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Annual Report and
Accounts 2005/2006



Purpose, vision and values

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

The BBC's 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



This is the last annual report from the BBC Board of Governors, which is to be replaced under the new draft Royal Charter by the BBC Trust. I would like to pay tribute to the work of all Governors over the last 80 years. The fact that the independence of the BBC endures is due in no small part to their robust stewardship – sometimes in the face of fierce onslaught from political and commercial vested interests.

The pressing need for modernisation of the BBC's governance arrangements was recognised by my predecessor as Chairman, Gavyn Davies, and the Board has been able to build on the work he and his fellow Governors began. This work will be completed by the Trust using the new tools at its disposal under the new Charter: Purpose Remits, Service Licences and Public Value Tests (for the details of these, see *The BBC now and in the future*, page 9).

At the heart of the new arrangements is an explicit recognition that the Trust exists to represent the interests of licence fee payers, not the narrow interests of the BBC as an institution. Although the new structures will not be in place until the new Charter takes effect, in January 2007, the present Board of Governors fully supports the changes and is already operating within the spirit of the new Charter.

As a result, the relationship between the Board and the Executive – those charged with the day-to-day running of the BBC – has begun to change. There is now real separation between the two bodies, enabling the Board to exercise independent oversight of the work of the Executive. This will intensify in the future as the Trust uses its new powers to ensure rigorous, independent and fully transparent scrutiny of the work of the Executive.

The main function of the Trust will be to ensure that licence fee payers' expectations of the BBC are fulfilled in terms of the quality and value for money of its services, and that the BBC remains focused on fulfilling its six public purposes as set out in the new draft Charter. In representing the interests of licence fee payers, the Trust will recognise that these interests go beyond their direct interest in the BBC. Licence fee payers do not exist solely on a media diet provided by the BBC. They value the choice of services provided by others, and the Trust will ensure that the BBC operates in a way that fully recognises this.

I have no doubt that the BBC Executive will sometimes be disappointed by the outcome of a Public Value Test – just as private sector interests will sometimes be disappointed. Our job as BBC Trustees will be to ensure that the widest interests of licence fee payers take precedence over either of those interests.

The White Paper published earlier this year after two years of public debate, research and evidence-gathering represents a vote of public confidence in the BBC. The new ten-year Charter and the maintenance of licence fee funding offer the BBC an enviable degree of stability in a fast-changing media landscape. The missing piece in the jigsaw is the licence fee settlement.

For the first time, the BBC has been completely open with the public about the licence fee bid. Its size was based on a fully costed business plan at the time of publication, reflecting the Government's plan for the BBC set out in last year's Green Paper. In the subsequent discussions with the Government, the BBC has made clear that its overriding concern is to be able to meet the needs and expectations of licence fee payers at the lowest possible cost. Achieving the highest possible settlement

should not be regarded as a badge of honour for those representing the licence fee payers on the Board of the BBC.

Much of our work as Governors this year has been focused on financial and organisational change in preparation for the new Charter. As a result I am confident that the BBC is in good shape structurally to begin the next stage of its development. The BBC will end the current Charter having met its commitment to achieve a broadly zero debt position. The self-help target of £3.3 billion imposed by the Government for the period of the current Charter has been exceeded. And the Director-General's own value-for-money savings target for 2005/2006 has also been exceeded, making more secure his overall target of achieving £355 million of ongoing gross annual savings by 2007/2008.

In this report we give an objective assessment of management performance during the year under review. Where more needs to be done we say so. But the general picture is encouraging. The overall reach of the BBC's television and radio services is broadly stable at 92.7%, and the reach of the BBC's online services continues to grow rapidly. In an increasingly competitive context, where audiences are presented with much increased choice, this is a real achievement. And the achievement is greater because it reflects no lessening of overall quality – indeed quite the contrary. The BBC can take justified pride in the growing high quality of its overall output this year – a judgement reflected in the many awards it has won.

This performance has been delivered against a background of understandable staff concern over the job reductions and changes in working practices flowing from the Director-General's value for money programme, which is designed to release

money to invest in more and better output. It has also been delivered in the context of the exhaustive – and sometimes exhausting – process of Charter Review.

This is not to say that the picture is completely positive. One issue repeatedly raised with us in our consultations with audiences around the UK this year is the problem of limited digital coverage. Those licence fee payers affected have expressed justified disquiet that while they contribute to the cost of the BBC's digital output they are unable to receive the services. We have encouraged management to speed up their plans – working with commercial partners – to develop a satellite equivalent of Freeview that would solve these problems.

I'm proud to be the last Chairman of Governors and to have been appointed as the first Chairman of the new Trust. At the heart of my vision for the BBC is the recognition that the survival of a licence-fee funded BBC depends not on economic theory or political dogma but on the ability of the BBC to retain the support of the overwhelming majority of the people of the UK through the content and services it offers.

These can take many forms as the BBC delivers its historic public service remit to inform, to educate and to entertain. But they must all share the aspiration to set new standards of quality, whatever the genre or distribution mechanism.

Earlier this year I took part in the memorial service for Ronnie Barker, whose long career with the BBC exemplifies what I mean. The list of his BBC hits is astonishing: *The Navy Lark*, *The Frost Report*, *The Two Ronnies*, *Porridge*, *Open All Hours* – these are among the greatest achievements of BBC comedy. Ronnie Barker was not just a brilliant comic actor, he was also an

exceptionally talented writer. He was a modest man, and even as an established star he would sometimes submit scripts to the BBC under an assumed name – he said he wanted to make sure they were accepted because of their quality, not because of who had written them. Ronnie Barker's contribution to the BBC proved beyond doubt that quality and popularity are not mutually exclusive. Maintaining support from licence fee payers over the ten years to come will depend on the BBC remembering that this is what distinguishes BBC output.



Michael Grade
Chairman
14 June 2006

Director-General's report



The BBC is living between two worlds: the world of traditional radio and television broadcasting and the dizzying new world of digital media. Our challenge is to strike the right balance of resources and creative energy between these two worlds and to set the right pace of change.

Move too quickly and we risk underserving the millions of licence fee payers who still rely on us first and foremost for outstanding television and radio. But move too slow and we may find ourselves falling behind and losing contact with some of our audiences altogether.

2005/2006 was a year in which the digital revolution shifted up another gear. Month after month, the BBC's website set new records for reach. Page impressions are now more than three billion a month. Live streaming, downloads, podcasts... the public seized on each new technology and each new trial – not for the sake of the technology itself, but as a new way of receiving outstanding BBC content.

On 7 July 2005, the story of London's agony and fortitude was told brilliantly across the BBC's services, from BBC London 94.9 and Radio Five Live to BBC News 24 and the *Ten O'Clock News*. But 7 July marked a new high-water mark both for bbc.co.uk as a whole and for rich audio-visual content – sound and pictures streamed live to users across the internet. Interestingly, what the public most wanted to access that day was not the BBC's own professional reports but shaky images of tube tunnels and a shattered bus captured on mobile phones.

The BBC's journalism used to be a largely one-way form of communication. Now eyewitnesses can uplink their testimony within seconds and bloggers can take any national or global debate far beyond the

radio or television studio. BBC News remains the most popular and trusted provider of news in the UK and – through BBC World Service, bbc.co.uk and BBC World – around the globe. Its reach now exceeds 250 million people every week. But technology and audience expectations are changing the rules of the game by the week.

That is why, despite the constant pressure of events – a General Election, the terrible earthquake in Pakistan, the ongoing drama in Iraq and more besides – many of our editors and journalists took time in 2005/2006 to think hard about what comes next for BBC News. Their conclusions formed part of what we called Creative Future, an attempt to scope the story of each of our major areas of content over the next five years or so.

Creative Future has plenty to say about technology and its creative impact: the need, for instance, for commissioners to think about projects across television, radio and the web, to explore user-generated content, to think about how on-demand should affect what we make and how we make it.

But it also reminded us that what counts most of all for audiences is creative ambition and integrity. Technology is the means: for the BBC, the end should always be the quality of the content itself.

There were plenty of programmes on BBC television this year which showed what we can achieve when we combine innovation with talent and conviction. *Bleak House* was a phenomenon, a Dickens adaptation with as much depth as any the BBC has ever made, but conceived as an edgy, contemporary-feeling serial earning its place in the midweek BBC One schedule next to

EastEnders, itself in the midst of a creative revival. And those were only two highlights in the strongest year for BBC television drama in more than a decade, which included *To The Ends of The Earth*, *Bodies*, *Life on Mars*, *ShakespeaRe-Told*, and *Dr Who* with a brilliant new Doctor.

Despite another heady series of *Little Britain*, BBC One comedy breakthroughs proved elusive, although across television there was a real sense of new talent and new ideas arriving on the scene: *The Catherine Tate Show*, *Extras*, BBC Scotland's *Still Game* and *The Thick Of It* stood out in a strong year on BBC Two, Three and Four. From Jonathan Ross to *Strictly Come Dancing*, entertainment remained potent on BBC One, while BBC Two's line-up of panel shows such as *QI* and factual entertainment formats such as *The Apprentice* continued to strengthen. Of our digital services, BBC Four in particular thrived during 2005/2006, discovering a broader, bolder mix of programmes with drama and comedy complementing its main diet of documentary and culture.

Factual output was strong across the BBC. *Planet Earth* was another brilliant combination of technical innovation with visual artistry and storytelling of the highest order. *Arena's* ravishing two-parter about the young Bob Dylan, *No Direction Home*, and *Facing the Truth* from BBC Northern Ireland, which brought together those thrown into confrontation by the troubles, were highlights from a powerful and diverse documentary offer.

Of all of the BBC's services, in some ways Radio 1 has the hardest mission: striving to offer a distinctive and valuable line-up in one of the most crowded parts of the broadcasting market – and to what in many ways is the UK's most discerning and demanding audience. The station's

new strategy helped it to feel more confident and more relevant in 2005/2006. Radio 2 consolidated its position as the country's most popular radio station, while Radio 3 built on the success of *The Beethoven Experience* with *A Bach Christmas*. The story of the Brixton Angels – convicts inside one of Britain's toughest jails coming together to sing Bach – was one of the most touching broadcast moments of the year.

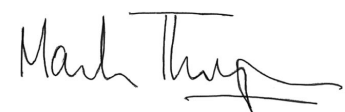
Meanwhile, Radio 4 experimented successfully with more topical debates and more distinctive and high-profile drama. In deciding to abandon its early morning medley of UK themes, the station also sparked off a classic BBC row as an apparently minor change at the schedule's margins came to stand for something much larger and more important for listeners. After careful reflection, the Radio 4 team decided to stick to their original judgement, and in my view they were right to do so. But there was an important lesson here for the BBC: you cannot hope to please all of the people all of the time, but – especially at a time when they have so much choice – the BBC must never take its audience for granted.

Our digital radio services continued to build their relationships with listeners, and there was strong, innovative content around our sports coverage and children's offering, as well as from our national and regional services. There have been launches too: the first modules of the Digital Curriculum (now named BBC jam) are receiving a very positive response from students and teachers alike, and in the last two months we have begun a pilot BBC high-definition TV service – another broadcasting first, and another way of trying to improve the quality that the public receives from the BBC.

It was also a year when the debate about the future of the BBC reached a climax with the publication of a Government White Paper. This presents a picture of a strong BBC, but not one which exists in isolation from the rest of the market. Despite the picture some of the BBC's rivals like to paint, we see the future as increasingly dominated by partnerships – with other public bodies, with independent producers, with other public broadcasters and with our audiences. The transformed relationship with PACT and the memoranda of understanding signed with various bodies over the course of the past year are evidence of this new approach.

Although the BBC has a good deal to be proud of in 2005/2006, we cannot afford to sit back and congratulate ourselves. Audiences are urging us on: rightly, they raise their standards all the time. We have Creative Future to implement, digital switchover to lead, and we have changes to make to our own management systems to respond to the introduction of the BBC Trust.

We have just had one of the busiest years in our history. But in many ways the real challenge starts now.



Mark Thompson
Director-General
14 June 2006