



National Audit Office

Report

by the Comptroller
and Auditor General

BBC

Managing the BBC's pay-bill

Key facts

£1,092m

BBC Group's total spend on staff salaries in 2017-18

£147.6m

BBC's total spend on on-air roles in public service broadcasting in 2017-18

21,583

average number of full-time equivalent staff employed by the BBC Group in 2017-18

- 18,210** average number of full-time equivalent staff employed by the BBC in public service broadcasting in 2017-18
- 3,373** average number of full-time equivalent staff employed by the BBC in its commercial subsidiaries in 2017-18
- 600** number of job titles in the BBC following the introduction of its new staff job framework in 2017, a reduction from 5,000
- 5** number of pay principles – 'fair', 'consistent', 'transparent', 'competitive' and 'clear' – that the BBC introduced in 2017 to underpin its pay reforms
- £4.9 million** BBC's estimate of the net savings it will make between 2017 and 2023 because of its terms and conditions reforms. This represents less than 0.1% of the total staff pay-bill over that period
- 7.6%** BBC's median gender pay gap in 2018, down from 9.3% in 2017

Summary

1 The British Broadcasting Corporation (BBC) is the UK's main public service broadcaster. It provides a wide range of television, radio and digital services. In 2018, it received £3.8 billion of public funding from television licence fees to enable it to meet its public service broadcasting (PSB) commitments. The BBC also undertakes commercial activities, such as creating and selling television programmes and providing English-language news overseas. These activities are not funded by the licence fee and generated approximately £1 billion of income in 2017-18. The BBC's largest commercial subsidiary is BBC Studios, following the merger of the former BBC Studios and BBC Worldwide (the BBC's production and distribution businesses respectively) in April 2018.

2 In 2017-18 the BBC directly employed, on average, 21,583 full-time equivalent staff: 18,210 within its PSB functions and a further 3,373 in its commercial subsidiaries. The BBC also contracts with some 60,000 freelancers a year, including actors, entertainers and off-air individuals such as camera operators. Around 29,000 of these freelancers work on-air. Around 800–850 individuals working in news and current affairs on-air are directly employed by the BBC. The BBC's total salary costs for staff in 2017-18 were £1,092 million.

3 Public and Parliamentary debate on BBC pay in recent years has exposed a lack of confidence in the BBC's pay policies and practices, with particular unease about highly paid senior management and on-air presenters expressed in the media. Concerns have been raised about equal pay, notably when the BBC's China editor left her post in January 2018 citing pay discrimination between the BBC's international editors.

4 Over time we have looked at some of the specific issues relating to these concerns. In 2013 we published our report on *Severance payments and wider benefits to BBC senior managers*.¹ In 2017 we then looked at *Managing the BBC's workforce*.² Furthermore, following Parliamentary concerns, in November 2018 we reported on *The BBC's engagement with personal service companies (PSCs)*.³ This investigation examined issues concerning individuals that the BBC hires on a freelance basis, particularly through PSCs.

1 Comptroller and Auditor General's report, *Severance payments and wider benefits to BBC senior managers*, presented to the BBC Trust Finance Committee, July 2013.

2 Comptroller and Auditor General, *Managing the BBC's workforce*, Session 2016-17, HC 1133, National Audit Office, April 2017.

3 Comptroller and Auditor General, *The BBC's engagement with personal service companies*, Session 2017–2019, HC 1677, National Audit Office, November 2018.

- 5 This report is a broad review of the BBC's approach to pay. It examines the BBC's:
- pay legacy and background to recent reforms (Part One);
 - strategic response to pay reform (Part Two); and
 - actions in areas of high remuneration, including senior management and on-air roles (Part Three).

6 We have confined our work to a strategic level analysis. Except for the BBC's Director General, the report does not look at the pay of any specific individual, either from within the BBC's staff or its on-air freelancers. We are also reporting on the BBC's approach to pay before it has fully implemented and evaluated the impact of its reforms.

Key findings

The BBC's pay legacy and background to recent reforms

7 While a pay framework existed, the BBC's approach to pay before 2015 was devolved, resulting in inconsistencies and a lack of structure with limited central oversight. The structure of the BBC at the time meant managers within divisions had a lot of discretion to vary pay, other terms of employment and working practices, such as allowances and scheduling of shift-working. This approach resulted in perceived unfairness in relation to pay. By 2015, there were around 5,000 different job titles in a workforce of approximately 20,000 people. Without strong central oversight and challenge to these local practices, the BBC could not, at this time, assure itself that its practices were fair, consistent or that they delivered value for money. The BBC has admitted that some allowances, such as for unpredictable hours, were paid to individuals who did not meet the eligibility criteria, because of changes to operational requirements or retention of legacy payments when they moved role (paragraphs 1.4 to 1.6 and 2.9).

8 Since 2014, the BBC has standardised and simplified its workforce management to improve consistency and central oversight and control. In April 2017, we published our report *Managing the BBC's workforce*. We found that, since 2014, the BBC sought to simplify and standardise its organisation. It also increased central control and oversight by improving management information and standardising procedures for approving staff remuneration packages. After completing this, it began to address the issue of inconsistencies in job structures and pay, terms and conditions (paragraphs 1.7 and 1.8).

The BBC's strategic response to pay reform

9 In 2016 the BBC began a review of its terms and conditions that, alongside other work, is helping to improve the consistency and fairness of its pay and practices. In consultation with the three unions its staff are members of, the BBC developed reforms to pay, grading and terms and conditions. The agreed reforms include a new job framework for staff, with the previous 5,000 job titles mapped onto just 600, grouped within 27 job families and six broad pay bands. All jobs now have market-informed pay ranges and the BBC has also frozen some older allowances and updated other policies. Application of the new job framework is centrally controlled to ensure consistency and every individual has been reviewed to check that their pay was fair relative to others in the same job (paragraphs 2.2 to 2.5, 2.7, 2.9 and 2.10).

10 It is a considerable achievement that the BBC has now established pay ranges that are centrally controlled, systematically benchmarked and market-informed. The BBC used benchmark data provided by consultants, alongside other considerations, to set pay ranges for all its newly defined jobs. Most final pay ranges are in line with market benchmarks, although pay ranges for some jobs are greater. This has resulted in 87% of PSB staff being in jobs with pay ranges in line with the market median, 9% with pay ranges higher than the market median and 4% with pay ranges lower than the market median. The BBC considers that this is important to attract 'in-demand' skills that command high salaries, for example in digital roles. An individual's position in their new range is determined by three factors: market conditions, the demands of the role and the individual's skills and experience. There is no element of performance-related pay for staff below senior management; the BBC's unions are not supportive of such pay for staff. The BBC has committed to reviewing pay ranges annually and adjusting them in line with the market. In theory, pay ranges could fall if market conditions change. The BBC has a process for discussing proposed changes with the unions, which could in future involve the need to reconcile reductions in market benchmarks with union and staff expectations over annual pay increases (paragraphs 2.6 to 2.8).

11 The BBC estimates that its reforms will have a broadly cost-neutral impact on its pay-bill. The BBC says cost was not a driving factor for its reforms, which were designed to improve fairness, transparency and consistency. The BBC developed with the help of PWC a financial model to identify pay-bill costs and savings associated with the changes as they were negotiated and agreed. In February 2019, based on this model, the BBC calculated that the changes would produce a net saving of £4.9 million in the pay-bill over the seven years from 2017 to 2023, less than 0.1% of the total staff pay-bill over that period. While we saw evidence of the Board's high-level oversight of progress on the terms and conditions review, we did not see evidence that the BBC put in place sufficient arrangements for more detailed oversight and challenge by the Board of the costs and savings involved while completing the review. Although the BBC intends to monitor the achievement of the wider benefits of its changes, such as reduced administration arising from the introduction of a single, core staff contract and improved scheduling of staff time, it has yet to estimate the financial savings associated with these wider benefits. The BBC agreed a three-year pay deal with the unions that was more generous than for previous years and compared favourably against public sector pay awards for the same period, although it was slightly less generous than pay growth for the whole UK economy. The BBC told us that it did not reduce any individual's pay because of moving over to the new pay ranges (paragraphs 2.14 to 2.16).

12 Work to apply the new job framework and pay ranges in the BBC's commercial subsidiaries is not as advanced as it is in PSB. The BBC has committed to applying its new job framework and changes to staff terms and conditions to its commercial subsidiaries. The BBC first needed to implement the merger of BBC Worldwide and BBC Studios in April 2018, before it could roll out its pay reforms to its commercial side. It has already removed eligibility for bonuses from 870 staff in BBC Studios whose performance does not have a direct impact on profits, consolidating these bonus payments into their salaries. It now plans to implement these reforms over the coming months. The remaining 575 staff, whose performance has a direct impact on profit, continue to receive a bonus. The BBC told us that it wants to encourage people to move between its PSB and commercial sides. To facilitate this, the BBC needs to be aware of and address any perceived or real differences in pay and terms and conditions between the two sides (paragraphs 2.18 and 2.19).

13 Implementing reforms to scheduling and working patterns is a significant challenge that will require considerable culture change. The BBC must roll out its reforms to scheduling and working patterns, including replacing complex rules on flexible working with a simpler, consistent approach. This is a significant challenge, as scheduling and rosters currently vary greatly across the organisation. Culture change will be a large part of achieving a successful roll-out and the BBC is making plans to try to bring this about, including piloting the new arrangements. A small number of changes, such as the arrangements for weekend working, have not yet been agreed with the unions. The BBC told us that goodwill is needed to see the changes through. However, the unions we spoke to raised concerns that not all managers had bought into the reforms yet and that some of their members were nervous about the changes (paragraphs 2.11 to 2.13).

14 The BBC has committed to resolving staff concerns about past pay and has set itself a challenging gender pay gap target. In September 2017, the BBC commissioned several external reviews in response to media, Parliamentary and public criticism of its pay practices. Collectively, these reviews concluded that there was no systematic gender discrimination, but highlighted areas where procedures at the BBC needed improvement. As part of its pay reforms, the BBC has given its staff the opportunity to raise concerns about pay and has received 1,275 queries, some relating to equal or fair pay. By April 2019, it had concluded 1,111. In March 2019, the Equalities and Human Rights Commission launched an investigation into equal pay at the BBC, focusing on historical cases raised by staff and whether their cases had been adequately resolved. The BBC's gender pay gap has also attracted media criticism. It first reported a median gender pay gap of 9.3% in 2017, which reduced to 7.6% in 2018. However, the BBC's median gender pay gap in 2017 compared favourably with other media organisations, improving further in 2018 when it was lower than the national gap. In 2017, the BBC committed to closing its gender pay gap in the PSB by 2020, but refined this target in April 2018 as a gap of plus or minus 3% (paragraphs 2.20 to 2.26).

15 According to two independent reviews in 2019, the BBC is among the UK leaders in pay transparency. In February 2019, the BBC published two independent reviews on transparency in PSB and its commercial subsidiaries respectively. The reviews concluded that the BBC was among the UK leaders in pay transparency, especially when considering the level of internal pay disclosure, which was greater than any other public sector organisation and almost all private companies of comparable size. Since 2017, the BBC has published the salaries of all senior managers and on-air staff and freelancers earning more than £150,000 in PSB in £10,000 bands. It plans to change this to £5,000 bands in its 2018-19 annual report and accounts. Like other public sector bodies, but unlike other media organisations, the BBC publishes the ratio of both the Director-General's and executive directors' earnings to BBC staff median earnings. The BBC has also gone beyond gender pay requirements and publishes its pay gaps for other characteristics, such as race, disability and part/full-time staff. Internally, the BBC allows staff to see where they sit on the new pay range for their job and the spread of pay of others in the same job. The BBC plans to extend this to include a gender split (paragraphs 2.27 to 2.32).

The BBC's actions in areas of high remuneration, including senior management and on-air roles

16 The BBC has been reducing the cost and numbers of its senior managers for some time, and carried out a more fundamental review of its senior leadership in 2018. The number of senior managers in PSB fell from 382 to 245 between 2014-15 and 2018. This includes a reduction of 21 senior managers when BBC Studios, previously part of PSB, became a commercial subsidiary in 2017-18. In 2018, the BBC undertook a review of senior leadership, using the same approach as for staff. This resulted in new job descriptions and market-informed pay ranges for senior managers. Unlike for staff, the size of the annual pay increase received by an individual senior manager will be partly dependent on their performance. The BBC chose to review senior management pay after reforming staff pay as it wanted to deal with the majority of its headcount first. Roll-out of the changes is complete in PSB, but is still under way in the commercial subsidiaries. As part of its review, the BBC set a market-informed target that senior managers in PSB should total no more than 1.5% of the workforce. As at January 2019, senior managers accounted for 1.3% of the workforce. In 2017-18 the Director-General earned considerably less than the heads of media and other quasi-commercial public bodies (paragraphs 3.2 to 3.4, 3.7 to 3.9 and 3.11).

17 The BBC has improved its strategic planning and control of spend on those in on-air roles. The BBC reduced spending for those in on-air roles in PSB from £194.2 million to £147.6 million between 2013-14 and 2017-18 and kept overall spending on those roles below its target of no more than 15% of expenditure on original in-house content. Inflationary market pressures created by new market entrants, such as Netflix, particularly in areas such as drama, may prevent the BBC from maintaining this trend. Succession planning and development of new presenters will help and from 2017-18, the BBC has approached this by focusing on individuals, within cohorts of people that perform similar roles such as sports pundits. It uses software to show individuals within a cohort against a pay range for those roles. This software also shows individuals' previous pay, so inflationary pressures can be monitored. The BBC does not regularly monitor genre or channel-specific spend centrally, but does regularly monitor spend on those earning more than £120,000 a year. Since 2017-18 the BBC only centrally collates divisional and total spend on all on-air individuals annually. The BBC has a fee framework for regular on-air contributors, which includes three criteria to help determine the appropriate fee for an individual: audience profile, performance and skills, and value to the BBC. This is much more evidence-based than the BBC's previous approach (paragraphs 3.12 to 3.15).

18 The BBC has reformed pay for its approximately 850 on-air staff. The BBC commissioned PWC to carry out a review of its on-air staff (excluding freelancers), which it published in January 2018. The review found no evidence of gender bias in pay decisions for this group but did note that the lack of a clear structure and the BBC's historic decentralised approach to managing this group had resulted in inconsistencies in pay and contractual conditions. The BBC has now implemented a new framework for determining the pay of its on-air staff, which includes a new, bespoke pay band, FP, for its most senior 100 to 150 on-air presenters. Eight men and two women in the FP band who were significantly above the maximum for their new pay range agreed to pay reductions (paragraphs 3.16 to 3.18).

Conclusion on value for money

19 The BBC has continued the reforms to workforce management set out in our 2017 study. Since we last reported, it has reviewed its terms and conditions. This has resulted in significant reforms, such as redefining jobs and linking these to market-informed pay ranges that have been agreed with unions. Embedding its changes to scheduling and working practices is ongoing and will require significant goodwill and culture change, and the BBC is putting in place measures to try to achieve this change. The BBC has taken big steps in improving consistency and fairness and is well ahead of other organisations with regards to pay transparency. Its gender pay gap is also lower than the national average and most other media organisations. The terms and conditions review extends to senior managers and on-air staff and is well advanced in PSB. Reform within the BBC's commercial subsidiaries is ongoing and the BBC needs to implement changes carefully to ensure it achieves its aim of allowing people to move between the two sides, while also keeping its commercial pay competitive. The BBC has improved the structure, consistency and oversight of on-air freelancer negotiations and has kept spend in this area in PSB broadcasting flat overall to 2017-18.

20 Reforms the BBC has introduced should mean it is better placed to deliver value for money in its staff pay-bill. While detailed financial information on the pay-bill costs and savings of its reforms exist, we did not see evidence that it put in place sufficient arrangements for the Board's oversight and challenge of these costs and savings while completing the terms and conditions review. Nor has the BBC estimated the wider financial savings arising from these reforms. This is alongside a lack of regular central oversight of total spend on on-air roles. Without stronger Board oversight and challenge, it will be harder for the BBC to demonstrate that its extensive reforms have achieved value for money.

Recommendations

21 As the BBC continues to implement its reforms to pay and working practices, we recommend it should:

- a** ensure it learns lessons, and acts on feedback, from its pilots of changes to scheduling and working patterns to ensure it can track benefits and bring about the necessary culture change to implement its reforms successfully;
- b** ensure that senior management reforms in commercial subsidiaries are timely, as well as keeping comparisons between PSB and commercial subsidiaries under active review, to ensure its aim that individuals can easily move between the two is not hindered by issues with pay differentials;
- c** keep all pay targets under review to ensure they are stretching, but realistic and that they keep the BBC in a strong position compared to the public sector and other media organisations; and
- d** ensure it has full central oversight and challenge of key data, including the costs and benefits of its terms and conditions reforms, to track the ongoing value for money of its staff pay-bill.