



House of Commons

Committee of Public Accounts

**The BBC's investment
in Freeview: The
response of the BBC
Governors to the
Committee's Third
Report of Session
2004–05**

**First Special Report of
Session 2005–06**

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The Committee of Public Accounts

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

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Diana R Johnson MP (*Labour, Hull North*)

Powers

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

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.

Committee staff

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

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FIRST SPECIAL REPORT

The Committee of Public Accounts reported to the House on *The BBC's investment in Freeview* in its Third Report of Session 2004–05, published on 3 February 2005 as HC 237. The BBC's response was received on 11 May 2005, and is published below as an Appendix to this Report.

Appendix: The BBC's response

On the basis of the review by the National Audit Office (NAO) and the BBC's response to this review, the Committee of Public Accounts (PAC) took evidence from the BBC on its achievements to date from the investment in Freeview and on priority areas to address as Freeview progresses. The review of Freeview was carried out under the arrangement agreed in 2003 between the Government and the BBC in the context of Parliament's consideration of the Communications Bill.

The BBC Governors welcome the PAC's conclusion that the BBC's investment in Freeview has succeeded in ensuring subscription-free access to its digital channels is available on digital terrestrial television. We also acknowledge that the BBC must do more to dispel viewer confusion about the service and to explain the reasons for current gaps in coverage.

The Governors are satisfied with the BBC's achievement in driving digital take-up throughout the United Kingdom. The range of services offered has been enhanced and audience awareness of digital platforms is increasing. However, the Governors are fully aware of the current limitations of digital terrestrial television coverage and the need to extend the availability of the BBC's free-to-air digital services to other areas.

Freeview plays an integral role in supporting the move to fully digital broadcasting. We are pleased with its successes so far and look forward to viewers increasing their use of BBC's digital services.

This paper provides a response from the BBC to the conclusions and recommendations raised by the Committee in its Report issued in February 2005.

BBC Board of Governors
11 May 2005

1. By investing in Freeview, the BBC has succeeded in ensuring subscription-free access to its digital channels is available on digital terrestrial television. When ITV went into administration in 2002, there was widespread uncertainty about the future of digital terrestrial television. The BBC's investment helped ensure that digital terrestrial television continued and was available subscription free. Nearly four million homes now have Freeview.

BBC response

Since the Report there has been sustained growth in the take-up of digital television, with Freeview being the key driver. According to BBC estimates, Freeview is now in more than 5 million households. This is an increase of nearly 2 million households since the NAO review was undertaken in 2004. This increase has been supported by continued platform-neutral BBC promotional activity, including on-air campaigns explaining how to access the BBC's six new digital channels on cable, satellite and Freeview. During the 'Summer of Sport' campaign (June-August 2004), monthly receiver sales ran at 185,000 per month which was around 60% up on the same period in the previous year. During the major Christmas campaign at the end of 2004, sales averaged 125,000 per week, with a record breaking week in mid December of 190,000.

2. One in four households cannot get Freeview because of gaps in coverage. The gaps are due to local topographical difficulties and the need to ensure that digital signals do not interfere with analogue signals. The Freeview website and promotional literature should explain why Freeview is not currently available in some areas and the potential for future increases in coverage, depending on plans for switchover from analogue to digital television.

BBC response

The BBC will continue to work to improve digital coverage. We acknowledge that there are significant limitations in the current coverage of digital terrestrial television (primarily due to technological and topological factors beyond our control) and that we need to extend the availability of the BBC's free-to-air digital services to other areas.

Since the NAO's review, the BBC has updated its digital website to carry information on why Freeview is not currently available in some areas. The BBC is also integrating these messages into the development of external communication materials regarding digital switchover. Call centre staff are fully briefed on the coverage issues and are equipped to handle enquiries regarding future availability of digital coverage across the UK.

3. The BBC should establish whether subscription-free satellite could satisfy in a cost effective way the demand for its digital channels in areas where Freeview is currently unavailable. The BBC needs to identify whether there is a case for a new satellite service, which could offer near universal coverage, bearing in mind that BskyB launched a new subscription-free satellite service in October 2004.

BBC response

The BBC is continuing to work with industry partners to explore options for launching a new subscription-free satellite service during 2005. The BBC is aiming to encourage an open horizontal market and more consumer choice. It is expected that a subscription-free satellite service would be cost effective and that it would be comparable to the 2003/04 cost per household of Freeview.

Recognising that around a quarter of the country lives outside Freeview coverage areas, the BBC refers to Sky's subscription-free satellite option in the BBC digital guide and website.

4. The BBC should establish whether set-top aerials and not just roof-top aerials will be able to receive digital terrestrial television after digital switchover. Freeview is not usually available to licence fee payers relying on set-top television aerials because digital television signals are not strong enough. The BBC believes that after digital switchover, when the power of digital signals can be increased, digital terrestrial will work on televisions with set-top aerials. The BBC should carry out early field tests to establish whether the licence fee payers will be able to use set-top aerials to receive digital terrestrial television after digital switchover.

BBC response

The BBC recommends that reliable reception of analogue and digital television broadcasts is most readily attained by using an external receiving aerial, mounted at the highest possible location outside a viewer's property.

Nevertheless, the BBC recognises that many households, and many more second and third sets, rely on set-top aerials for the reception of BBC services. Through the activities of its Research & Development department, the BBC has been investigating and researching the performance of set-top aerials for some years, primarily to inform the debate around switchover.

The BBC has also been an active partner in a recent study co-ordinated by Ofcom under the Government's Digital Action Plan into just this matter, which sought to identify the number of viewers using set-top aerials and the potential for these to be served with digital terrestrial after switchover.

It is partially because of the need to serve as many set-top aerials as practicable that the BBC believes it will need to use the highest possible power for its digital terrestrial transmissions following switchover. In addition, the BBC believes that a significant improvement in the performance of set-top aerials could be achieved if a diversity of reception techniques were adopted by the industry, which would enable the set-top box to make more effective use of the received signal improving overall performance. With a commercial partner, the BBC has brought to market a suitable chipset (for integrating in set-top boxes) that is capable of achieving this, and continues to work with the Digital Television Group and others to investigate and promote the benefits of these techniques.

The BBC anticipates that through its involvement in the Government's Digital Television Trial in Ferryside it will be able to learn more about set-top aerials in the field in a real switchover situation. As the decisions about power and mode for digital terrestrial broadcasts after switchover are made and the shape of the future network becomes clearer, the BBC will revisit its modelling in order to gain a better understanding of the set-top aerial issue.

5. The BBC should publish value for money indicators for subscription free digital television. Driving the market for and improving take-up of free to air digital television forms one of the BBC's key objectives. The BBC identified cost per household as a value for money measure for Freeview, but it needs to revise the take up estimates it produced prior to launching Freeview as these have been significantly exceeded, and include the cost of increasing the coverage of digital terrestrial television.

BBC response

The BBC is committed to driving digital uptake and ensuring licence fee payers have access to the full range of BBC channels and services. In response to the report, the BBC has set internal targets for take-up of subscription-free digital television. These figures have been based on current market projections and levels of marketing support anticipated across the next five years.

As outlined in the review, the BBC has identified cost per household as a key value for money measure for Freeview. In 2003/04 the cost per Freeview household was identified at £7.56. This figure was based on total costs of £25.7m (£24.4m for distribution costs and £1.25m to DTV Services Limited) and 3.4 million Freeview homes. We have updated the figures for 2004/5, based on BBC estimates that Freeview is now in more than 5 million homes (GFK data, January 2005). The analysis has indicated that the cost per household has reduced from £7.56 to £5.14.

6. The BBC's spending is not subject to the full independent scrutiny, and accountability to Parliament, that rights of access for the Comptroller and Auditor General would provide. The interim arrangements covering the period up to 2006 are a step forward. But as we said in our response to the public consultation on the BBC Charter Review, the Committee has long pressed for the Comptroller and Auditor General to be given full rights of access to the BBC to provide full accountability to Parliament for the public money it receives. He would then be able to decide what to examine and when, on the basis of a full and independent assessment of value for money risks.

BBC response

The BBC shares the Committee's interest in ensuring that the public money the BBC receives is spent well and it welcomes this review undertaken by the NAO. The compromise reached during the debates on the Communications Bill balanced the

independence of the BBC and the role of the Governors with the need for independent scrutiny and parliamentary accountability. Though in its infancy, the arrangement is working well and we believe it should be given time to mature.

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

BBC response

Under the agreement with the DCMS, the value for money studies are addressed to the BBC Audit Committee and laid before Parliament by the Board of Governors. The Governors are therefore happy to give evidence to the Committee on subsequent reports by the NAO or other external bodies. Normally the responsible Governor in these circumstances will be the Chair of the Audit Committee, who will usually find it helpful to be accompanied by the relevant members of the BBC Executive who will be responsible for progressing any agreed actions.

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