



House of Commons  
Committee of Public Accounts

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**The BBC's investment  
in Freeview**

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**Third Report of  
Session 2004–05**

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

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## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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The following was also a member of the Committee during the period of this inquiry.

Ms Ruth Kelly MP (*Labour, Bolton West*)

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Leslie Young (Committee Assistant), Ronnie Jefferson (Secretary), and Luke Robinson (Media Officer).

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# Summary

## Introduction

Freeview is the brand name for a package of subscription-free digital television and radio services, including the BBC's channels, which can be received through a television aerial (digital terrestrial television). The BBC worked with Crown Castle (a company involved in digital terrestrial transmission) and BSkyB to develop Freeview, which was launched in October 2002. The BBC plans to spend between £128.4 million and £138 million on Freeview<sup>1</sup> up to 2014 to ensure that people can, and are aware they can, receive BBC digital services without paying a subscription fee. The BBC is also investing in Freeview to increase the number of licence fee payers watching the BBC's digital services and hence to improve the value for money these services offer.<sup>2</sup>

The BBC's digital services are also available on satellite and cable, although the BBC sees Freeview as the key influence on increasing overall digital take-up and expects that Freeview will be in 9.4 million homes by 2014.<sup>3</sup> The Government is planning to switch off analogue terrestrial television signals and ensure that everyone who currently receives the public service channels (BBC 1, BBC 2, ITV1, Channel 4, S4C and Five) in analogue can receive them in digital. Following discussions with the public service broadcasters, the Government has stated that 2012 may be the most appropriate date for the completion of digital switchover, and that this switch from analogue to digital could start in 2007.<sup>4</sup>

On the basis of a Review by the Comptroller and Auditor General, and the BBC Governors' comments on that review, we took evidence from the BBC on its achievements to date from investing in Freeview and on priority areas to address as Freeview goes forward. The Comptroller and Auditor General's review was carried out under an arrangement agreed in 2003 between the Government and the BBC in the context of Parliament's consideration of the Communications Bill.<sup>5</sup> Under the arrangement, the BBC Governors' Audit Committee and the Comptroller and Auditor General agreed a programme of value for money reviews, to be carried out by the National Audit Office, covering the period up to December 2006, when the current BBC Charter expires. The Comptroller and Auditor General submits reviews to the BBC Governors' Audit Committee which, in turn, presents them to Parliament.

In taking evidence from the BBC, we also considered the question of the Comptroller and Auditor General's future access to the BBC.

1 C&AG's Review *The BBC's investment in Freeview*, presented to the BBC Governors 28 May 2004 and laid before Parliament by the BBC alongside the BBC's *Annual Report and Accounts 2003/04* in July 2004, para 1.19

2 *ibid*, Analysis, Findings and Recommendations, para 4

3 *ibid*, para 1.20; Q 1

4 C&AG's Review, Background to the BBC's investment in Freeview. The Secretary of State for Culture, Media and Sport announced the revised dates of 2007 and 2012 in a Ministerial Statement on Digital Television (HC Written Statement, 22 July 2004, cols 82–83WS)

5 Amendment dated 4th December 2003 to the Agreement of 25th Day of January 1996 (as amended) between the Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation, Cm 6075

## Conclusions and recommendations

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- 1. By investing in Freeview, the BBC has succeeded in ensuring subscription-free access to its digital channels is available on digital terrestrial television.** When ITV Digital went into administration in 2002, there was widespread uncertainty about the future of digital terrestrial television. The BBC's investment helped ensure that digital terrestrial television continued and was available subscription-free. Nearly four million homes now have Freeview.
- 2. One in four households cannot get Freeview because of gaps in coverage.** The gaps are due to local topographical difficulties and the need to ensure that digital signals do not interfere with analogue signals. The Freeview website and promotional literature should explain why Freeview is not currently available in some areas and the potential for future increases in coverage, depending on plans for switchover from analogue to digital television.
- 3. The BBC should establish whether subscription-free satellite could satisfy in a cost-effective way the demand for its digital channels in areas where Freeview is currently unavailable.** The BBC needs to identify whether there is a case for a new satellite service, which could offer near universal coverage, bearing in mind that BSkyB launched a new subscription-free satellite service in October 2004.
- 4. The BBC should establish whether set-top aerials and not just roof-top aerials will be able to receive digital terrestrial television after digital switchover.** Freeview is not usually available to licence-fee payers relying on set-top television aerials because digital terrestrial television signals are not strong enough. The BBC believes that after digital switchover, when the power of digital signals can be increased, digital terrestrial will work on televisions with set-top aerials. The BBC should carry out early field tests to establish whether licence fee payers will be able to use set-top aerials to receive digital terrestrial television after digital switchover.
- 5. The BBC should publish value for money indicators for subscription-free digital television.** Driving the market for and improving take-up of free to air digital television forms one of the BBC's key objectives. The BBC identified cost per household as a value for money measure for Freeview, but it needs to revise the take-up estimates it produced prior to launching Freeview as these have been significantly exceeded, and include the cost of increasing the coverage of digital terrestrial television.
- 6. The BBC's spending is not subject to the full independent scrutiny, and accountability to Parliament, that rights of access for the Comptroller and Auditor General would provide.** The interim arrangements covering the period up to 2006 are a step forward. But as we said in our response to the public consultation on the BBC Charter Review, the Committee has long pressed for the Comptroller and Auditor General to be given full rights of access to the BBC to provide full accountability to Parliament for the public money it receives. He would then be able to decide what to examine and when, on the basis of a full and independent assessment of value for money risks.

7. **The BBC's activities need to be carried out in accordance with the highest standards of probity, propriety and value for money.** Under the Royal Charter the Governors must satisfy themselves that these standards are being maintained. Recognising the Governors' role, this Committee would expect to take evidence from them in its future examination of the BBC's spending, as it did in the case of Freeview.



# 1 Achievements to date

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1. When ITV Digital went into administration in 2002, there was widespread uncertainty about the future of digital terrestrial television and the potentially negative effect on digital switchover. The BBC judged that a successful bid to the then Independent Television Commission to launch Freeview would provide greater certainty that digital terrestrial television would continue in the UK. As it had only six weeks to submit its bid, the BBC quickly developed its proposals and, having been awarded a licence in July 2002, launched Freeview in October that year.<sup>6</sup>

2. Freeview offers licence fee payers in geographical areas covered by the service the option of receiving a package of subscription-free digital television and radio services, including the BBC's channels, through a roof-top television aerial (known as digital terrestrial television). Digital satellite offers better coverage than Freeview and has more services, but the BBC's market research shows that many licence fee payers prefer to receive services through a rooftop aerial rather than a satellite dish and the BBC aims to ensure licence fee payers have a reasonable choice of ways of getting its services (**Figure 1**).<sup>7</sup>

3. Freeview has been helped by BBC marketing campaigns and, with the help of these campaigns, three out of four people are now aware of the Freeview brand.<sup>8</sup> In 2002 the BBC estimated that the number of households with digital terrestrial television would reach 2.1 million by 2004 and then increase steadily to 9.4 million in 2014. In the event, figures published by Ofcom in September 2004 showed that nearly four million households had digital terrestrial television,<sup>9</sup> and the BBC's monitoring of consumer satisfaction has shown that eight out of 10 Freeview customers say that they would recommend Freeview to a friend.<sup>10</sup>

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6 C&AG's Review, Figure 10

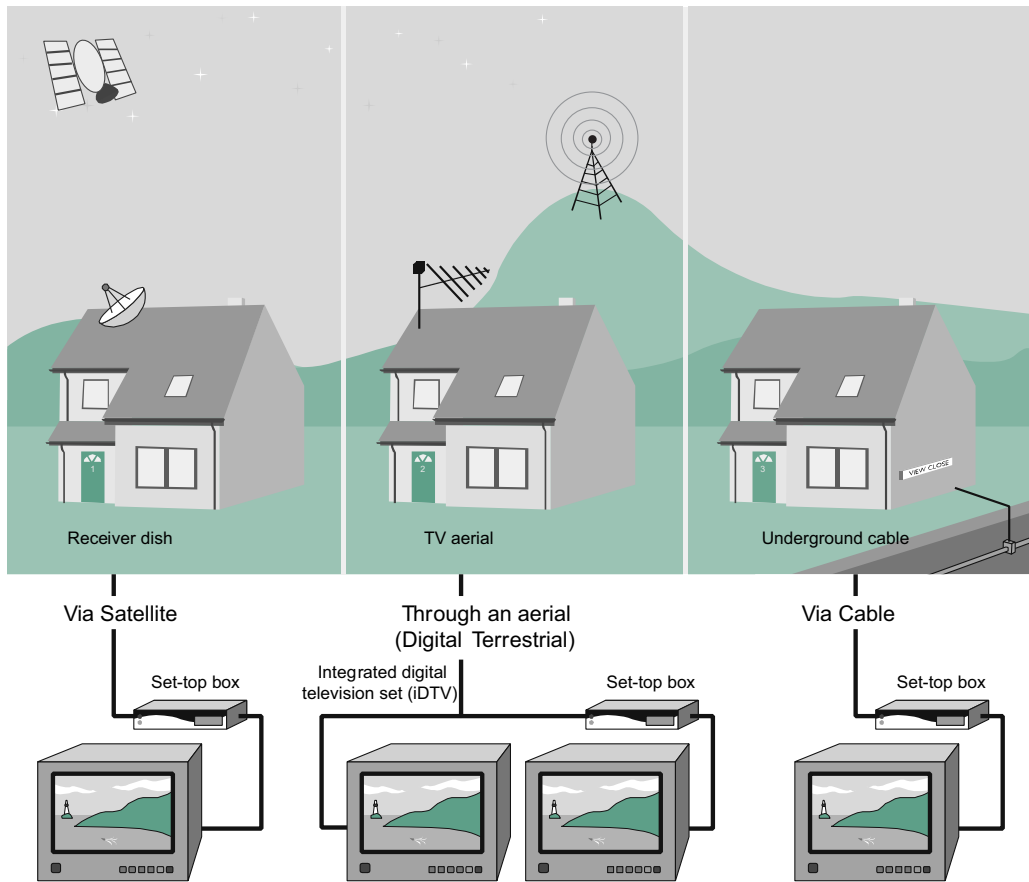
7 Qq 10, 110

8 C&AG's Review, paras 3.7–3.9; Q 11

9 C&AG's Review, Figure 16; Ofcom (2004) *Digital television update: Quarter 2, 2004*

10 Q 11

Figure 1: How the BBC's digital television services can be received in the UK



**Note**

Integrated digital televisions (iDTVs) are television sets with a built-in receiver able to decode and display a digital signal.

## 2 Priority areas for the BBC to address as Freeview goes forward

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4. The BBC Governors have set an objective to drive the market for free-to-air digital television, but this objective is not supported by specific targets.<sup>11</sup> Take-up was one of the two main value for money measures identified by the BBC for Freeview, but prior to launching it, the BBC was uncertain how Freeview would develop and did not publish its take-up projections.<sup>12</sup>

5. The BBC's other value for money measure for Freeview is the cost per digital terrestrial household.<sup>13</sup> The annual cost of delivering BBC services on digital terrestrial is currently £7 per digital terrestrial household.<sup>14</sup> While this is down from the £12 annual household cost before Freeview was launched, it is still more than double the delivery cost of £3 per satellite household.<sup>15</sup>

6. One of the BBC's main reasons for investing in Freeview was to increase the number of licence fee payers watching its digital services, which cost more than £350 million in 2002–03,<sup>16</sup> and hence to improve their value for money. The BBC has 6 digital-only television channels (BBC 3, BBC 4, CBeebies, CBBC, News 24 and BBC Parliament) and broadcasts BBC 1 and BBC 2 in both digital and analogue. The launch of Freeview has helped increase the number of homes who have access to the digital channels, but less than 5% of the Freeview audience watch the digital-only channels.<sup>17</sup> The BBC attributes the relatively small number of people watching these channels to the time needed for new services using new technology to penetrate the market.<sup>18</sup>

7. The take-up of Freeview is affected by gaps in coverage, with one in four households currently unable to receive it. These geographical gaps reflect local topological difficulties and the need to ensure digital signals do not interfere with analogue signals.<sup>19</sup> These restrictions are outside the BBC's control and significant improvements will not be possible before the switchover from analogue to digital.<sup>20</sup> The Secretary of State for Culture, Media and Sport announced in July 2004 that the most appropriate date for the completion of digital switchover may be 2012, and that the process of switching from analogue to digital could start in 2007.

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11 Q 8

12 C&AG's Review, para 1.25

13 *ibid*, para 1.23

14 Q 17

15 C&AG's Review, para 1.26, Q 16

16 C&AG's Review, para 1.6

17 *ibid*, Figures 18, 19; Q 4

18 Q 4

19 Q 3

20 Qq 1, 40

8. The coverage of digital terrestrial has, however, already increased from less than 66% of households before Freeview was launched to the current level of 73%.<sup>21</sup> After switchover, the problem of interference with analogue signals will no longer exist. The BBC expects that by increasing the power of digital signals, it will be possible to extend digital terrestrial coverage to around 99.7% of households<sup>22</sup> and, although this has not been verified, enable reception on the estimated 37% of televisions relying on set-top (as distinct from roof-top) aerials which cannot currently receive digital terrestrial because the signals are not strong enough.<sup>23</sup> Until then, licence fee payers who cannot get digital terrestrial television each contribute £1.22 a year through their licence fee to the cost of running it (just 1% of the colour television licence fee of £121).<sup>24</sup>

9. Meanwhile, the BBC is seeking to address the coverage issue and provide licence fee payers with a reasonable choice of ways of getting its services by looking at the development of low cost subscription-free satellite services.<sup>25</sup> In October 2004, BSkyB launched a subscription-free satellite service and BBC channels are available on this service. However, there is no guarantee that this will remain a free service, and the BBC is considering the options for developing a separate subscription-free satellite service.<sup>26</sup> The BBC is also repeating on BBC 1 and BBC 2 (which are available in analogue and digital) some of the best programming from its digital-only channels so that licence fee payers who do not have digital television can see those programmes.<sup>27</sup>

10. There is confusion among licence fee payers about the cost of obtaining the BBC's digital channels, with more than half of non-digital households not understanding that they can get BBC digital channels subscription-free. The BBC accepts that there is a great deal of work to do but is confident that it will make a substantial impact by adapting its promotional campaigns.<sup>28</sup> The BBC has made efforts through the postcode check facility to help licence fee payers find out if they can get Freeview, but this facility does not make it clear why Freeview is not available in certain areas.

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21 C&AG's Review, Figure 26; Q 1

22 Qq 18, 20

23 C&AG's Review, para 3.18; Qq 20, 32

24 Q 75; Based on 23.97 million current television licences as at May 2004 (Office for National Statistics *Monthly Digest of Statistics* No. 705, September 2004, table 19.1) and total BBC expenditure on digital terrestrial in 2003/04 of £29.35 million (C&AG's Review, Figure 12).

25 Qq 3, 10

26 Qq 3, 103

27 Qq 3, 31

28 Q 5

### 3 Access to the BBC

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11. The Committee has written to the Secretary of State for Culture, Media and Sport, in the context of her Department's consultation on the BBC Charter review, to reiterate that the Comptroller and Auditor General should be able to carry out value for money examinations on the basis of statutory access to the BBC.<sup>29</sup> The Comptroller and Auditor General has access to the BBC to examine the arrangements for the collection of the television licence fee. He also has access to examine the use made of the grant the BBC receives from the Foreign and Commonwealth Office to support the World Service. Under arrangements introduced in 2003, the Comptroller and Auditor General has limited additional access, up to the end of 2006, to carry out reviews of specific subjects agreed with the BBC Governors' Audit Committee and to report on these to the Audit Committee rather than directly to Parliament.

12. The Committee of Public Accounts has, over the years, repeatedly stressed the need for the Comptroller and Auditor General to scrutinise how the BBC spends public money. Parliament requires television owners to pay a licence fee and expects the Comptroller and Auditor General, on behalf of Parliament, to be able to scrutinise how that money, over £2 billion a year, is used. The arrangement under which the review of the BBC's investment in Freeview was carried out is a positive step. But in contrast to all other areas of his audit, where he has a free hand in selecting suitable studies, the Comptroller and Auditor General is not able to suggest studies himself on the basis of an independent assessment of value for money risks.<sup>30</sup> The Comptroller and Auditor General is also unable to report his findings independently to Parliament because under the current arrangements the BBC is responsible for presenting reports to Parliament.

13. The Royal Charter requires the Governors to satisfy themselves that the BBC's activities are carried out in accordance with the highest standards of probity, propriety and value for money. The Governors have emphasised the importance of protecting the BBC's independence from Government, but there is a clear distinction between this and ensuring accountability to Parliament. A number of organisations operating at arms length from government, such as Ofcom, are held accountable to Parliament without any suggestion that this undermines their independence from Government. Independent scrutiny of the BBC by the Comptroller and Auditor General on behalf of Parliament would support rather than threaten the BBC's independence from Government.

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29 Ev 19–20

30 Qq 56, 58

# Formal minutes

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**Monday 17 January 2005**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan  
Jim Sheridan

Jon Trickett  
Mr Alan Williams

The Committee deliberated.

Draft Report (The BBC's investment in Freeview), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 13 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Third Report of the Committee to the House.

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

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Wednesday 19 January at 3.30pm

## Witnesses

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**Wednesday 15 September 2004**

*Page*

**Mr Dermot Gleeson, Mr Mark Thompson, Ms Carolyn Fairbairn, and Ms Caroline Thomson, British Broadcasting Corporation**

Ev 1

## List of written evidence

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British Broadcasting Corporation

Ev 17

Committee of Public Accounts response to the consultation on BBC charter review

Ev 19



# Oral evidence

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## Taken before the Committee of Public Accounts

on Wednesday 15 September 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan  
Mrs Angela Browning  
Mr David Curry  
Mr Ian Davidson

Mr Brian Jenkins  
Mr Gerry Steinberg  
Jon Trickett  
Mr Alan Williams

**Mr Tim Burr**, Deputy Comptroller and Auditor General, National Audit Office, further examined.

**Mr Brian Glicksman**, Treasury Officer of Accounts, HM Treasury, further examined.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

#### The BBC's investment in Freeview

*Witnesses:* **Mr Dermot Gleeson**, Governor and Member of the Audit Committee, **Mr Mark Thompson**, Director General, **Ms Carolyn Fairbairn**, Director, Strategy and **Ms Caroline Thomson**, Director, Policy & Legal, BBC, examined.

**Q1 Chairman:** Good afternoon, welcome to the Committee of Public Accounts where we are looking at the BBC's investment in Freeview. This hearing of the Committee of Public Accounts is an important one and an historic one, because for years this Committee has been arguing that the BBC should be held to account to Parliament for this licence payers' money which it spends; after all, the licence payer has very little choice in these matters. I am delighted to say that in spring 2003, after years of resistance by the government, for some reason, I know not why, the government suddenly started to accede to our request. I am delighted to say that an agreement has now been hammered out between the National Audit Office, this Committee and the BBC that there will be a trial period of this type of hearing where we will have a PAC hearing which to all intents and purposes will be much like any other PAC hearing. We do have Charter renewal coming up and this Committee has long campaigned for a position where the BBC will be placed in the same position as any other spender of large amounts of taxpayers' money. I just want to emphasise, however, that we have made it clear all along that this Committee has no intention in any way of interfering in the editorial freedom of the BBC. We are simply interested in value for money issues. This is by way of an experiment for this Committee and I am sure it will be a very worthwhile one. On that note, may I welcome the team which has come to speak to us from the BBC: Dermot Gleeson is a governor and member of the audit committee; Mark Thompson is of course the newly appointed Director General; Carolyn Fairbairn is Director, Strategy and Caroline Thomson is Director, Policy & Legal. I shall address my questions initially to Mr Gleeson, but any of your team is free to answer. It is very

informal. We only want answers and although, to abide by the constitutional niceties, it is perhaps important that I start by addressing my questions to Mr Gleeson—any of you may answer them. May I refer you to paragraph 3.19 which you can find on page 36 of this Report from the National Audit Office? Why do we have a situation where one in four licence fee payers who cannot get Freeview is expected to pay for it?

**Mr Gleeson:** Before I answer that question, may I very briefly say that we are, after all the debates and discussions which have taken place, very pleased to have the opportunity to talk to you today and we look forward to a new and productive relationship between the PAC and the BBC in the public interest. Coming to your specific question, the governors' overriding concern in this area of policy is to enable as many people as possible to benefit from the BBC's digital services. We make all our digital services available on satellite, cable and Freeview, so that our licence payers have a wide range of options to choose from. What our audience research has shown is that many non-digital viewers are not prepared to pay a subscription for digital services, but they do find the idea of a free digital service involving only a modest equipment cost appealing. Freeview therefore fills, as its success has shown, a gap in the market: currently 73% of viewers can get access to Freeview compared with 66% two years ago at the time of ITV's DTT coverage. Unfortunately it is not possible, for technical reasons entirely outside the control of the BBC, to achieve universal coverage for Freeview until we get to analogue switch-off.

**Q2 Chairman:** You accept that for the time being it may not be technically possible and I am sure you are doing your best to right this, but the fact is that through our licence fee we all have to pay for Freeview but one in four of us cannot get it.

**Mr Gleeson:** I entirely accept that is true and I accept that it is regrettable. If I may, I should like to ask Mark to elaborate a little bit on the technical constraints and also perhaps to talk about what we are trying to do to ensure that viewers outside the Freeview area of coverage will be able to enjoy, hopefully in the not too distant future, a free digital satellite service.

**Q3 Chairman:** Perhaps Mr Thompson could also answer this question. If he looks at paragraph 3.23 on page 39, he will see, as he knows already, that some people who want to get Freeview have to pay £250 more than others because of where they live. Is this fair or right?

**Mr Thompson:** Without claiming any special engineering knowledge, may I begin with the technical issue which essentially relates to paragraph 3.23 as well. Members of the Committee will perhaps know that the reason it is difficult to extend Freeview/DTT coverage beyond the present level is because there are some parts of the country where we need to use multiple analogue frequencies because of local topological difficulties. For example, in the Rhondda Valley we have five or six different repeater stations, all using different frequencies so that they do not interfere with each other. The effect of this is that there are significant challenges ahead before analogue switchover. At the point of analogue switchover we can then use frequencies to deliver a complete digital terrestrial coverage as good as the historic analogue television coverage across the whole of the UK, but only at that point. We are working against physical constraints to do with the nature of the analogue transmission network, which is very complex and has thus left us so far with digital terrestrial coverage which is incomplete and indeed is incomplete, as it were, in the manner of a Swiss cheese: there are pockets across the country where, for topological and analogue reasons we cannot reach people. I would say two things about this: one is that we are pursuing a piece of policy in television broadcasting which is absolutely that of the government and indeed, to my knowledge, that of the other parties about moving Britain towards digital terrestrial television. We are one of the leaders in that but we are working against the constraints I have mentioned. We believe it will take in excess of 1,000 transmitters to build out the chain and even having built those transmitters, it is at the point of switch-off that we can deliver complete coverage. Because we recognise that we are in a situation where some households are disadvantaged because they cannot receive the signal at all because their receiving equipment costs much, much more than it does in other households, we are trying to do two different things. One is that with other broadcasters we are pursuing the opportunity for a clear standard for a low cost free satellite service, which can be delivered very quickly. If you go to Europe right now you can walk into a *Carrefour* in France and buy a free digital satellite receiver, dish, box, everything for as little as €80, very much the same sort of cost band as Freeview. Secondly, we are also trying very hard to make sure that analogue

households which are unable to see Freeview currently do get to see some of the best programming we are putting on our digital channels. For example, one example at random, the *Alan Clark Diaries*, commissioned for BBC4, was subsequently shown on BBC so that licence payers in analogue households, even if they cannot receive the full digital services, are seeing some of the most valuable high value programming on the digital services.

**Q4 Chairman:** On that point, would you like to look at page 28 and Figure 18. We know that one of the reasons for investing in Freeview was to try to encourage people to spend more time watching your digital services, but if you look at Figure 18, you will see right at the bottom the vast numbers watching BBC1 and ITV1, but once you go up the list you will see that tiny numbers are involved. You are not having much success are you? This is why you are having to feed *Alan Clark Diaries* into the main terrestrial services, is it not?

**Mr Thompson:** One of the reasons for showing *Alan Clark* on BBC1 and BBC2 is that it is something which analogue viewers want us to do so that they can enjoy it as well. You have to accept that brand new services, using new technology, will take time to penetrate; in fact digital television as a whole, now available in 53% of UK households has had a faster take-up here than in any other country in the world, partly because we have offered some high value programming on additional BBC digital services. The *Alan Clark* case is an interesting one: half a million people watched that on BBC4 and what we are beginning to see now is individual programmes on these services breaking through. I can tell you that although the absolute numbers may be relatively small, the impact of the BBC's new digital children's services is extraordinarily marked. I know from my postbag and from audience research that these, in my view, high quality children's channels without advertising have been warmly welcomed by licence payers with children.

**Q5 Chairman:** If you look at Figure 22 on page 32, you can see that the public is still very confused about Freeview. More than half of them still do not understand that they can get BBC's digital channels free on Freeview. Do you accept that?

**Mr Gleeson:** There is still a high level of confusion; nonetheless our promotional campaigns have had a tremendous effect. Over two million people have contacted the BBC following those campaigns. There is still a great deal of work to do and it is going to get more difficult as the proportion of homes without digital television reduces, because by definition the people who are left in the non-digital category are going to be the people who are particularly unaware of the digital possibilities. I am very confident that as long as we continue to do our market research as effectively as we have been doing and continue to adapt and evolve our promotional campaigns in the light of changing circumstances and where we are proposing a major new

## BBC

promotional campaign in the autumn, I am very confident that we will be able to continue to make a substantial impact.

**Q6 Chairman:** I want to ask about the constitutional point, which I think is a very important one. In this Committee we constantly question public bodies, spending public money, which are taking creative risks. Why should the BBC be any different? Why should this Committee not have a right to question you in full, as other public bodies, on your economy and efficiency? Perhaps you do think we should have the right.

**Mr Gleeson:** I have very real sympathy with this Committee's concerns. I should like to stress that the BBC governors' objectives are in all essentials, in my view, the same as the Committee's. The governors are determined that the licence fee payers' money should be spent as cost effectively as possible. We are determined that the management of the BBC's finances should be transparent. We are determined that the BBC should be accountable for its stewardship of public funds. What is more, we believe and believe very genuinely, that the involvement of the NAO will help the governors to govern more effectively. May I explain a bit more why we see that? As you are probably aware, the governors are now committed to ensuring that henceforth they are more independent and seen to be more independent of management than they have perhaps been in the past. For that purpose, they propose not only to establish a substantial internal governance unit which reports only to them, but they also propose to make much greater use of outside experts. Commissioning the NAO to undertake value for money studies, value for money studies which will always be laid before parliament, fits in and supports the governors' new agenda extremely effectively. As I said, I think you will actually help us to govern better than we have sometimes in the past. However, although the BBC is publicly funded, as you rightly highlight, it is not a government department, nor is it a state broadcaster. Moreover it is a creative and risk-taking organisation, operating in a mainly commercial marketplace. We therefore do not feel that the relationship between the NAO and the PAC on one side and the BBC on the other should be exactly the same relationship as your relationships with departments of state. The independence of the BBC is a very valuable national asset. It is greatly valued by the British people and successive governments have recognised that maintaining the BBC's independence means not only guaranteeing its editorial freedom, but also giving it the right to manage its own affairs free from political or other external interference.

**Q7 Chairman:** That is fine; I think we understand that. Put it this way: we in Parliament require television viewers to finance their viewing through the licence fee. We give them no choice. We effectively impose a poll tax on every television

viewer in this country. How do you suggest we in Parliament hold you responsible for all this public expenditure except through a process like this?

**Mr Gleeson:** I welcome, and welcome genuinely, the compromise agreement within which we are now all working. It seems to me that it offers a pragmatic balance between on the one hand the independence of the BBC and the duty of the governors, amongst other things, to achieve proper value for money, a duty which is laid on us in the charter, a pragmatic balance between those considerations and on the other side the need for independent scrutiny and parliamentary accountability. We have now an arrangement which I believe can achieve both those objectives and I think what is needed now is for all the parties to that agreement, all the parties to this new procedure, to work together in good faith to make it succeed. It is an arrangement in its infancy, but so far I think it is working quite well and it should surely be allowed to mature rather than abort it at this stage.

**Chairman:** Thank you very much. You have made your point very clearly.

**Q8 Mrs Browning:** On 12 July Michael Grade sent me a copy of your annual report and accounts and in the covering letter he stated that the report evaluates the performance of the BBC against publicly stated objectives and commitments. If I look on page 23 of that report, I see the Governors' objectives, of which item 4 is to drive digital, drive the market for free-to-air digital television, digital radio and new media, focusing on improvement in awareness, availability and take-up. It is a rather nebulous objective, is it not? It does not appear to be very focused or to set any particular targets and it deals specifically with the area we are discussing this afternoon. Why is it so nebulous?

**Mr Gleeson:** The first point to make is that we agreed at the time of the last licence fee settlement with government that we, the BBC, would do what we could to promote digital take-up in order to help the government achieve its objective of analogue switch-off as soon as possible. This objective is essentially articulating that purpose. Within that overall objective we have a number of very specific objectives indeed with respect to the increased availability specifically of our own services. Freeview has been an important instrument in relation to the attainment of those objectives and indeed the NAO Report itself lists the objectives we set ourselves and gives us a fairly good bill of health with respect to achieving them. Perhaps I could ask Carolyn to supplement that.

**Mr Thompson:** Just before she does that, if we turn to page 6 of the NAO Report, paragraph 2 "Our overall conclusion, against the background of the Government's intention to switch from analogue to digital transmission, is that the BBC had clear and sound reasons for investing in Freeview and that the BBC contributed significantly to the quick and successful launch". You will appreciate that there are multiple objectives in the organisation, inside the BBC, and moreover we are also key parties to a broader process with government and with other

broadcasters in setting clear objectives in, in my view, the very complex task of turning Britain into a digital nation both in respect of television and in respect of radio. There is no shortage of targets and objectives. The fundamental objective we are still trying to finalise with other broadcasters and with government is the appropriate date to set for digital switchover in DTT.

**Ms Fairbairn:** This objective focuses on a specific part of digital take-up, which is the free-to-view market which is quite new. One of the reasons for the objective being phrased in this way was to encourage management, to encourage us, to focus on the development of a market without a subscription. Two years ago the digital market was entirely a pay market and was beginning to stall. This is perhaps a slightly more focused objective than it may look to be at first reading.

**Q9 Mrs Browning:** So in your mission statement—if I may describe it as such—for the forthcoming year how have you assessed the competition you will face from the BSkyB new subscription-free service?

**Ms Fairbairn:** I do not think we see that as competition. We should like to work with BSkyB on helping their free satellite service to develop. We should absolutely see that as being possibly one of the ways we can deliver this objective.

**Q10 Mrs Browning:** Could you tell me a little bit about that? I represent a seat in Devon where I receive letters—I had one this week from somebody—suggesting that MPs are totally out of touch with the fact that we cannot get all these extra free channels in Devon. I pointed out that it was nothing of the sort; it was because we work an 80-hour week and we do not have too much time to watch. I am concerned because it seems to me that you are investing a lot of taxpayers' money. We have seen the figures the Chairman pointed out to you in terms of the fact that even when people have it, the amount of time they spend watching those Freeview channels is quite way down compared with the normal four or five channels people tend to watch the most. In areas like mine where we cannot get BBC Freeview, are you saying that by providing this service BSkyB will substitute for the BBC? Is that not in the longer term something you should be concerned about, or are you just going to let them provide it in areas where you have difficulty at the moment?

**Ms Fairbairn:** The point about the Sky service is that it will carry BBC channels for free. In a sense this is our objective. We do not regard them as competing with us in that way: it is a very valuable way of the BBC services being made available free to air in those areas.

**Mr Thompson:** May I draw an analogy with Freeview? Freeview is a standard and it is a clear standard for receiving digital terrestrial television, but you can buy your box from Pace, or Toshiba, or Panasonic or many other box manufacturers. Our vision is of a free satellite service where there will be a number of different possible providers of which BSkyB could actually be one. It is not for us to

dictate the receiver market: our mission is to try to make sure that our services are freely available to licence payers with reasonable choice between digital platforms and with a fundamental presumption of platform neutrality. We are also very, very happy for the cable companies, whether on digital or analogue, to carry BBC services for free as well.

**Q11 Mrs Browning:** You ran a television and radio advertising campaign on the launch, which I personally liked and thought was quite effective, with the various faces, although I have to say that it became so fascinating that one was trying to anticipate the face rather than reading the message and phone number, so there is perhaps a little bit of over-hype on those. I did think it was a good campaign and it did get the message across very well; it was very good. How have you evaluated that campaign in terms of the money you spent on it and the outcome of the take-up?

**Mr Thompson:** One simple fact is that at the moment Freeview boxes are leaving the shops at in excess of 100,000 units a month; 100,000 households are getting these boxes a month. Just for comparison's sake, that is probably 10 or 15 times the growth rate of Sky Digital currently. This is an enormously successful launch by any standard of consumer product.

**Ms Fairbairn:** We are assessing our information campaigns in a number of ways: one is just in numbers of boxes sold and after every campaign we run there is an increase in take-up which we monitor. Secondly, on the confusion figure which has been brought to your attention already, we do keep track of that and it goes down again after the campaigns and to some extent follows that track. The third is people's satisfaction with the product: eight out of 10 people would recommend it to a friend. We are keeping very close track of the effectiveness of those campaigns and believe that they have indeed helped to drive the market quite a bit.

**Q12 Mrs Browning:** Can you just tell me what your thoughts are at the moment? If it is a question of a collaboration with others such as BSkyB to roll out and make the provision universal, do you not have any warning sounds about the fact that the consumers' perception may be that the time has now come for the TV licence no longer to be funded in the way it is at present, but that all television should be pay-as-you-go?

**Mr Thompson:** There is absolutely no evidence whatsoever, either in our audience research or in the extensive public consultation done this year by Ofcom, that that is in the public's mind. On the contrary, Ofcom's 6,000 respondent research suggests that support for free-to-air public service broadcasting is very, very high indeed. Having said that, we have to accept that we live in a very different environment: BSkyB has been a very successful operator of a largely pay satellite service; they used to have a free offering which they withdrew and they are now proposing to offer another one. That is something we welcome. The key thing for us is

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 BBC
 

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ensuring that licence payers who pay for BBC services, including digital services, are able to receive them and that we achieve universal coverage so that all of the licence payers can receive them as quickly as possible. For example, in areas like Tiverton and Honiton, as quickly as we can we find a cost-effective way in which your constituents can get these services.

**Q13 Mr Allan:** I want to speak as a happy consumer of the Freeview product, because I think it is a very good product, but start by looking at the potential risk that there is to it. The Report acknowledges that the collapse of ITV Digital was disastrous for the development of digital TV. What confidence can we have that a joint venture which you have with your biggest competitor, BSkyB, is not similarly going to collapse in the future?

**Ms Fairbairn:** A number of things. Firstly, the technology is working much better. One of the reasons that ITV Digital failed was that there were many problems with the technology which at the time of Freeview's launch were largely fixed. It no longer breaks up when the fridge door closes and things like that and coverage is better. That is one thing. Secondly, our experience so far in working in a joint venture with Sky has been very positive. They do have call centre experience, they are interested in the free-to-view market, as the launch of their new service shows and they do have some channels on it. It does surprise people to hear it, but actually the joint venture is working very well.

**Q14 Mr Allan:** In terms of the 100,000 boxes flying out every week, if somebody out there goes and buys one today, will that box in 10 years' time be able to receive BBC services at least? Are you saying those services are pretty much guaranteed.

**Mr Thompson:** Yes.

**Ms Fairbairn:** Absolutely.

**Q15 Mr Allan:** Over your multiplexes people will still keep getting them.

**Ms Fairbairn:** Absolutely; yes.

**Mr Thompson:** It is a fundamentally different economic model. The ITV Digital model was based on taking risks on buying expensive rights and hoping to get subscribers to subscribe. This is fundamentally based on box manufacturers in an open market selling to consumers. We, with government and other broadcasters, have absolutely got a responsibility in terms of building out the transmitter chain and ensuring transmission, but it is much more like converting Britain to colour television than it is like trying to re-do ITV Digital.

**Q16 Mr Allan:** The other side is that having established this is technically a good platform and can go forward from that point of view, from the value for money point of view, which we are interested in here, may I ask whether you have looked at the cost comparisons for delivering your digital services over the satellite platform, the digital terrestrial television platform, increasingly as well by wire, the TV over the telephone lines, platforms

which are starting to become available? Have you done cost comparisons per person for getting your services out there? Have you?

**Ms Fairbairn:** We have. May I just give you some headline numbers as we go into them all the time? For an analogue household it is about £2 per household per year. For a satellite household it is about £3 per household per year.

**Q17 Mr Allan:** Which you pay to BSkyB to chuck it over their satellite.

**Ms Fairbairn:** We actually pay that to Astra to stick it up on the satellite and a small amount to BSkyB for EPG services. For DTT it is still twice that; it is round about £7 per household, but that is coming down. Our costs are now fixed. For every new household which subscribes that cost will come down.

**Q18 Mr Allan:** The other question, thinking of the public out there, is this question of reach, which has already been raised. What is the eventual reach you can get with DTT? I think Mr Thompson said earlier that you could reach the same as analogue? Is it correct that everybody who can currently get analogue TV, once you switch off analogue will be able to get DTT?

**Mr Thompson:** It is well in excess of 99%–99.7%; a very, very high number in terms of universal reach.

**Q19 Mr Allan:** So the big question then is: when does that analogue switch-off take place, the digital switchover take place? Do you have a view of when is realistic?

**Mr Thompson:** We believe that 2012 is and we are confident about achieving digital switchover by 2012, depending on participation from all of the players. The government would still like to see 2010 as the date and if it can be achieved by 2010 we would be absolutely up for playing our part in achieving it. That is the range of dates we are talking about at the moment.

**Q20 Mr Allan:** I think we can say you have solved the first TV problem, because now you can get a box for £29 or £39 to convert your first TV. Any signs that the second and third TV problems have been solved, as in the portables which cannot receive DTT over a portable aerial? Is there any chance that will be solved by then?

**Ms Fairbairn:** We are hopeful that at switchover we will be able to push the power up because we will not have to worry about interfering with analogue any more and portable TVs will work. It has not yet been entirely verified, but we are fairly confident that will work.

**Q21 Mr Allan:** Do you think the government should be giving you some money from the future revenue they will get for spectrum sell-off to assist in this conversion? At the moment you are getting a digital premium on the licence fee, are you not? Do you think government will need to put money in? Do you take a view on that or is that outside your hands?

**Mr Thompson:** There is no digital premium on the licence fee, though it is true that when the government granted the BBC a somewhat increased licence fee, only one of the objectives we were set was related to digital take-up. We published a document earlier in the summer called *Building Public Value*, which was a vision of the BBC's future, our contribution to the debate about charter. A centre piece of that was the idea of building out a digital Britain to include the very substantial investment, both in digital terrestrial television and in digital radio. How that is to be paid for is one of the things to be discussed in the charter renewal process. The BBC has yet to formulate its view about that, but clearly it is one of the things which should be debated as Britain debates the future of the BBC and the charter and the licence fee.

**Q22 Mr Allan:** Are you developing TV services over telephone lines? You seem always to be playing catch-up on this, with respect. Sky seem to be setting the pace. They now have Home Choice which is Sky by wire, is it not?

**Mr Thompson:** That is a little harsh.

**Q23 Mr Allan:** I am provoking here.

**Mr Thompson:** If you look at where we have got to with interactive television, nine million households used our interactive services during the Olympics. People think this is experimental technology—nine million households. Our digital services are now some of the best-used BBC services by many, many households. In fact we have very adventurous plans in terms of driving both broadband and other new ways of reaching households. Amongst the ideas we have talked about is BBC on demand: finding ways in which households can get an entire week of BBC television programmes on demand whenever they want to watch it. Another idea is a creative archive where you look at the BBC's archive, freely available, on line, 24 hours a day, for nothing to licence payers, because after all they paid for it. We think we are pressing ahead with some very, very exciting ideas in the technology space.

**Q24 Mr Allan:** Well sold that man. The final area is to ask about the take-up graph. You have a nice take-up graph, Table 13 on page 20, which just shows a steady increase year on year. You are demonstrating that your take-up just keeps moving exponentially up. I know you are ahead of target for 2004 but at some point that could tail off. I know that Sky are finding that their subscriber rates are tailing off. If you do not achieve something like this, if it does not keep going up and up, would we be entitled to criticise you?

**Mr Gleeson:** I do not think you would. The objective at the moment surely has to be to provide the licence fee payer and the consumer with the widest possible range of options with respect to digital distribution. For all the reasons we have said there is enormous evidence in favour of the proposition that at this juncture there is a strong consumer desire for the Freeview proposition. The digital television market is a new, evolving and dynamic one. Who knows?

None of us can know for certain what the pattern of distribution is going to be in five or 10 years' time. Surely it is the consumer who should be given the opportunity to drive the shape of the market and to determine what its future shape is. The great thing about the Freeview initiative is that it creates a genuine marketplace in which users can exercise their own preferences and we will see what happens. This is an initiative which is tremendous for consumer choice.

**Mr Thompson:** Clearly there may be a final cohort which, for whatever reason, through choice or for some other reason, is much less willing to convert to digital. Of course in the process of thinking of analogue switch-off and digital switchover, there may be issues around a final cohort for whom this revolution does not come naturally. That is something we need to consider in our plans with government and with others.

**Q25 Mr Steinberg:** It is right, is it not, that 50% of the population have access to digital television?

**Mr Thompson:** 53%.

**Q26 Mr Steinberg:** That means that nearly 50% do not.

**Mr Thompson:** Yes.

**Q27 Mr Steinberg:** Yet they are paying for a television licence.

**Mr Gleeson:** Yes.

**Q28 Mr Steinberg:** What are you going to do about that? Why should somebody pay for a television licence which is subsidising people to get digital TV when they cannot get it?

**Mr Gleeson:** Essentially we have to operate within a funding environment created by the government. At the time of the licence fee settlement the government, for a number of reasons, rejected the option—

**Q29 Mr Steinberg:** So it is the government's fault, is it?

**Mr Gleeson:** No, no. I am just explaining. It rejected the option which was the recommendation of the Davies committee, that digital users pay an additional fee. At the same time the government required the BBC to drive digital take-up by developing its own digital services. Within that framework there is not a great deal which we are able to do currently to address your point. We are in a transitional period.

**Q30 Mr Steinberg:** There are two things which you could do: you could make it a lot easier for people; you could invest more in the service so that everybody could receive the signal, which would be advantageous. Secondly, you could perhaps ensure that everybody gets a free box and then you would get saturation, would you not? Everybody would have the opportunity to have digital television out of their television licence.

## BBC

**Mr Thompson:** There are some technical reasons why it is very difficult to improve the signal significantly at the moment. Eighteen months ago the BBC did make some technical changes which significantly boosted coverage to its present 73%.

**Q31 Mr Steinberg:** Can I just go back? When OnDigital was going, I tried to get OnDigital and I could not, because the signal was not strong enough. That was seven years ago and I bought Sky; I was forced to go into the market and buy Sky. You have not really progressed a great deal since then, have you?

**Mr Thompson:** When the BBC and its partners took over DTT 18 months ago they significantly boosted coverage by changing the signal. A technical advance was made which improved the signal. More broadly, it is worth saying, that only 38% of households had digital two years ago; principally because of Freeview it is now shifting at a rate of 7% of households per year, 53% this year, 60% next year potentially, 67% the year after. We are trying as hard as we can and we are working hard on the issue of free satellite and working hard with others on free satellite. We are doing everything we can to encourage the public to move quickly and to make it possible for them to move quickly and cheaply to digital so we do achieve universal service. In the meantime we are trying to make sure the most expensive programmes we are commissioning for our digital services are also available on BBC1 and BBC2 so licence payers who cannot currently see them on digital can see them on the analogue services.

**Q32 Mr Steinberg:** That is fine, but OnDigital failed, ITV Digital failed, the terrestrial one that is. Why did you go for a terrestrial system? Why did you not go for a satellite system in the first place?

**Mr Thompson:** We believe and continue to believe that terrestrially transmitted digital television as one of the choices open to the public—and, by the way, this is the government's and I believe all the parties' view as well—is an incredibly important part of the broadcasting mix and in particular for second television and third television households it is the only credible solution for most households in the country.

**Q33 Mr Steinberg:** Why?

**Mr Thompson:** Because it is a very cheap, very simple technology. You literally plug it in and it works. It does not require complicated new equipment; it does not require a subscription and there is no issue around being pestered by call centres. It is very like buying a television. I have to say that if you read the NAO's Report into Freeview, the result of BBC's involvement in digital terrestrial television is that there is now incredibly rapid take-up: well over one million households taking this technology per year.

**Q34 Mr Steinberg:** Yes, because basically they have no option, other than to pay for it through Sky. You are talking about it being the best way to do it, but I would disagree. I have Sky and I can watch one

programme and record another and the telephone rings and I can switch the programme on again and continue where I left off and watch Sky. All I have with BBC is terrestrial television which has no new technology about it other than digital.

**Mr Thompson:** Indeed. DTT may not be for everyone and it does not sound as though it is for you. Particularly for some higher income households it may well be that a pay satellite option with a hard disk recording device may make more sense. I have to say that already you can get a Freeview box with a hard disk, so you can do exactly the same pausing and automatic recording of programmes. That technology is arriving as well. It is worth saying that 53% of people converting to digital television as a whole is an extraordinarily high number; it is much more successful than other countries.

**Q35 Mr Steinberg:** When can everybody who wants to expect to get BBC digital? When can everybody who wants to expect to get that service?

**Mr Thompson:** Of course—

**Q36 Mr Steinberg:** When?

**Mr Thompson:** By the end of the year, when there is a free satellite service from Sky and possibly other free satellite services as well, it should be possible for pretty much every single household in the UK to get digital television.

**Q37 Mr Steinberg:** I am talking about terrestrial.

**Mr Thompson:** As I explained earlier, digital terrestrial coverage, up to 99.7% of the UK population, will not be possible until switchover and that date is yet to be set by government and the dates we talked about are between 2010 and 2012.

**Q38 Mr Steinberg:** Will the government have to wait until you are ready or will they have a switchover date and people will then not be able to get television at all?

**Mr Thompson:** The switchover date will be set by government absolutely in consultation with the broadcasters.

**Q39 Mr Steinberg:** When will you be ready? When will you be able to say to Blair, because he will still be there in 2012 or whenever it is, "Right, we are ready. 100% saturation for Freeview"? When will you be able to say it?

**Mr Gleeson:** Technically—and I might ask Carolyn in a minute to supplement what I am about to say—

**Q40 Mr Steinberg:** She should know because she was in the Policy Unit when you were discussing this.

**Mr Gleeson:** Absolutely. Technically it is not possible for us to increase the coverage of our DTT proposition until analogue switch-off. When analogue switch-off takes place, as long as we have had the opportunity—and discussions are taking place with government—to build out in advance the DTT network, from that moment there will be universal terrestrial coverage. For the purposes of clarity, I think it would be helpful if Carolyn

explained what the technical constraints which are entirely outside our control are, because it is important that there is no misunderstanding.

**Q41 Mr Steinberg:** All I want is a date. When can I say to my constituents, regardless of whatever—

**Ms Fairbairn:** Two thousand and twelve.

**Q42 Mr Steinberg:** That is a long time, is it not?

**Mr Gleeson:** It is not within our control and I do not want any misunderstanding about that.

**Q43 Jon Trickett:** I want to go back to the issue of the relationship between the House Select Committee and the Governors, if I may. I would not at all wish for a situation where a broadcaster was answerable to the state or to the government. If a politician representing the government, say in the DCMS, were to want to hold you to account, I would think that entirely reprehensible. In your answer to the Chairman's questions, I thought you put the state apparatus and the government on the one hand and the House of Commons on the other, which is an entirely distinct process it seems to me. Do the Governors make a distinction between being responsible to the House of Commons on the one hand and to the government on the other?

**Mr Gleeson:** I accept that there is a distinction. Let me explain one area where I think difficulties may arise. It is generally the case that the permanent secretaries of the departments whom the NAO and this Committee scrutinise fulfil the role of accounting officer. In that role once the process of scrutiny has been completed they normally find themselves having to accept instructions from government which have been agreed with the NAO, having been mediated by this Committee. So the driving force is the NAO and this Committee, but actually it is, at the end of the day, government which gives the instructions. So the distinction you are making between parliament and government is not one which is always clear.

**Q44 Jon Trickett:** I do not think that is actually technically true. I think that the PAC makes recommendations to which the Treasury responds; that is the point you are making.

**Mr Gleeson:** Yes.

**Q45 Chairman:** I think the National Audit Office should comment on that. Is what we have just heard correct?

**Mr Burr:** The only comment I would make is that the National Audit Office is not part of government. We report to the House of Commons and our reports are considered by the Committee of Public Accounts and the Committee makes recommendations as it sees fit. We do not in that sense work in tandem with the government.

**Mr Gleeson:** To the extent that your recommendations are implemented, they are implemented because of the relationship you do have with government through the process I described.

**Mr Burr:** We have no executive authority.

**Q46 Jon Trickett:** May I intercede? It is an interesting exchange but it seems to me that the Director General effectively represents the accounting officer.

**Mr Thompson:** No, no.

**Q47 Jon Trickett:** Let me just follow the logic through. In the kind of model which might come into existence the Governors rather than the Treasury might be the people who would respond to any report which the PAC presented. At the moment it is very interesting that the governors and the DG are equally here before us representing the corporate interests of the BBC as it currently is. If the Governors were to stand back and play a supervisory role, as has been proposed, it would be surprising to see them answering day to day and month by month for the strategic direction of the BBC rather than the DG. The point I was making was not anything to do with the trail which you have just followed, although I think you were taking an implausible course. I was simply asking you this question: does the Corporation recognise that there is a distinction between being answerable to DCMS or to the government on the one hand and being accountable to the House, particularly the PAC, which is itself restricted by terms of reference which mean that we can only look at economy and efficiency and not policy issues?

**Mr Gleeson:** I do accept the distinction and it is because we accept that distinction that we have agreed to the compromise agreement which was agreed to during passage of the Communications Bill. Yes, it is precisely because we accept that the kind of relationship which has now been constructed between the NAO and the PAC on the one side and ourselves on the other does not give government executive authority over us, nor indeed anybody else, that we have been prepared to accept it.

**Mr Thompson:** I am a Johnny-come-lately to this debate, but I have to say that my understanding was that these matters had been debated extensively when the Communications Bill was being considered, a compromise was reached and that we were now operating under this compromise.

**Q48 Jon Trickett:** That is probably true that a compromise was agreed but I do not know whether the PAC and all the members of the PAC felt that they were party to or involved in that compromise.

**Mr Thompson:** So you are not party to the compromise.

**Q49 Jon Trickett:** I do not know whether the Chairman wants to answer that, but certainly I am not. I am just an individual member of the PAC with my own point of view. I was simply putting the question to the representative of the governing body of the BBC as to whether or not he drew the distinction, as he appeared not to in his earlier answer, between the state and Parliament.

## BBC

**Mr Gleeson:** I am sorry if I was not clear. I did explicitly say that I did accept the distinction. I then said however that there are areas where the distinction can get blurred. Do I accept the distinction? Yes, I do.

**Q50 Jon Trickett:** Do you think the PAC is competent to draw a distinction, as it does already with every other area of public expenditure, between policy on the one hand, which is not our remit, and value for money issues on the other? Do you accept that is a distinction we are capable of making?

**Mr Gleeson:** I have no doubt that maintaining that distinction is the Committee's intention. I do think that the BBC is different from many other organisations in that the line between process and policy is not always wholly clear. I also think, as I said at the outset, that the BBC's independence has to be not only editorial independence but management independence. If the BBC is not perceived to manage its own affairs, the credibility for impartiality on which its reputation rests, not only in this country but worldwide, could potentially be damaged. We, the governors, have laid upon us a duty to protect the independence of the BBC and it is against that background that we negotiated the terms of the compromise agreement.

**Q51 Jon Trickett:** I would hope that the compromise would be a transitional arrangement between what was totally unacceptable in the past and a more sensible relationship in the future. It appears that the way you are addressing this matter you do not see it at all as anything other than something which you reluctantly have to accept.

**Mr Gleeson:** We would expect the system to evolve; of course we would expect the system to evolve in the light of experience. What we did hope was that all the parties entered it in good faith with the intention of making it work if possible. That was our hope and expectation and it remains my hope.

**Mr Thompson:** I would say something else, which is that this Report from the National Audit Office is a very useful document. I would absolutely welcome it in terms of helping us understand this part of our operations. I hope that as the audit committee of the governors and the NAO in dialogue choose other areas of the BBC's activities, it will be a practically useful process in driving better value for the licence payer. It is not a compromise to which I come thinking it is terrible, thus far and no further. I hope it is going to be a very useful way of going forward for the next years.

**Ms Thomson:** May I add, as the person who did a lot of the brokering of the arrangements to which we have now come, that one of the important principles for the BBC, which you alluded to in your question, is the issue of to whom the director general is accountable and that the director general should be accountable to the governors and then you have accountability on from that. That is very important in terms of the independent management of the BBC and it is important to stress that this was not just something which was a BBC obsession, this very compromise was brokered by Lord Sharman in the

House of Lords, himself a great expert on the National Audit Office, who worked hard to extend its remit.

**Q52 Jon Trickett:** I will say that I find you as a group of people extremely defensive in answering the questions. I just have one final one. Do you not, speaking on behalf of the BBC, recognise that the independence of the BBC, which is precious, is about editorial independence, rather than about its capacity to demonstrate to the public that it is spending its money efficiently and wisely in financial terms? I am not talking about editorial policy at all. It is that which is precious rather than the other matter and it is the other matter in which we are interested.

**Mr Gleeson:** It is important that we are accountable both to parliament and to the licence fee payer more directly for our stewardship of public funds. We entirely accept that. With respect to the distinction between editorial freedom and management freedom, I come back to the point I tried to make a little earlier. Successive governments have taken the view that independence is seamless, that the independence of the BBC has to comprise both editorial freedom and the freedom to manage. If the BBC is not independent with respect to the management of its own affairs, there will be a danger, either that over time its editorial independence will be eroded, or, even if it is not actually eroded substantively, nonetheless, because there are questions about the freedom of the BBC to govern itself in people's minds, it will be perceived to have something less than full editorial independence and against that background its reputation and credibility could diminish.

**Mr Thompson:** The BBC's purposes are fundamentally editorial. The overwhelming majority of our operations are editorial. When we consider value for money, almost always we have to consider it in an editorial context, value for money in news programmes for example, which absolutely gets you into the zone where we know from the DCMS consultation that the public worry about political interference. This is not just an abstract thing; it is a practical public concern about political interference. I have to say that the idea that you could very simply separate editorial matters from value for money ones, given the purposes of the BBC and the operations of the BBC, is very difficult in the case of this institution.

**Q53 Mr Williams:** Are newspapers not responsible to their shareholders? Are they not accountable to their shareholders?

**Mr Thompson:** Yes, good newspapers certainly are, of course.

**Q54 Mr Williams:** Does that mean that they have to watch their editorial independence all the time?

**Mr Thompson:** The BBC is made accountable in many ways. It is accountable to its governors, who are independently appointed. We make regular appearances in front of the DCMS Select Committee of this House. More broad scrutiny and

debate at the BBC is more intense than probably any other public institution in the country. It seems to me that the sense that there is no accountability is preposterous: two out of the last four chief executives of the BBC have been dismissed.

**Q55 Mr Williams:** What is beyond our understanding is how you can go before a select committee which deals with policy, which we do not, and you can answer their questions, but you insist on controlling what we can look at, which is only concerned with rectitude in the use of public money and efficiency in the use of public money. Why should you be excluded from that independent scrutiny?

**Mr Gleeson:** Firstly, let us not lose sight of the fact that the NAO, under the new arrangement, enjoys considerable access. Your question seemed to imply that the sort of report which has just been done by the NAO on your behalf does not serve any useful purpose. I think that it has been a very useful exercise and I think there are some serious points here which we at the BBC had previously missed and which we will take up.

**Q56 Mr Williams:** Who chose that subject?

**Mr Gleeson:** We proposed a long list to the Comptroller and Auditor General, an extensive menu, from which I think it is fair to say he enthusiastically selected this hugely important project. First point. My second point is that we are in an organisation in which you cannot separate editorial freedom and general policy at all easily; you simply cannot.

**Q57 Mr Williams:** I am sorry, but you are waffling away. First you read from a pre-prepared brief and frankly we are keen on having answers here.

**Mr Gleeson:** I was making a specific point. I wrote down a few remarks.

**Q58 Mr Williams:** If a department can be answerable to this Committee, even the Intelligence Services, in relation to the efficiency of their use of resources without that in any way endangering their independence, why on earth should it be worrying to the BBC if the National Audit Office chooses the areas it wants to look at, not necessarily from a list which you put forward? Where is the difference between the list you put forward and the list of things they might want to ask about?

**Mr Gleeson:** The DCMS recently undertook a consultation with the public about the whole range of policy issues affecting the BBC. Only 9% of the British public, according to that survey, want to see parliament exercise more influence or control over the BBC.

**Q59 Mr Williams:** We are not talking about influence; we are not talking about control. We are talking about monitoring a rather arrogant, self-satisfied organisation which wants to control who is allowed to look at whether they are using our constituents' money properly. We had a war of independence over taxation without accountability.

**Ms Thomson:** May I just say that I think, as the person who brokered the agreement, it is a bit unfortunate if what is our first appearance before the PAC turns into a re-opening of an issue which we hoped for the moment, in good will and in all good faith, we had come to an agreement about and which I think the National Audit Office are comfortable with?

**Chairman:** I am afraid that witnesses do not set the questions in this Committee. I am afraid that these questions are perfectly in order and Mr Williams is entitled to ask them.

**Q60 Mr Williams:** I find it remarkable that you think you can curb the ability of this Committee to ask relevant questions, because it is relevant to us what power of accountability there is over taxpayers' money. The background is that we actually waged a campaign against the government which forced the setting up of the Sharman committee which forced government to widen massively the area of accountability. There are only two areas which the Sharman committee recommended were not granted to this Committee: one was the Civil List and the other the BBC. We still do not understand, and you have used slogans but nothing you have said to us indicates any evidence, how looking into the way in which you use the money efficiently or inefficiently would prejudice the editorial independence of your organisation. Spell out in detail how it will do that.

**Mr Gleeson:** Let me give you two examples which illustrate my anxieties. If the NAO were to say that it was going to undertake a value for money study into our overseas news bureaux, I think the people doing that study would find it very difficult to come to any conclusions without making judgments about whether it made sense for the BBC to locate a bureau in a particular part of the world. If the NAO and this Committee started getting involved in recommendations of that kind, that would undoubtedly diminish our independence. I have also a more general concern, if I may be allowed to articulate it. You accuse me of waffling on but you do not actually let me finish my point.

**Q61 Mr Williams:** You said in relation to overseas bureaux, so let us take that. We have had long-standing access to the World Service. Do any of you know of a single occasion, or does the NAO know of a single occasion, on which the World Service has turned around and said that being accountable to the National Audit Office and this Committee has prejudiced its editorial independence?

**Mr Gleeson:** But what you are missing—

**Q62 Mr Williams:** Do you or do you not? Yes or no.

**Mr Gleeson:** I do not know of such an occasion and I should like to explain why, if I may.

**Q63 Mr Williams:** You are a Governor of the BBC so we would expect you to know why.

**Mr Gleeson:** The World Service is entirely differently funded and the government plays a much greater part in specifying its remit. This is something greatly valued by the British people. We, the so-called home

BBC

services, enjoy a much greater degree of freedom and therefore dangers of the kind I have identified arise. If I may make the other point I was trying to make . . . ?

**Q64 Mr Williams:** I am sorry but let us come back. We are talking about editorial freedom and you cannot give us one instance where the editorial freedom has been prejudiced by the activities of this Committee. The fact that the money comes from the government makes little or no difference in either case. The importance is that the money is used efficiently. You have all that evidence that this Committee does that without interference. You cannot think of a single instance of interference and yet you sit there repeating the pathetic mantra that you need managerial and editorial independence without being able to show a single example of where it is at risk.

**Ms Thomson:** I just want to say that I used to be the Deputy Director of the World Service and I can absolutely vouch for the fact that the NAO processes have not interfered editorially. However, the World Service is in a very different position. For example, it has to get agreement from the government before it starts or closes different language services and it agrees to keep performance indicators with the government as part of the spending sector. That is a very different position of managerial relationship with the government and it is the managerial independence point which we are worried about.

**Q65 Mr Williams:** But that arises not from the fact of accountability to this Committee. That arises from the agreement under which you get the money in the first place.

**Ms Thomson:** Absolutely.

**Q66 Mr Williams:** So that is a completely different situation.

**Ms Thomson:** Exactly.

**Mr Gleeson:** Exactly; it is a different situation. May I explain?

**Q67 Mr Williams:** No, you cannot for a second. I am asking the questions. The point is not the fact of the money, it is who provides the money, which in that case gives them the power to determine anything. Nothing this Committee does—this is what you have to answer and you have already answered—in analysing the use of that money, although it comes from government, has in any way prejudiced the independence of the organisation. You have just vouched for that, have you not, Ms Thomson? You have just vouched for that.

**Mr Gleeson:** Caroline has indeed vouched for it. She has also said that the World Service does not enjoy the same degree of independence that we do. Of course there is a further point, which is that in terms of domestic political salience the World Service's broadcasts in, say, Bangladesh are perhaps in terms of salience less high than what happens on the *Today* programme. The fact that we have not encountered the problems you described with respect to the World Service does not mean that there would not

be very serious dangers of us encountering such difficulties in the domestic context and that is our fear.

**Q68 Mr Williams:** This Committee is not under the control of government. You do not seem to understand that this Committee is a completely independent organisation and that the National Audit Office is a completely independent organisation. Neither of us is an organ of government. We represent the House of Commons' monitoring of government, monitoring of people who use the money and the National Audit Office has such independence that the government cannot even dismiss the Comptroller and Auditor General. We are not in the situation of representing government in trying to introduce influence over you. We are looking after your viewers' interests in terms of the money which is spent.

**Mr Gleeson:** What we should like above all is the opportunity to demonstrate that the arrangements we have in good faith agreed with the other parties can work to achieve the objectives that you were perfectly understandably concerned with.

**Chairman:** Thank you very much. We also believe that will happen. We believe that in the course of these inquiries and compromise arrangements you will find there is absolutely no question of your editorial independence being compromised and the position of this Committee remains, therefore, that at Charter renewal the BBC should be placed in a position, given that it is disbursing large amounts of public funds, where the National Audit Office should decide which part of your organisation it investigates to promote economy and efficiency. I think you will find that there will be no difficulty in future.

**Q69 Mr Steinberg:** Were there any failures on the list of topics which you gave to the National Audit Office?

**Mr Gleeson:** Forgive me if I look at my notes.

**Q70 Chairman:** Could we have the list?<sup>1</sup>

**Mr Gleeson:** Yes, if you want it. We are not at all clear that our risk management processes could not be significantly improved and it was genuinely the case that we felt that was an area where the NAO might have something useful to contribute. Caroline has just whispered in my ear—which I hope she is allowed to do—that the measures of public service broadcasting is an area where we are far from clear that we have been consistently successful in the past. We are very self-critical in some areas with respect to our discharge of measurement of public service activity.

**Chairman:** Would the NAO like to comment?

**Mr Burr:** We would be hesitant to categorise something as a success or a failure until we had actually examined it. Obviously we have not yet done that with the other topics on the list.

**Mr Gleeson:** If you had said anything else, we should have been seriously worried.

<sup>1</sup> Ev 17

**Q71 Mr Jenkins:** This meeting this afternoon has taken a different attack line. When I read the Report I was quite pleased with the Report, I thought it was a very good Report. A lot of things are in place, you are doing that quite well and there is a lot to commend you for meeting the government's target of switching off analogue and allowing us to have a better system in Britain. I am also a very big supporter of the independence of the BBC. I truly believe that it should not be at arm's length but totally detached from government. I believe that if we do inquiries into the BBC we should be very mindful that you work in a commercial environment. When we get people before us, any information we gain does not go into the public domain if that would put that person at a disadvantage with the competition. We are not the best judges of the information which will give a commercial advantage to someone else. On all those fronts I feel quite confident that we can pursue the agreement we have now and process it further. However, something struck me about the independence of the BBC and I want to go a bit further than the present status. In this Committee we are not supporters of the government: we are the scrutiners of the government. They very often see us as being the enemy within and we are taken to task. With the BBC, with its much vaunted independence, can you explain something to me? I am going to write to the Secretary of State and ask her whether in the new Charter she will consider making it an impossibility for a member of the government to become a member of the BBC or a civil servant to become a member of the BBC or someone who has become closely attached to government to become a member of the board of the BBC. When I read the CVs what I find is that Mr Gleeson, you are in effect a former head of the Home Affairs Section of the Conservative Research Department.

**Mr Gleeson:** Thirty years ago.

**Mr Jenkins:** I can assure you that my politics have not changed in 30 years.

**Chairman:** Could I say to Mr Jenkins that I was also a member of that department?

**Q72 Mr Jenkins:** Ms Fairbairn was a member of the Downing Street Policy Unit and Ms Thomson was with Roy Jenkins, then the leader of the SDP.

**Mr Thompson:** May I commend myself to you?

**Q73 Mr Jenkins:** You are a professional; you have always worked for the BBC. Do you see the difficulty for the members of the public?

**Mr Gleeson:** I do understand your anxieties, but I would remind you that governors of the BBC now are appointed under Nolan Rules. When a vacancy arises it is advertised, typically 80 or 90 people apply. A committee draws up a short list. That committee consists of a senior civil servant, the chairman of the BBC and independent assessors appointed under the OCPA rules. It is now virtually always their recommendation which is accepted, ultimately by the Prime Minister and the Queen. I honestly think that there is no evidence whatever of governors

allowing their past or present political convictions to have any influence. As regards the executive, to the extent that the governors appoint executives, we do scrutinise political background very carefully. For example, the governors have just appointed a head of our new governance unit. We made detailed checks with respect to the political background of every single candidate who was interviewed and I am entirely satisfied that all the candidates were worthy of inclusion on the short list. In fairness to your point, I do think it is terribly important that any political background is something we are very open about and that is why in the annual report we publish the sort of thing which you have identified with respect to me.

**Mr Thompson:** I have worked for the BBC only for a couple of months as director general, but I worked there for many years before and I cannot give an example where, even in quite senior positions in BBC News or as director of television at the BBC, I have ever had any sense of any governor occupying a position because of some party affiliation. Rather like the jury service, one of the reasons why I think the system of governance works actually very well—I know there are some credibility issues around it right now but it does work very well—is because they genuinely do take the independence and the political independence of the organisation incredibly seriously.

**Q74 Mr Jenkins:** Do you understand my concern as far as Governors are concerned? Somebody in government can phone a Governor, because they have been lifelong friends and that is how they got their position, and whisper to you. That link has to be broken.

**Mr Thompson:** Yes and the more transparent appointment procedures are is certainly a big step in the right direction.

**Mr Gleeson:** It is a legitimate concern; I entirely accept that.

**Q75 Mr Jenkins:** You were asked a couple of times about the cost to the licence payer, the ones who cannot receive; not do not want but cannot receive. I am surprised at the answers. If my arithmetic is right—and very often it is not—you have 26 million licence payers and you spent £11 million. Does that not work out at about 40p per year for each of the licence payers? So all the ones who cannot receive it at the moment—and this Committee is not opposed in any way to innovation, risk taking, pushing new technology; we love it, sometimes it does not work and hard luck but if it works it is good for us. Why do you not just say to the ones who cannot get it at the moment that it is costing 40p per year? Tough. It is worth it, because in the next couple of years it will come their way, it will be an enhanced service, so they should just accept that you cannot send 40p back and it is a good deal.

**Mr Gleeson:** It is rather shaming that you can make our case better than we can. Thank you for that.

**Chairman:** So he is more likely to become a BBC Governor.

BBC

**Q76 Mr Jenkins:** No. I understand the strategy and there is no doubt that I would be seriously considering not erecting masts but rather going to digital. I would rather give free boxes and free digital dishes, especially if I can get them for £55 a shot, rather than build a section of masts for the very hardest people to reach in this country. I know from personal experience, because I live on a hill—not a big hill, a small hill with a slope down—and I cannot get digital TV, I have to use a cable. I cannot use an aerial; it has to be about 10 metres above my house to get a clear shot. I live in quite an urban area in the middle of England, in Tamworth in Staffordshire, but it is just one of those oddities. I would have to look at a satellite dish or remain on cable. There are locations where it would be cheaper and easier to give away a dish and when you come to switch-off, believe me, this government will be queuing up with piles of dishes to give away to allow the switch-off.

**Mr Thompson:** Tamworth is an example of a place where at switch-off we can solve that problem instantly. We cannot now because of the use of analogue spectrum.

**Mr Jenkins:** Not unless you remove the hill. Do not be discouraged by this Committee. The Committee will say truthfully that the purpose of the report today is to say that it is a good job, well done, so far as it goes. Keep up the good work, because it is vital we get this rollout and we need to switch off, we need to make that date. If the rollout does not continue, politically we cannot switch off.

**Chairman:** You know of course that it is a classic interrogation technique to have a hard man and a soft man.

**Q77 Mr Davidson:** In this context, albeit for your own good, may I ask about take-up rates? I notice and was somewhat surprised to see, that the South East seems to have the lowest take-up rate or access rate, which is unusual, because the South East usually gets the best of everything. Can you just clarify for me why exactly that is?

**Ms Fairbairn:** This has again got to do with the problem Mark explained about the interference. Because the South East is near France there are extra constraints in terms of how much you can turn up the power. We have a curious extra layer of problem.

**Q78 Mr Davidson:** Who decides that you cannot turn it up and interfere with French television?

**Ms Fairbairn:** At the end of the day it is Ofcom, but there are periodically international conventions—there is one coming up in 2005—where countries will thrash out an agreement.

**Q79 Mr Davidson:** So Ofcom have determined the volume of the signal you can send out and that has interfered with your independence to the extent that almost half of your target audience cannot receive the programmes.

**Ms Fairbairn:** Except that we did agree with them.

**Q80 Mr Davidson:** So you have agreed that half of the South East cannot receive your signals.

**Ms Fairbairn:** To have increased the power would have meant that people with analogue televisions would have lost their picture. We were party to the tests which proved that. At the end of the day it was actually a trial where power was pushed up and we did agree with Ofcom's judgment that people with analogue televisions—

**Q81 Mr Davidson:** Do people in the South East know this?

**Ms Fairbairn:** A very good point is made—

**Q82 Mr Davidson:** Sorry, is that a yes or a no?

**Ms Fairbairn:** It is a no. A very good point is made in the Report, which says that we could explain better to people who cannot get Freeview why they cannot. That is absolutely right.

**Q83 Mr Davidson:** Could I turn to Mr Gleeson? Do you take the view that this NAO review has in any way undermined your independence or editorial freedom or creative ability?

**Mr Gleeson:** Absolutely not. It is an example of the arrangement working well.

**Q84 Mr Davidson:** A simple yes or no. I am not quite sure what briefings you have had before this meeting, but maybe whoever was briefing you ought to have told you that we have a limited amount of time and with civil servants who come here we are conscious that they constantly try to spin out the time with long answers. You have got away with that because the Chairman has been too soft, possibly because you had time together in the Conservative Central Office! Maybe you could make your answers a little shorter. Of the long list of questions which you offered to the NAO as possible subjects, how many are now being picked up by somebody else on your instructions?

**Mr Gleeson:** I shall try to be terse.

**Q85 Mr Davidson:** Maybe you could send us a list.

**Mr Gleeson:** We can send you the list. About six are going to be pursued by the NAO and about six by external organisations.

**Q86 Mr Davidson:** How long was the long list?

**Mr Gleeson:** I confess that off the top of my head I cannot remember how long the original list was. It ran to several pages.

**Q87 Mr Davidson:** So there was quite a number of topics which are not being picked up by the NAO, which you, as the BBC, have not chosen to commission outside people to do as you can under the audit system. That leads me to believe that perhaps some of these were not quite as significant as they might have been. If you had thought they were important and the NAO was not doing them, you would have wanted to do them yourself.

**Mr Gleeson:** We are doing a huge number ourselves. We have an internal audit department which will pick up all those studies which are not being done either by the NAO or by any other external agents.

We would hope that over a three- to four-year period every significant aspect of BBC spend would be the subject of a VFM study.

**Q88 Mr Davidson:** Presumably you would be able to give us a note just listing those and the timescale you envisage for them.

**Mr Gleeson:** Certainly; I should be delighted to do that.<sup>2</sup>

**Mr Thompson:** As the incoming director general, with the governors' agreement, I have set off a purely management value for money exercise, looking at every aspect of our operations from my point of view to see whether, as I lead the BBC forward, there are ways in which we can drive better value for money everywhere. Irrespective of these particular issues which the audit committee are concerned with, I am trying to look at value for money across the entire organisation.

**Q89 Mr Davidson:** I want to pick up the Fraser report and the Scottish Parliament building. What is the mechanism for you to make sure that you learn appropriate lessons from that and that those lessons are then applied to the new Scottish BBC building?

**Mr Gleeson:** As it happens, I not only have a political background I have a background in the construction industry, where I have been for the last 25 years. We have a property committee, chaired by myself, which scrutinises and signs off all the major building projects and which relies for external advice on a range of organisations, including both organisations like Ernst and Young, who have a very well developed and sophisticated property department and chartered surveyors like DTZ. We, the governors, scrutinise our property activities very carefully.

**Q90 Mr Davidson:** The particular point is the question of the lessons which have been learned as a result of the debacle. I was aware of your background and I stayed off construction issues.

**Mr Gleeson:** To the particular question, we discussed at the property committee I think I can say on three occasions with the senior executives in the BBC responsible for our property programme very precisely the subject of the lessons which had to be learned. The key lesson is not to use a form of contract called construction management and we have not.

**Q91 Mr Davidson:** I did not want to digress onto that subject. May I clarify as well, in terms of the lessons learned from previous NAO investigations on other subject, what is the mechanism you have there for gleaning the lessons we have picked up which are transferable?

**Mr Gleeson:** I may be wrong here, but I do not believe that we have any systematic procedures for picking up learnable lessons. That is very possibly something we ought to look at.<sup>3</sup>

**Mr Thompson:** I would think it extremely likely that our finance director and other people inside the BBC look at all published NAO Reports.

**Q92 Mr Davidson:** You can see why we have some degree of concern, if it appears that there is no answer you can give us right away. We spend a lot of time producing these reports. We raise with accounting officers, when they come to see us, issues as to whether or not they are picking up lessons which have been learned which are generally more widely applicable, yet you do not seem to have the same sort of mechanism. Maybe that is something you could look at and try.

**Mr Gleeson:** I think we should; yes.

**Q93 Mr Davidson:** You particularly mentioned overseas news bureaux and I was struck by the point you made earlier on about independence being seamless. I cannot see why, maybe you can clarify this for me, the NAO, looking at something like procurement of cars, offices, local staff, the entertainment budget, whether or not the equipment you have in your overseas bureaux works, I cannot see why any of that threatens the independence of the BBC. Maybe I misunderstood what you were saying, but maybe you could just provide some clarification?

**Mr Gleeson:** I entirely accept that studies in the areas you have just described, subject to the terms of reference being tightly drawn, are precisely the sort of areas where the NAO could well have a contribution to make.

**Q94 Mr Davidson:** I do not know how many of the reports you have been briefed on. Every time we investigate an area like royal travel and royal palaces we discover horrendous waste. Have you learned lessons from that?

**Mr Gleeson:** We have very frequently from our own studies, internal and external, learned a great deal. As I said earlier, I think that although as Mark says I do not doubt that our finance director has a general view of what the NAO is up to, we probably could do more to learn where lessons are applicable.

**Q95 Mr Davidson:** Had we been unkind we would have seen that as a waffle. What you are saying to me basically is that you do not have a mechanism for comparing what we have learned from royal travel with what you do.

**Mr Gleeson:** No, I do not believe we have an adequate mechanism.

**Q96 Chairman:** As a result of those questions, just to confirm the procedure, as a result of this hearing we shall issue a report and the Board of Governors will present a report to Parliament answering our recommendations. Is that correct?

**Mr Gleeson:** Yes, as I understand it. Forgive me; can you take me through that again?

**Q97 Chairman:** As is our normal practice, we will prepare a report based on this hearing and based on the original NAO Report. Normally there would be

<sup>2</sup> Ev 17

<sup>3</sup> Ev 17

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something called a Treasury Minute in which the government would reply. We are the only select committee where the government have to reply to every single one of our recommendations; typically 90% of them are accepted. Obviously it would be totally inappropriate for there to be a Treasury Minute, so I take it that on this occasion there will be a formal reply by the Board of Governors to Parliament. Is that correct?

**Mr Gleeson:** Does the compromise agreement provide for that? I think it does.

**Ms Thomson:** Yes. As the world's living expert on the compromise agreement may I say yes, we shall be and, at the risk of re-opening the issue, that demonstrates the point. I understand that you think we are being pedantic about this, but it is very important to us that it is the governors replying to the Committee, and not the director general, as the accounting officer.

**Chairman:** I understand. So the Governors will reply. Thank you very much.

**Q98 Mr Allan:** Specifically on Freeview I want to get a couple of things on the record, first about subscription creep. Can you confirm to me that the current Freeview platform that you are rolling out cannot deliver subscription services, in other words only licence-fee funded or advertisement-funded services can be delivered over those boxes which you are encouraging to be pushed out?

**Ms Fairbairn:** We do not specify whether they should be a pay upgrade or not. Until very recently there was not. There is now a completely separate entity called Top Up TV which is operating pay services. We have nothing to do with it. We provide no information or campaigns about it. It does not feature in our promotions, but it does exist.

**Q99 Mr Allan:** It buys channels on the multiplex and they fund their own boxes and get those out to people.

**Ms Fairbairn:** Exactly right; independently of us.

**Q100 Mr Allan:** But in terms of thinking about future funding of terrestrial TV, if we were to move to a subscription model the millions of people who bought the Freeview boxes would all have to change those boxes.

**Ms Fairbairn:** If they wanted a subscription, they would have to change their box, yes.

**Q101 Mr Allan:** Or if government wanted subscription instead of licence fees it would have to change everyone's boxes.

**Ms Fairbairn:** Yes, that is right. Sorry; exactly right.

**Q102 Mr Allan:** In terms of the satellite free to air can you confirm again that BSkyB are not guaranteeing that is free to air for ever and that that is a platform which can take subscription services, so there is quite a fundamental difference?

**Ms Fairbairn:** It is a fundamental difference.

**Q103 Mr Allan:** So the scope for you to develop a free-to-air satellite service is not removed by the BSkyB offering.

**Ms Fairbairn:** Exactly right.

**Q104 Mr Allan:** The second point is going back to these costs. You referred earlier to the cost of delivering the various platforms. One of the other things we like on this Committee is notes on things. I wonder whether it is possible to have a note on the cost of delivering your BBC services over the different platforms now and also how that changes in the future as you move towards universal DTT coverage; your best estimates at the moment. It is helpful to understand whether it is better value for money to upgrade the terrestrial platform or to encourage the satellite, for example. Those are the kinds of things we like looking at.

**Ms Fairbairn:** Very happy to do that.<sup>4</sup>

**Q105 Mr Williams:** One observation before I come onto an entirely Celtic question, away from the other subject. I was encouraged by Mr Thompson's point about him wanting to set up value for money studies where he felt them appropriate, but I would put this to him. I do not want an answer; I just put it to him to consider. To us the important difference between you setting it up and the NAO setting it up is that if it comes out with an adverse result the BBC can dust it under a carpet and the licence payers will never get to know about it. The important thing about here is that we represent the licence payers. Coming to my Celtic question, which you can well anticipate, because we have to keep an eye on the Scots very closely, Wales, in Table 27, has 66 households in 100 covered by Freeview, whereas in Scotland it is 86 in 100, 20 more. Considering the vast areas of countryside covered in Scotland, why is it that there is this big gap between the two countries?

**Ms Fairbairn:** I am afraid it all comes back to the mixture of the engineering and the topography. We have pushed as far as we can; we have gone from 66% to 73% coverage through power increases and we are now at the limit. I am sorry to say that it is simply the differences between the terrain and the engineering configurations in those two countries.

**Q106 Mr Williams:** Is it purely then a technical thing? Will you let us have an indication of the investment which has gone into Wales and into Scotland, if that is differentiable, to make this service available so we can see whether it could be an investment factor rather than just a technical factor? A note on that would be sufficient.

**Ms Fairbairn:** Certainly.<sup>5</sup>

**Q107 Mr Davidson:** May I just follow up a point raised by Mr Williams on the investigations into value for money which you are raising? You have agreed that you are going to give us a list of the areas which are going to be examined, but I was presuming

<sup>4</sup> Ev 18–19

<sup>5</sup> Ev 19

that these would in fact be published at some stage and be publicly available, whereas Alan seemed to think that they might be swept under the carpet.

**Mr Gleeson:** No, no. All the external reports on behalf of the BBC's audit committee will be published and we will certainly publish the outcomes of the other studies.

**Mr Thompson:** The confusion may well be my fault. Quite separately from that, as an incoming chief executive, I am conducting my own review of the BBC's value for money and its efficiency to try to improve it. I would not suggest for a moment that my management actions should in any way be seen as a substitution for all of the external ways in which we look. The governors, the audit committee, external advisers, these new NAO investigations, these are all absolutely to ensure that I and the rest of the BBC management are doing our jobs properly and driving up value for money. They are two different things.

**Q108 Mr Davidson:** One of the issues which concerns us all about some of this is that you are operating in a competitive environment and there is the issue about commercial confidentiality and material being produced which would be of use to others and so on. How is the line drawn in these circumstances and who makes these sorts of judgments about what it is appropriate to release and what not for commercial reasons?

**Mr Gleeson:** On the commercial front the line is drawn pragmatically and it is a matter of consultation between the governors on the audit committee and the finance director and other senior officials.

**Q109 Jon Trickett:** A note might suffice to understand the nature of the agreement with BSkyB which I understand was entered into and I understand the reasons why it was entered into from paragraph 2.5.<sup>6</sup> It states that there has to be unanimity in terms of the company which was established and in which BBC and Sky are partners. The way that unanimity is expressed is that no change can be imposed upon the BBC which it does not want, but that can be expressed as a negative too. It strikes me that if the BBC wanted to introduce change, Sky then have a veto. It might well be used by BSkyB for their own commercial advantage. At the same time BSkyB have then established their own subscription free digital terrestrial service over which you presumably have no veto. I understand that there is a complex interaction relationship between yourselves and BSkyB and there is a mutual interest in rolling this thing out. Have they not outsmarted you though?

**Ms Fairbairn:** I do not think so. The first point to make is that this small company, DTVSL, is only a marketing vehicle, so the only kind of control it has is over marketing. It has no say over our channels, over the roll-out of DTT, any of those things. First

point. The second point is that actually the three-way split between Crown Castle, Sky and ourselves has meant that we have never actually found that we have got into this kind of deadlock position.

**Mr Gleeson:** I think the Report actually says that the manner in which this problem has been handled is the optimum one.

**Mr Thompson:** It is rolling out 10 times more quickly.

**Q110 Chairman:** If you look at Figure 5 on page 12, you will see there, particularly in the last bullet point, that satellite offers near universal coverage which Freeview does not. It offers subscription-free access to your digital channels, so why are you promoting digital terrestrial television, given the unequal access to all licence fee payers?

**Mr Gleeson:** We believe that at this time it is in the interests of licence fee payers and consumers that they are offered a range of distribution options. We also know from our market research that for many people digital services received through an aerial is very much their preferred option on the grounds of cost, on the grounds of practicality. It is so much easier to plug in a box than install the satellite equipment.

**Mr Thompson:** Not everyone wants a dish on their house.

**Mr Gleeson:** Somebody mocked me when I said there were esthetic issues, but actually you will find that a lot of your constituents do not want to put dishes on their walls. As the success of Freeview has shown, there is a considerable appetite for the Freeview option and we think at this stage in a rapidly evolving new market consumers ought to be allowed to exercise their preferences. We are driven in this context by a desire to give licence fee payers a range of choices.

**Q111 Chairman:** This programme is being broadcast and the BBC Parliament programme is part of Freeview, also available on cable and satellite. I understand that it will be shown some time on Sunday evening, but nobody knows that it will be shown. It is not advertised anywhere and I understand that the editor of the *Radio Times*, over whom I believe you have some control, Mr Thompson, refuses to make any listings of Parliamentary Select Committees which are shown over the weekends. As you are going to all the expense of broadcasting this hearing, do you not think the editor of your in-house magazine might be constrained to make a listing of it?

**Mr Thompson:** We are hoping this programme will transform weekend entertainment on the BBC. I do think we should look at the listing of this and other select committees.

**Chairman:** Thank you very much. This has been an historic hearing. I think it has been right in our very first hearing that we should pursue the compromise agreement, but as this process settles down I think you will find that this process can only help you in your work in delivering good value for money and we hope so. Thank you very much for what has been a very enjoyable, entertaining and useful hearing. Thank you.

<sup>6</sup> Ev 19

### Supplementary memorandum submitted by the BBC

*Question 70 (Chairman) and Question 88 (Mr Davidson): A list of those areas which were tendered by the Governors to the NAO for examination, together with what action is being taken either internally or externally on those areas not being taken forward by the NAO.*

The Governors' Audit Committee has agreed for the NAO to review six topics over the period 2004 to 2006. The first topic for review was the BBC's Investment in Freeview. The findings from this review and the BBC's response were, of course, laid before Parliament by the BBC Governors in July 2004 at the same time as the BBC's Annual Report and Accounts.

The other areas that have been agreed are: BBC Property: the White City 2 Development; Measures of Public Service Broadcasting; Overhead Definitions; Risk Management Processes and Outsourcing Arrangements. The NAO is currently undertaking preliminary work as part of scoping the studies on BBC Property: White City 2 Development and Measures of Public Service Broadcasting.

Other value for money studies put forward by the Audit Committee are being undertaken by external agencies, other than the NAO. These are:

- Credit Management and the debt collection process: Review is being undertaken by PricewaterhouseCoopers;
- BBC Property Partnership arrangement between the BBC and Land Securities Trillium: Review is being undertaken by Ernst & Young; and
- Review of the BBC's HR processes and functions: External agency is currently being contracted.

Below is a list of those areas which were tendered by the Governors to the NAO for examination:

- Outsourcing.
- Corporate efficiency.
- White City redevelopment.
- Freeview.
- Overhead definitions.
- Risk Management.
- BBC Online efficiency.
- Training.
- Debt collection.
- Measures of public service broadcasting.

*Question 91 (Mr Davidson): What system we will put in place to ensure that the lessons from NAO reports in other areas are studied by our accounting officers?*

The BBC's Business Assurance function has implemented a process to follow up on actions identified for BBC management arising from the NAO's studies. This process will be carried out within a year following the publication of each report. The initial follow up review will apply to the review of the BBC's Investment in Freeview, with further reviews undertaken for subsequent value for money studies conducted for the BBC by the NAO.

Business Assurance will work with BBC management to ascertain where actions have been progressed and to obtain appropriate audit evidence to support these actions. The review will also look at the ways in which any lessons learned from the studies have been shared across other areas of the BBC. A report will be presented to the BBC's Audit Committee detailing the progress against actions identified.

The BBC ensure that where the NAO have completed studies in other Departments, the content or findings of which could be applied to the BBC, that they are brought to attention of BBC management. The BBC's Business Assurance function will ensure that this process is applied and that BBC management are made aware of any reports relevant to their area.

*Question 104 (Mr Williams): A note on the cost of delivering BBC services over different platforms now together with a projection of how that will change as we move towards universal DTT coverage.*

The table below details the cost of distributing BBC television, radio and interactive services on analogue and digital broadcast platforms in the UK for the financial year 2003–04:

<i>Platform</i>	<i>Actual Cost 2003–04</i>
Analogue (television and radio)	£53.1 million
DTT/Freeview	£24.4 million
Digital Satellite	£28.1 million
Digital Cable	£0 million
DAB (national multiplex)	£3.2 million
DAB (local multiplexes)	£2.8 million
Common platform costs	£15.8 million
Total	£127.4 million

These costs will increase as the UK moves towards universal DTT coverage and as the BBC develops and rolls out its service aspirations as set out in *Building public value*.

#### ANALOGUE

Analogue television costs will decrease to zero after analogue television is switched off. Analogue radio costs will continue to be maintained and these are expected to increase marginally due to a requirement to refresh some of the technical infrastructure.

#### DTT/FREEVIEW

These costs essentially pay for the coding and multiplexing of the BBC's channels and the transmission of those channels on two multiplexes from 80 transmitter sites across the UK. To achieve near universal coverage of DTT, the BBC's two multiplexes will need to be broadcast from up to 1,154 transmitters. Therefore, costs for DTT are expected to increase significantly during the switchover period and the BBC's exposure to those costs depends on commercial negotiations which are subject to EU procurement legislation.

#### DIGITAL SATELLITE

The BBC currently leases capacity on six transponders. Whilst switchover will not have a direct impact on the BBC's satellite costs as all existing services have been provided for and coverage is near universal, the BBC intends to make a number of other services available on satellite (as outlined in *Building public value*) which would incur additional costs.

#### DIGITAL CABLE

The BBC does not pay for carriage of its television and radio services on digital cable networks. However, we are subject to minor costs relating to interactive software licences and change control.

#### DAB (NATIONAL MULTIPLEX)

During the 2004–05 financial year, we have expanded the coverage of our national multiplex and it now covers around 85% of the UK population using 75 transmitters (with five more due on air in the next few months). In *Building public value* we stated our intent to increase coverage to 90%. This will require the deployment of at least a further 150 transmitters. With this expansion increase, national DAB costs are expected to be four times as high as the 2003–04 costs once 90% coverage has been achieved (expected during the next Charter period).

#### DAB (LOCAL MULTIPLEXES)

The commercial sector has completed the roll-out of local DAB multiplexes (47 in total) and the BBC has taken up all of its reserved capacity available to it. Costs are therefore not expected to rise that significantly other than to fund any increases in running costs or additional expansion of the coverage of those local multiplexes. Extra costs are forecast if during the next Charter period, further local multiplexes are advertised by Ofcom and the BBC is given reserved capacity on those.

## COMMON PLATFORM COSTS

This includes costs for circuits, transmission licences, monitoring and other costs incurred across two or more platforms. These costs are expected to increase marginally due to inflation, running costs and technology refresh.

*Question 106 (Mr Williams): A comparison of roll-out of DTT in Wales with that in Scotland.*

We currently distribute digital terrestrial (Freeview) television from 80 transmitters across the UK—largely those transmitters which serve the highest numbers of households. This strategy was agreed among the digital broadcasters and transmission firms when the network was first rolled-out to its present level.

Population is, generally, more dispersed in Wales (and Northern Ireland) compared with Scotland (and England). This means that Freeview currently serves 80% of households in Scotland (mostly along Scotland's Central Belt between Glasgow and Edinburgh) and 41% of households in Wales. The comparative figures for Northern Ireland and England are 61% and 74% respectively.

When the government publishes its timetable for completing digital switchover, we hope then to begin planning the completion of digital roll-out in all parts of the UK, on a region-by-region basis and it is the BBC's stated intention to substantially replicate the current analogue distribution system with a digital terrestrial one. However, we cannot extend the current network yet until we start switching off existing analogue transmitters; otherwise we would risk causing interference to analogue viewers' reception, due to the lack of additional spare UHF channel frequencies.

*Question 109 (Jon Trickett): Our relationship with Sky in relation to Freeview*

Sky are an equal shareholder along with Crown Castle and the BBC in DTVS Ltd, the small company established to market the Freeview service. The budget for this company is £3.75 million and the company has worked well for the last two years. We do not have any separate agreements with Sky in relation to Freeview. The Committee raised the issue of unanimity. The need for unanimity is on reserved matters only—not all issues—and in the same way Sky might block the BBC, the BBC can do likewise. We hope that ITV and Channel Four will also, in time, join DTVS Ltd and they too would have the same voting rights.

*Caroline Thomson*  
Director, Policy & Legal

*17 November 2004*

**Committee of Public Accounts response to the consultation on BBC Charter review**

The Committee of Public Accounts welcomes the opportunity to contribute to the review of the BBC's Royal Charter and I enclose the Committee's response. As you know, my Committee has long pressed for the Comptroller and Auditor General to be given full rights of access to the BBC to ensure that it is properly accountable to the public and Parliament for the significant amount of public money which it receives.

*Edward Leigh MP*  
Chairman  
Committee of Public Accounts

*17 March 2004*

## COMMITTEE'S RESPONSE

The Committee of Public Accounts (PAC) welcomes the opportunity to contribute to the public consultation on the BBC Charter review and is pleased to submit its response on ensuring that the BBC is properly accountable to the public and Parliament. This short paper seeks to make two overall points: that although progress has been made by giving the Comptroller and Auditor General (C&AG) a degree of interim access to the BBC, there are important deficiencies in the current arrangements; and, the fact that creativity and autonomy are essential for a healthy BBC should not be seen as an obstacle in the way of proper scrutiny.

The PAC considers it essential that the BBC is subject to proper parliamentary oversight. The general public pay more than £2 billion each year in television licence fees and the Department for Culture, Media and Sport use this revenue to fund the BBC. The PAC believes that the public and Parliament have the right to independent assurance that the BBC uses this public money wisely.

The PAC has long argued that the C&AG, who heads the National Audit Office, should be given full access to the BBC to allow him to provide independent assurance that the BBC is achieving the best value it can for Licence Fee payers. The C&AG is responsible for auditing central government spending and publishes value for money studies which assess performance, identify good practice and suggest ways in

which public services could be improved. While he has statutory rights of access to central government departments to report on how they spend public money, he does not have the same access rights to report on how the BBC spends public funds.

The recent agreement under which the BBC Governors' Audit Committee invites the C&AG to carry out value for money reviews on a non-statutory basis is an important step towards improving the BBC's accountability<sup>1</sup>. Following discussions between the C&AG and the Audit Committee, the National Audit Office has started work on the first of these reviews. However, under the current arrangements, the C&AG cannot operate independently in choosing topics to examine. Further, the limited rights of access he has to obtain information from the BBC about all their activities means that he is not able to carry out the full monitoring and analysis he normally undertakes and is therefore not in a position to make a proper assessment of where the main risks to value for money in the BBC lie.

The current agreement only covers the period up until December 2006, when the current Charter expires. The cynical view might hold that while the BBC is busy commissioning a wide range of external reviews during the period of Charter review to demonstrate that it is already subject to extensive scrutiny, it might choose, if it could, to be rather less active after that time.

The PAC considers that the current arrangements can only be seen as an interim measure and that they must lead to the C&AG being given the same rights of access to the BBC and the independence in selecting topics as he has for the other publicly-funded bodies which he reports on. The Charter review provides an opportunity to provide this full access.

The C&AG understands fully why the BBC treasures its own independence. He himself is totally independent of Government, being an Officer of the House of Commons, and for the public bodies other than the BBC which he reports on, independently chooses his programme of work. The C&AG and the PAC are not concerned with the BBC's creative choices but with ensuring sound financial management, the achievement of value for money and recognising well managed risk-taking and innovation. The C&AG is prevented by statute from questioning the policies of the bodies he examines, which ensures that his reports do not impinge upon policy decisions. In auditing other organisations, such as Arts Council England, the C&AG has demonstrated that his approach fits perfectly well with creative bodies.

Any changes to the way in which the BBC is governed would not alter the need for independent scrutiny. There are several examples of other organisations with strong and independent governing bodies but which are fully audited by the C&AG. For example during the passage of the Communications Bill we did not hear any discussion about whether the C&AG's role as auditor of Ofcom would compromise the autonomy of the regulator's Board.

The PAC and the C&AG have a central role to play in ensuring that publicly-funded bodies are held to account. The Committee looks forward to improvements to the current arrangements which create the conditions for an independent BBC which is properly accountable to the public and to Parliament.

*Rt Hon Tessa Jowell MP*  
Secretary of State for Culture, Media and Sport

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<sup>1</sup> As set out in the Amendment dated 4 December 2003 to the Agreement of 25 January 1996 (as amended) between Her Majesty's Secretary of State for Culture Media and Sport and the British Broadcasting Corporation (Cm 6075).