

# Compliance

The Governors have clear responsibilities under the BBC's Charter to ensure that the BBC behaves responsibly and follows all applicable regulations and codes of practice. They must satisfy themselves that the BBC complies with all legal obligations, has an appropriate management structure, maintains sensible controls to protect its assets, and adheres to its own guidelines and codes of practice.

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

<b>1 Fair trading</b>	<b>60</b>
<b>2 Financial statements</b>	<b>62</b>
<b>3 Risk and control processes</b>	<b>63</b>
<b>4 Governors' remuneration report</b>	<b>66</b>
<b>5 Programmes from independent producers</b>	<b>69</b>
<b>6 Other rules</b>	<b>69</b>

## 1 Fair trading

### Governors' statement on fair trading

#### Commercial activities and fair trading

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

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

#### Fair trading compliance procedures

The BBC's fair trading obligations are embodied in its Fair Trading Commitment, compliance with which is scrutinised throughout the year by a standing committee of the Board of Governors, the Fair Trading Compliance Committee (FTCC).

The recently published BBC document *BBC Governance in the Ofcom Age* included the following commitment:

"The Governors' key responsibilities for monitoring regulatory compliance – on fair trading and on programme standards – will be fulfilled more independently than at present. Advice to the Governors by external auditors on fair trading compliance matters will be contracted directly by the Governors".

The new arrangements bring greater clarity to fair trading compliance responsibilities: BBC management is responsible for day-to-day compliance and Governors – through the FTCC – are responsible for monitoring how effectively management is operating in these areas.

The Committee is advised directly by independent auditors and by the BBC's Head of Fair Trading and Head of Internal Audit, if necessary, without the mediation of BBC management. All subsidiaries and commercial operations report to the Committee on their activities, and all staff with commercial responsibilities are required by the Committee to be trained in the BBC's fair trading policies.

60 The management of the BBC's fair trading arrangements is regularly tested by the British Standards Institute and those arrangements have been accredited with the ISO 9000:2001 quality standard.

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

#### Fair trading complaints

Among the responsibilities of the Head of Fair Trading is to advise the FTCC and the Executive Committee on any fair trading complaints which have been laid against the BBC. He may be contacted at BBC, Broadcasting House, London, W1A 1AA. The FTCC publishes a quarterly bulletin of any allegations of breaches of the Fair Trading Commitment.

#### Events of the year

##### External challenges

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

- Bob Burrows, a media consultant, wrote to the BBC's Director-General alleging that BBC Wales was unfairly refusing to supply production facilities to independent producers. The BBC explained in detail to Mr Burrows that there was no refusal to supply facilities for use by independent producers. Due to restructuring, BBC Wales, at the time of the enquiry by the independent producer, was not in a position to identify whether the requested facilities would be available for commercial use.
- The British Internet Publishers' Association (BIPA) has written to the BBC Chairman alleging a number of unfair trading practices by BBCi, the BBC's online service. A letter of response has been sent to BIPA defending the activities of BBCi.
- Intelfax, a commercial provider of access services (eg subtitling), sent a letter to the BBC expressing concern about how BBC Broadcast Limited will trade fairly in

the commercial marketplace. The BBC responded that incorporation works to create operational and financial separation of commercial and licence-fee-funded activities, ensuring that BBC Broadcast Limited receives no cross-subsidy or other unfair advantage from the licence-fee-funded BBC. Moreover, the BBC's *Commercial Policy Guidelines* require that BBC Broadcast Limited earns a rate of return on its business commensurate with market practice.

- IPC Media wrote to the BBC Chairman complaining that two trails for BBC Worldwide Limited magazines had been transmitted without the appropriate disclaimer, namely that other magazines are available. The BBC responded thanking IPC for bringing the issue to its attention and explaining that the two examples of inappropriate trailing were a result of a failure in the BBC's automated processes. In future, manual checks on the computer process by senior editorial staff will be introduced to ensure that only appropriate slides are broadcast.
- RM plc, a major provider of electronic educational resources to schools in the United Kingdom, has issued a legal challenge to the BBC alleging illegal use of state aid and that the BBC is acting ultra vires its Charter and Agreement in relation to the BBC's proposal to introduce a new digital curriculum service. The BBC is defending the action.

Some complaints were unresolved at the time of last year's *Report*. There follows an update as to how these have been resolved (where there have been further developments during the year):

- Following an investigation by the OFT, under the Competition Act 1998, the OFT rejected ITN's complaint which alleged that a number of carriage agreements for BBCi (News) with third party portals were in breach of the Competition Act.
- Independent record producer Robin Millar originally wrote to the Controller, Fair Trading, on 3 December 2000, alleging that several BBC Radio 1 disc-jockeys in the dance music genre discriminate unfairly in favour of artists in whom they have a financial interest. An investigation by the BBC did not produce any evidence of unfair trading. Mr Millar has agreed to supply the BBC's Head of Fair Trading with any evidence that he does obtain and the Head of Fair Trading has committed to undertake an investigation on receipt of information.

All external challenges are reported in the BBC's *Fair Trading Bulletin* which is available from the Head of Fair Trading at BBC, Broadcasting House, London, W1A 1AA or online at [www.bbc.co.uk/info](http://www.bbc.co.uk/info).

#### **BBC Broadcast Limited incorporation**

To enable the BBC to engage more actively in the commercial supply of broadcasting and presentation services while maintaining compliance with the Commitment and the law,

an arm's length commercial subsidiary was established. BBC Broadcast Limited received approval from the Secretary of State on 22 January 2002 and formally began trading on 2 April 2002.

#### **Competition Act 1998**

As expected, the Competition Act has seen an increase in the number of complaints of anti-competitive behaviour investigated by the OFT. No successful challenges have been brought against the BBC under this legislation.

#### **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**

We have audited, in our role as the BBC's Fair Trading Auditors, the framework of systems, procedures and 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 2002.

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

#### **Respective responsibilities of Governors, management and auditors**

The Governors are responsible for ensuring that the BBC meets all the requirements of competition law and trades fairly. They have established its Fair Trading Commitment, determine the objectives of the systems, procedures and internal controls designed to ensure compliance with this Commitment and monitor the outcomes of those systems, procedures and internal controls. They are also responsible for preparing the Governors' statement on fair trading compliance as included in the BBC's *Annual Report*, which includes on pages 60 and 61 a statement on fair trading.

The BBC's management is charged by the Governors with operating the systems, procedures and 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, systems, procedures and internal controls which provide reasonable assurance that it has complied with its Fair Trading Commitment during the year. We have also reviewed whether the Governors' statement on fair trading reflects our findings of the BBC's compliance with that Commitment, and we report if it does not.

### ***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 appropriate systems, procedures and internal controls were in place. We also reviewed the processing of a sample of material transactions to provide us with reasonable assurance that the systems, procedures and 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 framework of systems, procedures and 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 systems, procedures and internal controls have been followed and decisions have been taken with the greatest care.

### ***Opinion***

In our opinion the BBC has established and has applied systems, procedures and internal controls which provide reasonable assurance that it has complied with its Fair Trading Commitment for the year ended 31 March 2002.

**PricewaterhouseCoopers**  
Chartered Accountants

London  
20 June 2002

### **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 and subsidiaries of the BBC (the supplier divisions).

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 the supplier divisions, 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 the BBC World Service, specifying:

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

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

KPMG (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 BBC supplier divisions. KPMG have reported to the Governors that, in their opinion, the information contained in the summary of transactions for the year ended 31 March 2002 has been properly extracted from the books and records of the supplier divisions and has been properly prepared on the basis of cost allocation and apportionment methods set out in the agreements between BBC World Service and the supplier divisions and that, on this basis, there has been no material cross-subsidy between Grant-in-Aid and licence fee funds.

### **Governors' statement on BBC World Service Trading Protocols**

Following regular reports to the Fair Trading Compliance Committee 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

## **2 Financial statements**

### **Statement of Board of Governors and Executive Committee responsibilities for the preparation of the financial statements**

The Governors and Executive Committee are required by the BBC's Charter and Agreement to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the BBC and of its income and expenditure

for that period. In preparing those financial statements, the Governors and Executive Committee are required to:

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

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

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

We have audited the financial statements on pages 72 to 107.

#### ***Respective responsibilities of the Governors and Executive Committee and Auditors***

The Governors and Executive Committee are responsible for preparing the *BBC Annual Report*, including, as described earlier on pages 62 and 63, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the financial information on page 10 is not consistent with the financial statements, if 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 Committee remuneration and transactions with the BBC is not disclosed.

We read the other information contained in the *BBC Annual Report*, including the corporate governance statement, 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.

In addition to our audit of the financial statements, the Governors and Executive Committee have instructed 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 63 to 66 reflects the BBC's compliance with the seven provisions of the Combined Code specified for audit review by those rules and we report if it does not. We are not required to form an opinion on the effectiveness of the BBC's corporate governance procedures or its internal controls.

#### ***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. It also includes an assessment of the significant estimates and judgements made by the Governors and Executive Committee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the BBC's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

#### ***Opinion***

In our opinion the financial statements give a true and fair view of the state of affairs of the Home Services and the BBC at 31 March 2002 and of the deficit of the BBC for the year then ended and have been properly prepared in accordance with the provisions of the BBC's Charter and Agreement and the provisions of the Companies Act 1985 as if those provisions had applied to these financial statements.

#### **KPMG**

Chartered Accountants  
Registered Auditors

London  
20 June 2002

### **3 Risk and control processes**

The Governors are appointed as trustees for the public interest to ensure that the BBC is properly accountable to Parliament, licence payers and to viewers and listeners. Part of this role requires us to satisfy ourselves that the BBC is applying the highest standards of corporate governance.

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

The *Combined Code*, issued by the London Stock Exchange in June 1998, sets out principles of good governance. The BBC voluntarily complies with the *Combined Code* to the extent it is applicable. The requirements of the *Combined Code* apply to the BBC with two exceptions. Firstly, those requirements relating to the appointment of non-executive directors are inapplicable as the Governors are appointed by the Queen in Council and their remuneration is set by the Secretary of State for Culture, Media and Sport. Secondly, those requirements relating to shareholders can only be applied to the licence-paying public, rather than shareholders, through the stewardship of the Governors.

How the BBC has applied the remuneration principles is covered separately within the remuneration report on pages 66 to 69.

### **Board structure**

The Governors are the members of the Corporation. They act as trustees for the public interest while the Executive Committee takes responsibility for day-to-day operations. Details of the Board of Governors and Executive Committee are summarised on pages 4 to 5 and 8 to 9. A register of interests for both the Governors and Executive Committee is maintained and may be inspected by written application to the Secretary of the BBC.

The Board of Governors refers some matters to sub-committees. The main responsibilities of these sub-committees are explained elsewhere in this *Annual Report* as follows:

- Governors' Programme Complaints Committee (page 46)
- Governors' Fair Trading Compliance Committee (page 60)
- Governors' Audit Committee (page 65)
- Governors' Commercial Committee (page 65)
- Governors' Remuneration Committee (page 66)

During the year the Chairman of the Governors conducted a review of the governance arrangements of the BBC. As a result the distinction between the roles and responsibilities of the Governors and the Executive Committee has been clarified and enhanced. In particular, the Governance & Accountability department now provides greater support to the Governors.

### **Relationship with Parliament and licence holders**

The BBC lays its *Annual Report and Accounts* before Parliament. Governors or BBC Executives may be, and frequently are, called before Parliamentary Select Committees to answer MPs' questions about the BBC's activities and plans.

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

The BBC World Service is funded by Grant-in-Aid and is accountable to Parliament through the Foreign and

Commonwealth Office (FCO). Although it is editorially independent, its aims and priorities are agreed with the FCO.

The BBC seeks to keep the public informed about its services and the way in which it operates, and to be candid about both successes and failures. The BBC will withhold information only where there is a genuine matter of copyright or contractual or commercial confidentiality at stake, or where legitimate considerations of privacy apply. Information is made available and audience views obtained in a variety of ways, many of which are discussed elsewhere in this *Annual Report*. These include the *Statements of Programme Policy*, internet services, public events and many publications.

### **Accountability and internal control**

#### ***Financial reporting and going concern***

The respective responsibilities of the Governors and Executive Committee and the external auditors are set out on page 63.

A summary of the financial review of the BBC is included on pages 70 and 71. This, together with the Director-General's review on pages 6 and 7, 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 Governors and Executive Committee believe that the BBC has adequate resources to continue its operations for the foreseeable future.

#### ***Internal control***

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

The Governors and Executive Committee consider that there is an ongoing process for identifying, evaluating and managing significant risks faced by the BBC. The process has continued to evolve during the year ended 31 March 2002 and up to the date of approval of this report and accounts. It has been reviewed by the Governors and Executive Committee and accords with the guidance set out in the ICAEW's guidance for directors, *Internal control: Guidance for directors on the Combined Code*.

While an established system of risk management and control, including procedures to monitor and evaluate key risks, has been in existence throughout the year, further steps are to be taken to embed risk management more fully throughout the BBC and reflect recent internal reorganisations and the expansion in the BBC's services.

The key control procedures operating during the year are described under the following headings:

- *risk management*

The BBC's top risks and associated action plans have been reviewed during the year. The Director of each division had a clear responsibility for the identification and management of risks facing their business. Divisional management have made progress in their review of risks associated with the achievement of each division's objectives. Consideration of these risks includes a review in each division of the impact of the BBC's top risks. The risks identified and the actions planned in response are maintained in a risk register in each division which is verified by BBC Internal Audit. Reports on the management of the key risks are considered by the Executive Committee and by the Audit Committee.

- *monitoring of controls*

BBC Internal Audit undertakes regular testing of control systems and compliance with core business processes under a plan agreed with the Audit Committee. This programme of testing, which is updated three times each year, is based on a continuing assessment of key risks. The results of testing are reported to the Audit Committee, which monitors the operation of the BBC's controls throughout the year.

- *divisional controls*

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

- *computer systems*

The BBC has established controls and procedures over the security of data held on computer systems. Arrangements are in place for computer processing to continue and data to be retained in the event of the failure of the BBC's own data processing facility.

- *controls over outsourced transaction processing*

The majority of the BBC's finance transaction processing (excluding BBC Worldwide Limited) is outsourced to a service company, Media Accounting Services Limited (Medas), which is independent of the BBC. The Director of Finance, Property & Business Affairs has established monitoring procedures to review the performance of Medas on a regular basis. These include regular review by BBC Internal Audit in a programme of work informed by a continuing assessment of key risks and issues.

- *whistle-blowing*

The BBC has put in place a 'whistle-blowing' policy. The policy facilitates the anonymous communication to the BBC of any

incident in which there is a suspicion that there has been wrongdoing. The process is administered by an independent external company to ensure anonymity. Each reported incident is investigated, a response communicated and action taken as appropriate.

- *financial reporting*

The BBC has a comprehensive system for reporting financial results (and business performance). In April 2001 the introduction of new financial and business processes using SAP software was successfully completed. During the year each division prepared monthly reports and accounts. These results were reviewed locally and the consolidated results of the BBC were reviewed by the Executive Committee and Board of Governors each month.

Each financial year the divisions update their five-year plans and prepare detailed budgets for the following financial year. The annual budget of each division is reviewed by the Director of Finance, Property & Business Affairs. The overall budget is approved by the Director-General, the Executive Committee and the Board of Governors.

#### ***Governors' Audit Committee***

The Audit Committee meets four times each year and is charged with reviewing the effectiveness of internal control; approving and monitoring the BBC Internal Audit work plan; considering issues arising from Internal Audit work; reviewing management's response to internal control issues; approving the external audit fee; considering the external audit strategy and plans; reviewing the external auditors' reports, and reviewing and approving the financial statements.

The Audit Committee regularly reviews the independence of its external auditors, currently KPMG. The Committee holds discussions with the external auditors without management being present. The Committee reviews the nature and level of non-audit fees paid to KPMG. Any significant consulting work is put out to competitive tender. Recruitment from KPMG into any senior management position requires the prior approval of a member of the Audit Committee. The Committee also considers, with management, the performance of the external auditors each year and provides feedback to senior members of KPMG unrelated to the audit.

#### ***Governors' Commercial Committee***

This committee monitors the performance of the BBC's commercial subsidiaries. The Governors aim to ensure that the BBC maximises the opportunities to earn additional income for re-investment in public services, but without using licence fee income to support commercial operations and without putting the licence fee at risk.

### 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 incidents, updating controls where considered appropriate.

### Broadcast & Business Continuity

On Saturday 30 June 2001 the uninterruptable power supply in Television Centre failed. This resulted in the total loss of BBC television programmes for over 20 minutes during peaktime viewing. The report to the Board of Governors on this incident highlighted the need for improved co-ordination across the broadcast delivery chain to achieve clarity of ownership, consistent standards and performance monitoring. In July 2001 the Director-General appointed a Director of Broadcast Continuity to review the current broadcast infrastructure, and the processes associated with the delivery of broadcast content to licence payers. Since then, the Broadcast & Business Continuity team has worked with the relevant BBC divisions to deliver a number of projects aimed at improving the BBC's broadcast resilience, including:

- ensuring that in the event of a major disruption, from June 2002, the BBC is able to restore its scheduled analogue television services within ten minutes, and maintain its recorded scheduled output for 48 hours
- from January 2003, providing improved resilience for the BBC's digital services

A key objective for 2002/2003 is to ensure the BBC adopts an agreed target for the level of service delivery to its audiences. This would not only be an important measure of broadcast continuity performance but would provide a basis for future continuity planning and investment decisions.

In common with other organisations, the events of 11 September led the BBC to review its arrangements for dealing with unplanned contingencies. As a result, Broadcast Continuity's remit was extended to encompass wider, business continuity issues, and the security of the BBC's people and assets. We have initiated a two-year programme of improvements to fire precautions, glass protection and electronic security at broadcast critical sites. In addition, contingency plans and their rehearsal are being given particular priority with the appointment during 2002 of a Head of Contingency Planning & Disaster Recovery to co-ordinate this activity across the organisation.

### Alleged fraud

During the year an allegation of fraud was made against an agency sourcing the supply of goods to BBC Worldwide Limited. The supplier is based in Hong Kong, where criminal charges have been brought against directors of the agency and against a former director of BBC Worldwide Limited who is also charged with conspiracy in the alleged fraud. The potential

loss to BBC Worldwide Limited is less than £1million and action is being taken to recover possible losses pending judgement.

### Statement of compliance with the *Combined Code of Best Practice*

The BBC has complied throughout the year ended 31 March 2002 with the specific provisions in Section 1 of the *Combined Code* with the exception of those provisions relating to non-executive directors and shareholder requirements which, as discussed earlier, are not applicable to the BBC.

## 4 Governors' remuneration report

During 2001, the Governors approved the establishment of a sub-committee of the Board to act as a Remuneration Committee. This committee exists to deal with all matters relating to the remuneration of members of the Executive Committee and is accountable to the Board of Governors for the:

- determination and maintenance of overall remuneration policy
- review and agreement of Executive Committee basic salaries, bonus awards and benefits, including pension arrangements

The Committee has no input into the remuneration of its own members.

This report explains the remuneration policy of the BBC for both Governors and Executive Committee members and provides details of their remuneration. In preparing this report the BBC has complied with all the applicable provisions of the *Combined Code*.

### 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 68. The increase in annual remuneration notified for 2001/2002 was 2.7% for the Vice-Chairman and 3.6% for the Chairman and other Governors (2000/2001 2.9% for the Vice-Chairman, and 3.6% for the Chairman and other Governors).

### Executive Committee: remuneration policy

The Committee considers the performance of the Executive Committee members before recommending their annual remuneration and bonus awards. The BBC's Director of Human Resources & Internal Communications provides technical support to the Board in this respect but has no input into decisions affecting his own remuneration.

The Governors aim to ensure that the packages offered to

Executive Committee members:

- enable the BBC to attract, retain and motivate high-calibre executives
- are positioned at the median against a comparator group (which includes other broadcasting organisations, major listed companies and central government agencies) in terms of total cash (basic salary plus annual bonus payment, if any)
- 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 the salary policy within the rest of the BBC and the relationship that should exist between the remuneration of Executive Committee members and that of other employees

In determining appropriate levels, the Remuneration Committee has access to internal expertise in the remuneration area, annual surveys conducted by external consulting firms and published remuneration information on comparable companies. The remuneration arrangements for Executive Committee members include the following components:

#### **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.

#### **Annual bonus**

The Director-General and other members of the Executive Committee participate in a performance-based annual bonus scheme under which payments may be awarded of up to 30% of basic salary. The actual level of payment to individuals is determined following a review of performance against a mixture of qualitative and quantitative objectives set at the beginning of the financial year. The achievement of divisional objectives accounts for up to 50% of the bonus, achievement of Executive Committee objectives for up to 20% of the bonus, and there is a discretionary element for individual/operational performance of up to 30% of the bonus.

For the year under review the targets related primarily to objectives which were set by the Governors and published in last year's *Annual Report*.

Bonuses are reflected in the financial statements on an accruals basis for the performance period under review. Actual payments are made in July each year.

A long-term incentive plan is in place for the Chief Executive of BBC Worldwide Limited. This is based on the achievement of a specific cash flow target over a three-year period at the end of which a payment of up to 20% of salary could be made. The Governors have also approved the establishment of a comparable plan to be put in place for the Chief Executive

of the BBC's other commercial subsidiaries based on achievement of those companies' performance targets.

#### **Benefits**

In the past, members of the Executive Committee were eligible for a chauffeur-driven car for business use in addition to a company car and fuel for private use. With the exception of the post of Director of Nations & Regions, new appointees to the Executive Committee are only eligible for a company car and fuel for private use. The Director-General is eligible for a chauffeur-driven car but has no additional entitlement to a company car and fuel for private use. Executive Committee members are also eligible for medical insurance covering the executive and family and, where there is a business need, digital reception equipment.

#### **Pensions**

All members of the Executive Committee are eligible to participate in the BBC Pension Scheme, which provides salary-related pension benefits on a defined benefit basis, with an accrual rate of 1/60th of the final salary per year of service, subject to the Inland Revenue earnings cap where applicable. Only basic salary is pensionable. The Scheme provides for early retirement on medical grounds and life insurance cover of four times salary.

A variety of special arrangements have been made for those individuals who have joined the BBC late in their careers whose earnings exceed Inland Revenue limits, including funded and unfunded arrangements outside the BBC Pension Scheme.

#### **Service contracts**

Service contracts for members of the Executive Committee have been individually determined. All Executive Committee members have continuing or fixed-term contracts with a maximum of one year's notice of termination by the BBC or the individual executive.

#### **Outside interests**

With the agreement of the Board of Governors, members of the Executive Committee may hold external directorships. It is likely that not more than two external directorships of any sort (of which only one should be in a commercial organisation) may be held at the same time. Governors assess such requests against rigorous criteria to ensure that conflicts of interest do not arise. Remuneration which arises from directorships agreed since the introduction of this policy, or subsequent to appointment, is paid to the BBC.

#### **Remuneration received**

The remuneration of Governors or Executive Committee members appointed or leaving during the year is included in respect of their period of membership only. The fees relating to Sir Robert Smith are paid direct to Deutsche Bank which releases him for the required time to the BBC.

Governors	Fees £000	Benefits £000	2002 £000	2001 £000
Gavyn Davies (Chairman)	52	14	<b>66</b>	6*
Sir Richard Eyre	15	2	<b>17</b>	16
Dermot Gleeson	15	7	<b>22</b>	10*
Baroness Hogg	15	2	<b>17</b>	16
Roger Jones	26	4	<b>30</b>	30
Professor Fabian Monds	26	6	<b>32</b>	30
Dame Pauline Neville-Jones	18	11	<b>29</b>	18
Rt Hon The Lord Ryder (Vice-Chairman) (apptd 1.1.2002)	7	–	<b>7</b>	–
Sir Robert Smith	26	6	<b>32</b>	26
Ranjit Sondhi	20	2	<b>22</b>	21
Sir Anthony Young	15	3	<b>18</b>	17
Sir Christopher Bland (Chairman) (retd 30.9.2001)	39	2	<b>41</b>	89
Heather Rabbatts (retd 20.12.2001)	11	3	<b>14</b>	16
	<b>285</b>	<b>62</b>	<b>347</b>	<b>295</b>

\*Appointed part-way through 2000/2001.

Executive Committee	Salary £000	Annual bonus £000	Benefits £000	Total 2002 £000	Total 2001 £000
Greg Dyke	357	97	15	<b>469</b>	454
Jenny Abramsky	205	54	14	<b>273</b>	258
Glenwyn Benson	179	40	7	<b>226</b>	15*
Mark Byford	211	69	14	<b>294</b>	280
Stephen Dando (apptd 11.6.2001)	173	48	1	<b>222</b>	–
Andy Duncan (apptd 11.6.2001)	181	45	9	<b>235</b>	–
Carolyn Fairbairn	187	48	13	<b>248</b>	212*
Roger Flynn (apptd 1.6.2001)	188	45	10	<b>243</b>	–
Rupert Gavin	270	50	19	<b>339</b>	355
Ashley Highfield	222	59	13	<b>294</b>	156*
Pat Loughrey	182	46	31	<b>259</b>	195*
Peter Salmon	199	48	26	<b>273</b>	105*
Richard Sambrook	204	47	9	<b>260</b>	10*
John Smith	219	66	26	<b>311</b>	304
Michael Stevenson	179	36	18	<b>233</b>	218
Caroline Thomson	173	39	14	<b>226</b>	144*
Alan Yentob	221	58	23	<b>302</b>	290
Gareth Jones (resgd 10.6.2001)	38	–	4	<b>42</b>	264
Philip Langsdale (resgd 1.4.2001)	–	–	–	<b>–</b>	237
Margaret Salmon (resgd 30.4.2001)	189**	–	4	<b>193</b>	263
Mark Thompson (resgd 12.12.2001)	153	–	11	<b>164</b>	272
	<b>3,930</b>	<b>895</b>	<b>281</b>	<b>5,106</b>	<b>4,032</b>

\*Appointed part-way through 2000/2001.

\*\*£163,000 of Margaret Salmon's salary was a payment in lieu of notice in line with her contractual entitlement.

### Chairman and Executive Committee pensions

The BBC provided pension benefits to Governors and Executive Committee members during the period as follows:

	Increase in accrued pension per annum a £000	Total accrued pension at 31 March 2002 per annum b £000	Transfer value of increase c,d £000	Individual's contri- butions e £000	BBC contri- butions to money purchase scheme f £000
Sir Christopher Bland	1	7	12	2	–
<b>Executive Committee</b>					
Greg Dyke	2	4	25	4	52
Jenny Abramsky	6	118	109	12	–
Glenwyn Benson	4	21	67	12	17
Mark Byford	8	75	99	10	–
Stephen Dando	1	1	10	3	37
Andy Duncan	1	1	10	3	21
Carolyn Fairbairn	2	8	15	4	18
Roger Flynn	1	1	10	4	22
Rupert Gavin	2	6	19	4	35
Ashley Highfield	2	2	11	4	34
Pat Loughrey	9	76	111	10	–
Peter Salmon	5	22	67	4	21
Richard Sambrook	25	79	321	13	–
John Smith	7	78	83	15	–
Michael Stevenson	2	12	19	4	18
Caroline Thomson	3	42	35	5	16
Alan Yentob	11	99	211	14	–
Gareth Jones	–	29	4	1	5
Philip Langsdale	–	2	–	–	–
Margaret Salmon	2	76	142	4	–
Mark Thompson	6	70	73	11	–

Gavyn Davies has waived his entitlement to pension benefits from the BBC.

No additional voluntary contributions are included above.

The total accrued pension at 31 March 2001 for Sir Christopher Bland was £6,000. An amount of £20,000 was provided to meet the BBC's pension contributions in 2000/2001 and 2001/2002 under the Charter to former Chairmen and their surviving spouses.

The total accrued pension at 31 March 2001 for Greg Dyke was £2,000. The BBC contribution to money purchase schemes for the year ended 31 March 2001 was £51,000 for Greg Dyke and £158,000 for the other Executive Committee members in aggregate.

The total accrued pensions for Sir Christopher Bland, Gareth Jones, Philip Langsdale and Mark Thompson have been calculated as at 30 September 2001, 10 June 2001, 1 April 2001 and 12 December 2001 respectively being the dates they resigned as directors. The total accrued pension for Margaret

Salmon has been calculated at her date of retirement which was 30 June 2001 rather than the date she resigned as a director (30 April 2001).

#### Notes to pension benefits

- a) The increase in accrued pension during the year excludes any increase for inflation.
- b) The pension entitlement shown is that which would be paid annually based on service to the end of the year.
- c) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- d) The transfer value represents the cost to the pension scheme of the increase in annual pensions but not a sum paid or due to the individual and therefore cannot be meaningfully added to remuneration.
- e) These are contributions made by the Chairman and Executive Committee members to the defined benefits scheme during the 2001/2002 financial year.
- f) This is the actual BBC contribution to a separate money purchase (defined contribution) pension scheme.

## 5 Programmes from independent producers

### UK programme quotas

Under the Broadcasting Act 1990 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. The Director-General of the Office of Fair Trading (OFT) is required to report to the Secretary of State periodically on the extent to which the BBC has, in his opinion, performed that duty. His report for the period 1 April 2000 to 31 March 2001 has not yet been published but current indications are that while the BBC has achieved a satisfactory range and diversity of independent productions, it will just miss the 25% target for independent production.

Recent takeovers by broadcasters of major independent producers has had the effect of removing their status as independents for the purpose of UK legislation and makes it increasingly difficult for the BBC and other broadcasters to meet this quota. If such production companies had been counted towards the 2000/2001 total, the BBC would have met its target. The DCMS has acknowledged this issue and has undertaken to amend the relevant secondary legislation to reinstate companies such as Endemol, which are significant suppliers to the BBC but which had their status changed following a takeover by a foreign broadcaster.

### EU programme quotas in the calendar year 2001

European Community legislation requires Member States to ensure that broadcasters reserve for European works a majority proportion of their television transmission time excluding the time devoted to news, sports events, games, adverts, teletext services and teleshopping. The legislation also requires broadcasters to reserve at least 10% of their transmission time for European works (excluding works of the kind described above) made by independent producers.

The BBC exceeded EU quotas in the calendar year 2001. Of the relevant BBC One and BBC Two output, 79% was of European origin (72% in 2000) and 11% was made by European independent producers (17% in 2000). Of the

relevant output of all BBC channels (including BBC Choice, BBC Knowledge – now BBC Four – and BBC News 24), 88% was of European origin and 20% was made by European independent producers. The figures for 2000 were 88% and 15% respectively.

## 6 Other rules

### On-air trails

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 OFT to use only still trails to give information about BBC magazines.

The terms of the undertaking also commit the BBC not to exceed more than seven minutes as an aggregate across a seven-day period in relation to on-air promotions of BBC magazines. During the period 1 April 2001 to 31 March 2002 the total for all BBC magazines (including *Radio Times*) was 2 hours, 25 minutes and 30 seconds of transmission (2000/2001 1 hour, 39 minutes), which averages out at 2 minutes, 45 seconds in a seven-day period (2000/2001 1 minute, 54 seconds). The restriction only applies to BBC magazines. The BBC, however, voluntarily applies the spirit of the undertaking to all BBC Worldwide Limited products. During 2001/2002 the weekly total for all BBC Worldwide Limited products has averaged 5 minutes, 1.9 seconds (2000/2001 4 minutes, 11 seconds), well within the seven-minute restriction.

### European Channel Broadcasting Limited

Under DCMS approval for BBC Worldwide Limited dated 23 February 2001 (replacing earlier approvals) it is a requirement that arm's length trading relationships be maintained between the Corporation on the one hand and BBC Worldwide Limited, and the two companies responsible for the BBC World and BBC Prime Channels in Europe on the other. The BBC's Fair Trading Policy was applied and arm's length relationships were maintained throughout the year.

On 7 October 1999, the ITC granted satellite services licences to European Channel Broadcasting Limited in respect of BBC World and BBC Prime for a period of ten years from 10 October 1999. In addition to compliance with the relevant ITC codes, the BBC-made programmes shown on the channels are produced in accordance with the *BBC Producers' Guidelines*.

### Donations and acknowledgements

The BBC does not make political donations. In addition to broadcast appeals detailed on page 49, donations to charities by BBC Worldwide Limited amounted to approximately £8,500 during the year (2001 £19,000), including £3,000 to the Diana, Princess of Wales Memorial Fund.

The BBC acknowledges financial grants from the European Commission for various technical research projects.