



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **BBC**

# Managing the BBC's pay-bill

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National Audit Office

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BBC

# Managing the BBC's pay-bill

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of  
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Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

13 May 2019

This study examined the BBC's approach to managing its pay-bill.

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## Key facts

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**£1,092m**

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

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**£147.6m**

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

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**21,583**

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

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- 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*.<sup>1</sup> In 2017 we then looked at *Managing the BBC's workforce*.<sup>2</sup> Furthermore, following Parliamentary concerns, in November 2018 we reported on *The BBC's engagement with personal service companies (PSCs)*.<sup>3</sup> This investigation examined issues concerning individuals that the BBC hires on a freelance basis, particularly through PSCs.

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

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

<sup>3</sup> 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.

# Part One

## The BBC's pay legacy and background to recent reforms

**1.1** This part of the report gives the background to the British Broadcasting Corporation's (BBC's) approach to pay and remuneration, including our previous work in this area and the strategic context for its pay reforms.

### Pay landscape

**1.2** The BBC is the UK's main public service broadcaster. It provides a wide range of television, radio and digital services. In 2017-18 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, which are not funded by the licence fee. These generated approximately £1 billion of income in 2017-18. The BBC's largest commercial subsidiary is BBC Studios, following the merger in April 2018 of the former BBC Studios and BBC Worldwide, the BBC's production and distribution businesses respectively.

**1.3** 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 (**Figure 1** overleaf).<sup>4</sup> 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 freelancers work on-air and around 800 to 850 individuals working in news and current affairs on-air are BBC staff. The BBC's total salary costs for staff in 2017-18 were £1,092 million.

<sup>4</sup> Wherever possible in this report, staff numbers are given on a full-time equivalent (FTE) basis. An FTE is a unit to measure employed persons in a way that makes them comparable, although the actual individuals may work a different number of hours per week. The unit is obtained by comparing an employee's average number of hours worked to the average number of hours of a full-time worker. A full-time person is therefore counted as one FTE, while a part-time worker gets a score in proportion to the hours he or she works. For example, a part-time worker who is employed for 20 hours a week in an organisation where full-time work consists of 40 hours is counted as 0.5 FTE.

**Figure 1**

## BBC staff numbers and costs over time

**Total staff costs and staff numbers have increased slightly between 2014-15 and 2018**

	2014-15	2015-16	2016-17	2017-18	2018
<b>Staff numbers</b>					
Public service broadcasting (PSB)	19,333	19,269	19,357	18,210	19,192
Commercial	2,071	1,996	1,914	3,373	2,612
<b>Total</b>	<b>21,404</b>	<b>21,265</b>	<b>21,271</b>	<b>21,583</b>	<b>21,804</b>
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
<b>Staff costs</b>					
Public service broadcasting	953.6	967.7	975.9	942.0	995.9
Commercial	92.7	88.5	88.5	150.1	140.7
<b>Total</b>	<b>1,046.3</b>	<b>1,056.2</b>	<b>1,064.4</b>	<b>1,092.1</b>	<b>1,136.6</b>

**Notes**

- 1 Staff numbers are the average full-time equivalent for the years and exclude casual staff.
- 2 All costs are cash prices; they include salaries, allowances, bonuses, national insurance and pensions.
- 3 In 2017-18 BBC Studios ceased to be part of PSB and became a commercial subsidiary.
- 4 The figures for 2018 are calendar year figures as the figures for 2018-19 were not available at the time the report was written.

Source: National Audit Office analysis of BBC data

**1.4** Before 2014, the BBC's PSB divisions and commercial subsidiaries had a high degree of autonomy regarding the BBC workforce. While the BBC had a pay framework in place, divisional managers had a lot of discretion to vary pay and other terms of employment and working practices, such as allowances and the scheduling of shift-working. At the same time, there were weaknesses in the management data available to the BBC's central managers. For example, workforce data provided to the centre varied by division, making central oversight difficult.

**1.5** As a result, the approach to pay across the BBC was inconsistent and lacking in transparency. The approach had led, among other things, to:

- around 5,000 different job titles in a workforce of approximately 20,000 people;
- a 55% overlap between the pay ranges in the BBC's grade structure, with about 10% of its workforce paid above their pay grade maximums;
- pay not being linked to relevant jobs in the external market;
- 16 different mechanisms for pay progression, with more than 60 local variations, all linked to an individual's length of time in their post; and
- payment of allowances to individuals who did not meet the eligibility criteria.



**1.6** In the BBC's opinion, its approach to pay was not fit for purpose and required significant change. Many BBC staff are members of a union and the BBC has experienced industrial action in the past in response to some of the changes it has proposed. As a result, the BBC considered that it needed to agree any changes to its approach with the three unions involved – The Broadcasting, Entertainment, Communications and Theatre Union (BECTU), the National Union of Journalists (NUJ) and Unite – as well as with staff.

### **The BBC's workforce management reforms since 2014**

**1.7** From 2014 onwards, the BBC began to standardise and simplify its workforce management to ensure greater consistency. It first sought to simplify and standardise its organisation. This covered divisional structures, the number of management layers and the number of people managers are responsible for. It also improved central oversight and coordination of divisions' workforce management by improving management information and standardising procedures for approving staff remuneration packages.

**1.8** In April 2017, we published *Managing the BBC's workforce*.<sup>5</sup> We found that the BBC had made definite progress in managing its workforce, and was consequently better placed to face the challenge of making further changes in future. However, at that time, the BBC had just started work on addressing inconsistencies in its job structures, pay and terms and conditions, the size of its senior management cadre and use of on-air freelancers, and this work had yet to be completed.

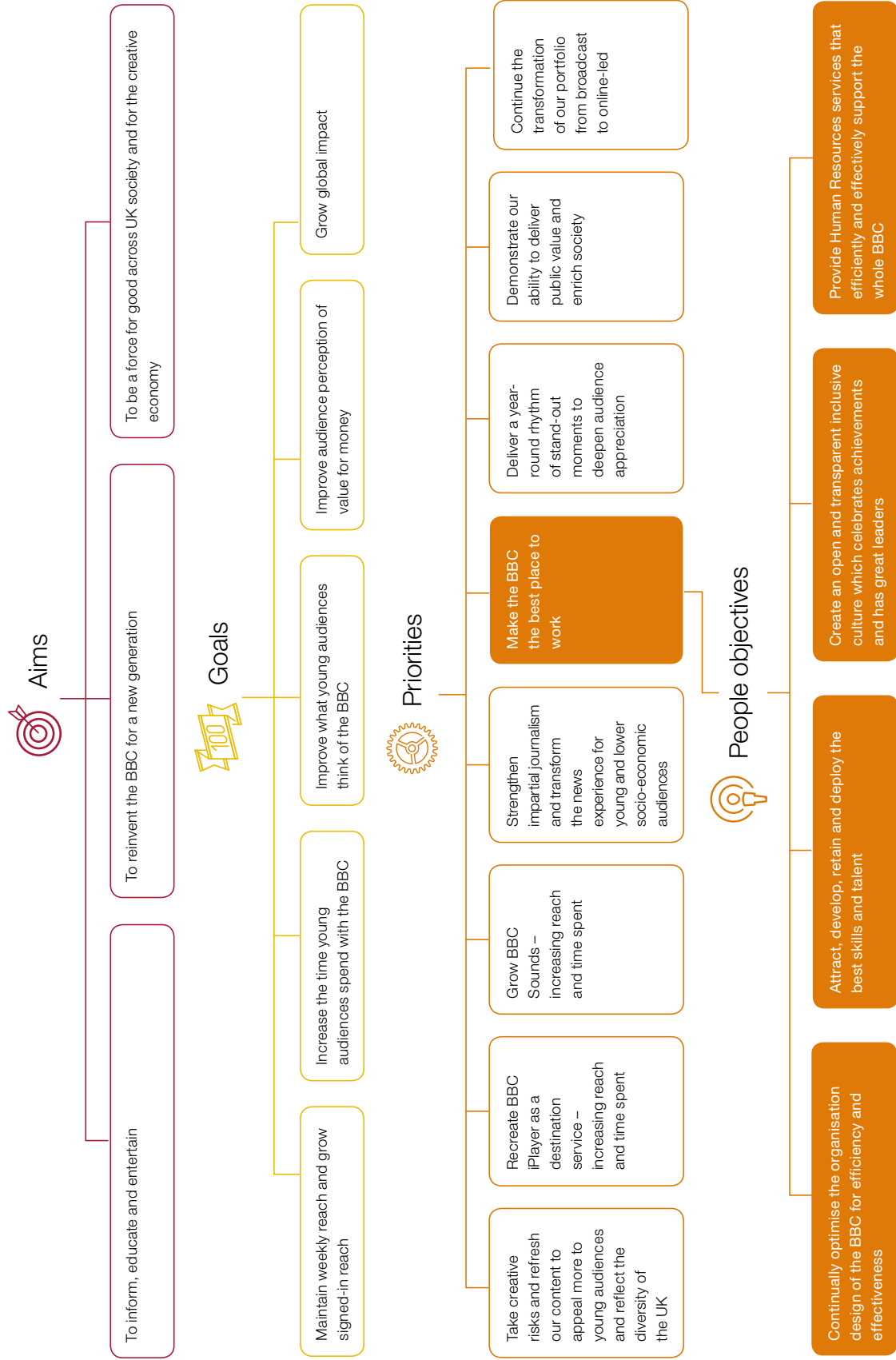
### **Strategic context for pay reforms**

**1.9** The BBC has come under criticism from the media, Parliament and the public in the past for issues relating to pay, such as severance packages, the amount it pays senior management and on-air freelancers, concerns around equal pay, and most recently its treatment of freelancers working through personal service companies. Addressing pay was, and continues to be, a key concern for the BBC. One of the eight priorities in its latest strategic plan, as in earlier plans, is to make the BBC the best place to work (**Figure 2** overleaf). To achieve this, BBC Human Resources (HR) has identified four people objectives it needs to deliver, one of which, "attracting, developing, retaining, and deploying the best skills and talent", is highly dependent on pay and terms and conditions of employment.

**1.10** In autumn 2017, the BBC put in place five pay principles: 'fair', 'consistent', 'transparent', 'competitive' and 'clear' (**Figure 3** on page 17). While these principles were introduced after the BBC had started its reforms to pay, the BBC told us that they apply to all its pay and related reforms.

<sup>5</sup> Comptroller and Auditor General, *Managing the BBC's workforce*, Session 2016-17, HC 1133, National Audit Office, April 2017.

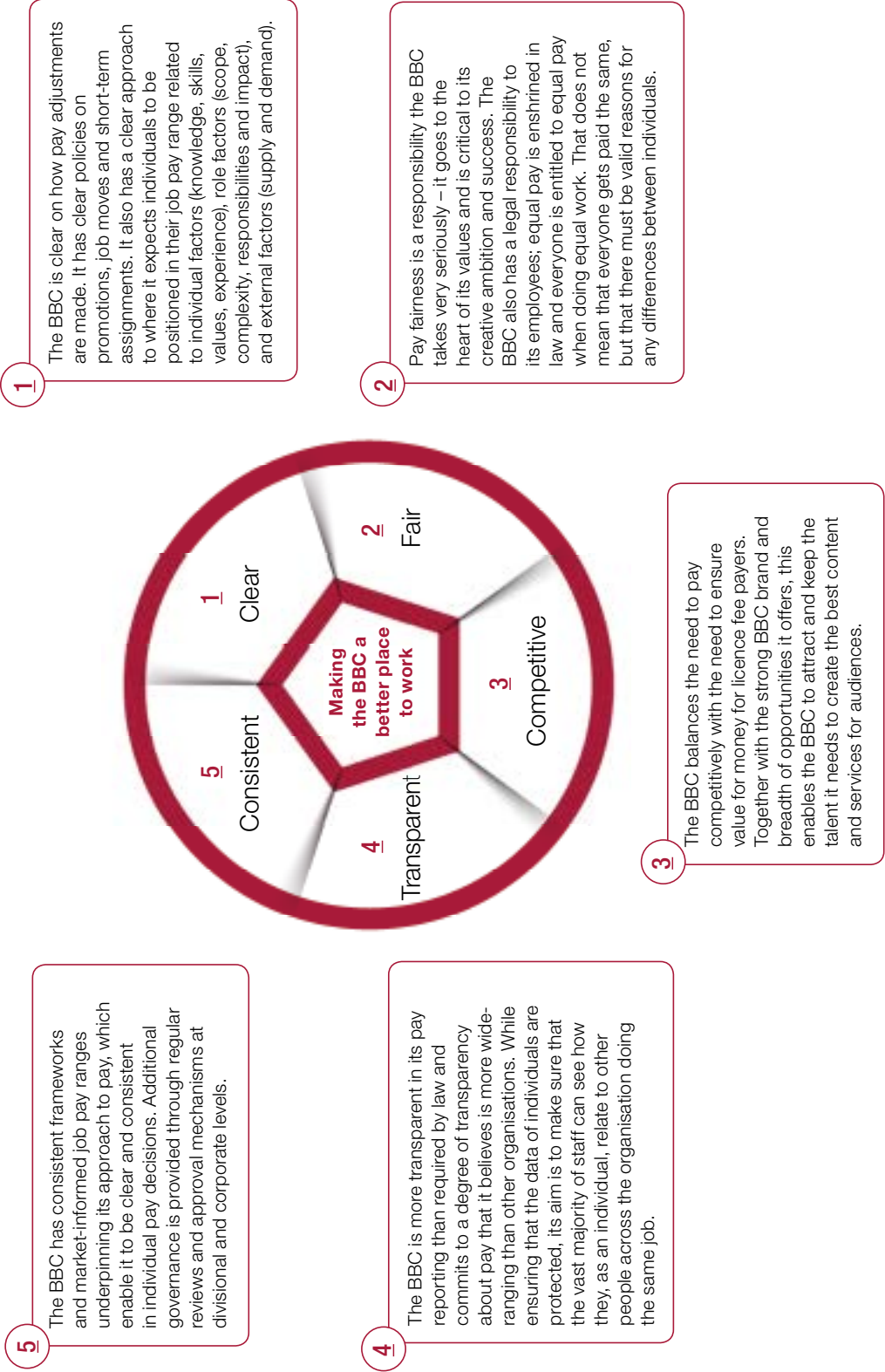
**Figure 2**  
BBC strategy 2019



Source: National Audit Office review of BBC documents

**Figure 3**  
The BBC's pay principles

The BBC has put in place five pay principles



Source: BBC

## Part Two

### The BBC's strategic response to pay reform

**2.1** This part of the report sets out the British Broadcasting Corporation's (BBC's) reforms to pay and working conditions. It also sets out the BBC's recent actions on equal and fair pay and transparency about its pay-bill.

#### **Introduction of a new job framework**

**2.2** Following the implementation of its workforce reforms from 2014, the BBC committed, in 2015-16, to address its outdated pay and grading structures. The BBC had first stated an aspiration to do this in its 2010–2016 People Strategy. An initial phase of reforms took place in 2015 and involved developing a new job framework for all staff, initially below senior management.<sup>6</sup> Subsequently, the initial framework was expanded to include senior management and on-air staff. The framework allows jobs to be classified and distributed across several wider pay bands in a transparent structure.

**2.3** The BBC introduced the initial framework as part of its efforts to standardise its approach to jobs. It developed it in consultation with the wider organisation and the three unions—BECTU, NUJ and Unite. It mapped the previous 5,000 job titles onto just 600, grouped within 27 job families spread across six pay bands, with band A being the least senior and band F being the most senior roles below senior management. These bands replaced the old grade system (**Figure 4**). The new pay bands included a minimum salary of £18,750 from 1 August 2017 (£20,000 from 1 August 2018), compared with £15,687 previously.

**2.4** Each of the 600 new job titles has a job description that is available on the BBC's intranet. This allows staff to see what other jobs might interest them across the organisation as well as the hierarchy of jobs, helping them to map out their potential career progression. The BBC has assigned a business owner to each of the 27 job families, who is responsible for ensuring that they remain fit for purpose.

<sup>6</sup> The job framework shows all the jobs that exist and where they fit within different job families and grades and broad career levels. Each job has a job title and job description and every employee is mapped to one of these.

**Figure 4**

## Changes to BBC pay grade structure

The BBC has replaced its old grade system with a new job framework and new pay bands

New pay band	Number of job titles in the new pay band	Old BBC grades replaced by the new jobs	New pay band ranges	
			Minimum (£)	Maximum (£)
A	30	2, 3, 3/4	18,750 (£20,000 from August 2018)	30,000
B	113	4, 5, 7L	22,500	37,000
C	157	5/7, 6, 6/7, 7	25,000	49,000
D	166	7/9, 8, 8/9, 9	35,250	63,000
E	100	10	47,250	80,000
F	87	11	60,000	110,000

**Notes**

- 1 Excludes London Weighting.
- 2 The job title figures above include on-air roles not included in the initial framework.

Source: National Audit Office analysis of BBC documents

**Terms and conditions review**

## Pay and grading

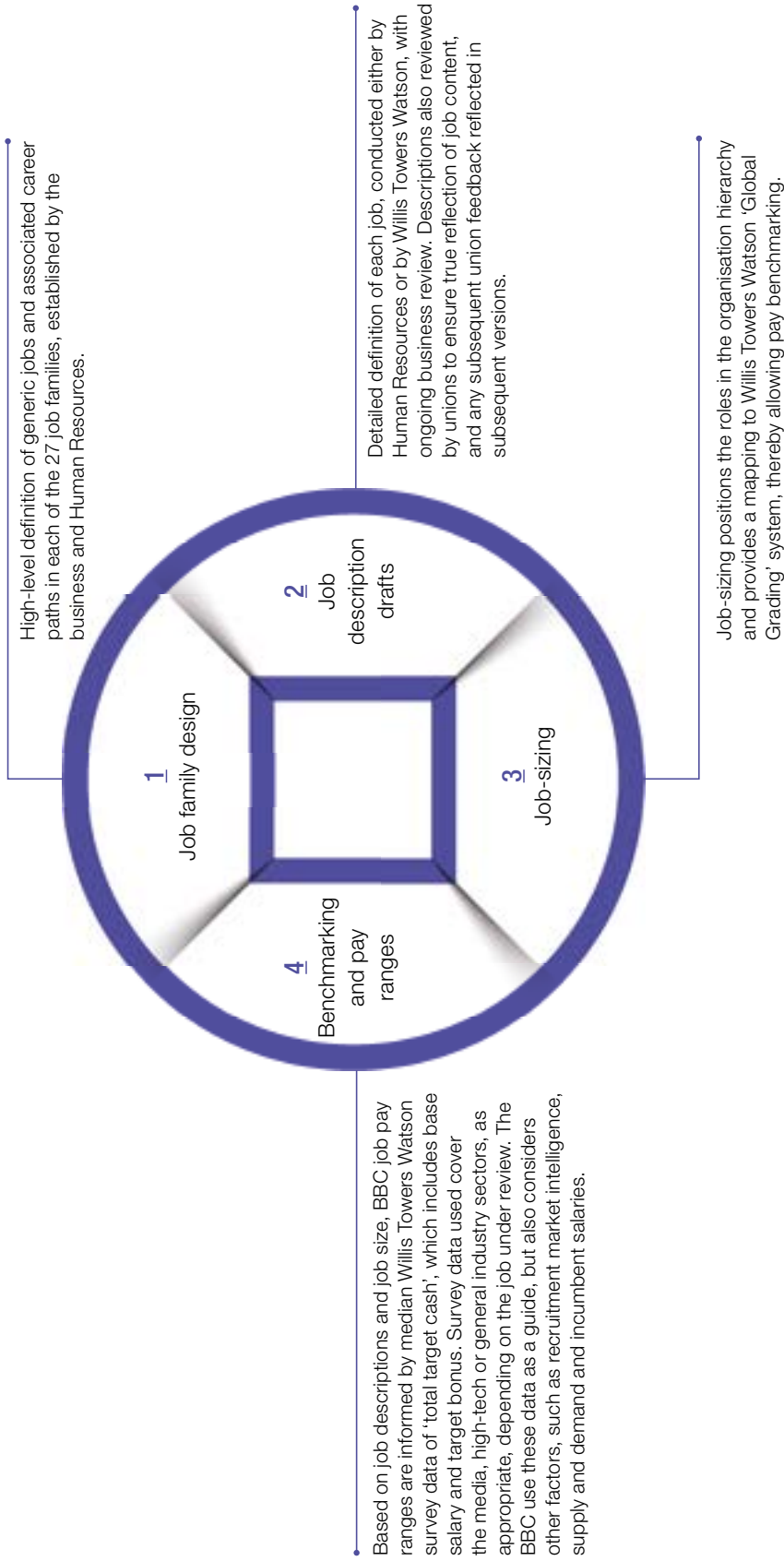
**2.5** In 2016 the BBC began a review of staff terms and conditions in public service broadcasting (PSB), BBC Studios and BBC Studioworks.<sup>7</sup> Once each job family in the framework was finalised, the BBC introduced pay ranges for each of the 600 job titles, with the support of external advisers, Willis Towers Watson (**Figure 5** overleaf). Each job now has its own market-informed pay range, with the majority of these pay ranges sitting within the six broad pay bands, A to F.<sup>8</sup> In setting the pay range for each job, the BBC used benchmark data showing the 'target total cash' (base salary plus target bonus) for each job. While the BBC does not offer bonuses to most staff, it wanted pay ranges to be competitive externally, where many private sector organisations offer bonus schemes.

<sup>7</sup> Excluded from the review were the BBC's Performing Groups, Children in Need and the commercial operations, BBC Worldwide and BBC Global News.

<sup>8</sup> About 7% of job ranges do not sit within the six broad pay bands. These involve jobs, such as digital and legal, where market pay rates are higher than the pay band.

**Figure 5**  
Development of the BBC's job framework and pay ranges

The BBC developed its new job framework and pay ranges with the support of external advisers Willis Towers Watson



**Notes**

- 1 While the benchmark data are total cash cost (including target bonus), the BBC does not pay bonuses in public service broadcasting and only a small number of those in the BBC's commercial entities whose performance has a direct impact on profit are eligible for a bonus.
- 2 Global grading compares the relative value of jobs in different industries and organisations by assigning them to a universal grade structure.
- 3 The above figure shows the broad stages of the development of the pay and grading structure. In practice, the process was iterative with earlier stages revisited to reflect, as necessary, the results of work at later stages.

Source: BBC

**2.6** To construct the initial pay ranges, the BBC applied an 80%–120% range to the market median identified by the Willis Towers Watson benchmarking data for each job. The BBC then considered several other factors before deciding the final pay range for each job. As a result, 80% of final pay ranges, for 87% of staff, were within 10% of the initial market pay range. In contrast, 5% of final job pay ranges, for 9% of staff, were more than 10% above the initial market range. The BBC says this is to attract people who have ‘in-demand’ skills that can command high salaries, for example in digital roles. In addition, 15% of final job pay ranges, for 4% of staff, were more than 10% below the market range. The BBC told us 90% of these are in its higher paid bands of E and F.

**2.7** An individual’s position on the new pay range is determined by three factors: market conditions, the demands of the role, and the individual’s skills and experience. Although the three factors still represent a significant change from the tenure-based pay rises of the past, there is no performance-related pay in the new pay arrangements for staff (there is for senior managers); the BBC’s unions are not supportive of such pay for staff. After initially applying these three factors, the BBC carried out a fair pay check in 2018, reviewing each staff member against their job pay range and then against others in their pay range, to check that their pay looked fair given their skills, experience and the demands of their role. This resulted in 9% of staff receiving a pay increase to ensure they were fairly placed on their new range.

**2.8** The BBC has committed to reviewing the new pay ranges annually. In addition, it plans to repeat the fair pay check in November 2019. In theory, market-informed pay ranges could rise or fall depending on conditions in the market. 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.

## Changes to contracts, policies and well-being

**2.9** The BBC previously had a variety of different contracts with staff. As part of the terms and conditions review, it introduced a core BBC contract for staff, with three variations to reflect BBC working patterns. The BBC has also tackled outdated allowances. The most expensive of these were the unpredictability and flexibility allowances, which cost almost £31 million a year. These allowances were contractual and paid because a role might require flexibility rather than being paid when an event requiring flexibility materialised. As such, these allowances formed part of normal take-home pay. In July 2016 more than 7,500 employees, roughly one-third of staff, received an unpredictability or flexibility allowance. A 2012 review noted that those who received these allowances were only called in to work at short notice on average once a year. The BBC has admitted that allowances 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. The BBC has now stopped these allowances for new joiners and frozen their value for existing recipients, which is a significant reform. It tried to tackle these allowances in 2012, but without success.

**2.10** The BBC has modernised and standardised many of its employment policies as part of the review. For example, it replaced the payment of overtime with TOIL (time off in lieu) as the main way of recognising additional work hours. It also increased payments for shared parental and paternity leave and increased the duration of long-term sick pay to 18 weeks. The BBC has also committed to improving the well-being of its staff, for example, providing virtual GP appointments, on-site health checks, treatments for post-traumatic stress disorder, and more interactive health kiosks.

### Changes to scheduling and working patterns

**2.11** In return for staff accepting the freezing of the allowances for unpredictable and flexible working patterns, the BBC is reforming how it schedules staff time to reduce the need for staff to work extra or unexpected hours. These reforms include replacing complex rules on flexible working with a simpler, consistent approach, and introducing a new scheduling system. Implementing these reforms is a significant challenge that will require considerable cultural change at all levels across the BBC. This is arguably the hardest part of the terms and conditions reforms to implement as scheduling and rosters vary greatly across the organisation. The BBC told us that goodwill is needed to see these changes through. However, one of the unions we spoke to raised concerns that not all managers had bought into the reforms yet and another suggested that many of its members were nervous about the changes.

**2.12** The BBC has recognised these challenges and put in place plans to try to address them, such as establishing a working group to oversee implementation and ensuring HR support is available to divisions. Pilots for scheduling changes have been planned in certain areas within the Nations and Regions division (in Scotland and Bristol) and within the News division. As at March 2019, the Bristol pilot had been completed, but the others had yet to start. Completion of the pilots is due by summer 2019, with full roll-out following thereafter.

**2.13** As for other changes to working practices, the BBC has agreed actions with the unions in respect of night working, which it aims to implement before August 2019. However, it has not yet reached agreement on weekend working and will now be going to arbitration on this. Additionally, it plans to commence a review of public holiday leave in July 2019.



## Cost implications of pay and grading reforms

**2.14** To secure the agreement of unions and staff to the new pay, grading and terms and conditions, the BBC set out to take a collaborative approach to ensure that their concerns were considered. Additionally, to help ensure union members' buy-in to the reforms, and to counteract low pay increases in previous years, the BBC agreed a three-year pay deal as part of its reforms. This consisted of pay increases for all staff below senior management of 2% from August 2017, 2% from August 2018 and 2.5% from August 2019, or the 2019 percentage increase in the licence fee settlement if it was higher. These rates compare favourably to public sector pay awards, which were capped at 1% in 2016 and 2017 and rose to an average of 1%–1.5% for 2018 and 2019. For context, total pay growth, including bonuses and other benefits, across the whole of the UK economy stood at 2.6% in 2017-18 and 3.3% in 2018-19. In December 2017 staff also received an upfront advance payment of £400 relating to their 2017 pay award as this had still to be agreed at that time. When the 2017 increase was agreed in summer 2018, the increase was backdated to August 2017 and the £400 deducted from the backdated amount.

**2.15** The BBC told us that the purpose of its reforms was not to deliver savings, but to improve fairness, transparency and consistency. It therefore aimed for the changes to have a broadly cost-neutral impact on its pay-bill. To achieve this, 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 over the seven years from 2017 to 2023, less than 0.1% of the total staff pay-bill over that period. One of the main sources of savings is the withdrawal for new staff of allowances for unpredictable working patterns (paragraph 2.9), which will reduce annual staff costs by an estimated £9 million by 2023. The BBC is continuing to use the model to identify the ongoing impact on the pay-bill of the changes. However, while we saw evidence of the Board's high-level oversight of progress on the terms and condition review, we did not see evidence that it 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 changes' wider benefits, such as reduced administration arising from the introduction of a single core staff contract (paragraph 2.9) and improved scheduling of staff time (paragraph 2.11), it has yet to estimate the financial savings associated with these wider benefits. Delivery of these benefits is dependent on the achievement of changes in organisational culture and ways of working on the part of management and staff.

**2.16** The BBC confirmed that it has not reduced any individual's pay because of moving to the new pay ranges. When individuals were mapped onto the new pay ranges, 1,997 staff (11.8%) were below the new ranges for their job. The BBC increased their pay up to their new pay range minimum. There were also 268 staff (1.6%) who were above the maximum for their new pay range. From 2019-20, these individuals will receive non-consolidated payments until they are within their new pay ranges.<sup>9</sup> This contrasts with the situation in 2016, when more than 1,900 individuals were paid more than the maximum for their grade.

<sup>9</sup> Non-consolidated increases are one-off payments that are not included in base pay in future years.

**2.17** Previously the BBC had several different pay progression mechanisms. It has now closed these to new joiners and is phasing them out for existing staff. Instead, as part of the three-year deal (paragraph 2.14), the BBC has agreed to give employees in the lower quarter of their new pay range an extra 1.5% pay increase annually. As a result, 3,478 employees (19%) received this 1.5% increase in 2018. The BBC will need to negotiate with the unions a new pay progression mechanism when the three-year pay deal comes to an end.

### **Pay reforms for the BBC's commercial subsidiaries**

**2.18** The BBC is introducing its new job framework and changes to staff terms and conditions in its commercial subsidiaries, as it wants to encourage people to move within the BBC Group. However, work to implement the changes in the commercial subsidiaries is not as advanced as in PSB, as the BBC first had to focus on merging BBC Studios and BBC Worldwide from April 2018.

**2.19** There is no performance-related element to staff remuneration under the terms and conditions changes (paragraph 2.7). Previously, most staff in BBC Worldwide had been entitled to a performance bonus if their performance warranted this. However, when BBC Worldwide and BBC Studios merged in 2018, the BBC removed eligibility for bonuses from 870 staff whose role did not have a direct impact on profits, consolidating these bonus payments, amounting to £2.7 million, into their salaries; 575 staff are still entitled to a bonus. The BBC is considering how to reflect these remaining bonuses when positioning these staff on their new job pay ranges.

### **Equal and fair pay**

**2.20** In recent years, the BBC has attracted public, Parliamentary and staff criticism over the extent to which it is complying with equal pay legislation. The BBC published, for the first time in July 2017, the names of all BBC staff and freelancers who had been paid more than £150,000 from the licence fee in 2016-17. This showed that about two-thirds of the 96 on-air individuals who were paid more than £150,000 were male and one-third female. Of those receiving more than £250,000, 25 were men, compared with just nine women. Subsequently, more than 40 of the BBC's leading female presenters wrote to the Director-General to ask for urgent action to ensure that there was equal pay for equal jobs.

**2.21** In response to criticism in July 2017 the BBC commissioned several reports on equal pay at the BBC, in September 2017:

- an equal pay audit by legal firm Eversheds Sutherland and accountancy firm PWC of all BBC PSB staff below senior management;
- a review by Sir Patrick Elias QC of the above audit, to check its compliance with Equalities and Human Rights Commission guidance and best practice and the BBC's response to the audit's findings; and
- a review by PWC of pay and diversity among the BBC's on-air staff.

**2.22** In October 2017, the BBC published the Eversheds and PWC audit. This analysed high-level BBC data and examined a sample of 300 males and females (600 individuals) in jobs where the median pay gap was 5% or above. The audit concluded that there was no evidence of systematic gender discrimination and that, for 91% of the comparisons, there appeared to be a non-gender reason for the difference.<sup>10</sup> Elias confirmed in his report, published at the same time, that the audit's methodology not only followed Equalities and Human Rights Commission guidance and best practice but, in certain respects, went beyond it. He said the audit's conclusion on the lack of systemic discrimination was borne out by the evidence. He also noted that the audit had highlighted several areas where procedures needed to be improved and that the BBC had accepted the audit's recommendations.

**2.23** The BBC was criticised in the media in October 2017 when it reported a median gender pay gap across the organisation of 9.3% as at 31 March 2017. The BBC was one of the first organisations to publish a statutory report on its gender pay gap, and there was a lack of comparable information at this time.<sup>11</sup> Data subsequently published by other organisations showed that the BBC's gap of 9.3% compared favourably with other media organisations, although it had work to do to address the gap in BBC Studios Distribution (previously BBC Worldwide) (**Figure 6** overleaf). Nationally, roughly half of companies with 250 or more employees that submitted data for 2017 had a larger gender pay gap than the BBC. This increased to some 55% of companies based on data for 2018. The BBC's median gender pay gap of 7.6% as at 31 March 2018 also compares well to the national median gender pay gap of 17.9% for 2018.

**2.24** The BBC had committed in July 2017 to closing the gender pay gap for PSB by 2020. Subsequently, it realised that, given the structural origins of this gap, it was highly unlikely to close it entirely by 2020. It therefore refined the target in April 2018 to close the gap to within plus or minus 3%, and is monitoring its progress in achieving this. While its monitoring includes forecasts of the likely gap at the end of the relevant financial year, the BBC has not done any modelling to show how it will achieve its target beyond this point, by the due date of 2020.

**2.25** In January 2018, the BBC attracted criticism when its China editor left her post, citing pay discrimination between the BBC's international editors. At the end of the month, the Digital, Culture, Media and Sport Committee took evidence on this topic. The January 2018 PWC review of the BBC's arrangements for its on-air staff found no evidence of gender bias in pay decisions. However, PWC did note that pay ranges for on-air staff were very wide and men tended to be clustered at the top. The BBC therefore announced that it would create a new framework for determining the pay of its on-air staff.

<sup>10</sup> The audit found that, for 9% of the sample examined, there was insufficient information to identify whether there was a non-gender reason for the pay differential. Further investigation by Eversheds of this 9% confirmed the audit's finding of non-gender reasons for pay differentials.

<sup>11</sup> By law, from 2017, any organisation with 250 or more employees is required to report specific figures on their gender pay gap each year. The gender pay gap is the difference between the average earnings of men and women, expressed relative to men's earnings.

**Figure 6**

## Gender pay gaps at the BBC public service broadcasting and elsewhere

## The BBC's gender pay gap compares well to other media organisations

	2017 <sup>1</sup>		2018 <sup>1</sup>	
	Median (%)	Mean (%)	Median (%)	Mean (%)
BBC public service broadcasting (PSB)	9.3	10.7	7.6	8.4
BBC Studios Distribution <sup>2</sup>	16.9	18.9	17.2	20.8
BBC Studios Production <sup>3</sup>	Within PSB		10.0	15.4
Channel 5	2.1	(2.9) <sup>4</sup>	12.7	14.6
Sky UK	8.0	5.2	7.8	5.3
ITV Studios	10.3	9.5	10.7	7.6
ITV Broadcasting	10.7	18.0	12.6	19.9
Channel 4	24.2	28.6	23.3	22.6

**Notes**

- 1 Public sector organisations are required to report their gender pay gap as at 31 March, private sector companies and charities as at 5 April.
- 2 Known as BBC Worldwide in 2017-18.
- 3 Known as BBC Studios in 2017-18.
- 4 Figures in brackets indicate a pay gap in favour of women.

Source: UK government gender pay gap service

**2.26** When introducing the new job framework and changes to terms and conditions, the BBC invited staff to submit any queries about their past pay. By April 2019, the BBC had received 1,275 queries from staff about their pay, including questions on equal pay (with a gender component), fair pay (on relevant place within a pay band) and other issues, and had resolved 1,111 of these. In March 2019, the Equalities and Human Rights Commission launched an investigation into equal pay at the BBC. This will relate to the BBC's historic policy and pay practices and will examine the cases raised by staff to determine if there has been unlawful pay discrimination and whether the cases have been adequately resolved. The Commission aims to conclude its investigation by the end of 2019.

**Transparency**

**2.27** The BBC publishes on its website each quarter the salaries, expenses, gifts and hospitality of all senior managers earning £150,000 or more. Since 2011, in common with other public sector bodies, but unlike its commercial rivals, the BBC has monitored and publicly reported on the gap between the earnings of its executive directors and Director-General and those of its staff.<sup>12</sup> The gap has narrowed over time, most significantly in the case of the Director-General's salary. This is because Director-Generals from 2012-13 have had lower salaries than their predecessors (**Figure 7**).

<sup>12</sup> These ratios are known as the Hutton multiples as they were advocated in Will Hutton's 2011 report *Hutton Review of Fair Pay in the public sector*.

**2.28** In July 2017, the BBC included for the first time in its Annual Report and Accounts the names of all BBC staff and freelancers it had engaged who were paid more than £150,000 from the licence fee, in bands of £50,000 (paragraph 2.20). In July 2018, it published the same information, but in bands of £10,000, in line with a direction from the Secretary of State for Digital, Culture, Media and Sport. The BBC included extra contextual information, such as the number of programmes delivered in return for the remuneration, to help people understand the figures. However, it chose not to include the figures for 2017, making comparison with the previous year difficult. Publication of this detailed information resulted in public criticism of the BBC and, according to the BBC, caused unhappiness among some of those whose salaries were disclosed.

**2.29** The BBC publishes equality information reports each year, analysing its workforce by various characteristics. Since 2017, it has also published statutory gender pay gap reports (paragraph 2.22). In these reports, it has gone beyond the statutory requirements to disclose details of other pay gaps. These gaps are all smaller than the gap for gender (**Figure 8**).

## Figure 7

### Ratio of salary of the BBC's most senior managers to that of its staff

The ratio of the salary of the BBC's most senior managers to that of its staff has remained fairly consistent since 2014-15

	2010-11	2014-15	2015-16	2016-17	2017-18
Ratio of Director-General's salary to median staff earnings	16.8	10.7	10.4	10.2	10.7
Ratio of median executive director salary to median staff earnings	8.9	8.2	8.2	7.7	7.7

#### Note

1 The initial ratios are shown when they were first calculated in 2010-11. The other years shown are for the period that all other data in this report cover.

Source: National Audit Office analysis of BBC data

## Figure 8

### Non-gender pay gaps at the BBC

Non-gender pay gaps have all narrowed between 2017 and 2018

	Black, Asian and Minority Ethnic (BAME)		Disability		Part- and full-time	
	Median (%)	Mean (%)	Median (%)	Mean (%)	Median (%)	Mean (%)
2017	0.4	5.7	3.3	5.2	3.4	4.9
2018	(1.1)	4.0	4.0	4.9	1.7	4.5

#### Note

1 Figures in brackets indicate a pay gap in favour of the reported characteristics.

Source: National Audit Office analysis of BBC non-gender pay gap reports

**2.30** Internally, the BBC has introduced 'People View' on its intranet. This allows staff to see, when there are at least 20 individuals with the same job title, where they sit on the pay range for their job, compared with the lower quarter, middle half, and upper quarter of their job range. While this data is only visible to each individual and their team leader, the BBC has also published all job titles and the associated job description and job pay ranges, and all pay bands, on its intranet which all employees can access.

**2.31** The publication of pay details for 2017-18 (paragraph 2.20) resulted in criticism that, unlike in 2016-17, the numbers disclosed excluded people employed by BBC Studios after it became a commercial subsidiary in April 2017. In response, the BBC commissioned two independent reviews of its transparency, in PSB and its commercial subsidiaries respectively, which were both published in February 2019.<sup>13</sup> The Hutton review of PSB concluded that the BBC was among the UK leaders in pay transparency, especially when taking into account the level of internal pay disclosure, which was greater than any other public sector organisation and almost all private companies of comparable size. The Saul review of the commercial subsidiaries echoed this, stating that pay transparency at the commercial subsidiaries compared favourably with best practice in UK corporate governance.

**2.32** Both reviews recognised that there were costs to increased transparency and risks in disclosing such detailed relative pay information, for example higher resignation rates and reduced morale. The reviews also identified ways that the BBC could improve transparency further. In response, the BBC has accepted the need for:

- more detailed annual reporting on the merged BBC Studios, including a report on directors' remuneration;
- disclosure of the remuneration of all BBC employees and freelancers who are paid more than £150,000 from the licence fee, in bands of £5,000 from 2018-19;
- inclusion of data on the gender split on 'People View'; and
- more training and support for managers to help them explain and discuss pay with their staff.

<sup>13</sup> Will Hutton, *BBC Public Service Transparency Review*, February 2019, and Christopher Saul, *BBC Commercial Transparency Review*, February 2019.

# Part Three

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

**3.1** This part of the report sets out the trends in the headcount and cost of senior management and on-air freelancers, as well as how the British Broadcasting Corporation (BBC) has introduced pay frameworks for its senior management and on-air staff.

### Senior management

**3.2** The BBC has made several public commitments over the years to reduce the number and cost of its senior managers in public service broadcasting (PSB) and has reported regularly on its progress in doing this. By January 2019, it had reduced the number of senior managers in PSB by 295 (55%), from 540 in 2010-11 to 245, and the PSB senior management pay-bill by £24.5 million (38%), from £64.1 million in 2010-11 to £39.6 million. Part of the reduction achieved in both total headcount and the pay-bill in 2017-18 arose because of the establishment of BBC Studios, previously part of PSB, as a commercial subsidiary (**Figure 9** overleaf). The BBC has made no public commitments regarding the number and cost of senior managers in its commercial subsidiaries. These showed a small reduction until 2017-18 when BBC Studios was established as a commercial subsidiary.

**3.3** In 2018 the BBC reviewed senior leadership within PSB, using the same approach as it had taken for its staff (paragraphs 2.2 to 2.8). The BBC had previously planned to reassess its senior grading structure in 2013 and 2015 to ensure that those in senior manager grades had leadership roles, rather than, as had sometimes been the case, senior specialist roles. However, in each case the BBC was delayed by other organisational changes, such as a major reorganisation of its divisions in 2016. In 2016, the BBC began work on the review, expecting to complete this by April 2017. However, it then paused this to focus on reforming staff terms and conditions, citing a desire to deal with the majority of its headcount first.

**Figure 9**

## Number and costs of senior managers in the BBC

The number and spend on senior managers have reduced from 2014-15 to 2018

	2014-15	2015-16	2016-17	2017-18	2018
<b>Number of managers<sup>1</sup></b>					
Public service broadcasting (PSB)	382	341	301	264 <sup>3</sup>	245
Commercial	50	50	47	70 <sup>3</sup>	72
<b>Total</b>	<b>432</b>	<b>391</b>	<b>348</b>	<b>334</b>	<b>317</b>
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
<b>Cost of managers<sup>2</sup></b>					
Public service broadcasting	59.5	53.6	48.3	42.9 <sup>3</sup>	39.6
Commercial	12.7	12.7	12.2	17.3 <sup>3</sup>	19.4
<b>Total</b>	<b>72.2</b>	<b>66.3</b>	<b>60.5</b>	<b>60.2</b>	<b>59.0</b>

**Notes**

- 1 Senior manager numbers are as at the end of the financial year, that is 31 March, apart from 2018 where the figures are as at 31 December. PSB figures are for UK PSB only and exclude overseas senior managers.
- 2 All cost figures are at cash prices.
- 3 The establishment of BBC Studios as a commercial subsidiary from April 2017 resulted in 21 senior managers being re-classified as 'commercial' from 'PSB'.
- 4 The cost figures for 2018 are calendar year figures as the figures for 2018-19 were not available at the time the report was written.

Source: National Audit Office analysis of BBC data

**3.4** After completing the review, in November 2018, the BBC introduced a new senior leadership framework as part of the job framework for staff. It re-classified its senior managers as 'senior leaders' and introduced new job descriptions for the 92 senior leader jobs identified, with each job belonging to one of 22 of the 27 job families and having its own market-informed pay range. A senior leader's position on the pay range for their job is determined not only by the same three factors used for other staff (paragraph 2.7) but also a fourth factor, related to the performance of, and contribution made to the BBC by, that individual, and the size of the annual pay increase received by an individual will be partly dependent on their performance. The review also introduced a new pay band, SL, that sits above staff pay bands A to F, to replace the previous two senior manager grades, SM1 and SM2.



**3.5** As with staff (paragraph 2.16), the BBC made a commitment that all senior leaders would be paid at the minimum or above of their new job pay range. As a result, 18 senior leaders received a pay uplift to reach the minimum. In contrast, as at March 2019, there were 11 senior leaders whose salaries were above the maximum of their job pay range when historical allowances were included. Their salaries have been frozen until they fall back in line with the pay range. The BBC is in talks with three individuals, who are paid more than £150,000 a year, and are more than 10% above the maximum, about bringing their salaries in line with the pay ranges for their jobs. Unlike other staff, no senior leaders received an extra pay increase if they were in the lower quarter of their job pay range.

**3.6** The BBC has changed the benefits received by senior leaders as part of their remuneration package in line with the changes it has made to staff terms and conditions (**Figure 10** overleaf). BBC senior leaders do not receive many of the benefits that are common in other private sector media companies, so the BBC benefits from a discount in terms of what it pays its senior leaders, compared with the market. Even when excluding long-term incentive schemes, which the BBC does not operate but many private sector companies do, the BBC estimates that, as at March 2019, 43% of its senior leaders are in a job where the median of the job pay range is more than 10% below the market median, while the rest are within 10% of the market median.

**3.7** The BBC has exercised restraint over senior management pay since 2009. For the three years from 2009 to 2011, senior managers received no annual pay increase and only a 1% increase in 2012 and 2013. From 2014 to 2016, senior managers received the same annual pay increases as all other BBC staff. As part of the senior leader review changes, in 2018 senior managers received a 1% increase for 2017 (backdated to August 2017). The BBC also sanctioned a 3.5% increase in the total senior management pay-bill for the 2018 pay award. The increase received by each senior leader varied, depending on sustained performance and contribution, and their position on the pay range for their job.

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## **Figure 10**

### Benefits and allowances for senior leaders in BBC public service broadcasting (PSB)

#### **The remuneration package for the BBC's senior leaders in PSB includes some benefits and allowances**

##### **Pensions**

The pension arrangements for senior managers are the same as for members of staff. Senior managers who joined the BBC before 1 December 2010 are eligible to continue to participate in the BBC's defined benefit scheme, the BBC Pension Scheme, which provides for pension benefits on a defined benefit basis. Those who joined the BBC on or after 1 December 2010 are eligible to join the BBC's defined contribution scheme, LifePlan.

##### **Private medical insurance**

Since 2011, new starters, or those subsequently promoted to senior manager, have not received the private medical insurance benefit. Senior managers in place at that time continued to receive this benefit. As at June 2018, 108 senior managers in PSB were in receipt of this. As part of 2018's senior leader review, the benefit ceased in April 2019 and was replaced with a legacy allowance, the value of which has been frozen.

##### **Car allowance**

Since 2008, new starters, or those subsequently promoted to senior manager, have not received a car allowance. Senior managers in place at that time continued to receive this allowance but its value was frozen. As at December 2017, 144 senior managers in PSB were in receipt of this allowance.

##### **Performance bonus**

The BBC has not paid performance bonuses to senior managers since 2008. As a result of the senior leader review, the size of the annual pay increase received by an individual senior leader will be partly dependent on their performance.

##### **Long-term incentive scheme**

The BBC does not operate a long-term incentive scheme for its senior managers.

Source: National Audit Office analysis of BBC documents

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**3.8** In 2011, the BBC Trust set the BBC a target of reducing the number of its senior managers in PSB to about 1% of its PSB workforce.<sup>14</sup> According to the BBC, this target was set with no reference to the size of senior management cadres in other organisations. By 2017-18, the BBC had not met this target and PSB senior managers made up 1.5% of the PSB workforce. As part of the senior leader review, the BBC identified the number of senior leaders it needed to manage the organisation, resulting in a redefinition of the size of the senior management cadre to about 245, 1.3% of the then PSB workforce. The BBC compared the number identified to benchmark data provided by Willis Towers Watson, which showed that senior managers in other media organisations made up between 2% to 3% of their workforce. The BBC has therefore set a target that its senior leaders in PSB should total no more than 1.5% of the PSB workforce. The redefinition of the size of the senior management cadre resulted in 49 individuals no longer being included as senior leaders and being reclassified to pay band F, while 26 individuals were promoted into senior management. This contributed in part to an increase in the number of staff in the grade just below senior manager after a reduction over the previous four years (**Figure 11**).

### Figure 11

The number of individuals in the grade below senior manager

The number of individuals in the grade just below senior management fell overall until 2017-18, before rising slightly in 2018

Number of individuals	2014-15	2015-16	2016-17	2017-18	2018
Public service broadcasting (PSB)	800	757	729	654	674
Commercial	79	66	64	139	144
<b>Total</b>	<b>879</b>	<b>823</b>	<b>793</b>	<b>793</b>	<b>818</b>

#### Notes

- 1 Figures are as at the end of the financial year (31 March), apart from 2018 where the figures are as at 31 December as the 31 March 2019 figures were not available at the time the report was written. PSB figures are for UK PSB only and exclude overseas staff.
- 2 Pay band F replaced grade 11 in August 2018 as part of the introduction of the job framework for staff.
- 3 The establishment of BBC Studios as a commercial subsidiary from April 2017 resulted in 73 Grade 11s being reclassified as 'commercial' from 'PSB'.

Source: National Audit Office analysis of BBC data

<sup>14</sup> The BBC Trust was the governing body of the BBC between 2007 and 2017. Governance was transferred to the new BBC Board in April 2017, with Ofcom assuming regulatory duties.

**3.9** Implementation of the changes is complete in PSB, but not in the BBC's commercial subsidiaries. As at March 2019, the BBC was working on the job pay ranges for commercial senior leaders and the positioning of individuals on these. It aims to complete this work by mid-2019. Unlike their counterparts in PSB, some senior managers on the commercial side are entitled to receive a performance bonus for achieving annual strategic goals and profit growth. The BBC is currently considering how to reflect these bonuses when positioning the relevant managers on their new job pay ranges.

### **Executive directors**

**3.10** In addition to senior leaders, the BBC has several executive directors who are not included in the new senior leadership framework. As at February 2019, these totalled 15 people and included the Director-General and Deputy Director-General. From April 2017, the Board's Remuneration Committee has overseen the remuneration of these most senior BBC managers. In setting the base pay for executive director posts, the Committee identifies the market-median remuneration package for the post, consisting of salary, annual bonus and annualised long-term incentive, and then applies a discount of between 50% and 80% as it deems appropriate.<sup>15</sup> In addition to their base pay, executive directors are entitled to the same benefits and allowances as senior leaders (Figure 10 on page 32) apart from the following:

- Executive directors heading BBC commercial subsidiaries are eligible for a performance bonus. In 2018-19, there was only one such director, the chief executive of BBC Studios. The Remuneration Committee agreed in 2017-18 that the remuneration package for this post should include an incentive scheme with a target bonus of 40% and a maximum of 50%.
- The Director-General is entitled to the use of a car and driver, as a taxable benefit, but has no entitlement to a personal car allowance or fuel allowance. In 2017-18 the BBC made these arrangements available to all executive directors on a shared basis.

**3.11** The above arrangements mean the BBC pays its executive directors less than market rates. For example, in 2017-18 the Director-General of the BBC earned considerably less than the heads of media and other quasi-commercial, public bodies (**Figure 12**).

<sup>15</sup> Long-term incentive plans are rewards designed to improve an executive's long-term performance, such as shares in the company.

**Figure 12**

## BBC Director-General's latest remuneration package compared with others

Latest figures show that the BBC Director-General earned considerably less than the heads of other media and quasi-commercial public bodies

	Chief executive (or equivalent)			Total package (£)	Number of staff (Average full-time equivalent)
	Base pay (£)	Incentives/benefits			
		Type	Value (£)		
<b>Media and broadcast</b>					
BBC Group	450,000	Car and driver, and other taxable expenses	30,000	480,000	21,583
BBC Worldwide	400,000	Car allowance, performance related pay, private medical insurance and other taxable expenses	291,000	691,000	1,514
Channel 4	471,000	Pension, variable pay and taxable benefits, including private medical insurance	314,000	785,000	858
Sky	1,200,000	Bonus (41% in 2018), pension, benefits (private medical insurance, life assurance, company car allowance, relocation allowances), co-investment plan and long-term incentive plan (shares)	3,700,000	4,900,000	30,609
ITV	900,000	Bonus (up to 180% of salary), benefits (private medical cover, car-related benefits and a cash allowance in lieu of participation in any ITV pension scheme) and long-term incentive plan (shares)	Figure not included	Not known	6,055
<b>Commercial public bodies</b>					
Bank of England	480,000	Benefits, pension, and payment in lieu of pension	401,574	881,574	4,378
Network Rail	682,000	Benefits (car allowance, private medical cover, annual travel subsidy and life assurance), pension and performance related pay	87,000	769,000	39,370

**Notes**

- BBC and Network Rail reports cover the financial year 2017-18, and Channel 4 and ITV cover the calendar year 2017. Sky's report covers the period 1 July 2017 to 30 June 2018 and the Bank of England's report covers March 2017 to 28 February 2018.
- The chief executive of BBC Worldwide in 2017-18 is now also the chief executive of BBC Studios Group and is funded by the BBC's commercial revenues and not the licence fee. The staff numbers are the total of these two entities.
- All except Sky and the Bank of England stated that total staff numbers were average full-time equivalent.
- The Bank of England and Network Rail are included as other public sector bodies that have public purposes, but attract staff from commercial markets.
- In the years in question, where the chief executive officer (CEO) remuneration package included long-term incentive schemes, such as share options, the relevant CEOs chose not to take out any benefits under these schemes. In addition, the £87,000 received in benefits and incentives by the chief executive of Network Rail does not include any performance related pay, as the individual declined to take performance related pay for the year in question.

Source: National Audit Office analysis of latest available annual reports

## On-air roles

**3.12** The BBC reduced spending on those in on-air roles, mainly freelancers, in PSB from £194.2 million in 2013-14 to £147.6 million in 2017-18 (**Figure 13** on pages 38 and 39). This includes the transfer of spend of £5.8 million in 2017-18 from PSB as BBC Studios became a commercial subsidiary. It also kept overall spending on on-air roles in PSB in recent years below its target of such spending, totalling no more than 15% of expenditure on original in-house content. The BBC has not adjusted the 15% target to reflect the establishment of BBC Studios as a commercial subsidiary.

**3.13** Inflationary market pressures due to increasing demand for on-air freelancers from new market entrants, such as Netflix, particularly in areas such as drama, may prevent the BBC from maintaining this trend. Such freelancers, particularly the most well known, are likely to earn significantly more working on commercial channels than the BBC, especially for television. Agents told us that the very best sports pundits working for commercial channels could earn four to seven times the amount the BBC can pay for television, depending on the sport and rights package, and presenters 15%–25% more for radio, depending on the artist and project. Lesser-known freelancers will be offered less of a pay differential by commercial companies compared with well-known individuals. The BBC is therefore in a stronger position when negotiating with less well-known individuals. The BBC's succession planning and development programmes will help with pressures facing on-air freelancer pay. A review in 2015 by independent consultants, Oliver and Ohlbaum, found that the BBC develops individuals well, but that this is informal and without suitable structure to ensure that it is getting the best from its new freelancers. In 2017-18, the BBC changed its approach to focus 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. Everyone is analysed in terms of their personal contribution, their skills and experience and their value to the BBC. The latter of these includes the BBC assessing how easy it would be to replace an individual if they were to leave and divisions are tasked with ensuring suitable options for succession have been considered where possible. This software also shows individuals' previous pay, so inflationary pressures can be monitored.

**3.14** BBC divisions are responsible for compiling strategies for on-air roles, managing those in on-air roles and controlling budgets and spending. The central team, Commercial Rights and Business Affairs (CRBA), handles individual negotiations. To improve the links between the two, in 2013, CRBA embedded some of its staff within divisions. The aim of this was to facilitate closer working with programme editors and commissioners to identify their requirements and affordability constraints when conducting negotiations with individuals and their agents. As part of their responsibilities, divisions monitor expenditure on those in on-air roles in their respective areas. However, the data exist in different formats and across multiple systems. Reconciliation of the spend by genre or channel centrally is a complex exercise, and the BBC does not monitor this regularly. Up to 2017-18, the BBC centrally monitored divisional and total spend three times a year. However, in 2017-18 it changed its approach to central monitoring of spend on on-air roles in PSB, only collating divisional and total spend on all on-air roles annually, and, instead, monitoring more regularly spend on on-air individuals earning more than £120,000 a year.

**3.15** The BBC has improved its strategic planning and control of freelancers' pay. Its process for negotiating deals with freelancers includes a deal referral form, which contains information to support negotiations and secure approval of the negotiated deal. The BBC also has a fee framework for regular on-air contributors, which includes three criteria for determining the appropriate fee.<sup>16</sup> The fee will vary, depending on: audience profile; performance and skills; and value to the BBC. This is much more evidence-based than the BBC's previous approach.

**3.16** Around 800 to 850 individuals in on-air roles are on staff contracts in PSB, rather than working on a freelance basis. These roles are predominantly in Network News, Radio Continuous Programmes, Nations, English Regions, World Service and Sport programmes. The BBC included these employees in its terms and conditions reforms after first introducing them for the rest of the staff in PSB, as its on-air staff are public-facing, with associated reputational risk for the BBC. As such, the BBC decided these employees required a special review. The BBC commissioned PWC to carry out a review of its on-air staff, which it published in January 2018 (paragraph 2.25). The review found that the lack of a clear structure and the BBC's historic decentralised approach to managing this group of staff had resulted in inconsistencies in pay and contractual conditions.

**3.17** In response to the PWC report, in summer 2018, the BBC introduced a new framework for determining the pay of its on-air employees, in consultation with the unions. This included several jobs that fitted into bands B to E on the all-staff job framework, as well as the design of a bespoke band F for the 100 to 150 most senior on-air presenters (band FP) with higher job pay ranges than the normal band F. The BBC followed the same process to set pay ranges as it did for all other staff, including a job-sizing exercise and referral to Willis Towers Watson data (Figure 5 on page 20).<sup>17</sup> For the FP band, the BBC adopted a bespoke approach to job-sizing, including consideration of:

- editorial significance, corporate risk and the extent to which the role is involved in setting the news agenda for the BBC and other organisations;
- the output requirements, such as whether it is a television or radio role, or all platforms, and whether the role includes live broadcasting, in-depth interviews, audience interaction or the coverage of breaking news; and
- the level of specialism or knowledge required.

**3.18** Where an individual sits within their pay range is determined by the same three factors used for all staff: market conditions, role requirements and the individual's skills and experience. Some individuals in the FP band were significantly above the maximum for their new pay range. The BBC asked them if they would take a pay cut and eight men and two women agreed to do so. The BBC recognises the bespoke nature of its FP band and that comparable market data for jobs in this band are limited. As such, it had commissioned an independent review of this part of the on-air framework by Naomi Ellenbogen QC. However, in March 2019, it announced that it was pausing this review pending the outcome of an Equality and Human Rights Commission investigation into equal pay at the BBC (paragraph 2.26).

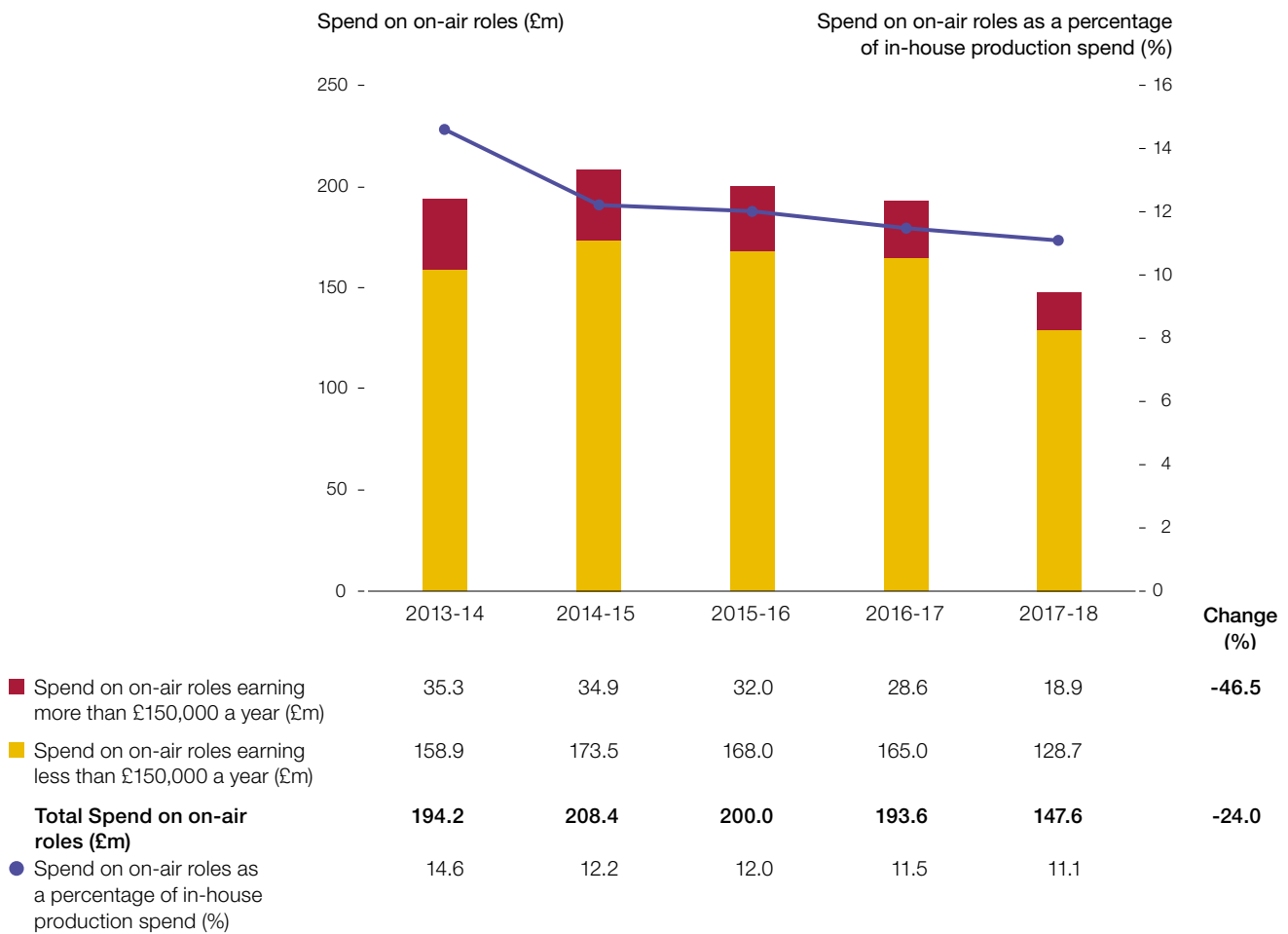
<sup>16</sup> The fee framework excludes one-off 'show and go' contributors.

<sup>17</sup> Job-sizing is an exercise to determine the relative sizes of the jobs in an organisation to position them in the organisation hierarchy and enable external market benchmarking of pay.

**Figure 13**

## BBC spend on on-air roles, 2013-14 to 2017-18

The BBC has reduced spend on on-air roles over the past five years, and the number of on-air individuals has similarly fallen.

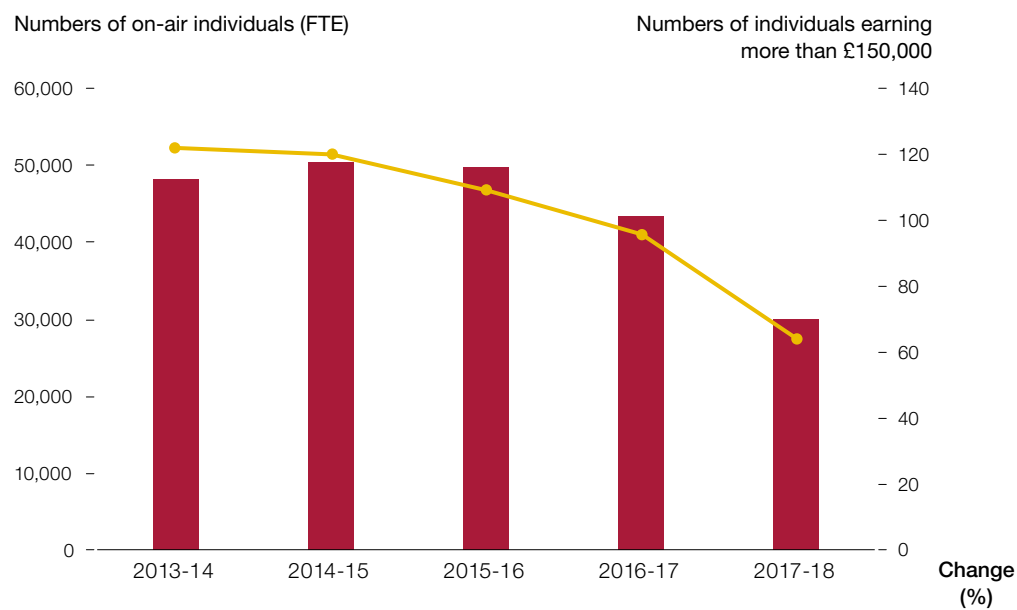
**Spend on on-air roles****Note**

1 All costs are cash prices.

Source: National Audit Office analysis of BBC data



**Number of on-air individuals**



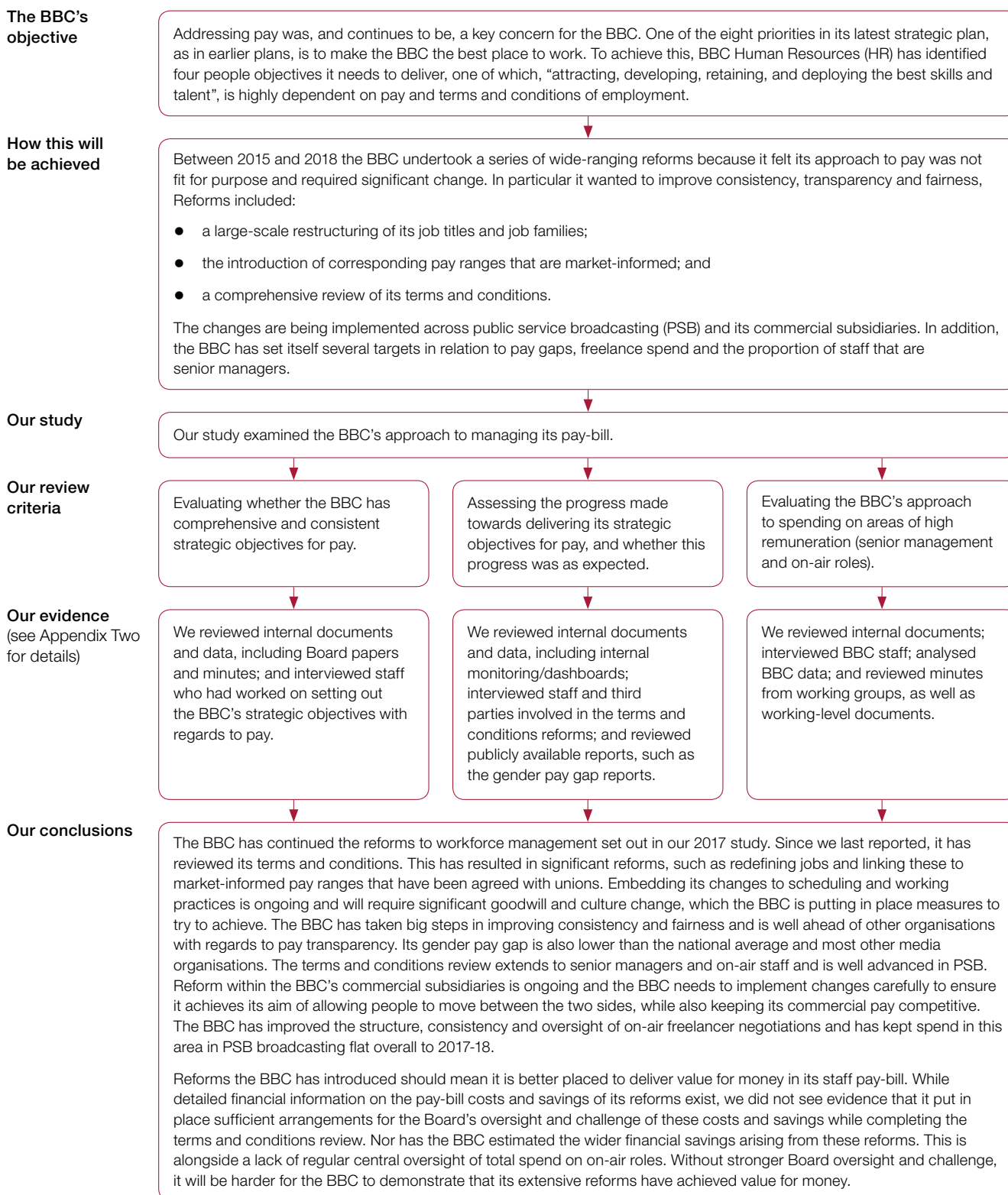
■ Number of on-air individuals (full-time equivalent)	48,290	50,332	49,755	43,420	29,939	<b>-38.0</b>
● Number of on-air individuals earning more than £150,000 a year	122	120	109	96	64	<b>-48.4</b>

# Appendix One

## Our audit approach

- 1 This study examined the BBC's approach to managing its pay-bill.
- 2 Our analysis included evaluating whether the BBC has comprehensive and consistent strategic objectives for pay; assessing the progress made towards delivering its strategic objectives for pay, and whether this progress was as expected; and determining whether the BBC has put in place adequate arrangements for dealing with future challenges with regards to pay. We reviewed:
  - the BBC's strategic aims for pay;
  - transparency internally and externally about the BBC's progress on pay, especially against stated targets;
  - progress made against the various pay objectives;
  - benchmarking used by the BBC to help inform its pay offer; and
  - the plans the BBC has put in place to address future challenges.
- 3 Our approach is summarised in **Figure 14**. Our evidence base is described at Appendix Two.

**Figure 14**  
Our audit approach



# Appendix Two

## Our evidence base

1 We reached our conclusions following analysis of evidence collected between February and March 2019. Our audit approach is outlined in Appendix One.

### **Document review**

2 We reviewed a range of internal BBC documents, including:

- Board papers and minutes to understand the BBC's strategic priorities with regards to pay and how it was overseeing reforms in this area;
- internal monitoring and dashboards, such as 'People View', to understand the BBC's governance and oversight of its pay-bill, as well as its approach to internal transparency;
- monthly HR reports, to review progress against strategic objectives and implementation of the terms and conditions reforms;
- Executive Committee minutes and papers, to track progress against pay targets; and
- Remuneration Committee minutes and papers to review how the Committee was exercising its remit regarding pay governance.

3 We reviewed the following publicly available reports:

- annual reports and accounts for the BBC, other media organisations and a small sample of other public sector bodies to compare the pay of the BBC's Director General to his peers in other organisations, to review data over time and to understand the BBC's strategic priorities with regards to pay;
- gender pay gap reports for the BBC and other media organisations to analyse the BBC's position compared with others and how this has changed over the two years for which data are available;
- Will Hutton and Christopher Saul Transparency reports (published February 2019) to review their work on transparency in the public service broadcasting (PSB) and commercial subsidiaries;
- the PWC on-air review, to understand the issues with on-air staff that the BBC was seeking to address with its on-air job framework;

- the equal pay audit by legal firm Eversheds Sutherland and accountancy firm PWC of all BBC PSB staff below senior management to evaluate the BBC's position with regard to equal pay; and
- the review by Sir Patrick Elias QC of the Eversheds and PWC equal pay audit, to check its compliance with Equalities and Human Rights Commission guidance.

## **Interviews**

4 We conducted interviews with:

- key BBC staff involved in the terms and conditions review to understand the process, challenges and outcomes;
- BBC staff involved in contracting freelancers to understand the process and the wider market for freelancers;
- divisional HR directors, to understand how the BBC's reforms were working within divisions;
- a representative of Willis Towers Watson, who walked us through the pay and grading exercise, including the use of benchmark data;
- a group of freelance agents to understand the wider freelance market and where inflationary pressures exist; and
- representatives from the BECTU and NUJ unions to gain an external perspective of the BBC's reforms, particularly the consultation in relation to the terms and conditions review.

## **Data analysis**

5 We carried out the following analysis:

- reviewing published targets and progress against these, including progress against pay gap targets, freelance spend and the proportion of staff that are senior managers;
- quantitative analysis of data provided by the BBC, including time series data of numbers and spend on all staff, senior managers and freelancers;
- analysis of the pay of the BBC's Director General in comparison to his peers in other organisations;
- analysis of national gender pay gap data to understand the BBC's gender pay gap in relation to other organisations; and
- review of Office for National Statistics data on pay increases in the UK economy and Parliamentary papers on pay increases in the civil service to provide context to the BBC's pay increases.

Report by the Comptroller and Auditor General

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### CORRECTION

#### **In Paragraph 3.2 on page 29:**

The second sentence currently reads “By January 2019, it had reduced the number of senior managers in PSB by 205 (46%), from ...” This needs to be corrected to say “By January 2019, it had reduced the number of senior managers in PSB by **295 (55%)**, from ...”

#### **The revised paragraph should read:**

**3.2** The BBC has made several public commitments over the years to reduce the number and cost of its senior managers in public service broadcasting (PSB) and has reported regularly on its progress in doing this. By January 2019, it had reduced the number of senior managers in PSB by 295 (55%), from 540 in 2010-11 to 245, and the PSB senior management pay-bill by £24.5 million (38%), from £64.1 million in 2010-11 to £39.6 million. Part of the reduction achieved in both total headcount and the pay-bill in 2017-18 arose because of the establishment of BBC Studios, previously part of PSB, as a commercial subsidiary (**Figure 9** overleaf). The BBC has made no public commitments regarding the number and cost of senior managers in its commercial subsidiaries. These showed a small reduction until 2017-18 when BBC Studios was established as a commercial subsidiary.

BACK

#### **In Figure 12 on page 35 the following corrections are needed, these are;**

- under the incentives/benefits type column, the words ‘**performance related pay**’ need to be added to the BBC Worldwide row;
- under the incentives/benefits type column, the word ‘**bonus**’ needs to be deleted from the Bank of England row;
- the staff numbers in the final column for the BBC Worldwide row need to be corrected from ‘3,115’ to ‘**1,514**’;
- the staff numbers in the final column for the Sky row need to be corrected from ‘11,481’ to ‘**30,609**’; and
- Note 5 to the figure needs to have a second sentence added that reads ‘**In addition, the £87,000 received in benefits and incentives by the chief executive of Network Rail does not include any performance related pay, as the individual declined to take performance related pay for the year in question**’ see corrected **Figure 12**.

BACK

**Figure 12****BBC Director-General's latest remuneration package compared with others**

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Source: National Audit Office analysis of latest available annual reports

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