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Annual Report and Accounts

2004/2005

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

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Chairman's statement



As we approach the end of the current BBC Royal Charter at the end of 2006, the plans to replace it are becoming clearer. The Government's Green Paper set out the new framework and paved the way for a White Paper later this year. We put forward our own vision for the future of the BBC in *Building public value*, and we have also published a comprehensive response to the Green Paper.

On behalf of the licence fee payers the Board is pleased by the decision to grant a new Charter for a further ten years and to maintain funding via a licence fee – although we have made clear our opposition to any suggestion that the licence fee might be fragmented to fund other broadcasters. At a time when Government – and we as Governors – are seeking greater accountability to licence fee payers, 'top slicing' of the fee runs counter to this objective.

Our task now is to ensure a smooth transition to the new governance system announced in the Green Paper, in which the Board of Governors will be replaced by a BBC Trust.

As BBC Governors, we had made it clear that radical change to the governance of the BBC was both necessary and overdue. In particular we wanted much clearer separation between Governors and management. We set up a Governance Unit to provide us with analysis and advice independent from management (for more details, see *How the BBC is run* on page 7). We also approved big changes to the BBC's accountability mechanisms – an area where we plan further reform.

In an ideal world we would have liked to have been given the time to demonstrate that our own reforms were effective. But time was against us. We were, however,

clear about the principles underlying any new governance arrangements: independence; rigorous stewardship of public money; accountability to licence fee payers; clarity of roles; and practicality. The Government's plans for a BBC Trust meet these five principles, and we accept them.

The key issue ahead is how to make the BBC more responsive and accountable to the licence fee payers who own and fund it. Changes already in place include a Governors' website, and an annual general meeting to discuss the issues raised in this report with licence fee payers. This is only the beginning. Future plans include regular 'question times' with Governors, regular research tracking of public attitudes to the BBC, and more consultation with the Broadcasting Councils and the English National Forum on our strategic plans.

We have also worked hard to ensure, on behalf of licence fee payers, that the BBC lives up to the highest standards, both editorially and fiscally. Ensuring the BBC delivers value for money is always a priority and we asked the accountants Ernst & Young to review the BBC's system of financial controls. As a result some areas were strengthened. Our decision to ask an independent panel of experts to examine the impartiality of BBC coverage of the European Union resulted in changes to the organisation and training of BBC journalists. Impartiality is the cornerstone of the BBC's editorial mission and we will conduct further reviews of this crucial area. We are pleased that the Director-General is responding to audience expectations with his new Creative Future programme strategy review to address a wide range of editorial issues. Our own research with audiences has highlighted concerns about quality issues and we have taken account of this in setting our objectives for management in the coming year

(see Governors' objectives for 2005/2006, page 19). This work is already bearing fruit in new investment in comedy and drama and in moves to reduce the volume of repeats in peak time on BBC One.

The responsibility of representing licence fee payers' interests also includes making clear when we believe the BBC is getting things right. The BBC remains one of the most successful creative institutions in the world and it is a matter of great pride for every Governor that we are able to contribute to its creative success in an increasingly competitive world.

Given the inevitable distractions of this period of intense scrutiny, I'm happy to report that the Corporation has continued making many fine programmes. It is unfair to pick out specific programmes but the coverage of the Asian tsunami and of the Olympics on radio, television and online showed the scope and ambition the BBC can bring to bear on the reporting of major events.

The most contentious programme the BBC broadcast was undoubtedly *Jerry Springer – the Opera*. BBC Governors are not, and never should be, pre-transmission censors. Before broadcast, I sought assurances from the Director-General that he had satisfied himself that the programme complied with all the relevant codes of practice – I was given those assurances. After broadcast, the Governors' Programmes Complaints Committee dealt with the complaints. The Committee was not unanimous – but the clear majority agreed that, despite the offence caused to some viewers, the arguments for broadcast were sound. Some say we should have taken more note of the exceptionally large number of complaints received, but in my view the number of complaints is not the central issue. If it were, it would mean that a single complaint

would carry little or no weight. As guardians of the public interest we must be as sensitive to the concerns raised by a single complainant as to those raised by well-organised campaigns.

The Freedom of Information (FOI) Act came into force in January and the Governors are fully committed to meeting both the spirit and the letter of the Act. We have made it clear that we want to publish the maximum amount of information without, as the Act says, "prejudicing the effective conduct of public affairs".

The Board has approved important changes to the governance of the BBC's commercial activities, to bring it into line with the recommendations of the Combined Code on good corporate governance. A new board structure will be created for BBC Worldwide. This will separate the role of chief executive and chairman. An independent non-executive chairman and non-executive directors will be appointed.

This has been a period of great change for the BBC. I would like to take this opportunity to thank those Governors who have helped steer the organisation through a difficult period and have now concluded their work for the BBC: Richard Ryder, Pauline Neville-Jones and Robert Smith all performed valuable service. I would like to welcome aboard Jeremy Peat, the new National Governor for Scotland, Richard Tait and Anthony Salz, the new Vice-Chairman.

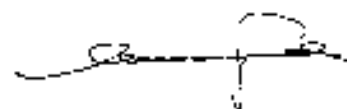
We appointed Mark Thompson as Director-General in June 2004 following an open and competitive process.

The year ahead brings further change. The Director-General's plans to reshape the BBC will create greater efficiency

and therefore more money for content. We approved these plans because we concluded, after rigorous analysis and debate, that they are in licence fee payers' interests. We will ensure that during this difficult time staff are treated sensitively and fairly.

This has also been a year of great sadness. Two BBC journalists were shot dead while on duty. Simon Cumbers was killed in Saudi Arabia. Kate Peyton was killed in Somalia. Neither was known to the public – Simon a cameraman, Kate a producer – but they were widely respected among their peers and their shocking deaths left a profound mark on their colleagues in BBC News. They remind us that the professional commitment of BBC journalists to reflect the world back to the UK can sometimes carry a great human cost.

BBC listeners lost John Peel too. John was, simply, a truly original broadcaster. Whether you knew him as the drolly passionate Radio 1 DJ always opening your ears to new sounds, or as the tactful interviewer on Radio 4's *Home Truths* gently revealing the extraordinary lives of ordinary people, or simply as the mildly exasperated contributor to BBC Television's *Grumpy Old Men*, you knew you were in the company of a man of honesty, integrity and humanity. His audiences felt he respected them, and as the thousands of tributes sent to the BBC after his death showed, they loved him for it.



Michael Grade
Chairman
16 June 2005

Director-General's report



"From the heart – may it go to the heart!" As I write this, we are celebrating Beethoven week at the BBC. Radio 3 is playing every work he composed. We are watching his life unfold on BBC Two in all its tragedy and heroism. There are special features on BBC Four, BBCi and the web. Beethoven's spirit and his hope for art and humanity seem alive across our networks. So it seems fitting to begin this brief review of the past year with the words he wrote over the Kyrie of the *Missa Solemnis*.

Our best programmes are the ones that come from the heart. Those are the ones which our audiences remember and treasure, whether it is *Blackpool* (BBC One), *Little Britain* (BBC Three and BBC One), *Auschwitz* (BBC Two) or *The Odyssey* (Radio 4). Conviction and integrity are the qualities the public look for in our broadcasters too, demonstrated by the team who made *The Ten O'Clock News* the Bafta news programme of the year, and the brilliant presenters and commentators who turned Euro 2004 and the Athens Olympics into such landmarks. They look for warmth and wit as well, welcoming Johnnie Walker back to Radio 2, laughing along with *Colin & Edith* on Radio 1 or joining in the conversation with Jonathan Ross on Radio 2 and BBC One.

Behind the scenes it was a year of transition and change at the BBC. Drama, comedy and entertainment on BBC One all continued to grow creatively. *Strictly Dance Fever* and *Dr Who* conspired to make Saturday nights a must-see, while *Supervolcano* was just one of the great factual programmes on the channel. BBC Two rediscovered its ambition with successes ranging from *The Long Firm* to *Who Do You Think You Are?* and offered two brilliant examples of how to join reality

television and format documentary to generate real public value – *The Apprentice* and *Dragons' Den*. Producers from around the UK played a key role in this creative growth, with an increasingly exciting mix of programming coming from Scotland, Wales and Northern Ireland.

But it was also the year when our digital television channels came of age. Our children's channels and BBC Four found new audiences and new admirers, but BBC Three's progress stands out. The public now rate it as the best channel in the UK for new comedy: like Radio 4, it has become a creative laboratory for developing the talent and ideas that can create hits for BBC One and BBC Two. This was also the year when *Casanova* and *Bodies* made audiences notice stand-out drama on BBC Three.

BBC Radio, whether aimed at local audiences, listeners in Scotland, Wales or Northern Ireland, or the whole UK continued to set standards and break records. Radio 1 turned a corner with a new schedule and a new creative confidence from Chris Moyles at breakfast to Zane Lowe and beyond. The *Beat Bullying* campaign was just one of many ways in which Radio 1 stretched itself and its audience beyond music. New voices – from Mark Radcliffe to Dermot O'Leary to Lulu – joined the UK's most successful line-up of presenters on Radio 2, and there were new ideas too, like the *Going Digital* month. In some remote parts of the world Terry Wogan is worshipped as a god: at home he had to be content with a record audience of over 8 million listeners.

Radio 3's range of music continued to broaden in what was also an exceptionally strong year for drama and documentary.

And from the adaptation of *In Search of Lost Time* to *In Our Time* to an arresting set of *Reith Lectures* by Wole Soyinka, Radio 4 continued to deepen its bond with its uniquely demanding – and uniquely committed – audience. As in television, our new digital radio networks saw their profile and their listeners increase.

The year began in the aftermath of the Gilligan-Kelly-Hutton affair. Some doubted whether BBC journalism would ever regain its confidence. In the event, our news teams covered a crowded and challenging year with authority and flair. The deaths of Simon Cumbers and Kate Peyton and the severe wounding of Frank Gardner reminded both us and our audiences of the enormous risks our journalists have to take to bring us the news. But around the globe – from Iraq to the Asian tsunami to Darfur – the BBC was there not just to report but to explain events to the public here and around the world. Our continuous news services, Radio Five Live and BBC News 24, both had strong years as did our news website and our global news services. Investigative journalism was strong especially on BBC One and Radio 4, and there were moments of real originality too: Adam Curtis's series *The Power of Nightmares* on BBC Two and *China Week* across our services, including a remarkable *Question Time* from Shanghai.

These achievements are recognised in the BBC Governors' very fair assessment of our performance in this report. But the year will probably be most remembered as the turning-point when the digital revolution became unstoppable. Freeview grew by more than 50%. More households have digital television than do not. A majority of homes also have the internet. Mobile phones in the UK now exceed the population.

Within this expanding universe, we saw spectacular growth in the BBC's digital services. Our website grew to reach over half of all UK internet users, with nearly 2.5 billion page impressions in March. Use of our Radio Player has grown to more than 9 million requests to listen on demand each month. Nearly 9 million people used the red button to enjoy the richness and range of sports and analysis available during the Athens Olympics. Everywhere our digital services seemed to grow in depth and quality. Audiences no longer regard them as marginal or experimental but as part of the core offering they expect from the BBC week in, week out.

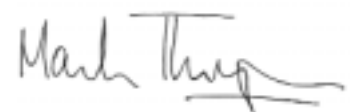
The digital revolution poses enormous but exciting challenges for us as an organisation. We set out our vision for the BBC's place in the digital future in *Building public value*. In early 2004 many raised doubts about whether Britain would need a strong and independent BBC after the present charter period. By year's end, the clarity of the BBC's vision and our manifest willingness to grapple with the challenges of reform and change helped create the climate for a Green Paper which sees the BBC at the heart of British broadcasting until 2016 – not preserved in aspic for old time's sake but as a leader in the building of digital Britain.

The charter debate will continue through 2005 and 2006. But in a sense the bigger task is to turn the promises of *Building public value* into reality. We want to create a BBC ready for the fully digital world. A BBC which puts as much of the licence fee as possible into services for the public and as little as possible into other costs.

A BBC which is more open to the outside world – to our audiences, to independent programme makers, to all our other

partners. A BBC which is more agile and ready to adapt to the amazing pace of technological and audience change. That means difficult and sometimes painful choices, but we know we will succeed if we put creativity first.

The digital future will require new technologies, new skills and new strategies. But it will also need those aspirations and values which the BBC has nurtured since its early days. As the best programmes of the past year show, real success for the BBC is never just about the head. It's about the heart as well.



Mark Thompson
Director-General
16 June 2005

How the BBC is run

Licence fee payers

Licence fee payers are the bedrock of the BBC. Including concessions, there are 24.7 million and their licence fees provide the vast majority of the money the BBC spends. The BBC regularly consults licence fee 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.

The Royal Charter

The BBC is constitutionally established by a Royal Charter. An accompanying Agreement recognises its editorial independence and sets out its public obligations in detail. The current Royal Charter and Agreement date from 1996 and run to 2006. The Government has announced plans to renew the Charter for a further ten years after that and to continue licence fee funding for that period.

BBC Governors

The Government has announced plans to change the system of BBC governance under the new Charter. The Board of Governors will be replaced by a new body called the BBC Trust. BBC Trustees will be responsible for embodying the public interest, reflecting the views of licence fee payers, and safeguarding the independence

of the BBC. They will also be responsible for ensuring delivery of the public purposes of the BBC, defining the performance criteria and measures against which the delivery of those objectives will be judged, and holding the Executive Board to account for its performance.

Under the current Charter, there are 12 BBC Governors, appointed by the Queen on advice from ministers in accordance with Nolan principles that public appointments should be made on merit. All are part-time. They bring a broad range of experience and expertise to the BBC Board.

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 gives the Governors an independent review of the range and quality of the output of BBC World Service and BBC World.

The separation of Governors from management implemented in recent years, is now underpinned by the Governance Unit (see box).

Ofcom, the communications regulator, regulates some aspects of the BBC. For example, the BBC follows Ofcom's standards and fairness codes (except for due accuracy and impartiality which remain the sole concern of the Governors). 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.

Executive Board

The Director-General is the BBC's chief executive and editor-in-chief, in charge of all day-to-day operations. He is appointed by the Board of Governors.

The day-to-day management of the BBC is handled by the Executive Board and three sub-boards – the Creative Board, the Journalism Board and the Commercial Board. The Executive Board is chaired by the Director-General, to whom all the divisional directors report. The Executive Board answers to the Board of Governors.

The performance of each division is assessed by the Director-General and reported to the Board of Governors. The BBC performance year runs from April, with annual objectives agreed in March. Performance against these is reported by the Governors in the following year's *Annual Report* in July.

Under the Government's plans for the new BBC Charter, the Executive Board will be reconstituted and strengthened by the appointment of a significant minority of non-executive directors.

BBC

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

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

In addition, there are five divisions providing professional support:

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

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

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

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

Television, radio, online

Across the UK, the BBC operates eight television channels and ten radio networks, 46 local and national radio stations, and the 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. BBC Worldwide also operates commercial television channels in international markets including six BBC branded channels. 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.

BBC Governance Unit

The Board of Governors is supported in its more independent role by a Governance Unit. Its director is appointed by the Board of Governors and the Unit's staff are outside the BBC management chain and report to the Board. This ensures they can give independent and objective advice drawing on expert external assistance where needed. The Governance Unit underpins the clear separation between the responsibilities of the Governors and those of the Executive Board.

The Unit is structured to provide support for the Governors' enhanced roles in three key areas:

- Performance (setting and reviewing objectives and statements of programme policy, and developing service licences and the public value test)
- Value for money/compliance (financial, commercial and economic issues)
- Accountability (Governor accountability work; support for Broadcasting Councils and English National Forum; complaints)

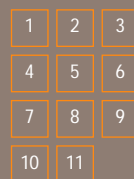
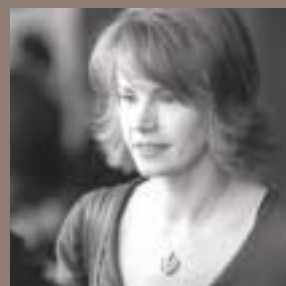
In addition the Unit calls on external advisers for specific projects; for example the market research company MORI carried out focus-group research for the European Union impartiality study; PA Consulting and the accountants Ernst & Young have provided financial consulting services; and past and present programme makers gave expert insight during the television current affairs review.

The Governance Unit formally came into being on 10 January 2005. It has a staff of 33 of which 14 posts were newly created in addition to 19 transferred from the secretariat that previously supported both the Governors and the Director-General and his executive team. In 2004/2005, the total cost of the Governance Unit (including governance and other central costs associated with its predecessor department, Governance & Accountability) was £8.4million. This included the cost of the national and regional advisory councils (£1.2million).

The Governance Unit's budget for 2005/2006 has been set at a similar level. Costs for 2005/2006 will be reported in next year's *Annual Report and Accounts*.

Board of Governors

The BBC Governors, led by the Chairman of the BBC, are the trustees of the public interest. They hold management to account and ensure the BBC's independence. They are appointed by the Queen on advice from ministers in accordance with Nolan principles that public appointments are made on merit. The Governors are accountable to licence fee payers and Parliament. Under the planned new BBC Charter, in 2007 the Governors will be replaced by a new body called the BBC Trust.



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 Anthony Salz Vice-Chairman

Vice-Chairman since August 2004. Chairman of the Fair Trading Compliance Committee; Chairman of the Remuneration Committee and member of the Finance and General Purposes Committee. Co-senior partner of the law firm Freshfields Bruckhaus Deringer, specialising in corporate law and specifically in cross-border M&A and joint ventures. Chairman of the Tate Gallery's Corporate Advisory Group from 1997 to 2002 (continuing as a member of that group) and a trustee of the Tate Foundation. Trustee of the Eden Project; a member of Business in the Community's Business Action on Homelessness Executive Forum and its Education Leadership Team. A director of Habitat for Humanity GB. Trustee of the Paul Hamlyn Foundation. Born in 1950.

3 Deborah Bull CBE

BBC Governor since August 2003. Member of the Governors' Programme Complaints Committee and the Remuneration Committee. Principal Dancer, Royal Ballet from 1991 to 2001. Director, Artists' Development Initiative, Royal Opera House from 1999 to 2001. Creative Director, ROH2 since 2002. Member, Arts Council England since 1998. 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 Audit Committee and 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 (appointed for a second four-year term in August 2004). Chairman of the Finance and General Purposes Committee and member of the Audit Committee. Deputy Chairman of the BBC Pension Scheme Trustees. Chairman of the M J Gleeson Group plc. Chairman of Major Contractors Group from 2003-2005. 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 Fair Trading Compliance Committee, the Governors' Programme Complaints Committee and the Councils and Advisory Bodies Committee. Historian and broadcaster. Professor of Welsh History at the University of Wales, Bangor, specialising in the modern and contemporary history of society and politics in Wales. From 1998, Pro-Vice Chancellor of the University and in August 2004 became Vice-Chancellor. 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 Governors' Programme Complaints Committee, the Fair Trading Compliance Committee and the Councils and Advisory Bodies Committee. Chairman of the trustees of BBC Children in Need. Specialist in communications 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. Born in 1940.

8 Jeremy Peat

The BBC's National Governor for Scotland since January 2005. Chairman of the Audit Committee, member of the Finance and General Purposes Committee and of the Councils and Advisory Bodies Committee. Chairman of the BBC Pension Trustees. From 1993 until March 2005 Group Chief Economist at the Royal Bank of Scotland. Former economic adviser to the Treasury and the Scottish Office. Visiting Professor Edinburgh University School of Management; Honorary Professor Heriot Watt University; member, CBI Economic Affairs Committee; panel member of the Competition Commission;

Vice-Chairman Scottish Higher Education Funding Council. Appointed Director of the Hume Institute in January 2005, taking up this post from July. Born in 1945.

9 Angela Sarkis CBE

BBC Governor since October 2002. Member of the Governors' Programme Complaints Committee. Independent consultant; non-executive director on the Correctional Services Board at the Home Office; member of the Interim House of Lords Appointments Commission, and adviser to the Department for Education and Skills on teacher workload management. Chief Executive, Church Urban Fund from 1996 to January 2002. Chairman, NCVO Diversity Project and, until October 2004, Vice-President of the African Caribbean Evangelical Alliance. A former trustee of BBC Children in Need. Born in 1955.

10 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 and the Councils and Advisory Bodies Committee. Senior Lecturer at the University of Birmingham's Westhill College. Trustee of the National Gallery and Chairman of the Heart of Birmingham Primary Care Trust. Previous positions include Deputy Chairman of the Commission for Racial Equality and member of the Independent Broadcasting Authority and the Radio Authority. Born in 1950.

11 Richard Tait CBE

BBC Governor since August 2004. Chairman of the Governors' Programme Complaints Committee. Professor of Journalism and Director of the Centre for Journalism Studies, Cardiff University. Editor-in-Chief of ITN from 1995 to 2002; Editor, Channel 4 News 1987 to 1995. At the BBC, edited *Newsnight*, *The Money Programme* and the 1987 General Election Results Programme. Vice-Chairman, International Press Institute; Fellow, Society of Editors and the Royal Television Society. Born in 1947.

The vacancy of International Governor will be filled by Sir Andrew Burns KCMG in July 2005.

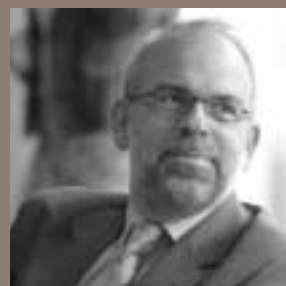
Rt Hon The Lord Ryder OBE served as Vice-Chairman from January 2002 and Acting Chairman from January to May 2004. He resigned from the Board in June 2004.

Dame Pauline Neville-Jones DCMG served as International Governor from January 1998. She resigned from the Board in December 2004.

Sir Robert Smith served as the BBC's National Governor for Scotland from August 1999. He resigned from the Board in December 2004.

Executive Board

The Executive Board manages the day-to-day business of the BBC. It is chaired by the Director-General. The Executive Board answers to the Board of Governors which appoints the Director-General. Since June 2004 the Executive Board has been supported by three sub-boards: the Creative Board, the Journalism Board and the Commercial Board. Under the Government's plans for the new BBC Charter that takes effect in January 2007, a significant minority of non-executive directors will be appointed to the Executive Board.



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1 Mark Thompson

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

2 Mark Byford

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

3 John Smith

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

4 Jenny Abramsky CBE

Director of Radio & Music since April 2000. Responsible for BBC Radios 1, 2, 3, 4, Five Live, BBC Asian Network, BBC 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. Previous BBC positions include Director of Continuous News; Director of Radio; Controller of BBC Radio Five Live; Editor, Radio News & Current Affairs, and Editor, *Today*.

5 Jana Bennett OBE

Director of Television since April 2002. Responsible for the BBC's television channels: BBC One, BBC Two, BBC Three and BBC Four; related interactive programming, and 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 the BBC; Head of BBC Science; Editor, *Horizon*, and Senior Producer on *Newsnight* and *Panorama*.

6 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.

7 Caroline Thomson

Director Policy, Strategy, Legal and Distribution since April 2005, having been Acting Director, Strategy and Distribution since the resignation of Carolyn Fairbairn in December 2004, and Director Policy and Legal (formerly Public Policy) since May 2000. Lead Director of the Charter Renewal Task Force since June 2004. Trustee of the BBC Pension Scheme. Former positions include Director of Strategy & Corporate Affairs, BBC World Service; Commissioning Editor, Science and Business at Channel 4, and political assistant to Roy Jenkins.

8 Stephen Dando

Director, 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, Europe HR Director, UDV, and spells with United Distillers, Ferranti International and Austin Rover.

9 Zarin Patel

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

10 Tim Davie

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

Before the creation of the Executive Board in June 2004, day-to-day management of the BBC was the responsibility of the Executive Committee. In addition to those members who transferred to the Executive Board, the Executive Committee included:

Pat Loughrey, Director of Nations & Regions, who joined the Journalism and Creative Boards.

Richard Sambrook, Director of News, who joined the Journalism Board. Subsequently appointed Director of Global News.

Alan Yentob, Director of Drama, Entertainment & CBBC, who took on additional responsibilities as Creative Director and joined the Creative Board.

Peter Salmon, Director of Sport, who joined the Creative Board. He has announced his resignation and leaves the BBC at the end of June 2005.

John Willis, Director of Factual & Learning, who joined the Creative Board.

Rupert Gavin, Chief Executive of BBC Worldwide Limited, who left the BBC in October 2004.

Andy Duncan, Director of Marketing, Communications & Audiences, who sat on the Executive Board until his resignation from the BBC in July 2004.

Carolyn Fairbairn, Director of Strategy & Distribution, who sat on the Executive Board until her resignation from the BBC in December 2004.

Governors' review of objectives

Overview

As Governors we are responsible for ensuring that the BBC operates in the interests of the public. To help us do this, we set clear objectives for management each year and monitor performance against them. These objectives provide a strategic framework for the BBC.

We also have other tools to help us assess performance. Each spring we publish the BBC Statements of Programme Policy outlining plans and priorities for output in the year ahead. We report on performance against these in the following year's *Annual Report*.

Soon we plan to introduce a new performance yardstick: service licences. These will set out the remit, budget, and performance targets for each BBC channel and service. They will give us – and licence fee payers – a new way to test whether or not the BBC is delivering the best possible value and range of services.

In this section we report on performance against our 2004/2005 objectives. Our 2005/2006 objectives are set out on page 19.



Question Time

David Dimbleby bringing the *Question Time* studio audience into the debate. Research shows the public rates the BBC as the best broadcaster for news and current affairs



Rolf on Art – The Big Event

Rolf Harris working on his panel of the giant version of Constable's *Haywain* created in front of the National Gallery by 144 amateur painters

Objective one

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.

We are pleased to report that significant progress has been made. Reforms of editorial processes and complaints handling were implemented decisively by senior management and supported by staff. Research indicates that the public retains a high opinion of the BBC's journalism, and opinion formers are also becoming much more positive. However, there is a declining trend among MPs.

The Hutton Inquiry which reported in January 2004 exposed weaknesses in BBC journalism and set the context for this objective. In *Building public value* the BBC underlined its intention to recapture the public's full trust in BBC journalism. Central to the achievement of this was a promise to implement in full the recommendations of the Neil Report (see page 45 for more information).

The Neil Report advocated improved training and editorial controls. An encouraging example of the successful implementation of these recommendations was an online training course, developed to improve editorial best practice which was completed by more than 10,000 BBC

journalists and factual programme makers this year. Also workshops on issues raised in the Neil Report were attended by more than 8,000 staff.

Another highly visible step forward was the launch of the BBC's new system of complaints handling which is now accessible via the home page of bbc.co.uk as well as by telephone and post. Work has also been done to improve the way programme makers handle audience complaints.

We continued our series of reviews of BBC impartiality with an investigation of coverage of the European Union (see case study on EU impartiality on page 14).

The public continues to believe that the BBC is by far the best broadcaster for news and current affairs. 77% rate the BBC as independent and impartial; 80% trust BBC news; and 82% consider it accurate. This year, there has been a marked improvement among opinion formers who are regularly surveyed to assess their judgement on the BBC's independence and impartiality and their overall level of trust in the BBC. Their view is now similar to that of the general public, with more than 80% saying the BBC is independent and impartial.

We are concerned, however, about declining opinion trends among MPs. More than 40% of Labour MPs and two-thirds of Conservative MPs do not believe that the BBC is free from influence and bias. While this may be a symptom of a wider issue of the relations between politicians and the media, further research is being undertaken by the BBC to understand the reasons underlying this particular trend.

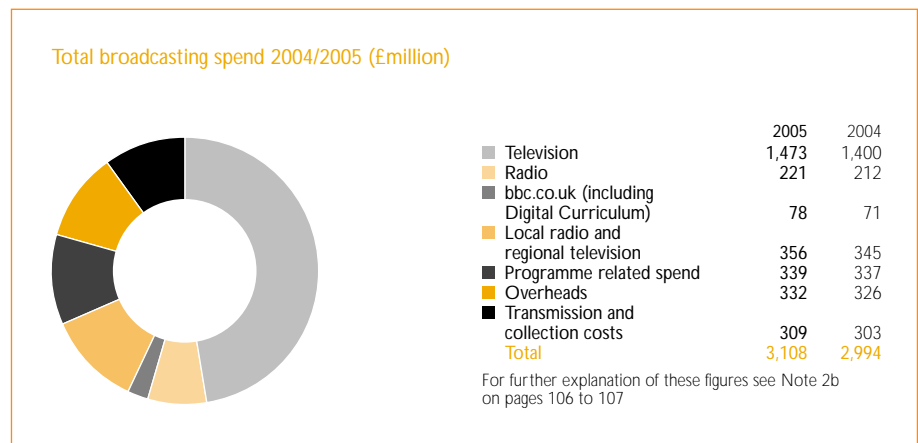
Objective two

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.

Progress towards this objective was affected by the Director-General's reviews, which the Board of Governors approved. Willingness to collaborate across the BBC has been adversely affected by fears about jobs being cut or outsourced. Progress, however, has continued in the areas of creativity and audience focus.

The context for this objective changed radically during the year as the new Director-General launched a series of reviews aimed at reshaping the BBC to prepare it for the future. Inevitably, staff fears about job reductions and outsourcing had a negative impact on the drive towards greater collaboration. According to the annual BBC staff survey, less than half of BBC staff now believe that their team, division, or the BBC as a whole, behaves as part of 'One BBC'. Senior management will have to work hard to rebuild a sense of unity across the BBC.



EU impartiality

During 2004 we commissioned an independent panel, chaired by Lord Wilson of Dinton, to "assess the impartiality of BBC coverage of the EU with particular regard to the debate about Britain's place in Europe, the activities of EU institutions, and accessibility; and to make recommendations for improvement where necessary." This was the first such review to be conducted outside the BBC management chain, and the first to be published in full.

The study included research commissioned from MORI, content analysis carried out by an independent consultant, written submissions from interested parties and interviews with witnesses by the panel. The panel's report was presented to the Governors in January 2005.

Its main findings were:

- The BBC is not deliberately biased for or against the EU
- However, there is a widespread perception that it suffers from cultural and unintentional bias
- BBC coverage of EU news needs to be improved and made more demonstrably impartial
- The BBC aims to support informed democracy by providing information that helps citizens make sense of the world, but it is not succeeding in providing basic accessible information on Europe

The panel made a number of recommendations including appointing an EU editor; moving

reporting of the EU away from the prism of Westminster politics; exercising more care in the selection of interviewees; improving monitoring; and improving training.

We passed the report to management, who responded by proposing wide-ranging changes, which we approved. We published the management response in May.

Management actions include:

- Appointing a Europe editor and Europe Institutions reporter; redefining roles in the BBC bureaux in Brussels and Paris; and implementing an improved planning system
- Strengthening the BBC database of contacts to improve selection of interviewees
- Strengthening monitoring systems
- Improving training

We have welcomed management's comprehensive response to the report, which recognised the BBC's commitment to accuracy and impartiality and demonstrated a commitment to achieving it.

BBC News will report to us during the coming year on progress in implementing the agreed actions and we will look for improvement in audience perceptions of BBC reporting of the EU as a result.

The full report and evidence, plus the responses from Governors and management, can be found on bbc.governors.co.uk.

We were, however, pleased to note that nearly two-thirds of staff believe that "creativity is in the lifeblood of the organisation". New techniques to stimulate creativity, and new ways of working, are now widely used by programme makers in the BBC and they are being used to support the Creative Future programme strategy review.

BBC programme makers and independent producers now have access to a comprehensive online resource of audience research and surveys. There has been a positive response to this and three out of four staff believe that audiences are at the heart of what their team does – an encouraging indicator of progress in this area.

Staff also believe that the quality of leadership is improving at the BBC. More than 2,000 managers have now taken part in the BBC Leadership Programme. The programme is currently being revised to ensure it stays relevant and management will carry out a full evaluation later this year.

The BBC continues to monitor the diversity of its staff and, in 2004, had more than 10% of staff with ethnic minority backgrounds and 2.7% of staff with disabilities. A new Diversity Strategy suggested that the BBC should move on from being target-driven, to being more culturally supportive of staff diversity, and using diversity to connect better to diverse audiences.

The objectives of Making it Happen are being embraced by the new change programme.



Governor's consultation

BBC Governor Dermot Gleeson (centre) with licence fee payers in Guildford – one of a series of workshops around the country to discuss audience concerns



BBC 6 Music

Nicky Wire and James Dean Bradfield of Manic Street Preachers. The band took over BBC 6 Music for a week in December



Objective three

Charter Review

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

The BBC has contributed to the debate on Charter Review over the past year through engagement with the formal process and through its own consultations with licence fee payers across the UK. We welcome the Green Paper's emphasis on the need to extend accountability to licence fee payers. The BBC has a growing responsibility to listen to licence fee payers and demonstrate that it is taking account of their views in its decision making.

In June 2004 we launched *Building public value*, which set out the BBC's own vision for its future, and played a central role in initiating the public debate on Charter Review. Engaging licence fee payers across the UK in this debate has been a priority for the BBC. We have been encouraged to note that 140,000 copies of *Building public value* have been downloaded from the BBC website – more than any other BBC policy document.

The BBC has also contributed to the Government's formal consultation process and has actively encouraged licence fee payers to participate too. Governors and management attended all 13 of the seminars held by Lord Burns and his independent panel on behalf of the Government, and supported the process with background briefing material. bbc.co.uk webcast these seminars, making the discussions open to a wider audience. The website also directed users to the Government's own Charter Review site.

We welcome the Government's Green Paper published in March, including the proposal for a ten-year Charter, the continuation of the licence fee, and the proposal to replace the Governors by a Trust. But we recognise there is more to do. Our research shows that we need to increase public understanding of the relationship between the licence fee and the BBC. We also know that audiences want to engage with the BBC – the organisation as a whole must listen to a wider range of licence fee payers and ensure it takes account of what it hears in its decision making. To increase our own accountability, we have launched a Governors' website (bbcgovernors.co.uk), which enables the public to interact with us online and we will, this year, hold an annual general meeting following publication of this report.

Governors' accountability work has identified audience priorities and we have ensured these are reflected in 2005/2006 objectives. The new complaints system is also encouraging audience feedback. Management has undertaken a programme of major audience research projects, seeking the public's views on issues including the BBC's output, new BBC services and the licence fee.

Objective four

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.

This year was a landmark year in the UK's digital transition, with digital television penetration passing 62% of households, the internet in 50% of homes, and a commitment from the Government to digital television switchover by 2012. The BBC has played a key role in driving digital take-up, efforts which must continue in order to complete the transition to a fully digital UK.

Last year we identified extending the availability of the BBC's digital services as a priority for 2004/2005. Freeview continues to be a success with total sales now over 6.6 million. With potential coverage of digital terrestrial now at its maximum (for technical reasons) of 73% of the UK population until digital switchover, the BBC's efforts this year have been directed at investigating the viability of alternative free-to-air platforms, including satellite, with a view to launch in 2005/2006.

Governors' review of objectives



North and South

Daniela Denby-Ashe (right) on the set of the BBC One adaptation of Mrs Gaskell's *North and South*. Audience demand for high quality new drama remains strong



Reporting the Asian tsunami

Jon Sopel in Sri Lanka for BBC News 24. The Boxing Day tsunami triggered one of the largest ever newsgathering operations by the BBC

Digital Audio Broadcasting (DAB) coverage has continued to increase and, while take up of DAB lags behind digital television, 1.5 million receivers have now been sold. Listening to the BBC's digital radio services via the internet and digital television continues to grow, enabling total weekly reach of the five digital radio networks to reach 2 million during the year.

We welcome the conclusion of Tim Gardam's independent review that the BBC's digital radio services have been a key driver of DAB take-up. Thirty-two of the BBC's 46 local and Nations' stations are now broadcast in digital, and we await Ofcom making further multiplex capacity available to complete the digital portfolio. All 46 radio stations are available online.

There is less evidence that BBC Three and BBC Four have been instrumental in driving the take up of digital television, although they have established strong creative track records. In our response to Professor Barwise's independent review of the BBC's digital television services, we agreed that the BBC needed to increase audiences for BBC Three and BBC Four, but emphasised that this should not risk their distinctiveness. We have approved a measured increase to BBC Four's budget in response to the review.

Following Philip Graf's independent review of bbc.co.uk, we set a new remit for the service emphasising distinctive and original content. Reach of bbc.co.uk has continued to increase, and averaged 46% of the UK internet audience during 2004/2005. The strong take-up of broadband is increasing access to our on-demand services, offering additional value for money. The BBC Radio Player is already established and increasingly popular; during 2005/2006 the iMP (interactive Media Player), a new service delivering television-based content, will be trialled. The BBC's investment in interactive television services has helped to promote the take-up of digital television with high profile events such as the Olympics proving successful.

The progress made over the past year poses new challenges for the BBC. It must focus on the benefits of digital to encourage the transition from analogue to digital and from narrowband to broadband. More sophisticated marketing and initiatives such as the new technical support helpline for Freeview installation will be critical.

Objective five

Value for money

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

The BBC is on track to exceed the target agreed with the Government of making an additional £3.3 billion available through self-help initiatives between 1999/2000 and 2006/2007 to invest in services. While additional efficiency savings achieved in 2004/2005 have been limited, we are confident that the value-for-money programme which management has now put in place will deliver significant efficiencies over the next three years.

At the end of March 2005 the BBC had made £2.1 billion in self-help savings towards the Government's cumulative target of making available an additional £3.3 billion to spend on services by March 2007. In 2004/2005 self-help savings have largely come from increased licence fee income through reduced evasion and collection costs, and from improved cash flow from the commercial subsidiaries.

The cost of collecting the licence fee has continued to fall, from 5.4% of total revenue in 2003/2004 to 5.2% in 2004/2005. Licence fee evasion has fallen from 5.7% last year to 5% at March 2005; of the 0.7% reduction, some 0.3% is due to the downward revision by BARB of the estimate of the number of households with televisions. The BBC aims

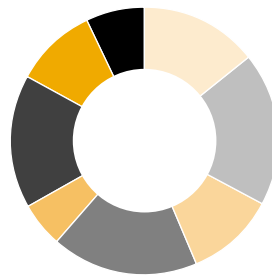
48

million audio or video requests via bbc.co.uk in March 2005

628

hours of current affairs and political programming on BBC One and BBC Two in 2004/2005

Programme spend by genre 2004/2005 (Emillion)



	2005	2004
Factual and learning	351	352
News and current affairs	458	459
Entertainment	267	296
Sport	438	321
Children's	134	114
Drama	398	435
Music and arts	245	233
Speech - local radio	175	155
Total	2,466	2,365

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

Perceptions of quality of BBC Television

to reduce evasion further, but we acknowledge that doing so cost-efficiently when the evasion rate is already low will pose a significant challenge.

Headline cash flow from the commercial subsidiaries has more than doubled from £134million to £301million, ahead of target, reflecting strong performances by BBC Worldwide and the exceptional receipts from the sale of BBC Technology during the year. We are particularly pleased to note that operating profit from the commercial subsidiaries has also increased from £36million to £56million.

We are disappointed that additional efficiencies achieved in 2004/2005 have been limited. Last year we highlighted the potential for more stretching efficiency targets. Management carried out an internal review which resulted in the efficiency programme announced by the Director-General. This is planned to deliver £105million savings in 2005/2006 and an additional £355million of savings per year by 2007/2008 for reinvestment in programmes and content. Before we approved the plans we took steps to gain assurance that they would deliver the best outcome for licence fee payers and that services would not be adversely affected. We will review progress regularly.

The programme of independent value-for-money reviews commissioned by the Governors' Audit Committee has progressed. Following the National Audit Office's (NAO) review of Freeview last year, further reviews have been conducted in 2004/2005, and four will be laid before Parliament in July. These include reviews by the NAO of the White City 2 development and measures of public service broadcasting.

In our last *Annual Report* we expressed concern about a decline in perceptions of quality of BBC Television output over recent years. As a result management commissioned a programme of research to improve the BBC's understanding of this issue. The report was presented to us in February 2005.

The main findings were:

Although quality in broadcasting is not easily definable and means different things to different people, some common attributes can be identified. These include:

- Programmes featuring established household names: "If you see X in it, it'll probably be good"
- Original programmes: reality television, makeover shows, and some soaps were criticised for lack of originality. There was a big demand for more new comedy
- Programmes with educational or other 'take-away' value: news, current affairs, specialist factual, high-quality drama
- Programmes which are not sensational or exploitative
- Programmes which deliver against expectations: entertainment that entertains, comedy that makes people laugh

Factors associated with perceptions of low quality on all broadcasters include:

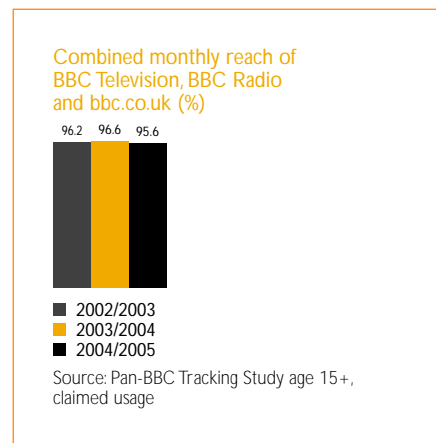
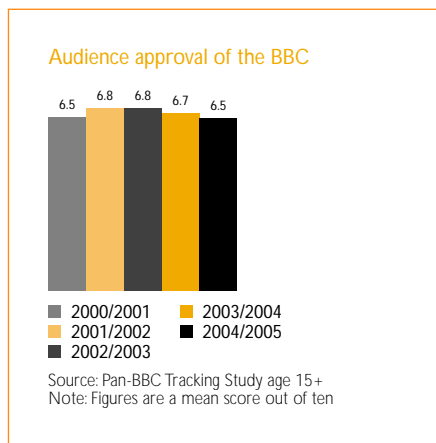
- Repeats (although some kind of repeats: classic comedy and repeats within a week – so-called 'narrative repeats' – were welcomed)

- Multichannel television – which has led to the perception that schedules have been diluted. This may be related to difficulty in navigating schedules and locating quality programmes
- Derivative, heavily-formatted programming (makeovers and reality television were often cited)
- Bad language, and sex and violence on television, especially before the watershed

Perceptions of quality for BBC Television, as measured by the BBC's own research, have declined over recent years. However, these perceptions have declined by less than those for other channels. The BBC is still considered to be the best quality broadcaster across virtually all genres (exceptions are reality programmes, cult television, US imports and game shows).

The findings of this research have provided a central plank for the Director-General's Creative Future programme strategy review currently under way and have strongly influenced the objective we have set management for the coming year on programme strategy (see Governors' objectives for 2005/2006 page 19).

Governors' review of objectives



Objective six

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.

There has been a real improvement in the reputation of the BBC's global news services during the year, together with an impressive growth in reach of the radio, television and online services, which now have a combined weekly audience of around 190 million. However, the achievements of this year should be seen in the context of some major challenges ahead for the BBC's Global News Division.

The BBC has seen an improvement in ratings for both trust and objectivity of its international radio and television services during the year. BBC World Service is more trusted and seen to be more objective than its international competitors in virtually every market surveyed. BBC World's reputation for trust and objectivity has also improved. Some of these gains are attributable to the end of the Iraq war, which had a negative impact on perceptions of the BBC, but improvement also reflects strengthened editorial output and presentation.

Editorial collaboration within the Global News Division resulted in strong tri-media coverage of both planned and unplanned events – notable examples of each include the *China Week* initiative and coverage of the Asian tsunami.

There was an impressive increase in weekly reach of the radio and television services from 181 million to 188 million. Taking online reach into account, total weekly reach is now estimated to be more than 190 million, higher than any other international news broadcaster. Some of the biggest gains came from BBC World Service's short wave radio services. A marketing initiative in Asia resulted in gains of 4.8 million users in India, and 2.6 million in Bangladesh. However, these gains must be seen in the context of short wave's eventual replacement by FM in most regions. The BBC must increase distribution on FM in order to maintain its reach.

A key challenge facing the Global News Division is the ongoing attempt to gain 24-hour distribution for BBC World in North America. It is now extremely difficult for a linear news channel to gain a place on US cable networks, and a broadening of the service to include on-demand or interactive services may be necessary to secure this.

Finally, the Government's Green Paper suggested a major reprioritisation of the World Service's language service portfolio in order to address changes in the markets for vernacular services. Addressing these changes creates both a challenge and an opportunity for the Global News Division.

Governors' objectives for 2005/2006

The BBC Charter requires us to set and report on annual objectives. The objectives for 2005/2006 focus on major pan-BBC priorities. They complement the *Statements of Programme Policy* that the BBC publishes each spring setting out specific promises relating to output on individual BBC channels and services.

For the first time we have based these objectives on our accountability work during the year to ensure that they reflect the interests of licence fee payers.

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

1. Programme strategy

Ensure that BBC management develops a five-year editorial strategy for BBC programmes and services focused on maximising public value. In 2005/2006 this will include:

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

Objective one reflects audience concerns revealed during last year's work on perceptions of quality (see case study on Perceptions of quality of BBC Television on page 17).

2. Driving digital

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

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

The BBC has been given a central role by Government to help drive digital take-up. Objective two reflects Governors' research showing low levels of audience awareness of the BBC's digital services, and concern that spending on these services is diluting output on BBC One and BBC Two.

3. Value for money

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

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

Objective three reflects our determination as Governors to deliver effective stewardship of licence fee funds by ensuring the BBC is run as efficiently as possible; a successful outcome here will, for example, provide the funds to pay for the new programmes that will enable the BBC to broadcast fewer repeats as set out in Objective one.

4. Impartiality and independence

Ensure that the BBC meets the highest standards of accuracy, fairness and impartiality expected by audiences in all its programmes. In particular, strengthen editorial processes to deliver high-quality, trusted journalism by implementing the recommendations of the Neil Report and acting on the Governors' independent reviews of impartiality.

Licence fee payers place a high value on the BBC's commitment to impartiality. Objective four ensures continued management focus on recent and future initiatives to strengthen BBC journalism in this area.

5. Accountability to audiences

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

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

We know that licence fee payers want their voices heard and taken account of by the BBC. Objective five will ensure that the BBC takes audience complaints seriously and handles them appropriately. It also ensures that we as Governors will consult widely as we draft the new service licences to ensure that the service remits reflect audience expectations.

The BBC at a glance

Television



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



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



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



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



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



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

Radio



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



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



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



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



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



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



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



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



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



BBC Asian Network aims to offer challenging debate, informed journalism, music, sport, entertainment and drama to audiences of British Asians from different generations.

New Media



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



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

The Digital Curriculum will be launched in 2006. It will be a free online service, providing high-quality interactive resources structured around key elements of the school curriculum.

News



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



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

BBC PARLIAMENT

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



BBC World Service provides international news, analysis and information in English and 42 other languages on radio and the internet.



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

Nations & Regions

BBC English Regions

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

BBC Scotland

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

BBC Cymru Wales

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

BBC Northern Ireland

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

Governors' review of services Television

Overview

BBC Television absorbs the bulk of the licence fee and, for many licence fee payers, is the service by which they judge the BBC as a whole. It is right, therefore, that it commands a great deal of our attention as Governors.

On BBC One, there are encouraging signs that the work done in recent years to understand viewers' needs better is bearing fruit. Our own review has found that, although there is still work to be done, the channel has made significant progress towards finding a successful balance between a high level of public service commitment and the ability to attract large audiences.

On BBC Two the strategy we approved in 2003, which restores a distinctive factual core to the channel, is delivering new programming of quality and originality. The challenge now is to stabilise reach while maintaining the public service commitment. We look forward to hearing the new channel controller's proposals for further evolution of the schedule.

The new digital channels are growing in confidence. BBC Three has had real success with British comedy, one of the most challenging genres. BBC Four is truly "a place to think". The children's channels, The CBBC Channel and CBeebies, have achieved success both in terms of their remit and their audiences. The challenge here is to maintain this success through creative renewal.



Strictly Come Dancing

Ian Waite and Denise Lewis, finalists in *Strictly Come Dancing* – high quality popular entertainment for Saturday nights on BBC One



He Knew He Was Right

Laura Fraser and Bill Nighy in the adaptation of Anthony Trollope's *He Knew He Was Right*. High quality drama is a key part of the BBC One schedule



Real Story – Nurseries Undercover

Reporter Lizz Brown and presenter Fiona Bruce. *Real Story's* investigation of care standards in private nurseries brought changes in regulations



Remit

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

BBC One remains the BBC's flagship television service. Despite fierce competition it continues to reach more viewers than any other television channel in both analogue and digital homes. In all homes, average 15-minute weekly reach to viewers aged 4+ slipped a little in 2004/2005 to 81.9% or 45.4 million people (from 83.7%/46.2 million in 2003/2004). In multichannel homes, where the choice of viewing is by definition far wider, BBC One is still watched by nearly four out of five viewers.

As its remit makes clear, we have set it the task of using its popularity, and the ability given to it through its very significant budget, to invest in high-quality output designed to attract viewers to a broad range of subjects, including those they might otherwise not consider watching. This is no easy task. It is becoming harder than ever to make an impact on viewers, particularly as television viewing becomes more fragmented. But high-quality popular programming across a broad range lies at the heart of our vision for BBC One, so we have been very encouraged to see some striking successes across a range of

mainstream genres. These include *Strictly Come Dancing* and *Dr Who* which have helped to reinvigorate the Saturday night schedule.

As we announced in last year's *Annual Report*, we asked our advisers to carry out an independent study to assess whether or not BBC One had the best balance of output in peak time. We wanted to ensure that the channel's schedule, as well as its programmes, best serves its audiences' needs. Our advisers examined BBC One's output and performance and also commissioned specific audience research to help us better understand viewers' perceptions of the channel.

Our review found that, although there are areas needing improvement, BBC One has successfully balanced a high level of public service commitment with the ability to attract large audiences.

For example, the public overwhelmingly rates BBC One as the best channel for news and its three daily news bulletins are all the most-watched of their type. Current affairs on BBC One can still create a big impact. *Real Story – Nurseries Undercover* was the most watched current affairs programme of the year, and resulted in a change to Ofsted's approach to monitoring pre-school care. *The Secret Agent*, an undercover investigation carried out at some personal risk to the reporter Jason Gwynne, exposed the activities of some British National Party members and led to arrests.

But there is more to do here. Our review of BBC Television's current affairs, which we published in February, underlines the key position of BBC One in this debate: if we wish BBC current affairs to reach the mainstream audience, this can only be achieved by having more high-profile output on BBC One in peak time. A start

on this will be made during the coming year (for more on this, see our review of BBC News, pages 43 to 44).

The channel is now the home on British television of high-impact factual landmark output. Highlights this year included *Himalaya with Michael Palin*, the latest in his finely crafted and extremely popular travelogues; *Child of Our Time*, Professor Robert Winston's extraordinary tracking study of the development of 25 young children, now in its sixth year; *Supervolcano*, which ably blended scientific fact into a disaster-movie format; and *Pride*, an innovative drama about lions in Africa, which matched documentary footage with scripted drama. These were notable successes.

However, our review of BBC One found that the volume of serious factual programming in peak time had fallen over the previous ten years. Over that period output of hobbies and lifestyle programmes had grown from almost nothing to almost 10% of the peak-time schedule in some weeks during 2003/2004. One of our objectives for 2005/2006 is to ensure that the volume of makeover, and lifestyle programmes on BBC One is reduced in peak time.

Our review also found that audiences are critical of derivative programming across all genres, particularly on the BBC, where their expectations are very high. This was echoed by BBC management's own research during the year into audience perceptions of quality. We have asked management to achieve a clearer understanding of what audiences mean by 'derivative' and then to address the underlying causes.

Governors' review of services Television



Dr Who

Billie Piper and Christopher Eccleston in *Dr Who* – popular family drama reinventing the timelord for a new generation



Himalaya with Michael Palin

Michael Palin in Phobjika Valley in Bhutan. His epic journey took him the 2,000 mile length of the Himalayas – which means abode of snow

Drama continues to be central to the appeal of BBC One and although viewers still rate BBC One as the best channel for drama, this is a genre that needs continual revitalisation to meet licence fee payers' expectations for originality and high quality across the full range of audience tastes. The channel had a number of strong returning series in contemporary drama which appeal to different audiences.

These included: *Cutting It*, *Silent Witness*, *Spooks*, *Hustle* and *Waking The Dead*.

There was fine period drama, too, including adaptations of Anthony Trollope's *He Knew He Was Right* and of Mrs Gaskell's *North and South*. *Blackpool* was a boldly innovative peak-time production. *EastEnders* continues to be an important part of the schedule although questions have been asked about its quality, relevance and competitive strength – problems that the programme's new management has begun to grapple with. The Director-General has already committed extra investment to drama and we look forward to seeing the results as they come through on screen.

Another important genre prioritised for additional investment is British comedy. It is extremely risky, expensive to produce and unpredictable in its results. When the BBC gets British comedy right, the rewards in terms of audience appreciation are high. This is well illustrated by *Little Britain*, the most successful programme to transfer from BBC Three to BBC One. However, our review found some evidence of a legacy of dissatisfaction with BBC One sitcoms seen as "too focused on middle class suburbia" and which compared poorly with sophisticated US imports. There is ground to be made up here, but we are encouraged by the quality of the new BBC comedy starting to come on stream.

In last year's *Annual Report*, we promised a programme of work to understand audience perceptions of quality better. One of its key findings is that viewers want fewer repeats in BBC One peak time. We have responded to this by setting an objective for the coming year to ensure that the volume of repeats in peak time is reduced further below its 10% ceiling. The Director-General's programme of cost savings will release funds for the new programme investment necessary.

The Athens Olympics were the major sporting success of the year on BBC Television, and these, too, were very effectively enhanced through the innovative use of interactivity (for more on sport see page 57). Other events that drew Britain together through BBC One included Comic Relief, and programming marking the 60th anniversary of D-Day – marked with a range of strongly evocative output, including documentaries, drama, news coverage and a special edition of *Songs of Praise*.

In last year's *Annual Report* we said that we would review the performance of religious programming on BBC One and Two and the effectiveness of the strategy put in place some years ago to deliver high-impact religious programming alongside *Songs of Praise* and *The Heaven and Earth Show*. Our review found that the so-called "landmark approach" had not succeeded in delivering higher impact religious programming on BBC One. Management has now begun a programme of work to address this issue. On a related issue, the independent Central Religious Advisory Committee (CRAC) was concerned about the irregular scheduling of *Songs of Praise* in recent years, and management has now made a commitment to keep it in a regular slot (for more on the work of CRAC see page 59).

During the year, a range of programmes on BBC One demonstrated how interactive digital television can enrich the viewing experience by allowing programme-makers to offer additional content. Successful examples included *British Isles: A Natural History*, which offered opt-outs for each region; *Child of Our Time*, which enabled parents to test their parenting knowledge; and *Question Time*, which invites viewers to send in questions during the debates.

21

million watched Portugal v England, Euro 2004

29%

of people in the UK saw *Who Do You Think You Are?* on BBC Two



The Apprentice

Tim Campbell, chosen by Sir Alan Sugar as winner of *The Apprentice*, which used reality television techniques to shed new light on entrepreneurship



Auschwitz

The terrible history of mass murder at the death camp was examined in *Auschwitz: the Nazis and the 'Final Solution'*



Remit

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

The strategy we approved for BBC Two in 2003 is now fully reflected on screen. Its aim was to underline the channel's distinctive public service role as a channel offering a more challenging mix of output than BBC One and, in particular, offering a strong and distinctive factual core. This was achieved by shifting funding away from entertainment, reducing the volume of lifestyle programmes and increasing the amount of arts and current affairs in peak time.

This shift has been achieved – but not without some cost in terms of audience numbers. Average all-homes weekly 15-minute reach to viewers aged 4+ in 2004/2005 was 61.4% or 34 million people (67%/37 million in 2003/2004). This is a significant fall, although the figures were undoubtedly affected by the channel's loss of *The Simpsons*. The new channel controller is currently reviewing the implementation of the strategy with a view to broadening its appeal. On behalf of licence fee payers we look forward to him sharing with us, in due course, his proposals for further evolution of the schedule.

Memorable programmes included *Auschwitz: the Nazis and the 'Final Solution'*, which used interviews – many of them new – with perpetrators and survivors, and made imaginative use of computer graphics, to illuminate the issue of how the Nazis came to do what they did. *Who Do You Think You Are?* generated large and enthusiastic audiences for family genealogy and gave them the tools to investigate their own family histories. *The Long Firm* was a sharply-written, stylish and evocative adaptation of Jake Arnott's novel of the London underworld of the Sixties.

There was notable success with output dealing with business. *Dragons' Den* and *The Apprentice* brought vigour and originality to the understanding of business and entrepreneurship – and demonstrated that the techniques of reality television can have a valid place in serious factual television. These programmes were also successful in attracting younger and ethnic minority audiences.

Significant controversy surrounded the broadcasting of *Jerry Springer – the Opera*. Large numbers of people told us before and after the broadcast that they found the programme blasphemous and indecent. We considered the complaints in the Governors' Programme Complaints Committee and decided by a majority of four to one not to uphold the complaints. The majority view of the committee was that the outstanding artistic significance of the programme outweighed the offence it caused to some viewers (for more on this, see Responding to Complaints on page 61).

Current affairs is proving a challenge for the channel. Despite more investment, increased hours, evidence of real creative innovation in strands such as *Crisis Command* and *If...*, and reliably strong and incisive foreign affairs journalism from *This World*, reach of the genre has fallen. This is an area to be kept under review.

One of the most significant developments on BBC Two was the launch of the topical arts magazine, *The Culture Show*, in November 2004. This was part of management's response to our disquiet (reported in last year's *Annual Report*) at the diminution of arts broadcasting on BBC Television. It is designed to fill a gap in BBC Television's arts portfolio between highly accessible arts programming such as *Rolf on Art* and more in-depth, single-subject output such as *Venice* or *Arena*. *The Culture Show*, produced in London and Glasgow by a dedicated arts journalism unit, reports from across the UK and is presented from a range of locations around the country. The programme, scheduled at 7pm (ie, in peak time) with a repeat the same night after *Newsnight*, has drawn larger than expected audiences. Audiences for the two showings each Thursday, taken together, average about 1 million.

Overall, we are content with the way BBC Two is evolving, and with the energy and commitment shown by management in responding creatively to the new strategy. BBC Two has significantly increased its reputation for quality and originality. The challenge now – and it is not an easy one – is to find ways to improve the channel's reach, in particular to younger audiences and in multichannel homes, without endangering its distinctiveness.



Third Degree

A gang member in San Salvador. The documentary *18 With a Bullet* presented a compelling close-up study of Latin American gun culture



Nighty Night

Julia Davis as Jill in *Nighty Night* – one of a series of hit comedies that have established BBC Three as “best for British comedy”



Remit

BBC Three aims to offer innovative British content and talent aimed primarily at young audiences. 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, distinctive new drama, comedy and entertainment.

Audiences to BBC Three are on a rising trend. Its average percentage weekly reach has increased – and this translates into a bigger increase in numbers of viewers because the number of digital homes is itself rising. In 2004/2005 average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 14.8% or 5.6 million people (12.6%/4.1 million in 2003/2004).

The channel, launched in February 2003, is still very new. It has an extremely demanding remit – the conditions for approval laid upon it by the Secretary of State were much more detailed than for the other BBC digital television channels. It has done well to get so far in such a short time. The performance of the channel was independently reviewed by Professor Patrick Barwise in a report commissioned by the Department for Culture, Media and Sport (DCMS), and we were encouraged by his judgement that “BBC Three has achieved or exceeded virtually all of its many obligations on programme mix and sourcing”.

Any enterprise committed to innovation and risk-taking across a broad range of output is bound to have an uneven record of achievement, particularly in its early years, and BBC Three is no exception. But there have been some real successes. Home-grown television comedy is one of the most difficult genres to get right. In *Little Britain*, BBC Three has taken an idea originally launched on BBC Radio and developed it into a cult television show that has now broken through into the mainstream (helped by BBC One's commitment to showcase the best of BBC Three to a terrestrial audience). There have been other innovative comedy successes too – *The Smoking Room*, *The Mighty Boosh* and *Nighty Night* are examples. BBC audience research carried out showed that, by the end of 2004/2005, BBC Three was considered “best for British comedy” by 20% of respondents, putting it well ahead of any commercial channel.

Comedy is not the only genre where the channel has shown real achievement. Distinctive music output has included *Flashmob – The Opera* (staged live among commuters in Paddington Station) and extensive coverage of the Glastonbury Festival. Drama successes have included *Bodies*, *Outlaws* and *Casanova*. There has been innovative work in news and current affairs with *60 Seconds* and the *Third Degree* strand. Strong documentary work included *18 With a Bullet*, a compelling portrayal of gang culture in San Salvador.

As one of six new talent initiatives, BBC Three launched *End of Story* – in which viewers were asked to complete stories begun by eight established authors. It drew more than 17,000 entries, making it the UK's biggest short story contest.

Of course there is more to do. Not every part of the schedule has been as successful. The news at 7pm – although admirably innovative (elements of its production style have been copied by more conventional bulletins) – has not yet succeeded in attracting and maintaining the loyalty of its target audience. We have asked management to consider the future role of news on BBC Three – an issue also raised by Professor Barwise in his review.

We are encouraging management to explore ways to increase the channel's reach and share without putting at risk its growing reputation for innovation and distinctiveness. The process of drawing up service licences will give us the opportunity to review the remit for BBC Three and detail how the service will deliver public value in terms of the content it offers.



In Praise of Hardcore

Rob Brydon as the drama critic Kenneth Tynan – a touching portrait of the controversial and influential writer



Light Fantastic

Simon Schaffer presented BBC Four's exploration of the phenomenon of light – reinforcing the channel's claim to be "a place to think"

11.6
million watched the final show of
Strictly Come Dancing

17,380
people entered BBC Three's *End of Story*
writing competition



Remit

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

Audiences to BBC Four are rising. Its average percentage weekly reach has increased – and this translates into a bigger increase in numbers of viewers because the number of digital homes is itself rising. In 2004/2005 average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 4.8% or 1.8 million people (3.7%/1.2 million in 2003/2004).

BBC Four has successfully positioned itself as "a place to think". Its schedule is unashamedly literate, intelligent, and demanding. The extra investment in drama and comedy is beginning to show results. Examples of distinctive output include Jonathan Miller's provocative *History of Disbelief*; a touching drama about Kenneth Tynan, *In Praise of Hardcore*; an aptly illuminating study of the science of light in *Light Fantastic*; an intelligently funny 25th anniversary tribute to one of the highlights of television comedy in *Arena – Remember*

the Secret Policeman's Ball?; a succession of fine documentaries in the *Storyville* strand including a moving film from South Africa, the *Orphans of Nkandla*; and a well-researched three-part history of British jazz in *Jazz Britannia*. Selections from BBC Four are shown on BBC Two's Four on Two zone.

We were encouraged by the independent report on the channel, commissioned by the DCMS from Professor Patrick Barwise, which said that BBC Four "exemplifies the BBC's traditional, self-confident public service values – meeting both the letter and the spirit of its remit – without undue stuffiness or paternalism".

Audiences to the channel have increased significantly during 2004/2005, but from a low base. We acknowledge and support the need to grow the channel's reach and we support management's efforts to secure a more welcoming tone for the channel. However, we do not support the suggestion that the best way to achieve wider reach is by making the channel more mainstream. This would threaten its valued ability to take risks – and almost inevitably mean that BBC Four would start to encroach on the territory of other channels, a reduction of choice that would benefit neither licence fee payers nor the wider broadcasting market.

In drawing up the service licence for the channel we will pay close attention to any refining of the remit that could increase its appeal within the terms of its original approval. In the meantime we have approved a measured increase in the channel's budget for 2005/2006.

Governors' review of services
Television



Shoebus Zoo

Vivien Endicott-Douglas as Marnie. The CBBC Channel's *Shoebus Zoo* had the high production values of adult dramas



Something Special

Justin Fletcher, presenter of *Something Special* – the programme designed to help pre-school children with learning difficulties



Remit

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

Audiences to The CBBC Channel are rising. In 2004/2005 average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 5.6% or 2.1 million people (4.2%/1.4 million in 2003/2004).

The 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, its freedom from adverts and the high proportion of UK-originated material in a market where children's channels mostly show acquired and often imported programming. Originated programming takes 91% of the budget and there is a high level of originated material throughout the day.

The channel is a lively and energetic offering demonstrably in tune with its audience – which is hard to please, lives increasingly in a multimedia world and expects its television to do likewise. The channel has enabled *Blue Peter* to expand from three to five editions a week. Productions such as *Shoebus Zoo* (from CBBC Scotland), an adventure serial mixing live action and realistic 3D animation, demonstrate that children can be offered similar production values to adult audiences – and a sophisticated website too. *Serious Arctic*, which took eight children sledging with huskies in a remote Canadian glacier in sub-zero temperatures to monitor global warming (and, just as important, to discover their own strengths and weaknesses) was knowledge-building, gripping and enlightening television. The successful, largely black, sitcom, *Kerching!*, returned for a second series. *Dick and Dom in Da Bungalow* did what it set out to do: made its Saturday morning, end-of-school-week audience laugh, with jokes that may not be to adult tastes, but are not designed to be. The programme stands out for its refreshing lack of on-screen reliance on celebrities, pop music – or indeed, adults. It also has a much-appreciated website. CBBC online message boards are a fast-growing area – all messages are checked for safety and suitability, making these areas one of the safest communities in the industry.

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 weekday during term time. These programmes are designed

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

The channel's performance was independently reviewed by Professor Patrick Barwise in his report on the BBC's digital television channels commissioned by the DCMS. He described the channel as "a distinctive service with high-quality UK-produced content free from advertisements, covering a wide range of genres, and with a high proportion of original programming". He did, however, raise some questions about the tone of voice of the channel. We have asked management to consider these issues and respond formally to us. Professor Barwise also suggested rebranding the channel to distinguish it from CBBC on BBC One and BBC Two. Management, in its response to us on this point, has indicated that BBC research shows the current labelling is well understood by its target audience, and that an evolution of the brand and its visual identities would probably deliver greater value for money to licence fee payers than an expensive rebranding exercise.

The creative challenge for the channel is not to rest on its laurels, to continue to innovate and to refresh its schedule, and, within the bounds of its remit, to develop new ways of delighting a demanding and sometimes fickle audience.

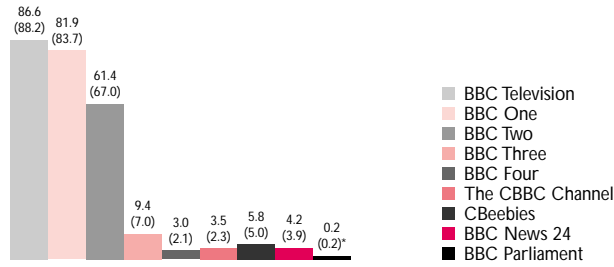
50%

increase in reach of CBBC among children since 2003/2004

912

hours of new factual programming on BBC One

Weekly reach of BBC Television services 2004/2005 (% individuals)



Source: BARB, TNS/Infosys, age 4+ . average 15-minute weekly reach for the year. Note: Figures for 2003/2004 appear in brackets. *BBC Parliament has only been measured since September 2003



Remit

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

Audiences to CBeebies are rising. In 2004/2005 average weekly 15-minute reach to viewers aged 4+ in multichannel homes was 9% or 3.4 million people (8.9%/2.9 million in 2003/2004). As some viewers are aged under four this underestimates the size of the audience. CBeebies remains the market leader among all children's channels, although strengthened competition from the commercial sector is making inroads into its market dominance.

The channel was launched in February 2002 as a dedicated pre-school digital channel based on the philosophy of "learning through play". Almost all the programming is linked to the Government's Foundation Stage Curriculum. It uses the educational possibilities of online interactivity in innovative ways: the *Razzledazzle* site helps children develop language skills; the *Something Special* website supports pre-school children with learning difficulties. Both sites are linked to television programmes successfully launched in 2004. The CBeebies website also has a *Grown Ups* message board – much used by parents and carers to comment on the output, discuss parenting issues, and to exchange useful information.

CBeebies has drawn high praise. Professor Patrick Barwise, in his independent report on the BBC's digital television channels commissioned by the DCMS, called it "a triumph, an exemplary PSB [public service broadcaster] service for pre-school children... It has a feeling of integrity and public service but has also been extremely successful at reaching and engaging its audience as well as developing new techniques and formats and... exploiting interactivity... CBeebies represents excellent value for money."

CBeebies has not yet been able to meet its original commitment to "invest directly in animation co-production far more frequently, thereby increasing the number of UK-based projects". This is because of higher than expected costs. As an alternative, the channel 'pre-buys' programmes from UK animation houses. This supports the early stages of development and production and increases the viability of the projects – and it enables the BBC to ensure the final programmes are appropriate for its audiences. However, the commitment to co-production remains, and we note CBeebies' stated aim in its 2005/2006 statement of programme policy to "co-produce a high-quality UK animation during this period".

The larger challenge for the channel is that of maintaining its market leading position with a portfolio of titles some of which are possibly nearing the end of their creative life, at a time when competition from other providers is strengthening.

Governors' review of services

Radio

Overview

The radio landscape in Britain continues to change very rapidly, driven by intensifying competition and the continual arrival of new technology, allowing people to listen in new ways. In particular, audio on demand continues to experience strong growth.

This year, for example, has seen the arrival of podcasting. This allows audiences to download programmes from the internet to MP3 players and listen to them at a more convenient time – for example, while commuting, or at the gym. BBC experiments with downloads have revealed extraordinary levels of demand: *In Our Time*, Radio 4's weekly discussion on the history of ideas, was the first of the network's regular programmes to be made available – and received almost 380,000 requests for downloads in the first six months.

It has been a strong year for BBC Radio. In particular, the new strategy for Radio 1 is starting to bear fruit and Radio 2 goes from strength to strength. The new digital stations are bedding down well – although we will continue to monitor their performance.



One Big Weekend

Big crowds turned out for *One Big Weekend* in Londonderry – part of Radio 1's commitment to live music – to hear bands including Franz Ferdinand and Keane



Beat Bullying

Radio 1 disc jockey Jo Whiley demonstrating her support for the station's *Beat Bullying* campaign by wearing the campaign's blue wristband

337

hours of news, sport and current affairs on Radio 1

61%

of Radio 2's audience is aged 45 or over



Remit

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

Radio 1 remains critical to the BBC commitment to reaching young audiences – and its health is central to the success of BBC Radio overall. We approved a new strategy for the station in May 2003 that has revitalised the offer, and we are encouraged that audiences appear to have stabilised over the past year after a period of decline. Radio 1 recorded an average 15-minute weekly reach to adults aged 15+ of 10 million people or 20.4% in 2004/2005 (9.8 million/20.2% in 2003/2004). Over half of listeners to Radio 1 do not listen to any other BBC radio station.

This has been achieved while maintaining the station's commitment to specialist music, to UK music, to new music, and to live music – the key drivers of the distinctiveness of its music offer. Research carried out in a sample week in May 2004 compared Radio 1 output with that of nine key commercial competitors. The results showed that Radio 1 played many more individual songs, more new songs – and more new songs by UK artists in daytime – and repeated tracks less often. Only 13% of the music was pop (using the industry-recognised definition of the genre). No competitor began to match Radio 1's commitment to live music, which this year included the well-received *One Big Weekend* in Birmingham and Londonderry.

Alongside its music output, Radio 1 has a wide-ranging speech component accounting for some 30% of output. This includes the long-running *Newsbeat*, which provides national and international news and analysis specially tailored for a young audience; a documentary strand within *Lamacq Live* covering subjects ranging from the tenth anniversary of Britpop to an examination of binge-drinking; and the social action strand *Sunday Surgery* and the *One Life* website which have built a strong reputation for dealing frankly, in straightforward language with difficult issues confronting young people. Radio 1's *Beat Bullying* campaign achieved a high profile and distributed a million blue wristbands to listeners. Chris Moyles' Red Nose Rally travelled from John o'Groats to Land's End, raising more than £600,000 in the course of the week for Comic Relief.

Radio 1 has maintained its strong online presence. The station's website attracts the highest number of users of the BBC's network radio stations and there is particularly strong demand for live and on-demand listening.

We have noted the concerns raised during the Charter Review process for us to remain vigilant that the distinctiveness of the Radio 1 offer is not diminished over time, and the particular reference to the distinctiveness of some peak-time output. While the research we have seen shows that there is no current cause for concern, we will remain aware and take account of the concerns expressed when we draft the service licence for Radio 1.

Governors' review of services

Radio



Elaine Paige on Sunday

Sir Elton John talked about his work for stage and screen in Elaine Paige's weekly Radio 2 show putting the spotlight on musicals



Das Rheingold

Philip Langridge and Bryn Terfel in Wagner's *Das Rheingold* relayed from the Royal Opera House on Radio 3 – with subtitles for digital listeners



Remit

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

Radio 2's remarkable grip on its audience has continued for another year. It remains the UK's most listened-to radio station with average 15-minute weekly reach to adults aged 15+ of 13.3 million people or 27.2% in 2004/2005 (up from 12.9 million/26.7% in 2003/2004).

A cornerstone of its enduring appeal is its stable of familiar and highly regarded presenters. Terry Wogan's breakfast show *Wake Up to Wogan* drew record audiences of more than 8 million in the final quarter of 2004/2005. The show has made imaginative use of email to build interaction with its audience. The roster of Radio 2 presenters has been refreshed with new names including Mark Radcliffe, Elaine Paige and Mariella Frostrup.

Across the station, the music played continues to cover an extremely broad range. More than 20 genres of music are carried, including rock, pop, soul, country, jazz, folk, brass band and light opera. Radio 2 has maintained its commitment to live music – the bulk of it British – throughout the schedule. The distinctiveness of the music output overall rests on the low level of repeats of individual tracks, plus the

criteria for selection, which include: musical merit, not market performance; an emphasis on album tracks as opposed to singles; and prioritisation of new UK artists. Research carried out during a sample week in May 2004 showed that two thirds of the Radio 2 tracks were not played by any major competitor.

Although Radio 2 is primarily a music network, more than one third of its output is speech. Here too the range is broad. *The Jeremy Vine Show* has now established itself at the heart of the lunchtime schedule. Other notable speech output included the music documentaries *Lost Boy – In Search of Nick Drake*, narrated by Brad Pitt; and Hugh Masekela's series, *Freedom Sounds*, on the development of South African music.

Over the summer the station broadcast a wide-ranging series of programmes encouraging its older audience to sample the opportunities offered by digital media, and demystifying some of the technical vocabulary.

We have noted the concerns raised during the Charter Review process by the commercial radio sector suggesting that Radio 2's success has been achieved at a cost of a drop in commercial radio's share of the market. However, the research we have seen has reassured us that the station's offer remains genuinely distinctive. We are committed to ensuring that this remains the case, and that necessary evolution to keep up with changing audience tastes does not mean avoiding risk – or moving into areas already well-served by other providers. These are considerations we shall take into account when we draft the service licence for Radio 2.



Remit

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

Radio 3's audience figures recorded a small dip, with average 15-minute weekly reach to adults aged 15+ of 2 million people or 4.2% in 2004/2005 (down from 2.2 million/4.5% in 2003/2004).

Notable output has included in-depth coverage of composers (Janáček Day, for example) and of performers such as Wilhelm Furtwängler and Jacqueline du Pré. *Listen Up!* was an innovative six-week celebration of British orchestral life, including amateur musicians. There was a well-received experiment broadcasting Wagner's *Das Rheingold* from Covent Garden with subtitles delivered via digital television and the scrolling text facility on DAB digital radios. *Late Junction* continues to provide engagingly unpredictable listening.

The distinctiveness of Radio 3's output is unarguable. We have been encouraged to see this recognised during the discussions on Charter Review.

5

orchestras are funded by Radio 3

787

hours of original drama and readings on Radio 4



Hitchhiker's guide

Simon Jones (right) as Arthur Dent, plus the rest of the cast of Radio 4's adaptation of the final books of *The Hitchhiker's Guide to the Galaxy*



Roots of Islam

Edward Stourton in the Hejaz desert outside Mecca. His Radio 4 series, *In the Footsteps of Muhammad*, traced the roots of Islam and of its prophet Muhammad

Western classical music remains at the heart of the schedule and will continue to contribute the overwhelming majority of the music played. However, Radio 3 has never played only classical music and the remit we have agreed with Radio 3 requires this core to be complemented with other music genres including jazz and world music.

We have noted the desire of some listeners for more classical music, but, having examined the output with the help of our advisers and taken into account the interests of the audience as a whole, we feel that the current schedule offers an appropriate balance of musical genres.

As with all BBC services audience expectations will inform our judgements as we draft Radio 3's service licence.



Remit

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

Audiences to Radio 4 dipped slightly. Average 15-minute weekly reach to adults aged 15+ was 9.4 million or 19.3% in 2004/2005 (9.6 million/19.8% in 2003/2004), but audience loyalty remains high – research shows that a typical listener tunes in for almost 13 hours a week.

Journalism continues to provide the spine for Radio 4. This includes high-profile mainstream output such as the *Today* programme – but the mix includes a rich portfolio of specialist programmes including *In Touch* – for the blind and partially-sighted – *Law in Action* and *Farming Today*, as well as strong coverage of science and ideas. Arts coverage is a particular strength of Radio 4. During our research on arts coverage on BBC Television (see BBC Two page 25) we were struck by the very high esteem in which BBC Radio arts journalism is held by the arts community – with Radio 4 programmes such as *Front Row* and *Saturday Review* frequently being cited as models of their kind.

Memorable documentary output included *In the Footsteps of Muhammad*, assessing the impact of the life and teachings of the Prophet of Islam; and *The Sound of Life*, exploring the natural history of wild sound on Earth.

The distinctiveness of Radio 4 is widely accepted. During the Charter Review consultations there has been general agreement that if the BBC did not broadcast the service, it would not exist – because it would not be financially viable as a commercial operation. One reason for this is the very large amount of specially commissioned new writing – including drama, comedy and readings – which help to give the network its unique voice. Comedy is a particular strength, both with long-running titles such as *I'm Sorry I Haven't a Clue* and *The News Quiz*, and also with successful new offerings such as *Clare in the Community*.

Radio 4 carried memorable coverage of the 60th anniversary of D-Day across a range of genres. In addition to a broadcast of the commemorative service, D-Day-related programming was included in *Book of the Week*, *Woman's Hour* and *Any Questions* (an edition from France); in *What If...?* leading historians discussed possible outcomes had the landings not succeeded; *Back Row* and *Loose Ends* celebrated the films and popular entertainment of the time; and *The People's D-Day*, an ambitious oral history documentary, vividly recalled the preparations for Operation Overlord.



Beslan massacre

A mother in tears for her murdered daughter – killed in the siege of a school in Beslan, North Ossetia, by Chechen separatists



Athens Olympics

Dame Kelly Holmes celebrating her second Athens Olympic gold medal – in the 1500 metres

Radio 4 has an expanding and extremely successful website. Audio on demand has been notably popular. One million listeners heard the dramatisation of the later books in the *Hitchhiker's Guide to the Galaxy* sequence via the Radio Player; and the experiment to offer mp3 downloads of Melvyn Bragg's *In Our Time* drew almost 380,000 downloads in the first six months.

Although it remains successful, Radio 4 must not be complacent. The challenge is to continue to innovate and refresh the network without losing authority and without damaging the valuable sense of ownership that the Radio 4 audience feels towards the station.



Remit

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

Audiences rose slightly. Average 15-minute weekly reach to adults aged 15+ was 6.2 million or 12.7% in 2004/2005 (6.1 million/12.5% in 2003/2004).

The network's image as a sports station is belied by the fact that the majority of the output is news and current affairs.

The station was commended by Lord Wilson's panel assessing the BBC's coverage of Europe (see page 14) for its success at explaining complicated issues and finding ways to bring them alive.

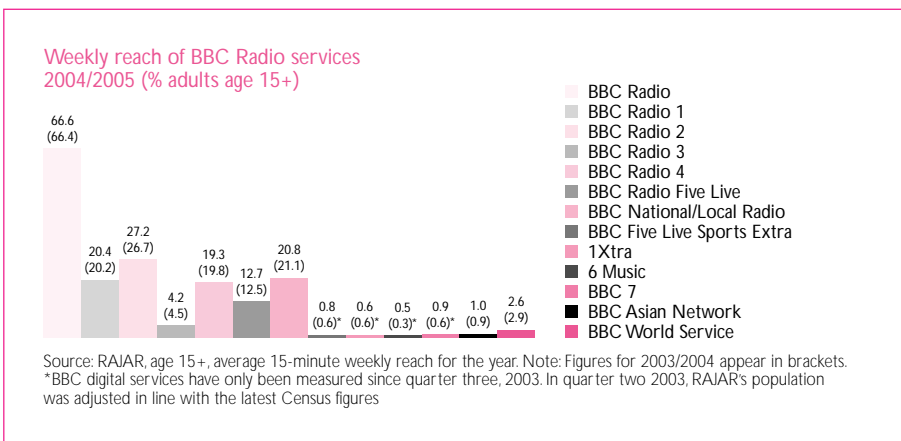
The network has done valuable public service work in bringing a new and younger audience to news through sport – 70% of the sports audience listens to the news output. This has been built over the course of the year by using Five Live's established news presenters as part of the coverage of major sporting events. A good example was Nicky Campbell's live presentation from the Olympic rowing regatta introducing Alan Green's memorably gripping commentary on Matthew Pinsent's fourth gold in the men's coxless four.

Other memorable output included Five Live's extended coverage of the Asian tsunami, and of the Beslan school massacre. *Weekend Business* is a new strand providing a platform for the considerable business journalism of Jeff Randall. *Fighting Talk* is a successful and entertaining format for sports punditry. *Breakfast* continues to be a lively and engaging alternative to the *Today* programme. A new sports investigative programme, *Sport on Five Report* covered subjects including national lottery funding of Olympic hopefuls, and the lack of success of the England football team.



Trinidad Carnival

The annual carnival in Port of Spain – specialising in calypso music and its offshoot, soca – showcased by BBC 1Xtra



Remit

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

Since its launch in 2002, Five Live Sports Extra has established itself as a valued sister station to Five Live, delivering extra value to licence fee payers from existing BBC sports rights. The BBC does not buy additional sports rights solely for use on Sports Extra. Average 15-minute weekly reach to adults aged 15+ was 0.41 million or 0.8% in 2004/2005 (comparable data is not available for the whole of 2003/2004).

The service has enabled the BBC to widen choice for listeners – for example, by continuing to broadcast sports commentaries when sports coverage on Five Live is curtailed to enable full coverage of breaking news. It also enables the BBC to offer sports fans a greater choice of matches and events, including coverage of major UK athletics meetings and extended cricket commentary.



Remit

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

Average 15-minute weekly reach to adults aged 15+ was 0.31 million or 0.6% in 2004/2005 (comparable data is not available for the whole of 2003/2004).

Since its launch in 2002, 1Xtra has built a following among a young audience that had felt it got nothing from the BBC. The broadcast service is extended by innovative online material such as *Taggerz*, an interactive animated drama about a gang of graffiti artists.

1Xtra was independently reviewed by Tim Gardam as part of his report on the BBC digital radio services commissioned by the DCMS. We were encouraged by his view that 1Xtra had “successfully established credibility in a community that initially had little connection with the BBC” and that it had “well served the needs of its target audience”.

We also agree with his view that it is important for 1Xtra to maintain its distinctiveness from competitors. 1Xtra is already committed to deliver 40% UK music and 65% new music (new is defined as less than a month from UK release) overall. We will consider the need for similar targets for peak-time output and other factors such as live and specialist music as we draw up the service licence for 1Xtra.

Last year we drew attention to concern over the quality of some of the speech programming on 1Xtra. Progress has been made. *TX Unlimited* has produced notable journalism on the issue of the homophobic lyrics of some Jamaican dancehall music. But there is more to do. The station is committed to enhancing the depth and range of speech throughout its schedule, particularly during the weekday breakfast show, something we will take into consideration in drafting the station's service licence.

Governors' review of services

Radio

Hub Session

Joel Pott of Athlete, playing live for one of BBC 6 Music's Hub Sessions, staged in a BBC coffee bar



Remit

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

BBC 6 Music achieved an average 15-minute weekly reach to adults aged 15+ of 0.25 million or 0.5% in 2004/2005 (comparable data is not available for the whole of 2003/2004).

Since its launch in 2002 it has established itself as a distinctive service highly valued by its listeners. It continues to innovate, for example inviting the Manic Street Preachers to curate the station for a week; and attracting influential bands to play live at its Hub Sessions in the BBC's coffee bar in Broadcasting House.

BBC 6 Music was independently reviewed by Tim Gardam as part of his report on the BBC digital radio services commissioned by the DCMS. We were pleased to note his view that "6 Music represents the best of the BBC's creative enthusiasm... Its standing in relation to its audience is similar to Radio 3's relationship to its listeners... It is a station that has gained rapid respect in the music press and among leading British artists for its knowledge and authority."

We have accepted Tim Gardam's recommendation that the remit for 6 Music should be redrafted to reflect better the station's character, and its performance in its first two years. The new service licence for 6 Music will take this into account, and it will include a quantitative commitment to archive music. We have already ensured that such a commitment is part of the station's statement of programme policy for 2005/2006.

BBC 6 Music has also taken steps to ensure a clearer definition of its speech output. In 2005/2006 the station is committed to broadcasting more than 550 hours of rebroadcast and newly-commissioned documentaries and essays.



Remit

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

BBC 7 had an average 15-minute weekly reach to adults aged 15+ of 0.44 million or 0.9% in 2004/2005 (comparable data is not available for the whole of 2003/2004).

Since its launch in 2002, the station has found an appreciative audience, largely by exploiting the resources of the BBC speech archive to create a service that is complementary to, but distinctive from, Radio 4.

New drama – including some from writers discovered via the BBC New Writing initiative – has been commissioned for adults and children. BBC 7's children's programmes have drawn particular praise. Tim Gardam, in his independent review of the BBC's digital radio services commissioned by the DCMS, described BBC 7's originated children's programming as "a genuine adornment to British broadcasting and one that no commercial station would do... The two children's programmes *Big Toe* and *Little Toe* have successfully got rid of the perception that radio children's programmes would be hideously old-fashioned. They have developed a multimedia proposition where many children come to radio through the online sites."

70%

of output on Radio Five Live is news

15.5

million adults say they listen to the radio via a digital television



Big Toe

Kirsten O'Brien and Jez Edwards, presenters of BBC 7's children's show *Big Toe*. The station runs four hours of programmes for children each day



Silver Street

Narinder Kaur (Tina) and Jay Kiyani (Jaggy) – in the BBC Asian Network soap *Silver Street*. The show provides many opportunities for new talent from the Asian community

Tim Gardam, however, raised concerns over the impact of the station on its nearest commercial competitor, Oneword. Although we note Gardam's conclusion that the BBC did not deliberately set out to harm Oneword, we recognise that BBC 7 has been controversial because of its alleged market impact. The public value test that we will apply to any proposed new services in future will include an independent assessment of the potential market impact.



Remit

BBC Asian Network aims to offer challenging debate, informed journalism, music, sport, entertainment and drama to audiences of British Asians from different generations. The network broadcasts primarily in English but also in a range of languages spoken by UK Asians. It aims to be the main broadcast forum for debating the issues preoccupying British Asian communities.

BBC Asian Network had an average 15-minute weekly reach to adults aged 15+ of 0.5 million or 1% in 2004/2005 (0.44 million/0.9% in 2003/2004). Almost half of the listeners to Asian Network do not listen to any other BBC radio station.

BBC Asian Network was launched nationally in 2002, based on the existing AM station broadcasting from Leicester. It is establishing itself as a valued service for a previously under-served audience. *The Sonia Deol Show* each weekday morning is a lively forum for debate on issues important to British Asians. The daily 10-minute soap, *Silver Street*, set in a west Midlands community, has been well-received since its launch in 2004 and is an important resource for new writing, production and acting talent from the Asian community. All major religious festivals have been covered including Navrati, Ramadan, Diwali, Christmas and Easter.

We were encouraged that Tim Gardam, in his independent report commissioned by the DCMS on the BBC's digital services, said "The superior quality and greater editorial diversity of the network justifies the Asian Network's presence in the market."

The main challenge ahead is to develop the network's editorial ambition. This should be helped by the formal relationship that the network now has with BBC Radio News and with BBC Radio Five Live – since the start of 2005, the controller of Five Live has been responsible for BBC Asian Network's strategic direction. We are looking for an improved commitment to current affairs, and we are encouraged by the network's new focus on delivering more original journalism.

Governors' review of services New Media

Overview

The internet is now a powerful third medium through which the BBC can serve its licence fee payers alongside television and radio. As well as supporting our television and radio services BBC sites have become destinations in their own right for audiences seeking information, education and entertainment. This year we have redrawn the remit for bbc.co.uk to provide stronger direction and tighter boundaries and to ensure a clearer focus on delivering the BBC's public purposes.

bbc.co.uk continues to do valuable work in opening up the internet to new users, particularly older people, and in providing safe content and guidance for young users. It is also contributing to opening up the BBC itself, through the development of accountability sites.

The BBC's interactive services are an increasingly important component of its output and the BBC remains a leader in this field. The very successful online, mobile and interactive television services developed for the Olympics give an indication of the enormous potential here.

The New Media & Technology division does important work developing new platforms for BBC content, including new ways of delivering high-quality video to mobile phones. There have been successful technical trials of iMP, the interactive Media Player, offering the prospect of video-on-demand and these will continue throughout 2005/2006.



Child friendly

The search engine for the popular CBBC website – specially designed to provide a safe way into the web for young children



Remit

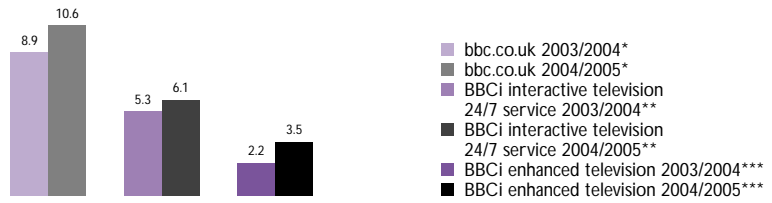
bbc.co.uk aims to serve the BBC's five purposes, with an emphasis on democratic and educational value, through the provision of innovative and distinctive content, available to all. As a starting point on the internet and guide to the medium, bbc.co.uk promotes internet use to develop a deeper relationship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

bbc.co.uk is the largest content-based UK website and one of the top five UK sites in terms of unique users. It has continued to show strong growth. Average monthly reach was 10.6 million or 45.8% of the British online audience (8.9 million/42.5% 2003/2004).

The service is a leader in promoting take-up of the internet. A good example is the *Who Do You Think You Are?* family history website launched in conjunction with the BBC Two series. A key objective was to enable people to use the internet to research their own histories. It was remarkably successful. Record numbers visited the BBC History website and many people used the internet for the first time to research their genealogy – and in doing so discovered other, non-BBC, websites such as the National Archives.

bbc.co.uk is developing and testing new ways for audiences to find and enjoy BBC content. A key initiative over the past 12 months has been the development of the Creative Archive Licence. This offers the potential of opening up public access to the BBC archive while protecting the rights

Monthly reach 2004/2005 of bbc.co.uk, BBCi interactive television 24/7 service and BBCi enhanced television services (millions)



Sources: * BMRB Access (monthly reach age 15+ in GB). **TNS/Interactive Television Tracking Study (monthly reach GB adults age 16+ in digital satellite homes). ***BARB, viewers age 4+ in digital satellite homes. Digital satellite performance only of BBCi enhanced television programmes (eg Olympics, Chelsea Flower Show)

of intellectual property owners and is the fruit of collaboration with other broadcasters and rights holders. It would enable audiences to download BBC content for personal use – including editing it and using it to create new work. The project continues to be trialled and if completed successfully would be subject to a public value test and require approval from the Governors before a full launch.

Another move to increase access has been the introduction of RSS (Really Simple Syndication) in BBC news and sports sites. RSS is software that automatically searches the internet for material of particular interest to a user. RSS makes it easier for BBC audiences to receive news on chosen topics – and also allows approved external sites to carry BBC headlines.

One Minute Movies is an initiative of the BBC films website that lets people publish their own 60 second films on bbc.co.uk and allows audiences to comment on them and rate them. Since the site launched in 2004, there have been more than 300 submissions and the site regularly receives in excess of 80,000 users per month. In addition, the BBC films site has partnered with the UK Film Council to launch the Film Network. This aims to foster a community of young British film makers and encourages them to develop their skills. The site includes a guide for would-be film makers offering help and advice on working in the film industry and on how to secure funding and talent to get their project off the ground. These initiatives formed part of the drive to enhance the distinctiveness of the films site following the Graf review (see box on page 40).

Taggerz is an animated drama, developed specifically for the web, about a gang of graffiti artists and the ethical choices they make. Its subject matter is controversial and

was commissioned specifically for audiences that the BBC traditionally finds hard to reach. *Taggerz* was launched with Radio 1Xtra and was supported with interactive discussions about the issues raised in the drama. In addition to the story, the *Taggerz* site includes an animation tool which enables users to create their own content based on the characters in the story. *Taggerz* was commissioned from an external web production company and is a good example of collaboration between the BBC and the new media independent production sector.

Valuable work has been done to extend services to mobile phones. The *GCSE Bitsize Revision* service, already a successful website, is now available via mobiles. And the popular *Hitchhiker's Guide to the Galaxy* site was developed into a WAP service. During the Olympics, results could be accessed via mobiles and it is estimated that 45,000 people used the service.

One of the BBC's online aspirations is to act as a trusted guide to the internet and bbc.co.uk has done worthwhile work to develop safe ways for children to explore the internet. CBBC Search is a family-friendly search tool that lets children search content from the CBBC website and a selection of other BBC sites and external children's websites pre-approved by the BBC.

In the coming year further work will be done to improve access to BBC websites for people with disabilities.

In 2005 bbc.co.uk played a key role in launching the BBC complaints website, providing an easily accessible way for our audiences to register complaints and receive a quick response. We have also launched our own Governors' website. This will enable us to give a more open



Taggerz

The animated drama *Taggerz*, linked to BBC 1Xtra and available on the internet, helps the BBC get to hard-to-reach audiences among young people



Finding the answer

h2g2, a BBC internet site dedicated to the *Hitchhiker's Guide to the Galaxy*, is available on mobile devices such as PDAs and mobile phones

Response to the Graf Report

account of how we have acted in the interests of licence fee payers and help us engage directly with audiences in order to take greater account of their views on a wide range of topics and issues.

In 2003 the Department for Culture, Media and Sport (DCMS) asked Philip Graf to carry out an independent review of the BBC's online services.

The recommendations of his review, published in 2004, included redefining the remit, strengthening regulation and creating further opportunities for external suppliers. These findings were in tune with our thinking and in the course of the year, we refined the remit for bbc.co.uk and approved other changes (see box).

Work has continued to develop the iCan concept, which provides a way for people to organise community campaigns via the internet. The project has great potential civic value, but also some risks – in particular the potential for confusion between content generated by the BBC and that generated by users. The site, now relaunched under its new name *Action Network*, includes design changes to strengthen perceptions of the BBC as impartial facilitator.

Philip Graf was asked by the DCMS to review the operation of the BBC's online services. His recommendations included drawing up a remit more clearly defined around public purposes; establishing a quota for external suppliers; and reinforcing the regulatory regime.

These recommendations fitted well with our own thinking. We responded in October 2004, welcoming the report and setting out a series of significant changes to bbc.co.uk and the way it does business.

The most important change is a new remit (the remit is set out in full in the opening paragraph of this section). It puts a clearer and stronger boundary around the BBC's online activities and explicitly aligns them with the BBC's five public purposes (for more on these, see *Building public value*, page 54).

We also made it clear that investment decisions should at all times balance the potential to create public value against the risk of negative impact on the market.

In the light of this strategic refocusing, a number of BBC sites were closed down, either because they were too similar to non-BBC sites, or because their value to audiences did not outweigh their risk of negative market impact. These included some sites dealing with sport, listings, games and soaps. Significant cutbacks were made in BBC investment in some other areas, and a number of sites – such as the films site – were tasked with becoming more clearly distinctive.

In all, about 10% of the online content budget is being redirected towards online projects more closely aligned to the BBC's public purposes.

We also felt it was important to improve the BBC's relationships with other online producers. To this end, the BBC has now adopted a voluntary quota of at least 25% of eligible content to be supplied from outside the BBC by 2006/2007. It is estimated that there will be new business worth up to an additional £5million for external suppliers.

Other initiatives include a new model for linking from BBC sites to external sites which places more emphasis on bbc.co.uk as a starting point for the audience's journey into the wider web – part of the BBC's role as a trusted guide to the internet. The BBC has also committed to a new approach to partnership in the internet environment, positioning the BBC as an open resource for other organisations, helping them to achieve their goals.

The full text of our response to the Graf Report can be found at: bbc.co.uk/info/policies/pdf/bbc_graf.pdf.

2

million pages of information on bbc.co.uk

20,000

personal stories sent to the WW2 *People's War* website



Spooks

BBCi's *Spooks Interactive* extends the enjoyment of the spy thriller series with a game based on a mission to stop illegal arms trading.



Interactive Olympics

The BBC's interactive services during the Athens Olympics added depth and breadth to the coverage. Almost 9 million people pressed the red button



Remit

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

The BBC offers two kinds of interactive television services: BBCi 24/7 and BBCi eTV (enhanced television). BBCi 24/7 offers news, weather, sport, programme information and so on. These are available all the time. BBCi eTV offers services related to specific television programmes and events – for example, as explained below, extra events coverage during the Olympics.

Average monthly reach in digital satellite homes for BBCi 24/7 in 2004/2005 was 6.1 million (5.3 million in 2003/2004); and for BBCi eTV was 3.5 million (2.2 million in 2003/2004).

The enhanced interactive service has had some notable successes over the past year. During the Olympics, for example, the BBC was able to expand the number of events it could offer at any one time – by pressing the red button, viewers had the choice of up to four extra sports. This was coverage already paid for which, without interactive, would have gone to waste. By using the potential of interactivity the BBC was able to broadcast five times the hours from Athens than was achieved four years earlier at Sydney. Figures from satellite homes (ie excluding Freeview and cable) show that almost 9 million people used the service.

In March 2005 BBCi launched *Your Stories* – an interactive television service dedicated to short programmes made by members of the public.

The BBCi service was improved this year in two ways. Page numbers were introduced – allowing audiences to access their chosen areas of the service more quickly. There were also technical changes to improve the speed of the service. The service was rebranded to reflect the changes, and usage increased.

The *Ten O'Clock News* piloted an innovative interactive service to extend the amount of information available to news viewers. In the event, it did not deliver acceptable audience reach and the service was withdrawn. This was a disappointment – but we have been assured by management that valuable lessons were learned that will inform future interactive news output.

Work to improve the BBC's 24/7 services will continue in the year ahead, with a continued focus on reducing access times and improving accessibility.

The BBC on demand

One of the great successes of recent years has been the BBC Radio Player, relaunched in an improved version in 2004, which allows people to listen to a wide range of BBC content on the internet, for up to a week after the initial transmission. In the final quarter of 2004/2005 a total of 34 million hours of BBC Network Radio were listened to using the BBC Radio Player. Radio 1 and Radio 4 are the most popular networks with *The Archers* (Radio 4) and *The Essential Mix* (Radio 1) consistently among the programmes requested most frequently.

A new development is podcasting – programmes that can be downloaded to MP3 players. The BBC's so-far fairly limited trials of podcasting have revealed high levels of demand.

The BBC has also been holding small-scale trials of iMP (interactive Media Player). This allows television programmes to be viewed for up to a week after transmission. A larger three-month trial will begin in September involving 5,000 people. The BBC plans to make available around 190 hours of television and 310 hours of radio, as well as local programming and some feature films. We will review the results of this trial in due course.

Governors' review of services

News

Overview

BBC News responded sure-footedly on television, radio and online during 12 months of big breaking stories and set-piece events. It also ensured that important but frequently under-reported stories such as events in Sudan and China were given proper prominence. BBC News generated some strong investigations, the impact of which was felt long after transmission. BBC News 24 consolidated its position.

Serious efforts were made by BBC management to learn the lessons of the Hutton Inquiry. As a result, wide-ranging changes have been made to the way BBC journalists are trained, and a comprehensive reform of the way the BBC handles complaints has been put in place.

We commissioned a report on television current affairs, which has resulted in this genre being given a significantly higher profile on BBC One. We also commissioned an independent review on the impartiality of BBC coverage of the European Union (EU), which exposed some shortcomings. BBC News is making changes to the way it covers the EU. See page 14 for more information.



Death of the Pope

BBC News mounted special programmes as it became clear that Pope John Paul II was close to death in the Vatican



China Week

The gates of the Forbidden City in Beijing – the BBC's *China Week* put the spotlight on this powerful but often under-reported country



The Power of Nightmares

The intellectual background to the war on terror was dissected in the thought-provoking BBC Two documentary series *The Power of Nightmares*



Remit

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

Audiences to BBC News are broadly stable, with strong underlying growth in usage of bbc.co.uk/news. Across television, radio and online, BBC News recorded a claimed weekly reach of 81% of the UK adult population aged 15+ over the course of 2004/2005 (81% 2003/2004 – data available only from December). Claimed weekly reach reflects the number of respondents who recall having seen/heard/used BBC News in the previous week. 81% represents 37.6 million people.

Within that overall performance there are variations across media. Weekly reach among adults aged 15+ for BBC News (network services only – ie not nations and regions services) was:

- Television – BBC One's four main news programmes: 58.5% (60.7% in 2003/2004). 58.5% is equivalent to 27.1 million people
- Television – BBC News 24: 4.8% (4.5% in 2003/2004); 4.8% is equivalent to 2.2 million people
- Radio: 47.5% (47.2% in 2003/2004); 47.5% represents 23.2 million people
- Online: (as a percentage of adults who are online) 22% (17% in 2003/2004); 22% represents 5.2 million people

This has been an exceptional year for news and therefore a testing year for BBC News. It responded sure-footedly to a series of major breaking stories at home and abroad: the Asian tsunami, the Beslan school massacre, the closing weeks in the life of Pope John Paul II, and the floods in Boscawen and Carlisle. Meanwhile, it continued to provide strong reporting of unfolding events in Iraq and Darfur, comprehensive coverage of set-piece events such as the US elections – and also generated a series of significant investigations that caused reverberations well beyond their initial broadcast.

Particularly memorable output included: Hilary Andersson's courageous *Panorama* going behind rebel lines to expose systematic killing by the Janjaweed militia in Darfur, Southern Sudan; fine reactive news reporting from Rachel Harvey and Andrew Harding of the Asian tsunami; Adam Curtis's intelligent and original documentary series for BBC Two, *The Power of Nightmares*, investigating the intellectual background to the war on terror; *Real Story's* investigation of poor childcare standards in *Nurseries Undercover* on BBC One; and *Extraordinary Renditions* from *File on 4* revealing Western complicity in the transfer of terrorist suspects to countries where torture is routine.

There was also an illuminating week of programmes about China – a noteworthy example of the BBC committing resources and airtime to an important story that is often ignored in the day-to-day news agenda. *China Week* programming included a remarkable edition of *Question Time* from Shanghai with a British and Chinese panel and robust discussion of sensitive topics including human rights abuses and the future of Hong Kong.

These achievements came at a real human cost. Simon Cumbers, a BBC cameraman, was shot dead by gunmen in Saudi Arabia, and his colleague Frank Gardner, the BBC's security correspondent, was seriously injured. Kate Peyton, a BBC producer, was shot dead in Somalia. These incidents are a reminder that world-class journalism in difficult places sometimes involves dreadful risk.

During the year we have continued to work to ensure BBC journalism is strengthened in the wake of the findings of the Hutton Inquiry. A review commissioned by management and led by Ronald Neil reported in June 2004 and we endorsed its findings and recommendations (see page 45). Complaints handling has been improved, (see Being accountable and responsible page 61). BBC News has also launched *NewsWatch* on BBC News 24, a weekly feedback programme on BBC News coverage. The programme is supported by a website that includes details of formal rulings on complaints. These developments amount to a considerable programme of reform. We are content with progress so far, but will continue to keep these issues under close review.

We are encouraged that management has taken to heart the need to respond honestly and openly when mistakes are made. When *From Our Own Correspondent* carried an inappropriately personal remark from a BBC correspondent about the death of Yasser Arafat, the first response was to defend the output. But when the Director of News, who had not been consulted about the response, discovered this, she made public her own view that the remark was misjudged. When, some months later, the BBC was tricked by hoaxers into broadcasting an untrue story about compensation for the victims of the Bhopal disaster, there



Asian tsunami
Lyse Doucet reporting from Tamil Nadu for News 24 on the damage caused there by the earthquake and tidal wave in Indonesia



Boscastle floods
Torrential rain and flash floods caused devastation to Boscastle in Cornwall. BBC national and regional news teams worked together to cover the story

was an immediate and unambiguous correction and a high-level investigation to learn the lessons. While it would have been better had neither mistake happened, we are clear that audience trust will only be maintained when mistakes are acknowledged frankly.

During the course of the year we commissioned a report on television current affairs from our own advisers in the Governance Unit. The report was published in February 2005. Current affairs is a core BBC genre, central to the BBC's identity as a public service broadcaster and we are committed to restoring serious current affairs to its proper place and prominence across the BBC, including BBC One. Our report established that, while enthusiasts for current affairs are well-provided for by the BBC, more high-profile output in peak time on BBC One is needed if the mainstream audience is to be reached. We have therefore approved a new management strategy to increase the prominence and appeal of current affairs on BBC One, including increased investment and extra hours in peak time. As a result, the number of midweek hours of current affairs and specials in peak time will be doubled to 16 a year from next year. Special editions of *Panorama* will account for at least half of these extra hours. The *Real Story* strand will evolve into a single-subject programme and be extended to 32 editions. We will monitor the performance of this strategy over the coming year.

We also commissioned a report from an independent external panel on the impartiality and accessibility of BBC News' coverage of the European Union. Details of this, and management's response, can be found on page 14.



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

This has been the first full year of output since BBC News 24 was relaunched at the end of 2003. As we made clear in last year's *Annual Report*, 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 gave a higher priority to compelling and serious journalism. We are encouraged by the significant progress made towards this aim, and by News 24's increase in audience reach.

BBC News commissioned its own independent comparative study of BBC News 24 against other UK 24-hour news providers. The report, from Cardiff University, underlined News 24's broad agenda, its use of specialist reporters and correspondents, and the priority it gives to international news, both in terms of overall quantity and in breadth of countries covered. In language and style, where competitors tended to focus on drama, News 24 tended to be more cautious, more likely to quote the source of information, and less inclined towards sensationalism.

News 24 had notable success in its response to the biggest breaking story of the year – the Asian tsunami. The network rolled continuously on the story from Boxing Day, making good use of the BBC's network of knowledgeable foreign correspondents already based in the area. Its reporting was sober, sensitive, factual and comprehensive.

A number of breaking stories during the year – including the Beslan school siege and the kidnap and murder of the British hostage Ken Bigley – posed difficult ethical issues over what images were appropriate to show. These were well handled.

News 24 has done good work using themed days to bring extended depth and analysis to important subjects. Three days of coverage of global warming issues was a good example of the network's praiseworthy editorial ambition.

There has been encouraging evidence of better cooperation between BBC News 24 and BBC Nations & Regions in joint deployments to cover breaking stories (for example, the Boscastle flood and the devastating explosion in a Glasgow plastics factory). But there is more to do here to ensure that licence fee payers always get the full value of the BBC's considerable investment in newsgathering capability across the country.

51

years since the first BBC Television News on 5 July 1954

5.5

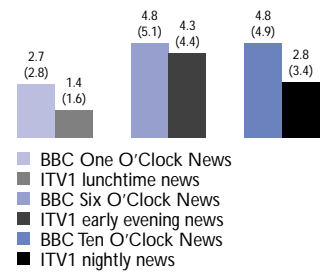
million watched BBC News 24 during the week following the Asian tsunami



US election

George W. Bush addresses an election rally in Wisconsin. The US Presidential election was just one of a succession of major news stories in 2004/2005

Average audience for network news bulletins 2004/2005 (millions)



Source: BARB, TNS/Infosis, age 4+, average
Note: Figures for 2003/2004 appear in brackets

The Neil Report

Following the Hutton Inquiry, management set up an internal review to consider the editorial lessons to be learned. It was led by Ronald Neil, a former Director of BBC News and Current Affairs.

The Neil report established five journalistic values which should drive BBC journalism at all times:

- Truth and accuracy
- Serving the public interest
- Impartiality and diversity of opinion
- Independence
- Accountability

The report also recommended changes to BBC guidelines to ensure that: subjects of serious and potentially defamatory allegations have time to respond before transmission except in very rare cases; stories making serious allegations are not normally broken in live two-ways; and anonymity is not granted to a source without serious thought.

The report recommended that the BBC establishes a college of journalism to ensure lifelong training of BBC journalists.

Finally, the report recommended reform of the BBC complaints handling system.

The report was presented to the Governors and we fully endorsed its findings and recommendations, which are now being put into effect.

BBC PARLIAMENT

Remit

BBC Parliament is the only UK channel dedicated to the coverage of politics. Selected debates and committees of Westminster and the work of the devolved chambers of the UK are broadcast uninterrupted, complemented by text services and programmes that explore the politics behind the debates.

BBC Parliament continues to do valuable work making available to the general viewer the deliberations of the UK's parliamentary institutions and devolved chambers. It has also broadcast in full key committee hearings – for example BBC Parliament showed all the sessions of the Culture, Media and Sport committees on BBC Charter Review. In addition it carries selected coverage from the European Parliament, and offers regular coverage from the USA. This year's US coverage included full live coverage of the Democrat and Republican national conventions and recordings of the presidential and vice-presidential debates.

A recent innovation is the introduction of extended broadcasts of historic programming from the BBC archive. For example, the general election night programmes from October 1974 and May 1979 were rebroadcast on their anniversaries. In January the archive outside broadcast of the state funeral of Sir Winston Churchill was shown in full on the event's 40th anniversary. These broadcasts have been greatly appreciated by audiences.

The main issue continues to be the disappointing quality of the viewing experience on Freeview. The quarter-screen view (and freezing of text on many receivers) is unsatisfactory. We recognise that this is not an easy issue to solve, involving as it does the issue of bandwidth and deciding between competing priorities for its use. We will continue to press for a solution to be found to improve the viewing quality of this important BBC service.

bbc.co.uk/news

The News site on [bbc.co.uk](http://bbc.co.uk/news) has continued to develop innovative ways to add depth and context to stories. A series of quick guides were launched, providing background and context to complex, long-running stories such as Chechnya, Congo, and al-Qaeda, and issues such as genetically modified (GM) food. Following the Asian tsunami, traffic to the BBC website was more than 50% above customary levels for the Christmas/New Year period. An online guide, *The tsunami disaster explained*, using animation and satellite photographs to trace the underlying geophysics of the wave, was downloaded more than 2.5 million times in the four months after the disaster.

Governors' review of services BBC World Service & Global News

Overview

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

One of the BBC objectives set by the Board last year put particular focus on the reputation for independence, impartiality and honesty of the BBC's global news services (see Governors' review of objectives on page 18). We are encouraged to see evidence of a real improvement here.

However, there are many challenges ahead and the Global News division will have to continue its process of re-prioritisation to ensure it is best-placed to meet the needs of its many audiences.

The Governors are advised independently by the World Service and Global News Consultative Group. Their report is on page 60.

149

million estimated listeners each week to BBC World Service

42

foreign language news websites, plus English



Afghanistan

An Afghan war widow supporting herself by farming chickens. Her story was reported on *Afghan Woman's Hour*, produced by The World Service Trust



BBCIndonesia.com

The website of the BBC World Service Indonesian service. World Service websites are used by nearly 7 million people each week

Global News division

Overall this has been a strong year for the Global News division. We were pleased to note the increased collaboration between the services which has enabled strong integrated coverage of big stories resulting in greater editorial impact across radio, television and online.

We were particularly glad to see that audience surveys of the BBC's reputation in major markets were on the whole positive. Trust ratings for BBC World Service remain higher than its leading international radio competitor in virtually every market surveyed. The decline in trust in some markets, particularly in the Islamic world, which followed Britain's involvement in the Iraq War, has now been reversed.

Reputation ratings for BBC World – the BBC's international television news channel – are also strong, and have improved since last year. In a European survey by Media Brand Values, BBC World was ranked first among news channels across Europe for being impartial, unbiased, stimulating and trustworthy. It was identified as the most trusted global news or business channel among international air travellers, a core segment of its audience.

As we have reported elsewhere (see Governors' review of News on page 44) the BBC was the victim of an elaborate hoax on the 20th anniversary of the Dow Chemicals disaster in Bhopal, India, and as a result broadcast a false story about compensation for those affected. This story originated on BBC World. It was a serious error, but we were reassured by the channel's response once the hoax became apparent. There was a prompt statement of clarification and correction, and, after an investigation, the lessons learned were incorporated into the training of BBC journalists.

The Asian tsunami was a major editorial test for the division. It responded extremely well. The record shows that within two hours of the Indonesian earthquake, BBC World Service's English, Indonesian, Thai and Tamil language services had mounted extra programming. BBC Monitoring fed pictures from local television stations to BBC World and BBC News 24; and its Nairobi unit forwarded a tsunami report from a radio station in a remote region of Somalia – the first indication to the world that the destruction had extended as far as Africa. BBC World increased its coverage and has continued to give the story priority. The BBC's international-facing online news sites created a valuable channel of communication for displaced people and their relatives.

The division faces many challenges ahead. Technology is changing, audiences are becoming more demanding, and there are large shifts in the global political and social landscape. All these mean that the time is right for a searching review to ensure the BBC's international services are structured in such a way as to provide the optimum response to audience need.

We therefore welcome the opportunity presented by the Green Paper for management to review the present portfolio of language services with a view to significant change.



BBC World Service

In the 2004 spending review, announced in July, BBC World Service confirmed an increase in funding of £27million over the period 2005–2008. This amounts to RPI+1.5% per year.

The additional funds will be invested in strategic initiatives including strengthening the impact of BBC World Service in the Middle East and the wider Islamic world; increasing interactivity; and improving audibility by expanding local FM distribution in key markets. We note that this investment will be accompanied by a vigorous programme of efficiencies to cover rising operational costs and a review of value for money of the current support services.

We remain committed to the idea of launching a BBC television news service in Arabic. Although no new funds were made available in the spending review, it remains an important strategic aim and discussions continue with the Foreign and Commonwealth Office.

BBC World Service faces increasing competition from local and national stations. It has responded well by making its output available on FM, and we note its continuing success in this area. By the end of the year, BBC World Service output was on FM in 144 capital cities, up from 139 in 2003.

Governors' review of services BBC World Service & Global News



After Beslan

The school gym destroyed in the Beslan massacre in which more than 300 – many of them children – were killed



BBC World

Martine Dennis, one of the presenters of BBC World, the BBC's 24-hour international news channel for a global audience

BBC World Service is estimated to reach 149 million listeners each week (up from 146 million in 2004). This is more than 50% higher than the audience to any other international broadcaster.

BBC World Service is now the biggest speech radio station in Iraq. Weekly audiences have increased from 1.8 million (13% of the radio audience) to 3.3 million (22%). This follows the rapid deployment of BBC FM relays in key parts of the country, including Baghdad, Mosul and Irbil, Kirkuk, Al-Nasirya, Basra, Al-Kut, Salahuddin and Al-Amara.

Although surveying audiences in Afghanistan is difficult due to safety considerations, the limited work so far has uncovered around 2.8 million listeners – an increase of 2 million on last year's survey which was limited to Kabul. The latest survey also showed that BBC World Service programmes in Pashto and Persian had a 60% reach in the Afghan capital.

In India, weekly audiences have risen by 4.8 million to a total of 16.4 million. The increase has followed improvements in Hindi language programmes and a high profile series of BBC Hindi road shows in rural areas of the country. This is the first increase in a number of years following a significant drop in overall radio listening in India and a ban by Indian regulators on local FM stations carrying news from foreign broadcasters.

The USA now has 5 million weekly listeners – its highest level ever, up from 4.7 million last year. One in five opinion formers in New York and Washington listen each week while the figure in Boston is one in four.

Following a drop in listeners in Bangladesh last year, audiences to the BBC Bengali Service returned to pre-Iraq-war levels. Audiences rose by 2.6 million to an overall total of 13 million. The growth of the BBC World Service audience is mostly driven by the increase in rural listening, and represents a strong recovery from the audience drop in 2003 following the Iraq war. This latest survey reveals that the vast majority of those who have ever listened to the BBC – more than 80% – consider it to be trustworthy.

During 2004, the Nigerian Government banned local FM stations rebroadcasting news programmes from foreign broadcasters. This resulted in an overall drop of 1.5 million listeners in the country. This was one of the main factors for a drop in the global audiences for English language programmes – down 6 million to 39 million.

Growing competition in many regions had a significant impact on BBC World Service audiences. Pakistan, Kenya and Tanzania were among the 22 countries where audiences fell.

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



BBC World

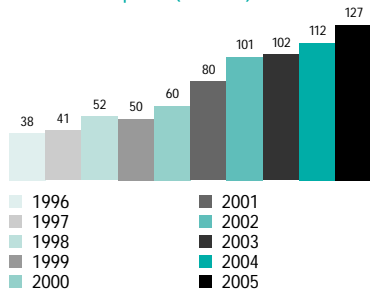
We were encouraged to note that BBC World, the commercially-funded English language news and information channel, has continued to show improvements, both in the quality of its editorial output, and in audience reach and household distribution.

Following an extensive research study of international news viewers' habits and opinions, the channel positioning has been changed to meet the expectations and demands of a modern global audience. The core proposition is *Putting News First*. This has meant continued focus on impartial and authoritative news and analysis, with more live news and business coverage. As a result the channel now has a more fluent and consistent schedule. There have also been improvements to BBC World's on-air presentation and studio set.

Its global audiences continue to increase and BBC World is now estimated to reach 59 million viewers per week. There has been particularly strong growth in Europe; the high viewing recorded in Asia during the Iraq war has been maintained; and the channel has increased its viewing share compared to its major international competitors.

In India, ratings showed sharp increases – overtaking local news channels – during coverage of major events of global significance, such as the Asian tsunami, the last days of Pope John Paul II and the US Presidential election.

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



Source: BBC World Distribution. Department, various



Indian voices

Listeners air their views at a BBC *Voice of the People* road show in rural India. These have helped build World Service audiences in the subcontinent



BBC Monitoring

BBC Monitoring at Caversham keeps track of thousands of radio, television, online and press sources. It can be the first to hear of international events

Globally, BBC World's household distribution figures have increased by 13% in the past year, and it is now among the best-distributed television channels in Europe. The channel is available 24 hours a day in 127 million homes, while a further 143 million households are able to see BBC World on a part-time basis, bringing total distribution to 270 million households.

The greatest challenge remains the search for 24-hour distribution in North America – a market where it is now difficult for a linear news channel to gain a place on cable networks. BBC World has been in discussion with a number of parties.

BBC World achieved strong underlying revenue growth during the year and saw revenues rise by 9% despite the continued decline of the US dollar. Overall channel results, which reported a loss after tax and interest of £11.2million, were substantially better than expected for the year.

BBC international-facing online news sites

We note good progress in the BBC's international online news sites. Usage grew to a record 324 million page impressions in March 2005, up from 282 million a year earlier. Although the annual increase was lower than expected, the rise in the number of individual users was higher, growing by 29% to 21.5 million. This corresponds to around 6.7 million weekly unique users.

The in-depth sites now bring together information and analysis, including audio and video, on major issues such as Islam and the West, the changing face of China, and development in Africa.

The service is making good progress in using interactivity. Fully-interactive multimedia sites are being developed in key languages including Arabic, Spanish, Russian and Urdu in addition to English. Interactivity is also being used to add an extra dimension to coverage of major stories. The English *Have Your Say* website received 25,000 emails in the first week after the Asian tsunami. These included reactions from those directly affected, and from those concerned for the wellbeing of people known to them. Some users also sent in photos and videos of the tsunami-affected areas. On 28 December 2004, special pages were set up on people missing in Indonesia, Thailand, Sri Lanka, India and the Maldives. Several families were reunited as a result.

Notable initiatives have included *Voices from Women*, commissioned in conjunction with BBCArabic.com, which has given a voice to ordinary people inside Iraq. BBCUrdu.com created great interest by providing video conferencing technology to enable families divided by the Line of Control in Kashmir to see and speak to each other.

BBC Monitoring

BBC Monitoring continues to do valuable work, supplying news, information and comment gathered from the mass media around the world. It operates around the clock, monitoring more than 3,000 radio, television, press, internet and news agency sources, and translating up to 100 languages, to provide an authoritative view of world events.

BBC Monitoring is able to track news sources from some of the world's most difficult regions and this year it provided valued source material for stakeholders including the Foreign Office, the Cabinet Office, the Ministry of Defence and the BBC from areas such as the Middle East, Darfur, Russia and Ukraine.

In Iraq the service kept track of the rapid growth in the number of newspapers and radio and television stations since the overthrow of Saddam Hussein's regime.

In Ukraine, where BBC Monitoring has its own bureau, the signs of a media clampdown were evident to monitoring staff long before the disputed elections were held. Ukraine showed the value of being able to track a story over a long period of time and not just covering it when it makes the news headlines.

In 2004 the Cabinet Office, on behalf of all stakeholders, began a review of BBC Monitoring's oversight and funding arrangements. The review is considering a new oversight and funding arrangement that recognises BBC Monitoring's position as a national and international asset.

Governors' review of services Nations & Regions

Overview

BBC Nations & Regions seeks to provide high-quality local, regional and network programmes and services that are valued by audiences throughout the UK, connecting them to their communities and contributing to their sense of belonging. This approach will become increasingly important as the market model for regional public service provision is no longer proving viable.

This sense of connection between the BBC and its audiences will be strengthened over the coming years by increasing commissioning and production across the UK and through the move of significant parts of the BBC production base out of London. We hope that this will play a part in countering the perceived metropolitan dominance of BBC output noted by some sections of BBC audiences.

BBC research has shown an increasing desire for local television services. New technology now makes this possible, and the BBC will pilot services in the West Midlands this year.

The BBC remains fully committed to supporting the UK's indigenous minority languages: Welsh, Gaelic, Irish and Ulster Scots both in terms of output, and with learning initiatives.

64p

per month per licence fee spent on BBC local radio and radio broadcast in the Nations

257,000

people attended events across the UK to mark *Last Night of the Proms*



British Isles: A Natural History

Alan Titchmarsh, presenter of *British Isles: A Natural History*. Each episode had a section dealing with viewers' own part of the country



Carlisle floods

The devastating floods in the Carlisle area – BBC Radio Cumbria proved an invaluable lifeline for the many thousands of people affected

BBC English Regions

Remit

BBC English Regions aims 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 BBC's network of 40 local radio stations in the English Regions continues to play a key role, enabling the BBC to reach very large numbers of listeners who would otherwise be untouched by its radio output. The BBC's output is made distinctive by its predominance of speech – its commercial competitors offer a largely music-based service. There have been notable innovations such as Radio Nottingham's Groundswell project which broadcasts debates about local issues from specially arranged public meetings with the relevant decision makers. Across the year, the average weekly reach of BBC Local Radio was broadly stable at 20.1% or 7.81 million people in 2004/2005 (19.9%/7.82 million in 2003/2004) – a good performance in an increasingly competitive environment.

The English Regions' television output is largely concentrated on regional news and current affairs. In 2004/2005, average 15-minute weekly reach for the BBC's early evening news fell slightly to 21% or 9.75 million people (down from 21.9%/10.17 million in 2003/2004) but remained well ahead of ITV. For the first time these programmes recorded higher audience reach than ITV competition in every region of England. *Inside Out*, the weekly current affairs strand, continues to deliver diverse and ambitious journalism:

memorable output included the London region's investigation of educational under-achievement by some black boys.

British Isles: A Natural History, a series from the BBC's Natural History Unit, provided the setting for an innovative experiment in regionalising and localising nationally-shown output. Each weekly part contained a ten-minute regional opt-out offering local insights into the themes of the main programme. In addition, information about local areas was featured on the *Where I Live* websites, and many listeners joined their BBC Local Radio stations for well-received guided 'walks through time' exploring the natural history of their locality.

Local broadcasting comes into its own at times of acute local stress when it can provide a vital – and greatly appreciated – lifeline service. In August, the BBC South West region provided strong coverage of the Boscastle floods across regional television, Radio Cornwall and the associated *Where I Live* website. In January Radio Cumbria stayed on air round the clock to report the flood disaster in Carlisle – and managed to do so despite the station being cut off by rising waters that knocked out electricity supplies. In the first four days after the flood, the Cumbria *Where I Live* website recorded nearly 2.5 million page impressions – compared to 66,000 for the same period a week earlier.

We are committed to respond to the demand for more local (as opposed to regional) television news services and will watch closely the forthcoming pilot of a highly-local BBC television service on digital satellite and broadband in the West Midlands. We have noted concerns about the potential market impact of such services, and the pilot will enable us to measure the public value created and the impact on other potential providers.

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 for audiences in Scotland and across the UK.

BBC Scotland's news and current affairs output continues to perform well overall. On radio, average weekly reach of *Good Morning Scotland* dropped slightly to 10% or 0.42 million (from 10.9%/0.45 million in 2003/2004). On television, average 15-minute weekly reach to the early evening news *Reporting Scotland* was 24.4% or 1.15 million people (24.6%/1.16 million in 2003/2004) and was comfortably ahead of ITV. Notable television current affairs included *Security Wars*, *Frontline Scotland's* investigation of Glasgow's unregulated security industry. We have noted the judgement of the Broadcasting Council for Scotland that there is scope to develop a more imaginative and engaging approach to covering politics.

There have been some notable drama successes: the 26-part daytime radio drama serial *Lynton Bay* won critical praise; and research carried out for the BBC suggests that *River City*, now in its third year, is establishing itself and is now bracketed by Scottish viewers with other major TV soaps. It has gained recognition for its strong Scottish identity and has also made a noticeable impact in supporting the broadcasting craft and talent base in Scotland.

Governors' review of services Nations & Regions



River City

BBC Scotland's *River City* – now in its third year and establishing itself with viewers alongside other major television soaps



Weston's Warriors

A World War Two veteran at Reichswald War Cemetery. *Weston's Warriors* from BBC Cymru Wales marked the 60th anniversary of the Normandy landings

BBC Scotland's support for Gaelic broadcasting has remained strong. There is a regular Thursday evening slot on BBC Two, and Radio nan Gaidheal and the BBC Alba website are well-received. The *Colin and Cumberland* language-learning initiative has drawn praise. Strong support has been expressed at BBC Scotland public meetings for *Eòrpa*, which reports on European social and political issues. We were encouraged to see the BBC's history of commitment to safeguarding Gaelic cultural heritage recognised in the Charter Review Green Paper, and we welcome the Government's recommendation that the BBC should play a key role in the development of a Gaelic channel.

BBC Scotland's *Island-Blogging* pilot, which provides an online platform for islanders in North Argyll, has proved successful and is to be rolled out to all islands in Scotland.

In last year's *Annual Report* we noted the loss of some sports rights and the challenge this posed. We are encouraged by the success of Radio Scotland in securing rights to live coverage of Scottish Premier League matches over four football seasons. Television rights were secured for the CIS Cup, Scotland's away World Cup fixtures, and for some UEFA Cup games.

BBC Cymru Wales

Remit

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

News continues to be the cornerstone of BBC Cymru Wales. Audiences to television news are down a little, with 15-minute weekly reach to the early evening news *Wales Today* averaging 26% or 0.71 million people (26.4%/0.73 million in 2003/2004) but remain very substantially ahead of ITV. *Wales Today* won particular praise for its coverage of the Clywch inquiry into abuse of school pupils. There has been some strong current affairs and documentary output, including *The Fix*, looking at drug addiction in Wales.

The reach of Radio Wales slipped somewhat. Average weekly reach was 18.1% or 0.43 million people (down from 20.2%/0.48 million in 2003/2004). Radio Cymru's weekly reach also fell, to 6.8% or 0.16 million people (7.6%/0.18 million in 2003/2004).

BBC Cymru Wales has supplied the network with successful programming across a range of genres. These included factual (*A Year at Kew*); drama (*Dr Who*); arts (*Painting Flowers*), and music (*The Little Prince*). Notable documentary output for BBC Cymru Wales included *Weston's Warriors* marking the 60th anniversary of the Allied landings in Normandy; and *Bread of Heaven*, Huw Edwards' gripping and deservedly popular account of the way religion has shaped the culture and history of Wales.

We were encouraged by the Department for Culture, Media and Sport (DCMS) public consultation and research, reported in the Charter Review Green Paper, showing the high value placed by Welsh speakers on the BBC's commitment to the Welsh language. The BBC has a long-standing obligation to supply 520 hours of licence-funded programming free of charge to the Welsh-language television channel, S4C, each year. This includes much of S4C's most significant output, including its news services and the much-loved soap, *Pobol y Cwm*, which marked its 30th birthday in 2004. We have noted the recommendations from Ofcom about the BBC's relationship with S4C. The BBC has proposed ways to strengthen and deepen the relationship. These include a new strategic partnership between S4C and the BBC to cement the relationship. This will demonstrate, publicly and transparently, the BBC's creative, operational and financial support for S4C.

The loss of sports rights that we noted in last year's *Annual Report* continues to pose problems in both football and rugby. However, the BBC has negotiated a new contract with the Celtic Rugby Unions, and BBC Wales has acquired secondary television rights for coverage in Welsh of Wales' home international football matches along with radio coverage in both languages.

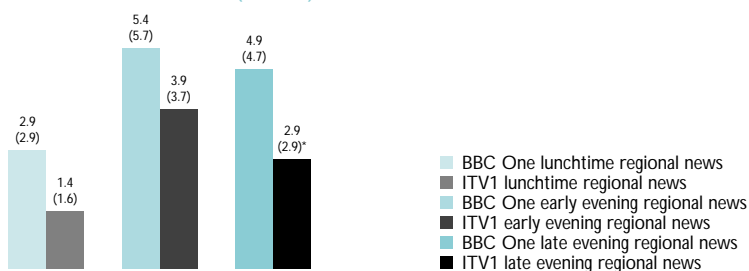
We have noted the serious concern expressed by the Broadcasting Council for Wales over the unavailability of free-to-air digital television services in large parts of Wales. FreeSat (the proposed free-to-air digital satellite service) may supply a solution and this is something being actively pursued.



Murphy's Law

James Nesbit as the tough undercover cop in *Murphy's Law* – one of BBC Northern Ireland's successful network drama commissions

Average audience for regional news bulletins across the UK 2004/2005 (millions)



Source: BARB, TNS/Infosys, age 4+ average. * ITV late evening news figures are for the period 2 February 2004 to end March 2004. Note: Figures for 2003/2004 appear in brackets

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.

We were encouraged by the DCMS public consultation and research reported in the Charter Review Green Paper showing that "views about the BBC's output in Northern Ireland were particularly positive". During the year under review, *My Name is Paul*, a moving observational documentary about a family's struggle to educate their autistic son, won particular praise and a Royal Television Society (RTS) award. The considerable broadcasting skills of Stephen Nolan were recognised by a RTS award for best national and regional presenter. Output effectively and successfully reflects local culture across different genres – from *The Pipe Band Championships* to the comedy series *Give My Head Peace*, which marked its tenth anniversary.

The 15-minute reach of the early evening *Newsline* averaged 19.8% or 0.31 million people (20.3%/0.31 million in 2003/2004). BBC Northern Ireland has traditionally faced strong competition from UTV in news provision and it is the one area in the Nations & Regions where the BBC offering does not win larger audiences than its commercial competition.

The reach of Radio Ulster and Radio Foyle remained broadly stable. The two stations' combined average weekly reach was 37% or 0.5 million (37.7%/0.51 million in 2003/2004). These are impressive figures: Radio Ulster remains the most listened-to radio station in Northern Ireland, and Radio Foyle has been recognised with its fourth Sony Gold award as Station of the Year.

BBC Northern Ireland has produced successful output for the network across a range of genres. Drama, in particular, has had some notable successes. These include *Messiah III: The Promise*, *Murphy's Law*, and *Pulling Moves*.

We have noted the anxiety expressed by the Broadcasting Council for Northern Ireland over the commitment to indigenous language programming and services under the new Charter. We remain committed to providing output in Irish and Ulster Scots and recognise our responsibility to reflect the richness and diversity of the various languages and identities of Northern Ireland.

Concern has been expressed to us over the limited availability of DAB digital radio services in Northern Ireland. We were pleased to note that three new DAB-enabled transmitters will become operational later this year, but recognise that there is more to do here.

Building public value

Overview

The idea of building public value is central to our vision of a BBC renewed for the 21st century. The BBC is more than just the sum of its output: it seeks to contribute to the quality of life in society as a whole. A year ago the BBC defined its public purpose as the creation of public value in five main ways:

- Democratic value
- Cultural and creative value
- Educational value
- Social and community value
- Global value

The Government has now asked the BBC to take on a sixth purpose for the next Charter – taking a leading role in building digital Britain, and we have agreed to this.

In this *Annual Report* there are many examples of the BBC creating public value. Its news services, for example, create democratic value by providing trusted and impartial news and information which supports civic life; and its comedy and drama create cultural and creative value by bringing talent and audiences together to break new ground.

In this section we look in detail at three genres – learning, music, and sport – and report on how they helped the BBC fulfil its public purposes last year.

295

new music sessions recorded for 6 Music in 2004/2005

8.9

million people accessed the BBC's Olympic interactive services on satellite alone



Webwise

The BBC's beginner's guide to the internet, *Webwise*, is part of the BBC's commitment to help bridge the digital divide



Family tree

The television series *Who Do You Think You Are?* introduced many people to family genealogy – the BBC website gave them the tools to research their own roots

Learning

The BBC provides wide support for learning. This includes formal learning such as schools broadcasting; informal learning such as gardening or history programmes; and also social action campaigns such as the anti-obesity *Big Challenge* begun in 2004.

A key part of the BBC's learning output is tied directly to the school and further-education curriculum. The digital channel CBeebies (see page 29) is specifically designed to support early learning for pre-school children. The CBBC Channel (see page 28) runs a four-hour block of schools programmes each weekday during term time. *BBC Bitesize Revision* is a very successful web-based revision service used by around two-thirds of students and teachers. Its content is tailored for exams in England, Scotland, Wales and Northern Ireland, and users report that *Bitesize* makes revision more varied and enjoyable, and helps to build confidence through self-testing.

For adults, BBC Two hosts the *Learning Zone* overnight, offering educational programmes for recording to be watched at a more convenient time. These include output from the Open University, with which the BBC has had a long and productive educational partnership. *Skillswise*, based on the Adult and Literacy and Numeracy Core Curriculums for England, Wales and Northern Ireland, helps adults improve their basic reading, writing and maths. *Webwise* is a popular beginner's guide to using the internet.

Next year the BBC will launch one of its biggest formal learning initiatives: the Digital Curriculum. This will deliver, via the internet, high-quality video, sound and interactive material linked to key areas of the curriculum. The service is being developed in collaboration with the education

profession and with other industry providers. Half the content will come from private sector suppliers. To maximise the learning benefits of the Digital Curriculum it is essential that the BBC complements the private sector effort. We will monitor this closely.

Alongside these formal learning initiatives, the BBC also offers a wide range of informal but targeted learning output. This aims to provide relevant and engaging learning opportunities not connected to formal or course-related learning. *Who Do You Think You Are?* introduced many people to family genealogy – and the website gave them the tools to track their own family history. The *WW2 People's War* website, the biggest archive of its kind in the world of personal memories of World War Two, continues to grow – and also provides a gateway into the internet for older people.

The BBC regularly runs social action campaigns. In 2004 a two-year campaign was launched aimed at reducing obesity under the title *Big Challenge*. It took the form of a television series, *Fat Nation*, on BBC One and BBC Three, supported by output on all BBC platforms including interactive television and text messages to mobile phones. There has also been a range of outreach activity including roadshows.

Although the television series did not perform as well as had been hoped, there is evidence that the associated output was successful in reaching large numbers of people. The website drew 360,000 unique users per month, and 250,000 support packs were sold in the first two months. Future campaigns will include a major initiative to increase literacy, to be launched later this year.



Last Night of the Proms

More than 250,000 people attended the UK-wide *Proms in the Park* events to hear live music and see a relay from the *Last Night of the Proms* in the Albert Hall



Flashmob – The Opera

Live opera from the Meadowhall shopping centre in Sheffield – a follow-up to the original *Flashmob*, staged among the commuters at Paddington Station

Music

Highlights from BBC music in 2004/2005 included major festivals such as the Proms, Glastonbury and *Music Live*, as well as intimate Hub Sessions on BBC 6 Music and new black urban music on BBC 1Xtra.

The BBC exists to inform, to educate, and to entertain. In its music output it seeks to do all three – with an unparalleled ambition of scope and scale that puts the stress on new music, live or specially recorded performance across many different genres. There are now five BBC radio stations devoted largely to music, a growing range of coverage on BBC television, on-demand access via the BBC Radio Player, and a large archive of music and background material on bbc.co.uk.

The BBC itself maintains five orchestras, based in London, Manchester, Scotland and Wales, and has a close partnership with the Ulster Orchestra. Together with the BBC Singers, they deliver more than 400 performances a year. The BBC's role as catalyst and investor in the UK's musical life includes the commissioning of new music (Radio 3 is the biggest commissioner of new music in the world) and providing platforms for new home-grown talent – Radio 1 and 1Xtra have a particularly strong track record here.

The Proms are one of the largest and most successful classical music festivals in the world. The 2004 season won high praise for its diverse and varied programme, the whole of which was broadcast on Radio 3. Highlights included the cellist Yo-Yo Ma and the Silk Road Ensemble working with children at the British Library and premiering new commissions from Chinese-American composers. Sir Simon Rattle performed Wagner's *Das Rheingold* for the first time on period instruments at the start of a four-year Proms *Ring Cycle*. Average attendance at the main concerts rose to

86.5% of capacity (84% in 2003). More Proms were televised than ever before. Outreach activity included *Proms Out and About*, with BBC orchestras playing in Hackney and Hammersmith to families who had never experienced an orchestral concert. For the *Last Night of the Proms* the nations and regions once again came together for the *Proms in the Park* events, attended by 257,000 people (252,000 in 2003).

BBC Music Live 2004 staged a very successful celebration of music in Northern Ireland including Radio 1's *One Big Weekend* event in Londonderry, which brought local communities together across the sectarian divide for two days of live music broadcasts. The Glastonbury Festival was covered extensively on BBC Television and Radio. Innovative approaches to presenting music included BBC Three's *Flashmob – The Opera* performed live among the commuters of Paddington Station.

The BBC's commitment to supporting those who wish to develop their understanding of music and music-making remained strong. On Radio 3 *Discovering Music* did fine work deconstructing classics to reveal their inner working. On Radio 2 *Sold on Song* encouraged the art and craft of popular songwriting. bbc.co.uk carries hundreds of profiles of musicians and a series of games that encourage budding young composers to try their hand at music-making. Radio 3's *Making Tracks* concerts enabled more than 5,000 school children to hear live orchestral and choral music. The *Fame Academy* Bursaries, using money raised from record sales and phone-voting connected with the original programme, have provided funding to help young musicians with their musical education and given hundreds of grants to school children to help them buy instruments and musical equipment.



Six Nations

Ireland versus Scotland in the Six Nations rugby. The BBC holds exclusive broadcasting rights to this event until 2010



Sport Academy

Master classes from the stars, hints, tips, encouragement. The BBC Sport Academy website is dedicated to persuading people to try sport for themselves



Darts champion

Phil Taylor winning the World Darts Championship. The BBC covers more than 40 sports



The Olympics and Paralympics, broadcast exclusively on the BBC, were the high point of a remarkable year for BBC Sport. The BBC is committed to covering a wide range of sports – and to supporting sport at the grassroots.

Sport is central to our audiences' expectations of what the BBC should provide, and to our public service mission. It helps to build social and community value by bringing people together in shared celebration of achievement and it also has valuable educational and health benefits. Over the last four years the BBC has put in place a new sports strategy. At its heart is the ambition that the BBC should remain the national sports broadcaster. Given the intense competition for sports rights in recent years, this has meant prioritising spending on sports rights to enable the BBC to continue to offer coverage of sporting events of great importance, national and international, on television, radio, and online.

This year that has meant, in particular, The European Football Championships, and the Olympics and Paralympics. But it has also included the return of Premiership football rights to *Match of the Day*, and memorable coverage of the Six Nations Rugby Championship, the FA Cup, The Open and Wimbledon.

The Athens Olympics and Paralympics brought key moments, such as Kelly Holmes' double gold-medal performances, to very large audiences. But, just as remarkable, was the following generated for less high-profile events. The BBC covered 28 Olympic sports and half of them attracted audiences of more than 4 million. This was also the first time the BBC has been able to offer live coverage

of the Paralympics. Peak-time audiences reached well over 2 million – giving disabled sport unprecedented exposure.

Audiences benefited from remarkable advances in technology. The BBC's interactive television coverage, accessed by some 9 million people, allowed viewers to choose which of up to five events they wanted to watch. This was extra coverage the licence fee had already paid for, but which, without the possibilities of interactive, would have gone to waste. On broadband, users could access all the live streams, including the interactive ones, plus highlights and supporting text – and they had the opportunity to discuss events with other broadband users. The service attracted 1.2 million users.

Football remains a key way of connecting with audiences and greater investment has enabled the BBC to retain a significant presence here. The centrepiece of the year was the European Football Championship, covered live on Radio Five Live and Five Live Sports Extra, with television coverage being shared with ITV. The England against Portugal match drew a record BBC television football audience.

In addition to the major sports, the BBC also supports minority sports. Altogether, more than 40 different sports were covered by the BBC across television, radio and online throughout the year.

The BBC also seeks to support sport at grassroots level. The *Sport Academy* website, which encourages participation in sports and helps to build sporting skills, now reaches well over 1 million people a week. The second Sport Relief raised more than £16million for charity.

Being accountable and responsible

Overview

We accept that we must do more to increase accountability and transparency in the BBC and this is a current and future priority. Governors' accountability activities in 2004/2005 have included consultative meetings with licence fee payers; commissioning independent research to learn from licence fee payers what they think about aspects of BBC services; approving an overhaul of the BBC's system for handling complaints; and continuing to work closely with the BBC's advisory bodies. We have recently launched our own website (bbcgovernors.co.uk) and this year we will hold an annual general meeting.

In this section we also report on the BBC's responsibilities in supporting the wider UK broadcasting industry through initiatives to find and develop talent; to provide training both for BBC staff and for people working in other parts of the industry; and to support diversity in its workforce.

The BBC has a responsibility to be a good corporate citizen. Our report covers the way the BBC supports charitable activity through fundraising and other activities; and measures to reduce the BBC's negative impact on the environment.

BBC advisory bodies

Broadcasting Councils and the English National Forum

The BBC draws on a network of more than 500 licence fee payers – selected through an independent process – 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' primary responsibility is to advise the Governors on programme and service objectives for BBC Nations & Regions and to monitor delivery. Overall, they felt significant progress had been made against the 2004/2005 objectives, and were supportive of the BBC programming provided for the nations and English regions. There were, however, some areas of concern.

One concern was the limited availability of digital terrestrial television (DTT) and DAB digital radio. The Broadcasting Council for Wales noted the very low coverage of DTT in Wales (56% compared with an average of 73% across the UK). They were also concerned that neither Radio Wales nor Radio Cymru were available on DAB across large areas of Wales. The Broadcasting Council for Northern Ireland was equally concerned that Radio Foyle was not yet available on DAB. They noted that, following the Council's earlier concerns, three new DAB-enabled transmitters would be operational in Northern Ireland by summer 2005. They did, however, note the poor DTT signal in many areas of Northern Ireland.



Listening to audiences

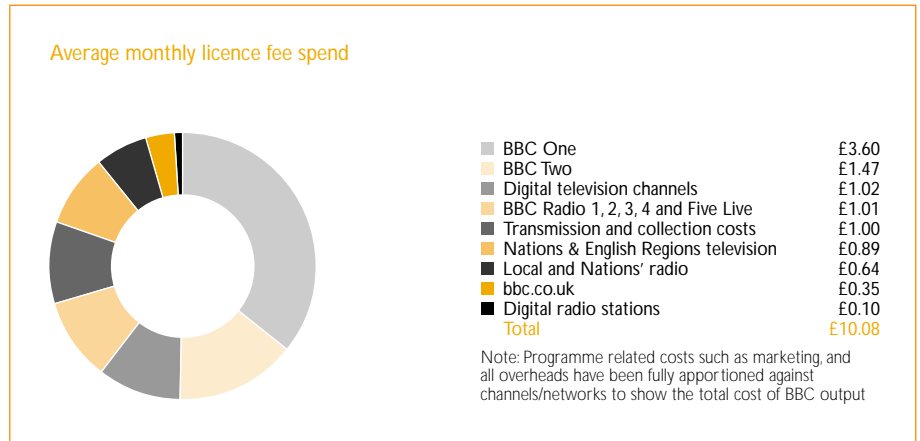
BBC Governor Ranjit Sondhi (centre), Chairman of the English National Forum, sits in on a discussion between licence fee payers

The ENF also expressed concern about the lack of both DAB and DTT in key areas of the English Regions, and noted that several BBC local radio stations were not available on DAB. The Broadcasting Council for Scotland noted that, although digital availability in Scotland was above the UK average, there was a strong need to inform audiences of plans for digital switchover.

There was general concern that on-screen representation still tended to have a metropolitan English bias. Much needed to be done to represent modern life in the nations and English regions and programmes made and transmitted in the nations could have a home on the wider BBC network.

The Broadcasting Council for Wales noted the continuing success of the strategy of stronger, fewer brands, which had resulted in an improved range of programming across BBC One Wales, BBC Two Wales and BBC2W.

The Broadcasting Council for Northern Ireland welcomed BBC Northern Ireland's designation as a network centre of excellence for current affairs and drama output. The Council noted the importance of indigenous language programming in Northern Ireland as a core public service function and felt that its inclusion in the Charter was vital. The Council had undertaken a wide-ranging public accountability programme throughout Northern Ireland. It was very encouraged by the number of BBC Northern Ireland programme commissions that reflected issues raised at these meetings.



The Broadcasting Council for Scotland noted that many of the recommendations of the 2003 review of BBC Scotland's journalism had been successfully implemented. It believed, however, that more needed to be done to engage audiences in political issues. The Council was pleased to note that BBC Scotland had addressed the loss of televised Scottish Premier League games by securing the rights to many other football matches. As a result there had been no reduction in approval for the BBC in Scotland.

The ENF stressed the importance of strengthening local services in order to engage and connect more closely with the audience. They noted the success of initiatives such as the BBC buses and the *Where I Live* websites. They welcomed the local television pilot scheme in the West Midlands.

All the Councils and the ENF emphasised the need for the BBC to strengthen its accountability to licence fee payers. They also stressed the need for the BBC to maintain the representative principle within the BBC's governance and accountability structure as part of the new Charter.

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

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

This year, the Committee continued to work on some of the key issues that it had identified over the course of the previous year. CRAC welcomed the then Controller of BBC One, Lorraine Heggessey, to its November meeting at which the scheduling and performance of religious output on the channel was discussed.

The scheduling of *Songs of Praise* was discussed. Independent work carried out for the Governors had shown that its audiences showed a marked decline the earlier it was broadcast in the afternoon. Management has since made a commitment to keep it in a regular slot.

The relative lack of impact of religious output on television has continued to be a concern of the Committee. Independent analysis published by the Governors and discussed by CRAC showed that the revised religion strategy of 2002 had made little impact on BBC One, although the Committee was pleased to note the strong performance of output on BBC Two. CRAC continued to note the excellent quality of output on both network and local radio and on BBC World Service.

CRAC's work, together with research and analysis carried out for the Governors on both impartiality in religious reporting and the performance of religious television output, was influential in the Governors' decision to hold a seminar to discuss how well the BBC reflects the influence of faith in shaping the modern world. The outcome of this seminar, attended by members of many different faiths and of none, and addressed by a range of external experts, will feed into the BBC's Creative Future programme strategy review.



Music Live

Part of the BBC's annual live music festival *Music Live*, which stages big free concerts – and also sends musicians to street parties, workplaces and even railway stations



Helping Africa

A school in Ghana supported by funds raised through Comic Relief

Five Live in Umlazi

BBC Radio Five Live made contact with the South African township of Umlazi during the station's Shirt Amnesty Appeal. Listeners donated 25,000 soccer shirts for African children, and some went to Umlazi.

Umlazi has a serious HIV/Aids problem – one in three people is HIV positive – and Five Live decided to highlight this unreported crisis. They broadcast stories of sadness, but also of remarkable fortitude and resilience. The station installed ISDN lines so the people of Umlazi could send Five Live audio diaries. Five Live linked an Umlazi school with Durban City Council health department who set up a 'peer educator' programme. A health worker taught a small group of children the facts about HIV/Aids. They then passed the information on to their peers. Five Live also encouraged its listeners to buy medical kits – part of a project organised by the Mayors of Durban and Leeds and supported by Five Live. In February 2005, Leeds United footballer Lucas Radebe delivered 1,000 kits to Umlazi.

In March 2005, when the Commission for Africa reported, Five Live brought one Umlazi audio-diarist, HIV/Aids counsellor Nompilo Xaba, to London as the station's guest reporter. Her interviews with leading politicians gave Five Live's coverage a telling extra dimension.

CRAC continues to work on refining its own role and remit. This will inform the thoroughgoing review of the BBC's system of advisory bodies being undertaken within the context of Charter Review.

BBC World Service and Global News Consultative Group

The BBC 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 and BBC World output.

The BBC's Global Reputation

In 2004/2005 the Group called for a special study to be carried out into the BBC's global reputation for trust and objectivity, which had declined in some markets following the Iraq war in 2003.

The independent research showed that the World Service and Global News division's reputation for trust and objectivity is higher than for other international broadcasters in virtually all markets surveyed. The evidence also showed that the BBC's global reputation for trust and objectivity has improved in markets where it suffered a reverse during and immediately after the Iraq war.

Review of BBC Output

The Consultative Group also reviewed World Service output in English for Asia, Arabic, Russian, Indonesian and French for Africa. All these language services were rated highly for being reliable, accurate, informative and impartial.

Some areas for improvement were identified. These included:

- English for Asia: taking account of the sensitivities of its diverse audience when deciding the appropriate level of toughness in interviews
- Arabic: providing better context for interviews and making technical improvements to the website
- Russian: ensuring that the search for accessibility does not impact negatively on the service's traditional BBC editorial values
- Indonesian: ensuring its websites offer a service that is distinctive from its competitors while maintaining BBC journalistic values
- French for Africa: striking the right balance between international and national stories and maximising relevance to audience groups in different language markets

The bbcnews.com website attracted strong praise for being an authoritative source of news and information.

The Group was pleased with the progress made by the BBC World English language television channel. It was felt to offer wider coverage and better balance than competitors.

101,584

job applications received by BBC Recruitment in 2004/2005

18

hours of coverage of the 2004 Paralympics on BBC One and BBC Two



Audience access

BBC Information services deal with many hundreds of thousands of calls from viewers and listeners each year



Athens Paralympics

Dame Tanni Grey-Thompson winning gold in the 100 metres. BBC coverage of the 2004 Paralympics gave disabled sport unprecedented exposure

Responding to complaints

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

This year saw the culmination of the GPCC's oversight of the reform of the BBC's complaints handling processes, with the launch of a new complaints system on 1 February 2005. The Governors welcomed this as a step change in the BBC's accountability to audiences.

Key features of the system are:

- A code of practice, including the commitment to answer initial complaints within ten working days
- A complaints website (bbc.co.uk/complaints) that tells audiences how to complain and about complaints received and action taken, and publishes corrections
- Streamlined procedures, with two routes for initial complaints (BBC Information or the relevant BBC division)
- A centralised internal logging system to facilitate the monitoring of complaints and effective reporting
- The right of appeal to the Editorial Complaints Unit (ECU), while the GPCC remains the ultimate arbiter on editorial complaints
- Removal of the requirement for the ECU (previously the Programme Complaints Unit) to agree upheld findings with the management of the programme division
- A Complaints Management Board, chaired by the Deputy Director-General, to oversee complaints handling and share learning at a senior level

Alongside the new system, a major culture change programme aims to create a culture that presumes that the licence fee payer is right not wrong, with a greater willingness to admit mistakes and, where appropriate, put things right.

The GPCC undertook its annual review of the BBC's complaints handling processes including an initial assessment of the new complaints system against best practice criteria.

The GPCC concluded the new system was easy to access and well publicised, with 12,000 complaints received via the new website in the first two months. It also welcomed performance on turnaround times, with divisions answering 93% of complaints within ten working days. BBC Information's performance was good but down slightly to 78% following a sharp increase in volume. The Committee was assured that steps were being taken to address this.

The Committee was satisfied by initial indications that the system was effective and informative, while the new ECU remit improved the BBC's capacity for the full and impartial investigations of editorial complaints. It noted that continued work was needed to refine aspects of the structure and processes to ensure the efficiency and fairness of the BBC systems; also that management would undertake an interim review of the new complaints system in September 2005, with a 12-month review in February 2006.

The GPCC also received reporting on complaints handling by BBC Information for the year. BBC Information continued to operate 24 hours a day, seven days a week, handling complaints via telephone, letter and email. This year it handled more

than 125,000 complaints, compared with around 71,000 in the previous year. Volumes rose considerably in January to March 2005 because of the response to *Jerry Springer – the Opera* (around 55,000 complaints were logged pre-transmission, with a further 8,000 post-transmission) and, to a lesser extent, the launch of the new complaints website.

In 2004/2005, the ECU dealt with 1,333 complaints concerning 740 items (1,640 in 2003/2004). Of these, 345 (26%) were upheld in full or in part. Upheld findings were published quarterly, together with a note of the action taken in each case. In the year prior to February, 48% of complaints were responded to within target. The Committee noted that management was satisfied this would be improved under the new processes, with acceptable performance being achieved over the next six to nine months.

The GPCC considered appeals from people who had made a serious editorial complaint to BBC management and were not satisfied with the response. The Committee considered 69 appeals this year, and upheld six in full or in part.

In addition, the GPCC considered complaints relating to *Jerry Springer – the Opera* transmitted on Saturday 8 January 2005. These complaints were referred directly to the GPCC for investigation as they were taken under the BBC complaints process in place before 1 February 2005. Under this process, the (then) Programme Complaints Unit did not investigate matters on which the Director-General had already taken a view (as in this instance). By a majority of four to one, the Committee did not uphold the complaints. The full finding is available on: bbc.co.uk/complaints.

Being accountable and responsible



BBC Training

A trainee camera-operator under instruction. The BBC trains not only its own staff but also the wider broadcasting industry



Supporting music

Edith Bowman winning *Comic Relief Does Fame Academy*. Money raised by the original *Fame Academy* funded bursaries for young musicians

The ECU also liaised with Ofcom on complaints about BBC programmes. In the year to 31 March 2005, Ofcom found that the BBC was in breach of the regulatory codes relating to programme standards in nine instances, in whole or in part. It found that the BBC was in breach of regulatory codes relating to unfair treatment or unwarranted infringement of privacy in ten instances, in whole or in part.

The GPCC is currently considering proposals for further changes to its own complaints handling processes to make the appeal process to the Governors more open and transparent. We will consult the public on these proposals.

Training and talent

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. This year the BBC has provided more than 4,000 days of training for more than 300 organisations. BBC Training & Development also offers a range of free online courses covering aspects of television, and radio production – including editing, writing, interviewing and health and safety advice. In addition the BBC offers subsidised training to freelance and contract workers on a range of camera, sound, lighting and new media training. This year the BBC provided training for more than 250 freelancers – in addition to the training it gives freelancers working on its own productions.

The BBC invested £48.6million in staff training and development in 2004/2005. Its objective is to remain in the upper quartile of all UK companies in terms of investment in training and to be a clear leader in the media industry.

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. New schemes in 2004/2005 included finding local radio presenters for the Asian Network and English Regions, and drama producers for *Silver Street*, the UK's first Asian radio soap.

Young Storytellers was a BBC Talent competition to encourage writers under the age of 16. The winners will be broadcast in 2005 on BBC 7's *Big Toe* and on Radio 4's *Go 4 It*. More than 800 people applied online.

Awards

In 2004/2005 the BBC received over 250 programme-related awards across television, radio and new media. These included 13 Baftas, two Golden Globes, 21 Sonys, 14 RTS awards, four Webbies and four Prix Italia awards. Outside of programme making the BBC has received awards for a range of other activities such as property design, environment schemes and good customer services.

Leadership

This year has seen the first full year of the BBC Leadership Programme, designed to improve the quality of leadership and management in the BBC. This followed a widespread staff consultation in 2002 that revealed a strong desire by staff for "a better relationship with our managers and... consistent leadership at all levels of the BBC".

The programme is currently being revised to ensure it stays relevant. So far, more than 2,000 managers have completed the programme, with up to 4,000 more expected to participate over the next few years.

There are early indications that the programme is having a positive effect. The annual staff survey has shown an increase in positive responses on questions relating to management skills. Management will carry out a full evaluation of the programme later this year.

Feedback

A new feedback and development process, designed to increase the amount of regular feedback BBC staff receive from managers, was launched in 2004. A series of workshops was held to help both staff and managers improve their feedback and performance-management skills and techniques.

Diversity

Work has been done to improve the representation of disabled people in BBC output, for example, via the Disabled Actors Bursary Scheme launched in March 2005 in partnership with Channel 4, and through live television coverage of the 2004 Paralympic Games.

Work also continues to increase the number of disabled people employed in programme making, creative and commissioning roles. Around 30 disabled people were recruited on to Extend, the BBC's award-winning disability placement scheme.

Diversity issues are also being explicitly considered in the change plans for the transformation of the BBC.

For information on how the BBC reflects the diverse society it serves, please see the report on Objective two (on page 13).



Oxford Road

Recording an episode of *Oxford Road: The Story*. The BBC Radio Berkshire community-based radio soap won a Sony award



Bread of Heaven

Huw Edwards, presenter of *Bread of Heaven*, BBC Cymru Wales' account of how religion shaped the culture and landscape of Wales

£17

million was raised in a single night by Children in Need in 2004

2.5

million contacts from the public to BBC Information in 2004/2005

Oxford Road: The Story

Oxford Road in Reading is notorious for its association with drugs and prostitution – stereotyped locally as a place of crack-houses and brothels. BBC Radio Berkshire wanted to reveal a different version – a vibrant multicultural community, not without its problems, but with a rich seam of stories of tell. The station decided to create a radio soap based on Oxford Road – and to involve the local community in every aspect of the production.

Partnership funding was raised from the Arts Council England and Reading Borough Council. BBC Radio Berkshire worked with local people to develop their creative, artistic and broadcasting skills. There were workshops with local children to develop the theme tune, using found objects – boxes of buttons, an oil drum, a traffic cone – to create the rhythm section. They ran drama and storytelling workshops. Storylines and characters emerged from these and were developed by professional writers. Local people were trained as presenters. In all, more than 850 people took part in the project.

A 12-part radio soap, *Oxford Road: The Story*, was recorded using Oxford Road locations, with professional actors working alongside local residents, and broadcast in August 2004. The production won a Silver Sony Award.

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).

This is how the BBC defines its ambitions in this area: "The BBC's core mission is to enrich people's lives with programmes and services that inform, educate and entertain. In line with this, the BBC aims to be a responsible corporate citizen, acting in the public interest to strengthen and enrich communities across the UK and internationally. CSR means living our values with integrity and ethical consistency towards our own people, our audience, business suppliers and the communities we operate in, to maintain their faith in the BBC. The BBC's social impact will be most evident through fulfilling our public service duties and through environmental, ethical, charitable and community commitments."

Business in the Community, the organisation that works to improve the positive impact of business in society, publishes a CSR index each year. It provides a benchmark of how companies manage, measure and report their impact on society. In 2005 the BBC's score was 90% (87% in 2004) placing it 32nd in the top 100 UK companies for CSR (up from 42nd in 2004) and first in the media and entertainment sector.

In 2004 the BBC published its first CSR report (available online at bbc.co.uk/info/csr) which gives more detail on the wide range of activities through which the BBC puts into effect its CSR policies.

Some of these activities in 2004/2005 are recorded below.

Charitable work: fundraising through appeals

Broadcast appeals are an important public service. They provide BBC audiences with an opportunity to support charities, while offering charities the opportunity to raise money and awareness of their work. The BBC tracks public attitudes to appeals, and 90% of people say television broadcast appeals are a good way of raising money, while 77% say they trust the BBC to ensure the money raised is wisely spent.

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

The year 2004/2005 featured a number of major appeals. Sport Relief is a biennial joint venture between BBC Sport and Comic Relief. In July 2004 it raised more than £16.5million (equivalent to a 25% increase on 2002). Half the money goes to international charities working with children and young people, and half to UK charities, with a focus on young people in conflicted or divided communities.

Being accountable and responsible



Red Nose Rally

Radio 1 DJ Chris Moyles on his Red Nose Rally from John o'Groats to Land's End. The week's trip raised more than £600,000 for Comic Relief



Going green

Radio Times is now printed on paper certified to come from well-managed forests. The BBC tries to procure goods from sustainable sources

In November 2004 Children in Need raised more than £17million on the night, with the eventual total expected to be double that. The money goes to a wide range of projects working with children in the UK. In the same month, *Blue Peter* launched its Welcome Home Appeal to raise money to help the British Red Cross to trace and re-unite families in Angola, and has raised £346,000 so far.

In December 2004, the BBC was a partner in the Tsunami Earthquake Appeal, which raised more than £300million. The appeal was coordinated by the Disasters Emergency Committee (DEC), an umbrella organisation representing the major overseas aid agencies.

Since March 2005, Comic Relief's Red Nose Day has raised more than £49.2million. Reporting to the AAC, the charity said that the international grant-making programme will continue to focus on long-term projects in Africa. In the UK, its grants go to a wide range of projects.

Last year audiences also donated more than £1million to individual charities featured on weekly and monthly appeals. Listeners donated more than £886,000 to charities featured on the weekly Radio 4 Appeal, including more than £600,000 to the annual Christmas appeal for St. Martin-in-the-Fields.

Viewers of BBC One's monthly *Lifeline* programme donated more than £270,000 to the charities featured over the year. This included £94,035 for the charity Action for Brazil's Street Children, with an appeal fronted by Jeremy Irons, and £80,035 for the charity Hope and Homes for Children.

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

The Trust raises its funds not from the BBC but from governments, international agencies, other partner organisations and donations from individuals. In 2004/2005 more than £13.5million was raised.

The Trust works in partnership with national and local broadcasters, other charities and governments and now has more than 400 staff working on projects in 30 countries worldwide.

Volunteering: Connecting with Communities

Connecting with Communities was launched in 2003 to promote and facilitate volunteering opportunities for BBC staff in working time. The BBC is now partnered with more than 35 charitable and voluntary organisations, and BBC Scotland has arranged partnerships for its staff with a further eight organisations. They offer a very wide range of volunteering experiences across many different sectors including education, the arts, disability, conservation, rescue services and social housing. Since its launch some 2,500 staff have volunteered.

Community partnerships

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

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

87.4%

of BBC One output is subtitled

231,532

hours of local radio were broadcast in England in 2004/2005



Working for health

Cast members from *Taste of Life*, a medical television soap for Cambodia. The World Service Trust project promotes health issues such as AIDS prevention



On the road

Inside one of the BBC buses that take media and IT training to hard-to-reach audiences – and put listeners on air

Africa 2015

Africa 2015 was a major conference at the Guildhall, sponsored by the BBC in partnership with the City of London. It attracted more than 500 participants from around the world, including senior politicians, international business leaders, journalists and development experts, to discuss the Millennium Development Goals for Africa in the week following the publication of the Africa Commission Report.

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 across England and Wales.

A BBC bus was also piloted in 2001 to take the local radio station out on the road, to put listeners on air, and to create opportunities for media and IT training. It proved a success and there is now a fleet of buses operating throughout the nations and regions. 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.

We have noted the questions raised in the Charter Review Green Paper about the link between BBC services such as the BBC buses and Open Centres and the BBC's public service broadcasting remit. We believe the activity is warranted since the partnership element and the learning delivered are core to the BBC's purposes.

They also markedly increase the accessibility of the BBC's core public services to hard-to-reach audiences. They help to bridge the digital divide, and they are strongly linked to the BBC's broadcasting and online services: Open Centres and BBC buses provide thousands of hours of broadcasting each year to BBC local radio.

The BBC and the environment

The BBC works to ensure it complies with environmental legislation and it makes positive efforts to reduce its environmental impacts and to manage its business risks responsibly. Action plans are in place, or in development, to cover such areas as transport, utilities, technology, sustainability of buildings, waste, and supply-chain management. Environmental performance is benchmarked against leading UK companies and media companies. The Business in the Environment Index 2004 places the BBC second in the media and entertainment sector (unchanged from 2003) and 61st overall (up from 77th in 2003).

On waste management, the BBC sets recycling targets. In 2004 the target was 32%. This target was narrowly missed (the total recycled was 31%) and action has been taken to improve performance. The recycling target for 2005 has been raised to 37%.

On transport, measures include stipulating that minicab firms used by the BBC must operate a minimum of 40% alternative fuel or hybrid vehicles, tighter enforcement of cab-sharing rules for staff, encouraging video-conferencing to reduce the need for travel to meetings, and supporting the use of bicycles.

The BBC has sustainability guidelines for proposed new buildings. These cover developments such as Pacific Quay, the new broadcasting centre for BBC Scotland in Glasgow, and the redevelopment of Broadcasting House in London. The Broadcasting House design has achieved an 'excellent' environmental rating under the BREEAM (Building Research Establishment Environmental Assessment Method). This assesses building performance against a range of environmental criteria including energy use, pollution, transport-related CO₂ emissions, and water consumption.

The BBC attempts to procure goods from sustainable sources and works to increase the share of timber and paper products obtained from certified, well-managed forests, and from recycling. During 2004 *Radio Times* began to carry the FSC (Forest Stewardship Council) logo, certifying that the timber used to make the paper for the magazine comes from well-managed forests. *Radio Times* is now the largest-circulation magazine in the world printed on FSC-certified paper.

The BBC requires suppliers, as well as their subcontractors, to observe best employment practice, including worker insurance, working environments, respect for individuals and equal opportunities. All new suppliers and, over time, all existing suppliers, are expected to meet these conditions as part of the process of tendering for business. Compliance is monitored. In 2004, 1,027 tonnes of paper were recycled in England and Scotland according to data from the BBC's service supplier.

Governors' review of commercial activities

Overview

This has been a year of major restructuring of the BBC's commercial activities. Management carried out a comprehensive review and, having commissioned independent analysis and advice, we approved its main recommendations.

These were:

- the BBC should in future focus only on businesses that exploit BBC content and the BBC brand
- ownership of BBC Worldwide should be retained
- the BBC does not need to own either BBC Resources or BBC Broadcast

During the year, BBC Vecta (which commercially exploited BBC technical innovations) was closed; and BBC Technology (which provided technology, and IT equipment and services) was sold.

The BBC's commercial activities have been the subject of considerable debate, with questions raised over issues of scope, ownership and fair trading. We have set out clear principles that must underpin BBC commercial activities based on the values of serving the public interest, acting with integrity, and ensuring fair trading. We are confident that the new strategy embodies these principles.



BBC Japan

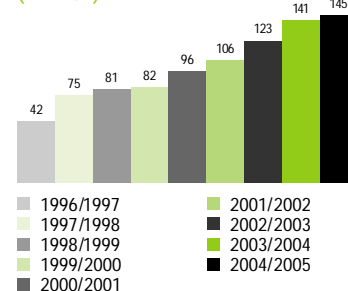
BBC Japan – one of BBC Worldwide's international television channels was launched in 2004



BBC Resources

An outside broadcast unit from BBC Resources. Its customers include the BBC and independent producers, other broadcasters and corporate clients

BBC Worldwide cash flow to the BBC (£million)



Source: BBC Worldwide

BBC Worldwide

BBC Worldwide is the main commercial subsidiary of the BBC. It exploits the BBC's assets, brands and intellectual property around the world for the benefit of licence fee payers, in order to reinvest the earnings into public service broadcasting.

Previously BBC Worldwide was primarily measured on the total financial contribution – or cash flow – it returned to the BBC. However profit is a more widely understood benchmark of performance and in future this will be the key measure of the company's performance. Its financial target is to double profits over two years commencing April 2004.

In 2004/2005 BBC Worldwide increased profit before interest and taxation (PBIT) to £55million (up from £37million in 2003/2004 and halfway to its target of doubled profits). Sales were up from £657million to £706million, and it returned £145million in cash flow – profits and direct programme investment – to the BBC (up from £141million in 2003/2004).

BBC Worldwide is Europe's leading exporter of television programmes and is a market leader in licensing television formats. Its biggest success last year was *Strictly Come Dancing* which has been sold around the world and is expected to generate income of £20million over five years.

BBC Worldwide is Britain's only global television channel operator. Its 19 commercial channels, earning around £140million per year in revenue, are available in nearly 324 million homes around the world. UKTV, BBC Worldwide's joint venture with Flextech Television, returned a dividend for the first time this year. BBC Prime entered the Asian market for the first time. BBC Japan was launched.

BBC America aims to be in half the cable homes in America by the end of 2005.

BBC Magazines is the UK's third-biggest consumer magazine publisher, selling almost 100 million copies every year. Overall, circulation rose 8% year on year. In a change of strategy instigated by the Governors, BBC Magazines now concentrates on titles directly related to core output areas of the BBC or magazines based on specific BBC programmes such as *Top Gear*. The women's magazine, *eve*, which was not directly related to BBC activity, was sold. On-air BBC trails for magazines including *Radio Times* have stopped.

The children's market remains highly competitive. Following restructuring, the Children's division reduced its losses to £6.6million (from £11million in 2003/2004). Classic brands such as *Tweenies* and *Teletubbies* continue to thrive and there were some key investments into new properties, such as the animation series *Charlie and Lola*. BBC Worldwide formed a new global publishing venture, BBC Children's Books, with Penguin.

In line with its strategy of partnering to create scale, BBC Worldwide formed a video/DVD joint venture with Woolworths plc creating 2|entertain Limited. BBC Worldwide is now looking to establish partnerships for its Book and Learning businesses.

BBC Books was restructured and reduced its losses and met budget targets for the year. It reduced its list to focus on strong BBC television tie-in titles. A number of these sold outstandingly well, including *A Natural History of Britain* by Alan Titchmarsh, *Who Do You Think You Are?* and *Auschwitz*.

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

BBC Resources

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

In 2004/2005 BBC Resources delivered revenues of £135million and PBIT of £7million (£128million and £4million in 2003/2004); and a net cash inflow of £13million (£17million 2003/2004). The individual businesses ended the year in profit.

Production highlights of the year included the Olympic and Paralympic Games, Euro 2004, Wimbledon and *Match of the Day* for BBC Sport; and The World Rally Championships and Grand Prix for external customers.

In the UK, studios showcased *Strictly Come Dancing* and the 25th anniversary edition of BBC Children in Need. Outside Broadcasts spent a single weekend in June simultaneously covering six major national and international events. Post Production launched its new Mailbox facility and Drama Village in Birmingham.

BBC Broadcast

BBC Broadcast offers services to promote, play out and provide access to broadcast content across all media, from television to mobile phones. In 2004/2005 BBC Broadcast earned revenues of £109million and PBIT of £4million (£109million and £7million in 2003/2004); and a net cash inflow of £4million (£15million in 2003/2004). The year-on-year decrease in cash generation reflects greater savings delivered back to the BBC in the form of lower prices. Following the commercial review, the business was put up for sale and has attracted a significant number of bidders. A sale is expected to be finalised in the second half of 2005.

Governors' review of services Performance against Statements of Programme Policy commitments 2004/2005

Overview

Under the Communications Act 2003 the BBC is required to publish statements of programme policy each year, setting out how the BBC will fulfil its public service remit, and to report on performance against them in the *Annual Report*.

In future, this assessment of performance will be enhanced by service licences. These are being developed by the Governance Unit. The service licences will include a detailed set of conditions and performance targets, and be underpinned by annual statements of programme policy, based on the BBC's purposes. Each year the Trust will assess delivery against the service licences and hold management to account.

The BBC published its statements of programme policy covering 2005/2006 in March this year (available at bbc.co.uk/info/statements2005). We will report on performance against them in the next *Annual Report*.

Commitment	Performance
BBC One:	
<ul style="list-style-type: none"> ■ 1,380 hours of news programmes on a calendar year basis, of which 275 will be in peak time* 	<ul style="list-style-type: none"> ■ 1,508 hours of news programmes, including 281 in peak time (excluding BBC News 24 overnight)
<ul style="list-style-type: none"> ■ Increased commitment to current affairs programming to at least 90 hours, including a regular weekly Sunday night slot for <i>Panorama</i> and at least four specials in peak time 	<ul style="list-style-type: none"> ■ 160 hours of current affairs, including extended series run of <i>Real Story</i>; regular slot for <i>Panorama</i> plus four specials broadcast in peak time
<ul style="list-style-type: none"> ■ 45 hours of arts and music 	<ul style="list-style-type: none"> ■ 53 hours of arts and music
<ul style="list-style-type: none"> ■ Science, natural history and educational programmes will form part of commitment to 650 hours of new factual programming 	<ul style="list-style-type: none"> ■ 912 hours of new factual programming
<ul style="list-style-type: none"> ■ 80 hours of religious programming as part of commitment to 112 hours across BBC One and BBC Two 	<ul style="list-style-type: none"> ■ 86 hours of religious programming as part of a total of 119 hours broadcast across BBC One and BBC Two
<ul style="list-style-type: none"> ■ 400 hours of children's programming 	<ul style="list-style-type: none"> ■ 675 hours of children's programming
<ul style="list-style-type: none"> ■ 260 hours of core sports programmes and event coverage, in addition to Euro 2004, the Olympics and the Paralympics 	<ul style="list-style-type: none"> ■ 594 hours of sport output (excluding Olympics, Paralympics and Euro 2004)
<ul style="list-style-type: none"> ■ Hold repeats to below 10% of peak-time hours 	<ul style="list-style-type: none"> ■ Repeats made up 9.7% of peak-time output
<ul style="list-style-type: none"> ■ Originations to make up 90% of peak time and 70% of all hours on a calendar year basis* 	<ul style="list-style-type: none"> ■ Originations made up 98% of peak time, and 82% of all hours in 2004
<ul style="list-style-type: none"> ■ Offer three national and international news bulletins on weekdays, with news at 10pm six days a week, and regional news integrated within all major network bulletins 	<ul style="list-style-type: none"> ■ News bulletins at 1pm, 6pm and 10pm have provided coverage of national and international issues, with regional news integrated into the main news bulletins
BBC Two:	
<ul style="list-style-type: none"> ■ 240 hours of current affairs 	<ul style="list-style-type: none"> ■ 267 hours of current affairs
<ul style="list-style-type: none"> ■ 100 hours of news 	<ul style="list-style-type: none"> ■ 620 hours of news (including parliamentary broadcasts, BBC News 24 and weather)
<ul style="list-style-type: none"> ■ 200 hours of arts and music programming 	<ul style="list-style-type: none"> ■ 297 hours of arts and music programming
<ul style="list-style-type: none"> ■ 500 hours of factual programming 	<ul style="list-style-type: none"> ■ 1,343 hours of factual programming
<ul style="list-style-type: none"> ■ 20 hours of religious programming as part of commitment to 112 hours across BBC One and BBC Two 	<ul style="list-style-type: none"> ■ 33 hours of religious programming, as part of a total 119 hours broadcast across BBC One and BBC Two
<ul style="list-style-type: none"> ■ 100 hours of new children's programming 	<ul style="list-style-type: none"> ■ 1,353 hours of children's programming including 218 hours of new programming
<ul style="list-style-type: none"> ■ 430 hours of sport 	<ul style="list-style-type: none"> ■ 853 hours of sport (excluding Olympics, Paralympics and Euro 2004)
<ul style="list-style-type: none"> ■ 80% of originations in peak time, and 70% across all hours on a calendar year basis* 	<ul style="list-style-type: none"> ■ Originations made up 91% of peak time and 81% of all hours in 2004

Commitment	Performance
BBC Three:	
<ul style="list-style-type: none"> ■ At least 15 hours of new current affairs programmes 	<ul style="list-style-type: none"> ■ 22 hours of new current affairs programmes
<ul style="list-style-type: none"> ■ At least 50 hours of new music and arts 	<ul style="list-style-type: none"> ■ 52 hours of new music and arts
<ul style="list-style-type: none"> ■ At least 30 hours of new educational programmes 	<ul style="list-style-type: none"> ■ 50 hours of new educational programmes
<ul style="list-style-type: none"> ■ 15 hours of new science, religion, ethics and business programmes 	<ul style="list-style-type: none"> ■ 18 hours of new science, religion, ethics and business programmes
<ul style="list-style-type: none"> ■ At least 20% of output will be supported interactively 	<ul style="list-style-type: none"> ■ The target was met using email, SMS and online messaging
<ul style="list-style-type: none"> ■ At least 15% of broadcast hours will be news, current affairs, education, music and arts 	<ul style="list-style-type: none"> ■ News, current affairs, education, music and arts made up 27% of broadcast hours
<ul style="list-style-type: none"> ■ At least 33% of new programming will be news, current affairs, education, music and arts 	<ul style="list-style-type: none"> ■ 45% of new programming was news, current affairs, education, music and arts
<ul style="list-style-type: none"> ■ Minimum of 25% of qualifying hours will be commissioned from independent sector, accounting for at least 25% of the programme budget 	<ul style="list-style-type: none"> ■ 37% of qualifying hours were from independents, accounting for 45% of programme budgets
<ul style="list-style-type: none"> ■ 33% of eligible budget will be produced from outside the M25 	<ul style="list-style-type: none"> ■ 40% of eligible budget was spent outside the M25
<ul style="list-style-type: none"> ■ On a calendar year basis at least 70% of peak-time hours, and 80% of all hours, will be original productions* 	<ul style="list-style-type: none"> ■ 75% of peak-time hours, and 85% of all hours were original productions in 2004
<ul style="list-style-type: none"> ■ 80% of output to be specially commissioned for BBC Three 	<ul style="list-style-type: none"> ■ 83% of output was made specially 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"> ■ 91% of hours and 94% of expenditure was allocated to programmes made in the EU/EEA
BBC Four:	
<ul style="list-style-type: none"> ■ Around 70% of production to be original, including 50% in peak time on a calendar year basis* 	<ul style="list-style-type: none"> ■ 72% of all output was new, including 64% of output in peak time in the calendar year 2004
<ul style="list-style-type: none"> ■ Around 70% of output to be made in the EU/EEA 	<ul style="list-style-type: none"> ■ 92% of output was made in the EU/EEA
<ul style="list-style-type: none"> ■ At least one landmark factual series each season 	<ul style="list-style-type: none"> ■ Seven landmark series broadcast, including <i>Light Story</i> and Jonathan Miller's <i>A Brief History of Disbelief</i>
<ul style="list-style-type: none"> ■ Sourcing at least one third of performance output from outside London 	<ul style="list-style-type: none"> ■ 33.4% of spend on performance output was outside the M25
<ul style="list-style-type: none"> ■ Broadcast at least 30 new documentaries from around the world 	<ul style="list-style-type: none"> ■ 56 documentaries were shown from around the world
<ul style="list-style-type: none"> ■ Premiere at least 20 new international cinema titles 	<ul style="list-style-type: none"> ■ 30 international films were premiered
<ul style="list-style-type: none"> ■ Around 70% of all output to be specially commissioned for BBC Four 	<ul style="list-style-type: none"> ■ 71% of all output was specially commissioned for BBC Four
CBeebies:	
<ul style="list-style-type: none"> ■ Deliver over 4,500 programme hours 	<ul style="list-style-type: none"> ■ 4,717 hours of mixed-genre output, including music and movement, storytelling, make-and-do, simple science, natural history, puzzle programmes, animation and drama.

Commitment	Performance
<ul style="list-style-type: none"> ■ Around 90% of output will be of UK/EU origin 	<ul style="list-style-type: none"> ■ 98% of output was UK/EU originated
<ul style="list-style-type: none"> ■ Around 80% of output will be originally produced on a calendar year basis* 	<ul style="list-style-type: none"> ■ 83.2% of output was originally produced during the calendar year 2004
<ul style="list-style-type: none"> ■ 75% of channel's investment will be on new British programming 	<ul style="list-style-type: none"> ■ 85% of investment has been on new British programming
<ul style="list-style-type: none"> ■ Investigate new opportunities for co-productions and third-party investment in suitable animation 	<ul style="list-style-type: none"> ■ <i>Charlie and Lola</i>, a series using animation to illustrate a range of personal relationship messages, has been commissioned for broadcast in Autumn 2005
CBBC:	
<ul style="list-style-type: none"> ■ 85 hours of news 	<ul style="list-style-type: none"> ■ 91 hours of news
<ul style="list-style-type: none"> ■ 650 hours of drama 	<ul style="list-style-type: none"> ■ 766 hours of drama
<ul style="list-style-type: none"> ■ 700 hours of entertainment 	<ul style="list-style-type: none"> ■ 1,062 hours of entertainment (including comedy)
<ul style="list-style-type: none"> ■ 640 hours of schools content through the <i>Class TV</i> strand 	<ul style="list-style-type: none"> ■ A total of 600 hours of the <i>Class TV</i> strand was broadcast (missed target due to two Easter weeks falling within current financial year)
<ul style="list-style-type: none"> ■ 75% of output and investment will be made in the EU/EEA 	<ul style="list-style-type: none"> ■ 86% of output and 96% of investment was made within EU/EEA
<ul style="list-style-type: none"> ■ Around 75% of programme budgets allocated to originations 	<ul style="list-style-type: none"> ■ 91% of budget was allocated to originations
<ul style="list-style-type: none"> ■ 70% of output will be original productions on a calendar year basis* 	<ul style="list-style-type: none"> ■ 80% of output was original productions during the calendar year 2004
BBC News:	
<ul style="list-style-type: none"> ■ Increased commitment to current affairs 	<ul style="list-style-type: none"> ■ <i>Real Story</i> (BBC One) was extended to 27 editions; <i>This World</i> (BBC Two), which examines international current affairs, had a new midweek peak-time slot; and <i>Sweeney Investigates</i> returned on BBC Two. Regular programming was complemented by specials such as <i>One Day of War</i> and the three-part documentary series <i>The Power of Nightmares</i>
<ul style="list-style-type: none"> ■ BBC One and BBC Two will broadcast a combined total of over 600 hours of current affairs and political programmes 	<ul style="list-style-type: none"> ■ 628 hours of current affairs and political programmes were broadcast, including <i>Question Time</i>, <i>The Politics Show</i>, <i>This Week</i> and <i>The Daily Politics</i>
BBC News 24:	
<ul style="list-style-type: none"> ■ At least 250 hours of business programming, including hourly business news from 9am to 7pm weekdays 	<ul style="list-style-type: none"> ■ 255 hours of business programming, in addition to the hourly bulletins
<ul style="list-style-type: none"> ■ Over 200 editions of <i>HARDtalk</i> featuring long-form interviews with newsmakers and cultural figures 	<ul style="list-style-type: none"> ■ 249 editions of <i>HARDtalk</i> broadcast
<ul style="list-style-type: none"> ■ Over 35 hours of political debate through programmes such as <i>Straight Talk</i> 	<ul style="list-style-type: none"> ■ 42 hours of political debate
<ul style="list-style-type: none"> ■ Over 50 editions of <i>Dateline London</i>, offering perspective on the week's events from foreign correspondents based in London 	<ul style="list-style-type: none"> ■ 52 editions of <i>Dateline London</i> broadcast

Commitment	Performance
<ul style="list-style-type: none"> Minimum of 100 hours of sports news, including sports news each hour from 9am to 1am on weekdays 90% of all hours to be original productions on a calendar year basis* 	<ul style="list-style-type: none"> 117 hours of sports news broadcast, excluding sport covered in the news agenda eg Olympics and Paralympics 95% of all hours were original productions in the calendar year 2004
BBC Parliament:	
<ul style="list-style-type: none"> Over 100 hours of original programming of record and analysis through programmes such as <i>The Record</i> A minimum of 100 hours of proceedings from both the Scottish Parliament and the Welsh Assembly (including repeats) 	<ul style="list-style-type: none"> 109 hours of original programming 111 hours of the Scottish Parliament and 108 hours of the Welsh Assembly; BBC Parliament devotes eight hours of Saturday schedule to coverage of Scottish Parliament, Welsh Assembly and Committees reporting on Northern Ireland affairs, when they are in session
<ul style="list-style-type: none"> At least 100 hours of programming from Brussels and Strasbourg (including repeats) Minimum of 400 hours of Westminster's Select Committees 90% of all hours to be original productions on a calendar year basis * 	<ul style="list-style-type: none"> 153 hours of programming from Brussels and Strasbourg (including repeats) 488 hours of Westminster's Select Committees 96% of all hours during the calendar year 2004 were original productions
Radio 1:	
<ul style="list-style-type: none"> At least 310 hours of hours of news, sport and current affairs Schedule will be split approximately 40% specialist and 60% mainstream music In mainstream programming at least 40% of the output will be UK in origin and at least 40% will be 'new' (either unreleased or less than one month since release) 	<ul style="list-style-type: none"> 337 hours of news, sport and current affairs 42% of the schedule was specialist and 58% mainstream 47.5% of mainstream programming was UK music 49% of mainstream programming was new music (either unreleased or less than one month since release)
Radio 2:	
<ul style="list-style-type: none"> Schedule to be split 33% speech: 66% music Over 600 hours of news and current affairs, including hourly news bulletins Increase core arts hours to more than 100 hours 1,000 hours of specialist music programming Over 150 hours of religious output 	<ul style="list-style-type: none"> The schedule was split 40% speech and 60% music 795 hours of news and current affairs, including hourly news bulletins 105 hours of core arts programming 1,222 hours of specialist music programming, including <i>Big Band Special</i>, <i>Bob Harris Country</i> and <i>The BBC Jazz Awards</i> 187 hours of religious output

Commitment	Performance
Radio 3:	
<ul style="list-style-type: none"> More than 50% of music output will consist of live or specially recorded music, including at least 300 live or specially recorded concerts 	<ul style="list-style-type: none"> 55% of music output was live or specially recorded music including 675 live or specially recorded concerts
<ul style="list-style-type: none"> Broadcast over 150 concerts of chamber music 	<ul style="list-style-type: none"> 261 chamber music concerts were broadcast
<ul style="list-style-type: none"> Commission over 50 new pieces 	<ul style="list-style-type: none"> 54 new pieces were commissioned
<ul style="list-style-type: none"> Spend over 40% of budget outside the M25 	<ul style="list-style-type: none"> 42% of budget was spent was outside the M25
Radio 4:	
<ul style="list-style-type: none"> 1,850 hours of daily news and current affairs 	<ul style="list-style-type: none"> 2,453 hours of daily news and current affairs
<ul style="list-style-type: none"> 440 hours of weekly current affairs, business and political programmes 	<ul style="list-style-type: none"> 591 hours of weekly current affairs, business and political programmes
<ul style="list-style-type: none"> At least 760 hours of original drama and readings 	<ul style="list-style-type: none"> 787 hours of original drama and readings
<ul style="list-style-type: none"> 260 hours of original comedy 	<ul style="list-style-type: none"> 315 hours of original comedy
<ul style="list-style-type: none"> At least 170 hours of religious programming 	<ul style="list-style-type: none"> 289 hours of religious programming
Radio Five Live:	
<ul style="list-style-type: none"> At least 6,000 hours of regional, national and international news 	<ul style="list-style-type: none"> 6,423 hours of regional, national and international news
<ul style="list-style-type: none"> Around 50 hours of documentaries that give fresh perspective on current affairs, plus specially commissioned debates on major news events 	<ul style="list-style-type: none"> 53 hours of documentaries were broadcast. In addition specially commissioned debates on major news events included three hour-long debates from the General Election, simulcast on Five Live and BBC Asian Network
<ul style="list-style-type: none"> At least 2,000 hours of sport 	<ul style="list-style-type: none"> 2,138 hours of sport
1Xtra:	
<ul style="list-style-type: none"> Over 65% of all music played will be new (less than one month from UK release) 	<ul style="list-style-type: none"> 88% of all music was new (unreleased or less than one month from UK release)
<ul style="list-style-type: none"> Around 10% of output will focus on news, documentaries and social action programming 	<ul style="list-style-type: none"> 11% of output was news, documentaries and social action
<ul style="list-style-type: none"> Approximately 20% of output will be speech 	<ul style="list-style-type: none"> 25% of the output was speech
<ul style="list-style-type: none"> Broadcast over 50 live music events 	<ul style="list-style-type: none"> 66 live music events were broadcast
<ul style="list-style-type: none"> Over 40% of music played will originate from UK 	<ul style="list-style-type: none"> 46% of music was UK-originated
6 Music:	
<ul style="list-style-type: none"> Use large database of over 3,000 tracks including live sessions 	<ul style="list-style-type: none"> A database of 3,189 tracks was used
<ul style="list-style-type: none"> Offer access to the BBC sound archive with over 400 hours of concert performances 	<ul style="list-style-type: none"> 416 hours of archive concerts were broadcast
<ul style="list-style-type: none"> Record over 275 new sessions through the year 	<ul style="list-style-type: none"> 295 new sessions were recorded
<ul style="list-style-type: none"> At least 550 hours of rebroadcast and newly commissioned documentaries and essays 	<ul style="list-style-type: none"> 598 hours of documentaries and essays

Commitment	Performance
BBC 7:	
<ul style="list-style-type: none"> Over 8,000 hours of speech programming 	<ul style="list-style-type: none"> 8,760 hours of speech programming
<ul style="list-style-type: none"> Over 2,800 hours of books and drama 	<ul style="list-style-type: none"> 3,640 hours of books and drama
<ul style="list-style-type: none"> Over 2,800 hours of comedy 	<ul style="list-style-type: none"> 3,649 hours of comedy
<ul style="list-style-type: none"> Over 1,400 hours of children's programming 	<ul style="list-style-type: none"> 1,460 hours of children's programming
<ul style="list-style-type: none"> Over 40 hours of new readings for adults, plus over ten hours of original drama 	<ul style="list-style-type: none"> 48.5 hours of new readings for adults 11.2 hours of original drama
Five Live Sports Extra:	
<ul style="list-style-type: none"> Extract more value for money for licence fee payers from sports rights already owned by the BBC 	<ul style="list-style-type: none"> The station brought greater choice to sports fans by providing additional commentaries to those provided on Five Live
BBC Asian Network:	
<ul style="list-style-type: none"> Broadcast approximately 50% speech and 50% music 	<ul style="list-style-type: none"> The schedule was split 50% speech and 50% music
<ul style="list-style-type: none"> Provide news bulletins in both English and the main South Asian languages, as relevant 	<ul style="list-style-type: none"> News bulletins are provided in English on <i>Breakfast</i>, <i>Lunch</i> and <i>Drive</i>. Two news bulletins are broadcast in the main southern Asian languages, as relevant, on the daily language programmes
<ul style="list-style-type: none"> Offer sports coverage that appeals to Asian fans 	<ul style="list-style-type: none"> Sports coverage included reporting of the historic Indian cricket tour of Pakistan; coverage of Vijah Singh becoming the world's top golfer; East Bengal FC's UK Tour and boxer Amir Khan's return to the ring in Liverpool in December 2004
<ul style="list-style-type: none"> Improve coverage of entertainment and lifestyle issues with live reports from South Asia as part of the weekend language strand 	<ul style="list-style-type: none"> The planned weekend language strand providing live reports from South Asia has not proved practical due to time differences. The strand is now an entertainment vehicle offering specialist music from the regions of the subcontinent which is often difficult to obtain in the UK
bbc.co.uk:	
<ul style="list-style-type: none"> Relaunch <i>Newsround</i>, the children's news service, giving greater prominence to user-generated content 	<ul style="list-style-type: none"> CBBC relaunched the <i>Newsround</i> website in November 2004, incorporating greater use of user-generated content
<ul style="list-style-type: none"> Enhance the BBC Radio Player, extending the number of programmes available 	<ul style="list-style-type: none"> The Radio Player was successfully relaunched in January 2005, approximately doubling the number of programmes available to around 1,000
<ul style="list-style-type: none"> Improve the quality and efficiency of audio streaming, while managing distribution costs 	<ul style="list-style-type: none"> Work to improve quality and efficiency for live radio streams and downloads is ongoing; distribution costs are being managed in a range of ways eg restricting the availability of the core UK-wide radio networks in Windows Media Player
<ul style="list-style-type: none"> Build the audience input to lifestyle service with a daytime area, enabling viewers to interact with and contribute to programmes 	<ul style="list-style-type: none"> Viewers are able to contribute to an increased number of daytime programmes
<ul style="list-style-type: none"> Deliver compelling online elements to the BBC's cross-platform coverage of this year's sporting calendar, including the Olympics and Euro 2004 	<ul style="list-style-type: none"> BBC Sport's unique broadband video Olympics coverage offered five different live streams plus numerous highlights packages. There were 73 million page impressions to the Olympic site on bbc.co.uk

Commitment	Performance
<ul style="list-style-type: none"> ■ Deliver online propositions as an integrated part of all the major television factual landmark series 	<ul style="list-style-type: none"> ■ <i>Fat Nation – The Big Challenge</i> was an all-platform learning campaign; cross-platform interactivity provided personalised content geographically tailored to users on a platform of their choice ■ The <i>WW2 People's War</i> website underpinned a season of landmark World War Two history programming
<ul style="list-style-type: none"> ■ Launch <i>Computers for the Terrified</i>, a course for complete beginners and a precursor to a basic skills campaign in 2005/2006 	<ul style="list-style-type: none"> ■ Three modules, each with three core elements corresponding to an Information and Communication Technology (ICT) Basic Skills Curriculum learning objective, have been built. Roll-out will now take place in the autumn to coincide with launch of the new ICT curriculum
<ul style="list-style-type: none"> ■ Expand the range of community and user-generated content 	<ul style="list-style-type: none"> ■ <i>Where I Live</i> user-generated content has been expanded via <i>Digital Storytelling</i> and <i>Video Nation</i> to a further seven locations across England and Wales ■ <i>Blast</i> (for 13 to 19 year olds) young reporters now have a dedicated section on 27 of the <i>Where I Live</i> websites across the UK, allowing them to provide weekly updates on the arts in their area ■ There have been a number of individual <i>Where I Live</i> initiatives including the Norfolk Animation Project, in partnership with Norfolk School of Art, which combined online, linear and off-line elements to give students the opportunity to develop and share creative content with a regional audience ■ BBC Scotland's <i>Island-Blogging</i> project was the first to bring blogging to BBC audiences. It has spawned a series of spin-offs and is to be extended to all Scottish islands
<ul style="list-style-type: none"> ■ Explore the possibility of issuing children with secure digital identities for use within online spaces (improving safety for children and peace of mind for parents whilst acknowledging the BBC's duty of care to our users and licence fee payers) 	<ul style="list-style-type: none"> ■ Talks have begun with possible external partners
BBCi:	
<ul style="list-style-type: none"> ■ New regionalised access points – direct links to local and regional news driven by geographical location of the user 	<ul style="list-style-type: none"> ■ Restructuring work on BBCi infrastructure has taken priority over creating regional access points, which has now been rescheduled for September 2005
<ul style="list-style-type: none"> ■ Ease of transition to digital for analogue Ceefax users through Quick Codes that pinpoint the equivalent information on BBCi 	<ul style="list-style-type: none"> ■ Increased ease and speed of use of the BBCi service has helped drive conversion from Ceefax towards richer digital content. Further work with digital cable is required in 2005/2006
<ul style="list-style-type: none"> ■ Launch improved <i>Bitesize</i> interactive service, including video quiz element 	<ul style="list-style-type: none"> ■ The enhanced television (eTV) <i>Bitesize Revision</i> guide was relaunched in Spring 2004 including a quiz element and daily revision updates

Commitment	Performance
BBC Nations & Regions: News and current affairs:	
<ul style="list-style-type: none"> ■ BBC English Regions: over 3,200 hours of daily television news programmes; at least 250 hours of other programming including current affairs 	<ul style="list-style-type: none"> ■ 3,635 hours of daily television news programmes ■ 281 hours of further programming across other genres, including current affairs
<ul style="list-style-type: none"> ■ BBC Scotland: over 500 hours of television news and current affairs; at least 2,200 hours of radio news and current affairs 	<ul style="list-style-type: none"> ■ 504 hours of television news and current affairs ■ 2,217 hours of radio news and current affairs
<ul style="list-style-type: none"> ■ BBC Cymru Wales: over 430 hours of English language news, current affairs and politics on television; over 1,500 hours of news and current affairs on BBC Radio Wales; over 1,000 hours of Welsh language news and current affairs on BBC Radio Cymru 	<ul style="list-style-type: none"> ■ 458 hours of English language news, current affairs and politics on television ■ 1,572 hours of news and current affairs on BBC Radio Wales ■ 1,039 hours of Welsh language news and current affairs on BBC Radio Cymru
<ul style="list-style-type: none"> ■ BBC Northern Ireland: BBC Radio Ulster will broadcast over 2,000 hours of local, national and international news and current affairs (excluding Assembly proceedings); BBC Radio Foyle will broadcast over 380 hours of news and current affairs; provide at least 295 hours of local news and 70 hours of current affairs and factual programming for BBC One 	<ul style="list-style-type: none"> ■ Radio Ulster broadcast 2,242 hours of local, national and international news and current affairs (excluding Assembly proceedings) ■ BBC Radio Foyle broadcast 380.5 hours of news and current affairs ■ 303 hours of local news and 85 hours of current affairs and factual programming were provided for BBC One
BBC English Regions:	
<ul style="list-style-type: none"> ■ Enriched local radio output of 225,600 hours across a wider range of lifestyle passions, daily concerns and cultural life than ever before 	<ul style="list-style-type: none"> ■ 231,532 hours of local radio across a richer genre mix
<ul style="list-style-type: none"> ■ Broadcast over 1,300 arts stories from ethnic minority communities on regional television, radio and online 	<ul style="list-style-type: none"> ■ 1,205 arts stories were broadcast across radio, TV and online, as part of <i>Roots</i> – a joint Arts Council/BBC project which funds coverage of ethnic minority arts and events on BBC Local Radio
<ul style="list-style-type: none"> ■ Commit an additional £500,000 to independent production 	<ul style="list-style-type: none"> ■ An additional £200,000 was committed. A further £300,000 was committed with the transfer of the London edition of <i>The Politics Show</i> to an independent production team. This fell just outside the accounting period
BBC Scotland:	
<ul style="list-style-type: none"> ■ 184 hours of local television programmes across a range of genres, excluding news, current affairs and sport 	<ul style="list-style-type: none"> ■ 189 hours of local television programmes across a range of genres, excluding news, current affairs and sport
<ul style="list-style-type: none"> ■ Over 9,200 hours of live or originated radio programmes 	<ul style="list-style-type: none"> ■ 10,447 hours of live or originated radio programmes
<ul style="list-style-type: none"> ■ 58 hours of schools programming on television and radio 	<ul style="list-style-type: none"> ■ 66 hours of schools programming on television and radio
<ul style="list-style-type: none"> ■ Spend £2.1million on Gaelic output, including online 	<ul style="list-style-type: none"> ■ A total of £5.6million was spent on Gaelic output including online

Commitment	Performance
BBC Cymru Wales:	
<ul style="list-style-type: none"> ■ BBC Radio Cymru will broadcast over 6,000 hours of output, excluding news and current affairs, and BBC Radio Wales will broadcast over 5,500 hours 	<ul style="list-style-type: none"> ■ BBC Radio Cymru broadcast 7,070 hours of output, excluding news and current affairs ■ BBC Radio Wales broadcast 5,686 hours, excluding news and current affairs
<ul style="list-style-type: none"> ■ 600 hours of television across a range of genres, excluding news and current affairs 	<ul style="list-style-type: none"> ■ 686 hours of television across a range of genres, excluding news and current affairs
<ul style="list-style-type: none"> ■ BBC Cymru Wales will supply 520 hours of Welsh language television programming to S4C 	<ul style="list-style-type: none"> ■ BBC Cymru Wales supplied 533 hours of Welsh language television to S4C, including 96 hours of popular drama from the popular soap <i>Pobol y Cwm</i>, which celebrated its 30th year in 2004
<ul style="list-style-type: none"> ■ Increase supply output to BBC television and radio networks by at least 70%, to £30million 	<ul style="list-style-type: none"> ■ Supply increased by 76% to £34million in the period to December 2004. Examples include <i>Doctor Who</i>, <i>A Year at Kew</i> and <i>Tribe</i>
<ul style="list-style-type: none"> ■ Lead major project for BBC – The UK Speaks, a cross-platform project which will celebrate and explore the diverse languages, dialects and accents of the UK today 	<ul style="list-style-type: none"> ■ This initiative, the biggest survey of spoken English across the UK, will continue in 2005/2006. The project has been renamed as <i>Voices</i>
<ul style="list-style-type: none"> ■ Supply around 500 hours (subject to Assembly sessions) of television coverage of the National Assembly on S4C2 	<ul style="list-style-type: none"> ■ BBC Wales supplied 547 hours of television coverage of the National Assembly on S4C2
<ul style="list-style-type: none"> ■ BBC National Orchestra of Wales will make more than 80 programmes across Radio 3, BBC Radio Wales, BBC Radio Cymru, BBC Four and S4C and hold over 60 public concerts 	<ul style="list-style-type: none"> ■ 87 programmes have been made by the National Orchestra of Wales ■ 67 public concerts were held across the year
BBC Northern Ireland:	
<ul style="list-style-type: none"> ■ At least 645 hours of original local television and over 8,500 hours of local radio 	<ul style="list-style-type: none"> ■ A total of 633 hours of original local television was broadcast. A further 12 hours were commissioned for broadcast early in the next accounting period ■ 8,740 hours were broadcast on BBC Radio Ulster/Foyle
<ul style="list-style-type: none"> ■ Invest an additional £1million in local services 	<ul style="list-style-type: none"> ■ An additional £1million was invested in local programmes
<ul style="list-style-type: none"> ■ Make and broadcast at least 70 hours of factual programming for BBC Northern Ireland television and over 370 hours on BBC Radio Ulster and BBC Radio Foyle – including at least 18.5 hours aimed directly at pre-school and school students 	<ul style="list-style-type: none"> ■ 70.4 hours of factual output were achieved by BBC Northern Ireland ■ 832 hours of factual output was broadcast on BBC Radio Ulster on its features and magazines, of which over 18.5 hours were targeted at pre-school and school students

* These commitments form part of the BBC's Tier 2 quotas which are agreed by the Board of Governors with Ofcom each calendar year. For a complete list of the Tier 2 quotas see page 92.

Compliance

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

The Governors must satisfy themselves that the BBC:

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

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

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1 Fair trading

Governors' Fair Trading Compliance Committee (FTCC)

During the year the FTCC comprised exclusively of Governors of the BBC: Anthony Salz (Chairman: joined September 2004), Dame Ruth Deech, Professor Merfyn Jones, Professor Fabian Monds and Rt Hon The Lord Ryder (retired June 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 Unit, 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 report and independent auditors' opinion 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 fee payers' investments, built up over many years, have produced a critical mass of talent and production capability for the BBC, together with an unparalleled archive of past programming. These assets have a secondary value, over and above their use on public service channels and outlets. The BBC has a responsibility to ensure that this value is properly developed commercially, and used to the benefit of licence fee payers.

In pursuing commercial activities, the BBC is, like other organisations, fully subject to both domestic and European competition law. In addition to ensuring compliance with European and UK Competition Law and European Law on State Aid, and in recognition of its special position as a publicly-funded organisation, the BBC voluntarily embraces other requirements within its framework of Fair Trading.

Fair trading compliance procedures

The BBC's fair trading obligations are embodied in its Fair Trading Commitment, compliance with which is scrutinised throughout the year by a standing committee of the Board of Governors, the FTCC. This is underpinned by the Fair Trading Guidelines which provide a detailed operational framework which build on the principles of the Fair Trading Commitment. Although the Fair Trading Guidelines include guidance on competition law (and any representations to the BBC in relation to this will be considered by the Governors), the Governors are not a competition authority; any allegations that the BBC has breached competition law may also be made to the relevant competition authority.

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

The management of the BBC's fair trading arrangements is regularly tested by the British Standards Institute and these arrangements have been accredited with the ISO 9001:2000 quality standard. The last assessment conducted in December 2004 confirmed that the procedures are continuing to operate effectively.

By their nature, fair trading judgements are complex, reflecting the constantly developing environment in which the media industry operates. Through the FTCC, the BBC's Governors bring informed scrutiny and balanced 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 News 24, against the terms 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 annual verification by external auditors that the marginal cost principle is appropriately applied in dealings between BBC News and BBC World. Following a report from external auditors, the Governors are satisfied that the marginal cost principle has been applied appropriately.

Annual Fair Trading Audit

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

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

The auditors' opinion based on their audit for the year ended 31 March 2005 is included later on this page.

Fair trading complaints

Among the responsibilities of the Head of Fair Trading is to investigate fair trading complaints against the BBC on behalf of the Executive Board and report to the FTCC. In considering fair trading complaints against the BBC, the FTCC may take the advice of its Fair Trading Auditors or that of other independent advisers as it considers appropriate. The Head of Fair Trading may be contacted at BBC, Media Centre, 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. The BBC received 11 external challenges during the year. Although there was no breach of process in relation to these complaints, two aspects of one complaint by the History Channel were upheld. Details of all the complaints are available from the Head of Fair Trading at BBC, Media Centre, Wood Lane, London W12 7TQ or online at bbc.co.uk/info/policies/fairtrading_complaints.

The Governors have recently announced that they have commissioned an independent consultant to review the fair trading complaints process. In line with the new governance arrangements being implemented to strengthen accountability, the Governors have requested proposals that meet the following criteria: legal compliance, fairness, objectivity, transparency, effectiveness and practicality. The Governors' conclusions will be published later this year.

Events of the year

Green Paper

The Government's Green Paper on Charter Review was published on 2 March 2005. The BBC published its response to the Green Paper on 24 May 2005. This response can be found online at bbc.co.uk/thefuture.

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 2005

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 2005.

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. They 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 of fair trading compliance, as included in the BBC's *Annual Report and Accounts*, which includes a statement on fair trading.

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

As the BBC's Fair Trading Auditor, it is our responsibility to form an independent view, based on our 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 and the BBC Governors in accordance with our instructions which were agreed with the Director of Governance 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 2005.

PricewaterhouseCoopers LLP
Chartered Accountants

London
16 June 2005

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

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

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

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

KPMG LLP (the external auditors) have 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 Subsidiaries. KPMG LLP have reported to the Governors that, in their opinion, the information contained in the summary of transactions for the year ended 31 March 2005 has been accurately extracted from the books and records of BBC World Service and the Supplier Divisions and Subsidiaries, and has been properly prepared on the bases of cost allocation and apportionment methods set out in the agreements between BBC World Service and the Supplier Divisions and Subsidiaries and, on this basis, there has been no material cross-subsidy between Grant-in-Aid and licence fee funds or between Grant-in-Aid and the BBC's commercial subsidiaries.

Governors' statement on BBC World Service Trading Protocols

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

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

2 Financial statements

Statement of Board of Governors' and Executive Board's responsibilities for the preparation of the financial statements
The Governors and Executive Board are required by the BBC's Charter to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the BBC and of its income and expenditure for that period. In preparing those financial statements, the Governors and Executive Board 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 Board have voluntarily decided to comply with the accounting and disclosure provisions of the Companies Act 1985 and, where applicable, of the Financial Services Authority Listing Rules. They are also responsible for keeping adequate accounting records and have general responsibility for 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 96 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) and in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the BBC's Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the BBC and the BBC's Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Governors and Executive Board and Auditors

The Governors and Executive Board are responsible for preparing the BBC's *Annual Report and Accounts* 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 been applied to these financial statements. We also report to you if, in our opinion, the BBC has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Governors' and Executive Board remuneration and 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 82 to 86 reflects the BBC's compliance with the nine provisions of the 2003 Financial Reporting Council (FRC) Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the BBC's statement on internal control covers all risks and controls or form an opinion on the effectiveness of the BBC's corporate governance procedures or its risk and controls procedures.

We read the other information contained in the BBC's *Annual Report and Accounts*, 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 Board 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 2005 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
16 June 2005

3 Risk and control processes

BBC corporate governance framework

The Board of Governors are appointed as trustees for the public interest to ensure that the BBC is properly accountable to Parliament and licence fee payers. Part of this role requires the Board of Governors to satisfy themselves that the BBC is applying the highest standards of corporate governance. To this end the BBC voluntarily complies with the 2003 FRC Code.

During 2003 the Combined 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 (FRC), developed the existing code provisions for audit committees. The Combined Code was therefore superseded by the 2003 FRC Code which sets out the principles of good governance. The BBC has complied throughout the year ended 31 March 2005 with the 2003 FRC Code except as noted below.

Overall, the requirements of the 2003 FRC Code apply to the BBC with three 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 fee paying public, rather than shareholders through the stewardship of the Board of Governors.

Additionally the BBC has not complied with section 2.4 of the Smith Guidelines within the 2003 FRC Code which states that the Chairman should not be a member of the Remuneration Committee, on the basis that a chairman is not independent. All BBC Governors are independent of management and therefore the Governors determine that the Chairman is independent for the purposes of setting the remuneration of the Executive Board.

The BBC does not have a standing nominations committee. However, a nominations committee was established in 2004 to assist in the appointment of a new Director-General. As noted above, the Governors are appointed by the Queen in Council.

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

How the BBC has applied the remuneration principles is detailed within the remuneration report on pages 88 to 90.

Board structure

The Board of Governors are the members of the Corporation and act as trustees for the public interest while the Executive Board takes responsibility for day-to-day operations. More information on how the BBC is run can be found on pages 6 to 7. Details of the Board of Governors, the Executive Board and changes to the Boards are summarised on pages 8 to 11. A register of interests for both the Board of Governors and Executive Board is maintained. The Board of Governors' register is available online at bbc.gov.uk. The Executive Board's register may be inspected by written application to the Director, BBC People, MC2 B4, Media Centre, Wood Lane, London W12 7TQ.

During 2004/2005, the Board initiated a formal evaluation of its effectiveness, conducted by independent specialists in corporate governance who compiled and analysed the results of individual questionnaires and meetings with Governors and internal stakeholders. The evaluation addressed key aspects of the functioning of the Board including its committees, relationships, accountability, information flows and decision-making processes. The findings were reported to the Chairman and presented to a meeting of the Board in May 2005.

The evaluation highlighted the unique nature of the BBC and significant scale of the Board's responsibilities. It concluded that the Board performed effectively with high levels of energy and commitment but that continuing vigilance was needed to focus on strategic priorities and to balance Governors' workload with time commitment; the Governance Unit had an important role to play here and was proving effective. This greater prioritisation would enable Governors to deliver their full range of commitments, particularly greater connection with licence fee payers. The results of the evaluation will be formally reviewed after 12 months.

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

- Governors' Fair Trading Compliance Committee (page 78)
- Governors' Audit Committee (page 84)
- Governors' Property Committee (page 85)
- Governors' Finance and General Purposes Committee (page 86)
- Governors' Remuneration Committee (page 88)
- Governors' Programme Complaints Committee (page 90)

The terms of reference of these committees are available on bbc.gov.uk.

The attendance record of individual Governors at full Board and subcommittee 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	11	12	5	6	5	5
Michael Grade ¹	10/10				5	4/4
Anthony Salz ²	7/7		4/4		3/3	
Deborah Bull	11	6/8			2/3	
Dame Ruth Deech	11		5	1/3		
Dermot Gleeson	11			5		5
Professor Merfyn Jones	9	1/2	3/4			
Professor Fabian Monds	11	12	5			
Jeremy Peat ³	3/3			1/1		
Angela Sarkis	9	9				
Ranjit Sondhi	10	4/4				
Richard Tait ²	7/7	8/8				
Richard Ryder ⁴	1/3		0/1		0/2	1
Pauline Neville-Jones ⁵	6/8	3/4		3/3	2/3	
Robert Smith ⁵	8/8	6/6		5/5	1/1	3

¹ Started 17 May 2004

² Started 1 August 2004

³ Started 1 January 2005

⁴ Retired 30 June 2004

⁵ Retired 31 December 2004

The BBC's Governance Unit was created as a specialised unit which provides discrete professional advice to support the work of the Board of Governors. The Governance Unit is separate from the management of the Executive Board both in terms of reporting lines and management.

The Unit is structured around the key areas which support the Governors' roles on performance, compliance/value for money work and accountability:

- the Performance team supports the Governors' work with a focus on the performance of the BBC's public services including performance against the BBC's objectives and the BBC's Statements of Programme Policy
- the Compliance & Value for Money team supports the Governors' work in regulating the BBC, in particular on financial, commercial and economic issues
- the Accountability & Regions team is leading a strengthened programme of Governors' public accountability
- the Governors' Business team manages all Board, subcommittee and other Governor-led meetings, and coordinates correspondence handling. It liaises closely with the Executive Board on business handling, and aims to provide an enhanced briefing and action tracking service for the Governors
- the Communications team aims to ensure that Governors are seen and heard by licence fee payers and other stakeholders as they fulfil their role, working closely with the Accountability & Regions team

The attendance record of individual Executive Board members is detailed below. The Executive Board replaced the BBC's Executive Committee from July 2004. Attendance is therefore shown for the new Executive Board Structure from July 2004 to March 2005.

Number of meetings for the period	Number of meetings attended within the period
	19
Mark Thompson	19
Mark Byford	19
Jenny Abramsky	19
Jana Bennett	19
Stephen Dando	19
Ashley Highfield	18
Zarin Patel (started December 2004)	10/10
John Smith	18
Carolyn Fairbairn (resigned December 2004)	10/10
Caroline Thomson (started September 2004)	16/17

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 Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The respective responsibilities of the Board of Governors and Executive Board and the external auditors are set out on page 81. In addition to the review of internal controls carried out by the BBC's internal audit function, the BBC Governors appoint external specialists and advisers to undertake any further work to provide assurance over the operation of internal controls as required. During the year, the Board of Governors commissioned independent accountants, Ernst & Young, to carry out a review of certain aspects of the BBC's financial controls. Ernst & Young concluded that the BBC's system of financial controls and procedures is fundamentally sound and made recommendations to strengthen processes further. The Governors published Ernst & Young's management letter in full. This sets out the scope of their work and provides a summary of their findings, and is available online at bbc.gov.uk. BBC management has since reported to the Audit Committee on the actions it is taking.

Such a system of controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board of Governors and Executive Board have reviewed the process for identifying, evaluating and managing significant risks faced by the BBC. The process has been in place for the year ended 31 March 2005 and up to the date of approval of this BBC *Annual Report and Accounts* and accords with the Turnbull guidance.

Financial reporting and going concern

A review of the financial position of the BBC is included on pages 94 to 95. 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 Board believe that the BBC has adequate resources to continue its operations for the foreseeable future.

Control environment

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

■ Risk identification and management

The BBC's framework for the management of risk is subject to continuous development as management assesses risks in relation to the delivery of the BBC's objectives.

The Director of each division has a clear responsibility for the identification and management of risks facing their business. Each division identifies and assesses the key business risks which may have an impact on the accomplishment of its strategic objectives. The risks identified, and the actions planned in response, are maintained in a risk register in each division and are reviewed by each Divisional Board.

The overall management of risk within the BBC is considered to be most effectively managed through the engagement of the entire Executive Board. For that reason, risk management is not delegated to a subcommittee. The Executive Board receives reports on the significant risks identified, the controls and further actions required to effectively manage those risks. During the year, the BBC has announced a wide-ranging change programme. The complexity and ambition of the change programme presents a significant opportunity and risk to the BBC. The change risks are monitored in accordance with the BBC's over-arching risk management strategy and are reviewed by the Executive Board each month.

The Board of Governors also has some oversight of the management of risk. The risk registers are presented to the Audit Committee during the year and were also presented to the full Board of Governors in January 2005.

■ Internal Audit

The BBC has an Internal Audit department which is a core part of the Business Assurance function. Internal Audit's authority, and its independence, is assured from its joint independent reporting relationship to the Audit Committee, the Fair Trading and Compliance Committee and 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.

The work programme of Internal Audit extends throughout all activities of the BBC and includes the exercise of the BBC's right of audit over external parties including independent production companies and other key suppliers of outsourced services.

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

■ *Divisional controls*

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

■ *Business and broadcast continuity*

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 our people and assets remain the priority in contingency planning for the BBC.

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 specialist systems auditors who review the continuing integrity of key systems within the BBC including computer and broadcast critical systems. During the year Internal Audit provided independent assurance over the process of outsourcing of technology provision to the BBC by Siemens Business Services Limited.

■ *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 Business Services Limited. The BBC monitors the provisions that Capita Business Services Limited has put in place to ensure the collection of the licence fee in the event of business interruption. Safeguards are in place to ensure the integrity of the BBC's transaction processing and collection data and to provide alternative methods in the event of a failure of the core processes.

■ *Financial reporting and business performance*

Individual divisions are responsible for ensuring compliance with the BBC's financial reporting 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 Board and Board of Governors' meetings each month.

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

■ *Fraud awareness*

The BBC takes its responsibilities to minimise the risk of fraud, and the consequential loss to the licence fee payer, very seriously. The BBC has implemented a clear fraud policy which clarifies responsibilities for ensuring that the appropriate controls are in place to minimise the risk of fraudulent activity and to ensure that all suspected incidents of fraud are thoroughly investigated. The policy is managed by the Anti-Fraud Group which reports to the Audit Committee and to the Executive Board.

During the year, a series of anti-fraud workshops have been undertaken across the BBC to identify key fraud risks and to promote fraud awareness. The programme of workshops is a continuing core element in the BBC's anti-fraud strategy.

■ *Whistle-blowing*

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

■ *Governors' Audit Committee*

During the year the Audit Committee comprised exclusively of Governors: Jeremy Peat (Chairman: appointed 1 January 2005), Dermot Gleeson, Dame Ruth Deech (from October 2004), Sir Robert Smith (Chairman from October 2004 until his retirement as a BBC Governor on 31 December 2004) and Dame Pauline Neville-Jones (Chairman until September 2004).

The Audit Committee complies with the recommendations within the Smith Report with at least one member of the Audit Committee having significant, recent and relevant financial experience. Jeremy Peat is the member with such experience. Members of management attend meetings by request of the Audit Committee.

The Audit Committee has written terms of reference. Its principal role is to review:

- the effectiveness of the systems of internal control including consideration of the reports from both management and internal auditors on significant risks to the organisation and the controls exercised over those risks
- the BBC's financial statements, including accounting policies, compliance with legal and regulatory requirements and the findings of the external and internal auditors
- the BBC's relationship with the external auditors, including their engagement, the scope of and approach to their work, their fees, effectiveness and their independence including the observance of the policy relating to the engagement of the external auditors in non-audit work
- the activities and plan of work and the effectiveness of internal audit
- the programme of Value for Money reviews commissioned by the Audit Committee from the National Audit Office (NAO) and other external agencies with the objective of ensuring value to the licence fee payer

The Audit Committee met six times during the year. The meetings are usually attended by the Director-General, the Chief Operating Officer, the Group Finance Director, the Head of Business Assurance (also Head of Internal Audit) and representatives from the external auditors. The Committee meets regularly with the external auditors without any member of management present. The Chairman of the Audit Committee meets routinely with the Head of Business Assurance, alone or with the external auditors, but without management. The Audit Committee has access to independent professional advice as required.

In addition to the review of the reports of the internal auditors relating to the operation of the controls over risks to the organisation, the Committee has reviewed reports from external agencies, including the NAO, on Value for Money studies in specific areas. The NAO reviews on Measures of Public Service Broadcasting and the White City property development, and reviews by other external agencies on the BBC Property Partnership arrangements with Land Securities Trillium Limited and the BBC's credit management operations, together with the response by the BBC Governors, are laid before Parliament with the BBC's *Annual Report and Accounts* in July 2005.

In considering legal and regulatory requirements, the Audit Committee has reviewed developments, including receiving presentations from management, on the impact of International Financial Reporting Standards on the BBC (see Financial review on pages 94 to 95).

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

Independence of external auditors

The BBC complies with the guidance governing the conduct of external audit set out in the 2003 FRC Code. The external auditors appointed by the BBC are KPMG LLP as financial auditors, and PricewaterhouseCoopers LLP as the fair trading auditors (see pages 79 to 80). The Audit Committee, FTCC, PricewaterhouseCoopers LLP and KPMG LLP themselves, all have safeguards in place to avoid the possibility of the auditors' objectivity and independence being compromised.

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

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

- non-audit services, above a £50,000 threshold, proposed to be commissioned from the external auditors must be notified to, and approved by, the Audit Committee
- above an established *de minimis* level the planned work must be submitted to competitive tender and, in the event that the external auditors are to be awarded the contract, the prior approval of the Audit Committee must be obtained
- the external auditors are specifically excluded from being considered for certain types of work where the effect could be to prejudice their ability to express an independent and objective opinion

Governors' Property Committee

The Governors' Property Committee was formally established in July 2003 to supervise management's implementation of the BBC's property strategy including monitoring the progress of the redevelopment of Broadcasting House in London. However, the Audit Committee remains the authority by which the Corporation determines satisfactory compliance with internal and external controls including for property projects.

During the year the Property Committee comprised exclusively of Governors: Dermot Gleeson (as Chairman), Michael Grade (from May 2004), Richard Ryder (retired 30 June 2004) and Sir Robert Smith (retired 31 December 2004). The Property Committee was disbanded in May 2005, and its responsibilities assumed by the Governors' Finance and General Purposes Committee (FGPC), which will hold its first meeting in July 2005.

The key responsibilities of the Property Committee were 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 Governors' Audit Committee for further scrutiny

Governors' Finance and General Purposes Committee (FGPC)

The FGPC is in the process of being established. Its members comprise exclusively of Governors: Dermot Gleeson (as Chairman), Michael Grade, Anthony Salz and Jeremy Peat. The key responsibilities of the Committee will include:

- assisting and making recommendations to the main Board of Governors on financial, strategic, investment and property related matters
- scrutinising and making recommendations to the Board of Governors on the BBC's annual budget
- reviewing investment cases prior to them being considered by the full Board
- reviewing progress against the BBC's major projects and strategies

Governance arrangements for commercial subsidiaries

BBC Commercial Holdings Limited, a wholly-owned subsidiary of the BBC, coordinates and manages 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) has a responsibility to consider all Audit Committee papers relating to the commercial subsidiaries. The CHAC members are independent of the operational management of the commercial businesses. Matters of significance will also be taken and discussed by the Governors' Audit Committee, referral of which is determined by the Chairman of CHAC and overseen by the Head of Business Assurance.

The objective of the CHAC is to ensure that the BBC commercial subsidiaries meet the highest standards of corporate governance particularly with respect to internal control and risk management and operate within the framework of the Governors' Audit Committee. The Chairman of the CHAC reports to each Governors' Audit Committee on the activities of the CHAC.

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 events, updating controls and processes where considered appropriate.

Suspected fraud

During the year, a series of suspicious transactions, authorised by a member of staff, were identified. The member of staff has left the BBC and the matter has been referred to the police who are conducting an investigation with the BBC's full support. The incident has been subject to a detailed internal review to identify and learn the control lessons. The total value of transactions under examination is below £300,000.

4 Other corporate governance responsibilities

Human resources

The BBC continues to hold the Investors in People (IIP) accreditation across all divisions of the BBC, which is one of the 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 page 62.

The BBC monitors staff views through an annual staff survey and also has various consultation mechanisms. Regular meetings are also held by management with the recognised unions: BECTU (Broadcasting Entertainment Cinematograph and Theatre Union), 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 2004, showed that the BBC continues to make further progress in the key areas of leadership and focusing on audience needs. The BBC remains in MORI's group of top ten organisations in the UK for internal communications.

Occupational risk management

The BBC's overall objective is to provide and maintain a safe, healthy and secure environment for its employees, the people it works with and those who visit the organisation. It is integral to the BBC's vision. In June 2003, the BBC's Executive subcommittee (Corporate Health and Safety Committee) agreed the key goals and objectives for the organisation designed to inform the work of the Occupational Risk Management team. These were:

- establish an integrated framework for the management of health, safety and security across the BBC
- establish management systems for the selection and control of contractors to ensure health, safety and security risks to the BBC are adequately addressed
- reduce the number and duration of lost time accidents and occupational ill-health cases by 25% from 2004–2008

The BBC's occupational risk policies are the keystone of the Executive's aim to encourage initiative and adopt best practice where employees and managers are aware of their responsibilities and actively engaged in, and committed to, improving standards of occupational risk management. The Health and Safety, Security and Environment Management policies aim to:

- enable continual and effective improvement of occupational health, safety, security and environment performance
- confirm the organisation's objective to achieve implementation and continued improvement of an occupational risk management system that meets the requirements of the British Standards Institute specification, OHSAS 18001:1999, for health and safety, International Standards Organisation, ISO 14001:2004 for environmental management and industry best practice for security

A governance structure is in place to ensure the BBC's day-to-day activities are supported, comprising of both Executive and subcommittees. It ensures compliance with statutory obligations, implementation of BBC policy, standards and guidelines and that occupational risk management initiatives are championed on behalf of the organisation.

As part of Occupational Risk governance and compliance, BBC Business Assurance undertakes both reviews and internal audits. These will continue and become more divisionally focused, as part of the BBC's audit and assurance activities. The audit reports and actions arising from these audits are owned and dealt with directly by the relevant BBC business, supported by the BBC's Occupational Risk Management department where required.

The plan to implement a corporate occupational risk management system and an internal advice line, aimed at providing front line advice and support to BBC operations, is the mainstay of the BBC's strategy to improve occupational risk management across the BBC. These plans, together with the initiatives discussed below, are designed to aid the management of the key occupational risks currently facing the BBC which management has assessed as:

- managing occupational risk during major organisational change
- the selection and competence of independent producers working on behalf of the BBC
- adequacy of health and safety performance standards of partner organisations and contracted service providers
- risk from international terrorism and dissident groups potentially targeting the BBC

Several other major initiatives were implemented throughout the year, including:

- work-related stress and post-traumatic stress initiatives
- child protection guidelines and procedures
- safe driving guidelines and procedures
- an Asbestos Working Group
- health and safety arrangements for events
- a Noise Working Group established in response to the requirements of the EU Physical Agents (Noise) directive
- a working group set up by the BBC's Executive subcommittee to look at the management of occupational risk relating to third parties

The BBC continues to strengthen its portfolio and provision of online training. Alongside this it has introduced a number of face-to-face courses for production staff aimed at improving the management of occupational risk. Over 6,300 staff completed one or more of the online training modules during 2004/2005 and a further 2,707 attended face-to-face occupational risk training courses.

The BBC initiated a number of improvement initiatives aimed at developing greater effectiveness around communications on health and safety issues with employees, third parties and trade unions. Communication and reporting is carried out at divisional level within the BBC through a network of safety forums in each division to ensure full engagement with BBC businesses. Monthly and quarterly reports on occupational risk management performance are delivered to key stakeholders at Executive level and also to the

joint Trade Union health and safety committee. The BBC also fully contributes to the work of key industry sector groups, including the Health and Safety Executive Joint Advisory Committee and Joint Industry Grading Scheme. In October 2004 the BBC hosted a Health and Safety conference for the broadcast industry in support of European Week for Safety and Health, attended by both UK and foreign broadcasters, independent production companies, trade unions and the enforcement agencies. The BBC continues to foster constructive discussions and has become a significant contributor to the HSE's initiative CCG (Construction Client Group).

The BBC has delivered an improving statistical trend in health and safety performance. In 2004/2005 the total number of injuries as a result of accidents reported reduced compared to 2003/2004 by 3.6% to 864. The BBC's accident rate in 2004/2005 was 140 per 100,000 employees compared to 134 for 2003/2004. Sadly the organisation suffered two fatalities during the year. These occurred during newsgathering operations abroad. Lessons learnt from these incidents have been applied to focused improvements, specifically around training and communication regarding working abroad and within hostile environments. In recognition of its efforts to provide trauma training and support staff in the coverage of the Iraq conflict the BBC was awarded the Distinguished Media Leadership Award by the US Dart Centre for Journalism and Trauma.

During 2004/2005 RIDDOR reportable accidents to the HSE reduced to 38 in comparison to 39 reported in 2003/2004.

The incidence rate for suspected work-related ill health of employees referred and seen by the BBC's occupational health practitioners was 16.3 for 2004/2005 compared to 17.5 per 1,000 employees for 2003/2004.

At present the main method of calculating the cost of accidents is through Employer's Liability and Personal Accident claims. This does not represent the full cost of accidents but provides an indicator of cost. In 2004/2005 the BBC paid £3,000 combined for Employer's Liability and Personal Accident claims (2003/2004 £856,000) with £1.3million of claims outstanding (2003/2004 £266,000). This represents 17 cases in 2004/2005 (32 in 2003/2004).

As part of the development of the occupational risk management system the BBC is reviewing its measuring and monitoring of performance, including improvements to data collection and analysis. The aim is to establish a comprehensive framework of key performance indicators and report targets and objectives for performance in the BBC *Annual Report and Accounts 2005/2006*. Further work is required to link data from a variety of sources to coordinate and assess the costs of absence from work due to accident, injury or ill health. Over the forthcoming year the BBC will look at solutions to achieve this aim.

There were no enforcement actions, notices or convictions against the BBC for occupational risk management matters.

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 Board. The BBC is exempt from the requirements of the Directors' Remuneration Report Regulations 2002 and those of the Financial Services Authority but this report has been prepared as if those requirements did apply wherever the disclosure provisions are relevant and applicable. The sections on Remuneration received and Governors and Executive Board pensions are audited.

Governors' Remuneration Committee: constitution and operation

A subcommittee of the Board of Governors, the Remuneration Committee sets the remuneration policy for members of the Executive Board. The Committee deals with all matters relating to the remuneration of members of the Executive Board and is accountable to the Board of Governors for the determination and maintenance of overall remuneration policy and review of Executive Board basic salaries, bonus awards and benefits including pensions arrangements. The Committee considers the performance of the individual members of the Executive Board and recommends their annual salary and bonus awards to the full Board of Governors.

The members of the Committee during the year were Anthony Salz (Chairman, appointed August 2004), Rt Hon The Lord Ryder (retired June 2004), Dame Pauline Neville-Jones (retired December 2004), Sir Robert Smith (resigned from the Committee August 2004), Deborah Bull (appointed July 2004). Michael Grade has been a member of the Committee since his appointment as BBC Chairman in May 2004. In addition, meetings are attended by the Director-General, who advises on matters relating to the other members of the Executive Board and the overall performance of the BBC, and the Director, BBC People. Neither is present when matters concerning their own remuneration are considered.

The Committee has access to internal expertise through the HR Director, Reward and Commercial Businesses. Complying with the 2003 FRC Code on Corporate Governance, the Committee takes independent specialist advice from external professional advisers on remuneration matters, particularly market practice. During the year the Committee received independent advice from the Hay Group on comparative market data in the determination of pay and benefits for the Executive Board.

Governors: remuneration policy

The members of the Board of Governors receive a fee determined by the Secretary of State for Culture, Media and Sport. They are additionally reimbursed for expenses incurred on BBC business. 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 89. The increase in annual remuneration notified for 2004/2005 was 2.0%.

Executive Board: remuneration policy

Following the reorganisation of the BBC committee structure in June 2004 a new Executive Board was established. The Committee determines the remuneration policy for Executive Board members balancing the BBC's status as a public corporation (with the expectation that executive remuneration must deliver value to the licence fee payer) with the fact that the BBC operates in an

increasingly competitive environment and must offer remuneration that attracts, motivates and retains the key talent 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 salary policy within the rest of the BBC and the relationship that should exist between the remuneration of Executive Board members and that of other employees
- have regard to the market median levels of total cash reward (basic salary and bonus) of relevant comparator organisations in both the public and private sector

The Committee's approach to policy continues to reflect these principles and the dual influences of public service and market competitiveness underpinned by regular review and monitoring of remuneration policy in organisations outside the BBC.

This monitoring continues to show 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 comparable size and complexity. Also, annual bonus opportunities and long-term incentives across the private sector are much greater than in the BBC. Conversely the pay levels for senior civil servants and other public sector managers are generally lower.

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 contracts of all Executive Board members provide for a performance bonus of up to 30% of basic salary. The achievement of BBC-wide objectives account for up to 30% of the maximum bonus for all members of the Executive Board, achievement of divisional objectives accounts for up to 40% and individual performance for the remaining 30% of any award. For the year under review the objectives were set by the Board of Governors and published in the BBC *Annual Report and Accounts* for 2003/2004.

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

The Remuneration Committee has reviewed the bonus design for the Board seeking to achieve a better balance between the need for public service value and market competitive reward. A new plan is introduced for 2005/2006 which makes a substantial reduction in the bonus potential from 30% of base salary to 10% and bases awards on the BBC drive for value for money and achievement of the five Governors' Objectives for 2005/2006. This results in some consolidation to base salary consistent with the policy of having regard to the market median salaries. Pension entitlement will be adjusted so that there is no increase in accrued entitlement.

Benefits

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

Pensions

All members of the Executive Board 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 cap where appropriate. Only basic salary is pensionable. The Scheme provides for early retirement on medical grounds and life assurance cover of four times salary to a prescribed limit.

A variety of arrangements have been made for those individuals who have joined the BBC later 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 Board 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

With the prior agreement of the Board of Governors and where there is no potential for conflict of interest members of the Executive Board may hold external directorships. In principle, no more than two external directorships can be held at the same time of which only one should be in a commercial organisation. 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 four Executive Board members held appointments as executive directors of external organisations. For information on how to obtain the Executive Board's register of interests see page 82.

Remuneration received

The remuneration of the Board of Governors, the Executive Board members appointed or leaving during the year or former members of the Executive Committee prior to the formation of the Executive Board in June 2004 is included in respect of their period of membership only.

Governors	Fees £000	Benefits £000	Total 2005 £000	Total 2004 £000
Deborah Bull	16	4	20	13*
Dame Ruth Deech	16	9	25	21
Dermot Gleeson	16	12	28	18
Michael Grade (appointed 17 May 2004)	72	24	96	–
Professor Merfyn Jones	28	8	36	34
Professor Fabian Monds	28	3	31	30
Dame Pauline Neville-Jones (retired 31 December 2004)	21	5	26	34
Jeremy Peat (appointed 1 January 2005)	7	3	10	–
Rt Hon The Lord Ryder (retired 30 June 2004)	14	1	15	39
Antony Salz (appointed 1 August 2004)	19	5	24	–
Angela Sarkis	16	6	22	25
Sir Robert Smith (retired 31 December 2004)	21	2	23	29
Ranjit Sondhi	28	4	32	25
Richard Tait (appointed 1 August 2004)	11	4	15	–
Governors who retired during 2003/2004	313	90	403	268
				110
	313	90	403	378

* Appointed Governor part-way through 2003/2004

Executive Board	Salary £000	Annual bonus £000	Taxable benefits £000	Total 2005 £000	Total 2004 £000
Jenny Abramsky	233	58	13	304	276
Jana Bennett	255	63	16	334	305
Mark Byford	351	92	14	457	384
Stephen Dando	245	65	3	313	294
Andy Duncan (resigned 17 July 2004)	82	–	5	87	309
Carolyn Fairbairn (resigned 31 December 2004)	162	–	12	174	271
Rupert Gavin (left the Committee 22 June 2004) ^{1 2 4}	146	–	10	156	373
Ashley Highfield	245	57	18	320	308
Pat Loughrey (left the Committee on 22 June 2004) ¹	48	13	8	69	287
Zarin Patel (appointed 1 January 2005)	59	10	3	72	–
Peter Salmon (left the Committee on 22 June 2004) ¹	49	14	7	70	289
Richard Sambrook (left the Committee on 22 June 2004) ¹	54	13	4	71	292
John Smith	287	72	28	387	327
Mark Thompson (appointed 10 June 2004) ³	453	–	6	459	–
Caroline Thomson	210	64	16	290	250
John Willis (left the Committee on 22 June 2004) ¹	51	12	5	68	321
Alan Yentob (left the Committee on 22 June 2004) ¹	54	13	4	71	301
	2,984	546	172	3,702	4,587
Payments under long-term incentive plans ⁴				47	39
Members who resigned during 2003/2004				–	675
				3,749	5,301
Payments to former directors				443	910

¹ Following the reorganisation of the former Executive Committee and creation of the new Executive Board

² Rupert Gavin resigned from the BBC on 2 October 2004. Included within salary in the table above is £80,778 relating to the period from 23 June to 2 October when Rupert Gavin left the BBC. He was paid £443,000 in line with his contractual entitlement, including £290,050 in lieu of notice

³ Mark Thompson has waived his right to be considered for an annual bonus award for the year 2004/2005

⁴ The pro rata payment to Rupert Gavin under the rules of the plan for the BBC Worldwide long-term incentive plan ended on 31 March 2005 for achievement against three-year cashflow, profit and sales targets

Governors and Executive Board pensions

The BBC provides pension benefits to the Chairman of the Governors and to Executive Board members. Details of defined benefit entitlements to the Chairman and Executive Board members who served during the year are shown in the first five columns of the following table. The BBC makes contributions to money purchase schemes in respect of some members as shown in the last two columns.

Governor/Executive Board member (age at 31 March 2005)	Defined benefit schemes					Defined contribution schemes	
	Annual values		Transfer values			BBC contributions to money purchase schemes	
	Accrued pension at 31 March 2005	Increase in accrued pension over year	Transfer value of accrued pension at 31 March 2005	Transfer value of accrued pension at 31 March 2004	Increase in transfer value less directors' contributions over year	2005	2004
	£000pa	£000pa	£000*	£000	£000	£000	£000
Chairman							
Michael Grade (62)	1	1	22	-	18	-	-
Executive Board							
Jenny Abramsky (58)	149	14	3,026	2,719	292	-	-
Jana Bennett (49)	5	2	59	36	18	46	41
Mark Byford (46)	134	34	1,655	1,154	485	-	-
Stephen Dando (43)	6	2	55	37	13	56	52
Andy Duncan (42)	5	1	44	36	6	12	42
Carolyn Fairbairn (44)	13	2	115	95	16	26	31
Rupert Gavin (50)	10	1	135	112	20	29	52
Ashley Highfield (39)	8	2	54	39	10	43	42
Pat Loughrey (49)**	107	14	1,508	1,229	266	-	-
Zarin Patel (44)	11	2	98	76	17	-	-
Peter Salmon (48)**	39	4	544	462	77	8	34
Richard Sambrook (48)**	108	8	1,499	1,303	180	-	-
John Smith (47)	125	28	1,619	1,183	415	-	-
Mark Thompson (47)	1	1	15	-	11	111	-
Caroline Thomson (50)	51	3	836	687	143	30	26
John Willis (58)**	3	2	57	24	28	9	31
Alan Yentob (58)**	142	15	2,883	2,566	302	-	-
						370	351
Directors who resigned in 2003/2004						-	126
						370	477

**Member of former Executive Committee, not on current Executive Board

- Andy Duncan both resigned as a director and left the pension scheme on 17 July 2004. The accrued pension on leaving the scheme has been valued as at 31 March 2005
- Carolyn Fairbairn both resigned as a director and left the pension scheme on 31 December 2004. The accrued pension on leaving the scheme has been valued as at 31 March 2005
- Rupert Gavin resigned from the BBC and left the scheme on 2 October 2004. The accrued pension on leaving the scheme has been valued as at 31 March 2005
- Pat Loughrey, Peter Salmon, Richard Sambrook, John Willis and Alan Yentob all resigned as directors on 22 June 2004, but are still active members of the scheme. The accrued pension has been calculated and valued as at 31 March 2005
- Zarin Patel was appointed a director on 1 January 2005, although she joined the scheme on 1 October 1998. The figures shown include the period before she was a director. The figures at the beginning of the year exclude benefits from a transfer of £1,092 which was received during the year
- Mark Thompson both joined the scheme and was appointed a director on 10 June 2004. The increase in transfer values and accrued pension is in respect of the period from this date
- The accrued benefits shown for Mark Thompson and John Willis assume that they will complete the two-year service period required before benefits can be claimed
- 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) comprised exclusively of Governors: Sir Robert Smith (Chairman, stood down October 2004); Richard Tait (Chairman, joined November 2004); Deborah Bull (joined September 2004); Merfyn Jones (joined March 2005); Fabian Monds; Dame Pauline Neville-Jones (stood down July 2004); Angela Sarkis; Ranjit Sondhi (ended GPCC membership July 2004).

The GPCC is responsible for fulfilling the Charter requirement that the Board of Governors ensures that complaints are properly handled by the BBC. The GPCC undertakes a range of responsibilities in fulfilling this requirement. These involve:

- ensuring that complaints are handled by the BBC promptly, are investigated rigorously and impartially, and that the process is informed by good practice
- undertaking an annual review of the BBC's complaints handling processes and performance. As a result of issues raised in the annual reviews, undertaking a periodic review of the complaints handling strategy, and making recommendations to the Board of Governors concerning any changes it deems necessary arising from these reviews
- reviewing the quarterly complaints report submitted to the Board of Governors by the Complaints Management Board, chaired by the Deputy Director-General
- reviewing the quarterly Complaints Bulletin published by the Editorial Complaints Unit (ECU)
- raising broader editorial issues arising from its consideration of appeals with, as appropriate, the Director-General, or the Deputy Director-General, through the Complaints Management Board
- considering certain appeals against the decisions of the ECU in relation to complaints about programmes transmitted, or material carried by services for which the BBC has editorial responsibility
- considering certain appeals against the decisions of a Director of a BBC division in dealing with an editorial complaint where that complaint falls outside the remit of the ECU and is accompanied by evidence to suggest a serious breach of editorial standards

In taking appeals, the GPCC is advised by an independent Editorial Adviser who informs the GPCC about the range of editorial issues relating to complaints and the concerns and/or considerations raised by complainants.

The GPCC's decisions on appeals are communicated to the appellant and to the Complaints Management Board. The GPCC also publishes a quarterly bulletin of its findings.

For further information on complaints handling during 2004/2005, see pages 61 to 62.

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.

Undertaking an annual review of editorial issues in April this year, the Governors were satisfied that in 2004/2005 overall the BBC met the standards expected of it. They recognised the BBC's continued success in bringing challenging and risk-taking programmes to air, including: *The Secret Agent*, *Real Story – Nurseries Undercover*, *Dirty War*, *The Alan Clarke Diaries*, *Blackpool*, *Angela Canning*, *Broadwater Farm* and *Bodies*.

Religious sensitivity raised particular editorial issues this year. The Governors noted that the decision on whether to broadcast *Popetown*, an animation set in a fictitious Vatican City, was referred to the Director-General and the Director, Television. They jointly concluded that the quality of the series did not justify the possible offence and it was not shown.

Jerry Springer Night, including the transmission of *Jerry Springer – the Opera*, was the subject of around 63,000 complaints, many relating to offence to religious feeling. The decision to broadcast the programme was taken by the Director-General as Editor-in-Chief. As a result, the complaints were referred directly to the Governors' Programme Complaints Committee (GPCC). The GPCC held that the offence – particularly the offence to religious beliefs – caused to sizeable numbers of people should not be underestimated or taken lightly. But, by a majority of four to one, the GPCC decided the broadcast did not breach the Charter and Agreement and all the relevant codes and guidelines.

In their review of the year, the Governors noted the action taken by management following a successful hoax perpetrated on BBC World about Union Carbide's response to the Bhopal tragedy. This had caused considerable embarrassment, and an investigation had identified how it had happened. As a result, procedures were tightened and a series of workshops subsequently provided guidance on how to spot internet fakes.

The Governors highlighted the issues raised in ensuring editorial compliance by independently produced programmes (around, for example, the right to reply and product placement). They noted the responsibility of the independents to ensure there was appropriate training to support editorial compliance.

The Governors noted the particular challenges surrounding impartiality in genres other than News and Current Affairs. They noted an example highlighted by management, the New Year's Day edition of *The Vicar of Dibley*, which contained a clear Make Poverty History campaigning message. The Governors recognised that they had not reviewed the programme itself but, given the issues raised by management, asked management to address any concerns before any future repeats of the programme.

Reviewing the overall editorial decision-making process, the Governors were satisfied that there was a clear allocation of compliance responsibilities, leading ultimately to the Director-General as Editor-in-Chief, and that advice from the Editorial Policy Unit was given sufficient weight in the compliance structure.

The Governors noted nevertheless that a robust editorial framework did not guarantee against individual editorial errors. They reviewed recent examples of good practice in handling mistakes (for example, the Bhopal hoax). They also commented on the policy for on-air apologies. They specified that the apology should be given by the programme itself when mistakes were made, or at a similar time in the schedule, and should not be given only on the BBC's website, as had happened on occasion through the year.

In 2004/2005, the Board also maintained its oversight of impartiality across the BBC's output. It received regular reports on the monthly tracking survey which has been in operation since February 2004. It commissioned reviews of editorial output on two separate issues over the year. The report about religion provided the basis for a seminar held by the Board of Governors to discuss the BBC's religious programming and the way that religion is portrayed across all genres.

The Board also commissioned an assessment of the BBC's coverage of the European Union from an independent panel headed by Lord Wilson (for further information see page 14).

In April 2005, the Governors also approved the revised BBC Producers' Guidelines, to be known as the BBC Editorial Guidelines. They were satisfied, in particular, that amendments to the new guidelines fully reflected the recommendations of the Neil Report about the BBC's editorial processes published in June 2004. For further information about the Neil Report see page 13 (Governors' review of objectives) and 45 (Governors' review of News).

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 approval are also contained in the Statement of Programme Policy for each of these services. *The BBC Statements of Programme Policy 2004/2005* included a large number of measurable commitments. The table on pages 69 to 77 shows how the BBC met these and details any exceptions. The Digital Curriculum service is reported separately below as it is yet to be launched. No new services were launched in 2004/2005.

During 2004/2005 the Secretary of State for Culture, Media and Sport published three separate independent reviews of BBC services launched since the start of the current Charter: BBC.co.uk by Philip Graf; BBC Digital Television Services by Professor Patrick Barwise; and BBC Digital Radio Networks by Tim Gardam.

The reports and the BBC's responses to them are available in full on bbc.co.uk/info. All reviewers found that the new BBC services had met the conditions of their original DCMS consents. However recommendations were made to enhance the services; how the BBC is responding to these is reflected in the Governors' review of services earlier in this document.

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 and has continued during 2004/2005. During the year the BBC took the following steps to comply with specific conditions of approval or undertakings:

- launch plans: the BBC must publish an outline plan for five years at least 15 months before the planned service launch and a list of learning outcomes for the first year at least 12 months before the launch. The BBC met these targets, publishing the required documents in July 2004 and January 2005 respectively
- content development: the BBC must consult with the Government's Education Technology Agency, BECTA, as to which areas (learning outcomes) are suitable for being taught by ICT. The BBC may then only develop content for no more than 50% of these. By January 2005 the BBC had agreed with BECTA, and published, around 80 documents which cover 20 commissions describing plans for content and their variations for each of the four nations
- external content spend: the BBC must commission 50% of the content from external suppliers. A preferred supplier list was compiled in accordance with EU regulations for new media content. In January 2005 these suppliers were invited to tender for eight commissions and contracts are expected to be finalised in the summer
- the BBC must work with the Government's Curriculum Content Online Advisory Board in developing the service. To this end the BBC met with the Board four times during the year

The BBC has also met regularly with industry representatives and individual companies and plans to continue these meetings.

UK programme quotas

Under the Communications Act 2003 the BBC has a duty to ensure that not less than 25% of the amount of time allocated to the broadcasting of qualifying television programmes is allocated to the broadcasting of a range and diversity of independent productions. Ofcom is required to report the extent to which the BBC has performed that duty. In August 2004 Ofcom reported for the period 1 April 2003 to 31 March 2004 and concluded that the BBC exceeded the quota, achieving 28.8%, and that it delivered a satisfactory range and diversity of independent production.

From 1 January 2004 the BBC has been required to meet a number of programme production obligations, the so-called 'Tier 2' quotas, for which Ofcom is required to monitor compliance. These Tier 2 quotas include the independent production quota. Ofcom is expected to formally report the BBC's performance in the calendar year 2004 against these quotas in their 2005 Communications Market Review. However, the BBC fully expects to exceed all of the quotas and its self-assessment figures are provided here:

	Quota	Achievement
Independent production quota¹		
Hours of qualifying programmes	25%	30.3%
Regional programme making²		
Spend on qualifying programmes	30%	34.0%
Hours of qualifying programmes	25%	32.2%
News and current affairs programmes³		
Hours of News on BBC One	1,380	1,508
Hours of News on BBC One in peak time	275	281
Hours of current affairs on BBC One and BBC Two	365	434
Hours of current affairs on BBC One and BBC Two in peak time	105	117
Levels of original production⁴		
BBC One	70%	82.3%
BBC One in peak time	90%	98.2%
BBC Two	70%	80.7%
BBC Two in peak time	80%	91.2%
BBC Three	80%	84.5%
BBC Three in peak time	70%	74.8%
BBC Four	70% approx	71.6%
BBC Four in peak time	50%	64.1%
CBeebies	80% approx	83.2%
CBBC Channel	70%	80.4%
BBC News 24	90%	95.0%
BBC Parliament	90%	95.9%
Regional programming⁵		
Hours of regional programming	6,580	6,815
Hours of programmes made in the relevant area	95%	98.8%
Hours of BBC One news	3,920	4,400
Hours of BBC One news in peak time	2,010	2,156
Hours of non-news programming in peak time	1,030	1,069
All non-news programmes adjacent to peak time	355	379

¹ The BBC is subject to a 25% independent production quota under the terms of the Broadcasting Act 1990 and the Communications Act 2003

² The BBC quotas for regional production agreed with Ofcom are based on the existing 'Hatch' definition

³ These quotas and performance figures are for network programming only. The News quota specifically excludes overnight transmissions of News 24

⁴ Original productions include all BBC commissioned programmes including repeats. For BBC Three and BBC Four they exclude repeats of programmes first shown on another channel

⁵ These figures represent regional programmes across BBC One and BBC Two

EU programme quotas in the calendar year 2004

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

Ofcom is expected formally to report the BBC's performance in the calendar year 2004 in their 2005 Communications Market Review. However, the BBC's self assessment is that it exceeded the EU quotas. Of the relevant BBC One and BBC Two output, 79% was of European origin (77% in 2003) and 21% was made by European independent producers (18% in 2003). Of the relevant output of all BBC channels (including BBC Three, BBC Four, CBeebies, The CBBC Channel and BBC News 24), 86% was of European origin and 27% was made by European independent producers (84% and 24% respectively in 2003).

European channel broadcasting regulation

The BBC broadcasts two television channels in Europe, BBC Prime and BBC World. Both channels were originally operated by European Channel Broadcasting Limited but on 1 December 2002 the Secretary of State approved the transfer of the business and assets of the BBC World channel to a new company, BBC World Limited, which became a wholly-owned subsidiary of BBC Commercial Holdings Limited. BBC Prime continues to be operated by European Channel Broadcasting Limited, a wholly-owned subsidiary of BBC Worldwide Limited. Both these channels and BBC Food (a BBC Worldwide Limited channel) are now licensed by Ofcom as television-licensable content services. BBC World and BBC Prime complied with the principles on which the Secretary of State's approval was originally granted.

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) about trailing BBC magazines. This included using only still trails to give information about BBC magazines and a commitment 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 trails of commercial products.

From 1 April 2004 to 31 March 2005 the total on the BBC's television services for all BBC magazines (including Radio Times) was 1 hour, 23 minutes and 40 seconds of transmission, which averages out at 1 minute, 37 seconds in a seven day period. The total for all commercial products (including BBC Worldwide Limited and independent products) was 2 hours, 23 minutes and 20 seconds of transmission, which averages out at 2 minutes and 45 seconds in a seven day period.

Trails for non-BBC products have also been tracked. In the same period as above, there was 11 minutes and 20 seconds of promotion for products not produced by BBC Worldwide but associated with our programmes. This averages out to 13 seconds per seven day period on the BBC's television services.

Following the BBC's commercial review (see page 66), the BBC voluntarily ceased trailing magazines on its television services from 17 December 2004.

7 Freedom of information

The BBC became subject to the Freedom of Information (FOI) Act on 1 January 2005. In the first three months of operation the Information Policy and Compliance (IPC) department received 410 requests for information and had completed 381 by 31 March 2005. During this period seven requests were replied to beyond the 20 working day deadline laid down in the Act, and 18 were replied to after an extension of the deadline to consider the Public Interest test. The BBC also provides a FOI publication scheme on its website, as required by the Act. The site had 124,936 hits during the three month period.

8 Cost of compliance

As a result of operating in the UK broadcasting market place, and by virtue of being a public body, the BBC incurs substantial costs in ensuring it complies with all relevant regulation. In last year's *Annual Report and Accounts* we committed to providing information on the costs of compliance for the BBC. In 2004/2005, these costs of compliance are estimated to be £17million. Included in this figure is a £4.7million subscription fee paid to Ofcom. It also includes the cost of transmission licences, the fair trading audit, staff employed to monitor compliance and report against commitments including Ofcom requirements, DCMS consents and fair trading. However, these costs are not complete since they do not include any allocation of costs for staff (including relevant staff in the Governance Unit) who do not solely work on compliance, but who may provide information necessary to monitor or report against the commitments. The cost of the Governance Unit is separately disclosed on page 7.

9 Donations and acknowledgements

Political donations

The BBC does not make political donations.

Charity donations

UK Public Service Broadcasting does not make cash donations to charities but provides services in kind. In addition to broadcast appeals detailed on pages 63 to 64, donations to charities by BBC Commercial Businesses amounted to approximately £61,000 during the year (2004 £1,000).

Financial grants

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

Financial review

Overview

In the summer of 2000 the BBC set out a strategy for the period to the end of the current Charter in December 2006. This 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 revenue and by efficiency savings from existing operations. In the years before revenue caught up with the increased spending, the difference was to be funded by using the public service cash balances built up prior to the licence fee settlement and temporary bank finance. By March 2007 it is the intention that the BBC Public Services will have reached a broadly zero debt position under the Department for Culture, Media and Sport (DCMS) definition of borrowings. The BBC remains on target for this.

Income

Licence fee

The licence fee remains the BBC's most important funding source. Licence fee revenues of £2,940million were £142million higher than last year. Of this increase, £80million was due to inflation, £43million to the above inflation increase in the licence fee and £19million from collection improvements.

Despite this growth in income, collection costs increased by only £1.2million (0.8%) on the previous year to £152million as the benefits of past system improvements have been realised with the continuation of an integrated approach to marketing and enforcement. Efforts were also made to increase the use of less costly electronic methods of payment. Almost 57% of licences are now sold under direct debit and 2% were sold via the television licence online payment service.

The evasion rate fell from 5.7% at March 2004 to 5% in March 2005. Of the 0.7% reduction, 0.3% is due to the downward revision by BARB of the estimate of the number of households with televisions.

This continuing success in reducing evasion and controlling collection costs means that their combined cost has now fallen to 10.2% 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. Although we anticipate decreasing this further, the rate of decrease is slowing, as expected in a low evasion environment.

Commercial businesses' contribution

The commercial businesses exist to exploit the BBC's physical assets, capabilities and intellectual properties for profit, to provide a growing source of supplementary cash for UK Public Service Broadcasting and to reduce the price of the support services they provide to the UK Public Service Broadcasting services. In future the BBC has decided to focus on those businesses which export and exploit BBC content.

In 2004/2005 the commercial businesses generated a cash contribution of £151million, £16million higher than the previous year. In addition £150million of cash (before costs of £7.3million) was received from the sale of BBC Technology.

BBC Worldwide Limited

BBC Worldwide is the largest of the BBC's commercial businesses. It had a successful year increasing profit before interest and taxation by 50% to £55million.

It contributed £145million of cash to the BBC during 2004/2005 (from profits and direct investment in BBC programmes), up from £141million in 2003/2004. Page 67 provides more detail on BBC Worldwide's performance.

The company has been restructured during the year to create a simpler organisation, its principal divisions being Television channels, Television sales, Magazines, Home entertainment, Children's and New media.

In line with its strategy of partnering to create scale, it formed a Video/DVD joint venture with Woolworths plc, creating 2|entertain Limited. BBC Worldwide is now looking to forge similar alliances for its Book and Learning businesses.

In 2004 BBC Worldwide was set the challenge of doubling profits to £74million over the two years to March 2006. It is on track to meet this target.

BBC World Limited

BBC World has had a steady year in a slowly recovering global advertising market. Despite the weak US dollar and the impact of the Asian tsunami on the economy in the last quarter, it improved its cash flow, reducing the outflow to £9million from £13million in the previous year.

BBC Ventures Group Limited

BBC Ventures Group comprised four separate businesses at the start of the year, BBC Resources, BBC Broadcast, BBC Technology and BBC Vecta. During the year BBC Vecta was closed and BBC Technology was sold to Siemens Business Services Limited. The sale of BBC Technology contributed £150million in cash (before sale costs). Ventures also contributed £16million in cash from operations, an increase of £10million on 2003/2004 and delivered additional efficiency cost savings of £13million in the year.

The sale of BBC Technology followed a price benchmarking operation covering the BBC's public services technology requirements undertaken in the previous year. As part of the sale the BBC has committed to a new ten year technology services contract under which it expects to make future savings of up to £30million a year.

In December 2004, the BBC announced that despite the importance of their services to the BBC, it was no longer necessary for BBC Broadcast and BBC Resources to be owned in full or part by the BBC. The sale process for BBC Broadcast is under way. Ownership options for BBC Resources remain under review.

Public service expenditure

Overall spending on programmes rose this year by £101million of which £86million was additional analogue spend. The increase mainly reflects higher sports spend in 2004/2005 due to coverage of the Olympics and Euro 2004 while 2003/2004 was low on major sporting events. Digital spend increased by £13million but again comprised 15% of transmitted programme spend. Information on significant changes in individual channel spend is provided in Note 2b to the financial statements on pages 106 to 107.

Expenditure on overheads in the year was £332million, up £6.5million from 2004, although this includes an increase in UK Public Service Broadcasting restructuring spend of £34million. Overheads therefore remain at 12% of spending, which is 3% better than the target set in 2000 following the licence fee settlement.

During the year the BBC committed itself to further improving the value for money in its cost base. The BBC plans to radically reduce its headcount in its support services and significantly improve efficiency in production areas in order to achieve savings of £105million in 2005/2006 and annual savings of £355million a year by 2007/2008. The expenditure for 2004/2005 includes a restructuring charge of

£62million for the Group, £39million higher than last year. The increase is mainly due to the provision of costs associated with the BBC's value for money programme. This provision reflects those costs required to be recognised at 31 March 2005 under UK accounting standards and not the full cost of the three year programme.

Results for the year

The BBC does not have shareholders and does not aim to make a profit. The result for 2004/2005 is a deficit of £188million which is £61million better than the previous year. By the end of the Charter period, in accordance with its five year plan, the BBC expects to have its income and expenditure broadly in balance excluding non-cash pension charges which were £71million in 2005 (2004 £140million). These non-cash pension costs were introduced by the pension accounting standard FRS 17, which the BBC adopted in 2002.

Assets and liabilities

Property

Progress has continued to be made in the BBC's programme to rationalise and regenerate its real estate portfolio.

The development of the BBC's new Scottish headquarters and broadcasting centre at Pacific Quay in Glasgow was secured through the issue of a £129million bond in a similar arrangement to that completed in the previous year for the Broadcasting House redevelopment in London. The Pacific Quay building will be completed in 2007.

Land Securities Trillium Limited (LST), with the agreement of the BBC, restructured the financing on the completed White City development through the issue of a £366million bond. Although this did not result in a cash outflow for the BBC, accounting rules require the BBC to record a charge of £62.5million to its income statement in this year (see Note 6 on page 110). When the BBC first sold the White City site to the property partnership it took part of the sale proceeds as a future discount on rental payments due for the next 30 years. The cumulative amount of the discount was held on the balance sheet (under prepayments) to be gradually released against future rent payments. Under the restructuring discussed here, the BBC will still pay lower rents in the future. However because the lease structure has changed, accounting rules require that the original amount held on the balance sheet be released. So the 'loss' on disposal shown here represents a timing difference, with the BBC gaining a corresponding amount in real terms from future reduced rental payment. It does not represent a cash outflow for the BBC.

With the finance for major developments now all provided by third parties, the BBC and LST reviewed the ongoing nature of their partnership. LST offers facilities management services as a component of its overall offer, but not as a principal service. Therefore, in May 2005, both parties announced their agreement to restructure the partnership concentrating in the future on completion of the developments at Glasgow and Broadcasting House in Central London. The partnership has, over the four years to date, saved the BBC over £30million out of the £109million cost savings projected over the 30-year life of the deal.

As new developments have been completed, the BBC disposed of over 0.3 million sq ft of redundant space from its portfolio.

During the year the BBC entered into a sale and leaseback of 20 regional properties which realised a net profit of £19million.

Cash and debt

At the end of 2004/2005 the public services had net borrowings of £89million (2004 £106million) using the Department for Culture, Media and Sport definition of borrowings, a reduction of £17million year on year. Within this, actual cash balances were £12million at the year end (2004 £3million). The BBC has remained comfortably within the £200million Public Services borrowing ceiling throughout the year.

The commercial businesses held £122million of net debt at the year end (2004 £172million), a decrease of £50million on the previous year. The gearing ratio of the Commercial Holdings Group is 52% (2004 48%), the increase reflecting the assets of BBC Technology leaving the group.

Pensions

The BBC remains 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 2005 (as required by FRS 17), has remained similar to that of the previous year at £422million (2004 deficit £432million). This market-based valuation provides a snapshot position of the scheme at this date with changes in its value reflecting short-term movements in equity values and interest rates. It does not accurately reflect the underlying long-term health of the scheme which remains overfunded on an actuarial basis.


In order to give a broader picture of the health of the scheme, we have voluntarily provided extra information about its assets and liabilities in Note 8b (pages 111 to 114) over and above that required by FRS 17.

Financial management

The BBC's main financial risks to be managed are ensuring that the BBC has sufficient liquid funds to meet its obligations as they fall due and that it is compliant with its borrowings limits imposed by the Charter, by the DCMS and by external loan covenants (see earlier section on cash and debt). The BBC is principally a domestic organisation with the majority of transactions and assets being in the UK and sterling based. However the BBC undertakes some transactions in currencies other than sterling and enters into forward currency contracts to manage this risk. The BBC also enters into interest rate swaps to manage the interest rate risk arising as a result of its borrowing needs (pages 130 to 133 provide more detail).

International Financial Reporting Standards (IFRS)

From December 2005 listed entities will be reporting under IFRS while UK accounting standards are expected to move further towards convergence with IFRS. The BBC voluntarily prepares its financial statements in line with applicable UK accounting standards to the level required by listed entities. During the year the BBC has continued to review the impact that adoption of IFRS would have on the BBC and the BBC expects to review the timing of adoption of IFRS in September 2005.



Zarin Patel
Group Finance Director
16 June 2005

Financial statements

Consolidated statement of income and expenditure

for the year ended 31 March

	Note	2005 £m	2004 £m
Group income	1	3,835.3	3,705.9
Operating expenditure	2	(4,072.9)	(4,001.6)
Group operating deficit		(237.6)	(295.7)
Share of operating surplus of associates and joint ventures		19.7	2.0
Operating deficit: Group and share of associates and joint ventures	3	(217.9)	(293.7)
Profit on sale and termination of operations	5	28.2	–
(Loss)/profit on disposal of fixed assets	6	(43.1)	41.8
Deficit before interest and taxation		(232.8)	(251.9)
Net interest payable and other similar items	7	(6.1)	(3.1)
Other net finance income (from defined benefit pension scheme)	8c ii	65.4	21.0
Deficit before taxation and minority interest	1	(173.5)	(234.0)
Taxation	9	(15.2)	(15.2)
Minority interest		0.5	0.3
Deficit for the financial year	18	(188.2)	(248.9)

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 13c ii).

During the year the Group disposed of some businesses, as explained in Note 5 and Note 19. These do not materially impact on the Group's continuing operations and so are not separately disclosed above.

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 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Fixed assets					
Intangible fixed assets	10	20.3	19.9	–	–
Tangible fixed assets	11	721.6	791.5	488.1	519.0
Investment in programmes for future sale	12	97.3	107.5	–	–
Other investments	13	40.6	16.1	285.4	286.6
		879.8	935.0	773.5	805.6
Current assets					
Stocks	14	458.8	433.0	439.5	400.4
Long-term debtors	15	106.1	142.0	84.3	118.1
Current debtors	15	674.8	672.7	547.4	537.7
Total debtors		780.9	814.7	631.7	655.8
Short-term investments	21	41.9	12.6	22.6	12.6
Cash at bank and in hand	21	38.3	39.3	7.6	8.2
		1,319.9	1,299.6	1,101.4	1,077.0
Creditors – amounts falling due within one year	16b	(918.3)	(891.6)	(775.2)	(792.0)
Net current assets		401.6	408.0	326.2	285.0
Total assets less current liabilities		1,281.4	1,343.0	1,099.7	1,090.6
Creditors – amounts falling due after more than one year	16c	(187.6)	(216.3)	(34.7)	(39.3)
Provisions for liabilities and charges	17	(139.6)	(77.5)	(94.9)	(64.7)
Net assets excluding pension liability		954.2	1,049.2	970.1	986.6
Pension liability	8c	(426.8)	(436.3)	–	–
Net assets		527.4	612.9	970.1	986.6
Represented by					
Operating reserve excluding pension liability	18	188.7	255.4	204.3	193.0
Pension reserve	18	(426.8)	(436.3)	–	–
Operating reserve	18	(238.1)	(180.9)	204.3	193.0
Capital reserve	18	761.8	788.8	761.8	788.8
Revaluation reserve	18	4.0	4.8	4.0	4.8
		527.7	612.7	970.1	986.6
Minority interest		(0.3)	0.2	–	–
		527.4	612.9	970.1	986.6

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of the net liabilities which at 31 March 2005 amounted to £46.7million (2004 £57.6million). These liabilities have not been included in the financial statements (see Note 13c ii).

The financial statements were approved by the Governors and Executive Board on 16 June 2005 and signed on their behalf by:

Michael Grade *Chairman*
Mark Thompson *Director-General*
Zarin Patel *Group Finance Director*

Financial statements

Consolidated statement of total recognised gains and losses

for the year ended 31 March

	Note	2005 £m	2004 £m
Group deficit for the financial year		(188.2)	(248.9)
Exchange differences on retranslation of overseas subsidiaries		(0.5)	(2.1)
Unrealised gain on disposal of business	13b i	22.8	–
Actuarial gain on defined benefit pension schemes	8c iii	80.9	778.5
Total recognised gains and losses relating to the year		(85.0)	527.5

Reconciliations of movement in reserves

for the year ended 31 March

	Group 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Deficit for the financial year	(188.2)	(248.9)	(16.5)	(80.1)
Other recognised gains and losses relating to the year (net)	103.2	776.4	–	–
(Decrease)/increase in reserves during the year	(85.0)	527.5	(16.5)	(80.1)
Opening reserves	612.7	85.2	986.6	1,066.7
Closing reserves	527.7	612.7	970.1	986.6

Financial statements

Consolidated cash flow statement

for the year ended 31 March

Reconciliation of Group operating deficit to net cash flow from operating activities

	2005 £m	2004 £m
Group operating deficit	(237.6)	(295.7)
Depreciation and amortisation	198.6	229.0
Pension schemes operating costs (non-cash)	136.8	161.3
Loss on disposal of tangible fixed assets	8.8	2.4
(Increase)/decrease in stocks	(38.2)	35.9
Increase in debtors	(43.8)	(50.6)
Increase/(decrease) in creditors	24.4	(17.2)
Increase in provisions	32.9	5.5
Cash outflow on termination of operations	(1.7)	–
Net cash inflow from operating activities	80.2	70.6

Cash flow statement

	Note	2005 £m	2004 £m
Net cash inflow from operating activities		80.2	70.6
Dividends received from joint ventures and associates	13a	13.6	1.3
Return on investments and servicing of finance			
Interest received		5.2	5.0
Interest paid		(11.3)	(7.5)
Interest paid on finance leases		–	(0.3)
Net cash outflow from return on investments and servicing of finance		(6.1)	(2.8)
Taxation			
Taxation paid		(2.0)	(9.7)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(487.7)	(243.9)
Investment in programmes for future sale		(75.5)	(90.6)
Investment in intangible fixed assets		(0.5)	(0.6)
Decrease in loan to associate undertaking		0.3	0.2
Capital repayment from joint ventures		–	1.0
Proceeds from the sale of tangible fixed assets		382.6	143.8
Net cash outflow from capital expenditure and financial investments		(180.8)	(190.1)
Acquisitions and disposals			
Purchase of a subsidiary		–	(9.9)
Cash acquired with subsidiary		–	0.6
Investments in joint ventures		(7.1)	–
Proceeds from sale of operations		144.1	–
Proceeds from disposal of interests in joint ventures and associates		21.0	–
Net cash inflow/(outflow) from acquisitions and disposals		158.0	(9.3)
Net cash inflow/(outflow) before use of liquid resources and financing		62.9	(140.0)
Management of liquid resources			
Sale of other liquid resources	20	(29.3)	52.3
Net cash (outflow)/inflow from management of liquid resources	20	(29.3)	52.3
Financing			
Increase in loans		20.0	135.0
Repayment of loans		(50.0)	(42.6)
Repayment of finance leases		(3.2)	(1.8)
Repayment of loan notes		(0.1)	(0.6)
Net cash (outflow)/inflow from financing	20, 21	(33.3)	90.0
Increase in cash in the year	20	0.3	2.3

Financial statements

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently. 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, BBC Property Investments Limited and BBC Free to View Limited (UK Public Service Broadcasting Group)
- BBC World Service (and its subsidiaries)
- Commercial subsidiary companies comprising BBC Commercial Holdings Limited and its various subsidiaries (notably BBC 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, primarily derived from a Grant-in-Aid, is recognised when receivable from the Foreign and Commonwealth Office. It is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.

■ *Provision of equipment, facilities and services*

With the exception of long-term contracts, income is recognised when the equipment, facilities and services are provided to customers.

For long-term contracts, the amount of profit attributable to the stage of completion is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in prior years. Provision is made for any future losses as they are foreseen.

■ *Provision of programme making facilities and services*

Recognised on provision of service.

■ *Distribution and advertising income*

Recognised on provision of service.

■ *Licence fees from international television programme sales*

Recognised on the later of the delivery of rights or the start of the licence period.

■ *Sales of promotional merchandise and income from publishing*

Recognised on delivery or provision of service.

■ *Disposal of intellectual property rights*

Recognised on transfer of risks and rewards of ownership.

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 78 to 80 of this report.

Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March 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 retractions are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

The BBC operates both defined benefit and defined contribution schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution schemes represent the contributions payable by the BBC for the accounting periods in respect of these schemes.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. 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 individually 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 to each individual group entity 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 tangible 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	– 50 years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to 25 years
Other	– three to ten years

Furniture and fittings

– three to ten years

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.

Financial statements

Statement of accounting policies

The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue them on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the 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.

Provisions

Provisions that are payable over a number of years are discounted to net present value at the balance sheet date using a discount rate appropriate to the particular provision concerned.

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 are 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 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.

1 Analysis of income, (deficit)/surplus and net assets

1a 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	
2005					
	3,084.8	247.7	1,090.3	4,422.8	
	(120.1)	(0.5)	(305.1)	(425.7)	
	2,964.7	247.2	785.2	3,997.1	
	(0.9)	–	(160.9)	(161.8)	
	1b,d,g,h	2,963.8	247.2	624.3	3,835.3
	1e,h	(194.5)	7.1	91.4	(96.0)
					(136.8)
					65.4
					(6.1)
					(173.5)
	1f,h	689.2	160.1	104.9	954.2
					(426.8)
					527.4
2004					
	2,940.0	243.7	1,150.5	4,334.2	
	(121.5)	(0.6)	(417.6)	(539.7)	
	2,818.5	243.1	732.9	3,794.5	
	(1.3)	–	(87.3)	(88.6)	
	1b,d,g,h	2,817.2	243.1	645.6	3,705.9
	1e,h	(136.0)	9.2	36.2	(90.6)
					(161.3)
					21.0
					(3.1)
					(234.0)
	1f,h	710.3	152.5	186.4	1,049.2
					(436.3)
					612.9

* 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

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1b UK Public Service Broadcasting Group 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.

	2005 £m	2004 £m
Licence fee income		
Colour	2,489.6	2,364.2
Monochrome	2.0	2.5
Concessionary	0.9	0.9
Over 75s	432.3	407.8
Quarterly payment scheme premium	15.9	15.7
Other licence fee income and adjustments	(0.4)	7.0
Total licence fee income	2,940.3	2,798.1
Other income	23.5	19.1
Total external income	2,963.8	2,817.2

During the year 3.2 million (2004 3.1 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2004 £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.

	2005 Number m	2004 Number m
Licences in force		
Colour	20.6	20.4
Monochrome	0.1	0.1
Over 75s	3.8	3.8
Concessionary	0.2	0.2
	24.7	24.5

Licence fees are set by the Department for Culture, Media and Sport.

	2005 £	2004 £
Licence fees		
Colour	121.00	116.00
Monochrome	40.50	38.50
Concessionary	5.00	5.00

From 1 April 2005 the colour and monochrome licence fees were increased to £126.50 and £42 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.

	2005 £m	2004 £m
Grant-in-Aid	225.1	220.1
Subscriptions	16.7	16.7
Other income	5.4	6.3
Total external income	247.2	243.1

1e BBC World Service surplus before interest and taxation by activity

	2005 £m	2004 £m
Broadcasting	7.7	9.7
BBC Monitoring	(0.6)	(0.5)
Total surplus before interest and taxation	7.1	9.2

1f 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:	2005 £m	2004 Restated £m
UK	66.2	58.2
Overseas	93.9	94.3
Net assets	160.1	152.5

2004 comparatives have been restated to make them consistent with the current year reclassification.

1g Analysis of Commercial Businesses' income by activity

	2005 Discontinued £m	2005 Continuing £m	2005 Total £m	2004 Restated £m
Children's, new media and home entertainment	–	161.0	161.0	221.2
Television sales	–	158.2	158.2	154.0
Magazines	–	163.5	163.5	141.3
Entertainment and news television channels	–	90.8	90.8	78.7
Provision of playout and channel management services	–	108.9	108.9	108.8
Provision of programme making facilities and services	–	135.1	135.1	128.0
Provision of technology services	111.9	–	111.9	231.2
Less intra-Group income	(98.1)	(207.0)	(305.1)	(417.6)
Total external income	13.8	610.5	624.3	645.6

On 19 January 2005, BBC Worldwide completed the sale of *eve* magazine to Haymarket Magazines Limited. Sale proceeds of £6.5million have been included in the above income.

More information on the discontinued operations can be found in Note 5 and Note 19.

The comparative figures for the year ended 31 March 2004 have been restated to reflect the revised segmental disclosure adopted for the year ended 31 March 2005 for BBC Worldwide. The revised disclosure reflects the current group business and reporting structure.

This table shows where the customers of Commercial Businesses are based.

1h Geographical analysis of Commercial Businesses

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2005				
External income by destination	358.9	115.6	149.8	624.3
Surplus before interest and taxation	69.7	4.1	17.6	91.4
Net assets	75.9	28.5	0.5	104.9
2004				
External income by destination	375.2	121.9	148.5	645.6
Surplus before interest and taxation	20.0	2.0	14.2	36.2
Net assets	151.8	33.9	0.7	186.4

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 2005 £m	Total 2004 £m
UK Public Service Broadcasting Group	2b	3,107.7	2,993.6
BBC World Service ¹	2c	240.1	233.9
Commercial Businesses	2d	588.3	612.8
Non-cash pension scheme operating costs ²		136.8	161.3
		4,072.9	4,001.6

¹BBC World Service expenditure of £240.1million (2004 £233.9million) excludes £0.5million (2004 £0.6million) of expenditure on the provision of services to other BBC Group companies

²As 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	2005 £m	2004 £m
Analogue services			
BBC One	(i)	872.9	812.3
BBC Two	(i)	374.5	365.2
National and regional television		213.5	212.3
National, regional and local radio	(ii)	142.2	133.4
BBC Radio 1		17.8	17.6
BBC Radio 2		23.8	21.7
BBC Radio 3		32.0	32.1
BBC Radio 4		71.3	69.9
BBC Radio Five Live	(i)	53.8	51.5
		1,801.8	1,716.0
Digital services			
The CBBC Channel, CBeebies	(iii)	49.7	46.2
BBC Three	(iv)	92.9	99.4
BBC Four	(v)	41.1	35.2
BBC News 24		22.9	23.5
BBC Parliament		2.2	2.5
Interactive television (BBCi)	(vi)	17.1	15.3
1Xtra		5.7	5.1
BBC Radio Five Live Sports Extra		1.6	1.7
6 Music		4.5	4.1
BBC 7		4.8	4.3
BBC Asian Network	(vii)	5.4	4.1
bbc.co.uk	(viii)	69.2	66.7
Digital Curriculum	(ix)	8.3	4.1
		325.4	312.2
Transmitted programme spend		2,127.2	2,028.2
Programme related spend			
Newsgathering		89.5	92.5
Collecting societies		57.2	54.4
Orchestras and performing groups		17.9	18.3
Marketing, press and publicity		49.6	53.3
On-air trails		24.5	23.1
Market research and consumer services		16.0	14.4
Libraries, helplines, development and one-off events		84.2	80.8
		338.9	336.8
Total programme spend		2,466.1	2,365.0

table continues

2b UK Public Service Broadcasting Group expenditure continued

	Note	2005 £m	2004 £m
Total programme spend		2,466.1	2,365.0
Overheads excluding restructuring		281.6	309.1
Restructuring costs		50.7	16.7
Total overheads		332.3	325.8
Total output spend		2,798.4	2,690.8
Percentage of output spend on programmes		88%	88%
Licence fee collection costs		152.0	150.8
Transmission costs	(x)	157.3	152.0
		309.3	302.8
Total broadcasting expenditure		3,107.7	2,993.6

- (i) Spend on BBC One, Two and BBC Radio Five Live was higher in 2005 due to coverage of major sporting events including the Olympics and Euro 2004. In addition, *Match of the Day* returned to BBC One in August 2004.
- (ii) National, regional and local radio spend increased in 2005, in part due to the opening of new radio facilities within English regions and increased spend on Sport in regional radio.
- (iii) Spend on The CBBC Channel and CBeebies increased due to premiering more on the digital channels to drive digital take-up in line with Government objectives.
- (iv) Decreased costs incurred by BBC Three related to a higher level of joint productions resulting in shared costs with BBC One, eg *Casanova*, *Little Britain* and *Bodies*. This enables analogue viewers to benefit from the BBC's digital investment.
- (v) Spend on BBC Four increased in 2005, as per the BBC's objective to widen the channel's appeal by additional investment in drama and comedy.
- (vi) Interactive television spend increased to ensure a greater number of programmes with interactive functionality were available eg the Olympics. This is in line with the BBC's stated objective to drive digital take-up by extending the availability of these services.
- (vii) Increased costs were incurred by BBC Asian Network in 2005, representing the first full year of the daily Asian drama, *Silver Street*.
- (viii) Spend on bbc.co.uk was higher in 2005 due to online content relating to the coverage of the Olympics and Euro 2004. In addition, the range of community and audience-contributed content increased in the year.
- (ix) Spend on the Digital Curriculum increased following formal approval for the project in 2004, therefore 2005 represents the first full year's costs. The new service will be launched early in 2006.
- (x) Of the transmission costs, £76.7million relates to analogue services (2004 £75.1million) and £80.6million to digital services (2004 £76.9million).

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BBC World Service expenditure excludes expenditure on intra-Group activities.

2c BBC World Service expenditure

	2005 £m	2004 £m
Radio	159.1	153.9
Monitoring	25.2	25.3
Transmission and distribution costs	42.3	41.7
Internet activity	13.5	13.0
Total	240.1	233.9

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	2005 Discontinued £m	2005 Continuing £m	2005 Total £m	2004 Restated £m
Cost of sales		8.6	314.9	323.5	341.6
Distribution costs		–	136.9	136.9	131.3
Administrative and other costs		1.3	47.6	48.9	50.4
Amortisation of programme investment	12	–	79.0	79.0	89.5
		9.9	578.4	588.3	612.8

2004 comparators for cost of sales and administrative and other costs have been restated to make them consistent with the current year classification.

Further information on the discontinued operations can be found in Note 5 and Note 19.

3 Operating deficit

The operating deficit is stated after charging the following items:

	2005 £m	2004 £m
Payments under operating leases		
– land and buildings	59.5	43.6
– plant and machinery	13.2	9.8
– other	10.2	9.5
Research and development	18.8	20.9
Programme development	29.2	29.7
Depreciation		
– owned assets	113.9	125.5
– leased assets	1.7	5.2
Loss on disposal of tangible fixed assets	8.8	2.4
Fixed asset impairment	–	2.9
Amortisation of investment in programmes for future sale	79.0	89.5
Amortisation of intangible fixed assets	4.0	5.1
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	0.4	0.6
– tax advisory services	0.4	0.3
– other non-audit services	0.3	0.3
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	0.4	0.3

In addition to the £0.4million (2004 £0.6million) of further assurance services charged to the income and expenditure statement £nil (2004 £0.2million) was paid to the auditors for due diligence services. Such costs are included within the cost of the related subsidiary joint venture or associate investment.

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2005 Number	2004 Number
UK Public Service Broadcasting	19,647	19,579
BBC World Service	2,347	2,224
Commercial Businesses	5,270	5,829
Group total	27,264	27,632

Within the averages above, 3,414 (2004 3,027) part-time employees have been included at their full-time equivalent of 1,593 (2004 1,470).

In addition to the above, the Group employed an average full-time equivalent of 785 (2004 857) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, numbered 378 (2004 384) full-time equivalents.

On 30 September 2004 the equivalent of 1,447 full-time employees transferred to Siemens Business Services Limited as part of the sale of BBC Technology Holdings Limited. This transfer is reflected in the average for 2005.

4b Staff costs

	Note	2005 £m	2004 ¹ Restated £m
Salaries and wages		1,038.6	1,029.0
Social security costs		95.1	94.9
Pension costs			
– main scheme (defined benefit)	8c ii	176.8	196.5
– other schemes	8c ii	1.6	1.0
Redundancy costs		61.5	22.5
		1,373.6	1,343.9
Comprising:			
UK Public Service Broadcasting		909.9	844.4
BBC World Service		84.3	77.5
Commercial Businesses		242.6	260.7
Main pension scheme additional operating cost (defined benefit) ²		136.8	161.3
		1,373.6	1,343.9

¹Following the application of a stricter definition of staff costs within BBC World Service, it was decided to exclude those staff employed by external parties on BBC World Service activities. The 2004 figures have been restated accordingly

²The 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

Redundancy costs include those costs relating to the change programme occurring within the BBC.

4c Remuneration of the Board of Governors and Executive Board

The emoluments of the Governors and of the Executive Board members are disclosed on pages 88 to 90 in the Governors' remuneration report.

5 Profit/(loss) on sale and termination of operations

	Note	2005 £m	2004 £m
Profit on sale of BBC Technology Holdings Limited	19	32.4	–
Profit on disposal of children's book business	19	0.4	–
Loss on termination of operations		(4.6)	–
Profit on sale and termination of operations		28.2	–

On 30 September 2004, the Group sold BBC Technology Holdings Limited, a wholly owned subsidiary, for £150million consideration (see Note 19). The Group headed by BBC Technology Holdings Limited provided technology and IT equipment and services. This disposal resulted in the BBC's exit from these activities.

In April 2004 BBC Worldwide formed a new venture, Children's Character Books Limited, which is 75% owned by Penguin Books and 25% owned by BBC Worldwide. BBC Worldwide disposed of its children's books business to the new venture in exchange for consideration of £2.3million (see Note 19). The Group's 25% interest in Children's Character Books Limited is being accounted for as an associated undertaking.

During the year BBC Worldwide terminated its multimedia publishing business which developed and marketed gaming titles for Playstation, Xbox and Gameboy platforms. This resulted in termination costs of £2.7million of which £1.4million comprised the cash costs of exiting the business and £1.3million comprised the write-down of stocks held at 31 March 2004.

On 28 July 2004 the Group decided to terminate the operations of BBC Vecta Limited. This resulted in a loss on termination of business of £1.9million of which £0.3million comprised cash termination costs.

6 (Loss)/profit on disposal of fixed assets

	2005 £m	2004 £m
White City site	(62.5)	–
Regional properties	19.4	–
Broadcasting House	–	40.4
Other tangible fixed assets	–	1.4
(Loss)/profit on disposal of fixed assets	(43.1)	41.8

When the BBC first sold the White City site to the property partnership it took part of the sale proceeds as a future discount on rental payments due for the next 30 years. The cumulative amount of the discount was held on the balance sheet (under prepayments) to be gradually released against future rent payments. Under the restructuring discussed here, the BBC will still pay lower rents in the future. However, because the lease structure has changed, accounting rules require that the original amount held on the balance sheet be released. So the 'loss' on disposal shown here represents a timing difference, with the BBC gaining a corresponding amount in real terms from future reduced rental payments. It does not represent a cash outflow for the BBC.

During the year the BBC changed the terms on which it occupies the White City site. This involved a number of discrete legal steps, including: purchase of the freehold of the White City site from the BBC's joint venture with Land Securities Trillium Limited (LST); cancellation of the existing lease on the White City site and the White City Development Partnership capital; and the sale and leaseback of the White City site with a new third party investment vehicle.

The BBC considers that the substance of these discrete steps is that they formed part of a single property related transaction. This gave rise to a net charge to the income and expenditure account in the year of £62.5million, comprising a £1.5million loss on disposal of the White City site, £8.5million accelerated amortisation of goodwill in the property partnership and £52.5million from the accelerated amortisation of balances previously shown in long-term prepayments. There was no cash effect from the accelerated amortisation. The BBC expects that the charge recorded this year will be more than compensated in future years through reduced rental payments.

During the year the Group purchased the land of the Pacific Quay site. A 150 year head lease was then granted to Pacific Quay Trustees No. 1 Limited, and Pacific Quay Nominees No. 1 Limited, a special purpose vehicle (SPV). The BBC then entered into a 30 year operating lease with the SPV, with payments to commence in July 2007. No gain or loss was realised on this transaction.

During the year, the BBC entered into a sale and leaseback transaction of 20 regional properties. A profit of £19.4million was recognised as a result of the transaction. After the year end a further property has also been treated in this way realising a gain of £1.3million.

In July 2003 the Group granted a 150 year head lease on the Broadcasting House site to Daunus Limited (see Note 13c) and Morgan Stanley Gamma Investments, resulting in a profit of £40.4million. Daunus Limited will redevelop the site which the Group will lease back.

7 Net interest payable and other similar items

	2005 £m	2004 £m
Interest receivable	5.2	5.0
Interest payable on bank and other loans	(11.3)	(7.8)
Finance charges payable in respect of finance leases	–	(0.3)
Net interest payable	(6.1)	(3.1)

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 pension schemes 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.

8b i Scheme maturity profile

The number of active contributors exceeds the number of members receiving pensions:

	2005 Number	2004 Number	2003 Number
Contributors	21,093	21,426	20,361
Pensioners	16,567	16,302	16,116
Dependants	3,622	3,555	3,498
Deferred pensioners	16,241	14,864	14,531

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.

	2005 £m	2004 £m	2003 £m
Contributions (employer and employee)	99	90	88
Investment income	187	167	194
External cash inflows	286	257	282
Payments of pensions and transfers out	(239)	(220)	(212)
Expenses	(22)	(20)	(15)
Net external cash inflow	25	17	55

The maturity of a scheme provides an indication of the cash requirements of the scheme and the likely attitude of the trustees to risk within their investment policy. The more mature a scheme, the more likely that Trustees will favour low risk investments.

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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 £441million with assets sufficient to cover 109% of the benefits due to members. The 2003 and 2004 figures are from interim updates of this 2002 valuation.

The next formal actuarial valuation of the scheme is being carried out with an effective date of 1 April 2005, and the results will not be known until after the date of publication of the BBC's *Annual Report and Accounts 2004/2005*. The figures shown below for 2005 therefore present a further interim update of the 2002 valuation. The method and assumptions to be used for the 2005 valuation may be different from those used in 2002, and the final results for 2005 are expected to be different from those shown below.

Actuarial valuation	2005 £m	2004 £m	2003 £m
Scheme assets (Note 8b v)	6,038	5,668	5,496
Scheme liabilities (Note 8b vi)	(5,764)	(5,525)	(5,229)
Surplus	274	143	267
Percentage by which scheme assets cover scheme liabilities	105%	103%	105%

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% by 2006 with employee contributions rising to 6% by 2007. The position will be reviewed again in 2005/2006, once the results of the new actuarial valuation by Watson Wyatt are known.

Contribution rates	Projections				
	2007 %	2006 %	2005 %	2004 %	2003 %
Employer	6.0	6.0	5.5	5.0	4.5
Employee	6.0	5.5	5.0	4.5	4.5
Underlying cost of scheme to BBC as % of pensionable salaries*			19.0	19.5	20.4

*Excludes the cost effectively paid for by the employee

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.

8b v Scheme assets

The allocation of assets by the scheme trustees is governed by a need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the trustees expect will produce higher returns in the long term. The target allocation, based on market values, for equities is 60%, bonds and gilts 30% and property 10%.

Type of asset	Long-term rate of return expected at 31 March (used for market value)	Market value		Actuarial value*	
		£m	%	£m	%
2005					
Equities	7.7%	4,333	68	4,294	71
Bonds and gilts	4.7%	1,050	17	909	15
Property	6.2%	737	12	668	11
Cash	3.7%	222	3	167	3
Total assets		6,342		6,038	
2004					
Equities	7.9%	4,118	70	4,109	72
Bonds and gilts	4.8%	1,048	18	902	16
Property	6.3%	597	10	556	10
Cash	3.9%	117	2	101	2
Total assets		5,880		5,668	
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	

* The last formal actuarial valuation was undertaken in 2002. The 2003, 2004 and 2005 figures are from interim updates 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:

Key financial assumptions	2005 %	2004 %	2003 %
Actuarial valuation			
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
Market valuation			
Rate of increase in salaries	4.7	4.7	4.5
Rate of increase in pension payments	2.7	2.7	2.5
Inflation assumption	2.7	2.7	2.5
Discount rate for market valuation	5.5	5.6	5.4
Scheme liabilities at present value			
	2005 £m	2004 £m	2003 £m
Actuarial valuation	5,764	5,525	5,229
Market valuation	6,764	6,312	5,973

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.

A higher discount rate means a lower value for the liabilities.

The discount rate for the market valuation is taken as the rate for an AA rated corporate bond.

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8b vii Scheme financial position

	Market valuation			Actuarial valuation		
	Assets £m	Liabilities £m	Net position £m	Assets £m	Liabilities £m	Net position £m
2005	6,342	(6,764)	(422)	6,038	(5,764)	274
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

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 for the Group because most of the Group's public service activity is not subject to taxation.

8c Pension charges and balances within financial statements

8c i Movement in pension liability during year

	BBC Pension scheme 2005 £m	Unfunded scheme 2005 £m	Total 2005 £m	BBC Pension scheme 2004 £m	Unfunded scheme 2004 £m	Total 2004 £m
Net pension liability at start of year	(431.6)	(4.7)	(436.3)	(1,070.1)	(4.4)	(1,074.5)
Contributions (from employer)*	40.0	0.2	40.2	35.3	n/a	35.3
Operating charge for year	(176.8)	(0.2)	(177.0)	(196.5)	(0.1)	(196.6)
Net finance income/(cost)	65.7	(0.3)	65.4	21.2	(0.2)	21.0
Net gain recognised in STRGL	80.9	–	80.9	778.5	–	778.5
Closing net pension liability	(421.8)	(5.0)	(426.8)	(431.6)	(4.7)	(436.3)

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.

* The contribution shown for the unfunded scheme represents the pensions paid to members during the year

8c ii Pension charges in income statement

	Defined benefit schemes		Defined contribution schemes £m	All schemes £m
	BBC Pension Scheme £m	Unfunded scheme £m		
2005				
Current service cost	(192.3)	(0.2)	(1.4)	(193.9)
Past service cost	(7.5)	–	–	(7.5)
Gain on settlements and curtailments	23.0	–	–	23.0
Operating cost	(176.8)	(0.2)	(1.4)	(178.4)
Expected return on pension scheme assets	412.7	–	n/a	412.7
Interest on pension scheme liabilities	(347.0)	(0.3)	n/a	(347.3)
Net finance income/(cost)	65.7	(0.3)	–	65.4
Net cost in income statement	(111.1)	(0.5)	(1.4)	(113.0)
2004				
Current service cost	(189.5)	(0.1)	(0.9)	(190.5)
Past service cost	(9.0)	–	–	(9.0)
Gain on settlements and curtailments	2.0	–	–	2.0
Operating cost	(196.5)	(0.1)	(0.9)	(197.5)
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)	(0.9)	(176.5)

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.

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.

8c iii Pension costs in statement of total recognised gains and losses (STRGL)

	2005 £m	2004 £m
Actual return less expected return on pension scheme assets	198.7	778.4
Experience gains/(losses) arising on scheme liabilities	(1.4)	0.1
Changes in assumptions underlying present value of scheme liabilities	(116.4)	–
Net gain recognised in STRGL	80.9	778.5

Only defined benefit schemes give rise to gains and losses in the STRGL.

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

	2005	2004	2003	2002
Amount by which the expected return on scheme assets is (higher)/lower than the actual return:				
Amount (£million)	198.7	778.4	(1,607.9)	(532.0)
Percentage of scheme assets	3.1%	13.2%	32.8%	8.6%
Experience gains and (losses) on scheme liabilities:				
Amount (£million)	(1.4)	0.1	(12.4)	26.6
Percentage of present value of scheme liabilities	0.0%	0.0%	0.2%	0.5%
Total amount gain/(loss) recognised in STRGL:				
Amount (£million)	80.9	778.5	(2,013.4)	(725.4)
Percentage of present value of scheme liabilities	1.2%	12.3%	33.7%	13.8%

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% (2004 30%) comprised:

	Note	2005 £m	2004 £m
Current tax			
UK corporation tax		7.1	9.8
Deduct: double tax relief		(2.7)	(2.9)
		4.4	6.9
Adjustments in respect of prior years		(8.3)	(0.4)
		(3.9)	6.5
Foreign tax		3.8	9.2
Share of joint venture/associated undertakings' tax		5.5	0.5
Total current tax	9b	5.4	16.2
Deferred tax			
Origination and reversal of timing differences		5.3	(2.1)
Adjustments in respect of previous years		4.5	1.1
Total deferred tax	9d	9.8	(1.0)
Total charge for the year		15.2	15.2

9b Factors affecting the tax charge

The Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2005 £m	2004 £m
Deficit before tax		(173.5)	(234.0)
Deficit before tax multiplied by standard rate of corporation tax in the UK of 30% (2004 30%)		(52.0)	(70.2)
Effects of			
Public services taxable external income		1.7	3.5
Non-taxable deficit in Public Services		59.4	37.0
FRS 17 element of net Group pension charge		21.5	42.1
Commercial activities			
Non-taxable income		(17.2)	(0.4)
Disallowed expenditure		3.1	1.1
UK taxation on intra-Group overseas dividends		1.6	–
Depreciation (less than)/in excess of capital allowances		(3.5)	(0.5)
Tax differential re overseas earnings		(0.7)	4.5
Other		(0.2)	(0.5)
Adjustments in respect of previous periods		(8.3)	(0.4)
Current tax charge for the year	9a	5.4	16.2

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	2005 £m	2004 £m
Movement on deferred tax provision/(asset) in the year			
Asset at start of year		(1.9)	(1.5)
Exchange adjustment		0.2	0.6
Deferred tax charge/(credit)	9a	9.8	(1.0)
Disposal of subsidiary		1.9	–
Deferred tax provision/(asset) at end of year		10.0	(1.9)
Analysis of deferred tax provision/(asset) at end of year			
Accelerated capital allowances		15.4	5.7
Other timing differences		(0.1)	–
Deferred tax provision		15.3	5.7
US timing differences		(5.3)	(7.5)
Other timing differences		–	(0.1)
Deferred tax asset		(5.3)	(7.6)
Deferred tax provision/(asset) at year end		10.0	(1.9)

10 Intangible fixed assets

Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the amount the purchaser is prepared to pay for the name and reputation of the business and its expected future profit streams.

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 April 2004	17.7	14.0	31.7
Additions	5.1	0.5	5.6
Disposal of subsidiary	–	(14.1)	(14.1)
At 31 March 2005	22.8	0.4	23.2
Amortisation			
At 1 April 2004	1.2	10.6	11.8
Charge for the year	1.3	2.7	4.0
Disposal of subsidiary	–	(12.9)	(12.9)
At 31 March 2005	2.5	0.4	2.9
Net book value			
At 31 March 2005	20.3	–	20.3
At 31 March 2004	16.5	3.4	19.9

On 20 February 2004 BBC Worldwide acquired 100% of the share capital of Origin Publishing Limited for a total consideration of £10.2million which included a net cash consideration of £9.3million. This gave rise to goodwill of £9.5million which was recognised in the prior period financial statements. Under the terms of the agreement, further contingent consideration of up to £5.1million is payable based on the financial performance of the acquired business in the period to 30 September 2005. No contingent consideration was estimated as payable at 31 March 2004. At 31 March 2005, based on the current expectations of financial performance, contingent consideration of £5.1million has been recognised as payable, increasing goodwill in relation to this acquisition by this amount.

All goodwill that has been capitalised is amortised on a straight line basis over 20 years reflecting its useful economic life, subject to reviews for impairment.

Included within other intangibles were software licences of £13.6million at 1 April 2004. An additional £0.5million was acquired during the year. These licences, which were being amortised over the life of the licences, were transferred out of the Group with the sale of BBC Technology Holdings Limited (see Note 19).

The remaining other intangibles comprise a customer list of names and transactional histories, acquired in 2004, which were fully amortised during the year.

11 Tangible fixed assets
11a Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2004	431.8	1,001.5	126.2	183.0	1,742.5
Additions	354.1	49.2	8.7	78.7	490.7
Brought into service	17.2	99.2	23.6	(140.0)	–
Disposals	(371.6)	(131.9)	(10.3)	(19.6)	(533.4)
Disposal of subsidiary	–	(67.8)	(1.7)	(14.9)	(84.4)
At 31 March 2005	431.5	950.2	146.5	87.2	1,615.4
Depreciation					
At 1 April 2004	216.9	665.0	66.2	2.9	951.0
Charge for the year	15.1	87.3	13.2	–	115.6
Elimination in respect of disposals	(6.8)	(125.8)	(6.8)	(2.9)	(142.3)
Disposal of subsidiary	–	(29.1)	(1.4)	–	(30.5)
At 31 March 2005	225.2	597.4	71.2	–	893.8
Net book value					
At 31 March 2005	206.3	352.8	75.3	87.2	721.6
At 31 March 2004	214.9	336.5	60.0	180.1	791.5

Additions and disposals of land and buildings include various transactions relating to the restructuring of the BBC's property portfolio as described in Note 6.

Included within fixed assets is £28.0million 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 rights 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.

11b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2004	365.5	460.5	101.9	112.2	1,040.1
Additions	352.1	10.3	5.4	52.8	420.6
Brought into service	15.7	51.0	18.8	(85.5)	–
Transfers from subsidiaries	–	–	–	4.1	4.1
Disposals	(371.2)	(11.8)	(5.2)	(19.9)	(408.1)
At 31 March 2005	362.1	510.0	120.9	63.7	1,056.7
Depreciation					
At 1 April 2004	180.6	290.1	47.5	2.9	521.1
Charge for the year	11.7	45.1	9.9	–	66.7
Elimination in respect of disposals	(6.4)	(7.4)	(2.5)	(2.9)	(19.2)
At 31 March 2005	185.9	327.8	54.9	–	568.6
Net book value					
At 31 March 2005	176.2	182.2	66.0	63.7	488.1
At 31 March 2004	184.9	170.4	54.4	109.3	519.0

11c Land and building at net book value comprise:

	Group 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Undepreciated land	21.7	25.4	21.6	25.1
Freehold buildings	121.4	139.7	110.1	128.4
Total freeholds	143.1	165.1	131.7	153.5
Long leaseholds	52.0	17.7	33.3	17.7
Short leaseholds	11.2	32.1	11.2	13.7
	206.3	214.9	176.2	184.9

12 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2004	330.4
Exchange adjustment	(2.2)
Additions	75.5
Disposals	(40.1)
Elimination in respect of programmes fully amortised	(134.9)
At 31 March 2005	228.7
Amortisation	
At 1 April 2004	222.9
Exchange adjustment	(1.0)
Charge for the year	79.0
Disposals	(34.6)
Elimination in respect of programmes fully amortised	(134.9)
At 31 March 2005	131.4
Net book value	
At 31 March 2005	97.3
At 31 March 2004	107.5

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £74.6million direct investment in BBC programmes (2004 £88.6million).

Included in the net book value is £2.5million (2004 £3.5million) relating to investments held under a licence agreement.

13 Other investments (including BBC World Service net assets)
13a Movements in the year for the Group

	Interests in joint ventures Note 13c £m	Interests in associates Note 13d £m	Total Group £m
Cost			
At 1 April 2004	2.1	4.6	6.7
Exchange adjustment	0.1	(0.1)	–
Additions	8.5	0.1	8.6
Disposals	–	(3.8)	(3.8)
At 31 March 2005	10.7	0.8	11.5
Share of post acquisition reserves			
At 1 April 2004	0.4	0.2	0.6
Share of profits/(losses) after taxation	22.9	(16.3)	6.6
Dividends received	(13.0)	(0.6)	(13.6)
Adjustment to reflect effective obligations	(8.6)	17.2	8.6
At 31 March 2005	1.7	0.5	2.2
Goodwill			
At 1 April 2004	8.8	–	8.8
Additions	27.8	–	27.8
Amortisation	(9.7)	–	(9.7)
At 31 March 2005	26.9	–	26.9
Net book value			
At 31 March 2005	39.3	1.3	40.6
At 31 March 2004	11.3	4.8	16.1

13b Additions to joint ventures
13b i 2|entertain Limited

	2005 £m
Net assets contributed to joint venture by BBC Worldwide:	
Investment in programmes for future sale	5.5
Net current assets	0.9
	6.4
Cash contribution and transaction costs paid	1.6
Unrealised gain on disposal of business	22.8
Interest in joint venture undertaking at date of exchange (Note 13c)	30.8
Represented by:	
Goodwill	24.9
Additions to investments in joint ventures	5.9
	30.8

On 27 September 2004 BBC Worldwide, a subsidiary of the Group, entered into an agreement with Woolworths plc (Woolworths) to form a joint venture comprising BBC Worldwide's video/DVD business (excluding children's) and the video/DVD and music publishing business of Woolworths. This principally non-cash transaction resulted in the formation of a joint venture company, 2|entertain Limited, which is 60% owned by BBC Worldwide. An unrealised gain arose in respect of this transaction which is recognised in the statement of total recognised gains and losses.

The Group's share of the joint venture's turnover for the four month accounting period ended 31 January 2005 was £64.0million and of operating profit before goodwill and amortisation was £16.7million.

13b ii Worldwide Media Limited

	Total 2005 £m
Consideration paid	5.5
Represented by:	
Goodwill	2.9
Additions to joint venture undertakings	2.6
	5.5

In December 2004, BBC Worldwide completed the acquisition of a 50% equity interest in Worldwide Media Limited, a magazine publishing joint venture based in India. Total consideration paid was £5.5million. Contingent consideration of up to 211million rupees (£2.5million) may be payable, based on the financial performance of the acquired business in the period to 31 July 2006. Based on the Group's expectation of the financial performance during this period against the applicable targets, no contingent consideration has been recognised in the calculation of goodwill at 31 March 2005. From December 2009 a put option is exercisable by the Group's joint venture partner. If exercised, this option would require the Group to increase its shareholding from 50% to 74% through the purchase of 24% of its joint venture partner's shareholding. The consideration payable by the Group under this option is dependent on the future profitability of the joint venture. The Group's share of turnover for the three month accounting period ended 31 March 2005 was £0.9million and of its operating profit was £0.2million.

The goodwill capitalised is amortised over 20 years on a straight line basis reflecting its useful economic life, subject to reviews for impairment.

Joint ventures are businesses the BBC jointly controls with other parties.

13c Interests in joint ventures

13c i Significant joint ventures and their activities

The Group has a 50% equity interest in the following joint ventures which are all incorporated in Great Britain and registered in England and Wales, unless otherwise stated:

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2004
UK Gold Holdings Limited	Channels	Flextech	31 December 2004
UKTV New Ventures Limited	Channels	Flextech	31 December 2004
UKTV Interactive Limited	Channels	Flextech	31 December 2004
JV Programmes LLC ¹	Channels	Discovery	31 December 2004
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2004
Worldwide Media Limited	Magazines	Bennett, Coleman and Company Limited	31 July 2004
2 entertain Limited ²	Video/DVD	Woolworths	28 January 2005
DTV Services Limited ³	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	31 March 2005
Insight Property Partnership	Property	Land Securities Trillium (Media Services) Limited	31 March 2005
Daurus Limited ⁴	Property	Land Securities Trillium (BH) Limited, Morgan Stanley Delta LLC, Structured Finance Management Limited	30 June 2004

¹Incorporated in the USA

²60% equity interest

³33% equity interest

⁴100% holding of 'A' class shares representing 10% of the total issued shares of Daurus Limited. The rest of the shares in Daurus Limited are held by the other partners. The BBC holds its investment in Daurus Limited through a subsidiary, BBC Property Development Limited

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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. The joint ventures operated by these alliances are included in the list 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 13f) 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.

The joint venture with LST, the Insight Property Partnership, provides a range of property and development services to the BBC. Related joint ventures and associate companies have been set up to develop particular BBC properties. In May 2005 the BBC and LST agreed to restructure this partnership (see Note 26).

During 2004 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. LST 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.

13c ii Group share of joint ventures results and net assets

Group share of:	2entertain Limited £m	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures £m	Total joint ventures £m
2005					
Turnover	64.0	36.8	31.6	29.4	161.8
Profit/(loss) before tax	16.7	11.0	9.0	(3.1)	33.6
Taxation	(5.1)	(2.8)	(2.7)	(0.1)	(10.7)
Profit/(loss) after tax	11.6	8.2	6.3	(3.2)	22.9
Fixed assets	3.8	–	–	7.4	11.2
Goodwill	24.1	–	–	2.8	26.9
Current assets	68.2	15.6	21.1	25.5	130.4
Liabilities less than one year	(65.0)	(6.6)	(2.9)	(5.1)	(79.6)
Liabilities more than one year	–	(28.1)	(30.4)	(37.8)	(96.3)
Adjustment to reflect effective obligations	–	19.1	12.2	15.4	46.7
Net book value	31.1	–	–	8.2	39.3
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

* The figures are based on unaudited financial statements

Under the terms of the agreements with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses/net liabilities of the relevant entities and accordingly no share of these is included in the financial statements for the year ended 31 March 2005 (2004 £nil). The share of net liabilities not recognised comprises the £46.7million shown in the table as 'adjustment to reflect effective obligations'. The Group is entitled to its share of any profits or net assets only once the ventures' cumulative profits exceed cumulative losses since incorporation. During the year ended 31 March 2005 the Group received its first dividend of £2.1million from UK Gold Holdings Limited, one of the Flextech joint ventures.

Associates are businesses over which the BBC exerts significant influence but does not have overall control.

13d Interests in associates

13d i Significant associates and their activities

The Group holds (directly and indirectly) significant interests in the associates listed below which, except where otherwise stated, are incorporated in Great Britain and registered in England and Wales. A full list of associates is available on request from The Secretary, BBC, Room MC3C3, Media Centre, 201 Wood Lane, London W12 7TQ.

	Holding of issued ordinary shares %	Activity
Parliamentary Broadcasting Unit Limited	33	Content provider
Broadcasters Audience Research Board Limited (BARB)	*	Audience research
The Commonwealth Broadcasting Association	*	Broadcasting forum
Radio Joint Audience Research Limited (RAJAR)	50	Audience research
Frontline Limited	23	Publishing
UKTV Pty Limited (incorporated in Australia)	20	Channels
People and Arts (Latin America) LLC (incorporated in the USA)**	50	Channels
Animal Planet LLC (incorporated in the USA)**	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

13d ii Group share of associates' turnover and net assets

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2004 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.

	2005 £m	2004 £m
Group interests in associates		
Share of turnover	42.9	38.6
Share of fixed assets	38.8	43.1
Share of current assets	24.5	12.6
Share of liabilities due within one year	(19.3)	(7.2)
Share of liabilities due after more than one year	(123.9)	(118.9)
Adjustment to reflect effective obligation	81.2	75.2
Net interests in associates	1.3	4.8

The results include the Group share of the operating profit/(loss) of UKTV Pty Limited of £0.5million (2004 £0.3million), Frontline Limited of £0.7million (2004 £1.1million), Children's Character Books Limited of £(0.1)million (2004 n/a) and BBC World (India) Private Limited of £0.1million (2004 £nil). 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 (2004 £nil).

Under the terms of the agreements with Discovery and Alliance Atlantis, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses or net liabilities of the relevant entities and accordingly no share of these are included in the financial statements for the year ended 31 March 2005 (2004 £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.

13e Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Interests in subsidiaries £m	Interests in joint ventures £m	Total £m
At 1 April 2004	152.5	125.3	8.8	286.6
Accumulated surplus	7.6	–	–	7.6
Amortisation	–	–	(8.8)	(8.8)
At 31 March 2005	160.1	125.3	–	285.4

Subsidiary undertakings are businesses the BBC controls.

13f Subsidiary undertakings

The principal subsidiary undertakings of the BBC at 31 March 2005 are listed below. All are wholly owned and incorporated in Great Britain and registered in England and Wales. A full list of subsidiaries is available on request from The Secretary, BBC, Room MC3C3, Media Centre, 201 Wood Lane, London W12 7TQ.

Name of entity		Activity
BBC Commercial Holdings Limited	*	Holding company
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC World Limited	**	Channels
BBC Ventures Limited	**	Holding company
BBC Broadcast Limited	**	Playout and channel management services
BBC Resources Limited	**	Programme making facilities and services
BBC Free to View Limited	*	Holding company for digital licence
BBC Property Limited	**	Property
BBC Property Development Limited	**	Property
Centre House Productions Limited	*	Production financing

* Directly owned

** Indirectly owned

14 Stocks

	Group 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Raw materials	2.9	5.1	0.7	0.7
Work in progress				
– originated programmes	281.0	273.1	280.7	272.7
– other	2.4	6.0	0.1	0.2
Finished programmes				
– acquired programmes and films	88.1	82.3	88.1	82.3
– originated programmes	69.9	44.5	69.9	44.5
Other	14.5	22.0	–	–
Total	458.8	433.0	439.5	400.4

15 Debtors

	Group 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Receivable within one year				
Trade debtors	119.5	135.7	12.9	18.1
Department for Culture, Media and Sport				
– licence fee debtors	285.8	275.4	285.8	275.4
Amounts owed by subsidiaries	–	–	28.0	30.6
Amounts owed by associates and joint ventures	10.2	3.1	5.8	3.1
VAT recoverable	35.5	40.3	32.6	35.9
Other debtors	102.3	21.9	78.6	4.8
Prepayments	121.5	196.3	103.7	169.8
	674.8	672.7	547.4	537.7
Receivable after more than one year				
Other debtors	6.1	5.7	–	–
Prepayments	100.0	136.3	84.3	118.1
	106.1	142.0	84.3	118.1
Total	780.9	814.7	631.7	655.8

Other debtors includes £56.6million in relation to the sale of the White City site, see Note 6 for details.

Prepayments have decreased from 2004 due to £52.5million in respect of the White City site being fully amortised during the year as explained in Note 6.

16 Creditors

16a Prompt payment policy

It is the BBC's policy to comply with the Better Payment Practice Code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2005 was 35 days (2004 39 days). Residual creditors and associated costs have been excluded for the purpose of this calculation, as they relate to payments to artists and contributors other than trade creditors.

16b Amounts falling due within one year

	Note	Group 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Bank overdrafts and other loans					
Bank overdrafts	21	36.9	38.2	31.2	31.3
Unsecured loan notes	23c	1.5	1.6	–	–
		38.4	39.8	31.2	31.3
Trade creditors					
Programme creditors		60.1	78.7	58.9	77.2
Programme acquisitions		26.5	24.6	26.3	23.9
Salaries and wages		59.0	50.5	36.0	30.6
Residual copyright payments		21.5	34.2	–	–
Other trade creditors		167.0	162.9	107.2	111.1
		334.1	350.9	228.4	242.8
Other creditors					
Amounts owed to subsidiaries		–	–	51.7	92.6
Amounts owed to associates and joint ventures		8.5	1.2	–	–
Corporation tax		5.8	8.5	2.3	6.4
Other taxation and social security		28.6	32.8	26.6	28.2
Other		59.9	–	59.9	–
		102.8	42.5	140.5	127.2
Accruals and deferred income					
Accruals and deferred income		342.6	349.3	274.7	281.6
Licence savings stamps deposits and direct debit instalments		100.4	109.1	100.4	109.1
		443.0	458.4	375.1	390.7
Total		918.3	891.6	775.2	792.0

Other creditors includes £59.9million in relation to the sale of the White City site, see Note 6 for details.

16c Amounts falling due after more than one year

	Note	Group 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Bank and other loans	23c	150.0	180.0	–	–
Trade creditors					
Programme acquisitions		7.1	6.0	7.1	6.0
Other creditors					
Obligations under finance leases	23c	27.1	30.3	–	–
Amounts owed to subsidiaries		–	–	27.6	33.3
Other		3.4	–	–	–
		30.5	30.3	27.6	33.3
Total		187.6	216.3	34.7	39.3

17 Provisions for liabilities and charges

Group	At 1 April 2004 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2005 £m
Licence fee	22.1	(14.9)	(7.7)	17.7	17.2
Restructuring	15.7	(10.6)	(3.3)	45.6	47.4
Litigation and insurance	11.2	(0.6)	(1.2)	4.4	13.8
Property	11.9	(2.4)	(1.9)	4.2	11.8
Pension	–	–	–	21.1	21.1
Deferred tax	5.7	–	–	9.6	15.3
Other	10.9	(11.1)	(9.3)	22.5	13.0
Total	77.5	(39.6)	(23.4)	125.1	139.6

Restructuring includes those costs relating to the change programme occurring within the BBC.

Property provisions include BBC World Service's liability of £3.3million (2004 £3.6million) to restore Bush House to its original condition, together with amounts relating to other dilapidations and relocations. The Bush House provision has been discounted on a pre-tax basis to reflect the time value to BBC World Service of this amount.

Pension provisions comprise an amount of £21.1million which crystallised on the sale of BBC Technology Holdings Limited. This amount is payable over ten years. It is estimated pending a final valuation but will not exceed £21.1million in net present value terms (although it could be less than this amount). In determining the provision, the anticipated cash flows have been discounted on a pre-tax basis to reflect the time value to the BBC of this amount.

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

UK Public Service Broadcasting and BBC World Service are funded from different sources. As such, the reserves relating to BBC World Service are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service activities.

UK Public Service Broadcasting	At 1 April 2004 £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2005 £m
Licence fee	22.1	(14.9)	(7.7)	17.7	17.2
Restructuring	12.4	(9.3)	(1.5)	44.0	45.6
Litigation and insurance	11.2	(0.6)	(1.2)	2.6	12.0
Property	8.3	(2.4)	(1.5)	3.4	7.8
Other	10.7	(10.7)	(9.9)	22.2	12.3
Total	64.7	(37.9)	(21.8)	89.9	94.9

18 Reserves

Group	Operating reserve excluding pension reserve £m	Pension reserve £m	Total operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2004	255.4	(436.3)	(180.9)	788.8	4.8	612.7
Exchange adjustments	(0.5)	–	(0.5)	–	–	(0.5)
Deficit for financial year	(188.2)	–	(188.2)	–	–	(188.2)
Actuarial gain on defined benefit pension schemes	–	80.9	80.9	–	–	80.9
Unrealised gain on disposal of business	22.8	–	22.8	–	–	22.8
Revaluation reserve transfer	0.8	–	0.8	–	(0.8)	–
Pension reserve transfer	71.4	(71.4)	–	–	–	–
Capital reserve transfer	27.0	–	27.0	(27.0)	–	–
At 31 March 2005	188.7	(426.8)	(238.1)	761.8	4.0	527.7
Represented by:						
General Group reserves	181.1	(426.8)	(245.7)	613.3	–	367.6
BBC World Service reserves	7.6	–	7.6	148.5	4.0	160.1
	188.7	(426.8)	(238.1)	761.8	4.0	527.7

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 (2004 £6.8million) remains offset against the operating reserve.

UK Public Service Broadcasting	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2004	193.0	788.8	4.8	986.6
Deficit for financial year	(16.5)	–	–	(16.5)
Revaluation reserve transfer	0.8	–	(0.8)	–
Capital reserve transfer	27.0	(27.0)	–	–
At 31 March 2005	204.3	761.8	4.0	970.1
Represented by:				
UK Public Service Broadcasting reserves	196.7	613.3	–	810.0
BBC World Service reserves	7.6	148.5	4.0	160.1
	204.3	761.8	4.0	970.1

19 Sale of businesses

	Children's book business 2005 £m	BBC Technology Holdings Limited 2005 £m	Total 2005 £m
Net assets disposed	1.1	85.5	86.6
Pension liability crystallised	–	24.8	24.8
Profit on disposal	0.4	32.4	32.8
	1.5	142.7	144.2
Of which:			
Cash consideration received	2.3	150.0	152.3
Less transaction costs	(0.9)	(7.3)	(8.2)
Net cash proceeds from sale of businesses	1.4	142.7	144.1
Interest in new associated undertaking	0.1	–	0.1

The businesses sold during the year contributed £10million of the cash flow used to purchase tangible fixed assets.

20 Reconciliation of net cash flow to movement in net debt

	2005 £m	2004 £m
Increase in cash in year	0.3	2.3
Net cash outflow/(inflow) from management of liquid resources	29.3	(52.3)
Net cash outflow/(inflow) from increase in loans and finance leases	33.3	(90.0)
Change in net debt resulting from cash flows	62.9	(140.0)
Non-cash decrease in finance leases	–	15.8
Change in net debt	62.9	(124.2)
Net debt at the beginning of the year	(198.2)	(74.0)
Net debt at the end of the year	(135.3)	(198.2)

21 Analysis of changes in net debt

	At 1 April 2004 £m	Cash flows £m	At 31 March 2005 £m
Net cash			
Bank overdrafts	(38.2)	1.3	(36.9)
Cash at bank and in hand	39.3	(1.0)	38.3
	1.1	0.3	1.4
Liquid resources			
Short-term investments	12.6	29.3	41.9
Gross funds	13.7	29.6	43.3
Debt			
Loans from third parties	(180.0)	30.0	(150.0)
Unsecured loan notes	(1.6)	0.1	(1.5)
Finance leases	(30.3)	3.2	(27.1)
Net debt	(198.2)	62.9	(135.3)
Made up of:			
Public Service Broadcasting	2.7	8.9	11.6
Commercial Businesses	(172.4)	50.7	(121.7)
Centre House Productions Limited	(28.5)	3.3	(25.2)
Net debt	(198.2)	62.9	(135.3)

Liquid resources are current asset investments that are readily disposable without disrupting the BBC, and are either readily convertible into known amounts of cash at, or close to, their carrying amount, or are traded in an active market. In relation to the BBC, liquid resources are sterling amounts on deposit.

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.

Financial statements

Notes to the financial statements

Public Services in this context represent the UK Public Service Broadcasting Group and BBC World Service.

22 Reconciliation of net funds/(debt) to the Department for Culture, Media and Sport (DCMS) borrowing ceilings

	Note	Public Services 2005 £m	Public Services 2004 £m	Commercial Businesses 2005 £m	Commercial Businesses 2004 £m
Net funds/(debt)	21	11.6	2.7	(121.7)	(172.4)
Licence savings stamps deposits and direct debit instalments*	16b	(100.4)	(109.1)	–	–
Borrowings as defined by DCMS borrowing ceiling		(88.8)	(106.4)	(121.7)	(172.4)
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 2005 and 31 March 2004, and throughout the financial year, 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 2005 and 31 March 2004 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 thereby giving certainty to the level of future interest payments. Alternatively, a company may believe that interest rates may fall and wish to convert a fixed rate loan to a floating rate.

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 Board. Group Treasury's activity is routinely reported and is subject to review by internal and external auditors.

Group Treasury uses financial instruments to raise finance and to manage financial risk arising from the BBC's operations in accordance with its objectives which are:

- to ensure the business of the BBC, both Public Services and Commercial, is fully funded in the most efficient manner and remains compliant with borrowing limits
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements

The Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and liquid resources, borrowings and various items such as trade debtors and creditors that arise directly from its operations. The Group finances its operations from these financial instruments. The 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 2005 the UK Public Service Broadcasting had available a £100million loan facility which is available as either a revolving LIBOR-based loan or an overdraft to May 2005 with an option to extend the facility to May 2006. The loan facility bears interest at a margin of 0.2% and the overdraft facility bears interest at bank base rates plus 1%.

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 individual banks, totalling £24million (2004 £25million) with interest payable at a margin of between 0.125% and 0.5% over LIBOR.

BBC Commercial Holdings Limited's loans comprise a £350million multicurrency revolving credit facility agreement repayable in full in March 2008. At 31 March 2005 £125million (2004 £105million) 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 2005 a further £41million (2004 £76.9million) was utilised by way of letters of credit issued to support the borrowing under these facilities.

The European Investment Bank has made a loan facility available to BBC Commercial Holdings Limited for an amount of £25million. This loan is repayable in one single instalment by November 2007. £25million was drawn under this facility at 31 March 2005 (2004 £25million). The interest rate applicable on the facility is determined with reference to the European Investment Bank's own funding cost and carries no margin above this funding rate. The lending under the facility is supported by a letter of credit issued by the commercial banks under the £350million revolving credit facility referred to above.

As at 31 March 2004 BBC Commercial Holdings Limited had a loan of £50million outstanding with the European Investment Bank (total facility amount £66million). This loan was repaid in full in March 2005 and the facility cancelled.

In addition BBC Commercial Holdings Limited had a facility of £20million which was available as an overdraft at 1% over the Bank's base rate, or a money market line, with a margin of 0.3%. The facility is due for review in January 2006.

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	Creditors £m	Provisions £m	Total 2005 £m
2005							
Within one year	36.9	–	1.5	–	–	2.7	41.1
Between one and two years	–	–	–	–	7.5	2.5	10.0
Between two and five years	–	150.0	–	–	1.3	6.8	158.1
Greater than five years	–	–	–	27.1	1.7	12.4	41.2
	36.9	150.0	1.5	27.1	10.5	24.4	250.4
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

The above includes all contractual liabilities, including those held within provisions.

Defeasance deposits are amounts deposited with banks by Centre House Productions Limited which earn the exact amount of interest needed to cover the capital repayment and interest element of each of the finance leases. The defeasance deposits are 'ring-fenced' and therefore cannot be used for any transactions apart from the agreed capital and interest payments.

The finance leases relate to Centre House Productions Limited. Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off against the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £263.0million at 31 March 2005 (2004 £273.5million), 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 UK Public Service Broadcasting's financial liabilities, other than short-term creditors, at 31 March was:

	Overdraft £m	Trade creditors £m	Inter- company creditors £m	Total 2005 £m
2005				
Within one year	31.2	–	–	31.2
Between one and two years	–	7.0	6.2	13.2
Between two and five years	–	0.1	10.0	10.1
Greater than five years	–	–	11.4	11.4
	31.2	7.1	27.6	65.9
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

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 £80.2million at 31 March 2005 (2004 £51.9million) 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 2005 and 2004 was:

	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Fixed rate liabilities		
				Amount £m	Weighted average interest rate %	Weighted average period until maturity Years
2005						
Sterling	250.4	34.2	–	216.2	4.6	3
Total	250.4	34.2	–	216.2		
2004						
Sterling	256.1	36.3	10.8	209.0	4.5	4
Total	256.1	36.3	10.8	209.0		

Sterling fixed-rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature in March 2008. In addition to the £188million (2004 £209million) of swaps included in the fixed rate liabilities of £216million (2004 £209million) shown above, there were effective at the year end an additional £58million of swaps which had been transacted to cover projected borrowings.

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 denoted 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 2005, 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 2005 the Group had entered into a net commitment to purchase foreign currencies amounting to £95million (2004 £71million) that mature in the period through to 2012 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 gain of £7.8million (2004 £6.7million loss) at the balance sheet date, of which £2.7million 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. Significant unrealised gains or losses on these contracts amounted to an unrealised gain of £3.3million (2004 £3.9million) at the balance sheet date, of which £1.2million 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 market value of the Group's financial instruments other than as disclosed in Note 23f.

24 Commitments

24a Contracts placed for future expenditure

	Group 2005 £m	Group 2004 £m	UK Public Service Broadcasting 2005 £m	UK Public Service Broadcasting 2004 £m
Fixed asset additions	27.7	78.4	21.5	52.9
Programme acquisitions and sports rights	987.7	1,073.6	945.1	1,073.5
Independent programmes	85.3	73.9	76.2	70.2
	1,100.7	1,225.9	1,042.8	1,196.6

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 2005 £m	Land and buildings 2004 £m	Other 2005 £m	Other 2004 £m
Group				
Within one year	2.9	11.0	3.3	3.2
In two to five years	6.3	9.2	5.9	14.8
After five years	35.9	54.9	2.6	1.9
	45.1	75.1	11.8	19.9
UK Public Service Broadcasting				
Within one year	1.8	9.9	1.7	0.6
In two to five years	3.8	7.7	2.8	2.4
After five years	35.7	54.1	0.8	0.1
	41.3	71.7	5.3	3.1

24c Other financial commitments

At 31 March 2005 the BBC had commitments for technology support totalling £10.4million of which, £5.9million is expected to be paid within one year. The UK Public Service Broadcasting commitment was £8.9million, of which £5.1million is payable within one year.

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 2005 the Group had unprovided contingent liabilities estimated to be £5.4million (2004 £0.9million) in respect of guarantees and indemnities. Of this, £0.9million relates to UK Public Services Broadcasting. The remainder relates to BBC Worldwide's joint venture, Worldwide Media Limited. BBC Worldwide has guaranteed bank loans in respect of this joint venture which were 366million rupees (£4.5million) on 31 March 2005. This debt may rise to 400million rupees (£5.0million) over the next two years.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 17) against an estimate of any damages and costs which may be awarded.

26 Post balance sheet events

On 12 April 2005 BBC Worldwide announced that it had entered into an agreement with Dennis Publishing Limited to form a joint venture comprising the magazine subscription fulfilment business of each company. BBC Worldwide contributed the assets and business of its Galleon Limited subsidiary in exchange for a 50% stake in the new joint venture company, Galleon CI Limited.

On 12 May 2005 the BBC and LST announced they were to review the ongoing nature of their Insight Property Partnership. In future the partnership aims to concentrate on the completion of developments of Pacific Quay in Glasgow and Broadcasting House in London. The BBC will look for a new partner to provide facilities management and other property services. Goodwill balances relating to the partnership were fully amortised at 31 March 2005.

On 13 May 2005, BBC Worldwide completed the sale of certain music rights for a total consideration of £10.3million.

27 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8, *Related party disclosures*. Under the provisions of FRS 8 the BBC has not disclosed transactions between Group entities where more than 90% of those entities' voting rights are controlled within the Group. UK Public Service Broadcasting does not underwrite any of the activities or liabilities of the subsidiaries.

In all transactions, the terms of trade were negotiated on an arm's length basis.

27a Transactions with joint ventures and associated undertakings

Included in the income and expenditure account is income from UKTV of £51.8million (2004 £46.0million) relating to the sale of programmes and dividends and income from JV Programmes LLC of £30.5million (2004 £28.4million) relating to the sale of programmes. Net income from 2|entertain Limited of £15.6million (2004 £nil) was received for licensing of programmes, other commissions and dividends. There is also £6.3million (2004 £7.3million) of income made up of various other associates relating to the sale of programmes. Included in the income and expenditure is income of £0.8million (2004 £0.4million) from BBC Haymarket Exhibitions Limited relating to dividends and management fees. In addition, Frontline Limited charged £3.1million (2004 £2.9million) for the distribution of BBC Worldwide Limited's magazines and paid a dividend of £0.6million (2004 £nil). Also included is a charge for £0.4million (2004 £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 £0.9million (2004 £1.4million) for marketing services. In addition the BBC received £0.3million (2004 £0.3million) from DTV Services Limited for administrative services.

During the year £0.3million (2004 £0.3million) of funding for restructuring was provided to 3sixtymedia Limited in line with contractual obligations.

The BBC and LST are partners in the Insight Property Partnership and the White City Development Partnership. The BBC's capital in the White City Development Partnership was returned during the year (see Note 6). The partnership charged the BBC £153.2million for property services during the year (2004 £145.0million). Since the year end the BBC and LST have announced a restructuring of the partnership (see Note 26).

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 13c)) and Morgan Stanley Gamma Investments, for a premium of £92.0million in cash plus the value of works to date, £47.8million, realising a profit of £40.4million. A further £14.9million has been invoiced in 2005 (2004 £12.4million) for reimbursement of Broadcasting House development costs. Daunus Limited has appointed LST to redevelop the site.

BBC World Service and the Caribbean Relay Company (CRC) run a transmission site in Antigua, where a contribution of £0.9million was made towards the expenditure of CRC. However, in 2004 it was announced that CRC would close and World Service paid £0.4million as its share of the redundancy costs.

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 15 and 16. In all transactions the terms of trade were negotiated on an arm's length basis.

Related parties also include Governors, the Executive Board and other senior managers, their immediate families and external entities controlled by them.

Transactions between the BBC and these related parties are explained in this note.

27b Other transactions

In the normal course of business the BBC transacts with other parties which are related to it by virtue of its senior employees being married or closely related to employees of the BBC or individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any potential conflict of interest. Where transactions or any policy issues arise between connected parties, the BBC Governor or employee is not a party to the approval or discussion process.

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.

Deborah Bull, Governor, is sole Director of Deborah Bull Limited. Subsequent to her appointment, Deborah received, through Deborah Bull Limited, payments totalling £8,650 (2004 £13,320) for contributions to various BBC programmes. No amounts were outstanding at the year end (2004 £nil).

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 2005, the BBC paid £2,524,797 (2004 £1,461,643) to Pinewood Shepperton for the use of studios and related facilities. At the year end, £6,526 was outstanding (2004 £72,864). The figures for 2004 have been restated because, following a further detailed review, it became apparent that the amounts previously voluntarily disclosed had not recognised all relevant transactions.

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Table 1: 15-minute weekly reach by service and platform: BBC and competitors

	All homes		All multichannel homes		Analogue terrestrial homes		Digital homes	
	2004/2005 (55.4m ¹) %	2003/2004 (55.2m ¹) %	2004/2005 (37.5m ¹) %	2003/2004 (32.6m ¹) %	2004/2005 (17.9m ¹) %	2003/2004 (22.6m ¹) %	2004/2005 (35.9m ¹) %	2003/2004 (30.3m ¹) %
	Total BBC Television and Radio reach	92.9	92.9	–	–	–	–	–
BBC Television	86.6	88.2	84.5	85.5	90.2	91.6	84.4	85.4
BBC One	81.9	83.7	78.7	79.8	87.2	88.5	78.5	79.4
BBC Two	61.4	67.0	53.3	57.3	75.3	78.8	52.8	56.5
BBC Three	9.4	7.0	14.8	12.6	–	–	15.7	13.9
BBC Four	3.0	2.1	4.8	3.7	–	–	5.0	4.0
The CBBC Channel	3.5	2.3	5.6	4.2	–	–	5.9	4.6
CBeebies	5.8	5.0	9.0	8.9	–	–	9.5	9.9
BBC News 24	4.2	3.9	6.7	6.9	–	–	6.5	6.6
BBC Parliament	0.2	0.2	0.3	0.2	–	–	0.3	0.3
ITV1	76.0	78.9	72.7	75.3	81.3	83.3	72.4	75.1
ITV2	13.9	11.3	21.4	20.2	–	–	21.4	20.6
ITV3 ²	7.9	–	11.9	–	–	–	12.7	–
Channel 4	61.7	62.1	55.8	54.8	71.4	71.3	55.6	54.3
E4	6.9	6.6	10.6	12.3	–	–	10.5	12.4
five	43.9	43.2	42.9	41.8	44.5	44.4	42.6	41.4
All Sky channels	30.7	29.0	48.4	53.0	–	–	49.1	55.0
Sky One	14.8	15.4	22.8	28.0	–	–	22.7	28.3
Sky News	4.0	4.2	6.3	7.7	–	–	6.3	7.9
Discovery ³	5.1	4.7	8.0	8.5	–	–	7.7	8.3
Nickelodeon ³	4.4	4.4	7.0	7.9	–	–	7.0	8.2
Nick Jr.	2.6	2.1	4.1	3.8	–	–	4.3	4.2
UK Gold	11.0	10.2	17.2	19.1	–	–	17.3	19.7
UKTV	20.4	18.4	32.0	33.3	–	–	32.4	34.5
Other channels (total) ⁴	52.0	45.6	81.4	81.7	–	–	81.8	83.2
BBC Radio	66.6	66.4						
BBC Radio 1	20.4	20.2						
BBC Radio 2	27.2	26.7						
BBC Radio 3	4.2	4.5						
BBC Radio 4	19.3	19.8						
BBC Radio Five Live	12.7	12.5						
BBC Five Live Sports Extra ⁵	0.8	0.6						
1Xtra ⁵	0.6	0.6						
BBC 6 Music ⁵	0.5	0.3						
BBC 7 ⁵	0.9	0.6						
BBC Asian Network ⁵	1.0	0.9						
BBC Local Radio (including Nations)	20.8	21.1						
BBC World Service ⁶	2.6	2.9						
Virgin (AM/FM)	5.1	5.5						
Classic FM	12.6	12.5						
talkSPORT	4.6	4.2						
All local commercial radio	52.5	54.8						

Source: Television: BARB, TNS/Infosys, age 4+; Radio: RAJAR, age 15+, both average for the year. Combined BBC Television and Radio reach is age 4+

¹People age 4+ as at March, source: BARB

²ITV3 data covers the period from November 2004 to March 2005

³Includes the first transmission and +1 hour time-shifted channels

⁴Excludes BBC One, BBC Two, ITV1, Channel 4 and five

⁵BBC digital radio services have been measured since July 2003

⁶UK only

Broadcasting facts and figures

Table 2: Share by service and platform: BBC and competitors

	All homes		All multichannel homes		Analogue terrestrial homes		Digital homes	
	2004/2005 (55.4m ¹) %	2003/2004 (55.2m ¹) %	2004/2005 (37.5m ¹) %	2003/2004 (32.6m ¹) %	2004/2005 (17.9m ¹) %	2003/2004 (22.6m ¹) %	2004/2005 (35.9m ¹) %	2003/2004 (30.3m ¹) %
Total BBC Television and Radio share	43.1	43.4	–	–	–	–	–	–
BBC Television	36.2	37.8	29.7	29.2	47.9	48.7	29.4	28.9
BBC One	24.4	25.2	19.7	19.2	32.9	32.8	19.4	18.9
BBC Two	9.6	10.9	6.7	7.0	15.0	15.9	6.4	6.8
BBC Three	0.5	0.3	0.8	0.6	–	–	0.8	0.7
BBC Four	0.2	0.1	0.3	0.2	–	–	0.3	0.2
The CBBC Channel	0.3	0.2	0.5	0.4	–	–	0.5	0.4
CBeebies	0.8	0.7	1.3	1.2	–	–	1.4	1.4
BBC News 24	0.4	0.4	0.6	0.6	–	–	0.6	0.6
BBC Parliament	0.0	0.0	0.0	0.0	–	–	0.0	0.0
ITV1	22.3	23.7	18.5	19.3	29.2	29.2	18.2	18.8
ITV2	1.2	1.0	1.8	1.7	–	–	1.9	1.7
ITV3 ²	0.7	–	1.1	–	–	–	1.2	–
Channel 4	9.8	9.7	7.6	7.1	13.8	13.2	7.5	6.9
E4	0.6	0.6	1.0	1.1	–	–	1.0	1.1
five	6.5	6.5	5.2	4.8	8.8	8.6	5.1	4.7
All Sky channels	6.5	6.3	10.2	11.5	–	–	10.4	11.8
Sky One	1.5	1.5	2.2	2.7	–	–	2.2	2.7
Sky News	0.4	0.5	0.6	0.8	–	–	0.6	0.9
Discovery ³	0.4	0.4	0.7	0.7	–	–	0.7	0.7
Nickelodeon ³	0.4	0.4	0.6	0.7	–	–	0.6	0.7
Nick Jr.	0.3	0.3	0.5	0.5	–	–	0.6	0.5
UK Gold	1.2	1.2	1.8	1.9	–	–	1.8	1.9
UKTV	2.6	2.4	4.0	4.2	–	–	4.1	4.3
Other channels (total) ⁴	27.3	24.0	42.5	42.6	–	–	43.4	44.1
BBC Radio	54.0	52.8						
BBC Radio 1	8.5	7.8						
BBC Radio 2	16.3	15.7						
BBC Radio 3	1.2	1.2						
BBC Radio 4	11.3	11.4						
BBC Radio Five Live	4.6	4.6						
BBC Radio Five Live Sports Extra ⁵	0.1	0.1						
1Xtra ⁵	0.1	0.1						
BBC 6 Music ⁵	0.1	0.1						
BBC 7 ⁵	0.2	0.1						
BBC Asian Network ⁵	0.3	0.3						
BBC Local Radio (including Nations)	10.9	11.1						
BBC World Service ⁶	0.6	0.7						
Virgin (AM/FM)	1.5	1.5						
Classic FM	4.2	4.2						
talkSPORT	1.7	1.6						
All local commercial radio	34.3	36.2						

Source: Television: BARB TNS/Infosys, age 4+; Radio: RAJAR, age 15+, both average for the year. Combined BBC television and radio share of viewing/listening is age 4+

¹People age 4+ as at March, source: BARB

²ITV3 data covers the period from November 2004 to March 2005

³Includes the first transmission and +1 hour time-shifted channels

⁴Excludes BBC One, BBC Two, ITV1, Channel 4 and five

⁵BBC digital radio services have been measured since July 2003

⁶UK only

Table 3: Comparative cost per household of viewing/listening per hour

	2004/2005 Pence	2003/2004 Pence
BBC ¹	5.0	4.7
Sky ²	44.0	38.5
All pay television ³	21.3	21.9
Video hire ⁴	81.5	76.4

Source: BARB, RAJAR, BBC Strategy estimates

¹Based on cost of licence fee (£121 per annum in 2004/2005), total hours of viewing/listening to BBC output, and average 2.33 people in household

²Based on cost of family package subscription (£234 per annum in 2004/2005), total hours of viewing to Sky channels and average 2.75 people in household

³Based on total UK subscription revenue to pay TV (Sky, Telewest, ntl, Top-Up TV)

⁴Based on average cost per video hire (£3.02)

Table 4: Subtitling on BBC Television

	Subtitled hours		Actual for year		Target for year	
	2004/2005	2003/2004	2004/2005 %	2003/2004 %	2004/2005 %	2003/2004 %
BBC One	12,643	11,432	87.4	81.2	85.0	80.0
BBC Two	9,355	8,924	88.5	87.2	85.0	80.0
BBC Three	2,293	1,977	69.0	60.6	60.0	50.0
BBC Four	2,162	1,771	65.4	61.4	60.0	50.0
The CBBC Channel	2,912	2,892	65.8	66.7	60.0	50.0
CBeebies	3,768	3,459	78.6	73.5	60.0	50.0
BBC News 24	5,382	4,708	60.4	52.9	60.0	50.0

Table 5: Audio description on BBC Television

	Audio described hours		Actual for year		Target for year	
	2004/2005	2003/2004	2004/2005 %	2003/2004 %	2004/2005 %	2003/2004 %
BBC One	599	441	6.7	5.2	6.0	4.8
BBC Two	540	429	6.1	5.0	6.0	4.8
BBC Three	452	227	13.6	7.0	6.0	4.8
BBC Four	251	176	7.6	6.1	6.0	4.8
The CBBC Channel	271	227	6.1	5.2	6.0	4.8
CBeebies	384	276	8.0	5.9	6.0	4.8

Note: Targets have been set for 10% of programming output to be audio described by 2008/2009

Table 6: Signing on BBC Television

	Sign interpreted hours		Actual for year		Target for year	
	2004/2005	2003/2004	2004/2005 %	2003/2004 %	2004/2005 %	2003/2004 %
BBC One	269	222	3.0	2.6	3.0	2.4
BBC Two	269	213	3.0	2.5	3.0	2.4
BBC Three	104	90	3.1	2.8	3.0	2.4
BBC Four	112	79	3.4	2.7	3.0	2.4
The CBBC Channel	146	119	3.3	2.7	3.0	2.4
CBeebies	200	114	4.2	2.4	3.0	2.4
BBC News 24	276	212	3.1	2.4	3.0	2.4

Note: Targets have 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 Four	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
Factual and learning	1,748	1,686	1,343	1,293	1,321	876	997	774
Education for children	–	–	675	664	–	–	–	–
News and weather	2,446	2,500	620	516	143	369	120	126
Current affairs	160	134	267	311	87	109	134	163
Entertainment	559	650	781	872	882	1,155	187	107
Sport	787	496	946	863	4	65	–	–
Children's	675	777	1,353	1,261	–	–	–	–
Drama	880	923	173	328	368	239	190	167
Film	839	911	964	818	191	172	258	254
Music and arts	53	66	297	289	145	168	1,261	1,213
Religion	86	87	33	37	10	13	26	30
Open University	–	–	365	455	2	–	1	5
BBC Learning Zone	–	–	527	577	–	–	–	–
Continuity	234	253	320	292	118	116	80	71
Total network	8,467	8,483	8,664	8,576	3,271	3,282	3,254	2,910
Included in total network are acquired programmes of	1,471	1,590	1,919	1,843	299	206	623	542
Included in total network are parliamentary programmes of	51	54	145	147	–	–	–	–

	On digital platforms only							
	The CBBC Channel		CBeebies		BBC News 24		BBC Parliament	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
Education for children	562	637	77	182	–	–	–	–
News and weather	–	–	–	–	8,468	8,491	8,760	8,290
Children's	3,468	3,423	4,110	4,043	–	–	–	–
Continuity	320	294	530	492	292	293	–	14
Total network	4,350	4,354	4,717	4,717	8,760	8,784	8,760	8,304
Included in total network are acquired programmes of	762	866	700	799	–	–	327	128
Included in total network are parliamentary programmes of	–	–	–	–	–	–	8,760	8,290

Note: Network television hours of output includes originations, acquired programmes and repeats

Table 8: BBC Network Television hours of repeats

	BBC One		BBC Two	
	2004/2005	2003/2004	2004/2005	2003/2004
All hours	2,683	2,595	4,771	4,803
of which narrative repeats	457	458	175	172
of which showcased from digital channels	175	149	379	308
In peak time (6pm–10.30pm)	159	165	533	664
of which narrative repeats	2	1	38	5
of which showcased from digital channels	5	2	99	78

Note: BBC One has a commitment to keep repeats below 10% of peak-time hours. In 2004/2005 repeats were 9.7% of peak-time hours (2003/2004 9.99%)
 Narrative repeats are transmitted within seven days of the first transmission
 Showcased programmes are first transmissions on BBC One and BBC Two of programmes from the digital channels

Table 9: BBC Television hours of output by origin

	Programmes made in:											
	London		England (excluding London)		Northern Ireland		Scotland		Wales		Total	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
First Transmission: Originated programmes Network												
BBC One and BBC Two												
Factual and learning	859	834	688	768	2	1	71	48	23	16	1,643	1,667
Education for children	16	44	3	3	1	1	7	7	2	1	29	56
News and weather	3,062	3,012	–	–	–	–	–	–	–	–	3,062	3,012
Current affairs	343	357	55	58	1	1	2	2	–	8	401	426
Entertainment	630	644	112	105	1	12	6	13	2	–	751	774
Sport	1,496	1,241	–	–	–	–	–	–	–	–	1,496	1,241
Children's	332	313	22	37	–	–	47	84	–	4	401	438
Drama	255	267	157	174	9	12	23	27	9	18	453	498
Film	2	5	–	–	–	–	–	–	–	–	2	5
Music and arts	157	142	5	17	–	–	32	29	10	13	204	201
Religion	7	4	101	108	1	1	3	2	1	1	113	116
Subtotal	7,159	6,863	1,143	1,270	15	28	191	212	47	61	8,555	8,434
Digital channels												
Factual and learning	149	112	60	61	1	3	14	20	5	–	229	196
Education for children	11	5	–	8	–	–	1	–	–	–	12	13
News and weather	12,225	12,626	–	–	–	–	112	123	109	123	12,446	12,872
Current affairs	46	42	12	7	5	3	–	–	–	1	63	53
Entertainment	140	247	30	30	–	–	5	7	–	–	175	284
Sport	2	58	–	–	–	–	–	–	–	–	2	58
Children's	766	715	23	28	–	–	33	78	5	–	827	821
Drama	2	13	23	13	1	4	–	–	10	2	36	32
Film	–	–	–	–	–	–	–	–	–	–	–	–
Music and arts	214	194	18	39	–	1	68	66	23	36	323	336
Religion	3	3	5	4	–	–	–	–	–	–	8	7
Subtotal	13,558	14,015	171	190	7	11	233	294	152	162	14,121	14,672
Nations and Regions												
Factual and learning	3	1	21	11	70	87	64	89	88	86	246	274
Education for children	–	–	–	–	2	2	9	10	4	4	15	16
News and weather	297	291	3,365	3,218	336	347	438	448	418	418	4,854	4,722
Current affairs	9	10	96	103	36	35	66	56	40	45	247	249
Entertainment	–	–	2	–	70	91	17	26	17	27	106	144
Sport	–	–	38	28	108	93	154	256	258	264	558	641
Children's	–	–	–	–	–	–	15	21	–	1	15	22
Drama	–	–	–	–	5	–	53	53	6	11	64	64
Music and arts	–	–	2	2	6	3	31	17	33	27	72	49
Subtotal	309	302	3,524	3,362	633	658	847	976	864	883	6,177	6,181
Acquired programmes	1,188	992	5	6	4	1	–	6	11	3	1,208	1,008
Total first transmissions*	22,214	22,172	4,843	4,828	659	698	1,271	1,488	1,074	1,109	30,061	30,295

Broadcasting facts and figures

Table 9: BBC Television hours of output by origin continued

	Programmes made in:											
	London		England (excluding London)		Northern Ireland		Scotland		Wales		Total	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
Repeats												
Network	19,689	19,488	3,118	2,052	33	45	859	994	184	166	23,883	22,745
Nations and Regions	–	–	2	3	146	109	199	196	278	277	625	585
Continuity	1,605	1,519	31	19	255	196	188	185	169	171	2,248	2,090
Open University	364	448	4	3	–	3	–	3	–	3	368	460
BBC Learning Zone	518	577	–	–	–	–	–	–	–	–	518	577
Total hours of broadcasting	44,390	44,204	7,998	6,905	1,093	1,051	2,517	2,866	1,705	1,726	57,703	56,752
*Of which independents												
Network	1,716	1,637	342	415	12	26	112	134	26	39	2,208	2,251
Nations and Regions	–	2	57	38	84	78	148	145	124	118	413	381
*Of which parliamentary programming	4,317	4,803	–	–	–	–	112	123	109	125	4,538	5,051

Table 10: Range of peak-time UK-made programmes on UK network television

Number of UK-produced genres averaging a half-hour slot during peak time in a typical week. This excludes all digital output.

	Network BBCTV	BBC One	BBC Two	ITV1/ C4/five	ITV1	C4	five
Arts	*		*	*			*
Contemporary music	*	*	*				
Consumer affairs	*	*					
Factual entertainment	*	*	*	*	*	*	*
History	*		*	*		*	*
Human interest	*	*	*	*	*	*	*
Natural history	*	*	*	*			*
Science/medical	*		*	*			
UK-originated drama series	*	*		*	*		
UK drama series	*	*		*	*	*	
Long-running drama series	*	*		*	*	*	*
UK single plays/films	*			*			
Family/people shows	*	*		*	*	*	
Quiz shows/panel games	*	*	*	*	*		
Sitcom UK originated	*	*	*	*	*		
Other comedy	*		*	*	*		
Cookery	*		*				
DIY	*	*					
Gardening	*	*	*				
Other hobbies/leisure	*	*	*	*		*	*
Network news	*	*		*	*	*	*
Current affairs	*	*	*	*		*	
Regional news	*	*		*	*		
Sport	*	*	*	*	*		
Total 2004/2005	24	18	15	19	11	9	8
Total 2003/2004	24	17	13	19	12	8	6

Source: BARB, TNS/Infosys

Note: Peak time is 6pm–10.30pm

Table 11: BBC Network Radio hours of output

	Analogue stations									
	BBC Radio 1		BBC Radio 2		BBC Radio 3		BBC Radio 4		BBC Radio Five Live	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
Music	8,451	8,509	7,375	7,402	8,068	8,075	–	–	–	–
News and weather	307	305	455	455	80	79	2,380	2,404	6,423	6,486
Sport	30	30	–	–	–	–	502	542	2,138	2,106
Factual	63	60	10	26	–	–	1,283	1,254	–	–
Current affairs	–	–	340	340	–	–	1,210	1,199	53	46
Drama	–	–	13	14	93	103	1,074	1,079	–	–
Arts	14	9	105	88	315	298	448	464	–	–
Entertainment	–	–	78	71	–	–	486	511	–	–
Religion	–	–	187	192	67	60	289	289	–	–
Schools	–	–	–	–	–	64	208	160	–	–
Children's	–	–	–	–	86	50	26	26	–	–
Presentation	148	148	197	196	51	55	54	56	146	146
Total	9,013	9,061	8,760	8,784	8,760	8,784	7,960	7,984	8,760	8,784

	Digital stations											
	BBC Five Live Sports Extra		1Xtra		BBC 6 Music		BBC 7		BBC Asian Network		Total network radio	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
Music	–	–	7,726	7,840	8,203	8,147	–	–	2,746	2,741	42,569	42,714
News and weather	–	–	306	292	326	370	–	–	1,246	1,344	11,523	11,735
Sport	1,001	1,089	77	76	–	–	–	–	390	351	4,138	4,194
Factual	–	–	–	–	5	9	–	–	6	8	1,367	1,357
Current affairs	–	–	505	430	–	–	–	–	1,704	1,690	3,812	3,705
Drama	–	–	–	–	–	–	3,495	3,328	122	–	4,797	4,524
Arts	–	–	–	–	–	–	–	–	–	–	882	859
Entertainment	–	–	–	–	–	–	3,805	2,852	–	65	4,369	3,499
Religion	–	–	–	–	–	–	–	–	643	639	1,186	1,180
Schools	–	–	–	–	–	–	–	–	–	–	208	224
Children's	–	–	–	–	–	–	1,460	1,464	–	–	1,572	1,540
Presentation	–	–	146	146	226	266	–	–	235	208	1,203	1,221
Total	1,001	1,089	8,760	8,784	8,760	8,792	8,760	7,644	7,092	7,046	77,626	76,752

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 operates nations' opt-outs

Network radio has a voluntary commitment to commission 10% of eligible hours from independent producers. In 2004/2005, the five analogue radio networks commissioned 13.4% of eligible hours from independent producers

Table 12: BBC News 24 costs

Note 2b (pages 106 to 107) sets out the cost of BBC services and channels. Certain categories of expenditure, including newsgathering, are not allocated to individual services and channels. Had part of this expenditure been allocated to BBC News 24, its costs would have been as follows:

	2004/2005 £m	2003/2004 £m
Total production costs ¹	23.0	23.5
Newsgathering allocation ²	18.4	19.7
Central costs allocation	6.7	7.2

¹Total costs as set out in Note 2b

²Included in newsgathering allocation is £3.2million of regional spend (2003/2004 £3.4million)

Note: 928 hours of BBC News 24 programming were shown on BBC One and 225 hours on BBC Two (2003/2004 1,014 hours on BBC One and 196 hours on BBC Two)

Table 13: BBC distribution costs

	2004/2005 £m	2003/2004 £m
Analogue	77	75
Digital	80	77
Total distribution costs	157	152

Broadcasting facts and figures

Table 14: 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			
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004		
Programmes produced in London	8,755	8,359	5,561	5,831	6,572	6,496	6,080	6,140	8,529	8,547		
Programmes produced outside London												
England excluding London	3	422	3,115	2,825	1,050	1,112	1,602	1,572	228	234		
Northern Ireland	81	90	2	9	70	115	47	44	3	3		
Scotland	91	97	80	119	327	371	161	157	-	-		
Wales	83	93	2	-	741	690	70	71	-	-		
Subtotal	258	702	3,199	2,953	2,188	2,288	1,880	1,844	231	237		
Total hours of broadcasting	9,013	9,061	8,760	8,784	8,760	8,784	7,960	7,984	8,760	8,784		
	Digital stations											
	BBC Five Live Sports Extra		1Xtra		BBC 6 Music		BBC 7		BBC Asian Network			
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004		
Programmes produced in London	1,001	1,089	8,758	8,779	8,500	7,948	8,730	7,598	780	780		
Programmes produced outside London												
England excluding London	-	-	2	4	260	844	3	14	6,312	6,266		
Northern Ireland	-	-	-	-	-	-	17	24	-	-		
Scotland	-	-	-	1	-	-	10	8	-	-		
Wales	-	-	-	-	-	-	-	-	-	-		
Subtotal	-	-	2	5	260	844	30	46	6,312	6,266		
Total hours of broadcasting	1,001	1,089	8,760	8,784	8,760	8,792	8,760	7,644	7,092	7,046		
	Total network radio		Nations and local radio		Total radio							
	2004/2005		2003/2004		2004/2005		2003/2004		2004/2005		2003/2004	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004		
Programmes produced in London			63,266	61,567	8,760	8,784	72,026	70,351				
Programmes produced outside London												
England excluding London			12,575	13,293	222,772	219,249	235,347	232,542				
Northern Ireland			220	285	8,740	8,758	8,960	9,043				
Scotland			669	753	11,617	11,333	12,286	12,086				
Wales			896	854	15,367	14,731	16,263	15,585				
Subtotal			14,360	15,185	258,496	254,071	272,856	269,256				
Total hours of broadcasting			77,626	76,752	267,256	262,855	344,882	339,607				

Table 15: Average monthly bbc.co.uk page impressions

UK and international page impressions¹

	2004/2005 Millions	2003/2004 Millions
News and sport	813.4	535.1
Education ²	93.8	54.5
Other bbc.co.uk	968.6	704.6
Total bbc.co.uk (excluding beeb.com)	1,875.8	1,294.2
BBC World Service, accessed via bbc.co.uk sites	83.7	55.0
BBC World Service, accessed via key partners ³	5.4	3.4
Total BBC World Service	89.1	58.4

Source: BBC server logs, BBC World Service

¹Includes page impressions from international-facing site (average monthly figure for 2004/2005 was 194.6 million), funded by Grant-in-Aid

²Education comprises all schools and lifeskills sites

³Key partner websites host BBC World Service text and audio

Table 16: Average monthly reach of BBC New Media (millions of users)

	2004/2005 Millions	2003/2004 Millions
Unique users (server log based)¹		
bbc.co.uk unique users (UK and international)	48.1	33.8
bbc.co.uk unique users (UK only)	22.8	n/a
Claimed usage (survey based)		
bbc.co.uk ²	10.6	8.9
BBCi (interactive television – 24/7) ³	6.1	5.3
Combined bbc.co.uk and BBCi (24/7)⁴	14.5	13.2
BBCi (interactive television – enhanced TV programmes)⁵		
	3.5	2.2

¹Source: BBC server logs, based on cookie data

²Source: BMRB Access, Monthly Omnibus Survey, GB adults age 15+

³Digital satellite performance only of BBCi 24/7 'always on' digital text services (no reliable figures available for other platforms). Source: TNS/Interactive TV tracking study, GB adults age 16+ in digital satellite homes

⁴This total counts an individual once for using BBC services on both the internet and interactive television (digital satellite usage only, no reliable figures are available for other platforms)

⁵Digital satellite performance only of BBCi interactive-enhanced TV programmes (eg Olympics, Chelsea Flower Show). Please note the number and size of services available each month fluctuates and therefore so does the number of viewers interacting. Source: BARB, viewers age 4+ in digital satellite homes

Table 17: Cost per hour of BBC-originated programmes

	2004/2005 £000	2003/2004 £000
Television channels		
BBC One	174.4	155.6
BBC Two	97.7	100.2
BBC Three	157.5	124.1
BBC Four	62.6	56.4
The CBBC Channel	42.2	37.7
CBeebies	63.3	60.5
BBC News 24	5.3	5.6
BBC Parliament	0.5	0.5
Radio stations		
BBC Radio 1	3.1	3.1
BBC Radio 2	3.9	3.6
BBC Radio 3	4.3	4.2
BBC Radio 4	11.4	11.5
BBC Radio Five Live	7.3	7.0
BBC Five Live Sports Extra	1.6	1.5
1Xtra	0.7	0.6
BBC 6 Music	0.5	0.5
BBC 7	3.8	4.4
BBC Asian Network	0.8	0.7
Nations and Regions		
Television (BBC One/BBC Two/ BBC Three/BBC Four)	31.2	31.9
Radio (Local radio/Nations radio)	0.6	0.6

Table 18: Cost per hour of BBC-originated programmes by genre

	2004/2005 £000	2003/2004 £000
Analogue television programmes		
Factual and learning	110.6	110.9
Education for children	93.0	83.1
News and weather	42.8	40.6
Current affairs	116.8	117.6
Entertainment	196.1	200.6
Sport	199.8	162.4
Children's	93.3	81.6
Drama	505.4	518.3
Music and arts	151.0	145.6
Film	280.3	280.0
Religion	108.3	106.6
Digital television programmes		
Factual and learning	132.8	127.3
News and weather	4.0	4.5
Current affairs	123.6	96.9
Entertainment	190.8	171.9
Sport	73.9	16.0
Children's	44.3	40.4
Drama	582.8	316.3
Music and arts	74.6	70.1
Religion	102.1	154.9

Broadcasting facts and figures

Table 19: BBC spend outside London

	2004/2005 £m	2003/2004 £m
Cost of television originations in the nations and regions		
England	270	274
Northern Ireland	41	46
Scotland	114	106
Wales	59	50
	484	476
Cost of radio originations in the nations and regions		
England – local radio	129	121
Northern Ireland	16	14
Scotland	27	25
Wales	23	22
	195	182
Other programme costs incurred outside London	51	57
Other costs, including transmission	125	116
Total spend in the nations and regions	855	831

	2004/2005 £m	2003/2004 £m
Included within television originations is network spend of	291	277
Included within radio originations is network spend of	49	45

Table 20: Creative spend outside the BBC

	2004/2005 £m	2003/2004 £m
Independent programme productions transmitted	328	323
External programme facilities and resources	245	252
Acquired programmes transmitted	84	90
Artists, contributors and copyright	305	290
Performing groups	28	27
	990	982

Table 21: Top ten external producers for BBC Television by spend

- 1 Tiger Aspect Productions
- 2 Endemol UK
- 3 Hat Trick Productions
- 4 Kudos Film and Television
- 5 Wall to Wall
- 6 Talkback Thames
- 7 Ecosse Films
- 8 Baby Cow Productions
- 9 Brighter Pictures
- 10 12 Yard Productions

Notes: Activity with external producers is monitored on a calendar year basis in line with Ofcom requirements
The BBC spent £329million on external programme production in the year ended 31 December 2004 (2003 £308million)

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BBC Birmingham
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(operational when programme is on air)
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2A Southwark Bridge Road
London SE1 9HA
Telephone: 0845 456 3000
Fax: 020 7981 3333
Email: contact@ofcom.org.uk
Website: www.ofcom.org.uk

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BBC Broadcasting Council for Scotland
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BBC Broadcasting House
Queen Margaret Drive
Glasgow G12 8DG

The Secretary
BBC Broadcasting Council for Wales
BBC Broadcasting House
Llandaff
Cardiff CF5 2YQ

The Secretary
BBC Broadcasting Council for Northern Ireland
BBC Broadcasting House
Ormeau Avenue
Belfast BT2 8HQ

The Secretary
BBC English Regions
BBC Birmingham
The Mailbox
Birmingham B1 1RF

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BBC Governance Unit
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London W1U 4AA

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or radio.ticket.unit@bbc.co.uk
Website: bbc.co.uk/tickets

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