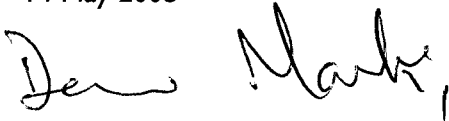


From The Chairman

Mr Mark Thompson  
Director-General  
BBC  
201 Wood Lane  
London  
W12 7TS

14 May 2008



This note is to confirm our recent conversation in which we discussed the outcome of the [bbc.co.uk](http://bbc.co.uk) service review and the need for tighter management controls of the service. As you know, we see this as a matter of such importance that we are making our approval of the new system of controls a precondition for any new investment approvals. I'm grateful to you for taking personal responsibility for making sure that effective controls are put in place, particularly given Ashley's departure as Director of FM&T and the recruitment process that is now underway.

While the detail of the operational arrangements is clearly a matter for you and your colleagues to decide, I thought it would be useful to set out some high level expectations that Trust will wish to see fulfilled. These are as follows:

1. As you know, the review has established that real spending on [bbc.co.uk](http://bbc.co.uk) is substantially in excess of the stated service licence baseline budget. It's therefore essential that there is effective central oversight of spending across all divisions against the [bbc.co.uk](http://bbc.co.uk) service licence budget. This operational oversight will need to be in conjunction with the role of Central Finance and we will need assurance that effective guidance and principles for cost allocations are put in place and that reliable data is both collected and reported on. We therefore think it important that KPMG are invited to review these arrangements.
2. During the review we found it very difficult to get any clear understanding of the service's planned strategic direction. This was in large part because plans were presented to us in a fragmented fashion, although we believe that this is likely to be more than an issue of presentation. This is of concern to external stakeholders as well as the Trust. We believe that a clearer and more transparent sense of strategic direction will be of help in both allaying competitor concerns and ensuring that the Trust fulfils its governance role effectively by not becoming too involved in operational detail because of a lack of clarity.

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3. We also expect there to be stronger editorial direction to the BBC's online activities. Our report will show that while the service delivers great public value we believe that even more could be unlocked by improved editorial co-ordination and horizontal linking and navigation.

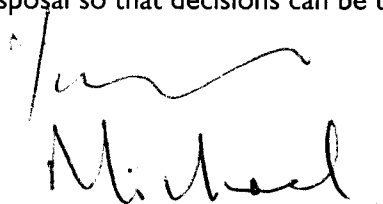
Given the fast-moving and often commercially sensitive markets in which *bbc.co.uk* often operates, we will also need assurance that the service is maximising public value without creating undue negative market impact. For this reason we believe it vital that your new control arrangements include a rigorous system of assessment of content and services that takes into account the following factors both prospectively (in the case of new propositions) and retrospectively (in the case of existing offerings):

- Public value
- Distinctiveness
- Potential market impact

We believe that such a system, based on effective financial, strategic and editorial controls with clear lines of management responsibility and the referral of issues of significance to the Trust, is the best way of allowing the service the flexibility to change and innovate on the one hand while taking into account competitive impact issues on the other. When we spoke I made it clear that the Trust will need to be assured that there is a key individual within the service who has the relevant skills to be responsible for the new system and who can be held fully accountable for it.

All this will of course be set out in more detail in our report and has already been subject to some discussions between various members of the review team and the Trust Unit. However, as I know that you are understandably anxious to seek approval of the new investment plans at the earliest opportunity, I thought it best to outline our expectations before the report's publication. I would suggest therefore that you urge those charged with developing the details of the new control arrangements to share them with the Trust Unit at the earliest opportunity so that we can move to Trust approval as swiftly as possible.

As I explained when we spoke, the scale of the proposed new investment in *bbc.co.uk* is such that we feel that, at the same time as you are developing plans for improved controls, we should consider your investment plans in more detail. The Trust Unit has already outlined what is required here to the review team and will work with them to ensure that the Trust has all the necessary information at its disposal so that decisions can be taken at the earliest opportunity.



Sir Michael Lyons  
Chairman, BBC Trust