



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

Report by Oliver & Ohlbaum Associates Ltd  
presented to the BBC Trust, 26 February 2015



# BBC Trust response to O&O's review of the BBC's arrangements for managing on-screen and on-air talent

As the governing body of the BBC, the Trust is responsible for ensuring that the licence fee is spent efficiently and effectively. One of the ways we do this is by commissioning and acting upon reports from independent consultants such as Oliver & Ohlbaum Associates (O&O). This report, which has focused on the BBC's management of on-screen and on-air talent, has found that the BBC attracts talent at competitive rates, leveraging its unique appeal to obtain value from its expenditure on talent.

## In 2009 the Trust asked the BBC Executive to reduce talent costs

The Trust last reviewed the BBC's arrangements for managing on-screen and on-air talent in 2008, and conducted a brief follow up in 2009.

The 2008 review, also carried out by O&O, found that there was no evidence the BBC was paying more than the market price for talent and no evidence that the BBC had an undue impact on the market. However, the review also found that there was an opportunity to strengthen the BBC's processes to help it achieve value for money more consistently in talent deals. Specifically, O&O recommended improvements to the BBC's information systems and evaluation procedures, better succession planning, and more internal challenge of talent deals.

In the follow up report a year later the Trust noted that while we were pleased with the progress the BBC Executive had made on previous recommendations, the BBC should go further and should look to reduce its overall talent spend on a like for like basis during the current licence fee period. We added that there should be a particular focus on reducing expenditure on talent at the top end (defined as those earning more than £100k a year).

## Since 2008-09 the BBC Executive has reduced talent costs significantly

Against a backdrop of an increasingly competitive marketplace, the BBC's talent costs have fallen by 15 per cent, from £221m to £188m. This reduction has been driven disproportionately by a reduction in top end talent costs, which have fallen 29 per cent.

The BBC Executive has employed a number of strategies in order to achieve these reductions including:

- Paying talent less for the same level of output
- Using less talent overall
- Obtaining more output for the same level of pay

The BBC's systems do not allow it to collect and link data in a way that enables the BBC Executive to systematically analyse the relationship between talent costs and output. This means O&O were unable to determine the extent to which reductions in talent costs were driven by paying talent less or by using less talent. We will therefore ask the Executive to assess the cost of improving data systems against the incremental benefits of doing so.

## There is evidence of a cultural shift towards stronger cost control

The BBC's large audiences and strong reputation make it an attractive place to work, and the BBC has used these additional benefits to negotiate talent contracts at competitive rates. In addition to leveraging its unique appeal, O&O concluded that a change in culture and procedures at the BBC has also played a significant role in the organisation's ability to reduce talent costs.

The Trust welcomes this cultural shift since our last review as well as O&O's observation that it should not be underestimated. O&O found that the BBC has applied a clearer and more consistent approach to scrutinising, justifying and approving deals across different divisions and that this has brought discipline to talent negotiations. There has also been a change in thinking about talent retention and exclusivity deals, with the BBC Executive becoming more willing to let top talent go and more relaxed about talent working elsewhere. Both of these changes have led to savings, but the BBC Executive has also done well to maintain the quality of output during this time.

## The BBC's controls around talent cost are consistent with best practice

O&O conclude that the level of detail in the BBC's approach to talent costs sets them apart from commercial broadcasters, but they also identified opportunities to strengthen controls further. Specifically, the BBC Executive needs to clarify its deal approval processes so that the likely range of costs is fully understood and talent motivators, comprehensive audience data, alternatives, comparators, and successors are all identified.

By accurately documenting the factors relevant to talent negotiations, the BBC Executive can ensure that decisions are well informed and appropriately documented – allowing decision makers to be held to account.

## The BBC's approach to developing new talent has been successful but a more structured approach will be needed in the future

The Trust views talent development as a critical function of the BBC Executive's talent management activities for a number of reasons:

- The BBC can reduce the risk of future talent cost increases by using its breadth of output to attract, retain, and develop a broad cohort of talent ready to progress into high profile roles.
- The BBC plays a critical role in developing and supplying new talent to the media sector in the UK. For example, 45 per cent of ITV's current talent role for factual, lifestyle, entertainment, and comedy had their first TV appearance on the BBC.

O&O concluded that the BBC takes a largely informal approach to talent development. This approach may have been enough to deliver new talent in the required quantities up until now, but the increasingly competitive media landscape means the BBC Executive will need to adopt a more structured approach to assure future success. We anticipate that this will include the use of a talent categorisation system to systematically monitor talent, identifying potential successors, and planning future opportunities for talent.

## Information on diversity is improving but further progress is needed

The BBC Executive currently operates two systems to monitor on-screen and on-air diversity, and a new system is in development with other broadcasters. None of the systems gives absolute coverage of all the BBC's output, or all aspects of diversity. While the quality and coverage of information has improved over time, the Trust would like the Executive to make further progress in this area.

Alongside improvements in data quality, the Trust would like to see improvements in the way the BBC uses this information in managing talent. The BBC Executive's targets for Black, Asian, and Minority Ethnic, and disability portrayal are a positive step, but they will only be met if the data collected by the diversity monitoring systems are used more comprehensively by divisions.

## The new strategy is an appropriate response to changing market conditions

The media industry in the UK is changing; top talent is becoming increasingly sought after as new market entrants compete with existing broadcasters, and commissioners gravitate towards the most established names with guaranteed audiences. This increasing demand is driving up prices for talent, particularly for the most well-known stars.

In this inflationary environment, the BBC's talent strategy has to balance increased market pressures against the need to manage affordability constraints and deliver value to licence fee payers. The new strategy, to cap talent costs at 16 per cent of in-house produced content spending, is designed to achieve this balance. It will also help manage the risk that continued reductions in talent spend prohibit the BBC from attracting good value talent which audiences love.

However, as the new strategy is adopted, the Trust is clear that the BBC Executive must not allow this new flexibility to undermine the cultural change that has taken place over the past five years. The introduction of clearer, more consistent deal approval procedures, alongside robust scrutiny and internal challenge will help prevent this.

# BBC Executive response to O&O's review of the BBC's arrangements for managing on-screen and on-air talent

## Introduction and overall summary

The strength of the BBC's on-screen and on-air talent is critical to the success of the BBC. It is fundamental to us achieving and delivering our public purposes. Across radio, television and our digital services our audiences expect us to offer the best range of most loved, creative, engaging, authoritative and diverse talent in British broadcasting.

Therefore it is vital that we continually review and improve our practices and our approach to ensure we attract, retain and develop the best possible broadcasting talent, whilst at the same time delivering value for money for all licence fee payers. This is particularly important at a challenging time of rapid change in the UK and international production and broadcasting markets.

The BBC Executive welcomes the findings of the BBC Trust Review commissioned from O&O and the recommendations that have been made. The Review gives credit to the BBC for achieving significant reductions in talent pay across the period and for considerable improvements in internal processes, which have been in the best interests of licence fee payers.

In particular the Review comments that:

- The BBC's processes for talent cost management are thorough, consistent and represent a vast improvement since 2008 - although there is scope to further improve the quality and consistency of processes;
- The BBC had met its targets on top talent and outperformed its target to hold overall talent spending flat, reducing spend on a like for like basis;
- The rigour of the BBC's approach to assessing value exceeded that described by any of the commercial players interviewed;
- There has been a considerable and important internal cultural shift towards greater ownership and scrutiny of talent costs; greater discipline in negotiations and a willingness to be more flexible in its approach to talent including allowing talent to leave where appropriate, resulting in better value for money;
- The BBC is successful in developing talent and does so to a greater extent than other broadcasters, although there is room for improvement and for the development of a more systematic approach;
- There is no evidence that the BBC has had a disproportionate impact on the market.

The BBC has worked closely over several months to provide extensive data to O&O to aid their research and analysis. The BBC has found both the analysis and the recommendations to be constructive and helpful. We have responded to the BBC Trust's observations, suggestions for improvements and other key recommendations below.

## Inflationary pressure and the changing market

The Review provides a detailed analysis of the market within which the BBC has to operate and also looks at how that market is likely to change over the next few years. It acknowledges that the BBC is now likely to face inflationary pressure on talent fees. There is broad consensus that the current position of holding fees flat (which represents a real term cut to most talent) may be unsustainable in the long term. This pressure is likely to become more acute in a resurgent market with more competition from new UK entrants, international broadcasters, and new platforms.

The BBC Executive is confident that it can continue to seek out and retain the best on-air talent. In April 2014, the BBC set out its new strategy on managing future talent spend which was presented to and noted by the BBC Trust. We are pleased the Review endorses the new strategy and finds our approach to be a "well-reasoned" response to market challenges. The strategy links future talent spending to the BBC's spending on content and we welcome the Review's finding that it "gives the BBC flexibility to live within the changing talent landscape" together with the Trust's conclusion that "the new strategy is an appropriate response to changing market conditions".

### **Recommendation: The BBC Executive must not allow this new flexibility to undermine the cultural change that has taken place over the past five years**

We are confident that the revised strategy will give the BBC increased ability to manage talent fee levels fairly, whilst maintaining value for money. We are pleased that the Trust has acknowledged the important cultural change in our approach, which has made us more rigorous in our negotiations and processes and we will ensure that this will be maintained.

In addition the BBC agrees with the Review's observation that it will need to remain vigilant on market conditions in order to assess the continuing viability of the new strategy. We have already refreshed the remit of the Pan-BBC Steering Group on talent to reflect the new approach and to monitor changing market conditions. The group has the authority to vary individual divisional spending limits to ensure the overall target is met whilst responding to market changes.

# Succession planning and talent development

The BBC places great store on ensuring that talent have the greatest possible opportunities to showcase their skills across the organisation. We are constantly identifying new talent. The BBC will continue to showcase top talent in all areas as this is what our audiences expect. We agree with the Trust that maintaining an intelligent approach and identifying fresh faces and voices is vital and that good succession planning is important if we are to guard against further inflation in an increasingly competitive market. We are pleased that the Review has found that the BBC leads the industry in this area and that the BBC is successful in understanding what motivates our talent and using the range of what the BBC has to offer to leverage our bargaining position.

## **Recommendation: The BBC should adopt a more structured approach to talent development and succession planning**

We are pleased O&O has highlighted the approach to succession planning and development in BBC Radio and BBC North and some other departments and that the Review found our approach to talent development has worked well to date. Indeed the Review found that two thirds of our current talent started their careers at the BBC. However, we agree there is room for further improvement. We will consider how to make our processes as joined up as possible across all genres and divisions by working across the BBC to develop a more systematic approach to deal with talent who work across our output. This will include examining further how the BBC assesses its talent across genres and divisions, looking a more systematic way of identifying successors, and better logging and sharing of audition tapes where practicable. We will continue to review the talent who appear in BBC programmes on a regular basis to ensure that their development and succession opportunities are appropriately identified.

## Improvements in some BBC internal processes and systems

We welcome the Review's finding that "the BBC's processes for talent cost management are thorough and consistent and represent a vast improvement since 2008" and that "the level of detail in the BBC's approach sets it apart from other broadcasters".

A limited number of gaps and areas for improvement were found in BBC processes when a select number of individual deals were examined.

## **Recommendation: The Executive should look at some specific aspects of our internal processes to ensure best practice and consistency, most specifically clarifying the deal approval processes.**

The Executive agrees with this recommendation and will further enhance our processes. The Review found that our controls are consistent with best practice and so in reviewing these we will look for improvement in consistency of approach whilst ensuring that our processes are agile, flexible and simple enough to act in the best interests of our audiences whilst delivering value for money.

**Recommendation: The BBC's systems do not allow it to collect and link data in a way that enables the BBC Executive to systematically analyse the relationship between talent costs and output. The Executive should assess the cost of improving its data systems against the incremental benefits of doing so.**

The BBC will carefully consider this recommendation and evaluate whether any changes would be cost effective and deliver value for money. This evaluation will also include an assessment of the practicality and technical complexity of such changes to existing operating systems.

## Diversity

As the Review acknowledges, the BBC's work on improving diversity is part of a pan-industry initiative and is work in progress, although it has improved over time.

**Recommendation: The BBC is in the process of reviewing its approach to monitoring diversity and should continue to work with the industry to develop more consistent and comprehensive data. The Trust would like the Executive to make further progress in this area and improve the way the BBC uses this information in managing talent.**

The Executive agrees with this recommendation and welcomes the Trust's comments that the BBC's targets for Black, Asian, and Minority Ethnic and disability portrayal are a positive step.

We agree with the Trust that we would like to see improvement in the systems that monitor diversity and that is why we are working with the industry to develop a pan-industry solution to this issue. We agree that once this is in place, and provided it is practicable and appropriate for all output areas, it should be used by Divisions across the BBC to help ensure that - across all of our services - we appropriately reflect the diversity of the UK. We know that audiences expect this.

## Conclusion

This is a positive Review which acknowledges significant improvements since the last report including recognising the “BBC’s success in applying downward pressure on talent fees and negotiating effectively on behalf of licence fee payers” and reflecting the considerable culture change at the BBC to achieve a 15 per cent reduction in talent spend.

The BBC is constantly striving to ensure that we deliver the best content at the best value, serving all our audiences. Talent is at the heart of how we achieve this and this Review demonstrates the BBC’s considerable success in attracting, retaining and developing the very best talent both for our audiences and the wider industry. This will remain one of the BBC’s core priorities.

Over the next few months we will be discussing the Review’s findings with relevant areas in the BBC and putting into place further improvements in systems and processes as outlined above. We are confident that such improvements, together with our new talent strategy, will allow the BBC to meet the challenges of a changing market and to continue to deliver the best talent for all our audiences.



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

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

February 2015

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# Contents

|                                                                           |           |
|---------------------------------------------------------------------------|-----------|
| <b>Key Findings</b> .....                                                 | <b>5</b>  |
| <b>Summary</b> .....                                                      | <b>6</b>  |
| Findings .....                                                            | 6         |
| The BBC's talent spending .....                                           | 6         |
| The BBC's impact on the market for talent.....                            | 7         |
| The BBC's approach to managing talent.....                                | 7         |
| The BBC's approach to developing and nurturing talent.....                | 8         |
| Long term challenges for the BBC.....                                     | 9         |
| The BBC's new approach to talent management.....                          | 10        |
| Conclusion .....                                                          | 10        |
| Recommendations.....                                                      | 11        |
| <b>1 The BBC's talent spending</b> .....                                  | <b>14</b> |
| 1.1 Trends in BBC talent spending.....                                    | 14        |
| 1.2 Drivers of talent spending.....                                       | 15        |
| 1.2.1 Movements at the top end.....                                       | 15        |
| 1.2.2 Performance on a 'like for like' basis.....                         | 16        |
| 1.2.3 Challenges in quantifying BBC performance .....                     | 17        |
| <b>2 The BBC's impact on the market for talent</b> .....                  | <b>20</b> |
| 2.1 The market perception of the BBC .....                                | 20        |
| 2.1.1 What the BBC offers.....                                            | 20        |
| 2.1.2 The BBC's market influence .....                                    | 20        |
| 2.1.3 The sustainability of the BBC's approach .....                      | 21        |
| 2.1.4 BBC spending compared to the market .....                           | 21        |
| 2.2 Consumer survey findings.....                                         | 22        |
| 2.2.1 Our approach to benchmarking.....                                   | 22        |
| 2.2.2 Audience requirements for talent vary by genre .....                | 22        |
| 2.2.3 The BBC appears to offer talent deals in line with the market ..... | 24        |
| <b>3 The BBC's approach to talent management</b> .....                    | <b>29</b> |
| 3.1 Changes in the BBC's approach to talent .....                         | 29        |
| 3.2 The BBC's talent management framework .....                           | 29        |
| 3.3 Comparison to best practice and other broadcasters .....              | 30        |
| 3.3.1 Motivation .....                                                    | 30        |
| 3.3.2 Costing .....                                                       | 31        |
| 3.3.3 Value .....                                                         | 31        |
| 3.4 Diversity.....                                                        | 32        |
| 3.4.1 The BBC's approach to monitoring talent diversity .....             | 32        |
| 3.4.2 The BBC's use of information on diversity .....                     | 33        |

|          |                                                                                  |           |
|----------|----------------------------------------------------------------------------------|-----------|
| <b>4</b> | <b>The effectiveness of the BBC’s controls .....</b>                             | <b>35</b> |
| 4.1      | Case studies.....                                                                | 35        |
| 4.1.1    | Walkaway prices.....                                                             | 37        |
| 4.1.2    | Audience data.....                                                               | 37        |
| 4.1.3    | Audience research based valuations .....                                         | 38        |
| 4.1.4    | Alternatives, comparators, and succession planning: .....                        | 38        |
| 4.1.5    | Additional fees .....                                                            | 39        |
| 4.1.6    | Pan-BBC deals .....                                                              | 39        |
| 4.2      | Walkthroughs.....                                                                | 39        |
| <b>5</b> | <b>The BBC’s approach to developing and nurturing talent .....</b>               | <b>42</b> |
| 5.1      | Opportunities and development .....                                              | 42        |
| 5.1.1    | Attracting talent.....                                                           | 42        |
| 5.1.2    | Developing talent.....                                                           | 42        |
| 5.1.3    | Succession planning.....                                                         | 43        |
| 5.2      | Talent mapping.....                                                              | 43        |
| 5.3      | Perception of the BBC’s approach to attracting and developing talent.....        | 46        |
| <b>6</b> | <b>The BBC’s new approach to talent management.....</b>                          | <b>48</b> |
| 6.1      | Issues for the future.....                                                       | 48        |
| 6.1.1    | Top Talent is an increasingly separate market .....                              | 48        |
| 6.1.2    | Revenue likely to remain under pressure .....                                    | 48        |
| 6.1.3    | Five years of flat .....                                                         | 49        |
| 6.2      | The BBC’s future target for talent spending .....                                | 49        |
| 6.2.1    | Achievability of the target .....                                                | 49        |
| 6.2.2    | Suitability of a cap relating to content spending .....                          | 49        |
| 6.2.3    | The BBC’s processes for managing talent.....                                     | 50        |
| 6.3      | The BBC’s new approach to diversity .....                                        | 50        |
| 6.4      | The importance of the BBC’s new approach to developing and nurturing talent..... | 51        |

# Table of Figures

|                                                                                                             |    |
|-------------------------------------------------------------------------------------------------------------|----|
| Figure 1: BBC in-house talent spending by division, 2008-09 to 2013-14 .....                                | 14 |
| Figure 2: Change in BBC talent volumes and spending, all talent .....                                       | 15 |
| Figure 3: Index of BBC in-house originated network television and radio hours, by genre, 2008 to 2013 ..... | 16 |
| Figure 4: Total talent cost per hour of content, BBC Television, 2008-09 to 2013-14 .....                   | 17 |
| Figure 5: Factors affecting independent producers' on-screen talent spending .....                          | 21 |
| Figure 6: The importance of talent as a programme input .....                                               | 23 |
| Figure 7: The importance of talent characteristics varies by genre .....                                    | 23 |
| Figure 8: Chat Shows, estimated actual vs. expected pay ranking .....                                       | 24 |
| Figure 9: Magazine Shows, estimated actual vs. expected pay ranking .....                                   | 25 |
| Figure 10: Peak Entertainment, estimated actual vs. expected pay ranking .....                              | 25 |
| Figure 11: Specialist Factual, estimated actual vs. expected pay ranking .....                              | 26 |
| Figure 12: Cookery, estimated actual vs. expected pay ranking .....                                         | 26 |
| Figure 13: Average BBC payment to talent vs. average estimated commercial value, by genre .....             | 27 |
| Figure 14: The BBC's talent diversity monitoring systems .....                                              | 32 |
| Figure 15: BBC talent cost controls – performance in case studies .....                                     | 36 |
| Figure 16: BBC talent cost controls – performance in walkthroughs .....                                     | 40 |
| Figure 17: The number of talent included in our talent mapping exercise .....                               | 44 |
| Figure 18: The BBC's talent vintage – factual, lifestyle, entertainment, and comedy .....                   | 44 |
| Figure 19: ITV's talent vintage – factual, lifestyle, entertainment, and comedy .....                       | 45 |
| Figure 20: Channel 4's talent vintage – factual, lifestyle, entertainment, and comedy .....                 | 46 |

# Key Findings

| # | Finding                                                                                                                                                                                                                                                                                                                  |
|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | The BBC has reduced talent spending by 15 per cent since 2008-09, more than delivering against its objective to cut spending on top talent and hold overall talent spending flat on a like for like basis.                                                                                                               |
| 2 | The saving was driven by a combination of reduced talent fees, a fall in the number of in-house produced output hours, and a changing genre mix away from genres with typically higher talent costs.                                                                                                                     |
| 3 | The BBC's processes around talent cost management represent a vast improvement since 2008, though there is scope to further improve the quality and consistency of processes, for example in the use of walkaway prices and record keeping.                                                                              |
| 4 | Key to achieving these reductions has been a considerable cultural change at the BBC since we reported in 2008, with a widespread acceptance of the need to manage talent costs and how this can be achieved.                                                                                                            |
| 5 | The BBC takes a largely informal approach to talent development; although this has been effective to date, a more structured approach to talent development and succession planning will ensure the BBC gets the most out of its talent pool.                                                                            |
| 6 | After five years of rigorously controlling talent costs, the BBC is likely to come under pressure from a strong competitive market for talent. The BBC's new strategy will provide some flexibility to address likely fee inflation, but the importance of development and succession planning should not be overlooked. |

# Summary

In 2008 the BBC Trust undertook an extensive review of the BBC's approach to talent management. This review concluded that there was no evidence the BBC was overpaying or pushing up the market price for talent. There was, however, scope to improve some of its talent management processes, including those surrounding the valuation of talent. This was particularly true in genres where the BBC faces more limited competition. The BBC introduced a new talent strategy in 2009 to address the Trust's findings.

The BBC Trust wishes to revisit the BBC's approach to talent management, to understand how the market has changed since 2008 and how the BBC's strategy has affected this. The Trust commissioned Oliver & Ohlbaum (O&O) to conduct a review of the BBC's processes around talent management, and a broad assessment of the BBC's impact on the market. The review covers on-air and on-screen talent, including the full spectrum of BBC actors, presenters and performers, on television and radio, from extras, through musicians, to the biggest household names.

As a consequence of the requirements of the Data Protection Act and the need to protect the BBC's ability to negotiate value for money deals, the review will not result in the publication of details relating to individual talent deals.

## Findings

The BBC operates across many sub-markets, across all tiers of talent and across both television and radio, acting as both a developer and a buyer of talent. It needs to understand the value and motivators of talent under many different conditions, including a number of non-monetary factors. The BBC's dealings with talent are on a large scale; in 2013-14 the BBC used more than 48,000 talent in various capacities, including around 47,000 freelancers and 1,300 talent on staff. All of this, in a rapidly changing media market since 2008.

Following our 2008 review, the BBC established a new strategy for talent management, setting targets for talent spending and committing to implement a more rigorous approach to talent management to support these targets. The commitment for talent spending was made during a speech by former Director General, Mark Thompson, who stated that the BBC would:

1. Reduce spending on top tier talent
2. Hold overall talent spending flat, in nominal terms, on a like for like basis

In January 2010, the BBC defined top tier talent as artists, presenters, musicians, and other contributors earning more than £100k per year, who are paid directly by the BBC. The second part of the commitment was not publicly explained, but internal documentation confirms that like for like was to be measured in terms of total in-house produced originated hours, across network television, local television and network radio; there was no commitment to deliver 'like for like' programming on a genre by genre basis – and thus hold talent spending flat within each genre.

## The BBC's talent spending

Since 2008, the BBC has reduced talent spending by 15 per cent in nominal terms; in line with its talent strategy, the BBC reduced spending on top talent and outperformed its target to hold overall talent spending flat on a like for like basis. It moved a number of 'top talent' (earning over £100k) to lower salary bands, with particular focus on those earning over £750k. This was achieved by negotiating reduced fees, giving talent fewer hours, or utilising natural churn as an opportunity to refresh the pool of talent. Total in-house produced hours reduced by 2 per cent between 2008 and 2013, but this reduction is considerably less than the reduction in talent spending, and so the BBC more than delivered against its commitment to hold talent spending flat in nominal terms on a like for like basis – based on total in-house produced hours.

While the BBC has delivered against its commitment, the reduction in talent spending is due to more than just paying talent less for the same work. The BBC also achieved the reduction in talent spending while reducing the number of in-house produced output hours and so part of the saving is down to reduced volume. This must also be seen in the context of a change in the genre mix, resulting from a larger reduction in in-house production in genres which typically have higher talent costs. The BBC told us the change in genre mix was a consequence of its television content strategy, Fewer Bigger Better, which saw the production of fewer, larger and more ambitious programmes at the expense of high volume low cost productions. Although the Fewer Bigger Better strategy was not designed to deliver a reduction in talent spending, the reduced volume of output has helped to achieve the BBC's talent strategy. The available data do not allow us to establish the relative importance of the change in volume, the change in genre mix, and reduced talent rates, in achieving the overall saving across the BBC. Nonetheless, this should not detract from the BBC's strong performance in reducing talent spending despite increasing competition and investment from commercial rivals.

## The BBC's impact on the market for talent

We found no evidence that the BBC has undue market power. Our discussions with external stakeholders covered a broad spectrum of individuals including broadcasters, producers, agents and industry bodies. While their viewpoints varied, and the stories differed to some extent between genres, they were broadly consistent in reporting that the BBC has applied downward pressure on the cost of talent since 2008 – in line with reported BBC spending on talent over the period.

We found that the BBC is now better at leveraging its buyer power and uses its strong bargaining position as a place where talent wants to work. It has succeeded in controlling the costs of top tier talent with big names taking pay cuts, and some leaving for other broadcasters. While the BBC does not have undue influence, outside of the 'top tier', it has effectively managed expectations to ensure that talent does not demand large increases – or indeed expect any increase. Opinions on whether the BBC's approach had allowed others to reduce spending on talent were mixed, but at the very least, the BBC's approach helped others control spending.



There was a general consensus amongst those we interviewed that continued downward pressure on talent fees could damage the quality of the BBC's output. Outside of the top tier, many talent are feeling the squeeze after five years of flat fees and there is a risk that continued pressure will price some people out of the talent market altogether and reduce the diversity of the pool of talent that the BBC can choose from. At the other end of the spectrum, the BBC is likely to face increasing competition for top talent, so holding their fees flat will also become more difficult. The BBC therefore faces a challenge in deciding when and how it starts to reduce some of the pressure on talent fees.

## The BBC's approach to managing talent

The BBC's reduction in talent spending has coincided with a change in approach and a considerable cultural shift, the impact of which should not be underestimated. Since we reported in 2008, the BBC has learnt to let some of its top talent leave, and has taken a more relaxed approach to exclusivity in order to relieve pressure on talent fees. Scrutiny of talent deals is now the norm and there is an acceptance that the disciplined, structured and consistent approach has led to better informed negotiations, a better understanding of the BBC's bargaining position, and better value for licence fee payers. Divisions now take full responsibility for talent fees, ensuring that they are able to live within their means while delivering against divisional talent strategies. We would like to reiterate how important this culture is in achieving a rigorous approach to managing talent costs.

The processes brought in to scrutinise the highest value talent deals, and those receiving an increase have been rolled out across the BBC and provide added rigour to deal assessments, though there is scope to improve the consistency with which the processes are followed. Proposers must justify the suggested fee with reference to relevant audience research and benchmarking which helps quantify the value of the talent to the BBC. We found that, while it was not always documented, negotiators' relationships with talent and their agents meant they had a clear understanding of the motivators of the talent in question and the full cost of each deal was generally well understood when presenting it for

approval. However, we saw cases where processes had not been followed in full (three out of 66 we reviewed), or where the BBC could not demonstrate authorisation (a further three out of 66 we reviewed).

There were also a number of areas of inconsistency in how relevant facts were presented. To make an informed judgement on the appropriateness of a proposed fee, the approver relies on a full set of information being provided. We found:

- inconsistencies in the audience information used to support a deal request;
- three examples (out of five cases we reviewed) of commercial valuations not being conducted to inform negotiations for the highest value deals as per the BBC's strategy; and
- two cases (out of 18 we reviewed) where the total cost of the deal was not taken into account when benchmarking against other talent.

These deficiencies were partly due to the deal template not being sufficiently prescriptive, and partly due to the fact that approvers did not demand more detail.

Most notably, negotiators did not view the negotiating mandate as establishing the talent's maximum value to the BBC. The BBC told us that the approved negotiating mandate was the limit of what negotiators could offer a talent. This should have therefore represented a talent's maximum value to the BBC, with an agreement at or below this limit representing value for money, and the BBC walking away where a deal would have breached this limit. However the BBC did not typically use the negotiating mandate in this way. Instead, the BBC tended to use the form as an approval document, setting out the expected fee (based on initial discussions with the talent or agent) rather than the maximum value of the talent to the Corporation. As a result, this approved maximum had to be increased (and reapproved) in four of the 15 cases we reviewed. This use of the mandate explains why we found that talent deals were secured for less than the maximum approved amount in only two of the 15 cases we reviewed. Although this does not diminish the downward pressure the BBC applies in negotiations, it means that the BBC could not consistently demonstrate whether it had achieved value for money by comparing a talent's perceived value to the BBC to the price it paid.

We believe that the BBC's controls around talent costs are at least as thorough as commercial rivals and, while there is some scope for improvement, they are consistent with industry best practice, if not better. Discussions with commercial broadcasters and independent producers indicated that their processes centre on the value of the programme, rather than considering talent separately. Offers are instead driven by editorial judgement and what a programme budget can afford. Some of the commercial players told us that they conduct valuations of the bigger stars and the bigger deals, or where the direct audience impact of an individual can be measured, but not to the extent of the BBC's processes.

The BBC's approach to monitoring on-screen diversity provides a periodic snapshot of perceived on-screen diversity, but does not provide on-going diversity information to inform talent management. The BBC has two systems in place; a bi-annual report captures perceived diversity based on a sample of television viewers and 'portrayal forms' for each production capture diversity across gender, age, ethnicity and disability. While the report's findings are widely circulated, portrayal forms are inconsistently completed and findings are not collated. These methods also exclude radio, News, and do not fully capture characteristics such as nations representation, faith and socioeconomic group. The linking of diversity characteristics to prominence is also inconsistent and there is no link made to fees, meaning that the BBC does not have a view of diversity within pay bands.

## The BBC's approach to developing and nurturing talent

We found that the BBC is successful in developing talent, and does so to a greater extent than other broadcasters, but the BBC could not demonstrate a systematic approach to developing talent at divisional level. The BBC plays an important role in developing talent both for itself and for the industry. Its approach is based on providing opportunities (rather than training), which it can offer across a larger range of 'nursery slopes' than any other broadcaster. The Pan-BBC Talent Steering Group discusses talent development and succession planning, amongst other things. We were told that similar conversations take place at divisional level, but we did not see a consistent and structured approach to talent development within the divisions. Divisional strategies indicated that a talent categorisation system is in place to monitor talent development and facilitate discussion at all talent tiers; we saw no on-going

documented evidence of this, though BBC Radio was able to provide a detailed explanation of its processes, which the BBC told us are undocumented for reasons of confidentiality.

Talent development is seen as the responsibility of in-house programme makers, commissioners and channel controllers. Management told us that they are always looking for new talent, and this might involve anything from reviewing show reels sent in by new hopefuls, to discussing new ideas with more established talent. Indeed, the proposed changes to BBC Three, which could see it move online and support more short form content, create an opportunity for the BBC's talent pipeline to start even earlier. Rather than offering new talent their first break in television, an online first BBC Three will create opportunities for talent taking their very first steps. Although we accept an online BBC Three is likely to provide an easier 'nursery slope' and faster route for some talent to BBC One and Two, the BBC will have to carefully monitor the impact of any reduction in opportunities from long form content to ensure that its new approach continues to produce network television talent in the same quantity.

There is an inconsistent approach to identifying successors. The deal referral process requires proposers to identify successors to the highest earning talent and alternatives to benchmark against in all cases. Although the relevance of a successor varies by programme, there is an opportunity to link talent deal negotiations more closely with talent development – so negotiators have a clear view of who the emerging talent are in their genre. The lack of consistency in identifying successors and the lack of monitoring of talent development at divisional level have not been a problem for the BBC to date, but succession planning is likely to be very important in protecting against talent fee inflation in the coming years.

## Long term challenges for the BBC

In 2008, when the BBC implemented its strategy to reduce talent spending, the commercial sector was facing a global economic downturn, resulting in subdued competition for talent. In this environment the BBC was able to push down prices with a reduced risk that the commercial sector would be able to capitalise by poaching its top performers. Since then, the market has changed and the BBC is likely to face a significant long term challenge in maintaining talent spending levels as the commercial sector continues to recover and competition is boosted by new entrants. The BBC faces three key issues:

**Top talent ever more valuable:** Increasing pressure on talent fees is likely to be felt most strongly in the very top of the top tier and the BBC will find it increasingly challenging to compete financially. As broadcasters compete for viewers in an increasingly complex and on demand media landscape they will gravitate towards the biggest stars. Using the most established names guarantees audiences and with these talent in such short supply, we are likely to see increasing fees being paid to those already at the top. This will be particularly important in genres such as Entertainment, Chat Shows and Drama, where talent is an important driver of audiences, but may also happen in other areas, such as News, driven by the growth in international news providers. In this environment, it is likely to be challenging to attract and retain established top talent so the BBC will also need to find new ways to attract and engage its audiences.

**Likely licence fee evolution:** The BBC's future revenue – and the funding available for the BBC to spend on talent – will be determined by the next licence fee settlement in 2016. It is not in the scope of this review to forecast future licence fee settlements, but any settlement is unlikely to match the forecast revenue growth of commercial rivals. As the commercial sector continues to recover from the advertising downturn their appetite for talent is likely to increase and lead to price inflation in the market. An increase in commissioning from pay TV players such as Sky and BT, on demand services such as Netflix, and the increasing appetite for UK talent from US producers will all exacerbate the growing pressure on talent prices.

**The impact of five years of flat:** The BBC also faces a challenge in retaining the goodwill of its talent after many contributors have experienced five years without an increase. Talent in the lower tiers, who are most interchangeable and less able to negotiate with the BBC have seen their pay remain flat for the last five years and there comes a time when this cannot be sustained without damaging output quality. The BBC will need to judge when reductions in talent spending become unsustainable and when to start offering small increases to some individuals. This flexibility may lead to a further problem, with all talent expecting an increase. The BBC will therefore face a challenge in managing the transition from a situation

where 'no increases' is the accepted norm, to one where some talent will receive pay increases while others continue to see their fees held flat.

## The BBC's new approach to talent management

The BBC's new approach to talent management targets total in-house talent spending at 16 per cent of in-house produced content spending. This target acknowledges the changing market conditions since 2008 and will give the BBC the flexibility necessary to increase talent spending in some areas while control on the level of spending can still be exerted via the programme budgets. The strategy does not set out a formal approach to monitoring its impact on the market and changing market conditions over time, but the Pan-BBC Steering Group's remit has been refreshed to reflect the new target and its oversight role gives it the ability to adjust divisional talent spending limits where necessary so that the overarching target is met.

The BBC has not breached the proposed threshold since 2008-09 so, taken at face value, the target does not appear particularly stretching. However, the target will be harder to achieve due to changing market conditions, driven by increased competition, and the BBC will need this flexibility to respond to inflationary pressure in the talent market. More broadly, the BBC will need to increase investment in some genres to remain competitive in the global content market and maximise returns to licence fee payers. In turn, this may bring with it increased talent spending and linking talent spending to in-house content budgets provides the necessary flexibility.

The new strategy will be underpinned by the same processes to scrutinise talent deals that we have seen. While there are a number of areas for improvement, the existing system provides a firm basis to manage talent spending. In addition, the BBC is in the process of developing a new system for diversity monitoring which will provide timely information on on-screen diversity across a number of characteristics including age, gender, disability, and ethnicity. This will provide producers and commissioners with an informed view of areas for improvement and facilitate comparison with other broadcasters. The new system represents a step in the right direction, but will only cover television, and some characteristics will be missed. We also understand that there will still be no link to the fees paid to talent meaning that diversity cannot be considered by pay band.

The new strategy commits the BBC to take a renewed focus on development and succession planning. While the full details of the new approach have not yet been developed, this will be important to allow the BBC to protect itself against increased competition for top tier talent and the unsustainability of continued downward pressure on mid and lower tier talent fees. In a world where the BBC may find it difficult to compete with the commercial sector financially, yet will have to finance some increases in talent spending, the ability to develop its own talent is crucial. Knowing when to let top talent leave, and having an emerging star in line to replace them will protect the BBC from top tier talent fee inflation. This is something that the BBC has already learned to do in recent years but will become more important as the competition for top tier talent intensifies.

## Conclusion

The BBC reduced its talent spending by 15 per cent between 2008-09 and 2013-14; this represents a significant achievement. In line with its strategy, the BBC reduced spending on talent in the top pay bands and outperformed its target to hold overall talent spending flat on a like for like basis, based on in-house originated hours. The reduced spending must also be seen in the context of a reduced volume of in-house production overall, and a changing genre mix, which saw a shift in production away from genres with typically higher talent costs. This change in genre mix was not part of the BBC's talent strategy, but reflects its television content strategy to produce fewer, more ambitious, programmes. The BBC could not provide talent cost and hours data across all output on a consistent basis, so it is not possible to quantify how much of the BBC's saving has been driven by the reduction in total volume and movement towards genres which generally have lower talent costs. While these factors have contributed to the saving, this should not detract from the BBC's success in applying downward pressure on talent fees and negotiating effectively on behalf of license fee payers.

The reduction in spending has been underpinned by a cultural shift towards greater ownership and scrutiny of talent costs at divisional level, supported by a structured and consistent approach to talent

management, which has applied downward pressure on talent fees at all tiers of the market. We found that the BBC uses the unique range of opportunities it can offer, along with its buyer power to attract talent at competitive rates. As the commercial sector fully recovers from the global economic downturn, and competition for talent intensifies due to increased commissioning from pay TV as well as US entrants, the BBC is likely to be exposed to talent fee inflation. To best manage this, and continue to live within its means, the BBC will need to continue to strengthen its processes for scrutinising talent costs and most importantly, its approach to talent development and succession planning. This needs to be more structured and systematic to ensure that BBC can refresh its talent more quickly than its competitors.

## Recommendations

Our recommendations cover the BBC's data systems and talent management processes, which are much improved since we last reported. We have also made recommendations to help guide the BBC's new approach to monitoring diversity and its future plans for talent development and succession planning.

### **1. While the BBC's data use has improved significantly since we last reported, gaps remain in the BBC's understanding of what it gets for the money it pays.**

Subject to consideration of the cost of developing its systems, the BBC should:

- a) Ensure its systems can link the cost of talent to output hours, on a talent by talent basis, so that it has a clear understanding of what it gets for the money it spends, and what is driving changes in talent spending.
- b) Ensure that programme information for talent is appropriately completed by production teams. Being able to identify talent spending by programme strand or service would allow the BBC to monitor talent spending at a more granular level and identify anomalies worthy of further investigation.
- c) Further develop its talent management system so it can distinguish talent spending between contributor types within a given contract type. This would allow the BBC to conduct internal benchmarking across all contributor rates.

### **2. The BBC's processes for managing talent are more consistent and robust than when we last reported, but there is a lack of clarity around the use of 'walkaway' prices and scope to improve consistency still further and, in some cases, apply more pressure to ensure that the BBC gets the best possible deal.**

The BBC should:

- a) Ensure that deal approvers and negotiators have greater clarity regarding the proposed range of costs for each deal, and that this is well documented. The proposed cost should then be considered against the talent's overall value to the BBC. Any adjustments to this expected range of costs should also be well documented and approved at a senior level, particularly for high cost deals.
- b) Develop the Deal Referral Form so that it is sufficiently comprehensive to ensure that approvers have a fully informed view on the value of the deal. Improvements should include:
  - i. Documentation of potential motivators against a framework of potential deal components, so approvers can see what has been considered.
  - ii. Requiring a full set of audience data for relevant historic programmes, including: total audience, Appreciation Index, cost per hour, and cost per viewer or listener hour. If some metrics are not relevant, proposers should explain why.
  - iii. A clear distinction between alternatives/comparators and successors so that the former are used as benchmarks and the latter link to longer term planning.

- iv. Greater rigour to ensure that audience research based commercial valuations are conducted in line with the BBC's strategy.
  - v. Presenting a clear rationale for the level of additional payments and including these fees in rate comparisons.
  - vi. Formalise its approach to considering whether pan-BBC deals strengthen or weaken the BBC's negotiating position, where talent work across genres or media. It should ensure the issues considered are documented in the Deal Referral Form; this should be done regardless of whether existing contracts are coterminous.
- c) Make special consideration of deals which represent large savings to ensure that fees for incoming talent are still set based on their value and are pushed down as far as possible.
  - d) Use an adapted version of its Deal Referral process for on-screen and on-air talent on staff, whose fees do not currently require the same degree of justification as those of freelance talent.

**3. The BBC is already in the process of renewing its approach to monitoring diversity; while this will provide more timely information to help it manage diversity, there is a risk that some of the existing gaps will remain.**

The BBC should:

- a) Link talent diversity characteristics to pay information so that diversity of talent can be monitored in each pay band.
- b) Ensure that, under its new pan-industry approach, diversity monitoring is conducted for talent across all of the BBC's output as far as is practicable, including radio and News which are not currently covered.
- c) Aim to include a full spectrum of diversity characteristics in its new on-going monitoring tool, including nations representation, faith, and socioeconomic group, as well as age, gender, disability, and ethnicity.

**4. We saw that the BBC's approach to development has been successful, but there is a need for more structure both in terms of talent development and succession planning.**

The BBC should:

- a) Update and develop its own talent categorisation system so that all divisions can systematically monitor their talent development and plan succession of existing top talent.
- b) Ensure that successors are named on talent Deal Referral Forms so that negotiations and talent development are joined up – except where the programme is dependent on the existing talent.
- c) Consider how best to ensure talent and their representatives have a voice within the BBC to raise issues relating to their development and ensure that the BBC does not miss opportunities to get the most out of its talent pool.
- d) Develop a system for logging and sharing audition tapes across the BBC, to ensure that promising new talent are not missed (subject to consideration of the cost and benefit of such a system).

**The BBC reduced talent spending by 15 per cent between 2008 and 2014. This was driven by a combination of reduced talent fees, reduced output, and a changing genre mix; the level of saving represents a good achievement**

# 1 The BBC's talent spending

In 2008-09 the BBC set out its talent strategy to reduce talent spending on top talent and hold overall spending on talent flat, in nominal terms, on a like for like basis, for the next five years. The commitment was made in a speech by former Director General, Mark Thompson, and did not provide detail on how relevant terms were defined, or how progress against the commitment would be measured.

- **Reduce spending on top talent:** review of BBC strategy documents confirms that top talent are considered to be those earning more than £100k a year,
- **Hold overall spending flat, in nominal terms, on a like for like basis:** 'like for like' was later defined to mean in terms of the total number of hours of in-house originated content.

Total hours of in-house content includes all network television, local television, and network radio – local radio is not included due to difficulties in measuring output given the high level of content sharing, which would result in double counting. Defining 'like for like' in terms of total hours, gives the BBC flexibility to adjust its genre mix; it can deliver against the commitment provided that total hours remain in line with talent spending.

In this Part we consider the trends in the BBC talent spending, the key drivers of changes, and the BBC's performance against its commitment.

## 1.1 Trends in BBC talent spending

The BBC achieved a reduction in talent spending of 15 per cent between 2008-09 and 2013-14. The BBC manages talent through its divisional strategies and, in the case of Television, at genre level. **Figure 1** sets out how spending on talent has changed in each of the divisions since 2008-09. It is important, however, to consider the BBC's success as a whole, rather than on a divisional basis, due to movement in where content is produced. A full explanation of the BBC's talent spending systems is included at Appendix 7.

**Figure 1: BBC in-house talent spending by division, 2008-09 to 2013-14**

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## 1.2 Drivers of talent spending

We heard in our interviews and saw in our case studies (see section 4.1) that the BBC applied downward pressure onto talent costs, and it has been successful in decreasing talent spending overall, but there are a number of ways that talent spending can be reduced.

1. **Pay less for the same output:** pay existing talent lower rates to do the same work, or replace high earning talent with talent on lower rates who can deliver against the same editorial ambition.
2. **Use less talent:** reduce the number of talent used by producing less programming in-house or producing content that is less talent intensive.
3. **Have talent do more for the same pay:** negotiate with talent so where they will not accept a reduction in total fee, they produce more output for that fee – thus filling the schedule more cost effectively.

The BBC has employed each of these techniques to some extent. Unfortunately, the BBC does not collect data in the correct format to consistently analyse the relationship between talent costs and output across the BBC. The BBC is therefore unable to quantify the extent to which each of these techniques has driven down overall talent costs.

### 1.2.1 Movements at the top end

Figure 2 shows that spending on top talent reduced between 2008-09 and 2013-14, in line with the BBC's strategy. The BBC defines top talent as those earning more than £100k a year; in total, spending on top talent reduced by 29 per cent over the period, coinciding with a reduction in the number of top talent by 13 per cent. The decline in talent numbers has been most pronounced for those earning over £500k with an average reduction of 36 per cent. Within these pay bands the number of talent earning £500k - £750k grew; this was to accommodate some of the talent moving out of the highest pay bands (£750k and more).

Figure 2: Change in BBC talent volumes and spending, all talent

| Pay band<br>(annual pay) | Number of individuals |               |             | Cost of talent |                |             |
|--------------------------|-----------------------|---------------|-------------|----------------|----------------|-------------|
|                          | 2008-09               | 2013-14       | % change    | 2008-09        | 2013-14        | % change    |
| £100k - £150k            | 137                   | 123           | -10%        | £16.2m         | £14.6m         | -10%        |
| £150k - £150k            | 89                    | 83            | -7%         | £17.0m         | £15.5m         | -9%         |
| £250k - £500k            | 34                    | 25            | -26%        | £10.9m         | £8.2m          | -25%        |
| £500k - £750k            |                       |               |             | £3.4m          | £6.6m          | +95%        |
| £750k - £1m              | 22                    | 14            | -36%        | £6.0m          | £0.8m          | -87%        |
| £1m - £5m                |                       |               |             | £17.2m         | £4.2m          | -76%        |
| <b>Top talent</b>        | <b>282</b>            | <b>245</b>    | <b>-13%</b> | <b>£70.7m</b>  | <b>£49.9m</b>  | <b>-29%</b> |
| Less than £50k           | 66,533                | 45,154        | -32%        | £106.7m        | £93.2m         | -13%        |
| £50k - £100k             | 660                   | 662           | +0%         | £43.9m         | £44.4m         | +1%         |
| <b>Non-top talent</b>    | <b>67,193</b>         | <b>45,816</b> | <b>-32%</b> | <b>£150.6m</b> | <b>£137.6m</b> | <b>-9%</b>  |
| <b>TOTAL</b>             | <b>67,475</b>         | <b>46,061</b> | <b>-32%</b> | <b>£221.3m</b> | <b>£187.5m</b> | <b>-15%</b> |

Note: Talent spending in this table relates to individuals only and therefore does not reconcile to Figure 1, which also includes organisations.

The number of individuals earning more than £500k has been aggregated in order to protect the personal information of individuals, in line with data protection best practice.

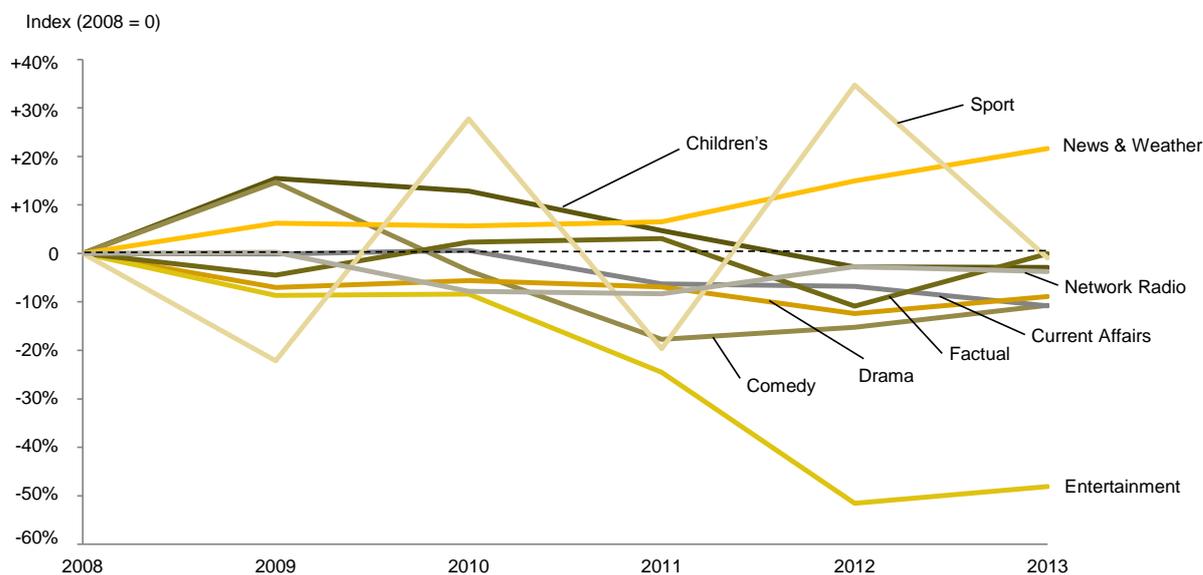
## 1.2.2 Performance on a 'like for like' basis

The BBC does not consistently produce output hours data on the same basis as talent spending data, so it is not possible to directly compare talent spending and output hours, but the available data do provide sufficient information for us to conclude on the BBC's performance. Talent spending data is produced on a financial yearly basis, for inclusion in the BBC's annual report and accounts, while in-house output hours data are only produced for submission to Ofcom. The available hours data relate to programmes transmitted, rather than produced, and are on a calendar yearly basis, rather than financial year.

Using the BBC's definition of 'like for like', based on total hours of in-house originated content, the BBC delivered against its commitment to hold talent spending flat, in nominal terms, on a like for like basis. The available hours data, which include an increasing number of BBC News Channel simulcasts<sup>1</sup>, show total originated in-house produced hours reduced by 2 per cent between 2008 and 2013; comparing this to the 15 per cent reduction in talent spending between 2008-09 and 2013-14 shows that the BBC has more than delivered against its commitment to hold flat on a like for like basis. While the talent cost and hours data are not directly comparable, given the scale of the saving compared to the reduction in hours, it is safe to conclude that the BBC achieved its commitment.

A more detailed assessment shows that the change in hours varies by genre and the reduction in hours has come disproportionately from genres which tend to have higher talent costs. This implies that some of the saving has resulted from a change in the genre mix. **Figure 3** shows that the number of originated in-house produced hours was lower in 2013 than 2008 in all genres except News & Weather, where hours increased and partially offset the overall reduction. While this was not part of the BBC's talent strategy, the reduction in hours in genres with relatively high talent costs in comparison to those with lower talent costs, as well as the overall reduction in output, has contributed to the saving. The BBC told us that this change in mix is driven by its content strategy, Fewer Bigger Better, which focuses on the production of fewer, larger and more ambitious programmes at the expense of high volume low cost productions.

**Figure 3: Index of BBC in-house originated network television and radio hours, by genre, 2008 to 2013**



Note: Radio figures are for financial year, but have been shown on the calendar year axes to facilitate comparison; a financial year has been mapped to the earlier of the two calendar years.

Does not include all genres, BBC News 24, BBC Parliament, or non-network programming.

Source: BBC, Oliver & Ohlbaum analysis

<sup>1</sup> Hours data includes BBC News Channel simulcasts on BBC1 and BBC2; the BBC is not able to quantify the simulcasts, but the increase in News & Weather shown in Figure 3 is likely to be driven by increased simulcasts of the BBC News Channel on BBC1 and BBC2, rather than increased production. Reviewing the schedule suggests that simulcasts increased in 2012 and 2013, contributing to the increase in News & Weather hours – we estimate that excluding simulcasts, the reduction in total output hours between 2008-09 and 2013-14 is 4 per cent, so the BBC still delivered against its commitment.

### 1.2.3 Challenges in quantifying BBC performance

The fact that output hours data are not available on the same basis as talent spending data is the key limiting factor in our ability to analyse the drivers of the BBC's reduction in talent spending. Using the available data at a high level works to demonstrate that the BBC has delivered against its commitment, but this lack of consistency between talent spending and output hours data means that it is not possible to reliably quantify the extent to which the savings achieved by the BBC are driven by each of the factors identified.

- **Pay less for the same output:** We know that the BBC reduced talent spending by negotiating reduced fees for some talent, and by replacing top talent with others commanding lower fees, but it is not possible to distinguish this effect, from the impact of reduced volume – i.e. paying less for less – either via the reduction in the number of talent or a reduction in the volume of output delivered by the talent.
- **Use less talent:** We know that the BBC reduced the overall number of talent it uses by 32 per cent between 2008-09 and 2013-14 (see Figure 2); given that earnings per head remained broadly flat over the period, this contributed to the reduction in total talent spending<sup>2</sup>. But without the ability to map talent spending to output at a divisional level, we cannot differentiate the impact of reduced talent numbers from the change in the output they produced.
- **Do more for the same:** The BBC provided examples in News and radio where talent have been asked to do more for their fee. Once again, since the BBC cannot systematically link data on talent fees with output, we cannot demonstrate the impact of the BBC asking talent to do more for the same total fee.

While we do not have comparable talent cost and hours data for all divisions, this is available for the Television division, which accounted for £49 million or around 25 per cent of total talent spending in 2013-14. **Figure 4** shows that the total talent cost per hour for Television reduced between 2008-09 and 2010-11, but has been broadly flat since then. The reduction in talent cost per hour in the first two years of the BBC's talent strategy reflects the fact that much of the fee reductions were achieved upfront. The continued reduction in BBC talent spending must result from a reduction in level of output produced in-house, or the change in the mix towards genres with lower talent costs.

**Figure 4: Total talent cost per hour of content, BBC Television, 2008-09 to 2013-14**

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<sup>2</sup> Earnings per head remained broadly flat between 2008-09 and 2013-14 in all pay brackets except <£50k where average earnings per head increased by around 20 per cent over the period.

In total, the television genres reduced talent spending by £12.7 million, or 21 per cent, between 2008-09 and 2013-14. As we have comparable talent spending and hours data for Television, it is possible to estimate the relative impact of: the change in mix, the change in volume, and the change in the talent cost per hour – which represents efficiency.

- **Change in mix:** applying the 2013-14 genre mix to the 2008-09 hours and talent cost per hour shows that we would expect to see the change in mix deliver 4 per cent of the £12.7 million saving.
- **Change in volume:** applying the reduced 2013-14 volume to the 2008-09 genre mix and talent cost per hour shows that we would expect to see the change in volume deliver 51 per cent of the £12.7 million saving.
- **Change in talent cost per hour:** this reduced between 2008-09 and 2013-14, in part due to the BBC negotiating reduced deals with talent and replacing high earning talent with developing stars. This change was responsible for 45 per cent of the £12.7 million saving.

Of course, this analysis covers a relatively small proportion of the BBC's overall talent spending, and is not possible for other divisions, but demonstrates that in Television there are a number of factors driving the reduction in talent spending. This should not, however, detract from the BBC's strong performance in reducing the talent cost per hour to 2010-11 and holding it flat since then, in the face of growing competition for talent.

**The BBC does not have undue market power, but its large audiences and reputation for developing talent often attracts individuals to work for less than at commercial rivals**

## 2 The BBC's impact on the market for talent

We assessed the BBC's impact on the talent market and gauged the appropriateness of the fees it pays talent via a programme of interviews with industry participants, a questionnaire of independent producers, a detailed piece of audience research, and a benchmarking exercise to compare what the BBC's pays talent to commercial valuations for the rest of the market.

### 2.1 The market perception of the BBC

Interviewees we spoke to from across the industry were clear that the BBC has been very firm in reducing or holding flat talent fees since 2008, while perceptions of the wider market differed. Some reported a market where no-one had seen any increase and that the downward pressure was relentless; others were more nuanced and reported that the picture varied between broadcaster, genre and talent tier. Unsurprisingly, agents were more negative in their perception than producers. The consensus seems to be that the BBC has performed slightly better than the market.

#### 2.1.1 What the BBC offers



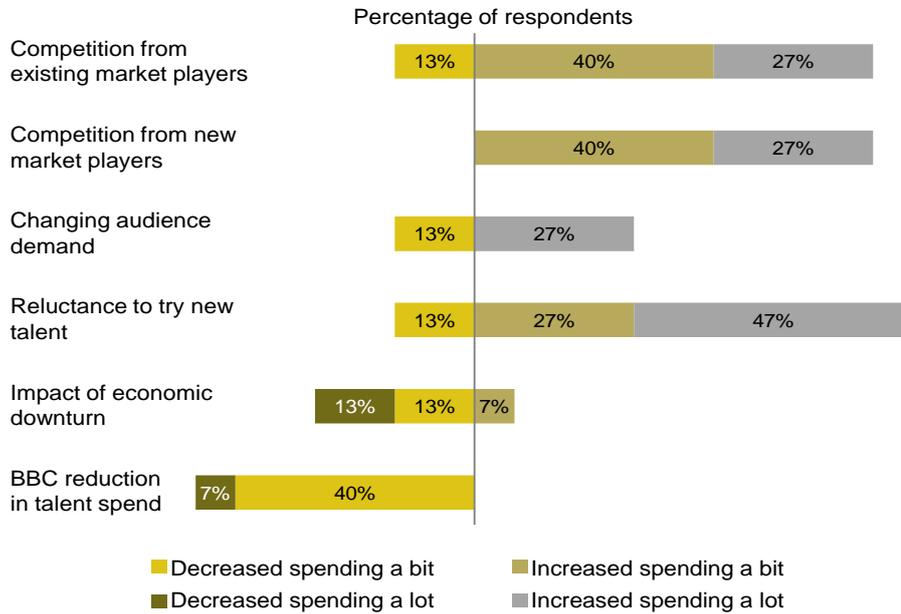
#### 2.1.2 The BBC's market influence

There was no consensus on the impact of the BBC's downward pressure on talent fees. Some acknowledged that the BBC's approach had set an important precedent for the market and made negotiations easier, allowing them to take money out as well. Others were not as positive about the impact of the BBC's strategy, but acknowledged that it had at least helped them hold talent fees flat.

Through our independent producer questionnaire, smaller independent producers reported that the BBC's approach had allowed them to apply downward pressure on their talent spending, but that the BBC does not have undue influence over market prices. **Figure 5** suggests that although the BBC's actions can influence the market, its influence is not as great as competition from existing or new market entrants, or the reluctance of commissioners to try new talent. Overall, the smaller independent producers responding to our questionnaire reported increasing talent costs since 2008 – 10 out of fifteen reported an increase in top-tier spending, and 8 out of fifteen reported an increase in lower-tier talent spending – which was inconsistent with the message from the larger players and other broadcasters we interviewed.

**Figure 5: Factors affecting independent producers' on-screen talent spending**

**What have been the major factors affecting your on-screen talent spend in the last 5 years?**



Note: n=19  
Source: Oliver & Ohlbaum analysis

### 2.1.3 The sustainability of the BBC's approach

The agents we spoke to were keen to point out that the mid and lower tiers of talent were under considerable pressure and that, like other broadcasters, the BBC tends to negotiate hard. Talent outside of the top tier have less bargaining power and there was a sense from the agents that they are underpaid or, at least, that the downward pressure on pay should not continue. We heard that broadcasters, including the BBC, tend to offer talent outside of the top tier 'take it or leave it' deals, rather than negotiate. This demonstrates that the BBC is using its buyer power effectively to maximise value, but comes with a risk in the longer term.

We heard that continued downward pressure on mid and lower tier talent pay could have a detrimental effect on the range of talent in the industry. Following five years of flat pay, the industry has become unaffordable for many talent. We were told that, increasingly, the pool of talent available consists only of those who can afford to operate in a part-time capacity, or as a hobby. Agents we spoke to told us this creates a risk of the talent pool becoming increasingly narrow; if this is borne out, it in turn threatens the long term diversity of talent available not just to the BBC, but to the industry as a whole. With future fee inflation driven by increased commissioning likely to be most limited in the lower levels of the talent market, the BBC may wish to consider whether it can and should help the industry address this risk.

### 2.1.4 BBC spending compared to the market

Interviewees were clear and consistent in their message that the BBC does not pay more than the market price for talent and, by trading on its reputation and resonance as a developer of talent, is able to pay less in many cases. Some commented that the increased commercial freedom available to other broadcasters and producers made it easier for them to offer more attractive terms than the BBC. Strikingly, in almost every genre, no one suggested examples of BBC deals that went above what could be considered a competitive market price.

Industry stakeholders flagged two genres as areas of slight concern, these were News and Radio. We investigated these and found no cause for concern:

- In News, we investigated a number of cases in detail and found no evidence that the BBC’s approach had an adverse impact on the market for News talent. In addition, BBC News told us that it participates in an annual benchmarking exercise with the commercial sector – the Towers Watson Survey – which provides assurance that it is not paying more than is necessary for News talent.
- In Network Radio, BBC recruits typically differ from the wider commercial market in one of two ways; firstly an in-depth specialist music knowledge that is not required by the commercial radio sector, or secondly a need for a higher speech content than traditional music radio. In the latter case the competition is more from other media, particularly television.

## 2.2 Consumer survey findings

We used a quantitative approach based on perceived audience value to assess what the BBC pays to talent against their commercial valuation. Our survey methodology is included at Appendix 3.

### 2.2.1 Our approach to benchmarking

Our survey tested reactions to individuals, their overall appeal and, in particular, their ability to attract audiences to a programme. A talent’s net impact on audience can be used to calculate incremental value, based on additional audience bringing additional advertising revenue. This incremental audience valuation method is used in the industry as one way of understanding the value of talent. The genres included in our consumer research can be seen in Appendix 3.

This approach is best when considering relative value, and provides a useful estimate in the absence of actual data. The incremental valuations allowed us to rank the talent in each genre based on the projected commercial value from the audience research. As a comparator, we also considered the actual ranking of talent pay in each genre; we had this information for BBC talent and, where individuals were principally with the commercial sector or independent producers, we spoke informally with industry participants to estimate where talent rank relative to their peers. Where we were unable to obtain recent BBC data or a consensus on a talent’s relative ranking, we removed them from the final results<sup>3</sup>.

The analysis set out below focuses on selected genres, since this commercial valuation based approach does not translate well to all genres:

- **The value of talent is not always set by the competition:** in some genres, competition is limited and not direct. This means that the value of talent may be set by other factors, whether other media platforms, or other professions altogether. In speech radio, for example, as previously mentioned, the BBC does not compete for talent with its direct broadcasting competitors so we cannot meaningfully compare the prices paid by the BBC to the commercial sector.
- **Some genres are not sufficiently talent driven:** in News and Sport, audiences tune in for the content rather than the presentation, meaning that a talent’s commercial value based on audience uplift can be misleading.

Within the constraints of this approach, we are able to draw a number of general conclusions.

### 2.2.2 Audience requirements for talent vary by genre

Audiences have a detailed understanding of their viewing habits, and are able to articulate what they expect from talent. Firstly, the importance of talent varies greatly by genre – in some genres the talent is key, whereas in others, the content of the programme is more important.

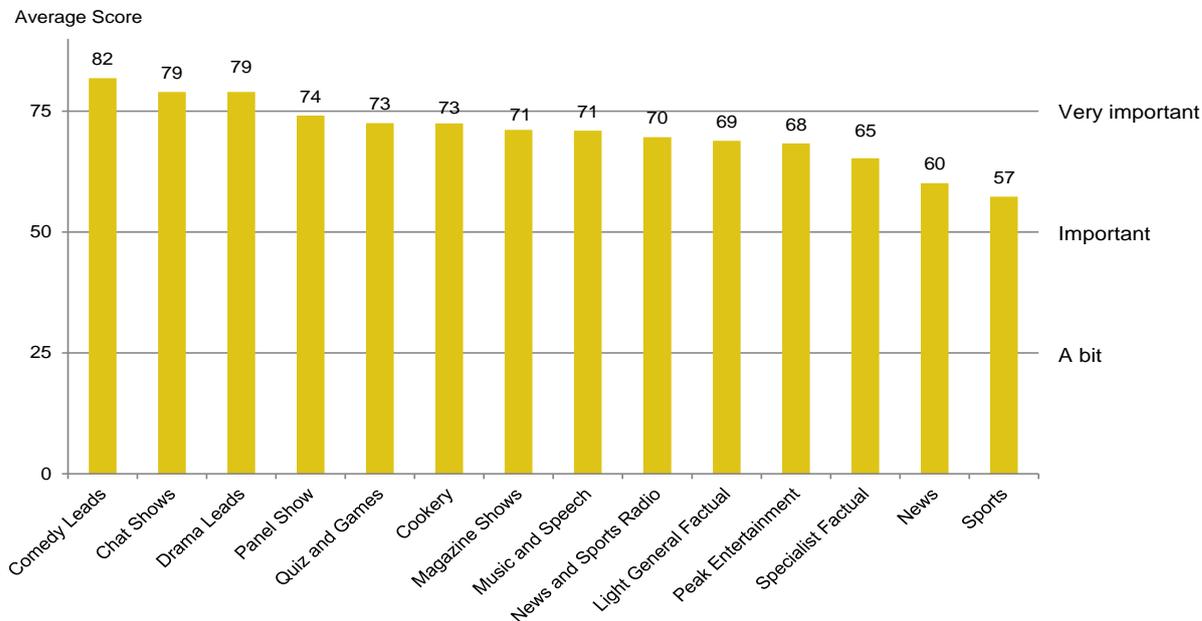
**Figure 6** presents the average level of importance across all respondents for each genre; the score is out of 100, with scores above 75 indicating that the talent is very important to viewers and listeners. Comedy Leads was the genre with the highest average score, with Chat Shows and Drama Leads also identified

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<sup>3</sup> For these reasons, we removed five talent out of 55 included in our survey across the five genres covered by Figures 8 to 12.

as genres where talent is very important. Respondents for most of the genres we tested identified talent as important; perhaps unsurprisingly, the genres where talent was considered least important were News and Sport, where the content itself is the main pull for audiences, rather than how it is presented.

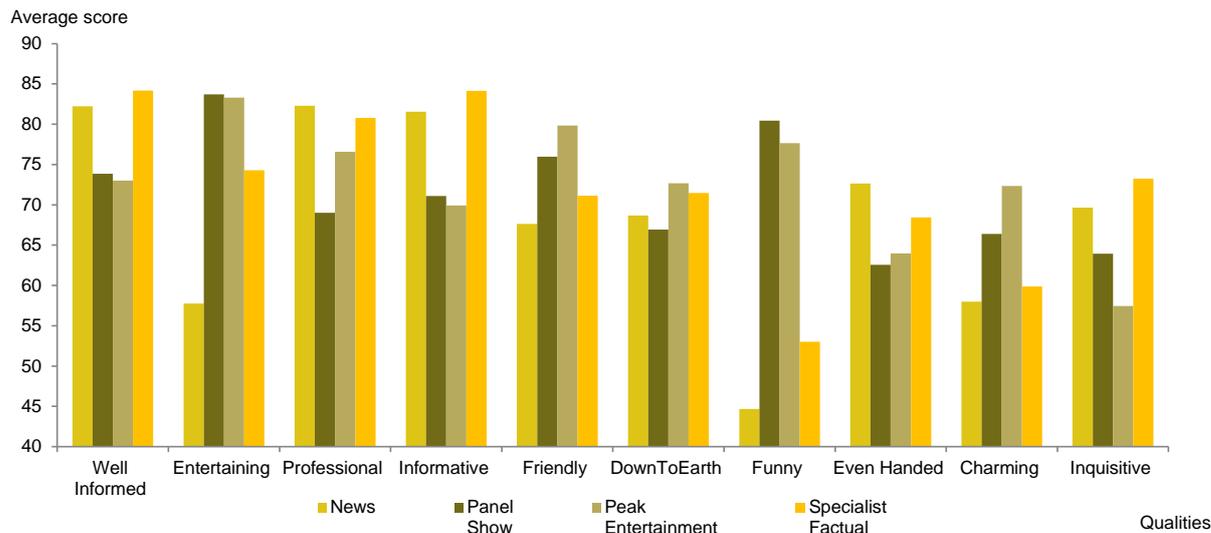
**Figure 6: The importance of talent as a programme input**



Note: Our survey was answered by 2,103 respondents, the number of respondents varied by genre  
 Source: Oliver & Ohlbaum survey and analysis

Secondly, what a talent is expected to bring to a programme varies by genre. **Figure 7** focuses on the ten most commonly selected characteristics across all genres (respondents were not required to select all of them), and shows how the importance of those characteristics varies between four genres. As one might expect, qualities such as 'well-informed' and 'professional' are important in News and Specialist Factual programming, but less so in Peak Entertainment and Panel Shows. Similarly, 'funny' is an important characteristic in Peak Entertainment and Panel Shows, but not in News and Specialist Factual.

**Figure 7: The importance of talent characteristics varies by genre**



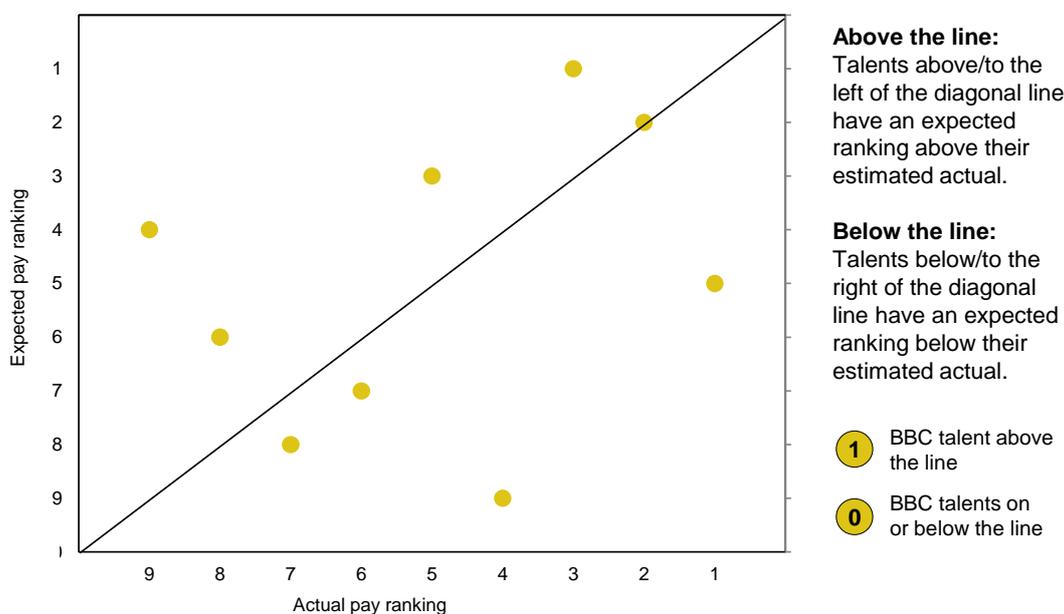
Note: Our survey was answered by 2,103 respondents, the number of respondents varied by genre  
 Source: Oliver & Ohlbaum survey and analysis

### 2.2.3 The BBC appears to offer talent deals in line with the market

The BBC does not tend to pursue the very top tier of talent by out-bidding commercial rivals, but its talent are highly valued by audiences. In many genres, the very top talent – or at least those earning the highest fees – are widely known or assumed in the industry and tend to be in the commercial sector. By contrast, the BBC tends either to attract this tier at rates which represent value for money, or focuses its limited financial resources outside the very top tier. Below, in Figures 8 to 12, using an anonymised data set, we show that with few exceptions, the estimated market value of individuals is a good predictor of their relative actual pay. In order to protect talent confidentiality, we cannot identify which individuals are BBC talent, but we discussed our findings with the BBC. Plotting commercial value rank against actual pay rank highlights where talent appear to be paid more or less relative to other talent than their commercial value would predict. There appears to be no systematic bias, and no evidence that the BBC is overpaying.

In chat shows, the value of talent is significant – the host is seen as key in **Figure 8** – and much of the audience to the programme is due to the host. However, a couple of individuals in this genre are more divisive in their audience appeal, which brings down their perceived value.

**Figure 8: Chat Shows, estimated actual vs. expected pay ranking**

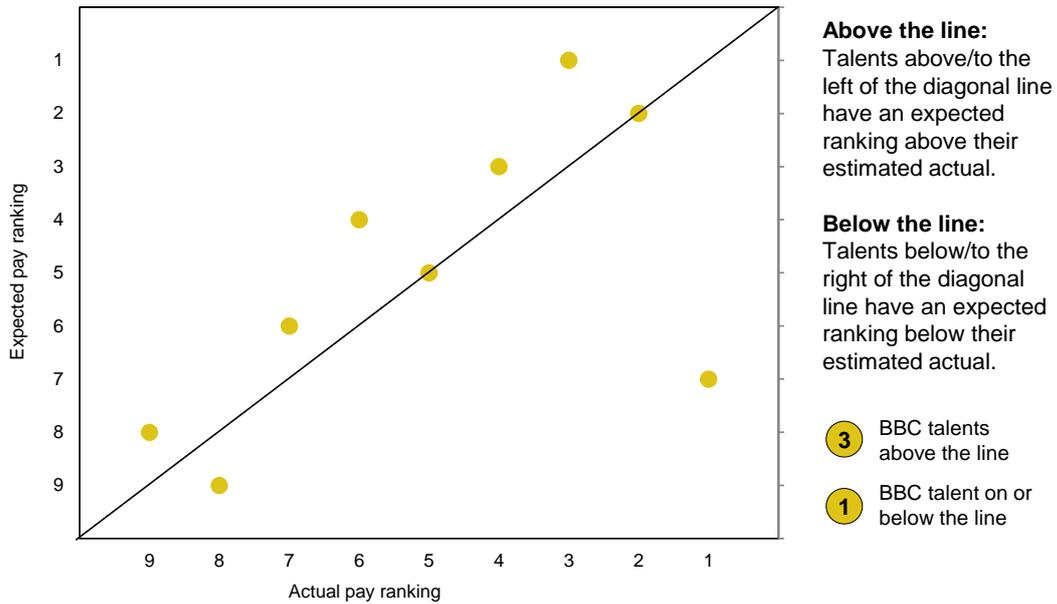


Note: BBC talents employed through independent producers are considered non-BBC, since the BBC does not have control over their fee.

Source: Oliver & Ohlbaum survey and analysis

In magazine shows there appears to be a broad correlation of ranking with value. ✂

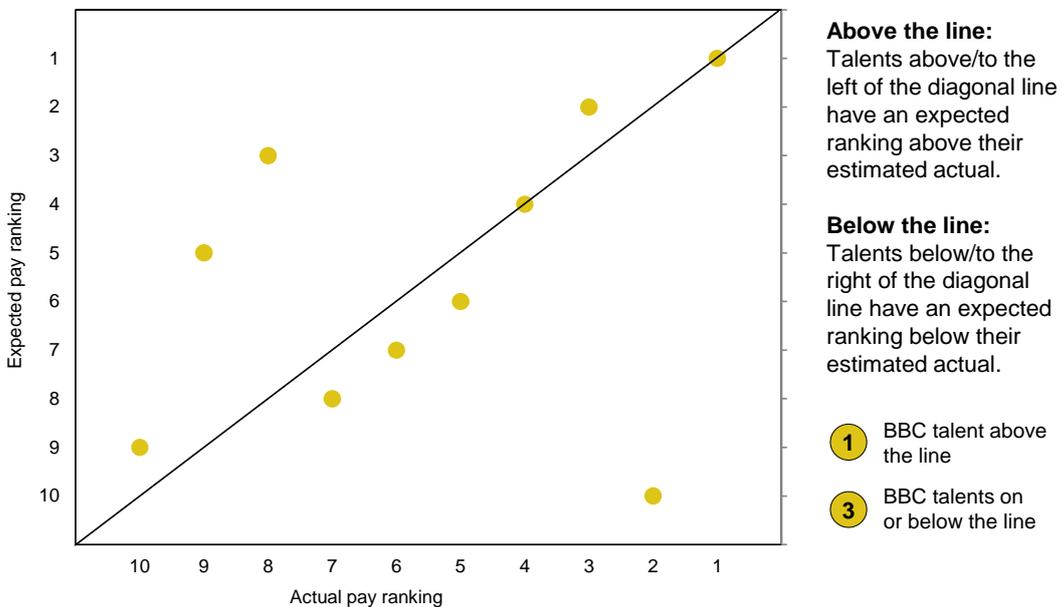
**Figure 9: Magazine Shows, estimated actual vs. expected pay ranking**



Note: BBC talents employed through independent producers are considered non-BBC, since the BBC does not have control over their fee.  
Source: Oliver & Ohlbaum survey and analysis

In peak time entertainment there is again broad correlation. ✂

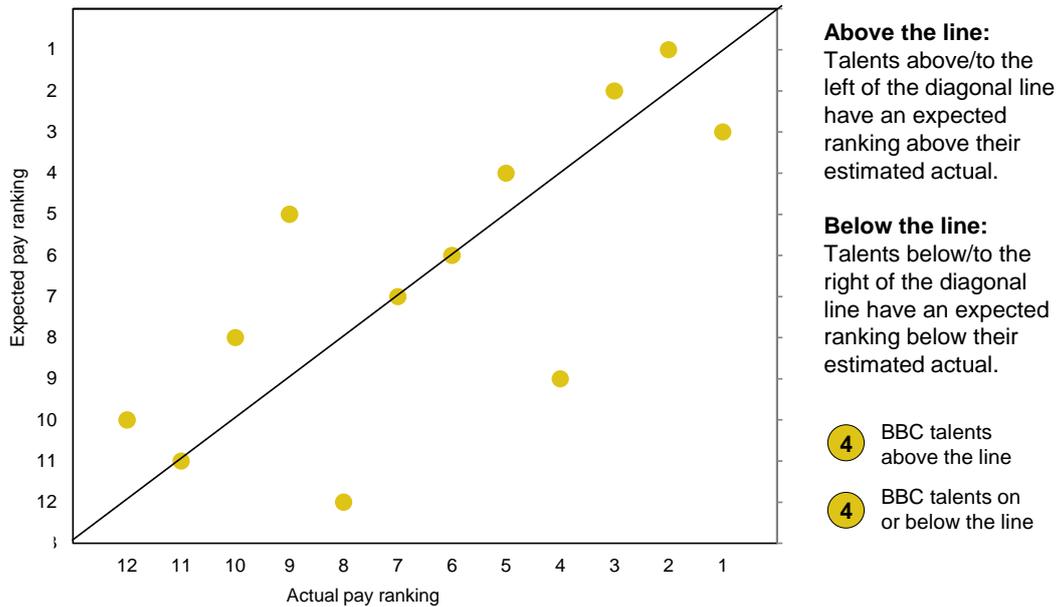
**Figure 10: Peak Entertainment, estimated actual vs. expected pay ranking**



Note: BBC talents employed through independent producers are considered non-BBC, since the BBC does not have control over their fee.  
Source: Oliver & Ohlbaum survey and analysis

In specialist factual there is again a broad correlation, although there are a couple of outliers.

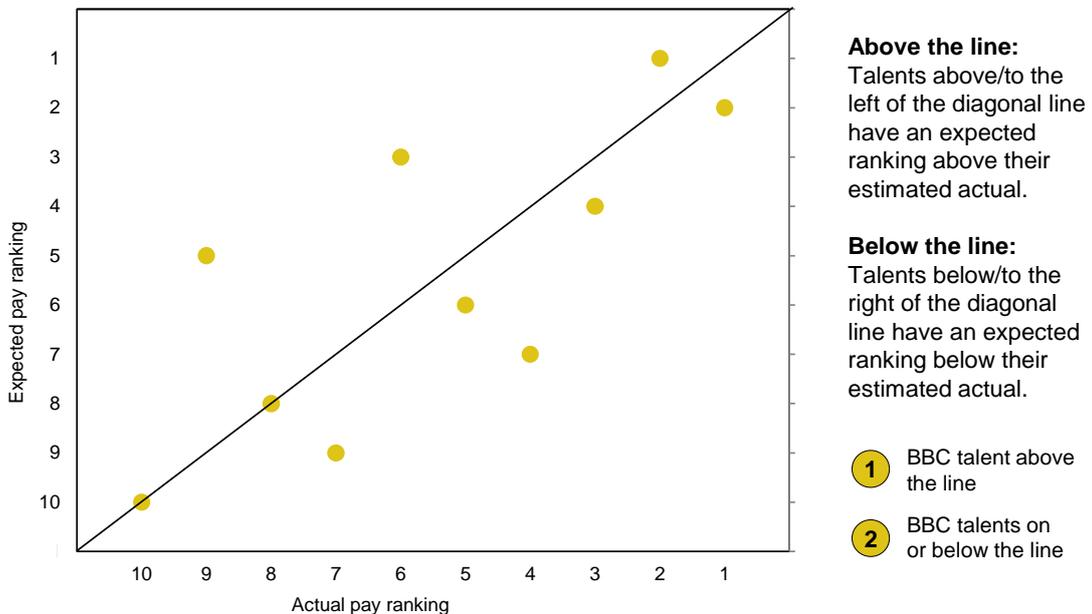
**Figure 11: Specialist Factual, estimated actual vs. expected pay ranking**



Note: BBC talents employed through independent producers are considered non-BBC, since the BBC does not have control over their fee.  
Source: Oliver & Ohlbaum survey and analysis

In cookery, again there is a broad correlation and the market appears to be rewarding audience perception. ✂

**Figure 12: Cookery, estimated actual vs. expected pay ranking**

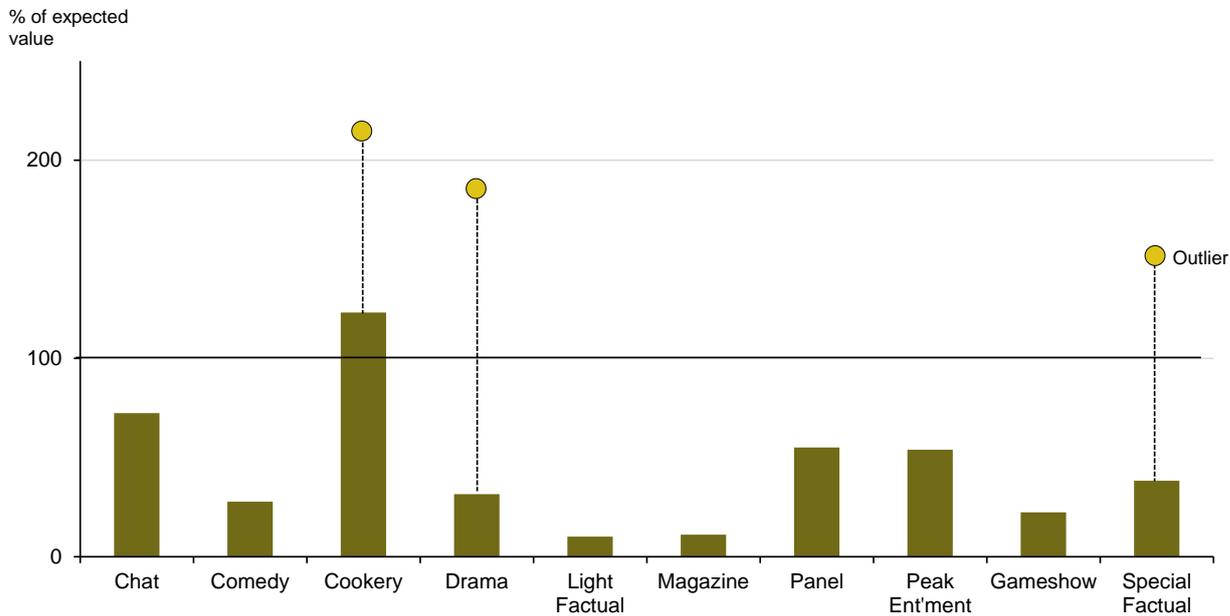


Note: BBC talents employed through independent producers are considered non-BBC, since the BBC does not have control over their fee.  
Source: Oliver & Ohlbaum survey and analysis

We also conducted a more quantitative exercise for a small number of talent in each genre. In this exercise, we compare the actual remuneration against the calculated commercial audience valuation for BBC talent. On average, the BBC appeared able to secure talent at a rate that represents good value for

money. However there were a small number of exceptions which appear to result in a reasonable degree of overpayment. We have raised these with BBC management.

**Figure 13: Average BBC payment to talent vs. average estimated commercial value, by genre**



Source: Oliver & Ohlbaum survey and analysis

Note: The number of talent represented in each genre varies between one and five

One of these outliers was a legacy deal; one outlier experienced particularly high interest from abroad which the BBC chose to compete with for editorial reasons, ~~✗~~. However these were a very small number of individuals from a large array of talent.

**The BBC's processes for talent cost management are thorough and consistent and represent a vast improvement since 2008**

## 3 The BBC's approach to talent management

The BBC's strategy for managing talent was underpinned by a change in process and structure but also relied on a noticeable change in culture since 2008. In this Part we consider the BBC's approach and how it compares to best practice.

### 3.1 Changes in the BBC's approach to talent

When we reported in 2008, talent deals received scrutiny, but there was a sense that production teams did not fully appreciate that £1 extra spent on talent meant £1 less spent somewhere else. The culture was such that talent deals could be topped up by channel controllers, so the divisions did not have full responsibility for their talent costs.

The change in culture at the BBC cannot be overstated. There is now a clear mentality amongst those managing talent at divisional level that they have responsibility for talent costs. This change has been underpinned by the introduction of the deal referral process – which established a consistent approach to scrutinising, justifying and approving deals across the divisions. It brought discipline to talent negotiations and has instilled in negotiators the importance of a clear rationale to support each deal, based, in turn, on an understanding of what the talent in question offers to the BBC.

A change in culture and a more relaxed approach to exclusivity and letting top talent move on has helped the BBC reduce talent spending

There has also been a change in thinking around talent retention. With increasing pressure on the fees paid to top talent, the BBC has learnt to let some top talent go. Household names such as Jake Humphrey, Susanna Reid, and Chris Moyles have left, but the BBC has maintained the quality of output for licence fee payers. Understanding when to let top talent go will be increasingly important for the BBC as it continues to operate under tight financial constraints, while commercial sector revenues grow following their recovery from the global economic downturn.

Taking a more relaxed approach to exclusivity has also helped the BBC generate savings. Working exclusively for the BBC means foregoing opportunities to work with other broadcasters or production companies. As such, the BBC has historically paid a premium to retain the exclusivity of some of its top talent and protect the BBC brand. These restrictions have now been relaxed – saving money for the BBC while allowing such talent to substantially increase their total earnings.

### 3.2 The BBC's talent management framework

The BBC's processes to manage talent vary by type of talent; broadly speaking, talent can be split into two categories, freelancers, and talent on staff.

- **Freelance talent:** account for the majority of talent expenditure, covering prominent actors, presenters and performers as well as those playing a supporting role, such as extras and orchestral musicians. In 2013-14 the BBC used around 46k freelancers, at a cost of £133m.
- **Talent on staff:** are talent engaged by the BBC on employment contracts. These are often talent working in News who spend 50 per cent or more of their time working on on-screen or on-air output. In 2013-14 the BBC used around 1,300 talent on staff, at a cost of £60m.

Deals for freelance talent follow the deal referrals process, while deals for talent on staff are managed in the same way as other staff contracts, with an annual pay review. On-screen and on-air staff do not automatically receive the standard BBC staff pay settlement. For on-screen and on-air talent on staff, where larger increases are sought by production teams, or where pay deals exceed £75k, the deal must be signed off by REMCO, the BBC Remuneration Committee (unless the deal is a cost neutral transition from a freelance contract, in which case it is approved at production team level and sent to REMCO for

noting). Given the long term and on-going nature of deals for talent on staff, this treatment is a sensible means of controlling costs, but relies on a talent's starting rate being set appropriately. Although outside of the deal referral process, our walkthrough testing (Section 4.2) examined whether deals for talent on staff were processed in line with BBC policy.

Similarly, some freelance staff are subject to block deals, which are agreed centrally and mean that they receive a set rate for their contribution. These include extras and musicians, whose fees are negotiated with the relevant trade unions – we tested these individual payments in our walkthroughs, but they do not fall under the BBC's talent management structure. BBC talent management focuses on freelancers who are not subject to centrally agreed deals, and it is this process that we have reviewed in detail.

### 3.3 Comparison to best practice and other broadcasters

In 2009 the BBC introduced a structured and consistent approach to scrutinising and controlling talent costs for freelance talent. This deal referral process is underpinned by the BBC's Deal Referral Form, which requires deal proposers to set out a business case for the deal, covering issues such as the rationale, the strength of the BBC's bargaining position, and internal benchmarks, to justify the proposed talent fee. The BBC's governance structure, triggers for the Deal Referral Form, and the specifics covered by the Deal Referral Form are set out in Appendix 9.

The deal referral process does not subject all deals to scrutiny and instead targets only those considered to present the most risk to licence fee payer money. The triggers have changed over the period of review, but broadly speaking, deals with a total value of more than £100k, or increasing the talent's pay whether in terms of the rate or the total fee, require a Deal Referral Form. Talent fees below £2k are signed off at divisional level and are not subject to the deal referral process since there are a very high volume of these low risk transactions. Downward pressure is also applied to talent deals through programme budgets, which are closely monitored, so the level of scrutiny and the required sign-off limits are appropriate to the risk.

Focusing scrutiny on high value and increasing deals appropriately targets resources where the risk to licence fee payer money is greatest

Achieving value for money in a talent deal requires an understanding of talent motivation, the cost to deliver the deal, and the value of the talent to the BBC. To understand how well the BBC has managed talent, we assessed its deal referral processes against our best practice model (set out in Appendix 8) and the insights into the processes used by other broadcasters, from our interviews. Discussions with other broadcasters identified that individual talent deals are seldom exposed to detailed scrutiny. Instead, talent deals tend to be considered only as part of the broader programme budget – and so the level of detail included in the BBC's approach already sets it apart from commercial broadcasters.

#### 3.3.1 Motivation

The BBC's Deal Referral Form provides a firm basis of assessing the rationale for a talent deal, but it does not take a structured and documented approach to assessing talent motivation. The form includes an assessment of the relative bargaining positions of talent and the BBC, but proposers need not document the BBC's view of key motivators for the talent in question. While the personal nature of motivation makes it difficult to quantify, understanding what motivates talent is an important factor in ensuring that the BBC can deliver value. We understand from our discussions with the BBC (and our case studies, see section 4.1) that these elements form an important part of the BBC's relationship with the talent and his or her agent, but the BBC's understanding of them is informal, rather than documented.

Documenting motivators to ensure that all options are explored would help the BBC to ensure that no opportunities are missed. The BBC's approach may be sufficient to inform most of the talent deals it conducts, but having an established structure setting out potential negotiating tactics, based on a consistent view of possible talent motivators, would remove the risk that some divisions are better informed than others. Developing a BBC view of potential talent motivators which should be considered in negotiations, and including these on the Deal Referral Form, would also ensure that a record exists of the options which have been considered for a given talent, which could be used to inform future deals.

### 3.3.2 Costing

From a Public Service perspective, the BBC has a clear view of the costs included in its talent deals. In most cases, the basic fee is the only element of a deal. This may be articulated in a number of ways, depending on the programme type, such as an episodic fee, and hourly fee, or linked to the number of hours or days worked; and negotiators are clearly aware of the cost of this. Where deals are more complex, and include additional fees, or where repeats are purchased upfront, these elements are also captured by the BBC's process in consideration of the overall value of the deal. When deals involve input from distributors such as BBC Worldwide, or non-financial elements, understanding the full cost is more challenging.

#### Input from distributors such as BBC Worldwide

When the BBC offers commercial rights as part of a deal, they are often secured by distributors such as BBC Worldwide, rather than through Public Service. There is therefore a tension between what Public Service is willing to contribute, in acknowledgement of the value generated for the licence fee payer, and what distributors are willing to contribute on the basis of expected commercial return. From the BBC's perspective, there is necessarily a clear distinction between funding from Public Service and from distributors such as BBC Worldwide, though the distinction is often less important to the talent themselves, who will tend to view their total BBC earning as one sum.

The BBC takes into account all licence fee funded financial costs when assessing a talent deal

We saw evidence that the BBC takes a joined up approach to negotiations involving additional rights, bringing together relevant people from Public Service and Worldwide. Where a distinction between activities for Public Service and distributors can be drawn, it is. Where the distinction is less clear, for example where rights relate to the DVD sales of a production made for Public Service, the distributor's contribution is subject to negotiation. Public Service's contribution in these cases is based on the usual deal referral process, so the financial value offered by Public Service is fully understood. Funding provided by distributors, including BBC Worldwide, is outside the scope of this review, so we have not reviewed whether the totality of cost to the BBC as a whole is fully understood.

#### Non-financial elements

Understanding the cost of non-financial elements of a deal can be extremely challenging, and is not an exact science. The main non-financial motivators available to talent are the exposure of the BBC, along with the richness of opportunities it can offer. These elements are not easily costed and the same goes for smaller factors such as offering a credit, or having flexibility around holiday leave. As such, the BBC does not take a systematic approach to costing these elements and does not include them as part of the assessment criteria when considering a talent deal. Given the resources required to quantify these elements, with only marginal benefit, such an approach is entirely justified and is consistent with our understanding of the approach taken by commercial broadcasters.

### 3.3.3 Value

The BBC's deal referral system has a clear focus on considering the value talent provide to the BBC. The form requires production teams to consider audience performance, comparators and, for the highest value deals<sup>4</sup>, a detailed audience research based valuation. The form also requires production teams to identify how a given talent contributes to the divisional strategy and, where a deal is considered to be out of strategy, this requires additional approval from senior personnel within the division. The divisional talent strategies acknowledge the importance of talent in helping the BBC deliver against its public purposes, though none of the strategy documents make an explicit link to the public purposes which talent can deliver against, nor how this will be achieved.

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<sup>4</sup> The current limit is subject to review and will be assessed when the renewed Pan-BBC Talent Steering Group meets for the first time.

The rigour of the BBC’s approach to assessing value exceeded that described to us by any of the commercial players we spoke to. While the BBC is only able to benchmark fees internally, the scale of its output means that this provides a good sense of what talent is being paid. Negotiators are well informed and have a well-developed sense of the market through regular contact with agents. In the absence of formal cost benchmarking with the commercial sector, the BBC’s approach to talent valuation is as far as it could reasonably and cost effectively go.



### 3.4 Diversity

The BBC’s public purposes require it to represent the UK, its nations, regions, and communities, which means ensuring that the faces and voices on-screen and on-air are a true reflection of the UK population. Monitoring and reporting on-screen and on-air portrayal is an important means of keeping a check on the diversity of the BBC’s output so action can be taken if it is not delivering against its overarching Diversity Strategy, and the Divisional Action Plans which underpin it.

#### 3.4.1 The BBC’s approach to monitoring talent diversity

The BBC has two approaches to monitoring diversity of talent, one captures diversity as viewed by the programme maker, while the other records diversity based on research agency analysis, of a sample of programmes over a period of time. The coverage of the two approaches are set out in **Figure 14**.

**Figure 14: The BBC’s talent diversity monitoring systems**

| Criteria                                  |                    | Portrayal Forms                                                                              | Cumberbatch Report                                                                                                                                                               |
|-------------------------------------------|--------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description</b>                        |                    | Form completed by producers setting out characteristics of talent included in the programme. | Periodic review of talent diversity based on review of programming. Last commissioned in 2012, the review period covered more than 16k contributors on 881 peak time programmes. |
| <b>Media</b>                              |                    | Television                                                                                   | Television                                                                                                                                                                       |
| <b>Excluded genres</b>                    |                    | News                                                                                         | None                                                                                                                                                                             |
| <b>Coverage</b>                           | Age                | ✓                                                                                            | ✓                                                                                                                                                                                |
|                                           | Gender             | ✓                                                                                            | ✓                                                                                                                                                                                |
|                                           | Ethnicity          | ✓                                                                                            | ✓                                                                                                                                                                                |
|                                           | Disability         | ✓                                                                                            | ✓                                                                                                                                                                                |
|                                           | Sexual orientation | ✓                                                                                            | ✓                                                                                                                                                                                |
|                                           | Social grade       | ✗                                                                                            | ✓                                                                                                                                                                                |
|                                           | Nations rep.       | ✗                                                                                            |  Piloted in 2012                                                                            |
|                                           | Faith              | ✗                                                                                            |  Piloted in 2012                                                                            |
| <b>Prominence</b>                         | Recorded           | ethnicity and disability.                                                                    | ethnicity, sexuality, and nations representation.                                                                                                                                |
|                                           | Not recorded       | age, gender, sexuality.                                                                      | age, gender, disability, social grade or faith.                                                                                                                                  |
| <b>Characteristics linked to earnings</b> |                    | ✗                                                                                            | ✗                                                                                                                                                                                |

Source: Oliver & Ohlbaum analysis

In fictional genres, neither system differentiates between diversity of the character and diversity of the talent, so monitoring is conducted from an audience perspective, rather than based on the diversity characteristics of the talent.

### 3.4.2 The BBC's use of information on diversity

The BBC told us that the portrayal forms are not consistently completed by producers, and so the results are not collated, circulated or relied upon to inform the BBC's commissioning and programme making decisions. The forms are, however, available to Diversity champions across the BBC for ad-hoc reporting and statistics, and they do provide similar results to those seen in the BBC's more thorough assessment of its on-screen diversity, the Cumberbatch report.

The BBC has diversity monitoring systems in place, but they do not provide reliable, up to date information

Findings of the 2012 Cumberbatch Report were widely circulated to channel controllers, commissioners and divisional heads. Presentations were also given to the genre boards and other relevant groups across the BBC. This provided divisions with relevant diversity information to inform their commissioning and programme making decisions and set specific actions in support of their divisional Diversity Action Plans. The BBC could not provide documentary evidence of how the findings were actually used within the divisions, though given they had access to the findings, this is better addressed through discussion, to inform the divisional plans.

These systems help the BBC maintain a view of diversity, but there are a number of limitations. As well as only covering television, they do not provide an on-going view across the full spectrum of diversity characteristics, and fail to fully capture on-screen prominence. For fictional characters, there is no distinction between on-screen portrayal and the diversity of the talent themselves – and since there is no direct link to talent fees, it is not possible to accurately monitor diversity within pay bands. In addition, the portrayal forms are not used by News, which currently takes a less systematic approach to monitoring diversity than the other divisions, though it conducted a monitoring pilot for early evening television news in February 2014.

Information could also be better used to set diversity targets. In August 2013, the BBC announced it wanted to increase the proportion of local radio breakfast shows with a female presenter, either in solo capacity or part of a team, from 20 per cent to 50 per cent, by the end of 2014. The timeline for this target was tight, and the natural churn rate meant that it could only be achieved by increasing the number of stations with multiple presenters – at additional cost to the BBC. The BBC funded the additional individuals (whose duties sometimes went beyond presenting) through a £300k per year fund designed to develop female talent. We understand that the BBC discussed the likely cost implications prior to the announcement, but without documented analysis setting out the implications both in terms of costs and editorially, it will be difficult for the BBC to assess whether the policy has delivered value for money.

**The BBC's processes were largely followed, and where there were exceptions, these tended to be justified, though there are some areas where processes could be tightened**

## 4 The effectiveness of the BBC's controls

We tested that the BBC's processes were followed using a combination of case studies and walkthroughs. Case studies provided an in depth look at how the BBC manages talent, including the context and correspondence surrounding a deal, while walkthroughs were used purely to assess the BBC's use of its talent management processes.

We assessed deals against the processes relevant to them, which largely meant considering the deal referral process. For talent on staff, where relevant, we considered whether contracts had been appropriately authorised by REMCO (or, prior to the formation of REMCO, the Divisional Director). And, in the case of contributors subject to block deals, such as orchestral musicians, we reconciled deals to the approved rate cards or trade union agreed fee. The individuals covered by our case studies, and the approach to selecting them are included in Appendix 3.

### 4.1 Case studies

We found that the BBC's processes were generally well followed, with the BBC having a strong sense of its bargaining position, the motivations of the talent, and its cost and value to the BBC. In general, the BBC concluded deals in line with its processes, but there were cases where processes were not followed, and there are a number of areas where the requirements of the Deal Referral Form could be tightened. **Figure 15** sets out our assessment of the BBC's performance in following its talent management processes for the 18 case studies we looked at.

Figure 15: BBC talent cost controls – performance in case studies

| Criteria                                                                            | No. relevant cases | No. cases criteria are met | Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------------------------------|--------------------|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>DRF produced</b>                                                                 | 15                 | 13                         | <p>Of the 18 case studies, three were talent on staff, the remaining 15 were freelancers on bespoke fees, for whom we expected to see Deal Referral Forms.</p> <p>In all cases where a Deal Referral Form was produced we saw evidence of a clear business case and consideration of the deal's fit with the divisional strategy.</p> <p>Where Deal Referral Forms were not produced, but should have been, there was an email chain setting out much of the required information, and in one case, a more detailed cost assessment.</p> |
| <b>Full financial cost of the deal considered</b>                                   | 18                 | 16                         | <p>We expected to see the BBC consider the full financial cost to Public Service in all cases and use this when considering alternatives and succession planning.</p> <p>In two of the three cases where additional fees were paid, this fee was not benchmarked or supported by a clear documented rationale, although all elements of the deal were always included in the total negotiating mandate.</p>                                                                                                                              |
| <b>Walkaway price established and adhered to</b>                                    | 15                 | 11                         | <p>We expected to see a walkaway price established in all 14 completed deals requiring a Deal Referral Form, and the one freelance deal that was not concluded (resulting in the talent leaving the BBC). In four cases negotiators were unable to secure the deal within the initial approved walkaway price, and increased the maximum they were willing to pay.</p> <p>In a further two cases, non-financial adjustments (e.g. contract length) were made to the Deal Referral Form to improve the offer.</p>                         |
| <b>Appropriate authorisation received</b>                                           | 18                 | 17                         | <p>We saw evidence that appropriate approval was received in all cases but one. Approval was often granted by email, rather than on the form itself, due to the BBC's preference for paperless working.</p> <p>In one instance, while the approver had been copied in on earlier correspondence, the BBC could not provide evidence that the final value was within the approved mandate.</p>                                                                                                                                            |
| <b>Deal negotiated for less than the walkaway price (maximum authorised amount)</b> | 15                 | 2                          | <p>✂</p> <p>We only saw two instances where the deal was concluded for less than the maximum amount approved. – though one of the fifteen was allowed to leave the BBC (there were a further nine cases where the deal was secured for an amount equal to the walkaway price).</p> <p>✂</p>                                                                                                                                                                                                                                              |
| <b>Succession planning / alternatives as required</b>                               | 15                 | 7                          | <p>We saw at least one potential alternative or successor named in seven of the 15 Deal Referral Forms.</p> <p>Of the eight that failed this criteria, four had a compelling rationale for not quoting a successor / alternative, such as a lead talent in specialised factual shows commissioned for that talent, or a lead actor in a returning drama series based around that character.</p>                                                                                                                                          |
| <b>Commercial valuation provided for high-value deals</b>                           | 5                  | 2                          | <p>Deals for very top earners required a detailed audience research based valuation, placing a commercial value on that talent on the basis of their ability to draw an audience.</p> <p>We saw this in two of the five very high-value deals. In the remaining three deals, we saw extensive audience research to support the business case, but stopping short of deriving a commercial valuation of that talent.</p>                                                                                                                  |

Note: Of the 18 case studies, three were talent on staff and the remaining 15 were freelancers on bespoke fees. Of the 18, two resulted in the talent leaving the BBC, of which one was on staff and one was a freelancer.

Source: Oliver & Ohlbaum analysis

### 4.1.1 Walkaway prices

✂. We saw that the negotiators tended to have a good sense of what the talent was willing to accept. However, the term ‘walkaway price’ was confusing as often negotiators used the form as an approval document (to establish the expected fee), rather than as a negotiating mandate (to approve the maximum value, or “walkaway price”). The flexibility provided by this approach is a symptom of the complexity of talent negotiations, but without a clear and documented view of a talent’s maximum value, the BBC could not consistently demonstrate whether a deal offered value for money.

The BBC does not clearly distinguish between what it is willing to pay (value) and what it expects to pay

This explains why the BBC only secured two out of fifteen case study deals below the maximum negotiating mandate. There were a further nine cases where the deal was secured for an amount equal to the negotiating mandate, and four cases where negotiators had the Deal Referral Form reapproved to allow them to offer more. In one of our case studies, the BBC substantially increased its walkaway price in response to a competitor entering negotiations with a talent. We believe that the value to the BBC is independent of the actions of a competitor and the BBC’s stance should have remained unchanged. In this instance, the talent was allowed to leave anyway, as the revised walkaway price was still not enough to retain them.

The BBC’s use of its Deal Referral Forms meant that it did not document the true maximum price it was prepared to pay a talent (the “walkaway price”). There may have been a wider strategic value of a talent to the BBC (such as succession in another genre) that an individual negotiator, programme maker or genre head may not have been best placed to assess; this component of value may have been understood at division or corporate level. Without documenting a talent’s overall maximum value to the BBC – and supporting this with evidence – there is a risk that key talent may not have been appropriately retained, and the BBC was unable to easily demonstrate value for money. This level of rigour in understanding value is most important in the highest value deals and is likely to apply only to a handful of individuals, such as those currently requiring a full commercial valuation.

✂

### 4.1.2 Audience data

We saw that audience data was presented to support all of the case studies. Proposers often attached screen shots of the BBC’s audience metrics portal to demonstrate the performance of previous programmes involving the talent in question, whether relating to a returning strand, or another programme featuring the talent. Where relevant, results from the BBC’s ‘Pulse’ surveys, which test audience reaction to six to eight talent four times a year, were also included – providing talent specific metrics to inform negotiations.

There was, however, inconsistency in the audience information used. The Deal Referral Form does not prescribe specific audience metrics and therefore leaves proposers to present the metrics they deem appropriate. We saw that the metrics used varied between deals, creating a risk that metrics are cherry picked to support the deal. Since approvers rely on the information presented on the form, it is important that they are provided with a full account of audience information relevant to the deal.

Setting out required audience metrics on the Deal Referral Form would remove the risk of cherry picking by proposers

The BBC also conducts an annual piece of audience research to provide insights into the popularity of particular talent. This is an editorial exercise to establish a sense of talent popularity in all genres, and it particularly useful where programme related metrics are less relevant. For Chat Shows, say, a programme’s audience performance is a very clear indication of a talent’s performance, but in other genres, such as drama, where there are many talent on-screen, specific talent focused audience research is a useful additional tool to inform the valuation – however, this information is not used to inform negotiations; rather it is used to update the TV Board.

### 4.1.3 Audience research based valuations

The BBC's talent strategy states that deals for the very top earners require a detailed audience research based valuation to estimate a talent's value to the commercial sector, and support the level of the fee being offered. This is based on the commercial valuation methodology we used in our benchmarking analysis in Section 2.2 – the requirement was introduced following our review in 2008, the triggers are set out in Appendix 9.

From the eighteen case studies, five were for a value which required Finance Committee approval and we therefore expected to see bespoke audience research based commercial valuations for each of these deals, but only saw them in two cases. In all five cases we saw bespoke research in support of the deal – focusing on issues such as programme performance, long term strategy, and the individual talent's unique appeal and importance. There were, however, only two cases where the full commercial valuation methodology had been conducted at the time of the deal and used to support the negotiation. In two further cases, reference was made to historic commercial valuations which were out of date, and the final case did not make any attempt to put a commercial value on the talent in question. If the BBC does not use commercial valuations to support high value talent negotiations, as per its strategy, there is a risk that negotiators and approvers are not adequately informed when assessing a talent's value to the BBC.

### 4.1.4 Alternatives, comparators, and succession planning:

We found that the BBC's approach to identifying alternatives, comparators and succession planning was not clearly differentiated on the Deal Referral Forms, leading to an inconsistent approach. The Deal Referral Form requires benchmarks to help establish value, but the form conflates comparators, or alternatives, with potential successors, rather than requiring both.

Proposers generally benchmarked against alternatives or comparators, but there were a number of cases where no benchmarks were considered and where the reasons for this were not articulated. Generally, alternatives should include talent operating in similar roles in the same genre and slot – either currently or historically – and include available information on relevant non-BBC talent. Where no alternatives exist, for example, in returning strands, or where a key talent is also the writer, comparing fees to those in other genres or slots, but operating in similar roles or appealing to a similar audience in terms of size and/or demographics, is a valuable exercise, but this distinction does not exist on the Deal Referral Form.

Financial benchmarks and successors are different things but are often conflated by the BBC.

The BBC's processes require that high value deals provide named talent as part of the succession plan; Figure 15 shows we saw mixed evidence of this. Identifying the pipeline of talent in line to replace top stars is important if the BBC is to protect itself from fee inflation. Alternatives and comparator benchmarking are a means of justifying the proposed value of a deal, while succession planning is about identifying which talent are being developed to take on a role in future. The BBC does not differentiate between the two, creating a risk that succession planning is not as thorough as it should be, and that the BBC does not get the most out of its talent pool.

In some cases where the BBC has successfully developed successors, we heard that comparators were relatively unimportant because the incoming talent would command a much lower fee than the incumbent. Bringing in emerging talent supports the BBC's strategy to remove those in the top pay bands, but these are some of the hardest deals to get right. Where a large saving is going to be made, the BBC needs to ensure that it has the discipline to push down on the new fee as far as possible, and not take a more relaxed approach because a large saving is being achieved anyway.

#### 4.1.5 Additional fees

Additional fees were paid to three of the 18 talent covered by our case studies in exchange for additional contractual commitments. ✂. We saw no evidence that these were based on a robust assessment of the value of the additional contractual commitments, or the consequential impact on the BBC (or the talent's audience approval). There was also an inconsistent treatment of these additional fees in the Deal Referral Forms, this meant that in one of the three cases the additional fee was included when benchmarking against other talent, but in the other two cases, only the main programme fee was benchmarked.

The level of additional payments should be justified and included in benchmarks

It is important that the full cost to the BBC is compared to other talent. Using comparators to justify a talent fee relies on the fact that it is possible to compare like with like. If the full cost – including additional fees – are not included in all cases, then the comparators are misleading and there is a risk that the approver will not be able to assess the full value of the deal.

#### 4.1.6 Pan-BBC deals

Where talent work across multiple genres, or in both television and radio, we saw a joined up approach to ensure that all relevant areas of the BBC were aware of negotiations, but consideration of how best to maximise the strength of the BBC's bargaining position was not formally documented. In some instances the BBC considered it had a stronger bargaining position by combining deals and in others they were kept separate because existing deals were not coterminous or because the BBC perceived that combining deals would lead to upward pressure on the total fee. Since the Deal Referral Form does not require proposers to document the rationale for their approach in each case, there is a risk that the BBC does not consider all options and achieve the best value from deals in all cases.

### 4.2 Walkthroughs

Our case studies focused on household names, and were carefully selected to provide coverage across divisions, deal types, and circumstances. Our walkthroughs tested the BBC's processes for a larger number of deals, selected at random, covering the full spectrum talent across all divisions. We identified 48 deals, ensuring that they covered a range of value categories so we could test that appropriate processes had been followed in all eventualities.

The findings from our case studies relating to the consistent use of audience information, and the consideration of alternatives and succession planning, are also relevant to our walkthroughs. However, walkthroughs focused only on whether appropriate process had been followed. Although we sought to select deals which would require formal approval, in many cases a Deal Referral Form was not required (for example because the 'increase' in fee we identified was due to a talent working only part of the previous financial year); in these cases we still examined the relevant paperwork to ensure that the deal had been treated in line with the BBC's approvals process. **Figure 16** shows that, as with the case studies, we found that the BBC's processes had generally been adhered to and were much more thorough than when we reported in 2008, in terms of the consistency of treatment and thus the level of scrutiny applied to the deals.

**Figure 16: BBC talent cost controls – performance in walkthroughs**

| Criteria                                          | No. relevant cases                                                                      | No. cases criteria are met | Comment                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------|-----------------------------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Appropriate approval process followed</b>      | 48<br> | 47                         | We covered 43 deals in total across all deal types: freelance, talent on staff and block deal.<br><br>Of those, one deal did not follow the appropriate process as no Deal Referral Form was produced. We did, however, see evidence that the deal was discussed with those required to approve it, although not documented to the same level of detail as the Deal Referral Forms deals.                                        |
| <b>DRF produced</b>                               | 17<br> | 16                         | Of the 48 deals we looked at, 13 were talent on staff and 4 were freelancers receiving standard rate-card fees agreed under a block deal (e.g. Musicians Union rates). Of the remaining 35, all but 16 did not require a Deal Referral Form and were correctly treated.<br><br>One of the 16 deals requiring a deal referral form did not receive one. As documented above.                                                      |
| <b>Remunerations Committee approval evidenced</b> | 5<br>  | 5                          | Of the 13 talent on staff, five received above-standard increases in pay, or were new starters on >£75k. As required by BBC processes, we saw evidence of these cases being authorised by the relevant Remunerations Committee.                                                                                                                                                                                                  |
| <b>Appropriate authorisation received</b>         | 48<br> | 46                         | We checked whether the appropriate authorisation path was followed for the 48 walkthroughs.<br><br>There were two instances where evidence of full authorisation was lacking. For one case, for a talent where the Deal Referral Form was not completed, we saw partial evidence of approval by email. For the other, we were told that approval was received but the BBC could not access the archive of the relevant approver. |

Note: Of the 48 case studies: 31 were freelancers on bespoke deals, four were freelancers paid under block deals (e.g. standard Musicians' Union rates), and 13 were talent on staff

Source: Oliver & Ohlbaum analysis

**The BBC takes a largely informal approach to talent development, which has been effective in producing new talent both for itself and other broadcasters**

## 5 The BBC's approach to developing and nurturing talent

In this Part we consider how the BBC sets out and pursues its objectives around talent development and how this approach might help it to defend against talent fee inflation.

### 5.1 Opportunities and development

To understand the BBC's approach to developing and nurturing talent we reviewed divisional strategy documents, meeting agendas and minutes, and held discussions with BBC staff and external interviewees.

#### 5.1.1 Attracting talent

The BBC's unique draw helps it attract talent, whether new to the industry or established performers. Our discussions with agents identified the BBC's reach and reputation as enabling it to pay below the market rate in many cases. The divisional strategies each refer to talent development and planning; this is an important part of the BBC's overarching strategy, where talent development and succession planning are taken as one means of helping to deliver against divisional objectives and support the BBC's broader diversity targets.

While the BBC has a constant stream of new talent entering its 'talent pipeline', staff identified a risk that some talent are missed. At present, a large volume of correspondence, including footage provided by talent, goes uncatalogued. This means that those not matching a current opportunity may be overlooked. Documenting and sharing details of promising talent across the BBC could ensure that the BBC better utilises the available talent pool and could likely be done cost effectively.

**The BBC's unique reach and breadth of opportunity goes a long way to attracting new talent**

As an organisation that predominantly develops its own talent, the BBC does not tend to go head-to-head with its commercial rivals for established talent; they tend to be attracted to the BBC. We heard that often, talent who leave the BBC earlier in their careers choose to return when given the chance, and others will apply for jobs at the BBC without the need for the BBC to approach them.

#### 5.1.2 Developing talent

Since talent are normally freelance, the talent market does not lend itself well to formal training and, like other broadcasters, the BBC focuses on providing opportunities rather than training. BBC Three, daytime, Network Radio, and BBC North, in particular, play important roles in providing development opportunities. One challenge for the BBC, however, is knowing when to move talent on; keeping them on the nursery slopes for too long can result in them being poached by other broadcasters. Poaching is a problem for the BBC, but ensuring that talent get appropriate opportunities to progress within the organisation can minimise the impact of other broadcasters taking the BBC's talent and keep inflationary pressure of talent fees to a minimum.

**The BBC takes an informal approach to developing talent, creating a risk that opportunities are missed**

Should BBC Three's proposed move online go ahead, the BBC will have to carefully manage the risk that an important natural development ground could produce fewer talent. The BBC told us that in moving online and embracing short form content, BBC Three will be able to give new talent an opportunity at the start of their careers. While viewing figures online are unlikely to be as strong as for BBC Three currently, we understand that BBC Three content will be likely to secure broadcast slots on the BBC's remaining network channels (these will mainly replace repeats and will therefore not reduce other opportunities for talent). The BBC is confident

that these slots will still enable talent to progress from the new BBC Three to BBC One and Two, and to make the leap sooner compared to existing arrangements. These new opportunities need to be balanced against the risk that any reduction in long form content could restrict the overall flow of talent. The BBC will need to carefully manage these trade-offs to ensure that opportunities to develop talent are not diminished, putting succession planning at risk.

The BBC told us it has mechanisms in place at pan-BBC and divisional level to monitor talent development, though it could only provide evidence of divisional level on-going talent development for two divisions. We saw that the Pan-BBC Talent Steering Group provides a forum for discussion of top talent, including how they might be utilised across genres. At a divisional level, we saw evidence that Television and Audio & Music undertake regular talent development work, and the BBC North has a named individual responsible for facilitating development through liaison with talent and agents. However, the BBC could not provide evidence that divisions take a consistent, structured approach to talent development, with individual's potential assessed and opportunities mapped out. Across the BBC, the approach to talent development and planning falls short of that set out in the divisional strategy documents, which commit to regularly categorise all talent. Without clear plans for their talent, there is a risk that divisions do not maximise the potential of those currently on their roster, or lose talent to competitors before the BBC has maximised its value from them.

### 5.1.3 Succession planning

The BBC's overarching strategy prescribed succession plans as an area which all divisional strategies should cover explicitly; they did this by committing to develop succession plans for key talent and by establishing a consistent talent categorisation system (as mentioned in the previous section). The categories were: top tier, rising stars, consistent members of the talent pool, and those who are being used less. Discussion of the categorisations at divisional board meetings would provide a clear view of how emerging talent are likely to succeed established stars.

The BBC's approach to succession planning lacks structure, creating a risk that opportunities are missed

We were told that these listings exist, and are supported by internal discussion and the knowledge of commissioners and channel controllers, but the BBC was not able to demonstrate that the system was in use across the divisions and could provide no evidence of a consistent approach to formal succession plans. Audio & Music and Sport were the only content making areas (out of ten<sup>5</sup>) that could demonstrate categorisation of their talent when the strategy was brought in in 2009, and while the Natural History Unit and BBC Science genres demonstrated that talent had been assessed more recently, there was no evidence of on-going review by any content making area. Without a formal approach to succession planning at all talent levels, there is a risk that development opportunities are missed and the BBC becomes too reliant on its existing stars – resulting in an erosion of its bargaining position.

A structured approach to succession planning is an important way for the BBC to defend against talent cost inflation in the long run. This is particularly important for top talent, and requires the BBC to have a clear plan to ensure that it has a higher refreshment rate than its competitors. This will allow it to replace top talent when their earnings expectations are highest, without damaging the quality of its output. This strategy may include picking up former BBC talent towards the end of their career and offering them the opportunity to make a comeback. The BBC should be planning this on a systematic basis as insurance against likely future talent fee inflation.

## 5.2 Talent mapping

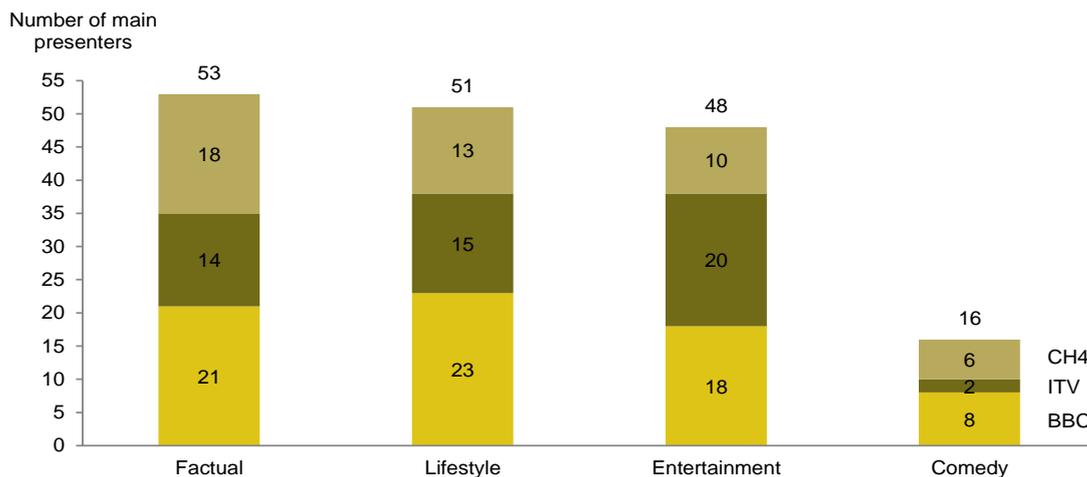
We conducted analysis of talent movements to identify how prolific the BBC is in developing talent and the extent to which the BBC supports other broadcasters by nurturing and developing new stars. Our full methodology is included at Appendix 3.

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<sup>5</sup> The BBC's ten content making areas are: Television, Sport, Children's, 5Live, Radio (Audio & Music), News, English Regions, Scotland, Wales, and Northern Ireland.

Focusing on a sample of four genres: Factual, Lifestyle, Entertainment, and Comedy, we identified the current lead talent for BBC One, BBC Two, ITV and Channel 4. To select only the top talent in each genre, we set a lower limit on the number of output hours they should have contributed to in 2013, this was three hours, for Factual, Lifestyle and Comedy (to capture six part comedies and three or four part factual programmes) and ten hours for Entertainment (since it is typically commissioned in higher volumes). **Figure 17** shows the total number of talent in each broadcaster's current roster, based on our output hours limits.

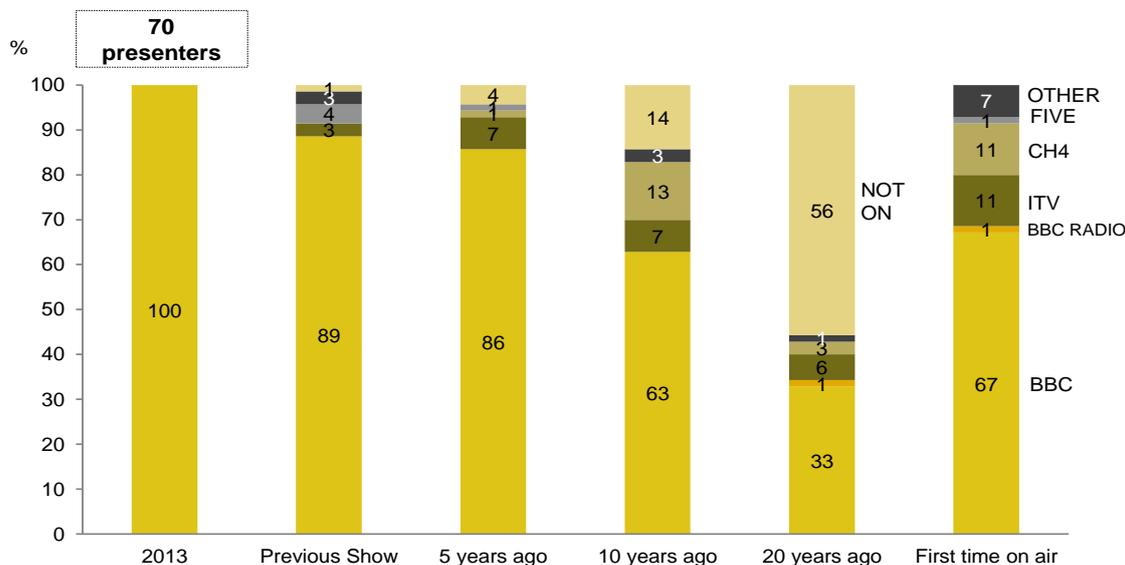
**Figure 17: The number of talent included in our talent mapping exercise**



Source: Oliver & Ohlbaum analysis

We mapped the talent's histories to provide a view of which broadcasters tend to develop and retain their talent and which are more likely to poach from their rivals. **Figure 18** shows that 67 per cent of those in the BBC's current talent roster for these four genres were given their first break at the BBC. Similarly, 89 per cent of the BBC's current roster for these genres has their previous programme at the BBC. And, the same is true of BBC talent five years ago, with a total of 86 per cent (across the four selected genre) working at the BBC. These results demonstrate that the BBC tends to nurture and develop its talent rather than poach individuals from other broadcasters.

**Figure 18: The BBC's talent vintage – factual, lifestyle, entertainment, and comedy**

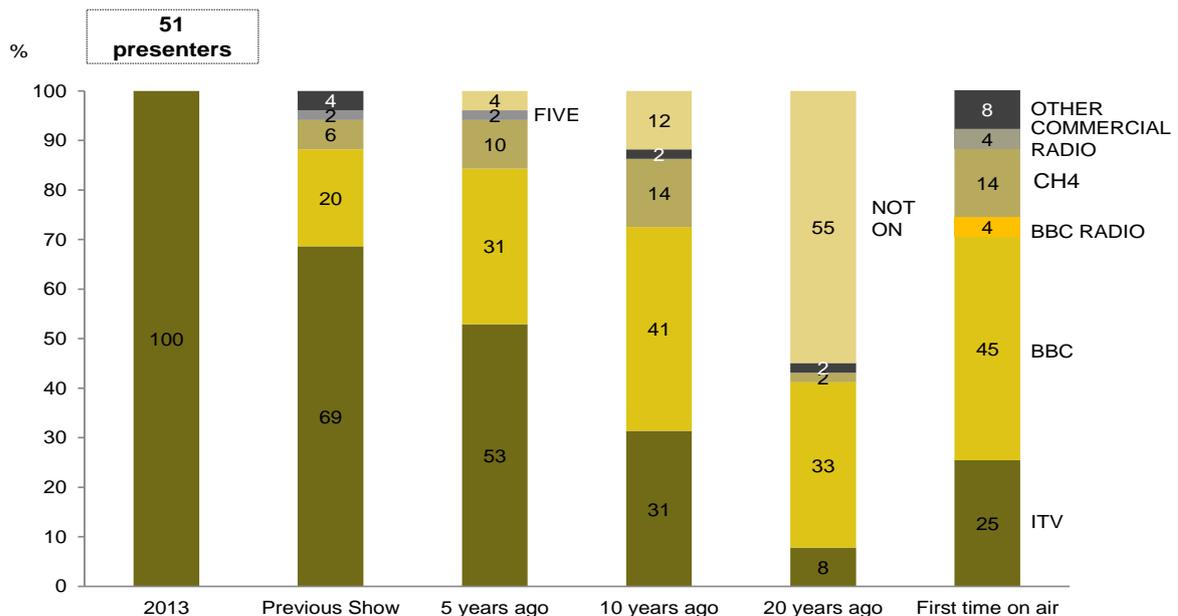


Note: Other includes foreign or other broadcasters

Source: Oliver & Ohlbaum analysis

Considering the equivalent chart for ITV demonstrates that ITV is less inclined than the BBC to retain and develop its talent. **Figure 19** shows that just 69 per cent of ITV's current talent roster for Factual, Lifestyle, Entertainment, and Comedy worked for ITV on their previous programme. Considering this over a longer period, the trend continues, with 53 per cent at ITV five years ago and 31 per cent ten years ago. Of ITV's current roster for these four genres, 25 per cent made their debut on screen for ITV. Almost half of ITV's current roster for these four genres started their careers at the BBC; 45 per cent on television and 4 per cent on BBC radio. This compares to 11 per cent of BBC talent who started their careers at ITV, clearly demonstrating the importance of the BBC in developing talent.

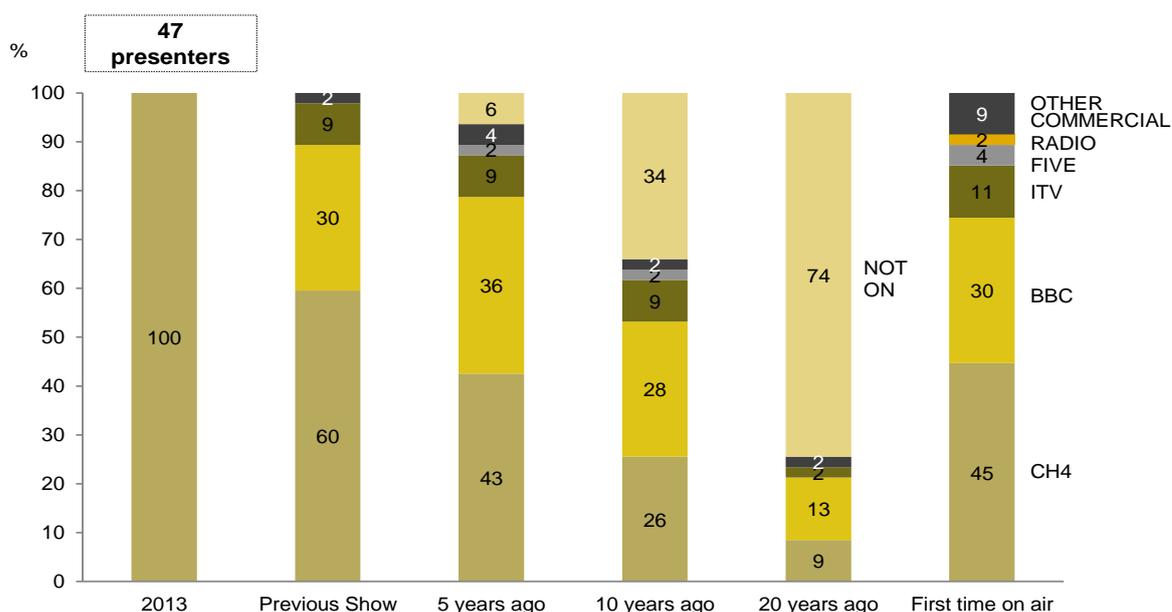
**Figure 19: ITV's talent vintage – factual, lifestyle, entertainment, and comedy**



Note: Other includes foreign or other broadcasters  
 Source: Oliver & Ohlbaum analysis

Taking the same approach with Channel 4 tells the same story; Channel 4 tends to change its talent roster more than the BBC, with a smaller percentage of its own developed talent and a reasonably large proportion coming from the BBC. Considering talent's previous programmes in these four genres shows that 60 per cent were at Channel 4, indicating that 40 per cent of Channel 4's current talent roster (for the four genres) were poached from other broadcasters and, of those, 75 per cent came from the BBC. So, our analysis again shows the importance of the BBC in developing talent for other broadcasters.

Figure 20: Channel 4's talent vintage – factual, lifestyle, entertainment, and comedy



Note: Other includes foreign or other broadcasters  
 Source: Oliver & Ohlbaum analysis

We have seen that the BBC performs very strongly relative to other broadcasters in terms of the development of talent. Of the three main UK broadcasters, the BBC retains its talent for the longest; and provides talent to other broadcasters, or has talent poached, more than any other broadcaster. The BBC's performance here may be expected, given the BBC's scale and unique position as a licence fee funded Public Service broadcaster, and the analysis provides evidence that it is happening.

### 5.3 Perception of the BBC's approach to attracting and developing talent

Our external interviews supported our findings that there is little formal structure around talent development at the BBC. Agents and independent producers we spoke to told us that they see little evidence the BBC has a plan to develop talent and that there is no central focal point to identify opportunities for talent across the BBC. Ensuring that agents and talent feel that they have a voice that can be heard by the BBC is important to retain talent goodwill, particularly since scrutiny of BBC expenses has removed the ability for negotiators to offer minor perks which talent expect from commercial broadcasters. This will be particularly important as talent development and succession planning become an even larger issue for the BBC in a world where talent fee inflation starts to return.

**Its new target for talent spending will provide necessary flexibility to address likely fee inflation, but the importance of development and succession planning should not be overlooked**

## 6 The BBC's new approach to talent management

Following the end of its five year strategy to reduce spending on top talent, and keep overall spending on talent flat in nominal terms on a like for like basis, the BBC has revised its target for talent. The BBC's new target brings greater flexibility by linking talent spending targets to the BBC's total in-house content spending, and thus allows for some increased talent spending. This new strategy must operate in what remains a changing talent market, with a number of long terms challenges for the BBC.

### 6.1 Issues for the future

Given the speed of evolution in broadcasting markets, the BBC will need to adapt over the next five years, and its talent management strategy must give it the flexibility to do so. We believe the key challenges will include:

#### 6.1.1 Top Talent is an increasingly separate market

In fee terms, the BBC is less represented among the highest levels of top tier talent than it was ten or even five years ago. In addition to the basic remuneration, those at the very top of the most talent-led genres can earn significant supplemental income from other activities, and commercial broadcasters typically have less stringent restrictions over what is acceptable. This is a relatively small group at the very top, but as the commissioning market expands, this is likely to continue and increase both in terms of the magnitude of rewards available at the top and the number of people able to command them.

Inflation in the top tier is being driven by increased competition amongst commissioners. As new broadcasters and on demand services such as Netflix have entered the commissioning market, the battle for audiences has intensified, both on traditional and emerging platforms. With the pool of top talent fixed in the short term, and many broadcasters and production companies preferring to use established stars rather than develop new talent, this is likely to lead to fee inflation at the top. Programme makers can rely on top talent to draw an audience and, in an increasingly competitive commissioning market, using top talent is a risk averse approach to delivering strong audience performance.

Increased competition for talent will result in talent fee inflation, particularly in the top tier

The BBC is thus likely to have to rely on intelligent use of developing talent, and continuing its relaxed approach to exclusivity for its top earners, rather than reaching for the biggest names. The BBC has already reacted to this issue, in part, by relaxing its approach to exclusivity. By sharing some big names with other broadcasters the BBC can make significant savings while still making use of top talent. It has also learned to let top talent go, and this will become increasingly important to protect against fee inflation. That means maintaining a refresh rate more frequent than its competitors, and delivering a consistent flow of successors who are actively managed.

#### 6.1.2 Revenue likely to remain under pressure

In contrast to the commercial sector, there is little prospect of pressure on BBC talent spending being relieved. Talent is one area of production where ongoing productivity benefits through technological development are not possible, yet the next licence fee settlement is unlikely to significantly ease the pressure on funding, and will require discipline on talent spending to be maintained. As commercial sector revenues grow, following its full recovery from the recession, the appetite for talent at all tiers is likely to increase, particularly from pay TV services. This growing disparity between what the commercial sector can pay talent and what the BBC can afford to pay will again place increased importance on the BBC's ability to develop talent and have a clear structure in place for succession planning.

### 6.1.3 Five years of flat

For most talent acting or performing is a job, like any other, and while many have a strong relationship with, and affinity for, the BBC, at some point an earnings freeze becomes unsustainable. We heard from agents and independent producers, that this is a growing problem outside of the top tier. The BBC needs to judge when to offer increases to mid and lower tier talent who may otherwise be priced out of the market if continued downward pressure on fees forces them to consider alternatives. Breaking the 'no increases' mentality represents a risk for the BBC; currently talent know that fees are being held flat across the board, and accept that this is the BBC's stance, but as this is relaxed the BBC's negotiating position becomes less clear cut and there is an expectation amongst all talent that they deserve a rise.

## 6.2 The BBC's future target for talent spending

The BBC's new talent strategy was noted by the Trust in April 2014. The strategy shifts the focus of the BBC's talent spending target away from holding overall spending constant in nominal terms, and links future talent spending to the BBC's spending on in-house content. The strategy commits the BBC to keep total talent spending capped at no more than 15 per cent of in-house content spending – with a tolerance of +1 per cent. The target was set with reference to the changing market conditions, and the resulting importance of providing divisions with flexibility to manage talent. There was no evidence that the BBC had assessed the market's future prospects in detail, nor its likely reaction to the BBC's plans, but the target is well reasoned. The BBC will need to monitor market conditions, so that it can adjust its target if appropriate, though its existing understanding is likely to serve it well for the duration of the strategy until the Charter renewal at the end of 2016.

### 6.2.1 Achievability of the target

Taken at face value, the target for talent spending does not appear challenging, since the BBC has not breached the threshold since 2008-09, but taking into account market factors we believe that the target will be harder to achieve and will give the BBC the flexibility it needs while keeping overall talent spending in check. BBC talent spending as a percentage of in-house content spending reduced from 16.7 per cent in 2008-09 to a forecast (at the time of the strategy paper) 14.4 per cent in 2013-14. The BBC held talent spending below the 15 per cent target since 2010-11, when it was 15.3 per cent of total in-house content spending and within the overall tolerance since 2008-09 when it was 16.7 per cent of in-house content spending. Fee inflation is likely to require the BBC to increase payments in some cases, both to retain its most important talent, and to acknowledge the impact of five years of flat pay on lower tier talent. This target gives the BBC flexibility to live within the changing talent landscape, with ultimate control over talent spending still exerted by the level of in-house content budgets.

The BBC's strategy to invest more heavily in genres such as drama, either to produce more or better output will also help increase income from distributors such as BBC Worldwide, and thus the amount paid back to licence fee payers. With a spending target linked to in-house Public Service content spending, as the BBC spends more on output it can also spend more on talent. This gives it greater flexibility in approaching its broader commercial objectives.

### 6.2.2 Suitability of a cap relating to content spending

Setting a target for in-house talent spending that is linked to in-house content spending removes some of the difficulty in dissecting the drivers of performance. In assessing the BBC's performance against its previous target, we found that we were not able to distinguish between savings driven by a reduction in in-house production of some genres and savings driven by increased efficiency. The new target allows the BBC to easily demonstrate the latter since the maximum expenditure on in-house talent varies with spending on in-house production.

The BBC told us that the divisions are still in the process of producing their new talent strategies, so we have not seen whether the 15 per cent target differs by division. Setting differentiated targets would be one way of addressing the fact that the expected cost of talent relative

**The new target gives the BBC more flexibility to operate within an increasingly competitive talent market**

to programme budgets varies by division and genre, and could control to the impact of genre mix changes on talent spending.

### 6.2.3 The BBC's processes for managing talent

Overseen by a refreshed Pan-BBC Talent Steering Group, the processes underpinning the BBC's new target for talent spending have not changed from the systems we reviewed. The Deal Referral process will remain the key system for controlling talent spending and the governance arrangements will remain as set out in Appendix 9. Monitoring against talent spending targets will take place at divisional and pan-BBC level, with the Pan-BBC Steering Group responsible for ensuring that the overarching target is delivered, by adjusting targets between the divisions if necessary.

The strategy acknowledges that the BBC will need increased flexibility in negotiating with talent, potentially offering a greater share of back end rewards, and to consider fee increases while managing inflation across the BBC as a whole. The BBC is seeking to maximise the commercial value of talent, to strengthen the BBC brand and deliver rewards for both the BBC and talent themselves, and these objectives can be achieved within the new target.

The new strategy commits the divisions to take steps to promote the development of talent, including documenting how they intend to spot, attract, develop, and retain talent. In support of this, the divisions must also identify opportunities to develop talent across the breadth of programming output and platforms. Doing so should help the BBC to accept that talent can be lost to other broadcasters, with the option to welcome them back later in their careers.

## 6.3 The BBC's new approach to diversity

In June 2014, Tony Hall announced the BBC's new action plan for diversity, which included specific talent targets for Black, Asian and Minority Ethnic, and disability portrayal. The BBC set a target to increase on-air BAME portrayal from 10.4 per cent to 15 per cent by 2017, with specific regional targets for London, Birmingham, Manchester and Leicester. The BBC also set a target to quadruple on-air representation of disabled people by 2017, rising from 1.2 per cent in July 2014 to 5 per cent. The BBC's targets for diversity will continue to be set out in the divisional Diversity Action Plans, which are refreshed on an annual basis.

The BBC told us it is developing a new system for monitoring and reporting on-screen diversity. The system is being developed in conjunction with other UK broadcasters and, while the exact specification is not yet finalised, it represents an important step in facilitating systematic monitoring and reporting of comparable on-screen diversity information. The BBC will be use it to compare performance across broadcasters and independent producers at channel and genre level, and provide a timely view of gaps in portrayal, to inform commissioning decisions. Like the existing portrayal form system, it will capture perceived diversity of those on-screen, covering gender, disability, ethnicity, sexual orientation, and age; on-screen prominence will also be captured based on role.

There is, however, a risk that gaps in the understanding of diversity remain. The BBC told us that the new pan-industry system is likely to again exclude radio; perceived diversity is difficult to capture for radio, but this area should not be overlooked. There is also a risk that monitoring continues to offer insufficient breadth and depth. We understand there are no plans to include monitoring relating to nations representation, faith, or socioeconomic group. There is also a disconnect between talent diversity and pay; linking the two is an important step so the BBC can ensure different groups are appropriately represented in each pay band.

The BBC's new monitoring system will provide divisions with more timely information on diversity...

...but there is a risk that important elements are overlooked and it remains impossible to link diversity and pay

## 6.4 The importance of the BBC's new approach to developing and nurturing talent

Under the new talent strategy, the BBC's approach to developing and nurturing talent is broadly in line with the current system, though divisions are taking a renewed look at how they can enhance the BBC's reputation as a place where talent want to work. Since the divisional strategies are still being produced, we have not seen how this translates into actions, or how talent identification and development might be monitored, but this will be of great importance. We have seen that the BBC's current approach to developing talent is successful, compared to other broadcasters, but it is largely informal and could benefit from greater structure – particularly with regard to succession planning.

To defend against talent fee inflation, the BBC needs to consistently produce new talent. This means refreshing its top stars more frequently than other broadcasters by maintaining a clear view of who is likely to replace existing expensive talent, and when. Divisions do not tend to categorise their talent or take a structured approach to development and succession planning; in future they will need a clear link between existing talent and the development of their successors. In some genres, a "successor" is not always meaningful because the programme relies on the existing talent, but this need not be a barrier for negotiators maintaining a clear view of who the upcoming talent are who will fill comparable roles in the future.

The BBC will need a more structured approach to development and succession planning to protect against talent fee inflation

The planned changes to BBC Three are likely to create challenges, as well as opportunities, in producing new talent. BBC Three is one of the most important nursery slopes for television talent, and the move online could disrupt the existing flow of new talent development. The change is not without merit, since moving online and embracing short form content will open the BBC up to talent earlier in their development; the proposal may also bring talent on to BBC One and Two sooner than under existing arrangements. However, the move online may result in fewer opportunities in long form content; understanding the impact of these changes on the overall development of talent will therefore be crucial, and adds to the importance of a structured and measurable approach to development and succession planning.

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