



House of Commons
Committee of Public Accounts

The BBC's White City 2 development

**Twenty-fourth Report of
Session 2005–06**

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

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The Committee of Public Accounts

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Publications

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.

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Summary

The BBC's White City 2 property development in West London comprises three new buildings which were built next to an existing BBC building known as White City 1. The construction of the new buildings forms part of the BBC's plans to rationalise and modernise its estate.

White City 2 was financed and developed by Land Securities Trillium under a 30 year partnership deal with the BBC, which also covered property services at 48 other BBC locations. The cost of constructing White City 2 in Land Securities Trillium's bid was £210 million, £31 million more than the cost in the other short listed bid. However, other benefits including savings across the wider BBC estate and price certainty led the BBC to select Land Securities Trillium. The BBC subsequently had to pay a further £60.9 million for additional requirements, such as furniture and the technical fit-out of the buildings.

Two of the new buildings in the White City 2 development were completed on time in October 2003 and the last was ready in January 2004, three months ahead of schedule. The BBC has used the buildings to accommodate staff vacating other sites in London. A year after White City 2 was completed, 22% of the office space was still unoccupied, although the proportion of unoccupied space has since fallen to 6.5%.

In March 2005 the BBC purchased Land Securities Trillium's interest in White City 2 to allow refinancing of the project. The original contract had included a provision to share in refinancing benefits, but the way the project was financed meant that the BBC was unlikely to secure a share of the benefits. The financing mechanism also meant the BBC was unable to calculate the return to shareholders, although the contract included a provision to cap the return at 30%, which was much higher than typical rates of return for deals of this type.

The Comptroller and Auditor General is carrying out six reviews of the BBC under an agreement between the BBC and the Secretary of State for Culture, Media and Sport. White City 2 is the third of those reviews and on the basis of the Comptroller and Auditor General's Report¹ and a memorandum by the BBC on developments since the Report,² the Committee examined the BBC on the cost of the White City 2 development and how it is being used. The Committee also considered the arrangements for the Comptroller and Auditor General's work on the BBC.

1 The Comptroller and Auditor General's Report, *The BBC's White City development: the second phase of the building project*, presented to Parliament in accordance with the amendment to the agreement between the Secretary of State for Culture, Media and Sport and the BBC dated 4 December 2003.

Conclusions and recommendations

The BBC's White City 2 development was completed on time and is supporting the BBC's plan to rationalise other parts of its estate. But several aspects of the project constitute risks to the value for money from the BBC's considerable investment. The BBC entered a deal where the potential return to the private sector was excessive, where it could not be sure of sharing in any refinancing gains, and where it ended up buying out its partner less than five years into the 30 year deal. The cost of the development exceeded the amount originally approved by the Governors and there were significant variations to the scheme as the project progressed. Furthermore the buildings are not currently being used to their full potential.

Our specific conclusions and recommendations are as follows.

1. **During the course of the White City 2 project additional costs were identified which added over £60 million to the total cost, an increase of 29%.** The whole life costs of projects should be assessed, and made available to BBC Governors, before projects proceed.
2. **Even after signing the contract with Land Securities Trillium, the BBC made 300 variations to the White City 2 scheme.** The BBC should better integrate design and construction, as recommended by the Office of Government Commerce, to reduce the risk of design changes after contracts have been let. Introducing variations after deals have been signed inevitably heightens the risk of cost increases.
3. **The BBC sublet space to BBC Broadcast Limited, a commercial subsidiary, for rent lower than the cost to the BBC.** Licence fee money should not be used to subsidise the BBC's commercial subsidiaries. The rent charged for sublet buildings should meet the BBC's costs or match the market rate if this is higher. As well as recovering its current costs, the BBC should also recoup previous undercharging from individual subsidiaries.
4. **Because of the way the project was financed, the BBC did not know whether the return to the private sector shareholders was within the limit specified in the contract, and the BBC was unlikely to secure a share of any refinancing benefits.** The principle has been accepted that the public sector should share in gains that arise when projects are refinanced. Public bodies should recognise that obtaining refinancing benefits, and identifying returns to the private sector, is more straightforward where financing is linked directly to the project in question.
5. **The BBC's plans to cut staff and move others to Manchester increase the risk of space and technical capacity at White City 2 being under-utilised.** While the BBC expects the new buildings to be fully used, its focus should not be exclusively on White City 2 but on achieving the most cost-effective solution to its accommodation needs, taking account of the whole of its estate. The BBC should not hold on to property which it does not need or which cannot be used cost-effectively.
6. **More than two years after the Energy Centre was completed, the space for a combined heat and power installation is not being used, and the BBC is paying**

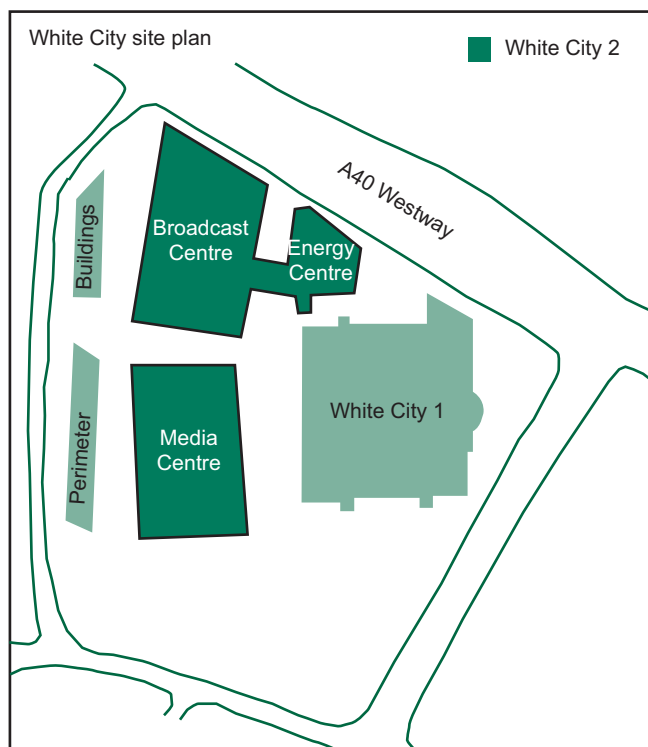
for the empty space. This space, together with vacant office space in the Energy Centre, has cost around £1 million a year, and the BBC should put the unused space to productive use as soon as possible.

7. **The BBC did not follow public sector good practice in several important respects on this project.** There is guidance from the Treasury and the Office of Government Commerce on estimating whole life costs, monitoring returns to the private sector, obtaining refinancing benefits, and integrating design and construction. The BBC would benefit from drawing on this guidance.
8. **The Comptroller and Auditor General's work is providing fresh insights about the BBC's use of public money, but is being done under arrangements which end in 2006.** The Comptroller and Auditor General should have a continuing role beyond 2006, which should include full access rights enabling him to identify and select subjects for examination.

1 First main heading

1. The BBC's 'White City 2' property development in West London comprises three new buildings which were built next to an existing BBC building known as White City 1 (Figure 1). The construction of the new buildings forms part of the BBC's wider plans to rationalise and modernise its property portfolio.³

Figure 1: White City site plan



2. Following competitive tender the BBC selected Land Securities Trillium to finance, construct and operate White City 2 under a 30 year deal, which also covered property services at 48 other BBC locations. Land Securities Trillium's price for constructing White City 2 was £210 million (the present value when the deal was approved — in cash terms the figure was £242 million⁴), £31 million higher than the other short listed bidder. Although the other short listed bidder had offered a better price for construction, the BBC confirmed that it had selected Land Securities Trillium because it offered savings across the wider BBC estate and brought other benefits, including cost certainty and risk transfer.⁵

3. Good practice guidance published by the Office of Government Commerce recommends bringing together designers, constructors and specialist suppliers to work in an integrated team unless it can be clearly demonstrated that separating design and construction will provide better value for money. In the case of White City 2, however, the

3 Q 1; C&AG's Report, para 1

4 The present value expresses future cash flows in terms of their present day value.

5 Q 1; C&AG's Report, paras 34, 39

BBC signed the contract with Land Securities Trillium in September 2001 and Land Securities Trillium took on the design team headed by the architects Allies and Morrison, whom the BBC had separately commissioned a year earlier to produce a design for White City 2.⁶

4. The BBC separated the procurement of design and construction to avoid delays to the White City 2 project. The BBC also considered it had a role to play in producing buildings of high architectural value, and that its approach had been influenced by the need to ensure it had architects who would produce the kind of buildings it wanted. After signing the contract with Land Securities Trillium, however, the BBC made 300 variations to the White City 2 scheme. The variations process was time consuming and overly complicated, although the BBC said that not all of the changes had resulted in additional costs.⁷

5. The price the BBC agreed with Land Securities Trillium for White City 2 and the figures which BBC Management put to the Governors for approval did not represent the full cost of the project. The Governors subsequently approved a request from BBC Management for a further £60.9 million for additional elements, including the completion of the fit-out and the cost of furniture and moving staff to White City 2. The BBC acknowledged that there should have been fuller consideration of whole life costs at the start of the project.⁸

6. Part of the additional cost related to the specialist requirements of BBC Broadcast Limited,⁹ a commercial subsidiary which rented part of White City 2 from the BBC. The BBC initially charged BBC Broadcast Limited around £25 a square foot – less than the £42.92 it was costing the BBC. The BBC said it had recovered its costs from its commercial affiliates when taken together, but not whether it had recovered past undercharging of BBC Broadcast Limited. Another commercial subsidiary, BBC Worldwide Limited, may move to White City 2 in the future, and the BBC confirmed that it would charge BBC Worldwide the cost to the BBC of the accommodation, or the market rent if this was higher.¹⁰

7. The Committee of Public Accounts has highlighted on a number of occasions the importance of the public sector monitoring the returns to the private sector and sharing the benefits of re-financing.¹¹ The Office of Government Commerce has previously advised the Committee that the normal return to shareholders in deals of this type would be 8% to 15%. The BBC's contract with Land Securities Trillium included a provision to restrict the return to shareholders to a maximum of 30%.¹²

8. The return to shareholders can be identified where the finance for a project has been raised against the assets of that particular project. On White City 2, the BBC did not know

6 C&AG's Report, paras 32–33, 39, Appendix 1; Office of Government Commerce *Achieving Excellence Guides*, available at www.ogc.gov.uk

7 Qq 16–21; C&AG's Report, para 32

8 Qq 2–5; C&AG's Report, para 41

9 The BBC has since sold BBC Broadcast Limited, which has been renamed Red Bee Media Limited.

10 Qq 4, 47–49

11 See, for example, 22nd Report from the Committee of Public Accounts, *PFI refinancing update* (HC 203, Session 2002–03).

12 Qq 23–24; C&AG's Report, Figure 7; 42nd Report from the Committee of Public Accounts, *Managing the relationship to secure a successful partnership in PFI projects* (HC 460, Session 2001–02)

the return as the finance had been raised on the strength of Land Securities Trillium's business as a whole.¹³

9. The way the project was financed also meant that, contrary to the BBC's expectations, it was unlikely that the BBC would share in any refinancing benefits as the refinancing of corporate debt by Land Securities Trillium would not under the contract have fed through into gains for the BBC. In the event, to secure refinancing benefits the BBC had to purchase Land Securities Trillium's interest in White City, at a cost of £321.5 million, and abandon the contract less than five years into a deal which was supposed to last 30 years. The BBC estimates that its refinancing of the project through a bond issue will save it £63 million.¹⁴

13 22nd Report from the Committee of Public Accounts, *PFI refinancing update* (HC 203, 2002–03); C&AG's Report, Figure 7

14 Qq 11–12; C&AG's Report, para 8 and Figure 7; Ev 14

2 Use of the new buildings

10. Two of the new buildings at White City 2 were completed on time in October 2003 and the last was ready for occupation in January 2004, three months ahead of schedule. The BBC has used the new buildings to accommodate staff vacating other sites in London, but a year after the last building in the development was completed, 22% of the office space was still unoccupied. The BBC acknowledged that the full occupation of the site had not taken place as quickly as would have been ideal, although the level of unoccupied space had now been reduced to 6.5% and the BBC hoped to quickly increase occupancy levels towards 100%.¹⁵

11. The BBC plans to reduce the number of people it employs by nearly 4,000 and proposes to move a further 1,500 staff to Manchester. The BBC said the precise impact of these changes on occupancy levels at White City 2 would not be clear until a final decision had been made on the proposed move to Manchester. However, the BBC had identified a large amount of space in London that could be vacated and, even with the fall in staff numbers, considered that reducing the size of the London estate would not mean that White City 2 would not be fully used. For example, the BBC planned to dispose of its Woodlands site where its commercial subsidiary BBC Worldwide Limited was currently based, and move the staff to the White City 2 site.¹⁶

12. White City 2 has an enhanced design specification intended to provide flexibility to accommodate a range of different uses. For example, the capacity of the floors to withstand heavy loads is significantly higher than in typical office buildings; and the Media Centre building has been designed to be adaptable to studio production, but it is currently occupied mainly by office staff who do not need the high specification provided. The BBC told us that, as it rationalised its estate, White City 2 would be heavily used by programme makers and it was confident that the buildings would be used to their full capability.¹⁷

13. The Energy Centre, which forms part of White City 2, has space for a combined heat and power installation. The installation was included in the original design, but the BBC removed it from the specification after concluding that the expense was not justified. The Energy Centre was completed in October 2003, but when the occupation of White City 2 began, the BBC had not been clear about what the energy requirements would be and had decided to keep empty the space in the Energy Centre for the combined heat and power installation. The office space in the Energy Centre also remained empty, at a cost of £900,000 a year.¹⁸

14. The BBC was going to decide how to proceed when it had confirmed its plans for staff moves and assessed the impact of job reductions. If the combined heat and power

15 Qq 6, 69–72; C&AG's Report, para 25

16 Qq 8–9, 43–46, 51–52; Ev 16

17 Qq 7, 52; C&AG's Report, paras 11, 28, 46

18 Qq 32, 37, 114; C&AG's Report, paras 49–50 and Figures 4, 12

installation did not make economic sense, the space would be used for office accommodation. In the meantime the BBC is paying for empty space.¹⁹

19 Qq 105, 114

3 Arrangements for the Comptroller and Auditor General's work at the BBC

15. Under an arrangement introduced in 2003, covering the three year period up to December 2006 when the BBC's current Royal Charter expires, the Comptroller and Auditor General is carrying out a programme of six value for money reviews at the BBC. Under the terms of the arrangement, the Comptroller and Auditor General submits the reviews to the BBC Governors' Audit Committee and the Governors are responsible for laying them before Parliament with, where possible, the BBC's Annual Report.²⁰

16. The review of the White City 2 development was carried out under these arrangements and has provided Parliament and licence fee payers with insights about the BBC's use of public money which would not otherwise have been available. The BBC confirmed that its editorial independence had not been put at risk and acknowledged that it was difficult to envisage such circumstances arising.²¹

17. On the question of the programme of work, it would be better if the Comptroller and Auditor General were able to assess value for money risks and, on this basis, identify subjects for examination, bringing the arrangements at the BBC into line with those for the other central government bodies that the Comptroller and Auditor General audits. It is worth noting that the Office for National Statistics has recently decided to re-classify the BBC as part of central government for National Accounts purposes. The BBC said it would be happy to discuss any proposals for areas the Comptroller and Auditor General would like to examine, but the Governors wished to retain the final say over the selection of study topics.²² The Committee regards this as unacceptable.

20 Amendment to the Agreement between the Secretary of State for Culture, Media and Sport and the BBC dated 4 December 2003.

21 Qq 42, 94–99

22 Qq 86, 94, 99–102

Formal minutes

Wednesday 25 January 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mrs Angela Browning
Mr David Curry
Mr Sadiq Khan

Sarah McCarthy-Fry
Mr Austin Mitchell
Kitty Ussher

Draft Report (The BBC's White City 2 development), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 17 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Twenty-fourth Report of the Committee to the House.

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

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

[Adjourned until Monday 30 January at 4.30 pm.]

Witnesses

Monday 7 November 2005

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**Mr Mark Thompson, Mr Jeremy Peat, Mr John Smith, and Mr Chris Kane,
British Broadcasting Corporation**

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Ev 16

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Second Report	The regeneration of the Millennium Dome and associated land	HC 409 (<i>Cm 6689</i>)
Third Report	Ministry of Defence: Major Projects Report 2004	HC 410 (<i>Cm 6712</i>)
Fourth Report	Fraud and error in benefit expenditure	HC 411 (<i>Cm 6728</i>)
Fifth Report	Inland Revenue: Tax Credits and deleted tax cases	HC 412 (<i>Cm 6689</i>)
Sixth Report	Department of Trade and Industry: Renewable energy	HC 413 (<i>Cm 6689</i>)
Seventh Report	The use of operating theatres in the Northern Ireland Health and Personal Social Services	HC 414 (<i>Cm 6699</i>)
Eighth Report	Navan Centre	HC 415 (<i>Cm 6699</i>)
Ninth Report	Foot and Mouth Disease: applying the lessons	HC 563 (<i>Cm 6728</i>)
Tenth Report	Jobskills	HC 564 (<i>Cm 6724</i>)
Eleventh Report	Local Management of Schools	HC 565 (<i>Cm 6724</i>)
Twelfth Report	Helping those in financial hardship: the running of the Social Fund	HC 601 (<i>Cm 6728</i>)
Thirteenth Report	The Office of the Deputy Prime Minister: Tackling homelessness	HC 653
Fourteenth Report	Energywatch and Postwatch	HC 654
Fifteenth Report	HM Customs and Excise Standard Report 2003–04	HC 695
Sixteenth Report	Home Office: Reducing vehicle crime	HC 696
Seventeenth Report	Achieving value for money in the delivery of public services	HC 742
First Special Report	The BBC's investment in Freeview: The response of the BBC Governors to the Committee's Third Report of Session 2004–05	HC 750
Eighteenth Report	Department for Education and Skills: Improving school attendance in England	HC 789
Nineteenth Report	Department of Health: Tackling cancer: improving the patient journey	HC 790
Twentieth Report	The NHS Cancer Plan: a progress report	HC 791
Twenty-first Report	Skills for Life: Improving adult literacy and numeracy	HC 792
Twenty-second Report	Maintaining and improving Britain's railway stations	HC 535
Twenty-third Report	Filing of income tax self assessment returns	HC 681
Twenty-fourth Report	The BBC's White City 2 development	HC 652

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

Oral evidence

Taken before the Committee of Public Accounts

on Monday 7 November 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Greg Clark

Kitty Ussher
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, and **Mr Martin Sinclair**, Assistant Auditor General, National Audit Office, were in attendance and gave evidence.

Mr Brian Glicksman CB, Treasury Officer of Accounts, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

THE BBC'S WHITE CITY DEVELOPMENT: THE SECOND PHASE OF THE BUILDING PROJECT

Witnesses: **Mr Mark Thompson**, Director-General, **Mr Jeremy Peat**, Governor, **Mr John Smith**, Chief Operating Officer, and **Mr Chris Kane**, Head of Corporate Real Estate, BBC, examined.

Q1 Chairman: Good afternoon. Welcome to the Committee of Public Accounts. Our hearing today is on the Comptroller and Auditor General's review of the BBC's White City property development in West London. This is the second review to be completed under the arrangement introduced in 2003 by which we are having an experimental regime in which we consider Reports about the BBC without full access being allowed to the Comptroller and Auditor General as in ordinary government departments. We are pleased to welcome Mr Jeremy Peat, for the first time I think, who is Chairman of the BBC Governors' Audit Committee and we welcome back Mr Mark Thompson who is Director-General of the BBC. We also have Mr John Smith, who is Chief Operating Officer and Mr Chris Kane who is Head Corporate Real Estate. Welcome Mr Thompson. If I may, I shall address my remarks to you, but if you want to pass questions to anybody else, please feel free to do so. May I ask you please to look at page 12 of the Comptroller and Auditor General's Report and look at paragraph 32 onwards, particularly paragraph 34 under the heading "The BBC paid more in development costs compared to alternative deals, but obtained wider benefits". Perhaps you could start by explaining to us why you selected Land Securities Trillium to develop White City 2, when the price for construction in its bid was £31 million more than Foresite's?

Mr Thompson: May I first of all say, just in two or three sentences, that this project should be seen as part of a much larger strategic ambition by the BBC to take what had been a rather rundown and higgledy-piggledy estate across London, indeed across the UK, to rationalise it and also modernise it so that the property portfolio would support the BBC's overall mission in a digital age? So that was the point of the deal. Those considering the deal at the time believed that in the round Land Securities Trillium offered the best value for money over the

lifetime of the deal, even though it is true that another bidder offered, in terms of construction, a slightly better price. The overall judgment on value for money was that Land Securities offered the best deal to the BBC. May I ask John Smith, who was involved, to set it out in more detail?

Mr Smith: I shall build on those points, if I may? The overall saving which Land Securities offered to the BBC across its whole estate was the driving force behind the desire to secure a partner in the first place. Land Securities offered to us a whole range of other things, crucially including greater certainty about the construction cost at White City and a whole range of other things which are alluded to in the NAO Report to do with risk transfer and other cost certainties. When you are judging a deal of this scale in the round, it is very important to take account of all of those other things; it is not simply about the construction element of an overall bigger financial relationship. The overall bigger financial relationship was indeed the cheaper of the two options.

Q2 Chairman: If we look at page 15, paragraph 41 under the heading "The BBC paid for some requirements as an additional lump sum rather than spreading the cost through the unitary charge", we see the project cost £60 million more than the Governors approved. That throws some doubt over it, does it not?

Mr Smith: Not really. The Report talks about—

Q3 Chairman: But that is right, is it not? The project cost £60 million more than the Governors approved.

Mr Peat: The project cost £60 million more than the project approved at the date at which the initial approval took place. There were subsequent approvals by the Board of Governors of the other elements which make up the additional funds you are talking about.

Q4 Chairman: I am not denying that the Director-General came back for your approval, but I just want to know why it was so much over budget. With a project costing some £250 million, £60 million is quite a large chunk, is it not?

Mr Smith: If I may, it is crucial to say that the building construction cost came in on budget and slightly early. This is a crucial, crucial point. The amount the Governors were asked to approve and the Governors did then approve for the building is what the building actually cost and it was delivered slightly earlier than expected which, as far as we are concerned, is a good achievement. In addition to the building, there were then the fit-out and other costs which came later. I think the point that is being made by the NAO is that in paragraph is to do with furniture enhancement and other fit-out costs which are not to do with the actual building itself. May I say that of the £60 million referred to there, £40.3 million, 66%, was known about, budgeted and to do with the separate legal entity known as BBC Broadcast Limited, which had been turned into a commercial company providing broadcast services to private competitors and which needed very specialist fit-out for things like play-out suites, edit suites and so on, particularly for their needs and would not be the kind of thing that you would see in a normal office block.

Q5 Chairman: I shall stop you there, because you have to appreciate that you have to be quite snappy in the answers you give because Members are time limited in this Committee. It does raise questions does it not, Mr Peat, as to why the governors did not insist on the whole life costs of the new buildings at the beginning. Would that not have been a wise thing to have done?

Mr Peat: We accept the NAO recommendation that there should be fuller consideration of the whole life cost and indeed for the Pacific Quay building, which was the next major project, there was further identification of those extra cost elements at the time that the project first went to governors. However, I repeat that the extra costs were approved by the Governors subsequently and it was implicit in the initial papers, albeit not as explicit as it might have been.

Q6 Chairman: If you look at figure 12, which you can find on page 17, and at the footnote at the bottom of that "Across the site as a whole, 22% of office space was not occupied at 31 January 2005". Why was a fifth of the office space still unused a year after the buildings were completed?

Mr Thompson: The current figure for the site, as of today, is around 6.5% so there has been a very significant improvement in this number since the NAO Report. I think it is fair to say that full occupation of the site did not take place as quickly as would be ideal, but you have to see this in the context of quite complex property moves around London and also wider change in the BBC over the period. Occupancy is up now in the 94.5% range,

which I think does compare well with industry standards. I hope that we can get occupancy even higher very quickly; very close to 100%.

Q7 Chairman: That is fine; thank you very much. Could you now look at the paragraph on page 16 headed "The BBC is not currently using White City's full potential"? You have made this media centre, which is apparently very expensive, which can be used as studios and also by staff, but it is really just being used to house staff at the moment, is it not? Really you have spent all this money to not much effect, have you not?

Mr Thompson: As you know, our plan sees the BBC moving from, frankly, a very large number of ill-suited buildings to two to three major sites. As we rationalise our London properties our plan is that these White City buildings will indeed be heavily used by programme makers and that therefore, the enhanced capabilities of these buildings will be used. This is part of a long-run strategy which will play out over a number of years. It includes, for example, the ending of the Bush House lease and the concentration of our journalism in the W1 site. We also see rationalisation in our West London site with a number of properties being disposed of and programme making, television programme making in particular, concentrated on these White City buildings and on Television Centre. I am confident that over the next few years, you will see these buildings being used to their full capability.

Q8 Chairman: All right; that is fine, thank you. You talked about rationalisation a moment ago. You are shedding 4,000 staff are you not? You are moving others out of London. What impact is that going to have on the need for accommodation at White City?

Mr Thompson: We expect the London portfolio, the square footage required in London, to reduce significantly over the coming years and our plans will allow that to take place. We expect, in the light of the value for money plans and if the Manchester project goes ahead, which is still subject to the issue of the forthcoming licence fee settlement, our London property to reduce from 3.4 million square feet to around 2.75 million square feet and our strategy, including the strategy of disposals, will allow that to take place. In other words, despite the move to Manchester and despite the fact that the headcount at the BBC is reducing over this period, our plans for our property portfolio will allow us to dispose of space and indeed to improve the efficiency of the use of space in terms of the number of square feet per member of staff.

Q9 Chairman: But is it right that you are shedding 4,000 staff?

Mr Thompson: Yes; broadly.

Q10 Chairman: May I just ask a broad question as you are sitting in front of us? In Charter Renewal, you are telling us you are going to do more with less. All sorts of new things you are going to do

BBC

and you will do it with less. What does that say about your inefficiency in the past, if you can do more with 4,000 less staff? As a relatively new Director-General, give us your honest opinion about inefficiency at the BBC in the past and why you feel it is necessary to shed 4,000 staff and apparently do more with less staff?

Mr Thompson: The key point to make here is the way in which our industry is changing and the opportunities which technology now gives us to make content in television and radio with fewer inputs, with more multi-skilling and therefore with greater efficiency. This process of technology allowing for greater productivity is not unique to the BBC; it is happening throughout the audio-visual sector. We set quite challenging targets within the BBC in terms of efficiency, but that is because we believe, and it is absolutely laid out in *Building Public Value* and in our subsequent submissions to the charter renewal process, indeed the Government's Green Paper suggests this as well, that there are many new ways in which the Government believe the BBC can and should serve the British public. Although we believe that we cannot meet all of our future requirements ourselves, we think we should go as far as we can to use self-help measures and greater productivity to do as many of the future services and as much of the planning of the BBC as we can.

Q11 Chairman: Do you think that we would be right in drawing the conclusion that perhaps you were not as sharp commercially as you might have been? For instance, this Committee has made great play of the importance of re-financing in the past, sharing in re-financing gains, the public sector sharing in the re-financing gains with the private sector. Yet here you drew up a contract and the end result of it has been that you are not going to share re-financing gains and you have now apparently abandoned your partnership with Land Securities Trillium less than five years into a deal which was supposed to last 30 years. What does that say about your commercial acumen, Mr Thompson, or that of your predecessors?

Mr Smith: Let us just get the facts Chairman, if I may. We do absolutely have the re-financing benefits which you would want us to get from securing access to the bond capital markets at an historic low point in bond yields. We issued a bond to re-finance this site after the NAO's field work was done on the audit here, the net effect of which was to take our cost of debt down to 5.6% fixed for 30 years and saving us £63 million over and above what we were paying before that re-financing took place. Although the NAO Report says that it would be potentially difficult to get the re-financing benefits, it does not say it is impossible and indeed we did subsequently get those re-financing benefits.

Q12 Chairman: National Audit Office, do you think this is a correct answer? Are they going to share re-financing benefits?

Mr Sinclair: It is certainly true that the mechanism which Mr Smith describes is one way of achieving the re-financing benefits. Our concern was the narrow point that within the contract itself it was difficult for that contract to continue with the benefits which it offered and secure the re-financing gains. The point is that the BBC had effectively to get out of the contract it had in order to secure those benefits. Without the benefit of looking at that in detail, I am sure Mr Smith is correct that that was an effective way of doing it. However, we were not able to look at that particular aspect of the deal.

Q13 Mr Williams: May I say, having read this Report, that I now well understand why you resisted and still resist the National Audit Office having full access? As far as I can see, this project is both profligate and irresponsible and you are trying to salvage something out of a very badly conceived commitment. Do you agree that good practice is to integrate design and construction?

Mr Thompson: To your first point, may I just say that the Report reflects this very clearly. The effect of this deal was initially to save the BBC £33 million, a cost that it would otherwise have incurred.

Q14 Mr Williams: Yes, but it is a botch-up.

Mr Thompson: The re-financing, which the BBC did enjoy the benefits of, will make an additional £63 million.

Q15 Mr Williams: That was an after-thought, which you should have anticipated anyhow because there had already been warnings. I am coming on to all of those, so can we take them step by step?

Mr Thompson: Just to be clear. Each stage of this deal has saved the public significant amounts of money.

Q16 Mr Williams: And you are wasting an enormous amount of money and that is what I want to demonstrate. I do not want answers to questions I have not asked: I want answers to questions I am asking. Do you accept it is good practice to integrate design and construction?

Mr Thompson: I think the circumstances vary.

Q17 Mr Williams: Is it, or is it not?

Mr Smith: The circumstances vary according to the particular needs of the client. I must say that in our particular case, not only do we have a role to play, as a cultural institution, in producing buildings of high architectural value—and I hope the Committee would agree, they are very definitely that—but in addition to that, because we in this particular case and in most of our other redevelopments control the appointment of the architect at the start of the process in order to make sure we get an architect who is going to produce the kind of building that we want, we then “novate” the architect over to the PFI or the PPP partner.

Q18 Mr Williams: With respect, that is hardly an answer to the point that is involved. The appointment of a good architect does not necessarily ensure that the proper assessments are made before the contract is placed.

Mr Smith: I am suggesting to you that they were.

Q19 Mr Williams: Let me finish what I am saying. What is abundantly clear here is that you have entered into a contract for space that you do not need and space that you cannot use. Not only did you do that, but you were so ill-prepared that you made 300 variations in the process of the project. Is that true or false? The National Audit Office tells us. You are shaking your head. Did you or did you not make 300 design changes?

Mr Smith: We had 300 variations, of which 129 were simply confirmations at no cost of design features which were in the original scheme.

Q20 Mr Williams: What about the others? They would have had costs. This is one of the most fundamental flaws which we have pointed out time and time and time again to the Ministry of Defence and to various Departments: you avoid making design changes mid-contract.

Mr Smith: Yes, but it would be absolutely wrong to characterise these as design changes, especially with the implication that they were expensive design changes, which were unbudgeted. Of the 300 contract variations, 129 carried no extra cost whatsoever since they were simply confirmations of details or information which were in the original contract.

Q21 Mr Williams: They were so simple that the National Audit Office tells us that contract variations process turned out to be time consuming and overly complicated. Perhaps you did not notice that.

Mr Smith: That is not the same thing as saying that the contract variations were undue or somehow wrong or somehow led to increased costs, because they did not.

Q22 Mr Williams: Let us move on then to the financial side. We are told that the bid also included a provision to restrict the return to shareholders to 30%. That is correct, is it? Yes or no.

Mr Smith: Yes.

Q23 Mr Williams: In previous PFI projects, 16% has been seen to be a more than healthy return on a safe project and yet here, you are conceding 30%. This is not just extravagant in the context of what is an ultra safe project, it is actually almost usurious, in that it would give re-financing in just over three years. That is venture capital spending, is it not?

Mr Smith: There is no suggestion in the Report that our partner got a 30% return. It talks about putting an absolute cap on the amount of return they could get. A big difference; a very big difference.

Q24 Mr Williams: So what is the percentage?

Mr Smith: We would need to work it out precisely.

Q25 Mr Williams: I would have thought you would do that, would you not? Since it is known that 16% is the going rate for such projects, surely you know the figure?

Mr Smith: Let us talk about the re-financing. This is a £321 million re-financing where I think Land Securities' profit was £23 million out of £321 million. So that gives a feel for what the actual return was and the Report puts a ceiling on it, but it does not give an actual return of the 30%.

Q26 Mr Williams: But you should be able to tell us what the rate of return is.

Mr Smith: I have just told you: £23 million on £321 million.

Q27 Mr Williams: That is over the whole lifetime? C&AG, do you agree with those figures?

Sir John Bourn: Yes we do.

Q28 Mr Williams: But what about the 30%, how did that enter into the deal?

Sir John Bourn: It entered into it as the possibility that might have been achieved.

Q29 Mr Williams: Which would have been unsatisfactory from the licence payers' point of view, would it not?

Sir John Bourn: It certainly would have been higher than the generality of PFI projects.

Q30 Mr Williams: Is that not a rather modest assessment of higher? It is considerably higher.

Sir John Bourn: Yes, it was considerably higher.

Q31 Mr Williams: Nearly double, and yet they were willing to contemplate it. So much do they care for looking after their licence payers' money—

Mr Smith: I am sorry to interrupt, but I need to argue about this because it is just not right. Forgive me, Chairman, but I do feel the need to make sure the Committee is clear about this. This is a point in the Report which is comparing the bid from Land Securities Trillium with the bid from the other organisation. We have already explored at the start of the meeting why the Land Securities bid overall was better. It is also describing a situation where there was an absolute cap on the return that Land Securities could earn versus the bid from the other company, where there was less clarity about what the absolute return was. Irrespective of that provision, separately, as the Report says elsewhere, a very specific price was agreed with Land Securities for the building of the building. In the re-financing of that building recently, £321 million, their return was agreed at £23 million. So that tells you what the actual return was. It is just not right to say that because there was an absolute ceiling on it of 30% that was the return that they were getting. They were not.

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Q32 Mr Williams: It is unbelievable that you even contemplated it. Why did the figure arise? If it arose, it was something you were obviously willing to consider. Let us move on, because we are time limited; let us move on to the next point. One of the consequences of not having done the design section properly, particularly in relation to the company which was going to carry out the construction, is that you build an energy centre which takes up a substantial amount of space. You then decide you cannot afford to go ahead with the project of using that energy centre, so that space now remains unused and to some extent is unusable in any practical sense, is it not?

Mr Peat: May I just give a first response on that? The first point to note is that at the time of the initial construction there were proposals for the use of these buildings by BBC Broadcast, which would have involved much greater use of energy, in which context the energy centre would have been well utilised. That changed over the construction period. Subsequently, when occupation began it was not entirely clear where we were going next on the White City area and therefore the capability to produce a combined heat and power plant or whatever has been retained for the next few months to determine whether it is needed in the new context which now arises.

Q33 Mr Williams: But as a result of this failure to design the project properly in relation to your need, you now have extensive basement areas and large places for plant and machinery, which cannot be used at the moment, or are not being used at the moment, and that also means that a lower proportion of the building can be used for office space than would be the case in a typical office development. That is a fact, is it not?

Mr Thompson: No. That figure I quoted, the figure of 6.5% of vacant space across the site, includes the energy centre.

Q34 Mr Williams: So what is the space being used for?

Mr Smith: Car parking. It is a car park.

Q35 Mr Williams: I see. That is a very high rate of return on your investment, is it not?

Mr Smith: It is very important to have it in an area where there are not any car parks.

Q36 Mr Williams: But it was not intended to be a car park.

Mr Smith: Yes, of course it was intended to be a car park.

Q37 Mr Williams: If you needed a car park, why did you not have one designed in in the first place?

Mr Smith: We did.

Mr Peat: There are two elements. One is the basement, which was designed for car parking. The other is the other space, which was the energy centre, part of which, we accept, is unutilised. It may be used for additional office accommodation when we know the future better but at the moment

we are waiting to see what is needed, given what happens next on the overall site. As I said earlier, at the time of the initial design, the energy centre would have been needed in the context of BBC Broadcast and that requirement changed during the construction process.

Q38 Mr Williams: May I say, Chairman, in conclusion, that I hope when we draw up our Report that we will include in it a recommendation to the Chancellor or whoever is the appropriate person, that this is a clear case which vindicates our claim that the National Audit Office should have full access, because the BBC does not seem to be capable of controlling its finances adequately itself.

Mr Peat: May I just make one further comment? As the Report states, the project was completed on budget and on time; indeed one of the three buildings was completed ahead of time and none of them was late. It is flexible in delivery of value for money, slightly above average cost because of the requirement for additional flexibility, it has won awards, it is environmentally friendly and it is much enjoyed by the staff; they very much appreciate it. I do not think it is all negative.

Q39 Mr Williams: Despite the fact that attention had been drawn previously to the need to provide for shares in re-financing, you did not make an initial arrangement to have re-financing. You then made a purchase in order to get access to some of the re-financing benefits, but you would almost certainly have had to pay a premium price, because they were expecting the high rates of interest.

Mr Peat: I do not think that is right, with respect. At the initial time, it was not possible to go down the route we have now gone down.

Q40 Mr Williams: Why was it not possible? You just have negotiations, as every other Department has done?

Mr Peat: We did not have the credit rating which was essential in order to go down that route. Indeed the bond market conditions would not have made sense.

Q41 Mr Williams: Do you mean that the market saw you as a bad bet?

Mr Peat: No, I mean the bond markets have changed substantially and we did not have the credit rating which was necessary to access bond finance. By the time we came to the re-financing, we were able to take advantage of very favourable bond markets and achieve a bond rating which made access to appropriate sources of funds achievable. That has now been achieved and I think the cost of the re-financing is very much to be admired.

Mr Thompson: We should also just briefly say that this Report by the NAO is a very useful Report. We shall try to learn from its conclusions and ensure that they are built in at the start of new projects. I have to say that this Report is a good example of the current arrangements working rather well.

Q42 Chairman: Surely it shows that the huge rearguard action of the BBC in resisting the right of Parliament to oversee your accounts and the way you carry out commercial exercises such as this was totally misconceived, that you had to be dragged kicking and screaming to Parliament to justify yourselves. You actually have nothing to fear. Mr Peat said this was a good contract. That we may have differences of opinion does not matter. Surely, as you yourself have made clear Mr Thompson, what we have already heard, even in the first half an hour of this hearing, vindicates the right of the Committee of Public Accounts to have full rights of access to you on behalf of the licence-fee payer, who frankly has no choice in what is really compulsory taxation. It does vindicate what we have been saying all along. You have nothing to fear from this process, have you Mr Thompson?

Mr Thompson: My job as Chief Executive and as the leader of the management of the BBC is to operate under whatever systems of accountability are set by our governors, by Government and Parliament. There was an extensive debate the last time I was present as a witness in front of the PAC airing the broader issues. I would want really to restrict my remarks to saying what I have just said, which is that this has been a very useful Report, we will learn from it. I think it demonstrates the current system seems to be working; the experimental system, as you termed it, is working rather well.

Mr Peat: All I would say as Chairman of the Audit Committee is that we have found the two Reports which NAO have undertaken for us extremely valuable. We look forward to three more pieces of work, one of which has started, two of which are about to begin. We are very happy to discuss with the Comptroller and Auditor General other aspects as the programme unwinds. We have a series of studies which have been undertaken by others as part of the value for money programme, two of which have been submitted to you for this hearing. We benefit hugely from those studies and we really do appreciate and have taken a number of lessons out of this Report and the other Reports to the benefit of value for money across the BBC.

Chairman: Thank you very much and we appreciate having you in front of us too.

Q43 Greg Clark: May I start with the declaration that I was an employee of the BBC from 1997 to 2001? I worked with John Smith and Mark Thompson, but not, to the best of my recollection, on any matters that we have before us today. Having said that, may I start with the updated note we have had from the BBC since the Report, which gives a revised vision of the property portfolio. I see from that that two buildings have disappeared from the map: one is Woodlands and the other is Millbank. Can you confirm that Millbank is to be closed down and Woodlands is to be disposed of? Would that be correct?

Mr Smith: Woodlands will definitely be disposed of; we have no plans to get rid of Millbank. It is possibly because it is just outside the geographic scope of the West One Village area that it does not appear on the map.

Q44 Greg Clark: So there is no significance to be read into its omission.

Mr Smith: No, but Woodlands definitely, absolutely, is to be disposed of.

Q45 Greg Clark: Woodlands, as I recall it, is the home of BBC Worldwide Limited, the commercial subsidiary.

Mr Smith: Yes.

Q46 Greg Clark: Where is it planned that the employees there will be going?

Mr Smith: Somewhere on the W12 site. Somewhere around the buildings which are the subject of this NAO Report. The actual location has to be decided.

Mr Thompson: As you would expect with an organisation like the BBC, it is a jigsaw and not all of the pieces of the jigsaw are clear yet. For example, the proposed move to Manchester has yet to be decided upon. As has been alluded to already, Manchester would have a significant impact on our need for property in London. Once it is clear what is going to happen with Manchester, then the precise movement of the remaining pieces in the W12 jigsaw will become clear. The expectation is that the BBC will consolidate the media village and television centre on the site west of Wood Lane and dispose of its properties to the right, to the eastern side of Wood Lane.

Q47 Greg Clark: So Woodlands would go and people would go into either Television Centre or White City.

Mr Smith: Yes.

Q48 Greg Clark: When they go there, it is very important, you will agree, that as a commercial subsidiary they pay the appropriate market rates for that. Would they pay the market rent if they were to go into White City, or the cost of accommodating them? In other words, the cost that the BBC pays for that space or the cost that would be available on an open market?

Mr Smith: It is pretty essential that the commercial subsidiaries are not given any kind of subsidy by the licence-fee payer, so, as a minimum, they have to be charged the cost to the BBC and where the market rate is higher, they would get charged that.

Q49 Greg Clark: We know that in the case of the broadcast centre, the BBC pays £42.92 per square foot according to the C&AG whereas BBC Broadcast pays £25, that being a benchmarked market rate which is rather less than the BBC pays. We know that in the media centre the market rate is £22.50 and the BBC pays £38.80. Can you reiterate, Mr Smith, that BBC Worldwide will pay what you have just told me is what the BBC pays for that?

Mr Smith: Yes, I certainly can and I might just turn, if you do not mind, to Mr Chris Kane to add some texture to that. The figures quoted in the Report for BBC Broadcast Limited were as at the time of the Report and it is not an exact apples and

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apples comparison as Mr Kane will tell you. By the time we sold that company, as you know we have now sold it, the deal with them was put onto exactly the same footing as I am describing would be the one for BBC Worldwide as well.

Mr Kane: As John was saying, the comparison in rental valuations is not precisely apples for apples. The rental valuation provided to the National Audit Office by Lambert Smith Hampton was based on a 10-year lease with five-yearly upward-only rent reviews, whereas the broadcast arrangement was in line with our unitary charge under a 30-year period for the outsourcing. So in terms of pure apples for apples on a pure rental basis, there is a difference. Holistically, the BBC has collected all the money it has expended under the unitary charge payments to Land Securities from all its commercial affiliates. We have achieved full recovery both under the old unitary charge basis, which was in existence up until the spring of this year, and we are currently recovering a full amount from broadcasting as we speak today.

Q50 Greg Clark: But you have had to change the basis on which this was done and Mr Thompson in his earlier remarks commented on the specialist fit-out of the new White City centre. If what you are doing is moving a commercial subsidiary, many of which do not require studio space and specialist equipment, into a property which is especially kitted out for that purpose, why is that an appropriate building for these people?

Mr Thompson: We will ensure that the office space into which we move Worldwide is appropriate for their needs. Across the W12 properties as a whole, we have a very wide range of different kinds of spec, including the totality of television centre. We are confident we can find a good match between the needs of different parts of Worldwide and the range of property we have available.

Mr Kane: If you look at the two buildings, the broadcast centre, as you may recall, was particularly designed as a play-out centre, whereas the media centre was designed primarily as an office purpose with the flexibility to adjust for broadcasting and indeed no less than a year in, we are already planning to put programme makers into that building thus justifying the investment we made at the outset.

Q51 Greg Clark: What I do not quite understand is that there is a statement in the Report, paragraph 17, page 3, which says “. . . the BBC is confident that the new buildings will be fully occupied” yet we have, as was pointed out in earlier questions, a situation in which about 4,000 people are going to be made redundant or the payroll will shrink by nearly 4,000 people and about 1,500 people will go to Manchester. In other words, there are going to be at least 5,000 fewer people required, yet the buildings are going to be full. How can this be?

Mr Thompson: We have identified a large amount of space in London which we expect to vacate over the period. In terms of initial reductions, we know of at least 750,000 square feet of accommodation of

which, for example, Woodlands represents 330,000 square feet, which we will vacate over the coming year. So we will consolidate into the property we have talked about, television centre, media village, West One and indeed, since you mentioned it, Millbank.

Q52 Greg Clark: The problem is that you have built a very high spec specialist centre here and you are moving in office workers effectively to fill it up at great expense.

Mr Thompson: There is a nuance here which is worth exploring. We are saying that we believe that as far as possible there should be a significant mix of programme makers in the media centre. Across the W12 property as a whole, we have quite a lot of general office space as well and there is no reason at all why we cannot get a good fit for the different departments, the different parts of Worldwide, the programme-making departments and the other operations of the BBC, in the portfolio of different kinds of accommodation we have in West London. Despite the Manchester move and therefore the net increase in square footage in Manchester, we believe that the reductions in square footage that we can make across the London site mean that we will have a more efficient use of property and the numbers of square feet per employee will reduce over this period even after taking the value for money headcount reductions into account.

Q53 Greg Clark: Worldwide will be happy to pay the costs they will be charged and this will not disadvantage them commercially in any way. The prices are comparable to what they could get in any other part of London.

Mr Smith: To be honest, and I speak as the chief executive of Worldwide, there is a lot to be said for being relatively close to BBC programme makers. It is worth paying a premium to get that.

Q54 Greg Clark: May I ask a question about borrowing? The BBC's borrowing is limited to £200 million, as I understand it, and counts towards the PSBR. Mr Thompson, does Channel Four's borrowing, on the basis of your experience there, count towards the PSBR?

Mr Thompson: I cannot recall whether it counts towards the PSBR. What is certainly true is that Her Majesty's Treasury insisted relatively recently on imposing a £200 million borrowing ceiling on Channel Four as well.

Q55 Greg Clark: But Channel Four has a much lower turnover.

Mr Smith: Yes; much lower turnover.

Q56 Greg Clark: If we look into the future and expect, perhaps hope, that the BBC is a major global player, to have a borrowing limit that is the same size as the fourth UK channel, very much domestically oriented, seems a little out of sync. Perhaps you would agree.

Mr Peat: May I just provide a personal response on that? I agree with you Mr Clark; that was the limit which was set for the present charter. In the context of charter renewal, we have already had first discussions with the Treasury about that limit and about how we should take matters forward.

Q57 Greg Clark: What limit do you think would be desirable for the BBC's ambitions?

Mr Peat: We are not at a stage where I can give you an exact answer to that. It is very small in the context of the turnover of the company and certainly we should want to look at what sensible borrowing by the BBC would be, given its programme of capital expenditure and other activities over the period of the new charter. We have begun that process of looking at it, but we are not at a stage where I can give you an exact figure. Certainly we would wish to discuss with the Treasury during the period rolling up to the new charter what was appropriate and what would not be such a constraint as to risk damaging value for money for the BBC.

Q58 Greg Clark: Final question for Mr Thompson. Given your plans for the increased role in the BBC around the world, do you find, compared with other competitors, CNN comes to mind and some of the Murdoch channels, that the lack of access to the capital markets is a serious constraint or is it a minor matter?

Mr Thompson: The first thing is that the BBC has the enormous benefit and privilege of the licence fee and the BBC has shown over 80 years a considerable ability to reinvent itself, modernise itself and continue to serve audiences, both in the UK and around the world, despite being constrained in what it can achieve commercially. Some years ago the BBC entered into a strategic partnership with Discovery around the world, whereby the BBC was able to get significant revenues into its programme-making stream, launch the channel BBC America in the United States and indeed participate in channels around the world. The BBC's reputation, the attractiveness of the BBC brand and BBC content around the world means there is a great deal we can do through partnership rather than through access to the capital markets.

Mr Smith: One other comment would be that we have had the benefit of access to the capital markets, even though it has not counted against our borrowing ceiling of course, by issuing the bonds for these buildings.

Q59 Mr Bacon: Mr Thompson, you said earlier, and I wrote it down, that at each stage of the process this had saved the public money. In paragraph 19 it states that the land was purchased in 1985, which was 15 years ago. If you sat on this land for 15 years, 3.8 hectares of undeveloped land purchased in 1985, how can that be a process which saves the public money?

Mr Thompson: The BBC took the view in the 1980s, and you will appreciate that I was not directly involved in the decision-making, that it should begin to think hard about its property requirements around the UK, but particularly in terms of West London, and make sure that its property holdings were future proofed. Several BBC sites, a good example would be Queen Margaret Drive in Glasgow, land locked and very small, have acute issues in terms of modernising and developing our services to the public. The view was that the W12 series of buildings was a very important engine room of television and news production in the BBC during this period. They took the view that it was right to secure the site, it was the site of the 1908 Olympic Games, subsequently a dog track, as part of a long range plan to rationalise its buildings and that, over the last 20 years, has happened.

Q60 Mr Bacon: Are you saying that it was just as a land bank strategy to make sure your future needs were taken care of?

Mr Thompson: No.

Q61 Mr Bacon: Was it not the case that there was a series of projects which effectively fell through during these years?

Mr Thompson: The BBC started building on this site almost immediately and the White City 1 building was opened in the late 1980s.

Mr Smith: The White City 1 building was designed in a previous era of management to move people out of the West End from the expensive Langham Island site, which is now the Langham Hotel, to West 12 where land, property and other costs were cheaper. So the building went up more or less straight away.

Q62 Mr Bacon: An awful lot of it was still not used for many, many years and I am just asking whether that was a good use of public money?

Mr Smith: Again prior to any of our involvement, various schemes were put forward to develop the spare land which was there, in addition to the building which did go up and none of them really offered attractive value for money at the time.

Q63 Mr Bacon: When you say various schemes were put forward, by whom were they put forward?

Mr Smith: By the BBC's management of the day.

Q64 Mr Bacon: So the BBC's management of the day got hold of this land.

Mr Smith: Yes; built on it.

Q65 Mr Bacon: Then the BBC's management of the day put forward various schemes, but none of them was felt to be suitable.

Mr Smith: The BBC's management of the day built one building.

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Q66 Mr Bacon: Is it not the case that if this had been more commercial, or if you had had more autonomy perhaps, something would have been done more quickly rather than sitting on a valuable asset of land for so many years?

Mr Thompson: May I ask you to turn to page 8 of the Report and look at the two diagrams showing the property? Frankly, because of the foresight of the BBC in 1985, we now have the opportunity of a much, much simpler, consolidated, more efficient portfolio with a cluster of buildings. They are all on one site. They are shown as three dark blue blobs, but they are all on one site at White City and television centre, rather than what you see in West London above: Union Threshold Centre, Woodlands, Maida Vale and so on. The ability to do this, which will drive efficiency and cost reductions for the BBC over decades, was made possible because the BBC secured this land when it did.

Q67 Mr Bacon: While on this subject, I notice that Bush House has gone from the 2008 map below and the 2000 map already says that some of Bush House is sub-let. Is the idea that all of Bush House will disappear from BBC use?

Mr Thompson: That is correct.

Q68 Mr Bacon: So where will the World Service be instead?

Mr Thompson: The World Service and the external services will be relocated to the redeveloped Broadcasting House.

Q69 Mr Bacon: In paragraph 50 it says that although you “ . . . made *ad hoc* use of some of the space in the Media Centre” you avoided using the unoccupied space so that you could claim a rates rebate. To go back to your first sentence about each stage of this process saving the public money, it beggars belief that that could be true, if you have so much extra space that you could not use it, that you actually roped it off in order to make sure you got a rates rebate.

Mr Thompson: Firstly, the position as of today is that vacant space is 6%.

Q70 Mr Bacon: Actually you have triggered off my next question and I shall move straight onto it. You said that it had gone from 22% down to 15% down to 6%.

Mr Thompson: Yes.

Q71 Mr Bacon: Once this fact that one quarter of the space was unoccupied became known, did an edict go out to get this space occupied very quickly? It seems a rapid rise after it had been unoccupied for such a long time. How did it get to 6% so quickly and who is in there?

Mr Peat: May I just assure you that one of the results of the NAO Report was to draw attention to the extent of the unoccupied space and the Board of Governors did request that management make every effort to reduce the unoccupied space rapidly.

Mr Thompson: I have to say that I did indeed inherit a plan which absolutely was to get the vacant space down.

Q72 Mr Bacon: Could you send us a note on who has been moved in and the composition of the occupation of the space by function since the building first began to be occupied until you got to the 6%? Could you do that?

Mr Thompson: Yes; we can do that and we will also include the plans for the full utilisation of the space going forward.¹

Q73 Mr Bacon: Mr Peat, may I ask you about bond finance? Were you saying that the BBC could not access the capital markets because of your credit rating—which is what I thought I understood you to say—or because of structural or regulatory limitations on your access to the capital market?

Mr Peat: I was making two points and I shall ask John Smith to provide more detail because he has been very closely involved. The first point I was making was that at the time the original deal was struck we did not have a credit rating in the BBC; we had not gone down that route before.

Q74 Mr Bacon: Do you mean that the ratings agencies had not been to visit you?

Mr Peat: We had had none of those conversations which are required.

Q75 Mr Bacon: The boys have been round now, have they?

Mr Peat: Yes, the boys in pinstripes have been round and great efforts were put in.

Q76 Mr Bacon: What is your rating?

Mr Peat: It is AA; it is very satisfactory from three rating agencies, but it takes time to get to that stage. That was my first point. My second point was that the bond market has changed substantially over that period and we managed to get this refinancing through at a time when long-term interest rates were at an historic low, so it was an excellent time to undertake the refinancing.

Q77 Mr Bacon: There were no regulatory restrictions, it was merely, literally, a matter of physically not having had a credit rating.

Mr Peat: There was no experience of this; it was just that, because of all the other work which was taking place on this project, there was no capability to do it at that juncture.

Q78 Mr Bacon: Mr Thompson, you referred to the Manchester project. How much will that cost if it goes ahead?

Mr Thompson: We are continuing to work on the figures for that.

Q79 Mr Bacon: You do not know yet.

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Mr Thompson: We put an initial number in the public domain a year ago, which was a range from £550 million to £600 million. Work since then suggests that we can achieve everything we want to achieve at Manchester for substantially less than that.

Q80 Mr Bacon: So you are still working up the numbers.

Mr Thompson: We are talking to our Governors.

Mr Peat: We are still working down the numbers rather than working up the numbers.

Q81 Mr Bacon: Is it correct that the plan includes moving BBC Sport to Manchester?

Mr Thompson: Yes.

Q82 Mr Bacon: It does. Could you just remind the Committee where the Olympics are taking place?

Mr Thompson: They are taking place in 2008 in Beijing.

Q83 Mr Bacon: Right. After that?

Mr Thompson: We are not proposing to move our sports department to Beijing. In 2012 they are taking place in London.

Q84 Mr Bacon: I appreciate that when you were covering the Olympics in Sydney or Los Angeles or Calgary or wherever the Olympics have been you did not move the whole BBC sports department there. However, it is odd, is it not, in the same breath to be talking about moving BBC Sport within the UK to Manchester at a time when the Olympics are going to be in London?

Mr Thompson: The Olympics will hopefully be a wonderful event; the BBC will be covering the Olympics. They will last in the end for a few weeks in the summer of 2012. We believe that it is important that the BBC invests and draws on talent and is based across the United Kingdom in the nations, but also in the various parts of England beyond London, the South East and the M25. We believe that to achieve that, and in particular to create a powerful and effective broadcasting centre in Manchester, it is important that real broadcasting takes place and that major BBC operations take place there. That is why not just Sport but BBC Children will be joining our network programme makers in Manchester, if the plan goes ahead.

Q85 Mr Bacon: Mr Peat, this is a question for you, referring to what the Chairman was saying earlier about Parliament. What is the objection to Sir John Bourn, as Comptroller and Auditor General, auditing the BBC accounts in the way that he does for other public money? Is it to do with editorial independence, because that has been flagged up in the past? Is that the objection, or if not, what?

Mr Thompson: The first point to make is that the BBC is different from government departments and therefore one has to think afresh of the appropriate

relationship. One of the key objectives is that the BBC has to be seen as remaining utterly and totally politically independent.

Q86 Mr Bacon: So it is to do with political independence. The National Audit Office is, of course, not part of Government; it is completely independent of Government too.

Mr Peat: We are aware of that and we very much welcome the statements from the Chairman of this Committee and from the Comptroller and Auditor General that they would shy off from any investigation or any element of investigation which came close to editorial issues. What I should say is that as Chairman of the Audit Committee I should be very happy to discuss any proposal for areas which the NAO would wish to study, but I should wish to retain the right to consider whether there was any risk of intervention or perception of intervention with editorial issues; that is important, given the BBC's position that that be retained.

Q87 Mr Bacon: Would you agree that of all the parts of the BBC which contribute to its worldwide reputation, probably the BBC World Service is at the pinnacle?

Mr Peat: Indeed.

Q88 Mr Bacon: So its editorial independence is second to none. Would you agree with that?

Mr Peat: I agree entirely.

Q89 Mr Bacon: Do you accept that the National Audit Office has audited the World Service for many years?

Mr Peat: I am aware of that, but of course the World Service is differently financed and there has always been a closer relationship between Government and the World Service.

Q90 Mr Bacon: It is differently financed, in fact the connection between the financing of the World Service and Government is still closer with Government than it is for you, for the rest of the BBC, and yet there is still no suggestion that because Sir John audits those accounts there is a problem, is there?

Mr Peat: I am not aware of any suggestion and I am not aware of any suggestion of problems in any of the relationships with NAO.

Q91 Mr Bacon: So it is very hard to come up with a sustainable argument that it would apply to the BBC as a whole if Sir John were to audit the accounts of the BBC as a whole.

Mr Peat: But at the same time, the risk of any perception of damage or putting that independence at risk is so great that we reserve the right to consider whether there is any risk in particular instances and therefore, while happy to discuss any area for investigation by the NAO, we reserve that right to make the judgment at the end of the day.

Q92 Mr Bacon: If Parliament told you to, you would.

 BBC

Mr Peat: We are subject to immense consultations with Parliament and we welcome that.

Q93 Mr Bacon: That is not an answer to my question. If Parliament told you to, you would.

Mr Peat: Yes, of course; that is where we would sort something out.

Mr Thompson: Yes; of course.

Q94 Kitty Ussher: With the greatest respect to the panel in front of us, could you perhaps give us an example of where an NAO Report had been perceived as affecting editorial independence?

Mr Peat: That is interesting. In fact it is very difficult to see where that could be the case, but it is so difficult to anticipate the exceptions. If one looked, for example, at the location of BBC News bureaux internationally and how that was working, would there be a risk that would be perceived as in fact getting into questions of policy of the BBC and independence, rather than in the efficiency of operating its services? I agree with you entirely that it is very difficult to envisage the circumstance where that risk applies, but given the enormity of the risk, if any risk were perceived to that independence, we do deem it important to reserve the right.

Q95 Kitty Ussher: For example, if the NAO wanted to do an investigation into the location of offices overseas, as you have just mentioned that example, purely on value for money grounds, which is the only remit they have, and they make certain recommendations and you say you cannot do that because of the need to reserve your editorial independence, surely that would be perfectly acceptable and everybody would understand.

Mr Peat: I should expect that if the Comptroller and Auditor General and his staff wished to discuss that possibility we should talk about what would make sense and what would not make sense and hope to come to an agreement as to an appropriate remit.

Q96 Kitty Ussher: Have they ever asked to investigate anything which you thought would be inappropriate?

Mr Peat: No; we have had no difficulties in agreeing the programme.

Q97 Kitty Ussher: You have been able to agree everything they have asked and you cannot think of any particular examples where there would be a problem, yet you still maintain that it is necessary to keep the right of veto.

Mr Peat: I do.

Mr Thompson: May I just say that one can read the point the other way, which is that under the present arrangements no suggestion that the NAO has made has been rejected? There is no suggestion that the BBC under the present arrangements has stopped the NAO from examining anything it wanted to examine.

Q98 Kitty Ussher: Exactly. The point which I am trying to make is that it seems fine. Where is the risk? I do not understand where the risk actually is. Every single thing which the NAO audits or does an investigation on obviously has objectives which are not purely financial, which is why whatever quango or government department exists in the first place, it has a particular remit. Please correct me if I am wrong, Comptroller and Auditor General, but what the NAO is trying to ensure is that that remit is carried out with the best value for money for the taxpayers and your remit is editorial independence and I cannot see where any threat would come.

Mr Peat: This is an experimental approach which has been under way for some time. As far as I am aware, it is working to the satisfaction of the BBC and, as far as I am aware, it has allowed the NAO to investigate the areas they have suggested and we have discussed. The experiment is working as agreed in the context of the Communications Act discussions and I believe that it can further develop to the mutual benefit of the NAO and informing the PAC and the BBC.

Q99 Kitty Ussher: May I unusually address a question to the Comptroller and Auditor General? Would you value a freer relationship where you could conduct your investigations in the same way as you would for any other public body?

Sir John Bourn: I should like to say first of all that I agree with what the Chairman of the Audit Committee and other members of the BBC team have said about the way the experiment has worked. They have accepted everything I have suggested and I think that it has gone well. From the position of an external auditor, there should be no limit on the freedom of choice and to the extent that there is that limit on the freedom of choice, I am not in the same position with the BBC as I am with all the government departments and executive agencies and the range of my responsibilities. I do not have the freedom to choose things myself and that is the nub of the issue. Certainly from my point of view the experiment has gone very well in the terms in which it was set.

Q100 Kitty Ussher: Do you feel that there are risks to the licence-fee payer of the current arrangement, of the current experiment?

Sir John Bourn: I see it essentially around what it is that an external auditor is. Here of course, as well as the Committee of Public Accounts and the Public Accounts Commission, we have Lord Sharman, when he looked at our access rights, recommending that we should have direct rights of access. The point is about the freedom of an external auditor to choose the subjects which he investigates, just as, currently, the external auditor of the BBC is KPMG and they have the right to choose what they look at. My belief is that if you are an external auditor, you should have the right to choose what you look at; that is where I am coming from and this is where the Committee of Public Accounts has been coming from.

Q101 Kitty Ussher: Do you feel constrained in any way?

Sir John Bourn: I do not feel constrained about the subject. The BBC has accepted everything I have suggested, so I do not feel constrained in that sense, but I do feel constrained in terms of what it is that an external auditor should be. He should be sovereign, he should be untrammelled and in that sense I am not.

Q102 Kitty Ussher: I am sure the Committee would share your view. Do you want to comment on anything the Comptroller and Auditor General has said?

Mr Peat: It would largely be repetition. Essentially the constraints are simply the right for the BBC to exercise a veto if in any case it deemed there were risks. If Sir John were to feel there was any way in which the present experiment was running which did impose constraints on information which was available, then we should be very happy to discuss with him how one could make minor adjustments or changes to the process in order to minimise or reduce those constraints. We should certainly be very happy to discuss it. I repeat the point Mark Thompson and indeed Sir John made, that there has been no request which has caused any problem; none of the Reports has caused any problem, indeed the relationship with NAO throughout both Reports they have undertaken and the ones under way has been absolutely first class from our perspective. The Reports have been extremely valuable. I believe the experiment is working exactly as those who set it up hoped it would and I do not believe that at this juncture change is desirable, other than if there were any instance of concern and then we should be very happy to talk with the Comptroller and Auditor General.

Q103 Kitty Ussher: If you did want to exercise your veto or want to tweak what the NAO was asking for, would that fact be made public? Would we know?

Mr Peat: It would be a matter which was discussed by the Board of Governors and I am sure that this Committee would know. The extent to which it was included in the published minutes of the Board of Governors or was redacted would be a matter for discussion given the occasion. I cannot give any commitment. As I cannot envisage the circumstance where it might operate, I cannot determine whether it would be appropriate to publish it or not.

Q104 Kitty Ussher: But you do commit that we would know.

Mr Peat: Yes; yes.

Mr Thompson: Clearly the BBC would have to have clear reasons for doing it and would have to appear here and elsewhere to defend those reasons.

Mr Peat: It would be a decision which would be taken by the Board of Governors and would be taken extremely seriously by the Board of Governors and I hope and trust it will never happen.

Q105 Kitty Ussher: Coming back to the points made by Alan Williams about the energy centre, I am quite interested in this. I address this question to Mr Smith. You were proposing to have a combined heat and power installation there. You said earlier that the reason that has not happened is because the power demands you envisage are fewer than originally thought. The Report says that it was removed to reduce costs. Is there a contradiction there? Paragraph 49 of the Report says "The Energy Centre was originally intended to include a combined heat and power installation to provide . . . but this was removed from the specification to reduce costs".

Mr Smith: Removed at the time because the need for a combined heat and power plant was not quite justified based on the actual developed density of the site as it was then and bearing in mind the use to which the buildings were being put then. It is still our expectation that a combined heat and power plant may make eminent sense, depending on the exact configuration of departments on site, depending on whether the move to Manchester happens, value for money savings and all those other things. The timing to decide about a combined heat and power plant is when we are absolutely certain about whether Manchester is occurring, when we know for sure the impact of the job reductions and when we know for sure therefore whether Worldwide is going to move onto the site or not. Then we shall take the decision and if it makes economic sense, that will be the basis on which the decision is taken. If it does not, then we shall use it for office space instead.

Q106 Kitty Ussher: Where are you currently purchasing your electricity from? From the pool in a normal way?

Mr Smith: Yes; from the pool.

Q107 Kitty Ussher: I am told that combined heat and power is supposed to be a very efficient way of producing electricity.

Mr Smith: We do have them in other places including the television centre down the road.

Q108 Kitty Ussher: So you have some experience of this.

Mr Smith: Yes.

Q109 Kitty Ussher: If you had invested in it as originally planned, when would those capital costs have paid back? You would presumably have saved money on your energy bills.

Mr Kane: Typically one would expect payback on the initial investment in between five and seven years. It all depends on the units of consumption. This entire site is planned to hold about 1.8 million square feet, of which approximately one quarter has not been developed, which are the later phases for development on that site. If you get the whole thing together at 1.8 million, the investment will then pay back in between 5 and 7 years.

 BBC

Q110 Kitty Ussher: I understand. Presumably if you generated surplus electricity that could have been sold back into the pool even if you did not have total capacity.

Mr Smith: Yes.

Mr Kane: Exactly.

Q111 Kitty Ussher: Was that fact taken into account when you decided not to go ahead with the power plant?

Mr Kane: I am not aware; I was not involved at that particular stage. I believe the consideration was in terms of the short-term costs and delivering a value for money solution.

Q112 Kitty Ussher: So you could not incur the short-term capital expenditure.

Mr Kane: Because there was no certainty in terms of building out the rest of the buildings and therefore the risk in terms of taking something which was unknown at that point was too great.

Q113 Kitty Ussher: Do you accept my point that had you been able to generate surplus electricity you could have sold that back thereby compensating for the fact.

Mr Kane: Yes and indeed the whole concept of the energy centre was to centralise existing plant. So we could achieve economies of scale, rather than having three different plant rooms in three different buildings we had one single energy centre where we used one consolidated set of kit, one maintenance team and as the BBC has to broadcast on a 24/7 basis, resilient power and cooling are critical to the overall broadcasting effort. Therefore having the maintenance team and everyone in one site, rather than having to run three different sites—

Q114 Kitty Ussher: I understand all that, but you have not quite answered my question. You said that had it been at full capacity you would have recouped the cost within five to seven years. What I am saying is that in fact you could have sold some of the surplus energy back into the pool.

Mr Peat: My understanding is that at the time the original plans were developed the full capacity of the CHP plant could have been used for the purposes which the original design intended it to be used. Given the change in the utilisation which took place fairly shortly after that stage, they could not use the full output of CHP, so they would have been dependent on what could be sold to the market, with, of course, far less certainty at that stage of what the price would be and whether there would be a continuing contract. Under those changed circumstances the economics did not stack up in the way they did under the original bid. Going forward, if further developments take place in the way that may happen over the next few months, we may be back to the stage where, just purely for the purposes of internal generation, it makes sense. If there is a possibility of selling excesses to the market, that will be an additional benefit for the BBC and for the licence payer.

Q115 Mr Williams: Sir John, coming to this issue of your status and I can think back to a couple of instances: the WDA, where as a result of your discoveries and this Committee's discoveries there was virtually a complete clean-out at the top; and I seem to remember another instance, where a lady chief executive lost her job as a result of information obtained by one of your auditors while he was actually carrying out the audit. Is it not a fact that in identifying areas which need investigation, the audit is often a useful source to you of guidance information as to where you should look for specific examination? Not having that audit access, you are dependent on the BBC letting you know what might need looking at.

Sir John Bourn: It is certainly the case that if you have full and free rights of access you can secure the kind of information you describe. To the extent that you work on a programme where you discuss and agree particular subjects, you do not have the full rights of access right across the board. What you say is right in that sense.

Q116 Mr Williams: Who was the Chairman at the time this contract was signed?

Mr Smith: The strategy was certainly agreed with Sir Christopher Bland in the chair, but I cannot remember whether he had moved on by the time of the execution of it.

Mr Peat: The strategy was agreed in 1998 and the first agreement of the Board of Governors to the full project was in June 2001.

Mr Williams: We could not hear the name.

Q117 Chairman: Was it Gavyn Davies or was it not?

Mr Smith: We are saying that we cannot quite remember exactly who was in the chair when the contract was signed, but the strategy for the property redevelopments and the securing of a partner was approved when Sir Christopher Bland was in the chair. Whether the execution of it was while he was still in the chair, or whether by then Gavyn Davies had arrived, we cannot quite recall. We shall provide the information in a supplementary note.²

Mr Thompson: The chairman changed in the middle of 2001 and we will come back to you on that.

Q118 Mr Williams: Not only the chairman changed, but the chairman's line changed and that is what we are interested in. Mr Gavyn Davies was an advocate of NAO access to you before he became a Governor and an opponent of NAO access to you after he became chairman of the governors. I just wondered whether it was coincidental or whether his subsequent experience influenced his thinking.

Mr Smith: Totally coincidental.

Mr Peat: My understanding is that what Gavyn Davies said was that a committee of which he was chairman was of the view you have just expressed, but that was not his personal opinion. That is just what I have heard and I cannot speak for Gavyn Davies.

Chairman: I know the feeling. Do not worry.

² Ev 16–18

Q119 Greg Clark: Mr Thompson, you are a new Director-General. You have a pretty down-to-earth manner. Do you not feel embarrassed to have to associate yourself with paper thin excuses for not having NAO scrutiny? Really the idea that scrutiny by the National Audit Office compromises the editorial integrity of the BBC is an insult to the intelligence. Is it not about time that these archaic ways and circumlocutions should be swept away. Would it not benefit the BBC and its standing in the country if it could go with the spirit of the age and just get normal and behave as any other public body does?

Mr Thompson: May I just come back to you on all of this? The BBC is not like any other public body. In particular, virtually no other—I cannot think of another—body has a constitutional arrangement of the kind the BBC does with a Board of Governors, to be replaced soon, we believe, by a BBC trust, which is charged by Parliament with looking after the BBC, absolutely maintaining the public interest and specifically holding the BBC to account in the matter of value for money. Unlike most public bodies and certainly unlike any government department, there is already a public body in existence with specific duties in this matter, duties which I have to say increasingly in recent years they have been taking seriously. As a manager of the BBC I am frequently the subject of entirely external scrutiny outside the Governors' value for money programme by external consultants and experts who are hired by the governors to examine management actions independently. That is the way it should be. Uniquely I think—I stand to be corrected—the BBC's constitution absolutely given it by Parliament, contains a body which has particular responsibilities to ensure value for money is being achieved and, secondly, also to guard fiercely the BBC's creative and editorial independence. It seems to me, as a relative newcomer to this fascinating and it would appear endless debate about the NAO and the BBC, that the issue is not about access for the NAO to the BBC, that is absolutely accepted and indeed the BBC welcomes the insights and input that the NAO are bringing. The issue is one about the precise terms on which they come in. My duty as the Chief Executive of the BBC is to work with whatever system of accountability Parliament in the end deem fit to judge on for the BBC, but I have to say that I

do believe in the issue of editorial independence. However, as the Chairman of the Governors' Audit Committee has made very clear, so far we have encountered no issues at all of this kind and we will not foolishly or unnecessarily create problems where they do not exist, nonetheless they are important issues. That debate is taking place inside the House of Commons and more broadly. In some ways I am the last person in Britain to be asked to adjudicate on this matter. I believe, from everything I have seen of the current experiment, that there is neither any evidence that the NAO has been prevented from seeing any aspect of the BBC's activities, nor, I have to say, although there are many things in this Report from which the BBC can learn—and it would be quite wrong to suggest it, as some of the questioning has suggested today—has the NAO suggested in this Report that this project has been a problem. This is a project which has delivered on time, on budget and which we believe, and I think the NAO concludes, has been very effectively managed. I personally cannot see what problem there is with the current arrangements which you are seeking to fix.

Q120 Mr Bacon: Mr Peat, I have another question about the spirit of the age. I see that you are on the project committee for the conservation of the Rosslyn Chapel. I wanted to give you an opportunity to place on the record before Parliament an answer to the question: have you found the Holy Grail?

Mr Peat: I can assure you that we have resisted any efforts to dig up the floor to see whether it is there, because it is very good for visitor numbers to leave it as a question to be considered. If you wish to come, let me know and I shall make sure you have a full escorted tour.

Q121 Chairman: That concludes this session. It has been a very useful hearing and it has proved that the BBC has nothing to fear from the existing arrangement. I am sure that if all rights of access were granted, we should get even more light usefully shed on your functions. I hope you have noticed that we asked nothing about editorial content and have resisted asking about the £68 million you spent on your production of *Rome*. We have been very well behaved, have we not?

Mr Thompson: It has been a pleasure as always.

Chairman: Thank you very much.

Memorandum submitted by the BBC

This memorandum updates the Public Accounts Committee of events and progress since the NAO conducted its fieldwork in March 2005.

1. REFINANCING BENEFITS

On 23 March 2005 agreement was reached with Land Securities Trillium to restructure the lease agreement covering the White City site to secure the desired refinancing benefits for the BBC. The restructuring of the lease has allowed the project to access the bond markets at a considerably lower financing cost than that provided by LST. The BBC purchased LST's interest in the White City site for a net £321.5 million. It then granted a long lease to a separate company for £323.5 million while retaining the freehold. The separate company then funded its purchase of the lease from the BBC by the issue of a 30 year bond. The BBC agreed to rent the site from the separate company at a predetermined rent.

The net cost reduction to the BBC is £63 million in today’s money over the 30-year term, with a short-term cash flow benefit of £50 million in respect of a two-year rent-free period at the start. The bond securitisation deal has been short listed for “securitisation deal of the year” by the Association of Corporate Treasurers.

2. PARTNERSHIP WITH LAND SECURITIES TRILLIUM

In May 2005 the BBC’s relationship with Land Securities Trillium was significantly restructured to focus on completing two other property developments currently in progress at Pacific Quay in Glasgow and Broadcasting House in Central London. All other services are terminated, by mutual consent, with effect from 31 March 2006, with an option to extend by up to six months at the BBC’s discretion. It is estimated that the partnership arrangement has saved the BBC £33 million in today’s money, across the 49 locations covered by the partnership, between its inception in November 2001 and termination in March 2006. This saving is as compared to the cost projected by the BBC’s “own delivery” comparator.

3. PROVISION OF FACILITIES MANAGEMENT AND CONSTRUCTION MANAGEMENT SERVICES

Following the consensual termination of the contract with LST, the BBC commenced EU procurement exercises for facilities management in London and Scotland, and for the provision of construction management project services UK wide. These are shorter-term supply contracts covering a period of four to five years. On the FM procurement, the BBC recently announced a shortlist of six companies. A very large number of companies have qualified for construction management project services shortlisting and a shortlist of potential suppliers is being evaluated now.

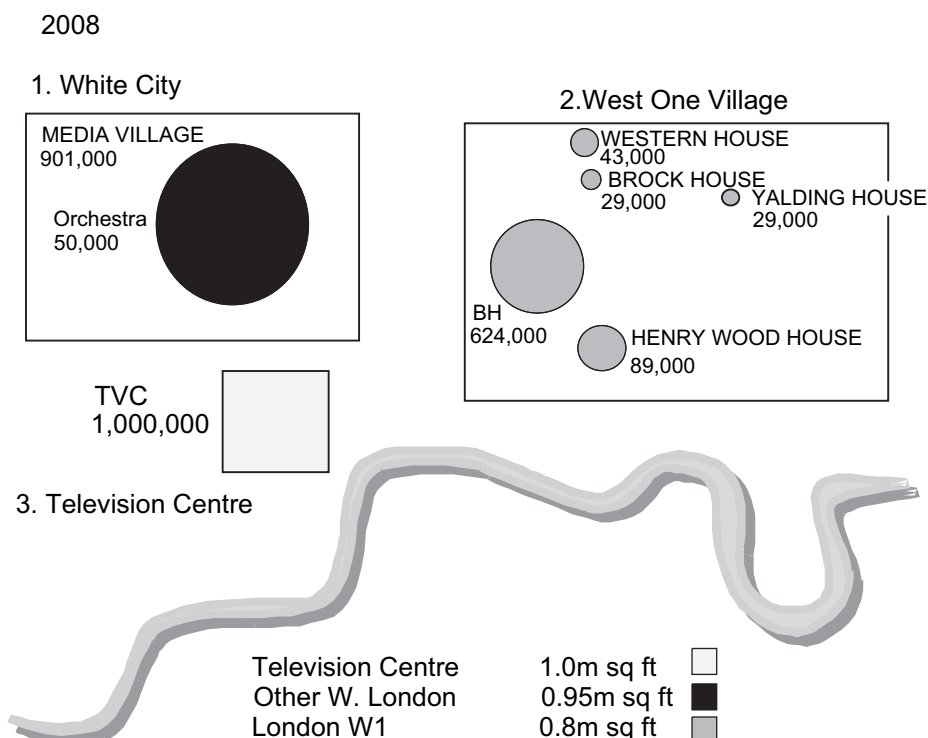
The recommendations made by the NAO concerning performance-related payment systems and the contract variations process have been incorporated into the intended new supply agreements.

4. OVERALL PROPERTY STRATEGY

The BBC’s announced plans for substantial job reductions are being implemented now and the separate intention to relocate 1,500 staff to Manchester in 2010 has been published.

The precise details of accommodation requirements in the future will be at least partially dependent on the progress of the BBC’s own cost saving initiatives and the outcome of the discussions with HM Government on the level of the licence fee in the next Charter period from January 2007. As programme making is essentially a people based process, there will be significant new requirements for accommodation as the cost reductions from the savings initiative are recycled into programming. Other accommodation requirements could arise from additional programming linked to the BBC’s licence fee settlement proposals.

In the meantime the London premises are expected to be rationalised further, beyond the position shown in the plan on page 8 of the NAO Report. The revised plan, below, shows the further concentration of activity into three sites of which the White City site is key.



5. SPACE UTILISATION

Since the NAO's fieldwork, the overall space utilisation for the White City 2 site (ie Media Centre, Broadcast Centre and Energy Centre) has improved from the 15% vacancy rate shown in table 12 of page 17 to 7% by October 2005.

In July, we reported in the management response that free space was 4.3% in respect of the Media Centre and Broadcast Centre. This has reduced to 3.5%. The vacancy rate in the new Media Centre alone is 4% and that of the Broadcast Centre is 3%. This compares to an industry average of 5%. The site is now occupied by over 5,000 workers.

6. AWARDS

In addition the BREEAM "excellence" rating and the CABE award, the new buildings won an RIBA award for architecture and contribution to the local environment in June 2005 and a British Council for Offices award for "Best Corporate Workplace".

Supplementary memorandum submitted by the BBC

Question 72 (Mr Richard Bacon): Occupancy of the Media Centre

The occupation dates for the Media and Broadcast Centres are set out in the table below.

There are plans in progress to move in Commercial Rights, the College of Journalism (training), Children's Programmes and Heritage and this will reduce the vacant space (in the Media and Broadcast Centre) to less than 1% during 2006.

In addition, as part of the long-term property strategy for the W12 portfolio and the emerging business planning for Worldwide and Factual and Learning (two of the largest occupiers in W12), work is in its early stages to significantly rationalise and reduce the amount of space they require in W12.

This proposal includes fully occupying the Perimeter Buildings and bringing F&L into the Media Centre to utilise the building to its full design capacity. Whilst this will involve decanting certain existing occupiers, it will allow the BBC to vacate and dispose of its freehold interest in Woodlands (330,000ft²) to form part of the White City Regeneration Project.

Departmental moves into the Media Centre and Broadcast Centre

<i>Month occupied</i>	<i>Floor</i>	<i>Sector</i>	<i>Department</i>
Media Centre			
January 2004	5th	C&D	Property
	5th	C	Finance Direction
	5th	B	Corporate Finance
	5th	D	LST HQ
	2nd	A, B, C & D	HR Managers, HR Operations, Assessment, Recruitment, Diversity, Employee Relations, Compensation & Benefits, Leadership Team
February 2004	5th	A	Licence Fee Unit
	5th	A	Finance—Professional Services Accounts
	1st	A	Procurement
	5th	C	Finance Training & Development
	4th	C	Policy & Legal Direction, Public Policy, Public Affairs, Corporate Social Responsibility, Programme Complaints Unit
	4th	D	DG and Office
March 2004	3rd	D	Chairman, Governance & Accountability, Heritage
	4th	D	MC&A Direction Group, Marketing Strategy & Planning, Audience Insight, Digital Marketing, Strategic Communications, Corporate & Public Relations
	4th	A	Nations and Regions Headquarters
	4th	B & C	Strategy & Distribution
	3rd	A	Corporate & Public Relations, Press Information, Audience Research Central Unit
	3rd	B	Events Unit
	3rd	C	General Counsel and Deputy, Commercial Policy, Fair Trading
	4th	C	Charter Review, Editorial Policy

<i>Month occupied</i>	<i>Floor</i>	<i>Sector</i>	<i>Department</i>
	4th	B	Technology Direction
	3rd	D	Technology Direction
	1st	A	Rights Negotiation, Music Reporting
	2nd	A	Ariel
	1st	B & C	SAP Business Centre
	5th	B	VAT Unit
April 2004	4th	A	Making It Happen
	2nd	B	HR Director and Office
	3rd	B & C	Corporate Legal & Intellectual Property, Programme Legal Advice, Litigation, Regulatory Legal
May 2004	4th	A	Deputy DG and office
	3rd	A	MC&A Finance
June 2004	3rd	D	Information Policy & Compliance
February 2005	Ground	B	Children In Need
June 2005	1st	D	ID&E
	Ground	C & D	Audience Services, Picture Publicity
October 2005	1st	B	Future Finance
November 2005	3rd	D	College of Journalism
December 2005	4th	B	Media Planning
Broadcast Centre			
September 2003	Ground	A	FM White City Village Team
October 2003	2nd	A	BBC Broadcast Ltd.: Direction, Creative Services
	2nd	B & C	BBC Broadcast Ltd.: Creative Services
	Ground	C & D	BBC Broadcast Ltd.: Technology
November 2003	3rd	A, B & C	BBC Broadcast Ltd.: Creative Services, Access Services, Payout
December 2003	Ground	A	FM White City Village Team
February 2004 through to June 2005	Ground	B, C & D	BBC Broadcast Ltd: Channel migrations:
	1st	A, B, C & D	Operational and Technical (12 channels and approximately 60 streams);
	2nd	D	Tape Library
March 2004	3rd	D	Freeview
May 2004	3rd	D	Information & Archives
July 2004	Ground	B, C & D	Construction Management
January 2005	4th	D	New Media
	5th	A, B, C & D	New Media
March 2005	4th	B & C	ORM
July 2005	4th	A	Technology Direction
December 2005	4th	B	Siemens

Question 117 (Chairman): Clarification of who was BBC Chairman when the contract for White City was signed

White City 2 development: Board of Governors approvals schedule

<i>Date</i>	<i>Approval provided</i>	<i>Chairman</i>	<i>Director General</i>
April 1998	Governors approved the BBC Property Strategy	Sir Christopher Bland	John Birt
18 September 1999	Governors approved in principle the all embracing strategy to redevelop the London portfolio.	Sir Christopher Bland	John Birt

<i>Date</i>	<i>Approval provided</i>	<i>Chairman</i>	<i>Director General</i>
17 February 2000	Governors approved the vision for London, agreed the principles for managing the development and agreed to the process for creating partnerships.	Sir Christopher Bland	Greg Dyke
13 July 2000	Governors endorsed the long list of bidders.	Sir Christopher Bland	Greg Dyke
21 September 2000	Governors approved the transfer of assets at White City to a wholly owned subsidiary.	Sir Christopher Bland	Greg Dyke
19 October 2000	Governors approved the shortlist to two partnership bidders	Sir Christopher Bland	Greg Dyke
23 November 2000	Governors noted the timetable for property partnership	Sir Christopher Bland	Greg Dyke
22 March 2001	Governors noted the appointment of a preferred bidder for the property partnership	Sir Christopher Bland	Greg Dyke
11 June 2001	Governors approved the signing of the Property JV with LST	Sir Christopher Bland	Greg Dyke
11 June 2001	Governors approved the start of development of White City (Phase 1)	Sir Christopher Bland	Greg Dyke
5 July 2001	Chair of the Audit Cttee approved the partnership agreement with LST.	Sir Christopher Bland	Greg Dyke
September 2001	Governors noted the DCMS approval for the Partnership	Sir Christopher Bland	Greg Dyke
22 May 2003	Governors approved furniture and migration costs (£20.2 million)	Gavyn Davies	Greg Dyke
1 Feb 2005	The Governors Property Committee agreed to the refinancing of White City [approved offline on 10 March 2005 and reported to the March meeting of the Board of Governors].	Michael Grade	Mark Thompson

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