



**A review of the BBC's
arrangements for managing
on-screen and on-air talent**

Appendices

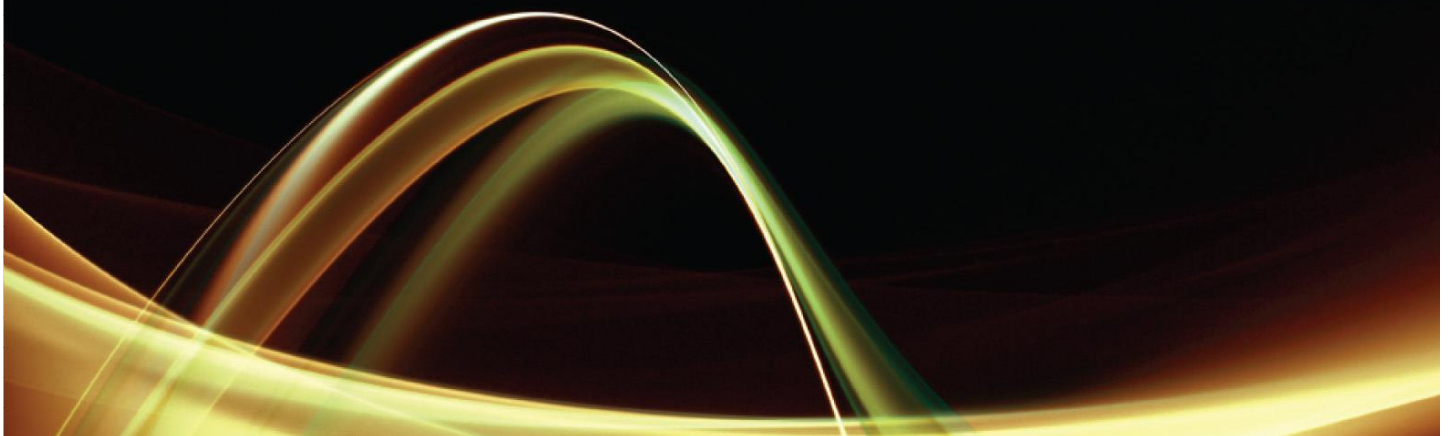




A review of the BBC's arrangements for managing talent: Appendices

To accompany the report for the BBC Trust
prepared by Oliver & Ohlbaum Associates Ltd

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1 Scope

The scope of this review is broadly comparable with our 2008 review, in that it provides an assessment of the BBC's impact on the wider market for talent as well as the processes involved in managing on screen and on air talent.

1.1 Scope of the review

This report is an opportunity for the BBC Trust to revisit the BBC's approach to talent management and its impact on the wider market. As with our 2008 report, the scope of this review covers the BBC's approach to managing and rewarding its performers and presenters. This includes on-screen and on-air talent at all tiers across both television and radio, and operating in all genres. The definition we have used is consistent with that used in the talent spending data presented by the BBC in its annual report and accounts. The types of talents covered include:

- Actors
- Presenters
- Performers
- Conductors
- Orchestral musicians
- Supporting artists and walk-ons

Although the BBC uses a broader spectrum of talent, including talents such as writers, directors, producers and craft skills, and for whom competition for their services is likely to intensify in future years, our review focuses solely on the assessment of the BBC's management of those operating on-screen and on-air. The three main questions addressed by our enquiry are:

1. Are the BBC's talent costs consistent with the market for talent?
2. Does the BBC have appropriate processes and information to manage talent (both in the period since the last review, and going forward)?
3. Does the BBC's talent strategy have a clear focus on attracting and retaining talent, with processes for developing new and existing talent that deliver value?

Unlike our review in 2008, which looked backwards at the BBC's performance over the previous five years, this review considers both the BBC's historic performance in managing talent and its planned approach to a managing talent in future, as it introduces its new target for talent spending, which is defined as a percentage of total in-house content spending.

1.2 Terms of reference

The Terms of Reference were agreed between Oliver & Ohlbaum, the BBC Trust, and the BBC Executive and provided the framework for our review.

Figure 1: Terms of Reference

Key questions	Sub questions
Has the BBC's approach to talent pay delivered VFM?	
1. The BBC's impact on the market for talent	
A. How have the size and structure of the BBC's reward packages for talent compared with the rest of	i. Does the BBC pay more or less than its competitors across different parts of the talent market?
	ii. Does the BBC offer a split between first and secondary windows of remuneration?

Key questions	Sub questions
the market?	iii. If so, is this split consistent with the rest of the market?
B. What has been the impact of the BBC's talent pay policy?	i. How has the BBC's spending on talent changed in recent years?
	ii. Is the apparent reduction in talent costs a fair reflection of performance?
	iii. How has the BBC's overall spending and pattern of spending compared with the market?
	iv. Is the BBC able to influence the market price?
	v. Has this been impacted by the need to reduce talent costs?
	vi. Is the BBC's policy of reducing talent spend sustainable?
2. Decision processes and information use	
A. Are the current processes for identifying and assessing talent motivations appropriate?	i. How does the BBC's approach to understanding talent motivations compare to other broadcasters and best practice?
	ii. Do the processes provide the Executive with information on what motivates talent?
	iii. Do the processes seek to quantify the attractiveness of all aspects of the BBC's offer?
B. Are the current processes for costing the BBC's offer effective and complete?	i. How does the BBC's approach to quantifying the total cost of talent compare to other broadcasters and best practice?
	ii. Does the Executive assess the cost of all forms of reward available to talent (financial – primary and secondary windows of remuneration, career development, exposure, commercial deals)?
	iii. Is the cost to the BBC of each element assessed in a consistent way across divisions?
C. Are the current processes for identifying the talent's value to the BBC effective?	i. How does the Executive identify the talent's value (in programmes) to the corporation?
	ii. Does this capture the talent/programme's contribution to the public purposes and corporate objectives?
	iii. Is any attempt made to quantify this value?
D. Does the BBC use information to monitor and manage on-screen diversity/representation?	i. Does information cover gender, age, ethnicity, disability and geographic location?
	ii. Is on-screen prominence recorded?
	iii. Is this information used to manage and improve talent diversity?
E. Are current controls over talent deals proportionate to the risks and rewards involved?	i. How does the control environment around talent deals compare to other broadcasters and best practice?
	ii. Are the sign-off levels and delegated authorities proportionate to the risks and rewards of talent deals?
	iii. Are there controls in place to prevent circumvention of the new procedures?
F. Were the previous policies and processes followed?	i. Is information on talent motivations used to inform talent negotiations?
	ii. Is information on the value and cost [to the BBC] of talent used to inform negotiations?
	iii. Are delegated authorities and sign-offs adhered to?
3. Developing and nurturing talent	
A. Does the current approach	i. How does the BBC seek to attract new talent without overpaying?

Key questions	Sub questions
have a clear focus on attracting and retaining talent?	ii. What has been the impact of the BBC's talent pay policy on attracting new talent to the BBC, and on retaining existing talent?
B. Does the current approach have a clear focus on developing new and existing talent?	i. Are there regular opportunities to identify and assess new talent?
	ii. Are existing talent assessed for their development potential?
	iii. Are opportunities to develop talent skills identified?
	iv. Are opportunities matched to talent with potential?
	v. Is the development of talent mapped out over multi-year deals and between diverse formats/channels?
	vi. Does the approach to talent development include succession planning?
Is the new approach to talent pay well considered?	
4. The BBC's impact on the market for talent	
A. Is the approach based on a robust assessment of the market?	i. Has the BBC assessed the current talent market and their position within it?
	ii. Have they assessed the market's future prospects and its likely reaction to the BBC's own plans?
	iii. Are these assessments evidence based?
	iv. Has the talent strategy taken these assessments into account?
B. Does the approach allow for future changes in the market to be addressed to ensure the BBC remains attractive?	i. Is there a mechanism to monitor changes in the market over time?
	ii. Will this mechanism identify the BBC's position in the market?
	iii. Is there an opportunity to update the strategy (e.g. size and structure of deals) based on this information?
5. Decision processes and information use	
A. Are the proposed processes for identifying and assessing talent motivations appropriate?	i. How does the new approach compare to other broadcasters, best practice, and the BBC's existing approach?
	ii. Will the processes provide the Executive with information on what motivates talent?
	iii. Will the processes seek to quantify the attractiveness of all aspects of the BBC's offer?
B. Are the proposed processes for costing the BBC's offer effective and complete?	i. How does the BBC's approach to quantifying the total cost of talent compare to other broadcasters and best practice?
	ii. Will the Executive assess the cost of all forms of reward available to talent (financial – primary and secondary windows, career development, exposure, commercial deals)?
	iii. Will the cost to the BBC of each element assessed in a consistent way across divisions?
C. Are the proposed processes for identifying the talent's value to the BBC effective?	i. Will the Executive identify the talent's value to the corporation?
	ii. Will this capture the talent's contribution to the public purposes and/or corporate objectives?
	iii. Will the value of talent be quantified?
D. Do the proposals identify how information will be used to support diversity/representation?	i. Will the proposals include data on gender, age, ethnicity, and disability?
	ii. Will on-screen prominence also be recorded?
	iii. Will this information be used to manage and improve diversity and geographic location?

Key questions	Sub questions
E. Are the revised controls over talent deals proportionate to the risks and rewards involved?	i. How do the BBC's revised controls compare to other broadcasters and best practice? ii. Are the sign-off levels and delegated authorities proportionate to respective talent deals and individual's responsibilities? iii. Are there controls in place to prevent circumvention of the new procedures?
F. Does the strategy effectively encourage performance?	i. Does the strategy set targets for talent (e.g. cost per viewer hour)? ii. Do these targets balance cost and performance? iii. Do the targets allow progress to be measured?
6. Developing and nurturing talent	
Does the revised approach have a clear focus on developing new/existing talent?	i. Will talent be assessed for their development potential? ii. Will opportunities to develop talent skills identified? iii. Will these opportunities be matched to individuals with potential? iv. Will the development of talent be mapped out over multi-year deals and between diverse formats/channels? v. Does the approach to talent development include succession planning?

2 Findings from 2008

Our 2008 report made a number of recommendations to help the BBC improve its approach to managing the cost of talent.

2.1 BBC talent management in 2008

We last reviewed the BBC's approach to managing on-screen and on-air talent, and its impact on the market, on behalf of the BBC Trust in 2008. The previous review was commissioned in the context of very public discussion about the pay of some of its top earning stars. The review was timely in that it enabled the BBC to embark on a new talent strategy against a backdrop of severe cost pressure at the BBC and more general austerity in the wider economy.

The scope of the 2008 review covered on-screen and on-air talent in all divisions of the BBC. Rather than the editorial processes, the focus of the review was on the business processes and the controls in place to manage the BBC's talent, as well as to gain an understanding of the BBC impact on the wider market for talent.

2.1.1 Key findings from our 2008 review

We reported findings across four key questions covering: the BBC's talent strategy, the BBC's talent management processes, the extent to which those processes deliver value for money, and the BBC's impact on the wider market for talent. The high level findings focussed on the BBC's market impact, where we found no evidence that the BBC was paying more than the "market price" for leading TV talent, nor that its approach to talent management had increased the price of talent in the market. We also found that the BBC had a number of processes in place to help it to deliver value for money when negotiating talent deals, and had strengthened these processes in recent years, but there were several areas for improvement.

There were a number of deficiencies in the BBC's processes and systems relating to talent spending. We found that the BBC lacked a consistent approach to scrutinising talent deals and, where deals were subjected to more rigorous consideration, there was room for greater internal challenge, since those interrogating the deals had to rely on the facts and benchmarks provided by those proposing them. These processes also tended to pay less attention to talent deals relating to new programme strands, which created a risk of talent fee inflation in new programming, where comparison to historic talent fees is less straightforward than in returning strands.

There were also a number of gaps in the data available to manage talent spending. The BBC ran into significant difficulties when trying to provide us with basic talent spending data. The BBC did not systematically monitor talent spending at genre or divisional level, meaning that those charged with managing talent spending could not take an informed view on progress against talent spending targets. The BBC was also unable to link costs and outputs, meaning that it could not monitor what it was buying from talent in terms of hours on screen. At a negotiation level, while relevant historic and audience data tended to be available to support talent deals, we found that these metrics were used inconsistently, allowing for 'cherry picking' by production teams in support of talent deals.

Overall, while we found no evidence that the BBC's approach to talent management was pushing up market prices, it may have been paying more than necessary in some areas. In particular, in Radio, News, and Sport, we found that a relative lack of competition exposed the BBC to a greater risk of overpaying. In these areas the BBC does not have a competitor of similar scale which made it difficult to judge value for money. Where the BBC did pay more, this was not necessarily unjustified, but there was a lack of process in place to properly consider the alternatives available to the BBC and the motivators of the talent in question.

2.1.2 The BBC's response to our 2008 review

Based on our findings, we identified a number of areas where the BBC could adjust its approach to achieve greater value for money for licence fee payers. We made recommendations across three areas, which are set out below.

1. improvement of information systems and evaluations procedures;
2. processes and pre-planning improvements; and
3. specific priority areas for on-going strategic reviews of talent across the BBC.

The Trust passed on our recommendations to the BBC Executive, and agreed next steps which involved the Executive setting out its future strategy to manage talent at both pan-BBC and divisional level. The Executive's response to our recommendations is described in its talent strategy, and sought to address our recommendations in two ways: firstly, through its overarching strategy addressing issues relating to its information systems & evaluation procedures, and process improvements; and secondly, through the development of detailed divisional strategies addressing the wider approach to talent management in each division.

The BBC Executive reported its progress in delivering against our recommendations in 2009, in a paper to the BBC Trust. At that time, it had generally made good progress in implementing its new strategy: it has established its overarching talent strategy and related approvals process for talent deals, and the development of the divisions' individual strategies was well underway. There was also a clear plan in place to improve the BBC's information systems, which responded to each of our recommendations in turn. Following our 2008 report there has therefore been a great deal of change at the BBC to improve its processes around talent spending and ensure that value for money is delivered, in this review we examine the success of these changes, and how well the BBC is positioned to manage its talent spending in future.

Figure 2: Recommendations from our 2008 report

Theme	Area	Recommendation
Improvement of Information Systems and Evaluation Procedures text	Systematic Outturn Inflation Monitoring and Feedback	While the BBC does measure inflation there seems to be very little knowledge as to performance by genre and sub-genre across the BBC among relevant management. The BBC needs to monitor key trends in a more systematic way and ensure its systems produce relevant and timely data.
	Strategic Level Rival Broadcaster and Talent Alternatives Intelligence	BBC intelligence about rivals needs to go beyond specific deals and needs to include commercial valuations for the largest and most important deals. The BBC also needs to do more work on the real alternatives facing the talent asking for higher fees, especially in genres where there is no rival of significant scale.
	Use of Cost per Viewer/Listener Hour Versus Incremental/Unique Value	The BBC needs to reduce its dependence on cost per viewer and listener hour benchmarks as justification for fee rates and needs instead to focus on the incremental and unique value the talent brings. Where cost per viewer or per listener hour benchmarks are used they need to be used in a systematic way, not selectively to support a specific case.
	Continuous Presenter/Performer Value Research	In some genre areas where competition is very intense or payments reach high levels, the BBC should engage in systematic and continuous consumer value research to support its succession planning programme so as to identify unique pulling power, commercial value and potential replacements.
Process and Pre-Planning Improvements	Better Succession Planning	The recent BBC rights and talent strategy initiative had highlighted a need for succession planning, this review endorses this and would suggest it made an ongoing requirement in areas of most intense

	<p>More Internal Challenge</p>	<p>competition and/or highest current fee rates.</p> <p>While we understand business affairs staff do question fee rate increases and challenge BBC producers and commissioners (and that there are mechanisms for BBC finance staff to further interrogate decisions), there is probably not enough independent challenge when decisions are finally made.</p> <p>In particular, we would recommend the commissioning of new independent research and analysis outside of the normal review processes as part of decisions on significant levels of fee payments. This independent analysis should be charged with taking a broader view of fee trends and fee setting criteria across a relevant sub-genre than the current case by case approval/evidence process.</p> <p>This might include a genre wide consumer talent value survey like the one conducted for this review.</p>
<p>Specific Issues for the BBC's Strategic Reviews</p>	<p>Role and Positioning Review in Entertainment and Comedy</p> <p>Price Setting Reviews in Radio, and News and Current Affairs</p>	<p>The BBC might benefit from a specific review of its market positioning in the entertainment and comedy talent area, its success or otherwise in developing new talent and its current reliance, along with the rest of the TV market – on a limited number of lead presenters.</p> <p>It should also review the role of presenter/lead panelist driven entertainment versus other approaches to entertainment.</p> <p>These are areas where the BBC is often setting rates without a leading competitor of scale for the kind of talent the BBC uses (i.e., rivals may be interested in one or two of the BBC roster but not much beyond that).</p> <p>The BBC should both specifically monitor the changing market context in these areas and assess whether there might be scope for resetting rates across the board given a thorough assessment of the real alternatives available to talent and the BBC's long term objectives.</p>

3 Methodology

To address the issues raised we conducted a programme of interviews (both internal and external), along with detailed document and data review to examine the BBC's processes and performance in terms of talent spending. We supplemented these methods with consumer research, a survey of independent producers, desk research and a talent mapping exercise to test the BBC's approach and success in developing and retaining talent. Our approach is set out in more detail below.

3.1 Interviews programme

We met with representatives from all areas of the BBC to ensure that we heard the views of those responsible for talent management in all genres and across all tiers. Interviews were conducted at both central and divisional level to provide a view of central talent strategy as well as an understanding of how talent is managed at a divisional level, including the main television genres, radio, and the nations and regions. Interviewees tended to be at a high level of seniority, both centrally and at divisional level, including those with ultimate responsibility for talent management centrally, as well as divisional directors, channel controllers, genre heads and heads of business development. We met with 83 BBC representatives responsible for talent management and diversity.

Our extensive programme of external interviews covered 30 individuals involved in the UK talent market. These interviewees came from a range of organisations, including broadcasters, independent producers, agents, management companies and trade associations. These interviews provided an opportunity to test the views of individuals across the full breadth of the talent market on issues including the trajectory of talent pay, the key drivers of change over the last five years and going forward, the BBC's impact on the market, and its contribution to talent development. The interviews were conducted on a non-attributable basis, so the views expressed are collated and used to inform our findings; no individuals are quoted.

The individuals we spoke to within the BBC and the organisations we spoke to externally are listed in Appendix 4.

3.2 Data review and analysis

We undertook a detailed analysis of BBC talent spending data to assess how talent spending has changed over time, by payment type, and across the BBC's payment systems. The BBC's talent spending data comes from several systems, each marshalling different types of payments, to different types of contributor. Since the BBC does not have a single overview of payments to all talents, we sought to establish a master database, listing all payments to all individuals across all systems. This allowed us to analyse talent spending by individual, payment system, division, and genre.

Figure 3 sets out the types of payments we included in our database, which covers the three core payment types, along with Off-ACON payments; these are the talent payment types reported in the BBC's Annual Report and Accounts:

1. **ACON payments:** fees to freelance talent from the BBC's primary talent payment system
2. **Staff talent:** salary payments to on-screen / on-air talent, predominantly in News, who are BBC employees
3. **Short talks payments:** low-value payments made through the Short Talks payment system to contributors, particularly in News. These are in the process of being withdrawn as a payment system, and are currently only made to non-UK vendors
4. **Off-ACON payments:** very rarely, payments to freelance talent made outside the ACON payments system

We expanded the database to include other payments to talent which are not directly in the body of our report. We included these payments for completeness and, while they are not included in the body of our

report, they are covered by Appendix 7, which provides more detail on the BBC's talent data systems. These payment types are:

5. **Copyrights & repeats payments:** two discrete payment types made via ACON relating to copyright payments or repeat fees. These can relate to all programming, not just originations and payments are therefore made to talents who are no longer active.
6. ✂.

Figure 3: Talent database methodology

✂

3.3 Consumer research and talent value benchmarking

We commissioned a consumer survey to demonstrate the importance of talent, assess the draw of individual talents, and, in the absence of actual talent cost data from commercial broadcasters, to facilitate a talent value benchmarking exercise. The research covered 150 talents across 14 genres of programming. Talents were selected to give a broad range of responses across the spectrum of diversity while being sufficiently recognisable to provide valid results.

The survey was conducted online, using a sample of nationally representative respondents. In total, 2,103 respondents completed the survey, though not all were asked about talents in every genre; the minimum number of respondents for a single genre was 615. Using responses to 'screening questions' which establish respondents genres of interest, quotas were enforced to ensure we obtained a representative sample of individuals interested in each genre. National representation was based on gender, age, region, 'socio-demographics' and ethnic background.

The main section of the survey assessed the following:

- **Importance of talent by genre:** The overall importance of talent, along with other programme elements, within each genre. This established the importance of talent relative to programme elements such as slot, script (for scripted programming), and style. Respondents were asked to drag programme elements onto a scale from "not important" to "very important".
- **Likeability and viewer/listener pull:** Respondent's views of specific talent within a genre using a "like" and watch/listen scale. This enables us to develop a likability ranking for individual talents. Respondents were asked to drag pictures of talents onto a grid to denote how much they like a talent and how much they watch of listen to them.
- **Alternatives:** Respondents are asked how much less or more they would watch or listen to a particular programme if a named talent was replaced. This allows us to gauge a talent's impact on viewing levels relative to other talents. Respondents were asked to drag alternatives onto a scale to denote how much more a less they would watch/listen to a programme if they were to replace a named talent.
- **Characteristics:** Respondents are asked which words (such as "funny", "down-to-earth" and "boring") they associate with named presenters, to build up a qualitative picture of how that talent is seen by audiences. Respondents could drag up to five adjectives on to each talent within a given genre.

- **Importance of attributes by genre:** Measuring the importance of given attributes of talent in each genre. Respondents were asked to drag relevant adjectives on to a scale from “not at all important” to “very important”, to demonstrate how the requirements of talent differ by genre.

We tested 140 talents across 14 genres. We cannot provide the names of the talents included, for confidentiality purposes, but the genres and the number of talents tested in each, are set out in **Figure 4**. Talents selected covered a broad range of broadcasters, not just those featuring on the BBC.

Figure 4: Genres surveyed in our consumer research

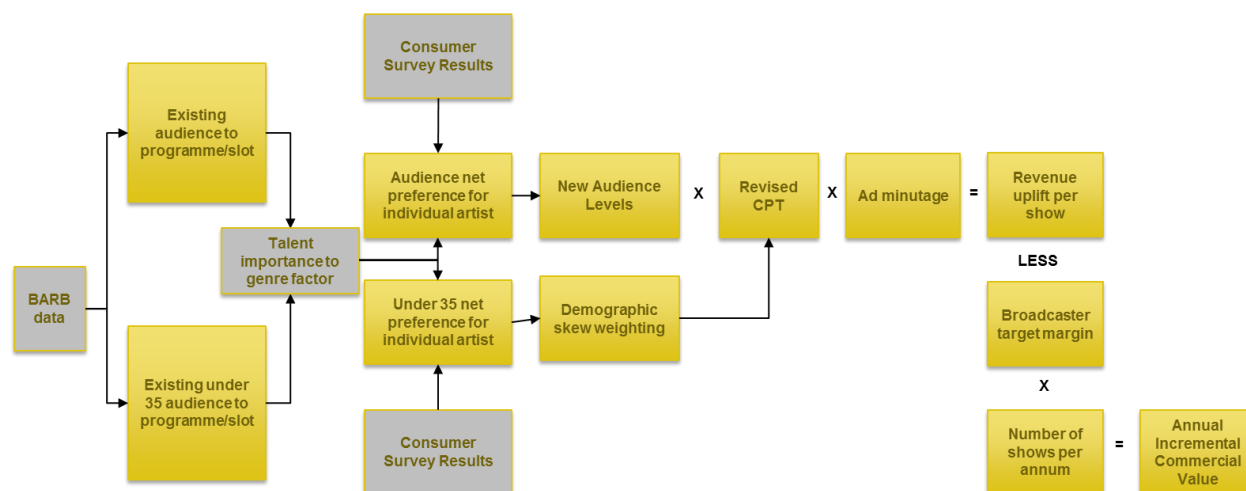
Genres			
Peak Entertainment	12	Light General Factual	14
Chat Shows	9	News	12
Specialist Factual	12	Sport	10
Magazine shows	12	Drama leads	10
Panel Shows	10	Quiz / Game Shows	10
Cookery	10	Music and speech radio	12
Comedy leads	9	News and sports radio	10

To facilitate benchmarking of the BBC's talents against those in the commercial sector, we used the 'alternatives' question from our survey, combined with audience data from BARB. The process to establish the annual incremental value of a talent involves a number of steps which are set out in **Figure 5**.

1. **The talent importance factor:** The importance people attribute to the talent presenting or acting in a show varies markedly by genre. We calculate the talent importance factor by asking survey respondents how important talent is for each of the genres they watch.
2. **The audience impact of talent:** A talent's effect on a programme ('net proportion of watching') is derived by subtracting the proportion of survey respondents reporting they would watch more of the programme if the talent was replaced, from those reporting they would watch less if the talent were replaced.
3. **Importance of audience age and demographic split:** Under 35 and ABC1 audiences drive a significant cost per thousand (CPT) premium in the advertising market and are therefore worth more to broadcasters. By understanding how much an individual talent drives this audience compared to the slot average we can calculate the estimated demographic premium and hence extra commercial value of this talent.
4. **Cost per thousand:** The CPT is the cost of reaching 1,000 individuals with an advert. As stated above, CPTs vary depending on audience demographics; they also vary by broadcaster and slot. Our rates are taken from our in-house television model, which is used by Ofcom
5. **Ad minutes:** Ad minutes are based on an 18 slot per hour average, or 9 minutes of commercials.

This approach established the estimated uplift in the commercial value driven by a given talent, against a baseline for the genre. The baseline represents the basic level of pay paid to get the bare minimum required to produce a given programme. We estimated this baseline for each genre using our knowledge and conversations with those in the industry. Adding the incremental commercial value for each talent to the baseline provided us with the commercial valuations used in the benchmarking exercise presented in the body of our report.

Figure 5: Talent commercial valuation methodology



3.4 Document review

We reviewed over 50 BBC strategy documents, covering talent management policies and processes both centrally and across all divisions. We reviewed documents relating to a number of areas, including:

- The Executive's response to our 2008 report to the Trust on talent management
- The overarching talent strategy established in 2009
- Divisional talent strategies underpinning the 2009 talent strategy
- The new overarching talent strategy established in 2014

We reviewed these documents against the key questions raised in the Terms of Reference, establishing our understanding of the BBC's processes around talent management and informing our internal interview programme. Where appropriate, we obtained and reviewed further evidence to demonstrate that the BBC was conducting the monitoring and following the processes established in the strategy documents.

3.5 Case studies

We selected eighteen case studies to cover a broad spectrum of talent, focusing on the BBC's higher earners, so that the approval processes would be triggered. We aimed to get coverage across a number of important categories:

- A few from the very top
- Examples of the BBC attracting talent from other broadcasters
- Examples of the BBC losing talent to other broadcasters
- Some talents who have recently joined the top tier, either by pay or reputation
- Some mid-tier talent
- Some representatives of drama and daytime

Our case studies consisted of two elements, firstly an interview with those close to the deal, and then an in depth review of the relevant paperwork and related correspondence (both internal and external). The interviews tended to include senior BBC personnel, including commissioners, channel controllers, heads of production, and finance representatives. Where deals were considered across BBC divisions we spoke to representatives of all divisions involved; we also spoke to representatives of BBC Worldwide in relation to the largest deals, with Worldwide involvement. The talents covered are set out in **Figure 6**.

Figure 6: Case study talents

3.6 Walkthroughs

Our walkthroughs tested the BBC's processes for a large number of deals, selected at random, covering the full spectrum of BBC talent across all divisions. We identified 48 deals at random, using the talent database we built (see Section 3.2), ensuring they covered all divisions and a range of value categories so we could test that appropriate processes had been followed in all eventualities. The types of deal covered are set out in **Figure 7**, with the categories established to correspond to the controls and processes in place.

Figure 7: Walkthrough talents by type

Category	Number
Freelance talent	
New talents earning >£100k	2
Existing talents earning >£100k	14
New talents earning between £2k and £100k	7
Existing talents earning between £2k and £100k (with an increase*)	12
Talent on staff	
New talents earning >£2k salary	2
Existing talents earning between £2k and £75k receiving non-standard pay increases	3
Existing talents earning >£75k receiving non-standard pay increases	5
Talents moving up to the >£75k pay band, or new starters on >£75k	3
TOTAL	48

Note: *in several cases, the 'increase' did not represent a pay rise (for example, because the prior year's payment was not for a full year) and did not trigger a Deal Referral Form, so we also tested cases where existing talents earning between £3k and £100k did not receive a rise.

For each deal, we reviewed evidence that the appropriate approvals process had been followed, that the appropriate level of approval had been granted for the deal, and confirmed that the final value of the talent's contract was in line with the approvals documentation.

- For freelancers, we tested against the Deal Referral Process
- We tested four talents with fees defined by block deals such as extras and orchestral musicians (included in the existing talents earning between £2k and £100k category); we checked the payments against the terms of the deal.
- For talent on staff we tested against the staff salary process, which requires Remco approval for salaries over £75k.
- We did not test payments to talents earning less than £2k because these payments are not subject to any controls.

3.7 Talent mapping

We used a talent mapping exercise to assess the effectiveness of the BBC at developing and retaining talent, compared to ITV and Channel 4. We focused on ITV and Channel 4 as comparators as both are PSBs of considerable scale, commissioning originated programming in high volume. To provide a sense of the BBC's overall contribution to talent development, we considered programming made by independent producers as well as in-house.

We focused on four genres to provide coverage from across the spectrum of programme making, while keeping the exercise manageable. The genres chosen were:

- **Entertainment**, consisting of sub genres 'Chat Shows', 'Quiz/Game Shows', 'Family Shows' and 'Panel Shows'
- **Factual Documentary**, consisting of sub genres 'History', 'Human Interest', 'Natural History', 'Science/ Medical'
- **Lifestyle**, consisting of sub genres 'Cooking', 'DIY' and 'Homes'
- **Comedy**, consisting of sub genres 'Situation Comedy' and 'Other Comedy'

We used our BARB database, consisting of every strand aired on BBC1, BBC2, ITV1, C4 and Five in 2013 to select relevant strands within these genres. We excluded non-originated programming from the database, so that we are only considering broadcasters' current use of talent. We then filtered the strands to a manageable level by removing those not meeting minimum hours criteria. We therefore excluded: Factual Documentary, Lifestyle and Comedy strands with less than three hours (to capture six-part 30-minute comedies and three or four part factual documentaries) and Entertainment strands with less than ten hours (given Entertainment shows are typically commissioned in higher volumes) were excluded from analysis.

Finally, we excluded strands not driven by a single lead talent or pair of lead talents, and identified the lead talents from the remaining strands. In the cases where talent appeared for the same channel on more than one strand, the talent was only considered once for tracking analysis. If talent appeared on more than one channel, then their tracking would appear in all relevant channel profiles.

Having established the talent rosters for each broadcasters, we used various web-based sources to map out talents' careers. Websites including www.imdb.com and www.spotlight.com provide detailed and reliable information on talent programme histories. We also used broadcaster websites, www.tv.com, and www.wikipedia.org to provide contextual information on talents' careers and, where necessary, double check information we had identified from other sources.

We mapped the talent's career out in five stages: what channel they worked on in 2009, 1994, 1984 (if any), and where the talent had their first on-screen or on-air appearance (regardless of when this was). A further stage labelled 'Previous' was also used to show the channel the talent came from immediately prior to the selected 2014 strand, even if this may have occurred over five years ago - this is the best indicator of where the broadcasters source their talent from. If the talent did not appear on network television in the selected years, but did present on radio, then their radio station was noted as their entry for that year.

4 Interviewees

Our work centred around an extensive programme of interviews – both within the BBC and with external parties including commercial broadcasters, independent producers, and agents – combined with data analysis, process testing, and a detailed piece of consumer research.

4.1 BBC Interviewees

We spoke to those involved in talent management across all areas of the BBC. In addition to those listed below, we spoke to many more as part of our case studies and walkthroughs.

Division	Individual	Role
Television	Danny Cohen	Director Television
	Sonia Magris	Finance Director TV
	Roger Leatham	Controller Rights, Legal and Business Affairs
	Bal Samra	Managing Director TV
	Anne Bulford	MD Finance and Operations
	Charlotte Moore	Controller BBC 1
	Dan McGolpin	Head of Planning and Scheduling BBC 1
	Margo Swanley	Head of Audiences
	Kim Shillinglaw	Controller BBC 2
	Don Cameron	Head of Planning and Scheduling BBC 2
	Sam Bickley	Acting Controller BBC 3
	Damian Kavanagh	Controller BBC Daytime and BBC 3 Project Lead
	Jamie Morris	Head of Planning and Scheduling BBC 3
	Lynne Connolly	Business Manager Rights Legal and Business Affairs
	Natalie Christian	Senior Adviser Editorial Policy
Television: Factual	Lisa Opie	Controller Business Factual
	Paul Luke	Head of Funding and Commercial Factual and Daytime
	Emma Swain	Controller Commissioning
Television: Comedy	Natalie Humphreys	Controller Factual and Daytime Production
	Jennifer Barrett	Head of Legal and Business Affairs Factual and Daytime
	Mark Freeland	Controller Fiction and Entertainment
	Myfanwy Moore	UK Controller Comedy Production

Television: Entertainment	Tamara Howe	Controller Business
	Janet Shaw	Head of Funding and Commercial
	Shane Allen	Controller Commissioning Comedy
	Sophie Taitt	Head of Production Comedy
	Mark Linsey	Controller Commissioning Entertainment
	Katie Taylor	UK Controller Entertainment Production
	Doug Whitelaw	Head of Production
	Matt Travers	Head of Funding and Commercial Entertainment
	Mike Griffiths	Head of Legal and Business Affairs Entertainment
	Television: Drama	Nick Betts
Craig Holleworth		Head of Funding and Commercial Drama
Zoe Brown		Head of Legal and Business Affairs
Hilary Salmon		Head of Drama London
Radio	Ben Stephenson	Controller Commissioning Drama
	Gordon Ronald	Head of Production
	Nikki Saunders	Head of Production UK Continuing Drama
	Helen Boaden	Director Radio
	Shirley Cameron	Finance and Business Director
	Isabel Begg	Head of Commercial and Business Development Radio
	Ben Cooper	Controller Radio 1 and iextra
	Gwyneth Williams	Controller R4 and R4 extra
	Bob Shennan	Controller Radio 2 and 6 Music and BBC Music
	News and English Regions	James Harding
Keith Blackmore		Managing Editor News
Fran Unsworth		Deputy Director News
Richard Dawkins		Chief Financial and Operating Officer
Jonathan Munro		Head of News gathering
Tessa Beckett		Business Affairs Manager
Jonathan Wall		Controller 5 Live
David Holdsworth		Controller English Regions

BBC North, Sport, and Children's	David Letch	Finance Business Partner News and English Regions
	Peter Salmon	Director, England
	Alice Webb	COO England
	Carolyn Bodley	HR Director
	Daniel Chaffer	Finance Partner
	Jessica Yelas	Head of Legal and Business Affairs North
	Barbara Slater	Director Sport
	Neil Land	Chief Adviser Sport
	Philip Bernie	Head of Television Sport
	Richard Burgess	Head of Sports News and Radio Sport
	Lloyd Shepherd	Talent Manager Sport
Helen Bullough	Head of CBBC Production	
Scotland, Wales, and Northern Ireland	Kat Benbow	Controller Cbeebies
	Joe Godwin (by notes in absentia)	Director Children's
	Cheryl Taylor	Controller CBBC
	Jackie Myburgh	Controller of Business Children's
	Donalda Mackinnon	Head of Programmes and Services Scotland
	Donald-Iain Brown	Head of Talent and Editorial Ops
	Alison Denvir	Head of Rights and Business Affairs Scotland and Northern Ireland
BBC Diversity	Kathleen Magee	Business Affairs Manager
	Rhodri Talfan Davies	Director BBC Cymru Wales
	Donna Spencer	Head of Legal and Business Affairs
	Clare Hudson	Head of BBC Wales Productions
	Peter Johnston	Director Northern Ireland
	Amanda Rice	Head of Diversity
BBC Worldwide	Deena Saeed	Diversity Lead
	Hamida Ali	Diversity Manager Policy and Performance
	Tim Davie	Chief Executive BBC Worldwide
	Mark Reynolds	Director Content and Production
	Saul Venit	Director of Commercial and Legal Affairs

4.2 External organisations interviewed

We conducted more than 30 interviews with senior industry stakeholders, providing an important perspective on the BBC's approach to talent spending. We spoke to other broadcasters, independent production companies, agents, and trade bodies. The interviews were conducted on a non-attributable basis, so they were frank and open. Some interviewees did not wish to be mentioned in the report and so we have excluded interviewee names, and some organisations all together.

Figure 8: External interviewees

Type	Organisation
Broadcasters	Channel 4
	BSkyB
	Global Radio
	UKTV
	Viacom
Independent Producers	All3Media
	Endemol UK
	Fremantle
	ITN
	Optomen
	Shine
	Warner Brothers
Agents	Brood Management
	Cassie Mayer Ltd
	Debi Allen Associates
	Independent Talent Group
	James Grant Group
	Lou Coulson
	PBJ Management
	Peters Fraser & Dunlop
	Sylvia Young
	Triple A Media
	Troika
	United Agents

Others	Directors UK
	Equity
	Pact
	Personal Managers Association (PMA)
	Radio Centre
	The Writers' Guild of Great Britain

5 The market for talent

In this Appendix, we consider the market for talent, to provide the context in which the BBC is required to manage its on-screen and on-air contributors. We set out the basic economics of the talent market, and consider the specific quirks which make talent a complex area.

5.1 The economics of the market for talent

The market for talent is typical of labour markets in that the price of talent is ultimately driven by the laws of demand and supply. While there have been several developments in the market since we last reported in 2008, the basic economics of the market remain unchanged. However, the many segments and deal elements make it one of the most complex areas of the broadcast sector. There are differences by medium, genre and time of broadcast; deals can include up-front payments and “back end” shares; for some players broadcast earnings can be supplemented by considerable income elsewhere; for many others it is a job like any other. All these variables make negotiating with, and contracting talent complex and time consuming.

5.1.1 A tiered market for talent

On-screen and on-air talent is defined as the actors, presenters and performers contributing to television or radio programmes from in front of the camera or microphone. This covers a broad range of individuals, from lead actors and presenters on television, to local radio night-time DJs, from news readers to extras. Many talents are household names, capable of drawing in audiences and commanding large fees in recognition of their unique contribution, but a larger number are not. For the majority of talent, acting, presenting or performing is their job and, while on-screen and on-air programming would not be what it is without them, they are not well known and do not command fees on the scale of some of the top talents.

There is a clear tiering of talent in the UK market. The top tier includes household names who are recognised as being able to draw in audiences, and often have the gravitas to secure a commission through their involvement. Outside of the top tier the distinction is less clear; the mid and lower tier consist of talents who are on the ascendancy, as well as those who may be established performers in roles which are unlikely to lead to top tier status. At the bottom of the talent market are extras and one-time contributors who may not be career actors or performers but are active participants in the market, with several genres relying on their input.

This tiering is, in itself, a complex area, and one which varies by genre. In some genres, the difference between the top tier and the ‘rank and file’ is very apparent, such as in Entertainment, where popular show leads and chat show hosts stand out as more able than their peers to draw and engage the audience. In other genres, the difference between the top talent and ‘the rest’ is less clear; in News and Sport, where the content is the primary reason for audience engagement, talent is less of a differentiator. So the tiering of talent varies by sub-sector of the market.

5.1.2 Demand for talent

Demand for talent is a complex area that depends on many factors which differ between the BBC and commercial broadcasters. Commercial broadcasters are interested in programming that drives audiences and generates advertising revenues. How talent fits into this depends on number of factors including: decisions around programming mix to maximise audiences and advertising revenue, the perceived impact of talent in driving audiences within the selected programme genre mix, and the importance and cost of talent relative to other factors of production which can influence programme performance. These drivers vary by broadcaster type, with the BBC's demand for talent driven by factors beyond audience maximisation, such as the requirement to serve all audiences, and deliver niche programming to audiences underserved by the commercial sector.

The importance of talent varies by genre, in some, such as Comedy, Chat Shows, and Drama, talent is a particularly important driver of audiences. In these genres securing the top talents is important to ensure

audience ratings, and so the top talents are in high demand, particularly from the commercial broadcasters for whom strong audience performance is their primary objective. The ability of talent to guarantee strong audience performance can be used by broadcasters to reduce commissioning risk and allows the top tier talents to charge a premium for their services. Outside of the top tier, talents are generally seen as more substitutable and demand for a specific individual is therefore more subdued.

Above these broadcaster-level considerations are the macroeconomic factors which drive market demand for talent, these include market revenue growth and trends in consumer tastes and preferences. Market revenue growth is an important factor in demand for television and radio talent because it determines what broadcasters have to spend; one would expect commercial demand for talent to broadly follow trends in market revenues, but how this is allocated will also be driven by consumer tastes and preferences. Over the last ten years we have seen the rise of reality television, followed more recently by strong growth in factual entertainment. Sketch shows have disappeared in recent years being replaced by comedy panel shows. These factors are driven by consumer tastes and preferences and change the emphasis of demand for talent between genres.

The number of players in the market is possibly the biggest driver of demand for talent. Historically this has been relatively stable, with the BBC, ITV, and Channel 4 the largest commissioners of originated content in the UK. Over the last ten years, with the growth of multichannel and now growth in new digital media, the commissioning market has become more fragmented. We have seen growth in commissioning by UK multichannels followed by a significant move into content spending by pay TV providers such as Sky. At the same time, the rise of Netflix and other over the top services (OTT) has driven demand for talent from US companies who are keen to tap into the UK market.

5.1.3 Supply of talent

An individual's decision to supply talent is essentially a standard labour-leisure trade-off. Talents will choose whether or not to supply their services based on the motivators offered to them. Motivators of talent are largely in the form of money, like any other job, but there can be non-financial benefits which determine whether a talent will choose to work. Such factors might include exposure, particularly for less established talents, or the creative freedom to pursue projects of personal interest. Talents will consider both financial and non-financial incentives when deciding whether or not to supply their labour.

We have seen that talents are far from homogenous, and that top tier talents tend to experience strong demand for their services; they are also in short supply. They offer broadcasters a unique pull for audiences and because the difference between the top talent and the next best talent can have a large audience impact in certain genres, they are able to command large fees. Outside of the top tier there are a large number of individuals who are keen to get their big break or who are happy to retain their mid or lower tier status. Their relative abundance and lack of unique audience appeal means that these individuals command lower fees and thus the tiered market for talent exists.

5.2 Key complexities in the market for talent

There are a number of elements which make the BBC's unique position in the talent market particularly complex.

5.2.1 The BBC is a buyer in many sub-markets

The BBC must understand its relative bargaining position and the value of talent to it in a broad range of circumstances. The BBC participates in many sub-markets with varying degrees of competition, and where the BBC's appropriate positioning also varies. The market for TV News journalists is different to that for peak time Entertainment presenters, that for leading internationally renowned actors (many of whom now work regularly for Hollywood financed film and TV roles), and that for radio breakfast DJs, as is the BBC's positioning in these activities and that of its competitors. The BBC therefore requires a broad range of expertise across its activities to ensure it can deliver value to licence fee payers.

The breadth of the BBC's commissioning means that in some cases it requires the same talent in different genres, slots, or on different media. Unlike other programming assets in short supply (such as sports

rights), talent is a factor of production, whose specific potency and value, depends on how it interplays with other factors such as size of overall programming budget, or genre of programming. A named individual could have one level of value in a comedy programme and another in a documentary, and many individuals successfully work across genres. This means that the BBC needs to develop a detailed understanding how that talent's value varies with the output, and it needs to be able to articulate this difference to the talent in question to avoid talent fees tending towards those paid for the more expensive genre or media.

5.2.2 The BBC acts as a developer of talent

What the BBC develops today determines what is available tomorrow. The BBC acts as a developer – and hence as a long term supplier – of talent across many of its genres, helping to determine how many and which type of talent get their breaks on national, regional and local TV, radio and online services. Broadcasters play an important role in developing talent and by giving those in the mid and lower tiers opportunity to thrive, broadcasters can develop new top tier stars, with increased audience recognition and value.

This is particularly important for the BBC, since other broadcasters have a history of poaching its talent. The BBC needs to ensure that it has a productive pipeline of new talent coming through to replace costly top tier talents without damaging the quality of its output. Part of this is about understanding when to let talents leave; the BBC must strike a balance between retaining top performers and developing new talents. This is about managing the talent life cycle and allowing talents to move on when they are at the peak of their careers, potentially bringing them back when their earning potential has reduced.

5.2.3 Non-pecuniary costs and benefits of talent

The value the BBC seeks from talent can be difficult to quantify, it is largely non-pecuniary and is often linked to the specific individuals' 'fit' with the BBC brand and purposes. Ultimately, like commercial broadcasters, the BBC seeks to reach a large audience with its programming, but it must also produce programmes that appeal to niche audiences, and use talents which support the BBC's public purposes to represent the values of the UK and the people in it. Establishing the value of a talent's 'unique fit' with the BBC's values is not straightforward and represents a challenge for the BBC when negotiating fees, but also when considering the suitability and level of any additional payments to talent.

Motivators of talent can also be non-pecuniary and similarly difficult to quantify. Although talent is predominantly driven by money, other factors are also important. The BBC is in a unique position in that it can offer talent more opportunities across more genres and disciplines than any other broadcasters. It also offers talents the chance of exposure to large audiences and to be associated with a highly respected organisation. In many genres, these factors should allow the BBC to pay less than its competitors, but quantifying the value and the strength of the BBC's position in negotiations is not an exact science.

5.3 Complexities of talent deals across the industry

Generally speaking, talent can be rewarded through a number of different deal components, both upfront – irrespective of programme performance – and at the back end, where payment will tend to depend on the success of the programme in question. ✂. Examples of up-front payments used by broadcasters and production companies operating in the talent market include:

- **Basic fee:** paid for a talent's contribution to the programme in question. This is the core of the deal and, depending on the genre and nature of the deal may be expressed in a number of ways, such as per-episode, per hour of output, or per week of filming.
- **Advance payments from distributors:** If the talent has a history of successful commercial exploitation, distributors may, in some circumstances, provide an up-front fee in addition to investment from the broadcaster or producer. This can be thought of as an advance on royalties payable on commercial exploitation.

- **Commercial / repeats buy-out:** In some cases broadcasters buy-out rights to repeats and commercial exploitation in advance; this is often the case when commissioning a returning strand where, based on its historic success, the broadcaster knows how many repeats it will want to show.
- **Exclusivity fee:** In some circumstances, talent may be offered an exclusivity fee in addition to their basic per-programme fee. This is used to secure iconic talent, which broadcasters deem to be important to their public image, often in a long-term contract.

Talent may also negotiate a share in any commercial exploitation. Given the relative absence of a secondary rights market in radio[, such commercial back-end components are unique to television deals. Components include:

- **Secondary television royalties:** Share of gross or net earnings from international distribution and sales to subscription video on demand services (e.g. Netflix).
- **DVD / home video royalties:** Share of gross or net earnings from sales of series DVDs, home videos and digital downloads.
- **Book deals:** Especially common in factual genres, talent may negotiate royalties on books sold to accompany a strand of programming, published by commercial third parties and leveraging the series branding.

✂.

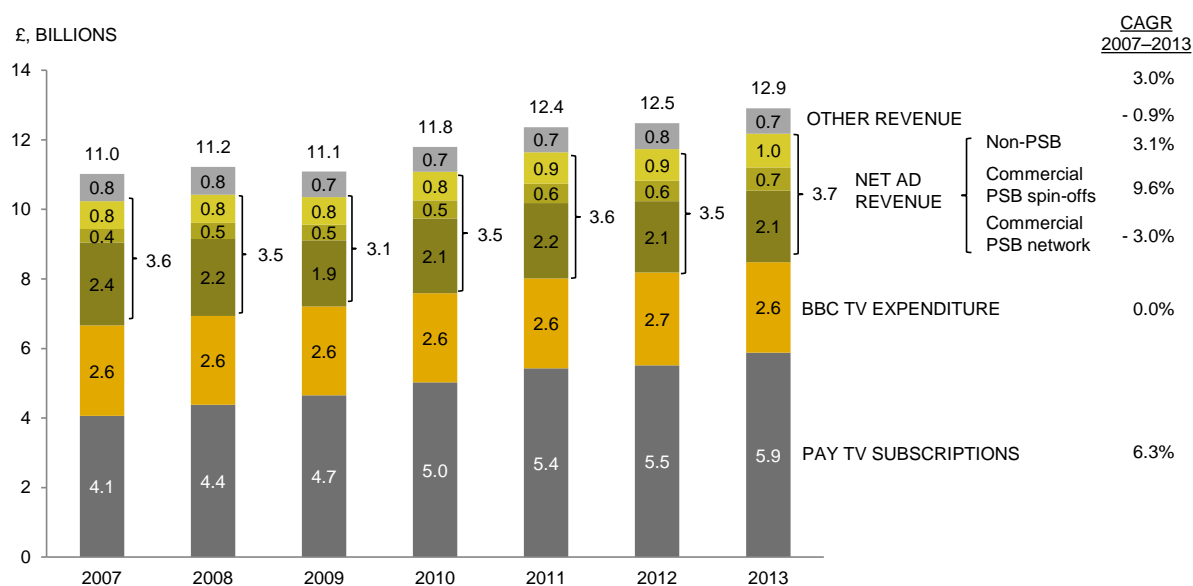
6 Market developments since 2008

Both the historic review of the BBC's approach to managing talent costs, and the assessment of the BBC's future response are set in the context of a number of changes to the market since 2008.

6.1 The television market

The introduction of the BBC's new talent strategy in 2008-09 came at the height of the global economic downturn. **Figure 9** shows that this was being most keenly felt by the commercial free to air broadcasters, who experienced sharp falls in their advertising revenue: squeezed on the one hand by reduced demand from advertisers and falling spot ad prices, and on the other by competition from multichannel operators for viewership and hence for advertising spending. While the BBC's income remained constrained by the terms of the previous licence fee settlement, it did not suffer the fall in net advertising revenue experienced by the commercial PSB between 2008 and 2009s. However, after 2013, the BBC began funding a number of additional activities including the World Service, and broadband roll-out, as agreed in the 2010 licence fee settlement. By contrast, pay TV revenues remained buoyant – although consumers tightened their spending in many areas, pay TV is a relatively low-cost substitute for expensive nights out or other leisure spend.

Figure 9: UK TV Industry Revenues by Source, 2007 to 2013

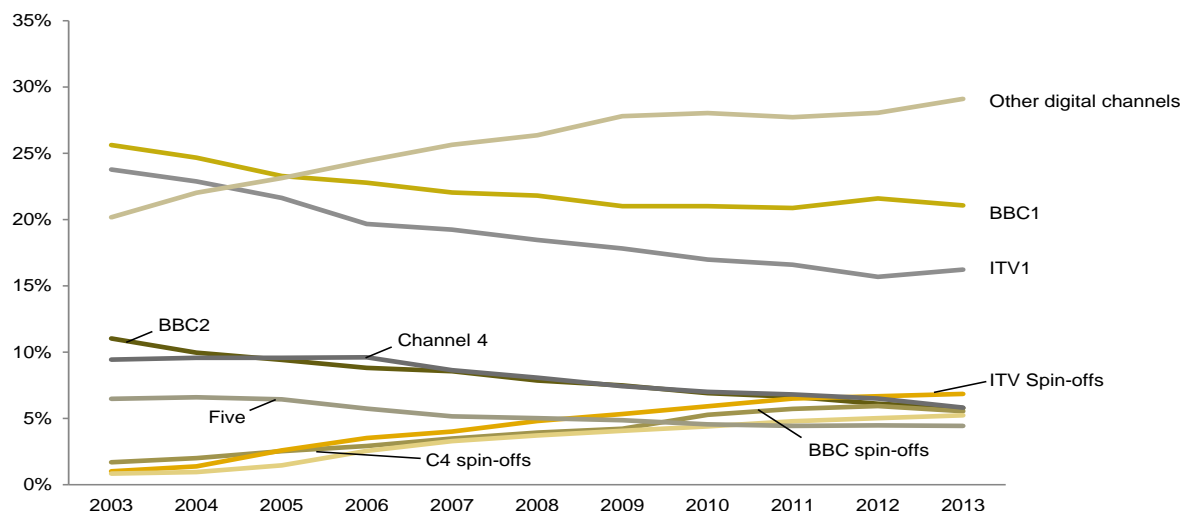


Notes: Pay TV Subscription Revenue includes estimates of BSkyB, Virgin Media, BT Vision, TalkTalkTV, Setanta Sports (until its closure), ESPN and Top Up TV television subscriber revenue in the UK. BBC TV expenditure is BBC income allocated to TV. "Other Revenue" includes TV shopping, sponsorship, interactive (including premium-rate telephony services), programme sales and S4C's grant from the DCMS.

Source: Ofcom, Oliver & Ohlbaum analysis

The past eight years have seen a dramatic shift in audience shares away from the five main network channels – BBC1 and BBC2 included – in favour of multichannels available on free to air digital platforms and pay TV. **Figure 10** shows that other digital channels (those not affiliated with PSB networks) grew their share of viewing from around 20 per cent in 2003 to 30 per cent in 2013. Although this growth was principally driven by Digital Switch Over (DSO), it has continued, albeit at a slower rate, since 2012. This growth has been at the expense of the PSB networks, though the shift was partly ameliorated by growth in audience shares captured by the PSB spin-off portfolio channels.

Figure 10: UK TV Channel Audience Shares, 2003 – 2013



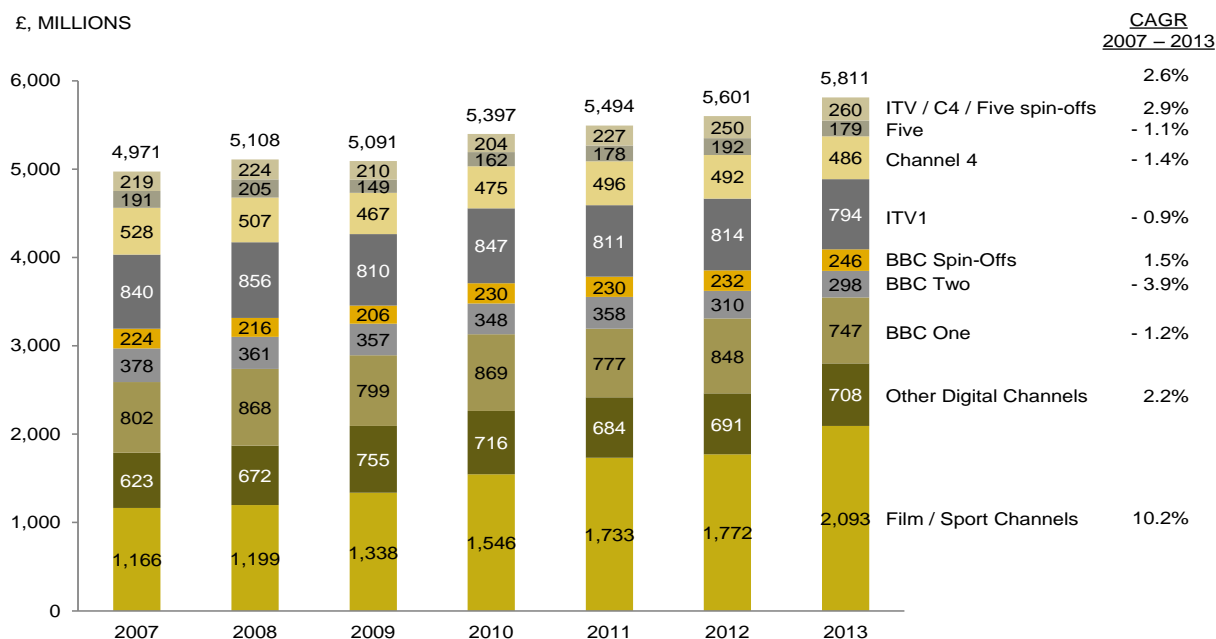
Source: OBS, BARB, Attentional, Oliver & Ohlbaum analysis

6.2 Television content spend

Commercial advertising funded TV in the UK went through a severe recession from 2007 to 2010, from which it has only just fully recovered. Although the impact of this was borne mainly in a loss of profitability, the broadcasters reacted to falls in revenue by reducing their content spend – in some cases significantly.

Figure 11 shows that total commercial PSB programme spending fell by 9 per cent between 2008 and 2009; commercial PSB content spend was still 4 per cent below 2008 levels in 2013.

Figure 11: UK Broadcaster Programming Spending by Broadcaster, 2007 to 2013

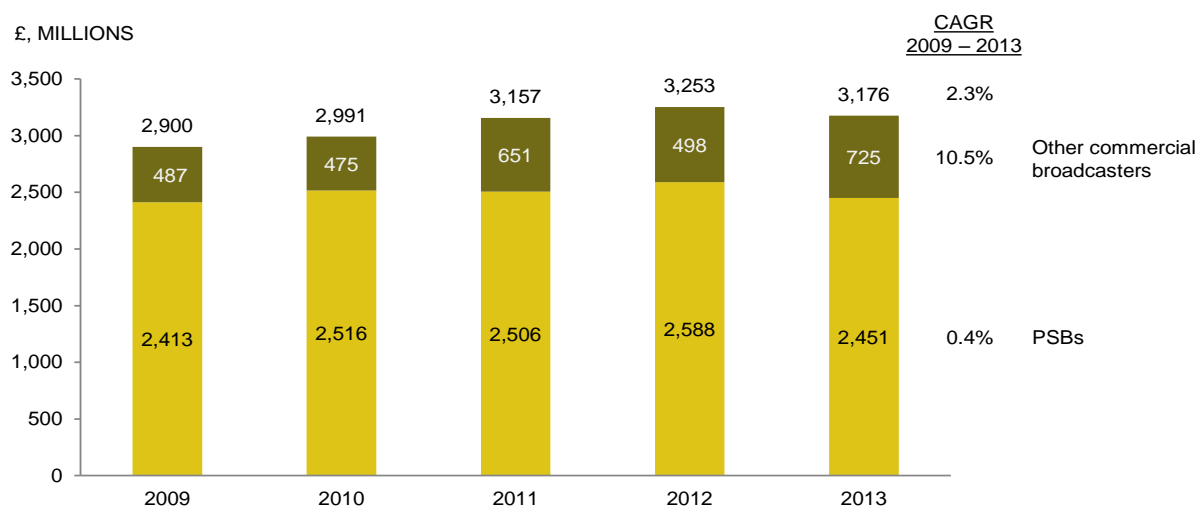


Source: Ofcom, Oliver & Ohlbaum analysis

In stark contrast to the commercial PSB programme spending, programme spending by pay TV broadcasters – led by Sky, but with significant contribution from UKTV, Discovery, Viacom etc. – increased content spending significantly throughout the recession, growing by a total of 57 per cent between 2007 and 2013. Commissioning by pay TV channels has been the largest source of growth in

the UK independent production market, often using well known talent to gain an initial audience. They have also entered into some traditional public service areas of programming such as Children's, Natural History and Arts programming where the BBC was previously by far the largest and sometimes almost the only buyer. **Figure 12** shows the rapid increase in originations spending by the multichannels between 2009 and 2013.

Figure 12: UK Broadcaster Originations Spending, 2009 – 2013



Note: PSBs include main five networks' channels, including nations and regions output, but excluding BBC digital channels. Other commercial broadcasters are COBA members.
 Source: Oliver & Ohlbaum / COBA census, Ofcom

While the reductions in PSB programme spending may have acted to take some pressure off talent fees – especially at the top end – the rise of multichannel commissioning has partially replaced that pressure. Now, with PSB programme spending returning to pre-recession levels, there is a risk that inflationary conditions could return to the UK on-air talent market.

6.3 Globalisation of content production

The TV production market has become much more globalized with an increasing tendency for top talent – especially in Drama and Entertainment – to be lured away to the US, or to US productions made in the UK. This pattern can be seen in both film as well as in TV.

The increasingly important role of the production team – in particular, the role of lead series producers and writers, sometimes dubbed the “showrunners” – has emerged as US approaches to production begin to migrate over to the UK. This brings some off-screen talent into the same competitive context as on-screen and on-air talent.

The growth of international TV news channels – often state sponsored – and the move of international online news sites into audio visual journalism increasing the market for well-trained English speaking TV journalists with audience recognition.

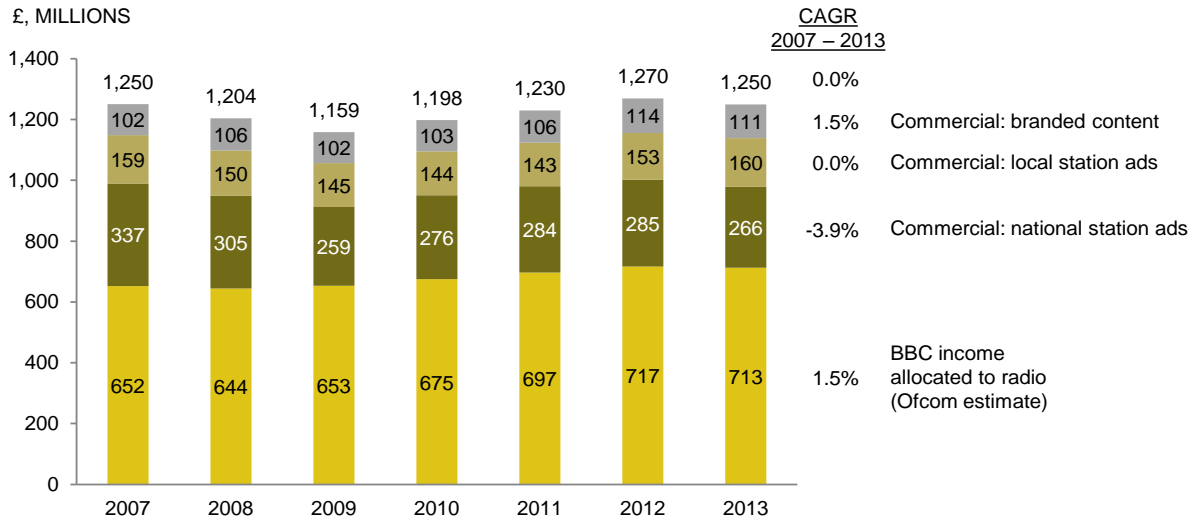
6.4 Tax incentives in the UK

The demand for UK talent has been increased by the introduction of tax incentives to stimulate the “onshoring” of production – particularly high-end, high-budget drama. These incentives have attracted global productions such as *Game of Thrones* and *Da Vinci's Demons* to the UK, using UK talent both in front of and behind the camera. The UK TV tax credit scheme launched in April 2013: the British Film Commission reports that 31 applications were made for the tax credit during the first nine months alone, providing a £233m boost to the UK economy.

6.5 The radio market

The radio market also suffered through the downturn – but against a background of lower growth prior to this period. As in television, the advertising recession hit radio, but the biggest single factor in the loss of revenue to the sector was the almost total reduction in Central Office of Information spending following the 2010 General Election, and this has slowed the recovery. As we can see in **Figure 13**, radio revenues had returned to 2007 level by 2012 but long-term growth remains low against a background of flat or reducing listening.

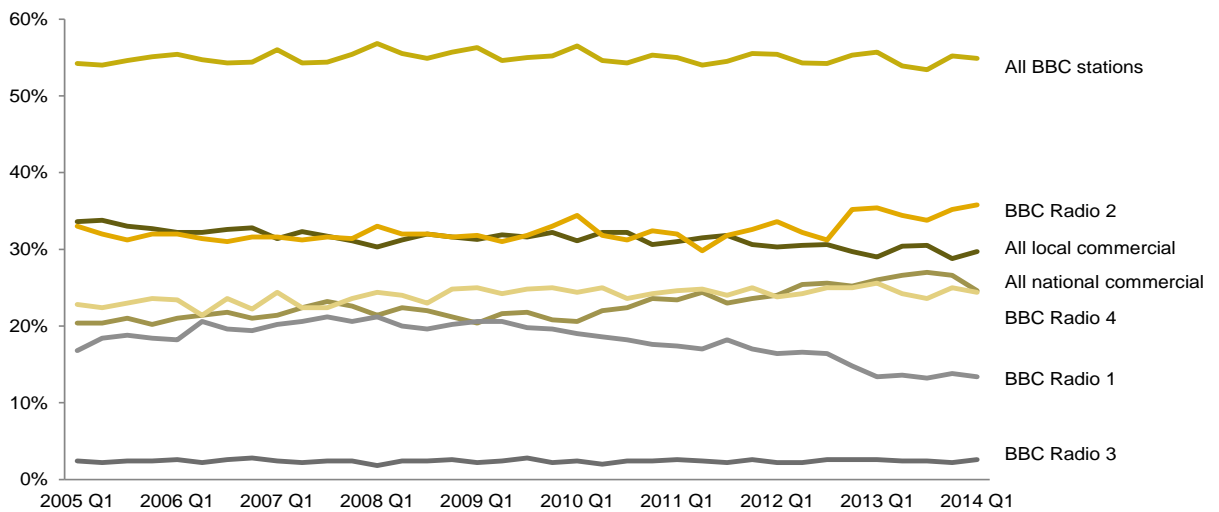
Figure 13: UK Radio Industry Revenues by Source, 2007 – 2013



Source: Ofcom, RAB, Oliver & Ohlbaum analysis

Radio listening has been under pressure for some time. **Figure 14** shows that total listening has been broadly flat – with only a 2.2 per cent fall in listener hours over the nine years from Q1 2005 to Q1 2014. Across the market as a whole, this includes an increase in listening among older audiences and severe falls in listening by younger demographics. The overall change in demographic mix of radio listenership has been driven by increasing substitution of radio for alternative music services on digital devices, or new forms of mobile entertainment.

Figure 14: UK Radio Station Listener Shares, 2005 - 2014



Source: Rajar, Oliver & Ohlbaum analysis

6.6 Consolidation in the commercial radio market

Commercial radio has responded to these pressures by consolidating into a small number of operators and the formation of several quasi-national stations, with more shared programming. Although this has not – under the terms of broadcast licences – included the important breakfast or drive time shows, it has created a national (or nearly so) opportunity for radio talent.

7 The BBC's talent data systems



8 A model for managing talent spending

Based on other broadcasters and best practice in cost and process management, we developed a best practice model to assess the BBC's approach to talent management against. We used our interviews with other broadcasters and production companies to gain insight into the different approaches used to manage talent; these conversations identified that the commercial sector's approach to talent management has not changed a great deal since our review in 2008, when we found that they tend to pay little attention to the talent budget and instead take a view at programme level. Essentially, if a programme is within its budget for the genre and slot in question, commercial broadcasters tend not to scrutinise the price paid to talent in detail.

As a non-commercial organisation, funded by the licence fee, the BBC is expected to apply more rigour to its talent management processes than commercial entities. The BBC should ensure that not only are programmes delivered within budget for their genre and slot, but also that the talents involved are paid only what they are worth to deliver against the editorial ambition of the programme in question. Our model of best practice in controlling the cost of talent therefore goes beyond the approach taken by the commercial sector, and addresses the three key areas that the BBC Trust is interested in: the motivators of talent, the cost of talent and the value of talent.

8.1 Motivation

In negotiating with talent it is important to understand what motivates them. Without a full understanding of what might encourage a talent to work at the BBC, the BBC cannot be sure that it is fully utilising the strength of its bargaining position and thus achieving the lowest possible cost in its negotiations. We would therefore expect the BBC to have processes in place to ensure that the motivators of talent in any given deal are well understood and appropriately fed into the negotiating process.

The key motivators of talent, in almost all cases, are the opportunity for exposure, which will raise or maintain their profile, and money. The relative importance of these two factors will vary depending on a talent's career stage and their personality and priorities. Talents who are new to the industry and looking for their big break are likely to be more driven by exposure than those who have already established themselves as well-known actors, performers or presenters. Similarly, those operating in the very top tier, who already command very large fees, perhaps from work in Hollywood, may be willing to work in television relatively cheaply in order to maintain their profile in the UK. So the key motivators of talent vary and understanding them requires a good relationship with the talent and/or agent in each case.

There are also secondary factors which are likely to drive talent motivation and these will be more specific to individual talents. For example, some talents will have aspirations to influence the direction of the programmes they are involved in, while others may want the opportunity to develop their own programme ideas and write for the first time, or have the flexibility to work for multiple broadcasters or on multiple projects simultaneously. Some talent may be motivated by more generic factors, such as the flexibility to take annual leave, or the timing or location of filming; as with any employment contract there are lots of factors which might help to seal the deal.

It is important that the BBC understands all of the motivators relevant to a given talent deal to help it obtain the best value from its negotiations. Understanding its unique draw is the first step; the BBC's reach and reputation allow it to offer talent a unique opportunity to reach audiences across a broad range of demographics and be associated with a broadcaster that is known and respected by so many people across the world. The next step is to understand the extent to which the BBC's draw applies to a given deal and which other motivators are at play. Understanding these factors required negotiators to liaise with talents and agents as well as conducting their own assessment of a talent's individual circumstances. Once these aspects are properly understood, the BBC is well placed to consider the extent to which it is able to pay less than other broadcasters, and construct a deal in the most cost effective way so as to maximise the value for licence fee payers.

Documenting the approach to assessing talent motivation helps to ensure that a logical process has been followed and all potential opportunities have been considered. A checklist of the most commonly used

negotiating tools would be a useful means of ensuring a disciplined and structured approach to negotiation. Keeping a record of this would also ensure that, when renewing deals, negotiators are well informed of the ground that has been covered previously and has a pre-existing assessment of a talent's key motivators.

8.2 Costing

A talent deal may consist of several elements, each with different costs to deliver; these costs must be well understood in order to ensure value can be maximised. By developing an in depth understanding of talent motivators, broadcasters should be able to identify the most cost effective means of securing a talent for a programme. This means understanding what each element of a deal costs to deliver, whether a financial element or a non-financial element. Clearly, the latter is more challenging to attach a cost to but, where possible, a full understanding of the costs involved is important in providing the necessary information to make a fully informed judgement of whether value is being maximised.

Understanding the cost of delivering on the financial elements of a deal is relatively straight forward, though the cost of sharing back-end benefits is not always unknowable when a deal is agreed. There can be a number of financial elements to a talent deal including the basic fee, repeat fees, and commercial rights. The fees agreed upfront are easy to quantify, but those relating to rights at the back end are less straightforward to assess. Where a deal involves relinquishing programme rights to a talent there is no way of knowing up front what these are likely to be worth because they will depend on the future success of the programme. In the case of the BBC, these commercial elements are handled by BBC Worldwide and other commercial parties and sit outside of the scope of our review.

Many of the non-financial incentives offered to talent also come at a cost, while others are a necessary symptom of programme making and broadcast – these are very difficult to quantify. Aspects such as exposure and the benefits of association with a broadcaster do not incur an incremental cost and are inseparable from the task of acting, presenting, or performing on television or radio. Motivators such as these cannot practically be costed, but other non-financial elements such as training and development do come at a cost to the broadcaster, and a complete understanding of the cost of a talent deal would require these elements to be included.

In reality, however, it is not practical to assess the cost of delivering on non-financial elements of a deal, and our discussions with commercial broadcasters did not identify any organisations that do. To understand the full cost of a talent deal, broadcasters would need a means of capturing the cost of factors such as:

- Resources relating to training
- Resources deployed in managing talent careers and development
- The cost of adjusting a production timetable to accommodate a talents annual leave

These are clearly not factors which could be accurately costed, and to try to do so, and to identify the cost pertaining to a particular talent deal would generate more cost than benefit. As such, we would expect the BBC to use non-financial elements, particularly those with a relatively low perceived cost, as a means of reducing the financial cost of a deal as far as possible, based on a clear understanding of a given talent's motivators.

The cost of a deal must, of course, be assessed with reference to the value of a given talent to a particular programme or role. By assessing the full financial cost of a talent deal, broadcasters are well placed to understand what a deal will cost them, but to ensure that it does not exceed the value of the talent, they must also perform a robust assessment of the talent's value.

8.3 Value

Due to the complexities of the market, there is no easy way to allocate a value to talent, though a number of approaches can help broadcasters take a more informed view of what a talent is worth to their audience and avoid overpaying. As we have seen, commercial broadcasters tend to think about talent deals in the context of the programme, and are happy that value is being achieved provided that a

programme is delivered within their expectations based on the genre and slot occupied. However, individual talent deals are sometimes scrutinised in more detail, for example because:

- The fee required exceeds expectations of the genre and puts pressure on the programme budget
- A returning programme requires an increased budget, primarily driven by additional talent costs
- The cost per viewer hour of the programme budget is higher than expected for the genre and slot

Where additional scrutiny does take place, it is based on a number of considerations including: benchmarks, audience appeal, and an audience research based valuation. These approaches allow broadcasters to establish how a talent fee compares to that of similar talents, the importance of the talent in terms of their ability to attract audiences – both in absolute terms and of particular demographics – and the commercial value of the talent based on an assessment of the audience uplift (and resulting advertising revenue) they will bring to a programme.

Given the BBC's status as a licence fee funded public service broadcaster, we would expect to see a robust approach to valuation, including benchmarking, audience data, and audience research based valuation. Of course, these methodologies vary in terms of the time and effort required; an audience research based valuation, in particular, is a resource intensive process; when we reviewed the BBC's approach to talent management in 2008, we recommended that the BBC should only do this for the most costly deals and in areas of intense competition. An element of judgement is therefore required when approaching talent valuation, but there are a number of factors which should be considered.

8.3.1 Benchmarking

Establishing a talent value may be challenging, but comparing to the amount paid to similar talents featuring in the same genre and/or, in programmes broadcast in the same or similar slot, provides a sensible sense check of any offer being considered. We would expect the BBC to compare talent fees to rates paid to alternative talents suitable for the role in question – including non-BBC rates, where known. If this is not feasible, we would expect the BBC to compare to other comparable individuals who may operate in another genre but enjoy similar status, and appeal to a similar audience either in terms of size or target demographic. Finally, the BBC should consider historic fees paid to the talent in question, taking into account the possibility that the talent has developed since his or her last contract.

External benchmarking of talent fees is difficult due to the sensitivity of the data and a lack of buy-in from the commercial players. This was the case when we conducted our review in 2008 and the same was true this time when we approached the commercial broadcasters and independent producers about a potential benchmarking exercise. However, given the BBC's scale, internal benchmarking of talent deals can provide a useful indication of value. Of course, the validity of internal benchmarking relies on the presupposition that the BBC has accurately valued its comparator talents and pays them appropriately – so this should be considered alongside other factors.

8.3.2 Use of audience metrics

Audience metrics provide a useful indicator of the importance of talent either through the performance of a particular show, or through bespoke talent specific research. Assessing audience reaction to programmes that a talent has previously been involved with is a useful means of judging the likely popularity of future output featuring that talent. This is most relevant where a programme is being re-commissioned, but may also be used to provide a sense of the talent's likely popularity in other programmes. Of course, the use of programme metrics is more relevant to some genres than others; using audience metrics to inform a drama talent deal is less helpful than a chat show host, say, since the importance to a chat show host to the programme is more easily distinguished than that of an individual actor in a drama containing many contributors.

There are several audience metrics which are useful in informing the value that a talent brings to a broadcaster, and these should each be considered in support of a deal:

- **Total audience or reach:** this gives a sense of the scale of programming that the talent has previously been involved with. In some instances, particularly in radio, it may be useful to consider

how total audience or reach changed throughout the talent's tenure on his or her previous show – since this provides a clear indication of the talent's popularity.

- **Appreciation Index (AI):** the BBC's Pulse survey provides a score out of 100 for programmes broadcast by the BBC. An assessment of the AI score of programmes which a talent has previously been involved can indicate their likely audience appeal. Though this is limited by the fact that the metrics relate to the programme rather than the individual, and where programming serves a niche audience a high AI does not allow conclusions on the appreciation of licence fee payers as a whole.
- **Cost per viewer/listener hour:** an assessment of the cost per viewer/listener hour of previous programmes a talent has been involved with provides a sense of the value of the programme, by linking its cost to the perceived quality of its output. Expectations will differ between genres but comparison of cost per view hour with that of similar programming is a sensible way of justifying the value of talent, where a deal is expected to deliver value in terms of cost per viewer/listener hour.
- **Cost per hour:** considering the cost of the programme per hour provides a means of comparing how much it has cost to fill a slot in the schedule, but does not link to the quality of the output. This metric may be used in conjunction with the above metrics to identify where there might be a rationale to increase the budget, where necessary to retain talent, but, on its own, is less useful than the other metrics to inform a talent valuation.

These metrics are a good starting point to assess value, but they are based on the performance of past programmes, rather than the importance of the talent within those programmes. Even when a programme is being re-commissioned, and the audience performance can be expected to translate to the new series, this type of assessment is better suited at programme level – i.e. to establish an appropriate total budget for a programme, rather than to justify a fee paid to talent.

This issue can be addressed through bespoke consumer research which gauges audience reaction to individual talents, rather than individual programmes. A thorough assessment of talent value should be based on popularity metrics, for the relevant individual, which demonstrate where that talent sits relative to their peers. This sort of audience research should be conducted on a regular basis so that talent deals can be informed by recent statistics. Questions for the respondents should include the overall popularity of the talent in terms of how much respondents like and watch or listen to them, the characteristics that audiences associate with them, and whether or not respondents would watch or listen more if talents were replaced by other contributors – to establish how they stack up against their peers. Establishing a clear understanding of talents' audience popularity allows production teams to make an informed judgement when considering potential alternative talents for their programmes.

8.3.3 Audience research based valuation

A combination of benchmarking and audience research provides a sense of a talent's value relative to their peers and importance, but not their absolute value. To conduct a more detailed valuation of a talent, it is possible to consider the audience uplift that they bring to a programme. Using audience research, broadcasters can establish how well liked a given talent is, but also what the likely impact would be on a programme's viewer/listener figures were they to be switched with one of their peers. Having identified the uplift that a given talent brings to a programme, commercial broadcasters can use the cost per thousand, which represents the value of an advert reaching one thousand viewers/listeners, to calculate the additional value that individual talent brings to a programme in terms of advertising revenue.

This approach is the most thorough way to establish a talent valuation. We used this methodology in 2008 to benchmark the BBC's spending on talent, and have done the same this time; the results of our talent valuation benchmarking are presented in the main report. This is, however, a commercial valuation and the value to the BBC may differ. To contextualise the valuation, the BBC should also consider the talents ability to deliver against its Public Purposes.

8.3.4 Considering objectives

In addition to the approaches above, we would expect the BBC to understand how talent helps it to achieve its objectives and meet its public purposes. Considering how a talent deal helps to meet

organisational objectives is not something which the commercial broadcasters and independent producers we spoke to mentioned, but it is particularly important for the BBC. Given the BBC's ambition to appeal to a wide audience, and represent the UK as fully as possible, the extent to which a given talent contributes to these goals ought to be a consideration when assessing the value that they bring.

Ultimately, the approaches set out above should be used to identify the value of a talent to a broadcaster, for a particular role. As we have seen, valuing talent is not an exact science, but by combining the available information sources, broadcasters are well placed to identify a valuation. This should define the maximum price that they would be willing to pay – i.e. the total costs associated with a deal should not exceed the valuation. ✂.

8.4 Non-financial negotiating levers

There are a number of other factors which should be taken into account when negotiating with talent, these include: cross-organisational opportunities, the benefits of exclusivity, and succession planning. Factors such as these are important because they determine whether value is being achieved across the organisation as a whole, rather than just in the silos responsible for commissioning programmes and agreeing talent deals.

Cross-organisational opportunities: Offering a talent multiple opportunities increases the strength of the BBC's bargaining position and so the relevant divisions should work closely together to propose a combined deal. Talents tend to have a specialist genre where they will do most of their work, but there are instances where talents will work across genres or across media. When this is the case, a combined deal could maximise value and leverage the BBC's bargaining position as far as possible. Combining television and radio, in particular, is not something other broadcasters can offer, so where talents are involved in both television and radio a consideration of whether to present negotiations as a combined deal is important to ensure, where relevant, the BBC makes the most of this unique advantage.

✂.

Succession planning: Succession planning is another important consideration when a deal is being negotiated, to ensure that sufficient opportunities exist for new and improving talents. Establishing exclusivity to the BBC and using established names is an important means of continuing to engage audiences and deliver programming that they enjoy, but this should not be done at the expense of new talent. In negotiating a talent deal, the BBC should carefully consider the succession plan, and the extent to which that deal may prevent new talents from thriving. The appropriateness of succession planning also varies by genre, and is easier in some genres than others, but special consideration to likely successors and the impact of a talent deal on them should be made as part of the deal approval process.

9 The BBC's approach to managing talent costs

Following our 2008 review, the BBC developed a new approach to talent management, which was agreed with the BBC Trust. This aimed to deliver against our recommendations by establishing a consistent approach to deal negotiation and approval across the organisation, and requiring each division to establish a strategy to manage their own talents.

The BBC's overarching strategy set out the principles on which each divisional strategy was to be based. It also set up the approvals structure and processes used across the organisation to negotiate talent deals.

9.1 Establishing divisional strategies

To ensure a consistent approach to talent management, the BBC's overarching strategy set out the key areas that each of the divisions had to consider. These key areas were:

- **Market context:** to demonstrate an understanding of how the market is changing, e.g. as a result of the economic climate and digitisation.
- **Talent categorisation:** to establish a standard approach to categorising talent, allowing divisions to identify the top talents, those moving up, those moving down, and the core stable of talent. Divisions were also required to establish a standard means of categorising spending on talent across three tiers.
- **Talent spend:** to set out the divisional spend on talent, the drivers of talent costs, and the approach to managing talent to deliver value for money. These plans had to be consistent with the approach agreed at a pan-BBC level:
 - To reduce actual spending on top talent
 - To hold overall talent spending flat in nominal terms on a like for like basis
 - To introduce new referral limits
 - To ensure that the plans support the delivery of the divisions' continuous improvement targets
- **Succession plans/talent development:** to approach succession planning and development so as to support the divisional strategy and the divisions' approach to diversity. This was to include identification of the range of opportunities that could be offered to new talent.
- **Talent management/processes:** to set out the divisional approach to talent management and the implementation of the divisional talent strategy, including the review mechanisms to ensure plans are developed, implemented, and monitored over time.

We reviewed the divisional strategies and, in general, found them to be thorough and complete. Each division had produced a talent strategy in accordance with the structure set out in the overarching talent strategy; and there was sufficient flexibility for divisions to go into more details where relevant to their division and adjust the areas of focus to suit their needs. This flexibility did, however, lead to some inconsistency, particularly around talent development and succession planning – as discussed in the body of our report.

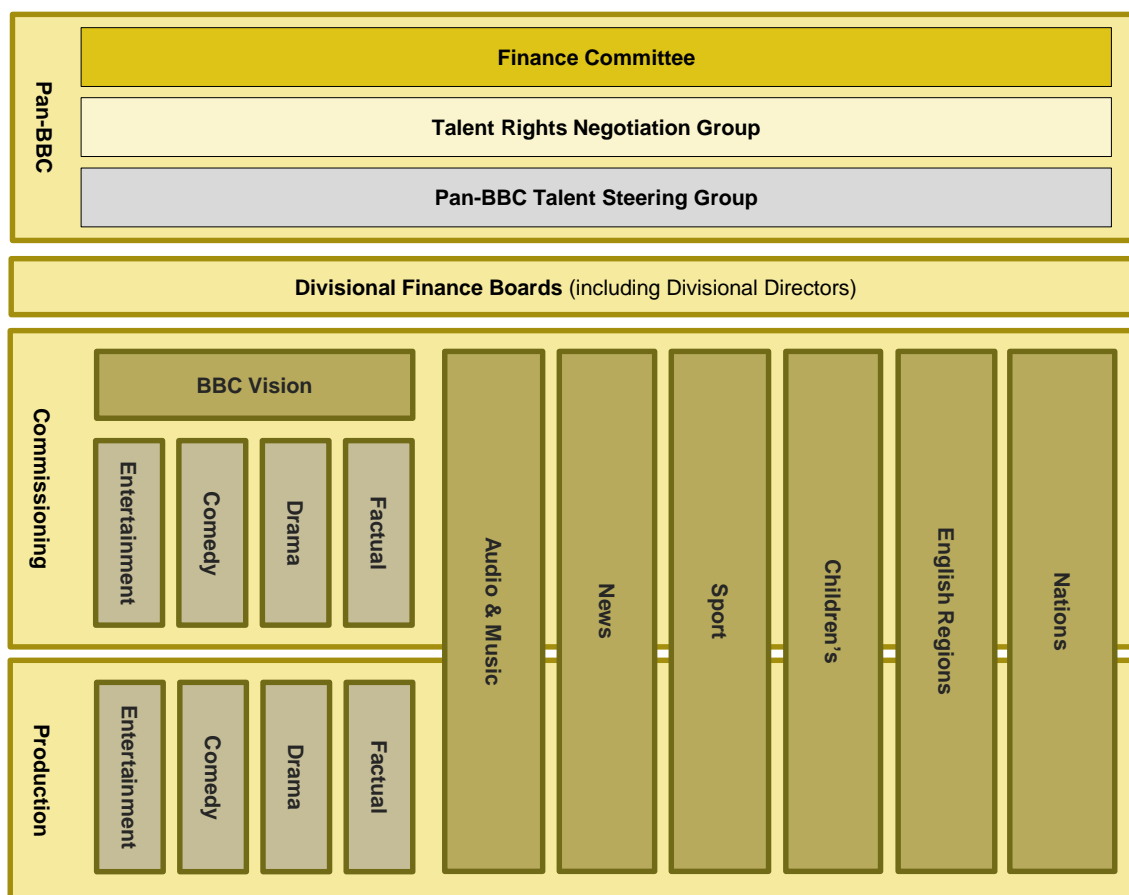
9.2 The approvals process

Figure 15 sets out the BBC's governance structure, covering television and radio, which existed until the Television change programme in 2013. In television (BBC Vision), production and commissioning were split for the four genres, with the other divisions each having joined up commissioning and production

teams. The structure has varied over time, particularly with the establishment of BBC North in 2011, and Figure 15 provides a simplified version.

The two main authorities outside of the divisions, at a pan-BBC level, were the Talent Rights Negotiation Group (TRNG) and the Finance Committee. The TRNG was the group responsible for in-house rights acquisition and contracting talent for in-house programmes and, working across the divisions to support talent negotiations. The Finance Committee was responsible for signing off on each of the divisional talent strategies and approving some of the most high value deals. There was also the Pan-BBC Talent Steering Group, which provided the main oversight of the divisional talent strategies – meeting quarterly, the steering group monitored divisions' progress against their talent strategy, and targeted aspects of process and policies which could be refined or overhauled to better manage talent.

Figure 15: BBC governance structure to 2013



Note: Vision production included network programming for the nations and regions

Source: Oliver & Ohlbaum analysis

Within this structure, the processes used to control talent spending at the BBC vary depending on the type of talent; there are three main types: freelancers, talent on staff, and those paid under block deals which are centrally agreed (such as walk-ons, including extras, and orchestral musicians). These different types of talent are subjected to different controls, which are explained below.

- **Freelancers on bespoke fee:** freelancers are subject to the deal referral process, which defines which deals can be agreed and approved by production teams, without additional scrutiny, and which deals are subjected to more rigorous approval processes based around the Deal Referral Form.
- **Talent on staff:** deals for talent on staff are subject to the same approvals process as any other member of staff. Prior to 2012, fees paid to talent on staff were approved by the relevant divisions and, following the establishment of the BBC Remuneration Committee (Remco) in 2012, deals

greater than £75k required its approval. Divisions using talent on also staff had their own processes in place to approve deals where talent receive a pay rise above the standard BBC increase.

- **Freelancers on block deal fee:** some groups of contributors are not subject to specific controls around talent spending because their rates are agreed as part of a block deal. Walk-ons, for example are paid subject to a standard rate card, which is agreed with Equity¹. Similarly, orchestral musicians are paid standard rates subject to an agreement with the Musicians' Union.

The key tool introduced by the BBC to control talent spending was a consistent deal referrals process across the divisions. The deal referrals process is underpinned by a Deal Referral Form, which is the template used to manage and approve talent deals for freelance talent. Processes around talent on staff deals, and those for talents subject to block deals, do not require further explanation; we tested that processes for all deal types were adhered to as part of our walkthrough testing (included in the body of our report).

In establishing its approach to managing and controlling freelance talent spending, the BBC has to balance the tension between ensuring talent deals receive appropriate scrutiny, and the administrative burden of the approvals process. This is particularly important in the context of on-going pressure to maximise licence fee payer money on-screen and on-air, while reducing management costs. For this reason, the BBC had to set limits on the value of deals requiring high level approval, limiting the call on senior management time, while satisfying itself that the highest value deals receive appropriate consideration. **Figure 16** sets out the approvals process used to 2013.

Figure 16: The BBC's freelance talent deal approvals process, 2008-2013



The deal referral processes focuses on high value deals and those where there has been an increase whether in terms of rate or total fee. This is in line with the BBC's overarching strategy which required that there were no increases in talent fees. The treatment of different deals is explained below.



In addition to the processes around talent deals, programme budgets help to control talent spending. The BBC programme production processes control and monitor the cost of programmes against their budget. Once the total programme budget has been agreed, it is the responsibility of the production teams to manage the production within that budget and, while talent is just one element of the programme costs, this scrutiny at programme level exerts pressure on every line of the programme budget and incentivises production teams to ensure that talent deals deliver value for money. Processes and controls relating to programme production are outside the scope of this review, but it is useful to be aware of this additional control.

9.3 The BBC's deal referral forms

The forms were brought in following our review in 2008, to support the BBC's new approach to talent management and cost control. Deal Referral Forms are consistent across the divisions, with one version of the majority of deals and another for deals requiring Finance Committee approval (which require an audience research based commercial valuation). The purpose of the Deal Referral Form is to ensure that production teams can justify the level of the fee they propose to pay a talent. Key elements include:

- **Basic information:** the context of the deal, the contributor details, their past work, and the offer being proposed. This flags up where a proposed deal represents an increase in fee, both in terms of the rate and the equivalent annual fee.

¹ Equity is the UK trade union for professional performers and creative practitioners

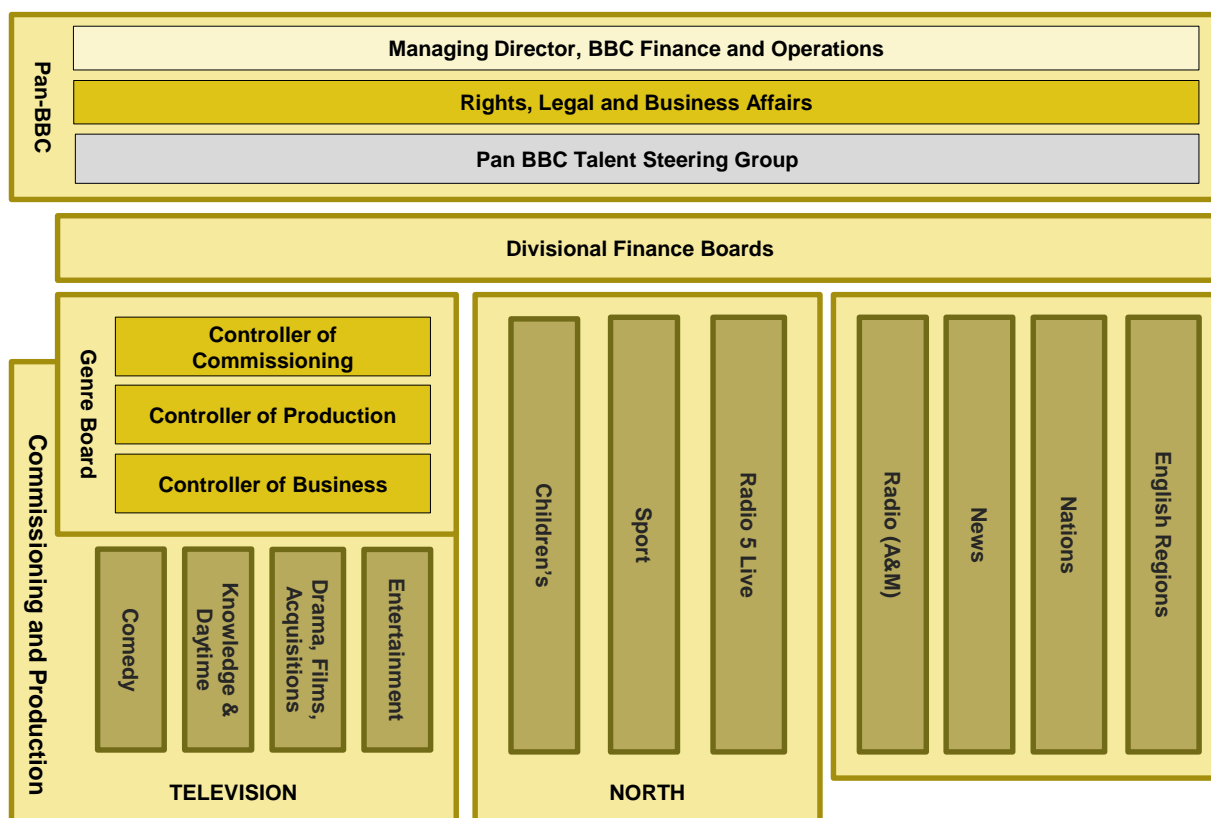
- **Business case:** the rationale for using the talent must be set out with reference to details such as the historical success of a returning programme, or the anticipated success of a new one. This also requires proposers to consider changes to the market since the contributor's last deal.
- **Audience data:** is required to help assess the value of the talent in question. The deal referral form does not prescribe which audience metrics should be used, but asks that audience data is provided to support the case for the proposed fee.
- **Comparator benchmarks:** each Deal Referral Form requires that the proposed fee is compared to historic rates paid to the talent in question, along with comparison to the fees paid to alternative talents or those in comparable productions.
- **Alternatives/successors:** production teams are required to document alternative talents they have considered for the role. In some instances this will not be relevant, such as for returning programmes. The form conflates alternatives and successors.
- **Fit with divisional strategy:** to ensure that proposed talent deals are in line with divisional strategies – which might require that no increases are tolerated – proposers are required to flag when a deal was not in line with divisional strategy.

Deals going to FC for approval require an audience research based valuation of talent, which is a time consuming and resource intensive process. It is only valid where a viable competitive market exists, which is why the BBC chose to only use it for these high value cases and for those of a lower value that identify commercial competition as a key driver of the talent's cost.

9.4 Changes to the BBC's approach from 2013

In September 2013 the Television Change Programme resulted in adjustments to the governance and reporting structure in BBC Vision, and BBC Vision itself being renamed Television. These changes were driven by the appointment of Tony Hall as Director General, and resulted in Television adopting a genre based approach to management. **Figure 17** sets out the new governance structure: outside of television the structure remains unchanged, except for the formation of BBC North, following the move of Children's, Sport, and Radio 5 Live, to Salford in 2011.

Figure 17: BBC Governance structure from 2013



Source: Oliver & Ohlbaum analysis

Under the new structure, the authority for talent deal approvals was devolved to the divisions. The Television genres have Controllers of commissioning, production and business, to retain the separation between commissioning and production whilst allowing for greater genre autonomy. The Television Board remains in place to provide oversight across the television genres, and pan-BBC groups remain involved in the talent management process:

- **Finance and Operations:** has replaced the role of the Finance Committee in approving talent deals. ✂
- **Rights, Legal and Business Affairs (RLBA):** took on the roles of both TRNG and Business Affairs (formerly a divisional function responsible for deals with independent producers and other programme rights holders), creating a single operational deal making function. ✂
- **The Pan-BBC Talent Steering Group:** was re-launched to provide oversight of talent management across all BBC divisions. This group brings together editorial strategy and financial management, and supports the pan-divisional development of talent. It also monitors divisional performance and manages any risk of the overarching talent spending commitment not being met. Its terms of reference differ slightly from the group of the same name which operated between 2008 and 2014 to reflect the changes to the BBC talent strategy.

This change to the governance structure for television facilitated a shift in the approvals process for managing talent. While there were no material changes to the process outside of television, Television's genre structure allows approvals to be handled at genre level for more deals. ✂

Figure 18: The BBC's freelance talent deal approvals process, 2013-present



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