

BBC TRUST CONCLUSIONS

The issue of talent costs

The BBC Trust operates to protect the interests of licence fee payers who pay for and own the BBC. As part of this we seek to ensure quality and value for money for licence fee payers and to challenge BBC management to use everything at their disposal to deliver both. An area where this is particularly complex is the salaries paid to on-screen and on-air talent.

During the course of 2006, press reports about presenters' salaries aroused industry and public concern and led some people to question the BBC's approach to the talent it employs. This debate was still live when the Trust was established as the BBC's governing body in January 2007. It was and has remained a topic raised by the public with Trustees during our appearances on radio phone-ins and at public meetings in all parts of the UK.

Against this background the Trust commissioned an independent review, conducted by Oliver and Ohlbaum Associates Ltd (O&O), to provide an in depth examination of the BBC's use of on air and on screen talent. We posed O&O three specific questions:

- How do the size and structure of the BBC's reward packages for talent compare with the rest of the market?
- What has been the impact of the BBC's policy on the talent market, particularly in relation to cost inflation?
- To what extent do the BBC's policy and processes in relation to investment in, and reward of, talent support value for money?

We are publishing O&O's report which seeks to answer these questions, the BBC management's response to the points it raises and our own judgements informed by this evidence.

The main evidence from the O&O review

The BBC Trust welcomes and is reassured by O&O's findings that overall the BBC is not paying more for talent than the market and that it is not systematically inflating prices for talent. The O&O report concludes:

- There is no evidence that the BBC is paying more than the “market price” for leading TV talent when it finds itself directly competing with rivals to secure their services. In some cases, it may well be paying less than the market price for that talent.
- There is no evidence that the BBC is systematically pushing up prices in the talent market. Where high rates of inflation do currently seem to exist in the BBC this is largely due to market forces at work in the rapidly changing UK TV and radio markets.
- The BBC has a number of systems in place to ensure that it achieves value for money in its negotiation of talent fees, and has strengthened these processes in recent years.

However, the work by O&O suggests there is room for improvement in the BBC’s practices which could achieve better value for licence fee payers in some of its deals with talent.

In reaching its conclusions the BBC Trust has also considered the BBC Executive’s response to O&O’s report, which is published alongside this document.

The Trust’s conclusions

1. On-air and on-screen talent is valuable to audiences as well as broadcasters

Talented people are rare and valued highly by their audiences. Good on-screen and on-air talent, even if not loved by everyone, are special people doing special jobs. The Trust’s separate research amongst the public in 2007 about the distinctiveness of programmes showed that the audience recognises that talent makes a significant – and in some cases the most important – contribution to the quality and distinctiveness of a programme. That said, talent can sometimes polarise opinion and even the most popular performers will sometimes face antipathy from some sections of the audience. Indeed for some this tension forms part of their act. But programme makers and performers must recognise that the BBC is funded by a compulsory licence fee levied from all audiences, not just those watching or listening to that particular programme.

Competition for top talent has increased in recent years. The popularity of top talent and their ability to attract large audiences – particularly audiences to whom

advertisers attach a high commercial value – leads to intense competition between broadcasters for these individuals which can sometimes lead to offers of very high financial rewards. Increasingly, this competition includes the global media market and opportunities for top UK talent to promote British creativity internationally. The commercial pressures facing UK broadcasters in recent years have led to a greater reliance on bankable stars and proven formats, hence a greater demand for a small supply of top talent.

The licence fee places responsibility on the BBC to take creative risks, cultivate new talent and new programme formats. The licence fee provides the BBC with financial security and a responsibility to cultivate new talent and new formats so it is not overly reliant on the small pool of established names that others rightly compete for. Ultimately, the BBC has to be prepared to walk away from deals that do not offer good value to the audience and should build on its abilities to do so. Succession planning is important, but for the BBC to justify its unique funding it must contribute to a vibrant and creative market and help develop the talent pool for the industry as a whole.

The Trust is clear that the BBC should not put at risk its ability to attract the best talent to be enjoyed and valued by licence fee payers. They can command high salaries and the BBC should not be placed in an overly constrained position. A BBC without big name talent, top sports or other rights could exist, but it would be a very different BBC to the one the audience knows and values for the programmes they love.

2. We are reassured that overall the BBC is not negatively distorting this complex market

In most cases, the BBC is already achieving deals which represent value for money and there are systems in place to control spending. The available evidence shows that overall the BBC pays no more than the rest of the industry and in some cases on television the BBC pays less.

There is no evidence that the BBC is systematically pushing up prices in the talent market. The Trust is pleased to note O&O's conclusion that, where high rates of inflation do exist in the BBC, this is largely due to market forces at work in the rapidly changing TV and radio markets.

Network radio is a particularly complex area because there are fewer direct commercial comparisons. The fees paid by the BBC to a small number of top talent working in network radio are much higher than those offered on commercial radio. However, conclusions are not always simple to reach and the issues are complex, for example taking account of alternatives that may be open to talent in television paying higher rates. The BBC management will take account of O&O's findings as part of their strategic talent reviews already underway in all content divisions. The Trust's review of progress to be carried out in 12 months' time will specifically include radio.

3. The overall picture is good, but the BBC can do more to achieve value

On the whole, the Trust accepts that decisions on talent deals are being made well. It is also encouraging to note the real steps taken by the BBC to control talent costs in recent years and the resulting lowering of overall inflation levels.

However, a more consistent approach and some improvement to processes could ensure improved value overall for licence fee payers. Some of the challenges the Executive face get quite close to individual editorial decisions. It is not the job of the Trust to intervene in such decisions, but to ensure that the right strategic frameworks are in place to ensure such decisions are driven by a need to consider value for money. The changes and improvements we have asked BBC management to make are summarised below. The Trust welcomes the BBC Executive's positive response and indeed we acknowledge that many of these are already being implemented:

- The systems used by the BBC to challenge deals could be improved with greater independent information. It is particularly important that high value talent deals and decisions are based on the best possible data.
- The BBC possesses a degree of bargaining power in respect of levels of exposure that talent can receive and the ability to work across genres. Whilst this should not be overstated, especially in the most popular genres that can draw large audiences to either the BBC or commercial broadcasters, the Trust believes the BBC should take a more systematic approach to considering this factor in future negotiations.

- The BBC should ensure it has a wider range of appropriate measures to assist it in considering talent policy and specific deals, rather than a heavy reliance on comparing relative cost per viewer hour. Cost per viewer or listener hour can be a useful measure, but can skew decision making when talent can attract large audiences. The nature of the radio market can make such comparisons particularly difficult. The Trust expects the Executive to pay closer attention to the relative value to BBC audiences of particular talent, their “incremental value” above alternatives and how far a particular talent can contribute to fulfilling the BBC’s strategic purpose plans.
- The BBC must find ways to demonstrate its efforts to achieve the best deals more openly to the public in order to generate greater confidence amongst licence fee payers that value for money is being achieved.

Next steps

Given the undertakings from BBC Management to strive for further improvements in the area of talent negotiations and bringing on new talent, the Trust intends to undertake a short review of progress 12 months from this report which we will publish. The review will focus on ensuring that improvements in value for money on overall talent costs continue to be made, and that the BBC’s systems and processes for assessing the market are thorough and based on up-to-date information. The Trust will also focus its review on assessing how a pool of the best new talent is successfully being encouraged and utilised, and how the BBC’s wider talent strategy will develop and strengthen the BBC’s commitment to licence fee payers to deliver distinctive content through the best use of big name talent and fresh new names across TV, Radio and Online.

The Trust commissioned this report principally to answer the question of whether the BBC exercises undue influence on the market for talent. The evidence here is that it does not.

It is also clear from the evidence presented to the Trust that the Executive has to balance a range of difficult and competing pressures when considering what talent to use in programmes and more widely. These conclusions can never seek to provide a simple answer to that complex balancing act.

There will always be individuals who are loved by their audience and attract high salaries because of their popularity and their commercial value, whilst at the same time attracting criticism because some individual licence fee payers believe they

do not represent value for money. We must all keep in mind that the BBC is paid for by everyone, everyone must receive something of value in return, but rarely will everyone receive something of value at the same time.

Overall the Trust is satisfied that the BBC is working hard to deliver quality programmes that stand out from the crowd and represent value for money to all licence fee payers. But the issues raised are of continuing interest to the Trust. We will keep the pressure up so the best deals are reached on behalf of all licence fee payers and report again on the results of our review which will take place a year from now.

BBC Trust
May 2008

PUBLICATION NOTE

In bringing the report into the public domain, the BBC Trust has had to make a limited number of redactions which have been made with careful consideration of the interests of privacy for individuals, and details of specific deals and strategies which are confidential and commercially sensitive and may impact the wider market. Data which may have a detrimental effect on the BBC's ability to negotiate value for money deals in the future has also been redacted.