



House of Commons
Committee of Public Accounts

The BBC's management of risk

**Sixty-sixth Report of Session
2006–07**

*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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Summary

The BBC faces a wide variety of risks, ranging from reputation risks associated with its broadcast output to the safety of staff deployed to potentially dangerous parts of the world. The management of key operating risks, and detailed risk management processes, is the responsibility of the BBC's Executive Board, while the BBC Trust is responsible for oversight of how the Executive Board discharges its responsibilities.

The BBC had identified 850 individual risks, but nearly a third of these risks had not been assigned to named owners. With nearly 300 risks having been reported to the BBC's Executive Board, senior management were faced with a large volume of risk information, and there was no read across between the top risk themes they had identified and the objectives they had been set.

Among BBC staff with risk management responsibilities, who had been surveyed by the National Audit Office, 29% had never looked at the BBC's guidance; 39% thought the importance of risk management had not been promoted or did not know who was responsible for promoting it; and 37% had expressed concerns about the adequacy of risk management training.

One risk for the BBC is the safety of its employees, as demonstrated at the time of the hearing by the abduction of Alan Johnston, the BBC's Gaza correspondent. We were pleased to learn of Mr Johnston's subsequent release.

One of the main aims of the BBC's risk management processes was to integrate risk management into planning and decision-making. But the extent to which risk management was embedded across the BBC was patchy, even in areas such as compliance with BBC editorial standards, for example the well publicised problems in the handling of telephone call-ins to Blue Peter and other programmes, where the BBC had considered risk management to be well embedded.

The Comptroller and Auditor General has provided the BBC and Parliament with a series of reports which have highlighted risks to the BBC achieving value for money. As the BBC Trust, however, has the final say on what the Comptroller and Auditor General can examine, there is still no fully satisfactory regime under which the BBC is accountable to Parliament for the value for money with which it spends licence fee payers money.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the BBC on its management of risk, including its risk reporting, training, and embedding of risk management within the organisation.

¹ C&AG's Report, *The BBC's management of risk*, presented to Parliament by the Secretary of State for Culture, Media and Sport, as an unnumbered command paper, 21 November 2006

Conclusions and recommendations

1. **BBC guidance gives both the Executive Board and the Audit Committee detailed responsibilities for risk management but they are not clearly delineated.** The BBC Trust, which is responsible for seeing that the Executive Board addresses the key operating risks for the BBC, should make it clear that the Executive Board is responsible for the day-to-day management of risk.
2. **The main themes used by the BBC for risk management are not aligned with its corporate objectives, and the Executive Board is receiving information on almost 300 risks.** The BBC should align its risk management arrangements with the strategic priorities to be set by the Trust, and rationalise the information presented to the Executive Board so that its attention is focused on the most important risks.
3. **The abduction of the BBC journalist Alan Johnston while working in Gaza illustrates the risks to which BBC employees can be exposed.** The BBC should update its assessments of the risks of working in hostile environments. The BBC should also satisfy itself that freelancers, as well as its employees, are adequately trained for work which could involve risks to their health and safety.
4. **The way the BBC ran a live phone-in competition on Blue Peter led to Ofcom fining the BBC for failing to comply with its Broadcasting Code.** The BBC subsequently identified other instances of phone-in and interactive competitions where the public had been misled. The independent review which the BBC Trust intends to commission in 2008 will need to identify the reasons for programme makers ignoring the BBC's own editorial guidelines and exposing it to significant reputational risks.
5. **The BBC has not related its risks to corporate objectives or assigned all risks to named owners, as recommended in Treasury guidance.** We have commented before, in our report on the BBC's White City 2 Development, that the BBC would benefit from drawing on such guidance.²
6. **BBC managers at all levels are not sufficiently engaged in the management of risk:**
 - senior management are not promoting risk management effectively;
 - individual risk managers are dissatisfied with the training provided and do not bother to use the available guidance; and
 - good risk management practices are not embedded throughout the BBC's projects and business processes.

The BBC should develop a timetabled strategy for increasing and measuring understanding of its risk management policies and procedures, and require positive

2 Committee of Public Accounts, Twenty-fourth Report of Session 2005–06, *The BBC's White City 2 development*, HC 652

confirmation annually that individual managers understand their responsibilities. It is helpful that the BBC intends to re-run the National Audit Office survey of risk management to assess progress.

7. **The BBC Trust, not the Comptroller and Auditor General, decides the programme and the scope of individual value for money reviews of the BBC.** The Comptroller and Auditor General should have the same rights of access to the BBC as to other publicly funded bodies. He would then be able to decide what to examine and when, on the basis of a full and independent assessment of value for money risks, and report to Parliament independently of the BBC. There is no evidence to suggest that such arrangements would do anything other than strengthen Parliamentary scrutiny of the BBC and the oversight role of the BBC Trust.

1 The adequacy of reporting on risk

1. In January 2007 the BBC published a protocol setting the arrangement for BBC Trust oversight of the BBC's risk management processes. The Trust is responsible for seeing that the BBC's management's Executive Board addresses the key operating risks for the BBC, and the Executive Board (through its Audit Committee) reviews and is "responsible for the BBC's detailed risk management processes". The protocol also states, however, that the Audit Committee itself, which comprises non-executive directors, is "responsible for the day-to-day management of BBC risk management processes".³

2. The BBC produces large volumes of risk information, having identified 850 individual risks, and almost 300 risks were being reported to BBC senior management in one form or another and at different times (**Figure 1**). The annual baseline report to senior management, with some 140 risks, was 70 pages long. The BBC explained that because its operations were complex, it had identified a large number of risks, but that it tried to focus debate around a smaller number of critical risks and the actions to address them.⁴

Figure 1: Risk information received by BBC senior management

RISK REPORT	REPORTING/UPDATING CYCLE
85 top divisional risks	Quarterly
140 baseline risks	Annual (with quarterly updates)
Top 44 risks (under 9 themes)	Annual (with six month update)
Top 5 risks	Monthly

Source: C&AG's Report, paras 10, 29 and figure 3

3. Treasury guidance is that risks should be related to corporate objectives and managed in a way which supports the delivery of those objectives. The Board of Governors was replaced by the BBC Trust in January 2007, and in place of objectives, the Trust was in the process of setting strategic priorities.⁵ There was no read across, however, between the objectives set for management by the BBC Governors and the BBC's nine top risk themes (**Figure 2**).

3 Qq 9, 19–20; BBC protocol C3 - *Trust oversight of BBC risk management processes and internal controls*, January 2007

4 Qq 7, 10, 30–32; C&AG's Report, paras 10, 39

5 Qq 18–20; C&AG's report, Figure 1; BBC Annual report and Accounts 2006–07

Figure 2: The five areas where the BBC Governors set objectives for 2006/07 do not correspond with the nine top risk themes identified by BBC senior management

THE FIVE AREAS WHERE THE BBC GOVERNORS SET OBJECTIVES FOR 2006/07	THE BBC'S TOP RISK THEMES
1. Programme strategy 2. Driving digital 3. Value for money 4. Impartiality 5. Accountability	<ul style="list-style-type: none"> • Business continuity • Financial management and controls • Licence fee collection • Loss of rights of failure to obtain or exploit rights • Failure to comply with legal and external regulations • Licence fee settlement • Loss of competitive advantage • The Change programme • Supply chain management

Source: C&AG's report figure 1; BBC Annual Report and Accounts 2006–07, Trust report, p15

4. Treasury guidance is also that all risks should be assigned to owners, who are responsible for ensuring that the risks are managed and monitored over time. Almost 250 (29%) of the 850 risks in the BBC's risk registers had no identified owners. The BBC accepted this finding and confirmed that every risk and every action now had an owner.⁶

5. In addition to the BBC's internal risk reporting framework, arrangements are in place to provide the BBC Trust with external reviews of value for money from the Comptroller and Auditor General. The arrangements, agreed between the BBC and the Government, have given the BBC value for money reports undertaken by the Comptroller and Auditor General on topics approved by the Governors' Audit Committee. With the creation of the BBC Trust, which replaced the Board of Governors, new arrangements have been introduced which provide for the greater involvement of the Comptroller and Auditor General in discussions about suitable topics, but the Trust retains the final say on what is and is not included in the programme of reviews.⁷

6. We explored how the BBC managed risk in the context of its recruitment, in particular the extent to which its recruitment reflected the population it served. The BBC confirmed that it tracked gender, ethnicity and disability, but had not collected information on the proportion of its most recent graduate intake which had attended Oxford or Cambridge and public schools. The position regarding the Executive Board was, however, that of the fifteen members (including five non-executives), six attended independent schools, five attended comprehensive schools and four attended grammar schools, while six had attended university at either Oxford or Cambridge.⁸

6 Q 12; C&AG Report, para 39

7 Qq 2–7

8 Qq 57–63

2 Training and support

7. To identify the awareness and understanding of the BBC's risk management approach among BBC managers with risk management responsibilities, the National Audit Office had carried out a survey which showed that half the respondents considered that they needed more training in risk management, and 37% had concerns about the adequacy of the training they had received. In the light of these findings, the BBC carried out a training needs assessment and was now aiming to provide more guidance and training in the identification and management of risks. Commenting specifically on the BBC's production departments, where risk management encompasses creative output and financial management, the BBC confirmed that the financial training, experience and judgment of producers and directors was an important part of the selection process.⁹

8. The survey results also showed that nearly a third of respondents were unclear about when to report risk information up the management chain. The BBC had since provided face-to-face briefings to all 300 managers with responsibilities for managing and reporting risks to promote greater understanding on how to grade risks and report them upwards. Managers were also being provided with feedback on the Executive Board's discussions about risks to help them understand the action taken in response to risks reported up the management chain.¹⁰

9. While the BBC had identified the safety of staff around the world as a key risk it faced, it was not reflected explicitly in the BBC's top risk themes (**Figure 2**). Risk could not be eliminated altogether, but the BBC had provided five-day intensive courses, with regular refresher three-day courses, for staff who potentially had to work in hazardous and hostile environments, and carried out assessments before deploying people to dangerous situations. We did not discuss in detail the circumstances relating to the abduction in March 2007 of Alan Johnston, the BBC's Gaza correspondent, as the situation had not been resolved, but the BBC confirmed that it would seek to learn any lessons from its experiences in Gaza. Mr Johnston was released subsequently on 4 July 2007.¹¹

10. People working in television and radio are often freelancers employed on short-term contracts. The BBC recognised that it had a duty in relation to occupational risk management for everyone who worked in the BBC, and that health and safety training for production environments was particularly important. The BBC said it maintained a record of training taken by freelancers who had previously worked at the BBC and that no distinction was made between the training of freelance and permanent employees. Freelance production accountants, for example, were trained in the BBC's financial management and controls framework before they were given access to its systems. It was not clear, however, how the BBC satisfied itself that all freelancers were trained adequately in the management of risk.¹²

9 Qq 14–15, 97; C&AG's Report, para 35

10 Qq 11–13, 23, 39

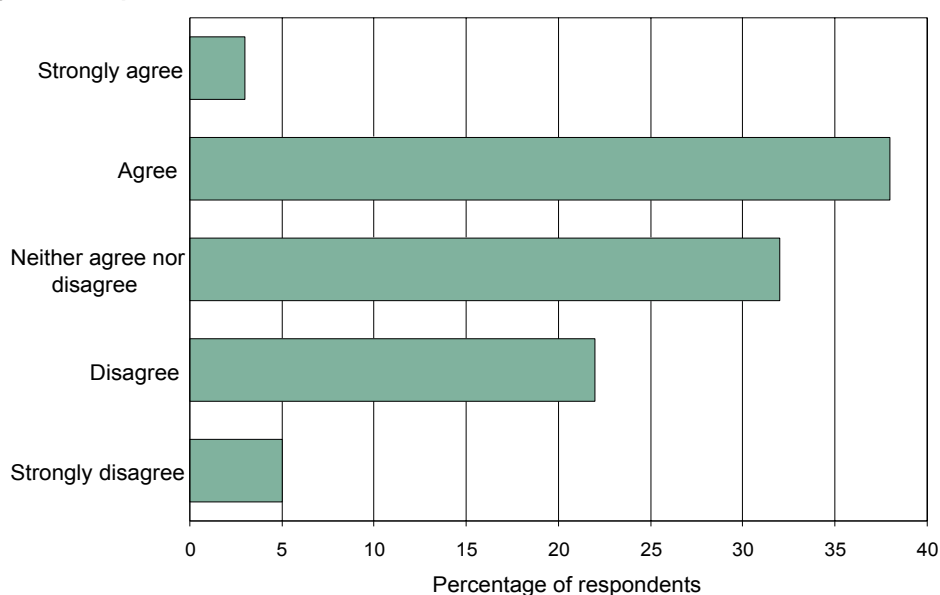
11 Qq 27–29, 44

12 Qq 51–52

3 Embedding risk management

11. One of the main aims of the BBC's risk management processes was to integrate risk management into planning and decision-making. The National Audit Office survey showed, however, that the extent to which risk management was embedded across the BBC was patchy. Some 27% of respondents considered that risk identification had not been integrated into everyday business processes (**Figure 3**); 39% thought the importance of risk management had not been promoted or did not know where responsibilities for promoting risk management lay; and 29% had never looked at the BBC's risk management guidance.¹³

Figure 3: To what extent do you agree or disagree that risk identification is integrated into everyday business processes?



Source: C&AG's Report, Figure 4

12. Risk management had still not been fully embedded in the BBC's management of its large complex projects. Our reports on other BBC projects, such as the White City 2 development and the outsourcing of technology services, have previously highlighted some of the risks which can emerge. These risks include the control of user requirements, and the completeness and accuracy of cost estimates and delivery timetables, in response to which the BBC had proposed mitigation strategies. The BBC recognised the need to embed risk management in its large projects as a key development area.¹⁴

13. The BBC considered that some areas of risk management were already well embedded into everyday activities, such as compliance with its editorial guidelines. Mistakes had been made, however, as in the handling of a live Blue Peter phone-in competition. In that case, the risks of trying to run a live phone competition were not recognised, and when technical

¹³ Q 22; C&AG's Report paras 19–20, 36–37

¹⁴ Qq 22, 88–89; Committee of Public Accounts, Twenty-fourth Report of Session 2005–06, *The BBC's White City 2 development*, HC 652; Committee of Public Accounts, Thirty-fifth Report of Session 2006–07, *BBC outsourcing: the contract between the BBC and Siemens Business Services*, HC 103

problems prevented access to phone calls during a live broadcast, a child, who happened to be visiting the studio, was given the answer and instructed to phone in, on-air, from an adjacent room. The BBC was fined £50,000 by Ofcom for breaches of Ofcom's Broadcasting Code for the Blue Peter incident.¹⁵

14. In the light of the Blue Peter incident, and editorial or compliance failures in six programme phone-in and interactive competitions, the BBC subsequently suspended all phone-related and interactive competitions in July 2007 until compliance with all regulatory requirements could be assured. The BBC Trust plans to carry out an independent review, after the Director General has implemented an action plan, to satisfy itself that improvements have been made in the BBC's attitude to safeguarding the public's trust.¹⁶

15. The BBC recognised that there was still some way to go to embed risk management fully, but believed it had made significant progress so far. A team of five risk managers were working across all the BBC's business areas to assist integrating risk management into everyday processes, and a new electronic risk management database had been introduced to strengthen the recording and reporting of risks. The BBC intended, by the end of 2007, to re-run the National Audit Office survey to see if improvements in its risk management arrangements had been achieved.¹⁷

15 Qq 23, 36–37, 39; Report from the BBC Director General to the BBC Trust, *Premium Rate Telephony and Associated Issues*; May 2007, Adjudication of Ofcom Content Sanctions Committee, July 2007

16 BBC Trust statement on editorial standards, controls and compliance, 18 July 2007

17 Qq 11, 15–16, 22–26

Formal minutes

Wednesday 10 October 2007

Members present:

In the absence of the Chairman, Mr Alan Williams was called to the Chair

Mr Richard Bacon
Angela Browning
Mr David Curry

Mr Philip Dunne
Mr Austin Mitchell
Mr Don Touhig

Draft Report

Draft Report (The BBC's management of risk), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Sixty-sixth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Monday 15 October at 4.30 pm.]

Witnesses

Wednesday 6 June 2007

Mr Mark Thompson, Director-General, **Ms Zarin Patel**, Group Finance Director, BBC and **Mr Jeremy Peat**, Trustee for Scotland, BBC Trust

Ev 1

List of written evidence

BBC

Ev 17

List of Reports from the Committee of Public Accounts 2006–07

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Second Report	Improving literacy and numeracy in schools (Northern Ireland)	HC 108 (Cm 7035)
Third Report	Collections Management in the National Museums and Galleries of Northern Ireland	HC 109 (Cm 7035)
Fourth Report	Gas distribution networks: Ofgem's role in their sale, restructuring and future regulation	HC 110 (Cm 7019)
Fifth Report	Postcomm and the quality of mail services	HC 111 (Cm 7018)
Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people	HC 112 (Cm 7019)
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Ninth Report	The Paddington Health Campus Scheme	HC 244 (Cm 7076)
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Fourteenth Report	Ministry of Defence: Delivering digital tactical communications through the Bowman CIP Programme	HC 358 (Cm 7077)
Fifteenth Report	The termination of the PFI contract for the National Physical Laboratory	HC 359 (Cm 7077)
Sixteenth Report	The Provision of Out-of-Hours Care in England	HC 360 (Cm 7077)
Seventeenth Report	Financial Management of the NHS	HC 361 (Cm 7077)
Eighteenth Report	DFID: Working with Non-Governmental and other Civil Society Organisations to promote development	HC 64 (Cm 7077)
Nineteenth Report	A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134 (Cm 7077)
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Twenty-first Report	Progress in Combat Identification	HC 486 (Cm 7151)
Twenty-second Report	Tax credits	HC 487 (Cm 7151)
Twenty-third Report	The office accommodation of the Department for Culture, Media and Sport and its sponsored bodies	HC 488 (Cm 7152)
Twenty-fourth Report	Ofwat: Meeting the demand for water	HC 286 (Cm 7151)
Twenty-fifth Report	Update on PFI debt refinancing and the PFI equity market	HC 158 (Cm 7152)
Twenty-sixth Report	Department for Work and Pensions: Progress in tackling pensioner poverty—encouraging take-up of entitlements	HC 169 (Cm 7152)
Twenty-seventh Report	Delivering successful IT-enabled business change	HC 113 (Cm 7216)
Twenty-eighth Report	ASPIRE—the re-competition of outsourced IT services	HC 179 (Cm 7216)
Twenty-ninth Report	Department of Health: Improving the use of temporary nursing staff in NHS acute and foundation trusts	HC 142 (Cm 7216)
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Thirty-first Report	Central government's use of consultants	HC 309 (Cm 7216)
Thirty-second Report	The right of access to open countryside	HC 91 (Cm 7216)
Thirty-third Report	Assessing the value for money of OGCbuying.solutions	HC 275 (Cm 7216)
Thirty-fourth Report	Recruitment and Retention in the Armed Forces	HC 43 (Cm 7216)
Thirty-fifth Report	BBC outsourcing: the contract between the BBC and Siemens Business Service	HC 118 (HC 1067)
Thirty-sixth Report	Reserve Forces	HC 729 (Cm 7216)
Thirty-seventh Report	Child Support Agency: Implementation of the Child Support Reforms	HC 812 (Cm 7216)
Thirty-eighth Report	Sure Start Children's Centres	HC 261 (Cm 7216)
Thirty-ninth Report	Preparations for the London Olympic and Paralympic Games—risk assessment and management	HC 377 (Cm 7216)

Fortieth Report	Dr Foster Intelligence: A joint venture between the Information Centre and Dr Foster LLP	HC 368 (Cm 7216)
Forty-first Report	Improving procurement in further education colleges in England	HC 477 (Cm 7275)
Forty-second Report	The Shareholder Executive and Public Sector Businesses	HC 409 (Cm 7275)
Forty-third Report	The Restructuring of British Energy	HC 892 (Cm 7216)
Forty-fourth Report	Tackling Anti-Social Behaviour	HC 246 (Cm 7216)
Forty-fifth Report	Standard Report on the Accounts of HM Revenue and Customs: VAT Missing Trader Fraud	HC 250 (Cm 7216)
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Fifth-eighth Report	Department of Transport: Estimating and monitoring the costs of building roads in England	HC 893
Fifty-ninth Report	Department of Health: Pay Modernisation: A new contract for NHS consultants in England	HC 506
Sixtieth Report	Big Science: Public investment in large scientific facilities	HC 521
Sixty-first Report	Managing the Defence Estate: Quality and Sustainability	HC 537
Sixty-second Report	The Thames Gateway: Laying the Foundations	HC 693
Sixty-third Report	HM Treasury: Tendering and benchmarking in PFI	HC 754
Sixty-fourth Report	The management of staff sickness absence in the Department for Transport and its agencies	HC 791
Sixty-fifth Report	HM Revenue and Customs: Filing of VAT and Company Tax returns	HC 548
Sixty-sixth Report	The BBC's management of risk	HC 643

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 6 June 2007

Members present:

Chris Bryant

Mr David Curry
Mr Ian Davidson
Mr Philip Dunne
Ian Lucas

Mr Austin Mitchell
Mr Alan Williams
Mr Iain Wright
Derek Wyatt

In the absence of the Chairman, Mr Williams was called to the Chair

Sir John Bourn KCB, Comptroller and Auditor General and **Mr Keith Hawkswell**, Director, Culture, Media and Sport VFM, National Audit Office, were in attendance and gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance.

REVIEW BY THE COMPTROLLER AND AUDITOR GENERAL

THE BBC'S MANAGEMENT OF RISK

Witnesses: **Mr Mark Thompson**, Director-General, BBC, **Ms Zarin Patel**, Group Finance Director, BBC and **Mr Jeremy Peat**, BBC Trust, gave evidence.

Q1 Mr Williams: Good afternoon. The hearing today is on the BBC's management of risk and this is the final session on the first three-year programme in conjunction with the National Audit Office; we will touch on that a little later. I want to welcome Jeremy Peat of the BBC Trust, Mr Thompson, the Director-General and Ms Zarin Patel the Group Finance Director. We also have as guests a delegation from the Mozambique Public Services Reform Authority. I hope nothing we do today puts you off democracy completely, but you are very welcome to be with us. May I start then by talking about the three years just for a minute? Have you found the three years that we have had, the six reviews of value for money, worthwhile and have you found it additional to anything that you might have been doing yourselves?

Mr Peat: Perhaps I might answer on behalf of the Trust, if that is all right, just to say that I have been on the board of governors and then the board of Trustees for two and a half years now and I have been responsible in that role for the value for money programme. My answer to your question is a very straightforward yes. We found the work undertaken by the NAO on value for money studies, and the other studies which have formed part of the programme, of great value. We have found them additional to the work that has been undertaken within the BBC by the internal audit department and other pieces of work that we, as governors and Trustees, have commissioned for our own benefit. We have found them of great value.

Q2 Mr Williams: I understand that you have negotiated an arrangement for the future. Can you tell us briefly a little about that?

Mr Peat: Certainly. The arrangement for this year and for the next two years is that we shall discuss the programme again with Sir John Bourn and his colleagues and that rather than just taking to the NAO our proposals for studies and discussing those with them, we have asked the NAO for their proposals as to what studies should be undertaken. We have agreed a programme for this year which includes both a study they proposed and other studies that we have proposed and we have agreed the programme jointly with them.

Q3 Mr Williams: Have you refused any studies that they proposed?

Mr Peat: We have not, and if ever that were to be the case, that is something we would have to state publicly and explain why we would so refuse.

Q4 Mr Williams: Still you have the final say and you insist on keeping the final say. Why are you so adamant? We really are at a loss now. It seems it is just a bit of power struggle as far as you are concerned. We cannot see the logic of your position in relation to the National Audit Office.

Mr Peat: Let me say that we are not just asking the National Audit Office for their involvement in these value for money studies. We have also asked the NAO to assist us, generally with looking for value for money and efficiency and improvement across the BBC. We have asked them to come in this summer to help with definitions on efficiency within the BBC, to help with measurement of efficiency; we have asked them to come in to work with us so that

we can help better to define what efficiency is, what it means and how it is measured. Then we have asked if they would come back some time in two or three years' time to see how the BBC efficiency has developed compared with the targets that we in the Trust will be setting on the basis of the NAO assistance in helping how those be defined and how they be measured. We are broadening the relationship we have with the NAO in a way that will be very valuable and I had a letter just yesterday from Sir John indicating that he welcomed this addition.

Q5 Mr Williams: I am glad you are at the cuddling stage, but we are still some way off a matrimonial relationship here. Do you still, for the future, see indefinitely keeping the NAO at arm's-length or are you warming to the idea of doing what everyone else who receives public money does, having the National Audit Office have full access to your books?

Mr Peat: Let me just say that under the new charter which came into being at the beginning of this year, the BBC Trust is charged with securing that the independence of the BBC be maintained. So we have absolute responsibility both: "to exercise rigorous stewardship of public money", I quote, and indeed to commission value for money investigations. It is in the charter that we as a Trust should commission those and we are also charged as Trustees with securing and maintaining the independence of the BBC.

Q6 Mr Williams: But you are making the independence wider now. In the past independence has been that you have been worried about editorial intervention. You got rather pushed off that when you could not produce any examples of any attempt at intervention on the editorial front. At the end of these three years, has the NAO or has this Committee in any way tried to impinge on your editorial function?

Mr Peat: No, and as I said before Mr Williams, I have no expectation that would be the case. However, on behalf of the Trust, we reserve the right to have the final say over what shall and shall not be studied and of course if ever we disagreed with the NAO on what was appropriate to study we would have to justify that. Given the role that is given to us in the charter, we reserve the right to take that final decision because the independence of the BBC, in our view, is so crucial.

Q7 Mr Williams: We are obviously going to return to this in the future, but I am glad that some progress has been made. Now, coming to the control of the risk, I was rather puzzled when I read the briefing and discovered that you have a list of top five risks. You have another list of 44 top risks. You have a separate list of 140 baseline risks and you have another list of 85 top divisional risks. You are running a risky business are you not?

Mr Peat: I might perhaps best pass to Mark Thompson and Zarin Patel at this stage—

Q8 Mr Williams: You should know the answer to that.

Mr Peat: I am very happy to answer. I was just going to state that—

Q9 Mr Williams: It is management of risk and you are management.

Mr Peat: No, we are now responsible for oversight under the charter, not the day-to-day management. As the Trust, we are responsible for oversight and ensuring that the risk process is appropriate and the risks are properly safeguarded and watched. We receive regular reports from the Director-General and indeed from the audit committee, which is now a committee of the executives of the BBC rather than something that is for members of the Trust.

Q10 Mr Williams: How on earth can you say you are managing risk when it is as complex as this incredible list of lists?

Mr Thompson: It is worth saying, and you will have seen in the Report itself in the NAO's overall conclusions, that the BBC has an appropriate framework for managing risk with top risks considered regularly by senior BBC managers and, at this point when the Report was written, governors. We have a system which tries to capture regularly at some level in the BBC all of the risks that we can imagine and, because the BBC has complex operations, that is a large number. You will have seen in the Report something called the annual risk baseline which has a very large number of risks in it. What we try to do is make sure that each of the divisions of the BBC has a system for examining, debating and exploring ways of mitigating the key risks which are associated with their operation. In the executive board of the BBC, which is charged with managing the risk, we see on a quarterly basis, a smaller manageable number of critical risks and then spend time debating them. As the chairman of the executive board and Director-General I will talk to the Trust about the absolutely top risks. So we try to make sure that at every level of the organisation, the appropriate number and the appropriate criticality of risks are being discussed.

Q11 Mr Williams: Having a framework is different from having a working system. Let us explore a little further. The framework is an outline; let us see how it operates. I understand, for example, that a third of your risk managers—and this is in paragraph 30—are not sure when they should refer risk up the management chain. That is amazing, is it not? One third of them?

Mr Thompson: The NAO came into the BBC to look at this topic some time, but only a relatively short time, after the BBC management and governors decided that we should take the subject of risk much more seriously and put new systems in place. As the NAO Report makes clear, significant progress has been made by the BBC on the matter of risk but we would recognise and accept the Report's conclusion, which is our conclusion as well, which is that we still have some way to go before it is fully embedded. Part of the complete embedding of the right kind of

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culture for managing and mitigating risk in the BBC is around, of course, every manager understanding exactly what their role in the story is.

Q12 Mr Williams: But you have a third of the managers who do not know whether they should refer issues up the management chain and we also find that you ignored the Treasury guidance and the Treasury guidance is that all identified risks should be assigned to risk owners. According to the National Audit Office, a third of your risks are not with identifiable owners. How do you justify that?

Ms Patel: We do not. What we have done is to make sure that, as part of our new risk management system which we implemented while the NAO were in doing this study, every single owner knows which risk they are responsible for, every single risk has an owner and, most importantly, every single action has an owner and a date as well.

Mr Thompson: So if you have identified a risk and you assign the responsibility for mitigating that risk, the assignment is to an individual and there is a date by which they have to fulfil the action that is required of them.

Q13 Mr Williams: Do they now know when they should refer issues upwards and to whom they should refer them?

Ms Patel: Indeed. Since I took over as Chief Risk Officer in January of this year, we have implemented our new system and as part of that trained all 300 senior managers who are responsible for reporting and managing risk. That has been face-to-face briefing so they understand when to identify risk, how to grade it, that was one of the other points the NAO made, and how to report and escalate up.

Q14 Mr Williams: So what you are saying is that you have taken a sticking plaster to the complaints that have been identified by the National Audit Office so you have a defensive position here, but does it work? Of the people involved in risk in the BBC, 37% said that the risk training you provide is barely adequate or not adequate at all. You cannot have rectified that since you started this Report.

Mr Peat: I would like to state that the recommendations that came from the NAO in this Report were both welcome and timely. We were at a stage in the development of the risk process in the BBC where we needed an overview, we needed input from people with expertise and experience in other bodies and we very much welcomed all the recommendations that were made by the NAO. I certainly would not define the response that has been made as putting sticking plaster onto it. We have taken their recommendations extremely seriously, we have required that the executive follow through and Zarin Patel as Chief Risk Officer is responsible for making sure that the recommendations are followed up appropriately and that we now have a fully fit-for-purpose risk process.

Q15 Mr Williams: Are you saying none of the 37% who said they were inadequately trained or barely adequately trained can say that now? They are all adequately trained?

Ms Patel: The survey referred to the overarching risk management guidelines and you are right, 37% said they were not fully aware of them. Actually, if you are a health and safety adviser or you are in charge of compliance on fair trading or you are in editorial compliance, you have very detailed and specific training. For example, over 9,500 are trained as health and safety advisers; 100% of people who are involved in fair trading compliance are fully trained. Very specific training to your area of risk happens. What we have done since this study is a training needs assessment as recommended by the NAO and the Treasury Orange Book guidelines so see where the gaps are. What people are saying is that their specific training guidance is adequate but they want more guidance about how to identify pan-BBC risks, how to manage them better and how to share information across the divisions. What I intend to do for the next year is to bring that level of training up to what people need and what they find useful and by the end of this year, a year after the main survey was run, we will re-run the same survey and questionnaire of the same group of people and test whether the improvement has worked or not.

Q16 Mr Williams: In addition to whatever programme you are considering for the future with the NAO, would you welcome the NAO coming in, say in another 12 months, to see how far you have fulfilled what you have just claimed?

Mr Peat: I would have absolutely no objection whatsoever.

Q17 Mr Williams: C&AG, would you be ready to add that to your programme?

Sir John Bourn: Indeed Chairman.

Q18 Mr Wright: May I talk about risk management and the alignment with strategic objectives? Reading the Report, it seems to me that you Mr Thompson, as Director-General, seem to be very closely involved in this, which seems terribly commendable, but it does seem that governors, non-exec directors seem to be passive in the risk management process. You say you have five or so risks each month and talk to them and Report them but in terms of good corporate governance, in terms of having a very close alignment between risk management and strategic objectives of an organisation, this does not happen in the BBC, does it?

Mr Thompson: That is not right. We have taken the opportunity of having non-executive directors on the executive board—and it is the first time the BBC has had non-executive directors—to make some appointments of people who are specialists in this area. Robert Webb, who is the general counsel for British Airways on the main board and has responsibility at BA for safety and security, is an absolute expert on compliance and risk and Robert and the other non-executives question us extremely closely on the topics of compliance and risk because

they are used to environments where these are critical, as they are at the BBC. They are about the safety of our people, they are about the safety and security of our services to the public and they are about the compliance of the BBC with its variety regulatory and other issues.

Q19 Mr Wright: But in terms of stopping the BBC from achieving its corporate objectives, which is essentially what identification of risk is, I do not get the impression that that is happening in the corporation.

Mr Peat: Sorry, just to make it clear, the prime responsibility for management of the risk process is with the executive, but the Audit Committee of the BBC, which is made up of the non-executive directors of the BBC, has that responsibility. They have the responsibility for monitoring the risk process, making sure that is adequate and for working with the Director-General and the executive board to make sure not only that the process is right, but that the right risks are identified and the issues are dealt with.

Q20 Mr Wright: That seems to be slightly at odds with the Treasury's Orange Book in terms of having that alignment with corporate objectives and risk management.

Mr Peat: Then there is a specific obligation set out in the protocol that the Trust has consulted on and published about the role of the Trust with regard again to receiving periodic Reports, not just on the top five risks, which we will look at very regularly through our finance and strategy committee, but also having annual Reports and six-monthly updates on both the process and on the key risks. So the specific roles of the Trust, the non-executive directors and audit committee and the executive and indeed the Chief Risk Officer are very clearly articulated and set out. In my view that sets out who is managing what and who is responsible for what in a way that I find very clear and very helpful.

Q21 Mr Wright: There seems to be a bit of concern about the risk appetite of the corporation. Are you happy Mr Peat that you have set the agenda in terms of the risk appetite that you are prepared to take and the management need to manage that risk appropriately?

Mr Peat: Yes. We are clearly still at an early stage in the new governance structure. The non-executive directors were only appointed this year and also the Trust was only appointed this year and I am one of only three members of the Trust who carried on from the old governors. Clearly we are still settling down in our new system, but yes, the appetite for risk and the strategy for the BBC are both matters for the Trust and therefore it flows from that to the executive board and to the non-executive directors to take the role further.

Mr Thompson: It is just worth saying about risk appetite that of course the topic of risk appetite varies very much depending on what you are talking about. Your appetite for risk in terms of financial control should be, and is in the case of the BBC, very,

very low indeed. If you are investing in new comedy programmes, you are not going to get great comedy unless you are prepared to take one or two risks. What is interesting about risk in the BBC is that you have to take different judgments about risk appetite depending on what the subject and the decision in front of you is.

Q22 Mr Wright: May I talk about embedding risk management into real practice in the BBC? I get the impression from reading this Report that people do risk management as a sort of add-on to their normal operations, for example, paragraph 23 states: "While the new arrangements settle in, the Risk Assurance Team is having to prompt some divisions to update their risk registers". I suppose this is directed to you Ms Patel. To what extent are you happy that risk management is part of what people do in terms of management, rather than just seeing it as an add-on thing and every quarter: "Oh my God, we have to do this risk register"?

Ms Patel: We have always had risk management processes. Back in 2005 we conducted a thorough best practice review on the advice of our external auditors who said that actually we could get much better at this and make it part of day-to-day life. The new arrangements we put in place in 2006 were designed to do that. We have used self-assessment to understand the maturity of it. Are people promoting it and leading it well? Is it embedded in the process? Let me give you an example of something that is absolutely embedded in the process: occupational risk, the safety assessments before we do anything. That is in our DNA now; it is done as a matter of course. If you take a low-risk area like marketing, for example, historically they have not had huge levels of risk and therefore they are less mature in the way they deal with it. The key area of development for us in the year ahead is embedding risk management in big complex projects. We have quite a few of those on the go at the moment and embedding it there and making sure that the capability and the training of people identifying and managing those risks is higher than it is today is a key objective for 2007.

Mr Thompson: If I might refer you to paragraph 14, in which the NAO note: "The early signs are that the new processes introduced in early 2006... are making a difference" 15 out of 16 members of the Executive Direction Group, which is the executive directors of the BBC: "...thought that risk management had improved over the last 12 months" and the NAO's "... review of Executive Direction Group papers confirmed that the development of the risk management process had been a regular item on the agenda". Just to reflect on something the suggested, we began this process before it became an NAO topic. We were very clear with the NAO that this was something we aimed to improve and they were coming in when we were in the middle of the process of improving something. Even if you look at the NAO's results, they have evidence of significant improvement in various ways in which we are

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handling risk at the moment. We would hope, and our repeat of the survey will hopefully support this, that we will achieve further improvements.

Q23 Mr Wright: What I am trying to get at is that you must have quite a comprehensive management information system and paragraph 27 states that you are moving to a new electronic risk database. Does that not reinforce the perception that as a Corporation executive risk management is something additional that you do compared with your normal day-to-day job?

Ms Patel: Historically that was the case in certain areas, not in others, for example health and safety, editorial compliance, fair trading, where we have had a long period of embedding these processes. What we have tried to do in strengthening the processes, if you are a business manager in a business unit, is to make them feel as though they are really helping you drive your business because that is the secret to success, rather than imposing a process on them that feels meaningless to them. One of the other reforms, as the executive board discusses and thinks about the big risks and actions, is to feed back the tenor of that debate and the actions taken down the chain so people understand that something is being done about the risks that they highlight and escalate.

Q24 Mr Wright: Are you happy that the electronic risk database complements current management information systems rather than being an expensive add-on?

Ms Patel: Actually it has helped us hugely in training people in consistency and it has actually made it easier for people. They are spending more time managing risk than filling in manual Reports.

Mr Thompson: And sharing information across the BBC because of common templates. You can share experience from one part of the BBC to other parts more easily.

Q25 Mr Wright: There is still a lesson to be learned in terms of consistency which the Report highlights.

Ms Patel: Yes.

Q26 Mr Wright: A question about methodology and this is probably directed at the NAO. I notice in appendix one, paragraph 12, the commissioning of PWC (PricewaterhouseCoopers) to look at this and they consulted a number of organisations. Why were broadcasting and communication organisations not looked at to provide a better fit, as it were, with the BBC? Is there any particular reason why that was not done?

Mr Hawkswell: I would have to look into that and give you a fully detailed answer. Principally we went to PricewaterhouseCoopers because we knew they had experience of a number of organisations where we felt they would be able to identify examples of

good practice. We did it on that basis. The extent to which PWC explicitly considered broadcasting organisations, I actually could not say right now.¹

Q27 Mr Dunne: I am interested, Mr Thompson, that you said that the culture of the organisation of adopting a different approach to risk pre-dated the NAO Report. It is funny how often Reports come to us where a great deal of improvement has occurred in the year in which a Report has been prepared by the NAO, so that is a fairly familiar refrain. It appears from what you have said in your responses so far, that a lot of work has been done, which is welcome. Both you and Ms Patel referred to personal security as one of the key aspects of risk that you are considering. I note from Table 1 on page 7 that that is not an issue in the top nine risk themes identified in the NAO Report and in light of the obviously harrowing recent events in Gaza and the kidnap of Mr Alan Johnston, which we are all horrified by, as I am sure is everybody in the BBC, can you tell us specifically what steps you have taken to consider and review personal security of your personnel operating in dangerous parts of the world and how that fits within your risk management structure?

Mr Thompson: Yes, I will. I should say first of all that the topics in table 1 on page 7 are broad headings and the totality of health and safety fits in within those projects. It is within business continuity. To say the obvious, at the moment, when I Report to the Trust on the top five risks that the BBC currently faces, risk number one is safety of our people around the world. Firstly, in the existing context I believe we have a very, very strong system built up over some years of basically both preparing our people, the people, typically journalists but not universally journalists, who potentially have to go to work for the BBC in hazardous environments around the world, with comprehensive training, training which we believe is as good as any training in the world; an initial five-day intensive course, regularly refresher three-day courses. We make very, very careful assessments before we deploy people into dangerous situations, of which there are many in the world right now, about the deployment and we have security and safety experts who continuously assess the risks.

Q28 Mr Dunne: Do you provide personal security for correspondents anywhere?

¹ *Note by witness:* Our brief to PricewaterhouseCoopers, the consultants we appointed to help us in this area, was to use case examples to illustrate key principles that enable organisations to identify and respond to risk successfully. We advised the consultants that it would be desirable to include at least one organisation from the media or broadcasting sector. There were difficulties however in encouraging organisations in a competitive broadcasting market to reveal their risk management practices for the benefit of the BBC. The organisations cited in our Report did therefore not include other broadcasters or media companies. As the focus of our value for money review was the adequacy of the BBC's overall framework for risk management, we were still able to identify effective risk management principles for the BBC.

Mr Thompson: In circumstances where it is appropriate for security reasons we do provide that.

Q29 Mr Dunne: Have you reviewed those arrangements since Mr Johnston's kidnap?

Mr Thompson: In critical parts of the world, and there are many critical parts in the Middle East and I would certainly include Israel and Palestine in particular and the West Bank and Gaza as critical and very dangerous parts of the world, these arrangements are under constant review. At the moment, we do not have a Home Service BBC correspondent deployed to Gaza and we would not re-deploy a correspondent to Gaza until we were satisfied it was safe to do so.

The Committee suspended from 4.03pm to 4.11pm for a division in the House.

Q30 Mr Mitchell: I am a bit of a cynic about all this risk management business. It looks like a madhouse to me as I read the Report. You have a senior management team receiving a significant and huge volume of risk information; the list contains 44 top risks across nine risk themes. Senior management receives a 70-page Report updated quarterly on another 140 baseline risks and quarterly Reports on a further 85 top divisional risks. This is ludicrous. I always thought of the BBC as a "Nervous Nellie" but this makes you an institutional jelly.

Mr Peat: Mark Thompson and Zarin Patel explained earlier, but it is worth just trying to start again. It is a matter of getting the right reporting of risks to the right people.

Q31 Mr Mitchell: Yes, but to maintain such a huge list robs it of all credibility.

Mr Peat: Again, that would never be the reporting that goes to the top body at all times. There are specific components of that risk register that are relevant to particular managers and particular directors within the BBC. The totality looks huge but the bits that pertain to different parts of the BBC are to be managed within that area.

Mr Williams: When a management question is asked, it would be helpful if the individual responsible for management issues replied otherwise we are going to end up with two replies.

Q32 Mr Mitchell: This must make your incumbency at Channel 4 a period of simple delight compared with this harrowing experience.

Mr Thompson: I accept that you are trying to do two opposite things, one of which is to try to capture all of the potential risks that you should be monitoring. At the same time, you are also trying to focus debate and action around critical risks and a smaller number. I happen to have brought with me one of the quarterly risk management updates for the executive board and it is perhaps ten pages. It has a fairly small number of risks and it is quite possible in a 45-minute debate to go through these critical risks, get an update, hear about proposed actions and debate whether what management is proposing to do is correct or not. The other thing we are trying to

do, the big focus both of the Orange Book and of the NAO itself, is to make sure that you have a system that works with sufficient security and consistency, that it works for those areas which perhaps do not come . . . Journalists' safety is front of mind in the BBC the whole time. We are not going to forget about that. We are dealing with all risks at that level.

Q33 Mr Mitchell: You have the job of simplifying all this to five top risks. What are your five top risks this month?

Mr Peat: I have them here, the ones that were Reported to us at finance and strategy: first was safety of our people; second was strategy delivery; third was business continuity; fourth was editorial issues given telephony and other factors; and the fifth was technology and property.

Q34 Mr Mitchell: How much does that change on a monthly basis? Some of these are very general, are they not?

Mr Thompson: Yes, but actually once you go down one level safety of our people relates quite quickly to the Alan Johnston situation in Gaza. It relates, for example in the context of this week, to near term, to what extent the dynamics of safety in Iraq have changed in the light of the kidnapping last week of some Britons amongst others in Baghdad. Although they are general headlines, they are very particular. If you talk, for example, about business continuity, one issue is that this is a week when the BBC trade unions are considering a pay offer from the BBC. I very much hope we reach an agreement on pay, but demonstrably, there could be an impact on business continuity. These topics may sound like general topics, but they are all front of mind for me and the reason I mention them is because they have real issues associated with them.

Q35 Mr Mitchell: Of course. In the main, these kinds of things blow up on a monthly basis or suddenly out of the clear blue sky. A couple of years ago, would Alastair Campbell have been on your list of major risks?

Mr Thompson: I can say with enormous gratitude that I was not in this particular role a couple of years ago and therefore cannot answer your question I am afraid.

Q36 Mr Mitchell: Reputational risk.

Mr Thompson: You heard that one of the reasons that we are looking at editorial issues, compliance with the BBC's guidelines, is precisely because we have a couple of instances, the programme *Blue Peter*, the programme *Saturday Kitchen*, where we have had serious mistakes made in the context of our editorial guidelines. We have a big system in place. Editorial compliance and the values and standards of the BBC are very important areas for the BBC. We have extensive systems in place. We had a couple of failures of the system and we are taking a lot of actions to make sure that we do the absolute best we can to minimise the chance of those failures happening again. So that is an example of an area of inevitable risk, thousands of hours of live

 BBC

programming, sometimes things will go wrong but what steps do you put in place and if it turns out, despite the guidelines, that a mistake happened once because the guidelines were not thoroughly understood, do you need more training, do you need to make any amendments or changes to the guidelines and so on? The point of the exercise is not just to do it as a piece of abstract bureaucracy: it is to ask whether we need to change what we do, whether we need fresh actions to make sure that we reduce these risks or, if we have made mistakes, to learn from them.

Q37 Mr Mitchell: But the Campbell onslaught which removed both the Director-General and the Chairman came quite out of the blue and that was something you could not be prepared for unless you had a permanent category of reputational risk. It strikes me that the BBC on that occasion was totally unprepared.

Mr Thompson: What I want to say is that in the matter of broadcasting and the editorial direction of the BBC, the nature of what we do, very large numbers of programmes and continuous delivery of journalism on television, radio and the web means there are risks. What I would say is that actually the history of the BBC, the history of our guidelines and the way in which we delegate authority to quite junior members of staff in terms of individual editing of programmes and so forth and the culture we have of thinking hard about our values means that actually I believe the overall delivery in terms of accuracy and quality of what we do is very, very high. The system broadly works, but of course, once every few years there will be big mistakes. I would say, one, how can you manage this environment so you reduce the chances of mistakes as much as you can and two, and perhaps this goes to your point, also so you make sure that when you do get a mistake that as management, and me as editor-in-chief, but the management responds effectively and promptly to the mistake. In the example of *Blue Peter*, we decided the moment it came to light we should disclose completely. We recognised immediately that we had made a serious mistake and we decided to apologise to the public and in particular to the children and parents who watch *Blue Peter* directly and immediately. How you respond to the mistake is in some ways equally as important as the actual mistake.

Q38 Mr Mitchell: I agree with what you said about standards of the BBC, but the answer seems to me to be that you should have more confidence in yourself and this kind of obsession with specified lists of risks must make for a culture of nervousness which is actually undermining confidence.

Mr Thompson: Honestly, Mr Mitchell, I am not sure that is true. An environment where, of course we try to make it as unbureaucratic as possible, because it will not embed fully in management practice if it feels a very onerous exceptional task and it needs to be part of the way people work. I would say in many of the areas we have talked about, safety of our journalists, the way in which editorial guidance

works, that actually, if you have a good strong system in place, increases peoples confidence and in areas where we say our appetite is to take some risk, for example in some of the programmes we commission, being clear about that again gives people more confidence.

Q39 Mr Mitchell: I found two things in the Report somewhat contradictory. It says that one third of the staff surveyed were not clear about when to escalate risk information upwards. I am surprised at that because it contrasts with the other point in the Report that there was a culture of blame. It struck me, working for the BBC, that working for ITV was almost like being on a pirate ship and you just obeyed the captain or you were pushed overboard, whereas with the BBC you were working for a bureaucracy which pushed just about everything upwards. You had an alphabetical list of names which said that the presenter of this programme was an idiot or a drunk or whatever and there was this enormous culture of referring everything upwards so that nobody could give you a clear opinion.

Mr Thompson: Pushing people overboard would raise serious health and safety issues for a start.

Ms Patel: A third of people feeling that they are not clear about whom to escalate it up to is an issue for us and we have spent time since this came to light in the survey making sure that people understand that what the Chief Risk Officer is there to do is to promote the process, to make sure their divisional boards are actively considering risk so that people know who to escalate the thing up to. That is important. The point about blame culture is that it really is not one I recognise. There has been no instance where a risk has gone unreported and has become an issue. It is also an organisation that actually tries to learn from its mistakes. Again the *Blue Peter* example is a good one. Why did it happen? We try really openly to learn that and make sure we fix things quickly. As an organisation—and I see that the editor of our in-house newspaper is here—we have a really open system of internal newspapers where people raise anything. We also have an anonymous whistle-blowing line. So there is a culture of people being able to say things.

Q40 Mr Mitchell: If you are so confident in yourselves—and this one goes to Jeremy Peat—why not have the National Audit Office come in more frequently and why not let it choose what it does and what it inquires into?

Mr Peat: We have specifically made arrangements whereby we have asked the NAO for their suggestions for the programme and we have agreed one of their suggestions for this year and we will look at other of their suggestions with them for the two years ahead. We are specifically asking the National Audit Office for their suggestions and working with them to develop the best programme.

Q41 Chris Bryant: I am not allowed to raise any questions about my future pension from the BBC.

Mr Peat: I should note that you have two pension Trustees sitting here.

Q42 Chris Bryant: Business continuity is what I want to talk about first of all, because one of the areas where presumably you have to assess the risk is when you have a big high profile name fronting a big high profile Saturday evening or Friday evening television programme or fronting sports programming or whatever, they, by virtue of being so significant for you, increase their value very dramatically, but they also potentially might leave. How do you assess the value or the risk of somebody leaving who is an important and significant talent?

Mr Thompson: Generally, when we talk about business continuity, we take a somewhat narrow definition about the ability to maintain our services on the air through the broadcast chain, through having people available to work. Absolutely, we would say, although we would call in a slightly different topic, attracting talent and retaining talent is a risk and it is on the risk register. What we do, both with individuals and also with critical rights, sports rights and acquired programmes, is, particularly for high value rights or high value individuals, we go through an investment appraisal process. A recent example would be the decision we made, with regret but nonetheless it was the right decision, to withdraw from the bidding for the renewal of *Neighbours* because in the end, when we looked at that as an investment proposition, we thought that although *Neighbours* had been good value for money for the licence payer in the previous contract, the increase in the contract meant it was no longer good value and we should walk away from that.

Q43 Chris Bryant: But do you ever withdraw from that in the case of a named talent, like Jonathan Ross or whoever, because it seems to the public as though you never withdraw from that?

Mr Thompson: Absolutely. When people move from the BBC to other broadcasters, oddly enough it is seldom seen, although often that is the case, that we have decided we do not want to renew a particular artist at a particular price and therefore they go to another broadcaster. We seldom get the credit for that. It tends to be regarded as the BBC losing an artist. Actually, we are constantly making decisions both about individuals and about rights and even though we have to balance these things carefully because the public want outstanding entertainment, they want outstanding sport from the BBC, there are occasions where the right thing to do for the licence fee payer is to say on this occasion we do not want to continue with the relationship, and we do do that.

Q44 Chris Bryant: May I just tidy up? I may have missed a question about the Alan Johnston situation. I just want to make sure whether you feel that the BBC, in its assessment of the risk in that situation, had got it right. One could argue manifestly it did not, so what would you now do differently?

Mr Thompson: If I may answer this as well, the most important thing to say is this is not the right moment yet to make a full assessment. The situation is still ongoing and we will be quite careful about how we

refer to it. It is inevitably a delicate business and I do not want to say too much about it. What I would say is that a very careful and continuous assessment of the situation in Gaza was made and will continue to be made, so that throughout the period when Alan was a correspondent there, there have been regular visits by our security experts, very careful protocols in place to try to maximise the security of all of our people who work in Gaza. The fact that abduction of westerners was a very real risk in Gaza was self-evident and was well known to us. What we did not foresee was that, unlike the many, many other abductions of westerners there have been in Gaza in recent years, most of which were resolved in a matter of a small number of hours, the longest of which was resolved in 14 days, this was going to be different. I believe, from everything I have seen so far, that great care was taken in terms of the security of our team in Gaza but, of course, we should look at that and see what lessons there are to learn from that.

Q45 Chris Bryant: There must be BBC journalists not just in somewhere like that but Fergal Keane's Reports last week must have brought him into considerable areas of danger, BBC Reporters who Report sometimes having travelled into Zimbabwe illegally, which we would believe to be very important work for the BBC to do.

Mr Thompson: It is very important to say that the point about risk management is not to say that you can have a risk free environment. We have a list of hostile environments around the world with country after country after country, often only part of a country, where we have reason to believe it is hostile but there are many, many places where we have to send people to Report what is going on in the world.

Q46 Chris Bryant: Is Russia on that list?

Mr Thompson: I am happy off line to share the list in private, but it is not particularly helpful to be public about the list in terms of the safety of our correspondents.

Q47 Chris Bryant: May I move on then to a completely different area? However, I would suggest to you that 32 journalists in Russia have been killed in the last eight years without anybody having been convicted for a murder of any of them.

Mr Thompson: The broader point, that this is becoming in some parts of the world a very dangerous place to be a journalist for the BBC or anyone else, is absolutely well taken.

Q48 Chris Bryant: None of us would want the National Audit Office process to create a risk-averse journalism for the BBC. It is not that we want people to put themselves in danger but it is a very important part of what British journalism stands for it seems to me. May I ask about a completely different area which is about digital switchover? I guess that is part of your business continuity issue. Not everywhere in the country has the same rollout of Freeview, Freesat. You have promised a Freesat operation. How important is consideration of these issues to

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your assessment of your relationship to the audience, which must surely be an important part of that business continuity risk?

Mr Thompson: It is very important. We want to play a leading role in making the switchover from analogue television to complete digital television and the switch-off of the analogue signal as convenient and smooth as it can be for every household in the UK and having a range of different platforms available and available as soon as possible is part of that.

Q49 Chris Bryant: You were going to do a BBC Freesat last September.

Mr Peat: The position on Freesat was that under the previous charter, responsibility for making a decision on the proposal on Freesat was for the Secretary of State at DCMS. The governors put a proposal to her I believe in June of last year. We did not have a response by the end of the charter period and the papers were returned to the new Trustees in the middle of January of this year. Under the new charter, the decision was for the Trust and the Trust considered that rapidly and actively and made a decision to agree that the BBC should proceed with other parties with a Freesat proposition. So that decision was made within four months.

Q50 Chris Bryant: Very quickly, is there a date that you are aiming towards?

Mr Thompson: Yes, we are in the process of setting up a joint venture with ITV and also working with many others in the industry. I hope that we can have a Freesat standard and therefore Freesat boxes in the market during the course of 2008.

Q51 Chris Bryant: Completely different again, about the risk assessment for the many people who are not your employees. A significant number of the people who work in the crafts within television and radio are freelancers, employed on very short contracts; sometimes they have not actually received their contract until they have already finished their piece of work. How do you make sure that this right approach to risk management is embodied within the whole of those who work for you?

Ms Patel: First of all, everyone who works in the BBC is covered by our duties around occupational risk management, but that is why training, particularly health and safety training on production environments, is really important. When we get freelancers on board, we have a history of what training they have already had in the BBC, because they have worked in the BBC before, and we update that before they start on a contract. We have a history of which productions they have worked on and what training they have already had as a way of making sure that we did not re-train and re-train the same people over and over again. There is no distinction when it comes to any kind of training between a freelance and a permanent employee because they are all doing the right job.

Q52 Chris Bryant: I am afraid I do not believe that.

Ms Patel: Let me give you an example. Where I have production accountants who are running productions, and they tend to be freelancers in drama, those people are properly trained in the financial management and controls framework before they are allowed access to our systems. Those who come back frequently to work on drama productions have a history of having been trained, so we give them refresher training. We treat them in the same way we would permanent employees.

Q53 Mr Davidson: The National Audit Office Report is illustrated by a quite effective picture which illustrates a white male middle manager on the basis that he has got a suit on and he is not quite at the level where he has somebody to carry his briefcase for him. Then when we come to the full Report it is quite boring and bland. That seems to me to symbolise the difference between the National Audit Office who are prepared to use interesting illustrations to make their point and the BBC who have been so risk averse as to give us one of the blandest covers we have ever seen.

Mr Thompson: Do you not think the BBC's creative magic has rubbed off on the cover? Clearly not.

Q54 Mr Davidson: I just wonder what that tells us about BBC's attitude towards risk, not to mention colour printing.

Mr Thompson: It is a value for money point.

Q55 Mr Davidson: That is interesting. So given a choice between the economical and the daring, you would always choose the cheap and bland.

Mr Peat: This demonstrates that the BBC Trust, who produced this, does not have the creative energies of the executive part of the BBC.

Q56 Mr Davidson: What are you doing to correct that?

Mr Peat: Our responsibility is to secure value for money for the licence fee payers and we rely upon the Director-General and his team to deliver the creativity that licence fee payers so enjoy.

Q57 Mr Davidson: I surely understand the point that is being made. I made the point about the middle manager who obviously would fit certain characteristics. May I just ask about the extent to which the BBC is risk averse in its recruitment? When we spoke to somebody from the Army recently he said he would give us figures about the educational background of the top ten staff and we discovered that nine of the top ten were ex-public school boys. What is the position in the senior management of the BBC?

Mr Thompson: The short answer is that I do not have the information here but I should be very happy to make that available.²

Q58 Mr Davidson: Write to us then and give us that figure because I would be interested to see the extent to which you actually reflect the society to whom you communicate. Similarly, to what extent do you recruit safety first from public school and Oxbridge in your broadcasting staff? I very much have the impression as a Member, being phoned up by BBC staff on a regular basis—they are not all called Tristram and Jemima, I accept that—that there is a certain narrowness of educational and social class background that makes me think that you always go for safety first in terms of whom you recruit? Can you clarify the position?

Mr Thompson: I absolutely believe that the BBC should strive as well as it can to reflect the population who own the BBC and to whom it broadcasts. They own the BBC and it should reflect all the talents and all the voice and experiences by educational and social background, by ethnicity and so on.

Q59 Mr Davidson: Why do you not?

Mr Thompson: This is an area where the BBC has done a great deal in recent years in some categories. The role of women in the BBC has been—

Q60 Mr Davidson: I can recognise waffle when I hear it. What I want to know then from you is whether you could give us figures indicating the social and educational background of the staff that you have in the broadcasting ranks. I accept that no doubt your cleaning ladies did not all go to public school. I want to know the extent to which you reflect society in your broadcasting staff. I do not want any tricky ways of re-defining it and so on; you know what I am after and I would be grateful if you could either confirm or refute my prejudices.

Mr Thompson: We will reflect, as far as we can, the various things that we track. We track gender, we track ethnicity, we track disability; I do not know whether it is systematic.

Q61 Mr Davidson: If you have 100% public school boys in your core staff, you could not tell me that? Are you saying to me that it is not important enough to measure?

Mr Thompson: I do not know today whether we track systematically, obviously with each employee we have—

Q62 Mr Davidson: It is clearly something that you are not sufficiently concerned about to measure. The vast majority of my constituents do not attend public school, though I do know that one of them works for the BBC. What you are saying to me is that you do not actually even measure this.

Mr Thompson: To be clear, my belief is that only a tiny proportion of people who work for the BBC went to public school.

Q63 Mr Davidson: That includes cleaners of course. Let us discuss the question of Reporting staff. I do not know what your most recent graduate intake was, how many it would be. Can you tell me how many went to Oxbridge and tell me what the case was in previous years as well? Oxbridge and public school, give me both of those categories and we will see where we are.

Mr Thompson: We can write to you with that information.

Q64 Mr Davidson: Of course you can; that is good, I am glad to hear that. May I raise a point with Mr Peat? I thought at the beginning when the Chairman was raising some points with you, that you started off being over-defensive and you were giving a fairly good impression of Mr Grumpy. I am not clear about whether or not this reflects the attitude of the BBC that us asking questions of you is little short of impertinence. That was the impression you were giving at the beginning. We take the view, possibly erroneously, that this is for your own good or we would not be doing it and I wonder whether or not you can convince me that you do actually enter into this exercise in the spirit that we would hope: that it is about collaboration, we hope it is about being constructive and helpful, there are some things that are not the response to the impression we create. Can you clarify that for me?

Mr Peat: I would very much hope so. My apologies if I sounded like Mr Grumpy; that was certainly not my intention. I was trying to answer the question that came from the Chairman, as I have in the previous two years discussed this very important issue with you. What I do want to reassure you of is the total commitment of the BBC Trust and myself as a Trustee to securing the best value for money for licence fee payers from the activities of the BBC and the great advantages that we have gained from the involvement of the NAO in various studies and in various discussions and the ways in which we hope to deepen that relationship with the NAO and are already deepening it, both in the discussions over the value for money programme and in getting them in to look at productivity improvements, how to measure them, how to analyse them and looking in due course at how they are achieved. We are trying very hard to make best use of the NAO. We treat value for money very seriously and I welcome any questions from this Committee on that area.

Q65 Mr Davidson: I accept that everybody can have a day when they get out of the wrong side of the bed. It is just that you have given the impression of being Mr Grumpy on previous occasions as well, which is

² *Note by witness:* The BBC does not, as a matter of course, record information on the schools attended by its staff. In the case of our Executive, this information is however (in part) publicly available. Of the fifteen members of the BBC's Executive Board (including five non-executives): six attended independent schools, five attended comprehensive schools and four attended grammar schools. In addition, six of the fifteen attended university at Oxford or Cambridge. Biographical detail about members of the Executive Board is available online at: <http://www.bbc.co.uk/info/running/executive/biographies.shtml>. Also see Ev 17

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why I raised it. May I ask about BBC Scotland? In terms of reputational risk and so on, there is a real fear amongst many of us in Scotland that BBC Scotland is retreating to the safety of the *kailyaird*, particularly now that there is a Scottish Parliament there, and that it is essentially inward looking, retreating to your comfort zone. How do you make sure that in terms of its reputational risk the standards and the wider horizons are maintained in circumstances where it is increasingly easy to retreat to that comfort zone of the *kailyaird*?

Mr Peat: I am the national Trustee for Scotland as you are well aware and I am chair of the Audience Council for Scotland which is now enshrined in the charter and is there to look to the best interest of the licence fee payers across Scotland. I can assure you that the members of the Audience Council for Scotland, the volunteers, very helpful members, are constantly looking at whether the BBC in Scotland is providing what is in the best interests of those licence fee payers. They are looking at cultural representation, they are looking at getting the most commissioning they can from Scotland for network programmes and they are looking at delivery of the best Reporting of news from Scotland. All of these issues are constantly under discussion and, as the national Trustee, I chair that council and I represent to the Trust the views that come through from that body. In terms of the day-to-day management, the editorial responsibilities for BBC Scotland, they are with Ken MacQuarrie, Reporting indirectly to Mark Thompson. So the editorial responsibilities are with Mark, but certainly, as the Trustee for Scotland with the Audience Council, we take the interests of licence fee payers hugely seriously.

Mr Thompson: We are about to open the most advanced broadcasting centre we have in Glasgow and the reason we built it where we built it was because we want BBC Scotland to make more network programmes as well as programmes for Scotland, programmes which will be seen across the whole of the UK and hopefully around the world. We are absolutely committed to a BBC Scotland which looks out not in.

Q66 Mr Davidson: Much of this is about commissioning and so on, I do understand that and the new gee-wiz centre, which is exceedingly inconvenient to me because I actually stay in Queen Margaret Drive and therefore I get called in regularly on the basis that I am close and cheap. The fact of commissioning and so on and wanting to do programmes is not incompatible with there being in the domestic broadcasting a kind of here's-to-us-and-those-like-us feeling. There is worry about this, that it is withdrawing back and I am not sure that the question of commissioning for a wider audience necessarily knocks that on the head. Can you just clarify for me as well on the question of the Audience Council? I take it they are not all Oxbridge/public school boys.

Mr Peat: No.

Q67 Mr Davidson: I do not know how many are from my constituency, for example, or from social groups D and E.

Mr Peat: We are very careful to try to get the best balance we can on the Audience Council and we have two vacancies at the moment for which we are recruiting. The applications closed today, so I am afraid it is a little late, but we have looked very hard at the balance by gender, by location, by ethnicity.

Q68 Mr Davidson: Can you send us a note indicating the extent to which your Audience Council, because presumably these are paralleled elsewhere, does actually reflect the whole range, not only of the great and good but real people as well?

Mr Peat: Certainly.³

Q69 Ian Lucas: I am interested in the nature of the risk that you are dealing with. I have been bedazzled by the range of the risks we have been talking about, everything from health and safety, presumably checking that the steps are correctly painted white and that sort of thing, to reputational risk, to commercial risk. Do you think it is helpful to put all of this together in one block under the heading of risk?

Mr Thompson: Yes. What I would say is that there have been some risks which are obvious for a broadcaster like the BBC and which I believe have been actually, perhaps not with such transparent systems, well managed over many years in the BBC. What we have been trying to do is to try to get all of the risks up to the kind of level of the best risks and to get certainly senior managers, both in divisions and across the top of the BBC, to start thinking of them together because actually risks which come from quite different areas can potentially have the same impact. We talked about reputational risk. There are many different kinds of things that could go wrong for the BBC which could have a significant reputational impact and it is important that people at the top of the organisation, both the executive board and indeed the Trust, are aware, as far as they can be, given the very diverse operations of the BBC, of where the risks might come from.

Q70 Ian Lucas: How can someone be as expert in assessing commercial risk as a health and safety risk?

Mr Thompson: You have different teams of specialists.

Q71 Ian Lucas: Can you tell us what those teams of specialists are?

Ms Patel: If it is health and safety, our head of occupational risk management is someone who has been well trained in this industry, has worked really hard in it, who understands programme making as well, so understands where the risks are, if you like. If you take commercial risk, John Smith, Chief Executive of our worldwide operation, who manages that with his team will think really hard about the commercial risk. The senior managers and the executive board members who own the risks own

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their area of expertise. For example, I would own financial management and control because it is my area of expertise.

Q72 Ian Lucas: So how does the lower level manager access that advice and how does that person obtain the information and the knowledge that they need to assess either a commercial risk or a health and safety risk?

Ms Patel: Shall I give an example of editorial risk where we have had well developed systems for a very long period of time? What happens annually or through the course of the year on editorial risk—

Q73 Ian Lucas: Tell me what an editorial risk is?

Ms Patel: We have editorial policy guidelines. The editor-in-chief would probably be better able to articulate the editorial risk but the *Blue Peter* situation would have been an editorial risk. People putting their own content on our airwaves would be an editorial policy issue. What we have is a really clear statement about the policy that is well disseminated on the website and where people use it. Equally, every time there is a new issue or a new topic, what we have is a newsletter that gets out the issues to people really quickly, but then we do seminars and workshops on particular topics. The kind of workshops we have had recently are: harm and offence issues; new prop arrangements for drama and entertainment which might have been to do with particular names of companies; new user generated content guidelines, what are the things you should think about. The whole editorial policy starts with David Jordan as the Head of Editorial Policy and he disseminates that through all the practitioners across the BBC including independent production companies who have to pay heed to the editorial guidelines.

Q74 Ian Lucas: How do you monitor that?

Mr Thompson: To give you one example, in 2006 we launched something called the college of journalism which is principally an on-line resource to try to improve training and understanding of our journalistic practices and principles amongst our journalists. We launched a module called *Legal Online* which is a basic toolkit of learning about the law as it relates to journalism. Launched in 2006, so far 8,500 people inside the BBC have completed this module. It is a mandatory module and they have to go through it. They can go through it on their PC, finish it and by the end, and there are another 2,500 to 3,000 to go, we will know that everyone who may have recourse in their jobs to a minimum level of appropriate knowledge about the law will have the basics. Meanwhile of course, we have legal specialists; we have people like David Jordan, controller of editorial policy, to advise people on particular legal issues. The attempt is to get the right level of skills and information to each single person inside the BBC.

Q75 Ian Lucas: Do you have any risk management from outside the BBC? Do you employ consultants to provide risk management?

Ms Patel: We probably look for expertise in health and safety and environmental legislation, in those kinds of areas of real expertise that we perhaps might not have in our in-house team.

Q76 Ian Lucas: Do you know how much you spend on it?

Ms Patel: Not off the top of my head.

Q77 Ian Lucas: Could you give us that information?

Ms Patel: Of course.⁴

Q78 Ian Lucas: Could you give us any indication of proportion of information that you secure from outside organisations?

Mr Thompson: The presumption is that managing risk should be integral to what BBC managers do and, typically, we are opting for in-house solutions and we are getting the expertise into the building. We will come back to you with some numbers but I would say to you is that my belief is that the overwhelming majority of the resource is in-house. What we also try to do is work very extensively, even our in-house experts, in talking to other organisations and trying to understand the best practice from other organisations. So even if it is not an external consultant, we are still trying to make sure that we open up and learn, if we can, from other organisations which may be doing some things better.

Q79 Ian Lucas: May I just switch tack for a moment and ask you about the reputational risk issue? Which part of the broadcasting of the BBC do you think has the highest reputation?

Mr Thompson: Amongst the public?

Q80 Ian Lucas: Television, radio . . . ?

Mr Thompson: Probably the most recent data would suggest that, and this is not a new thing, the World Service of the BBC has the highest reputation of all our services.

Q81 Ian Lucas: What about local radio?

Mr Thompson: Without sounding too Panglossian about it, our services typically have high reputations with the public, high levels of satisfaction. Most of the quality indicators for virtually all of our services are going up at the moment and, it depends whom you ask, people, and there are millions of them, who rely on local radio regard it as being incredibly good and one of the most important services they receive from the BBC.

Q82 Ian Lucas: I agree with that entirely. Why is there no BBC local radio in Wales?

⁴ *Note by witness:* The BBC has a team of five Risk Managers who work across all business areas and the commercial subsidiaries, building risk and control awareness and assisting the business to embed risk management into everyday business processes. They are key to promoting a common approach to risk management across the BBC, for example through sharing lessons learned from one area to another. They are also an invaluable resource providing specific advice on risk management issues and tend to be the first point of call for risk advice.

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Mr Thompson: Indeed. A decision or a position was reached over many years by the BBC, absolutely led by the BBC in Scotland, Wales and in a slightly different context in Northern Ireland, that the main focus of BBC services in these parts of the United Kingdom should be to build compelling popular useful distinctive national services for those nations and so, resources in Wales went in to the best line-up of programming for BBC1 Wales, BBC2 Wales and other digital services, Radio Wales, Radio Cymru, and an effective website focusing principally on really good coverage of Wales as a nation.

Q83 Ian Lucas: Is that not a political judgment?

Mr Thompson: This is not a new thing; this has been true over decades. There was a sense that, given limited resource, delivering outstanding programming for the whole of Wales was the highest priority. What is interesting and one of the possibilities that we are considering is the idea of principally using the web and broadband to deliver better regional coverage of the nations. What is absolutely true is that there is an appetite in Wales, in Scotland and in Northern Ireland for better coverage of the regions of those countries, rather than nationally. The point about regional coverage is, of course, although the cost might be relatively modest for any one region, that by their very nature once you go into regional content of any kind there are many regions and the aggregate costs are quite high. With the funding we will have over the next five or six years, affording that is the question.

Q84 Ian Lucas: It is a question of priorities Mr Thompson. We would love a BBC local radio station in North Wales. We call BBC Wales BBC South Wales where I come from.

Mr Thompson: I shall certainly take that away and discuss it with my colleagues. What I would say is that it is an aspiration of the BBC and an aspiration of mine. Whether we can deliver local radio stations, I do not know and to be honest I question whether the resources are possible. Delivering improved coverage of the regions of Wales and the regions of Scotland and the regions of Northern Ireland as well as improving what we do in England is definitely an aspiration I share.

Mr Peat: Can I just say on behalf of the Trustees, I know that the BBC Trustee for Wales and the BBC Trustee for Northern Ireland and I all totally understand what you are saying and share the aspiration for better regional news.

Q85 Ian Lucas: But Mr Peat, I have been saying it for five years and my constituents have too and no-one is listening.

Mr Peat: The point is noted.

Q86 Derek Wyatt: May I ask the National Audit Office a question first? On figure 1 on page 7, which lists the nine areas, can you tell me whether you ranked them in terms of risk? So for instance, if you do not collect the licence fee you are really in schtuck, if you only collect 85% of the licence fee instead of 91% and so on against the overall

business. Could you give me some idea as to where you thought the risk was yourselves and whether you put them in a one, two, three, four, five and so on?

Mr Hawkswell: The short answer is that we did not rank them in that way. These are in themselves summary themes as the witnesses explained earlier on, so quite a bit sits beneath those. This is purely a representation of how the BBC regards its top nine themes.

Q87 Derek Wyatt: So when you come back to look at this in two years' time or three years' time, how will you judge yourselves as to whether they have been successful?

Mr Hawkswell: Clearly that is something we will need to give a little bit of thought to as the time approaches. We have set out a number of recommendations in the Report. The BBC has said to the Committee that it is taking action on those and is implementing changes and we will look to see that those changes have actually been made.

Mr Thompson: I accept that it is not obvious from the table but business continuity is a category into which certain risks fall and it is true of each of the risk themes. So under business continuity a recent list of risks would be terrorism, information technology and information security, physical infrastructure, incidents which may cause harm to people, employee relations. In a sense the action is happening within these categories one layer down: the risk of terrorism and the impact of terrorism potentially on the BBC's ability to continue to broadcast, to maintain the security and safety of its staff, its centres. As a risk it depends very much on the wider terrorist risk in the UK at any one time. What is happening is that within these broad categories risks are coming in, being considered, weighed, some of them will depart. You have a population of risk. This is just a way of trying to divide the risks up into manageable themes.

Q88 Derek Wyatt: Maybe you could tell me where these two are then? Your move to Manchester, which is a high risk. You have staff who may not want to move, if they do not want to move, you have redundancy, if they do want to move, you have to pay for them to relocate, if more people do not want to move, you have to start a department all over again. There is quite a lot of risk there. You have then also got to link electronically and by satellite the Manchester group with the London group and so on and so on. I do not know whether it is £500 million, £600 million, £300 million but I would love to have a breakdown. I have never seen a breakdown of how you have evaluated the risk and the costs.⁵

Mr Thompson: Manchester is a really good example but it is also an example of the complexity because self-evidently this is a project with multiple risks along multiple themes. When the project was considered as a proposal by the management and as it has developed and as the financial and commercial transaction associated with the project has come

⁵ Information provided but not printed (commercial in confidence).

forward, there have been risk registers at every stage of the process which try to consider and weigh the risks.

Q89 Derek Wyatt: I just wanted to see a risk analysis that you could send us and a costing attached to that risk analysis.

Mr Thompson: We can send you that.

Q90 Derek Wyatt: The second thing is that as more and more programming is commissioned from outside, if you are an independent producer and you make a mistake on the funding, the company takes the hit. If internally you overspend, you do not take the hit personally. How do you assess whether the organisation that keeps overspending is actually worth employing any more, or individuals in those departments who continue to overspend?

Mr Thompson: We are very lucky that Zarin Patel, who is here today, is the Chief Risk Officer and is also the group finance director. With very tight management understanding and in particular post-investment reviews of projects which we commission and looking in particular at overspends, rare but they certainly happen, and in particular any patterns of overspend; it is critical that we keep a tight grip on them.

Ms Patel: Overall, programme departments have a cash limit that they are managed to and I track how they are doing against that cash limit every month, both the actuals and the forecast outlook as well. Within a department the finance director will look at big programmes. To an extent, if you have ten projects in your department, you will make sure you balance the books across those ten but you have to do that and, again, there are very strong green-lighting procedures before a programme is commissioned to make sure the budget is balanced and all the risks are taken account of and then a post-investment review after the programme. There are thresholds; if the overspend is between 0% to 5% there is a certain amount of scrutiny, if it is bigger than that it comes to the finance committee which Mark chairs right at the top of the BBC.

Q91 Derek Wyatt: How many go to that Committee every year?

Ms Patel: In the two and a half years I have been finance director, I have seen two. There were two particular issues: one was a very, very complex production in Egypt where, because of the weather and various local issues, it had overspent. I cannot actually remember the other one, but it was a big complex fiction drama.

Q92 Derek Wyatt: When I was a publishing director at William Heinemann in the 1980s, we belonged to a FTSE 100 Company which was a pain in the neck because we got 24-hour cash calls because that is the business they were in. Is there a procedure? Does Mark have an idea? You say monthly, but you are a huge business here. Does he get a weekly note of whether you are plus or minus and then how is that related to the Trust? Does the Trust get any idea that

you are in real trouble here on a big project? How soon do you know? Do you know the day it happens or does it come up in the monthly meetings?

Mr Peat: It would go, first of all, to the audit committee and we have quarterly Reports on issues and we also have the Director-General's Report monthly where, if there are any major issues, we would expect Mark to report them to us at our monthly meeting. We formally have a report on the finance side every quarter. May I just also mention that independent commissioning was the subject under the value for money programme in the last year and in-house commissioning is a subject in this year's value for money programme?

Q93 Derek Wyatt: Good. Will you publish that?

Mr Peat: Yes.

Q94 Derek Wyatt: I mean publish it for us, the nation.

Mr Peat: Yes, of course. The English one is published already.

Q95 Derek Wyatt: So when there is a red-hot issue of risk, which is often a journalist in a rather risky area or a team that have got stuck or something, does Mark make a phone call to the chairman of the Trust.

Mr Thompson: Yes.

Q96 Derek Wyatt: So that there is then a round robin and everyone is ticked off, as it were. You do not wait the month and all that.

Mr Thompson: Yes. I would absolutely regard it as my responsibility to inform both the non-executive directors of the executive board and the Trust of any serious risk, financial or otherwise, that emerges.

Q97 Derek Wyatt: Now I know this has probably been mentioned before but as I came late forgive me if I am going to repeat myself. On page 11, the figure 4, risk identifications integrated, I think I heard Ms Patel say that something had changed. Let us say that I am made head of documentaries and I have been a producer. Being a producer responsible for budgets at half a million is substantially different to a department that might be £80 million or £150 million; you get the point I am trying to make. What pre-training is there in that producer's education? They go from actually running a smaller budget to a much bigger budget and they are managing people and so on. Is there any training in between the allocation of that person to become that or is it just: "As you are, good luck, well done and on you go"?

Ms Patel: No, there is real training. The selection of the producer and the director on a programme is key, not only for the creative output but to the financial control of it as well. I do not know the absolute detail on every part of the BBC but certainly as you progress up the chain, certainly in terms of your financial training and your financial experience and judgment, that is a key part of the selection criteria.

BBC

Q98 Derek Wyatt: Are you confident Mr Peat that the Trust can read a balance sheet?

Mr Peat: Yes.

Q99 Derek Wyatt: All members?

Mr Peat: I would not say that all members were equally able to, but I am also confident that we now have very strong non-executive directors including the finance director of a FTSE 100 company so we have capability amongst the non-executive directors and the audit committee and also amongst members of the Trust, through the finance and strategy committee and the full Trust.

Q100 Derek Wyatt: Lastly, when you decided on the Freesat, which I opposed and wrote to say so, how did you take a judgment that actually broadband television was going to come faster than a Freesat? Who gave you the risk analysis of taking an investment in something and actually the trends are moving away from that type of production delivery.

Mr Peat: The analysis of Freesat was undertaken for the Trust by the Trust Unit with advice and the view was taken that this was a very important means of helping to spread the availability of digital television and indeed of television generally across as many licence fee payers as possible because we were constantly aware of the difficulties of so many licence fee payers who could not get good reception and could not access the different channels through Freeview. We saw it as a high priority as part of our charter obligation to spread the availability, to make sure that there was as much availability through satellite as well as Freeview as possible as soon as possible.

Mr Thompson: It is also worth saying, a bit like about Freeview, that it would be perfectly possible for a manufacturer to meet a Freesat standard but also include broadband connectivity into the box as well.

Derek Wyatt: As you know, I have been arguing about the digital box for over 75-year-olds which does not have a return path, so why are we spending £400 million of our money on it? That is another issue.

Q101 Chris Bryant: Incidentally, they agreed with the people in the Rhondda; that is why they did a Freesat. Your biggest long-term risk is losing the licence fee completely or for that matter having it undermined, sliced in half or whatever. Over the last few years the Government have been robust supporters of the concept of a licence fee and of the licence fee, indeed it is said that in the settlement of the licence fee before last it was the first occasion that a secretary of state asked for a certain amount, the Treasury asked for a higher amount and the Prime Minister insisted on yet a higher amount. That is not the view that the Conservative Party has tended to take of the licence fee. How do you manage the risk of a Conservative government or a Conservative policy?

Mr Thompson: I am not quite sure I accept the premise. I do not think the most important risk for the BBC is about the way it is funded. The most

important question for the BBC, which includes a risk, is whether it can deliver its public purposes in ways which mean that it still has a real value for this country. My view is that, if the BBC succeeds in meeting the British public's needs and the British public value it highly, that is the most important thing. I cannot predict the political stance of any party or any future government but it seems to me that if we, with this very precious national asset, develop it, continue to make it valuable to the people of this country with very good content, very good programmes and services and do it in a way which feels, to all those who scrutinise it, including everyone in this room, to be good value for money, that is all we can do and in the end, the matter of the future of the BBC, when this next comes up for debate, is going to be for the government then in power and the Commons or the Lords then in place and we will see where we get to. It seems to me that all we can do with that risk is to do the best possible job we can for the public.

Q102 Mr Mitchell: One of the major risks we face, although it is very occasional, is political. It happened in 1956, it happened when Wilson effectively replaced the Chairman and it happened in the Gilligan affair just a few years back. In that affair, in my view the Government behaved very badly indeed, but the BBC did not behave particularly well either. Its response to the Government's attack, a kind of rabid dog attack, was a bit weak, it did not stand up, but the response of the governors was worse in the sense that they undermined the Director-General, thinking they had a Director-General who was not acceptable in Whitehall and therefore it was better to let him go. Of course I do not expect you to comment on those statements despite their obvious accuracy and neither of you was there at the time. Is it your impression, with your system of risk management and the new system of Trustees replacing the governors that in such a situation, when it comes to political bare knuckle confrontation, as it did then and sometimes will again, the BBC is in a better position to stand up to it than it was then?

Mr Peat: As you say Mr Mitchell, I was not there; I was not a governor at the time, so I cannot judge. What I would say is that the arrangements under the new charter are crystal clear as to the responsibilities of the Trust and the responsibilities of the executive. Having six public purposes set out as our responsibilities to deliver for licence-fee payers and the separation which now exists between the Trust and the executive in different roles places the BBC in a very strong position to deliver value for money and to maintain its independence and integrity. That is the challenge for us now.

Q103 Mr Mitchell: It makes it clearer; stronger becomes clearer.

Mr Peat: I very much hope so.

Q104 Mr Mitchell: What is Mark Thompson's view?

Mr Thompson: I think that having systems in place and having these kinds of processes in place which are what this Report is about—and you can look at some of this and think it looks very complex; the responsibilities chart on page 7 looks rather like the new Olympics logo to me—you can absolutely look at it and see it is complex but having these things actually embedded and in place is never more important than when the red mist descends and when you are in a crisis and the danger is that you lose objectivity. If there is one thing I hope we can do, it is to make sure that because we have many more outsiders inside the BBC, both in the Trust but also on the executive board, what we will not do is end up with tunnel vision. I suppose my one observation would be that in a crisis, in crisis management, if you end up with tunnel vision and stop asking all the questions, that is when you get into trouble.

Q105 Mr Williams: One final question, coming back to an earlier point you made about having a lot of risk and coming back to those initial figures, the five risks, the 44 top risks the 140 baseline risks and the 85 divisional risks, how do you allocate resources between risks? What resources does risk management take up? How do you determine whether you are getting value for money? In paragraph 40 it does say: “. . . there is a tendency to over-manage some minor risks” and: “. . . the costs and benefits of risk controls are sometimes considered it is not routinely done”. How would you go about that?

Ms Patel: The rating system is really important and some of the work we have done recently is to get people to understand what the likelihood of a risk means. Is it going to happen every day? Is it going to happen once in a blue moon? Then the severity of the risk; when it does happen what is it going to cause? Is it going to cause severe harm to people, major financial loss? We are trying to get people to be sensible about allocating those. If you are in business continuity, you are assessing your risk in isolation from the rest of the BBC, so for you a breakdown of

BBC1 and it going off air is a really big risk but by making sure that people are rating risks sensibly, you make sure that they are trying not to over-manage them. It costs you a huge amount to have BBC1 never off air in terms of the resilience and backup. Risk management does not have its own budget; each individual area would. As we do the three-year budgets and business plans, we think really hard about the level of investment in a particular area to the level of risk we are willing to tolerate.

Q106 Mr Williams: Do you know what it is costing you?

Ms Patel: Risk management across the BBC?

Q107 Mr Williams: Yes.

Ms Patel: We do not measure the actual cost of risk management.

Q108 Mr Williams: Not even globally?

Ms Patel: It is completely embedded in day-to-day life and managing your business. It should not be a separate cost in my view; it should be very much part of your daily management of your business objectives.

Q109 Mr Williams: Thank you for the good-natured way in which you have responded to the questions. I look forward in a year's time to hearing from the NAO on the follow-up to see whether what we have been told today has actually been implemented.

Mr Peat: May I suggest that I liaise with Sir John Bourn as to the appropriate time for that follow-up as part of the regular discussions we have on the value for money programme? We really would welcome the NAO's re-examination and seeing how we are progressing.

Q110 Mr Williams: I am quite happy for that to happen. The only condition I would add to that then is that if there is any notable drift beyond the year, would you, Sir John, notify the Committee?

Sir John Bourn: Indeed I will.

Mr Williams: Thank you everyone.

Supplementary memorandum submitted by the BBC

Question 68 (Mr Ian Davidson): *Audience Council diversity*

Data regarding schooling is not recorded. However the following diversity data is available:

	Total no of members as at 6 June 2007	Gender		Diversity							Age				
		Male	Female	Wh	BC	Asian	I	C	MP	15-24	25-34	35-44	45-54	55-64	65-74
England	9	3	6	7	2							3	4	1	1
Ireland	11	6	5	10			1				3	2	3	2*	1*
Scotland	10	8	2	9		1				1	1	4	3	1	
Wales	11	7	4	8	1		1		1	1		3	4	3	

* Estimated age range

Please Note: Age Group identified herein is as at the time of appointment to Council

This information excludes the Chairman for each council who is a BBC Trustee

All audience councils have vacancies and are currently recruiting. The usual number of members for each council, excluding the BBC Trust member, is 12

DIVERSITY KEY

BC Black Caribbean
C Chinese
I Indian
MP Malaysian Punjabi
Wh White
Others specified
