



House of Commons
Committee of Public Accounts

BBC outsourcing: the contract between the BBC and Siemens Business Service

**Thirty-fifth Report of Session
2006–07**

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

*Ordered by The House of Commons
to be printed 18 June 2007*

HC 118
Published on 28 June 2007
by authority of the House of Commons
London: The Stationery Office Limited
£11.00

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).

Current membership

Mr Edward Leigh MP (Conservative, Gainsborough) (Chairman)
Mr Richard Bacon MP (Conservative, South Norfolk)
Annette Brooke MP (Liberal Democrat, Mid Dorset and Poole North)
Chris Bryant MP (Labour, Rhondda)
Greg Clark MP (Conservative, Tunbridge Wells)
Rt Hon David Curry MP (Conservative, Skipton and Ripon)
Mr Ian Davidson MP (Labour, Glasgow South West)
Mr Philip Dunne MP (Conservative, Ludlow)
Mr John Healey MP (Labour, Wentworth)
Ian Lucas MP (Labour, Wrexham)
Mr Austin Mitchell MP (Labour, Great Grimsby)
Dr John Pugh MP (Liberal Democrat, Southport)
Rt Hon Don Touhig MP (Labour, Islwyn)
Rt Hon Alan Williams MP (Labour, Swansea West)
Mr Iain Wright MP (Labour, Hartlepool)
Derek Wyatt MP (Labour, Sittingbourne and Sheppey)

The following were also Members of the Committee during the period of the enquiry:

Helen Goodman MP (Labour, Bishop Auckland)
Mr Sadiq Khan MP (Labour, Tooting)
Sarah McCarthy-Fry MP (*Labour, Portsmouth North*)
Kitty Ussher MP (*Labour, Burnley*)

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.

Publication

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 Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Pam Morris (Secretary), Anna Browning (Secretary), and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 Financial Management	7
2 Performance Management	10
3 Securing value for money at the BBC	12
Formal minutes	13
Witnesses	14
List of written evidence	14
List of Reports from the Committee of Public Accounts 2006–07	15

Summary

In October 2004 the BBC entered a ten-year framework contract with Siemens Business Services (Siemens) for the provision of a range of technology services provided previously by the BBC's commercial subsidiary BBC Technology. The contract, estimated to be worth some £1.5 billion over ten years, covers the provision of commodities such as desktop computers, specialist technology projects, and technological support for programme production and broadcast functions.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the BBC on its management of the Siemens contract.

When BBC managers sought approval for the deal with Siemens they told the BBC Governors that savings were guaranteed at £35.2 million a year, but they made mistakes when they estimated the cost reduction that the contract would deliver. In the first year there were savings of £22 million, £13.4 million lower than the guaranteed level. The BBC now expects to make average savings of £40 million a year for the rest of the contract, although it remains to be seen whether this estimate will be achieved.

While reported performance against key service targets has been high, most of the early technology projects commissioned from Siemens experienced delays or cost overruns. Siemens have borne the additional costs, but delays mean that some benefits from the projects have not been available until later than planned. The transition period from October 2004 to March 2005 was designed to give Siemens and the BBC the opportunity to put in place the arrangements needed to manage the contract. There were significant gaps in these arrangements, most notably the absence of controls over performance data validation, the volume of services purchased by divisions through the contract, the checking of the accuracy of suppliers' bills and the absence of contingency plans in the event of early contract termination.

In January 2007 the BBC Board of Governors was replaced with a new BBC Trust. The BBC and the Secretary of State for Culture, Media and Sport have reached a new agreement which will give the National Audit Office an enhanced role in developing value for money reviews through regular discussion with the Trust about a rolling programme of work. The BBC Trust does, however, retain the final decision on which subjects are examined.

¹ *BBC Outsourcing: the contract between the BBC and Siemens Business Services for the provision of technology services*, NAO review presented to the BBC Governors' Audit Committee by the C&AG, June 2006 (hereafter C&AG's Report)

Conclusions and recommendations

1. **In the first year of the contract with Siemens, savings were £22 million, 38% lower than the BBC's original forecast.** Contrary to the advice provided by the BBC to the Board of Governors when seeking approval for the deal, the annual savings achievable under the contract were not guaranteed. When the BBC Governors approved the White City property deal in 2001, costs totalling £60 million were excluded from the approval submissions. BBC management is responsible for ensuring that business cases in support of decisions are accurate and complete, and should establish robust quality assurance arrangements for all submissions on major expenditure decisions.
2. **The BBC's estimates of the annual savings from the contract with Siemens have fluctuated widely from £21.8 million to £40 million.** These widely varying estimates do not inspire confidence in the BBC's forecasting. To provide assurance about its latest estimate the BBC should:
 - ask BBC Internal Audit to confirm the accuracy of the latest savings estimate;
 - report regularly to the new BBC Trust on progress against the new target; and
 - consider falling technology commodity prices when calculating and reporting savings to avoid overstating the benefits ascribed directly to the Siemens contract.
3. **Although the BBC expects the contract with Siemens to deliver significant savings, many areas of the BBC are still buying technology services and commodities from other suppliers.** The BBC should institute controls over services purchased by divisions through the contract so that technology services and commodities available through the technology framework contract are procured through the contract where they are available and offer better value for money than procurement outside the contract.
4. **The contract with Siemens does not provide for the BBC to share profits if Siemens's return exceeds a specified level.** For future contracts of this type the BBC should include a provision for profit sharing above an agreed level.
5. **The BBC has chosen not to exercise its rights of open book access to check how profitable the contract is for Siemens.** Benchmarking provisions, aimed at keeping the contract competitive, do not apply to a third of the services provided. For this and future outsourcing contracts the BBC should ensure the contractors' profits are not excessive through the robust enforcement of the terms of its contracts.
6. **The BBC has been slow to introduce effective management of the contract.** Even though it had a six-month transition period from the previous service provider to Siemens, the BBC did not put in place adequate arrangements to check the accuracy of invoices received, validate claimed performance levels or engage its senior

management in driving the contract. From the outset, future outsourcing arrangements should include:

- senior management engagement in strategically important contracts;
- validation of performance information provided by the supplier;
- effective procedures to check the accuracy of supplier's bills; and
- contingency plans in the event of early contract termination.

- 7. 60% of the key technology projects commissioned directly from Siemens in the first year of the contract suffered delays or went over budget.** While the financial risk for those projects over budget was borne by Siemens, the opportunity cost of missed service improvements is felt directly by the BBC. The BBC should establish why projects have over-run to improve project delivery and disseminate lessons to those who commission and manage projects.
- 8. Following Michael Grade's departure from the BBC, the BBC had to put in place new mechanisms with him and with the Board of ITV to protect the confidentiality of BBC information.** It is good practice for contracts to contain provisions protecting the BBC's intellectual property and the confidentiality of sensitive information and providing for cooling-off periods for departing senior staff. The Department of Culture, Media and Sport should formulate terms of appointment for BBC Trustees and the new Chairman of the Trust which contain adequate safeguards when individuals leave, including, for example, provision for an appropriate interval between departure and taking up positions with competitors.
- 9. In spite of the new governance arrangements for the BBC, it is still not subject to full independent scrutiny by the Comptroller and Auditor General on behalf of Parliament.** While the Comptroller and Auditor General now has an improved role in discussing and suggesting studies for the BBC Trust's value for money programme, the Trust retains the last word in determining which topics are subject to value for money examinations. The Comptroller and Auditor General should have the same rights of access to the BBC as to other publicly funded bodies enabling him to identify and select subjects for examination and report to Parliament independently of the BBC.

1 Financial Management

1. In October 2004 the BBC entered a ten-year framework contract with Siemens Business Services (Siemens) for the provision of a range of technology services previously provided by the BBC's commercial subsidiary BBC Technology. The contract will run for 10 and a half years, from 1 October 2004 to 31 March 2015. The contract, which is estimated to be worth some £1.5 billion, covers the provision of technology services to the BBC, the World Service and the BBC's commercial subsidiaries, including desktop computers and telecoms, specialist technology project work and technological support for programme production and broadcast functions. The BBC's stated strategic objectives for the contract with Siemens, specified in the contract, were that it would:

- deliver emergent technologies and innovation;
- maximise value for money and identify opportunities to reduce the service charges paid by the BBC;
- accommodate changes to the BBC's service requirements;
- deliver excellent 'customer service'; and
- provide maintenance and support of a resilient technology infrastructure and continuity of services for a live broadcast environment.²

2. In September 2004, when the Governors approved the contract with Siemens, they were told it would deliver, on average, guaranteed annual savings of £35.2 million for ten years. The BBC acknowledged that although this prospectus was not deliberately misleading, it was inexact because in practice the savings could not be guaranteed. Although the contract specified the unit prices and day rates to be charged for technology services, it did not guarantee that a specific level of savings would be achieved. The BBC had since checked the approval cases for its other outsourcing contracts and confirmed that no similar errors have occurred.³

3. The BBC's estimate of the annual savings fell from £35.2 million, when the deal was approved by the Governors, to £27.5 million when the contract was signed a month later and to £21.8 million by April 2006 (Figure 1). The BBC confirmed that the revised figures would not have changed its decision to award the contract to Siemens. Indeed it now expected to recover the shortfall and achieve average savings of £40 million a year (£400 million over the ten-year life of the contract).⁴

2 C&AG's Report, para 18

3 Qq 10, 32–33, 48, 52–54

4 Qq 31, 34–35, 36, 74–76, 78–81

Figure 1: How the BBC's forecasts of annual saving from the Siemens contract have changed

Forecast (£ million)	Date	Comment
35.2	September 2004	Average annual savings of £35.2 million forecast when the Governors approved the deal
27.5	October 2004	£7.7 million reduction in forecast savings to reflect BBC mistake in forecast Siemens' expenditure
21.8	April 2006	Further £4.5 million reduction in forecast savings because some services were mistakenly excluded from the original forecast, as well as higher than expected expenditure
40	November 2006	Forecast offered by BBC at session on 29 November 2006

Source: C&AG's Report, Figure 6 and Q 49

4. This is not the first occasion on which the BBC Governors have been given inexact figures when asked to approve expenditure on major projects. When the Governors approved the White City property deal in 2001, £60 million of fit-out and migration costs were excluded from submissions to the Governors. Since the Siemens and White City deals were agreed the BBC has strengthened its approval procedures; and the BBC Trust is now supported by the staff of the Trust Unit, which has the resources to scrutinise the information provided by BBC management.⁵

5. The BBC entered the Siemens deal partly to secure savings compared with the costs of services previously provided by its commercial subsidiary, BBC Technology. Advances in technology mean that the price of technology commodities has fallen steadily in recent years, suggesting that part of the savings being claimed for the Siemens deal could have been achieved anyway under BBC Technology. The BBC considered, however, that it had secured very competitive prices through the competition leading to the Siemens contract, as well as the benefit of £150 million from the sale of BBC Technology.⁶

6. The BBC also expects the contract with Siemens to provide a flexible and secure technology infrastructure and services to meet its business needs over the next ten years. While a ten-year contract could be restrictive in such a fast moving sector, the BBC's view is that such a term provides security to the supplier, and the contract includes provisions to keep prices competitive.⁷

7. The technology services covered by the contract with Siemens include computer desktops, telecoms and specialist project work costing £190 million in 2005–06. The BBC estimated that in 2005–06 it spent a further £260 million on technology services from other

5 Committee of Public Accounts, Twenty-fourth Report of Session 2005–06, *The BBC's White City 2 development*, HC 652, para 5; Qq 18, 19

6 C&AG's Report para 34; Qq 23–24, 28–29

7 C&AG's Report para 18; Qq 27, 110–111

suppliers, including approximately £50 million spent by Divisions in procuring their own technology commodities and services even though they could procure some of those services through the Siemens contract. The BBC did not think all technology services could be provided by Siemens, but is considering whether the Siemens contract could be applied more widely.⁸

8. In contrast to other technology outsourcing deals considered by this Committee, including the National Savings and Investments deal and the NIRS 2 Contract Extension,⁹ the Siemens contract does not include a provision to share profits if the rate of return exceeds a specified level. The BBC considered that the contract's benchmarking provisions would help to keep prices and service levels competitive. However, benchmarking provisions cover only around two thirds of services by value and 12% of services supplied exclusively by Siemens were not subject to benchmarking.¹⁰

9. Siemens's forecast profit margins for the contract are 12.25% for commodities and 23% for projects. Through open book accounting provisions in the contract the BBC is able to examine Siemens' records to determine the actual profit achieved by Siemens. In the first year of the contract, the BBC's expenditure was some £22 million more than forecast, principally because of a larger than expected number of projects. The BBC has not, however, used its open book access rights to establish Siemens's actual rate of return for the deal. The BBC plans to carry out an open book exercise in March 2007.¹¹

10. The BBC acknowledged that they could have made better use of the transition period between BBC Technology and Siemens to test and bed in the arrangements required to manage the contract effectively. From the start of the transition period, it had taken the BBC 12 months to implement a system to check the accuracy of bills submitted by Siemens and over 22 months for the Partnership Executive Board, which could provide the Board-level engagement necessary to drive the partnership forward, to meet. It had also taken 18 months to appoint eight technology service advisers to better manage BBC Divisions' technology expenditure.¹²

11. In response to the Committee's questions about the bids received for its financial and accounting services contract, the BBC indicated that the winning bid from Xansa was the cheapest, which was correct for the ten year period over which the contract was awarded. If the BBC had decided to award a five-year contract, however, Xansa's bid would not have been the cheapest.¹³

8 C&AG's Report paras 1, 56–57; Qq 17

9 Committee of Public Accounts, Session 1999–2000, *Inland Revenue/EDS Strategic Partnership: The Award of New Work*, HC 431; Session 2002–04, *NIRS 2: Contract Extension*, HC 423

10 C&AG's Report para 52; Qq 40

11 C&AG's Report paras 41–43, 48; Qq 91–93, 199

12 C&AG's Report para 43; Qq 126, 175, 194

13 Qq 94–99; Ev 22

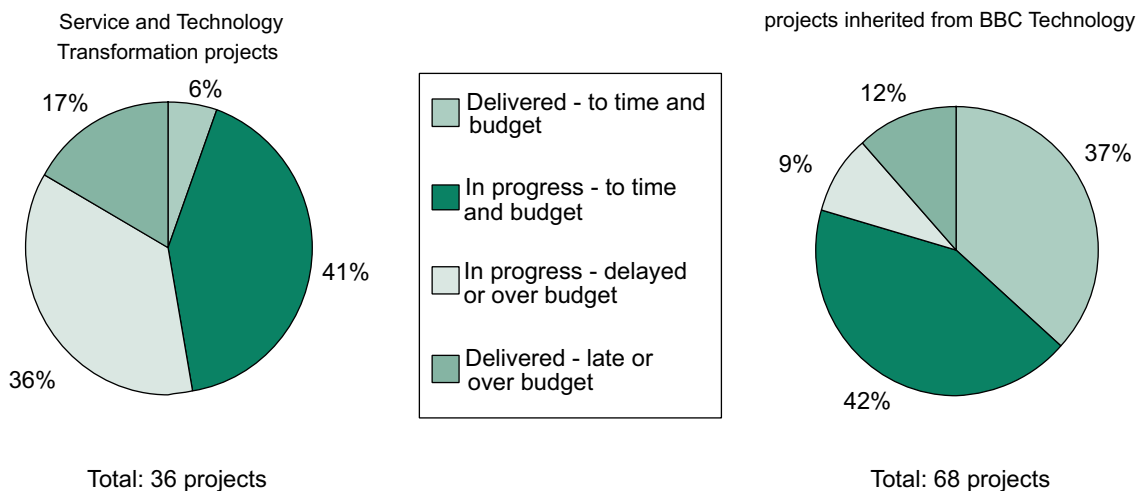
2 Performance Management

12. When the BBC entered into the contract with Siemens it introduced new performance measures and changed some of the existing measures to bring them in to line with current business needs. In the first year of the contract Siemens’ reported performance against these targets was high, with 95% of key service targets met. The BBC acknowledged, however, that the validation of performance data provided by Siemens had not been sufficiently robust. The BBC has looked at data to see if it appeared reasonable but no detailed tests of accuracy were carried out.¹⁴

13. Under the contract, the BBC looked to Siemens to deliver emergent technologies and innovation. Siemens was commissioned by the BBC to deliver a number of new technology projects which make up the BBC’s Service and Technology Transformation programme. In the first year of the contract problems emerged, with almost 60% of those projects either delayed or over budget. For those projects over budget the contractual terms meant that the financial risk was borne by Siemens. As of May 2006, all the projects for which the BBC held the financial risk were within budget. However delays mean that the non-financial benefits of these projects for the BBC will be available later than planned.¹⁵

14. Siemens are also responsible for delivering a number of projects which were started by BBC Technology and taken on by Siemens as part of the purchase of BBC Technology. Performance on these projects had been better than on the Service and Technology Transformation projects with 75% of projects delivered to time and budget by May 2006 and the rest due for completion by the end of 2006 (Figure 2).¹⁶

Figure 2: Progress in delivering Service and Technology Transformation projects and projects inherited from the previous service provider, BBC Technology, as at May 2006



Source: C&AG’s Report: Figures 3 and 4

14 C&AG’s Report, Figure 1, and para 19; Qq 29, 196

15 C&AG’s Report paras 18, 24–25 and Figure 3; Q 131

16 Qq 16; C&AG’s Report, para 26 and Figure 4

15. The BBC wanted the Siemens contract to deliver excellent customer service. The BBC measured service quality through a survey of 500 staff in January 2006, but, with only 24 responses (5%), the response rate was too low to allow the BBC to assess performance reliably. The BBC accepted that the response rate was disappointing and attributed it to poor communication internally about the importance of the survey. While the response rate had increased on subsequent surveys, it was still only 15%.¹⁷

16. The BBC recognised the importance of making sure that the contract would promote a partnership approach with Siemens, which was one of the lessons from the Committee's report on Siemens's partnership with National Savings. The BBC considered that the relationship with Siemens was strong, but acknowledged that BBC senior management should have been more engaged from the outset. The BBC had taken steps to promote greater involvement through the Partnership Executive Board, set up to allow Board-level executives from Siemens and the BBC to agree strategic priorities for the contract and raise the profile of the contract inside the BBC. The Board has however met only once in the 20 months of the contract.¹⁸

17. It is good practice for organisations engaging in significant long-term contracts to prepare for and protect themselves against the termination of such contracts. For the first 18 months of its contract with Siemens, however, the BBC did not have contingency plans in the event of early contract termination. The BBC confirmed that it had now put in place contingency arrangements and that the contract included an adequate parent company guarantee to discourage Siemens from terminating the contract early. Arrangements have also been put in place to support re-competition and the transfer of services at the end of the contract term.¹⁹

17 C&AG's Report, paras 18, 22; Qq 108–110

18 C&AG's Report para 54; Qq 104–107, 125–126

19 C&AG's Report, paras 58–60; Qq 125, 127–129, 133–135

3 Securing value for money at the BBC

18. The Comptroller and Auditor General's review of the Siemens contract was carried out under the terms of an agreement between the Secretary of State for Culture, Media and Sport and the BBC. Under the agreement, however, which covered the three year period up to December 2006, the Comptroller and Auditor General did not have full discretion in selecting the topics for his reviews. The subjects had been decided by the BBC Governors' Audit Committee.²⁰

19. From January 2007, the Corporation's new Royal Charter and Agreement came into effect, replacing the BBC Board of Governors with the BBC Trust which has an explicit responsibility to examine value for money at the BBC. The Secretary of State for Culture Media and Sport and the BBC have agreed that the Trust will discuss with the Comptroller and Auditor General the possible scope of its audit programme and which individual studies would be particularly suited to the National Audit Office. However, under the agreement the BBC Trust will still have the final decision as to which subject will be examined.²¹

20. Two days before the Committee's consideration of the C&AG's report, Michael Grade resigned as Chairman of the BBC's Board of Governors and was appointed as Executive Chairman of ITV. Mr Grade, as Chairman, had played an important part in the BBC's licence fee negotiations. We therefore wanted to establish how the BBC had protected its interests in the wake of Mr Grade's departure to a rival. Public servants elsewhere are subject to restrictions on the posts they can take on immediately after they leave public service. The BBC Governors told us they had reached an agreement with Mr Grade to protect the confidentiality of BBC information and had contacted the ITV Board to obtain assurances about the matters of commercial confidentiality that might arise and any conflicts of interest between the BBC and ITV.²²

20 Qq 22, 155-163

21 Qq 156, 187-188

22 Qq 3, 6, 9, 176

Formal minutes

Monday 18 June 2007

Members present:

Mr Edward Leigh, in the Chair

Annette Brooke
Mr Philip Dunne
Ian Lucas

Mr Don Touhig
Mr Iain Wright

Draft Report

Draft Report (BBC outsourcing: the contract between the BBC and Siemens Business Services), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 20 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirty-fifth Report of the Committee to the House.

Ordered, That the Chairman 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 Wednesday 20 June at 3.30 pm.]

Witnesses

Wednesday 29 November 2006

Mr Jeremy Peat, International Governor and Chair of Audit Committee,
Mr Mark Thompson, Director-General, **Ms Zarin Patel**, Group Finance
Director and **Mr Ashley Highfield**, Director, New Media Group, BBC

Ev 1

List of written evidence

1	BBC	Ev 22
2	National Audit Office	Ev 26

List of Reports from the Committee of Public Accounts 2006–07

First Report	Tsunami: Provision of support for humanitarian assistance	HC 25 (Cm 7018)
Second Report	Improving literacy and numeracy in schools (Northern Ireland)	HC 108 (Cm 7035)
Third Report	Collections Management in the National Museums and Galleries of Northern Ireland	HC 109 (Cm 7035)
Fourth Report	Gas distribution networks: Ofgem's role in their sale, restructuring and future regulation	HC 110 (Cm 7019)
Fifth Report	Postcomm and the quality of mail services	HC 111 (Cm 7018)
Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people	HC 112 (Cm 7019)
Seventh Report	Department for Work and Pensions: Using leaflets to communicate with the public about services and entitlements	HC 133 (Cm 7020)
Eighth Report	Tackling Child Obesity—First Steps	HC 157 (Cm 7020)
Ninth Report	The Paddington Health Campus Scheme	HC 244 (Cm 7076)
Tenth Report	Fines Collection	HC 245 (Cm 7020)
Eleventh Report	Supporting Small Business	HC 262 (Cm 7076)
Twelfth Report	Excess Votes 2005–06	HC 346
Thirteenth Report	Smarter Food Procurement in the Public Sector	HC 357 (Cm 7077)
Fourteenth Report	Ministry of Defence: Delivering digital tactical communications through the Bowman CIP Programme	HC 358 (Cm 7077)
Fifteenth Report	The termination of the PFI contract for the National Physical Laboratory	HC 359 (Cm 7077)
Sixteenth Report	The Provision of Out-of-Hours Care in England	HC 360 (Cm 7077)
Seventeenth Report	Financial Management of the NHS	HC 361 (Cm 7077)
Eighteenth Report	DFID: Working with Non-Governmental and other Civil Society Organisations to promote development	HC 64 (Cm 7077)
Nineteenth Report	A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134 (Cm 7077)
Twentieth Report	Department of Health: The National Programme for IT in the NHS	HC 390
Twenty-first Report	Progress in Combat Identification	HC 486
Twenty-second Report	Tax credits	HC 487
Twenty-third Report	The office accommodation of the Department for Culture, Media and Sport and its sponsored bodies	HC 488
Twenty-fourth Report	Ofwat: Meeting the demand for water	HC 286
Twenty-fifth Report	Update on PFI debt refinancing and the PFI equity market	HC 158
Twenty-sixth Report	Department for Work and Pensions: Progress in tackling pensioner poverty—encouraging take-up of entitlements	HC 169
Twenty-seventh Report	Delivering successful IT-enabled business change	HC 113
Twenty-eighth Report	ASPIRE—the re-competition of outsourced IT services	HC 179
Twenty-ninth Report	Department of Health: Improving the use of temporary nursing staff in NHS acute and foundation trusts	HC 142
Thirtieth Report	The Modernisation of the West Coast Main Line	HC 189
Thirty-first Report	Central government's use of consultants	HC 309
Thirty-second Report	The right of access to open countryside	HC 91
Thirty-third Report	Assessing the value for money of OGCbuying.solutions	HC 275
Thirty-fourth Report	Recruitment and Retention in the Armed Forces	HC 43
Thirty-fifth Report	BBC outsourcing: the contract between the BBC and Siemens Business Service	HC 118

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 Wednesday 29 November 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Annette Brooke
Mr Ian Davidson
Mr Philip Dunne
Mr Sadiq Khan

Mr Austin Mitchell
Dr John Pugh
Mr Don Touhig
Mr Alan Williams

Witnesses: **Sir John Bourn KCB**, Comptroller and Auditor General was in attendance and gave oral evidence.

Witness: **Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, gave evidence

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

BBC OUTSOURCING: THE CONTRACT BETWEEN THE BBC AND SIEMENS BUSINESS SERVICES FOR THE PROVISION OF TECHNOLOGY SERVICES

Witnesses: **Mr Jeremy Peat**, National Governor and Chair of Audit Committee, **Mr Mark Thompson**, Director-General, **Ms Zarin Patel**, Group Finance Director, **Mr Ashley Highfield**, Director, Future Media & Technology, BBC and **Mr Keith Hawkswell**, Director, National Audit Office, gave evidence.

Q1 Chairman: Good afternoon. Today we are considering the Comptroller and Auditor General's Report *BBC Outsourcing: The contract between the BBC and Siemens Business Services for the provision of technology services*. Would you like to introduce your colleagues for the sake of the Committee?

Mr Peat: I am Jeremy Peat, Chairman of the Audit Committee of the BBC, a member of the Board of Governors and a trustee designate. You know Mark Thompson, the Director-General, Zarin Patel, who is the Group Finance Director of the BBC, and Ashley Highfield, who is the Director of Future Media and Technology at the BBC.

Q2 Chairman: So Mr Thompson, Michael Grade has jumped ship with the licence fee negotiations in full flood. How will this affect your approach to the settlement?

Mr Thompson: As I said yesterday, the BBC first laid out publicly its own view, our view, about our funding needs over a year ago and over the last year we have on many occasions had many opportunities, including indeed many examples of parliamentary scrutiny, for our view about our future funding to be discussed and debated. There has been a widespread debate, both parliamentary and public, about that. We have, of course, shared with Government figures, data, and there have been several independent consultants; most recently the National Audit Office has been in looking at some aspects of the questions of efficiency and productivity inside the BBC. What is happening now is the final big stage in the process where the ball is very firmly in the Government's court and the Government will

absolutely and quite properly have to decide on behalf of the public their view about our future funding.

Q3 Chairman: We are talking this afternoon about an important contract that the BBC has got with Siemens. Is there a risk with Mr Grade going to a competitor with insider knowledge of the BBC?

Mr Peat: The Board of Governors is writing to record the agreement that it has reached with Michael Grade, that during this particularly sensitive period he will protect the confidentiality of any BBC information to which he has been privy whilst chairman and he will not discuss it with the BBC's competitors.

Q4 Chairman: Are you worried that he continued to negotiate the licence fee settlement when in discussion with a potential competitor?

Mr Peat: I am not aware of exactly when he started his negotiations with ITV, but I certainly have no doubts whatsoever regarding Michael Grade's integrity and the wholehearted way in which he was involved with licence fee discussions.

Q5 Chairman: You are aware, are you, that ITV is on record as saying that the licence fee bid is too high?

Mr Peat: I am aware that ITV have put that on record.

Q6 Chairman: Mr Thompson, you are aware of the rules in the Civil Service; after all the BBC is a public corporation, it is funded effectively by the public through the licence fee, a poll tax on every member of the public. If a senior official or senior soldier

leaves the Ministry of Defence, they have to spend at least six months not working with a potential competitor. What do you think about the fact that your former chairman is now, as of early January, working for your main competitor without any gap at all?

Mr Thompson: May I just preface my remarks by making it clear that I am an employee of the BBC and was hired by the Board of Governors to do my present job. It is rather above and beyond my pay grade to—

Q7 Chairman: What is your pay?

Mr Thompson: It is a matter of public record.

Q8 Chairman: Tell us. Just remind us.

Mr Thompson: I think it is £620,000 a year.

Q9 Chairman: So it is above your pay scale to talk to this Committee about such matters.

Mr Thompson: If you would like, let me offer a couple of reflections. Firstly, we should differentiate between this and the question of a senior government official leaving a government department and going into a job where they might be on the other side of a contractual or negotiating boundary; as it were having been a buyer of a service, joining a company which is a seller of a service. The BBC is a public corporation, ITV is a public service broadcaster, regulated with considerable public service obligations and although clearly there are commercial and competitive issues between the BBC and ITV, we are not talking about exactly the same situation as someone who perhaps has been buying something on behalf of the public going to a company which is selling the same or a similar service. I think the issues about conflict of interests are not as great. As Jeremy has said, the Board of Governors has been in contact with the ITV board to get assurances about the matters of commercial confidentiality that might arise and conflict of interest between the BBC and ITV. I have to say I recently, a few years ago, left the BBC to go to become Chief Executive of Channel 4, then returned a couple of years later from Channel 4 to the BBC and, again, these appropriate controls were put in place. I have to say rather disappointingly in one's experience the numbers of crown jewels and vital top secrets that you bring with you turn out in reality to be rather fewer than you might have hoped or imagined at the point of departure.

Q10 Chairman: Paragraph 35 shows that savings which were apparently guaranteed to the governors were not achieved “When the contract was signed in October 2004, the estimated savings were £27.5 million . . . By April 2006 estimated savings for 2005–06 were £21.8million”. Why were the governors told that savings were guaranteed when clearly they were not?

Mr Peat: The use of the word “guaranteed” relating to the savings in the documentation put to the governors was inappropriate. The guarantee related to the cost stream associated with particular elements of work; it did not relate to the savings.

This is something that was distinctly unfortunate in the documentation that the governors received and we have certainly gone back on all similar cases since this was brought to our attention to make sure that this was a one-off error. Fortunately, the figures used in the NPV calculation, which provided the basis for both the agreement that the project should proceed and the choice of Siemens, were correct and they were not the slightly inexact figure that was included in the narrative. There was an error in the figure, there was an inappropriate use of the word “guaranteed” and that is something that—

Q11 Chairman: You were sold a pup in other words.

Mr Peat: We were not sold a pup in the sense that this—

Q12 Chairman: All right. Will you guarantee to us that the forecast savings of £275 million over ten years of the contract will be delivered?

Mr Peat: I shall ask Zarin Patel to go in to that in detail, but I shall say that the Board of Governors or of Trustees will be receiving a full and updated report.

Q13 Chairman: What was the shortfall in the first year?

Mr Peat: Zarin, would you like to provide that information?

Q14 Chairman: Perhaps you can answer; I am asking you.

Mr Peat: The shortfall was something in the order of £15 million as compared with that figure that was in the Governors' documentation.

Q15 Chairman: So is there any likelihood of these forecast savings actually being achieved?

Mr Peat: Over the course of the project, yes.

Mr Thompson: May I draw your attention to paragraph 37, just below 35, where one point the National Audit Office makes is around the fact that the savings and benefits of this contract over the life of the deal may have been understated in the original case? If you look at the box marked seven on page 15, an example is given which is to do with the use of desktop computers in the BBC where one benefit of this new contract was the fact that if fewer members of staff used desktop computers, a saving would be made in the contract.

Q16 Chairman: Mr Thompson or Mr Peat, would you like to look at figure three please, which you can find on page 12? Technology transformation was a key goal of the outsourcing, as I am sure you will agree, but over half the key projects are either late or over budget. Why has performance been so poor?

Mr Peat: I would ask Mr Highfield to respond on the detail, but in fact this figure relates to a small percentage of the total projects that are involved in the contract with Siemens. Ashley, would you like to develop that point?

Mr Highfield: Two of the SATT projects, the service and technology transformation projects, of which eight have been delivered, have been both late and

BBC

over budget some 25%. However, there are some 28 still underway and in total these projects account for only £4.5 million per annum, some 2.5% of the overall contract. To put that in context, of the larger number of projects, the 68 in-flight projects, at the time of the NAO Report, 33 had been delivered, 75% of those on time, and we actually anticipate that all of the in-flight projects will be complete by the end of this calendar year. Then there is a third category of projects which totals 144.

Q17 Chairman: Okay, thank you for that. If, Mr Peat, you are so committed to the project with Siemens, why are you spending around £50 million for technology services outside the contract?

Mr Peat: Some particular services are not appropriate for Siemens or are undertaken for very different reasons and so the services that are included in the contract with Siemens are those that are appropriate for that particular supplier. The BBC has a range of IT contracts with a whole host of suppliers who specialise in different areas. Constant attention is being given by Mr Highfield and his colleagues to whether more items can sensibly be brought within the terms of the agreement with Siemens, but it cannot apply to all IT activities of the BBC.

Mr Thompson: You asked a question which I was not sure we answered clearly enough. Can we guarantee that we would meet the £275 million saving over the life of the contract? We believe, when you take all of the savings that come from this contract into account, that we are on track to deliver approximately £400 million of savings, in other words to exceed the target by about £125 million over the course of the contract. In other words, we believe that this contract was an exceptionally good deal for the licence payer.

Q18 Chairman: Do you remember the White City property development which we discussed in the past? We found the Governors were not told about £60 million of extra costs when the deal was approved. Do you remember that? Here we find that savings were over-promised by BBC management. Mr Peat, do you think the Governors have an adequate grip on the BBC?

Mr Peat: The two cases are somewhat different. The £60 million at the White City that you referred to were actually known of but not included appropriately in the full project costs in the way the NAO suggested in the Report we discussed last year. They should have been and as a result of that NAO suggestion full project costs are now what they say and do incorporate all other costs. We have taken that very helpful advice and that is now part of it.

Q19 Chairman: Does this perhaps explain why Mr Grade has jumped ship? Perhaps he thinks he wants to go into a leaner, fitter organisation.

Mr Peat: I would suggest to you that the BBC Governors and the Trustees have a very firm grip, but since around the middle of last year we have been supported by an excellent governance unit which is staffed with very capable people, which provides us

the resource as Governors and in future as Trustees to scrutinise very carefully and effectively the information that is provided to us by the executive.

Q20 Chairman: Why are you against having a proper external auditor? ITV, to which your old boss has gone, has an external auditor, why can you not have one?

Mr Peat: We do; KPMG audit us.

Q21 Chairman: I mean an auditor in this House, us? We are the public. We are paying for you. Now you are going to get a new chairman, are you going to encourage him to give way to public demand for Parliament to have a proper audit of you?

Mr Peat: We are very happy to discuss with NAO, as I will with Sir John Bourn tomorrow morning, the full programme of studies which should be undertaken.

Q22 Chairman: Unlike any other proper external auditor appointed by Parliament, Sir John Bourn cannot decide what he investigates. It has to be done with your agreement. Why should we tolerate this continuing situation?

Mr Peat: As you are aware from our previous discussions on this subject Mr Leigh, my view very firmly is that the prime objective of the Board of Governors and of the Board of Trustees is to make sure that there is not even a perception of a risk to the independence of the BBC and the editorial independence of the BBC.

Chairman: We are not talking about editorial independence, as you well know.

Q23 Austin Mitchell: Here is BBC Technology, which has made a big contribution in technological terms, was helpful to the BBC and was a national player in the technological game. Why suddenly have you decided to get rid of it? Was it that you anticipated massive savings or what?

Mr Thompson: Firstly, from my point of view, we did believe that we could get very significant savings.

Q24 Austin Mitchell: So it was money basically.

Mr Thompson: We believed we could get very significant savings, which we could then spend on content; we could deliver to the public. What is interesting about the savings is that I said we believed we could deliver £400 million over the lifetime of the contract, in other words average annual savings of £40 million and that is actually greater than the higher number in the original case. This was not a question of over estimating savings: we believe the outturn on savings will be higher than the original case.

Q25 Austin Mitchell: Yes, but to make those savings you have made yourself dependent on another supplier and you have abandoned your ability to be a player in that field.

Mr Thompson: We have maintained a very significant research and development capability. Much of the contract with Siemens is involved in the kind of technology which is very generic across

companies, for example the provision of desktop PCs, specialist broadcasting and media technology in which the BBC has a significant position and can keep a significant position. In the part of BBC Technology to which you are referring, which is about groundbreaking work in media, there is still a very significant BBC effort and—

Q26 Austin Mitchell: Can it function without BBC Technology? Have you not sawn its legs off by getting rid of BBC Technology?

Mr Highfield: No; our research base remains and indeed we still have on our books some of the globally brightest technologists. The benefit of actually outsourcing to Siemens has meant that we have a global player of huge scale and huge investment in R&D that we can call on and work strategically with.

Q27 Austin Mitchell: Yes, but you are dependent on that global player for ten years; you have tied yourself in for ten years and a lot happens in ten years. This is a fast-moving world, is it not, particularly this one? Firms rise and fall, reputations disappear. Look at ICT, look at IBM and their falling reputations. How do you know, having tied yourself into Siemens for ten years, that they are going to make the grade?

Mr Thompson: The scale of Siemens's operation worldwide, their need to compete effectively, the guarantees we have for performance in the contract, all mean that we believe that we can get a number of different benefits. One, we can get the benefits of a very large global player which has to improve its performance continuously. Secondly, the unit cost of these services to the BBC comes down very substantially and we can, on average across the lifetime of the contract, take up to £40 million out of these services and put them into services for the public.

Q28 Austin Mitchell: Yes, but in return for that you have given privileged access to Siemens and they are selling you what amount to commodities in a market where the price of those commodities, the laptops and whatever else they are providing as commodities, is falling steadily all the time. So some of your savings are going to be falling prices that would have occurred anyway. Would it not be better, for those commodities where prices are falling and it has become highly competitive—the Chinese have made a big impact on production and on the market—to continue to have open bidding, to buy in the market rather than buy a privileged supplier?

Mr Thompson: If we just step back, what happened is that the BBC has looked at one aspect of its cost base, it has benchmarked its internal costs and asked a number of different external parties to bid over these services. We believe the best value-for-money option was to go with Siemens.

Q29 Austin Mitchell: But for commodities too? As I said, this is a falling market. Shrewd buying on your part could have reduced the prices more than the privileged access by Siemens.

Mr Thompson: What I should say is that we believe that the run rate, the rate costs of Siemens, is very competitive and of course we have the added benefit of £150 million from the actual sale of BBC Technology which was substantially more than had been estimated and that is also money we can put towards the public service objectives of the BBC.

Mr Highfield: Siemens themselves are a scale of buyer much larger than we are, so they are actually able to get lower unit costs than we are.

Q30 Austin Mitchell: That is true but you were a player representing the national interest and the community interest and the BBC.

Mr Thompson: In areas where the BBC can add distinctive specialist help in television, in radio technology, in media and internet technology, we are still investing, we are keeping key talent ourselves and we have lots of relationships and internal talent and access to external talent. In areas which are partly scale businesses, where Siemens deal with millions of desktops, we thought the value-for-money arguments for this kind of arrangement were powerful. I have to say that I believe the PAC would be criticising us roundly if we had not looked at these value for money questions and gone down this road.

Q31 Austin Mitchell: The Chairman asked about the Governors and the information given to them which was that this was going to make a profit or cut costs by £35 million saving. The actual saving was £21.8 million

Mr Peat: In the first year.

Q32 Austin Mitchell: The governors were conned, were they not?

Mr Peat: There were two failings in the information given to the Governors.

Q33 Austin Mitchell: So you were conned.

Mr Peat: There was the wrong use of the word “guaranteed” associated with the savings and the figure of £35 million, which was in the narrative, was incorrect, whereas the figure that was in the NPV (Net Present Valuation) calculation, which was the base of the decision, was correct. It is most unfortunate that the error—

Q34 Austin Mitchell: This is like the Iraq war, is it not? There were failings in the information on the Iraq war. We went to war. The Governors were given the wrong figures and were therefore conned.

Mr Peat: The decision that would have been taken would have been the same with the right figures included. The decision both to go ahead with this project and to go ahead with Siemens would not have been affected by the change in figures.

Mr Thompson: This is a very important point. Although, of course, it is regrettable that any error was made, the decision was made on the basis of the

BBC

NPV, net present value calculations which were correct. The outturn, the actual outturn in terms of savings, will be higher than the higher of the two figures. It will deliver better value than the £35.2 million per annum that was put in the original case.

Q35 Austin Mitchell: That does cast doubt on the £275 million savings you are forecasting for the ten-year period.

Mr Thompson: The Chairman asked whether we could guarantee that. To be honest, I would be rather more reticent about the word “guarantee” than we were in the original case. However, I am saying we estimate that we will deliver not £275 million but £400 million.

Q36 Austin Mitchell: It is an estimate, just as £35 million was an estimate.

Mr Thompson: Everything we know about the contract, the run rate and our experience of the contract so far says we are on course to greatly exceed the £275 million savings.

Q37 Austin Mitchell: Let me ask about the ongoing projects. Presumably BBC staff were employed on these 68 in-flight projects. What happened to them? Were they taken over by Siemens, were they made redundant?

Mr Highfield: The staff were taken on by Siemens.

Q38 Austin Mitchell: What were the redundancy costs of this whole operation?

Mr Highfield: I do not think there were any redundancy costs.

Ms Patel: There were none because the staff transferred to Siemens and are now employed by them.

Q39 Austin Mitchell: There were no redundancy costs for them but were there redundancy costs and how much were they?

Ms Patel: No, not for the BBC as a result of this deal.

Q40 Austin Mitchell: Why did you not have an arrangement with Siemens to share profit over a certain percentage level? It seems extraordinarily naïve because they must be making profits on the operation. Why did you not come to a deal in which you shared profits over a certain level?

Ms Patel: We have a number of incentive mechanisms in the contract which, taken together, give us assurance that the prices at the start of the contract are competitive and that they stay competitive. The first major pricing mechanism is benchmarking. Over two thirds of the spend is benchmarked starting from year three and this spend is on telephony, IT, where there is a strong competitive market and where there is strong comparable information against which we benchmark. So benchmarking is a core provision to make sure that prices stay competitive for the ten-year life of the contract. However, a third of the spend in the contract is not benchmarked and that is because it is for highly bespoke broadcast systems

where there is no real marketplace in which to benchmark. On that bit of spend we apply a different set of pressures, three sets of pressures. Siemens are not exclusive providers for that bit of spend.

Q41 Austin Mitchell: Is the BBC commercially astute enough to get a fair deal from these profit-mongers?

Ms Patel: I believe it is because we market test and we market test very aggressively. In addition to market testing, we have two other provisions in the contract. The first is cost transparency. When Siemens give us a project proposal we can interrogate the costs in detail and we can also interrogate their margins in detail and indeed we do so.

Q42 Austin Mitchell: There is going to be a big upheaval to privatise the IT arrangements in BBC Scotland for a saving of £500,000. It is peanuts, is it not? Why bother?

Mr Highfield: For a start, the savings are actually going to come in at about £600,000 per annum. It is about a 19% saving in the ongoing operating costs, so it is a saving well worth making.

Q43 Austin Mitchell: It is a predicted saving of course.

Mr Highfield: However, it is more than that. It is actually about a transformation of the way we work. The partnership with Siemens for Pacific Quay in Scotland is about a whole new digital way of broadcasting. It is much more significant than just a cost saving.

Q44 Austin Mitchell: I was going to ask about whether you had a similar arrangement with the new Manchester centre. Why are you using this Manchester centre to blackmail the Government into a bigger licence fee? It seems very unreasonable.

Mr Thompson: I do not believe that we are or we have. You will perhaps know that I personally am one of the main architects of this plan. It is a very important and positive thing for the BBC to do and it will have benefits, not just for the BBC and its relationship with licence payers, but more broadly as an anchor tenant of a new media cluster in Manchester. It could help the rest of the creative industries, not just in Greater Manchester but across the North West and the North. At the same time, I believe it has been our responsibility to make it clear that the programme of work set out for the BBC in the Government’s White Paper on the future of the BBC, effectively also captured in the new charter and agreement, is very, very ambitious and although I would be the first to say—and the contract with Siemens is an example of this—that we should be looking very hard at our cost base and how we can use our resources better as far as we can to pay for the future ourselves out of the existing licence fee, we do not believe we can deliver everything without a licence fee that grows in real terms. In the end this is about facing that reality; it is not about trying to threaten anyone. I passionately believe that Salford is the right thing for the BBC to do.

Austin Mitchell: I shall just say that you should have considered Grimsby for one of these centres, but I am all in favour of a transfer to the North.

Chairman: Listening to Mr Mitchell reminds me that I should have welcomed the chairmen of the scrutiny panels of North East Lincolnshire unitary authority, who are listening to our proceedings and also a delegation from the Nigerian PAC.

Q45 Mr Touhig: The contract with Siemens was supposed to deliver an average guaranteed saving of £35.2 million; inappropriate use of the word “guarantee” I think you said.

Mr Peat: Yes.

Q46 Mr Touhig: It clearly has not done so. On page 14, paragraph 35, the Governors were certainly told it would guarantee a saving. Then we also see in that paragraph that the contract that was then signed after the Governors agreed to this deal with Siemens did not provide for a specific guarantee. Rather a negligent bunch your Governors, are they not?

Mr Peat: May I just have first answer on this and then Zarin Patel can come back? This Report, as the other reports we have seen from the NAO, has been very helpful in a number of ways. Subsequent to the facts emerging with regard to the cost data that was provided and the information that was provided, Zarin Patel has put in place a much more rigorous scrutiny process.

Q47 Mr Touhig: I am sure you have put in mechanisms now to prevent a recurrence of this but the point I am making is that your Governors were negligent. Who signed the contract on behalf of the BBC?

Mr Peat: That would have been the then Chairman.

Mr Thompson: The lately departed Chairman.

Q48 Mr Touhig: So he signed a contract which did not guarantee savings, although the Governors had been told that it would guarantee them.

Mr Thompson: Just to emphasise a point, what was guaranteed was the rate; the rate for the services provided by Siemens was absolutely guaranteed and therefore gave us real security.

Q49 Mr Touhig: The report says, paragraph 35, talking about the contract “. . . it did not provide a guarantee that a specific level of savings would be achieved”. That is pretty plain, is it not?

Mr Thompson: We are absolutely clear that what was guaranteed was the rate that the BBC was paying not the total amount. As I have said, we believe we are on track to deliver annual savings of not £35 million but of £40 million a year.

Q50 Mr Touhig: You and I are both Papists; we have to look to the future, I am sure we have our beliefs that things will come right. The point I am making is that why we are where we are and at the moment is because your Governors were negligent in the discharge of their duties. They were told there would

be a guaranteed saving; your Chairman, lately departed, signed a contract that did not guarantee savings. What did the Governors do about that?

Mr Peat: We have put in place a far improved scrutiny method for projects both within the executive and for the Governors.

Q51 Mr Touhig: You have put it in place now, but what did your Governors do about it at the time? Did somebody suddenly rush into a Governors’ meeting and say “Oh, boys, we really got this one wrong; there is no saving to be had”?

Mr Peat: Essentially, the information fully emerged with the help of the NAO and a full investigation was carried out.

Q52 Mr Touhig: Who was responsible for forecasting this saving?

Ms Patel: May I just go back to this issue of guarantees? The reason inexact language was used in that paper was that the prices we were negotiating with Siemens were indeed guaranteed; they were guaranteed unit prices. As long as the BBC controlled the volumes it purchased, those savings were secure. We recognise that the use of the word “guaranteed” applied to the absolute level of savings was inexact.

Q53 Mr Touhig: So you misled the Governors?

Ms Patel: Not deliberately.

Q54 Mr Touhig: Not deliberately, but you did mislead them.

Ms Patel: Not deliberately.

Q55 Mr Touhig: Not deliberately, but you misled them. Okay; we accept that. Could BBC Technology, which was your subsidiary, not have delivered such savings?

Ms Patel: In the last charter we had very significant savings from our commercial operations and back in 2000–01, we brought together all technology provision across the BBC, which was highly fragmented through the divisions, into one place, incorporated BBC Technology, gave it a five-year contract with the BBC and set it a cash savings target and a profit target from exploiting the intellectual property in there through third party revenues. As part of that deal, we had put in a mid-term review to see whether the savings were being delivered and whether, at that stage, we could do better by going to market. In 2003, when our new Chief Technology Officer was appointed, he reviewed the market capability across the world, particularly in broadcasting engineering and technology services, to make sure there was a market that was mature and capable of being outsourced to. He found indeed that it was. We also commissioned extensive benchmarking and a review of the prospects of the business from Rothschild’s. The view from the benchmarking and from Rothschild’s was that we could realise a significant sum from the sale of BBC Technology because there was a high premium at the time on good technology companies, but also that we would do better with savings with a global player

BBC

who could buy at scale but who could also commercially exploit our RPI at scale. Therefore in November 2003 we took the decision not only to sell the company but to outsource on the basis of a ten-year contract and entered a competitive process to do so.

Q56 Mr Touhig: You are a public broadcaster. Thank you for that lecture in management speak. Frankly, if you communicate like that to the British public, it will be totally confused. My simple question was: could not BBC Technology have delivered the savings? Can we have a straight yes or no?

Ms Patel: Our benchmarking and external review showed that we could do much better by going to a global player—

Q57 Mr Touhig: So you could not. If you could not, say you could not.

Ms Patel: We delivered significant savings, but we could do better outside.

Q58 Mr Touhig: A simple question, give me a simple answer.

Ms Patel: Sorry about that.

Q59 Mr Touhig: Clearly the substantial savings that were expected were not achieved and the poor old British licence fee payer will cough up again I am sure.

Mr Peat: Not so.

Mr Thompson: Can we be clear? On the basis of the actual contract so far and of our financial plans, we will exceed the savings.

Q60 Mr Touhig: Well, we shall see. Is the service you are getting from Siemens an improvement on what you had from BBC Technology?

Mr Thompson: Yes.

Q61 Mr Touhig: How do you know that?

Mr Highfield: We actually have probably too many but currently we have 376 different key performance indicators of which we monitor 29 with service penalties against them. Would you like the exact figures for performance?

Q62 Mr Touhig: You have read the Report. In paragraph 19 the Report tells us that it is not possible to compare what was delivered by BBC Technology with what is now being delivered by Siemens, so how do you know you have had an improvement?

Mr Highfield: Not right across every single performance indicator, many of them have indeed changed.

Q63 Mr Touhig: So you have gone into a contract with somebody to deliver a service and you cannot measure whether they have improved the service to you or not?

Mr Highfield: We do measure the performance indicators of Siemens and they have improved since the contract was signed.

Q64 Mr Touhig: You are handing them a lot of taxpayers' money and your answers make me really wonder whether we should be giving you anything at all. Perhaps you should work for your living like the rest of us.

Mr Thompson: On that paragraph 19, the last sentence "... the percentage of performance targets met has been high and BBC Management considers that overall service delivery has improved under Siemens", the experience of the management of the BBC but also users across the BBC is that overall service from Siemens has improved from the days of BBC Technology.

Q65 Mr Touhig: There are 376 performance targets. Who was barmy enough to come up with 376 performance targets?

Mr Highfield: The way it works is that we identify a range of performance targets and then from those we choose—

Q66 Mr Touhig: I take it that it is you because you are answering.

Mr Highfield: Not all 376 of them. From that we have identified the key service targets.

Q67 Mr Touhig: Name me ten that you have actually achieved.

Mr Highfield: Of the 29, the top five—

Q68 Mr Touhig: You have 376; just give me 10.

Mr Highfield: Okay. Availability of internet: the target is 99.49% and we have achieved that. Availability of analogue television distribution: the target is 99.99% and we have achieved 100%. Availability of radio: achieved. Availability of digital television, satellite and terrestrial: achieved. Resolution of 90% of broadcast critical instances. Those are the top five.

Q69 Mr Touhig: Okay, let me save your breath; you have convinced me you do know that you have some achievement somewhere. That was what I was just testing. There has been much talk from your side about how the savings are going to be reinvested in improving delivery and programmes and so on to the British public. Where can you point to any significant improvement in what you have delivered as a result of these savings? Show me where you have saved X and you have delivered Y.

Mr Thompson: We are in a programme of progressively reducing the number of repeats on BBC1, of trying to increase the investment in children's programmes for our children's channels, of delivering richer and better services on the internet. What we have been trying to do is, across the BBC, to reduce the proportion of the licence fee we spend on overheads and costs and increase the amount we spend investing in content to deliver better services to the public. This is one part of this.

Mr Touhig: Might I suggest a new strategy? Reduce the licence fee.

Q70 Mr Bacon: Ms Patel, in answer to one of Mr Touhig's questions about this use of the word "guarantee", you referred to "that paper". Was this a paper that was put to the Governors in September 2004 on the basis of which they approved the deal?

Ms Patel: In July 2004, when we first of all selected Siemens as the preferred bidder and in September when we finalised the contract; yes, it is the paper that accompanied the investment approval and the business case.

Q71 Mr Bacon: Which went to the board?

Ms Patel: Which went to the Executive Board and then to the Board of Governors.

Q72 Mr Bacon: And that was the board that contained the £35 million figure was it?

Ms Patel: That is right. In the narrative of that report, the figure of £35 million was not updated.

Q73 Mr Bacon: Before you say anything further, could you send us a copy of that report please for the Committee?¹

Ms Patel: Of course.

Q74 Mr Bacon: Thank you. I am interested in this question of the £7.7 million of non-recurring costs. I take it that in that paper the £7.7 million of non-recurring costs were referred to as though they were recurring costs.

Ms Patel: Originally, when the figure of £35.2 million was put together and developed, it included the cost of a one-off project that we used to refresh the BBC's desktop. When we did the due diligence process—

Q75 Mr Bacon: And that was mistakenly included as a one-off.

Ms Patel: It was the spend we had with BBC Technology.

Q76 Mr Bacon: Mistakenly included as a recurring cost even though it was not.

Ms Patel: Yes. In due diligence, we said quite rightly that that was a one off saving only which would not be repeated.

Q77 Mr Bacon: When was the due diligence done?

Ms Patel: Between July and September 2004.

Q78 Mr Bacon: So when the paper went to the board, did the paper refer to the fact that this £7.7 million was a non-recurring cost?

Ms Patel: May I just pause on that point? In the September paper by which stage we knew—

Q79 Mr Bacon: Can you just answer my question?

Ms Patel: I am trying to.

Q80 Mr Bacon: The answer is yes or no. Did the £7.7 million get referred to in that paper as a non-recurring cost or as an ongoing repeated annual cost?

Ms Patel: No, that was the error. In the net present value calculations we took out the £7.7 million correctly, but in the narrative of the paper we continue to refer to the higher figure and that was the error that we made in that investment—

Q81 Mr Bacon: So the paper that went in referred to two different things in different places, one of which was correct, one of which was incorrect. Is that right?

Ms Patel: Yes, it did.

Mr Peat: The one which was used as the basis for decision making was the correct figure, the narrative was incorrect.

Mr Thompson: The value for money calculation and the judging by the Governors on the deal were correct. The supporting narrative still contained the old figure and that was a mistake.

Q82 Mr Bacon: May I ask you to turn to paragraph 41? It is a fairly big error to make, a £7 million error on a total of £35 million and this is in relation to something that you were looking at closely because you were negotiating an outsourcing contract in relation to it. If you look at paragraph 41 it says "The BBC does not know the exact value of projects commissioned by Divisions outside the contract but estimates that total technology spend was around £450 million in 2005–06 and £190 million of this was paid to Siemens". Do I take it from that that we are referring to £190 million paid to Siemens outside the contract? Is that right?

Ms Patel: No. What we have been trying to do is centralise all technology spend across the BBC and when the NAO were in doing this study, we were in the middle of identifying all technology spend and bringing it to one point so we could control it more directly; £450 million was our estimate of the total spend on technology. In finalising the work, it is now some £420 million, so it is just slightly under where we thought it was, and the £190 million we paid to Siemens is part of that total. The other components of the £450 million are staff costs on technology.

Q83 Mr Bacon: When you say £190 million is part of that total, I understand that, that is what it says in paragraph 41. The way I read that paragraph, it may have been poorly written by the NAO, I do not know, but it says "The BBC does not know the exact value of projects commissioned by divisions outside the contract".

Ms Patel: At that stage we were trying to centralise every single amount of technology spend and people who are technologists across the BBC and bringing it all to one place. So when the NAO were doing their field work we did not know the exact amount. We knew broadly it was around £450 million.

Q84 Mr Bacon: How many divisions do you have?

Ms Patel: Seventeen.

Q85 Mr Bacon: Seventeen divisions and they each keep a track of their expenditure do they?

¹ Report, provided but not printed (commercial in confidence).

BBC

Ms Patel: They do.

Q86 Mr Bacon: Do they each have a financial controller?

Ms Patel: And a finance director as well.

Q87 Mr Bacon: Right, so they have a finance director and a financial controller but none of these 17 divisions, or not all of them, was able to say what they spent on technology.

Ms Patel: What we were trying to do was to get a comprehensive view of all technology spend across the BBC. Each division keeps a very tight control of its total spend. What we were trying to do was to look at our spend right across the BBC.

Q88 Mr Bacon: Yes, yes, but were they not recording the technology spend in the same way?

Ms Patel: Yes, of course they were.

Q89 Mr Bacon: In that case what was the difficulty in identifying what the total was?

Ms Patel: Because they were recording technology spend either as people cost, because of technologists, as studio kit, as camera costs, as the cost of PCs, as the cost of IT. What we were trying to do was get from our accounting records, in which we record all of that information in great detail, how much the total was. By the time the NAO were in we had a broad estimate of about £450 million, which we shared with them, we finalised that work, it has been audited and we now know that the figure is some £415 million. The key point about centralising technology spend is that we can drive more value from it.

Mr Thompson: On the other half of your question, the £190 million was the contract, that was the cost price paid through the contract with Siemens.

Q90 Mr Bacon: May I ask you about paragraph 48, where it says “. . . the BBC does not know Siemens’s actual rate of return”? That was because you forewent your rights for open book accounting during the first 18 months. Do you know the rate of return now?

Ms Patel: Two reasons why we know the rate of return. In the contract—

Q91 Mr Bacon: Is it possible that you could answer one of my questions yes or know. The question was: do you know the rate of return now? There can only be two answers to that: yes, you do or no, you do not.

Ms Patel: Yes, we do.

Q92 Mr Bacon: You do.

Ms Patel: Yes, because it is stated in the contract.

Q93 Mr Bacon: What is it?

Ms Patel: For commodity spend it is 12.25% and for projects it is 23%.

Q94 Mr Bacon: Thank you very much. I should like to ask you about India. Mr Thompson, you have some outsourcing contracts with India, do you not? You outsource things to India.

Mr Thompson: In recent weeks we have announced the awarding of a contract for financial back-office services to a company called Xansa which will be substantially done in India.

Q95 Mr Bacon: What was the total value of that contract?

Ms Patel: The original contract was £33 million per year, which was with EDS. The new contract is worth £8.5 million per year.

Q96 Mr Bacon: So you went from £33 million a year to £8.5 million a year. You are saying you saved £25 million per year.

Ms Patel: Indeed we have. The reason that our contract with EDS was some £33 million a year was that on the inception of that contract they completely transformed our business systems. We had 29 different systems and they gave us one. So the cost of that transformation was spread through the life of that contract.

Q97 Mr Bacon: But you are not seriously suggesting that the other bidders, when you were inviting tenders, were bidding £25 million more than the winner, are you? You said that this company in India that won the contract is going to cost you £8.5 million, what was the value of the other bids in the tenders for this work?

Ms Patel: Xansa was the most competitive, which is why we selected them.

Q98 Mr Bacon: Yes, but what was the value of the other bids?

Ms Patel: The range went from £8.5 million for Xansa up to about £15 or £16 million for one of the other bidders. That was the range.

Mr Thompson: There were historic reasons to do with the previous contract for why the price has come down so much. I have to say that what has happened here is that a second generation outsourcing of back office has driven further substantial savings. Again, we can take this money and put it into services and content.

Q99 Mr Bacon: Is it possible you could send us a note about the Xansa deal and about who the other bidders were and what the value was?

Mr Thompson: Yes; certainly.²

Q100 Mr Bacon: That would be great. May I ask you about the light bulb at Wood Lane? It was the second “I” of the word television, was it not, where you had trouble changing the bulb? Was that part of the deal with Siemens or did that happen after Siemens had taken over?

Mr Thompson: No, the deal with Siemens is around certain kinds of technology spend. I do not believe that any light bulbs are part of that.

² Information provided but not printed (commercial in confidence).

Q101 Mr Bacon: This was reported in the press in May 2006, when the hydraulic platform had to be erected outside television centre in Wood Lane and it said that each time it cost £1,100 to do it. Are you saying that was nothing to do with Siemens?

Mr Thompson: Absolutely nothing to do with Siemens.

Q102 Mr Bacon: It was in-house cost?

Mr Thompson: I have to say again that if you would like chapter and verse on the reality behind the headlines, I can provide that.³

Q103 Mr Bacon: A note would be very interesting and perhaps some photographs. Is it possible to get some photographs showing the bulb not illuminated and another one once it had been fixed and a time line of how long it took and how much the total cost was? Can you include all of those?

Mr Thompson: If the Committee would like to go on a cherry-picker, you can inspect the light bulb collectively. We shall organise as much investigation of it as you would like. I want to say that it had absolutely nothing to do with either the Siemens or Xansa outsourcing.

Q104 Annette Brooke: Paragraphs 51 and 54 of the National Audit Office Report talk about how senior management was not actually involved from the start of the partnership, either at division level or indeed, in paragraph 54, board level. Why was that?

Mr Highfield: I think the relationship with Siemens is pretty strong. There is a high level of engagement with the management of Siemens. Both the NAO and KPMG highlighted that we could get much better engagement throughout the business as the relationship matures and we have put in place a number of reasonably new initiatives to increase the engagement around the business with Siemens's staff.

Q105 Annette Brooke: I am not sure you have answered my question as to why there was not more involvement from the beginning.

Mr Thompson: Initially, we thought the strength of the contract and the operational working relationships were going to be enough to ensure a really strong partnership and we have indeed got off to a very good start. However, over the period of the contract it has become clear that regular high-level contact between senior managers, me, Ashley and other senior parts of the BBC with senior members of Siemens would be a good idea in making sure that it was a strong partnership. What we have done over the course of the contract is put some of those high-level contacts, regular contacts in place. I want to emphasise that the relationship with Siemens is becoming a very strong one and that is one of the reasons that the contract is going well and why it will deliver the savings.

Q106 Annette Brooke: Given that you have developed further the involvement of senior management, have you actually applied these same lessons to other outsourcing immediately?

Mr Thompson: Yes.

Ms Patel: Yes, we have had four major outsourcings since this deal: the sale of BBC Broadcast, the procurement of the finances services, the outsourcing of our HR services and a number of other contracts where we have applied a proper steering group of stakeholders from right across the BBC, fully engaged from the outset in the strategy.

Q107 Annette Brooke: So there were better procedures that could have been in initially.

Ms Patel: Yes.

Q108 Annette Brooke: May I just look at how staff reacted to the deal in a different way? In paragraph 22, it reports that only one of the five key objectives of the deal was to deliver excellent customer service to the BBC staff, but then we read that only 24 out of 500 staff responded to your first user satisfaction survey. We are used to low rates of return from surveys, but given that part of this contract was particularly directed towards improving facilities for staff, why on earth was that survey so ineffective?

Mr Highfield: It was disappointing and it was just a case of poor communication internally about the fact that we wished people to complete the survey and probably poor communication about how important it was. Since then we have done a number of repeat surveys, we have taken that initial survey response rate of about 5% and it is now north of 15% and going up. That actually benchmarks with other internal services at the BBC and in fact other industry IT surveys. We should like to get it higher still and we are working on that.

Mr Thompson: I have to say that my experience of similar surveys at the BBC is that a relatively low rate of return can be an indication of a reasonably high level of satisfaction. My own experience in the BBC is that when people are dissatisfied their inclination to express their dissatisfaction in the surveys means they are much more likely to fill it out.

Q109 Annette Brooke: A dangerous assumption to make.

Mr Thompson: We are doing everything we can to make sure we get the response rate as high as possible because we want to know exactly how the thing is going, how this objective is being satisfied or not satisfied by the contract.

Mr Peat: And given the still relatively low response rate to the survey, the BBC has instituted means by which there is more direct contact between representatives of the staff in different areas of the BBC and those managing this project and Siemens. There is direct inter-relationship between those three groups, there is feedback from staff to Siemens and those running the project and we are not relying wholly upon a survey which is still getting a response rate which may be in line with other BBC surveys but which are still not sufficient to give the assurance that we would seek.

³ Ev 22–23

BBC

Mr Highfield: In terms of user satisfaction, that is, what the survey was asking. Although from a low base still around 15%, the actual response rate is 6.72 as a score out of ten against a target of five, so the actual responses we are getting are well in excess of the target and pretty good.

Q110 Annette Brooke: I am just tempted to make the comment that as a communication industry, you are actually having to work at communicating with your staff. Paragraph 18 reports that one of the objectives of the deal was that it was to be flexible enough to accommodate changes to service requirements. Why did you tie yourself into a ten-year deal, particularly given that technology is such a fast-moving sector? Do you have any flexibility within this ten-year deal to incorporate any important technological changes?

Ms Patel: The primary reason for the ten-year deal is that it gives us the best value. It gives security to the supplier, which is a really important perspective, and we see that in pricing.

Q111 Annette Brooke: But that is a short-term value. Are you sure you have longer-term value is the question?

Ms Patel: I believe we have in all of our other ten-year contracts. The important point about the ten-year contract is that we have provisions through the contract, one, to incentivise Siemens to deliver more savings than we have targeted and we do the incentive by them sharing in the net savings delivered to the BBC. There are also the benchmarking provisions where we benchmark their prices against other services and benchmark their services as well. It is important to give Siemens security through the life of the contract so that they can give us a sensible price but at the same time to protect ourselves through the contract, so that flexibility is built in, change control is built in, change control is built in at a known price and cost.

Mr Thompson: And it is much more flexible than what we had before. Under the arrangement with BBC Technology, for example, if there was a reduction in staff, the reduction of technology costs did not go with it. Now we have literally the cost of services going down as our requirement goes down. So the answer to your question is yes, it is flexible and also it enables us over the life of the contract to try wherever we can to go for deeper savings.

Q112 Mr Davidson: I wonder whether I could question the NAO first of all. Some of the points that have been raised relate to the decision itself to outsource and whether or not this was value for money and so on. May I ask whether or not you looked at all at the value for money of the sale of BBC Technology or whether or not you looked at all at the whole procurement process that has gone through?

Sir John Bourn: We did not look at the sale of BBC Technology but Mr Hawkswell can add to that.

Mr Hawkswell: The terms of reference we agreed with the BBC were that we would look at how well placed the BBC is to deliver value from this particular contract. So the starting point was the contract in place.

Q113 Mr Davidson: I see. But in terms of some of the questions that have been asked earlier on, would it not have been more helpful for this Committee had you also looked at the value for money of the sale of BBC Technology and the procurement process? Would that not have given us a better picture?

Sir John Bourn: Mr Davidson, that goes to the heart of the point that the Chairman made. Under the present arrangements I agree the scope of the studies with the Audit Committee and that is the arrangement we currently have. If we had the right to determine the scope of the study as we started to do the work, we could have indeed done that or other aspects. The point you make goes to the heart of the question of the nature of our relationship with the BBC.

Q114 Mr Davidson: To be quite clear. You would have wanted to look in this context at the value for money of the whole sale and at the procurement process but you did not get an agreement from the BBC to do so. Is that the position?

Sir John Bourn: I do not want to criticise the BBC because we have that arrangement, but if we had been on our own and we had been following this through, that would have been something that we would have noticed and we could have picked up.

Q115 Mr Davidson: I think you can see where I am leading. Can you clarify for me this process? It seems to me, given some of the other questions that came up, that it would have made sense to look at the procurement process, whether or not there was a public sector comparator, whether or not it was value for money. Why did that not just come out of the process that must have gone on?

Mr Peat: We agree a programme of studies with the NAO each year and we are quite happy to consider any suggestion from the NAO as to what particular studies would make sense. If the Comptroller and Auditor General wishes to suggest a study of the value for money from this particular sale, I should be very happy to consider that with him and to put that to the Board of Governors as a suggestion.

Mr Thompson: I have to say that had the NAO suggested it, it would have been considered extremely important.

Mr Peat: I was not here at the time but I am not aware that there was any suggestion of widening the terms of reference in the way that is suggested, so I do not believe it was the BBC turning down a suggestion.

Q116 Mr Davidson: In terms of how this works in the future, I just want to be clear, if we are in a situation where something is identified as a subject for study, the initiative lies with you, as I understand it, and if

it then emerges from the dialogue that it would be useful for the NAO to inform Members, if it was widened, you would not resist that.

Mr Peat: I am not aware of any circumstances where—

Q117 Mr Davidson: I did not ask you that. I said you would not resist it, would you?

Mr Peat: No, I would not. I am not aware of any circumstances where we have disagreed with the NAO on particular studies.

Q118 Mr Davidson: That again, is not what I am asking you.

Mr Peat: I know.

Q119 Mr Davidson: I am asking you whether or not in the circumstances that the NAO indicated they would produce a better report by widening the terms of reference, would you, or would you not, resist that? If you are saying to me no, you would not, then that is fine and I am happy.

Mr Peat: I would not resist that.

Q120 Mr Davidson: But you have retired, have you?

Mr Peat: No, I am the Chair of the Audit Committee. I have to put proposals to the full Board of Governors. In my role as Chair of the Audit Committee, I would not propose, but it is the full board that makes the decision.

Q121 Mr Davidson: Okay, but we could reasonably anticipate then that the full board, in these circumstances, would not resist.

Mr Thompson: Can I on the management side say that of course it is a matter for the Trust and the NAO. From management point of view, I would rather welcome the NAO. I find this process useful and I would rather welcome the NAO looking at one of these procurements. For what it is worth, the DCMS got a team of consultants, PKF, to look at some aspects of the BBC as part of the licence fee process. They did look in some level of detail at the sale of BBC Technology and I believe, and we can make sure you see it, they thought the process was robust and competitive.

Q122 Mr Davidson: I was not suggesting that they should go off on a fishing expedition, but just when they are looking at something. I am glad that you welcome this process. As we explain to other people, this is usually for your own good.

Mr Thompson: May I say that so far I have found each of the interactions with the NAO has been very, very useful. You will have seen that the recommendations made by the NAO will be adopted here as in previous studies because they are very useful and helpful. I regard this and indeed this entire process as useful to us in trying to manage the BBC better and get better value for money for the licence payer.

Q123 Mr Davidson: May I turn to a second topic and that is Siemens Business Services who, as you may be aware, are doing somewhat badly and have in the

past been up for sale. Are you aware of the nature of their relationship with National Savings and Investment and the way in which that contract has gone?

Mr Highfield: Yes, we are aware of it and we are aware of the NAO report on it as well.

Q124 Mr Davidson: Are you aware that they have renegotiated the terms of their contract on a couple of occasions because they were not making the return that they were anticipating? Can they do the same with you?

Mr Highfield: Could they renegotiate the contract?

Q125 Mr Davidson: Yes. Could they come back and say it is not working out, we want more money or we want to contribute less money or whatever?

Ms Patel: The contractual provisions are incredibly strong and they would have to break the contract and pay penalties to the BBC to walk away from it. We also thought long and hard about making sure that the contract was profitable for Siemens because we believe that that is how they would invest in the BBC, how it would promote a partnership approach which again was one of the key lessons from the National Savings report.

Q126 Mr Davidson: I do understand these things. Time is limited, but when the National Savings thought they were getting a genuine partnership and thought that they had given Siemens a degree of profitability and they wanted to build an ongoing relationship, it did not quite work out like that and they are now coming back again wanting outsourcing and savings and so on because otherwise, they are saying, they may make huge losses on this.

Ms Patel: One of the reasons we put the partnership executive board in place, which has met once already, in August of this year, was to assess and talk at a high level with Siemens about their profitability on this contract, about whether it was working for them so that we keep a constant eye on that in the early stages of the contract.

Q127 Mr Davidson: I understand that. If they come back and say to you that they are not making the profit they needed, indeed they are making substantial losses and given the nature of the group, Siemens Business Services, that section is making losses, what happens then? Do they have you over a barrel essentially?

Ms Patel: I do not believe they have. To break the contract they suffer significant financial penalties; we have the backstop of a parent company guarantee as well, so it would be difficult for them. If the partnership is going to work properly, we jointly own the problem and make sure that through open book accounting, through the partnership executive, we are keeping a very close eye on that.

Q128 Mr Davidson: I understand that, but if it is a partnership and one of the partners is in the process of going bust, then that is obviously affecting the situation of the partnership, is it not?

BBC

Ms Patel: Of course it will. All I am saying is that we are keeping a close eye on it, we are not there yet and the contract is strong in that regard.

Q129 Mr Davidson: You are not there yet. That is not entirely reassuring I must confess.

Mr Peat: To provide further reassurance, as a result of one recommendation from the NAO, the BBC has now put in place contingency arrangements in the event of early contract termination, so there is a fallback. That was another very valuable recommendation which has been followed up.

Q130 Mr Davidson: That is helpful. May I come to the question of the projects? We have figures here for a number of projects being over budget and a number of them being over time. As I understand it, Siemens bear any additional costs for projects that run over budget, but if they run over time, even though there is a saving foregone by the BBC, as I understand it there is no penalty to Siemens. Is that correct?

Mr Highfield: There are penalty clauses where there are service credits against Siemens if they do not meet the targets. There is no financial impact on the BBC for any of the projects that you mentioned that are overrunning, you are right there as well.

Q131 Mr Davidson: I thought that savings were being foregone by the BBC as a result of projects not running to time.

Mr Highfield: Yes.

Ms Patel: The projects that are delayed are, again, a risk for Siemens because the savings from those projects have already been incorporated into the guaranteed unit prices that Siemens give us in the contract. So we have the benefit.

Q132 Mr Davidson: So you are not losing out of that in that regard.

Ms Patel: No.

Q133 Mr Davidson: May I just ask about this ten-year deal which one of my colleagues asked about earlier on? At what stage do you start the renegotiation? Presumably it is not going to be in the last couple of weeks. How long does this contract genuinely run before they start renegotiating, seeking better terms and so on?

Ms Patel: May I use the experience of the current outsourcing of the financing and accounting contract? That was a ten-year contract. We started thinking about the strategy three years before the end of the contract and looked very hard at whether we should procure early, whether we should extend, whether we should renew, whether we should go to competition. We did that jointly with that service partner at the time so that we had plenty of time to make sure we could stimulate interest in the marketplace, which, with a ten-year incumbent and the high cost of transition, it is important to do. We generally start three to four years in but constantly review that through the life of the contract.

Q134 Mr Davidson: Are you happy that, having given up the assets you had in BBC Technology, there will genuinely be a competitive market at the time you come for renegotiation.

Mr Highfield: Yes.

Q135 Mr Davidson: You will not be over a barrel.

Ms Patel: I do not believe so.

Q136 Mr Williams: I was quite interested by the openmindedness in relation to the National Audit Office when you indicated that you found their role useful to you. Is it useful in that they bring forward constructive proposals which you are able to consider? That really needs yes or no, does it not?

Mr Thompson: Yes, that is one of the ways in which they are useful.

Q137 Mr Williams: So some of the proposals they have brought to you are constructive. Has it helped you to improve your procedures in any way?

Mr Highfield: Yes; yes, it has.

Q138 Mr Williams: It is all good so far.

Mr Highfield: Yes. We have adopted the NAO's recommendations for what they call FABRIC, a framework for reviewing performance, for example. They have helped us with this issue of our customer satisfaction surveys. They have helped us in the process of deciding—

Q139 Mr Williams: So we now have a fans-of-the-National-Audit-Office group in the BBC, do we?

Mr Highfield: Yes.

Q140 Mr Williams: That is a remarkable about turn, is it not, and a very, very welcome one?

Mr Thompson: I did make the same point last year. I want to say that my appreciation and enthusiasm for the National Audit Office is utterly undiminished one year on.

Q141 Mr Williams: Everything as long as they do not become your external auditor. That is a fact, is it not? You reiterated it to the Chairman earlier. Is it or is it not a fact that you do not want them as your external auditor?

Mr Peat: I believe the National Audit Act prevents the NAO from actually auditing a range of public corporations including the BBC.

Q142 Mr Williams: That can be changed.

Mr Peat: That is Parliament's decision not mine.

Q143 Mr Williams: As a result of the Sharman Committee, which was set up by this Government to carry out an investigation on the limitations which existed on where the NAO could go, certain quangos, government companies, all outside the NAO's responsibility by Act of Parliament, are now all within the NAO's responsibility. Only two groups emerged from the Sharman report excluded from access by the NAO: yourselves and the Queen's Civil List. Does it seem to you extraordinary that you

were so coy about having someone in when you find them so helpful? Each of you has been enthusiastic about them.

Mr Thompson: May I say on behalf of myself and BBC management that it is our job currently and will continue to be our job to comply with any and all forms of accountability and scrutiny which Parliament decides it wants to desire for the BBC. You must understand that it is not for us. We are absolutely first and foremost scrutinised by the Governors, the Trust, now frequently with value for money and other independent exercises commissioned directly by the Trust. We also have an external auditor.

Q144 Mr Williams: We know about that. We are talking about access by the NAO. Are you aware that in the last session of Parliament a unique early day motion was tabled in the House of Commons? Virtually every member of this Committee and every member of the Public Accounts Commission signed an early day motion saying that you should be audited by the National Audit Office. Would we be free to go to the Prime Minister next week and say you, BBC, have said you are so delighted with your experience of the NAO that if the Government chose to lift the ban on access to you, you would be enthusiastic supporters of that? Yes or no.

Mr Peat: This is a matter for Parliament.

Q145 Mr Williams: No, no. Your opinion matters here. Are you saying that you would have no great problem with it happening?

Mr Peat: I am going to repeat what I said to Mr Leigh, that we welcome all the input from the NAO, the previous Chairman of the BBC had suggested the NAO should come in and look at efficiency savings under Mr Thompson, but we are reserving the right at the end to determine the full list of studies undertaken in order to ensure that—

Q146 Mr Williams: In other words, you do not want them in there.

Mr Peat: No.

Q147 Mr Williams: Of course it is. What else are you saying to us?

Mr Peat: We have welcomed them in on a whole host of areas; we have never disagreed with the NAO, as far as I am aware, on studies which should be undertaken.

Q148 Mr Williams: And your grounds for objection in the past have always been fear of interference in editorial independence. That has been your argument, has it not?

Mr Peat: Yes, that there must be no perception of any risk to that independence.

Q149 Mr Williams: That is right. As we pointed out to you on the last occasion you were here, we have over many years looked at the accounts of BBC World and the last time the witness was here from BBC World she admitted quite happily that never in all her experience, or as far as she knew in her

predecessor's experience, had this Committee ever tried to interfere in editorial independence. Does that not reassure you?

Mr Peat: It is very reassuring and, as I said last year, I would never expect the NAO to wish to interfere. The independence of the BBC is so important and we are charged under the charter with ensuring value for money and ensuring independence, that under those circumstances we reserve the right to make the final decisions on which studies are undertaken.

Q150 Mr Williams: I find this slightly puzzling. Can a select committee call you before it?

Mr Peat: We give evidence to a wide variety of select committees.

Q151 Mr Williams: Yes, you go before select committees, do you not?

Mr Peat: Yes.

Q152 Mr Williams: There is a special select committee which covers communications.

Mr Peat: Yes.

Q153 Mr Williams: That can deal with editorial matters, it can deal with policy. Is that correct? Of course it is correct. That is what they are about.

Mr Thompson: It is very, very rare. I cannot think of an example where the Culture, Media and Sport Select Committee have sought to go into contentious or difficult editorial issues. Their focus is on policy.

Q154 Mr Williams: But they are free to if they wish to. You go before them, yet here you have Parliament's supreme auditing body, Parliament's absolutely independent watchdog, which does not deal with policy issues, it is precluded from dealing with policy issues, and you are saying that you do not mind going before a select committee where a lot of nasty MPs' interested in television programmes and what comments have been made on television can have a go at you, but you are reluctant to have the same independence for the NAO and this Committee to look at your accounting practices and procedures independently and not what you choose. You do not have a leg to stand on, do you?

Mr Peat: We gain great value from the work the NAO does. We are very happy to discuss at any time with Sir John any suggestion for studies which he believes should be undertaken. We have never disagreed with the NAO.

Q155 Mr Williams: Very often it is in the act of auditing—as Sir John will tell you—in the process of auditing that the National Audit Office very often comes across the issues which give rise to it launching value for money inquiries at its own initiative. It has the initiative to do that. It does not have that initiative with you. Why should it not?

Mr Thompson: It is fair to say that if, in the course of a particular NAO inquiry, an issue came up which they wanted to explore and they discussed it with the trustees, I find it impossible to imagine that, unless

BBC

there was some particular anxiety, the trustees would do anything other than allow the NAO to pursue their inquiries.

Q156 Mr Williams: If it is all so chummy and all so friendly and all so unprovocative, why not recognise that you are an anomaly? You are a disgraceful anomaly because you alone have access to compulsory taxation from most of the population of the United Kingdom and you alone are not subject to full scrutiny by the National Audit Office and the Committee of Public Accounts. How do you justify that?

Mr Peat: The Board of Governors and the Board of Trustees act under the charter and agreement set by Parliament for us and we are charged under the new charter with ensuring value for money as well as independence and quality and that is our role and that is what we attempt to fulfil. We use NAO services widely to assist us in that process and we welcome the collaborative arrangement which adds hugely to our understanding of how value for money can be enhanced.

Q157 Mr Williams: So why do you obfuscate and refuse to answer the direct question: what is your objection to NAO coming and having the same access it has to any other recipient of taxpayers' money?

Mr Peat: I thought I had answered it already, which is this question of—

Q158 Mr Williams: You have danced around it at this meeting as you danced around it at previous meetings. We have gone around in a circle now. What has been shown up is that you have no reasoned argument to present to this Committee why the National Audit Office should not have full auditing rights, but while you can get away with them not having that, you are not going to invite them voluntarily.

Mr Peat: My final comment will be that if Sir John wished to suggest at any time that there were areas where there would be benefits from NAO which have not taken place in the past, I, as Chair of the Audit Committee, would be the first to recommend to the Board of Governors and to the Board of Trustees that that should be very seriously considered.

Q159 Mr Williams: So if he said to you that he would like to do a full audit, you would say okay, come and do it. Sir John, ask him here and now. He just said he is willing to listen to any reasonable proposal. Sir John, make a proposal to him. Let us have a lovely marriage of interests here.

Mr Peat: We are meeting at 8.30 am tomorrow morning.

Q160 Mr Williams: Sir John, given the opportunity, as you are now, would you ask to have the right to audit the BBC?

Sir John Bourn: Of course . . .

Q161 Mr Williams: I understand your obfuscation.
Sir John Bourn: Yes.

Q162 Mr Williams: That answers it.

Mr Thompson: To be absolutely clear, there are reasons, you have heard them, why the Governors have historically taken this view. From the point of view of the management, we are, and of course we should be, completely open to whatever forms of scrutiny Parliament decides. In fact I believe this summer there was an Opposition Day motion on this subject about the NAO which was in this case defeated and Parliament decided not to extend the powers of the NAO. Should that position change at any point in future, then of course we should comply with that.

Q163 Chairman: It is slightly disingenuous though to say that you just do what Parliament wants when you know perfectly well the reason why the Government resisted this full access up to now was because the BBC has ducked and weaved and relentlessly and ruthlessly resisted any attempts to get them to see reason. You know that there has been continuous protest from the BBC. You know that, so it is very disingenuous to say that.

Mr Thompson: To some extent, because I am in some ways a poacher, a third party to this discussion, if I may say rather more prosaically, successive governments have on balance taken the view—

Q164 Chairman: On the advice of the BBC. We shall leave that. Just to end this conversation, say Sir John said to you that there is a lot of public interest in the huge salaries paid to some presenters, hundreds of thousands of pounds, and he wanted to do a study on this, would you be happy?

Mr Peat: If he wanted to look at the value for money of payments to presenters and whether this was good use of licence fee payers' money, that would be a subject I should be very happy to put to the Board.

Q165 Mr Dunne: Does the IT contract with Siemens cover the antennae network, the broadcast aerial network?

Mr Thompson: No. It includes some aspects of the broadcast chain, the so called coding and multiplex technologies used in the broadcast chain, but the core transmitter chain, literally the masts and the antennae, is not covered.

Q166 Mr Dunne: So in order to fulfil the various service levels which cover geographic territorial coverage of the UK set out in page 13, table five and appendix three—in fact I think Mr Highfield referred to one earlier—how can you attempt to improve these service levels without that falling within the scope of the contract?

Mr Thompson: Several different providers are involved in the delivery of the complete broadcast chain, the play-out of services, the coding, multiplexing, the preparation of the signal for broadcast, the physical broadcast on different platforms. These are subject to different contracts, all of which have different but very, very high levels

of performance parameters set in the contract. It is an area of some complexity, though in fact our complete track record on delivery of our service at a very, very high level of reliability to the public is very good. This is one part of the chain.

Q167 Mr Dunne: You and I have corresponded several times over the very unfortunate situation that I and a lot of my constituents find ourselves in and we appear to be in the 0.002% of the population who do not receive either radio analogue, terrestrial radio, or television. I find the suggestion that you have achieved 99.7% coverage of the country astonishing because I cannot believe that my area, which is on the Welsh borders, is the only part of the country which suffers from this problem. Can you enlighten us on what the contract with Siemens is aiming to do to try to enhance coverage?

Mr Thompson: The 100%, as it were, for which these performance targets are set is for the reachable households with the barest spreads of transmitters we have. Our delivery of services across the UK population, across the physical United Kingdom, is a very, very high percentage; it varies by different service. It is true that in some parts of the country, in particular, for rather obvious reasons, hilly parts of the country, we do not and have never achieved a full 100% of reach. There is a trade-off between reach and cost. To give you one idea, in digital terrestrial television we are reaching three quarters of the UK population with 75 or 80 transmitters. To get to our target of 99.5% of the UK population will require more than an additional 1,000 transmitters. The numbers of transmitters and repeater stations you need to reach increasingly remote households goes up arithmetically or exponentially very, very steeply and therefore the marginal costs go up greatly. Wherever—and your constituents are a very good example—we have problems reaching licence payers it is something we take fantastically seriously. People quite reasonably, with a licence fee which they have to pay, are determined they should get a full range of services. In every single case we look fantastically hard at what we can do and how quickly we can do it, but, particularly on the digital technology, there are several different issues which make it difficult.

Q168 Mr Dunne: I am pleased to hear that you look very hard at them and I hope you will continue to do so. Is it not disingenuous to claim that you have a target of 100% when actually the coverage you can achieve is much less than that?

Mr Highfield: The target in here is the element Siemens are contracted for. Siemens are not contracted for the entire supply chain. This performance indicator here, this target, is for the availability of the Siemens component of the supply chain. It does not cover elements which Siemens themselves have no control over, for example the mast infrastructure by Arqiva.

Q169 Mr Dunne: Sir John, was your team aware that these targets relate purely to the Siemens element and that the description here of the availability, for example, of analogue terrestrial television distribution does not actually mean what it says?

Sir John Bourn: Yes, indeed.

Mr Thompson: I think you can see that if Siemens are only responsible for some elements it would be unreasonable and in the end impossible to make them responsible for parts of the broadcast chain for which they have no equipment and no responsibility.

Q170 Mr Dunne: Is it published somewhere else then? Could I ask what the actual targets are for coverage across the UK, taking into account all the contracts the BBC has?

Mr Thompson: We can send you and shall be very happy to send you a complete breakdown of our targets for coverage for each of the public services of the BBC and also the performance targets for meeting those targets and our supplier success against those targets. Three things: how much of the UK can we reach with a given service; second, what is the performance standard demanded of our contractor and what is the delivery against that performance? We can certainly send that to you.⁴

Q171 Mr Dunne: That would be very helpful. My perception is that the population assume that when they pay the licence fee they will get a service and there is intense frustration in those areas where that does not apply.

Mr Peat: As a Governor going round speaking to licence fee payers I entirely agree with you. It is something which the governors do not accept.

Q172 Mr Dunne: I can give you another argument Mr Peat to back you up on the governing body when you become a trustee. I represent a constituency in Shropshire and I live two miles outside my constituency border and I cannot receive BBC Radio Shropshire; a cause of some irritation to me but not to my constituents I suspect. Moving on. In relation to the recommendations on page 8 for other outsourcing contracts we heard of four other services outsourced since the contract with Siemens was signed. One of the businesses of the corporation, BBC Resources, has a number of activities: outside broadcasts, post-production activities, studios, costumes and wigs. With the advent of high definition TV and technological advance would it not make sense for a number of those activities—I imagine it would perhaps apply to costumes and wigs but the others—where there is a significant investment in technology likely to be around the corner already upon you, should you not be outsourcing those activities and learning from the lessons and mistakes of the past?

Mr Thompson: In the summer of 2004 we conducted a comprehensive review of all of the BBC's commercial activities including our subsidiary, BBC Resources. That review concluded that the BBC did not have any strategic need to continue to own those

⁴ Ev 23–26

BBC

activities. We subsequently agreed with the BBC's trade unions that we would not proceed with any disposal of BBC Resources before 1 January 2007. We are expecting, at the beginning of next year, to look hard at these activities in the organisation and to look at what is the best way of providing the services to the BBC to make its programmes, what is the best value for money solution for the delivery of these services and also what is the best long-term prospect for the very able and talented people working in these units so that they can build and expand and hopefully continue to work in these areas.

Q173 Mr Dunne: Mr Mitchell touched on the geographic relocation to Manchester and made a last minute bid for Grimsby. To what extent were other alternatives examined before you decided to move BBC Resources to Manchester? For example, did you consider outsourcing some of the activities you are moving to Manchester and thereby save some money?

Mr Thompson: We looked at other cities and other possible centres early on in that process.

Q174 Mr Dunne: And outsourcing activities that you were moving?

Mr Thompson: To be clear, the emerging plan is still subject to commercial negotiation at the moment, but the plan for Salford is that both the office buildings and also the television resources and the building would all be provided by external providers. In a sense almost all the physical sides of the project in Manchester would be contracted into the BBC rather than built by and operated by the BBC itself. The idea of using a partnership with third parties to deliver this new centre is absolutely central to the plan.

Q175 Mr Dunne: Turning to page 14 of the Report, why was it that it was not until October 2005, a year after the contract had been signed, that the bills from Siemens were made sufficiently accurate for you to be able to check whether they were charging the right amount of money? Is there no financial control culture within the BBC?

Ms Patel: The contract actually started on 1 April 2005 and with the first bill in May 2005 both Siemens and we very rapidly recognised that there was not a sufficient amount of detail. BBC Technology had had very high levels of systems rather than very detailed systems for tracking bills and between May 2005 and October 2005 we worked intensively to put detailed billing procedures in place.

Q176 Mr Dunne: Will the new trustees have non-compete clauses in their contracts?

Mr Peat: That is essentially a matter for the Secretary of State; our letters of employment and contracts come from the Secretary of State.

Q177 Mr Khan: This contract is worth £1.5 billion over a ten year period. Are there many bigger individual outsourcing contracts which the BBC has entered into?

Ms Patel: The transmission contracts, which run for 30 years, would be much bigger; in the billions. That would be the single most important one.

Q178 Mr Khan: So this is the second biggest. Over a ten year period this is probably bigger per annum, is it?

Ms Patel: Yes.

Q179 Mr Khan: We understand that the NAO, for reasons which have been alluded to, did look into issues of procurement. How many other companies were involved at the final stage of choosing somebody?

Ms Patel: At the short list stage four and at the final preferred bidder stage two: Accenture and Siemens were the two.

Q180 Mr Khan: At that stage was the track record of Siemens considered, for example their involvement in the "passport fiasco" in inverted commas in 1999, their involvement in relation to the huge backlog of cases in industrial tribunals in the mid 1990s?

Ms Patel: Our standard policy is to take extensive client references and particularly to pick up on issues on other contracts and to make sure that we take strong references and that is incorporated into the evaluation process.

Q181 Mr Khan: In an earlier answer you were cut short when somebody asked you whether you would be confident that in 10 years' time there would be other companies to compete with Siemens to ensure that there was a proper competitive process in ten years' time. What makes you so confident?

Ms Patel: I believe what we have to do through the life of the contract is to make sure that we promote the ability to have market players. The important point is that in the contract we have transfer provisions, we have exit provisions really clearly built in, we own the IPR, we have step in rights. We make sure that the transfer to another service provider is doable in the contract, but also, as we work through the contract, we make sure that there is a competitive edge.

Mr Thompson: We have just successfully done this very thing we believe between an outgoing EDS contract and the Indian company.

Q182 Mr Khan: The primary purpose of this Select Committee is to look for value for money and efficiency. This is a contract over 10 years where you have already saved £21 million in the first year and you say that there will be a per annum saving of about £40 million, which will mean that the savings over ten years of £275 million will be much larger, up to £400 million.

Mr Thompson: Yes.

Q183 Mr Khan: Are you puzzled by the lack of friendliness of this Committee towards you?

Mr Thompson: All I would say is that I absolutely recognise that it is the role of this Committee to offer—

Q184 Mr Khan: Come, come. Do not be so coy. If we read this Report from the NAO and we hear the answers you gave, you offered the £40 million figure and none of us expected that, it is a good news story.

Mr Thompson: This is an exceptionally good deal for the BBC.

Q185 Mr Khan: It is fantastic news. Could that be why you invited the NAO to look into this area?

Mr Peat: At the time it was agreed with the NAO that this should be one of the studies I do not believe that any of us had expectations that that level of saving could be achieved.

Q186 Mr Khan: Come, come. I am a new boy. Two of us were elected recently to this House and I suspect Mr Leigh and myself could not be further apart in terms of politics. However, I would stand fully behind him when it comes to his obsession with value for money and efficiency. I suspect some of the unfriendliness generated by this Committee is that they do not trust you as a public body as much as they would, for example, a permanent secretary from one of our government departments. The relationship there is that Sir John can be proactive, can go in, can go to look at procurement and other things and bring us back a report; some of these are good news stories and a lot are not because Sir John looks for bad stories rather than good ones frankly and it would be a waste of our time to spend three hours going through a good news story. Can you understand why you have had some of those questions about the relationship between the BBC and the NAO?

Mr Peat: I can, but I want to assure you—and you may or may not accept this—that as chair of the Audit Committee, as a member of the Board of Governors and Trustees who are charged under the new charter with looking for value for money for the BBC, I am just as interested as you are in getting value for money. I want the NAO to look at areas where we can learn lessons and where we can approve. I quite understand why there are criticisms and questions about elements of this project. I want to learn where we can gain; we have gained hugely from this. The questions which are asked are perfectly fair and right; they are ones which, as chair of the Audit Committee, I and the Board have asked. We are in the same game.

Q187 Mr Khan: One of the answers which Mr Thompson gave in response to one of the points put to you by one of my colleagues was that actually all the eggs are not in the NAO basket and you have many forms of independent scrutiny, independent reports on an ad hoc basis and you can pick and choose which people to use to look into different areas. I think you would accept that, would you not?

Mr Thompson: Just to be clear, I cannot pick and choose.

Q188 Mr Khan: I think you were speaking for the corporate body.

Mr Peat: When we agree the full programme of value for money studies we agree with the NAO which are appropriate for them to undertake and which other people should undertake. We agree where their particular expertise is appropriate.

Q189 Mr Khan: Give me the name of somebody else who does the sort of work the NAO has done today?

Mr Peat: Ernst and Young and PWC.

Q190 Mr Khan: Pause there. Ernst and Young. When Ernst and Young have done their report, do you face ten of them and come before them and answer questions about the report they have prepared.

Mr Peat: You are at liberty to choose one of the reports they have done as part of the value for money study and you can ask us questions about any report.

Q191 Mr Khan: You missed my point. The point I am seeking to make is that one could argue—and hopefully members of the public will argue this and the 12 people watching on the Parliament Channel will accept—that the scrutiny of a Report from the NAO which comes to the Committee of Public Accounts would be more robust than the scrutiny of a report produced by some management consultants.

Mr Peat: This is part of the programme of value for money studies agreed with the NAO which happened to be undertaken by PWC and was submitted to Parliament and is available to you in exactly the same way as the NAO's Report is.

Q192 Mr Khan: So you would argue that they are just as robust and the systems post production of a report, *vis-à-vis* lessons to be learned, are as good as this system.

Mr Peat: Yes.

Mr Thompson: Yes. To be clear, this is not to say that there is a quality problem with the NAO. The NAO works extremely well.

Q193 Mr Khan: I am talking more about the PAC than anybody else.

Mr Thompson: What we try to do is learn from each of these studies. It is the quality of the study and the quality of the recommendations if you are BBC management.

Q194 Mr Khan: Do you accept that the BBC could have better used the transition period to test and bed in the arrangements in relation to managing the product more effectively?

Ms Patel: Yes, I believe so.

Q195 Mr Khan: One of the good news stories is the savings you talked about. Can you reassure us that you are also monitoring the quality of the service and the volume purchased when you have measured the savings which have been made?

BBC

Mr Highfield: Yes.

Mr Thompson: Yes, both with performance indicators, the benchmarking costs and also through those staff surveys we talked about earlier.

Q196 Mr Khan: One of the concerns raised by the NAO is how you can validate the performance data given to you by Siemens. This was alluded to earlier on. Are you confident that you have a robust way of measuring the data they give you?

Mr Thompson: We are, going forward. It was a very helpful NAO suggestion which we have now implemented.

Q197 Mr Khan: One of the issues raised was lack of innovation. How will you make sure that in addition to the savings you have talked about, which are obviously fantastic news, you will continue to have the innovation from Siemens that one would expect?

Mr Highfield: Two points about innovation. One is that we have not outsourced innovation. Siemens are a very important innovation partner for us; they have put an awful lot of money globally into R&D and are helping us on some of our most key projects. However, you may also have read that we signed an MOU (Memorandum of Understanding) with Microsoft and have good relationships with Google, IBM and others. We make sure that we are much wider in our innovation partnerships.

Q198 Dr Pugh: The contract is a partnership and you have described it as such several times during the course of your interrogation. The NAO also says that the partnership is in its infancy, in other words we do not know whether it is going to end up in a horrible divorce at some point in time. Do you think it is premature to evaluate this project now?

Mr Thompson: This is a good example perhaps where it might well make sense for trust and for the NAO to suggest that at some point further in the lifetime of the contract they and you return to it to see whether the savings have indeed materialised, the partnership has deepened and so on. I should have thought tracking it over time was a good idea.

Mr Peat: It was not premature in the sense that we have learned a huge amount from this and we have benefited greatly and value for money has been enhanced. Do it now; do it later.

Q199 Dr Pugh: I think I have learnt something too. In the NAO Report it says that you do not actually know Siemens's rate of return. I thought there was something rather odd about having a partnership where you did not know what the other partner was actually getting out of it. I understand, Ms Patel, that in answer to questions you said you are able to interrogate their margins and you mentioned in answer to Mr Bacon a figure of 4% to 5%. Can you explain these mixed messages: one that it is not an open book exercise, yet you do seem to be fairly clear about what Siemens are making?

Ms Patel: At the outset, in the procurement process, we knew that in the early years Siemens would be investing in this contract to realise the benefits. That was the reason we did not exercise our open book

rights in the first year. We fully intend to exercise them at the end of this year, that is March 2007. In the contract we have the margins that Siemens can make on commodity spend and other spend, specified in the contract. That is why we know what margins they will make. What the open-book accounting allows us to do, when they propose projects to us, is to interrogate their costs, interrogate their margins and then look at the whole business and see how much profit they make.

Q200 Dr Pugh: So when the process has finished you know just how much Siemens made out of it.

Ms Patel: Yes.

Q201 Dr Pugh: There are two sorts of projects are there not? There are in-flight projects which have taken over from BBC Technology. Did most of BBC Technology transfer to Siemens when the contract was handed over?

Mr Highfield: Most.

Ms Patel: Most.

Q202 Dr Pugh: 80%, 90%?

Mr Highfield: I do not have an exact figure.

Q203 Dr Pugh: Something like that; something in that region. On the in-flight projects, 68 and 54 are recorded in the NAO Report as having been done to time and budget. Of Siemens's own projects in the NAO Report it says eight have been delivered, five were late, three over budget, 28 are under way, nine delayed and ten over budget; those are the figures I am looking at at the moment. What does that tell us? Does that tell us that in a sense Siemens's project management is worse than that provided by BBC Technology or does it tell us that they are trying to do more difficult things?

Mr Highfield: The overall project management is the same for both those sets of projects. What it tells us actually is that the service and technology transformation projects are amongst some of the more difficult projects and that the projects which have been delayed because there has been no cost to the BBC—

Q204 Dr Pugh: Are larger in resource terms.

Mr Highfield: Yes and the ones which have been delayed have been by agreement with Siemens, because they have no financial impact on the BBC, and in order to ensure that the in-flight projects were delivered. By the end of this calendar year we expect to have completed all of the in-flight projects.

Q205 Dr Pugh: It was the issue of the two types of performance rather than the cost to the BBC which was concerning me. How many of the projects we still have to do are fundamental in moving to Salford Quays?

Mr Highfield: A number of projects which have barely started are fundamental to Salford Quays, not least the entire network and infrastructure planning there.

Q206 Dr Pugh: How many are specific to Salford Quays?

Mr Highfield: I could not give you that exact number.

Mr Thompson: My view would be that very few of them will be entirely specific to Salford Quays because we have many similar operations taking place in London and other centres around the UK where we shall meet similar technologies.

Q207 Dr Pugh: You will appreciate that the North West would be far more pleased if you said a lot of them are specific to Salford Quays because that would show the BBC are really determined to invest there.

Mr Thompson: You have heard me say that I am utterly committed to doing it if it is financially possible.

Q208 Dr Pugh: One thing which concerned me in the NAO Report was the statement from the NAO that the BBC did not actually know exactly how much they were spending on other projects. This was the figure of £450 million. It has come down during the course of this encounter to £420 million; £30 million has been lost somewhere in the process.

Mr Thompson: Historically technology spend and technology projects were quite devolved down the organisation and one of the things that we have believed is that we can drive better value for money not just by outsourcing but also by centralising and prioritising technology spend centrally. We still need to make sure the entire organisation feels very connected, so it is quite a complex task. There has been a process of gathering up. It is not that there has not been tight cost control on this project: it is just that they have been in many, many different categories and defined in different ways.

Q209 Dr Pugh: In other words you do know what you spent.

Ms Patel: Yes.

Mr Thompson: Of course, yes.

Q210 Dr Pugh: But you have in a sense reallocated the sum under another heading and presented a different figure.

Mr Thompson: Indeed. If you get it together you can drive more commonality, more shared services and get better value for money and prioritise.

Q211 Dr Pugh: To smarten up your act you have appointed technology service advisers now, have you?

Mr Highfield: Yes, that is right; eight of them in place.

Q212 Dr Pugh: At roughly what cost?

Mr Highfield: In fact they are going to be self funding because the savings they have already identified of £250,000 cover their costs. The idea is that they are driving out substantially more savings than their salaries.

Q213 Dr Pugh: Could I ask you finally to comment on two points? What safeguards do you have for intellectual property which develops over the period of 10 years? There is going to be an appreciable amount of that. The second thing is evaluation. Technology is something we all want, but it is not something which is always as useful as we think it is going to be. We are not all pressing the red button and that kind of thing as you broadcasters would wish. What kind of post-hoc evaluation takes place?

Mr Thompson: Nine or 10 million people are; rather more than we thought.

Q214 Dr Pugh: Maybe that was a poor example. What I am asking really is what post-hoc evaluation of the project is going to take place as the projects carry on.

Ms Patel: Before we approve a project we have a very detailed business case which the technology strategy looks at and then the Investment Committee looks at separately. We make sure that efficiency projects have a positive return on investments; so we get back more than we have spent on the technology. We then set a post-investment review for projects, generally between a year or less than a year; it depends on the size of the project and it depends on key milestones. Every project goes through a post-investment review. Large complex projects or projects which are inter-dependent have more regular post-investment reviews. That is taken by the Investment Committee and every six months the Audit Committee of the BBC looks at all the post-investment reviews, PIRs, to make sure that the lessons learned from that are incorporated into best practice.

Q215 Dr Pugh: What lessons have been learned or what projects have not turned out as well as expected?

Ms Patel: Recently, since I took over, we try to spend much more time up ahead planning and getting the business requirements and functional specification of the systems absolutely bedded down before we start the project. That has been one of the key learning points for us.

Mr Thompson: It is also worth saying that when the NAO discovered the particular errors which we have talked about in the document which went through to the Governors, we checked every single other investment case to see whether any similar errors had been made and in fact found that there were none. That is an example. As soon as we find a weakness or a mistake we try to go through every single case—and there are many, many of them—to make sure that a similar mistake has not happened and that the mistake is a one-off and not systemic.

Mr Peat: Under the protocols in the new charter there is now a requirement for management to inform the Board of any change in contract details or finances post approval by the Trust. If there are any changes, they come back to the Trust. That is embedded in the protocols related to the charter and agreement.

BBC

Q216 Mr Bacon: When David Dimbleby applied for the job of Director-General of the BBC it was reported in the press that in fact he had his own company and was self-employed and contracted his services to the BBC and it was reported that other presenters did this as well. In that sense his services were outsourced and bought in, just like catering or cleaning or security. How many presenters now have those types of arrangements where they are in effect self-employed?

Mr Thompson: On a point of information, do you mean he was reported to be a candidate for Director-General or Chairman?

Q217 Mr Bacon: Forgive me, it was Chairman. You never know because if you read the newspaper you cannot be 100% sure that it is correct anyway. From memory it was the director-generalship, but perhaps it was the Chairmanship. The point is that he had his own company. The question is not really about David Dimbleby but how many people who are top presenters, I am not talking about the odd free-lance person doing a junior shift here and there but people who are well known to the public as presenters, how many people in that position are in fact self-employed and bought in by the BBC?

Mr Thompson: I do not have the exact data for you.

Q218 Mr Bacon: But it is quite common.

Mr Thompson: There is a mixture in the population of presenters and many of them, even the most well-known presenters, are employed on free-lance contracts, yes, but the key issue is—

Q219 Mr Bacon: And many of them would have their own company and you would pay the money to the company.

Mr Thompson: I believe that is less common than it used to be.

Ms Patel: Only because the rules have changed.

Mr Thompson: The tax advantages which once accrued to other arrangements are not what they were and to my knowledge the majority are contracted on a freelance basis.

Q220 Mr Bacon: Most of them are like that rather than salaried staff.

Mr Thompson: It depends on the part of the organisation you are talking about. Many of our often rather well-known journalists, for example, are journalists who work as full-time employees of the BBC. In areas like drama virtually all of the actors in our dramas are employed on a free-lance basis, particularly in entertainment and comedy.

Q221 Mr Bacon: Once you have filmed the sixth episode of *Pride and Prejudice* there is not really a need for them after that, is there? I am really talking about people who have an ongoing job, who to the public might appear, in so far as it matters to the public, salaried employees, but who in fact are not

and who are well-known to the public. If you could send us a note with how many there are and who they are it would be quite helpful.⁵

Mr Thompson: Yes. Giving you a sense of the percentages of the population is satisfactory. In terms of individual artists the confidentiality of their terms of employment is a factor to be considered.

Q222 Mr Bacon: It relates back to what the Chairman said earlier about presenters being paid very high salaries. Confidentiality does not really apply if you are talking about someone like Jonathan Ross; it is splashed all over the newspapers that you are paying him £18 million. I do not know whether this is correct or not, you may wish to confirm it, but again it is not really my question.

Mr Thompson: To be honest, for reasons you will understand, we regard contractual arrangements as being confidential between us as employers or contractors and the employee.

Q223 Mr Bacon: The gentlemen and ladies of Fleet Street obviously take a different view. I really wanted to ask you where this impacts upon the boundary between editorial independence on the one hand and value for money on the other. I speak with an interest I should declare. The village where I live in Norfolk was one of those on the short list for the BBC's *Restoration* programme. Had our village won there would have been £1.3 million to do up the old village school which had an historic 14th Century chapel within it, something which would have been welcomed by all the residents of my village, but also widely in Norfolk and elsewhere and I am sure would have made a great programme.

Mr Thompson: Is this a question or a pitch?

Q224 Mr Bacon: They are still looking for the money, by the way, so if you want to return you are most welcome. What interests me here is that £1.3 million would have made a very interesting programme and similarly for many of the other finalists who did not quite get the final money and get made. I have not actually gone into the marketplace and sought one myself, but I should have thought that there are quite a lot of guys out there with long hair and a taste for violently purple suits whom you could employ for a fraction of what you are employing him for—say a mere £620,000 a year—and still have the impact you wanted and have a load left over to spend on other things. That is not an editorial independence question; it is a value-for-money question, is it not?

Mr Thompson: I think that is right; it is a value-for-money question. This is a vast area, a very interesting area both for NAO and PAC and in my view a legitimate area to get into. We have a couple of particular measures of value for money for content that we look at. There is a batch of them. I

⁵ *Note by witness:* Of the presenters engaged by BBC News Division, and who might be considered to be well known, 53% are employed by the BBC, with the remaining 47% engaged on contracts other than employment contracts. Among other presenters who might be considered to be well known, none are treated as employees.

BBC

can give you a couple of examples: cost per hour, what does a programme cost per hour to make; cost per viewer hour takes the cost and divides it by the number of viewers or listeners so you get a sense of how much it cost in terms of each household or each individual reached by the programme. When we consider and we track cost per hour, cost per viewer, extremely closely and look at key contracts, whether for a sports right or individual talent, very much through the perspective in the Investments Committee, if this contract goes ahead what will it mean in terms of the run rate of the cost per hour and cost per viewer hour of a given programme, we include all such costs, the costs of artists, cost of rights, in that so that we have a total sense. What I should say is that popular entertainment programmes, even with sometimes very well-paid stars often deliver very, very good and very cost-effective cost per viewer hours because they are popular. It is quite possible to have a programme which has potentially a rather well-paid star fronting it—the star brings the audience in—but the rest of the programme is rather low cost. You can commission a drama which has not got very many very expensive artists in it, because you are trying some new talent or perhaps we have come to your village and are shooting the programme.

Q225 Mr Bacon: Please do.

Mr Thompson: We shall give it active consideration and I shall write to you about that as well. It may be other aspects of the programme, for example shooting *Pride and Prejudice*, period drama, is very expensive and the cost of the actors as a proportion of the total budget is relatively low.

Q226 Mr Bacon: On that point, thank you also for sending *Bleak House* to MPs. It was great to receive that. With that presumably you can not only share the production costs with other companies round the world but then make a profit out of it by selling it round the world, can you not? Things like *Pride and Prejudice* and *Bleak House*.

Mr Thompson: Indeed. Another way we try to drive value is either by getting co-producers to help us a make a programme or by selling it after we have made it. What I want to assure you is the cost of the talent we employ is absolutely considered inside the scrutiny of value for money both by management and indeed by Governors and in the future by the Trust.

Q227 Austin Mitchell: I just want to make it clear that whatever charges are made by quaint Tory villages with sweet little churches represented by Tory MPs for filming we will undercut in Grimsby. That was not my question. Richard Bacon referred to contract deals where the presenter has his own company and you pay the company for the presenter. I regret that I did not have an accountant when I worked for the BBC but that was also the case with Lord Birt, was it not?

Mr Thompson: It was reported. I would never see any of my predecessors' service contracts, but I can assure you that I am a straightforward employee of the BBC.

Q228 Chairman: This has been quite a lively hearing. How much would you pay us as presenters?

Mr Thompson: We may move this Committee to Saturday evening peak time.

Chairman: That will do nicely. Thank you very much Mr Thompson, Mr Peat and your colleagues.

Supplementary memorandum submitted by the BBC

Question 102 (Mr Richard Bacon): *A note would be very interesting and perhaps some photographs. Is it possible to get some photographs showing the bulb not illuminated and another one once it had been fixed and a time line of how long it took and how much the total cost was? Can you include all of those*

The failure mentioned by Mr Bacon concerned the malfunction of a large neon tube in the form of a letter which represents the BBC logo on the side of Television Centre. These tubes are specially made to ensure the size and font represents the BBC brand.

COST

The cost of the repair was £4,548.52 which included the following:

- £950 for the hire of scaffold for one day which provided the access platform and included the cost of a driver;
- £2,832 for the cost of materials;
- £388.32 in Labour charges (£32.36 per hour for 12 hours); and
- £378.20 10% agreed contractor uplift.

Specialist equipment was required to reach the sign due to the lower ground floor roof not being designed to take the loading of scaffolding, the height of the sign which is over 20 metres and the sloping road on which the access platform needed to be set. This equipment is not available from the plant that resides at the BBC and thus had to be hired in from a specialist supplier.

TIMELINE

We do not have an exact date of the breakdown on our records as they are with our former supplier. However the problem was noted on 15 April 2006. Land Securities Trillium (LST), our incumbent supplier at the time, acted immediately by assessing the situation and procuring the specialist part and access equipment.

LST then made the necessary arrangements to close the area off to complete the works. This included negotiation with the key stakeholders (BBC Resources and BBC News) and the submission of health and safety assessments and method statements to the BBC for verification.

The job was closed down by the end of May although the repair itself took one day on site.

Since the work was completed in May 2006 there have been no further reports of failure.

We regret that no suitable photographs are available.

Question 170 (Mr Philip Dunne): *Could I ask what the actual targets are for coverage across the UK, taking into account all the contracts the BBC has?*

THE COVERAGE OF THE BBC'S TELEVISION AND RADIO TRANSMISSIONS

The coverage of the BBC's transmission and distribution platforms is estimated to be as set out below:

	<i>Population served</i>
<i>Analogue</i>	
Television	98.5%
Radio	
Network FM (Radio 1–4)	99.0%
BBC local radio FM	91.0%
BBC Radio Scotland FM	98.5%
BBC Radio nan Gaidheal FM	93.8%
BBC Radio Wales FM	62%
BBC Radio Cymru FM	94.8%
BBC Radio Ulster FM	97.9%
BBC Radio Five Live MW	98%
BBC Radio 4 LW/MW	95%
<i>Digital</i>	
Digital Terrestrial Television (DTT)	82%
DAB Digital Radio—UK multiplex	85%
Digital Satellite	96–98%

These figures should be read in conjunction with the notes below:

- (1) All figures are quoted as the percentage of the population served by the platform to a degree of accuracy commensurate with the method of calculation. The base population information is not necessarily the same for each platform, as the estimates have been made over an extended period of time.
- (2) All figures are quoted for a defined minimum technical level of reception, which is usually expressed as a specified field-strength at a point at a certain height above the ground which is corrected so as to give reception free from interference for a particular proportion of the time when using an appropriate receiving antenna. These assumptions (for example, the height above the ground, the performance of the receiving system, the percentage of time for which services are protected) are not common between the platforms. However, the assumptions are made for each platform to represent a “good” reception standard. The percentage of the population making use of signals and services at levels below this technical minimum is not included in these estimates.
- (3) In respect of analogue television, the figure quoted is based on computer predictions of coverage from the existing transmitting station network incorporating an assessment of the possible interference from continental transmissions. The figure quoted represents the proportion of the population who can receive “good” reception of the four main analogue terrestrial services: the figure for each of the BBC services considered separately is up to one percent higher.
- (4) In respect of analogue network FM radio, the figure quoted has been calculated by subtracting the population in known deficiency areas (ie those areas not receiving adequate signal strength) from the total population of the country. As the deficiency areas are known with a high degree of reliability, this figure is believed to be accurate.

- (5) In respect of BBC Radio Five Live MW and BBC Radio Four LW/MW, the figures quoted have been based on counts of population within the measured service-areas of the individual transmitters. The figure quoted is for general day-time coverage; the reliable, interference-free coverage of most transmitters after dark is substantially smaller than that during the day.
- (6) The BBC does not possess accurate coverage figures for the medium-wave transmitters carrying its regional and local radio services. In the case of BBC Radio Wales, medium-wave coverage is vital and, when combined with the FM coverage, extends the service-area of this station to something comparable to that enjoyed by the other regional services in their respective regions.
- (7) In respect of BBC local radio, the figure quoted is the sum of the predicted coverage of each FM transmitter carrying a BBC local radio station in England, adjusted so as to eliminate any double-counting of population served by two local radio stations. The same is true for the figures quoted for BBC regional radio. Editorial (and, with regard to regional radio stations, national) boundaries are thus ignored. The figure does not include the (relatively small) contribution of a number of small “filler” transmitters added recently to the English local radio network.
- (8) In respect of digital terrestrial television, the figure quoted is the predicted proportion of the population able to receive both of the BBC’s multiplexes together from a single transmitter. The BBC estimates that around 73% of the population can receive all of the six multiplexes that together comprise the Freeview service.
- (9) In respect of DAB digital radio, the figure quoted is for the coverage of the BBC’s own national DAB multiplex (which carries digital versions of the network radio services, BBC 6 Music etc) and not for the coverage of various BBC local and regional radio stations on DAB. The coverage of these latter multiplexes is set and regulated by Ofcom. Uniquely amongst the coverage figures presented in this note, the figures for DAB are quoted for mobile reception out-of-doors and at 1.5 metres above ground height.
- (10) In respect of digital satellite coverage, the figure quoted is from research work undertaken by the Independent Television Commission and represents the estimated proportion of households in the UK which could receive the Astra 2A satellite signal by erecting a dish on the exterior of the house.
- (11) Ofcom estimate that in Q2/06 there were 2,843,471 subscribers to digital cable services and a further 530,554 subscribers to analogue cable services in the UK. As the BBC has carriage agreements with all cable television providers, all subscribers are able to receive BBC services. Most will also be served by either analogue television or DTT.

TARGET AVAILABILITY IN THE BBC’S TRANSMISSION AND DISTRIBUTION CONTRACTS

As a broadcaster dependent on a number of external parties and companies for the distribution of its many services on many different platforms, the BBC cannot hold any single contractor to account for the BBC’s performance in terms of an end-to-end system availability for an individual viewer or listener. Indeed, as parts of the system from studio to listener are common for each platform—and some are common between some platforms but not all—the transmission of any BBC service across all of the platforms it is carried on touches upon many contracts and involves many parties.

Accordingly, the BBC measures availability separately in each of its transmission and distribution contracts considering individually the elements of the process for which each contractor is responsible. In setting availability targets, there are several fundamental principles:

Accountability

Some faults which occur are not the responsibility or the fault of the service provider, such as those faults which are caused by extreme weather conditions or propagation conditions or a failure on the part of the BBC. All contracts therefore contain a list of circumstances under which the service provider is not held “accountable”: the precise nature of this list differs from contract to contract depending on circumstances.

Planned work

In the case of systems which are not fully redundant or where their design or health and safety dictates, the service provider will need to undertake some planned work and maintenance which may require the shut down of the service. For example, work on antennas mounted on masts and towers often requires a temporary break in service in order that personnel can work in safe radio-frequency levels. Typically, this sort of planned work—which can, to some extent, be scheduled by the BBC—is deemed to be non-accountable.

Time weighting

Faults which affect services at times of peak viewing and listening are of more impact on the audience than at other times. Accordingly, transmission contracts typically have a weighting scheme which up-weights peak time and down-weights out-of-peak. For example, under the analogue transmission contract, a minute at 7.30 pm on a weekday evening is weighted four times greater than a minute at 3.30 am on a weekend morning.

Degradation weighting

Not all faults are as severe as the breakdown of pictures or sound: for example, the failure of Ceefax or NICAM stereo sound transmissions for analogue television; or the failure of the dynamic RDS service on FM radio. Therefore, transmission contracts typically apply a weighting factor corresponding to the perceived annoyance of the fault relative to a complete breakdown. For example, under the analogue transmission agreement, a fault causing an FM service to be radiated in mono (rather than stereo) sound is weighted at one-tenth of a fault causing breakdown.

Averaging

Generally, all transmission contracts consider the average performance of a transmitter or a network, typically averaged on a monthly or six monthly basis. This acknowledges that transmission equipment is typically highly reliable but when it fails, it fails for brief, catastrophic periods. Averaging over a suitable period thus better reflects the generally high availability of the service.

The currency which is used in the BBC's transmission and distribution contracts is, therefore, typically "average, weighted, accountable availability" with the terms upon which each is calculated set out in the contract itself. The level at which the availability targets are set and the methods used for their calculation are done so as part of the process of negotiating each new contract and should reflect both the BBC's expectations for the service and the design of the infrastructure to be put into place. There is inevitably a trade-off to be made at some point between the target contractual availability of a service (or part of a service) and the price to be paid for that service. It is the BBC's experience that at the levels of very high availability, further improvements—in order to gain further tenths or hundredths of contractual availability—are disproportionately expensive.

The figures quoted below are contractual availability under the transmission and distribution contracts and do not consider the contribution of faults which occur earlier in the process, i.e. in the play-out chain.

For analogue services, the BBC's target availability under its contracts with National Grid Wireless is as in the following table. Note that this covers from the receipt by National Grid Wireless of the signal (typically at a BBC studio centre) to transmission by the antenna at a station.

<i>Service</i>	<i>Target average, weighted, accountable availability</i>	<i>Notes</i>
Analogue Television	99.9%	Stations serving more than 100,000 population, calculated per station and averaged over six months.
	99.8%	All other stations, calculated per month.
Analogue Radio	99.9%	Certain priority stations, each serving a large population, calculated per station and averaged over six months.
	99.8%	All other stations, calculated per month.

For digital services, the BBC holds contracts with National Grid Wireless for transmission of the DTT and DAB services; Siemens Business Services for coding and multiplexing of all DTT and digital satellite signals; Siemens and Arqiva for the uplinking of various multiplexes to the Astra satellite constellation; and SES Astra for the satellite capacity on-board the Astra fleet. The target availability for each is as in the table below, expressed for performance from the contractor's receipt of the signal to its hand-over to the next.

<i>Service</i>	<i>Target average, weighted, accountable availability</i>	<i>Notes</i>
DAB Digital Radio	99.9%/99.85%	(National Grid Wireless) Depending on station infrastructure design, calculated per station and averaged over six months.
DTT Coding and Multiplexing	99.99%	(Siemens Business Services) Calculated per emission multiplex, averaged over 12 months.

<i>Service</i>	<i>Target average, weighted, accountable availability</i>	<i>Notes</i>
DTT transmission	99.9%	(National Grid Wireless) Calculated per station and averaged over a month.
DSAT Coding and Multiplexing	99.99%	(Siemens Business Services) Calculated per emission multiplex, averaged over 12 months.
DSAT Uplinking	99.99%	(Siemens Business Services/Arqiva) Calculated per multiplex uplinked, averaged over 12 months
DSAT Satellite Capacity	—	(SES Astra) ¹

Letter from Comptroller and Auditor General to the Chairman of the Committee

You asked for advice on Ian Davidson's letter of 21 December 2006 expressing concern that the Committee may have been misled by a BBC witness, Zarin Patel, at its hearing on 29 November about *BBC Outsourcing: the Contract between the BBC and Siemens Business Services*. After the Committee's hearing on 26th March you requested further clarification on this subject.

At the November hearing Ms Patel was asked by Richard Bacon about the BBC's recent exercise to re-tender for the provision of financial and accounting services for the BBC. The existing provider was MedAS, a subsidiary of EDS, and the successful bidder was Xansa. When asked by Mr Bacon about the value of the bids, Ms Patel stated that: "the range went from £8.5 million for Xansa up to £15 or £16 million for one of the other bidders" (Q99, Ev9). She also stated that: "Xansa was the most competitive, which is why we selected them" (Q97, Ev9). On 21 December Mr Davidson wrote to you including correspondence he had received from the Broadcasting, Entertainment Cinematograph and Theatre Union (BECTU), which stated that in internal BBC presentations on 11 and 12 December, the BBC confirmed that Xansa was not the cheapest bid.

I have looked into the issues Mr Davidson raised and the position is as follows. The BBC required bids on the basis of a five year contract term, but also gave bidders the option of additionally bidding for a term up to 10 years. The four short-listed bids were set on a comparable basis by the BBC to adjust for differences in, for example, the bidders' treatment of redundancy costs and the scope of service offered as well as costs the BBC would incur in letting and managing the contract. These "equalisations" gave a whole life cost to the BBC over a five year term. The service charge of £8.5 million cited by Ms Patel is part of this whole life cost and represents the payments to the successful bidder rather than the total cost of the contract to the BBC.

The BBC set out the average annual value of the "equalised" whole life bids in a note to the Committee requested by Mr Bacon (Q99, (Ev 9). Those values are at Table 1 below. The note shows that for the five year contract term there were two bids with a similar average annual whole life cost to the BBC, with the Xansa bid cheaper by £4,000 over the five year contract term.

Table 1: Average Annual Whole Life Costs of Bids in Cash Terms, Excluding Inflation

<i>Bidder</i>	<i>Average Annual Cost</i>	
	<i>5 Years</i>	<i>10 Years</i>
Xansa	£11.5	£9.8
Bidder 2	£11.5	Could not evaluate bid
Bidder 3	£12.6	£10.5
Bidder 4	£13.1	Did not bid

Source: BBC note to Committee of Public Accounts, February 2007

When the BBC presented the deal to the BBC Governors for Selection of Approved Bidder in October 2006 they set out the value of the bids in present value terms² and included the impact of inflation assumptions in the bids. The result was Table 2 below, a variant of which was presented to BBC Governors. This Table shows that the Xansa bid was not the cheapest, a fact confirmed in the BBC's note to the Committee on the Xansa deal.

¹ This data is commercially confidential.

² The present value expresses future cash flows in terms of their present day value. The BBC discounted future cash flows using its current standard discount rate of 7% (including an adjustment for inflation) which it considers a more appropriate cost of capital for the BBC than the Treasury Discount Rate of 3.5% (which does not include inflation).

Table 2: Average annual whole life costs in present value terms and including inflation

<i>Bidder</i>	<i>Average Annual Cost</i>	
	<i>5 Years</i>	<i>10 Years</i>
Xansa	£10.3	£7.7
Bidder 2	£9.9	Could not evaluate bid
Bidder 3	£11.3	£8.1
Bidder 4	£11.9	Did not bid

Source: BBC note to National Audit Office in March 2007 expanding on figures in BBC submission to Governors

The figures for the five-year bids in Table 2 were the financial basis for the presentation to MedAS employees by the BBC on 11th and 12th December 2006, showing that the Xansa bid was not the cheapest. No figures were presented for the ten-year bids, for which, as Table 2 shows, Xansa was cheaper than the only other valid bidder. It was on the basis of the information in that presentation that BECTU made the assertion to Mr Davidson that the successful bid was not the cheapest.

The BBC's Selection of Preferred Bidder submission to the Governors in October 2006 stated that "Xansa's price over five year is up to £4 million³ more than [Bidder 2] however the project believes that Xansa's proposal is the most economically advantageous to the BBC". This was because the Xansa bid scored more highly across the BBC's assessment criteria for business and technical services, strength of contract and commercial overview.

Having identified Xansa as their preferred bidder, the BBC considered the optional bids for contract terms up to 10 years. On this basis the BBC concluded that the Xansa bid was both cheaper and better value for money than the only other complete ten-year bid, and that it was able to secure further improvements by opting for a ten-year contract. The Xansa contract is for 10 years, as is the contract of the existing provider which is due to end in June 2007.

It is clear that there are a number of ways in which the value of the bids for the BBC's financial and accounting services contract could have been presented. On a cash basis Xansa was joint cheapest (over five years) or cheapest (over 10 years). On the net present value basis used by the BBC for its internal evaluation Xansa was not the cheapest bid, by some £2.4 million over five years.

It might have been helpful had the BBC provided a fuller response to Mr Bacon's questions.

Sir John Bourn KCB
Comptroller and Auditor General
National Audit Office

18 April 2007

³ The differential of £4 million was reduced by subsequent adjustments to approximately £2.4 million over a five year period. The Governors were notified of these adjustments.