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Annual Report and Accounts

2003/2004

Purpose, vision and values

Purpose

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

Vision

Our vision is to be the most creative organisation in the world

Values

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

Contents

2	Chairman's statement	58	Performance against Statements of Programme Policy commitments 2003/2004
4	The Hutton Inquiry		Governors' review of commercial activities
6	How the BBC is run	68	BBC Worldwide Limited
8	Board of Governors	70	BBC Ventures Group Limited
10	Executive Committee		
12	Governors' review of objectives	72	BBC people and talent
	Governors' review of services	74	Being accountable and responsible
24	Television	82	Compliance
32	Radio	97	Financial review
40	New media	99	Financial statements
42	News	136	Broadcasting facts and figures
46	Learning	147	Getting in touch with the BBC
48	Nations & Regions	148	Other information
54	BBC World Service & Global News		

Chairman's statement



This is a transitional document. Traditionally the *Annual Report and Accounts* has been as much about marketing the BBC as holding it to account – and as much about management's view of its own performance as about the Governors' view of management's performance.

This Annual Report is different. It is the first step in turning the BBC's Annual Report into a document owned by the Governors, which evaluates the performance of BBC management against publicly stated objectives and commitments. We intend to take this process further in future years.

The reforms to the BBC's system of governance outlined in our *Building Public Value* document make clear that we mean to move rapidly to strengthen the Governors' clear independence from management. Governors will provide themselves with the resources to commission independent advice to enable us to carry out close and rigorous scrutiny of BBC programmes and services. Annual Reports will be explicitly Governors' reports and primarily concerned with assessing performance and holding management to account.

This Annual Report is different in another way too. There is no Director-General's report, because the new Director-General, Mark Thompson, did not work for the BBC in the period under review.

Neither, of course, did I. I watched the Hutton Inquiry and its aftermath unfold as just another licence payer. And well before I was appointed, the BBC had begun to learn the lessons and – as the

section on Hutton in this report makes clear – to make changes to some of the BBC's editorial processes and to the way it handles complaints. I am confident that the implementation of these changes will allow us to draw a line.

But I do want to make one thing clear: The BBC is not worth having if it is not editorially independent. I and the other Governors will defend the BBC's right to do difficult and courageous journalism about powerful people and powerful institutions. That kind of journalism – set within a strengthened editorial framework – must remain one of the hallmarks of the BBC.

The Hutton Inquiry made people reflect on the enduring value of a strong and independent BBC to Britain. When the BBC lost both its Chairman and Director-General in the space of 24 hours it did feel like a watershed. At that moment it is not surprising that some people began to contemplate the prospect of Britain without the BBC.

And the truth is that the BBC is not inevitable. It exists because it earns its place in the affections of our audiences by enriching lives through information, education and entertainment. The BBC has constantly to renew and refresh the bonds that link us to those audiences. We have to listen, learn and respond – and then go back and do it again. As Governors, effective engagement with the British public and responsiveness to their concerns must lie at the heart of our role as trustees of the public interest.

It is sometimes claimed that the BBC is unaccountable and largely self-regulating. But one of the surprising things I've discovered since I started as Chairman is the large number of regulations against which the BBC is already measured. Until recently the BBC had to deal with just three externally imposed quotas. As a result of the 2003 Communications Act we now have another 52 to deal with. And there are more to come next year.

It is right that we justify our privileged position. But it is important that we have the appropriate targets in place to ensure the BBC's programmes and services reflect what really matters – the needs and interests of our funders, the licence payers.

In future, the Governors will assess performance against four key targets: reach, impact, value for money and quality. In judging the outcomes we will take an overall perspective.

The BBC delivers value well beyond its programmes and services. The case we are making in the Charter Review process is that the BBC is worth keeping because of the immense amount of public value it delivers. Public value means not just the BBC's value to people as individuals, but also its value to people as citizens, and beyond that, its value to the broadcasting and creative industries as a whole.

For the individual, the BBC's value is the information, education and entertainment it provides. For the citizen, the BBC's value is its contribution to the wider social, democratic and cultural health of the UK. And for the broadcasting and creative industries, the BBC's value

lies in its investment in training and creative production.

The aims of the BBC are to underpin citizenship, enrich cultural life, contribute to education for all, make the UK a more inclusive society, and to support the UK's role in the world.

This is the case we will be making over the coming months as the debate over the renewal of the BBC's Charter gathers pace.

The strength of the BBC is its people. And there are some people I want to pay tribute to here.

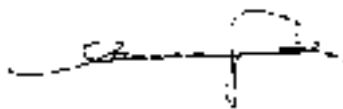
The first is my predecessor as Chairman, Gavyn Davies, who gave so much to support the ideals of the BBC and who showed great courage and dignity in the manner of his departure. It is one of the ironies of BBC history that a Chairman resigned having defended the independence of the BBC.

The next is Greg Dyke. As Director-General, Greg did a huge amount to restore and build staff morale. And his championing of Freeview was the crucial decision that has made the switch-over to a fully digital Britain a realistic prospect. Freeview showed Greg's vision and leadership and the Governors were right to support him in this initiative.

On behalf of the Governors I would also like to thank Richard Ryder for stepping in as Acting Chairman at a particularly demanding moment. On behalf of the Governors, too, I want to put on record our thanks to Mark Byford. As Acting Director-General he played a key role

in steering the BBC through one of the most difficult periods in its history.

One final tribute – to Alistair Cooke who died earlier this year aged 95, only a few weeks after delivering his final *Letter from America* on BBC Radio 4 and BBC World Service. Cooke was a great reporter and a wonderful broadcaster – shrewd, thoughtful and humane. He wrote like an angel and he could write with equal insight and vibrant detail about an extraordinary range of topics: politics, history, space travel, jazz, golf. He respected his listeners, and his listeners loved him. The result was the world's longest running speech radio programme. The BBC can learn from that.



Michael Grade

Chairman
17 June 2004

The Hutton Inquiry

Chronology

On 29 May 2003 Andrew Gilligan, Defence Correspondent for *Today*, broadcast a number of reports about the dossier published by the Government in September 2002 entitled *Iraq's Weapons of Mass Destruction*.

At 6.07am he did a live 'two-way' (a report in the form of an interview with a presenter) which raised serious questions about the dossier, in particular its claim that Iraq had weapons of mass destruction ready for use in 45 minutes. Andrew Gilligan said "one of the senior officials in charge of drawing up that dossier" had told him "the government probably knew that the 45-minute figure was wrong even before it decided to put it in".

Andrew Gilligan also reported his unnamed source as saying that "Downing Street ... ordered it [the original draft of the dossier] to be sexed up, to be made more exciting and ordered more facts to be discovered"; and that the published dossier upset the Intelligence Services because "it didn't reflect the considered view they were putting forward".

That weekend, the *Mail on Sunday* published an article by Andrew Gilligan naming Alastair Campbell, the Government's then Director of Communications, as the person identified by the source as responsible for including the 45-minute claim in the dossier.

The Government strongly denied these stories. The BBC stood by its decision to broadcast the *Today* item. There was a private exchange of correspondence between the Government and the BBC. In late June, Alastair Campbell called for an apology from the BBC during a televised

hearing of the House of Commons Foreign Affairs Committee, and released one of his letters of complaint to the press. The BBC in its reply again stood by its decision to broadcast the report.

At the end of June, Andrew Gilligan's source, Dr David Kelly, a Ministry of Defence (MoD) scientist, told his manager that he had spoken to Andrew Gilligan and might be a source for the *Today* report.

While the MoD was investigating this (and before Dr Kelly's identity became public) the BBC Chairman, Gavyn Davies, called a special meeting of Governors on 6 July. A statement afterwards said the Board was "satisfied that it was in the public interest to broadcast Mr Andrew Gilligan's story". The Governors criticised two aspects of *Today's* handling of the story: they said the production team "should have kept a clearer account of its dealings with the MoD"; and "could also have asked the No 10 Press Office for a response prior to broadcasting the story". The Governors also said they intended to look again at the rules for BBC reporters and presenters writing for newspapers.

On 9 July, Dr Kelly's identity was made public by the MoD. On 18 July, he was found dead near his home in Oxfordshire. The BBC made a statement expressing deep regret for the death of Dr Kelly and confirming that he had been Andrew Gilligan's source. The Government asked Lord Hutton to investigate the circumstances surrounding the death and he published his report in January 2004.

During the inquiry the BBC accepted it had made mistakes and Andrew Gilligan

accepted that some of his reporting had been inaccurate. The BBC admissions were:

- the 6.07 broadcast should have been scripted
- the 6.07 broadcast contained inaccuracies. It did not distinguish sufficiently between what Dr Kelly had said and Andrew Gilligan's interpretation of what he had said. The BBC accepted that Dr Kelly did not say the Government had put in the 45 minutes claim when they probably knew it was wrong; nor did he say that Downing Street ordered more facts to be discovered
- the BBC accepted that one of its replies to Alastair Campbell contained two factual errors
- the BBC accepted that Andrew Gilligan's notes should have been examined earlier than they were
- the BBC accepted that, although Alastair Campbell had not taken up an invitation to refer his complaint to independent investigation, the BBC itself should have referred his letter of 26 June to the BBC Programme Complaints Unit for independent investigation

In his conclusions, Lord Hutton exonerated the Government of almost all blame for their handling of the events investigated. On the central issues, Lord Hutton's view was: the wording of the dossier was consistent with the available intelligence; the allegation that the Government probably knew the 45-minute claim was wrong before it went into the dossier was unfounded; the allegation of 'sexing-up' was also unfounded.

Lord Hutton's main findings on the BBC were:

- the editorial system which the BBC permitted was defective in that

Andrew Gilligan was allowed to broadcast his report without editors having seen a script and considered whether it should be approved

- BBC management was at fault for failing to investigate properly the Government's complaints in that Andrew Gilligan's notes should have been examined earlier, and that when they were, there was a failure to appreciate that they did not fully support the 6.07am broadcast allegations
- the BBC's management system for considering complaints was defective in that an email critical of Andrew Gilligan's reporting from Kevin Marsh, Editor of *Today* to Stephen Mitchell, his line manager, was not passed further up the chain
- the BBC Governors should have made more detailed investigations into the extent to which Andrew Gilligan's notes supported his report

In the 24 hours following publication, Gavyn Davies resigned as Chairman and Greg Dyke, the Director-General, offered his resignation to the remaining Governors and it was agreed that he would leave the BBC. Lord Ryder agreed to become Acting Chairman while a permanent replacement was found, and the Governors appointed Mark Byford Acting Director-General.

In September 2003 the Governors had asked Greg Dyke to formulate proposals for reform of key areas including BBC complaints-handling, and the *BBC Producers' Guidelines* covering the breaking of controversial stories and the use of anonymous sources. Mark Byford took this work forward and commissioned Ronald Neil, a former senior BBC editorial

executive, to lead a review on behalf of the Director-General.

Shortly after Lord Hutton published his report, Andrew Gilligan left the BBC of his own volition. An internal disciplinary process was conducted. No dismissals resulted. A statement at the end of the process in May 2004, made two points of clarification.

Firstly a core script had been properly prepared for the *Today* programme of 29 May 2003. This had been cleared in line with normal production practices in place at the time, but was then not followed by Andrew Gilligan. The BBC's evidence to the Hutton Inquiry could have been clearer in this respect.

Secondly it had not been necessary for the email sent by the Editor of *Today*, Kevin Marsh, to the Head of Radio News, Stephen Mitchell, to have been passed further up the chain. The impression given by the BBC's evidence to the Hutton Inquiry was that this email did not reflect the view of senior news management. In fact it did and those views had been the subject of recent discussion. Therefore the implied criticism of Stephen Mitchell and Kevin Marsh was unjustified.

Governors' commentary

At the heart of this narrative lies the death of Dr David Kelly. Lord Hutton's report made clear no one could have predicted he would take his life. The BBC has expressed its condolences to Dr Kelly's family, and we wish to do so again here.

We have no doubt Dr Kelly's allegations merited a place in BBC output as information on a matter of clear public interest from a credible source. But BBC journalism values accuracy and impartiality. The reporting here was neither sufficiently accurate nor sufficiently impartial since the Government was not asked to respond before broadcast.

We, and management, have apologised for the mistakes the BBC admitted before and during the Hutton Inquiry. We have taken steps to improve some BBC processes:

- BBC complaints-handling processes are being reformed to make them clearer, fairer and more responsive
- Management is implementing all the proposals from the Neil Review, including revised editorial guidelines and procedures, and improvements in the training of BBC journalists.
- We have ensured that BBC staff, and regular freelance journalists whose main profile or income comes from the BBC, are no longer allowed to write newspaper or magazine columns on current affairs or other contentious issues

We are confident the right lessons have been learned and appropriate measures are being implemented. The BBC, under its new leadership, can now look to the future.

How the BBC is run

Licence payers

Licence payers are the bedrock of the BBC. Including concessions, there are 24.5 million, and their licence fees provide the vast majority of the money the BBC spends. The BBC regularly consults licence payers to ensure their views are taken into account.

Parliament

Parliament decides the legal framework in which the BBC operates and sets the level of the licence fee. It scrutinises BBC affairs through debates on the floors of both Houses and through select committee hearings, where Governors and members of BBC management are called to account for the BBC's performance. The BBC also provides secretarial support for the All-Party Parliamentary BBC Group which encourages debate and discussion within and outside Parliament about the future of public service broadcasting, with special emphasis on the BBC.

BBC Governors

BBC Governors are the trustees of the public interest. They supervise the BBC and ensure its independence from political and commercial interference. There are twelve, appointed by the Queen on advice from ministers in accordance with Nolan principles that public appointments should be made on merit. All are part-time. They bring a broad range of experience and expertise to the BBC Board.

The Board of Governors differs from the board of a public company whose prime accountability is to its shareholders. The BBC Board is accountable to licence payers and Parliament.

The Board of Governors does not manage the day-to-day operations of the BBC (which is the role of the Executive Committee). Instead it ensures that the Executive Committee manages the BBC in the public interest by:

- approving strategy and policy
- setting objectives
- monitoring performance
- monitoring compliance with legal obligations and policy guidelines
- ensuring public accountability
- appointing the Director-General and other Executive Committee members
- determining the remuneration of the Executive Committee

The national Governors for Scotland, Wales, and Northern Ireland each chair Broadcasting Councils; and the Governor with special responsibility for the English Regions chairs the English National Forum. The views of people in the nations and regions on BBC programmes and services are made known through these bodies. The World Service Consultative Group, chaired by the International Governor, gives the Governors an independent review of the range and quality of the output of BBC World Service and BBC World.

The BBC recently proposed changes to its governance. These include measures to increase the separation of Governors from management. The proposals, outlined in *Building Public Value*, will be implemented over the coming year.

Ofcom, the communications regulator which has been in operation since December 2003, regulates some aspects of the BBC. For example, the BBC has to abide by Ofcom's standards and fairness codes (except for due accuracy and impartiality which remain the sole concern of the Governors). It must comply with Ofcom quotas for various types of public service television content – for example, that a proportion of programmes must be made outside the M25. However, Ofcom, unlike the Governors, plays no role in the actual operations of the BBC.

For details of individual Governors see pages 8 and 9.

For details of the objectives set for 2003/2004 and the Governors' assessment of performance see pages 12 to 22, and for 2004/2005 see page 23.

Executive Committee

Currently the Executive Committee is made up of the directors of the BBC's 16 divisions. It is chaired by the Director-General, to whom all the divisional directors report. The Executive Committee answers to the Board of Governors.

The Director-General is the BBC's chief executive and editor-in-chief, in charge of all day-to-day operations. The Director-General works with the Board of Governors to appoint the directors of the individual divisions.

The performance of each division is assessed regularly by the Board of Governors. The BBC performance year runs from April, with annual objectives agreed in March. Performance against these is reported in the following year's annual report in July.

For more details about the members of the Executive Committee, see pages 10 and 11.

BBC

The BBC's 16 divisions produce or commission all BBC output. There are nine broadcasting divisions. They manage the BBC networks and their programme commissioning and production. These divisions are:

- Television
- Radio & Music
- News
- Nations & Regions
- Sport
- Factual & Learning
- Drama, Entertainment & CBBC
- New Media & Technology
- BBC World Service & Global News

In addition, there are five divisions providing professional support:

- BBC People
- Finance, Property & Business Affairs
- Marketing, Communications & Audiences
- Policy & Legal
- Strategy & Distribution

There are also two commercial divisions selling goods and services around the world:

- BBC Worldwide Limited
- BBC Ventures Group Limited

The profits they produce help to support the rest of the BBC.

Television, Radio, Online

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

Internationally, BBC World Service broadcasts on radio in 43 languages; BBC World delivers a global television news service, and the online site bbcnews.com offers international news and audio. These services are not supported by the licence fee but are paid for either by Grant-in-Aid from the Government or by advertising.

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

Board of Governors



The BBC Governors, led by the Chairman of the BBC, are the trustees of the public interest. They supervise the BBC and ensure its independence from political and commercial interference. They are appointed by the Queen on advice from ministers in accordance with Nolan principles that public appointments are made on merit. The Board of Governors does not manage the day-to-day operations of the BBC (which is the role of the Executive Committee) but it ensures that the BBC is managed in the public interest. The Governors are accountable to licence payers and Parliament.



1 Michael Grade CBE

Chairman

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

2 Rt Hon The Lord Ryder OBE

Vice-Chairman

Vice-Chairman since January 2002 and Acting Chairman from January to May 2004. Chairman of the Fair Trading Compliance Committee and member of the Property Committee and the Remuneration Committee. Chairman of the BBC Pension Scheme Trustees. Privy Councillor since 1990. Created life peer in 1997. Conservative MP for mid-Norfolk from 1983 to 1997. Parliamentary Under Secretary at MAFF; Economic Secretary to the Treasury; Paymaster General then Government Chief Whip from 1988 to 1995. Political Secretary to Margaret Thatcher from 1975 to 1981. Director of Ipswich Town FC since 1999. Chairman of Eastern Counties Radio until his appointment to the BBC. Lord Ryder retires from the Board on 1 July 2004. Born in 1949.

3 Deborah Bull CBE

BBC Governor since August 2003. Principal Dancer, Royal Ballet from 1991 to 2001. Director, Artists' Development Initiative, Royal Opera House from 1999 to 2001. Artistic Director, ROH2 since 2002. Member Arts Council England since 1998. She has written and presented programmes and series for BBC Television and BBC Radio, including *The Dancer's Body* in 2002, and published books on the arts and nutrition. Born in 1963.

4 Dame Ruth Deech DBE

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

5 Dermot Gleeson

BBC Governor since November 2000. Member of the Audit Committee and the Property Committee. Alternate Trustee of the BBC Pension Scheme. Chairman of the M J Gleeson Group plc. Chairman of Major Contractors Group from 2003. A director of the Housing Corporation from 1990 to 1995 and of the Construction Industry Training Board from 1995 to 2002. Former Head of the Home Affairs Section of the Conservative Research Department and a member of Christopher Tugendhat's cabinet in the European Commission from 1977 to 1979. Born in 1949.

6 Professor Merfyn Jones

The BBC's National Governor for Wales since January 2003. Member of the Councils and Advisory Bodies Committee. Historian and broadcaster. Professor of Welsh History at the University of Wales, Bangor, specialising in the modern and contemporary history of society and politics in Wales. From 1998 he was Pro-Vice Chancellor of the University. In June 2004 he was appointed Vice Chancellor and will take up this post in August. He is the author of a number of books and articles. Born in 1948.

7 Professor Fabian Monds CBE

The BBC's National Governor for Northern Ireland since August 1999 (appointed for a second four-year term from July 2003). Member of the Programme Complaints Committee, the Fair Trading Compliance Committee and the Councils and Advisory Bodies Committee. Specialist in communications and information systems. Chairman of Invest Northern Ireland, the economic development agency, and of the Northern Ireland Centre for Trauma and Transformation in Omagh. Former Pro-Vice Chancellor of the University of Ulster. Founding partner of Medical and Scientific Computer Services Limited and WesternConnect Limited. Born in 1940.

8 Dame Pauline Neville-Jones DCMG

BBC International Governor since January 1998. Reappointed in January 2001 and December 2003 for a further two years. Chairs the Audit Committee and the Governors' World Service Consultative Group. Member of the Programme Complaints Committee and the Remuneration Committee. Chairman of QinetiQ Group plc and Chairman of the Information Assurance Advisory Council. From 1996 to 2000 she worked for NatWest Markets and subsequently the NatWest corporate advisory arm, Hawkpoint Partners. A career member of the Diplomatic Service from 1963 to 1996, including a five-year secondment in Brussels, chairmanship of the Joint Intelligence Committee in the Cabinet Office and three years as Political Director in the Foreign and Commonwealth Office. Born in 1939.

9 Angela Sarkis CBE

BBC Governor since October 2002. Member of the Programme Complaints Committee. Independent consultant; non-executive director on the Correctional Services Board at the Home Office; a member of the Interim House of Lords Appointments Commission, and Adviser to the Department for Education and Skills on teacher workload management. Chief Executive of the Church Urban Fund from 1996 to January 2002. Chair of the NCVO Diversity Project and Vice-President of the African Caribbean Evangelical Alliance. A former trustee of BBC Children in Need. Born in 1955.

10 Sir Robert Smith

The BBC's National Governor for Scotland since August 1999 (appointed for a second four-year term in July 2003). Chairman of the Programme Complaints Committee and member of the Audit Committee, Property Committee, Remuneration Committee, and Councils and Advisory Bodies Committee. Chairman of the Trustees of BBC Children in Need. Chairman of the Weir Group plc and Deputy Chairman of Scottish and Southern Energy plc. Member of the Judicial Appointments Board for Scotland and on the Board of Trustees of the British Council. Past President of the Institute of Chartered Accountants of Scotland. In January 2003 he published the Smith Report on Audit Committees on behalf of the Financial Reporting Council. Born in 1944.

11 Ranjit Sondhi CBE

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

Gavyn Davies OBE

Served as Chairman from October 2001 until his resignation in January 2004.

Sir Richard Eyre CBE

Served as a BBC Governor from November 1995 until his resignation in May 2003.

Baroness Hogg

Served as a BBC Governor from February 2000 until the expiry of her term of office in February 2004.

Executive Committee



The Executive Committee manages the day-to-day business of the BBC. It is made up of the heads of the 16 BBC divisions, which produce or commission all BBC output, and it is chaired by the Director-General. The Executive Committee answers to the Board of Governors which appoints the Director-General and, in consultation with him, all the other members of the Executive Committee.

1	2	3	4
5	6	7	8
9	10	11	12
13	14	15	16

1 Mark Thompson

Director-General Designate from May 2004. Previously Chief Executive, Channel 4 from 2002. Former BBC positions include Director of Television; Director of National & Regional Broadcasting; Controller BBC Two; Head of Factual; Head of Features; Editor, *Panorama*, and Editor, *Nine O'Clock News*.

2 Mark Byford

Acting Director-General and Deputy Director-General since January 2004. Also leads the Global News Division, with overall responsibility for the BBC World Service and BBC World. Trustee of the BBC Pension Scheme. Former BBC positions include Director of Regional Broadcasting; Head of Centre, Leeds, and Home Editor, Television News.

3 Jenny Abramsky CBE

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

4 Jana Bennett OBE

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

5 Stephen Dando

Director of BBC People (formerly Human Resources & Internal Communications) since June 2001. Responsible for all BBC people and organisation issues, including staff communications. Trustee of the BBC Pension Scheme. Previously Global Human Resources Director at Guinness Limited. Former positions include Group Management Development Director, Diageo, and spells with UDV Europe, United Distillers, Ferranti International and Austin Rover.

6 Andy Duncan

Director of Marketing, Communications and Audiences since June 2001. Responsible for all the BBC's marketing, publicity, press and PR, audience services, and audience research activities. Chairman of Freeview. Trustee of Children in Need. Chartered Institute of Marketing 'Marketer of the Year' – 2003. Former positions include European General Manager, Global Board member and European Marketing Director – Unilever's

Food and Beverages division, UK Marketing Director – Unilever UK, and Chairman of UK Tea Council.

7 Carolyn Fairbairn

Director of Strategy & Distribution since April 2001. Responsible for strategic planning and the distribution of BBC services. Previously Director of Strategy. Former positions include Director of Strategy, BBC Worldwide Limited, working in the Downing Street Policy Unit and for McKinsey and Company.

8 Rupert Gavin

Chief Executive of BBC Worldwide Limited since July 1998. Responsible for all the BBC's commercial consumer activities in home markets and around the world. Previously Managing Director of BT's Consumer Division. Former positions include Director of Information, Communications and Entertainment for BT and Deputy Managing Director of Dixons Stores Group.

9 Ashley Highfield

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

10 Pat Loughrey

Director of Nations & Regions since May 2000. Responsible for BBC programmes and services in Scotland, Wales, Northern Ireland and the English Regions. Previously Controller, BBC Northern Ireland. Former positions include Head of Programmes and Head of Educational Broadcasting for BBC Northern Ireland, and teaching and broadcasting in Ireland and Canada.

11 Peter Salmon

Director of Sport since November 2000. Responsible for all BBC Sport activity across television, radio and new media. Previously Controller, BBC One. Former positions include Director of Programmes at Granada TV, Controller of Factual Programmes at Channel 4, and Head of Features at BBC Bristol.

12 Richard Sambrook

Director of News since March 2001. Responsible for broadcast news operations and the provision of daily news and current affairs programming for all UK-wide BBC television, radio and online services. Previously Deputy Director, News. Former positions include Acting Director of Sport; Head of Newsgathering; News Editor, and Deputy Editor, *Nine O'Clock News*.

13 John Smith

Director of Finance, Property & Business Affairs since April 2000. Responsible for all BBC finances including television licence collection, procurement and property strategy, and for oversight of BBC Ventures Group since the resignation of Roger Flynn. Trustee of the BBC Pension Scheme. *AccountancyAge* Financial Director of the Year in 2001. Non-executive director at Severn Trent Plc and Chair of their Audit Committee. Previously with British Rail Group, overseeing demergers. Member of the Accounting Standards Board.

14 Caroline Thomson

Director, Policy & Legal (formerly Public Policy) since May 2000. Responsible for Charter Review process, legal affairs, government relations and corporate social responsibility. Trustee of the BBC Pension Scheme. Former positions include Director of Strategy & Corporate Affairs, BBC World Service; Commissioning Editor, Science & Business at Channel 4, and political assistant to Roy Jenkins.

15 John Willis

Director of Factual & Learning since June 2003. Previously Vice-President in charge of national programming at WGBH Boston. Former positions include Managing Director, LWT and United Productions; Director of Programmes, Channel 4; Controller of Documentaries and Current Affairs, and Editor *First Tuesday*, Yorkshire Television.

16 Alan Yentob

Director of Drama, Entertainment & CBBC since April 2000. Responsible for all creative output in these areas, including BBC Films, and for talent management across the BBC. Presenter of the BBC One arts strand *Imagine*. Chairman of the Institute of Contemporary Arts. Previously Director of BBC Television; Controller of BBC One and BBC Two; Head of Music & Arts, and founder Editor, *Arena*.

Greg Dyke

Greg Dyke was Director-General from January 2000 until his resignation in January 2004.

Glenwyn Benson

Glenwyn Benson was Director of Factual & Learning until June 2003 when she was appointed to the new role of Controller, Factual Television.

Roger Flynn

Roger Flynn was Chief Executive of BBC Ventures Group Limited from June 2001 until his resignation in March 2004.

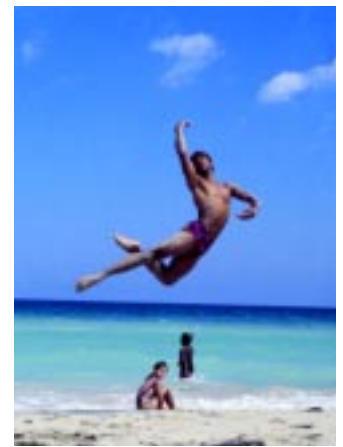
Governors' review of objectives

Overview

As Governors we are responsible for ensuring that the BBC operates in the interests of viewers and listeners. On their behalf, we assess how effectively the BBC delivers its public purpose: to enrich people's lives with programmes and services that inform, educate and entertain. To ensure that management focuses on delivering that public purpose, we set objectives each year and monitor performance against them.

These objectives provide a strategic framework for the BBC, but they are not the only measure we use to assess performance. Each spring we also publish the *BBC Statements of Programme Policy* which set out the remit for each service, and commit the BBC to providing a wide range of public service output. In the *BBC Annual Report*, as well as assessing performance against objectives, we also evaluate the BBC's performance against these remits and in delivering output commitments (see pages 24 to 57 and 58 to 67).

In this section we report on performance against our 2003/2004 objectives. In order to inform our judgements, we regularly consult licence payers. This section includes two case studies to show the sort of work we have done. Our 2004/2005 objectives are set out on page 23.



1	2	4
	3	

1 Question Time
Recording an edition before an invited audience in Newbury

2 The Big Read
Choosing the best-loved novel generated huge interest in books

3 The Secret Policeman
BBC One's documentary exposed racism among some police recruits

4 Imagine
Cuban dancer Carlos Acosta profiled for the BBC One arts show

Objective 1

Underpin the BBC's public service remit by extending the range and quality of its radio and television services, with a focus on broadcasting more high-impact, memorable programmes, particularly arts and current affairs.

The range of output has been extended on radio and television, particularly in our priority genres of arts and current affairs and the BBC has had success in broadcasting high-impact, memorable programmes. However, there has been a decline in audience perception of the BBC's quality and work needs to be undertaken to understand this.

Radio continues to perform strongly, maintaining its commitment to a wide range of output unmatched by the commercial sector: This is reflected in the age 15+ reach of BBC Radio which has remained relatively stable, falling just 0.3 points to 66.4% in 2003/2004, despite increased competition. The five new digital radio networks have given listeners access to increased hours of drama, factual and religion. On analogue, we note the consistent quality and ambition of long-running strands such as *Face the Facts*, *File on 4* and *Beyond Belief*.

There is evidence of an increased range of output on television in 2003/2004 with more hours and investment in key genres such as history, science, arts and current affairs. We are pleased to note that the increase in range appears to have been recognised by audiences, with a rise in

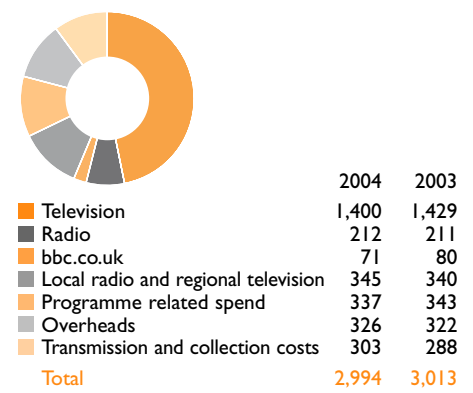
reach for BBC Television. Research also indicates that audiences rate BBC channels "best for range" in 17 out of 22 genres.

Television arts and current affairs have been priorities over recent years and the results of new strategies are now coming on screen (see page 14). We will continue to give these strategies high priority. We are encouraged that BBC One remains the best rated channel for news and current affairs, as does BBC Two for arts. We also welcome the peak scheduling of the new BBC Two arts strand, *The Culture Show*, to be launched later this year.

On television, there is strong evidence that the BBC has delivered a high number of memorable programmes across a range of genres. In 2003, 47% of the programmes that audiences recalled unprompted in research were on BBC Television, well ahead of any other channel. Some of this output has also had wider political or social impact, such as *The Secret Policeman* and *The Big Read*.

We are, however, concerned about a decline in perceptions of the quality of BBC output over recent years, with people marginally less inclined to agree with the statement that: "the BBC maintains high standards of quality" and that it: "sets the standard for programme making in the UK". This finding contrasts with both the increased reach of BBC Television and audience agreement that the BBC offers the best quality in the majority of genres. Work will be undertaken over the coming year to understand audience perceptions of quality better and in particular to find out whether the perceived decline in quality relates to the BBC in particular or broadcasting in general.

Total broadcasting spend 2003/2004 (£million)



For further explanation of these figures see Note 2b on page 109

Governors' review of objectives

BBC arts programming

Objective 1 resulted in part from our disquiet at the diminution of arts broadcasting on BBC Television. As a result a new strategy was put in place. Much of the resulting new output was first screened in 2003 and during the year we set out to assess its success.

Our review included workshop sessions in Bristol, Birmingham and Manchester where we met local arts professionals. We also commissioned an audience research project carried out in Colwyn Bay, Glasgow, Newcastle, Leicester, Gillingham and London.

We found a consensus that audiences expected more from the BBC than from other broadcasters. Audiences perceived arts were a low priority for the BBC, as reflected in its unpredictable and often late scheduling and output. Audiences felt that the BBC needed to signpost its arts programmes better. Event programming such as *The Big Read* made a high impact – but for a limited time. What was needed was a commitment to continuing series as well as one-off, high-impact programmes.

Most people agreed that BBC One had shown some highly successful mass audience art programmes such as *Rolf On Art* and *Leonardo*. The BBC was, however, perceived as being less cutting-edge than other broadcasters with a tendency to aim for the mainstream. Audiences wanted the BBC to have both entry level programmes and output that went beyond popular taste and set the agenda. In particular, BBC Two was thought to lack a challenging arts magazine programme.

The new BBC One programme *Imagine* was thought to be successful in dealing with a variety of subjects in an interesting and informative way. But it was too new a programme to have established itself in audiences' minds. BBC Radio's output was greatly valued by arts consumers. In particular the commitment to comment, expertise and arts news was appreciated.

We are pleased to note that following this consultation the Director of Television and the Controller, BBC Two announced a new topical arts journalism unit to produce programmes for both BBC Two and BBC Four. A new weekly BBC Two peak-time programme dedicated to UK arts and culture will be launched later this year.

Objective 2

Strengthen the BBC's digital services, with the aim of providing something of value for all digital audiences. In particular, provide a wide range of interactive learning opportunities and help to drive digital take-up by extending the availability of the services and focusing on cross-channel commissioning and scheduling.

Sound progress has been made in helping to drive digital take-up and there is evidence that the digital services' output has been strengthened, but continued scrutiny will be necessary for us to ensure that the new services are offering good value for money.

The BBC has continued to play an important role in driving digital take-up over the past year. The range of services and content has been enhanced and marketing effort has been directed at raising awareness of digital platforms and how to access them. In March 2004, 18 months on from launch, Freeview sales reached 3.5 million, making it the UK's fastest growing consumer electronic device. The success of Freeview and the BBC's decision to broadcast unencrypted on satellite are key factors behind growing industry optimism that analogue switch-off by 2010 is possible. On radio, the BBC's



1	2	4
	3	

1 Human Senses
BBC One's exploration of sight, sound, taste and – here – smell

2 Paul Taylor Dance Company
Part of BBC Four's contemporary dance season

4 Art and the City
James Gooding investigated the underground art scene on BBC Three

3 bbc.co.uk
More than 10 million people a month now use BBC internet pages

DAB transmission network has expanded coverage from 65% to 75% of the UK over the year. Research indicates that the BBC's services have been critical for the take-up of digital radio receivers, with BBC 7 alone accounting for a significant proportion of purchases. bbc.co.uk has continued to play a significant role in driving online penetration.

Weekly reach data is now available for the digital radio networks, indicating that an average of 1.4 million listeners are tuning in. We note the particularly high approval for these networks.

Reach and awareness of all the BBC's digital television services have increased during the past year, with particularly strong growth by CBBC. However, perception of the value of BBC Three and BBC Four remains too low. We have reviewed the digital channels over the past year and steps have been taken to strengthen them, including significant changes to BBC Three's schedule during the year aimed at enhancing its distinctiveness. We also approved a measured increase in BBC Four's budget for investment in originated drama and comedy to help widen its appeal.

An increase in co-commissions between the digital and analogue channels this year is helping to deliver value for money and enabling analogue viewers to benefit from the BBC's digital investment. The best of BBC Three and BBC Four output is being showcased regularly on BBC One and BBC Two, with the BBC Four Zone on BBC Two proving particularly successful. The challenge now is to reduce the digital television channels' reliance on analogue content, particularly on BBC Three.

There has been increased investment in interactive television-based services over the year. The strong performance of these services built around landmark factual output such as *Human Senses* and stand-alone offerings such as *Bitesize*, also available on bbc.co.uk, indicates their potential to deliver learning output to a new audience.

Scrutiny of the strategies and performance of all digital services will continue to be a priority for us. Over the next year we will commission our own qualitative and quantitative research to judge the effectiveness and distinctiveness of these new services and to inform judgements about the value for money they offer licence payers. Extending the availability of the BBC's digital services continues to be a priority and is reflected in its inclusion as an objective for 2004/2005 (see page 23).

Objective 3

Bring younger audiences to BBC services by developing bold and innovative programmes and content, with a particular focus on making the BBC's news and current affairs more relevant and engaging for this group without diminishing the BBC's commitment to parliamentary reporting.

New services and programming are helping to increase the BBC's reach among younger audiences but continued effort and experimentation is needed to engage this audience in a range of output.

The BBC was successful in attracting younger audiences in 2003/2004 with the BBC's total reach increasing among the 16–34 age group by 1.5 points to 90.5%.

On television, drama and soaps were particularly successful at drawing younger audiences to both BBC One and BBC Three. We welcome continuing efforts to engage them in a wider range of output, such as factual and arts.

We are disappointed that the reach of BBC Radio has fallen among 15–34 year olds, mainly reflecting a fall in the reach of Radio 1. We approved a new strategy for BBC Radio 1 in May 2003 to ensure that it continues to play an important role in reaching this audience (see page 33).

Governors' review of objectives

Efforts have continued to engage younger audiences with news and current affairs, with online proving particularly successful. More than 10% of 15–34 year olds use bbc.co.uk/news, up from 8% a year ago. BBC Three has had critical success with its current affairs output, and its short hourly bulletin, *60seconds*, continues to perform well. Celebrity-focused *Liquid News* was replaced with a longer main evening news programme in May 2004 to capitalise on the evident interest in longer-form analytical current affairs among BBC Three viewers.

There have been renewed efforts to engage younger audiences in politics, particularly with the Saturday 9am slot on BBC Two. However, the two formats piloted delivered only modest audiences – and older than had been hoped for. Future strategy will focus on reaching younger audiences through mainstream bulletins and the web. There are encouraging early results from the *iCan* online and interactive television project launched as a pilot in November to engage people in political issues that matter to them. Use has grown rapidly, with the bulk of users under 45. The changes to political output introduced over the past two years have not diminished the BBC's commitment to parliamentary reporting which continues to be supported by the BBC's dedicated parliamentary unit at Millbank.

Engaging with younger audiences across television, radio and online remains a continuing priority for us. A pan-BBC project has been initiated over the past year to understand this audience's needs better and how the BBC can meet them.

Objective 4

Continue to seek new ways of attracting audiences from the UK's ethnic minorities, through both mainstream and targeted services.

There is some evidence that the BBC is succeeding in attracting ethnic minority audiences to its output. Effort now needs to focus on ensuring that commissioning and development better reflects the needs of these audiences.

Research indicates that there has been an improvement in approval and in the performance of BBC services among ethnic minority audiences on all platforms. Approval of the BBC among ethnic minorities is now on a par with that of the population as a whole at 6.7 out of 10, and there is a growing perception that the BBC caters well for minority interests. However, reach of both television and radio among ethnic minorities still remains significantly lower than among the general population, and particularly so on the analogue radio networks.

The Connecting with Ethnic Minorities Project aimed to provide a deeper understanding of the interests and lifestyles of these audiences. It has now been communicated across the BBC and started to influence commissioning and production decisions. Notable successes include *The Canterbury Tales* series on BBC One which made extensive use of actors from ethnic minorities and *Top Gear* which is reflecting the particularly high interest in cars among Asian audiences.

There are early indications that 1Xtra and BBC Asian Network, which were launched to fill some gaps in the BBC's offering, are driving the increased reach of BBC Radio among this audience. BBC Asian Network already reaches more ethnic minorities than any other BBC radio network with the exception of BBC Radio 1. 1Xtra has appeal to all fans of contemporary black music, and not just black listeners.

The BBC has had some limited success with writing initiatives to encourage ethnic minority writers. We welcome BBC Asian Network's investment in fresh writing talent to support its new Asian soap. However, criticism of the African-Caribbean sitcom *The Crouches* has highlighted the importance of understanding the needs of ethnic minorities throughout all stages of the commissioning, development and creative process.

Overcoming the lower awareness among ethnic minorities of what the mainstream radio networks offer remains a key challenge. Despite efforts to bring more ethnic minority presenters to the airwaves and offering more speech-based output to appeal to ethnic minorities, the reach of the analogue radio networks, particularly local radio, has continued to fall, and at a greater rate than the population as a whole.

We recognise the progress being made towards this objective but note that more must be achieved if the BBC is to make programmes as relevant and appealing to Britain's diverse ethnic minorities as to the population as a whole and so reflect today's society. We will pay particular attention to this area of need when reviewing future plans for programmes and services.



1	2	4
	3	5

1 Silver Street
Recording the new soap for the BBC Asian Network

2 BBC bus Sheffield
Opening up the digital world to new users

3 Balamory
Pre-school drama from BBC Scotland on CBeebies

4 Canterbury Tales
Updated Chaucer for a 21st-century audience on BBC One

5 bbc.co.uk/northernireland
One of the BBC's websites tailored for a local audience

Objective 5

Ensure that the BBC is meeting the needs of audiences in all nations and regions of the UK.

Following consultation with the Broadcasting Councils of Scotland, Wales and Northern Ireland and the English National Forum, we are satisfied with the progress towards meeting audience needs with local output and services. But effort is needed to increase further the volume of BBC Nations' production for the networks to reflect the diversity of audiences across the UK more fully.

The BBC is now in the final year of a three-year strategy to invest an additional £50million a year in a wider range of locally produced output, particularly on television across the nations, and online in England. Since the start of the initiative, research indicates a steady increase across all nations in approval – and in agreement with the statement: "the BBC plays an important part in the local community."

The additional funding has enabled BBC Nations to invest in a wider range of genres alongside news and current affairs, including entertainment and sport, with the focus over the past year on factual output. A significant part of this output is programming that would not be available if the BBC did not provide or facilitate it, such as indigenous language output, or content from audiences developed through projects such as *Digital Storytelling* which began in Wales and is being rolled out in England.

In England, the additional funding has been targeted at developing local online *Where I Live* sites offering local news, weather and information. Across the UK average monthly page impressions for the *Where I Live* sites have nearly doubled between 2002/2003 and 2003/2004, and hit 100 million in March 2004.

The BBC's physical presence in cities and towns across the UK spreads economic benefit as well as enabling the BBC to engage directly with segments of the audience currently underserved by either network or local broadcast offerings. Through the connecting with communities strategy new buses were launched in 2003/2004, bringing the total to 14 buses, four Open Centres and four community studios. These have brought the BBC into contact with new audiences, such as the under-45s and ethnic minorities.

While significant progress has been made towards meeting the needs of audiences across the UK through this local output and activity, we are concerned that more needs to be achieved in terms of network output. UK network output produced in the BBC Nations & Regions has both the potential to reflect more accurately the diversity of audiences across the UK, and support a healthy, devolved production base. Despite notable successes such as children's output in Scotland, factual in Wales and drama in Northern Ireland, network television spend in the BBC Nations is still too low as a proportion of total television network spend. Improved strategic collaboration and planning between network commissioners and the BBC Nations & Regions is the key to improving this and we will expect to see evidence of this in the coming year.

Objective 6

Implement the recommendations of Making it Happen, particularly around values and leadership, in order to make the BBC a more creative, collaborative and exciting organisation in which all staff fully understand its purpose and shared values.

Good progress is being made in implementing the recommendations of the Making it Happen change programme, and there are early indications of positive results. It remains a priority to realise the potential of the BBC staff as a creative resource, particularly by improving collaboration between divisions.

The Making it Happen initiative was launched in February 2002 to bring about cultural change in the BBC with the aim of making it the most creative organisation in the world. After two years, the programme is well established with a range of projects under way. The annual staff survey, carried out by MORI, provides the best evidence of its impact. Headline findings for 2003 were that Making it Happen was supported by nearly two-thirds of BBC staff (a very high level for this kind of initiative) and that the vast majority of BBC staff (85%) believed they understood the purpose of the BBC, with 60% claiming to live up to its values.

Governors' review of objectives

However, the survey also showed that the BBC's values are not always demonstrated in the way staff actually behave. There were particular concerns about collaboration and trust between staff in different divisions. Over the last year the One BBC initiative, which is designed to tackle some of these problems, has had noteworthy successes such as the cross-divisional One BBC for One Million campaign during which staff raised nearly £1 million for BBC Children in Need.

There was also widespread feeling that the creative potential of staff is not being fully realised. The commissioning process has been identified as a possible contributory factor. Work is currently under way to involve more people in the development of ideas and we will look for evidence over the coming year that this is producing the desired results.

An early finding of Making it Happen was that leadership needed to be improved at all levels. The BBC Leadership Programme was launched to address this in September 2003 (see page 72), and there are encouraging early signs that staff perceptions are changing for the better. Feedback remains a key area of weakness and this will get more attention over the coming year.

Given its potential to deliver benefits to the audience, we have agreed that Making it Happen should remain a focus of the BBC's objectives in 2004/2005, with the wording changed to "Build on the recent Making it Happen initiatives to make the BBC a more creative, collaborative and audience-focused organisation that is inclusive and reflects the diverse society it serves."

Objective 7

Ensure that the BBC is more representative of the audiences it serves.

In particular:

- **achieve the target of 10% of its total workforce and 4% of senior management coming from ethnic minorities by December 2003**
- **increase the proportion of people with disabilities working for the BBC**

The BBC has met the targets for ethnic minority representation in its workforce, including representation within senior management. It has improved monitoring of disability among staff and is on a par with the rest of the media industry in the employment of disabled people.

The target of 10% of all staff coming from ethnic minorities was set in 2000. The target is higher than the ethnic minorities' 7.9% representation among the UK population as a whole as it takes into account the BBC's location in largely urban areas, such as London, where minority communities are concentrated.

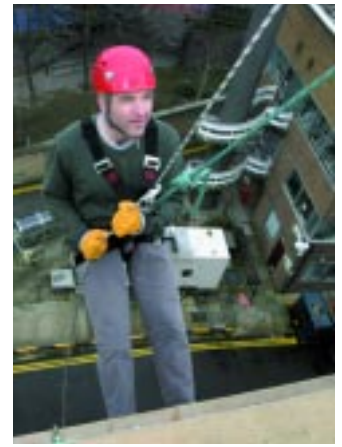
During 2003, the recorded proportion of ethnic minority staff passed 10% for the first time and the proportion of senior staff remained above 4%. This was achieved through sustained recruitment efforts as well as improved monitoring. We have

now established longer-term, more stretching targets of 12.5% across all staff and 7% for senior staff by the end of 2007.

The BBC has improved its monitoring of disability – previously many staff did not declare conditions which might count as disabilities. The proportion of staff with disabilities now stands at 2.7%, close to the 3% recorded for the media industry as a whole by Skillset, the industry training body. However, it must be the BBC's ambition to exceed the industry-wide figure in future.

The BBC also aims to reflect the audiences it serves in terms of the age and gender of staff. Gender representation is a real success story. Around 50% of staff and 37% of senior management are women. This varies considerably by division, however, with women represented at much lower levels in Sport, New Media & Technology, and BBC Technology and BBC Resources (BBC Ventures).

The staff of the BBC have a younger age profile than the audience they serve and than the UK workforce as a whole: 79% of staff are aged under 45 and 96% under 55. In light of this the BBC has undertaken a research project over the past year to improve its understanding of older audiences. The insights from this are now being communicated to programme makers to help them serve the needs of this audience better. In pursuing the overall goal of a workforce that is more representative of the audience it serves, the BBC must aim to create a working environment that enables everyone to fulfil their potential and results in higher levels of staff retention.



1	2	4
	3	

1 Proms in the Park
Taking the Proms to a broader audience around the UK

2 Making it Happen
Poster campaigns tell BBC staff more about their audience

3 Upfront
A taste of the studio for new BBC staff during induction

4 Children in Need
BBC staff raised nearly £1 million. Stunts included abseiling down Television Centre

Objective 8

Continue to increase the amount of money available to spend on the BBC's public services by enhancing the efficiency and effectiveness of the way the BBC operates.

The BBC is making steady progress towards the target of putting an additional £3.3billion into services through self-help initiatives between 1999/2000 and 2006/2007. However, we believe that much more can be achieved, particularly in terms of improved efficiency. Progress has also been made this year in creating a framework for understanding the effectiveness of the BBC's investment in programmes and services.

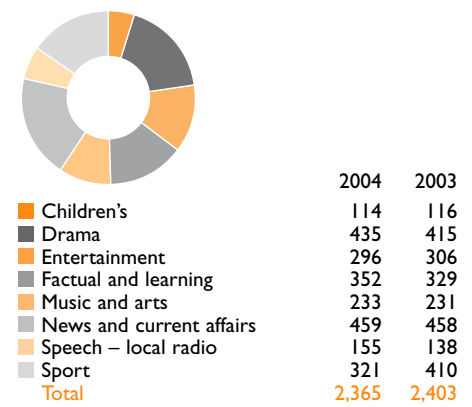
The efficiency of licence fee collection has continued to show improvement this year. The evasion rate now stands at 5.7% compared to a revised figure of 6.7% last year. The previous estimate for evasion in March 2003 was 7.2% and has been revised to reflect newly published household estimates. The continued reduction in the evasion rate represents a considerable achievement.

Headline cash flow from the commercial subsidiaries was £135million, up from last year's £124million. Commercial borrowing has increased significantly over the year from just over £31million to £172million. This reflects increased investment in BBC Worldwide to secure rights for future exploitation and BBC Broadcast's new play-out systems which are forecast to generate £20million in savings by 2005/2006, as well as ongoing restructuring of the Company's capital base so as to have a more appropriate mix of debt and equity.

Additional savings of £29.3million were made in support costs, building on a good performance in previous years. A new programme of efficiency savings has now been agreed which, together with the sale of BBC Technology and associated efficiencies, should enable the BBC to exceed its cumulative £3.3billion self-help target by 2006/2007. We believe the BBC must now set itself more stretching efficiency targets if it is to deliver licence payers the best possible value for money.

The key challenge lies in improving the efficiency of production processes, and progress here – particularly in terms of benchmarking production costs – has not been as rapid as we had expected. A new Head of Value for Money has recently been appointed who will lead a thorough review of these and other internal costs. In assessing the proposals that arise from this review we will be particularly concerned to ensure that quality is maintained or improved and that there is no change in the overall programme mix in favour of lower cost programming.

Programme spend by genre 2003/2004 (£million)



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

Governors' review of objectives

Solid progress has been made in developing ways in which the effectiveness of the BBC's programmes and services can be judged. A comprehensive piece of consumer research has been carried out to assess the monetary value that consumers place on what the BBC provides. Results indicate that the value licence payers place on the BBC's services comfortably exceeds their costs.

In addition to this, a new set of measures is now being put in place which reflects the BBC's public purposes and which will attempt, for the first time, to describe the value that licence payers derive from the BBC as citizens and not just consumers. This 'citizen value' is difficult to assess, but the overall aim of this work will be to generate an easily understood public value test which can be applied to all the BBC's services in order to demonstrate the value that the BBC delivers to viewers and listeners by virtue of its unique funding arrangements.

Objective 9

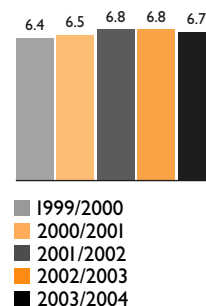
Earn greater appreciation from UK audiences for the BBC as an open, creative and trusted public service organisation.

Public opinion of the BBC has remained broadly positive, despite events surrounding the Hutton Inquiry, but more work needs to be done to enhance perceptions of the BBC as both a creative and an open organisation. To ensure that the BBC retains a high level of public trust we have overseen reviews of the BBC's editorial processes, impartiality and its system of governance.

The proportion of the public who believe that the BBC is trustworthy increased significantly over the year, rising from 59% to 72%. However, 18% of the general public said that their perception of the BBC had worsened as a result of the Hutton Inquiry, and among opinion formers, including MPs, this figure was 38%.

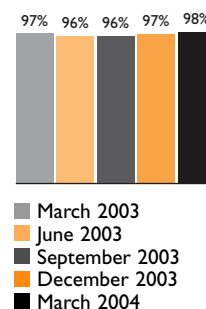
Given the importance of trust to the BBC's reputation, we have focused on two key issues over the past year. Firstly, we have reviewed editorial processes and procedures as a result of the Hutton Inquiry and implemented changes (see pages 4 to 5). Secondly, we have enhanced our monitoring of impartiality by introducing two new mechanisms. One is a MORI tracking survey of public perceptions of impartiality – we will see the first results

Audience approval of the BBC



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

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



Source: Pan-BBC Tracking Study, claimed usage



1	2	4
	3	5

1 BBC Information Belfast
BBC Information centres handle contacts from the public round the clock

2 *The Archers*
Radio 4's long-running soap drew praise for authenticity

3 Tom Heap
New correspondent improving BBC rural affairs coverage

4 BBC World Service
A listener has her say at a BBC Hindi roadshow in Uttar Pradesh

5 BBC World
Presenter Nik Gowing chaired the BBC World debates from Davos

in 2004/2005. The other is a series of regular reviews of selected topics using panels of independent experts and focus groups. We will commission these reviews twice a year. The topics for 2004/2005 are religion, and European constitutional issues.

On the question of openness, the BBC has worked hard in recent years to improve its accessibility and accountability to the public, but more needs to be done. The system of dealing with complaints is being reformed and strengthened with a clear code of practice. We have also carried out a review of the BBC's system of governance and proposed significant changes, as outlined in our *Building Public Value* document. These are designed to reinforce the openness and accountability of the BBC.

The BBC still has some way to go to convince audiences of its creativity. BBC research indicates that audiences are more likely to believe that BBC services are "safe and/or predictable" than "innovative with fresh ideas". This may reflect a general criticism of television in general rather than the BBC specifically, but the BBC needs to find ways of changing perceptions here. We look to the Making it Happen programme of internal change to ensure that the BBC serves licence payers better with more innovative programming.

Impartiality in BBC reporting of rural affairs

About 25% of BBC audiences live in rural areas and there has been some criticism that their concerns are inadequately or inaccurately represented by the BBC. As a result, in June 2003 we commissioned a review of BBC coverage of rural affairs.

The review was in three parts: an independent expert panel; focus group research with audiences; and content analysis carried out by the BBC. The review reported in October 2003.

It found much that was good: the BBC takes rural issues seriously; coverage is often of high quality; and the appointment of a Rural Affairs Correspondent was welcomed. However, the great diversity of rural areas was not always understood properly by metropolitan-based broadcasters, and this could lead to glib generalisations and unintentional bias.

One example identified in the review was that the concerns of those who live in accessible rural areas are not always the same as those who live in remote areas, but they are sometimes treated as identical. Another is the fox-hunting debate, where it was misleading to represent the countryside as uniformly pro-hunting – or to depict everyone who hunts as belonging to the landed gentry.

To counter this, the review recommended that BBC News should tap into existing expertise to build authority. The review also recommended

that serious consideration should be given to creating a dedicated rural affairs site on bbc.co.uk/news.

The review also considered the representation of rural affairs in BBC drama. Some drama – particularly *The Archers* – was praised for pursuing strong and accurate rural storylines. But not all were so successful. A degree of stereotyping was felt to be acceptable, particularly in comedy such as *The Vicar of Dibley*, but it was felt that there were missed opportunities. The review recommended that television drama should explore the possibilities inherent in the grittier side of contemporary rural life.

The findings of the review were presented to programme makers across the BBC and distributed to editors in BBC News. There has been progress in implementing its recommendations, although more remains to be done. The appointment of a new Rural Affairs Correspondent has had a positive effect in raising the profile of rural issues in BBC News programmes. BBC News 24 is working more closely with the BBC Nations & Regions to ensure that local expertise on rural issues finds a place in national output. And there is greater use made of the expertise of the Rural Affairs Unit in Birmingham. The possibility of a rural affairs website remains under review.

Governors' review of objectives

Objective 10

Build on the impact made by the BBC's global news services through a coordinated global news strategy across radio, television and new media.

BBC World Service & Global News was established at the end of 2002 to maximise the performance and impact of the BBC's international radio, television and online services. Good progress has been made towards greater editorial coordination. Overall, research surveys suggest that the impact of the Hutton Report on the BBC's international reputation has been limited.

In its first year of operation the Global News Division has facilitated some high-impact, cross-media editorial initiatives, including the Aids season in 2003 which generated a widespread positive response. Other highlights include the tri-media World Debate in Davos and a collaboration between the Global News Division and BBC News on the Islam and the West project. We look forward to further collaboration between the different areas of the Global News Division as well as with other parts of the BBC.

Despite increased competition around the world, the BBC's services continue to perform strongly. Reach of the BBC World Service has fallen slightly this year from 150 million to 146 million listeners, but the decline is attributable to difficulties in obtaining FM transmission or partnerships to replace short-wave delivery. Efforts will continue in 2004/2005 to overcome this and extend FM reach wherever possible. On television, the reach of BBC World is growing in key markets such as the USA and Europe. The Global News Division's online sites also continue to grow, recording a 99% increase in page impressions year-on-year in January 2004. We look forward to increased efforts to exploit the potential of interactivity to promote international dialogue and debate among different groups of audiences.

There is also good evidence that the Global News Division is effective in reaching opinion formers and decision makers. In the USA around 40% of this group use one of the three BBC services each week, while in Nigeria more than 60% of this group uses either the BBC's television or radio services.

We are pleased to note that, while reaction to the Hutton Inquiry has been mixed across the world, overall impact on the BBC's reputation appears to be limited. While trust ratings have fallen in some markets, BBC World Service continues to be more trusted than its leading competitors in every market. At present, BBC World remains less trusted than CNN in some markets, but its trust rating is higher in several Islamic countries and it scores well on objectivity.

The importance of the BBC's international role is reflected in the inclusion of an objective for 2004/2005 for the BBC to enhance further the impact of its global news services, with a particular focus on their reputation for independence, impartiality and honesty.

Governors' objectives for 2004/2005

The BBC's Charter requires us to set and report on annual objectives. Under the 2003 Communications Act and the revised BBC Agreement we are now also responsible for ensuring that the BBC meets its overall public service remit by evaluating performance against each of the channel and service remits published in the *BBC Statements of Programme Policy*.

To avoid duplication, annual objectives will in future be restricted to those areas not covered by the *BBC Statements of Programme Policy* which we publish each spring and which deal exclusively with content. The objectives for 2004/2005 focus either on major pan-BBC priorities; divisional issues with wider impact on the rest of the organisation or the BBC's global and commercial interests. They should be seen within the context of our overriding priority – the provision of programmes and services that meet audience need.

The Executive Committee has taken collective responsibility for the achievement of these objectives and we will report on their performance against them in next year's *BBC Annual Report and Accounts*.

1. Journalism and impartiality

Ensure the BBC meets the highest standards of independence, impartiality and honesty in its journalism and implements recommendations on training, editorial control and complaints handling.

2. Creativity and ambition

Build on the recent Making it Happen initiatives to make the BBC a more creative, collaborative and audience-focused organisation that is inclusive and reflects the diverse society it serves.

3. Charter Review

Contribute effectively to the public debate on Charter Review ensuring it reflects the interests of licence payers as a whole and builds on the concept of public value.

4. Driving digital

Drive the market for free-to-air digital television, digital radio and new media, focusing on improvements in awareness, availability and take-up.

5. Value for money

Ensure the BBC is delivering value for money across the full range of its activities, including production processes, licence fee collection and its central functions.

6. The BBC's global role

Enhance further the impact of the BBC's global news services, with a particular focus on their reputation for independence, impartiality and honesty.

Governors' review of services Television

Overview

We have taken action over the past few years to clarify and strengthen the distinctive public service purposes of BBC Television. This action, the result of our consultation with licence payers, has led to a wider range of output, increased investment in distinctive public service genres such as arts, current affairs, history and science, and a corresponding decrease in less distinctive genres such as makeover and reporting celebrities. We note that the audience research informing Ofcom's recent review of public service television supports this shift in emphasis.

This year was the first full year of the BBC's digital television channels and we are encouraged by the progress so far. Both children's channels are now solidly established; BBC Three's risk-taking approach is helping to refresh genres such as comedy, factual and current affairs in a schedule refocused to enhance its distinctiveness, and we have supported BBC Four's early success by approving a modest increase in funding for drama and comedy.

Against this background, we are concerned about a decline in perceptions of quality of BBC output in general, and that the perception of the value placed on BBC Three and Four remains low. Work will be done in the year ahead to understand these perceptions better.





1	2	4
	3	5

1 Pompeii
BBC One's dramatic reconstruction of the Roman city's final day

2 Michelangelo
Biography of the Renaissance genius on BBC One

4 Born to Win
Searching for athletes with the talent to make it to the top

3 Canterbury Tales
The Man of Law's Tale retold for the BBC One audience

5 Panorama
A special edition dealt with the issue of asylum

BBC One

Remit

BBC One aims to be the UK's most valued television channel, with the broadest range of quality programmes of any UK network. The channel is committed to widening the appeal of all genres by offering the greatest breadth and depth within them. BBC One is committed to covering national events and issues, showcasing landmark programmes and exploring new ways of presenting specialist subjects.

BBC One has a unique significance as it accounts for approximately one-third of BBC programme spending, has the widest reach of any BBC service, and many people use it as a measure of all BBC services. Its public service role is to deliver breadth and depth across all genres and, as we have set out in our review of objectives (pages 12 to 22), we have actively encouraged management to reshape the channel to make this public service purpose clearer.

There is evidence that the strategy is delivering results. This year BBC One reached more of its potential audience than last year and, in research, audiences judged it to be the channel offering the best quality output in 12 out of 22 genres, including key genres such as news, current affairs, comedy and period drama. However, audience perceptions that the quality of BBC Television is declining are worrying, and we need to do more to understand this better.

Over the past year there has been increased investment in serious factual output – including history, science, natural history and business. This has been visible on screen both as increased hours in these genres and in higher-profile output.

BBC One has also endeavoured to make serious subjects accessible to a wide range of audiences. This has been done through new technologies, for example, bringing ancient Rome to life in programmes such as *Pompeii: The Last Day* and *Colosseum, Rome's Arena of Death*; and through complementary scheduling, for example, by broadcasting a documentary about Charles II in the same week as the period drama *Charles II: The Power and the Passion*.

As well as offering a range of genres, BBC One aims to offer a breadth of output within genres to cater for the audience's differing levels of knowledge and interest. For example, a more challenging arts strand, *Imagine*, was launched in 2003 to complement Rolf Harris's Sunday evening programme and one-offs such as *The Divine Michelangelo*. Our initial accountability work with audiences on arts output indicated that this had been well received (see page 14).

We are pleased to note that during 2003/2004 it has been BBC One's more ambitious dramas, such as *State of Play* and *The Canterbury Tales* that have made most impact. Audiences have scored these for memorability as highly as national sports events such as Wimbledon.

396
thousand hours of BBC TV and radio in 2003/2004

4.7p
cost per hour per home spent with the BBC

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Governors' review of services Television

In a year when BBC journalism has been under intense pressure, leading to fears that it would step back from tackling difficult subjects, it was particularly pleasing to note the impact made by *The Secret Policeman*. This undercover investigation of racism among police recruits from Greater Manchester, Cheshire and North Wales came under strong attack from the Home Secretary before it was broadcast. But after it had been shown he accepted that the BBC had been justified in its methods. As a result of the programme, police training methods were changed and a number of police officers resigned.

During the year the channel provided extended coverage and analysis of Iraq, the Conservative Party leadership result and the Hutton Inquiry. Four *Panorama* specials in peak time examined topical issues, and there were three 'event days' offering a range of output on the subjects of asylum, consumer debt and the NHS. In December, BBC One cleared its lunchtime schedule to cover the England rugby team's victory parade through London.

In a relatively quiet year for sports output, memorable coverage included World Athletics, Six Nations Rugby and Wimbledon. *Grandstand* was relaunched with a modernised format at the start of 2004. This was a busy and largely successful year for television sports rights: *Match of the Day* will return on Saturday nights and long-term contracts for Six Nations Rugby, Wimbledon, horse racing and the FA Cup were signed. The loss of the Boat Race was disappointing however.

BBC One continued to create entertainment events that bring the UK together such as *Children in Need* and the interactive quiz *Test the Nation*. A notable new format was *Born to Win* which searched for the next generation of British sporting talent. The winners were awarded sports bursaries and the Department for Culture, Media and Sport (DCMS) was sufficiently impressed to add a bursary of its own. The project produced a valuable spin-off by encouraging participation in sport – more than 25,000 pupils took part in a *Born to Win* activity.

Despite these successes, entertainment continues to be a challenge for BBC One as it balances priorities between distinctiveness which implies innovation and risk-taking, and the necessity to meet the needs of a mainstream audience which suggests the familiar and trusted. Finding successful original formats for Saturday nights remains a particular challenge.

We particularly welcome BBC One's launch of a range of new comedy titles in peak time this year. While the new commissions have had varying degrees of success they have made the channel the UK's biggest investor in this notoriously risky genre, an investment which must continue if BBC One is to live up to its comedy heritage. Furthermore, to be successful, the channel needs the confidence to give its commissions time to develop when initially faced with disappointing ratings.

While BBC One met all the commitments outlined in the Statements of Programme Policy, we have a duty to ensure that the channel's schedule, as well as its programmes, best serves audience needs. We have asked our team of advisers to undertake an independent study to assess whether or not the channel has the best balance of output in peak time. We will report on the outcome next year.

Consultation with our independent advisory body, the Central Religious Advisory Committee (see page 77), has already highlighted some disquiet over the place of religion in the BBC One schedule. Work will be undertaken over the next year to assess the effectiveness of the religion strategy we approved in 2002 which promised high-impact religious programming on BBC One alongside *Songs of Praise* and *The Heaven and Earth Show*. While research indicates that the BBC remains the preferred channel for religion, we are concerned that there may not be enough landmark output in peak time to make a regular impact with viewers.



1	2	4
	3	

1 Later with Jools Holland
Music lovers at a recording of the late-night BBC Two show

2 The Office
First shown in BBC Two, this show won an unprecedented two Golden Globes in the US

4 Seven Wonders...
Celebrating Britain's industrial heritage

3 The Day Britain Stopped
Innovative drama-documentary investigating transport issues

BBC Two

Remit

BBC Two sets out to be a mixed-genre channel combining serious factual subjects with comedy and drama to bring challenging, intelligent television to a wide audience. The channel identifies ambition and innovation as its key values. BBC Two aims to create programmes that inspire and excite audiences.

We approved a new strategy for BBC Two in March 2003 and the results have started to show on screen this year.

The new strategy aims to underline BBC Two's distinctive public service role as a channel offering a more challenging mix of output than BBC One. BBC Two's broad range of genres, with a strong, distinctive factual core, appeals to a wider audience than the digital networks BBC Three and BBC Four.

The strategy commits the channel to offering audiences greater variety across the analogue channels by reducing the volume of lifestyle programmes – especially makeover – between 8pm and 9pm, and to increasing the presence of genres such as arts and current affairs in peak time, with more serious documentary output at 9pm.

As a result of the strategy, funding has shifted away from entertainment, and there has been an increase in hours of factual programming on the channel, including history, science, business, current affairs, learning and intelligent entertainment such as *Mastermind*.

Effort has been put into attracting new audiences to non-entertainment output by developing new ways of presenting traditional genres. In history, for example, *Seven Wonders of the Industrial World* looked at the Industrial Revolution through seven engineering achievements of the era; *Restoration* engaged the audience's interest in local historic buildings through a national vote which, with the Heritage Lottery Fund, raised £3.5million to restore the winner, the Turkish baths in Manchester.

BBC Two has also found ways of reinventing aspects of its music, arts, and factual output through the use of drama. In arts output, the results have included memorable accounts of the lives of great artists including Beethoven and the poet Philip Larkin. In factual output, *The Day Britain Stopped* was an innovative 'what if?' account of a day when Britain's transport system came to a catastrophic halt.

Drama is also central to BBC Two's new peak-time current affairs strand *If...* which was launched in March. We welcome BBC Two's commitment to this new scenario-based analysis programme which is examining a wide range of issues and helping to generate and inform political debate.

The work we have done with audiences and with people working in the arts (see page 14) has highlighted a perception that the arts are of low priority to the BBC and that one factor in this has been the lack of a regular television arts strand. We therefore welcome the planned launch of a new weekly peak-time arts and culture programme on BBC Two.

Despite increased competition, BBC Two has managed to hold its reach over the past year and approval of the channel is also marginally up on last year with a higher proportion of the audience perceiving the channel as "up to date". Research also suggests that audiences perceive BBC Two as offering the best range in seven genres and quality in six.

However, the strategy is still in its infancy and we will continue to monitor its implementation and the success of the new strands in delivering a distinctive service that meets audience needs.

Governors' review of services Television

BBC Three

Remit

BBC Three aims to offer an intelligent, ambitious mix of programmes which reflect the things that matter to young British adults. The channel is committed to a mixed schedule of news, current affairs, education, music, arts, science and coverage of international issues, as well as to high-quality, innovative drama, comedy and entertainment.

BBC Three was launched in February 2003 as a mixed-genre digital channel aimed at young adults – a group relatively underserved by traditional public service broadcasting. It has had some early successes and now regularly reaches over a fifth of its core audience of 25–34 year olds each week. Genres that have made an early impact include current affairs (*The Third Degree*), comedy (*3 Non-Blondes*, *Little Britain* and *Nighty Night*), animation (*Monkey Dust*) and science (*Body Hits*). A selection of programming concerned with parenting (*Little Angels* and *Who Rules the Roost?*) also made a mark. Some of this innovative output has already successfully transferred to the analogue channels, benefiting their viewers.

The channel's factual output has tended to be dominated by celebrity, relationship and lifestyle content that veered into competitor territory. This is being addressed – for example, the celebrity-focused *Liquid News* has been dropped from the schedule.

The channel set out to be innovative, experimental and risk-taking. It has attracted criticism because some of its output is controversial. But this is inevitable, given the channel's ambition to present key aspects of public service broadcasting in new

ways that appeal to young adult audiences. We see the channel as a bold attempt to reconnect these viewers with public service broadcasting and, while it still has some way to go, we will continue to support it so that it is given the time it needs to prove itself.

The channel originates material but also repeats – and premieres – some programmes from BBC analogue channels. This allows audiences to catch up, or view at times that may be more convenient – and it also brings viewers to the channel who can then be introduced to originated programmes scheduled immediately after these shows. As the channel matures, one challenge is to reduce dependence on output from other channels, and the consequent audience perceptions that it is a place to catch up on programmes first shown on BBC One or BBC Two rather than for original programming.

The channel must also focus on building on its successes in comedy, current affairs and science, and reap the benefit of its investment in drama to bring a young mainstream audience to this genre.

But a key challenge remains news. The hourly *60seconds* bulletins have proved popular and regularly receive audiences four or five times the channel average, but the main peak-time news has found it hard to craft a format that will capture and keep the attention of its target audience. The success of current affairs on BBC Three (through *The Third Degree* strand) suggests there may be an appetite for a longer bulletin allowing a more analytical approach. As a result, the original 15-minute evening news has been replaced with a 30-minute nightly news analysis programme.

1,556
hours of news on BBC One

82%
of BBC Three programmes
were specially commissioned



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1 Shakespeare's Globe
Live: Richard II from the reconstruction of Shakespeare's theatre

2 The Alan Clark Diaries
Dramatisation of his life and times was a big hit for BBC Four

4 Gauguin: The Full Story
Waldemar Januszczak's exploration of the French artist's life and times

3 The Third Degree
Flagship current affairs from BBC Three

5 Little Britain
Cutting-edge comedy from BBC Three

BBC Four

Remit

BBC Four aims to serve audiences in search of greater depth and range in their viewing. Its ambition is to be British television's most intellectually and culturally enriching channel. BBC Four offers a distinctive mix of documentary, performance, music, film and topical features as a satisfying alternative to more mainstream programming.

Since its launch in March 2002, BBC Four has become the most watched channel of its kind. *The Alan Clark Diaries*, co-commissioned with BBC Two, averaged 856,000 viewers during its first episode – one of the highest-ever recorded audiences for an original drama on a UK digital channel. The channel has found a distinct audience – which tends to be a little younger than that of the factual channels that are its closest competitors. The output generates very positive press reviews and focus group research underlines the value viewers place on it.

The channel has been a success and deserves more investment. We have approved a measured increase in BBC Four's budget to enhance the channel's output of event drama and intelligent comedy. There is good evidence that this will enable BBC Four to appeal to a wider audience.

The channel's distinctively public service proposition lies partly in its international outlook and intellectual ambition, partly in the range of its schedule (competitor channels offer highly specialised niche programming) and partly in its high proportion of original commissions of UK-originated output.

In addition the channel takes seriously its vision of becoming strongly valued for its contribution to the UK's cultural life, as well as to the landscape of broadcasting. To this end it has worked with major galleries to make exhibitions available to a national audience, actively supported the foreign-language film distribution sector in the UK, worked with theatre producers to bring both commercial and subsidised production to the screen, and maintained its sponsorship of the Samuel Johnson Prize for Non-Fiction. Building partnerships with other institutions is a productive way for the channel to increase its impact, promote its presence, and deliver public value to the wider arts community.

BBC Four has real potential for growth. Many people who would value its output have not yet made the transition to digital television. The channel needs to make further progress in appealing to that wider audience. The channel has made good use of the potential of interactivity to build awareness, for example the online *Black Flash* vote to find the greatest British black footballer prompted debate on BBC Radio Five Live and iXtra and gave the channel access to new and wider audiences.

But we are clear that maximising the channel's potential for growth must be achieved without either diluting the key elements of its unique proposition – or by lessening the commitment to more thoughtful, challenging programming on the analogue channels, particularly BBC Two.

42%
of BBC Four was music and arts

1,293
hours of factual programmes on BBC Two

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Governors' review of services Television

The CBBC Channel

Remit

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

The CBBC Channel was launched in February 2002 as a dedicated children's digital channel. Its distinctiveness rests on the quality of its output, the range of its schedule (with clear commitments in news, education and drama), the low repeat level, and the high proportion of UK-originated material in a market where children's channels mostly show acquired and often imported programming.

The CBBC Channel's philosophy is "learning through fun". This means introducing an element of learning and life skills development across a large part of its output including drama and factual. The schedule also includes *Class TV*, a four-hour block of schools programmes transmitted every day during term time. These programmes are designed primarily for use in the classroom and are focused on the school curriculum.

The target age range is difficult to reach. Typically they are short of time and want a channel that delivers something just for them. The channel initially struggled to communicate its mixed-genre offering, but over the year it has improved its performance and now reaches nearly a million viewers a week.

Experimentation has indicated that more frequent but shorter news bulletins are most effective at reaching and engaging this audience in news output. While the number of bulletins has been increased from two in 2002/2003 to seven a day in 2003/2004, the channel has failed to meet its commitment to 85 hours of news in 2003/2004. The strategy is to gradually increase the overall volume of news in the schedule.

Interactivity has been promoted by placing live content at the core of the schedule and by connecting with the audience via mail, telephone, email, SMS and online.

The challenge going forward is to keep up with the channel's demanding and sometimes fickle audience by developing innovative content across the entire range of genres.





1	2	4
	3	5

1 Balamory
Pre-school series for CBeebies made in Scotland

2 Tracy Beaker
Original children's drama about growing up in care for CBBC

4 Newsround
The children's news show, given extra airtime on The CBBC Channel

3 Big Cook, Little Cook
Children's cookery show – a big hit for CBeebies

5 bbc.co.uk/cbeebies
The pre-school website is one of the BBC's most popular

CBeebies

Remit

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

CBeebies was launched in February 2002 as a dedicated pre-school digital channel. Its philosophy is "learning through play". All the programming is linked to the Government's Foundation Stage Curriculum.

The channel has been a success from the start. It is now the most watched children's channel. It has received very positive press comment and high praise from the viewing public which places a high value on its friendly, innocent and safe environment, its educational content, and its high element of UK programming. The CBeebies website has proved a particularly valued resource and has become one of the most popular BBC sites.

One challenge facing the channel is to develop new, high-quality, UK-originated animation suitable for the CBeebies audience. The original aspiration to invest directly in animation co-production has proved hard to meet because of higher than expected costs.

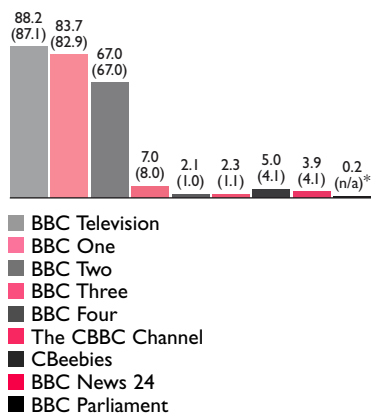
However, an alternative model has been adopted where the channel pre-buys animated titles with third parties – the channel investment usually does not exceed 25%. The same model has been used for The CBBC Channel where similar problems have been encountered. It has proved a value-for-money way to buy the channel an early editorial stake in the content to ensure its suitability for the CBeebies audience.

966
hours of drama on
The CBBC Channel

Six
new talent initiatives from
BBC Three

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Weekly reach of BBC Television services 2003/2004 (% all homes)



Source: BARB, TNS/Infosys, age 4+, average 15-minute weekly reach for the year. * BBC Parliament has only been measured since September 2003
Note: Figures for 2002/2003 appear in brackets

Governors' review of services

Radio

Overview

The radio landscape in Britain is changing fundamentally. There are strong new national digital stations. People are listening in new ways – via television, the internet or mobile phones. Some young music-lovers are turning from radio to downloading music online.

Against the landscape of change, how does BBC Radio continue to make the case for its public service role? The answer is that the BBC can make a difference: to individuals by giving them unique access to things they value; to citizenship and democracy by providing independent information; and to society by investing in the cultural and creative life of the UK. This is as true of BBC Radio's music output as its speech output. The BBC's support for music at its roots and across the board has helped public taste to grow – delivering value to individual listeners and to the wider music industry, both popular and classical. Similarly, the speech component of our music stations helps to push boundaries by tackling difficult issues.

The BBC's national radio services are holding up well. The BBC's new digital services are establishing valued and distinctive niches. BBC Radios 2, 3, 4 and Five Live all consolidated their positions. A new strategy has been put in place to bolster BBC Radio 1's long-term position.





1

2

4

1 Newsbeat
Derren Lawford in the Radio 1
Newsbeat studio

2 Glastonbury Festival
Coverage of live music events
makes Radio 1 distinctive

4 Radio 2 Folk Awards
Kate Rusby live at the awards
ceremony

3

5

3 The Green Room
Friday night arts with Mariella
Frostrup on Radio 2

5 The Jeremy Vine Show
Bringing newsmakers to
the Radio 2 audience

BBC Radio 1

Remit

BBC Radio 1 aims to offer an exciting, high-quality service for a young UK audience. It is committed to playing the best new music and delivering a comprehensive range of live studio sessions, concerts and festival broadcasts. The network aims to cover all young music genres with a wide-ranging playlist and a strong line-up of specialist DJs. Music programming is augmented by tailored speech output – including news, documentaries and advice campaigns.

Radio 1 is critical to the BBC commitment to reaching young audiences – and its health is central to the success of BBC Radio overall. In December 2002 we requested a review of Radio 1's strategy, recognising that although Radio 1 already operated in an intensely competitive market, technological and regulatory changes were likely to intensify this still further. A new strategy was developed and we approved this in May 2003.

Audience consultation played an important part. Research showed that some aspects of the Radio 1 offer were off-putting. For example, although nearly half of 25 to 30 year olds have children, the network was projecting a "relentlessly single" image. There was evidence that listeners wanted the network to be more relaxed and less intense about its music – and they also wanted some older music.

However there was much that was liked, and the BBC response has been evolutionary not revolutionary.

In its mainstream programming, the network is now focusing more clearly on its target audience of 10–30 year olds. This has meant making the daytime content more engaging without diminishing the network's public service commitment to news and new music. In the specialist programming, the aim is to bring listeners new talent and genres that meet the demands of knowledgeable enthusiasts, but do it in a way that is welcoming to the network's broader audience.

In 2003/2004, Radio 1 began to deliver the mainstream component of this strategy including changing some key presenters. Chris Moyles took over the weekday breakfast show in January 2004 when Sara Cox moved to weekday afternoons, and Colin & Edith took over the weekday 1–3pm slot. Work has also been done to ensure that DJs connect more widely. The demand for older music has been met.

It will take time to refresh the entire schedule and at present it is too early to make an informed assessment of its success. We recognise that increased competition is likely to impact on share but are anxious to ensure that Radio 1 continues to deliver its unique reach.

The distinctiveness of Radio 1 is sometimes challenged by critics. In response to this the BBC has set up an independent quantitative research programme to provide data on the distinctiveness of the music mix, including the amount of new music. The analysis carried out in 2003/2004 demonstrated that Radio 1 plays a greater number of different songs across the week than any of its nearest competitors. More than 460 tracks on Radio 1 were not heard on any competitor measured during a sample week in each of May and October 2003. Radio 1 also played more live music than its competitors. The network is now committed to devoting at least 40% of its mainstream programming to new music – defined as unreleased, or less than one month since release.

Across Radio 1 the commitment to a distinctive public service remit will continue, including bespoke news (through the *Newsbeat* strand), documentaries, social action programming and live music events.

Governors' review of services Radio

BBC Radio 2

Remit

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

In a crowded marketplace, Radio 2 has held its audience, retaining its position as the UK's most listened to radio station with an average weekly reach in 2003/2004 of 12.9 million (13.0 million in 2002/2003).

The music played – including live music – continues to cover an extremely broad range. As with Radio 1, the BBC now collects quantitative data to monitor the distinctiveness of the music content of the network. The analysis was conducted twice during 2003/2004 and shows that in each sample week well over 1,000 songs played on Radio 2 were not heard on any other competitor measured. In addition, Radio 2 played a broader range of genres and more live music than its competitors.

Radio 2's commitment to encourage song-writing in the UK has been delivered through *Sold on Song*. This imaginative initiative aims to provide informed insight into the craft of the popular song through events including masterclasses with established songwriters such as Sir Paul McCartney and Elvis Costello, and a competition for new songwriters. *Sold on Song* is supported

by a website containing comprehensive information on topics ranging from the history of the key popular music genres to advice on how to get started as a songwriter.

The network has maintained its commitment to making news and current affairs a key part of the mix. *The Jeremy Vine Show*, launched in 2003, continues to develop well. The interactive second hour (1–2pm) on topical subjects has been successful in generating a large amount of listener interaction. Other notable speech output included the music documentary on Stevie Wonder, *40 Years of Wonder*, and *The JFK Generation*, marking the 40th anniversary of President Kennedy's assassination. The network's arts programme has been relaunched as *The Green Room* and extended from 90 minutes to two hours.

BBC Radio 3

Remit

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

Radio 3's audience has marginally increased, with an average weekly reach in 2003/2004 of 2.2 million (2.1 million in 2002/2003). The summer Proms season attracted a particularly strong audience and – following schedule changes in the autumn informed by audience consultation and research – the network achieved a record reach in the first quarter of 2004.

Notable output has included Berlioz day – a complete Radio 3 day devoted to the life and influences of the composer; coverage of the Radio 3 Awards for World Music, staged outside London for the first time; and an Arabian night, a special evening featuring the cultural and political life of the Arabian Peninsula.

We note that classical music remains at the heart of the schedule and the current remit requires that core to be complemented with other serious music genres including jazz and world music. We are aware some listeners are unhappy with the share of output given to non-classical music on Radio 3 and will remain mindful of this in continuing to assess the network's performance.



1	2	4
	3	

1 Today
Presenter Sarah Montague gets ahead of the day's news

2 Adam and Jason Barron
Brothers collaborating on Radio 4's detective drama *Shut Eye*

4 Last Night of the Proms
Hope, glory, and real passion for music

3 The Winter's Tale
Cast members from Radio 3's Shakespeare production

BBC Radio 4

Remit

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

The network continues to deliver across a broad range of genres, including drama, comedy and religion. *The Archers* has maintained its strong grip on its audience with storylines – sometimes controversial – that, as our recent study of impartiality (see page 21) indicates, fairly represent a range of contemporary rural issues.

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

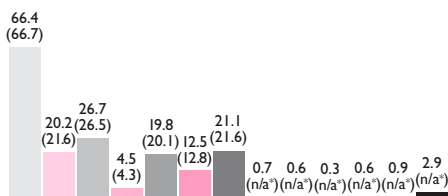
Audiences to Radio 4 are slightly down, with reach at 9.6 million in 2003/2004 (9.8 million in 2002/2003). In London, the most competitive radio marketplace, the network remains top for reach and share.

News and current affairs provide the spine for Radio 4 and the network has maintained its strong position in this genre. Audience research shows that six out of ten radio listeners consider BBC Radio to be the best source of radio news – and Radio 4 leads the other BBC radio stations in being considered the best provider of news.

These figures were not significantly affected by the Hutton Inquiry, which stemmed from a report on Radio 4's *Today*.

Notable pieces of journalism include the hour-long special marking the end of the Iraq war; Edward Stourton's series on the history and future of the UN, and the interview with 'Witness Bromley', the 12 year old who was the main witness at the trial of the boys accused of killing Damilola Taylor.

Weekly reach of BBC Radio services 2003/2004 (% all homes)



- BBC Radio
- BBC Radio 1
- BBC Radio 2
- BBC Radio 3
- BBC Radio 4
- BBC Radio Five Live
- BBC National/Local Radio
- BBC Five Live Sports Extra
- 1 Xtra
- 6 Music
- BBC 7
- BBC Asian Network
- BBC World Service

Source: RAJAR, age 15+, average 15-minute weekly reach for 2003/2004 * BBC digital services have only been measured since quarter three, 2003
Note: Figures for 2002/2003 appear in brackets
In quarter two 2003, RAJAR's population was adjusted in line with the latest Census figures

Governors' review of services Radio

BBC Radio Five Live

Remit

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

Five Live celebrated its tenth birthday in 2004. Audiences remain broadly stable, with a small drop in average reach to 6.1 million in 2003/2004 (from 6.3 million in 2002/2003 – which included the Football World Cup). It reached 6.5 million in quarter one of 2004, and audience approval scores remain well above the BBC average.

The network's output in both its genres of news and sport has been strong. In November, vivid commentary on England's victory over Australia in the Rugby World Cup in Sydney was matched by memorable coverage of the homecoming and the victory parade the following week when Five Live had exclusive access to the players' bus. With news, good progress has been made in refreshing *Breakfast*, *Morning*, and Julian Worricker's Sunday morning programme. The network did well in covering breaking stories such as the capture of Saddam Hussein.

We are pleased to note that Five Live has secured Premiership football rights until the end of the 2006/2007 season.

BBC Five Live Sports Extra

Remit

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

Five Live Sports Extra was launched in February 2002 as part of the BBC's portfolio of digital channels and it has rapidly established itself as a valued sister station to Five Live, delivering extra value to licence payers from existing BBC sports rights.

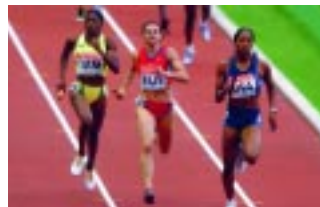
It has enabled the BBC to continue to broadcast radio sports commentaries when – as happened during the Iraq war – sports coverage on Five Live is curtailed to enable full coverage of big breaking news stories. It also enables the BBC to offer sports fans a greater choice of matches and events. A good example came in August when Five Live majored on football, while Five Live Sports Extra offered uninterrupted coverage of the World Athletics Championships in Paris.

38%

of Radio 2 was dedicated to speech

60

new classical music pieces commissioned for Radio 3



1	2	4
	3	

1 Five Live
Children interview the presenters on Five Live's tenth birthday

2 IExtra
First birthday celebrations for the black music station

4 Rugby World Cup
Commentary from England's triumph

3 World Athletics Championship
Expert coverage from the Paris event

2,123
hours of current affairs, business and politics on Radio 4

2,106
hours of sport on Five Live

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

IExtra

Remit

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

IExtra was launched in August 2002 as part of the BBC portfolio of digital channels. The station is building a following among a young audience that had felt it got nothing from the BBC. It offers a service unavailable elsewhere on UK network radio and gives strong backing to the contemporary black music industry in the UK across the full range of genres. It showcases important black music events such as the Notting Hill Carnival and Southport Weekender. It is also finding and developing new black African/Caribbean broadcasting talent on air and behind the scenes.

The main challenge ahead is engaging the target audience with speech programming. Listeners come for music and the station has to find innovative ways to capture their attention for quality speech. In 2003/2004 IExtra missed its commitment that around 10% of its output should cover news, documentaries and social action programming. However this will be achieved next year.

We have underlined the importance we attach to the quality of the speech output, not just the quantity, and will pay particular attention to this in future assessments.

BBC 6 Music

Remit

BBC 6 Music offers lovers of popular music current releases outside the mainstream, new concert and session tracks, and unique access to the work of artists from the last 40 years through the BBC Sound Archive. It aims to provide a social and cultural context through music news, documentaries and debate, and is committed to providing interactive content.

BBC 6 Music was launched in March 2002 as part of the BBC's portfolio of digital channels. It targets 25–44-year-old music-lovers, previously underserved by the BBC.

In a crowded radio music market it has established itself as a distinctive service valued by listeners. The music output is supported by news bulletins from a dedicated team of journalists focusing on issues relevant to the target audience, and a music newsgathering team has been established.

The next step is to heighten the level of interactivity, develop use of the archive and strengthen the station's relationship with its audience. Initiatives will include high-profile outside broadcasts and events.

Governors' review of services Radio

BBC 7

Remit

BBC 7 is a speech-based service providing pure entertainment to attract a new audience to speech radio. The network offers comedy, drama and readings, mainly from the BBC archive. It also aims to be the home of children's speech radio, with daily live programming for youngsters.

BBC 7 was launched in December 2002 as part of the BBC's portfolio of digital services. It has delivered on its commitments and has found an appreciative audience, largely by exploiting the resources of the BBC speech archive. In December 2003, in response to many requests from listeners, BBC 7 began broadcasting 24 hours a day.

The network has also provided a valuable service by broadcasting four hours a day of speech programming for children of a kind unavailable for the past decade.

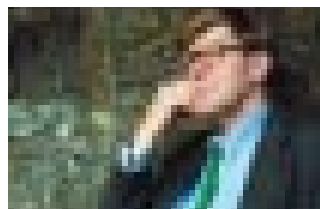
BBC 7 has played a significant role in developing the market for DAB Digital radio. Research in the latter part of 2003 showed that 68% of people who had bought a DAB Digital radio had done so to receive new services, and when asked if there was a particular service they wanted to receive, 26% – more than for any other service – mentioned BBC 7.

A condition of the DCMS consent was that the service must not be developed at the expense of programming on Radio 4. This has been met by appointing the Controller of Radio 4 as the Controller of BBC 7. Scheduling complements Radio 4 to avoid editorial clashes and, where possible, joint events are promoted on both stations. The two networks have entirely separate budgets.

The next step is to further refine the offering to make it more attractive to the target audience and to find more ways to provide information and context around the archive.

2,852
hours of comedy on BBC 7

73
Proms concerts on Radio 3



1	2	4
	3	

1 BBC Asian Network
Adil Ray at Mega Mela in Leeds

2 BBC 7
Fun and games in the Big Toe studio

4 BBC 6 Music
Breakfast presenter Phill Jupitus and producer Phil Wilding

3 Alan Bennett
His *Last of the Sun* for BBC 7 gave Thora Hird her final role

163
hours of religion on Radio 2 in peak time

66%
of BBC Asian Network's output was speech-based

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

BBC Asian Network

Remit

BBC Asian Network offers music, news, sport, debate, entertainment and drama for British Asians. It broadcasts primarily in English but also in a range of languages spoken by UK Asians. It aims to be the main forum for debating issues concerning British Asian communities.

As part of the launch of its portfolio of digital services, BBC Asian Network was relaunched as a national network in October 2002. Research had shown that the Asian community was more likely to listen to speech radio than the rest of the population, yet there was no national speech-based service regularly addressing issues of specific interest to British Asians.

The BBC's commitment to a previously underserved audience has proved justified. The network tripled its audience by going national and now reaches one in five British Asians.

The BBC's continuing commitment has been demonstrated by the investment of more than £1million in a new daily drama for the network, *Silver Street*.

The needs of first-generation Asians are met through 2,730 hours of programming in Punjabi, Mirpuri, Bengali, Gujurati and Hindi-Urdu.

There has already been significant investment in a dedicated news service – the network has 45 journalists and its own staff of sports journalists. The network provided a valuable platform during the war in Iraq for Muslim communities to debate the issues. We note the intention to widen the network's news agenda to give a better sense of the importance and involvement of the Asian community in, for example, business.

Governors' review of services

New media

Overview

The BBC is a tri-media organisation. Much of its television and radio output is supported and extended by online and interactive provision, and is reported on elsewhere in this document.

We are strongly committed to bringing the benefits of digital technologies to everyone in the UK, whether through the internet, radio, television or mobile devices.

The BBC's role in developing a digital UK is both direct – by encouraging media literacy, and indirect – by encouraging digital take-up through the provision of attractive content.

The BBC's new media services complement and enrich our broadcast services, extend our educational reach, and deliver public value by enabling people to communicate with each other in communities built around shared passions, interests and localities. We are working to ensure that these communities – especially where they involve the young or the vulnerable – operate in a safe environment.





1	2	4
	3	5

1 In the chatroom
Radio 1's Zane Lowe responds to listeners

2 Interactive sport
More information for FA Cup viewers

3 News video
TV news reports now available online

4 WW2 People's War
Website bringing new users to the internet

5 Mozart Uncovered
An interactive application allowed audiences to analyse how the composer constructed his scores

bbc.co.uk

Remit

bbc.co.uk: to use the internet to complement the full range of the BBC's broadcast output, extending the depth, interactivity and ease of access to the information, education and entertainment on offer; and to encourage participation in the digital world and to provide a safe home on the internet.

In March 2004, for the first time, half the British population aged over 15 used the internet. Some 45% of them – more than 10 million – visited bbc.co.uk. This statistic has added to the evidence that the rapid growth of the internet in the UK has been fuelled by the availability of BBC content and by the efforts made by the BBC to open up the digital world to new users. A good example is the *People's War* World War Two site which has been designed in partnership with Age Concern to introduce over-60s to the internet. It is attracting up to 140,000 users a month. The overall growth in use has been achieved despite a change in investment priorities that shifted funding away from the internet towards interactive television.

In 2003, as part of our review of bbc.co.uk, we endorsed criteria which new bbc.co.uk sites have to meet. They include: contributing to the BBC's purpose and embodying BBC values; demonstrating value for money; providing distinctive content; and an assessment of potential market impact. Existing sites were also assessed. Some sites, such as *Legacies*, *Spy Watch* and *Science and Nature* were decommissioned or slimmed down over the year. Others, such as the BBC Films site, were charged with becoming more editorially distinctive.

The BBC has begun piloting iCan, which attempts to engage people who feel disconnected from current political processes but who want to make a difference in civic life. iCan puts people in touch with one another and gives them tools to enable them to maximise their influence by working and campaigning together. This is potentially a very significant community initiative but it does carry editorial risks and we are monitoring developments to ensure that robust systems are in place to prevent the BBC's impartiality being compromised.

We are also keeping under review the question of moderation of the BBC's community sites. The BBC has traditionally used pre-moderation (checking messages before publication), and post-moderation (checking messages shortly after publication). This year, in response to the rapid growth in use of message boards and chatrooms, reactive moderation was introduced. Here messages are checked only when the BBC is alerted by users. This increases response times for users and reduces cost but carries editorial risks and we have asked management to ensure robust risk-management systems are in place.

We are clear that BBC message boards for children or vulnerable groups should always be pre-moderated. The BBC is continuing to work closely with the Home Office Task Force drafting guidance on moderation for the industry. In 2003 the BBC launched Chatguide, which gives guidance on using chatrooms.

BBCi

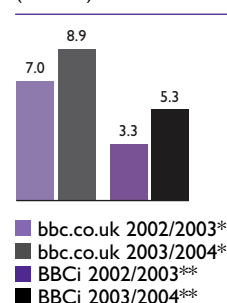
Remit

BBCi: to offer all-day up-to-the-minute news, weather, education, entertainment and other information to all digital television audiences via the red button on the remote control; to enhance the value of the BBC's television proposition to all digital audiences through video, audio, pictures and text.

Audiences to BBC interactive services have grown strongly over the year and now reach half the digital population monthly. The BBC's 24/7 interactive TV service was relaunched with a simpler user interface and the number of new enhanced television (eTV) services was nearly doubled, to 190. For example, the drama documentary *The Genius of Mozart* was enhanced with an interactive application – an illustration of how eTV can deepen and enrich the experience for audiences.

However, we note that the growth in people using interactivity is not keeping up with the growth in its availability. The BBC needs to understand and change this trend if eTV is to reach its full potential.

Monthly reach 2003/2004 of bbc.co.uk and BBCi (millions)



Source: * BMRB Access (monthly reach)
** Interactive Television Tracking Study (monthly reach)

Governors' review of services

News

Overview

Each hour, each day, the BBC transmits some three hours of news on 14 of its national radio and television networks. bbc.co.uk/news also puts out several hundred stories each day.

On each medium, and for each outlet, the news is tailored for its particular audience: children watching *Newsround* on the CBBC Channel; British Asians listening to BBC Asian Network; bbc.co.uk users checking the latest sports stories on their PCs; drivetime listeners catching up with Radio 4's *PM* on their car radio, or evening viewers watching the *Ten O'Clock News* or *Newsnight*.

Although this output of news is huge, and hugely diverse, what draws it together and makes it distinctively BBC, is that it shares the same underlying core values. These are independence, impartiality and honesty.

These values always come under intense scrutiny, but never more so than in the year under review with the Hutton Inquiry. Important lessons have been learnt to ensure that journalism remains a key strength of the BBC. And as this review shows, BBC News displayed many strengths, not least the way BBC journalists reported the Hutton Inquiry itself.





1	2	4
	3	

1 Six O'Clock News
George Alagiah and Sophie Raworth prepare to go on air

2 BBC News 24
Continuous news 24 hours a day

3 If...
Innovative approach to serious current affairs

4 Iraq
Big audiences watched the fall of Saddam Hussein's statue in Baghdad

BBC News

Remit

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

The major domestic story of the year – the Hutton Inquiry – posed particular problems for the BBC. Day after day, BBC journalists had to report – independently, impartially and honestly – on the behaviour of other BBC journalists, their own managers, the Director-General, the Chairman of the BBC and indeed ourselves as Governors. An edition of *Panorama* was commissioned and to ensure it pulled no punches, the usual line of editorial management (through the Director of News to the Director-General) was changed to make the Deputy Director-General – who had played no part in the Hutton narrative – the ultimate arbiter of whether the programme complied with the BBC's editorial guidelines.

It is clear – not least from widespread favourable press comment – that the potentially acute problems posed by the BBC reporting impartially on itself were dealt with effectively across all BBC platforms.

There was some concern that the Hutton Inquiry might weaken audience trust in the BBC, but survey evidence indicates that the public's trust in the BBC actually increased post-Hutton. Public approval of BBC news and current affairs in particular dipped slightly during the summer and autumn of 2003 but recovered by the end of the year.

The main international story of the year was the war in Iraq and its aftermath. The conspicuous lack of national consensus here meant that, once again, the BBC's impartiality came under intense scrutiny. BBC News passed the test. An ICM poll in April 2003 indicated that it had sustained its position as the best and most trusted provider of news.

The coverage of the war itself did have some limitations. There were times when military sources (forecasting the imminent fall of Basra, for example) were not treated with enough scepticism; other organisations had made technological advances that sometimes provided more vivid television coverage, and current affairs special programmes did not make the expected impact. But there was much to be proud of too, both in the breadth and depth of the coverage. The BBC successfully broadened the angle of vision to include a good range of Arab and Muslim opinion, and there was outstanding defence analysis on *Newsnight* and *The World at One* from Mark Urban.

In the aftermath of the war, there has been strong coverage and analysis, with the BBC able to deploy its rich resource of foreign bureaux to respond to the developing international repercussions. John Simpson's *Panorama*, *In the Line of Fire*, deservedly won an RTS award, and Peter Taylor's series, *Third World War: Al Qaeda*, and Maurice Walsh's *Pipeline Politics* on BBC Radio 4 valuably explored a broader geopolitical struggle.

423

million page impressions for bbc.co.uk/news in March

44

foreign BBC news bureaux

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Governors' review of services News

Away from Hutton and Iraq, there have been some notable innovations. Drama has been strikingly used to support analysis (in *If...* on BBC Two) and to engage audiences in public policy issues (in, for example, *The Day Britain Stopped*, about a fictional UK transport crisis).

On BBC One, the popular current affairs strand, *Real Story* with Fiona Bruce, steadily increased its audience through each of its three runs and will extend its run this year; and *This World* on BBC Two drew a larger average audience for foreign affairs than its predecessor, *Correspondent*.

There were some strong pieces of investigative journalism including *Panorama's* Seroxat: Emails from the Edge, a follow-up to its original investigation into possible side-effects from the widely used anti-depressant based on audience response to the earlier programme; *File on 4* has had another strong run, and BBC Radio Five Live's documentaries have established themselves as a muscular presence on the network.

BBC News 24

Work to improve the quality of BBC News 24 bore fruit with the channel's relaunch in December 2003. We wanted to see the distinctiveness of the channel reinforced by offering an agenda that is more analytical, more international and more diverse than its competitors, and which gives compelling and serious journalism a higher priority than market leadership. It is too soon for us to make a definitive assessment of the success of the relaunch, but early signs are encouraging.

Analysis on the channel has been strengthened, partly through the introduction of a new feature, *Fact File*, supported by BBC News' Analysis & Research team and presented by Nick Higham, and partly through giving BBC News 24 better access to senior BBC correspondents who now appear regularly on the channel to share their expertise.

Domestically, the breadth and diversity of coverage has been increased by building a closer relationship with BBC newsrooms outside London. This has brought to the national audience strong stories that previously had only been seen locally. A similar process to increase the breadth of international coverage is under way with the BBC's network of 44 foreign bureaux – though there is more work to be done here. More time and prominence has been given to business news.

Breaking news continues to pose difficult challenges. An important aim of any 24-hour channel is to be first with the news, and BBC News 24, with access to the world's largest newsgathering resource, cannot escape the obligation to improve its responsiveness to breaking stories over time. But we are clear that it has to do this without compromising its commitment to accuracy and we recognise that a more detailed checking process may sometimes mean that BBC News 24 is not always the first for breaking news. A new set of guidelines and editorial processes recognise this challenge and aim to support the channel in delivering its commitment to speed and accuracy.

Although market leadership is not the key priority for BBC News 24, there are early signs that audiences are responding well to the changes. In January 2004, the first full month since the changes were put into effect, BBC News 24 outperformed Sky News in both weekly and monthly reach in multichannel homes, and for the first time in two years BBC News 24 moved ahead of Sky News in being perceived as the channel best for news.



1	2	4
	3	5

1 Radio 4 PM
Presenter Carolyn Quinn in the Radio 4 studio

2 bbc.co.uk/news
One of the most popular BBC sites

4 60seconds
BBC Three's successful hourly bulletins

3 BBC Parliament
Comprehensive coverage from Westminster

5 Five Live Drive
Peter Allen and Jane Garvey present the drivetime news

5.1
million watch BBC One's
Ten O'Clock News

2,072
hours of news on BBC One
and Two

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

BBC Parliament

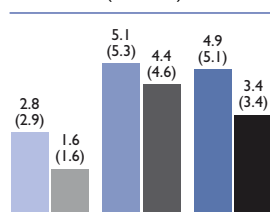
BBC Parliament became a full-time service in June 2003, broadcasting 24 hours a day (previously the channel broadcast only exceptionally in parliamentary recesses and at night). The extra air time has enabled the channel to offer additional coverage of debates and committees, plus further opportunities to see analysis programmes. Awareness of the channel has been improved through trails on BBC One, BBC Two and BBC News 24, and these have been effective in directing viewers to live coverage of key debates – recent examples include the Budget, and debates on tuition fees and on the Hutton Inquiry.

We are disappointed that Freeview viewers do not receive the service in full screen and we will continue to make clear this is a priority while recognising the capacity constraints and the responsibilities of the Freeview Board.

bbc.co.uk/news

Usage of bbc.co.uk/news and of the news services on interactive television have continued to grow steadily. bbc.co.uk/news is consistently the most widely used area of bbc.co.uk (reaching 26% of the online population) and generates the largest share of page impressions.

Average audience for network news bulletins 2003/2004 (millions)



- BBC One O'Clock News
- ITV1 lunchtime news
- BBC Six O'Clock News
- ITV1 early evening news
- BBC Ten O'Clock News
- ITV1 ten/nightly news

Source: BARB, TNS/Infosys
Note: Figures for 2002/2003 appear in brackets

Governors' review of services

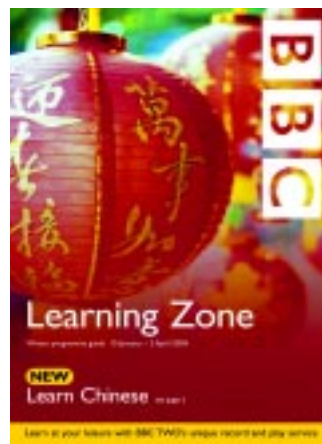
Learning

Overview

The BBC was founded to inform, educate and entertain, and education remains central to the BBC's public purpose.

Education itself is undergoing a revolution. Technology is transforming people's ability to learn when and how they want. At the same time there is an increasing desire for achievement and self-fulfilment. The last licence fee settlement laid particular emphasis on the BBC's commitment to education – in particular the provision of learning support for schools and for encouraging lifelong learning – and the exploitation of the new learning possibilities opened up by interactivity.

As this review shows, progress has already been made in this area, and in 2005 a very significant further step will be taken with the piloting of the Digital Curriculum, a free online service covering the key elements of the school curriculum.



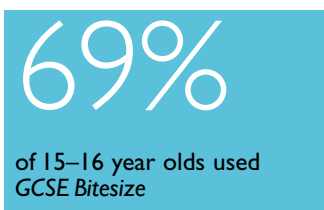
1	2	4
	3	

1 Get Writing workshop
BBC *Hustle* scriptwriter Tony Jordan shares tips of the trade

2 Bitesize
Revision tips for GCSE

3 Taking Care
Breaking Out, part of the social action campaign on children in care

4 BBC Learning Zone
Overnight factual programmes on BBC Two



For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

The BBC continues to provide curriculum-based content and support to children, parents and teachers via radio, television and online. The big success has been the *Bitesize* revision service which reached 69% of its target audience of 15–16 year olds in 2003. Some 400,000 users accessed the service via interactive television in the 2003 exam period. BBC Two continues to host the *BBC Learning Zone* overnight, and the BBC's long partnership with the Open University (OU) is evolving productively, with the OU now co-producing mainstream BBC factual output such as *Leonardo*.

The next big step will be the Digital Curriculum – a free online service providing high-quality interactive resources for use at school, at home or in the community, and covering key elements of the school curricula of England, Scotland, Wales and Northern Ireland for children aged four to 16. It will offer a variety of resources including video, animation, interactive games, printable worksheets, text pages and illustrations, allowing teachers to adapt the material to the needs of their pupils. All remaining regulatory hurdles have now been passed. The material will be piloted in schools in 2005, with a full launch planned for early 2006.

bbc.co.uk/skillswise provides a valued resource for people who want to improve their literacy and numeracy skills. The *Skillswise* newsletter reaches 9,000 basic skills tutors and the site drew 2.8 million page impressions in November 2003. As IT literacy becomes the third basic skill alongside numeracy and literacy, the service provided by bbc.co.uk/webwise will become

increasingly important. *Webwise* teaches basic internet skills and draws approximately 225,000 unique users monthly.

The BBC educational output goes much wider than the provision of formal learning materials. Much factual output is supported by online and interactive material that extends learning. The BBC also mounts a number of large cross-platform learning events during the year. *The Big Read* – a vote to find the UK's best-loved novel – made a real impact in 2003 through programming on television and radio and through its website. But – just as importantly – it also generated enthusiasm for reading. The BBC worked with three partners: The Reading Agency, The National Literacy Trust and The Book Trust. Feedback was very positive: library loans of the top titles increased by 56%; sales of the top titles increased by 575%; more than 2,000 reading groups signed up, and many schools used the series to encourage reading.

A significant part of the BBC's education output is its regular social action campaigns. This year's main campaign was *Taking Care*. This aimed to raise awareness about children in care and those leaving care and to challenge perceptions about the issues. The campaign was on television (including interactive television), radio and online, and it did succeed in raising awareness and drew a good level of response. But in terms of changing perceptions it lacked the impact of the previous campaign, *Hitting Home*, which dealt with domestic violence. The next campaign will deal with obesity, and we will want to see evidence that it delivers enduring impact for this important initiative.

Governors' review of services Nations & Regions

Overview

The strategy to invest an additional £50million a year over three years in a wider range of locally produced output has helped to raise audience approval in the nations. In 2003/2004 BBC Television reach grew everywhere except in Northern Ireland (where the figure is still higher than two years ago). The BBC *Where I Live* websites are meeting local needs, as evidenced by the very rapid growth in use. Other initiatives such as the Voices project are also helping to strengthen the sense that the BBC takes local concerns seriously.

We are concerned that not enough material from the BBC Nations is shown on network television. It is not clear if the problem is one of supply or demand. We wish to see greater strategic collaboration between network commissioners and the BBC Nations & Regions to produce more commissions that reflect the nation in which they have been made.

The loss of some sports rights will pose difficult challenges in the years ahead.



1	2	4
	3	

1 BBC Radio Sheffield
Presenter Bernie Clifton with studio guest

2 Inside Out
Morland Sanders presents for Yorkshire and Lincolnshire

3 Midlands Today
Presenter Nick Owen in the studio

4 The Politics Show
Peter Henley, Political Editor BBC South

BBC English Regions

Remit

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

The 40 BBC Local Radio stations play a key role in the English Regions, enabling the BBC to meet the needs of large audiences who would otherwise not be reached by our radio output. Three million BBC Local Radio listeners do not listen to any other BBC Radio and 1.7 million do not listen to any other radio at all.

The stations provide more than 228,000 hours of programmes each year, most of it original. The weighting of the programming towards speech (60% speech, 40% music, with speech at key times of the day such as breakfast and drivetime) makes their output distinctive in a highly competitive market where the majority of independent local radio stations offer a music-based service.

Average reach of BBC Local Radio across England was marginally down for the second year in a row to 20.9% in quarter one of 2004 (from 21.4% in quarter one of 2003) although time spent by listeners with BBC Local Radio was up. Programming caters predominantly for an older (age 50 plus) audience and we have encouraged management to attract a slightly younger audience. Services such as breakfast news and travel have the potential to act as entry points for younger listeners.

In broad terms, BBC early evening regional television news maintained its significant lead over ITV across England in 2003/2004, ending the period with an average 4.8 million viewers per programme (ITV 3 million) and an average weekly reach of 21.4%. This overall picture, however, disguises large variations in different regions. Of the 12 BBC English Regions, the BBC early evening news drew larger audiences than ITV in ten regions, but in the relatively new South-East region, ITV drew a share of 30%, compared with the BBC's 23%; and in the North East region, the performance of the BBC and ITV closely tracked one another, with ITV ending the year slightly ahead.

The BBC English Regions' current affairs strand *Inside Out* performed well during the year. Each television region has its own edition and the combined audience averaged 3.1 million. *Inside Out Extra* showcased the best of the output for a national audience.

BBC English Regions' local political coverage has continued to benefit from its move from BBC Two to BBC One. The local politics segment of *The Politics Show*, incorporating national and regional reporting, drew an average audience of 1 million over the year – more than double, and in some places treble, the audience that used to watch on BBC Two.

Output from the BBC English Regions, particularly television, continues to be heavily concentrated in news, current affairs and politics. Extending the range of genres offered – for example in sport, the arts and regional events – is an important issue for the future.

5.7
million people across the UK watch BBC regional early evening news

228
thousand hours of BBC Local Radio

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Governors' review of services Nations & Regions

BBC Scotland

Remit

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

BBC Scotland carried out an extensive review of its journalism in 2003, consulting licence payers, opinion formers, special interest groups, MSPs and MPs. The question of a 'Scottish Six' – an integrated hour of Scottish, UK and international news, produced in Scotland, on BBC One from 6–7pm – was explored. Although a sizeable minority was in favour, the balance of opinion did not want to change the current schedule – the *Six O'Clock News*, followed by *Reporting Scotland*. As a result BBC Scotland decided not to recommend any changes.

Reporting Scotland remains the most watched news programme in Scotland and increased its audience across the year. Its average weekly reach in 2003/2004 was 24.1%. The programme delivered strong coverage and analysis during the Scottish election campaign.

A key finding from the journalism review was a demand from some audiences for the BBC to provide richer coverage of local news, and some anxiety that the M8 corridor and the pull of Glasgow and Edinburgh is dominating the Scottish news agenda at the expense of other, distinctive parts of Scotland. BBC Scotland is examining ways of responding, possibly through a combination of radio and online.

BBC Radio Scotland's reach fell slightly to 23.4% in quarter one of 2004 (from 23.8% in quarter one of 2003). The journalism review indicated low levels of awareness of BBC Radio Scotland, but very high levels of appreciation among those who did listen – suggesting that more listeners could be attracted by stronger promotion. This is a priority for the station.

The loss of television rights for Scottish Premier League football was a severe setback, although radio and online rights were retained. Football coverage has played a significant role in driving approval and BBC Scotland faces the testing challenge of developing appropriate replacement output.

The twice-weekly television drama *River City*, which had a slow start, has begun to bed down in its second year, with stronger storylines and characterisation. *River City* represents a significant investment in nurturing Scottish writing, performing and craft talent, and continued improvement in its performance remains a priority.

BBC Scotland delivered strong output for the network including *Monarch of the Glen* and *Two Thousand Acres of Sky* for BBC One, *Restoration* for BBC Two, plus *Restoration Secrets* for BBC Four. CBBC Scotland produced output for all CBBC, including key programming such as *Balamory* and *Byker Grove*.

Gaelic output from BBC Scotland has included *Air Ais air an Ran Dan* – the first Gaelic comedy to transmit for six years and the successful Voices project with Lews Castle College in Stornoway on BBC Radio nan Gaidheal.

Where I Live

Where I Live is the name of a series of local websites created by BBC Nations & Regions to provide a local dimension for bbc.co.uk. More than 50 sites are now live, with more planned, offering local news, religion, sport, weather, travel, webcams, events guides and interactive services. The *Cymru'r Byd* website offers a unique online news and information service in the Welsh language. Local portals also offer tailored news, information and interactivity to people in seven different Scottish regions.



1	2	4
	3	

1 Monarch of the Glen
Filming the Highland drama from BBC Scotland for BBC One network

2 Restoration
Griff Rhys Jones preserving the built heritage

3 Capture Wales
Recording digital stories in workshops throughout Wales

4 Carrie's War
Network drama from BBC Wales

BBC Cymru Wales

Remit

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

BBC Wales's news output, especially *Wales Today* with an average weekly reach in 2003/2004 of 25.8%, continued to perform strongly. Political coverage included the regular political programmes *Dragon's Eye*, *The Politics Show* and *Manifesto*; and there was comprehensive reporting and analysis of the National Assembly elections, as well as coverage of the National Assembly proceedings on S4C2.

BBC Wales's strategy of developing fewer, stronger brands for local television bore fruit over the year as evidenced by the drama series *Belonging*; the observational documentary series, *Hospital*, on the work of the University of Wales Hospital in Cardiff; and the post-war history series, *Wales in Our Time* with John Humphrys.

BBC Wales provided network output across a range of genres, including *Stalin: Inside the Terror* and *Carrie's War*. However, very few of these commissions reflected contemporary Wales. This is a priority for BBC Wales and the network to address together.

One of the objectives set for BBC Wales last year was to increase awareness of BBC 2W and progress has been made. Viewing figures have increased and, significantly, research shows that more than 50% of viewers are under 45 – a much younger profile than for BBC One or BBC Two. A new schedule was launched in October, and output such as *I Love Wales* and *Combat Pilot* brought new viewers to the service. BBC 2W was a major broadcaster of events throughout the year, including BBC Singer of the World in Cardiff and Brecon Jazz.

BBC Wales continues to be a very significant provider of programming for S4C, the Welsh language television service. BBC contributions including sport, news and drama gained a 40% share, rather greater than their contribution in terms of hours, and *Pobol y Cwm* (drama) and *Newyddion* (news) are cornerstones of the S4C schedule.

Reach of BBC Radio Wales fell slightly to 20.8% in quarter one of 2004 (from 21.8% in quarter one of 2003), but reach of BBC Radio Cymru rose significantly to 8.9% in quarter one of 2004 (from 6.0% in quarter one of 2003).

Some challenges lie ahead for BBC Wales. In particular, the loss of rights to the Heineken Cup Rugby and to the Football Association of Wales's fixtures is a setback.

662
hours of Welsh language output made for S4C

976
hours of television exclusively for Scotland

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Governors' review of services Nations & Regions

BBC Northern Ireland

Remit

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

Part of the distinctiveness of BBC Northern Ireland lies in the range of genres across which, uniquely among competitor broadcasters, it operates. It is the only producer of television and radio drama in Northern Ireland, the only service that regularly broadcasts Irish language and Ulster Scots programmes, and the only provider of schools programming for the Northern Ireland curriculum. Its political coverage is more extensive and more diverse than the competition, and BBC Northern Ireland showcases arts and sports events of particular significance for its audiences.

BBC Northern Ireland's early evening news programme *Newsline* held its share steady at 24% in 2003/2004. Its average weekly reach was 19.8%. The programme has been enhanced during the year: additional reporters have been appointed to cover issues affecting communities in Armagh and South Down; and the interactive feature *Newsline Listens* has been developed. The current affairs programme *Spotlight* won its fourth RTS award in five years for its report *Loyalists at War*. BBC Northern Ireland's political programmes also attracted strong audiences. BBC Northern Ireland's election coverage was widely praised and drew large audiences.

One notable innovation was *Would You Pass the 11 Plus?* This was the BBC Nations & Regions' first entirely interactive local programme in which the audience took part in an 11-plus style test. It delivered an audience share of 29%, and the results sections, which ran in the late evening, achieved a share of 38%.

The volume of drama produced for the networks was disappointing and improving this is a key priority for the coming year. That said, there was some memorable output. *Holy Cross*, which told the story of two fictional families caught up in the real events of 2001 on the Ardoyne Road in Belfast, made an impact, as did *Murphy's Law*, *Messiah*, and *Gunpowder Treason and Plot*.

100
million page impressions
to *Where I Live* sites in
March 2004



1	2	4
	3	

1 Let's Talk
In the studio of BBC Northern Ireland's audience discussion programme

2 Lynton Bay
New drama serial set on the south-east coast of Scotland

4 Brecon Jazz Festival
Part of the commitment to cover major arts events in Wales

3 Testing Times
Denise Watson (left) and Christine Bleakley: *Would You Pass The 11 Plus?*

39%
of people in Northern Ireland regularly listen to Radio Ulster

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Memorable network factual programmes included *Dinner With Portillo* and *Charles II: The Boy Who Would be King*.

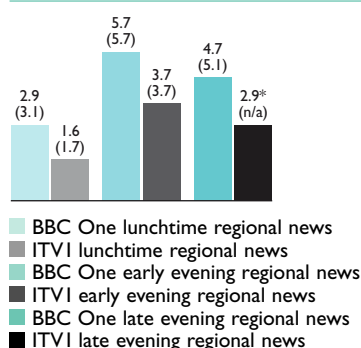
In entertainment, *Just for Laughs* performed well in a difficult Saturday night slot, and the political satire, *Folks on the Hill*, an animation series which originated as a BBC Radio Ulster series, broke new ground. But some entertainment is formulaic and a new comedy unit is to be set up to develop distinctive and innovative comedy content.

In radio, BBC Radio Ulster remains the market leader by a significant margin with a reach of 39.6% in quarter one of 2004. Progress has been made in refreshing the schedules. BBC Radio Foyle continues to perform well, with a reach of 23.5%.

Voices

Voices is an attempt to give expression to those whose voices are seldom heard. Producers from BBC Nations & Regions worked with local communities across the UK in 2003/2004, many in disadvantaged or remote areas, giving people the tools and media skills to enable them to tell their stories – and to act as a catalyst for practical projects. In Burnley, an Imam and an Anglican vicar swapped jobs to try to increase understanding between faiths and recorded audio diaries about their experiences; in Jersey, BBC staff helped people with English as a second language to improve their language skills and give them basic computer training so that they could use the BBC Radio Jersey website as a tool for improving their English; in Kent, the Romany Gypsy community recorded their experience of prejudice.

Average audience for regional news bulletins across the UK 2003/2004 (millions)



Source: BARB, TNS/Infosys
* ITV late evening news figures are for the period 2 February 2004 to end March 2004
Note: Figures for 2002/2003 appear in brackets

Governors' review of services BBC World Service & Global News

Overview

BBC World Service & Global News, which brings together BBC World Service radio, BBC World television, and the BBC's international-facing online news services, now reaches 185 million homes weekly. Independent surveys taken around the world in 2003 indicate that the BBC's reputation remains strong overall, consolidating its position as the world's most trusted source of information.



The ability to coordinate international news operations across radio, television and online paid dividends editorially, resulting in more coherent output with greater impact. An example was the series of interviews with world leaders on HIV/Aids, including Colin Powell and Kofi Annan, which were carried on all three media.



1	2	4
	3	

1 BBC World Service
The news from Bush House in London

2 BBC Hindi roadshow
Marketing the BBC World Service to listeners in rural India

3 Covering conflict
Colombo Correspondent Frances Harrison in Sri Lanka

4 BBC World Service Trust
Bashir Al-Zaidi interviewing for the *Calling Iraq* programme

BBC World Service

Short-wave audiences of all international broadcasters are in long-term decline, and those of the BBC are no exception. BBC World Service lost an estimated 14 million short-wave listeners in the last year. That loss was only partially offset by a rise in FM listening, notably in Egypt and across Africa. But overall the global radio audience to BBC World Service fell slightly to 146 million weekly listeners (from 150 million the previous year). The decline has occurred where it has not been possible to obtain an FM presence for regulatory or financial reasons. Significant drops in audiences were noted in Western Europe, Saudi Arabia and the Ukraine. Efforts to overcome this and extend FM reach wherever possible are a priority for 2004/2005.

In Russia, difficulties in distribution combined with a declining appetite for international news led to a further decline in audiences. A strategy has been put in place to deal with this, and we expect it to be implemented speedily and effectively.

BBC World Service registered a creditable 1.8 million listeners in Iraq, in the BBC's first-ever survey there, and a reach of 60% in Kabul. BBC World Service's biggest audiences continue to be in Africa. In Ghana, the BBC is the country's leading station. In Tanzania, six out of ten people are regular listeners.

But audiences have also reached 4.7 million in the world's most developed media market – the United States. More than one in five opinion formers in New York and Washington listen each week, and one in four in Boston. In Britain too, the availability of BBC World Service on DAB Digital radio, Freeview digital television, digital satellite and cable has helped to push the audience up to a record 1.3 million people.

The increased availability of BBC World Service radio programmes on FM has helped to meet increasing competition from local and national stations. By the end of the year, BBC World Service output was being broadcast on FM in 139 capital cities.

Editorially, BBC World Service provided strong reporting and analysis of global events. In Iraq, BBC News correspondents were able to draw on the expertise of Arabic Service reporters stationed in key cities. The Arabic Service opened a production office in Baghdad and a major new production centre in Cairo. The month-long HIV/Aids season which was broadcast across all 43 language services in December 2003 was a notable editorial achievement.

Looking ahead, we have stressed the importance of BBC World Service securing a strong spending review settlement in 2004 in order to achieve sufficient investment to meet future FM targets and develop new media initiatives.

139
capital cities receive
BBC World Service on FM

1.8
million people listen to
BBC World Service in Iraq

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Governors' review of services BBC World Service & Global News

BBC World

BBC World, the BBC's commercially funded international news and information television channel, has seen continued improvement in its reputation and audience reach during the year.

The strengthening of its editorial reputation was driven by ambitious coverage of the Iraq war and its aftermath. During the year the channel anchored programmes on the conflict from Baghdad, Amman, Kuwait and Qatar, as well as London and Washington. Audience surveys indicate that viewers reacted positively. In Europe, for example, respondents saw BBC World as the most trusted international news channel during the Iraq war, while a survey of European opinion leaders saw BBC World described as more "authoritative" and "relevant" than its major competitors. At present, however, BBC World remains less trusted than CNN in some markets – reflecting CNN's wider audience impact.

The channel has increased its 24-hour distribution base by 10% during the year. The channel is now distributed to 112 million homes full-time (see graph). Including part-time distribution, BBC World is available in approximately 260 million households (255 million in 2002/2003). More than 1 million hotel rooms, 20 airlines and 21 cruise ships also carry the channel. From a number of studies conducted during the year it can be estimated that BBC World reaches 53 million individual global viewers weekly.

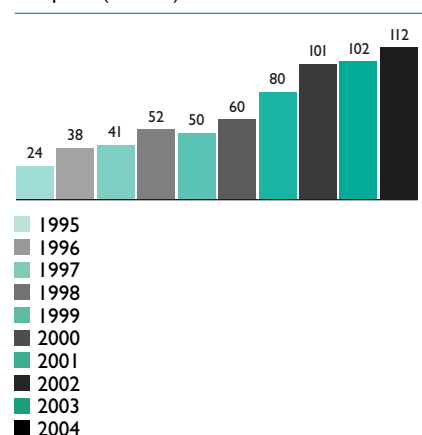
Despite the uncertain economic and political climate in 2003/2004, BBC World's business performance reflects strong underlying growth, but the continued weakness of the US dollar has reduced sterling revenues, resulting in a loss before interest and tax for the year of £16.5million.

We receive regular updates from management on progress towards 24-hour distribution in the US market and will continue to monitor the financial performance of the service.

260
million homes have access to BBC World

43
language services from BBC World Service

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



Source: BBC World Distribution Department, various



1	2	4
	3	

1 BBC Monitoring
Gathering news and comment from sources worldwide

2 Moscow Bureau
Chief Sub Editors Yevgeni Konovalov and Yelena Daniliants at work in the new combined HQ

4 Lyse Doucet
One of the news presenters on BBC World

3 BBC news in Russian
BBC World Service offers news in 43 languages

BBC international-facing online news sites

BBC World Service & Global News' online sites continue to show strong growth in audience usage. Monthly page impressions rose to 279 million in March 2004 (228 million in March 2003). This represents more than 16 million individual monthly users.

Traffic to all language sites grew significantly over the year; and nearly all have met or exceeded their targets. Page impressions to the Persian and Urdu interactive sites have gone up more than five times, and traffic to the Russian and Spanish interactive sites has more than doubled. However there are concerns about the impact of the Chinese news site following moves by the authorities in China to block access to it.

The division's interactive sites and programmes have demonstrated continued vigour; for example, hosting global debates with key figures including President Pervez Musharraf of Pakistan, the Malaysian Prime Minister Dr Mahathir Mohamad, President Hamid Karzai of Afghanistan and Prince El Hassan bin Talal of Jordan.

New interactive sites were launched to give a voice to people in the Islamic world and promote dialogue between global communities who share a common language or concern. Issue-focused websites on the Aids debate, and on Islam and the West have achieved strong recognition. All the major language websites now host regular debate forums – for example an average of two a week in December 2003.

The websites also served as a place where people can express their opinions in times of crisis or on key news stories.

BBC Monitoring

BBC Monitoring, based at Caversham, supplies news, information and comment gathered from the mass media around the world. It monitors more than 3,000 radio, television, press, internet and news agency sources, translating up to 100 languages, to provide an authoritative view of world events, 24 hours a day.

It provided key source material for stakeholders including the Foreign Office, the Cabinet Office, the Ministry of Defence and the BBC. It responded to the high demand for fast and accurate global media monitoring over the past year; of particular value as events unfolded in Iraq, Afghanistan, the Middle East and the whole of the Islamic world. There is an increasing demand for insight on global themes such as terrorism and weapons proliferation.

BBC Monitoring achieved its best-ever satisfaction ratings from its stakeholders at home and abroad, as measured in its autumn 2003 customer survey. Alongside high ratings for usefulness, range and selection, there was a notable rise in ratings for timeliness and responsiveness.

The key challenge for BBC Monitoring is to offer an increasing range of products, including multimedia content, to customers in the UK and overseas. We are keen to ensure that the reputation of BBC Monitoring continues to build and that it secures a solid outcome in its funding review, and maintains high satisfaction ratings from stakeholders during 2004/2005.

279
million page impressions to international news websites

3,000+
foreign media outlets tracked by BBC Monitoring

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Governors' review of services

Performance against Statements of Programme Policy commitments 2003/2004

Overview

In line with the Communications Act 2003, Governors are required to publish statements of programme policy each year, setting out how the BBC will fulfil its public service remit, and to report on performance against them in the Annual Report. To prepare for this new responsibility, we published pilot statements in 2002 and 2003. The statements for 2003/2004 are set out in this section, with performance data.

The BBC's statements for 2004/2005 published in April this year represent a significant step forward as a mechanism for holding the BBC to account. We will report on performance against them in the next Annual Report.

Commitment	Performance
BBC One	
■ 570 hours of news, plus the overnight BBC News 24 service	■ 1,556 hours of news, plus overnight BBC News 24 hours
■ 80 hours of current affairs	■ 134 hours of current affairs
■ 45 hours of arts and music	■ 66 hours of arts and music
■ 650 hours of new factual programmes	■ 945 hours of new factual programmes
■ 260 hours of sport	■ 496 hours of sport
■ 80 hours of religious programmes as part of a commitment to 112 hours across BBC One and BBC Two	■ 87 hours of religious programmes as part of a total of 124 hours of religion across BBC One and BBC Two
■ 400 hours of children's programmes	■ 777 hours of children's programmes
■ Hold repeats below 10% of peak-time hours	■ Repeats accounted for 9.99% of peak-time hours
■ Offer three national and international bulletins on weekdays, with news at 10pm six days a week and regional news integrated with all major network bulletins	■ News bulletins at 1pm, 6pm and 10pm have provided coverage of national and international issues, with regional news integrated into the main bulletins
■ <i>Panorama</i> will have both a regular weekly slot and four weekday specials in peak time	■ <i>Panorama</i> has a regular slot at 10.15pm Sundays; in addition there were four weekday specials at 9pm on topical issues such as the war in Iraq and asylum
■ Three event days along the lines of <i>Cracking Crime</i> day	■ Three event days focused on the issues of consumer debt, asylum and the NHS
BBC Two	
■ 100 hours of news	■ 516 hours of news
■ 230 hours of current affairs	■ 311 hours of current affairs
■ 500 hours of factual programmes	■ 1,293 hours of factual programmes
■ 200 hours of arts and music	■ 289 hours of arts and music
■ 430 hours of sport	■ 863 hours of sport
■ 100 hours of new children's programmes	■ 177 hours of new children's programmes
■ 20 hours of religious programmes as part of a commitment to 112 hours across BBC One and BBC Two	■ 37 hours of religious programmes as part of a total of 124 hours of religion across BBC One and BBC Two
BBC Three	
■ At least one 15-minute weekday news bulletin in peak time, plus hourly bulletins (until midnight)	■ A 15-minute weekday bulletin at 7pm, plus hourly 60seconds bulletins
■ At least 30 hours of education	■ 46 hours of education
■ At least 15 hours of science, religion/ethics and business	■ 29 hours of science, religion/ethics and business
■ At least 50 hours of music and arts	■ 56 hours of music and arts
■ At least 15 hours of current affairs	■ 16 hours of current affairs
■ Around 15% of hours broadcast to be news, current affairs, education, music and arts	■ Around 23% of hours broadcast were news, current affairs, education, music and arts

Commitment	Performance
<ul style="list-style-type: none"> ■ 25% of qualifying hours to be commissioned from the independent sector, accounting for at least 25% of the programme budget 	<ul style="list-style-type: none"> ■ 47% of qualifying hours were from independents, accounting for 41% of programme budgets
<ul style="list-style-type: none"> ■ 80% of output must consist of programmes specially commissioned for BBC Three* 	<ul style="list-style-type: none"> ■ 82.3% of programming was specially commissioned for BBC Three
<ul style="list-style-type: none"> ■ 90% of programme hours and 90% of expenditure must be allocated to programmes made in the EU/EEA for first showing in the UK* 	<ul style="list-style-type: none"> ■ 93.9% of programme hours were made in the EU/EEA for first showing in the UK, representing 96.6% of the budget
<ul style="list-style-type: none"> ■ 33% of BBC Three's eligible budget will be produced from outside the M25 from 2004/2005 with reasonable progress made towards that target in the preceding years* 	<ul style="list-style-type: none"> ■ BBC Three almost achieved its 33% regional production target a year early, with 32.2% of eligible budget spent outside the M25 in 2003/2004
<ul style="list-style-type: none"> ■ Six new talent initiatives will be launched by BBC Three 	<ul style="list-style-type: none"> ■ Six new talent initiatives in 2003/2004: comedy, animation, urban music, filmmakers, sitcom, presenters
<ul style="list-style-type: none"> ■ 20% of output will have interactive support 	<ul style="list-style-type: none"> ■ Around 55% of BBC Three programmes were supported by interactive services, such as bespoke content, messaging and voting
BBC Four	
<ul style="list-style-type: none"> ■ Around 70% of production to be original 	<ul style="list-style-type: none"> ■ BBC Four originated 74.5% of its production
<ul style="list-style-type: none"> ■ Around 70% to be made in the EU/EEA 	<ul style="list-style-type: none"> ■ 88.4% was made in the EU/EEA
<ul style="list-style-type: none"> ■ The main news bulletin to provide a global perspective and in-depth reports not widely featured in mainstream bulletins 	<ul style="list-style-type: none"> ■ <i>The World</i> relaunched in January 2004 and has increased the number of in-depth features on global news
<ul style="list-style-type: none"> ■ The best of contemporary and classic international film 	<ul style="list-style-type: none"> ■ 254 hours of cinema including weekly classic and foreign-language films
<ul style="list-style-type: none"> ■ The most interesting theatre brought to the screen 	<ul style="list-style-type: none"> ■ Productions included <i>Richard II Live at the Globe</i>, and John Osborne's <i>A Hotel in Amsterdam</i> from the Donmar
<ul style="list-style-type: none"> ■ BBC Four will be supported with an online service, and will mount special events with interactive opportunities 	<ul style="list-style-type: none"> ■ Around 1,500 web pages support BBC Four; the interactive service provides text-based content as well as programme-specific services
The CBBC Channel	
<ul style="list-style-type: none"> ■ Spend more than three-quarters of its budget on new and original programmes accounting for around a quarter of all air time 	<ul style="list-style-type: none"> ■ The CBBC Channel spent 92% of its budget on new original programmes, accounting for 24.3% of all air time
<ul style="list-style-type: none"> ■ 650 hours of drama 	<ul style="list-style-type: none"> ■ 966 hours of drama
<ul style="list-style-type: none"> ■ Around 20% of the schedule should be drama* 	<ul style="list-style-type: none"> ■ 22.2% of output was drama
<ul style="list-style-type: none"> ■ At least 85 hours of live news 	<ul style="list-style-type: none"> ■ 75 hours of live news. The shortfall is due to the channel's decision to offer an increased number of shorter bulletins in 2003/2004 as this proved the most effective means of reaching and engaging its young audience in news output (see page 30)
<ul style="list-style-type: none"> ■ 640 hours of schools programmes across the curriculum 	<ul style="list-style-type: none"> ■ 653 hours of schools programmes across the curriculum, including presentation output
<ul style="list-style-type: none"> ■ 700 hours of entertainment shows 	<ul style="list-style-type: none"> ■ 1,078 hours of entertainment
<ul style="list-style-type: none"> ■ Around 75% of output to be made in the EU/EEA 	<ul style="list-style-type: none"> ■ 82% of output has been made in the EU/EEA

Commitment

Performance

CBeebies

■ More than 4,500 hours of output across the genres that matter to its young audience	■ 4,717 hours of output, including music and movement, storytelling, make-and-do, simple science, natural history, puzzle programmes, animation and drama
■ 80% of output to be originally-produced programming	■ 87% of output has been originally produced
■ Around 90% of the output to be UK/EU originated	■ 96% has been UK/EU originated
■ Just over three-quarters of the channel's investment will be in new British programming*	■ 89% of investment has been in new British programming
■ Invest directly in animation co-production far more frequently, thereby increasing the number of UK-based projects*	■ This commitment has proved hard to meet due to higher than expected costs; CBeebies has instead pre-bought titles with third parties (see page 31)
■ An interactive television service growing as technology develops	■ The interactive service for children has developed, but bandwidth restrictions have precluded an equivalent service for parents and carers. CBeebies has committed to developing this in 2004/2005

BBC Radio 1

■ At least 35% of the playlist to be UK artists	■ 45% of the playlist were UK artists
■ 2,700 hours of the output to be specialist music covering all the appropriate youth genres	■ 2,778 hours of the output was specialist music
■ 270 hours of news and current affairs	■ 305 hours of news and current affairs
■ Commission features and documentaries on a wide range of subjects of importance to a young audience	■ Output included information and advice programmes and a regular documentary strand on <i>Lamacq Live</i>
■ Bring high-quality live music events to all parts of the UK	■ Events included <i>One Big Weekend</i> in Manchester and Cardiff and <i>One Big Sunday</i> in Leicester

BBC Radio 2

■ 1,000 hours of specialist music	■ 1,004 hours of specialist music, including <i>Bob Harris Country</i> and <i>The Organist Entertains</i>
■ More than 500 hours of news and current affairs	■ 991 hours of news and current affairs; excluding <i>The Jeremy Vine Show</i> , BBC Radio 2 broadcast 693 hours of news and current affairs
■ 150 hours of religious output in peak time	■ 163 hours of religious output in peak time
■ 75 hours of arts coverage	■ 88 hours of arts coverage
■ Around one-third of air time to be speech	■ 38% of airtime was dedicated to speech
■ Support new musical talent by reflecting new artists within popular music	■ Radio 2 has supported new, British artists such as Jamie Cullum and Amy Winehouse through music and performance output; Radio 2 has also carried a number of events supporting new talent, including <i>The Young Folk Awards</i> and <i>Chorister of the Year</i>

Commitment	Performance
BBC Radio 3	
■ More than 50% of output to be live or specially recorded music	■ 54% of output was broadcast as live or specially recorded music
■ Commission at least 60 new pieces	■ 60 new pieces were commissioned
■ Broadcast every concert in the BBC Proms live	■ 72 out of 73 concerts in the BBC Proms live were broadcast (one was deferred by two days for additional post-production work)
■ Invest substantially in UK cultural activity including the five BBC orchestras and the BBC Singers	■ BBC Radio 3 broadcasts the majority of the output of the BBC's five orchestras and the BBC Singers, and invests some £26.5million in the BBC's performing groups
■ Continue to support new young artists and develop a new range of voices for on-air presentation	■ Investment in schemes such as New Generation Artists is identifying and supporting emerging talent
BBC Radio 4	
■ 700 hours of news bulletins	■ 741 hours of news bulletins
■ 1,300 hours of daily current affairs	■ 1,663 hours of daily current affairs
■ 440 hours of weekly current affairs, business and politics	■ 460 hours of weekly current affairs, business and politics
■ 800 hours of original drama and readings	■ 1,079 hours of original drama and readings
■ 300 hours of original comedy	■ 333 hours of original comedy
■ 180 hours of religious programming	■ 182 hours of religious programming
BBC Radio Five Live	
■ 6,000 hours of news including rolling coverage of big news stories as they break	■ 6,486 hours of news including rolling coverage of big news stories as they break, for example Saddam Hussein's capture
■ 2,000 hours of sport including live commentaries	■ 2,106 hours of sport including live commentaries from – among others – the Premiership, the Rugby World Cup and the World Athletics Championship
■ 50 hours per year of documentaries	■ 52 hours of documentary output, including the relaunched <i>Five Live Report</i>
BBC Five Live Sports Extra	
■ Extract greater value for licence payers from sports rights already owned by the BBC	■ 1,089 hours of additional sports commentary
IXtra	
■ Broadcast 20% speech – about half of this to be news, documentaries and social action programming	■ Speech accounted for 28.5% of output; news, documentaries and social action accounted for 8.2% of output. The extension of <i>TX Unlimited</i> from one to two hours (see page 37) will enable the channel to meet the commitment in 2004/2005
■ Offer a daily discussion programme: 250 hours per year of relevant topical debate	■ <i>TX Unlimited</i> was extended from one to two hours each weekday from August 2003; provided 366 hours of relevant topical debate

Commitment

Performance

■ Cover all the popular 'urban' genres, concentrating on new music and new artists

■ Dancehall, hip-hop, UK garage, RnB and drum & bass formed the backbone of the music output; new music and new artists featured strongly

■ Feature live performances from major artists

■ There have been weekly live performances, but delivering high-profile international artists has proved more difficult than expected; this is expected to improve as the network establishes itself and builds audiences

■ Broadcast from important black music events

■ Events included Notting Hill Carnival and Southport Weekender

BBC 6 Music

■ Support a 24-hour news and music news service

■ BBC 6 Music has continued to provide a news and music service between 7.30am and 10pm weekdays, 11.30am and 6.30pm on Saturdays and 11.30am and 4.30pm on Sundays, but has not extended to 24 hours for funding reasons

■ Put music into context through a broad repertoire including popular music from the 1970s to 1990s, together with documentary features and authoritative presenters

■ Nearly 50% of the music was from the 1970s to the 1990s; presenters included Phill Jupitus, Steve Lamacq and Tom Robinson

■ Broadcast exclusive musical moments from the BBC's session archives

■ BBC archive session material was used throughout BBC 6 Music

■ Cover major music festivals

■ Festival coverage included Glastonbury, Reading, Leeds, Summer Sundae in Leicester, and T in the Park from Perth

BBC 7

■ Broadcast 6,500 hours of speech radio drawing on the best of current and archive programmes

■ Speech accounted for all of BBC 7's 7,644 broadcast hours
The over-achievement reflects the move to 24-hour broadcasting in December 2003

■ Offer around 2,500 hours devoted to books and drama

■ 3,328 hours devoted to books and drama

■ Keep comedy at the heart of the schedule – over 2,500 hours throughout the year

■ 2,852 hours of comedy

■ Provide around 1,400 hours of children's programming

■ 1,464 hours of children's programming

■ Commission and broadcast an estimated 40 hours of unabridged readings

■ 60 hours of unabridged readings

BBC Asian Network

■ Broadcast approximately 50% music and 50% speech

■ The network has exceeded its commitment with speech accounting for 66% of hours

■ Continue to address the needs of first-generation Asians through locally originated programmes in a range of South Asian languages, totalling over 2,000 hours per year

■ 2,730 hours of South Asian language output

Commitment	Performance
<ul style="list-style-type: none"> ■ Broadcast early morning devotional programmes throughout the year and mark the major festivals with specially commissioned programmes 	<ul style="list-style-type: none"> ■ Regular religious programming totalled 11 hours a week with special programming marking major festivals
<ul style="list-style-type: none"> ■ Give a strong focus to news and current affairs 	<ul style="list-style-type: none"> ■ Breakfast, lunchtime and drivetime carried substantial news and current affairs reporting
<ul style="list-style-type: none"> ■ Lead the way in broadcasting new British Asian popular music, Bollywood and Lollywood, and promoting home-grown talent 	<ul style="list-style-type: none"> ■ A wide spectrum of Asian popular music was played including new British Asian acts
bbc.co.uk	
<ul style="list-style-type: none"> ■ Continue to supply websites that complement the full range of the BBC's broadcasts and programmes. Reducing investment does not mean giving the audiences any less choice in the ways they engage with BBC content 	<ul style="list-style-type: none"> ■ Range has been maintained despite the reduced funding in web-based content; use of programme-related sites such as radio, television, drama, entertainment and factual is up by, on average, 24% over the past year
<ul style="list-style-type: none"> ■ Provide distinctive, original and high-quality content in areas from news through GCSE revision to <i>Teletubbies</i> 	<ul style="list-style-type: none"> ■ News and analysis updated every minute, and a wide range of educational output including <i>GCSE Bitesize</i> for teenagers and <i>Skillswise</i> for adults, underpins the distinctiveness of <i>bbc.co.uk</i>
<ul style="list-style-type: none"> ■ Provide on-demand access to previously broadcast radio programmes and selected video clips, as well as ways to listen to the BBC's new digital radio services 	<ul style="list-style-type: none"> ■ Use of the Radio Player has grown 85% year on year. Listeners to the digital radio services via Freeview now have access to a live text broadcast providing, for example, track listings
<ul style="list-style-type: none"> ■ Make it easier for users to find what they want. An improved homepage and a universal toolbar will aid users in navigating BBCi content 	<ul style="list-style-type: none"> ■ A new homepage and a universal toolbar which sits across all pages of <i>bbc.co.uk</i> have been launched
<ul style="list-style-type: none"> ■ At all times maintain a high level of moderation and regulation of content and family-safe web search 	<ul style="list-style-type: none"> ■ Reactive moderation has been introduced on a number of message boards where the community and subject matter was deemed low-risk; we have requested that management puts in place the necessary processes to ensure that standards are maintained (see page 41)
<ul style="list-style-type: none"> ■ To act as an essential resource offering wide ranging, unique content, as well as providing access to and guidance around non-BBC sites and user-focused navigation and site design* 	<ul style="list-style-type: none"> ■ Alongside its own content, <i>bbc.co.uk</i> provides access to third-party content via in-context links in the text and its own search application
<ul style="list-style-type: none"> ■ To use the internet to forge a new relationship with licence fee payers and strengthen accountability* 	<ul style="list-style-type: none"> ■ <i>bbc.co.uk</i> provides licence payers with information about the BBC and how it is run, as well as its programmes and services. Message boards and service websites enable audiences to directly contribute to, or comment on, output; use of these has grown by 25% over the past year
<ul style="list-style-type: none"> ■ To provide a home for licence fee payers on the internet and act as a trusted guide to the new media environment* 	<ul style="list-style-type: none"> ■ <i>bbc.co.uk</i> continues to play a significant role in driving online take-up through initiatives such as <i>Webwise</i> (see page 47). Safety is key, particularly on the children's sites where CBBC has launched a dedicated search tool for 6–12s offering access to only pre-approved BBC and external websites, and offers a pre-moderated message board

Commitment

Performance

BBCi

- | | |
|--|--|
| ■ Interactive news and information service across all digital television platforms offering in-depth content and opportunities for user contribution | ■ Interactive services are now accessible via a single button on all digital television platforms. The range of content has been extended on all platforms, but particularly on digital satellite. Similar services for Freeview and digital cable viewers will launch as more bandwidth becomes available |
| ■ Create interactive enhancements to television programmes in all genres from sports to factual, news to entertainment | ■ The number of enhanced television (eTV) services has almost doubled to 190 over the past year (see page 41) |

BBC News

- | | |
|---|--|
| ■ Broadcast more current affairs in peak time on BBC Two | ■ Current affairs enjoyed greater prominence on BBC Two; <i>If...</i> , a new current affairs strand in peak time, launched on BBC Two |
| ■ Launch a new political strand for the under-45s | ■ Two new political strands for the under-45s were piloted, but failed to attract the target audience. Efforts are now focused on engaging younger audiences via mainstream output |
| ■ Broadcast all-day explorations of subjects of major concern on BBC One | ■ BBC One output included <i>Asylum Day</i> and <i>Debt Day</i> |
| ■ Create innovative and ambitious programmes to explain the big political issues facing society | ■ Output included <i>The Day Britain Stopped</i> , using drama to illustrate transport issues |
| ■ <i>Panorama</i> will offer hard-hitting investigations in 32 editions a year | ■ 32 editions of <i>Panorama</i> were broadcast on BBC One, including four weekday specials |

BBC News 24

- | | |
|--|--|
| ■ On BBC News 24 make the channel more analytical, more international and broader in its outlook than other UK news channels | ■ BBC News 24 was relaunched with a more analytical, international and broader outlook, and a greater emphasis on local and business news (see page 44) |
| ■ During peak hours the channel will provide: a rolling news cycle containing coverage of breaking news and major events as they unfold; headlines on each quarter-hour and comprehensive hourly bulletins; and in-depth business and personal finance updates, sport and weather each hour | ■ BBC News 24 provides news headlines on the quarter-hour throughout the day and night (not just in peak). Dedicated business and sports correspondents provide regular updates tailored to the needs of the audience. Breaking news is carried as it unfolds and new editorial processes have been put in place to help the channel deliver these with speed and accuracy |
| ■ Increase our coverage of rolling news by: working with BBC Nations & Regions to deliver more diverse rolling news; illustrate stories with more examples from outside South-East England; broadcast from Scotland and Wales ahead of the parliamentary and assembly elections; indicate more effectively when we are broadcasting from locations around the UK | ■ Closer relationships have been built with BBC correspondents across the UK to provide improved coverage of emerging stories outside London; themed days on national issues use a wider range of more local examples. A package of output was provided ahead of the elections in Scotland and Wales |

Commitment	Performance
<ul style="list-style-type: none"> ■ Explain international stories in more depth than other UK channels with first-hand reporting and analysis from more than 200 correspondents. Cover the major general elections and international summits and increase our investment in live coverage from the rest of Europe 	<ul style="list-style-type: none"> ■ BBC News 24 has drawn on the BBC's international correspondents to offer a wider range of stories including theme days covering major international stories, such as Iraq. Major EU elections have been covered, with BBC News 24's chief political correspondent providing reports on all major EU summits
<ul style="list-style-type: none"> ■ Cover a wide range of business stories in depth, taking advantage of the BBC's expertise in business journalism 	<ul style="list-style-type: none"> ■ Business news has increased prominence in the schedule with a wider range of stories during the day, including a stock market report at 4.30pm. <i>World Business Report</i> and <i>Business Today</i> are aimed at a more specialist audience
<ul style="list-style-type: none"> ■ Offer viewers more ways to engage with the news by offering increased interactivity 	<ul style="list-style-type: none"> ■ A video loop of business stories was introduced on digital satellite and Freeview during the year, with an application for cable television viewers planned. Increased use has been made of email and text messaging to enable audiences to contribute to broadcasts
BBC Nations & Regions: News and current affairs	
<ul style="list-style-type: none"> ■ BBC English Regions: up to 3,470 hours of daily television news, 240+ hours of other programming 	<ul style="list-style-type: none"> ■ 3,408 hours of daily television news, 256 hours of other programming, including current affairs
<ul style="list-style-type: none"> ■ BBC Scotland: 530+ hours on television; 2,000+ hours on radio 	<ul style="list-style-type: none"> ■ 504 hours on television; 2,260 hours on radio
<ul style="list-style-type: none"> ■ BBC Wales: at least 750 hours on television** including political programmes; at least 18 hours a day news and speech on radio 	<ul style="list-style-type: none"> ■ 731 hours on television; 20 hours a day news and speech on radio
<ul style="list-style-type: none"> ■ BBC Northern Ireland: up to 440 hours on television 	<ul style="list-style-type: none"> ■ 382 hours on television
<p>Shortfalls reflect the move of the afternoon bulletin from BBC Two to a shorter format on BBC One delivering larger audiences, a temporary shortening (now restored) of the lunchtime bulletins, and in Northern Ireland, suspension of the Assembly resulting in reduced coverage</p>	
BBC English Regions	
<ul style="list-style-type: none"> ■ Continue to build on the strength of its multimedia offering using as its base more than 225,600 hours of local radio output 	<ul style="list-style-type: none"> ■ 228,033 hours of local radio output
<ul style="list-style-type: none"> ■ Bring more arts stories from minority ethnic communities to air on local radio through a partnership with Arts Council England 	<ul style="list-style-type: none"> ■ The Roots partnership generated nearly 1,300 arts stories from African, Asian, Caribbean and Chinese communities on radio, television and online

Commitment	Performance
BBC Scotland	
■ More than 950 hours of local television across a range of genres of which more than 230 hours to be sport	■ 976 hours of local television across a range of genres of which 256 were sport
■ BBC Radio Scotland and BBC Radio nan Gaidheal to broadcast more than 9,500 hours of programmes	■ 9,912 hours of programmes broadcast on BBC Radio Scotland and BBC Radio nan Gaidheal
BBC Wales	
■ 600 hours of Assembly coverage on S4C2	■ 548 hours of Assembly coverage broadcast on S4C2 – the shortfall reflects fewer Assembly sittings than expected
■ Make more than 300 hours of sport and more than 370 of other mixed genre	■ 322 hours of sport and 404 of other mixed genre
■ BBC Radio Wales and BBC Radio Cymru each to broadcast a comprehensive news and speech service at least 18 hours a day	■ A comprehensive news and speech service for 20 hours a day broadcast on both BBC Radio Wales and BBC Radio Cymru
■ Produce 640 hours of Welsh language programmes for S4C	■ 662 hours of Welsh language programmes for S4C
BBC Northern Ireland	
■ Up to 75 hours of factual programmes, documentaries, music and arts	■ 90 hours of factual programmes, documentaries, music and arts
■ Up to 75 hours of television entertainment	■ 91 hours of television entertainment
■ Up to 100 hours of sport on television	■ 93 hours of sport on television – the shortfall was caused by the loss of the Heineken Cup rugby rights
■ BBC Radio Ulster/BBC Radio Foyle will broadcast up to 8,500 hours of programmes	■ 8,758 hours of programmes were broadcast with new weekend shows and specials

* These commitments are conditions of the new service approvals set by the Secretary of State for Culture, Media and Sport but were not included in the *BBC Statements of Programme Policy 2003/2004*

** Total includes output broadcast on S4C and the network

Governors' review of commercial activities BBC Worldwide Limited

BBC Worldwide

Overview

BBC Worldwide Limited is the commercial subsidiary of the BBC that aims to maximise the value of the BBC's content assets for the benefit of the licence payer, in order to reinvest its earnings into public service broadcasting and to extend the enjoyment of BBC programming among UK audiences and around the world.

It does this by, for example, licensing programme formats, selling rights, publishing books, magazines, DVDs and CD-Roms linked to BBC programmes, and operating commercial television channels.

BBC Worldwide operated in a very difficult trading environment in 2003/2004, but despite difficulties in some areas of its business, succeeded in returning £141million in cash to the BBC (up from £123million in 2002/2003).

The BBC is launching a comprehensive review of its commercial activities which will report by the end of 2004.

The commercial exploitation of assets created for the licence payer is an important part of the BBC's response to the challenge set by successive governments for the BBC to make the most of financial self-help measures. BBC Worldwide helps to manage the BBC's brands strategically, thereby maximising their value – as well as extending licence payers' enjoyment through books, magazines, digital media and commercial television channels. Overseas, BBC Worldwide's growing presence raises awareness of UK cultural values and acts as a global platform for talent – helping to deliver public value to the UK creative community.

In tough global conditions, BBC Worldwide increased its sales from continuing operations, including BBC Worldwide's share of joint ventures, to £657million – up 3% on last year (£640million). The difficult trading conditions were offset by the success of BBC Worldwide's multiformat strategy which gives it a diverse business base and some protection against market volatility. BBC Worldwide's profit increased to £37million, up 13% on last year (£32million). Profit on continuing operations declined to £37million from £44million, primarily due to the erosion of the US dollar.

BBC Worldwide will only engage in activities that fit BBC values. This year, for example, BBC Worldwide introduced an ethical food policy restricting the use of BBC children's characters on licensed products – this took account of growing public concern over child obesity.

In 2003/2004, BBC Worldwide sold 40,000 hours of television programming. Strong



1	2	4
	3	

1 The Andy Pandy Roadshow
Puppets were turned into live theatre for this roadshow

2 Global success
Colosseum, now licensed to broadcasters in 35 countries

3 The Radio Times
Colin Baker as Dr Who showcased by the *Radio Times*

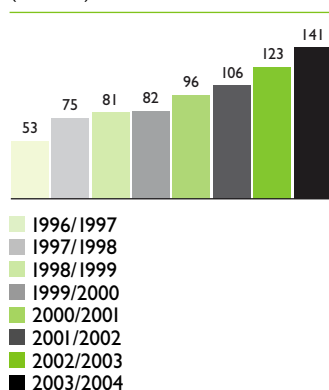
4 The Office
The second series broke the record for the fastest-ever selling DVD of a television programme

38
million homes in the US can access BBC America

20
countries bought and adapted the *Great Britons* format

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

BBC Worldwide cash flow to the BBC (£million)



Source: BBC Finance

demand was evident at BBC Showcase where programme buyers view BBC productions. This year 480 buyers from 80 countries screened 600 hours of new television and initiated £50million of business.

Alongside BBC content, BBC Worldwide successfully exploits a wide range of intellectual property rights on behalf of independent producers. In 2002 the Department for Culture, Media and Sport (DCMS) launched a review of television programme production following claims that the independent sector was being disadvantaged. BBC Worldwide participated fully in the review and, following the DCMS response to the report in January 2003, has now enhanced its separation from the BBC in its dealings with the independent sector.

BBC Worldwide is a market-leader in the sale of television formats – programme concepts adapted for use in overseas markets. Last year's big success was the interactive *Great Britons* format. This was successfully remade as *Great Germans* for the ZDF network and versions are under way in 20 other countries.

BBC Worldwide operates television channels in the UK and abroad. Overseas, over 340 million homes now have access to BBC Worldwide's channels and the digital channel BBC America can be seen in 38 million US homes. In the UK, BBC Worldwide operates UKTV as a joint venture with Telewest. This year, UKTV Documentary, UKTV People and UKTV G2 were launched as additional niche networks. BBC Worldwide's other main partnership is a joint venture with Discovery Communications Inc. The joint venture

channel Animal Planet is now available in 193 million homes and has secured distribution in the competitive German market.

BBC Magazines saw copy sales pass 100 million. *Radio Times* had its most profitable year, and there were strong debuts for *Songs of Praise*, *Easy Gardening* and *BBC Parenting*.

BBC Worldwide Consumer Publishing sold 26 million books, videos, DVDs and audio products. The big DVD success was *The Office* series two which broke the record for the fastest-ever selling DVD of a television series. BBC Worldwide is a leading UK publisher of adult non-fiction books – retaining number one position in cookery, gardening and natural history. BBC Audiobooks is the UK's leading spoken word publisher.

It was a difficult year for children's properties, given increased competition in the sector. But BBC Worldwide consolidated its position as the UK's leading pre-school video and DVD distributor – with the CBeebies pre-school series *Balamory* doing well on DVD and CD-Rom, and recently launching as a magazine.

BBC Worldwide Learning's major development was the launch of TeachandLearn.net – a partnership with the Open University to create the UK's first online development service for teachers.

BBC Worldwide is active in digital media. This year it launched BBC News on RealNetworks' broadband SuperPass service. It was also a strong year for the internet service provider beeb.net which saw 31% year-on-year growth in users.

Governors' review of commercial activities BBC Ventures Group Limited

BBC Resources **BBC** Technology **BBC** Broadcast **BBC** Vecta

Overview

BBC Ventures Group Limited is the umbrella company for four commercial companies providing broadcast services in the UK and internationally, including to the BBC. The group, which has some 4,000 staff, was originally tasked to deliver cash and cost savings of £300million to the BBC over five years as part of the self-help programme asked for by the Government as part of the last licence fee settlement. After a strategic review of the business, the BBC decided to sell one of the companies, BBC Technology, which would enable the BBC to realise larger savings than planned, and take them earlier.

In a year when markets remained difficult, BBC Ventures Group delivered cash of £7million for the BBC (2002/2003 £6million) and cumulative cost reductions in the supply of facilities of £27million (2002/2003 £23million). Revenues were £432million (excluding trading between BBC Ventures Group companies of £36million) and profit before interest and tax (PBIT) was £15million.

The BBC is launching a comprehensive review of its commercial activities which will report by the end of 2004.

BBC Resources

BBC Resources is the largest production facilities business in Europe and supplies outside broadcasts, studios and post-production as well as costumes and wigs.

The business is dependent on supplying facilities for sports coverage, and last year was the trough of the four-year sport cycle. This, combined with tougher conditions in all markets, led to reduced volumes of work and pressures on margins. However, BBC Resources delivered revenues of £128million, finished the year in profit (PBIT £4million), generated £7million in cash for the BBC and is positioned to take advantage of the cyclical upturn in events over the next year.

The company had some notable successes, including supplying at very short notice the facilities for the memorable coverage of the Rugby World Cup celebrations in central London when half a million people were on the streets. With less than a week to prepare, BBC Resources supplied 38 cameras, 31 vehicles and a helicopter. For the World Rally Championship, the company supplied the first live coverage from inside cars travelling at high speeds in hostile terrain. Developments of special cameras and wireless solutions also facilitated innovative coverage of Wimbledon and the London Marathon.

BBC Technology

BBC Technology provides products and services for managing and distributing rich media content across multiple platforms including digital media, telecoms, broadcast and interactive television.



1	2	4
	3	

1 Rugby World Cup welcome
BBC Outside Broadcasts supplied 38 cameras to cover the event

2 Wi-Cam technology
New development frees cameras from cables

4 The Broadcast Centre
New state-of-the-art television play-out centre in west London

3 Colledia
BBC Technology's new product helps broadcasters manage media

750

thousand costumes available from BBC Resources

81%

of programming on BBC One subtitled

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

In 2003 the company launched its Colledia set of products which enables broadcasters, film companies and other media organisations of all sizes to produce high-quality content more efficiently. Colledia has been bought by the US sports broadcaster ESPN.

The Governors' decision to approve the sale of the company was taken after an internal strategic review of the BBC's technology requirements for the next decade which identified potential annual savings of between £20million and £30million through outsourcing technology services. The buyer will take on the current staff of 1,400 and provide the BBC with technology support, including web-hosting, broadcast technology services and desktop support for the duration of a ten-year contract. The new contract is expected to begin in 2004/2005. The sale remains subject to the approval of the Department for Culture, Media and Sport (DCMS).

BBC Technology delivered revenues of £230million, finished the year in profit (PBIT £10million) but was a net consumer of cash in the year (an £1.1million outflow). The business passed cumulative savings to the BBC of £25million.

BBC Broadcast

BBC Broadcast aims to provide broadcasters with everything they need to launch, promote, manage and play-out content for television, the internet and mobile devices. The range of services includes new channel launches, play-out and channel management, channel branding and promotion, and subtitling, audio describing, signing and other media access provision.

The most significant development for the company in 2003/2004 was the completion of its new HQ, the Broadcast Centre, part of the newly developed Media Village close to Television Centre that is planned to become home to a number of other media companies. Over the course of 2004/2005 all the channels and interactive streams played out from Television Centre will migrate to the Broadcast Centre in one of the biggest operations of its kind in broadcast history. The new HQ will significantly increase BBC Broadcast's capacity to service new channels.

Despite the investment in the Broadcast Centre, BBC Broadcast delivered revenues of £109million, finished the year in profit (PBIT £7million) and generated £15million in cash for the BBC. In addition, cumulative savings delivered to the BBC were £2million.

BBC Vecta

BBC Vecta was launched in 2003 to exploit commercially technical innovations generated by the BBC's Research & Development team. BBC Vecta works with Research & Development teams in the BBC, including the Kingswood Warren research labs, and with other strategic partners.

BBC Vecta delivered revenues of £1million, finished the year having made a loss (loss before interest and tax £3million) and consumed £4million in cash.

BBC people and talent

Overview

The main strategic business of BBC People (the new name for Human Resources & Internal Communications) has been continuing to develop and implement the Making it Happen culture change process designed to transform the BBC into the world's most creative organisation. There have been new initiatives to improve the quality of leadership, succession planning, recruitment and induction.

As well as training its own staff, the BBC acts as a trainer to the wider broadcasting industry and it has continued to develop its free online courses.

An important part of the BBC's role is to find and develop new talent, on and off air. BBC Talent is the key project in this area.

Leadership

In April 2003 the Governors approved a significant new Making it Happen initiative, the BBC Leadership Programme, designed to improve the quality of leadership and management in the BBC. This followed a widespread staff consultation in 2002 which revealed a strong desire by staff for "a better relationship with our managers and ... consistent leadership at all levels of the BBC". The BBC Leadership Programme, based at Ashridge, was developed as a result and launched in September 2003. Over the next five years almost 7,000 managers, from leaders of small teams to senior managers, will complete the programme. The Governors have asked for the success of the training to be measured.

Succession planning

Alongside the BBC Leadership Programme, a succession-planning framework has been developed to identify and develop a pool of talent ready for senior leadership roles across the BBC – and to help identify gaps in the talent pool to inform external searches. A valuable by-product should be more movement of the most talented and best-trained individuals across the BBC. However, sharing and moving talent around the BBC has traditionally been very difficult to achieve. The Governors will view success in this area as a litmus test of a more positive attitude towards collaboration between divisions.



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2

1 Breaking through
Holby City's Jaye Jacobs – got her break through BBC Talent

2 Upfront induction
 New BBC staff get a taste of programme making

Feedback

The BBC carries out a staff survey each year as a way of identifying areas that need work. One such area is insufficient feedback to staff. The 2003 survey indicated that only 40% of staff receive regular feedback on how they are doing and only 35% of managers have regular conversations with staff about their development. Measures are being taken to improve performance through a new feedback and development process.

Recruitment

A new approach to recruitment is being introduced, with a new advertising style, website and literature – and useful experiments have been made in placing advertisements in a broader spread of media.

Induction

This year has seen the first full year of the new induction programme, Upfront. All eligible new staff are expected to attend this four-day programme, whatever job they do in the BBC. In the last quarter of 2003 attendance across the BBC stood at 97% with most divisions achieving full attendance. All new BBC Governors attend Upfront sessions.

Industry training

As well as training its own staff, the BBC continues to play an important role as a trainer to the wider broadcasting industry. BBC Training & Development now provides free online training modules for freelancers covering aspects of television and radio production, editing and journalism. This is the first stage in building a learning portal for the broadcast industry providing a range of free online courses.

BBC Talent

BBC Talent was launched in 2000 and it continues to provide an important way for the BBC to find and nurture new talent throughout the UK. Nearly 600 people have been talent-spotted so far. New schemes in 2003/2004 included finding radio DJs for iXtra, writers for BBC Wales, sitcom writers for BBC Three, specialist classical presenters for BBC Radio 3 and young singers for a BBC Two children's opera, *Little Prince*. *Little Prince* attracted some 25,000 applicants for the nationwide auditions of whom 6,000 were seen.

Awards

In 2003/2004 the BBC received over 250 programme-related awards across television, radio and new media. These included 28 BAFTAs, two Golden Globes, 22 Sonys and 54 RTS awards.

Outside of programme making, the BBC has received awards for a range of other activities such as property design, environmental schemes and good customer services.

Being accountable and responsible

Overview

The Governors are responsible for holding BBC management to account and, as trustees of the public interest, they work to understand the needs and concerns of licence payers so that they can take them into account when questioning management about the quality of BBC services. Governors' accountability activities in 2003/2004 have included launching and facilitating independent research to learn from licence payers what they think about aspects of BBC services (see pages 14 and 21), continuing to work with BBC advisory bodies, and reviewing the BBC's processes for handling complaints.

The Governors also take seriously the BBC's responsibility to be a good corporate citizen – it is one of the ways that the BBC delivers public value. Initiatives here range from charitable fundraising to measures to reduce the BBC's negative impact on the environment. The BBC now submits itself to external verification of its progress in these areas and this year's results are reported in this section.

Public consultation on the future of the BBC

The BBC actively consulted the public and opinion-formers on its future in the context of the Charter Review process launched by the Department for Culture, Media and Sport (DCMS) in December 2003.

The DCMS set out eight key questions about the BBC's role and structure. They included: "What do you value about the BBC?", "How should we pay for the BBC?" and "How should the BBC be governed and regulated?" The DCMS solicited responses through leaflets, websites and public meetings.

The BBC both promoted this consultation and commissioned its own audience research using focus groups and survey work. The BBC also undertook research among active users of BBC services on the internet and local radio. A questionnaire placed on the bbc.co.uk homepage drew 3,200 responses. A series of 32 local radio phone-in programmes was mounted across the country.

In February 2004, the BBC sponsored a Westminster Media Forum seminar on the future of the BBC, attended by broadcasting industry figures, regulators and policy makers. In March 2004 an edition of *Panorama* debated the future of the BBC.

The findings from all these consultative exercises mounted by the BBC have been passed to the DCMS to help inform their deliberations. Some of the findings are set out below.



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1 Held to account
Panorama special: What's the point of the BBC?

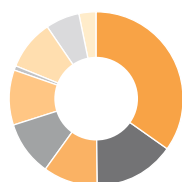
2 Listening in
 BBC Governor Ranjit Sondhi listening to audiences in Birmingham

£9.67

the cost of the licence fee per month in 2003/2004

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

Average monthly licence fee spend



■ BBC One	£3.37
■ BBC Two	£1.45
■ Digital television channels	£0.98
■ Transmission and collection costs	£0.98
■ BBC Radio 1, 2, 3, 4 and Five Live	£0.99
■ Digital radio stations	£0.08
■ Nations & English Regions television	£0.90
■ Local radio	£0.61
■ bbc.co.uk	£0.31
Total	£9.67

Note: Programme related costs such as marketing, and all overheads have been fully apportioned against channels/networks to show the total cost of BBC output

On the question of what people valued about the BBC, the views expressed were on the whole positive. In particular, people valued the quality of BBC programming – ‘quality’ being defined both as setting high standards and as representing a high standard of impartiality and independence of news reporting. The genres most often applauded were news and current affairs, and other factual programming such as documentaries and natural history programming. Entertainment was also mentioned by many, although some examples were criticised as too populist.

Many people thought the BBC presented sport in the best manner and without the interruption of commercials – but there was regret that the BBC had lost some prime sporting events on television. There was a perceived lack of comedy on television, compounded by repeats of older series – although, when prompted, people could think of new BBC comedies that were good, current and relevant.

On the question of how the BBC should be funded, the majority thought the licence fee was an important and acceptable funding tool which offered value for money – but there was a group who were vociferous in their dislike of the licence fee which they saw as a compulsory tax.

On the question of how the BBC should be regulated, the general public had little awareness of the BBC’s present structure. In the discussions with industry figures the main concern was what was seen as the difficulties surrounding the role of the Governors. Their tasks were seen as being split in a way that made it more difficult for them to operate efficiently.

BBC advisory bodies, Broadcasting Councils and the English National Forum

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

The Councils’ most important task is to advise the Governors on programme and service objectives for BBC Nations & Regions and to monitor, through a process of regular review, the extent to which the BBC delivers them. Overall, they felt that significant progress had been made against the year’s objectives. There were, however, a number of key issues of concern.

The Broadcasting Council for Scotland noted that the review of BBC Scotland’s news journalism had raised two key issues: audiences had an appetite for more localised news services and there was a need to explore new ways of engaging audiences in political issues. However, although a sizeable minority wanted an integrated early evening news programme for Scotland (the ‘Scottish Six’) there was not sufficient support to change the existing schedule. The loss of the television rights for Scottish Premier League (SPL) football was of concern as football coverage helped to drive approval among viewers. BBC Scotland should capitalise on coverage of non-SPL games and look to provide programming appealing to the same demographic group. Council also raised issues about

Being accountable and responsible

Community partnerships

All Together Now

All Together Now is a community media project based in Leeds. It teaches people in one of Britain's most socially-deprived and diverse areas how to make radio, video and online pages. It gives them skills, but also builds confidence by allowing them to decide what is important, and to showcase the things they want to celebrate.

Their work goes out on BBC Radio Leeds, *Look North*, and the Leeds *Where I Live* website, capturing personal stories that journalists would find it hard to get to by traditional means. The project allows contributors to find a voice beyond their own community – and it helps to build trust between local people and the BBC.

The project is a partnership between the BBC, Education Leeds, Leeds City Council and Arts Council England, Yorkshire. Since March 2003 more than 100 adults have been producing material for All Together Now. Local schools, including parents, are involved too. In the longer term it is hoped to create a media centre in a newly built academy to act as a centre of excellence from which the concept can be developed in other areas of the country.

the portrayal of Scotland and the Scottish people in network programming.

Portrayal was a matter of concern for all Councils. It was felt that network commissioning was still too London-focused, resulting in programmes that did not fully reflect the diversity of life in the nations and English regions. The Broadcasting Council for Northern Ireland, in particular, noted a significant reduction in network commissions and expressed concern.

The Broadcasting Council for Northern Ireland also felt that the growing demand for increased language coverage for Irish and Ulster Scots would be a key issue for the BBC in Northern Ireland during the coming year. Council also highlighted the low coverage of both Digital Audio Broadcasting, for radio, and Freeview, for television. As a result the Governors have asked management to pursue the implications of extending digital coverage in Northern Ireland.

The Broadcasting Council for Wales noted the success of two ongoing strategies. The strategy of fewer but stronger brands had resulted in the strengthening of programmes and services. The community strategy had proved to be a very successful way of working closely with audiences throughout Wales and had led to a real feeling of ownership and involvement for licence payers. There were, however, concerns about the loss of some sports rights.

The ENF noted that, in addition to expressing concerns about the level of network production around the English regions, there was demand for more regional non-news television output. This would enable the BBC to engage with a wider local and regional audience than at present and to ensure that life in the English regions was accurately represented. The ENF also suggested that the current accountability framework in the English regions could be put to better use by network programme makers and commissioners. As a result, the Governors have asked management to raise awareness among commissioners and controllers of the role of the Broadcasting Councils and the ENF.

The ENF was pleased to note that their concerns of last year about local government coverage had led to the BBC carrying out a full scale review. In March 2004 the results were presented to the Governors who approved a programme of improved training for BBC journalists covering local government, as well as measures to strengthen relations with local councils. The Governors also approved a follow-up study to explore and improve coverage of local unelected bodies or quangos.

The views of the Broadcasting Councils and the ENF are published in more detail in the Annual Reviews of BBC Scotland, Wales, Northern Ireland and the English Regions. These are available at bbc.co.uk/annualreport.



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1 All Together Now
The Leeds-based project teaching local people media skills

2 BBC World Service Trust
Jihan El Alayly explores the concerns of families in Iraq

Central Religious Advisory Committee

The Central Religious Advisory Committee advises the BBC on religious broadcasting policy and programmes.

This year the Committee praised radio for the range, quality and vitality of its religious programming. BBC Radio 4's *Beyond Belief* was particularly commended for the intelligence of its approach and its commitment to diversity not only between faiths but within them. The Committee also noted with appreciation the range of high quality religious programming on BBC Radio 2 and BBC World Service.

On television the picture was more mixed. The Committee found much good programming, with observational documentaries, such as *When the God Squad Came to Town*, praised for their presentation of religious themes and subjects in an accessible and engaging way. There was concern however at what the Committee perceived to be a lack of understanding of religious faith on the part of some programme makers. There was a widespread view, for instance, that *Noah's Ark* had proceeded on the incorrect assumption that most Christians hold a literal belief in the flood story and that such false assumptions are too frequently in evidence.

The Committee raised other concerns such as the late and variable scheduling of religious programming on television and is yet to be convinced that the correct balance has been struck between the commitment to regular, continuing series

and one-off documentaries. The Committee will keep these questions under review over the coming year while also reviewing its own role and workings with a view to playing a more proactive, supporting role for programme makers.

As outlined in the review of BBC One (pages 25 to 26) the Governors will be undertaking work in the coming year to assess the effectiveness of the religion strategy they approved in 2002.

BBC World Service and Global News Consultative Group

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

Editorial standards in the context of the Iraq war

In 2003/2004 the Group decided to assess the continuing quality and integrity of BBC World Service editorial control and processes, at a time of extraordinary world events which polarised opinion in the UK and internationally. The Group also wished to assess the reliability, balance, objectivity and impartiality of the BBC's programmes in time of war, including comparison with competitors.

Having considered a range of sources and evidence, it is confident that the editorial process in World Service and Global News is robust, and that content is under constant scrutiny.

After listening retrospectively to a selection of programmes on the English and Arabic radio networks and watching the BBC World television channel during 2003, it concludes that the BBC's coverage, in relation to the Iraq war and Middle East affairs, is impartial.

It is pleased to note that an independent assessment by specialists, the Royal Institute of International Affairs (Chatham House), supports the view that the BBC's output to the Middle East is accurate, balanced and objective. It is also pleased to note positive results from a specially commissioned focus group study conducted in the Middle East, which indicate that the BBC's output is rated highly in the Arab world for trust, reliability, objectivity and impartiality.

Review of language service output

The Consultative Group also reviewed output in English, Arabic, Russian, Ukrainian, Czech and Serbian.

It is satisfied that all BBC World Service output reviewed this year attracted high scores from independent assessors for authority and accuracy. While there is room for improvement in certain aspects, such as style and audibility, the overall picture is reassuringly positive.

Being accountable and responsible

Community partnerships

The Community Channel

The Community Channel is a not-for-profit digital television station owned by the Media Trust, a charity that helps all charities to communicate better. The BBC has developed a strategic relationship with The Community Channel.

BBC support takes various forms. One is the free supply of archive material – for example, the channel has rebroadcast programmes made by the BBC World Service Trust about HIV/Aids and about leprosy.

There have been a number of training initiatives. BBC Training & Development, in partnership with The Community Channel and the University of Westminster, made a documentary about the Charity Times Awards. A plan is being developed to allow BBC trainees to help community projects – for example, by helping charities create content for The Community Channel.

The BBC allows The Community Channel access to three hours a day of its Freeview multiplex to enable the channel to be seen in digital terrestrial television homes.

BBC Broadcast, which has a commercial arrangement to play out the channel, is developing CSR initiatives including subtitling support and on-air promotions production.

Responding to complaints

The Governors' Programme Complaints Committee (GPCC) is responsible for ensuring that complaints are properly handled by the BBC.

In June 2003, GPCC agreed with management the terms of reference for an external audit of BBC complaints-handling processes by the Office for Public Management. The outcomes were reported to the GPCC in September and when Mark Byford was appointed Deputy Director-General in December he was asked to take this work forward. Proposals for change were accepted by the Governors in June 2004 and are now being implemented. They are designed to make the system easy to access, clear, speedy, fair and independent. We will report on the outcomes next year.

In this Annual Report we are reporting on the system in place in 2003/2004. During this period, BBC Information was a key avenue for people wishing to lodge a complaint. The service operates round the clock and can be contacted by telephone, email or letter. In 2003/2004 it received approximately 2.5 million contacts in total, of which 8% were complaints. A daily log, published on the BBC intranet site, enabled programme makers to discover what the audience said about their work. Digests of the information were also circulated to management and Governors.

Where people believed there had been a serious breach of the BBC Producers' Guidelines, they could make their case to the Programme Complaints Unit (PCU). The PCU investigated complaints impartially and recommended appropriate redress.

In 2003/2004, the PCU dealt with 1,640 complaints (1,596 in 2002/2003) concerning 875 items. Of these, 389 individual complaints were wholly or partially upheld concerning 102 items – 11.6% of the total number of items investigated. Upheld findings were published quarterly, together with a note of the action taken in each case.

In 2003/2004 there was a serious deterioration in the response time for dealing with complaints by the PCU. Only 35.5% of complaints were answered within the target times (20 days, or 35 days for more complex cases) compared with 49.5% in 2002/2003. This deterioration reflected the continuing impact of the email complaint facility – this was introduced in 2002 and led to a doubling of the number of complaints.

The GPCC undertook its third annual review of BBC complaints handling processes in April 2004, assessing the operations of BBC Information and the PCU against best practice criteria. It concluded that BBC Information provided an excellent service to audiences. The Committee noted that the PCU fulfilled a key role in investigating serious complaints, but that urgent action was needed to improve PCU response times.

The GPCC also considered appeals from people who had made a serious editorial complaint to BBC management and were not satisfied with the response.

The Committee considered 27 appeals this year, and upheld 11 in full or in part. It received quarterly complaint reporting from management, and maintained its



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1 Learn for Real
New media workshop, a community mentoring project in London

2 Blue Peter
The 2003 *Blue Peter* appeal raised money for Mencap

2.5
million people contacted
BBC Information last year

£30m
raised by Children in Need

For more broadcasting facts and figures, see pages 58 to 67 and 136 to 146

active oversight of the BBC's strategic approach to complaints handling.

The Programme Complaints Unit also liaised with Ofcom (and previously with the Broadcasting Standards Commission (BSC)) on complaints about BBC programmes. In the year to 31 March 2004, the BSC/Ofcom upheld 12 complaints of unfair treatment or unwarranted infringement of privacy, in whole or in part. In the same period, the BSC/Ofcom partly or wholly upheld standards complaints about 25 broadcast items. The BBC complied with all statutory directions given by the BSC/Ofcom.

Corporate social responsibility

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

For the BBC, CSR means acting in the public interest to strengthen and enrich communities across the UK and through international charitable action. It means behaving with integrity and ethical consistency towards its own staff, audiences and suppliers, and towards the communities in which the BBC operates, to maintain their faith in the BBC as a trusted creative institution.

Business in the Community, the organisation that works to improve the positive impact of business in society, publishes a CSR index each year. In 2004 the BBC's score was 87% (71% in 2003) placing it 42nd in the top 100 UK companies for CSR. Public expectations of the BBC are rightly very high in this area and in 2003, the BBC set

up a dedicated CSR centre to lead and coordinate activity. Later this year, it will publish the BBC's first full CSR report.

That report will give a comprehensive picture. The emerging themes so far from the BBC's CSR activities in 2003/2004 are as follows.

BBC charitable appeals

BBC broadcast appeals are an important public service which enable a wide range of charities to raise money – and awareness of their work. The BBC tracks public attitudes to major fundraising appeals and 86% of respondents say broadcast appeals are a good way of raising money and 76% expressed high levels of trust in the BBC to ensure that the money raised is wisely spent.

The BBC Governors are advised on broadcast appeals by the Appeals Advisory Committee (AAC), 12 specialist external advisers representing a broad range of interests across the charitable field. Stuart Etherington (Chair of the National Council of Voluntary Organisations) was appointed Chair in July 2003.

The AAC provides advice on the BBC appeals policy and has undertaken a strategic review of broadcast appeals that will report to the Governors in the autumn. The AAC also assists the Governors with their oversight of major fundraising projects such as BBC Children in Need, and on the allocation of the BBC Radio 4 and BBC One *Lifeline* appeals. Last year the weekly BBC Radio 4 appeal raised more than £970,000 and the monthly *Lifeline* on BBC One raised more than £204,000.

Being accountable and responsible

Community partnerships

Media on the Park

Media on the Park is a partnership between BBC South and the community of Leigh Park near Havant in Hampshire. The area is acutely deprived and the community has little confidence in the media.

Park Community School is a local school that until recently was failing academically. The school was awarded official Arts Status in 2003, and used part of the funding this generated to plan a Broadcast Media Suite for use by schools in the area and the wider community.

The school approached BBC South for technical advice. BBC South responded with much more. They arranged for BBC Technology to equip the suite at cost; they placed two radio producers in the school and they offered support and airtime for the project.

Benefits for the children range from increased oral and literacy skills to increased motivation and confidence. And there are benefits for the BBC too. Staff have got to know this section of their audience better – sometimes having their views of what makes relevant news challenged along the way. And the perception of the BBC is slowly changing too – gradually it is coming to be seen as more accessible and trustworthy.

In November 2003 BBC Children in Need raised more than £15million on the night – and more than £30million in total. This is the highest amount ever raised, and will be distributed in grants to help children across the UK. In the same month, *Blue Peter* launched its Get Together Appeal with Mencap, and has raised £530,000 so far.

BBC Fame Academy bursaries

The talent show *Fame Academy* raised £2.7million through phone votes and record sales. The money has been used to set up the BBC *Fame Academy* bursaries to support young musical talent. Five young musicians have each been awarded grants of £37,500 towards their musical education and hundreds of grants have been made to school children to help them buy instruments or musical equipment.

BBC World Service Trust

The BBC World Service Trust, the BBC's international development charity, aims to promote development through innovative use of the media in the developing world. It is a registered charity, not paid for by the BBC, and raises funds from governments, international agencies and other partner organisations. In 2003/2004 a record £10.2million was raised.

Trust projects include building capacity of local and national media, providing training in media skills, and developing health and educational campaigns in many of the world's poorest countries.

The Trust now has 400 staff working on projects in 23 countries in partnership with NGOs, broadcasters and governments.

Connecting with Communities

Connecting with Communities was launched in October 2003 to promote and facilitate volunteering opportunities for BBC staff. The BBC is partnered with 30 national charitable organisations who offer more than 200 types of volunteering experiences across a range of sectors including education, the arts, disability and diversity. During the first six months more than 400 staff registered their interest.

BBC payroll giving

Payroll giving enables employees to make charitable donations straight from their salary. In the course of 2003/2004 an initiative was launched to increase take-up and as a result, payroll giving more than doubled to 9% of staff. Their contributions total more than £500,000 annually, which puts the BBC among the top 25 payroll givers.

Community partnerships

The BBC operates a number of community partnerships, actively seeking out opportunities to join with other local organisations to improve conditions in the communities in which they operate. Three case studies are set out in the boxes in this section.

Open Centres and BBC buses

The first BBC Open Centre was launched in 2001 in Blackburn to strengthen and extend BBC Radio Lancashire's connection with its local audience by offering opportunities to learn about the media, acquire IT skills and become involved in community broadcasting. The project was very successful and there are now similar centres in Stoke, Sheffield and Liverpool. BBC Wales also has four community studios which carry out a similar role.



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1 BBC buses
Providing IT and media training in the community

2 Children in Need
Pudsey and friends turn out in Belfast

A BBC bus was also piloted in 2001 to take the local radio station out on the road, to put listeners on air, and again to create opportunities for media and IT training. It proved a success and there are now buses operating in Lancashire, Humberside, Sheffield, Derbyshire, Lincolnshire, Cleveland, Newcastle, Manchester, Cumbria, Merseyside, Devon and York. Buses for BBC Wales and BBC Northern Ireland were launched in 2003.

The Open Centres and the BBC buses are wholly dependent on partnerships to provide expertise, funds and resources which the BBC does not have on its own. The projects were established with Blackburn with Darwen Council as the primary Open Centre partner and Lancashire County Council as the primary partner on the bus project, together with a number of local arts organisations, job centres and business link organisations as secondary partners. This model has been followed in each of the subsequent projects.

The success of the initiative can be measured in various ways. The target set for enrolment on basic IT training at the Blackburn Open Centre for the first year – 600 people – was exceeded inside six months. The centre is also attracting a notably younger and more ethnically diverse audience than the local radio station's average listenership, bringing potential new audiences onto the BBC's websites and airwaves.

The BBC and the environment

The BBC acts to ensure that it complies with environmental legislation, but it has a responsibility to go further than this – to reduce its environmental impacts and to manage its business risks. A comprehensive review of the legislation has been undertaken, taking into account new legislation in the areas of waste and energy. The BBC's management systems are being strengthened to ensure proper responsibilities and risks are identified and procedures put in place.

The BBC has had a corporate environmental policy in place since 2001, supported by a system of performance monitoring and targets for waste, greenhouse gas emissions, energy, transport and sustainable buildings. Environmental performance is benchmarked against leading UK companies and media companies. The Business in the Environment Index places the BBC 2nd in the media and entertainment sector, and 77th overall in comparison with 176 of the FTSE350 leading companies.

During 2003 the BBC collected more than 520 tonnes of paper in London and Scotland for recycling.

The BBC aims to reduce greenhouse gas emissions per broadcast hour by 8% between 2002 and 2010. The reduction in greenhouse gases (measured as carbon dioxide CO₂) is being achieved through buying green electricity, implementing energy efficiency schemes, switching to low emission vehicles, and through on-site power generation using a combined heat and power (CHP) scheme.

The proportion of 'green' electricity used by the BBC has now reached 88%. The electricity comes from renewable sources such as hydroelectric power stations, wind farms and gas from landfill sites based in the UK.

The BBC has a range of schemes to promote energy-efficient business travel and help reduce road congestion and associated pollution. The BBC has set targets with its London suppliers to convert 40% of the business cab fleet to alternative/dual fuel such as LPG, LPG-diesel and electric.

Performance data on greenhouse gas emissions and waste recycling will be published in the CSR report in the autumn.

Sustainability is a key priority in the BBC's programme of building and refurbishment. The Media Village, the BBC's major new development in White City, London, has been awarded an 'excellent' environmental rating under the BREEAM (Building Research Establishment Environmental Assessment Method). This measures the environmental impact associated with buildings, assessed against performance criteria such as energy efficiency, transport emissions and ecological impact.

Compliance

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

They must satisfy themselves that the BBC:

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

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

1 Fair trading	82
2 Financial statements	85
3 Risk and control processes	86
4 Other corporate governance responsibilities	90
5 Governors' remuneration report	91
6 Programmes, channels and promotions	94
7 Cost of compliance	96
8 Donations and acknowledgements	96

1 Fair trading

Governors' Fair Trading Compliance Committee (FTCC)

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

The key responsibilities of the FTCC are to:

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

Governors' statement on fair trading

Commercial activities and fair trading

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

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

Fair trading compliance procedures

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

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

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

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

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

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

Fair trading complaints

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

Events of the year

External challenges

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governors' opinion

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

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

We have audited, in our role as the BBC's Fair Trading Auditors, the system of internal controls established within the BBC to provide the Governors with reasonable assurance that the BBC has complied with its published Fair Trading Commitment for the year ended 31 March 2004.

Our instructions for this audit, which included the scope of work to be undertaken, were agreed with the FTCC. These instructions include agreement that our audit should be conducted in accordance with relevant auditing standards, agreement on the limit of our liability in respect of this work and agreement that our duty of care in respect of this work is solely to the BBC. We are satisfied that the agreed scope of our audit was sufficient to enable us to express the opinion set out below.

Respective responsibilities of Governors, management and auditors

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

The BBC's management is charged by the Governors with operating a system of internal controls designed to ensure compliance with the Fair Trading Commitment, including identifying and assessing risks that could threaten fair trading and designing and implementing responses to such risks.

As the BBC's Fair Trading Auditors, it is our responsibility to form an independent view, based on our audit work, as to the extent to which the BBC has established, and applied, a system of internal controls which provide reasonable assurance that it has complied with its Fair Trading Commitment during the year. We have reviewed specific decisions reached by the BBC on fair trading issues only in so far as this is necessary to form an opinion on the system of internal controls. Our audit was not designed to express an opinion on the quality of the specific decisions taken by the BBC with regards to fair trading. We have also reviewed whether the Governors' statement on fair trading reflects our findings of the BBC's compliance with its system of internal controls, and we report if it does not.

This opinion has been prepared for, and only for, the BBC in accordance with our instructions which were agreed with the Secretary of the BBC on behalf of the FTCC. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of audit opinion

We have carried out a programme of procedures and tests designed to provide us with the assurance that we were seeking. Our work consisted of enquiry and assessment to enable us to form a view as to whether an appropriate system of internal controls was in place. We also reviewed the processing of a sample of material transactions to provide us with reasonable assurance that the system of internal controls had been applied.

As with any system of control, however effective, it is not practicable to ensure that no errors or irregularities have occurred without being detected. Our audit work was therefore designed to give the Governors reasonable assurance, but not certainty, as to the adequacy of the system of internal controls which were in place and being applied to deliver compliance with the Fair Trading Commitment during the year. Further, because fair trading issues require judgements which ultimately might be tested in a court of law, competition authority or elsewhere, there is always a risk of challenge even where the system of internal controls has been followed and decisions have been taken with the greatest care.

Opinion

In our opinion the BBC has established and has applied a system of internal controls which provide reasonable assurance that it has complied with its Fair Trading Commitment for the year ended 31 March 2004.

PricewaterhouseCoopers LLP
Chartered Accountants

London
17 June 2004

Governors' report on BBC World Service Trading Protocols

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

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

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

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

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

Governors' statement on BBC World Service Trading Protocols

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

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

2 Financial statements

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

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

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

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

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

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

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

Respective responsibilities of the Governors and Executive Committee and Auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

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

KPMG LLP

Chartered Accountants
Registered Auditor

London
17 June 2004

3 Risk and control processes

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

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

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

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

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

Board structure

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

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

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

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

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

¹ Started 1 August 2003

² Resigned 28 January 2004

³ Retired 9 February 2004

* out of a possible 6

** out of a possible 8

*** out of a possible 4

† out of a possible 3

†† out of a possible 5

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

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

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

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

Relationship and communication with licence payers and Parliament

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

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

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

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

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

Accountability and internal control

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

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

Financial reporting and going concern

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

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

Compliance

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

■ Risk management

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

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

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

■ Internal Audit

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

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

■ Divisional controls

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

■ BBC business and broadcast continuity

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

■ Computer systems

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

■ Controls over outsourced transaction processing

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

The collection of the licence fee is outsourced to Capita.

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

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

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

■ Whistle-blowing

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

■ Financial reporting and business performance

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

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

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

■ Fraud awareness

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

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

Governors' Audit Committee

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

The key responsibilities of the Audit Committee are to:

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

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

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

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

Independence of external auditors

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

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

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

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

Value for money reviews

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

Governors' Property Committee

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

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

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

The key responsibilities of the Property Committee are to:

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

Governance arrangements for Commercial Businesses

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

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

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

Events of the year

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

■ The Hutton Inquiry

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

4 Other corporate governance responsibilities

Human resources

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

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

Internal communication

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

Occupational risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

5 Governors' remuneration report

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

Governors' Remuneration Committee: constitution and operation

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

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

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

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

Governors: remuneration policy

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

Executive Committee: remuneration policy

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

In doing so, the remuneration policy seeks to:

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

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

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

Elements of remuneration

Basic salary

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

Annual bonus

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

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

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

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

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

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

Benefits

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

Pensions

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

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

Employment contracts

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

Outside interests

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

Remuneration received

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

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

* Appointed Governor part-way through 2002/2003

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

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

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

Governors and Executive Committee pensions

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

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

* Appointed part-way through 2002/2003

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

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

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

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

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

6 Programmes, channels and promotions

Governors' Programme Complaints Committee

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

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

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

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

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

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

Upholding editorial standards

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

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

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

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

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

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

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

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

New service approvals

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

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

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

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

Digital Curriculum

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

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

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

UK programme quotas

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

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

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

EU programme quotas in the calendar year 2003

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

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

European channel broadcasting regulation

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

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

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

On-air promotions: Office of Fair Trading undertaking

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

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

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

7 Cost of compliance

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

8 Donations and acknowledgements

BBC policy is not to make political donations.

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

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

Board of Governors

17 June 2004

Financial review

In the summer of 2000 a strategy was laid out which involved a significant boost to spending in order to launch new digital channels, drive digital take-up and improve the performance of the analogue channels. This strategy was to be financed by steady increases in licence fee income from reductions in evasion, household growth, inflation and the RPI + 1.5% premium on the licence fee (announced by Chris Smith as Secretary of State for Culture, Media and Sport in February 2000).

It would also make use of the public services cash balance built up prior to the licence fee settlement and of temporary bank finance for a few years with the intention that this is all paid off by the end of the current Charter period in December 2006. This is still the plan.

In this financial year the public services cash position improved compared to 2002/2003. There were net cash funds of £3million at the end of the year. The public services also make use of television licence fee payments in advance under the licence savings stamps and direct debit instalment schemes. These amounted to £109million at the year end and although these do not represent bank debt, they do count against the £200million borrowing ceiling defined in the Charter.

Income

Licence fee

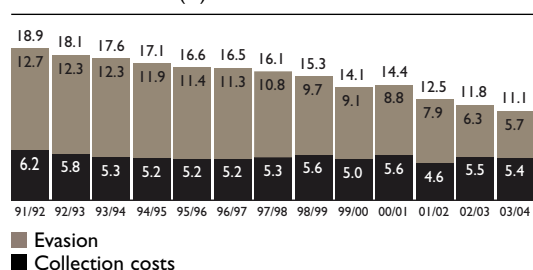
Licence fee revenues of £2,798million were £140million higher than last year: £52million was due to inflation, £46million to the above inflation increase in the licence fee and £42million from collection improvements.

Despite this growth, collection costs only rose £4million to £151million in the year. Capita Business Services and the AMV consortium have, in their second year, introduced online system improvements to streamline processing and improve efficiency.

The evasion rate fell from 6.3% at March 2003 to 5.7% at March 2004. The previous reported estimate for evasion at March 2003 was 7.2%, with the revision to 6.3% reflecting the new household and Census data.

Continuing success in reducing evasion and controlling collection costs mean that their combined cost has now fallen to 11.1% of total licence fee income, from 18.9% in 1991/1992 when the BBC took direct responsibility for licence fee collection from the Home Office.

Combined cost of collection and evasion as a percentage of total licence fee income (%)



This year we have run a series of intensive campaigns in nine major conurbations in England, including London, major cities in Scotland and the whole of Northern Ireland, all areas where

evasion is higher than the national average. In the latter half of the year we also increased significantly the number of enquiry officers across the UK focusing particularly in urban areas where evasion is higher and populations transient. This year also saw the launch across the UK of our new detection vans which have multiple detection methods, and are significantly more precise and faster in detecting televisions in use.

The useful recommendations made in last year's NAO report, *Collecting the Television Licence Fee*, in which Sir John Bourn, Comptroller and Auditor General, praised the BBC's success in reducing evasion have now been fully implemented.

Commercial businesses

The key purpose of the commercial businesses is to exploit the BBC's physical assets, capabilities and intellectual properties for profit, to provide a growing source of supplementary cash for public service broadcasting. In addition, some of the commercial businesses are expected to reduce the price of the support services they provide generating cost savings for the public services.

In 2003/2004 commercial businesses generated a cash contribution of £135million which was £11million better than the previous year. Savings for the BBC from these businesses also increased to £27million in the year. So in total the contribution from these businesses in 2003/2004 was £162million compared to £147million in the previous year.

These businesses continued to invest in programme rights, new technology and other assets to support future business growth. The businesses operated well within their bank covenants and their separate borrowing ceiling of £350million granted by the Secretary of State. At the year end their net debt was £172million and gearing was 48%.

BBC Worldwide Limited

BBC Worldwide Limited is the largest of the BBC commercial businesses and has had a steady year of trading in the face of adverse conditions in some of its markets. It contributed £141million in cash to the BBC during 2003/2004. This represents an increase of £18million over the year; £9million of which is the result of BBC World and its associated losses no longer being part of the BBC Worldwide Group, and £9million is through improved performance.

BBC World Limited

BBC World Limited has had another difficult year in a tough global advertising market further depressed by the Iraq war. Together with rising US dollar exchange rates these factors resulted in a cash outflow of £13million compared to £14million in the previous year.

BBC Ventures Group Limited

BBC Ventures Group Limited comprises four separate businesses, BBC Resources, BBC Broadcast, BBC Technology and BBC Vecta, and has had a year of consolidation following last year's restructuring. There have been successes in gaining more external business which have offset the cyclical reduction in large events that boosted revenue the previous year. Cost savings delivered to the BBC have also risen by £4million. This year also saw BBC Broadcast investing in their move to the new Broadcast Centre at the Media Village in White City.

Following a price benchmarking exercise covering the cost of the BBC's public services technology requirements, a decision was made to competitively tender the contract for the provision of technology services for the next decade. This process is well advanced and is expected to produce further savings for the BBC of £20–30million a year. The successful bidder will also purchase the company, BBC Technology Holdings Limited. This process is due to complete in September 2004.

Public service expenditure

Overall spending on programmes fell in the year by £38million – this was mainly due to 2003/2004 being a year low on major sporting events. Otherwise programme spend on analogue channels stayed level.

Within that, total spending on digital services increased by £20million to £312million, which is 15% of transmitted programme spend. The new digital services BBC Three, 1Xtra and BBC 7 had their first full year of broadcasting and accordingly saw increases in expenditure. Spend on bbc.co.uk reduced during the year in order to allow more investment in interactive television (BBCi).

Expenditure on overheads in the year was £326million, a small increase of £4million. This increase is due to the acceleration and early completion of a major IT project and short-term migration costs as the new Media Village buildings are occupied. Overheads are now down to 12% of spending which is 3% better than the target of 15% set in the summer of 2000 following the licence fee settlement.

Results for the year

The BBC does not have shareholders and does not aim to make a profit. Operating surpluses and deficits represent short-term timing differences between income and expenditure which will reverse in subsequent years. The result for 2003/2004 is a deficit of £249million, £66million better than the previous year. This is in line with the BBC's five-year plan in which the large improvement in spending on programmes and services is achieved by making use of the BBC's historic high cash balances and temporary bank finance within the overall aim of breaking even over the Charter period.

Assets and liabilities

Property

During 2003/2004, work has continued on the BBC's programme to revitalise its real estate portfolio.

The redevelopment of Broadcasting House, the BBC's flagship headquarters in central London, was secured through an AAA rated £813million bond. This award-winning deal took advantage of a 48-year low in bond yields. When complete in 2008, Broadcasting House will be the largest live broadcasting centre in the world and will offer the public unparalleled access into the heart of the BBC's operations.

In west London, 1,600 staff moved into the newly completed Media Village buildings which included new offices and television channel play-out facilities, with an ongoing migration programme that should see full occupation by the end of 2004. Also at the Media Village, the shape of the new music centre was unveiled, designed by Foreign Office Architects and called The Music Box. This building, due to open in 2006, will be the home of the BBC

Symphony Orchestra, the BBC Symphony Chorus, the BBC Concert Orchestra and the BBC Singers, bringing them together in one place for the first time.

In Glasgow, work has continued on the plans to develop a new broadcasting centre for BBC Scotland at Pacific Quay and work should start on site in July 2004.

Across England real estate projects completed in the year include space in the Mailbox shopping centre in Birmingham, and new buildings in Leicester, Hull and Jersey.

All of these property developments are being carried out in order to reduce and rationalise the 395 premises in the BBC's estate whilst updating the spaces and technology they provide and, particularly, providing significant opportunities for licence payers to visit the BBC's operations. As part of this increased accessibility strategy the BBC has four Open Centres and four community studios where local people can learn more about both their local BBC services and new media technologies.

Pensions


The BBC, unlike many other organisations, has committed to keeping its defined benefit pension scheme to which the majority of employees belong. The net deficit of the pension scheme, based on market values on 31 March 2004 as dictated by FRS 17, has improved by £638million to £436million. This reflects short-term movements in equity values over the past 12 months and changes in interest rates but does not accurately reflect the underlying long-term health of the scheme which remains over funded on an actuarial basis.

In order to give a truer picture of the health of the scheme, we have voluntarily provided extra information about its assets and liabilities. Note 8b (pages 113 to 115) outlines additional information on the BBC Pension Scheme over and above that required by FRS 17.

International Financial Reporting Standards

The BBC voluntarily prepares its financial statements in line with applicable United Kingdom accounting standards. From 2005 those standards will be required to come into line with the new International Financial Reporting Standards (IFRS) designed to harmonise international standards. These new standards will require changes to a number of accounting policies.

In line with other organisations the BBC has embarked on a process to review the impact of the adoption of IFRS. We anticipate completing this work over the summer of 2004 when the International Accounting Standards Board is expected to confirm its full requirements. The BBC will continue to adopt standards early, in line with corporate best practice.



John Smith

Director of Finance, Property & Business Affairs
17 June 2004

Financial statements

Consolidated statement of income and expenditure

for the year ended 31 March

The BBC does not aim to make a surplus. Surpluses and deficits represent short-term timing differences between income and expenditure which will reverse in subsequent years.

	Note	2004 £m	2003 £m
Group income	1	3,705.9	3,532.0
Operating expenditure	2	(4,001.6)	(3,938.6)
Group operating deficit		(295.7)	(406.6)
Share of operating surplus of associates and joint ventures		2.0	2.9
Operating deficit	3	(293.7)	(403.7)
Loss on sale and termination of operations	5	–	(0.4)
Profit/(loss) on disposal of fixed assets	6	41.8	(14.3)
Deficit before interest and taxation		(251.9)	(418.4)
Net interest (payable)/receivable and other similar items	7	(3.1)	5.1
Other finance income (from defined benefit pension scheme)	8c	21.0	114.3
Deficit before taxation and minority interest		(234.0)	(299.0)
Taxation	9	(15.2)	(15.7)
Minority interest		0.3	0.1
Deficit for the financial year	19	(248.9)	(314.6)

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of their cumulative operating losses (see Note 14d).

The above results are derived from continuing operations in both the current and previous financial periods.

There is no difference between the results as disclosed above and the results on a historical cost basis.

Financial statements

Balance sheets

at 31 March

	Note	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Fixed assets					
Intangible fixed assets	10	19.9	15.7	–	–
Tangible fixed assets	12	791.5	802.9	519.0	554.2
Investment in programmes for future sale	13	107.5	108.3	–	–
Other investments	14	16.1	17.8	286.6	318.3
		935.0	944.7	805.6	872.5
Current assets					
Stocks	15	433.0	468.9	400.4	437.7
Long-term debtors	16	142.0	158.6	118.1	131.8
Current debtors	16	672.7	605.5	537.7	487.3
Total debtors		814.7	764.1	655.8	619.1
Short-term investments	21	12.6	64.9	12.6	32.9
Cash at bank and in hand	21	39.3	69.5	8.2	7.9
		1,299.6	1,367.4	1,077.0	1,097.6
Creditors – amounts falling due within one year	17b	(891.6)	(920.5)	(792.0)	(782.9)
Net current assets		408.0	446.9	285.0	314.7
Total assets less current liabilities		1,343.0	1,391.6	1,090.6	1,187.2
Creditors – amounts falling due after more than one year	17c	(216.3)	(159.4)	(39.3)	(56.2)
Provisions for liabilities and charges	18	(77.5)	(72.0)	(64.7)	(64.3)
Net assets excluding pension liability		1,049.2	1,160.2	986.6	1,066.7
Pension liability	8c	(436.3)	(1,074.5)	–	–
Net assets		612.9	85.7	986.6	1,066.7
Represented by					
Operating reserve excluding pension liability	19	255.4	296.0	193.0	203.0
Pension reserve	19	(436.3)	(1,074.5)	–	–
Operating reserve		(180.9)	(778.5)	193.0	203.0
Capital reserve	19	788.8	858.1	788.8	858.1
Revaluation reserve	19	4.8	5.6	4.8	5.6
		612.7	85.2	986.6	1,066.7
Minority interest		0.2	0.5	–	–
		612.9	85.7	986.6	1,066.7

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of the net liabilities which at 31 March 2004 amounted to £57.6million (2003 £62.9million). These liabilities have not been included in the financial statements (see Note 14d).

The financial statements were approved by the Board of Governors and Executive Committee on 17 June 2004 and signed on their behalf by:

Michael Grade *Chairman*

Mark Byford *Acting Director-General*

John Smith *Director of Finance, Property & Business Affairs*

Financial statements

Consolidated cash flow statement

for the year ended 31 March

Reconciliation of Group operating deficit to net cash flow from operating activities			
	2004 £m	2003 £m	
Group operating deficit	(295.7)	(406.6)	
Depreciation and amortisation	229.0	230.2	
Pension schemes operating costs (non-cash)	161.3	136.5	
Loss on disposal of tangible fixed assets	2.4	4.5	
Decrease/(increase) in stocks	35.9	(19.5)	
(Increase)/decrease in debtors	(50.6)	37.3	
Decrease in creditors	(17.2)	(36.0)	
Increase/(decrease) in provisions	5.5	(14.7)	
Net cash inflow/(outflow) from operating activities	70.6	(68.3)	
Cash flow statement			
	Note	2004 £m	2003 £m
Net cash inflow/(outflow) from operating activities		70.6	(68.3)
Dividends received from joint ventures and associates		1.3	1.3
Return on investments and servicing of finance			
Interest received		5.0	11.5
Interest paid		(7.5)	(2.0)
Interest paid on finance leases		(0.3)	(0.2)
Net cash (outflow)/inflow from return on investments and servicing of finance		(2.8)	9.3
Taxation			
Taxation paid		(9.7)	(12.9)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(243.9)	(179.9)
Investment in programmes for future sale		(90.6)	(85.5)
Investment in intangible fixed assets		(0.6)	(2.7)
Decrease in loan to associate undertaking		0.2	–
Capital repayment from joint ventures		1.0	–
Proceeds from the sale of investment in programmes		–	0.4
Proceeds from the sale of tangible fixed assets		143.8	5.4
Net cash outflow from capital expenditure and financial investments		(190.1)	(262.3)
Acquisitions and disposals			
Purchase of a subsidiary		(9.9)	–
Cash acquired with subsidiary		0.6	–
Investments in joint ventures		–	(1.2)
Proceeds from sale of operations		–	3.2
Proceeds from disposal of interests in joint ventures and associates		–	0.1
Net cash (outflow)/inflow from acquisitions and disposals		(9.3)	2.1
Net cash outflow before use of liquid resources and financing		(140.0)	(330.8)
Management of liquid resources			
Sale of other liquid resources	20, 21	52.3	291.9
Net cash inflow from management of liquid resources		52.3	291.9
Financing			
Increase in loans		135.0	85.0
Repayment of loans		(42.6)	(25.9)
Repayment of finance leases	21	(1.8)	(21.2)
Repayment of loan notes	21	(0.6)	(0.5)
Net cash inflow from financing		90.0	37.4
Increase/(decrease) in cash in the year	20, 21	2.3	(1.5)

Financial statements

Consolidated statement of total recognised gains and losses

for the year ended 31 March

	Note	2004 £m	2003 £m
Group deficit for the financial year		(248.9)	(314.6)
Exchange differences on retranslation of overseas subsidiaries		(2.1)	(3.1)
Actuarial gain/(loss) on defined benefit pension schemes	8c	778.5	(2,013.4)
Total recognised gains and losses relating to the year		527.5	(2,331.1)

Reconciliations of movement in reserves

for the year ended 31 March

	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Deficit for the financial year	(248.9)	(314.6)	(80.1)	(303.4)
Other recognised gains and losses relating to the year (net)	776.4	(2,016.5)	–	–
Increase/(decrease) in reserves during the year	527.5	(2,331.1)	(80.1)	(303.4)
Opening reserves	85.2	2,416.3	1,066.7	1,370.1
Closing reserves	612.7	85.2	986.6	1,066.7

Financial statements

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently throughout the year and in the preceding year except where stated. A footnote in italics follows some policies to explain technical aspects of the accounting treatment in plain English.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter and Agreement. Although not mandatory, the BBC has chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the Financial Services Authority Listing Rules to ensure that its financial statements are prepared on a basis which is consistent with that of UK public limited companies. In line with other companies, the BBC files with Companies House audited financial statements for all its subsidiary companies.

Basis of accounting

The financial statements are presented under the historical cost accounting convention as modified by the revaluation of certain plant, machinery, furniture and fittings.

Basis of consolidation

The Group comprises:

- UK Public Service Broadcasting and those subsidiaries incorporated to act solely on its behalf (notably Centre House Productions Limited, BBC Property Limited and BBC Property Investments Limited)
- BBC World Service (and its subsidiaries)
- Commercial subsidiary companies comprising BBC Commercial Holdings Limited and its various subsidiaries (notably BBC Worldwide Group, BBC World Group and BBC Ventures Group)

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of profits less losses of associates and joint ventures is included in the consolidated statement of income and expenditure and its interest in their net assets is included in the consolidated balance sheet.

A separate statement of income and expenditure reflecting the results of UK Public Service Broadcasting has not been presented, as permitted by Section 230 of the Companies Act 1985, as if it were a company.

These accounts of the Group include the results of UK Public Service Broadcasting, BBC World Service and all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses over which the BBC has influence but not control (associates) and those which the BBC jointly controls (joint ventures).

Investments

Investments are recorded on the balance sheet of UK Public Service Broadcasting at cost less provision for any impairment in value. The funding of UK Public Service Broadcasting and of BBC World Service is legally separate and cross-subsidisation is not permissible. Accordingly, for the purposes of preparing UK Public Service Broadcasting's balance sheet, UK Public Service Broadcasting is considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

Income

Income, which excludes value added tax, trade discounts and sales between Group companies, is comprised of the following key classes of revenue, which are recognised as follows:

■ Television licences

Income derived from television licences is recognised when receivable from the Department for Culture, Media and Sport. This represents the value of licences issued in the year. The amount which can be paid in cash to the BBC for any year cannot exceed the total amount voted by Parliament for that year. Any difference between the value of licences issued and the amount voted is adjusted in the amount of cash received in the following year. Any amounts which have not been paid to the BBC are included within debtors.

■ Grant-in-Aid from the Foreign and Commonwealth Office

BBC World Service income is primarily derived from a Grant-in-Aid which is recognised when received from the Foreign and Commonwealth Office. It is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.

■ Provision of equipment, facilities and services

With the exception of long-term contracts, income is recognised when the equipment, facilities and services are provided to customers.

For long-term contracts, the amount of profit attributable to the stage of completion is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in prior years. Provision is made for any future losses as they are foreseen.

■ Provision of programme making facilities and services – recognised on provision of service

■ Licence fees from distribution of joint productions – recognised on delivery of rights or the start of the licence period, whichever is the later

■ Programme distribution and channel income – recognised on provision of service

■ Sale of promotional merchandise – recognised on delivery or provision of service

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service Broadcasting or BBC World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 82 to 85 of this report.

Financial statements

Statement of accounting policies

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March or at forward rates where related hedging contracts are in place. Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings are taken directly to the operating reserve, together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end. Other exchange differences are taken to the statement of income and expenditure.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those retranslations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

The BBC operates both defined benefit and defined contribution schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution scheme represent the contributions payable by the BBC for the accounting periods in respect of this scheme.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC. The assets of the BBC's main scheme are held separately from those of the Group.

UK Public Service Broadcasting and its subsidiary undertakings have taken advantage of the provisions included within FRS 17, *Retirement benefits*, and account for the scheme as if it were a defined contribution scheme. This is because the pension scheme is managed centrally across the Group and it is not possible to allocate the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge under FRS 17 for UK Public Service Broadcasting and its subsidiary undertakings therefore represents the contributions payable in the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the Group. The BBC makes cash contributions to that fund in advance of members' retirement.

Research and development

Research and development expenditure is written off as incurred.

Intangible fixed assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired) arising on acquisition of a subsidiary or business, is capitalised and amortised over its useful economic life. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10, *Goodwill and intangible assets*, goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

Other intangibles

Other intangibles are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service.

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings

Freehold land	– not depreciated
Freehold and long-leasehold buildings	– fifty years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to twenty-five years
Other	– three to ten years

Furniture and fittings

– three to ten years

UK Public Service Broadcasting's plant and machinery is stated at the estimated current replacement cost of the assets, as at 31 March 1993, adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

BBC World Service's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as at 1 April 1996, as adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

There is no material difference between the net book value of these tangible fixed assets and their value as determined on a historical cost basis.

The BBC has revalued its tangible assets once, when the internal market was introduced, but has chosen not to revalue them on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the income and expenditure account over the estimated average marketable life of the programme genre which is generally between two and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

The cost of programmes for sale is charged to the income and expenditure account to match the expected timing of income from future sales.

Originated programme stocks and work in progress

Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Net realisable value is based upon arm's length contract prices negotiated between the channel controllers and programme makers.

Acquired programmes and film stocks

The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are likely in the foreseeable future, when they are written off according to their expected transmission profile. Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period, whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Other stocks

Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

Deferred tax

Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date except as otherwise required by FRS 19, *Deferred tax*. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

Operating leases

Operating lease rentals are written off on a straight line basis over the term of the lease.

An operating lease is a lease in which the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee – the BBC – has not acquired an asset but is hiring it, so the hire charge is included in the BBC's costs.

Finance leases

Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged against the income and expenditure account, and the capital element which reduces the lease creditor.

A finance lease is a lease that transfers substantially all the risks and rewards of owning and operating an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

Reserves

The value of the capital reserve is equal to the combined net book value of fixed assets of UK Public Service Broadcasting (less the investment in BBC World Service) and BBC World Service at historic cost less its dilapidations provision.

The revaluation reserve reflects the difference between the net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost compared with their revalued amount.

The operating reserve is the accumulated surplus of the income and expenditure account to date.

The BBC is careful not to mix UK Public Service Broadcasting and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise bank deposits not repayable on demand and other short-term investments which include gilts, certificates of deposit and commercial paper.

Financial instruments

The Group does not enter into speculative derivative contracts. Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations (the accounting treatment for these contracts is explained in the foreign currency translation accounting policy).

Disclosure of the Group's loans and other financial assets and liabilities is provided within Note 23 to the financial statements.

Financial statements

Notes to the financial statements

Note 1 provides analysis of the different business areas within the BBC.

UK Public Service Broadcasting Group (referred to as 'Home Services' within the BBC Charter) comprises the UK Public Service Broadcasting operations and those subsidiary companies incorporated to act solely on behalf of those public service operations.

BBC World Service is separately funded from the UK Public Services Broadcasting Group. It comprises broadcasting and media monitoring activities.

Commercial Businesses comprise businesses which generate external income from exploitation of the BBC's programmes, other assets and skill base.

I Analysis of income, (deficit)/surplus and net assets

I a Analysis of income, (deficit)/surplus and net assets by activity

	Note	UK Public Service Broadcasting Group £m	BBC World Service £m	Commercial Businesses £m	Total £m
2004					
Total income		2,940.0	243.7	1,150.5	4,334.2
Less: Intra-Group income		(121.5)	(0.6)	(417.6)	(539.7)
Less: Share of joint ventures		(1.3)	–	(87.3)	(88.6)
Group external income	1b,d,g	2,817.2	243.1	645.6	3,705.9
(Deficit)/surplus before interest and taxation	1e,h	(136.0)	9.2	36.2	(90.6)
Defined benefit pension scheme					
– additional operating costs*†					(161.3)
– other finance income*					21.0
Net interest payable					(3.1)
Deficit before taxation and minority interest					(234.0)
Net assets (excluding pension liability)	1f,h	710.3	152.5	186.4	1,049.2
Pension liability*†					(436.3)
Net assets					612.9
2003					
Total income		2,797.3	224.2	1,144.0	4,165.5
Less: Intra-Group income		(116.1)	(0.5)	(437.4)	(554.0)
Less: Share of joint ventures		–	–	(79.5)	(79.5)
Group external income	1b,d,g	2,681.2	223.7	627.1	3,532.0
(Deficit)/surplus before interest and taxation	1e,h	(331.1)	7.9	41.3	(281.9)
Defined benefit pension scheme					
– additional operating costs*†					(136.5)
– other finance income*					114.3
Net interest receivable					5.1
Deficit before taxation and minority interest					(299.0)
Net assets (excluding pension liability)	1f,h	771.6	142.8	245.8	1,160.2
Pension liability*†					(1,074.5)
Net assets					85.7

* As permitted by FRS 17 these items are not split between business classes because they are managed centrally across the Group and it is not possible to allocate them on a reasonable and consistent basis.

† The actual employer cash contribution to the defined benefit pension scheme is included in the (deficit)/surplus before interest and tax of each entity. The additional operating cost is the cost to the Group over and above these cash contributions.

1b UK Public Service Broadcasting income

The income from licences represents the value of all licences issued in the year.

Other licence fee income and adjustments include the year-on-year impact of licences issued in the year but not in force at 31 March either through late or early renewals or through refunds.

Other income includes the provision of content and services to overseas broadcasters, concert ticket sales and exploitation of the programme archive.

	2004 £m	2003 £m
Licence fee income		
Colour	2,364.2	2,271.3
Monochrome	2.5	2.8
Concessionary	0.9	0.9
Over 75s	407.8	370.9
Quarterly payment scheme premium	15.7	15.9
Other licence fee income and adjustments	7.0	(3.3)
Total licence fee income	2,798.1	2,658.5
Open University	–	0.1
Other income	19.1	22.6
Total external income	2,817.2	2,681.2

During the year 3.1 million (2003 3.2 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2003 £5).

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the Department for Work and Pensions.

Licences in force are those which are still valid as at 31 March each year.

	2004 Number m	2003 Number m
Licences in force		
Colour	20.4	20.1
Monochrome	0.1	0.1
Over 75s	3.8	3.7
Concessionary	0.2	0.2
	24.5	24.1

Licence fees are set by the Department for Culture, Media and Sport.

	2004 £	2003 £
Licence fees		
Colour	116.00	112.00
Monochrome	38.50	37.50
Concessionary	5.00	5.00

From 1 April 2004 the colour and monochrome licence fees were increased to £121.00 and £40.50 respectively. The concessionary licence remained at £5.

1c Geographical analysis of UK Public Service Broadcasting Group

UK Public Service Broadcasting Group income and deficit arise in the UK. The net assets used by these operations are located in the UK.

1d BBC World Service income

Other income is generated from the sale of programmes, co-production deals, publishing activities and the provision of media monitoring services.

	2004 £m	2003 £m
Grant-in-Aid	220.1	201.0
Subscriptions	16.7	16.1
Other income	6.3	6.6
Total external income	243.1	223.7

1e BBC World Service surplus before interest and taxation by activity

	2004 £m	2003 £m
Broadcasting	9.7	6.5
BBC Monitoring	(0.5)	1.4
Total surplus before interest and taxation	9.2	7.9

If Geographical analysis of BBC World Service

BBC World Service income, operating expenditure and surplus arises primarily in the UK.

Location of BBC World Service net assets	2004 £m	2003 £m
UK	59.0	56.1
Overseas	93.5	86.7
Net assets	152.5	142.8

Ig Analysis of Commercial Businesses' income by activity

	2004 £m	2003 £m
Publishing and new media	341.2	338.0
Programme distribution	175.3	168.8
Channels	78.7	79.0
Provision of playout and channel management services	108.8	98.3
Provision of programme making facilities and services	128.0	157.7
Provision of technology services	231.2	222.1
beeb Ventures Limited	–	0.6
Less intra-Group income	(417.6)	(437.4)
Total external income	645.6	627.1

Ih Geographical analysis of Commercial Businesses

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2004				
External income by destination	375.2	121.9	148.5	645.6
Surplus/(deficit) before interest and taxation	20.0	2.0	14.2	36.2
Net assets	151.8	33.9	0.7	186.4
2003				
External income by destination	370.0	112.0	145.1	627.1
Surplus/(deficit) before interest and taxation	31.6	(2.5)	12.2	41.3
Net assets	208.1	37.4	0.3	245.8

This table shows where the customers of BBC Commercial Businesses are based.

All commercial income arises in the UK as this is where rights for exploitation and the skills and services of the Commercial Businesses are developed.

2 Operating expenditure

2a Analysis of operating expenditure by activity

	Note	Total 2004 £m	Total 2003 £m
UK Public Service Broadcasting Group	2b	2,993.6	2,999.4
BBC World Service*	2c	233.9	215.8
Commercial Businesses	2d	612.8	586.9
Non-cash pension scheme operating costs**		161.3	136.5
		4,001.6	3,938.6

* BBC World Service expenditure of £233.9million (2003 £215.8million) excludes £0.6million (2003 £0.5million) of expenditure on the provision of services to other BBC Group companies.

** As permitted by FRS 17 the non-cash operating costs are not split between the business activities as it is not possible to do this on a reasonable and consistent basis.

2b UK Public Service Broadcasting Group expenditure

	Note	2004 £m	2003* £m
Analogue services			
BBC One	(i)	812.3	859.4
BBC Two	(i)	365.2	372.2
National and regional television		212.3	209.9
National, regional and local radio		133.4	130.0
BBC Radio 1		17.6	17.1
BBC Radio 2		21.7	21.5
BBC Radio 3		32.1	32.8
BBC Radio 4		69.9	70.5
BBC Radio Five Live		51.5	53.8
		1,716.0	1,767.2
Digital services			
The CBBC Channel, CBeebies		46.2	44.7
BBC Three (formerly BBC Choice)	(ii)	99.4	75.3
BBC Four	(iii)	35.2	41.0
BBC News 24		23.5	23.8
BBC Parliament		2.5	2.7
Interactive television (BBCi)	(iv)	15.3	9.5
IXtra	(v)	5.1	4.0
BBC Five Live Sports Extra		1.7	1.7
BBC 6 Music		4.1	4.0
BBC 7	(v)	4.3	2.8
BBC Asian Network		4.1	3.0
bbc.co.uk	(iv)	66.7	75.0
Digital Curriculum		4.1	5.2
		312.2	292.7
Transmitted programme spend		2,028.2	2,059.9
Programme related spend			
Newsgathering		92.5	94.2
Collecting societies		54.4	52.0
Orchestras and performing groups		18.3	16.1
Marketing, press and publicity	(vi)	53.3	63.5
On-air trails		23.1	25.5
Market research and audience services		14.4	12.7
Libraries, helplines, development and one-off events		80.8	78.6
		336.8	342.6
Total programme spend		2,365.0	2,402.5
Overheads	(vii)	325.8	321.8
Total output spend		2,690.8	2,724.3
Percentage of output spend on programmes		88%	88%
Licence fee collection costs		150.8	146.4
Transmission costs	(viii)	152.0	141.7
		302.8	288.1
Total broadcasting expenditure**		2,993.6	3,012.4

* In 2003 £24.2million was misallocated to overheads. The 2003 figures have been reanalysed and the percentage of output spend on programmes has been adjusted accordingly.

** Total broadcasting expenditure in 2003 includes an exceptional loss on disposal of fixed assets within overheads of £13.0million.

Financial statements

Notes to the financial statements

- (i) Spend on BBC One and BBC Two was higher in 2003 due to coverage of major sporting events such as the Football World Cup and the Commonwealth Games.
- (ii) Increased costs were incurred by BBC Three in 2004, representing the first full year of service following its launch in February 2003.
- (iii) BBC Four incurred costs in 2003 associated with the launch of the channel in March 2002.
- (iv) Reduced costs of bbc.co.uk in 2004 reflect the BBC New Media strategy of diverting spend from online to interactive television services (BBCi).
- (v) IExtra was launched in August 2002 and BBC 7 was launched in December 2002. Increased costs in 2004 reflect the first full year of service for both channels.
- (vi) Marketing spend was higher in 2003 to support the launch of digital channels and Freeview.
- (vii) Overheads include the central costs of accommodation, technology, finance and human resources. Within 2004 overheads is £14.9million of costs incurred due to early completion of a technology upgrade. These costs were originally planned over the next two financial years.
- (viii) Of the transmission costs, £75.1million relate to analogue services (2003 £73.2million) and £76.9million to digital services (2003 £68.5million).

BBC World Service expenditure excludes expenditure on intra-Group activities.

2c BBC World Service expenditure

	2004 £m	2003* £m
Radio	153.9	142.7
Monitoring	25.3	22.4
Transmission and distribution costs	41.7	40.3
Internet activity	13.0	10.4
Total	233.9	215.8

*2003 costs have been restated to reclassify distribution costs from radio to transmission and distribution costs.

The expenditure shown for Commercial Businesses relates only to external income and excludes expenditure relating to sales within the BBC.

2d Commercial Businesses' expenditure

	Note	2004 £m	2003 £m
Cost of sales		342.6	314.8
Distribution costs		131.3	133.4
Administrative and other costs		49.4	50.3
Amortisation of programme investment	13	89.5	88.4
		612.8	586.9

3 Operating deficit

The operating deficit is stated after charging the following items:

	2004 £m	2003 £m
Payments under operating leases		
– land and buildings	43.6	28.8
– plant and machinery	9.8	6.5
– other	9.5	14.0
Research and development	20.9	17.0
Programme development	29.7	30.6
Depreciation		
– owned assets	125.5	126.5
– leased assets	5.2	10.8
Loss on disposal of tangible fixed assets	2.4	4.5
Fixed asset impairment	2.9	–
Amortisation of investment in programmes for future sale	89.5	88.4
Amortisation of intangible fixed assets	5.1	4.5
Intangible fixed asset impairment	0.8	–
Auditors' remuneration (KPMG LLP)		
– financial audit – UK Public Service Broadcasting	0.6	0.6
– other	0.5	0.5
– further assurance services	0.6	0.6
– tax advisory services	0.3	0.2
– other non-audit services	0.3	0.3
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	0.3	0.3

In addition to the £0.6million (2003 £0.6million) of further assurance services charged to the income and expenditure statement, a further £0.2million (2003 £nil) was paid to the auditors for due diligence services. Such costs are included within the cost of the related investment.

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2004 Number	2003 Number
UK Public Service Broadcasting	19,579	19,206
BBC World Service	2,224	2,057
Commercial Businesses	5,829	5,885
Group total	27,632	27,148

Within the averages above, 3,027 (2003 2,628) part-time employees have been included at their full-time equivalent of 1,470 (2003 1,324).

In addition to the above, the Group employed an average full-time equivalent of 857 (2003 1,117) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, numbered 384 (2003 385) full-time equivalents.

4b Staff costs

	Note	2004 £m	2003 £m
Salaries and wages		1,030.3	988.4
Social security costs		95.0	83.0
Pension costs			
– main scheme (defined benefit)	8c	196.5	169.7
– other schemes	8c	1.7	2.0
Redundancy costs		22.5	22.6
		1,346.0	1,265.7
Comprising:			
UK Public Service Broadcasting		844.4	804.2
BBC World Service		79.6	73.2
Commercial Businesses		260.7	251.8
Main pension scheme additional operating cost (defined benefit)*		161.3	136.5
		1,346.0	1,265.7

*The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the Group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis.

4c Remuneration of the Board of Governors and Executive Committee

The emoluments of the Governors and of the Executive Committee members are disclosed on pages 91 to 94 in the Governors' remuneration report.

5 Loss on sale and termination of operations

	2004 £m	2003 £m
beeb Ventures Limited termination cost	–	(1.5)
Wood Norton Hall and Conference Centre	–	1.1
	–	(0.4)

During the year ended 31 March 2003, BBC Worldwide restructured the beeb.com business. Certain beeb.com websites together with beeb.net have now been integrated into BBC Worldwide's core operations. Redundancy and other closure costs totalling £1.5million were charged to the income and expenditure account.

On 31 May 2002, the Group sold its Wood Norton Hall and Conference Centre business to a third party for a consideration of £5.1million. The profit on sale was £1.1million after deducting the costs of the disposal.

6 Profit/(loss) on disposal of fixed assets

	2004 £m	2003 £m
Profit/(loss) on disposal of tangible fixed assets	41.8	(14.3)

In July 2003, the Group granted a 150-year head lease on the Broadcasting House site to Daunus Limited (see Note 14d) and Morgan Stanley Gamma Investments, resulting in a profit of £40.4million. Daunus Limited will redevelop the site which the Group will lease back.

Preparatory work on the Broadcasting House site completed prior to the sale included work on Broadcasting House and the demolition of adjacent properties. The net book value of assets taken out of use, totalling £13.0million, was charged to the income and expenditure account in the prior year.

BBC Technology disposed of fixed assets under finance leases resulting in a profit of £1.4million. Prior year disposals by BBC Technology resulted in a loss of £1.3million.

7 Net interest (payable)/receivable and other similar items

	2004 £m	2003 £m
Interest receivable	5.0	7.5
Interest payable on bank and other loans	(7.8)	(2.0)
Finance charges payable in respect of finance leases	(0.3)	(0.4)
Net interest (payable)/receivable	(3.1)	5.1

8 Pensions

8a Group pension schemes

The Group operates several pension schemes. The BBC Pension Scheme (the BBC's most significant scheme) and a small unfunded scheme (which is closed to new members) are contributory defined benefit schemes. Additionally the Group Personal Pension Scheme and other small schemes are defined contribution schemes. Note 8b describes the BBC Pension Scheme and Note 8c explains the numbers in the financial statements.

8b BBC Pension Scheme

The BBC Pension Scheme is the main pension scheme of the Group and covers the majority of employees. This scheme provides salary related benefits on a defined benefit basis funded from assets held in separate trustee-administered funds.

The maturity of a scheme provides an indication of the cash requirements of the scheme and the likely attitude of the trustees to risk within their investment policy.

8b i Scheme maturity profile

The number of active contributors exceeds the number of members receiving pensions:

	2004 Number	2003 Number	2002 Number
Contributors	21,426	20,361	18,578
Pensioners	16,302	16,116	15,866
Dependants	3,555	3,498	3,428
Deferred pensioners	14,864	14,531	14,267

8b ii Scheme external cash flows (day-to-day liquidity)

External cash inflows to the pension scheme continue to exceed its external cash outgoings each year and this is expected to remain the case for the foreseeable future.

	2004 £m	2003 £m	2002 £m
Contributions (employer and employee)	90	88	72
Investment income	167	194	198
External cash inflows	257	282	270
Payments of pensions and transfers out	(220)	(212)	(213)
Expenses	(20)	(15)	(18)
Net external cash inflow	17	55	39

An actuarial valuation assumes the scheme will continue for the foreseeable future and considers whether the expected returns on the scheme's assets exceed the future liabilities of the pension scheme, smoothing the short-term volatility brought about by market valuations of assets.

8b iii Ability to meet long-term commitments

The pension scheme trustees manage the scheme in the short-, medium- and long-term. They agree funding decisions based on valuations which take a longer-term view of the assets required to fund the scheme's liabilities (actuarial valuations).

The actuarial valuations of the scheme are performed by Watson Wyatt, consulting actuaries, using the projected unit method. The most recent formal actuarial valuation (April 2002) shows a surplus of £441 million with assets sufficient to cover 109% of the benefits due to members. The 2003 and 2004 figures are from an interim update of this 2002 valuation.

	1 April 2004 £m	1 October 2003 £m	1 April 2003 £m	1 April 2002 £m
Actuarial valuation				
Scheme assets (Note 8b v)	5,668	5,591	5,496	5,392
Scheme liabilities (Note 8b vi)	(5,525)	(5,354)	(5,229)	(4,951)
Surplus	143	237	267	441
Percentage by which scheme assets cover scheme liabilities	103%	104%	105%	109%

Financial statements

Notes to the financial statements

8b iv Funding the scheme

The scheme has shown an actuarial surplus for many years which has allowed both the BBC and the members to pay contributions at a reduced rate (4.5%).

In 2003 it was agreed with the trustees that employer contributions will rise to 6.0% by 2006 with employee contributions rising to 6.0% by 2007. The position will be reviewed again in 2005 after a new formal actuarial valuation by Watson Wyatt is produced.

Contribution rates	Projections					
	2007 %	2006 %	2005 %	2004 %	2003 %	2002 %
Employer	6.0	6.0	5.5	5.0	4.5	4.5
Employee	6.0	5.5	5.0	4.5	4.5	4.5
Underlying cost of scheme to BBC as % of pensionable salaries*				19.5	20.4	21.0

* excludes the cost effectively paid for by the employee

8b v Scheme assets

The allocation of assets by the scheme trustees is governed by a need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the trustees expect will produce higher returns in the long term. The target allocation, based on market values, for equities is 60%, bonds and gilts 30% and property 10%.

Where market values are higher than actuarial values it means the market is anticipating greater future investment returns than are being assumed in funding the scheme's liabilities.

Type of asset	Long-term rate of return expected for market value	Market value		Actuarial value*	
		£m	%	£m	%
2004					
Equities	7.9%	4,118	70	4,109	72
Bonds and gilts	4.8%	1,048	18	902	16
Property	6.3%	597	10	556	10
Cash	3.9%	117	2	101	2
Total assets		5,880		5,668	
2003					
Equities	8.3%	3,032	62	3,778	69
Bonds and gilts	4.5%	1,021	21	853	16
Property	6.4%	620	13	632	11
Cash	4.0%	230	4	233	4
Total assets		4,903		5,496	
2002					
Equities	7.5%	4,421	71	3,784	70
Bonds and gilts	5.2%	908	15	827	15
Property	6.3%	606	10	532	10
Cash	4.7%	284	4	249	5
Total assets		6,219		5,392	

*The last formal actuarial valuation was undertaken in 2002. The 2003 and 2004 figures are from an interim update of this valuation

8b vi Scheme liabilities

The calculation of the scheme liabilities requires a number of assumptions, both demographic and financial, to be made. The key financial assumptions made by the actuaries were:

	2004 %	2003 %	2002 %	
Key financial assumptions				
Actuarial valuation				
The discount rate used in the actuarial valuation of liabilities is that of the expected return on assets held by the scheme and is considered to be a prudent long-term average.	Rate of increase in salaries	4.5	4.5	4.5
	Rate of increase in pension payments	2.5	2.5	2.5
	Inflation assumption	2.5	2.5	2.5
	Discount rate for actuarial valuation	6.25	6.25	6.25
A higher discount rate means a lower value for the liabilities.	Market valuation			
	Rate of increase in salaries	4.7	4.5	4.7
	Rate of increase in pension payments	2.7	2.5	2.7
	Inflation assumption	2.7	2.5	2.7
	Discount rate for market valuation	5.6	5.4	6.0
The discount rate for the market value is taken as the rate for an AA rated corporate bond.	Scheme liabilities at present value			
	2004 £m	2003 £m	2002 £m	
	Actuarial valuation	5,525	5,229	4,951
	Market valuation	6,312	5,973	5,254

8b vii Scheme financial position

	Market valuation			Actuarial valuation		
	Assets £m	Liabilities £m	Net position £m	Assets £m	Liabilities £m	Net position £m
2004	5,880	(6,312)	(432)	5,668	(5,525)	143
2003	4,903	(5,973)	(1,070)	5,496	(5,229)	267
2002	6,219	(5,254)	965	5,392	(4,951)	441
2001	6,479	(4,771)	1,708	5,341	(4,669)	672

The actuarial valuation provides a long-term view and assumes the scheme will continue for the foreseeable future. The market valuation provides a snapshot position of the status of the scheme at that time.

A deferred tax asset or liability will not arise on the above market valuation for the Group because most of the Group's public service activity is not subject to taxation.

Financial statements

Notes to the financial statements

8c Pension charges and balances within financial statements

8c i Pension charges in income statement

The current service cost is the underlying cost to the BBC of pension rights earned by employees during the year.

The past service cost arises from members of the scheme becoming entitled to improved defined retirement benefits, resulting in a charge for years of service before the award of the improvement.

The finance return comprises estimates based on predictions of future performance and economic conditions.

	Defined benefit schemes		Defined contribution schemes £m	All schemes £m
	BBC Pension Scheme £m	Unfunded scheme £m		
2004				
Current service cost	(189.5)	(0.1)	(1.6)	(191.2)
Past service cost	(9.0)	–	–	(9.0)
Gain on settlements and curtailments	2.0	–	–	2.0
Operating cost	(196.5)	(0.1)	(1.6)	(198.2)
Expected return on pension scheme assets	338.4	–	n/a	338.4
Interest on pension scheme liabilities	(317.2)	(0.2)	n/a	(317.4)
Net finance income/(cost)	21.2	(0.2)	–	21.0
Net cost in income statement	(175.3)	(0.3)	(1.6)	(177.2)
2003				
Current service cost	(155.7)	(0.2)	(1.8)	(157.7)
Past service cost	(14.0)	–	–	(14.0)
Operating cost	(169.7)	(0.2)	(1.8)	(171.7)
Expected return on pension scheme assets	424.0	–	n/a	424.0
Interest on pension scheme liabilities	(309.4)	(0.3)	n/a	(309.7)
Net finance income/(cost)	114.6	(0.3)	–	114.3
Net cost in income statement	(55.1)	(0.5)	(1.8)	(57.4)

8c ii Pension costs in statement of total recognised gains and losses (STRGL)

These gains and losses arise from actual performance being different from that predicted – for example changes in economic conditions or the demographic profile of BBC employees.

	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	778.4	(1,607.9)
Experience gains/(losses) arising on scheme liabilities	0.1	(12.4)
Changes in assumptions underlying present value of scheme liabilities	–	(393.1)
Net gain/(loss) recognised in STRGL	778.5	(2,013.4)

Only defined benefit schemes give rise to gains and losses in the STRGL.

8c iii Movement in pension liability during year

The defined contribution schemes do not give rise to balance sheet pension assets/liabilities as there is no ongoing liability to the employer from these schemes once the contributions due for the year have been settled.

	BBC Pension Scheme 2004 £m	Unfunded scheme 2004 £m	Total 2004 £m	BBC Pension Scheme 2003 £m	Unfunded scheme 2003 £m	Total 2003 £m
Net pension (liability)/asset at start of year	(1,070.1)	(4.4)	(1,074.5)	965.0	(3.9)	961.1
Contributions (from employer)	35.3	n/a	35.3	33.4	n/a	33.4
Operating charge for year	(196.5)	(0.1)	(196.6)	(169.7)	(0.2)	(169.9)
Net finance income/(cost)	21.2	(0.2)	21.0	114.6	(0.3)	114.3
Net gain/(loss) recognised in STRGL	778.5	–	778.5	(2,013.4)	–	(2,013.4)
Closing net pension liability	(431.6)	(4.7)	(436.3)	(1,070.1)	(4.4)	(1,074.5)

This note is designed to show trends over several years. Only four years are currently available since the adoption of FRS 17.

8c iv History of experience gains and losses

	2004	2003	2002	2001
Amount by which the expected return on scheme assets is (higher)/lower than the actual return:				
Amount (£million)	778.4	(1,607.9)	(532.0)	(950.9)
Percentage of scheme assets	13.2%	32.8%	8.6%	14.7%
Experience gains and (losses) on scheme liabilities:				
Amount (£million)	0.1	(12.4)	26.6	35.7
Percentage of present value of scheme liabilities	0.0%	0.2%	0.5%	0.7%
Total amount (gain/(loss)) recognised in STRGL:				
Amount (£million)	778.5	(2,013.4)	(725.4)	(708.2)
Percentage of present value of scheme liabilities	12.3%	33.7%	13.8%	14.8%

8d UK Public Service Broadcasting pension charge

UK Public Service Broadcasting has taken advantage of the provision within FRS 17 and accounts for the scheme as if it were a defined contribution scheme. This is because it is not possible to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure for UK Public Service Broadcasting therefore represents the contributions payable in the year. These contributions are set based on the funding needs identified from the actuarial valuation and benefit from the actuarial surplus (see Note 8b vii). They are therefore lower than the regular cost.

9 Taxation

9a Analysis of charges for the period

The charge for the year, based on the rate of corporation tax of 30% (2003 30%) comprised:

	Note	2004 £m	2003 £m
Current tax			
UK corporation tax		9.8	17.7
Deduct: double tax relief		(2.9)	(3.5)
		6.9	14.2
Adjustments in respect of prior years		(0.4)	(3.0)
		6.5	11.2
Foreign tax		9.2	5.4
Share of associates tax		0.5	1.1
Total current tax	9b	16.2	17.7
Deferred tax			
Origination and reversal of timing differences		(2.1)	—
Adjustments in respect of previous years		1.1	(2.0)
Total deferred tax	9d	(1.0)	(2.0)
Total charge for the year		15.2	15.7

9b Factors affecting the tax charge

The Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2004 £m	2003 £m
Deficit before tax		(234.0)	(299.0)
Deficit before tax multiplied by standard rate of corporation tax in the UK of 30% (2003 30%)		(70.2)	(89.7)
Effects of			
Public services taxable external income		3.5	5.7
Non-taxable deficit in Public Services		37.0	95.4
FRS 17 element of net Group pension charge		42.1	6.7
Commercial activities			
Non-taxable income		(0.4)	(0.4)
Disallowed expenditure		1.1	1.6
Depreciation less than capital allowances		(0.5)	–
Tax differential re overseas earnings		4.5	1.8
Other		(0.5)	(0.4)
Adjustments in respect of previous periods		(0.4)	(3.0)
Current tax charge for the year	9a	16.2	17.7

9c Factors that may affect future tax charges

The Group anticipates that the future tax charge will not alter materially since all licence fee income is free of tax.

9d Deferred tax analysis

	Note	2004 £m	2003 £m
Movement on deferred tax asset in the year			
Asset at start of year		(1.5)	–
Exchange adjustment		0.6	0.5
Deferred tax credit	9a	(1.0)	(2.0)
Deferred tax asset at end of year		(1.9)	(1.5)
Analysis of deferred tax asset at end of year			
Accelerated capital allowances		5.7	4.1
Other timing differences		(0.1)	–
US timing differences		(7.5)	(5.6)
		(1.9)	(1.5)

Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the amount the purchaser is prepared to pay for the name and reputation of the business and its expected future profit streams.

10 Intangible fixed assets

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 April 2003	8.2	13.4	21.6
Additions	9.5	0.6	10.1
At 31 March 2004	17.7	14.0	31.7
Amortisation			
At 1 April 2003	0.8	5.1	5.9
Charge for the year	0.4	4.7	5.1
Impairment losses	–	0.8	0.8
At 31 March 2004	1.2	10.6	11.8
Net book value			
At 31 March 2004	16.5	3.4	19.9
At 31 March 2003	7.4	8.3	15.7

On 20 February 2004 BBC Worldwide acquired 100% of the share capital of Origin Publishing Limited and £9.5million of goodwill arose on the acquisition (see Note 11).

All goodwill is amortised on a straight line basis over 20 years reflecting the useful economic life, subject to reviews for impairment.

Included within other intangibles are software licences. An additional £0.2million was acquired during the year. These are amortised on a straight line basis over the life of the licence.

In July 2003, BBC Worldwide Americas Inc. acquired the Britannia Video and Gifts catalogue business and customer list of names and transactional histories for a cash consideration of £0.4million. This other intangible will be amortised on a straight line basis over five years.

11 Acquisitions

On 20 February 2004 BBC Worldwide acquired 100% of the share capital of Origin Publishing Limited for £10.2million. Goodwill arose in respect of this transaction as follows:

	Book value £m	Accounting policy alignment £m	Fair value £m
Tangible fixed assets	0.2	–	0.2
Net current assets (excluding cash)	0.1	(0.2)	(0.1)
Cash	0.6	–	0.6
	0.9	(0.2)	0.7
Goodwill			9.5
Total consideration			10.2

Satisfied by:

Cash consideration	9.9
Deferred consideration – loan notes	0.3
Total consideration	10.2

The net outflow of cash in respect of the purchase of subsidiary undertakings is as follows:

Cash consideration	9.9
Cash balance of subsidiary undertakings purchased	(0.6)
	9.3

In order to achieve consistency, accounting standards require the accounting policies of an acquired entity to be aligned with those of the Group at the date of acquisition.

Origin Publishing Limited contributed turnover of £1.5million and operating profit of £0.1million to the results for the year ended 31 March 2004. The company made a profit after taxation of £nil from the beginning of its financial year, 1 October 2003, to the date of acquisition. In its previous financial year the profit after taxation was £0.3million.

Other than an adjustment to reduce net assets by £0.2million in order to align Origin Publishing Limited's accounting policies with those of the Group, no difference has been recorded between the book value and the fair value of the assets acquired. However, due to the proximity of the acquisition to the year end, certain fair values may require revision during 2004.

Contingent consideration of up to £4.3million may be payable, based on the short-term financial performance of the acquired business in the period to 30 September 2006. Based on the applicable financial targets and the management's expectation of the short-term financial performance of the business during the period to 30 September 2006, no contingent consideration has been recognised in the calculation of goodwill at 31 March 2004.

12 Tangible fixed assets

12a Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2003	454.6	980.7	126.1	145.1	1,706.5
Additions	12.3	67.6	23.9	138.6	242.4
Brought into service	4.5	45.9	2.6	(53.0)	–
Disposals	(39.6)	(92.7)	(26.4)	(47.7)	(206.4)
At 31 March 2004	431.8	1,001.5	126.2	183.0	1,742.5
Depreciation					
At 1 April 2003	208.5	624.7	70.4	–	903.6
Charge for the year	14.2	106.3	10.2	–	130.7
Impairments	–	–	–	2.9	2.9
Elimination in respect of disposals	(5.8)	(66.0)	(14.4)	–	(86.2)
At 31 March 2004	216.9	665.0	66.2	2.9	951.0
Net book value					
At 31 March 2004	214.9	336.5	60.0	180.1	791.5
At 31 March 2003	246.1	356.0	55.7	145.1	802.9

During the year, the Group disposed of all plant and machinery held under finance leases. As a result the net book value of assets held under finance leases at 31 March 2004 is £nil (2003 £16.4million).

One of the BBC's joint venture partners, Crown Castle UK Limited, has a charge of £3.0million over the assets of BBC Technology Group.

Included within fixed assets is £28million at cost relating to a relay station in Thailand used by BBC World Service. These assets are transferable to the Royal Thai Government in return for the payment of a nominal sum. BBC World Service will retain the right to repurchase the assets, should the operation cease, for a similar nominal sum. The use of these assets is not affected by this transaction and therefore they will continue to be carried at cost less attributable depreciation in the balance sheet.

12b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2003	390.3	448.6	97.0	105.9	1,041.8
Additions	11.0	27.5	22.8	83.7	145.0
Brought into service	3.8	24.1	1.8	(29.7)	–
Transfers from subsidiaries	–	3.0	0.1	–	3.1
Disposals	(39.6)	(42.7)	(19.8)	(47.7)	(149.8)
At 31 March 2004	365.5	460.5	101.9	112.2	1,040.1
Depreciation					
At 1 April 2003	174.7	265.4	47.5	–	487.6
Charge for the year	11.6	48.3	7.8	–	67.7
Transfers from subsidiaries	–	1.8	0.1	–	1.9
Impairments	–	–	–	2.9	2.9
Elimination in respect of disposals	(5.7)	(25.4)	(7.9)	–	(39.0)
At 31 March 2004	180.6	290.1	47.5	2.9	521.1
Net book value					
At 31 March 2004	184.9	170.4	54.4	109.3	519.0
At 31 March 2003	215.6	183.2	49.5	105.9	554.2

During the year UK Public Service Broadcasting disposed of plant and machinery held under finance leases with another Group company. As a result the net book value of assets held under finance leases with another Group company at 31 March 2004 is £nil (2003 £6.7million).

12c Land and building at net book value comprise:

	Group 2004 £m	Group* 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Undepreciated land	25.4	30.9	25.1	30.8
Freehold buildings	139.7	173.9	128.4	162.6
Total freeholds	165.1	204.8	153.5	193.4
Long leaseholds	17.7	9.9	17.7	9.9
Short leaseholds	32.1	31.4	13.7	12.3
	214.9	246.1	184.9	215.6

* Following a review in the year within BBC World Service, it was concluded that land and buildings with a net book value of £4.1million previously classified as freehold should be classified as short leasehold. The 2003 figures have been reanalysed accordingly

13 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2003	321.4
Exchange adjustment	(16.8)
Additions	90.6
Elimination of programmes fully amortised	(64.8)
At 31 March 2004	330.4
Amortisation	
At 1 April 2003	213.1
Exchange adjustment	(14.9)
Charge for the year	89.5
Elimination of programmes fully amortised	(64.8)
At 31 March 2004	222.9
Net book value	
At 31 March 2004	107.5
At 31 March 2003	108.3

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £88.6million direct investment in BBC programmes (2003 £82.7million).

Included in the net book value is £3.5million (2003 £4.5million) relating to investments held under a licence agreement.

14 Other investments (including BBC World Service net assets)

14a Movements in the year for the Group

	Interests in joint ventures Note 14d £m	Interests in associates Note 14e £m	Total Group £m
At 1 April 2003	13.1	4.7	17.8
Exchange adjustments	–	0.1	0.1
Disposals	–	(0.2)	(0.2)
Share of profits/(losses) after tax	5.8	(18.3)	(12.5)
Dividend received	(0.5)	(0.8)	(1.3)
Amortisation	(0.7)	–	(0.7)
Repayment of capital	(1.0)	–	(1.0)
Adjustment to reflect effective obligations	(5.4)	19.3	13.9
At 31 March 2004	11.3	4.8	16.1

14b Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Shares in subsidiaries £m	Interests in in joint ventures £m	Total £m
At 1 April 2003	142.8	165.3	10.2	318.3
Accumulated surplus	9.7	–	–	9.7
Additions	–	51.0	–	51.0
Capital reduction	–	(40.0)	–	(40.0)
Disposals	–	(51.0)	–	(51.0)
Amortisation	–	–	(0.7)	(0.7)
Repayment of capital	–	–	(0.7)	(0.7)
At 31 March 2004	152.5	125.3	8.8	286.6

Capital reduction represents a share buy-back by BBC Resources Limited of £40.0million. Disposals of shares in subsidiaries relates to the transfer of investments in BBC Resources Limited of £51.0million to BBC Ventures Limited, another BBC subsidiary company. In consideration BBC Ventures Limited issued 51,000,001 ordinary shares at £1 each to BBC Commercial Holdings Limited. In turn, BBC Commercial Holdings Limited issued 51,000,001 ordinary shares at £1 each to UK Public Service Broadcasting.

Subsidiary undertakings are businesses the BBC controls.

14c Subsidiary undertakings

The principal subsidiary undertakings of the BBC at 31 March 2004 are listed below. All are wholly owned (directly and indirectly) and incorporated in Great Britain and registered in England and Wales except where stated. A full list of subsidiaries is available at bbc.co.uk or from the BBC Secretary at BBC Media Centre, 201 Wood Lane, London W12 7TQ.

Name of entity	Activity
BBC Commercial Holdings Limited	Holding company
BBC Worldwide Limited	Publishing, channels and programme distribution
BBC World Limited	Channels
BBC Ventures Limited	Holding company
BBC Technology Holdings Limited	Technology services
BBC Broadcast Limited	Playout and channel management services
BBC Resources Limited	Programme making facilities and services
BBC Vecta Limited	Technology services
BBC Free To View Limited	Holding company for digital licence
BBC Property Limited	Property
BBC Property Development Limited	Property
Centre House Productions Limited	Production financing

Joint ventures are businesses the BBC jointly controls with other parties.

14d Interests in joint ventures

The Group has a 50% equity interest in the following joint ventures which are all incorporated in Great Britain and registered in England and Wales, unless otherwise stated:

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2003
UK Gold Holdings Limited	Channels	Flextech	31 December 2003
UKTV New Ventures Limited	Channels	Flextech	31 December 2003
UKTV Interactive Limited	Channels	Flextech	31 December 2003
JV Programmes LLC*	Channels	Discovery Communications Inc.	31 December 2003
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2003
DTV Services Limited**	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	31 March 2004
Insight Property Partnership	Property	Land Securities Trillium Limited	31 March 2004
Danus Limited***	Property	Land Securities Trillium (BH) Limited, Morgan Stanley Delta LLC, Structured Finance Management Limited	****

* Incorporated in the USA

** 33% equity interest

*** 100% holding of 'A' class shares representing 10% of the total issued shares of Danus Limited. The rest of the shares in Danus Limited are held by the other partners. The BBC holds its investment in Danus Limited through a subsidiary, BBC Property Development Limited

**** Danus Limited will prepare its first set of financial statements as at 30 June 2004

For a number of years the BBC, through its subsidiary BBC Worldwide, has had major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK and with Discovery Communications Inc. for incorporating new channels around the world and providing new co-production funding for programmes. These alliances operate the joint ventures listed above.

The BBC is part of a joint venture, DTV Services Limited, to provide marketing services for digital channels on a terrestrial platform in the UK. The BBC's subsidiary BBC Free to View Limited (see Note 14c) holds the BBC's digital terrestrial multiplex licence and its equity interest in the joint venture to ensure the costs of this joint venture are managed separately from licence fee-funded activities.

Financial statements

Notes to the financial statements

The joint venture with Land Securities Trillium Limited, the Insight Property Partnership, provides a range of property and development services to the BBC. Related joint ventures and associate companies have been set up to develop particular BBC properties.

During the year the Group entered into arrangements with Daunus Limited, to redevelop the Broadcasting House site. Under these arrangements the Group granted a 150-year head lease on Broadcasting House to Daunus Limited and Morgan Stanley Gamma Investments in July 2003. Land Securities Trillium Limited has entered into a contract with Daunus Limited to redevelop the site. The Group will lease back the redeveloped site from Daunus Limited.

The following disclosures represent the Group's equity shares of the assets and liabilities of its joint ventures based on the results for the latest accounting periods as shown above.

Group share of:	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures £m	Total joint ventures £m
2004				
Turnover	32.7	29.4	26.5	88.6
Profit/(loss) before tax	9.5	6.2	(5.4)	10.3
Taxation	(2.4)	(1.9)	(0.2)	(4.5)
Profit/(loss) after tax	7.1	4.3	(5.6)	5.8
Fixed assets	–	0.2	2.0	2.2
Goodwill	–	–	8.8	8.8
Current assets	14.7	33.4	20.7	68.8
Liabilities less than one year	(13.2)	(6.6)	(18.3)	(38.1)
Liabilities more than one year	(28.9)	(45.5)	(13.6)	(88.0)
Adjustment to reflect effective obligations	27.4	18.5	11.7	57.6
Net book value	–	–	11.3	11.3
2003				
Turnover	31.7	28.6	19.7	80.0
Profit/(loss) before tax	9.5	0.3	(1.0)	8.8
Taxation	(2.7)	–	(0.9)	(3.6)
Profit/(loss) after tax	6.8	0.3	(1.9)	5.2
Fixed assets	–	–	2.3	2.3
Goodwill	–	–	10.2	10.2
Current assets	14.3	27.6	19.4	61.3
Liabilities less than one year	(10.3)	(3.5)	(13.0)	(26.8)
Liabilities more than one year	(38.5)	(46.8)	(11.5)	(96.8)
Adjustment to reflect effective obligations	34.5	22.7	5.7	62.9
Net book value	–	–	13.1	13.1

* The figures are based on unaudited financial statements

Under the terms of the agreement with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2004 (2003 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation.

Associates are businesses over which the BBC exerts significant influence but does not have overall control.

14e Interests in associates

The Group holds (directly and indirectly) significant interests in the principal associates listed below which, except where otherwise stated, are incorporated in Great Britain and registered in England and Wales. A full list of associates is available at bbc.co.uk, or from the BBC Secretary (see Note 14c for the address).

	Holding of issued ordinary shares %	Activity
Parliamentary Broadcasting Unit Limited	33	Content provider
Broadcasters Audience Research Board Limited (BARB)	*	Audience research
The Commonwealth Broadcasting Association	*	Broadcasting forum
Radio Joint Audience Research Limited (RAJAR)	50	Audience research
Frontline Limited	23	Publishing
UKTV Pty Limited (incorporated in Australia)	20	Channels
People and Arts (Latin America) LLC (incorporated in the USA)**	50	Channels
Animal Planet LLC (incorporated in the USA)**	20	Channels
The Animal Planet Europe Partnership**	50	Channels
Animal Planet Japan KK (incorporated in Japan)**	33	Channels
Jasper Broadcasting Inc. (incorporated in Canada)	20	Channels
Jasper Junior Broadcasting Inc. (incorporated in Canada)	20	Channels
3sixtymedia Limited	10	Production
White City Development Partnership	***	Property

* Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters

** Discovery associate

*** 50% partnership share

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2003 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

	2004 £m	2003 £m
Group interests in associates		
Share of turnover	38.6	37.5
Share of fixed assets	43.1	51.0
Share of current assets	12.6	14.7
Share of liabilities due within one year	(7.2)	(16.4)
Share of liabilities due after more than one year	(118.9)	(114.5)
Adjustment to reflect effective obligation	75.2	69.9
Net interests in associates	4.8	4.7

The results include the Group share of the operating profit of UKTV Pty Limited of £0.3million (2003 £0.2million) and Frontline Limited of £1.1million (2003 £2.0million). The Group's share of the remaining associates, including Jasper Broadcasting Inc. and Jasper Junior Broadcasting Inc., operated in partnership with Alliance Atlantis, was £nil (2003 £nil).

Under the terms of the agreements with Discovery and Alliance Atlantis, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses of the relevant entities and accordingly no share of losses is included in the financial statements for the year ended 31 March 2004 (2003 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

15 Stocks

	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Raw materials	5.1	4.2	0.7	–
Work in progress				
– originated programmes	273.1	245.2	272.7	245.1
– other	6.0	7.3	0.2	–
Finished programmes				
– acquired programmes and films	82.3	97.2	82.3	97.2
– originated programmes	44.5	94.9	44.5	94.9
Other	22.0	20.1	–	0.5
Total	433.0	468.9	400.4	437.7

16 Debtors

	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Receivable within one year				
Trade debtors	135.7	142.6	18.1	21.9
Department for Culture, Media and Sport				
– licence fee debtors	275.4	254.3	275.4	254.3
Amounts owed by subsidiaries	–	–	30.6	56.0
Amounts owed by associates and joint ventures	3.1	4.9	3.1	–
VAT recoverable	40.3	38.0	35.9	34.1
Other debtors	21.9	22.7	4.8	5.6
Prepayments	196.3	143.0	169.8	115.4
	672.7	605.5	537.7	487.3
Receivable after more than one year				
Other debtors	5.7	6.9	–	–
Prepayments	136.3	151.7	118.1	131.8
	142.0	158.6	118.1	131.8
Total	814.7	764.1	655.8	619.1

The prepayments receivable after more than one year include £52.5million (2003 £54.5million) in respect of the White City site which is leased from the partnership between the BBC and Land Securities Trillium Limited. This is being released over the term of the lease.

17 Creditors

17a Prompt payment policy

It is the BBC's policy to comply with the CBI prompt payment code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2004 was 45 days (2003 44 days).

17b Amounts falling due within one year

	Note	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Bank overdrafts and other loans					
Bank overdrafts	23	38.2	70.7	31.3	70.7
Bank and other loans	23	—	0.9	—	—
Unsecured loan notes	23	1.6	1.7	—	—
		39.8	73.3	31.3	70.7
Trade creditors					
Programme creditors		78.7	76.2	77.2	72.6
Programme acquisitions		24.6	35.4	23.9	35.0
Salaries and wages		50.5	48.6	30.6	27.2
Residual copyright payments		34.2	41.8	—	—
Other trade creditors		162.9	164.5	111.1	104.5
		350.9	366.5	242.8	239.3
Other creditors					
Obligations under finance leases		—	8.8	—	—
Amounts owed to subsidiaries in respect of finance leases		—	—	—	1.9
Amounts owed to subsidiaries		—	—	92.6	69.2
Amounts owed to associates and joint ventures		1.2	0.7	—	—
Corporation tax		8.5	3.1	6.4	1.3
Other taxation and social security		32.8	32.6	28.2	25.8
		42.5	45.2	127.2	98.2
Accruals and deferred income					
Accruals and deferred income		349.3	327.4	281.6	266.6
Licence savings stamps deposits and direct debit instalments		109.1	108.1	109.1	108.1
		458.4	435.5	390.7	374.7
Total		891.6	920.5	792.0	782.9

17c Amounts falling due after more than one year

	Note	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Bank and other loans					
	23	180.0	87.2	—	—
Trade creditors					
Programme acquisitions		6.0	33.1	6.0	33.1
Other creditors					
Obligations under finance leases	23	30.3	39.1	—	—
Amounts owed to subsidiaries	23	—	—	33.3	18.3
Amounts owed to subsidiaries in respect of finance leases	23	—	—	—	4.8
		30.3	39.1	33.3	23.1
Total		216.3	159.4	39.3	56.2

18 Provisions for liabilities and charges

Group	At 1 April 2003 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2004 £m
Licence fee	22.3	(20.0)	–	19.8	22.1
Restructuring	7.1	(5.1)	(1.5)	15.2	15.7
Litigation and insurance	14.8	(4.6)	(4.6)	5.6	11.2
Property	12.9	(0.4)	(2.4)	1.8	11.9
Other	14.9	(8.2)	(14.8)	24.7	16.6
Total	72.0	(38.3)	(23.3)	67.1	77.5

Property provisions include BBC World Service's liability of £3.6million (2003 £3.6million) to restore Bush House to its original condition, together with amounts relating to other dilapidations and relocations.

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

UK Public Service Broadcasting	At 1 April 2003 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2004 £m
Licence fee	22.3	(20.0)	–	19.8	22.1
Restructuring	5.9	(4.2)	(1.2)	11.9	12.4
Litigation and insurance	14.8	(4.6)	(4.6)	5.6	11.2
Property	9.3	(0.4)	(2.4)	1.8	8.3
Other	12.0	(8.2)	(15.3)	22.2	10.7
Total	64.3	(37.4)	(23.5)	61.3	64.7

19 Reserves

The UK Public Service Broadcasting operations and BBC World Service are funded from different sources. As such, the reserves relating to BBC World Service are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service activities.

Group	Operating reserve excluding pension reserve £m	Pension reserve £m	Total operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2003	296.0	(1,074.5)	(778.5)	858.1	5.6	85.2
Exchange adjustments	(2.1)	–	(2.1)	–	–	(2.1)
Deficit for financial year	(248.9)	–	(248.9)	–	–	(248.9)
Actuarial gain on defined benefit pension schemes	–	778.5	778.5	–	–	778.5
Revaluation reserve transfer	0.8	–	0.8	–	(0.8)	–
Pension reserve transfer	140.3	(140.3)	–	–	–	–
Capital reserve transfer	69.3	–	69.3	(69.3)	–	–
At 31 March 2004	255.4	(436.3)	(180.9)	788.8	4.8	612.7
Represented by:						
General Group reserves	243.4	(436.3)	(192.9)	653.1	–	460.2
BBC World Service reserves	12.0	–	12.0	135.7	4.8	152.5
	255.4	(436.3)	(180.9)	788.8	4.8	612.7

Under the accounting standard FRS 10, *Goodwill and intangible assets*, any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2003 £6.8million) remains offset against the operating reserve.

The £3.6million dilapidations provision relating to BBC World Service is included in the transfer between the capital reserve and the operating reserve in the year. This is because during the year it was concluded that the provision will be funded from capital Grant-in-Aid when it crystallises.

	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
UK Public Service Broadcasting				
At 1 April 2003	203.0	858.1	5.6	1,066.7
Deficit for financial year	(80.1)	–	–	(80.1)
Revaluation reserve transfer	0.8	–	(0.8)	–
Capital reserve transfer	69.3	(69.3)	–	–
At 31 March 2004	193.0	788.8	4.8	986.6
Represented by:				
UK Public Service Broadcasting reserves	181.0	653.1	–	834.1
BBC World Service reserves	12.0	135.7	4.8	152.5
	193.0	788.8	4.8	986.6

20 Reconciliation of net cash flow to movement in net debt

	2004 £m	2003 £m
Increase/(decrease) in cash in year	2.3	(1.5)
Net cash inflow from management of liquid resources	(52.3)	(291.9)
Net cash inflow from increase in loans and finance leases	(90.0)	(37.2)
Change in net debt resulting from cash flows	(140.0)	(330.6)
Non-cash movement on loans	–	0.1
Non-cash decrease/(increase) in finance leases	15.8	(28.3)
Change in net debt	(124.2)	(358.8)
Net (debt)/funds at the beginning of the year	(74.0)	284.8
Net debt at the end of the year	(198.2)	(74.0)

21 Analysis of changes in net (debt)/funds

	At 1 April 2003 £m	Cash flows £m	Non-cash movements £m	At 31 March 2004 £m
Net cash				
Bank overdrafts	(70.7)	32.5	–	(38.2)
Cash at bank and in hand	69.5	(30.2)	–	39.3
	(1.2)	2.3	–	1.1
Liquid resources				
Short-term investments	64.9	(52.3)	–	12.6
Gross funds	63.7	(50.0)	–	13.7
Debt				
Loans from third parties	(88.1)	(92.4)	0.5	(180.0)
Unsecured loan notes	(1.7)	0.6	(0.5)	(1.6)
Finance leases	(47.9)	1.8	15.8	(30.3)
Net debt	(74.0)	(140.0)	15.8	(198.2)
Made up of:				
Public Service Broadcasting	(24.1)	20.1	6.7	2.7
Commercial Businesses	(31.5)	(156.7)	15.8	(172.4)
Centre House Productions Limited	(27.1)	(1.4)	–	(28.5)
Less: Intercompany eliminations	8.7	(2.0)	(6.7)	–
Net debt	(74.0)	(140.0)	15.8	(198.2)

Liquid resources are current asset investments that are readily disposable without disrupting the BBC, and are either readily convertible into known amounts of cash at or close to their carrying amount, or are traded on an active market. In relation to the BBC, liquid resources are sterling amounts on deposit.

The debt and repayments on finance leases held by Centre House Productions Limited are offset directly by cash held on matching deposits, and the income from them, such that there is no long-term cash flow effect.

22 Reconciliation of net funds/(debt) to the Department for Culture, Media and Sport (DCMS) borrowing ceilings

	Note	Public Services 2004 £m	Public Services 2003 £m	Commercial Businesses 2004 £m	Commercial Businesses 2003 £m
Net funds/(debt)	21	2.7	(24.1)	(172.4)	(31.5)
Licence savings stamps deposits and direct debit instalments*	17b	(109.1)	(108.1)	–	–
Borrowings as defined by DCMS borrowing ceiling		(106.4)	(132.2)	(172.4)	(31.5)
Borrowing ceiling		200.0	200.0	350.0	350.0

* The BBC must be able to repay the licence savings stamps deposits and direct debit instalments on demand and they are therefore included in the public service borrowings.

The public service borrowing limit of £200million is set within the BBC Charter. As at 31 March 2003 and 31 March 2004 the BBC was in compliance with this borrowing ceiling.

When the Department for Culture, Media and Sport granted a £350million borrowing limit for BBC Commercial Holdings Limited in July 2002, three financial covenants were defined which are required to be met as at 31 March each year. As at 31 March 2004 and 31 March 2003 BBC Commercial Holdings Group was in compliance with each of these covenants. Compliance with the borrowing ceiling is detailed in the table above.

A forward currency contract is a contract to buy or sell foreign currency in exchange for sterling at a specific date. Companies typically enter into forward contracts to lock into a particular exchange rate, thereby eliminating cash flow risk that may be associated with a future purchase or sale.

An interest rate swap is a contract between two parties to change the basis of their interest rate payment or receipts either from fixed to floating rates or vice versa. Companies typically enter into these arrangements to reduce the exposure to interest rate risk by fixing a floating interest rate. Alternatively, a company may believe that interest rates may fall and wish to convert a fixed rate loan to a floating rate.

23 Financial instruments

23a Treasury management and financial instruments

The Group's treasury operations are managed, by a Group Treasury function, within parameters defined formally within the policies and procedures manual agreed by the Executive Committee. Group Treasury's activity is routinely reported and is subject to review by internal and external auditors.

Group Treasury uses financial instruments to raise finance and to manage financial risk arising from its operations in accordance with its objectives, which are:

- to ensure the business of the BBC, both Public Services and Commercial, is fully funded in the most efficient manner and remains compliant with borrowing limits
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements

The Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and liquid resources, borrowings and various items such as trade debtors and creditors that arise directly from its operations. The Group finances its operations from these financial instruments. The main risks to be managed are ensuring that the Group has sufficient liquid funds to meet its obligations as they fall due and that it is compliant with its borrowing limits imposed by the Charter, by the Department for Culture, Media and Sport and by external loan covenants.

The Group is principally a domestic organisation with the majority of transactions and assets being in the UK and sterling based. However, the Group undertakes some transactions in currencies other than sterling and enters into forward currency contracts to manage this currency risk. The Group has also entered into interest rate swaps to manage the interest rate risk arising as a result of its borrowing needs. The Group does not undertake speculative treasury transactions.

23b Cash and borrowing facilities

The Group invests short-term surplus cash in fixed rate investment products. Funds are invested only in organisations which have a minimum long-term rating of AA.

As at 31 March 2004 UK Public Service Broadcasting had available a £100million loan facility which is available as either a revolving LIBOR-based loan or an overdraft to May 2004 with an option to extend the facility to May 2005. The loan facility bears interest at a margin of 0.2% and the overdraft facility bears interest at bank base rates plus 1%. This facility was renewed in May 2004 on the same terms with a new maturity date of May 2005 and option to extend to May 2006.

Money market lines are short-term borrowings.

In addition to this loan facility UK Public Service Broadcasting has access to uncommitted money market lines, from three individual banks, totalling £25million (2003 £45million) with interest payable at a margin of between 0.125% and 0.5% over LIBOR.

BBC Commercial Holdings' loans comprise a £350million multicurrency revolving credit facility agreement repayable in full in March 2008. At 31 March 2004 £105million (2003 £85million) was drawn down by way of advances. Interest is payable at LIBOR plus 0.375%, rising to LIBOR plus 0.45% once the facility is more than 50% utilised. Of the total amount £100million is available in the form of letters of credit to be issued in favour of the European Investment Bank to support their lending under the facilities detailed immediately below. As at 31 March 2004 a further £76.9million (2003 £nil) was utilised by way of letters of credit issued to support the borrowing under these facilities.

The European Investment Bank has made two loan facilities available to BBC Commercial Holdings. The first, for an amount of £66million, is available for drawing until March 2005 and must either be repaid in full as a single repayment by March 2013 or on an amortising basis by March 2015. £50million was drawn under this facility at 31 March 2004 (2003 £nil). The second, for £25million, was available for drawing until November 2003 and is repayable in one single instalment by November 2007. £25million was drawn under this facility at 31 March 2004 (2003 £nil). The interest rate applicable on both facilities is determined with reference to the European Investment Bank's own funding cost and carries no margin above this funding rate. The lending under both these facilities is supported by letters of credit issued by the commercial banks under the £350million revolving credit facility referred to above.

As at 31 March 2003, other loans included a US\$5million loan from Discovery. This was repaid in full during the year to 31 March 2004. In addition BBC Commercial Holdings had an overdraft facility of £20million available, which is due to be reviewed in January 2005.

BBC Resources has a £50million revolving credit facility agreement, repayable in full in September 2004. Interest is payable at LIBOR plus 0.375%. During the year, BBC Resources drew £40million under this facility and repaid this balance in full before the year end.

23c Maturity of financial liabilities

The Group arranges its borrowings to meet forecast cash flows such that UK Public Service Broadcasting has access to sufficient funds to meet its commitments. Short-term flexibility is achieved by overdraft facilities. The maturity profile of the Group's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Bank loans £m	Unsecured loan notes £m	Finance leases £m	Trade creditors £m	Total 2004 £m
2004						
Within one year	38.2	–	1.6	–	–	39.8
Between one and two years	–	–	–	–	4.6	4.6
Between two and five years	–	130.0	–	–	1.4	131.4
Greater than five years	–	50.0	–	30.3	–	80.3
	38.2	180.0	1.6	30.3	6.0	256.1
2003						
Within one year	70.7	0.9	1.7	8.8	–	82.1
Between one and two years	–	2.2	–	5.0	18.2	25.4
Between two and five years	–	85.0	–	2.0	14.9	101.9
Greater than five years	–	–	–	32.1	–	32.1
	70.7	88.1	1.7	47.9	33.1	241.5

During the year, the Group disposed of all computer hardware held under finance leases. As a result the obligations under finance leases in respect of computer hardware at 31 March 2004 is £nil (2003 £15.8million). The remaining finance leases relate to Centre House Productions Limited, £30.3million (2003 £32.1million)

Financial statements

Notes to the financial statements

Defeasance deposits are amounts deposited with banks by Centre House Productions Limited which earn the exact amount of interest needed to cover the capital repayment and interest element of each of the finance leases. The defeasance deposits are 'ring-fenced' and therefore cannot be used for any transactions apart from the agreed capital and interest payments.

Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £273.5million at 31 March 2004 (2003 £275.3million), are structured such that the principal on deposit and the interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly it is not included as borrowing for the purposes of compliance with the BBC's borrowing limits.

The maturity profile of the UK Public Service Broadcasting's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Finance leases £m	Trade creditors £m	Inter- company creditors £m	Total 2004 £m
2004					
Within one year	31.3	–	–	–	31.3
Between one and two years	–	–	4.6	5.9	10.5
Between two and five years	–	–	1.4	13.7	15.1
Greater than five years	–	–	–	13.7	13.7
	31.3	–	6.0	33.3	70.6
2003					
Within one year	70.7	1.9	–	–	72.6
Between one and two years	–	–	33.1	1.6	34.7
Between two and five years	–	4.8	–	6.8	11.6
Greater than five years	–	–	–	9.9	9.9
	70.7	6.7	33.1	18.3	128.8

23d Interest rates

The Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the Group has been borrowing at floating rates of interest and then used interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

The Group's financial assets, excluding short-term debtors, amount to £51.9million at 31 March 2004 (2003 £134.4million) all of which are subject to floating rate interest.

After taking account of the various interest rate swaps and forward foreign currency contracts entered into by the Group, the interest rate profile of the Group's financial liabilities at 31 March 2004 and 2003 was:

	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Fixed rate liabilities		
				Amount £m	Weighted average interest rate %	Weighted average period until maturity Years
2004						
Sterling	256.1	36.3	10.8	209.0	4.5	4.0
Total	256.1	36.3	10.8	209.0		
2003						
Sterling	238.4	65.2	87.4	85.8	3.8	4.5
US dollar	3.1	–	–	3.1	4.1	1.4
Total	241.5	65.2	87.4	88.9		

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature in March 2008. In addition to the £209million (2003 £70million) of swaps included in the fixed rate liabilities of £209million (2003 £85.8million) shown above, which were effective at the year end, an additional £17million (2003 £116million) of forward starting swaps had been transacted to cover projected borrowings. These additional swaps were transacted at an average rate of 4.79% (2003 4.63%).

23e Currency exposure

The majority of the Group's operations are UK-based. The Group has one significant overseas operation, BBC Worldwide America, which operates in the USA and whose revenues and expenses are denominated exclusively in US dollars.

The Group has a number of transactions involving overseas parties and priced in the currencies of those parties. The Group's policy is to eliminate currency exposure at the time of the transaction through the use of forward contracts.

As at 31 March 2004, after taking into account the effects of forward foreign exchange contracts, the Group had no significant currency exposures.

23f Gains and losses on hedging contracts

The Group undertakes some transactions in international markets. Due to movements in exchange rates over time, the amount the Group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction. The Group manages its exposure to movements in exchange rates by entering into forward exchange hedging contracts. These allow the Group to settle transactions at known exchange rates, thereby eliminating much of this uncertainty.

At 31 March 2004 the Group had entered into a net commitment to purchase foreign currencies amounting to £71.0million (2003 £84.5million) that mature in the period through to 2010 in order to fix the sterling cost of commitments through this period.

Unrealised gains and losses on forward exchange hedging contracts amounted to an unrealised loss of £6.7million (2003 £3.4million gain) at the balance sheet date, of which £2.0million is expected to be recognised in the next financial year.

From March 2003 the Group started using interest rate swaps to manage its interest rate profile. Unrealised gains or losses on these contracts amounted to an unrealised gain of £3.9million (2003 no significant contracts) at the balance sheet date, of which £1.0million is expected to be recognised in the next financial year.

23g Fair values of financial assets and liabilities

There are no significant differences in value between the book and fair value of the Group's financial instruments other than as disclosed in Note 23f.

24 Commitments

24a Contracts placed for future expenditure

	Group 2004 £m	Group 2003 £m	UK Public Service Broadcasting 2004 £m	UK Public Service Broadcasting 2003 £m
Fixed asset additions	78.4	95.6	52.9	76.7
Programme acquisitions and sports rights	1,073.6	670.1	1,073.5	670.0
Independent programmes	73.9	68.5	70.2	68.5
	1,225.9	834.2	1,196.6	815.2

An operating lease is a lease where the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee (the BBC) is hiring rather than buying an asset.

24b Operating leases

Operating lease commitments payable in the following year, analysed according to the period in which the lease expires:

	Land and buildings 2004 £m	Land and buildings 2003 £m	Other 2004 £m	Other 2003 £m
Group				
Within one year	11.0	2.6	3.2	2.3
In two to five years	9.2	11.0	14.8	8.8
After five years	54.9	17.6	1.9	1.9
	75.1	31.2	19.9	13.0
UK Public Service Broadcasting				
Within one year	9.9	1.7	0.6	1.2
In two to five years	7.7	3.1	2.4	3.2
After five years	54.1	15.1	0.1	0.1
	71.7	19.9	3.1	4.5

24c Other financial commitments

In the ordinary course of business the BBC enters into a large number of contracts with artists and writers and with providers of other services including licence fee collection and channel distribution.

25 Contingent liabilities

At 31 March 2004 the Group had unprovided contingent liabilities estimated to be £0.9million (2003 £1.3million) in respect of guarantees and indemnities. All of this relates to UK Public Service Broadcasting.

Details of further consideration which may be payable in relation to acquisitions is given in Note 11.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 18) against an estimate of any damages and costs which may be awarded.

26 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8, *Related party disclosures*. Under the provisions of FRS 8 the BBC has not disclosed transactions between Group entities where more than 90% of those entities' voting rights are controlled within the Group. UK Public Service Broadcasting does not underwrite any of the activities or liabilities of the subsidiaries.

26a Transactions with joint ventures and associated undertakings

Included in the income and expenditure account is income from UKTV of £46.0million (2003 £33.1million) relating to the sale of programmes and JV Programmes LLC of £28.4million (2003 £27.1million) relating to the sale of programmes. There is also £7.3million (2003 £6.0million) of income made up of various other associates relating to the sale of programmes. Included in the income and expenditure is income of £0.4million (2003 £0.3million) from BBC Haymarket Exhibitions Limited relating to dividends and management fees. In addition, Frontline Limited charged £2.9million (2003 £2.7million) for the distribution of BBC Worldwide Limited's magazines. Also included is a charge for £0.4million (2003 £0.4million) from Parliamentary Broadcast Unit Limited, for the purchase of broadcast licences.

The BBC, Crown Castle UK Limited and British Sky Broadcasting Limited are partners in DTV Services Limited. In the year the BBC paid DTV Services Limited £1.4million (2003 £nil) for marketing services. In addition the BBC received £0.3million (2003 £nil) from DTV Services Limited for administrative services.

During the year £0.3million (2003 £nil) of funding for restructuring was provided to 3sixtymedia Limited in line with contractual obligations.

In all transactions, the terms of trade were negotiated on an arm's length basis.

The BBC and Land Securities Trillium Limited are partners in the Insight Property Partnership and the White City Development Partnership. On their formation in 2001 the BBC contributed its interest in the White City site in return for consideration which included reductions in service payments for future property services which are held as prepayments in the BBC's balance sheet. The partnership charged the BBC £145million for property services during the year (2003 £111million).

In July 2003, the BBC granted a head lease on Broadcasting House to Daunus Limited (a company in which the BBC holds a 10% interest (see Note 14d)) and Morgan Stanley Gamma Investments, for a premium of £92.0million in cash, plus the cost of works to date, £47.8million, realising a profit of £40.4million. A further £12.4million has been invoiced since July for works incurred during the rest of the year. Daunus Limited has appointed Land Securities Trillium Limited to redevelop the site.

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 16 and 17. In all transactions the terms of trade were negotiated on an arm's length basis.

Related parties include Governors, the Executive Committee and other senior managers, their immediate families and external entities controlled by them.

26b Other transactions

Ranjit Sondhi, Governor, is married to Anita Bhalla, who has been employed by the BBC since 1987 in various production and broadcasting roles. Her current role is Head of Political & Community Affairs for the English Regions. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Dame Ruth Deech, Governor, has a daughter who is a journalist in BBC News. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Sir Richard Eyre, Governor until 31 May 2003, is also Chairman and Managing Director of Chestermead Limited. During the year Sir Richard Eyre received either directly, or through Chestermead, payments totalling £10,917 for interviews and contributions to BBC programmes (2003 £3,754). No amounts were outstanding at the year end. Sir Richard Eyre's wife, Sue Birtwhistle, works on a freelance basis for the BBC through Chestermead. During the year, the BBC paid £38,675 to Chestermead in relation to services of Sue Birtwhistle (2003 £19,080). No amounts were outstanding at the year end.

Rt Hon The Lord Ryder, Governor, is also a non-executive Director and shareholder of Ipswich Town Football Club. During the year the BBC paid £70,947 to the club in respect of television and radio coverage (2003 £94,814). No amounts were outstanding at the year end.

Baroness Hogg, Governor until 9 February 2004, is also non-executive Chairman of Frontier Economics. During the year the BBC paid £48,831 to Frontier Economics in relation to advice on the online review and work on conditional access pricing (2003 £5,925 for a project relating to the incorporation of BBC Broadcast Limited). No amounts were outstanding at the year end.

Deborah Bull, Governor, is sole Director of Deborah Bull Limited. Subsequent to her appointment, she received, through Deborah Bull Limited, payments totalling £13,320 for contributions to various BBC programmes. No amounts were outstanding at the year end.

Michael Grade was appointed BBC Chairman on 2 April 2004 and took up his appointment on 17 May 2004. At the date of his appointment, Michael Grade held directorships and/or interests in several companies that have relationships with the BBC. Since his appointment, Michael Grade has resigned from these positions and/or disposed of these interests, except for his positions as non-executive Chairman of Pinewood Shepperton and non-executive Chairman of Hemscott plc. In the year ended 31 March 2004, which was prior to Michael Grade's appointment, the BBC paid £640,577 to Pinewood Shepperton for the use of studios and related facilities, and £500 to Hemscott plc for business information. At the year end, £72,864 and £nil were outstanding respectively.

In the normal course of business the BBC transacts with other parties which are related to it by virtue of its senior employees being married or closely related to employees of the BBC or individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Governor or employee is not a party to the approval process.

Broadcasting facts and figures

Table 1
15-minute weekly reach by service
and platform: BBC and competitors

Table 2
Share by service and platform:
BBC and competitors

Table 3
Comparative cost per household
of viewing/listening per hour

Table 4
Subtitling output on BBC Television

Table 5
Audio description on BBC Television

Table 6
Signing on BBC Television

Table 7
BBC Network Television hours of output

Table 8
BBC Television hours of output by origin

Table 9
Range of peak-time UK-made
programmes on UK network television

Table 10
Monthly bbc.co.uk page impressions

Table 11
Monthly bbc.co.uk and BBCi
(interactive television) reach
(millions of users)

Table 12
BBC Network Radio hours of output

Table 13
BBC Network Radio hours of output
by origin

Table 14
Cost per hour of BBC-originated
programmes

Table 15
Cost per hour of BBC-originated
programmes by genre

Table 16
BBC spend outside London

Table 17
BBC distribution costs

Table 18
Creative spend outside the BBC

Table 19
BBC News 24 costs

A number of tables which have historically been included in this section but are no longer relevant have been dropped. Revisions to the content of the section have been made following the introduction of Ofcom-based reporting requirements during the year.

BBC Three replaced BBC Choice on 9 February 2003. Data for 2002/2003 covers the period from launch only.

Table I: 15-minute weekly reach by service and platform: BBC and competitors

	All homes		Multichannel homes		Analogue terrestrial homes		Digital homes	
	2003/2004 (55.2m*) %	2002/2003 (55.6m*) %	2003/2004 (32.6m*) %	2002/2003 (29.5m*) %	2003/2004 (22.6m*) %	2002/2003 (26.0m*) %	2003/2004 (30.3m*) %	2002/2003 (26.2m*) %
Total BBC Television and Radio reach	92.9	92.7	–	–	–	–	–	–
BBC Television	88.2	87.1	85.5	84.1	91.6	90.5	85.4	84.3
BBC One	83.7	82.9	79.8	78.9	88.5	87.2	79.4	78.9
BBC Two	67.0	67.0	57.3	56.6	78.8	78.1	56.5	56.0
BBC Three	7.0	8.0†	12.6	15.1†	–	–	13.9	15.9†
BBC Choice	–	4.9	–	9.5	–	–	–	10.8
BBC Four	2.1	1.0	3.7	2.0	–	–	4.0	2.3
The CBBC Channel	2.3	1.1	4.2	2.2	–	–	4.6	2.5
CBeebies	5.0	4.1	8.9	8.2	–	–	9.9	9.4
BBC News 24	3.9	4.1††	6.9	7.7††	–	–	6.6	7.4††
BBC Parliament	0.2	–	0.3	–	–	–	0.3	–
ITV1	78.9	78.3	75.3	74.3	83.3	82.5	75.1	74.3
ITV2	11.3	8.8	20.2	16.9	–	–	20.6	17.7
Channel 4	62.1	61.6	54.8	54.3	71.3	70.0	54.3	52.9
E4	6.6	6.9	12.3	13.6	–	–	12.4	14.1
five	43.2	41.1	41.8	39.5	44.4	41.8	41.4	39.3
All Sky channels	29.0	27.1	53.0	52.6	–	–	55.0	55.4
Sky One	15.4	16.1	28.0	30.8	–	–	28.3	31.9
Sky News	4.2	4.6	7.7	9.0	–	–	7.9	9.7
Discovery**	4.7	5.0	8.5	9.3	–	–	8.3	9.4
Nickelodeon**	4.4	4.8	7.9	9.4	–	–	8.2	10.1
Nick Jr.	2.1	1.6	3.8	3.1	–	–	4.2	3.6
UK Gold	8.7	8.7	19.1	18.1	–	–	19.7	18.9
UKTV	18.4	16.4	33.3	31.5	–	–	34.5	33.2
Other channels (total)***	45.6	41.2	81.7	79.0	–	–	83.2	81.0
BBC Radio†††	62.8	63.4						
BBC Radio 1	20.7	22.6						
BBC Radio 2	24.5	24.2						
BBC Radio 3	4.0	3.8						
BBC Radio 4	17.7	18.1						
BBC Radio Five Live	11.6	11.9						
BBC Five Live Sports Extra****	0.6	–						
1Xtra****	0.6	–						
BBC 6 Music****	0.3	–						
BBC 7****	0.6	–						
BBC Asian Network****	0.9	–						
BBC Local Radio (including Nations)	18.9	19.6						
BBC World Service	2.5	–						
Virgin AM	4.3	4.7						
Classic FM	11.5	12.4						
talkSPORT	3.9	4.6						
All local commercial radio	56.7	57.7						

Source: BARB, TNS/Infosys, RAJAR, age 4+, average for the year

* People age 4+ as at March, source: BARB

** Includes the first transmission and +1 hour time-shifted channels

*** Excludes BBC One, BBC Two, ITV1, Channel 4 and five

**** BBC digital radio services have been measured since July 2003

† Figure is high due to peak at launch

†† Figure is high due to peak during war in Iraq

††† The standard measure for radio reach is people age 15+. See chart on page 35

Note: The data for 2002/2003 in digital homes has been restated to include Freeview homes.

Table 2: Share by service and platform: BBC and competitors

	All homes		Multichannel homes		Analogue terrestrial homes		Digital homes	
	2003/2004 (55.2m*) %	2002/2003 (55.6m*) %	2003/2004 (32.6m*) %	2002/2003 (29.5m*) %	2003/2004 (22.6m*) %	2002/2003 (26.0m*) %	2003/2004 (30.3m*) %	2002/2003 (26.2m*) %
Total BBC Television and Radio share	43.4	44.4	–	–	–	–	–	–
BBC Television	37.8	39.1	29.2	29.9	48.7	49.6	28.9	29.2
BBC One	25.2	26.5	19.2	20.2	32.8	33.5	18.9	19.6
BBC Two	10.9	11.2	7.0	7.0	15.9	16.0	6.8	6.6
BBC Three	0.3	0.7	0.6	1.4	–	–	0.7	1.4
BBC Choice	–	0.4	–	0.8	–	–	–	0.8
BBC Four	0.1	0.1	0.2	0.1	–	–	0.2	0.1
The CBBC Channel	0.2	0.1	0.4	0.2	–	–	0.4	0.2
CBeebies	0.7	0.7	1.2	1.3	–	–	1.4	1.5
BBC News 24	0.4	0.4	0.6	0.7	–	–	0.6	0.7
BBC Parliament	0.0	–	0.0	–	–	–	0.0	–
ITV1	23.7	23.9	19.3	19.6	29.2	28.9	18.8	18.9
ITV2	1.0	0.6	1.7	1.2	–	–	1.7	1.3
Channel 4	9.7	9.8	7.1	6.9	13.2	13.1	6.9	6.7
E4	0.6	0.8	1.1	1.5	–	–	1.1	1.6
five	6.5	6.3	4.8	4.6	8.6	8.1	4.7	4.4
All Sky channels	6.3	6.2	11.5	11.9	–	–	12.2	12.7
Sky One	1.5	1.9	2.7	3.5	–	–	2.7	3.6
Sky News	0.5	0.6	0.8	1.1	–	–	0.9	1.1
Discovery**	0.4	0.4	0.7	0.7	–	–	0.7	0.7
Nickelodeon**	0.4	0.5	0.7	1.0	–	–	0.7	1.0
Nick Jr.	0.3	0.2	0.5	0.3	–	–	0.5	0.4
UK Gold	1.2	1.2	1.9	1.8	–	–	1.9	1.9
UKTV	2.4	2.2	4.2	4.1	–	–	4.3	4.2
Other channels (total)***	24.0	22.3	42.6	41.8	–	–	44.1	43.8
BBC Radio	50.5	50.6						
BBC Radio 1	8.0	8.8						
BBC Radio 2	14.8	14.7						
BBC Radio 3	1.1	1.1						
BBC Radio 4	10.7	10.8						
BBC Radio Five Live	4.3	4.4						
BBC Five Live Sports Extra****	0.1	–						
1Xtra****	0.1	–						
BBC 6 Music****	0.1	–						
BBC 7****	0.1	–						
BBC Asian Network****	0.3	–						
BBC Local Radio (including Nations)	10.4	10.6						
BBC World Service	0.6	–						
Virgin AM	1.1	1.2						
Classic FM	4.1	4.4						
talkSPORT	1.6	1.7						
All local commercial radio	37.8	39.8						

Source: BARB, TNS/Infosys, RAJAR, age 4+, average for the year

* People age 4+ as at March, source: BARB

** Includes the first transmission and +1 hour time-shifted channels

*** Excludes BBC One, BBC Two, ITV1, Channel 4 and five

**** BBC digital radio services have been measured since July 2003

Note: The data for 2002/2003 in digital homes has been restated to include Freeview homes.

Table 3: Comparative cost per household of viewing/listening per hour

	2003/2004 Pence	2002/2003 Pence
BBC	4.7	4.5
Sky (family package)	38.5	34.2
All pay television	21.9	19.5
Video hire	76.4	71.1

Source: BARB, RAJAR, BBC Strategy estimates

Note: This table shows how the licence fee compares with other forms of entertainment for each hour of viewing or listening

Table 4: Subtitling output on BBC Television

	Subtitled hours		Target for year		Actual for year	
	2003/2004	2002/2003	2003/2004 %	2002/2003 %	2003/2004 %	2002/2003 %
BBC One	11,432	10,656	80.0	76.0	81.2	76.8
BBC Two	8,924	7,421	80.0	76.0	87.2	76.0
BBC Three/BBC Choice	1,977	1,453	50.0	40.0	60.6	54.0
BBC Four	1,771	1,155	50.0	40.0	61.4	43.5
The CBBC Channel	2,892	2,589	50.0	40.0	66.7	59.7
CBeebies	3,459	3,772	50.0	40.0	73.5	80.2
BBC News 24	4,708	3,579	50.0	40.0	52.9	41.0

Note: A target has been set for 100% of programming output to be subtitled by 2008/2009

Table 5: Audio description on BBC Television

	Audio described hours		Target for year		Actual for year	
	2003/2004	2002/2003	2003/2004 %	2002/2003 %	2003/2004 %	2002/2003 %
BBC One	441	415	4.8	4.0	5.2	4.9
BBC Two	429	374	4.8	4.0	5.0	4.5
BBC Three/BBC Choice	227	307	4.8	4.0	7.0	11.4
BBC Four	176	117	4.8	4.0	6.1	4.4
The CBBC Channel	227	174	4.8	4.0	5.2	4.0
CBeebies	276	227	4.8	4.0	5.9	4.8

Note: A target has been set for 10% of programming output to be audio described by 2008/2009

Table 6: Signing on BBC Television

	Sign interpreted hours		Target for year		Actual for year	
	2003/2004	2002/2003	2003/2004 %	2002/2003 %	2003/2004 %	2002/2003 %
BBC One	222	170	2.4	2.0	2.6	2.0
BBC Two	213	218	2.4	2.0	2.5	2.6
BBC Three/BBC Choice	90	63	2.4	2.0	2.8	2.3
BBC Four	79	58	2.4	2.0	2.7	2.2
The CBBC Channel	119	94	2.4	2.0	2.7	2.2
CBeebies	114	97	2.4	2.0	2.4	2.1
BBC News 24	212	180	2.4	2.0	2.4	2.1

Note: A target has been set for 5% of programming output to be signed by 2008/2009.

Broadcasting facts and figures

Table 7: BBC Network Television hours of output

	On all platforms				On digital platforms only			
	BBC One		BBC Two		BBC Three/ BBC Choice		BBC Four	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Factual and learning	1,686	1,432	1,293	1,020	876	522	774	769
Education for children	–	–	664	688	–	–	–	–
News and weather	2,571	2,694	516	487	369	299	126	118
Current affairs	134	117	311	358	109	21	163	160
Entertainment	650	722	872	719	1,155	1,086	107	38
Sport	496	688	863	878	65	6	–	–
Children's	777	766	1,261	1,160	–	–	–	–
Drama	923	895	328	515	239	347	167	171
Music and arts	66	68	289	291	168	181	1,213	1,030
Film	911	828	818	761	172	127	254	303
Religion	87	84	37	36	13	–	30	18
Open University	–	–	455	586	–	–	5	–
BBC Learning Zone	–	–	577	601	–	–	–	–
Continuity	253	257	292	270	116	118	71	71
Total network	8,554	8,551	8,576	8,370	3,282	2,707	2,910	2,678
Included in total network are acquired programmes of	1,590	1,528	1,843	2,025	206	333	542	617
Included in total network are parliamentary programmes of	54	34	147	149	–	–	–	–

	On digital platforms only							
	The CBBC Channel		CBeebies		BBC News 24		BBC Parliament	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Education for children	637	614	182	134	–	–	–	–
News and weather	–	–	–	–	8,711	8,687	8,290	6,820
Children's	3,423	3,442	4,043	4,105	–	–	–	–
Continuity	294	293	492	475	73	73	14	12
Total network	4,354	4,349	4,717	4,714	8,784	8,760	8,304	6,832
Included in total network are acquired programmes of	866	1,021	799	914	–	–	1	–
Included in total network are parliamentary programmes of	–	–	–	–	–	–	8,290	6,820

Note: Network television hours of output includes originations, acquired programmes and repeats.

Table 8: BBC Television hours of output by origin

	Programmes made in:											
	London		England (excluding London)		Northern Ireland		Scotland		Wales		Total	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
First Transmission: Originated programmes Network												
BBC One and BBC Two												
Factual and learning	834	882	768	573	1	–	48	23	16	10	1,667	1,488
Education for children	44	68	3	6	1	2	7	6	1	1	56	83
News and weather	3,083	3,151	–	–	–	–	–	–	–	–	3,083	3,151
Current affairs	357	377	58	52	1	–	2	4	8	–	426	433
Entertainment	644	663	105	111	12	10	13	15	–	3	774	802
Sport	1,241	1,442	–	4	–	–	–	–	–	–	1,241	1,446
Children's	313	355	37	48	–	–	84	70	4	–	438	473
Drama	267	277	174	169	12	18	27	23	18	–	498	487
Music and arts	142	192	17	33	–	–	29	24	13	9	201	258
Film	5	17	–	–	–	–	–	–	–	–	5	17
Religion	4	7	108	104	1	–	2	4	1	1	116	116
Subtotal	6,934	7,431	1,270	1,100	28	30	212	169	61	24	8,505	8,754
Digital channels												
Factual and learning	112	113	61	41	3	–	20	8	–	5	196	167
Education for children	5	12	8	10	–	–	–	–	–	–	13	22
News and weather	12,754	11,813	–	–	–	86	123	123	123	123	13,000	12,145
Current affairs	42	50	7	2	3	6	–	–	1	–	53	58
Entertainment	247	261	30	9	–	2	7	–	–	4	284	276
Sport	58	–	–	–	–	–	–	–	–	–	58	–
Children's	715	993	28	22	–	–	78	116	–	–	821	1,131
Drama	13	16	13	7	4	–	–	2	2	–	32	25
Music and arts	194	211	39	28	1	2	66	48	36	31	336	320
Film	–	4	–	–	–	–	–	–	–	–	–	4
Religion	3	–	4	3	–	1	–	–	–	–	7	4
Subtotal	14,143	13,473	190	122	11	97	294	297	162	163	14,800	14,152
Nations and Regions												
Factual and learning	1	–	11	–	87	107	89	94	86	85	274	286
Education for children	–	–	–	–	2	2	10	7	4	6	16	15
News and weather	291	300	3,218	3,236	347	383	448	495	418	435	4,722	4,849
Current affairs	10	11	103	112	35	27	56	35	45	42	249	227
Entertainment	–	–	–	–	91	103	26	38	27	38	144	179
Sport	–	–	28	32	93	96	256	239	264	250	641	617
Children's	–	–	–	–	–	–	21	14	1	–	22	14
Drama	–	–	–	–	–	1	53	28	11	11	64	40
Music and arts	–	–	2	–	3	3	17	30	27	26	49	59
Subtotal	302	311	3,362	3,380	658	722	976	980	883	893	6,181	6,286
Acquired programmes	864	1,076	6	9	1	2	6	8	3	2	880	1,097
Total first transmissions*	22,243	22,291	4,828	4,611	698	851	1,488	1,454	1,109	1,082	30,366	30,289

Broadcasting facts and figures

Table 8: BBC Television hours of output by origin continued

	Programmes made in:											
	London		England (excluding London)		Northern Ireland		Scotland		Wales		Total	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Repeats												
Network	19,488	17,096	2,052	2,522	45	41	994	500	166	133	22,745	20,292
Nations and Regions	–	–	3	2	109	201	196	142	277	296	585	641
Continuity	1,519	1,483	19	26	196	51	185	170	171	149	2,090	1,879
Open University	448	586	3	–	3	–	3	–	3	–	460	586
BBC Learning Zone	577	498	–	100	–	–	–	3	–	–	577	601
Total hours of broadcasting	44,275	41,954	6,905	7,261	1,051	1,144	2,866	2,269	1,726	1,660	56,823	54,288
*Of which independents												
Network	1,637	1,528	415	418	26	25	134	82	39	22	2,251	2,075
Nations and Regions	2	–	38	12	78	93	145	113	118	121	381	339
*Of which parliamentary programmes	4,803	3,908	–	–	–	86	123	123	125	123	5,051	4,240

Table 9: Range of peak-time UK-made programmes on UK network television

Number of UK-made genres averaging a half-hour slot during peak time in a typical week. This excludes all digital output.

	Network BBCTV	BBC One	BBC Two	ITVI/ C4/five	ITVI	C4	five
Arts	*		*	*			
Contemporary music	*	*	*				
Consumer affairs	*	*					
Factual drama	*						
Factual entertainment				*	*	*	*
Human interest	*	*	*	*	*	*	*
Natural history	*		*	*			
Science/medical	*	*	*	*			
UK-originated drama serials	*	*		*	*		
UK drama series	*	*		*	*	*	
Long-running drama serials	*	*		*	*	*	*
UK single plays/films	*		*	*	*		
Family/people shows	*	*		*	*	*	
Sitcom – UK originated	*	*	*				
Other comedy	*		*	*			
Quiz shows/panel games	*	*	*	*	*		
Special events	*			*			
DIY	*	*		*			
Gardening	*		*				
Other hobbies/leisure	*	*	*	*		*	*
Travel	*	*					
Network news	*	*		*	*	*	*
Current affairs	*	*	*	*	*	*	
Regional news	*	*		*	*		
Sport	*	*	*	*	*		*
Total 2003/2004	24	17	13	19	12	8	6
Total 2002/2003	24	18	14	17	11	9	7

Source: BARB, TNS/Infosys

Note: Peak time is 6pm–10.30pm. The genre breakdown used has been updated to better reflect current BARB classifications.

Table 10: Monthly bbc.co.uk page impressions

	2003/2004 Millions	2002/2003 Millions
News and sport*	535.1	357.1
Education**	54.5	34.4
Other bbc.co.uk	704.6	371.3
Total bbc.co.uk (excluding beeb.com)	1,294.2	762.8
BBC World Service, accessed via bbc.co.uk sites	55.0	33.1
BBC World Service, accessed via key partners***	3.4	2.5
Total BBC World Service	58.4	35.6

Source: BBC server logs, BBC World Service

* Includes page impressions from international facing site (average monthly figure for 2003/2004 was 138.3 million), funded by Grant-in-Aid

** Education comprises all schools and lifeskills sites

*** Key partner websites host BBC World Service text and audio

Table 11: Monthly bbc.co.uk and BBCi (interactive television) reach (millions of users)

	2003/2004 Millions	2002/2003 Millions
bbc.co.uk*	8.9	7.0
BBCi (interactive television – 24/7)**	5.3	3.3
Combined reach of bbc.co.uk and BBCi***	13.2	10.1
	2003/2004 Millions	2002/2003 Millions
BBCi (interactive television – enhanced TV)****	2.2	n/a

Sources: * BMRB Access, Monthly Omnibus Survey, adults age 15+

** Interactive Television Tracking Study, adults age 16+, July 2001 to date for satellite

Digital satellite usage only, no reliable figures available for other platforms

*** This figure includes an individual only once for using bbc.co.uk and BBCi (interactive television)

**** Source: BARB, Data is not available for 2002/2003 due to a change in methodology used to collect the data

Note: BBC interactive television services are those that are available on digital television by pressing the red button. They include BBCi 24/7 digital text services, ie news, sport and weather; and BBCi enhanced television services which are interactive applications related to a specific programme, ie Wimbledon, Olympics and RHS Chelsea Flower Show.

Table 12: BBC Network Radio hours of output

	Analogue stations									
	BBC Radio 1		BBC Radio 2		BBC Radio 3		BBC Radio 4		BBC Radio Five Live	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Music	8,500	8,460	7,206	7,285	8,264	8,095	–	–	–	–
News and weather	270	270	533	455	19	18	2,404	2,393	6,486	6,378
Sport	30	29	–	–	–	–	542	756	2,106	2,199
Factual	15	15	26	13	–	–	1,254	1,274	–	–
Current affairs	35	34	458	451	–	–	1,199	1,188	46	43
Drama	–	–	14	13	103	103	1,079	1,082	–	–
Arts	–	–	88	85	169	179	464	442	–	–
Entertainment	–	–	71	71	–	–	511	505	–	–
Religion	–	–	192	191	60	56	289	292	–	–
Schools	–	–	–	–	64	202	160	–	–	–
Leisure	63	65	–	–	–	–	–	–	–	–
Children's	–	–	–	–	50	48	26	26	–	–
Presentation	148	148	196	196	55	59	56	55	146	140
Total	9,061	9,021	8,784	8,760	8,784	8,760	7,984	8,013	8,784	8,760

Table I2: BBC Network Radio hours of output continued

	Digital stations											
	BBC Five Live Sports Extra		IXtra		BBC 6 Music		BBC 7		BBC Asian Network		Total network radio	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Music	–	–	7,840	4,472	8,147	8,232	–	–	3,094	1,397	43,051	37,941
News and weather	–	–	292	153	370	263	–	–	1,344	568	11,718	10,498
Sport	1,089	1,320	76	43	–	–	–	–	351	149	4,194	4,496
Factual	–	–	–	–	9	–	–	–	8	4	1,312	1,306
Current affairs	–	–	430	134	–	–	–	–	1,690	714	3,858	2,564
Drama	–	–	–	–	–	–	3,328	743	–	–	4,524	1,941
Arts	–	–	–	–	–	–	–	–	–	–	721	706
Entertainment	–	–	–	–	–	–	2,852	744	65	28	3,499	1,348
Religion	–	–	–	–	–	–	–	–	286	121	827	660
Schools	–	–	–	–	–	–	–	–	–	–	224	202
Leisure	–	–	–	36	–	–	–	–	–	–	63	101
Children's	–	–	–	–	–	–	1,464	424	–	–	1,540	498
Presentation	–	–	146	616	266	265	–	–	208	–	1,221	1,479
Total	1,089	1,320	8,784	5,454	8,792	8,760	7,644	1,911	7,046	2,981	76,752	63,740

Note: Digital radio – all networks are broadcast via DAB (Digital Audio Broadcasting), DCable (digital cable), DSat (digital satellite), DTT (digital terrestrial television) and are streamed online.

Note: BBC Radio 1 and BBC 6 Music operate nations' opt-outs.

Table I3: BBC Network Radio hours of output by origin

	Analogue stations									
	BBC Radio 1		BBC Radio 2		BBC Radio 3		BBC Radio 4		BBC Radio Five Live	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Programmes produced in London	8,359	8,332	5,831	5,723	6,496	6,572	6,251	6,241	8,547	8,510
Programmes produced outside London										
England excluding London	422	422	2,825	2,893	1,112	1,191	1,461	1,487	234	248
Northern Ireland	90	90	9	14	115	89	44	47	3	2
Scotland	97	89	119	124	371	404	157	162	–	–
Wales	93	88	–	6	690	504	71	76	–	–
Subtotal	702	689	2,953	3,037	2,288	2,188	1,733	1,772	237	250
Total hours of broadcasting	9,061	9,021	8,784	8,760	8,784	8,760	7,984	8,013	8,784	8,760
	Digital stations									
	BBC Five Live Sports Extra		IXtra		BBC 6 Music		BBC 7		BBC Asian Network	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Programmes produced in London	1,089	1,320	8,779	5,452	7,948	7,659	7,598	1,911	780	330
Programmes produced outside London										
England excluding London	–	–	4	2	844	1,101	14	–	6,266	2,651
Northern Ireland	–	–	–	–	–	–	24	–	–	–
Scotland	–	–	1	–	–	–	8	–	–	–
Wales	–	–	–	–	–	–	–	–	–	–
Subtotal	–	–	5	2	844	1,101	46	–	6,266	2,651
Total hours of broadcasting	1,089	1,320	8,784	5,454	8,792	8,760	7,644	1,911	7,046	2,981

	Total network radio		Nations and local radio		Total radio	
	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Programmes produced in London	61,678	52,050	8,784	8,760	70,462	60,810
Programmes produced outside London						
England excluding London	13,182	9,995	219,249	218,028	232,431	228,023
Northern Ireland	285	242	8,758	8,776	9,043	9,018
Scotland	753	779	11,333	10,620	12,086	11,399
Wales	854	674	14,731	13,898	15,585	14,572
Subtotal	15,074	11,690	254,071	251,322	269,145	263,012
Total hours of broadcasting	76,752	63,740	262,855	260,082	339,607	323,822

Note: BBC Radio 1 and BBC 6 Music operate nations' opt-outs.

Table 14: Cost per hour of BBC-originated programmes

	2003/2004 £000	2002/2003 £000
Television channels		
BBC One	155.6	160.3
BBC Two	100.2	108.7
BBC Three/BBC Choice	124.1	129.0
BBC Four	56.4	58.9
The CBBC Channel	37.7	27.4
CBeebies	60.5	39.6
BBC News 24	5.6	5.7
BBC Parliament	0.5	0.7
Radio stations		
BBC Radio 1	3.1	3.1
BBC Radio 2	3.6	3.5
BBC Radio 3	4.2	4.3
BBC Radio 4	11.5	11.2
BBC Radio Five Live	7.0	7.5
BBC Five Live Sports Extra	1.5	1.3
1Xtra	0.6	0.8
BBC 6 Music	0.5	0.5
BBC 7	4.4	9.0
BBC Asian Network	0.7	0.5
Nations and Regions		
Television (BBC One/BBC Two/ BBC Three/BBC Four)	31.9	31.3
Radio (Local radio/Nations radio)	0.6	0.6

Table 15: Cost per hour of BBC-originated programmes by genre

	2003/2004 £000	2002/2003 £000
Analogue television programmes		
Factual and learning	110.9	110.8
Education for children	83.1	119.1
News and weather	40.6	47.6
Current affairs	117.6	118.0
Entertainment	200.6	177.3
Sport	162.4	192.2
Children's	81.6	83.7
Drama	518.3	521.3
Music and arts	145.6	139.9
Film	280.0	681.5
Religion	106.6	112.7
Digital television programmes		
Factual and learning	127.3	114.3
Education for children	–	–
News and weather	4.5	4.7
Current affairs	96.9	57.5
Entertainment	171.9	162.6
Sport	16.0	–
Children's	40.4	29.4
Drama	316.3	193.3
Music and arts	70.1	65.3
Film	–	484.0
Religion	154.9	87.0

Note: Drama cost per hour has been restated due to films now being separately identified; the previous year films were included as drama.

Table 16: BBC spend outside London

	2003/2004 £m	2002/2003 £m
Cost of television originations in the nations and regions		
England	274	256
Northern Ireland	46	48
Scotland	106	113
Wales	50	52
	476	469
Cost of radio originations in the nations and regions		
England – local radio	121	121
Northern Ireland	14	12
Scotland	25	25
Wales	22	21
	182	179
Other programme costs incurred outside London	57	56
Other costs, including transmission	116	95
Total spend in the nations and regions	831	799
	2003/2004 £m	2002/2003 £m
Included in television originations is network spend of	277	272
Included in radio originations is network spend of	45	43

Table 17: BBC distribution costs

	2003/2004 £m	2002/2003 £m
Analogue	75	73
Digital	77	69
Total distribution costs	152	142

Table 18: Creative spend outside the BBC

	2003/2004 £m	2002/2003 £m
Independent programme productions transmitted	323	323
External programme facilities and resources	252	270
Acquired programmes transmitted	90	103
Artists, contributors and copyright	290	284
Performing groups	27	25
	982	1,005

Table 19: BBC News 24 costs

Note 2b (page 109) sets out the cost of BBC services and channels. Certain categories of expenditure, including newsgathering are not allocated to individual services and channels. Had part of this expenditure been allocated to BBC News 24, its costs would have been as follows:

	2003/2004 £m	2002/2003 £m
Total production costs*	23.5	23.8
Newsgathering allocation**	19.7	18.8
Central costs allocation	7.2	7.5

* Total cost as set out in Note 2b

** Included in newsgathering allocation is £3.4million of regional spend (2002/2003 £3.0million)

Note: 1,014 hours of BBC News 24 programming were shown on BBC One and 196 hours on BBC Two (2002/2003 1,146 hours on BBC One and 156 hours on BBC Two).

Getting in touch with the BBC

BBC Information

If you have a question or comment about BBC programmes or services, you can phone BBC Information on 08700 100 222* 24 hours a day, seven days a week.

Write to:
BBC Information
PO Box 1922
Glasgow G2 3WT
Phone: 08700 100 222*
Textphone: 08700 100 212
Fax: 0141 307 5770
Email: info@bbc.co.uk
Website: bbc.co.uk/info

For information about how to receive the BBC's digital services
Phone: 08700 101 010*
Website: bbc.co.uk/digital

For general television and radio reception advice

Write to:
BBC Reception Advice
BBC Television Centre
London W12 7RJ
Phone: 08700 100 123*
Textphone: 08700 100 212
Website: bbc.co.uk/reception

To share your views on our television programmes

Write to:
Points of View
BBC Birmingham
Birmingham B5 7QQ
Phone/fax: 0121 472 7988
(operational when programme is on air)
Email: pov@bbc.co.uk
Website: bbc.co.uk/pov

To share your views on our radio programmes

Write to:
Feedback
BBC
PO Box 2100
London W1A 1QT
Phone: 08700 100 400*
(7.30am–12midnight daily)
Fax: 020 7436 2800
Email: feedback@bbc.co.uk
Website: bbc.co.uk/radio4/feedback

Programme complaints

If you think a BBC television or radio programme has fallen below the BBC's editorial standards, you can write to:

Programme Complaints
BBC Information
PO Box 1922
Glasgow G2 3WT

Or you can contact the Office of Communications (Ofcom), an independent regulatory body, one of whose responsibilities is to consider complaints about standards, fairness and privacy in broadcasting.

Write to:
Ofcom Contact Centre
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Phone: 0845 456 3000/020 7981 3040
Fax: 0845 456 3333/020 7981 3333
Email: contact@ofcom.org.uk
Website: www.ofcom.org.uk

BBC Broadcasting and Advisory Councils

The National Broadcasting Councils in Scotland, Wales and Northern Ireland and the English Regional and Local Advisory Councils assist BBC Governors in their overview of the BBC. You can write to them with your views through:

The Secretary
BBC Broadcasting Council
for Scotland
Room 3152
BBC Broadcasting House
Queen Margaret Drive
Glasgow G12 8DG

The Secretary
BBC Broadcasting Council for Wales
BBC Broadcasting House
Llandaff
Cardiff CF5 2YQ

The Secretary
BBC Broadcasting Council
for Northern Ireland
BBC Broadcasting House
Ormeau Avenue
Belfast BT2 8HQ

The Secretary
BBC English Regions
BBC Birmingham
The Mailbox
Birmingham B1 1RF

The Central Religious Advisory Committee (CRAC) advises the BBC on religious broadcasting policy and programmes. You can write to CRAC with your views through:

Head of Performance
and Accountability
BBC
MC3 D3
Media Centre
201 Wood Lane
London W12 7TQ

Free tickets

For free tickets to BBC radio and television shows:

Write to:
BBC Studio Audiences
PO Box 3000
BBC Television Centre
London W12 7RJ
Phone: 020 8576 1227 (9am–6pm
Monday–Friday)
Textphone: 020 8225 8090
Fax: 020 8576 8802
Email: tv.ticket.unit@bbc.co.uk or
radio.ticket.unit@bbc.co.uk
Website: bbc.co.uk/tickets

Visiting the BBC

The BBC runs tours of BBC Television Centre in London. For more information and to book: Phone: 0870 603 0304*
Textphone: 0870 903 0304
Email: bbctours@bbc.co.uk
Website: bbc.co.uk/tours

BBC Scotland, BBC Wales, BBC Northern Ireland and English regional centres and local radio stations will arrange tours for media students, professional organisations and other groups. Please contact your local centre for details.

BBC products

You can buy DVDs, videos, books, toys and other merchandise for some BBC programmes. For copyright reasons, getting tapes of other BBC programmes is not generally possible.

For products and sales information
Phone: 0870 600 7080*

You can also buy BBC products from BBC Shops located around the country.
Write to:
BBC Shop
PO Box 308
Sittingbourne
Kent ME9 8LW
Phone: 08700 777 001*
(8.30am–6pm Monday–Friday)
Website: www.bbshop.com

Contributing to programmes

The BBC has a Diversity Database of potential contributors to help BBC programme makers find new faces and voices, and to better reflect the full diversity of UK society. We are particularly interested in hearing from people with disabilities, ethnic minorities and older people. Contact us if you are interested in joining as a potential contributor.

Write to:
Diversity Database Project
Administrator
BBC
MC2 D2
Media Centre
201 Wood Lane
London W12 7TQ
Phone: 020 8008 4287
Fax: 020 8008 4282
Email: diversitydatabase@bbc.co.uk
Website: bbc.co.uk/info/policies

To find out about getting work experience at the BBC

Write to:
BBC Work Experience
MC2 C6
Media Centre
201 Wood Lane
London W12 7TQ
Email: work.experience@bbc.co.uk
Website: bbc.co.uk/workexperience

To find out about job vacancies at the BBC

Write to:
BBC Recruitment
PO Box 48305
London W12 6YE
Phone: 0870 333 1330*
Textphone: 020 8008 4300
Fax: 020 8008 4001
Email: recruitment@bbc.co.uk
Website: bbc.co.uk/jobs

For queries about your television licence

General enquiries or direct debit payments:
Phone: 0870 240 3294*
Fax: 0870 240 1187
Email: tvlicsa@capita.co.uk
Website: www.tvlicensing.co.uk

* Calls may be monitored or recorded for training purposes

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We also publish the *BBC Statements of Programme Policy* which sets out the BBC's commitments and plans for the year ahead. This is also available in public libraries throughout the UK and on the BBC's website at bbc.co.uk/info. It is available in Welsh, in an audio version, and in Braille.

Copies of any of these publications may be obtained by calling 08703 665 466* or contacting BBC Information.

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Sheffield studio), 69 (*Andy Pandy
Roadshow*), 71 (Broadcast Centre),
73 (Upfront course), 75 (BBC
Governors' event), 79 (Learn For Real)

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News*), 45 (*PM*), 75 (*Panorama*),
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57 (BBC Monitoring)

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Page 53 (*Let's Talk, Would You Pass
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Broadcasting House
London W1A 1AA
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BBC Annual Report and Accounts 2003/2004

Auditors' supplementary notes to online accounts

1) The maintenance and integrity of the BBC website is the responsibility of the Governors and Executive Committee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

Chartered Accountants

Registered Auditors

London

17 June 2004