

BBC Full Financial
Statements 2012/13



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PRESENTED TO PARLIAMENT BY THE SECRETARY
OF STATE FOR CULTURE, MEDIA AND SPORT BY
COMMAND OF HER MAJESTY
JULY 2013

The BBC's Annual Report and Accounts 2012/13, giving narrative context to the numbers contained in this document, were also laid before Parliament on 16 July 2013 and are available online at bbc.co.uk/annualreport

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CHIEF FINANCIAL OFFICER'S REVIEW



"After a year of getting the balance right between current editorial and operational priorities and preparing for imminent financial challenges, the BBC is well positioned to face the future."

Zarin Patel

Striking a financial balance

This is a year when the BBC has struck a balance between putting in place the financial resources and the infrastructure to deliver our major broadcasting and operational priorities and challenges – many of them truly transformative – whilst also being careful to ensure funding plans are in place for our future financial obligations and other pressures. In 2013/14, £278million of new obligations will need to be funded, and in 2014/15, licence fee funding of some £245million is expected to be required to run the BBC World Service.

Delivering our immediate editorial and operational priorities

This has been a year of some major BBC milestones:

- we successfully moved into New Broadcasting House – under-budget – and started to deliver the synergies and other efficiencies from bringing together so many BBC colleagues
- both the operational and financial benefits of our move into MediaCityUK in Salford are now being realised
- Television Centre was sold at a profit of £78million
- digital switchover was completed – over £400million under-budget over the full life of the scheme, most of which has already been paid over to DCMS
- the BBC's efficiency programme, the Continuous Improvement Programme, was successfully delivered, to achieve efficiency savings of 3.7% per annum versus a target of 3.0%. This has provided perpetual annual savings of £580million which we have reinvested in our content and essential infrastructure
- early *Delivering Quality First* savings were also identified to put cash aside to ease the pressure of future savings targets

The third series of sitcom *Miranda* proved popular with audiences



- the ground-breaking coverage of the London 2012 Olympics was broadcast to great acclaim, fulfilling the BBC's commitment to 'Never Miss a Moment' of the games through its innovative digital offering and 24 dedicated channels. Coverage of the Games and surrounding programming and events cost £66million, before rights costs
- some of our spending has been deferred to ensure it delivers maximum audience impact in later years and to avoid a step down in quality post 2012

A year of resolving some major challenges

This year, we reviewed our plans to develop new digital production tools under our Digital Media Initiative (DMI). Having reviewed our progress to date, we decided to close the project in its current form. As much of the software and hardware would only have a value if the project was completed, we are booking a charge of £52million this year. This will bring the total cost of the project to £98.4million.

It is not acceptable to waste licence fee payers' money in this manner. There were clearly mistakes made in the management of this project, and there will now be a full review, led by PwC initially, to identify and learn the lessons to ensure there is no repetition and that future technology projects are better controlled.

The BBC employs a large number of freelancers to deliver the best programmes for our audiences, but we must do so on the right basis. We are pleased that we can demonstrate a high standard of compliance and no evidence of tax avoidance in this area. However, as a public body, the BBC has committed to go further. Therefore, we are working with HMRC to develop a new employment test for our on-air talent, and are reviewing our contractual arrangements with both our on-air talent and off-air production workers, which is expected to result in some changes to contractual arrangements when current contracts expire.

Breakdown of UK PSB Group expenditure 2012/13

	2012/13 £m	%	2011/12 £m	%
Service licences – direct content spend	2,443	64	2,356	61
Other direct content spend	87	2	90	2
Property and technology	357	9	315	8
Distribution	222	6	208	6
Support costs	318	9	304	8
Licence fee collection costs	111	3	126	3
Digital switchover	57	1	131	3
Costs to fund other income	232	6	212	6
Lease cost reclassified	(82)	(2)	(82)	(2)
Restructuring costs	23	1	101	3
Pension deficit payments	49	1	89	2
Total	3,817	100	3,850	100

The trust of the viewing and listening public is at the heart of everything that the BBC does. That is why, in response to the revelations about Jimmy Savile, we commissioned and resourced three reviews so as to ensure that we do not let down licence fee payers again. We have also, in accordance with accounting rules, made appropriate provision for future compensation claims.

Future challenges

We start 2013/14 in a strong place, with enough cash to be able to afford our new obligations, without having to compromise on the quality and range of our output. However, successful delivery of the full £700million of DQF savings will be essential to ensure their funding on a continuing basis. It will also be necessary for the further development of our essential infrastructure, in order to ensure we can continue to deliver successfully and sustainably to licence fee payers.

75p in every £1 (up from 71p) spent directly on content and the property and technology essential for their production...



75p
2011/12: 71p

... and 6p spent on distribution
Total expenditure reduces as digital switchover initiative ends



6p
2011/12: 6p

Cost of licence fee collection falls 11% to 2.9p

3.4p ► 2.9p

HOW WE USE THE LICENCE FEE

The unique financial challenges for the BBC

The way in which the BBC is funded places significant financial responsibilities on the BBC as an organisation. Specifically, it has to:

- maximise licence fee income through its efficient and effective collection
- maximise funding from other sources, most significantly BBC Worldwide, the BBC's commercial trading operation, in a manner consistent with the terms of its Charter and other obligations
- provide value for money by focusing expenditure on the programmes and services the public most wants from the BBC
- ensure that our output is then delivered as cost-efficiently as possible

Our results this year show how we have successfully managed these financial challenges and made sound preparations for the future. This is reflected in our Income Statement for the year. Our group surplus for the year was £328million (2011/12: £389million) although the result is inflated this year by profit of £78million on the sale of Television Centre, and was last year by a £95million profit on the sale of Worldwide's Magazines business as well as £45million of exceptional pension income.

Income

Licence fee income increased by £50million this year to £3,656million. Included within licence fee collected is a sum to fund the digital switchover ('DSO') initiative. As savings against this funding are paid over to the Government by the BBC, they are extracted from our income. There was less activity originally scheduled for this year than last year, so the saving was smaller at £50million (2011/12: £92million) which has resulted in the net licence fee income being higher this year.

	2012/13 £m	2011/12 £m
Licence fee collected	3,706	3,698
DSO savings	(50)	(92)
Net licence fee	3,656	3,606

Summary Consolidated Income Statement

For the year ended 31 March 2013

	2013 £m	2012 £m	
Licence fee income	3,656	3,606	Reduced Digital Switchover funding and activity
The total of licence fees collected			
Other income and revenue	1,446	1,480	Sales growth in Global News and in World Service Grant-in-Aid offset by loss of income from sold Magazine business
Commercial (mainly BBC Worldwide) income and Grant-in-Aid for World Service			
Total income	5,102	5,086	
Operating costs	(4,801)	(4,750)	Increases to reflect additional cost of Olympics and technology investment
The cost of producing all content and of running the BBC			
Exceptional pension income	–	45	Finalised benefit from pension reform
One-off significant item			
Exceptional impairment of tangible and intangible assets	(52)	–	The in-year write-off of DMI assets
One-off significant item			
Restructuring costs	(43)	(103)	Relate primarily to Delivering Quality First initiatives
Sums provided to fund future efficiency initiatives			
Total operating costs	(4,896)	(4,808)	
Share of results of associates and joint ventures	23	21	
Our share of the profit of the businesses where we control less than 50%			
Gain on sale of operations and disposal of fixed assets	111	100	Profit results principally from the sale of Television Centre and Lonely Planet this year, and from BBC Worldwide's Magazines business last year
Profit on asset disposals			
Tax and net financing income	(12)	(10)	
The net tax liability of the BBC on its taxable profits and the net interest on the BBC's pension assets and liabilities			
Group surplus for the year	328	389	

Licence fee collection

Despite pressure on household budgets, evasion rates are unchanged. There was a small increase in the total licence fee collected of £8million. As household budgets come under pressure, we are starting to see an increase in licence fee evasion rates over their prior year level. However, this has been more than offset by a reduction in our collection costs, so that the combined total has reduced in the year.

Effective financial management is a key part of the BBC's unique relationship with its audiences. This includes spending the licence fee efficiently, ensuring people get delight and enjoyment from the BBC, and collecting a television licence fee from everyone who is required to buy one.

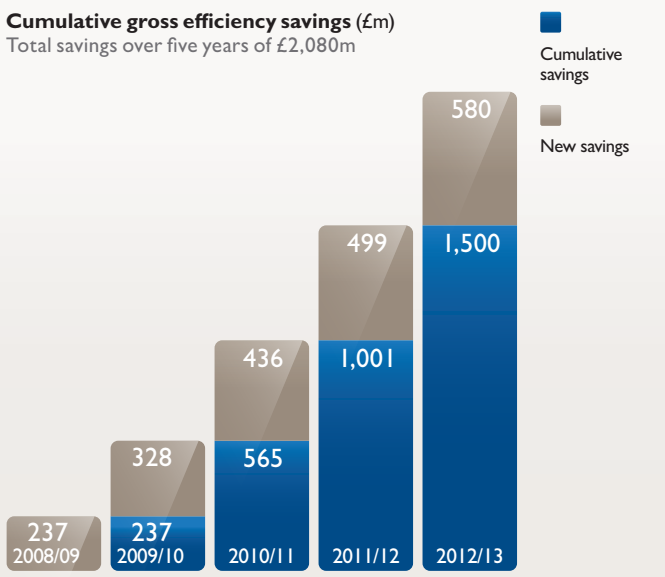
Our new collection contract with Capita started in July 2012 and has already started to deliver savings against the cost of the previous contract. Collection costs were £111million this year, down from £126million last year, and total cost savings of £220million are expected to be delivered over eight years, releasing funding to be spent on our programmes and services. The new contract also contains increased incentives on Capita to reduce evasion and help mitigate the lower increases in the licensable population that we are currently experiencing. Capita have also begun to deliver improvements to our collection processes which will help customers to find the right method of payment for them.

Licence fee statement

This is the third year in which we have prepared a licence fee revenue statement. This account sets out the amounts we collected in the year and paid over to HM Government. The National Audit Office (NAO) audits the statement. Alongside their audit work, the NAO examines our collection arrangements and reports on them to Parliament. More on the licence fee revenue statement can be found on our website bbc.co.uk/aboutthebbc

Cumulative gross efficiency savings (£m)

Total savings over five years of £2,080m



Sir David Attenborough's *Africa* had a reach of 25 million



Commercial trading

The licence fee is supplemented by income from the commercial exploitation of licence fee funded content and infrastructure through three commercial subsidiaries – BBC Worldwide, BBC Global News Ltd and BBC Studios & Post Production (S&PP).

Commercial performance

	Headline sales		Headline result	
	2012/13 £m	2011/12 £m	2012/13 £m	2011/12 £m
UK PSB Group*	277.1	271.9	n/a	n/a
BBC Worldwide	1,115.8	1,085.0	156.3	154.8
BBC Global News Ltd	91.7	71.0	(0.8)	4.2
S&PP	37.6	52.2	(1.1)	5.0

* UK PSB Group commercial income above includes an element of trading within the BBC. Headlines for the relevant entity include its share of its joint-venture sales and headline result is profit or loss before exceptional items.

BBC Worldwide

BBC Worldwide exists to support the BBC public service mission and to maximise income to the group on its behalf. It returned £156million to the BBC in 2012/13 (compared to £216million in 2011/12) principally through programme and other rights investment and in dividends. The 2011/12 figure reflects increased returns following the disposal of the magazines business. As always, returns from BBC Worldwide to the BBC reflect the need to balance short-term cash returns and investment in long-term growth to protect future benefits to licence fee payers.

Following an overall review of the BBC's commercial activities, BBC Worldwide is undertaking a review of its strategy. The overall commercial strategic focus will be on BBC brands and the promotion of the best of the corporation's output globally. During the year, BBC Worldwide reconfigured its business from divisional to geographical lines of management, moving its profit and loss ownership nearer to its customers. This increased focus on international markets will enable it to capture future growth opportunities around the world.

While its financial contribution supplements the licence fee, BBC Worldwide's business activities raise the profile of the BBC brand internationally, and provide a showcase for British talent. To deliver this, closer working relationships are being developed between our public-service body and our commercial operations. BBC Worldwide is investing in the BBC's brands and high quality British intellectual property for exploitation around the world through a range of activities. These include its own linear channels, branded digital products and services, licensing to third parties, DVD and Download To Own (DTO), local production and consumer products.

In 2012/13, BBC Worldwide delivered a solid performance in the face of incredibly tough trading conditions. Key growth drivers were:

- strong TV sales across all key markets, particularly in France and Germany, and in the UK which included the first full-year impact of new Video On Demand (VOD) services
- growth in BBC Worldwide's branded channel portfolio, particularly higher advertising and affiliate sales for BBC America
- new shows from BBC Worldwide Productions in Los Angeles drove revenue growth, as did the increase in format sales for series like *The Great Bake Off*

This was combined with a focus on delivering cost savings and optimising returns from assets across the business.

In pursuit of BBC Worldwide's strategy to focus on BBC brands and promote the best of our output globally, our shareholding in Lonely Planet was sold to US-based media company NC2 Media, in March 2013. In total, we will receive AU\$75million (£51million) for 100% of the business. AU\$60million (£41million) was paid on completion, and the balance of AU\$15million (£10million), will be paid in 2013/14. During our period of ownership, we recorded unrealised foreign exchange gains of £48million from retranslating Lonely Planet's assets into sterling. As a result of the disposal, these gains became realised and have been reclassified to the income statement. The resulting gain on disposal of £15million reflects this. Despite this accounting gain on disposal, we have made a net cash loss on our investment of £80million.

Lonely Planet was acquired in 2007 when both our strategy and market conditions were quite different. Since then, Lonely Planet has increased its presence in digital, magazine publishing and emerging markets whilst also growing its global market share, despite difficult economic conditions. However, we came to the conclusion that it did not fit with our wider plans to put BBC brands at the heart of our business, and therefore decided to sell the company.

Returns to the BBC rose by 9% this year, after excluding the one-off proceeds from the sale of Magazines in 2011/12. Direct investment into BBC-commissioned programming was slightly lower at £74million (2011/12: £78million) reflecting the normal fluctuations in production cycles. Key titles this year included landmark natural history series *Africa*, which benefited from co-production deals brokered by BBC Worldwide with China's CCTV9, Discovery Channel and France Télévisions. BBC Worldwide continued to invest in BBC brands such as *Strictly Come Dancing*, and the international format, *Dancing with the Stars*, has now sold 46 local versions.

BBC Worldwide also continued to support the UK creative sector, working with 40 independent production companies on a range of development, output and first-look deals. In 2012/13, the business delivered over 130 hours of independent production companies' programming and returned £91million to independent rightsholders through up-front rights investment, profit shares and royalties.

BBC Global News Ltd

During 2012/13, BBC World News and bbc.com were brought under one holding company – BBC Global News Ltd – to oversee the operation of our two commercially funded international news services and to reinvest in the BBC's international journalism by pursuing new television and digital business opportunities. In January 2013, the BBC World News channel was re-launched with additional investment of £4million so that their journalists now sit at the heart of one of the world's largest multimedia, multilingual newsrooms in Broadcasting House. Working alongside BBC World Service, they bring the world's most trusted journalism to a global weekly audience of 256 million people. BBC World News is available in over 360 million households, up 30 million on last year, while 58 million people use bbc.com each month on PCs, tablets and mobile devices. As a result of planned investments such as the newsroom move and increased programme spend, the business returned an operating loss of £0.8million in 2012/13 (2011/12 profit of £4.2million).

Studios & Post Production

A challenging studio production market heavily impacted by the Olympics, the decommissioning of Television Centre, and the first full year since BBC Sports and BBC Children's move to Salford, have all combined to mean BBC Studios & Post Production delivered £38million of sales (2011/12: £52million) and an operating loss of £1million (2101/12: £5million profit) before exceptional items.

BBC Studios & Post Production has successfully delivered a range of creative projects for media companies and other clients during the year, including working on *Strictly Come Dancing*, *Mrs Brown's Boys*, *A League Of Their Own*, World War 1 footage for Imperial War Museums London, David Attenborough's *Trials of Life* and *Life on Earth*, *EastEnders*, *Holby City* and *Deal or No Deal*.

Following the sale of Television Centre and under a new leadership team, the company has restructured and moved its operations to three new sites. BBC Studios & Post Production is now operating successfully from a new studio in Elstree, an efficient digital media facility in South Ruislip, and a new post production house on central London's Charlotte Street. The business is now bedding into these facilities and the sales pipeline is encouraging.

The *Great Bake Off* format has been sold around the world



Character Billy Mitchell, played by Perry Fenwick, carried the Olympic torch in *EastEnders*



Strictly Come Dancing professional dancers



FINANCIAL OVERVIEW

Expenditure

UK Public Service Broadcasting (UK PSB) group expenditure

2013 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	2013 Total £m	2012 Total £m
BBC One	1,129.2	52.9	281.1	–	1,463.2	1,337.6
BBC Two	404.8	31.7	106.6	–	543.1	537.1
BBC Three	89.7	4.6	27.4	–	121.7	112.9
BBC Four	50.0	4.2	16.0	–	70.2	67.8
CBBC	81.6	4.0	23.1	–	108.7	107.3
CBeebies	28.9	4.5	9.6	–	43.0	42.4
BBC HD	–	–	–	–	–	17.8
BBC ALBA	4.9	1.5	1.4	–	7.8	8.0
BBC News Channel*	45.2	7.5	8.8	–	61.5	57.5
BBC Parliament	1.9	7.2	1.4	–	10.5	9.3
BBC Red Button	15.6	22.3	3.9	–	41.8	37.2
Television	1,851.8	140.4	479.3	–	2,471.5	2,334.9
BBC Radio 1	40.7	5.4	8.1	–	54.2	50.6
BBC Radio 2	47.8	5.3	9.0	–	62.1	60.5
BBC Radio 3	38.3	5.3	10.7	–	54.3	52.5
BBC Radio 4	91.1	9.8	21.2	–	122.1	115.9
BBC Radio 5 live	55.0	6.8	14.2	–	76.0	69.3
BBC Radio 5 live sports extra	2.7	1.4	1.5	–	5.6	5.3
BBC 1Xtra	7.5	1.5	2.8	–	11.8	11.1
BBC 6 Music	7.4	1.5	2.6	–	11.5	11.7
BBC 4 extra	4.0	1.5	1.7	–	7.2	8.2
BBC Asian Network	8.3	1.7	3.0	–	13.0	13.0
BBC Local Radio	114.7	9.9	27.9	–	152.5	146.5
BBC Radio Scotland	23.2	3.2	6.3	–	32.7	32.1
BBC Radio nan Gàidhael	3.8	1.4	1.1	–	6.3	6.0
BBC Radio Wales	13.9	1.2	3.7	–	18.8	17.7
BBC Radio Cymru	12.5	1.6	3.5	–	17.6	15.9
BBC Radio Ulster/BBC Radio Foyle	17.0	2.1	4.7	–	23.8	23.8
Radio	487.9	59.6	122.0	–	669.5	640.1
BBC Online†	103.0	21.8	51.8	–	176.6	186.8
Spend regulated by service licence	2,442.7	221.8	653.1	–	3,317.6	3,161.8

* Included within BBC News channel are production costs of £27.2million, news-gathering costs of £17.8million and other costs of £0.2million (2012: production costs of £26.1million, news-gathering costs of £16.1million and other costs of £0.2million).

† BBC Online spend is monitored by annexe (relating to editorial areas of the service). Non-annexe spend covers costs relating to central editorial activities such as the BBC Homepage, technologies which operate across the service, and overheads. The spend for each was: News, Sport and Weather £43.8million (2012: £47.7million); Childrens £8.5million (2012: £9.5million); Knowledge and Learning £18.7million (2012: £21.5million); TV and iPlayer £12.2million (2012: £15.3million), Audio and Music £13.3million (2012: £15.3million), giving a total annexe spend of £96.5million (2012: £109.3million). Non-annexe spend was £6.5million (2012: £6.0million).

Total public service broadcasting group expenditure continued

	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	2013 Total £m	2012 Total £m
Spend regulated by service licence	2,442.7	221.8	653.1	–	3,317.6	3,161.8
Licence fee collection costs	–	–	–	111.1	111.1	126.1
Orchestras and performing groups	23.4	–	5.8	–	29.2	29.0
S4C	23.6	–	6.4	–	30.0	29.2
Development spend	40.4	–	10.1	–	50.5	52.5
UK PSB group pension deficit reduction payment	–	–	–	48.6	48.6	89.1
Costs incurred to generate intra-group income	–	–	–	164.8	164.8	156.8
Costs incurred to generate third-party income	–	–	–	67.4	67.4	55.9
Other content-related spend	87.4	–	22.3	391.9	501.6	538.6
Restructuring costs	–	–	–	23.1	23.1	100.6
Total UK public services content expenditure	2,530.1	221.8	675.4	415.0	3,842.3	3,801.0
Digital switchover (Digital UK Limited)	–	–	–	12.5	12.5	40.8
Digital switchover (DSHS Limited)	–	–	–	44.4	44.4	89.7
Total UK PSB group expenditure	2,530.1	221.8	675.4	471.9	3,899.2	3,931.5
Lease reclassification [‡]	–	–	–	(81.9)	(81.9)	(81.7)
UK PSB group expenditure	2,530.1	221.8	675.4	390.0	3,817.3	3,849.8

[‡] In order to reflect the full cost of UK PSB group expenditure by service, finance lease interest is included, although it is not included in the group operating expenditure.

Infrastructure and support costs are made up of:

	2013 £m	2012 £m
Property	181.6	186.9
HR and training	45.4	46.2
Policy and strategy	12.0	12.3
Finance and operations	67.7	56.8
Marketing, audiences and communication	68.7	72.0
Total central costs	375.4	374.2
Technology*	175.1	128.0
Libraries, learning support and community events	33.6	36.1
Divisional running costs	64.5	63.7
BBC Trust Unit (excluding restructuring)	11.9	11.9
Other	14.9	4.5
Total infrastructure support costs	675.4	618.4

*Includes the £51.7million impairment of DMI.

FINANCIAL OVERVIEW

Focusing spend

The BBC concentrates its expenditure on the production of programmes and other content and its delivery to audiences and users, and the essential infrastructure to support this. Total content spend increased by 3.4% in 2012/13 to £2,530million (2010/11: £2,446million), largely due to additional investment in our coverage of the London Olympics.

No service licences spent above the regulated baseline budget threshold during 2012/13, and two services underspent by more than 10%. Both BBC Parliament and BBC Asian Network were able to deliver additional efficiency savings without compromise to their editorial performance.

The BBC's continuing expenditure on its technology and property infrastructure was inflated this year by the write-down of DM1. Underlying costs were lower than last year at £305million (2011/12: £315million). This level of investment is essential to enable the new ways of working required to deliver both enhanced content and the financial efficiency savings of 20% required to fund the BBC's DQF strategy. The production and delivery of multi-channel Olympic content was only possible due to the new technical infrastructure in MediaCityUK and the greater collaboration across Sport and Future Media teams enabled by this facility.

The continuing delivery of efficiency savings and the completion of key projects led to headcount reductions in both our licence fee funded operations and in our commercial subsidiaries. Salaries and wages paid to staff were unchanged this year at £999million. In the UK PSB group, staff numbers reduced by 324 (1.9%) to 16,534 and there was a £93million reduction in pay-bill (mainly due to lower restructuring costs and pension contributions).

The BBC has also commissioned a comprehensive review of our contractual arrangements with our on-air talent and off-air production workers which is expected to result in a number of these individuals being offered employment contracts in the future when their current contracts expire.

World Service funding

The priorities for World Service in 2012/13 were the developing of new television programming and the delivery of the 2012/13 savings targets set by the Foreign & Commonwealth Office in the latest Comprehensive Spending Review. World Service also moved its London office into New Broadcasting House to be co-located with the wider BBC News teams and to mobilise the delivery of operational synergies and other savings.

Its operating cost was £284million in 2012/13 (2011/12: £252million) although this is stated after exceptional costs of £6million for restructuring this year and after £13million of costs for the decommissioning of transmission infrastructure as well as some related asset write-downs.

Efficiency

In 2008/09, the five-year Continuous Improvement (CI) programme commenced as an integral part of the Delivering Creative Future strategy to release the funding necessary to make the BBC fully fit for purpose for the digital age. It set an annual efficiency savings target of 3.0%. We can now confirm that the BBC has delivered savings of 3.7% over the five-year period, not only delivering the funding necessary, but enabling the BBC to go further for its audiences and to have the financial stability to continue to do so over the next few years.

In 2012/13, we delivered another £580million worth of savings, bringing the cumulative total achieved over the life of the programme to £2,080million. This has all been delivered without compromising the quality of our output and whilst delivering record audience appreciation figures.

There has been particular focus on rationalising and modernising our operating estate over the programme, bringing new operating environments into operation in London and Salford, disposing of Television Centre at a significant profit, and vacating our White City building ready for its marketing.

Our annual savings achievement is reviewed by our auditors, KPMG LLP. It was also examined by the NAO last year and their report, issued in November 2011, commended the programme and the way it was being managed. The NAO also made useful recommendations on identifying cross-divisional initiatives and for further improvements to performance tracking. We are applying these findings to the design of Delivering Quality First (DQF).

In addition to the CI savings, savings have been delivered this year under our DQF programme, with a number of initiatives that will continue to realise year-on-year savings through the DQF period. These include significant savings delivered from the exit of Television Centre, a new licence fee collection contract, Formula 1 sports rights negotiations, WI and Access Services. Our confidence is high in the delivery of our savings target for the next two years.

These savings are essential to generate the cash required to continue to develop the BBC's content and distribution, and thus ensure we are able to continue to provide licence fee payers with the quality and the range of services they are entitled to expect from the BBC into the foreseeable future.

Balance sheet

The group has provided £43million of restructuring costs this year, primarily relating to those of our DQF plans which are sufficiently advanced to have been communicated to staff and other key stakeholders. This is essential expenditure for the delivery of our long-term target of £700million of annual savings. Further provisions are expected in 2013/14 as plans are finalised. Additionally, the BBC has provided for the expected costs of the claims against the BBC for past events.

After concentrating on the development of our new buildings in recent years, we are now turning our focus on rationalising the rest of our estate. In the year, we announced the sale of Television Centre at a profit of £78million, and we have also vacated our main White City building, prior to offering it also to the market.

Future pension costs

The IAS 19, or accounting pension deficit, has risen to £1,717million compared to £1,179million a year ago. The most significant reason for the increase has been the continued fall in corporate bond yields, which are used to determine the present value of the pension scheme liabilities. The accounting valuation is only a 'snapshot' at a particular date in time, and is therefore sensitive to short-term market fluctuations.

The next formal actuarial valuation of the Scheme is underway. The final result is not yet known, but is expected to show a larger deficit than the previous valuation at 1 April 2010. The deficit repayment plan agreed at the 1 April 2010 valuation continues to be followed, and any revisions to this plan will need to ensure that the pension scheme is brought back into equilibrium in a way that is fair both to members of the pension scheme and licence fee payers.

In light of the BBC's strategic priorities, the ability for the BBC to afford significant increases in pension cost is constrained. The BBC considers itself to have a strong and enduring brand and covenant and, consequently, has a high degree of confidence in its ability to meet pension liabilities as they fall due. At the same time as we agree a plan with the BBC Pension Scheme Trustees to repair the predicted actuarial deficit in the Scheme, we are continuing to look at ways to reduce the volatility in the scheme to provide greater stability for long-term financial planning.

The increase in the pension deficit has moved the BBC Group into an overall net liability position. As there is an extended time scale for addressing the deficit, this is not regarded as a significant financial risk for the BBC or believed to jeopardise our ability to pay our obligations as they fall due. Current pension contribution levels are provided for within our latest financial plans, and the projected out-turn from the current review of pension funding can also be accommodated.

Summary Consolidated Balance Sheet

For the year ended 31 March 2013

Balance sheet classification	What is it?	2013 £m	2012 £m	What happened this year?
Non-current assets	Mainly the BBC's property, plant equipment and investments	1,783	1,920	Reduced by the DMI write-down, the disposal of Lonely Planet and increased depreciation on new infrastructure
Current assets	Programme and other stocks and amounts to be received in the next 12 months	2,166	2,069	Cash has increased as the BBC prepares for its new funding obligations and DQF savings targets
Current liabilities	Amounts to be paid in the next 12 months	(1,148)	(1,259)	Reduction in sums payable to DCMS from Digital Switchover savings paid over in the year
Non-current liabilities (excluding pension liabilities)	Amounts to be paid after the next 12 months	(1,144)	(1,206)	Reduction in amounts payable to DCMS mainly
Net assets (excluding pension liabilities)		1,657	1,524	
Net pension liabilities	The net deficit on the BBC's pension scheme	(1,717)	(1,179)	Increases to reflect reduction in discount rates used to value future liabilities
Net (liabilities)/assets		(60)	345	
Represented by:				
BBC Reserves	The net resources available to the BBC for future use	(60)	338	The increase in the pension deficit (£538million) offsets the operating surplus (£336million)
Non-controlling interests	The share of businesses that the BBC does not wholly own	-	7	
		(60)	345	

FINANCIAL OVERVIEW

Cash

The BBC's cash balance of £575million at the end of the year will be used to help fund a number of imminent financial pressures which total over £600million:

- the new obligations for S4C, BBC Monitoring, Local TV and Broadband roll-out in 2013/14, budgeted in aggregate at £278million
- implementation costs of £81million necessary to deliver our DQF efficiency savings
- £60million on replacement technology after our exit from Television Centre
- the next annual pension deficit recovery payment (£100million)
- £77million is held within our commercial business for investment in their development
- a final £33million to fund the final costs and savings repayment from the Digital Switchover Scheme. A total of £424million of DSO scheme savings will be paid over by the BBC to DCMS over the life of the scheme

The BBC is a committed and prudent tax payer in all the countries in which it operates, and conducts its tax affairs with integrity. Its commercial activities undertake acceptable tax planning measures in accordance with the spirit and intention of laws and regulations so as to minimise its tax cost, but does not undertake measures purely for tax purposes, and it never knowingly contributes to other companies' tax evasion.

Summary Consolidated Cashflow Statement

For the year ended 31 March 2013

Cash-flow classification	What is it?	2013 £m	2012 £m	What happened this year
Net cash inflow from operating activities	Surplus of the BBC's income over its operating costs	339	266	Reduction in operating surplus in the year in part due to higher depreciation and non-cash pension charges which do not impact cash surplus
Net cash used in investing activities	Cash invested in property, plant and equipment	(41)	(203)	The much smaller outflow in this year reflects the receipt of proceeds from the sale of Television Centre
Net cash used in financing activities	Net interest paid on the BBC's borrowings	(129)	(136)	This is primarily interest on the group's property leases
Net increase/(decrease) in cash and cash equivalents		169	(73)	
Cash and cash equivalents at the beginning of the year	The BBC's cash balance at the beginning of the year	407	513	
Effect of foreign exchange rate changes on cash and cash equivalents	The impact of foreign exchange rates on the BBC's cash	1	(1)	
Movement in cash held as restricted funds	DSO savings to be paid over to DCMS or received for LF stamps	(2)	(32)	Reduced DSO activity means less scope for savings to be paid over to DCMS
Cash and cash equivalents at the end of the year	The BBC's cash at the end of the year	575	407	

LOOKING FORWARD

An important four years ahead

The next years are important years for the BBC as we embark on the delivery of the DQF strategy and head into the Charter renewal process. 2013/14 will be the first full year of DQF and the year in which a significant proportion of the 20% savings target is planned.

It is clear that the UK economy is now set for a slower recovery, and although the BBC is not as exposed to overall economic trends as other broadcasters, we are still seeing pressure on licence fee collection and on our commercial income. It is this pressure that has required us to focus on the value delivered by the licence fee, and validates the recent conservation of cash.

Recent times have been difficult for the BBC, and we are learning the lessons as we move forward. We are regaining trust – something which will always be the most precious commodity for our organisation, and which we must never take for granted.

We shall continue to focus on producing outstanding programmes and services, and on removing the obstacles that get in the way of that ambition. We set ourselves incredibly high standards and at our best we provide a service like no other. Our challenge is to perform at our best all the time.

A strong BBC for the future

This is my final review as Chief Financial Officer of the BBC, and in the nine years, I can reflect on the successful delivery of two efficiency programmes which have released over £900million for reinvestment. It has been particularly important to reduce the costs of running the BBC, so that we can concentrate expenditure on our content, as our licence fee payers would expect.

It is a period in which the operations of the BBC have been transformed with our new premises and ways of working in London, Salford and Glasgow, and in which the digital switchover programme has been delivered, returning over £400million to the Government. The BBC's commercial activities have thrived, to promote the BBC brand globally, and to provide additional funding to develop our offer to our licence fee payers.

Finally, it is a period over which we have simultaneously reduced licence fee evasion and collection costs to record low levels, whilst maintaining positive relations with the licence fee paying British public. There are plans in place to reduce evasion and collection costs further still.

Although there are challenges from the delivery of a 20% savings target, and pressures from the current pension and economic situation, I am confident that the BBC is well positioned to afford these new costs and also continue to “educate, inform and entertain” licence fee payers to the level they are entitled to expect from the BBC.

New Broadcasting House has been reinvented as a new and dynamic creative hub in the centre of London



The technical infrastructure of MediaCityUK made the delivery of multi-channel Olympic content possible



STATEMENT OF EXECUTIVE BOARD RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The Charter requires the BBC to prepare an audited annual report and statement of accounts.

The Trustees' responsibilities are detailed in Part One of the Annual Report and Accounts.

The Executive Board has accepted its responsibility for the preparation of an operating and financial review, statements of compliance with applicable codes and regulations (including the Executive Board Remuneration Report) and the statement of accounts which are intended by them to give a true and fair view of the state of affairs of the BBC and its subsidiaries (the "Group") and of the income and expenditure for that period. The Executive Board has prepared the accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Executive Board must not approve the statement of accounts (or 'financial statements') unless it is satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and of the surplus or deficit for that period.

In preparing the financial statements the Executive Board has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that are reasonable and prudent.
- Stated whether they have been prepared in accordance with IFRS as adopted by the EU.
- Prepared the financial statements on the going concern basis as they believe that the BBC will continue in business.

The Executive Board is responsible for keeping proper accounting records that are sufficient to show and explain the BBC's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and the Executive Board Remuneration Report comply with the Charter. It also has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the BBC and to prevent and detect fraud and other irregularities.

The Executive Board is responsible for the maintenance and integrity of the BBC's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Executive Board members who held office at the date of approval of the Annual Report and Accounts, whose names and functions are listed in the Governance section of Part Two of the Annual Report and Accounts, confirm that, to the best of each of their knowledge and belief:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and surplus of the Group; and
- The operating and financial review includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to auditors

The Executive Board members who held office at the date of approval of the Annual Report and Accounts confirm that, so far as they are each aware, there is no relevant audit information of which the BBC's auditors are unaware; and each Executive Board member has taken all the steps that they ought to have taken as an Executive Board member to make themselves aware of any relevant audit information and to establish that the BBC's auditors are aware of that information.

Going concern

The directors have prepared cash flow forecasts for a period in excess of a year from the date of approval of these financial statements, and have reviewed these forecasts, together with the sensitivities and mitigating factors in the context of available funds. The directors are satisfied that the BBC is well placed to manage the risks and has adequate resources to continue in operation for the foreseeable future. As a result the going concern basis has been adopted in the preparation of the financial statements.

This statement was approved by the Executive Board.



Tony Hall

Director-General
20 June 2013

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE BRITISH BROADCASTING CORPORATION ("BBC")

We have audited the group financial statements of the BBC for the year ended 31 March 2013 set out on pages 16 to 90. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

In addition to our audit of the financial statements, the Trustees have engaged us to audit the information in the Trustees and Executive Board Remuneration Reports that is described as having been audited, which the Executive Board have decided to prepare as if the BBC were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

This report is made solely to the Trustees on terms that have been agreed. Our audit work has been undertaken so that we might state to the BBC's Trustees those matters we are required to state to them in an auditor's report and, in respect of the separate opinions in relation to the Remuneration Reports and reporting on Corporate Governance, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the BBC and the BBC's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Trustees' and Executive Board responsibilities Statements set out on page 14, the Executive Board are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view.

Our responsibility, in accordance with the terms of our engagement letter, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the BBC's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2013 and of its surplus for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU;

Opinion on other matters prescribed by the terms of our engagement

In our opinion:

- the information given in the Overview Section of the Annual Report and Accounts, the Chairman's Foreword and the Trustees' performance review in Part One of the Annual Report and Accounts, the Director-General's Foreword, the Executive Board's performance review and financial overview and highlights, the Corporate Governance Statement and the unaudited parts of the Remuneration Reports in Part Two of the Annual Report and Accounts is consistent with the group financial statements; and
- the parts of the Remuneration Reports which we were engaged to audit have been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the BBC;

Matters on which we are required to report by exception by the terms of our engagement

We have nothing to report in respect of the following:

Under the terms of our engagement we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

In addition to our audit of the financial statements, the Trustees have engaged us to review the Corporate Governance statement as if the BBC were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. Under the terms of our engagement we are required to review:

- the Executive Board statement, set out on page 14, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the BBC's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.



Scott Cormack
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
20 June 2013

INTRODUCTION

The BBC's consolidated financial statements

These financial statements comprise both the primary statements and additional supporting disclosure notes. The primary statements are:

Consolidated income statement

The income the BBC earns and expenditure incurred by the Group's operations during the financial year.

Consolidated statement of comprehensive loss

Items of income and expense, including reclassification adjustments, that are not directly recognised in the income statement and hence are charged directly against reserves.

Consolidated balance sheet

The statement of the assets and liabilities of the BBC at a specific point in time, the financial year end.

Consolidated statement of changes in equity

Components that make up the capital and reserves of the Group and sets out the changes to each component during the financial year.

Consolidated cash flow statement

Cash generated by the BBC from its operations and how those cash flows have been used.

Consolidated income statement

	Note	2013 £m	2012 £m
Licence fee income	AI	3,656.2	3,606.3
Other income	AI	1,446.1	1,480.2
Total income	AI	5,102.3	5,086.5
Operating costs excluding specific items		(4,800.1)	(4,750.0)
Exceptional pension income	C7.2	–	45.0
Exceptional impairment of tangible and intangible assets	BI	(51.7)	–
Restructuring costs	C3	(43.7)	(103.4)
Total operating costs	AI	(4,895.5)	(4,808.4)
Group operating surplus		206.8	278.1
Gain on sale and termination of operations	E3	23.3	95.0
Gain on disposal of fixed assets	D4	87.2	4.8
Share of results of associates and joint ventures	E4	23.0	21.3
Financing income	F9	651.1	655.8
Financing costs	F9	(624.4)	(631.4)
Net financing income	F9	26.7	24.4
Surplus before taxation		367.0	423.6
Taxation	G2.1	(38.7)	(34.5)
Surplus for the year		328.3	389.1
Attributable to:			
BBC		327.4	383.9
Non-controlling interests		0.9	5.2
Surplus for the year		328.3	389.1

As the BBC Group is run for the public benefit, the surplus arising does not represent a 'profit' that can be returned to funders, but funds available for future expenditure.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

Consolidated statement of comprehensive loss

	Note	2013 £m	2012 £m
Group surplus for the year		328.3	389.1
Other comprehensive (loss)/income:			
Exchange differences on translation of foreign operations		8.9	1.7
Loss on foreign currency translation		(0.5)	–
Cash flow hedges		(10.8)	0.5
Recycling of translation and hedging reserves on disposal		(49.0)	(0.7)
Tax items taken directly to equity		2.6	–
Actuarial loss on defined benefit pension schemes	C7.2	(687.6)	(460.7)
Fair value gain on asset available for trading	G4.3	12.1	18.3
Other comprehensive loss net of tax		(724.3)	(440.9)
Total comprehensive loss for the year		(396.0)	(51.8)
Attributable to:			
BBC		(396.9)	(57.0)
Non-controlling interests		0.9	5.2
Total comprehensive loss for the year		(396.0)	(51.8)


Consolidated balance sheet

	Note	2013 £m	2012 £m
Non-current assets			
Intangible assets (including goodwill)	E1	159.5	289.4
Property, plant and equipment	D1	1,370.3	1,451.8
Interests in associates and joint ventures	E4	31.5	31.3
Other receivables	F6.1	80.3	30.6
Assets available for trading	D2	121.5	100.9
Derivative financial instruments	G4.2	4.9	2.3
Deferred tax assets	G2.4	15.1	13.4
		1,783.1	1,919.7
Current assets			
Programme-related assets and other inventories	B5	645.6	691.7
Trade and other receivables	F6.2	931.3	875.2
Assets classified as held for sale	G1	9.9	90.9
Derivative financial instruments	G4.2	4.0	3.4
Cash and cash equivalents	F1	575.2	407.3
		2,166.0	2,068.5
Current liabilities			
Trade and other payables	F7.1	(1,033.2)	(1,118.3)
Borrowings	F3.1	(27.0)	(36.8)
Provisions	F8	(66.0)	(86.1)
Derivative financial instruments	G4.2	(10.1)	(4.2)
Current tax liabilities		(12.5)	(13.1)
		(1,148.8)	(1,258.5)
Non-current liabilities			
Other payables	F7.2	(18.4)	(73.6)
Borrowings	F3.2	(1,043.1)	(1,052.9)
Provisions	F8	(71.5)	(68.0)
Derivative financial instruments	G4.2	(10.6)	(5.9)
Deferred tax liabilities	G2.4	(0.7)	(6.0)
Pension liabilities	C7.1	(1,715.8)	(1,178.6)
		(2,860.1)	(2,385.0)
Net (liabilities)/assets		(59.8)	344.7
Attributable to the BBC:			
Operating reserve		(151.9)	209.2
Available-for-sale reserve		107.3	95.2
Hedging reserve		(7.3)	1.0
Translation reserve		(7.9)	32.1
		(59.8)	337.5
Non-controlling interests		–	7.2
Total capital and reserves		(59.8)	344.7

The financial statements were approved by the Executive Board on 20 June 2013 and signed on its behalf by:



Tony Hall
Director-General



Zarin Patel
Chief Financial Officer

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

Consolidated statement of changes in equity

	Operating reserve £m	Available-for- sale reserve £m	Hedging reserve £m	Translation reserve £m	Total £m	Non- controlling interests £m	Total £m
At 31 March 2011	286.0	76.9	0.5	31.1	394.5	6.5	401.0
Profit for the year	383.9	–	–	–	383.9	5.2	389.1
Exchange differences on translation of foreign operations	–	–	–	1.7	1.7	–	1.7
Cash flow hedges	–	–	0.5	–	0.5	–	0.5
Recycling of cumulative currency translation reserve on disposal	–	–	–	(0.7)	(0.7)	–	(0.7)
Actuarial loss on defined benefit pension scheme	(460.7)	–	–	–	(460.7)	–	(460.7)
Fair value gain on asset available for trading	–	18.3	–	–	18.3	–	18.3
Total comprehensive (loss)/income for the year	(76.8)	18.3	0.5	1.0	(57.0)	5.2	(51.8)
Dividends paid	–	–	–	–	–	(4.5)	(4.5)
At 31 March 2012	209.2	95.2	1.0	32.1	337.5	7.2	344.7
Profit for the year	327.4	–	–	–	327.4	0.9	328.3
Exchange differences on translation of foreign operations	–	–	–	8.9	8.9	–	8.9
Loss on foreign currency translation	(0.5)	–	–	–	(0.5)	–	(0.5)
Cash flow hedges	–	–	(10.8)	–	(10.8)	–	(10.8)
Recycling of translation and hedging reserves on disposal	–	–	(0.1)	(48.9)	(49.0)	–	(49.0)
Tax on items taken directly to equity	–	–	2.6	–	2.6	–	2.6
Actuarial loss on defined benefit pension scheme	(687.6)	–	–	–	(687.6)	–	(687.6)
Fair value gain on asset available for trading	–	12.1	–	–	12.1	–	12.1
Total comprehensive (loss)/income for the year	(360.7)	12.1	(8.3)	(40.0)	(396.9)	0.9	(396.0)
Dividends paid	–	–	–	–	–	(8.1)	(8.1)
Acquisition of non-controlling interests	(0.4)	–	–	–	(0.4)	–	(0.4)
At 31 March 2013	(151.9)	107.3	(7.3)	(7.9)	(59.8)	–	(59.8)
Represented by:							
General Group reserves	(275.8)	107.3	(7.3)	(7.9)	(183.7)	–	(183.7)
BBC World Service and BBC Monitoring reserves	123.9	–	–	–	123.9	–	123.9
	(151.9)	107.3	(7.3)	(7.9)	(59.8)	–	(59.8)

UK Public Service Broadcasting (UK PSB) Group, BBC World Service and BBC Monitoring are funded from different sources. As such, the reserves relating to BBC World Service and BBC Monitoring are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service and BBC Monitoring activities.

Consolidated cash flow statement

	Note	2013 £m	2012 £m
Operating activities			
Cash generated from operating activities	F5	375.2	299.8
Tax paid		(37.2)	(33.5)
Net cash from operating activities		338.0	266.3
Investing activities			
Interest received		6.0	5.8
Dividends received from associates and joint ventures		19.5	18.8
Proceeds from sale of operations		40.7	111.1
Proceeds from disposal of property, plant and equipment		147.7	10.3
Acquisition of non-controlling interests		(14.4)	–
Acquisition of assets subsequently classified as held for sale		–	(4.6)
Acquisition of investments		(1.7)	(0.6)
Acquisition of interests in associates and joint ventures		(0.4)	(1.8)
Purchases of other intangible assets		(98.5)	(168.1)
Purchases of property, plant and equipment		(139.4)	(174.3)
Net cash used in investing activities		(40.5)	(203.4)
Financing activities			
Interest paid		(10.3)	(15.5)
Proceeds from increase in borrowings		189.4	75.8
Repayments of borrowings		(200.7)	(90.4)
Payments of obligations under finance leases		(98.9)	(101.2)
Receipts/(repayment) of overdraft		–	(0.3)
Dividends paid to non-controlling interests		(8.1)	(4.5)
Net cash used in financing activities		(128.6)	(136.1)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year	F1	407.3	513.4
Effect of foreign exchange rate changes on cash and cash equivalents		1.0	(0.9)
Movement in cash held as restricted funds		(2.0)	(32.0)
Cash and cash equivalents at the end of the year	F1	575.2	407.3

Key themes for the BBC

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GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

A. Where the BBC's funding comes from

The Group generates its income from a number of key sources, each source funding different parts of the BBC's activity. The notes in this section provide information on the performance in the year for each segment of the BBC Group.

The distinction between the various income sources is important as the BBC must not cross-subsidise its commercial activities through its UK PSB Group or Grant-in-aid and grant funded activities. However, the performance of the Group's commercial activities generates profits which are distributed back to the BBC and contribute towards the funding of UK PSB Group activities.

The BBC Group's operating segments are reported in a manner consistent with the internal reports provided to the BBC Executive Board. The BBC Executive Board is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments.

Segmental information provided to the BBC Executive Board is aligned to the BBC Group's income sources. The reportable segments are:

- **UK PSB Group** – This primarily receives licence fee income and is responsible for the Group's public sector activities. This includes delivery of its obligations under the Service Licence Operating Framework issued by the BBC Trust.
- **BBC World Service and BBC Monitoring** – These are funded by Grant-in-aid from the Foreign and Commonwealth Office and the Cabinet Office respectively. BBC Monitoring and BBC World Service will become licence fee funded from 2013/14 and 2014/15 respectively.
- **BBC Worldwide** – BBC Worldwide generates revenue from exploiting the various assets of the BBC, for example licencing formats, selling international rights, merchandising and production facilities.

The BBC's other commercial activities have been aggregated for reporting purposes as they meet the conditions set out in IFRS 8, *Operating Segments*.

The prices charged for services provided by one segment of the BBC Group to another are determined on an arm's length basis in accordance with the BBC's Fair Trading policy. More information on the BBC's fair trading requirements and policies can be found in the 'Managing the Business' section in Part Two of the 'BBC Annual Report and Accounts 2013'.

For additional information on the relevant accounting policies applied in this section please see section H *Basis of preparation of the financial statements and other accounting policies* (page 80).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

A. Where the BBC's funding comes from continued

AI Income and operating results

2013	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments* £m	Group £m
Licence fee income	A2	3,656.2	–	–	–	–	3,656.2
Other revenue		86.1	10.1	898.9	106.1	–	1,101.2
Intra-group trading		164.4	1.9	16.4	23.0	(205.7)	–
Grant-in-aid and other grant income		4.5	264.7	0.5	–	–	269.7
Royalties		13.2	–	52.0	0.2	–	65.4
Rental income		8.9	0.1	0.8	–	–	9.8
Other income		277.1	276.8	968.6	129.3	(205.7)	1,446.1
Total income		3,933.3	276.8	968.6	129.3	(205.7)	5,102.3
Restructuring costs	C3	(23.1)	(6.8)	(10.9)	(2.9)	–	(43.7)
Depreciation and amortisation		(139.7)	(33.2)	(130.4)	(2.9)	–	(306.2)
Impairment of tangible and intangible fixed assets		(51.7)	–	–	–	–	(51.7)
Pension deficit reduction payment		(48.6)	(7.6)	(2.3)	(1.5)	60.0	–
Other operating costs		(3,554.2)	(260.0)	(719.1)	(134.3)	173.7	(4,493.9)
Total operating costs	B3, B4	(3,817.3)	(307.6)	(862.7)	(141.6)	233.7	(4,895.5)
Group operating surplus/(deficit)		116.0	(30.8)	105.9	(12.3)	28.0	206.8
Gain on sale and termination of operations	E3	–	–	35.7	–	(12.4)	23.3
Gain on disposal of fixed assets	D4	87.2	–	–	–	–	87.2
Share of results of associates and joint ventures	E4	(3.1)	–	26.1	–	–	23.0
Operating segment result		200.1	(30.8)	167.7	(12.3)	15.6	340.3
Financing income	F9						651.1
Financing costs	F9						(624.4)
Net financing income	F9						26.7
Surplus before taxation							367.0
Taxation	G2.1						(38.7)
Surplus for the year							328.3

* Group adjustments include costs of £90.4million for the defined benefit pension scheme. The remaining adjustments relate to intra-group transactions.

Additional information on total operating costs for UK PSB can be found in note B3 and note B4 for the Commercial and Grant-in-aid funded activities. Total operating costs for the Group are also analysed further in note B1.

AI Income and operating results continued

2012	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments* £m	Group £m
Licence fee income	A2	3,606.3	–	–	–	–	3,606.3
Other revenue		88.4	7.0	946.2	86.3	–	1,127.9
Intra-group trading		157.2	0.5	11.9	36.5	(206.1)	–
Grant-in-aid and other grant income		2.3	277.1	–	–	–	279.4
Royalties		13.5	–	48.1	0.4	–	62.0
Rental income		10.5	0.1	0.3	–	–	10.9
Other income		271.9	284.7	1,006.5	123.2	(206.1)	1,480.2
Total income		3,878.2	284.7	1,006.5	123.2	(206.1)	5,086.5
Restructuring costs	C3	(100.6)	3.3	(5.4)	(0.7)	–	(103.4)
Depreciation and amortisation		(136.4)	(23.2)	(109.1)	(3.8)	–	(272.5)
Pension deficit reduction payment		(89.1)	(13.9)	(4.3)	(2.7)	110.0	–
Other operating costs		(3,523.7)	(243.9)	(785.4)	(114.8)	235.3	(4,432.5)
Total operating costs	B3, B4	(3,849.8)	(277.7)	(904.2)	(122.0)	345.3	(4,808.4)
Group operating surplus		28.4	7.0	102.3	1.2	139.2	278.1
Gain on sale and termination of operations	E3	–	–	95.0	–	–	95.0
Gain on disposal of fixed assets	D4	4.8	–	–	–	–	4.8
Share of results of associates and joint ventures	E4	(2.1)	–	23.4	–	–	21.3
Operating segment result		31.1	7.0	220.7	1.2	139.2	399.2
Financing income	F9						655.8
Financing costs	F9						(631.4)
Net financing income	F9						24.4
Surplus before taxation							423.6
Taxation	G2.1						(34.5)
Surplus for the year							389.1

* Group adjustments include income of £138.7million for the defined benefit pension scheme, of this balance £45million relates to a gain on settlements and curtailments. The remaining adjustments relate to intra-group trading.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013
NOTES TO THE ACCOUNTS

A. Where the BBC's funding comes from continued

A2 Licence fee income

	Licence fee 2013 £	Licences in force 2013 Number '000	Total income 2013 £m	Licence fee 2012 £	Licences in force 2012 Number '000	Total income 2012 £m
Colour	145.50	21,351	3,089.9	145.50	21,306	3,090.9
Monochrome	49.00	9	0.5	49.00	12	0.6
Concessionary	7.50	172	1.3	7.50	182	1.4
Over 75s	–	4,251	597.3	–	4,206	588.4
		25,783	3,689.0		25,706	3,681.3
Quarterly payment scheme premium			16.8			16.9
Digital switchover help scheme under-spend (note B6)			(49.6)			(91.9)
Total licence fee income			3,656.2			3,606.3

During the year 3.4million (2012: 3.4million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2012: £5).

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the relevant Government department.

A3 Contribution of commercial operations

In the year ended 31 March 2013, a dividend of £49.5million (2012: £145.2million) was primarily generated by BBC Worldwide and paid/proposed to UK PSB Group. The dividends paid by BBC Worldwide are not identifiable in the consolidated primary statements as the amounts paid by BBC Worldwide and received by UK PSB Group are eliminated during the consolidation process.

B. How the BBC spends the funds

This section analyses the total operating costs incurred by the BBC Group. It also analyses the UK PSB Group's expenditure by service licence as required to be reported to the BBC Trust.

Service Licences

In accordance with the Charter, service licences are used by the BBC Trust to regulate the BBC's licence fee-funded services and ensure that each service provides public value and contributes to delivering the BBC's public purposes.

The Trust's annual assessment of performance against service licences compares actual costs for content against an agreed and authorised baseline budget. Actual costs may vary by up to 10% of the baseline budget to permit management flexibility in its commissioning decisions. When a service licence budget is breached by more than the threshold, the matter is referred to the BBC Trust.

BBC Parliament and Asian Network costs were under the baseline budget by more than the 10% tolerance due to early delivery of efficiency savings under the BBC's Delivering Quality First strategy.

The BBC HD service closed on 31 March 2012 being replaced with a HD version of BBC Two and consequently is incorporated into the BBC Two service licence for 2012/13.

Service licences show the cost to the licence fee payer of providing the relevant service and therefore exclude any costs funded by a co-producer. The table presented in note B3 sets out the UK PSB Group content expenditure by service.

Where a programme is broadcast on more than one channel, the full cost of the programme is recognised as a cost of the channel where the programme is first broadcast. Where a programme is commissioned by two channels however, the cost of the programme is recognised as a cost of the primary channel irrespective of the channel holding the first transmission.

For BBC Online and BBC Red Button, the licence reflects only the incremental costs of getting content to air unless the content is specifically commissioned for one of these two services.

This means the costs reported against individual service licences are not necessarily equivalent to the costs which would be incurred by such a service on a stand-alone basis.

Digital Switchover

The Group has also been granted specific funds to cover the costs of the Digital Switchover. These funds are ring-fenced from the licence fee with underspend against the budgeted cost being repayable to the Department of Culture, Media and Sport (DCMS). Included within this note are disclosures on the costs incurred to date against these ring-fenced amounts.

For additional information on the relevant accounting policies applied in this section please see section H *Basis of preparation of the financial statements and other accounting policies* (page 80).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

B. How the BBC spends the funds continued

BI Total operating costs

Total operating costs have been arrived at after charging/(crediting) the following items:

	Note	2013 £m	2012 £m
Intangible fixed assets, property, plant and equipment and other investments			
Depreciation			
– owned assets	DI	116.7	115.5
– leased assets	DI	41.4	35.0
Exceptional impairment of tangible and intangible fixed assets	DI, EI	51.7	–
Other tangible and intangible fixed asset impairments	DI, EI	–	19.8
Amortisation of intangible fixed assets	EI	148.1	122.0
Impairment of investments in joint ventures and associates		1.9	1.0
Inventories			
Write-downs of programme-related assets recognised as an expense		7.5	9.2
Other operating costs			
Payments under operating leases			
– land and buildings		76.0	59.7
– plant and machinery		24.5	38.9
– other		34.1	19.0
Net loss/(profit) on disposal of tangible fixed assets*		1.0	(3.0)
Research costs		68.5	73.3
Audit and non-audit fees paid to KPMG (see below)		3.6	8.0
Fair trading auditor's remuneration (Deloitte LLP)		0.3	0.2
Net exchange differences on settled transactions		(1.0)	0.4
Impairment of trade debtors	F6.2	8.0	2.0
Fair value loss on derivative financial instruments		4.2	3.0
Staff costs	C2	1,284.3	1,358.2
Exceptional pension income (defined benefit)	C2	–	(45.0)

* The profit on disposal of tangible fixed assets represent adjustments to depreciation on disposals made in the ordinary course of business. Profit on disposals classified as 'exceptional' is disclosed separately in note D4.

A review commencing in October 2012 of the Digital Media Initiative (DMI) concluded that it will not deliver its full scope and consequently a total impairment of £51.7million has been recognised this year within Plant and Machinery (£8.8million) and Other Intangible assets (£42.9million). Assets have been written down to nil value as there is a significant risk that they will not be utilised within the organisation and cannot be re-used elsewhere within the BBC.

B2 Auditor remuneration

Fees paid during the year to KPMG LLP and its associates are as follows:

	2013 £m	2012 £m
For the audit of the BBC's annual accounts	0.6	0.6
For the audit of subsidiaries of the BBC	0.9	1.0
Audit related assurance services	0.2	0.2
Total audit and audit related assurance services	1.7	1.8
Taxation compliance services	0.2	0.2
Services related to corporate finance transactions	0.2	1.0
Services related to actuarial advice*	0.9	4.2
All other services	0.6	0.8
Total non-audit services	1.9	6.2
Total fees paid	3.6	8.0

* The actuarial services provided relate primarily to advice regarding the changes to the BBC Pension Scheme.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013
NOTES TO THE ACCOUNTS

B. How the BBC spends the funds continued

B3 UK PSB Group expenditure

B3.1 UK PSB Group expenditure by service

2013 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m
BBC One	1,129.2	52.9	281.1	–	1,463.2
BBC Two	404.8	31.7	106.6	–	543.1
BBC Three	89.7	4.6	27.4	–	121.7
BBC Four	50.0	4.2	16.0	–	70.2
CBBC	81.6	4.0	23.1	–	108.7
CBeebies	28.9	4.5	9.6	–	43.0
BBC ALBA	4.9	1.5	1.4	–	7.8
BBC News channel*	45.2	7.5	8.8	–	61.5
BBC Parliament	1.9	7.2	1.4	–	10.5
BBC Red Button	15.6	22.3	3.9	–	41.8
Television	1,851.8	140.4	479.3	–	2,471.5
BBC Radio 1	40.7	5.4	8.1	–	54.2
BBC Radio 2	47.8	5.3	9.0	–	62.1
BBC Radio 3	38.3	5.3	10.7	–	54.3
BBC Radio 4	91.1	9.8	21.2	–	122.1
BBC Radio 5 Live	55.0	6.8	14.2	–	76.0
BBC Radio 5 Live Sports Extra	2.7	1.4	1.5	–	5.6
BBC iXtra	7.5	1.5	2.8	–	11.8
BBC 6Music	7.4	1.5	2.6	–	11.5
BBC 4 Extra	4.0	1.5	1.7	–	7.2
BBC Asian Network	8.3	1.7	3.0	–	13.0
BBC Local Radio	114.7	9.9	27.9	–	152.5
BBC Radio Scotland	23.2	3.2	6.3	–	32.7
BBC Radio nan Gàidhail	3.8	1.4	1.1	–	6.3
BBC Radio Wales	13.9	1.2	3.7	–	18.8
BBC Radio Cymru	12.5	1.6	3.5	–	17.6
BBC Radio Ulster/BBC Radio Foyle	17.0	2.1	4.7	–	23.8
Radio	487.9	59.6	122.0	–	669.5
BBC Online**	103.0	21.8	51.8	–	176.6
Spend regulated by service licence	2,442.7	221.8	653.1	–	3,317.6
Licence fee collection costs	–	–	–	111.1	111.1
Orchestras and performing groups	23.4	–	5.8	–	29.2
S4C	23.6	–	6.4	–	30.0
Development spend	40.4	–	10.1	–	50.5
UK PSB Group pension deficit reduction payment	–	–	–	48.6	48.6
Costs incurred to generate intra-group income	–	–	–	164.8	164.8
Costs incurred to generate third party income	–	–	–	67.4	67.4
Other content related spent	87.4	–	22.3	391.9	501.6
Restructuring costs	–	–	–	23.1	23.1
Total UK public services content expenditure	2,530.1	221.8	675.4	415.0	3,842.3
Digital switchover (Digital UK Limited)	–	–	–	12.5	12.5
Digital switchover (DSHS Limited)	–	–	–	44.4	44.4
Total UK PSB Group expenditure	2,530.1	221.8	675.4	471.9	3,899.2
Lease reclassification***	–	–	–	(81.9)	(81.9)
UK PSB Group expenditure	2,530.1	221.8	675.4	390.0	3,817.3

B3.1 UK PSB Group expenditure by service continued

2012 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m
BBC One	1,041.1	54.8	241.7	–	1,337.6
BBC Two	416.6	19.3	101.2	–	537.1
BBC Three	83.8	4.4	24.7	–	112.9
BBC Four	49.2	3.5	15.1	–	67.8
CBBC	81.9	3.6	21.8	–	107.3
CBeebies	29.2	3.9	9.3	–	42.4
BBC HD	1.2	15.0	1.6	–	17.8
BBC ALBA	5.0	1.7	1.3	–	8.0
BBC News channel*	42.4	6.9	8.2	–	57.5
BBC Parliament	2.1	5.8	1.4	–	9.3
BBC Red Button	13.5	18.3	5.4	–	37.2
Television	1,766.0	137.2	431.7	–	2,334.9
BBC Radio 1	38.4	4.6	7.6	–	50.6
BBC Radio 2	47.2	4.6	8.7	–	60.5
BBC Radio 3	37.8	4.7	10.0	–	52.5
BBC Radio 4	88.1	8.6	19.2	–	115.9
BBC Radio 5 Live	51.1	5.8	12.4	–	69.3
BBC Radio 5 Live Sports Extra	2.6	1.2	1.5	–	5.3
BBC 1Xtra	7.2	1.3	2.6	–	11.1
BBC 6Music	7.8	1.3	2.6	–	11.7
BBC 4 Extra	5.0	1.3	1.9	–	8.2
BBC Asian Network	8.5	1.5	3.0	–	13.0
BBC Local Radio	112.7	8.1	25.7	–	146.5
BBC Radio Scotland	23.2	3.0	5.9	–	32.1
BBC Radio nan Gàidhael	3.6	1.4	1.0	–	6.0
BBC Radio Wales	13.0	1.5	3.2	–	17.7
BBC Radio Cymru	11.4	1.6	2.9	–	15.9
BBC Radio Ulster/BBC Radio Foyle	17.3	2.0	4.5	–	23.8
Radio	474.9	52.5	112.7	–	640.1
BBC Online **	115.3	18.7	52.8	–	186.8
Spend regulated by service licence	2,356.2	208.4	597.2	–	3,161.8
Licence fee collection costs	–	–	–	126.1	126.1
Orchestras and performing groups	23.6	–	5.4	–	29.0
S4C	23.2	–	6.0	–	29.2
Development spend	42.7	–	9.8	–	52.5
UK PSB Group pension deficit reduction payment	–	–	–	89.1	89.1
Costs incurred to generate intra-group income	–	–	–	156.8	156.8
Costs incurred to generate third party income	–	–	–	55.9	55.9
Other content related spend	89.5	–	21.2	427.9	538.6
Restructuring costs	–	–	–	100.6	100.6
Total UK public services content expenditure	2,445.7	208.4	618.4	528.5	3,801.0
Digital switchover (Digital UK Limited)	–	–	–	40.8	40.8
Digital switchover (DSHS Limited)	–	–	–	89.7	89.7
Total UK PSB Group expenditure	2,445.7	208.4	618.4	659.0	3,931.5
Lease reclassification***	–	–	–	(81.7)	(81.7)
UK PSB Group expenditure	2,445.7	208.4	618.4	577.3	3,849.8

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

B. How the BBC spends the funds continued

B3.1 UK PSB Group expenditure by service continued

- * Included within BBC News channel are production costs of £27.2million, Newsgathering costs of £17.8million and other costs of £0.2million (2012: production costs of £26.1million, Newsgathering costs of £16.1million and other costs of £0.2million).
- ** BBC Online spend is monitored by annexe (relating to editorial areas of the service). Non-annexe spend covers costs relating to central editorial activities such as the BBC Homepage, technologies which operate across the service and overheads. The spend for each annexe was: News, Sport & Weather £43.8million (2012: £47.7million), Childrens £8.5million (2012: £9.5million), Knowledge & Learning £18.7million (2012: £21.5million), TV & iPlayer £12.2million (2012: £15.3million), Audio & Music £13.3million (2012: £15.3million), giving a total annexe spend of £96.5million (2012: £109.3million). Non-annexe spend was £6.5million (2012: £6.0million).
- *** In order to reflect the full cost of UK PSB Group expenditure by service, finance lease interest is included, although it is not included in the Group operating expenditure.

B3.2 UK PSB Group infrastructure/support costs

Infrastructure/support costs include the following:

	2013 £m	2012 £m
Property	181.6	186.9
HR and training	45.4	46.2
Policy and strategy	12.0	12.3
Finance and operations	67.7	56.8
Marketing, audiences and communication	68.7	72.0
Total central costs	375.4	374.2
Technology*	175.1	128.0
Libraries, learning support and community events	33.6	36.1
Divisional running costs	64.5	63.7
BBC Trust Unit (excluding restructuring)	11.9	11.9
Other	14.9	4.5
Total infrastructure/support costs	675.4	618.4

* Includes the £51.7million impairment of DMI. See Note B1 for further details.

B4 Analysis of total operating costs by activity

B4.1 Commercial activities

Note	BBC Worldwide 2013 £m	BBC Worldwide 2012 £m	Other Commercials 2013 £m	Other Commercials 2012 £m	Total Commercials 2013 £m	Total Commercials 2012 £m
Cost of sales	557.7	588.8	121.6	110.3	679.3	699.1
Distribution costs	126.7	142.4	–	–	126.7	142.4
Administrative expenses	178.3	173.0	20.0	11.7	198.3	184.7
Total operating costs	862.7	904.2	141.6	122.0	1,004.3	1,026.2

B4.2 Grant-in-aid funded activities

Note	2013 £m	2012 £m
BBC World Service and BBC Monitoring		
Cost of sales	1.4	1.3
Distribution costs	33.8	35.8
Administrative expenses	272.4	240.6
Total operating costs	307.6	277.7

B5 Programme-related assets and other inventories

The main output of the BBC Group is the production of programmes for broadcast and the sale of rights for others to broadcast. This note discloses the amounts for those programmes that are in production, completed programmes that are ready for broadcast, but not yet aired, and rights secured to broadcast programmes produced independently of the BBC Group. Other inventory for our Commercial activities are also contained in this note.

Originated programmes are stated at the lower of cost and net realisable value, and the full value is written off on first transmission. The costs of acquired programmes and films are also written off on first transmission except to the extent that the numbers of further showings are contractually agreed, when it is written off according to its expected transmission profile.

	2013 £m	2012 £m
Programme-related assets		
– Rights to broadcast acquired programmes and films	144.4	125.3
– Prepayments to acquire future programme-related rights	224.2	293.8
– Completed originated programmes	67.3	72.8
– Programmes in production	195.4	165.5
Total programme-related assets	631.3	657.4
Other inventories	14.3	34.3
Total programme-related assets and other inventories	645.6	691.7

B6 UK PSB ring-fenced expenditure

DCMS has ring-fenced the following amounts within the Charter and six-year licence fee settlement (2008 to 2013):

	Cumulative spend to 2013 £m	Outstanding amount repayable £m	Cumulative amount repaid to date £m	Total to date £m	Six-year ring-fenced funding £m	Remaining funding available
Digital Switchover						
Help for the elderly and disabled (DSHS Limited)	242.2	17.6	328.4	588.2	603.0	14.8
Digital UK Limited	121.7*	0.3	78.0	200.0	200.0	–
Total	363.9	17.9	406.4	788.2	803.0	14.8

* This has been restated to exclude non-communication expenditure in compliance with the Framework Agreement

The Secretary of State has agreed with the BBC that the £603million estimated cost of the Digital Switchover Help Scheme (operated by DSHS Limited) will be ring-fenced and set aside from the licence fee for the purpose of funding the Scheme over the six-year life of the licence fee settlement.

The Framework Agreement between the BBC and DCMS states that the BBC is committed to leading certain aspects of the digital switchover programme, through Digital UK, and the licence fee settlement includes a ring-fenced amount of up to £200million from the inception of Digital UK until the end of the six-year life of the licence fee settlement for communication activities. The ring-fenced amount is only part of the BBC's annual contribution to Digital UK.

Digital underspend	Note	£m
At 1 April 2012		144.5
Underspend in the year	A2	49.6
Repayment of underspend to DCMS		(161.4)
At 31 March 2013		32.7

The £32.7million consists of underspend which is yet to be repaid to DCMS of £17.9million and spend of £14.8million on after-care and warranties which the BBC expects to spend through 2013/14 and 2014/15. The underspend which has yet to be repaid to DCMS will be repaid in the following amounts over the following periods:

Anticipated Digital underspend repayment profile	Note	£m
2013/14	F7.1	17.9
2014/15	F7.2	–
Total		17.9

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

C. What the BBC spends on its people

The BBC Group employs a significant number of people. It also provides pension benefits to both current and past employees. This section is broken into two main sections; the former details employee numbers (excluding freelancers and agency staff), costs and transactions with BBC Trust members and the BBC Executive Board. The latter presents the key information relating to the BBC Group's pension plans.

The movement in the IAS 19 *Employee Benefits* estimate of the defined benefit scheme liability during the year, specifically the BBC Pension Scheme, is the item which singularly has the greatest impact on the balance sheet position of the Group. The pension note in this section explains in further detail the reasons behind the movements in the defined benefit pension liability in the year and its degree of sensitivity to changes in the underlying assumptions used.

Further information on the analysis of the BBC Pension Scheme assets and the assumptions underlying the liabilities are set out in note G3.

For additional information on the relevant accounting policies applied in this section please see section H *Basis of preparation of the financial statements and other accounting policies* (page 81).

CI Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2013 Number	2012 Number
UK PSB Group	16,534	16,858
BBC World Service and BBC Monitoring	2,149	2,196
BBC Worldwide	2,326	2,565
Other commercial businesses	273	321
Group total	21,282	21,940

Within the averages above 3,112 (2012: 2,800) part-time employees have been included at their full-time equivalent of 1,539 (2012: 1,616).

In addition to the above, the Group employed an average full-time equivalent of 739 (2012: 640) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 378 (2012: 367) full-time equivalents.

C2 Employee remuneration

	Note	2013 £m	2012* £m
Salaries and wages		998.5	999.9
Social security costs		96.5	91.6
Pension costs			
– Main scheme excl. exceptional pension income (defined benefit)	C7.3	128.4	151.5
– Gain on settlements and curtailments (defined benefit)	C7.2	–	(45.0)
– Other schemes	C7.3	17.2	11.8
Restructuring costs	C3	43.7	103.4
		1,284.3	1,313.2
Comprising:			
UK PSB Group		961.2	1,054.0
BBC World Service and BBC Monitoring		96.6	74.3
BBC Worldwide		192.2	196.0
Other commercial businesses		24.2	22.0
Group adjustments**		10.1	(33.1)
		1,284.3	1,313.2

* Pension costs have been restated by £33.6million to include costs relating to the salary sacrifice arrangement

** Includes group adjustments for the BBC Pension Scheme.

The actual employer cash contributions to the defined benefit pension scheme are borne by each business.

C3 Restructuring costs

	2013 £m	2012 £m
UK PSB Group	23.1	100.6
BBC World Service and BBC Monitoring*	6.8	(3.3)
BBC Worldwide	10.9	5.4
Other commercial businesses	2.9	0.7
	43.7	103.4

* The credit in 2012 relates to the release of a provision

UK PSB Group, BBC World Service and BBC Monitoring restructuring costs include the Delivering Quality First Programme, Continuous Improvement Programme and costs resulting from our commitment to relocate and increase investment out of London.

BBC Worldwide includes redundancy costs arising as a result of changes within the Group's organisation structure.

C4 Remuneration of the BBC Trust members and the BBC Executive Board

The total emoluments of the members of the BBC Executive Board and the BBC Trust are disclosed in the BBC Executive Board Remuneration Report in part Two of the Annual Report and Accounts. The details of emoluments of the members of the BBC Trust are disclosed in Part One of the Annual Report and Accounts.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

C. What the BBC spends on its people continued

C5 Key management personnel compensation

Key management personnel are those people who have authority and responsibility for planning, directing and controlling the activities of the BBC. This includes all members of the BBC Executive Board, including the Non-Executive Directors (see BBC Executive remuneration report), the Trustees and the Director of the Trust Unit (see Trustees' remuneration report) and BBC Worldwide Limited's Chief Executive Officer and Director, Global (see BBC Worldwide Annual Report and Accounts).

Information about the BBC's structure, senior staff salaries and expenses are published on the BBC's website. This unaudited information can be found at <http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure>.

Key management personnel compensation is as follows:

	2013 £m	2012 £m
Short term employee benefits	5.6	4.7
Post-employment benefits	0.5	0.4
Other long term benefits	0.2	0.3
Compensation for loss of office*	1.4	—
	7.7	5.4

* Upon departure in December 2012, BBC Worldwide Limited's then Chief Executive Officer, John Smith, received £0.4million, being 12 months' salary in lieu of notice. He subsequently decided to surrender half of this amount following him taking up alternative employment. The net amount of £0.2million is included within compensation for loss of office.

C6 Related party¹ transactions with key management personnel

Executive Directors:

James Purnell has a close family member employed by the BBC on standard terms and conditions.

Trustees:

Diane Coyle has a close family member employed by the BBC on standard terms and conditions.

¹ See Glossary for further details

C7 Group pension plans

The following section includes the key notes relating to BBC Group pension plans and more specifically the BBC Pension Scheme¹. Further supplementary notes on the assumptions underpinning the value of the BBC Pension Scheme asset and liability are disclosed in note G3.

As the BBC Group has two defined benefit pension schemes, the BBC Pension Scheme and the Unfunded Scheme, the information in this section first analyses the liability and income statement charge between the two schemes (note C7). Separate analysis then follows in respect of the BBC Pension Scheme to highlight the points outlined below (note C8).

The defined benefit pension schemes give rise to liabilities which are included on the BBC Group balance sheet as the BBC bears the risk on investment returns, life expectancy (mortality) and inflation related to meeting future pension payments. The net liability consists of two component parts:

- Scheme liabilities: These are the present value of the future pension payments the BBC is required to pay in respect of employees service performed up to the balance sheet date.
- Scheme assets: These are the assets held by the pension fund, into which the BBC pays annual contributions. The assets are used to fund the payments to retired members and to generate returns to fund future pension payments.

The analysis provided in the following notes is based on the IAS 19 estimate of the Scheme's assets and liabilities as at 31 March 2013. This is different to the actuarial valuation completed every 3 years (currently being calculated as at 1 April 2013) that determines the contributions payable to the Scheme by the BBC.

The deficit of the BBC Pension Scheme can change significantly. In this section we provide information to explain the following:

- why the pension liabilities on the balance sheet have changed from one year to another
- what makes up the charge in the income statement in the year
- the amount of the scheme assets and liabilities totalling the net defined benefit pension liability on balance sheet
- how sensitive the liabilities are to changes in key assumptions
- the steps being undertaken by the BBC to fund the defined benefit pension liability

The BBC Group's defined contribution plans do not give rise to balance sheet pension assets/liabilities as there is no ongoing liability for the employer from these plans once the contributions due for the year have been settled. The expenditure on the defined contribution scheme shown in these accounts represents the BBC contributions payable in this financial year.

C7.1 Pension liabilities included in the balance sheet

The pension liabilities included in the BBC Group balance sheet comprise both the BBC Pension Scheme and the Unfunded Scheme and are analysed below:

	Pension liabilities	
	2013 £m	2012 £m
BBC Pension Scheme	(1,708.7)	(1,172.0)
Unfunded Scheme	(7.1)	(6.6)
Total	(1,715.8)	(1,178.6)

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

C. What the BBC spends on its people continued

C7.2 Movement in deficit during the year

	BBC Pension Scheme 2013 £m	Unfunded Scheme 2013 £m	Total 2013 £m	BBC Pension Scheme 2012 £m	Unfunded scheme 2012 £m	Total 2012 £m
Deficit in scheme at the start of the year	(1,172.0)	(6.6)	(1,178.6)	(920.5)	(6.3)	(926.8)
Movement in the year:						
Current service cost ¹	(149.8)	–	(149.8)	(160.0)	–	(160.0)
Contributions (from employer)*	192.8	0.3	193.1	212.6	0.3	212.9
Past service costs ¹	(3.4)	–	(3.4)	(4.8)	–	(4.8)
Gain on curtailments	–	–	–	45.0	–	45.0
Net finance income/(cost) ¹	110.8	(0.3)	110.5	116.1	(0.3)	115.8
Actuarial loss ¹ recognised in the consolidated statement of comprehensive loss	(687.1)	(0.5)	(687.6)	(460.4)	(0.3)	(460.7)
Deficit in scheme at the end of the year	(1,708.7)	(7.1)	(1,715.8)	(1,172.0)	(6.6)	(1,178.6)

* The contribution shown for the unfunded scheme represents the pensions paid to members during the year.

The assumptions for pension scheme liabilities of the unfunded scheme are the same as the main scheme. As the scheme is unfunded there are no assets.

¹ See Glossary for further details

C7.3 Pension (charges)/income in consolidated income statement

	Note	Defined benefit schemes		Defined contribution scheme £m	All schemes £m
		BBC Pension Scheme £m	Unfunded Scheme £m		
2013					
Current service cost		(149.8)	–	(17.2)	(167.0)
Past service costs		(3.4)	–	–	(3.4)
Total operating charge*		(153.2)	–	(17.2)	(170.4)
Expected return on pension plan assets ¹		640.9	–	–	640.9
Interest on pension plan liabilities		(530.1)	(0.3)	–	(530.4)
Net finance income/(cost)	F9	110.8	(0.3)	–	110.5
Net cost in consolidated income statement		(42.4)	(0.3)	(17.2)	(59.9)
2012					
Current service cost		(160.0)	–	(11.8)	(171.8)
Past service costs		(4.8)	–	–	(4.8)
Gain on curtailments		45.0	–	–	45.0
Total operating charge*		(119.8)	–	(11.8)	(131.6)
Expected return on pension plan assets ¹		643.3	–	–	643.3
Interest on pension plan liabilities		(527.2)	(0.3)	–	(527.5)
Net finance income/(cost)	F9	116.1	(0.3)	–	115.8
Net cost in consolidated income statement		(3.7)	(0.3)	(11.8)	(15.8)

*Of the total net operating charge of £153.2million for 2013 (2012: net charge £119.8million), £24.8million (2012: £13.3million) was recognised as an expense in earlier years as part of redundancy costs in accordance with IAS 37. The remaining charge of £128.4million (2012: £106.5million) was recognised in the current year.

C8 BBC Pension Scheme

The BBC Pension Scheme, a defined benefit scheme, is now closed to new entrants. This plan provides pensionable salary related benefits on a defined benefit basis funded from assets held in separate trustee-administered funds.

The pension scheme trustees manage the plan in the short, medium and long term. They make funding decisions based on valuations which take a longer-term view of the assets required to fund the scheme's liabilities.

Valuations of the scheme are performed by Towers Watson, consulting actuaries. Formal valuations are undertaken at least every three years.

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

C. What the BBC spends on its people continued

C8.1 Scheme financial position

IAS 19 valuation ¹	Note	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Scheme assets*	G3.2	10,201.1	9,198.5	8,835.8	8,154.8	6,454.0
Scheme liabilities	G3.1	(11,909.8)	(10,370.5)	(9,756.3)	(9,795.7)	(6,592.6)
Deficit		(1,708.7)	(1,172.0)	(920.5)	(1,640.9)	(138.6)
Percentage by which scheme assets cover liabilities		86%	89%	91%	83%	98%

* excluding Additional Voluntary Contribution (AVC) funds

Key movements in the year are shown in note C7.2.

A deferred tax asset or liability in relation to the scheme does not arise for the BBC Group because most of the BBC Group's public service activity is not subject to taxation.

The sensitivities of the Scheme's liabilities to changes in the principal assumptions are set out below:

	Assumption used	Movement	Impact on Scheme liabilities %	(Increase)/ decrease on Scheme liabilities £m
Discount rate	4.5%	decrease 0.1%	2.2%	(256)
Discount rate	4.5%	increase 0.1%	1.6%	193
Retail price inflation rate	3.4%	decrease 0.1%	1.8%	211
Retail price inflation rate	3.4%	increase 0.1%	1.8%	(216)
Mortality rate	See note G3.6	decrease 0.1%	3.2%	381
Mortality rate	See note G3.6	increase 0.1%	3.3%	(394)

C8.2 Funding the Scheme

The 2010 actuarial valuation by Towers Watson of the pension scheme showed a funding shortfall of £1,131 million. Consequently a recovery plan was agreed between the BBC and the pension scheme Trustees where additional contributions totalling £905 million will be paid by the BBC over an 11 year period commencing in 2011.

The next formal actuarial valuation is currently being performed as at 1 April 2013.

	Projections 2014 %	2013 %	2012 %	2011 %	2010 %
Contribution rates					
Employer*	14.5	14.5	14.5/15.5	18.15	18.9
Employee (Old and New Benefits)	7.5	7.5	7.5	7.5	6.75
Employee (Career Average Benefits 2006)	4.0	4.0	4.0	4.0	4.0
Employee (Career Average Benefits 2011)	6.0	6.0	6.0	—	—

* Includes an allowance for BBC AVC matching contributions of 0.1% (2012: 0.1%) but excludes the cost effectively paid for by the employee via the salary sacrifice arrangement.

The contributions to the scheme by members are mainly paid via a salary sacrifice arrangement. These have been treated as employer contributions.

On the basis of pension assumptions made above, contributions totalling £125.6 million are expected to be paid in 2013/14.

¹ See Glossary for further details

C8.3 Scheme cash flows (day-to-day liquidity)

Below are the cash flows of the BBC Pension Scheme (not included in the Group results). The third additional contribution of £60million was paid in March 2013 (2012: £60million) to address the funding shortfall identified in the 2010 actuarial valuation by Towers Watson. The fall in net cash inflow is mainly generated by the reduction in the employer's contribution percentage being fully reflected in this financial period, compared to only part of the previous financial year. Also as the scheme is now closed to new entrants, the level of contribution will continue to decrease (as members retire, there are no new entrants to replace the reduction in employee and employer contributions).

	2013 £m	2012 £m
Contributions including additional voluntary (employer and employee)	197.0	218.6
Investment income	212.3	216.7
Cash inflows	409.3	435.3
Payments of pensions and transfers out	(356.2)	(334.6)
Expenses	(33.9)	(41.7)
Net cash inflow	19.2	59.0

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

D. The property, technology and equipment used by the BBC to make its programmes

The BBC Group uses a significant number of assets in its operations. This section sets out those assets the BBC Group intends to continue to use, those which it is in the course of disposing and any disposals which have been completed in the year.

Certain assets which are shown on the balance sheet are not legally owned by the BBC Group, but instead are leased under finance leases. Under such arrangements, the BBC Group obtains substantially all the risks and benefits of ownership and therefore records such assets as if they were legally owned. This section also deals with the financing costs and obligations associated with such assets.

The BBC Group has certain obligations to restore leased properties to their original condition at the end of the lease term. The BBC Group makes provisions for the cost of such restoration works. The amounts provided are included within this section of the notes.

For additional information on the relevant accounting policies applied in this section please see section H *Basis of preparation of the financial statements and other accounting policies* (page 81).

DI Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost					
At 1 April 2011	1,238.1	1,033.7	170.3	150.4	2,592.5
Additions	1.5	19.4	2.1	151.7	174.7
Brought into service	17.1	115.7	28.9	(161.7)	–
Disposals	(8.0)	(35.5)	(2.3)	(2.0)	(47.8)
Assets held for sale	(92.3)	(69.3)	(31.4)	–	(193.0)
Exchange movements	–	(0.2)	(0.4)	–	(0.6)
At 31 March 2012	1,156.4	1,063.8	167.2	138.4	2,525.8
Additions	1.6	18.1	2.1	117.6	139.4
Transfer to Intangible assets	–	(5.6)	–	(10.6)	(16.2)
Brought into service	18.0	132.4	2.7	(153.1)	–
Disposals	(36.7)	(172.9)	(21.3)	(1.2)	(232.1)
Exchange movements	0.3	0.6	0.3	–	1.2
At 31 March 2013	1,139.6	1,036.4	151.0	91.1	2,418.1
Depreciation					
At 1 April 2011	254.5	715.0	109.1	–	1,078.6
Charge for the year	41.0	93.7	15.8	–	150.5
Disposals	(8.0)	(34.1)	(1.6)	–	(43.7)
Impairment	–	3.7	–	–	3.7
Assets held for sale	(42.5)	(47.3)	(25.0)	–	(114.8)
Exchange adjustments	–	(0.1)	(0.2)	–	(0.3)
At 31 March 2012	245.0	730.9	98.1	–	1,074.0
Charge for the year	47.8	96.0	14.3	–	158.1
Transfer to Intangible assets	–	(2.4)	–	–	(2.4)
Disposals	(32.5)	(141.1)	(18.1)	–	(191.7)
Impairment*	–	8.8	–	–	8.8
Exchange adjustments	0.2	0.6	0.2	–	1.0
At 31 March 2013	260.5	692.8	94.5	–	1,047.8
Net book value					
At 31 March 2013	879.1	343.6	56.5	91.1	1,370.3
At 31 March 2012	911.4	332.9	69.1	138.4	1,451.8

*Relates to the impairment of DMI. See note B1 for further information

D2 Assets available for trading¹

	Note	2013 £m	2012 £m
Assets held at fair value	G4.3	121.5	100.9

The BBC Group holds an asset available for trading of £116.4million (2012: £100.3million) relating to Daunus Limited that is carried at fair value. The principle activity of Daunus Limited is property development, see note G4.3 for further information.

D3 Property assets classified as held for sale

	2013 £m	2012 £m
Property, plant and equipment	–	79.0

BBC Television Centre was being marketed for sale at 31 March 2012 and consequently classified as assets held for sale. This property was sold in July 2012.

No impairment losses were recognised on the classification of this property as held for sale during the prior year.

D4 Gain on disposal of fixed assets

	2013 £m	2012 £m
Disposal of properties	87.2	4.8

The gain on disposal of properties relates to the sale of BBC Television Centre (£77.9m) and Centre House (£9.3m).

The Group disposed of its Oxford Road, Manchester property during the prior year.

Gains or losses on the disposal of property, plant and equipment in the ordinary course of business, that represent an adjustment to depreciation and are recognised within operating surplus and disclosed in aggregate in note B1.

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013
NOTES TO THE ACCOUNTS

D. The property, technology and equipment used by the BBC to make its programmes continued

D5 Obligations under finance leases¹

	2013 £m	2012 £m
Due within one year	27.0	6.0
Due after more than one year	855.6	883.0
	882.6	889.0

See note F3 for full analysis of borrowing, including obligations under finance leases.

Finance lease liabilities are payable as follows:

	Minimum lease payments £m	Interest £m	Principal £m
2013			
Not later than one year	109.3	82.3	27.0
Later than one year but not later than five years	334.5	311.6	22.9
Later than five years	1,681.1	848.4	832.7
	2,124.9	1,242.3	882.6
2012			
Not later than one year	89.0	83.0	6.0
Later than one year but not later than five years	351.6	316.3	35.3
Later than five years	1,778.0	930.3	847.7
	2,218.6	1,329.6	889.0

Under the terms of the leasing agreements, the BBC has the right to share in the residual value of its key finance lease properties (Broadcasting House, Pacific Quay and White City). This share will be passed to the BBC as either a cash flow at the end of the lease arrangement, or a reduction in rentals if the lease agreement is extended for a further term. In addition, the BBC has the right to repurchase each property at the end of the respective lease agreement.

The recognition of finance lease assets and liabilities requires certain judgements to be made. A key judgement relates to the treatment of any uplifts in annual rental payments due to the number used for RPI. Where this has a material impact on the amounts recognised, the BBC has included an estimate of RPI in determining the minimum lease payments.

Interest rates are fixed at the contract date. Leases with a carrying value of £852.1million (2012: £852.4million) have contingent elements included within their contracts and result in contingent rents of £7.0million (2012: £5.6million) being reflected in operating costs.

Included within the carrying amounts of assets in note D1 are amounts held under finance leases. Set out below is the analysis of the carrying amount of assets held under finance leases by asset category:

	Land and buildings £m	Plant and machinery £m	Total £m
Net book value			
At 31 March 2013	747.4	17.3	764.7
At 31 March 2012	782.6	22.4	805.0

¹ See Glossary for further details

D6 Financing costs of leasing arrangements

Interest costs relating to the finance lease obligations are recognised in the income statement at a constant rate over the term of the lease.

	Note	2013 £m	2012 £m
Financing costs of leasing arrangements	F9	81.9	81.7

D7 Operating leases¹

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013 £m	2012 £m
Not later than one year	101.9	107.3
Later than one year and not later than five years	250.3	251.2
Later than five years	568.0	541.8
	920.2	900.3

The BBC Group's operating lease agreements primarily relate to office space, land, computers and other IT equipment. Certain contracts include renewal options, stepped rents or annual RPI uplifts (which are accounted for on a straight line basis) or periodic rent reviews. All leases have been entered into on commercial terms.

The BBC Group has entered into a number of sublease arrangements. The total future minimum sublease income expected to be received under non-cancellable subleases at 31 March 2013 is:

	2013 £m	2012 £m
Due within one year	7.4	9.1
Due after one year and not later than five years	17.6	24.9
Due after more than five years	3.3	6.5
	28.3	40.5

D8 Property provisions

Property provisions relate to the cost of returning leasehold properties (accounted for as operating leases) to their original condition at the end of the lease. The average life of these leases is 12 years, and the actual amount payable will depend on the extent of leasehold improvements made over the remainder of the lease. For full analysis of provisions and contingent liabilities see note F8.

	At 1 April £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Transferred to accruals £m	At 31 March £m
2013	20.3	1.3	(1.2)	(0.1)	–	20.3
2012	20.4	5.4	(0.8)	(0.6)	(4.1)	20.3

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

E. Investments in the BBC's commercial activities

The following section is primarily driven by the commercial activities of the BBC Group and includes information on what assets are used to generate economic benefits for the BBC Group. The section also includes intangible assets such as goodwill and programme acquisitions, balances held to represent the BBC's interests in joint ventures and associates and the results of any sale of operations that have occurred.

For additional information on the relevant accounting policies applied in this section please see section H *Basis of preparation of the financial statements and other accounting policies* (page 82).

EI Intangible assets

	Goodwill £m	Programme rights £m	Other intangibles £m	Total £m
Cost				
At 1 April 2011	119.9	256.3	208.2	584.4
Additions	–	112.4	55.7	168.1
Elimination of fully amortised programme rights	–	(41.1)	–	(41.1)
Disposals	–	(0.8)	(1.5)	(2.3)
Programme rights reclassified*	–	(8.1)	–	(8.1)
Classified as held for sale	–	(5.3)	–	(5.3)
Exchange differences	6.4	(3.5)	(0.4)	2.5
At 31 March 2012	126.3	309.9	262.0	698.2
Additions	–	74.5	24.0	98.5
Elimination of fully amortised programme rights	–	(92.8)	–	(92.8)
Disposals	(96.1)	–	(96.5)	(192.6)
Transfer from Property, Plant and Equipment	–	–	16.2	16.2
Exchange differences	5.9	(10.4)	4.3	(0.2)
At 31 March 2013	36.1	281.2	210.0	527.3
Amortisation and impairment				
At 1 April 2011	50.2	153.5	115.1	318.8
Charge for the year	–	87.6	34.4	122.0
Elimination of fully amortised programme rights	–	(41.1)	–	(41.1)
Disposals	–	(0.4)	(1.4)	(1.8)
Impairment	16.1	–	–	16.1
Classified as held for sale	–	(3.3)	–	(3.3)
Exchange differences	1.8	(3.6)	(0.1)	(1.9)
At 31 March 2012	68.1	192.7	148.0	408.8
Charge for the year	–	104.5	43.6	148.1
Elimination of fully amortised programme rights	–	(92.8)	–	(92.8)
Transfer from Property, Plant and Equipment	–	–	2.4	2.4
Disposals	(72.1)	–	(66.4)	(138.5)
Impairment**	–	–	42.9	42.9
Exchange differences	4.0	(9.1)	2.0	(3.1)
At 31 March 2013	–	195.3	172.5	367.8
Net book value				
At 31 March 2013	36.1	85.9	37.5	159.5
At 31 March 2012	58.2	117.2	114.0	289.4

* Where content in the course of production is funded by a commissioning broadcaster or co-production partner, this is separately presented within programmes in production within current assets.

** Relates to the impairment of DMI. See note BI for further information.

Other intangibles include:

	2013 £m	2012 £m
Net book value		
Software	29.1	79.4
Acquired masthead	–	25.6
Acquired carrier agreements	8.2	8.5
Other	0.2	0.5
	37.5	114.0

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

E. Investments in the BBC's commercial activities continued

E2 Goodwill

All goodwill is recognised in BBC Worldwide.

Goodwill, allocated by cash generating unit¹ (CGU), is analysed as follows:

	2013 £m	2012 £m
Goodwill by cash generating unit		
Lonely Planet	–	22.6
Consumer Distribution	25.4	25.4
Australian Channels	10.7	10.2
	36.1	58.2

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions used for these calculations are those regarding discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each CGU.

BBC Worldwide tests goodwill for impairment in the accounting period in which a business combination takes place, thereafter annually or more frequently, if there are indications that goodwill might be impaired.

Lonely Planet

The goodwill in this CGU arose as a result of the acquisition of Lonely Planet on 1 October 2007 and was disposed of during the year. In the year ended 31 March 2012 the carrying value of this CGU was written down to its estimated recoverable amount, resulting in a charge to the income statement of £16.1million.

Consumer Distribution business

The goodwill in this CGU arose as a result of the acquisition of 2 entertain on 6 August 2009. The cash flow projections used in determining value in use are based on the current business plan approved by management, which covers a five year period after which cash flows have been extrapolated using an expected growth rate of -5% (2012: 2%).

A discount rate of 12.8% (2012: 11.4%) has been applied to the cash flows.

Management are of the view that any reasonably possible change in key assumptions would not cause the carrying amount to exceed its recoverable amount.

Australian Channels business

The goodwill in this CGU arose as a result of the acquisition of UK. TV on 1 July 2008. Cash flow projections used in the recoverable amount calculation are based on financial budgets approved by management covering a period of five years (2012: five years) and a discount rate of 11.7% (2012: 12.6%). Cash flows beyond the forecast period have been extrapolated using an expected growth rate of 1% (2012: 1%). The terminal growth rate assumes contractual rates remaining in place and a modest growth of subscribers as per external sources. Cash flow projections are consistent with the business acquisition plans and those used in the previous year.

The main assumption on which the forecast cash flows are based is licence fee rates. In forming its assumptions about licence fee rates, the Group has used a combination of long term trends and recent contracted terms.

Management believe that any reasonably possible change in the key assumptions on which the value in use of UK. TV is based would not result in any impairment.

¹ See Glossary for further details

E3 Gain on sale and termination of operations

As part of the normal course of business, the commercial entities may decide to sell or terminate a particular part of their operations. This note shows the impact of such a decision on the income statement. A gain is recognised when the fair value of consideration received or receivable is greater than the carrying value of the assets of that operation, at the point of sale.

	2013 £m	2012 £m
Magazines business	–	95.0
Lonely Planet	15.0	–
Left Bank	8.0	–
Other	0.3	–
Gain on sale and termination of operations	23.3	95.0

On 31 March 2013, BBC Worldwide completed the disposal of its Lonely Planet group of companies for cash consideration of £41.2million and deferred consideration of £10.3million. As a result of the disposal, cumulative currency translation gains of £48.4million and hedged derivative gains of £0.1million have been removed from reserves and recorded in the income statement. Together with transaction costs of £3.0million, a gain on disposal of £15.0million was recognised overall.

	March 2013 £m
Net assets disposed	82.0
Transaction costs	3.0
Cumulative currency translation gain	(48.4)
Hedging reserve	(0.1)
Gain on disposal	15.0
Total consideration	51.5
Satisfied by:	
Cash and cash equivalents	41.2
Deferred consideration	10.3
	51.5

On 17 August 2012, BBC Worldwide disposed of its interest in Left Bank Pictures for a total consideration of £10.1million, giving rise to a gain on disposal of £8.0million. The total consideration received comprised of cash, contingent consideration and a retained interest, recorded as an available for sale investment.

On 31 October 2011, BBC Worldwide disposed of a number of subsidiaries and investments which comprised its Magazines business for cash consideration of £111.1million resulting in a gain on disposal of £95.0million.

E4 Interests in associates¹ and joint ventures¹

This note details the BBC Group's share of net assets in associates and joint ventures, along with the impact that they have on the income statement. Details of significant associates and joint ventures along with principal subsidiary undertakings, including their activities, are provided in note G5.

	2013 £m	2012 £m
Interest in joint ventures	15.4	14.2
Interest in associates	16.1	17.1
Total interest in associates and joint ventures	31.5	31.3
Share of results of joint ventures	21.7	19.9
Share of results of associates	1.3	1.4
Total share of results of associates and joint ventures	23.0	21.3

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

E. Investments in the BBC's commercial activities continued

E4 Interests in associates¹ and joint ventures¹ continued

The following table represents the BBC Group's aggregate share of joint ventures:

	2013 £m	2012 £m
Non-current assets	10.9	15.8
Current assets	115.0	111.6
Current liabilities	(79.0)	(82.3)
Non-current liabilities	(54.2)	(55.2)
Shareholder's equity	(7.3)	(10.1)
Adjustment to reflect effective obligation	27.1	28.1
Provision for unrealised profit	(5.9)	(5.7)
Goodwill	1.4	0.7
Group's share of net assets of joint ventures	15.3	13.0
The net book value is presented within:		
Interest in associates and joint ventures	15.4	14.2
Assets held for sale	9.9	9.9
Provisions ¹	(10.0)	(11.1)
	15.3	13.0
Income	152.7	175.7
Profit after tax	32.7	21.8
Adjustment to reflect effective obligation	(11.0)	(1.9)
	21.7	19.9

The following table presents summarised financial information for associates, including the BBC Group's share of the results:

	2013 £m	2012 £m
Total assets	93.2	85.2
Total liabilities	(80.8)	(72.3)
Net assets	12.4	12.9
Group share of net assets	4.9	4.9
Provision for unrealised profit	(0.8)	(0.9)
Goodwill	12.0	13.1
Total net book value	16.1	17.1
Income	159.6	150.0
Profit after tax	9.2	6.4
Adjustment to reflect effective obligation	(7.9)	(5.0)
Group share of results	1.3	1.4

¹ See Glossary for further details

F. Managing funding (including future costs)

This section contains the notes to the balance sheet that detail the funding of the BBC Group as well as the assets and liabilities that are primarily used in the day-to-day trading transactions of the BBC Group.

It also sets out the external borrowings of the BBC Group. The BBC Group is subject to three specific constraints on its borrowing levels as set out below:

- The Public Service borrowing limit of £200million is set by the Secretary of State in accordance with the Framework Agreement between the BBC and DCMS.
- Digital Switchover Help Scheme – £25million may only be used in respect of borrowing to fund current expenditure on meeting the responsibilities placed on the BBC by any scheme agreed under clause 39 of the Framework Agreement (targeted help schemes).
- Under a direction granted by the Secretary of State for the DCMS a borrowing limit of £350million has been set for the BBC commercial group.

Included within this section are certain disclosures required to be provided to DCMS in respect of the above borrowing thresholds.

For additional information on the relevant accounting policies applied in this section please see section H *Basis of preparation of the financial statements and other accounting policies* (page 84).

FI Analysis of net funds for DCMS borrowing¹ ceilings

	At 1 April 2012 £m	Cash flows £m	Non-cash changes £m	Exchange £m	At 31 March 2013 £m
Total cash and cash equivalents	407.3	166.9	–	1.0	575.2
Less restricted cash*	(2.0)	2.0	–	–	–
	405.3				575.2
Loans and loan notes	(200.7)	15.0	(1.8)	–	(187.5)
Derivatives associated with loans	(5.6)	–	0.6	–	(5.0)
Finance leases	(889.0)	98.9	(92.5)	–	(882.6)
	(690.0)				(499.9)
Leases not included in DCMS borrowing limits	849.9				849.6
Net funds	159.9				349.7
Made up of:					
UK PSB Group	338.9				470.1
Centre House Productions	(5.9)				(3.5)
BBC Worldwide	(2.7)				(7.7)
Other commercial businesses	(170.4)				(109.2)
Net funds	159.9				349.7

* Restricted cash represents licence fee funds collected on behalf of HM Treasury.

The debt and repayments on finance leases held by Centre House Productions Limited are offset directly by cash held on matching deposits and the income from them, such that there is no long-term cash effect.

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

F. Managing funding (including future costs) continued

F2 Reconciliation of net funds to the DCMS borrowing ceilings

	Public Services ¹		Commercial Businesses
	Capital or current expenditure £m	Current expenditure on Digital Switchover Help Scheme* £m	** £m
2013			
Net funds/(debt)	470.1	–	(116.9)
Borrowing ceiling	(200.0)	(25.0)	(350.0)
Headroom	670.1	25.0	233.1
2012			
Net funds/(debt)	338.9	–	(173.1)
Borrowing ceiling	(200.0)	(25.0)	(350.0)
Headroom	538.9	25.0	176.9

* £25million may only be used in respect of borrowing to fund current expenditure on meeting the responsibilities placed on the BBC by any scheme agreed under clause 39 of the Framework Agreement (targeted help schemes).

** Under the terms of the DCMS agreement, BBC Commercial Holdings Limited must satisfy two financial covenants. These covenants are required to be met at 31 March each year. As at 31 March 2013 and 31 March 2012, BBC Commercial Holdings Limited was in compliance with both of these covenants.

As at 31 March 2013, 31 March 2012, and throughout both financial years, the BBC Group did not breach the borrowing ceilings.

F3 Borrowings

F3.1 Borrowings due within one year

	2013 £m	2012 £m
Bank loan	–	30.8
Obligations under finance leases	27.0	6.0
Total	27.0	36.8

F3.2 Borrowings due after more than one year

	2013 £m	2012 £m
Bank loan	187.5	169.9
Obligations under finance leases	855.6	883.0
Total	1,043.1	1,052.9

Analysis of the BBC Group's borrowing facilities is set out in note F4.

¹ See Glossary for further details

F4 Borrowing facilities

Facility	Interest rate	Total available 31 March 2013 £m	Drawn down at 31 March 2013 £m	Total available 31 March 2012 £m	Drawn down at 31 March 2012 £m	Expiry or review date
UK PSB Group						
Sterling revolving credit facility agreement	Loan – margin of 0.45%	200	–	200	–	June 2013*
Uncommitted money market lines (short-term borrowings)	Margin of between 0.125% and 0.5% over LIBOR	5	–	5	–	Reviewed annually
GBP overdraft	Bank base rates plus 1.5%	5	–	5	–	Reviewed annually
Multicurrency overdraft	Banks short term offered rates for the relevant currency plus 1%	5	–	5	–	Reviewed annually
Overdraft	Bank base rate plus 1%. Excess usage at bank base rate plus 2%	1	–	–	–	
BBC Commercial Holdings Limited						
Multicurrency, revolving credit facility agreement for loans and letters of credit	LIBOR* plus 0.8% rising to LIBOR** plus 1.0% on utilisations over 1/3 and LIBOR** plus 1.2% on utilisations over 2/3 Letter of credit fee is the same as the bank lending margin, but does not include LIBOR	380***	172	380***	185	July 2016
Overdraft or money market lines	Money market line – margin of 1.0% (2012: 1.0%) Overdraft – bank base rates plus 1.5% (2012: 1.5%)	20	17	20	–	Reviewed annually
BBC Worldwide						
Loan with European Investment Bank (50% secured by letters of credit)	European Investment Bank's own funding cost plus a margin of 0.032% (2012: 0.032%) on unsecured loans	–	–	30	30	May 2012
Overdraft	Bank base rate plus 1% up to £100k, bank base rate plus 3% over £100k	2	–	–	–	

* New financing is currently in progress for the renewal of the revolving credit facility agreement to be finalised in June 2013.

** The base rate used varies according to the currency drawn. At 31 March 2013 £27.6million (2012: £64.9million) was drawn down in AUS\$ and consequently linked to BBSW rather than LIBOR. All other amounts drawn are in sterling and consequently linked to LIBOR.

*** Of this amount, up to £26.6million (2012: £26.6million) is available to issue letters of credit in favour of the European Investment Bank to support its lending under facilities to the Group. At 31 March 2013, the total drawn on this facility was cash drawings of £172.0million (2012: cash drawings of £169.9million and £15.4million utilised by way of letters of credit).

There have been no defaults or breaches of covenants on these facilities during the year (2012: none).

In addition to the facilities above, the BBC Group has other smaller facilities of which nothing was drawn at the year end (2012: £nil), which it uses to manage working capital.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013
NOTES TO THE ACCOUNTS

F. Managing funding (including future costs) continued

F5 Cash generated from operations

	2013 £m	2012 £m
Group surplus before taxation	367.0	423.6
Depreciation, amortisation and impairment	359.8	293.6
Difference between pension charge and cash contribution	(39.9)	(93.1)
Fair value impact of derivatives associated with loans	(0.6)	(1.6)
Fair value impact of other derivatives	(0.2)	3.0
Profit on disposal of tangible fixed assets	(87.2)	(4.8)
Loss on disposal of tangible fixed assets	7.2	3.1
Gain on sale and termination of operations	(23.3)	(95.0)
Share of results of associates and joint ventures	(23.0)	(21.3)
Financing income	(651.1)	(655.8)
Financing costs	624.4	631.4
Decrease/(increase) in programme related assets and inventories	21.3	(64.5)
Increase in debtors	(53.2)	(11.6)
Decrease in creditors	(110.5)	(111.2)
(Decrease)/increase in provisions	(15.5)	4.0
Cash generated from operations	375.2	299.8

F6 Trade and other receivables

This note discloses the balances that are owed to the BBC Group by third parties and balances that have been pre-paid by the BBC Group.

F6.1 Other receivables due after more than one year

	2013 £m	2012 £m
Other prepayments and receivables	76.9	26.8
Loans to other entities	1.7	1.0
Amounts owed by associates and joint ventures	1.7	2.8
Total	80.3	30.6

F6.2 Trade and other receivables due within one year

	2013 £m	2012 £m
Trade receivables	224.3	217.9
Licence fee receivables	404.9	410.4
Amounts owed by associates and joint ventures	27.7	37.9
VAT recoverable	46.4	33.2
Other receivables	64.1	30.1
Prepayments and other assets	163.9	145.7
Total	931.3	875.2

Included in the BBC Group's trade and other receivables at 31 March 2013 are balances of £43.9million (2012: £44.5million) which are past due at the reporting date but not impaired. The aged analysis of these balances is as follows:

	2013 £m	2012 £m
Trade receivables past due but not impaired		
Up to 3 months	33.1	31.8
3 to 6 months	8.3	7.2
Over 6 months	2.5	5.5
	43.9	44.5

In determining the recoverability (likelihood of receiving payment) of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Trade receivables are provided for based on estimated irrecoverable amounts, determined by reference to past default experience of the counterparty and an analysis of the counterparty's financial situation.

There are no significant impairment provisions relating to balances of any individual debtor. Amounts charged to the impairment provision are written off when there is no expectation of recovery. Subsequent recoveries of amounts previously written off are credited to the Income Statement. The impairment provision stands at £11.8million at 31 March 2013 (2012: £5.5million).

The movement in the allowance for doubtful debts is set out below:

	2013 £m	2012 £m
Balance at the beginning of the year	5.5	5.6
Impairment losses recognised	8.0	2.0
Amounts written off as uncollectible	(0.6)	(1.1)
Amounts recovered during the year	(1.0)	(1.0)
Exchange differences on revaluation	(0.1)	–
Balance at the end of the year	11.8	5.5

No significant amount has been provided for items that are not yet due for payment.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

F. Managing funding (including future costs) continued

F7 Trade and other payables

This note details the amounts payable to third parties by the BBC Group.

F7.1 Trade and other payables due within one year

	Note	2013 £m	2012 £m
Trade and employment related payables		444.2	449.8
Amounts owed to associates and joint ventures		5.9	16.4
Other taxation and social security		26.5	27.2
Other payables		35.6	41.6
Accruals and deferred income (including licence fee payables)		442.7	423.8
Cash balance payable to DCMS	B6	17.9	91.9
Cash balance payable to the Consolidated Fund		–	2.0
Licence savings stamp deposits and direct debit instalments		60.4	65.6
Total		1,033.2	1,118.3

F7.2 Other payables due after more than one year

	Note	2013 £m	2012 £m
Other payables		18.4	21.0
Amounts repayable to DCMS	B6	–	52.6
Total		18.4	73.6

It is the BBC's policy to comply with the Better Payment Practice Code in relation to the payment of suppliers, provided that the supplier is complying with their contracted terms and conditions. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The Group's number of days outstanding in respect of other trade payables at 31 March 2013 was 25 days (2012: 29 days).

F8 Provisions and contingent liabilities

	Note	At 1 April 2012 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Transferred to accruals £m	At 31 March 2013 £m
Restructuring		107.4	46.6	(59.2)	(13.9)	–	80.9
Litigation and insurance		11.8	12.1	(2.6)	(2.2)	–	19.1
Property	D8	20.3	1.3	(1.2)	(0.1)	–	20.3
Decommissioning		–	6.0	–	–	–	6.0
Share of joint ventures net liabilities	E4	11.1	0.8	(1.9)	–	–	10.0
Other		3.5	–	(1.9)	(0.4)	–	1.2
Total		154.1	66.8	(66.8)	(16.6)	–	137.5
Included in current liabilities		86.1					66.0
Included in non-current liabilities		68.0					71.5
Total		154.1					137.5

	Note	At 1 April 2011 £m	Charge for the year* £m	Utilised during the year £m	Released during the year £m	Transferred to accruals £m	At 31 March 2012 £m
Restructuring		97.0	111.7	(87.8)	(13.5)	–	107.4
Litigation and insurance		17.4	3.1	(5.4)	(3.3)	–	11.8
Property	D8	20.4	5.4	(0.8)	(0.6)	(4.1)	20.3
Share of joint ventures net liabilities	E4	12.5	0.1	–	(1.5)	–	11.1
Other		2.1	2.3	(0.9)	–	–	3.5
Total		149.4	122.6	(94.9)	(18.9)	(4.1)	154.1
Included in current liabilities		103.7					86.1
Included in non-current liabilities		45.7					68.0
Total		149.4					154.1

*The charge for the year in 2012 included £0.2million interest cost relating to the unwinding of the discount rate in amounts provided.

The restructuring charge for the year mainly relates to the restructuring programmes within UK PSB Group, BBC World Service and Studios & Post Production. The balance at 31 March 2013 predominantly relates to the Delivering Quality First strategy which is due to complete in 2016/17.

Litigation and insurance provisions relate to on-going legal, insurance and compensation claims against the BBC. The BBC Group has a number of contingent liabilities arising from litigation. The BBC makes specific provision for its best estimate of any damages and costs which may be awarded. A provision is only made to the extent that the BBC Group considers it probable that there will be an outflow of economic benefits and the amount can be reliably estimated. There are currently no known individually material outstanding litigations.

BBC World Service has assets in various locations overseas which are used in shortwave transmission of our output. Following the closure of the shortwave transmission site in Cyprus, a decommissioning provision of £6.0m has been setup. As shortwave audiences continue to decline, the BBC Group will no longer require coverage from the number of overseas transmitter sites it currently operates. A provision has been created to account for the costs which are likely to be incurred in decommissioning the overseas sites once they cease being operational.

Other provisions consist of a number of items arising across the BBC Group in the normal course of business, none material in themselves.

There were no other significant contingent liabilities known at the year end (2012: no significant).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

F. Managing funding (including future costs) continued

F9 Net financing income

Set out below is analysis of the finance income and expenses incurred in the year. These amounts include interest relating to finance lease liabilities (see note D6) and defined benefit pension schemes (see note C7).

	Note	2013 £m	2012 £m
Financing income			
Interest income		6.0	5.8
Expected return on pension plan assets	C7.3	640.9	643.3
Investment income on assets available for trading	G4.2	3.9	5.1
Fair value gains on interest rate swaps and caps		0.3	1.6
		651.1	655.8
Financing costs			
Interest expense		(10.3)	(15.5)
Interest on obligations under finance leases	D6	(81.9)	(81.7)
Fair value movement on financial liabilities		(1.8)	(6.5)
		(94.0)	(103.7)
Unwinding of discount on provisions	F8	–	(0.2)
Interest cost on pension plan liabilities ¹	C7.3	(530.4)	(527.5)
		(624.4)	(631.4)
Net financing income		26.7	24.4

The net impact of financing can be analysed as follows:

	2013 £m	2012 £m
Net financing costs of leasing arrangements	(81.9)	(81.7)
Net financing income related to pension obligations	110.5	115.8
Net financing costs related to loans and financial instruments	(1.9)	(9.7)
	26.7	24.4

¹ See Glossary for further details

F10 Long term commitments not reflected in the balance sheet – contracts placed for future expenditure

This note shows amounts to which the BBC Group is contractually committed, but which do not meet the criteria for inclusion in the balance sheet. We have chosen to include fixed (but not variable) payments due under outsourcing contracts for the life of those contracts, as this matches our interpretation of the requirements of s.410A of the Companies Act 2006.

Functions covered by these long term outsourcing contracts include IT support, content distribution and transmission, facilities management and elements of finance support.

	2013 £m	2012 £m
Fixed asset additions	24.6	32.3
Programme acquisitions and sports rights	903.2	948.0
Independent programmes	195.1	201.2
Other fixed payments on long term outsourcing arrangements	2,469.5	2,454.6
	3,592.4	3,636.1

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

G. Other

For additional information on the relevant accounting policies applied in this section please see section H *Basis of preparation of the financial statements and other accounting policies* (page 84).

GI Assets held for sale

Non-current assets (and assets and liabilities of a group earmarked for disposal) are classified as held for sale if their carrying amount (amount held on the balance sheet) will be recovered principally through sale rather than continuing use, they are available for immediate sale and the sale is highly probable, normally within the next 12 months.

When non-current assets or disposal groups are re-categorised to this note, they are stated at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale.

	Note	2013 £m	2012 £m
Non-current assets:			
Intangible assets	E1	–	2.0
Property, plant and equipment	D3	–	79.0
Interests in associates and joint ventures	E4	9.9	9.9
Total assets classified as held for sale		9.9	90.9

The major classes of assets and liabilities comprising the operations classified as held for sale in the current year relate to the BBC Group's investment in the Ragdoll joint venture.

The prior year amount primarily comprised of the BBC Television Centre which was being marketed for sale at 31 March 2012 and was subsequently sold in July 2012.

G2 Taxation

G2.1 Recognised in the income statement

The charge for the year, based on the rate of corporation tax of 24% (2012: 26%) comprised:

	Note	2013 £m	2012 £m
Current tax			
UK corporation tax		16.3	21.8
Adjustments in respect of prior years		(1.2)	(5.1)
		15.1	16.7
Foreign tax		24.2	15.9
Total current tax		39.3	32.6
Deferred tax¹			
Origination and reversal of timing differences		(0.6)	0.8
Tax rate increase		0.5	1.0
Adjustments in respect of prior years		(0.5)	0.1
Total deferred tax	G2.4	(0.6)	1.9
Total taxation expense in the consolidated income statement	G2.2	38.7	34.5

G2.2 Reconciliation of taxation expense

The BBC Group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2013 £m	2012 £m
Surplus before tax		367.0	423.6
Share of associates and joint ventures		7.9	8.2
		374.9	431.8
Surplus before tax multiplied by standard rate of corporation tax in the UK of 24% (2012: 26%)		90.0	112.3
Effects of			
Public Services activities			
Public services taxable external income		7.2	6.2
Non-taxable public service activities		(45.2)	(57.5)
Commercial activities			
Disallowed expenditure (including goodwill impairment)		8.8	5.6
Tax exempt investment sale		(21.4)	(24.7)
Tax differential on overseas earnings		8.2	3.9
Tax differential in joint ventures and associates		0.3	0.9
Tax rate increase		0.4	1.0
Adjustments in respect of prior years		(1.7)	(5.0)
Total tax charge for the year		46.6	42.7
Share of tax of associates and joint ventures		(7.9)	(8.2)
	G2.1	38.7	34.5

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

G. Other continued

G2.2 Reconciliation of taxation expense continued

There is no capital gains tax arising on the sale of property referred to in note D4 due to the availability of the indexation allowance.

The tax charge is driven by the results of the commercial businesses, as the BBC Group's public sector 'free-to-air' broadcasting activities are not subject to taxation.

The increase in tax differential on wholly owned overseas earnings is primarily due to the higher rates of tax in overseas jurisdictions. The lower effective tax rate (total tax charge for the year as a percentage of Group profit excluding tax) arises from the sale of investments that are exempt from capital gains tax.

G2.3 Factors that may affect future tax charges

The UK Government has announced a phased reduction in the main rate of corporation tax in the UK. On 1 April 2013, the rate was reduced from 24% to 23%. Two further annual reductions are expected to follow in subsequent years, reducing the corporation tax rate to 20% from 1 April 2015. The impact of the future rate reductions will be accounted for in future periods, to the extent that they are enacted at the balance sheet date; however, it is estimated that this will not have a material effect on the BBC Group.

G2.4 Deferred tax assets/(liabilities)

	Fixed asset temporary differences £m	Provisions £m	Financial instruments £m	Other £m	Net deferred tax asset/ (liability) £m
At 1 April 2012	(2.1)	6.2	(1.2)	4.5	7.4
Net charge to income statement	1.1	(2.9)	1.5	0.9	0.6
Charge to Reserves	–	–	2.6	–	2.6
Exchange differences	(0.5)	–	–	0.3	(0.2)
Disposal of subsidiary, joint ventures and associates	7.6	–	0.2	(3.8)	4.0
At 31 March 2013	6.1	3.3	3.1	1.9	14.4

	2013 £m	2012 £m
Deferred tax asset/(liability) presented within:		
Non-current assets	15.1	13.4
Non-current liabilities	(0.7)	(6.0)
	14.4	7.4

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profit is probable. The BBC Group has unrecognised deferred tax assets arising on capital losses totalling £22.4million (2012: £20.4million). These assets are not recognised on the basis that there is insufficient certainty that capital or operating gains will arise against which the BBC Group can utilise these losses.

G3 Pension plans

Note G3 sets out the additional detailed disclosures related to the BBC Pension Scheme which were not included in note C7 or C8.

G3.1 Changes in the present value of plan liabilities¹

The table below illustrates the movement on the scheme liabilities during the year. The key drivers of this change are pension benefits earned, any gains or losses relating to participants leaving the pension scheme, changes in assumptions made and benefits paid out during the year.

	2013 £m	2012 £m
Opening present value of plan liabilities	10,370.5	9,756.3
Current service cost	149.8	160.0
Past service cost	3.4	4.8
Gains on curtailments	–	(45.0)
Interest on pension plan liabilities	530.1	527.2
Experience (gains)/losses arising on plan liabilities	(9.9)	113.3
Changes in assumptions underlying plan liabilities ¹	1,224.4	189.3
Contributions by plan participants	0.8	1.8
Benefits paid and expenses	(359.3)	(337.2)
Closing present value of plan liabilities	11,909.8	10,370.5

G3.2 Changes in the fair value of plan assets

The table below illustrates the movement on the plan assets during the year. The key drivers of this change are contributions made, changes in the value of the pension plan assets (including the investment return) and benefits paid during the year.

The employee contributions to the scheme by members are mainly paid via a salary sacrifice arrangement. These have been treated as employer contributions.

	2013 £m	2012 £m
Opening fair value of plan assets*	9,198.5	8,835.8
Expected rate of return on plan assets	640.9	643.3
Actuarial gains/(losses) on plan assets ¹	527.4	(157.8)
Contributions by employer	192.8	212.6
Contributions by plan participants	0.8	1.8
Benefits paid and expenses	(359.3)	(337.2)
Closing fair value of plan assets*	10,201.1	9,198.5

* excluding AVC funds

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

G. Other continued

G3.3 Plan assets

The allocation of assets by the Pension Trust Trustees is governed by the need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the Trustees expect will produce higher returns in the long term. For more information on the Scheme, including target assets allocations, see <http://www.bbc.co.uk/mypension>.

Type of asset	2013		2012	
	£m	%	£m	%
Equities	3,948	39	4,101	45
Bonds	3,229	31	2,369	25
Property	1,060	10	1,077	12
Alternatives*	1,801	18	1,494	16
Cash	163	2	158	2
Total assets	10,201	100	9,199	100
Actual return on pension plan assets**	1,168		486	

* Alternatives include private equity, debt and currency.

** This constitutes realised gains from the receipt of investment income (e.g. dividends and rent), transactions where assets are sold and unrealised fair value changes.

G3.4 BBC Pension Scheme losses¹ in consolidated statement of comprehensive loss

	2013 £m	2012 £m
Actual return less expected return on pension plan assets	527.4	(157.8)
Experience gains/(losses) arising on plan liabilities	9.9	(113.3)
Changes in assumptions underlying the present value of plan liabilities	(1,224.4)	(189.3)
Net loss recognised in the consolidated statement of comprehensive loss	(687.1)	(460.4)
Cumulative loss recognised in the consolidated statement of comprehensive loss	(5,239.1)	(4,552.0)

¹ See Glossary for further details

G3.5 History of experience gains and losses

	2013	2012	2011	2010	2009
Experience adjustments on plan assets:					
Amount (£million)	527.4	(157.8)	93.1	1,363.0	(2,094.0)
Percentage of plan assets	5.2%	1.7%	1.1%	16.7%	32.4%
Experience adjustments on plan liabilities:					
Amount (£million)	9.9	(113.3)	71.7	33.2	171.3
Percentage of plan liabilities	0.1%	1.1%	0.7%	0.3%	2.6%
Total actuarial (loss)/gain recognised in consolidated statement of comprehensive loss					
Amount (£million)	(687.1)	(460.4)	303.7	(1,869.9)	(784.6)
Percentage of plan liabilities	5.8%	4.4%	3.1%	19.1%	11.9%

G3.6 Principal actuarial assumptions

The calculation of the scheme liabilities and pension charges, for IAS 19 purposes, requires a number of financial and demographic assumptions to be made. The principal assumptions used by the actuaries, at the balance sheet date were:

	2013 %	2012 %
Principal financial assumptions		
Rate of increase in salaries	1.0	1.0
Rate of increase in pension payments:		
Old Benefits	3.4	3.5
New Benefits	3.2	3.3
Career Average Benefits (2006)	2.4	2.4
Career Average Benefits (2011)	2.3	2.4
Inflation assumption (RPI)	3.4	3.5
Inflation assumption (CPI)	2.4	2.5
Discount rate ¹	4.5	5.2

The average life expectancy assumptions, for members after retirement at 60 years of age, are as follows:

	2013 Number of years	2012 Number of years
Principal demographic assumptions		
Retiring today:		
Male	28.0	27.9
Female	28.6	28.5
Retiring in 20 years:		
Male	30.5	30.3
Female	30.3	30.2

The longevity assumptions have been selected to reflect the characteristics and experience of the membership of the scheme. This has been done by adjusting standard mortality tables ('SI' series of tables, published by the CMI) which reflect recent research into mortality experience in the UK with a long-term rate of improvement of 1.5% per annum for males and 1.0% per annum for females.

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

G. Other continued

G3.6 Principal actuarial assumptions continued

	2013 %	2012 %
Expected long-term rate of return (per annum)*		
Equities	7.6	8.4
Bonds and gilts	3.8	4.4
Property	5.7	6.4
Alternatives	7.6	8.4
Cash	3.4	3.5
Total expected rate of return	6.1	7.1

* As at the beginning of the financial year.

The expected return on plan assets for the next year is determined by considering the expected returns available on the major asset classes held by the Scheme at the end of each reporting period. Expected returns on bonds are determined by reference to the redemption yield on Government bonds of long duration. Expected returns on equity investments and other assets reflect long-term real rates of return expected by the market. The expected rate of return adopted for property investments is chosen to be mid-way between the return on equities and the return on bonds.

G3.7 Scheme membership analysis and maturity¹ profile

	2013 Number	2012 Number
Contributors	14,203	15,647
Pensioners	19,055	18,884
Dependants	4,094	4,028
Deferred pensioners	28,957	28,313

The total number of Scheme beneficiaries as at 31 March 2013 was 57,062 (2012: 57,186). Membership numbers in the table above are higher as members can hold more than one record. For example, contributing members who have transferred to the Career Average Benefits 2011 section from another section of the Scheme may have a deferred pensioner record for their benefits built up in the Old Benefits, New Benefits or Career Average Benefits 2006 sections and a contributing record for their Career Average Benefits 2011 benefits.

¹ See Glossary for further details

G4 Financial instruments

This section details the financial instruments held by the BBC Group. A financial instrument is a contract that results in one entity recording a financial asset (a contractual right to receive financial assets e.g. cash) in their accounts and another entity recording a financial liability.

The BBC Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and cash equivalents, borrowings and various items such as trade receivables and payables that arise directly from its operations.

G4.1 Financial risk management

The BBC Group's financial risk management operations are carried out by a BBC Group Treasury function, within parameters defined formally within the policies and procedures manual agreed by the BBC Executive Board. BBC Group Treasury's activity is routinely reported and is subject to review by internal and external auditors.

BBC Group Treasury uses financial instruments to raise finance and to manage financial risk arising from the BBC's operations in accordance with its objectives which are:

- to ensure the business of the BBC Group, both UK PSB Group and Commercial, is funded in the most efficient manner and remains compliant with borrowing ceilings;
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations;
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements.

The BBC Group takes a risk averse approach to the management of foreign currency trading and has implemented a clear economic hedging policy to minimise volatility in the financial results. A small number of the forward foreign currency contracts entered into by the BBC Group were designated as hedging instruments in effective cash flow hedges. Hedge accounting is only applied where there is appropriate designation and documentation.

The BBC Group is exposed to the following areas of risk arising from financial instruments:

- Market risk, principally currency and interest rate risk;
- Liquidity risk; and
- Credit risk¹. The largest element is the licence fee debtor, £404.9million (2012: £410.4million), the amount of income that the BBC receives is directly related to the amount of licence fee collected from households in the UK.

¹ See Glossary for further details

G. Other continued

G4.1 Financial risk management continued

The material risks to the BBC Group are:

Currency risk:

The BBC Group is principally a UK based organisation with the majority of transactions, assets and liabilities being sterling based. However, the BBC Group undertakes some transactions in currencies other than sterling. Due to movements in exchange rates over time, the amount the BBC Group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction.

The most significant currency exposure by total value of transactions is to US dollars. Due to the relative size of this exposure in comparison to the BBC Group's sterling-denominated business, the BBC does not consider this to be significant for the BBC Group, but does, however, generally enter into forward currency contracts to manage, or hedge, this currency risk, which allows the BBC Group to settle transactions at known exchange rates, reducing uncertainty.

The overall income or expenditure to be recognised in relation to contracts denominated in foreign currency (and the related hedges) is therefore fixed, however where these contracts span financial years, the recognition of the fair value of the forward currency contracts results in timing gains/losses in each financial year. These timing gains/losses are therefore a result of market conditions and not variances in underlying contract value.

As a result of this certainty of cash flows the BBC Group has mitigated its underlying sensitivity to currency fluctuations and therefore has not presented sensitivity analysis as any potential variation is insignificant.

At 31 March 2013 the BBC Group had entered into a net commitment to sell foreign currencies amounting to £312.2million (2012: net commitment to sell £220.1million) that mature in the period through to 2016 in order to fix the sterling cost of commitments through this period (mainly Euros and US dollars). These forward foreign exchange contracts mean the BBC Group had no significant currency exposure.

Interest rate risk:

The BBC Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the BBC Group has been borrowing at floating rates of interest and then using interest rate swaps, caps and collars to manage the BBC Group's exposure to interest rate fluctuations and provide greater certainty of cash flows. Interest rate swaps, caps and collars are taken out based on projected borrowing requirements, therefore differences will occur between the notional amount of the swaps, caps and collars and the actual borrowing requirements. The effect of taking out the interest rate swaps, caps and collars is that in the longer term the BBC Group has no significant exposure to interest rate fluctuations and hence no sensitivity analysis is presented.

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature by July 2016. The impact of a change in interest rates can also be limited by entering into interest rate cap and collar transactions; all outstanding caps and collars mature by April 2013. In total, £282.0million (2012: £195.3million) of swaps and £40.0million (2012: £84.0million) of caps and collars were entered. All swaps and caps were effective at 31 March 2013 to ensure borrowings are suitably covered for the foreseeable future. The coverage is £132.6million higher (2012: £79.5million higher) than the current level of borrowings of £189.4million (2012: £199.6million).

Fair value movements in respect of interest rate swaps and interest rate options are recorded through the income statement within financing income/financing costs.

Liquidity risk:

Liquidity risk is the risk that the BBC Group will not be able to meet its financial obligations as they fall due. The BBC is subject to ceilings on its borrowings set by the Secretary of State in accordance with the Agreement between the BBC and DCMS (see note F1). In order to comply with these ceilings together with the terms of any individual debt instruments the BBC's Group Treasury manages the BBC Group's borrowings by continuously monitoring BBC Group cash flow forecasts. The BBC holds its surplus liquidity in term deposit accounts with highly rated financial institutions.

G4.2 Fair values of financial instruments

The following table shows the fair value of the BBC Group's financial instruments, in categories according to how the financial instrument is measured. It also shows the maturity profile for each category of financial asset and liability.

	Amounts due in less than one year £m	Amounts due between two and five years £m	Amounts due after more than five years £m	Total £m
2013 – Fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments:				
Derivatives that are designated in effective hedges	0.5	0.1	–	0.6
Derivatives held for trading	3.5	4.8	–	8.3
Loans and receivables				
Trade and other receivables	629.5	–	9.3	638.8
Cash and cash equivalents				
	575.2	–	–	575.2
Available-for-sale financial assets				
Other investments	–	–	121.5	121.5
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments:				
Derivatives that are designated in effective hedges	(5.4)	(4.4)	–	(9.8)
Derivatives held for trading	(4.7)	(6.2)	–	(10.9)
Trade and other payables	(0.4)	–	–	(0.4)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	–	(189.4)	–	(189.4)
Trade and other payables	(369.9)	–	–	(369.9)
Obligations under finance leases	(52.3)	(150.4)	(1,263.1)	(1,465.8)

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

G. Other continued

G4.2 Fair values of financial instruments continued

	Amounts due in less than one year £m	Amounts due between two and five years £m	Amounts due after more than five years £m	Total £m
2012 – Fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments:				
Derivatives that are designated in effective hedges	2.0	0.9	–	2.9
Derivatives held for trading	1.4	1.4	–	2.8
Loans and receivables				
Trade and other receivables	628.6	–	7.8	636.4
Cash and cash equivalents				
	407.3	–	–	407.3
Available-for-sale financial assets				
Other investments	–	–	100.9	100.9
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments:				
Derivatives that are designated in effective hedges	(0.9)	(0.4)	–	(1.3)
Derivatives held for trading	(3.3)	(5.5)	–	(8.8)
Trade and other payables	(14.0)	–	–	(14.0)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(30.8)	(169.9)	–	(200.7)
Trade and other payables	(376.5)	–	–	(376.5)
Obligations under finance leases	(6.0)	(35.3)	(847.7)	(889.0)

The fair value and carrying value of financial instruments was the same with the exception of finance leases. At 31 March 2013 the fair value of the Group's obligations under finance leases was £583.2million higher than their carrying value. This was generated by the movement in the interest rates between the inception of each finance lease (used to generate the finance lease models) and 31 March 2013.

Bank loans, overdrafts and loan notes exclude £1.9million prepayment for fees incurred to renegotiate the loan facility in the 2011/12 financial year.

The finance leases include £4.8million (2012: £7.0million) relating to Centre House Productions Limited. Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits¹ which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. The BBC has a right of offset which meets the criteria as set out in IAS 32 (Financial Instruments Presentation); therefore, the finance lease creditor is presented net of defeasance deposits to arrive at the net unmatched liability at the year end. These defeasance deposits, £94.0million at 31 March 2013 (2012: £125.3million), are structured such that the principal on deposit and interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly, it is not included as borrowing for the purposes of compliance with the BBC's borrowing ceilings.

¹ See Glossary for further details

G4.3 Derivative financial instruments

When calculating the fair value of the BBC Group's financial instruments (subsequent to the initial recognition), the technique used in each calculation has to be allocated to the relevant level of hierarchy in the table below. This disclosure helps to show the level of judgement that the BBC Group has used in calculating fair values, subsequent to the initial recognition.

Categorisation into the following headings is based on the inputs used for the valuation technique as opposed to the technique itself:

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets (where transactions occur on a frequent basis and in sufficient volumes for the pricing information to be available on an ongoing basis). The prices are therefore available to the general public for identical instruments and occur on a regular basis, thus ensuring they are continually up to date;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Instruments that would typically fall into this category include those where quoted prices are available for similar, but not identical instruments and instruments where a quoted price is available, but in a non-active market i.e. the price may be out of date and therefore require some limited adjustments; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This can include methods such as projected future cash flows and occur where there is little, or no, market activity.

	Fair value hierarchy level	Assets £m	Liabilities £m
2013			
Greater than one year			
Forward foreign currency contracts	2	4.8	(5.5)
Interest rate swaps, caps and collars	2	–	(3.7)
Embedded derivatives	2	0.1	(1.4)
Assets available for trading	3	121.5	–
		126.4	(10.6)
Less than one year			
Forward foreign currency contracts	2	4.0	(8.8)
Interest rate swaps, caps and collars	2	–	(1.3)
Other payables	3	–	(0.4)
		4.0	(10.5)
2012			
Greater than one year			
Forward foreign currency contracts	2	2.1	(1.3)
Interest rate swaps, caps and collars	2	–	(3.8)
Embedded derivatives	2	0.2	(0.8)
Assets available for trading	3	100.9	–
		103.2	(5.9)
Less than one year			
Forward foreign currency contracts	2	3.4	(2.3)
Interest rate swaps, caps and collars	2	–	(1.8)
Embedded derivatives	2	–	(0.1)
Other payables	3	–	(14.0)
		3.4	(18.2)

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

G. Other continued

G4.3 Derivative financial instruments continued

Level 3 financial assets recorded at fair value and included within available for sale investments include £116.4million (2012: £100.3million) for the shares held in Daunus Limited, the entity that is redeveloping Broadcasting House. The BBC holds a 10% share of the issued share capital (preferential in nature) of that company which it classes as an available for sale investment, due to mature in 2033 at which point in time the BBC receives certain rights in respect of new Broadcasting House. The estimated interest rate used (linked to RPI) was 2.6% (2012: 5.0%) and the rate used to discount the future cash flows was 2.7% (2012: 3.2%).

Level 3 financial liabilities recorded at fair value and included within other payables relate to written put options¹ issued to non-controlling interests in the BBC Group's subsidiaries. The fair value of such instruments is calculated based on the strike price¹ of the options and management's best estimate of the date at which options will be exercised¹. Where the strike price of an option is based on the fair value of the underlying business, this has been estimated based on forecasts of future cash flows prepared by management.

The change in fair value of Level 3 financial instruments is reconciled as follows:

	Note	2013 £m		2012 £m	
		Financial assets	Financial liabilities	Financial assets	Financial liabilities
Opening balance		100.9	(14.0)	76.9	(7.5)
Additions		5.0	1.4	0.6	–
Settlements		–	14.0	–	–
Unwinding of discount recorded within finance income	D2	3.9	–	5.1	–
Change in fair value recorded in operating costs		(0.6)	–	–	–
Change in fair value recorded in consolidated statement of comprehensive loss	D2	12.1	(1.8)	18.3	(6.5)
Foreign exchange translation gains and losses		0.2	–	–	–
		121.5	(0.4)	100.9	(14.0)

Level 3 financial liabilities settled in the year relate to written put options issued over non-controlling interests in the Group's subsidiary, Bedder 6 Limited. The Group acquired all such interests on 12 September 2012 for cash consideration of £14.0million and deferred and contingent consideration with a fair value of £1.8million. In accordance with IAS 27 (2008) Consolidated and Separate Financial Statements, the acquisition was treated as a transaction with shareholders. Accordingly, the associated acquisition costs of £0.4million have been recorded directly in equity.

The BBC Group applies cash flow hedge accounting for trades taken out by certain of its Commercial subsidiaries in respect of their forecasted foreign currency transactions. Hedge accounting is only applied where appropriate designation and documentation exists. Net losses (before tax and non-controlling interests) recognised in the hedging reserve on forward foreign exchange contracts in cash flow hedge relationships at 31 March 2013 were £10.8million (2012: gains of £0.4million). These amounts will be recognised in the income statement in the period when the hedged forecast transaction affects the income statement, at various dates over the next twelve months.

¹ See Glossary for further details

G4.3 Derivative financial instruments continued

The following table details the BBC Group's remaining contractual maturity for its non-derivative financial liabilities (including obligations under finance leases) but excludes trade and other payables that were settled in the normal course of business and are due within one year. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the BBC Group can be required to pay:

	Cash flow £m	Interest £m	Principal £m
2013			
Variable interest rate instruments			
Not later than one year	190.2	0.8	189.4
Fixed interest rate instruments			
Not later than one year	109.3	82.3	27.0
Later than one year but not later than five years	334.5	311.6	22.9
Later than five years	1,681.1	848.4	832.7
	2,315.1	1,243.1	1,072.0
2012			
Variable interest rate instruments			
Not later than one year	202.6	1.9	200.7
Fixed interest rate instruments			
Not later than one year	89.0	83.0	6.0
Later than one year but not later than five years	351.6	316.3	35.3
Later than five years	1,778.0	930.3	847.7
	2,421.2	1,331.5	1,089.7

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

G. Other continued

G5 Interests in joint ventures, associates and subsidiaries

The BBC Group holds (directly and indirectly) interests in the following significant joint ventures, associates and subsidiaries listed below which, except where otherwise stated, are incorporated in Great Britain and registered in England and Wales. A full list of joint ventures, associates and subsidiaries is available on request from the General Counsel and Secretary, BBC, Broadcast Centre, 201 Wood Lane, London W12 7TP.

G5.1 Significant joint ventures and their activities

The BBC Group has a 50% equity interest in the following joint ventures which are all incorporated in Great Britain and registered in England and Wales, unless otherwise stated:

Name of entity	Activity
Commercial joint ventures:	
UK Gold Holdings Limited	Holding company
UK Channel Management Limited	TV channel operator
Digital UK Limited*	Digital Switchover

* On 31 December 2012 the BBC's interest in Digital UK Limited was reduced within the Articles of Association to 25%. No gain or loss was recognised.

G5.2 Significant associates and their activities

	Holding of issued ordinary shares %	Activity
YouView Limited	14.3	Multiplatform broadcasting
3sixtymedia Limited	10*	Production

* The BBC holds 10% holding of the total share capital of 3sixtymedia Limited but 20% of the Class A ordinary shares which gives it significant influence.

G5.3 Subsidiary undertakings¹

Name of entity		Activity
Commercial Subsidiaries: (All 100% owned unless stated)		
BBC Commercial Holdings Limited	*	Holding company
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC Global News Holdings Limited	**	Holding company
BBC Ventures Group Limited	**	Holding company
BBC Studios and Post Production Limited	**	Programme making facilities and services
Zentertain Limited	**	DVD/video publisher
BBC Worldwide Australia Pty Limited (incorporated in Australia)	**	Investment company
BBC Worldwide Americas Inc. (incorporated in the USA)	**	Holding company
BBC Global News Limited	**	Broadcaster
BBC.com Limited	**	Programme distribution
BBC World Distribution Limited	**	Programme distribution
Subsidiaries incorporated to act on behalf of UK PSB:		
BBC Property Limited	*	Property
BBC Property Investment Limited	*	Property
BBC Property Development Limited	*	Property
Centre House Productions Limited	*	Production financing
DSHS Limited	*	Digital switchover

* Directly owned.

** Indirectly owned.

Except where noted above all entities are incorporated in England and Wales.

G6 Reserves

G6.1 Operating reserve

At 31 March 2013, the cumulative goodwill written off to reserves on acquisitions prior to 1999 amounted to £6.8million. This amount is unchanged on prior year and remained in equity upon transition to IFRS as permitted by IFRS1 *First time adoption of IFRS*.

G6.2 Available-for-sale reserve

The balance as at 31 March 2013 relates to the fair value of the BBC's investment in Daunus Limited (see note D2).

G7 Post balance sheet events

There are no material events after the balance sheet date to disclose.

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013
NOTES TO THE ACCOUNTS

G. Other continued

G8 Related party transactions

The following table represents transactions with related parties excluding key management personnel

	Joint ventures, associates and other investments		BBC Pension Scheme	
	2013 £m	2012 £m	2013 £m	2012 £m
Rendering of services	62.6	70.3	–	–
Receiving of services	(15.7)	(21.5)	–	–
Pension contributions	–	–	192.8	212.6
Dividends received	19.5	18.8	–	–
	66.4	67.6	192.8	212.6

	Amounts owed by related parties		Amounts owed to related parties	
	2013 £m	2012 £m	2013 £m	2012 £m
BBC Pension Scheme	–	–	(1.1)	(0.7)
Joint ventures, associates and other investments	29.4	40.7	(5.9)	(16.4)
	29.4	40.7	(7.0)	(17.1)

In all transactions, the terms of trade were negotiated on an arm's length basis.

The BBC Group also enters into various transactions with government and local authorities on an arm's length basis. These transactions include council tax agreements and corporation tax payments.

Related party transactions with key management personnel are disclosed in note C6.

G9 Segment reporting

Geographical location of income and non-current assets

	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group £m
2013						
Non-current assets excluding deferred tax and financial instruments:						
UK	1,426.2	59.7	211.6	8.1	(45.7)	1,659.9
Rest of world	1.0	62.8	39.0	0.4	–	103.2
	1,427.2	122.5	250.6	8.5	(45.7)	1,763.1
Additions included in fixed assets and investments	139.3	6.0	131.8	4.6	(38.4)	243.3
External income:						
UK	3,926.0	272.2	257.7	37.6	(205.7)	4,287.8
Rest of world	7.3	4.6	710.9	91.7	–	814.5
	3,933.3	276.8	968.6	129.3	(205.7)	5,102.3

	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group £m
2012						
Non-current assets excluding deferred tax and financial instruments:						
UK	1,460.7	70.6	200.7	101.7	(111.8)	1,721.9
Rest of world	1.7	79.5	100.8	0.1	–	182.1
	1,462.4	150.1	301.5	101.8	(111.8)	1,904.0
Additions included in fixed assets and investments	176.6	27.0	138.9	2.8	–	345.3
External income:						
UK	3,877.2	279.3	325.7	53.9	(206.1)	4,330.0
Rest of world	1.0	5.4	680.8	69.3	–	756.5
	3,878.2	284.7	1,006.5	123.2	(206.1)	5,086.5

H. Basis of preparation of the financial statements and other accounting policies

The BBC is incorporated in the United Kingdom under the Charter.

Statement of accounting policies

The BBC Group is required to select and apply accounting policies for each type of transaction entered into throughout the year and in the preceding year. An accounting policy will specify the timing for recognising and derecognising assets, liabilities, income and expenditure, how those items will subsequently be measured and where they are presented in the statement of total income and expenditure, balance sheet and statement of cash flows.

For ease of reference, the accounting policies are grouped below into the section headings used above for the notes to the accounts.

Use of estimates and judgement

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the BBC Executive Board to exercise judgement in applying the BBC Group's accounting policies. These areas involve a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the consolidated financial statements. We have presented such estimates or judgements alongside the related accounting policy within the relevant section of the notes.

Basis of preparation

These consolidated financial statements for the BBC Group have been prepared in accordance with EU (IFRS).

The financial statements are principally prepared on the historical cost basis, meaning that after initial recognition, the carrying amount of assets and liabilities are determined by reference to their original cost. Areas where other bases are applied are identified in the accounting policies within the relevant section of the notes.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the BBC Group's financial position and performance.

Adoption of new and revised accounting standards

In the current year, the following revised Standards have been adopted and have been applied since April 2012.

IFRS 7 (revised) Financial instruments: disclosure

There were no material impacts on the financial statements of the BBC Group following the introduction of this revised standard. No changes have been made to the BBC Group's accounting policies during the year.

Going concern¹

The financial statements are prepared on a going concern basis, notwithstanding net liabilities of £59.8million as at 31 March 2013. The Directors believe this to be appropriate for the following reasons.

The net liability position results entirely from the recognition of an additional £536.7million deficit on the BBC pension scheme. The accounting valuation of the scheme as at 31 March 2013 showed a deficit of £1,708.7million (2012: £1,172.0million) primarily driven by a change to the discount rate, which is used to discount the future pension liability. The discount rate is determined by reference to market yields at the balance sheet date on high quality (taken to be AA or equivalent status) corporate bonds, which as a result of current market conditions, have fallen substantially.

The triennial valuation as at 1 April 2013 is currently underway and it is not until this valuation is finalised and agreement is reached with the pension fund trustees that definitive levels of future funding will be determined.

The Directors have prepared cash flow forecasts for a period in excess of a year from the date of approval of these financial statements, and have reviewed the 24 month period to 31 March 2015. In the Directors' judgement, the key factors in these forecasts are: the continuity of the Charter and licence fee (the quantum of which has been agreed until 2016), the BBC Pension Scheme deficit and the resultant deficit recovery payments agreed with the pension scheme Trustees and the realisation of planned cost savings under the 'Delivering Quality First' programme.

The Charter and licence fee give the BBC Group a 'near-guaranteed' source of income, however, the timing of cash flows is an important factor in the consideration of going concern, given the relatively small borrowing restrictions imposed by the DCMS on both UK PSB Group (£200million) and the commercial operations of the BBC (£350million).

The BBC Group has external funding available, including a £200million sterling revolving credit facility which expires on 1st July 2013 and which is currently unutilised. UK PSB net funds at 31 March 2013 were £470.1million, this equates to a headroom of £670.1million. This facility will be renewed with committed facilities of £150million providing full funding against the internal limit set by the BBC Trust. The UK PSB Going Concern cash position remains positive for the duration of 12months from the date of signing which the directors consider to be the foreseeable future.

The BBC Group also has a £380million multicurrency revolving credit facility available to the BBC commercial operations in place until July 2016, of which £172.0million was drawn down at 31 March 2013 (2012: £185.0million).

The Directors of the BBC Group have reviewed these forecasts taking all above factors into consideration, together with the sensitivities and mitigating factors in the context of available funds and expect the BBC Group to be able to meet its debts as they fall due for the foreseeable future.

As a result, the Directors are satisfied that the going concern basis is appropriate for the preparation of these the annual financial statements.

¹ See Glossary for further details

Basis of consolidation

The BBC Group accounts include the results of the BBC and all businesses controlled by the BBC (subsidiaries¹) together with the BBC's share of the results of businesses over which the BBC has significant influence but not control (associates¹) and those which the BBC jointly controls (joint ventures¹).

The BBC Group accounts for its interests in joint ventures and associates using the equity method. The equity method means that the BBC presents its interest in the joint venture or associate as a single line item in the balance sheet, measured at cost of investment plus share of net results, less dividends received. The equity accounted result for the year is presented as a single line item in the statement of income and expenditure.

Changes in the BBC Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, being movements between reserves attributable to the BBC and non-controlling interests. A non-controlling interest is the interest in a subsidiary that is not owned, directly or indirectly, by the BBC. The non-controlling interest reflects the amount of the net result for the year and the net assets/(liabilities) which are not attributable to the BBC. The carrying amounts of non-controlling interests are adjusted to reflect any changes in their, and the BBC Group's, relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the BBC.

When the BBC Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the net assets of the subsidiary (including attributable goodwill) and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to the income statement or transferred directly to retained earnings as appropriate. The fair value of any interest retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in a joint venture or associate.

Use of estimates and judgement – Basis of consolidation

Judgement is required in determining whether certain entities in which the BBC Group has an economic interest should be considered to be subsidiaries or joint ventures. In such circumstances, the BBC Group has assessed its ability to control or influence those entities. Control has been assessed with reference to the ability of the BBC Group to direct, unilaterally, key policies of the entity. Where such policies are reserved such that an economic partner has the power to veto key strategic financial and operating decisions, the entity is considered to be a joint venture.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given by the BBC Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. Subsequent adjustments to the fair values of net assets acquired are made within 12 months of the acquisition date where original fair values were determined provisionally. These adjustments are accounted for from the date of acquisition. Transaction costs that the BBC Group incurs in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred. The BBC Group, on an acquisition recognises any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of net assets.

When control is obtained in successive share purchases (a 'step acquisition') it is accounted for using the acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the income statement.

Foreign currency transactions¹

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign currency gains or losses arising from the translation of assets and liabilities at these rates of exchange, together with exchange differences arising from transactions settled during the year, are included in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of initial recognition.

Financial statements of foreign operations

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. The income and expenses of foreign operations are translated into sterling at average monthly rates of exchange ruling during the financial period, which is a good approximation for the actual rate. Exchange differences arising on translation are recognised directly in the translation reserve.

On disposal of an investment in a foreign operation the associated translation reserve balance is released to the income statement.

¹ See Glossary for further details

H. Basis of preparation of the financial statements and other accounting policies continued

Accounting policies relevant to section A

Licence fee income

Income from television licences is treated as an amount due from the relevant Government department, principally the DCMS. This represents the value of licences issued in the year, less a deduction for refunds and cancellations.

Where an element of the licence fee income has been ring-fenced by the Government for a specific purpose, that income is recognised when it is due, except if it becomes virtually certain that the BBC's expenditure on the ring-fenced purposes will be less than the ring-fenced income already received. In this case, the relevant amount of licence fee income, as agreed with the Government, will be repayable and recognised as such in the year the obligation to repay arises.

Other income

Other income arises from activities such as the sale of goods, provision of services and granting of licences. Revenue is measured after deductions for value added tax, any other sales taxes, trade discounts and sales between BBC Group companies.

■ **Sale of goods**

Revenue is recognised once the significant risks and rewards of ownership of the goods have been passed to the customer and the BBC has released all managerial involvement surrounding the goods. Sales of goods are stated after deduction of the sales value of actual and estimated returned goods. Examples of goods sold include magazines, books and DVDs.

■ **Sale of services**

Revenue is recognised at the point the service has been delivered and the receipt of the income is probable. Where the delivery is over a period of time, the revenue is recognised on a straight line basis. Examples of services sold include advertising and commercial licences for specific rights associated with TV programmes.

■ **Royalties**

Royalty income is recognised on an accruals basis in accordance with the detail of the relevant agreements.

■ **Rental income**

Rental income is recognised on a straight line basis over the term of the lease.

■ **Grants from Government departments**

The BBC World Service receives Grant-in-Aid from the Foreign and Commonwealth Office and BBC Monitoring receives a grant from the Cabinet Office. These grants are drawn down to meet estimated expenditure in the year but unspent amounts do not have to be repaid, as long as they fall within predetermined limits. The grants are recognised as income in the financial year that they relate to.

■ **Grants from other public bodies**

Grants from other public bodies are recognised as income consistently with the related costs, provided that there is reasonable assurance that the BBC will comply with any conditions attached to the grant and that the grant will be received.

Accounting policies relevant to section B

Completed originated programmes¹, programmes in production and prepayments to acquire future programme-related rights

Completed originated programmes and programmes in production are held at cost.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads. The proportion of programmes necessarily taking a substantial period of time to produce is small and as such no borrowing costs are included in cost.

Where, exceptionally, a programme is unable to be broadcast, as soon as it is virtually certain that this is the case, the full value of the programme will be written off to the income statement.

Programme development costs are expensed to the income statement until such time as there is a strong indication that the development work will result in a commissioned programme¹, when any further costs are recognised as programme-related assets.

Originated programmes that are still in production at the balance sheet date are recognised as programmes in production, except that prepayments to acquire future programme-related rights are shown separately where the BBC has made payments to independent producers, or the holders of certain rights (for example, rights to broadcast sporting events), to receive the programme on completion.

Rights to broadcast acquired programmes and films

The rights to broadcast acquired programmes and films are recognised at cost. The costs of acquired programmes and films are written off on first transmission except to the extent that the numbers of further showings are contractually agreed, when it is written off according to its expected transmission profile. Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period, whichever is earlier. Agreements for the future purchase of rights whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Where the BBC has invested in independent productions, in addition to broadcasting rights, the BBC may obtain rights to future royalties from the sale of rights associated with the production. These residual interests are recognised initially at cost subject to amortisation as royalties are received and impairment if anticipated royalties do not materialise.

Other inventories

Raw materials and other physical inventory, including finished goods, are stated at the lower of cost and net realisable value.

¹ See Glossary for further details

Accounting policies relevant to section C

Other employee benefits

Other short and long term employee benefits, including holiday pay and long service leave, are recognised as an expense over the period in which they accrue.

Termination benefits

Termination benefits are a component of restructuring provisions and are payable when employment is terminated before the normal retirement date. They are recognised as an expense when the Group is demonstrably committed to termination being when there is a detailed formal plan to terminate employment without possibility of withdrawal.

Defined contribution plans

The amounts charged as expenditure for the defined contribution plans represent the contributions payable by the BBC for the accounting period.

Defined benefit plans

The defined benefit plans, of which the majority of staff are members, provide benefits based on pensionable pay. The assets of the BBC's pension scheme are held separately from those of the BBC Group.

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured using a projected unit credit method. The present value of scheme liabilities is calculated by discounting estimated future cash out flows at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities.

The difference between the fair value of the pension scheme assets and the present value of the pension scheme liabilities is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of comprehensive loss, actuarial gains and losses. Generally, amounts are charged to operating expenditure on the basis of the current service cost of the present employees that are members of the BBC Pension Scheme.

The BBC Group recognises a curtailment when it is demonstrably committed to a significant reduction in employees covered by the scheme or amends the scheme's terms such that a significant element of future service will qualify for no or reduced benefits. Curtailment gains and losses are recognised in the income statement.

Use of estimates and judgement – Post-retirement benefits

The pension costs and obligations of the BBC Group's defined benefit schemes are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. Further analysis on the sensitivity of pension assumptions is given in note C8.I.

Accounting policies relevant to section D

Owned assets

Other than as noted below, items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Leased assets

Assets held under finance leases¹ are capitalised within property, plant and equipment and depreciation is provided as appropriate. On initial recognition the asset is measured at the lower of its fair value and the present value of the minimum lease payments.

Depreciation

Depreciation is provided to write off the cost of each item of property, plant and equipment, less its estimated residual value, on a straight line basis over its estimated useful life. The major categories of property, plant and equipment are depreciated as follows:

■ Land and buildings

Freehold land – not depreciated

Freehold buildings – 50 years

Freehold building improvements – 10 to 50 years

Long leasehold buildings – shorter of 50 years or life of lease

Long leasehold building improvements – 10 to 50 years

Short-leasehold land and buildings – within unexpired lease term

■ Plant and machinery

Computer equipment – 3 to 5 years

Electrical and mechanical infrastructure – 10 to 25 years

Other – 3 to 10 years

■ Furniture and fittings – 3 to 10 years

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date.

Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Payments made under finance leases are apportioned between financing costs and the reduction of the outstanding liability. The financing costs are allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

¹ See Glossary for further details

H. Basis of preparation of the financial statements and other accounting policies continued

Accounting policies relevant to section D continued

Use of estimates and judgement – Leases

In assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the BBC Group. Given that finance leases are recognised as liabilities, and operating leases are not, this can have a significant effect on the reported financial position of the BBC. Other key judgements include the determination of the commencement date of a lease and the estimate of RPI to be included in the minimum lease payments.

When determining the accounting for a finance lease, the BBC has assessed whether it has the right to use the leased asset at the inception of the lease, or whether this right passes at a later date ('the commencement date').

Where a significant site is being redeveloped, occupation may occur in distinct phases; consequently, the leased asset and liabilities are recognised based on the proportion of the site occupied at each commencement date.

Non-current assets held for sale

Non-current assets (and disposal groups comprising assets and liabilities) are classified as held for sale if their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable.

On initial classification as held for sale, non-current assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale.

Investments in equity securities

Investments in equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the statement of comprehensive loss, except for impairment losses. When these investments are derecognised the cumulative gain or loss previously recognised in the statement of comprehensive loss is recognised in the income statement.

Accounting policies relevant to section E

Programme-related intangible assets

Programme-related intangible assets, which include programme rights¹ and residual programme rights, are stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. The cost and accumulated amortisation of programme-related intangible assets are reduced by programmes which are fully written off.

Research and development¹ expenditure – internally-generated intangible assets

Expenditure on research activities is written off in the income statement when incurred.

Expenditure on development activities is included on the balance sheet as an asset only if all of the following conditions are met:

- It is probable that the asset will generate future economic benefits; and
- the development costs of the asset can be measured reliably.

The assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

For UK PSB Group it is generally unlikely that future economic benefits in the form of cash inflows will be received, and as a result, other than assets created for use by the business in delivering its public purposes, development costs are only capitalised by the BBC Group's commercial businesses.

Other intangible assets

Other intangible assets acquired separately by the BBC Group are stated at cost less accumulated amortisation and any accumulated impairment losses. The identifiable intangible assets acquired as part of a business combination are shown at fair value at the date of acquisition (in accordance with IFRS 3 *Business Combinations*) less accumulated amortisation and any accumulated impairment losses.

¹ See Glossary for further details

Accounting policies relevant to section E continued

Amortisation¹

Amortisation is charged to the income statement on a systematic basis over the estimated useful lives¹ of intangible assets, from the date that they are available for use, unless such lives are indefinite. The useful lives and amortisation methods for each major class of intangible asset are as follows:

- Programme rights and residual programme rights – charged to the income statement to match the average revenue profile of the programme genre over the estimated average marketable life, generally between 2 and 10 years;

- Other intangibles:

Lonely Planet masthead	Straight line	20 years
UK.TV carrier agreements	Straight line	unexpired term of agreement
Software	Straight line	2 – 5 years
Other	Straight line	3 – 8 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date and adjusted if appropriate.

Impairment¹: Non-financial assets

At each balance sheet date, the BBC Group reviews the carrying amount (net amount held on the balance sheet) of those assets that are subject to amortisation to determine whether there is an indication that any of those assets has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

For goodwill the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the higher of fair value¹ less costs to sell and value in use. For the purposes of impairment testing, assets are grouped at the lowest level at which they generate separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Where a cash-generating unit is impaired the impairment loss will first be allocated to reduce goodwill and then to the other assets of the cash-generating unit on a pro rata basis, except that the carrying amount of any individual asset will not be reduced below its separately identifiable recoverable amount.

Impairment losses in respect of goodwill are not reversed. In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Goodwill¹

Goodwill is recorded in the balance sheet as the difference between the fair value of the consideration transferred by the BBC and the recognised amount of non-controlling interests in the acquiree compared to the fair value of the identifiable assets and liabilities acquired. These are all measured at the date of acquisition. Where the consideration is less than the net assets acquired, the difference is recognised immediately in the income statement

Acquisitions prior to 1 April 2007 – as part of the adoption of IFRS, in accordance with IFRS 1 *First-time adoption of IFRS*, the Group elected to restate only those business combinations that occurred on or after 1 April 2007. In respect of acquisitions prior to 1 April 2007, goodwill is recognised at deemed cost being the amount previously recognised under UK accounting standards, subject to being tested for impairment at that date. Goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve, as was permitted by UK GAAP at the time.

Goodwill arising on the acquisition of joint ventures and associates is included in the carrying amount of the joint venture or associate and is tested for impairment as part of the overall balance.

Subsequent measurement of separately recognised goodwill – goodwill is tested annually for impairment and is measured at cost less any accumulated impairment losses. For the purposes of impairment testing the goodwill is allocated to cash-generating units on the basis of those expected to benefit from the relevant business combination.

Use of estimates and judgement – Goodwill

The determination of whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate that reflects current market assessments of the risks specific to the asset and the time value of money, in order to calculate present value.

¹ See Glossary for further details

H. Basis of preparation of the financial statements and other accounting policies continued

Accounting policies relevant to section F

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at fair value less an allowance for estimated impairment. The allowance is based on objective evidence that the BBC Group will not be able to recover all amounts due.

Changes in the carrying amount of the allowance are recognised in the income statement.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost¹ using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use.

Originated programmes can be qualifying assets, but those necessarily taking a substantial period of time to get ready for broadcast are a small proportion of overall programme investment. Any borrowing costs that could be attributed to those programmes are not significant and, therefore, no borrowing costs are capitalised.

All finance income and other borrowing costs are recognised in income and expense in the period in which they are incurred.

Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the BBC. This can be very complex, especially when there is a wide range of possible outcomes.

The BBC Group recognises decommissioning liabilities as part of the initial cost of the asset, discounted to present value. The Group reassesses whether there has been a change in this liability based on the facts and circumstances at each balance sheet date.

Accounting policies relevant to section G

Taxation

The tax charge for the period comprises both tax currently payable and deferred tax¹. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves.

Current tax is the expected tax payable for the year, using tax rates that are enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In respect of tax currently payable:

- The BBC (UK PSB Group, BBC World Service and BBC Monitoring) is not liable to corporation tax on any surplus licence fee income or grants received from Government departments. However, it is fully liable for corporation tax on capital gains and on all its other external income. Expenditure on capital assets is not eligible for capital allowances giving rise to temporary differences that would lead to deferred tax assets or liabilities. Movements of fair value adjustments in the income statement give rise to deferred tax balances.
- The BBC's commercial subsidiaries are liable for corporation tax based on taxable profit for the year.

Deferred tax is provided using the balance sheet liability method on any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the tax rates expected to apply in the period when the liability is settled or the asset is realised using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the BBC Group has the right of offset.

Financial instruments

The BBC Group holds various derivative¹ and non-derivative financial instruments (including assets such as trade investments and liabilities such as borrowings). The accounting policy for the major categories of financial instruments is set out below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of less than three months. Cash and cash equivalents also includes licence fee funds collected on behalf of HM Treasury, which are excluded from the Group's net funds and in respect of which a separate creditor is recognised.

Derivative financial instruments

The BBC Group does not enter into speculative derivative contracts, however some derivative financial instruments are used to manage the BBC's exposure to fluctuations in interest rates (interest rate swaps¹, caps¹ and collars¹) and foreign currency exchange rates (foreign currency forwards contracts¹ and currency options).

¹ See Glossary for further details

Accounting policies relevant to section G continued

Derivative financial instruments, excluding derivatives held as qualifying hedges, are initially recognised at fair value and are subsequently remeasured to fair value at the balance sheet date with movements recorded in the income statement.

The fair value of interest rate swaps, caps and collars is the estimated amount that the BBC Group would receive or pay to terminate the swap, cap or collar at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap, cap or collar counterparties.

The fair value of foreign currency forward contract rates is determined using forward exchange rates at the balance sheet date.

Put option¹

Equity put options held by non-controlling interest holders are recognised as financial liabilities at the present value of the fair value of amounts payable on their exercise. The Group continues to recognise non-controlling interests in respect of these equity investments where the risks and rewards of ownership are deemed to have been retained by the non-controlling interest holders.

Hedge accounting

The BBC Group designates certain derivatives as cash flow hedges by documenting the relationship between the hedging instrument and the hedged item along with the risk management objectives and its strategy for undertaking various hedge transactions. Where the hedge is deemed to have been effective, the effective portion of any changes in the fair value of the derivatives that are designated in the hedge are recognised in other comprehensive income. Any ineffective portion is recognised immediately in the income statement.

Embedded derivatives

These derivatives are found embedded within other financial instruments or other host contracts. Once identified they are treated as derivatives in their own right if their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value.

Embedded derivatives are carried on the balance sheet at fair value from inception¹ of the host contract. Unrealised changes¹ in fair value are recognised as gains/losses within the income statement during the period in which they arise.

Impairment of financial assets

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence of impairment. Factors considered in determining whether there is objective evidence of an impairment include significant financial difficulty of the counterparty and breach of contract. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate¹. All impairment losses are recognised in the income statement.

Reserves

The operating reserve is the accumulated deficit/surplus to date.

Other reserves include the value of put options exercisable by non-controlling shareholders and available-for-sale reserve includes fair value gains and losses on available-for-sale financial assets.

The hedging reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (net of tax).

The translation reserve is used to record exchange differences arising from the retranslation of the net assets and results of overseas subsidiaries.

¹ See Glossary for further details

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

NOTES TO THE ACCOUNTS

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective.

Endorsed by the EU:

IFRS 1	<i>First time adoption</i>
IFRS 10	<i>Consolidated financial statements</i>
IFRS 11	<i>Joint arrangements</i>
IFRS 12	<i>Disclosures of interests in other entities</i>
IFRS 13	<i>Fair value measurement</i>
IAS 1 (Revised 2011)	<i>Financial Statement presentation</i>
IAS 19 (Revised)	<i>Employee Benefits</i>
IAS 27 (Revised 2011)	<i>Separate financial statements</i>
IAS 28 (Revised 2011)	<i>Associates and joint ventures</i>
IAS 32 (Revised)	<i>Financial instruments: presentation</i>

Not yet endorsed by the EU:

IFRS 9	<i>Financial instruments</i>
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The BBC Group currently does not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the BBC Group, except as follows:

- IAS 19 will impact both the measurement and disclosures of the BBC defined benefit Pension Scheme. Had these changes been adopted, the likely revisions in these financial statements would show the net deficit reducing by £100million (2012: £100million). The surplus for the year ended 31 March 2013 would have been lower by £171million and other comprehensive loss lower by £171million;
- IFRS 9 will impact both the measurement and disclosures of Financial instruments; and
- IFRS 12 will impact the disclosure of interest the BBC Group has in other entities.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

GLOSSARY

With the aim of improving comprehension, the table below explains the financial terms used within the financial statements:

Note	Term	Definition
C6	Related Parties	Related parties include key management personnel, their immediate families and external entities controlled by them.
C7	Pension Scheme	On retirement, members of the BBC's defined benefit Pension Scheme are paid their pensions from a fund which is kept separate from the Group to which the BBC makes cash contributions.
C7.2	Current Service Cost	The current service cost is the underlying cost to the BBC of pension rights earned by employees during the year.
C7.2	Net Finance Income/(Cost)	Net finance income/(cost) is the difference between the expected return on assets and the interest liabilities.
C7.2	Actuarial Gains and Losses	Actuarial gains and losses which arise from actual performance being different from that predicted give rise to gains and losses in the statement of comprehensive loss.
C7.2	Past Service	The past service charges arise from changes to the terms and conditions relating to member's defined retirement benefits, resulting in a credit for years of service already given.
C7.3/F9	Expected Return on Pension Plan Assets	The estimate of expected return on pension plan assets is based on predictions of future performance and economic conditions.
C8.1	IAS 19 Valuation	The IAS 19 valuation takes assets at their market value and discounts the accrued liabilities by reference to the discount rate of an AA rated corporate bond.
D2	Assets Available for Trading	Assets available for trading are interests in entities in which the BBC has neither control nor a significant interest.
D5	Finance Lease	A finance lease is a lease where the lessee has substantially taken on the risks and rewards of ownership and operating the asset. As such, both the asset and future liability are recognised on the balance sheet.
D7	Operating Lease	An operating lease is a lease where the lessee has not taken on the risks and rewards of owning and operating the asset. The lessee (the BBC) is hiring rather than buying an asset.
E2	Cash Generating Units	Cash generating units are the smallest group of assets that can independently generate cash flows.
E4	Joint Venture	A joint venture is where the BBC Group has joint control over an entity with another partner(s).
E4	Provisions	Where the BBC has an obligation to settle an individual net liability of a joint venture, this is reflected within provisions.
E4	Associate	An associate is an entity that the BBC Group has significant influence over, but that does not meet the definition of a joint venture or subsidiary.
F1	DCMS Borrowings	The DCMS definition of 'borrowings' excludes leases which would be classified as operating under UK GAAP, but which are classified as finance leases under IFRS at the date of transition to IFRS. These leases are therefore excluded when comparing net debt/funds to DCMS borrowing ceilings.
F2	Public Services	Public Services in this context represent the UK PSB Group (excluding Centre House Productions Limited – see note G4.2), BBC World Service and BBC Monitoring.
F9	Interest Cost on Pension Plan Liabilities	The interest cost on pension plan liabilities represents the increase during the year in the value of the plan liabilities because the benefits are one year closer to settlement.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

GLOSSARY

Note	Term	Definition
G2.1	Deferred Tax	Deferred tax is corporation tax which is expected to be payable (or receivable) in the future as a result of differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and the corresponding tax bases used to calculate the corporation tax currently payable.
G3.1	Plan Liability	The plan liability represents the expected amount of money that will be needed in the future to pay employees for their current and future service to the company.
G3.1	Changes in Assumptions Underlying Plan Liabilities	Changes in assumptions underlying plan liabilities represent the changes in estimates used to value the future liability. Key assumptions include the discount rate and mortality.
G3.2	Actuarial Gains/Losses on Plan Assets	Actuarial gains/losses on plan assets represent the amount by which the assets held by the scheme (such as equities, bonds and property) have performed better or worse than the expected prior year value.
G3.4	Gains and Losses	These gains and losses arise from actual performance being different from that predicted. Only defined benefit schemes give rise to gains and losses in the statement of comprehensive loss.
G3.6	Discount Rate	The discount rate for the IAS 19 valuation is taken as the rate for an AA rated corporate bond.
G3.7	Maturity	The maturity of a scheme provides an indication of the cash requirements of the scheme and the likely attitude of the Trustees to risk within their investment policy. The more mature a scheme, the more likely that Trustees will favour low risk investments.
G4.1	Credit Risk	Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation.
G4.2	Defeasance Deposits	Defeasance deposits are amounts deposited with banks which earn the exact amount of interest needed to cover the capital repayment and interest element of each of the finance leases. The defeasance deposits are 'ring-fenced' and therefore cannot be used for any transactions apart from the agreed capital and interest payments.
G4.3	Put Option	A put option is a contract that gives the holder the right, but not the obligation, to sell an asset at a specific point in time.
G4.3	Strike Price	The strike price is the price the option will sell at.
G4.3	Exercise	Exercise is the point at which the rights in the option are implemented or acted upon.
G5.3	Subsidiary Undertakings	Subsidiary undertakings are businesses the BBC controls.

The following terms are used within the 'basis of preparation of the financial statements and other accounting policies' section of the Group accounts:

Section	Term	Definition
	Going concern	The Directors are required to make a statement that the BBC is a going concern which means it can meet its debts and continue trading for a period of 12 months from the date on which these financial statements were signed.
	Subsidiary	A subsidiary is an entity that is directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.
	Associate	An associate is an entity other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of an entity but is not control or joint control over those policies.
	Joint Venture	A joint venture is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control.
	Foreign Currency Transactions	As these financial statements are prepared in sterling the BBC's foreign currency transactions and balances must be translated at appropriate exchange rates, into sterling. This means that variations in exchange rates can cause the valuation of investments to fluctuate even when there has been no change in the health of the underlying business.
B	Originated Programmes	Originated programmes are programmes produced internally by the BBC Group for broadcasting and/or sale of the rights to broadcast.
B	Commissioned Programme	A commissioned programme is where an agreement has been made for the programme to be produced for broadcast.
D	Finance Lease	A finance lease is a lease that transfers substantially all the risks and rewards of ownership of the leased asset to the lessee, which is accounted for as if it were an asset of the lessee. As such, both the asset and future liability are recognised on the balance sheet.
D	Operating Lease	An operating lease is a lease in which the lessee has not taken on substantially all the risks and rewards of ownership of the leased asset.
E	Programme Rights	Programme rights are rights held by the BBC that permit a future transmission of a particular programme or event.
E	Useful Economic Life	Useful economic life is the period over which the BBC Group will be utilising the asset.
E	Research and Development	Research and development costs are incurred to explore ideas for new programmes or assets, such as the BBC iPlayer. Research costs are where the ideas are generated, some of which are then developed further into a plan or design where the costs are then categorised as development.

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Section	Term	Definition
E	Amortisation	Amortisation is the reduction reflected in the carrying value of the asset as a consequence of the regular use of that asset by the organisation.
E	Impairment	An impairment occurs when the carrying value of an asset is higher than the amount that is recoverable from its use or sale.
E	Fair Value	The fair value of an asset is the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
E	Goodwill	Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the premium the purchaser is prepared to pay for the business. Consideration, in this context, is the monetary value transferred in exchange for the share in ownership of another entity. Where the BBC does not own an entity outright, the other shareholders are known/disclosed as non-controlling interests.
F	Amortised Cost	Amortised cost is the initial value of the transaction that has been amended for subsequent payments, the time value of money and any impairment that may be required.
G	Deferred Tax	Deferred tax is corporation tax which is expected to be payable (or receivable) in the future as a result of differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and the corresponding tax bases used to calculate the corporation tax currently payable.
G	Derivative	A derivative is an asset or liability that is dependent on, or derives its value from, another asset or liability and is to be settled in the future.
G	Forward Exchange Contracts	Under forward exchange contracts you buy or sell a currency at a fixed exchange rate with delivery made on a given date or dates in the future.
G	Interest Rate Caps	Interest rate caps protect against interest rates rising, by setting an upper limit (cap) on the floating interest rate, while still allowing the benefit of falling interest rates.
G	Interest Rate Collars	Interest rate collars are the same as interest rate caps except that there is also a lower limit set to the floating interest rate.
G	Interest Rate Swaps	Interest rate swaps effectively swap a floating rate loan into a fixed rate loan, or vice versa.
G	Put Option	A put option issued by the BBC provides the holder the rights, but not the obligation to require the BBC to buy shares at a future date and price determined by the option agreement.
G	Inception	Inception is the point at which a contract is confirmed, this is normally the point at which the contract is signed.
G	Unrealised Changes	Unrealised changes are those changes that occur to the value of the embedded derivative prior to the point at which the derivative is exercised.
G	Effective Interest Rate	An effective interest rate is the rate used to discount future cash flows over the life of the contract back to present value.



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