC Trust's public value and fair trading committee). We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come, 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 positive conclusion on the BBC's compliance with its Fair Trading arrangements for the year ended 31 March 2008.

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 controls 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 BBC Trust reasonable but not absolute assurance as to the adequacy of the system of internal controls which were in place and being applied to deliver compliance with the requirements of its Fair Trading arrangements for the year ended 31 March 2008. 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, in all material respects, with the requirements of the Fair Trading arrangements for the year ended 31 March 2008.

Emphasis of matter – Transition to new fair trading regime

We draw attention to the section of the BBC Annual Report headed the 'Executive Statement on Fair Trading' which explains that a revised Fair Trading regime came into effect on 1 July 2007 and that during the period 1 July 2007 to 31 March 2008 the BBC has applied a combination of both old and updated procedures rather than implementing the revised regime as at 1 July 2007. Having reviewed the matter, the BBC is satisfied this approach has operated effectively to ensure that its Fair Trading obligations have been met for this transition period. Our opinion is not qualified in relation to this matter.

PricewaterhouseCoopers LLP

Chartered Accountants
19 June 2008

The full BBC Trust usually meets once a month and minutes of these meetings are published on our website.



The Trust does much of its work through a number of committees which report to the full Trust.

Trust meeting May 2007, Council Chamber, Broadcasting House, London.

Other regulatory information

The full Trust usually meets monthly but we do much of our work in small committees of Trustees who report back to the full Trust. These committees have decision-making powers. The members of the committees, their chairmen and their attendance during the year are shown in the table below.

TRUSTEE MEETING ATTENDANCE

1 April 2007 to 31 March 2008

	Trust	Editorial Standards Committee	Finance and Strategy Committee	Remuneration and Appointments Committee	Audiences and Performance Committee	Audience Councils Committee	Public Value and Fair Trading Committee	Public Value Test Steering Group ³	Fair Trading Policy and Appeals ³ Committee	Nations Audience Councils [†]
Number of meetings	14	14	13	3	8	3	3	8	4	
Chairman										
Sir Michael Lyons ¹	12/12			3/3						
Vice chairman										
Chitra Bharucha	13/14	11/14		3/3 ²	7/8 ⁴	3/3 ²				
National Trustees										
Alison Hastings (England)	12/14	2/3			6/8	3/3		6/8		6/6 ²
Rotha Johnston (Northern Ireland)	13/14		12/13			3/3 ⁵	3/3		4/4	10/10 ²
Janet Lewis-Jones (Wales)	14/14		13/13	3/3		3/3				10/10 ²
Jeremy Peat (Scotland)	13/14		13/13			3/3	3/3	7/8	4/4	11/11 ²
Trustees										
Diane Coyle	13/14	10/11					3/3 ²	8/8	3/4	
Dermot Gleeson	13/14		13/13 ²	2/3	7/8					
Dame Patricia Hodgson	14/14		13/13		6/6		3/3	8/8		
David Liddiment	14/14	14/14			8/8 ²					
Mehmuda Mian Pritchard	11/14	11/14			4/4				2/4	
Richard Tait	13/14	14/14 ²					3/3	4/8		

¹ Appointed 1 May 2007.

² Committee chairman.

³ In January 2008 the Public Value and Fair Trading committee replaced the Fair Trading Policy and Appeals committee (chairman: Jeremy Peat) and the Public Value Test Steering Group (chairman: Diane Coyle).

⁴ Chitra Bharucha was chairman until April 2008.

⁵ Rotha Johnston was chairman until May 2008.

[†] The Audience Councils in each Nation are not committees of the Trust but separately constituted advisory bodies, chaired by the respective National Trustee.

“The Trust wants to ensure that complaints are received via a system which is open to everyone, consistent in its fairness to all, and simple to follow.”

Chitra Bharucha, when launching the BBC Trust consultation on complaints, 29 October 2007.



Young people giving their views on the BBC to the Trustees in Belfast.

Under the new complaints system the Trust will consider a far greater range of complaints on appeal than previously.

STATEMENT OF TRUST RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The Charter requires that an annual report and statement of accounts is prepared and audited. The Executive Board's responsibilities are detailed in its responsibility statement on page 95 of Part Two of this Annual Report. In summary, the Executive Board is responsible for preparing the financial statements and statements of compliance with applicable corporate governance codes and remuneration regulations and delivering these to the Trust within Part Two of the Annual Report.

In preparing its associated corporate governance disclosures the Executive Board has elected to comply with the 2003 Financial Reporting Council Combined Code and the disclosure provisions of the Companies Act 1985 and, where applicable, the Financial Services Authority Listing Rules which apply to a company listed on an EU regulated market.

In order to comply with those requirements the annual report must also include disclosures on the governance arrangements of the Trust as well as those of the Executive Board. These disclosures, which are audited, are included in Part One of the Annual Report and are the responsibility of the Trust.

Additionally, the Charter requires the Trust to prepare a statement of its expenditure and include this within Part One of the Annual Report.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

The Trustees who held office at the date of approval of the Annual Report and Accounts confirm that, so far as they are each aware, there is no relevant audit information in respect of the Trust governance disclosures, remuneration disclosures and Trust statement of expenditure of which the BBC's auditors are unaware; and each Trustee has taken all the steps that they ought to have taken as a Trustee to make themselves aware of any relevant audit information and to establish that the BBC's auditors are aware of that information.

This statement was approved by the Trust on 19 June 2008.

COMPLAINTS FRAMEWORK

An open and fair BBC must respond effectively and justly to complaints, and the Charter requires the Trust to set and publish a framework and procedures setting out how the BBC will do this.

During 2007/08 we adopted a new complaints framework. This sets out a general complaints process, as well as specific procedures for complaints about editorial, licence fee and fair trading issues, as well as for complaints about the Digital Switchover Help Scheme. There is also a process for complaints against the Trust.

Before adopting the new framework we consulted the public and as a result made a number of changes to our original proposals.

The new system will mean that appeals to the Trust can be taken more quickly and that, for the first time, the Trust will consider appeals about licence fee collection. Overall the Trust will consider a far greater range of complaints on appeal than it has done in the past. This will strengthen our ability to ensure that the BBC responds effectively to complaints.

The Trust's plans for 2008/09

Making the Trust work better for audiences

We want every part of the BBC to be more responsive to audience needs, and this applies to the Trust itself. We want to be open and transparent in everything we do. We set out on our website what we do and why. We frequently consult audiences – and we've taken account of comments that the language we use in our consultations is sometimes too technical. We'll try to do better in future. We plan to keep audiences and other stakeholders better informed by setting up an electronic mailing list. And we also have a project under way to ensure we make the best use of the work done by the Trust's Audience Councils.

It is important that the Trust and the Trust Unit that supports our work are effective and efficient. We review the performance of the Board every year and we will review the operations of the Trust Unit to ensure it delivers value for money.

In our first full year as Trustees we have established open and transparent systems; set the strategic course for the BBC over the next six years; worked with the Director-General to remedy some serious editorial failings; and conducted public value tests before agreeing some new services, including BBC iPlayer, a high definition TV channel, and the new Gaelic digital service.

We have placed audiences at the centre of everything we do – for example, by consulting the public before finalising the purpose remits that give the BBC Executive strategic direction. We have also agreed a stringent efficiency programme with the Executive to ensure licence fee payers receive good value for their money.

In the year ahead we will continue our efforts to help the BBC deliver high quality, distinctiveness, efficiency and value for money. The table opposite gives some headlines of what we did last year. It also shows our plans for the coming year – on which we have consulted the public. We will report back on how we performed against these plans in next year's report.

Stewardship of the licence fee

Upholding licence fee payers' interests

Effectively promoting the BBC's public purposes

Trust role

To ensure that the licence fee income is spent in ways that meet audience expectations and deliver value for money.

To ensure that the BBC works in the public interest as effectively as possible and is as responsive as possible to audience needs.

To ensure that the BBC's overall aim is to promote the six public purposes set out for the BBC by Parliament.

2007/08 priorities and outcomes

REPRIORITISATION

The Executive recast its budgets following the licence fee settlement and produced a new six-year strategic plan known as 'Creative Future'. We led this reprioritisation and made sure the new plan meets licence fee payers' expectations and priorities.

PUBLIC VALUE TESTS

We carried out two public value tests (see page 45). These help us ensure that when the BBC embarks on a new activity, proper account is taken of the potential value for licence fee payers and impacts on other participants in the market.

PURPOSE REMITS

Purpose remits set out how we expect the BBC to deliver each of its Public Purposes. Before publishing our final versions of the remits in 2007/08 we consulted the public and took account of their views.

AUDIENCE ENGAGEMENT

We carried out an extensive consultation to find out how the public want us to engage with them (see page 34). This will help us make it as easy as possible for audiences to make their views on key BBC issues known to us.

SERVICE LICENCES

Service licences set out what we expect from each BBC service and how we expect them to contribute to delivering the Public Purposes. Before we published the final versions in 2007/08 we consulted the public and took account of their views.

COMPLAINTS FRAMEWORK

It is important that anyone unhappy with anything the BBC does can complain about it easily – and be sure that the complaint will be taken seriously and dealt with in a timely manner. We consulted publicly on a new framework for handling complaints and we will implement it in 2008.

SERVICE REVIEWS

We review each BBC service at least once every five years. In 2007/08 we undertook a review of bbc.co.uk

2008/09 priorities

VALUE-FOR-MONEY STUDIES

We commissioned four value-for-money studies (see page 30) and a review of BBC's role in the talent market. These help us ensure the BBC is generating the greatest value possible for its audiences.

VALUE FOR MONEY STUDIES

We will examine:

- * Production costs in radio to ensure best value is being achieved for the £550 million spent each year
- * Management of strategic contracts to ensure the BBC is making sure those to whom it has contracted out £800 million a year of support costs are working together effectively
- * Asset management to ensure the BBC employs its major studio and transport resources across the UK in the most effective manner

We will also monitor the progress of digital switchover and the targeted help scheme, and carry out a public consultation about licence fee collection.

EDITORIAL STANDARDS AND IMPARTIALITY

Following the editorial lapses revealed in 2007 we commissioned a review of management's actions to remedy matters. We will publish this review later in 2008. We will also publish an impartiality review of network news coverage of the nations.

NETWORK SUPPLY REVIEW

A review of network supply – examining the amount of content the BBC produces in each nation and region has begun and the results will be published in 2008. We will also publish the results of our review of the economic value of the BBC to the UK.

REVIEW OF THE WINDOW OF CREATIVE COMPETITION

The Window of Creative Competition was created to open more BBC programme commissions to independent producers. We will publish a review of its effectiveness. We will also commission reviews of radio and online commissioning and of the BBC film strategy.

REMEDYING PERFORMANCE GAPS

In 2007 we consulted the public about how well the BBC was performing against its public purposes. This revealed gaps in performance, particularly in the provision of distinctive programmes and content. We have challenged the Executive to remedy these gaps and monitoring their performance here will be a major focus of our work in coming years.

SERVICE REVIEWS

Our service reviews in 2008/09 will look at BBC radio, television and online services for children and young people.

Contact the BBC Trust

The BBC welcomes comments or queries on any aspect of its operations.

BBC Trust

Any comments or questions you have about the work of the Trust should be sent directly to:

BBC Trust Unit

Room 211

35 Marylebone High Street

London W1U 4AA

Telephone: BBC Information

line 03700 103 100*

Textphone: 08700 100 212

(Lines open Monday to Friday between 9.30am and 5.30pm)

Email: trust.enquiries@bbc.co.uk

Programme and editorial complaints

If you think a BBC programme or website has fallen below the BBC's editorial standards you should contact:

BBC Complaints

PO Box 1922

Glasgow G2 3WT

Telephone: 03700 100 222

Textphone: 08700 100 212

Website: bbc.co.uk/complaints

BBC operations

Comments or queries about the BBC's operations are best dealt with by the relevant BBC department. Contact:

BBC Information

PO Box 1922

Glasgow G2 3WT

Telephone: 08700 100 222*

(24 hours a day, seven days a week)

Textphone: 08700 100 212

Fax: 0141 307 5770

Website: bbc.co.uk/info

** Calls to this number may be monitored or recorded for training purposes.*

BBC Audience Councils

The Audience Councils in England, Northern Ireland, Scotland and Wales help the BBC Trust to understand the needs, interests and concerns of audiences throughout the UK, and to identify ways in which the BBC can better serve its audiences.

If you want to contact the Audience Councils you can write to them at the addresses below:

Head of Governance and Accountability Scotland

BBC Audience Council Scotland

Zone G.11

40 Pacific Quay

Glasgow G512 IDA

Head of Governance and Accountability Wales

BBC Audience Council Wales

Room E5108

BBC Broadcasting House

Llandaff

Cardiff CF5 2YQ

Head of Governance and Accountability

Northern Ireland

BBC Audience Council Northern Ireland

BBC Broadcasting House

Ormeau Avenue

Belfast BT2 8HQ

Head of Governance and Accountability England

BBC Audience Council England

BBC Birmingham

The Mailbox

Birmingham B1 1RF

Other information

This BBC Annual Report and Accounts

is available in public libraries throughout the UK and on the BBC Trustees' website at bbctrust.co.uk.

It is also available in Welsh, in an audio version and in Braille. Annual Reviews for BBC Scotland, BBC Wales, BBC Northern Ireland, BBC English Regions and the BBC World Service are also published.

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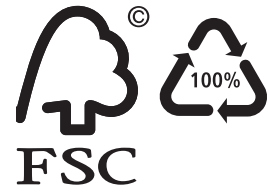
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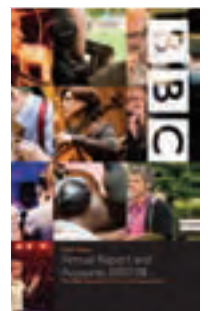
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