



House of Commons
Culture, Media and Sport
Committee

**BBC Annual Report and
Accounts 2006–07**

Fourth Report of Session 2007–08

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

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The Culture, Media and Sport Committee

The Culture, Media and Sport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Culture, Media and Sport and its associated public bodies.

Current membership

Mr John Whittingdale MP (*Conservative, Maldon and East Chelmsford*)
[Chairman]

Janet Anderson MP (*Labour, Rossendale and Darwen*)

Mr Philip Davies MP (*Conservative, Shipley*)

Mr Nigel Evans MP (*Conservative, Ribble Valley*)

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Adam Price MP (*Plaid Cymru, Carmarthen East and Dinefwr*)

Mr Adrian Sanders MP (*Liberal Democrat, Torbay*)

Helen Southworth MP (*Labour, Warrington South*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at

http://www.parliament.uk/parliamentary_committees/culture__media_and_sport.cfm

Committee staff

The current staff of the Committee are Kenneth Fox (Clerk), Martin Gaunt (Second Clerk), Daniel Dyball (Committee Specialist), Anna Watkins/Lisa Wrobel (Committee Assistants), Rowena Macdonald (Secretary), Jim Hudson (Senior Office Clerk) and Laura Humble (Media Officer).

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Report

1. On 3 July 2007, we held an oral evidence session with the BBC on its Annual Report and Accounts for 2006–07. This was the first BBC Annual Report and Accounts to be published under the new Royal Charter and Agreement between the Secretary of State for Culture, Media and Sport and the BBC. The Charter and Agreement set out new governance arrangements for the BBC, including an independent BBC Trust, with responsibility for setting the overall strategic direction of the BBC, and a separate Executive Board with responsibility for delivering the BBC’s services in accordance with the priorities set by the BBC Trust. We took evidence from Sir Michael Lyons, Chairman of the BBC Trust, and from Mark Thompson, Director-General, and Zarin Patel, Finance Director, BBC Executive.

2. On 20 July 2007, we wrote to the BBC with some further questions about its Annual Report and Accounts. On 29 October 2007, the BBC submitted its response to our follow-up questions.¹

3. We acknowledge the BBC’s submission, although we do have some concerns about the structure and content of its response. While the BBC did indicate whether answers to individual questions were provided by the BBC Trust or by the Executive, the rationale behind the allocation of questions between the two bodies was unclear, and in some cases it would have been helpful to have included a view from both the BBC Trust and the Executive. It might also have been more helpful if the BBC Trust, as the body with ultimate responsibility for strategy, had identified whether it was not responding to certain questions because it believed those matters were entirely for the Executive, or because it simply had no opinion on the matters. We have the following specific concerns with the content of the BBC’s answers.

4. On salary costs for on-air talent (for example, presenters or actors), the BBC Trust told us that it “accepts the BBC Executive’s position that disclosing talent costs, even if grouped in bands, is likely to cause commercial prejudice to the BBC”. It also referred to “legal advice regarding protecting personal data” and potential consequences from making this information available, including exposure to actions for breach of confidence.² The BBC Trust noted that it has commissioned an independent review of talent costs, to be published in spring 2008, and that it will take a view then as to what ongoing reporting may be appropriate. In relation to other employee costs, the BBC Trust said that the BBC already publishes a range of information, but it added that it had asked the Executive to “give consideration to publishing additional information about employee remuneration, including by salary bracket, to improve transparency to licence fee payers”.³ **It is not immediately clear to us why the BBC Trust takes different views on transparency of employee costs and on transparency of talent costs, and why grouping of payments in bands for one but not the other presents data protection or breach of confidence issues.**

¹ Ev 19

² Ev 20

³ Ev 20

5. In relation to BBC3 and BBC4, the BBC Trust said that it had not yet taken a decision on when to review these services, although it said that it “expects to review every service every five years”.⁴ In relation to viewing figures for BBC3, the Annual Report and Accounts stated that the channel’s 15-minute weekly reach in multi-channel homes was 17.6%.⁵ In its response to our follow-up question relating to viewing figures once repeats of popular BBC1 programmes are excluded, the Executive told us that the “total three-minute weekly reach of BBC3 in 2006, amongst its target audience of 16–34-year-olds, was 27%” of which “23.4% watched digital originated programmes while 10.2% watched terrestrially originated programmes”.⁶ **We are surprised that the BBC Executive chose to present us with three-minute reach figures for BBC3 viewing, rather than the standard 15-minute reach figures used in the Annual Report and Accounts, and we are disappointed that the BBC Executive did not disclose figures on audience share (as well as 15-minute reach) when repeats of popular BBC1 programmes are excluded.**

6. On Freesat, the Executive said that it could not provide us with the annual budget of the joint venture company behind Freesat for “reasons of commercial confidentiality”.⁷ The BBC Trust approved Freesat on the basis that, among other things, a national satellite-based free-to-view digital service represented good value for money. Given this, **we believe that it is not reasonable to withhold information about the contribution of the licence fee payer to the Freesat service, although we accept that it may be reasonable to withhold information about the total budget of the joint venture company as commercially confidential.** This is a good example of a response where a contribution from the BBC Trust, in addition to material from the Executive, would have been useful.

7. On high definition television services, the BBC Trust told us that it “does not believe it is appropriate for it to comment on the relative merits of different public services in terms of which ones are more deserving of spectrum than others”.⁸ We also note, however, that under the Agreement between the Secretary of State and the BBC, the BBC Trust has a duty to secure the efficient use of the radio spectrum that is available for use by the BBC.⁹ We note that, in contrast to the BBC Trust’s reluctance to comment on spectrum issues, BBC staff have in the past put forward arguments about spectrum policy. For example, in late 2006, prior to the introduction of its new governance arrangements, the BBC argued that “in the case of the BBC, there is no rationale for spectrum charging”.¹⁰ In 2007, BBC staff have also lobbied for additional spectrum to be allocated to the public service broadcasters to provide high definition television services, including as part of the (now defunct) “HDforAll” campaign. **We believe that there should be greater clarity as to who speaks for the BBC on significant policy issues, and we are also concerned that the BBC**

⁴ Ev 20

⁵ BBC, *Part Two: BBC Annual Report and Accounts 2006–07*, July 2007, p 65; “15-minute weekly reach in multi-channel homes” is the percentage of people in homes with multi-channel television who watch the channel for at least 15 minutes in an average week.

⁶ Ev 20

⁷ Ev 21

⁸ Ev 21

⁹ DCMS, *Broadcasting: An agreement between Her Majesty’s Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation*, Cm 6872, July 2006, p 19

¹⁰ BBC, Response to Ofcom’s consultation on *Future pricing of spectrum used for terrestrial broadcasting*, 2006, p 2

Executive may be pursuing policy outcomes that the BBC Trust has not yet had the opportunity to consider, approve or oppose.

8. Overall, we are disappointed with the manner in which the BBC has approached its response to our questions. We hope that in future years the BBC will provide a more robust response which makes clear where accountability lies for particular issues, and that the BBC takes advantage of its new governance arrangements to take a more constructive approach to responding to Parliamentary scrutiny.

Conclusions and recommendations

1. It is not immediately clear to us why the BBC Trust takes different views on transparency of employee costs and on transparency of talent costs, and why grouping of payments in bands for one but not the other presents data protection or breach of confidence issues. (Paragraph 4)
2. We are surprised that the BBC Executive chose to present us with three-minute reach figures for BBC3 viewing, rather than the standard 15-minute reach figures used in the Annual Report and Accounts, and we are disappointed that the BBC Executive did not disclose figures on audience share (as well as 15-minute reach) when repeats of popular BBC1 programmes are excluded. (Paragraph 5)
3. We believe that it is not reasonable to withhold information about the contribution of the licence fee payer to the Freesat service, although we accept that it may be reasonable to withhold information about the total budget of the joint venture company as commercially confidential. (Paragraph 6)
4. We believe that there should be greater clarity as to who speaks for the BBC on significant policy issues, and we are also concerned that the BBC Executive may be pursuing policy outcomes that the BBC Trust has not yet had the opportunity to consider, approve or oppose. (Paragraph 7)
5. Overall, we are disappointed with the manner in which the BBC has approached its response to our questions. We hope that in future years the BBC will provide a more robust response which makes clear where accountability lies for particular issues, and that the BBC takes advantage of its new governance arrangements to take a more constructive approach to responding to Parliamentary scrutiny. (Paragraph 8)

Formal minutes

Tuesday 15 January 2008

Members present:

Mr John Whittingdale, in the Chair

Philip Davies
Mr Mike Hall

Rosemary McKenna
Mr Adrian Sanders

The Committee deliberated.

Draft Report [BBC Annual Report and Accounts 2006–07], proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 8 read and agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

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

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 22 January 2008 at 10.15 a.m.]

Witnesses

Tuesday 3 July 2007

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Sir Michael Lyons, Chairman, BBC Trust, **Mark Thompson**, Director-General, BBC Executive and **Zarin Patel**, Group Finance Director, BBC Executive

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List of written evidence

1 BBC

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List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2005–06

First Special Report	Maritime Heritage and Historic Ships: Replies to the Committee's Fourth Report of Session 2004-05	HC 358
First Report	Broadcasting Rights for Cricket	HC 720
Second Report	Analogue Switch-off	HC 650 I, II
Third Report	Preserving and Protecting our Heritage	HC 912 I, II, III
Fourth Report	Women's Football	HC 1357

Session 2006–07

First Report	Work of the Committee in 2006	HC 234
Second Report	London 2012 Olympic Games and Paralympic Games: funding and legacy	HC 69 I, II
Third Report	Call TV quiz shows	HC 72
Fourth Report	Call TV quiz shows: Joint response from Ofcom and ICSTIS to the Committee's Third Report of Session 2006-07	HC 428
Fifth Report	New Media and the creative industries	HC 509 I, II
Sixth Report	Caring for our collections	HC 176 I, II
Seventh Report	Self-regulation of the press	HC 375
First Special Report	Self-regulation of the press: Replies to the Committee's Seventh Report of Session 2006–07	HC 1041

Session 2007–08

First Report	Public service content	HC 36 I, II
Second Report	Ticket touting	HC 202
Third Report	Work of the Committee in 2007	HC 234

Oral evidence

Taken before the Culture, Media and Sport Committee on Tuesday 3 July 2007

Members present

Mr John Whittingdale, in the Chair

Janet Anderson
Philip Davies
Mr Nigel Evans
Paul Farrelly
Mr Mike Hall

Alan Keen
Rosemary McKenna
Adam Price
Mr Adrian Sanders

Witnesses: **Sir Michael Lyons**, Chairman, BBC Trust, **Mr Mark Thompson**, Director-General, and **Ms Zarin Patel**, Group Finance Director, BBC Executive, gave evidence.

Chairman: Good morning. This is the Committee's annual session to coincide with the publication of the BBC's Annual Report and Accounts and I would like to welcome for the first time to the Committee Sir Michael Lyons, the new Chairman of the BBC Trust, and to welcome back Mark Thompson, the Director-General, and Zarin Patel, the Finance Director of the BBC. I will invite Adrian Sanders to start.

Q1 Mr Sanders: Good morning. This is really for Sir Michael, and I would like him to ignore the two people on either side of him when I ask this question, but how confident are you, in the light of the Public Accounts Committee Report, of the fullness and accuracy of information provided by BBC management?

Sir Michael Lyons: It is a searching question. I am clear that further progress has been made to improve accounting standards in the BBC. I would like to believe that what you have in front of you is completely accurate. It is a large organisation. Any company struggles to get all of its information in place and be sure of precision in every detail, but I do not start with any anxieties on that front. I think that is the important message to leave you with. The Trust has been strengthened in its scrutiny role by the strengthening and independence of the Trust staff, and those folk have themselves gone over all the information that we have received.

Q2 Mr Sanders: But should you not perhaps support a full, independent scrutiny by the National Audit Office?

Sir Michael Lyons: The step that we have taken is to involve the National Audit Office much more actively in the setting of efficiency targets for the future and, indeed, in all the work that we do in terms of value for money. So, we have moved in that direction. Whether one needs to go further, I think let us reserve for the future.

Q3 Mr Sanders: Do you think you have got enough resource to do the tasks that you have been given?

Sir Michael Lyons: This might not be the last time today that I say that these are still early days for me to reach all of these judgments. I have only been in post for two months now. A complement was set; we are somewhat below that complement at the moment. We have got talented people working well. I have no reason to fault information that I have received from the Trust Unit or, indeed, for that matter, from the BBC Executive. I need to remain watchful. I think that would be the message I would draw from this.

Q4 Mr Sanders: So, you are confident, you are up and running, you have probably got enough resource there to do the job, the information coming through is, by and large, accurate, the Public Accounts Committee perhaps went a little bit too far and everything is tickety-boo?

Sir Michael Lyons: As you say that, I see a big bare picture looming in front of me. I would like to just leave an edge of caution. If I have sounded at all complacent, that would not be what I would want to leave with you.

Mr Thompson: Could I add a single prosaic sentence to make the obvious point? The accounts presented in our annual report are subject to a complete external audit by KPMG; so they come with the detailed scrutiny of an external auditor to whom the Trust has direct access.

Q5 Mr Hall: Could I push you. I think you have been slightly complacent, because the Public Accounts Committee quite clearly said that they thought it was wrong that they did not have full access to the BBC books. Your money comes exclusively from public funds, so why should they not have full access? It is no good saying they should leave it to the future. Clearly the Public Accounts Committee wants an answer now, and perhaps so do we.

Sir Michael Lyons: My understanding is that the whole debate about new governance arrangements for the BBC sought to balance two proper concerns: how the BBC could continue to be and, indeed, we might reinforce as a nation its independence, but at the same time to increase the level of scrutiny. That

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has led to the decision to create the Trust within the BBC but separate, both to protect the independence of the BBC but, much more importantly, to sharpen the level of scrutiny. That is the job we are there to do. All I am saying is we are off to a good start. I think that is a job you should entrust to us rather than looking for new instruments to by-pass.

Q6 Mr Hall: What would be wrong with giving the National Audit Office full access to the BBC books? I cannot see an argument against it.

Sir Michael Lyons: It is just that it might not be necessary. As stewards of public expenditure, you, quite rightly, have to make a decision about how this job is best done at least cost.

Q7 Mr Hall: The Public Accounts Committee says it is necessary. Otherwise it would not have published its Report in such a critical way.

Sir Michael Lyons: I think I have probably gone as far as I can go in justifying where we are with the new constitutional arrangements, where we are with the Charter. My job is actually to work within that framework, and, although I am giving you the assurance today, it is my intention to work within that framework, to ask the tough and searching questions and to make sure that I have got the skills to do that job properly.

Q8 Mr Hall: I understood the National Audit Office was asking the tough and searching questions and the BBC were answering them.

Sir Michael Lyons: I know that.

Q9 Chairman: Moving on to your own costs, it has cost something like £16 million this year of which, I think, six goes on fees to Ofcom for regulatory functions.

Sir Michael Lyons: Yes.

Q10 Chairman: That means the Trust costs £10 million, and I think you employ 42 people. That seems rather a large amount of money.

Sir Michael Lyons: There is a quirk in the statistics. I myself focused on that figure and looked at what appeared to be a very high average figure, and so I sought an explanation, which I have now got and I am glad to share with you. The costs include the costs of Trust staff working within the nations, a total of 19 full-time equivalents, but they are not included in the 42 because, even though the Trust was reimbursing the BBC for their salary and associated costs, they did not actually move over on to the complement until 1 April. So, the figure, the true staff reflected in those figures is the 42 plus the 19.

Q11 Chairman: Is it your ambition to reduce the cost of the Trust in the same way that Ofcom has been steadily reducing its cost?

Sir Michael Lyons: I think we start from rather different starting points. Indeed, if you set me the target of not spending as much per capita as Ofcom, I would be very happy to take that, as an objective. I think it is too early for me to say whether or not

there is room for savings here. As you will have noted, we are not yet staffed up to the complement provided for. It is still very early days. The Trust is only six months old. It is working at a real intensity as it sets up its mechanisms for the future. I am very happy to come back to that question in a year's time with a little more experience under my belt.

Q12 Mr Hall: Can we now look at the bid that the BBC made for the licence fee, because clearly you did not get what you asked for. I think there are two ways you can look at that. You actually put in a bid that was a reasonable bid and the Government did not give you enough money to carry on doing what you would expect to do, given the requirements of the Charter, or less churlish people might say you put in an inflated bid and that the bid that you have got is about right. What is your view, Sir Michael?

Sir Michael Lyons: My view is that the bidding process is always complicated, is it not? There is a good deal of game-playing in the bidding and responding to bids. As I have no part in that, it is best for me not to assume that I know who played the bigger game. The line that I have taken in coming to the role of Chairman of the Trust is to very publicly say I am not seeking to relive the issue of whether the licence fee settlement was the right one. It is clearly less than the BBC asked for, but, first and foremost, it is an extraordinarily privileged position for the BBC to be in to have complete certainty over its income for the next six years, and that is where we should start from: how we use the resources that are available rather than continuing to run a campaign about how the world might have looked differently.

Mr Thompson: I think I take exactly the same view. I said on the day that the licence fee was announced that I absolutely accepted, and have always accepted, it is a matter of judgment for government to make about what level of funding the BBC should have, and I think that when the public looks at the BBC, the public would understand that when we think about the future and what we could do—reducing repeats, developing some new services—we might well want to do those things. I absolutely accept that it was a matter for government, and the right thing for us to do now is to deliver the best possible range of services and programmes we can within the funding that we have got.

Q13 Mr Hall: Which part of the BBC is actually going to lose out because you did not get what you asked for?

Mr Thompson: I think the first thing to say, we are in the middle of the process right now of looking at the period of the licence fee settlement, the next five or six years, and sharing with the Trust the issues around the level of efficiencies, around possible new investments and about the possibility of moving resource from some existing commitments to new commitments. We are going to come up with firm recommendations to the Trust in September. I would have thought by October we will be talking publicly about what the headlines are, I hope, out of that process, and it is a decision, in the end, for the Trust, not for management, but I think some things

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are clear. We had a long list of things, which we set out in *Building Public Value* a few years ago about the things that we could do. We will not be able to do all of the new investments that we wanted to do. The decision about which ones we cross off the list has yet to be made, but clearly some of the things we would have liked to do we will not be able to do at all or we will be able to do to a much lesser extent than we thought we would, some of the improvements to existing services, for example the hope that we could put significantly more money into our children's network, CBeebies and CBBC, that we could put more investment into origination on BBC1 and reduce the rate of repeats further. You will see in the report, we have reduced peak-time repeats somewhat this year. The idea of repeating that further, I think, is going to be very difficult. So, some of the things we wanted to do, we will not be able to do. The other thing to say is it is clear, even in our bid we were very clear, that the BBC would have to go on looking for efficiencies. The Government has proposed a target of 3% so-called cash-releasing efficiencies, net of restructuring costs, net of any rising costs we have to absorb. Another issue for us working with the Trust is to work out whether that is the right number, and although I believe the technology and streamlining the ways we work can make those efficiencies possible, in other words keeping the same quality but reducing the amount of licence fee that goes in, I think that is going to be a tough process as well.

Q14 Mr Hall: Your move to Salford Quay. That is going to happen?

Mr Thompson: That is definitely going to happen.

Mr Hall: That is very good. Thank you.

Q15 Alan Keen: I always come back to this subject, but I think this is one of the most crucial issues. The Trust was formed because there was not a sufficient backstop to save the BBC when there were serious problems. Greg Dyke was in front of us a short while ago and Greg said that the new system would stop quick decisions being made that were crucial in running a business, and the BBC is a business and has to be proactive. It is early days, I accept that. What thoughts have you had about how you keep the right balance between stopping the Director-General from doing anything that might be dangerous and being proactive? I want the BBC to be proactive and do the things it has always done. How do you balance your role between the backstop and a supportive Chairman?

Sir Michael Lyons: I think that is absolutely the right term. It is balance, like in any company, frankly, in terms of challenge and support. Let me first underline that the BBC Executive has very substantial delegated powers. The Trust sets the framework; it sets the service licences. That is the job it has taken over, previously undertaken by the Secretary of State, and we are trying to be clear and methodical in terms of our expectations of the framework that the Executive works in, but then all editorial decisions, all programme decisions, are taken by Mark and his Board and, quite properly,

the Trust does not seek to involve itself or second-guess those decisions; so there are some quite clear lines that are set out. Our job is to, as you say, be the voice of the licence fee payer, to be challenging, but to work in a strategic direction looking into the future, engaging very actively with the public and bringing back challenges. I hope you feel that is reflected in our first Annual Report, because although we are only six months into our life and only three months relates to that report, we have tried to be very frank about those lessons we have learned in those early days. Can I come back to Greg Dyke's comments? I am not sure how much time Greg spent looking at the facts, but I think what I can say is that the Trust in its six months has not only set itself up, has not only established a clear and testing framework for exploring the public value in a new service, but has applied that to the BBC and reached a decision and, through that process, did it in two stages so that people could see its provisional position and had a chance. There were two sets of consultation involved in that. So, I take very considerable pride, and I am very pleased that sitting behind me is Diane Coyle, who led that work. That shows exactly the sort of analytical evidenced-based public-engaged approach that I think you would expect of, and will see from, the Trust. Similarly, the satellite service, Freesat, had been around as a proposition for some good time before the Trust came into existence, and, again, within that six-month window, we have resolved a way forward, again, marked by clear evidence, clear reflection and public access to all of our thinking and the evidence on which we have based our decision. So, I would like to believe we are off to a good start, and I do not see in that the problem of us holding up the BBC other than to properly test the public purpose and the way the licence fee moneys are being used.

Mr Thompson: If I may give you one more example, which is interesting, which was the partnership between the BBC and YouTube, both public service and commercial content to be extensively available on YouTube. This came out of a meeting I had with Eric Schmidt, the Chief Executive of Google, just after they had bought YouTube just before Christmas last year. By the end of February, very beginning of March, we had been through all the improvements and had the BBC content up on the site. So, that is eight or nine weeks from first conversation to actually delivering. That is ahead of all other UK broadcasters and pretty much all broadcasters in the world, including the networks and the Hollywood majors. The Trust, by the way, came into existence in that period. I think there is good evidence that when we have to move quickly we can do.

Q16 Alan Keen: You did tell Michael about it!

Mr Thompson: We did.

Q17 Chairman: Can I return to the licence fee. Mark, you have been very successful at persuading the media that the BBC has been subjected to a pretty savage squeeze as a result of the settlement, with the result that you are going to have to make some

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painful decisions which are going to lead to redundancies; but the truth is that you have a guaranteed increase in real terms every year at a time when no other broadcaster could look forward to that. The famous jacuzzi still has the plug in; the money is there. Why are you having to talk about making major redundancies and cut-backs when actually your income is going on increasing?

Mr Thompson: Firstly, and obviously I know you are aware of this, Chairman, our income now depends on the running rate of inflation over the next couple of years; so there is some inflationary risk in the numbers. Let us see what outturn is in terms of inflation. It is also true that the projected increase in the number of households, although clearly that potentially can lead to a significant growth in income, our view is that the nature of the household growth is going to be relatively harder rather than relatively easier for the BBC to monetise because of the kinds of households that are emerging, but the most important point is that the mission the BBC has been given in this period is not to just maintain its existing services but to invest heavily in broader digital infrastructure. We have the task of building out the digital television and radio transmitter chains, the television transmitter chain from 85 or so DTT transmitters to over a thousand, to make universality after switchover possible. We have the industry costs for digital to pay for, we have the Government's targeted help scheme to pay for and we have some other quite big commitments of our own around infrastructure, notably Salford. So, this is a period where we are being asked to invest very substantially in the future, our own future and the future more widely of the broadcasting industry, at a time when we want to and the public want us to increase the quality of existing services. When you look at the mission, it is an expanding mission, with licence fee incomes which possibly may go up very slightly in real terms in aggregate, but in terms of the money available for existing services, it will go down.

Chairman: Following on from that, Rosemary McKenna.

Q18 Rosemary McKenna: Good morning. Could you tell us a bit about your plans for reprioritisation, if what you are saying is you have to work on a smaller budget, the £2 billion black hole. Where can you do the same things differently and where should you do less of the same things?

Mr Thompson: I will begin, and we might want to talk about the process. My job, in the end, is to come up with recommendations and proposals for Michael and the Trust to scrutinise, and the Trust has to have regard both to value for money but also to quality, making sure we are maintaining the quality of what we do. Let me tell you some of the themes that we are looking at, Rosemary. Firstly, it is a BBC which in many ways is going to have to get smaller, and after years where each year we have been making more output, more hours of television, more hours of radio, more pages on our website and so forth, I think it is likely that we are going to have to start making less and using the technologies to

exploit what we make more thoroughly. That can be things like the iPlayer so that people get more opportunities to watch our programmes on television or to listen to our programmes on radio. It may also be the use of more so-called narrative repeats across our networks. So, if *Dr Who* is on a Saturday, can you see it a number of times on BBC3 as well as on BBC1. I think concentrating on a slightly smaller amount of really high quality content is the first thing. The second thing is looking at multimedia production. In areas where we have got a television operation, a radio operation and an online operation, can we bring these together? Media companies around the world are trying to do this. In every city I go to round the world they are talking about how you might do this, create multimedia content creation potentially. It does not just offer efficiency savings but, given the way our content is being used now, it may mean the content is more fit for these new platforms and new services. The third thing is just using technology to drive efficiency and productivity. Somebody gave me a high-definition camera to have a look at and to play with. This is a camera which produces high quality pictures for most of the equipment we use at the BBC. It does not record a tape, it records straight to a solid state memory chip and it costs £750. When I joined the BBC in 1979 the reflex camera that we used cost £35,000. So, there is an extraordinary revolution going on in technology.

Q19 Rosemary McKenna: That is saving a lot of money then?

Mr Thompson: Potentially. To be honest, an £800 camera probably will not work for our needs as professional broadcasters, but there are three or four thousand pound cameras that will do—

Q20 Rosemary McKenna: A much cheaper one worked very well for Caroline when she was in the rail crash, because we were all instantly able to see exactly what was happening.

Mr Thompson: When we talk about user generated content, Caroline had the opportunity to actually demonstrate it to the world. The big thing, we are trying to do at Pacific Quay, which we are in the process of opening in Glasgow at the moment—we will do it in Salford as well—is what we call end-to-end digital work flow; in other words using the new digital technologies from the moment we have an idea for a programme, or the moment we are out on the field capturing the content, all the way through production, post-production, broadcast, archiving and so forth, and always with all of the information about the content captured with the content—we call this metadata—so that we and the public can find it when and where we want it. So, there is a revolution to be had in how we make content and how we broadcast it, and that should enable us to achieve what we want to achieve.

Q21 Rosemary McKenna: Can I ask a very specific question. Yes, your capital spend in Glasgow has been wonderful, absolutely superb, but in terms of revenue spent outside London, if you look on page

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73, the actual spend in Scotland has gone down considerably: £105 million in 2005–06 to £85 million in 2006–07?

Mr Thompson: We have had, as you know, in this past year, not just a general slightly disappointing run of network programmes for Scotland, but also one or two deliveries of big programmes made in Scotland which, for a variety of reasons, were not actually transmitted in the year; so I would expect the network programme figures for Scotland to look much better in 2006–07 than in 2005–06. It is very important that we have an opportunity for our colleagues in Scotland, not just to make great programmes for people inside Scotland to see here and enjoy, but also that they get a really good share of network commissions.

Q22 Rosemary McKenna: I had expected it to go up because of the increase in the independent sector that was recommended. It was agreed two years ago. Because Scotland had the independent infrastructure to be able to use up that additional money, I had expected the expenditure to go up.

Mr Thompson: The absolute commitment by the BBC is to increase our spend and, in particular, network productions from Scotland, Wales and Northern Ireland. As you can see, the total national and regional spend has gone up over the period, this year shows an increase in England, an increase in Northern Ireland and an increase in Wales. Over the period I am quite certain that we will get a significant and sustained increase in Scotland as well, and Pacific Quay really is evidence of our commitment. Pacific Quay is the most advanced broadcast and content creation centre in Europe, possibly in the world, and we are determined to get great programmes out of it, not just for Scotland but for the whole of the UK.

Q23 Rosemary McKenna: I will be watching. On another issue, which is separate, is it going to be impacted by the reduction in spend, and that is the impact on plans for services for disabled people and specifically the commitment to audio description programmes?

Mr Thompson: No, our commitment to what we call accessibility, making sure that our content is accessible to people, our licence payers who live with disabilities, will not be affected by the efficiencies. We are completely committed, and what we are trying to do when we launch new services like iPlayer is build accessibility in from day one so part of the design of our new services builds in access of various kinds, but specifically our commitment to audio description will not be affected by this process.

Q24 Rosemary McKenna: So is anything sacred?

Mr Thompson: I am saying that is sacred.

Q25 Adam Price: I was wondering, Mark, if a smaller BBC inevitably means another round of job cuts in the BBC on top of the thousands of posts that have gone in recent years and whether you are planning to make a specific announcement about that shortly. Also, in terms of departmentally, where

those job cuts are likely to fall, whether because of convergence, which has become the hot topic in news and current affairs, we can see a likelihood that lots of journalists' jobs will go in the next year or so?

Mr Thompson: The right time, and I think the fairest time, to talk about this is when we have got a complete picture. The BBC is a complex organisation. We are talking about six years of licence fee spend, £20 billion in the kind of model we are creating, and the right time to go nap, if you like, on the consequences in terms of staff numbers is when we have that model, and that is September/October. I talked to BBC staff yesterday and what I said (because I have heard, not for the first time, some completely wild rumours on this topic) is that from what I have seen so far I do not believe that the likely number of job losses, I do not expect the number of job losses over this period, to be as great as the job losses we have seen across the BBC in the current three-year programme. When we get to the end of that programme the outturn will be somewhere between 3,500 and about 3,800 job losses. I do not expect the numbers over this next period to be as great as that. Where will they fall? It does depend rather on the decisions we make. It will vary across the organisation. There are some parts of the BBC which are very lean in terms of manning already, particularly in some parts of nations and regions. There are some parts of the BBC in finance, the staff reduction—What percentage?

Ms Patel: 67%.

Mr Thompson: 67% staff reduction in the current three-year programme, and we have been really working hard and getting overhead and central parts of the BBC down to size, as, I have to say, many people outside have asked for for a long time. Having taken 67% out of finance, we are not going to be able to take—. We have got a very lean financial operation on the way, well under 1% of turnover going to pay for finance. So, other parts of the BBC, I think, will be—. The other thing is simply to say, where does the technology give us the opportunity to make savings? We have to look at that. Having said that—let us take journalism—what is absolutely critical is that we do not allow this process to damage quality. I appreciate that part of the way this often plays out is: is the BBC serious about quality? We are totally serious about quality and totally committed to all of our areas' output and probably centrally more committed, if you like, to journalism than anything else, but no part of the BBC, I would argue, should be immune from technology change or from the need to find productivity savings if we can find them.

Q26 Janet Anderson: Mark, you said earlier that you thought the BBC will have to get smaller. Do you think this will enable you to do fewer things better, and do you think you should set out in a transparent way what you will not do? I understand, for example, you have indicated that the BBC will define areas of website content which it will not cover, such as advertising content and some events in listings. Do you think you need to give us a clearer idea now of what you will not do?

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Sir Michael Lyons: Can I just offer a thought on that, because coming back to the Trust Report and what we have learnt from our engagement with the public, and I hope it is clear in our report, there are lots of reasons to be satisfied with where the BBC is at this moment, but the one area where there is the most profound gap between public rank, the six purposes of the BBC and then where they feel the BBC's current performance measures up is in this area of innovation. Indeed, as you look through the Trust Report, coming back to some of the earlier questions, you can see some of the elements on which we will be challenging and demanding of the Executive in terms of this reprioritisation exercise and the decision we eventually make in the autumn. My first response to you, but Mark will want to come in on the detail, is that I think the BBC, if it is going to respond to its public, if it is going to respond to the unique privilege of the licence fee and the certainty that gives, is going to have to put even more emphasis on distinctiveness and innovation, and that might mean less programmes, and certainly the Trust would be anxious that any reductions are not spread like salami slices across the whole organisation. Let us be clear about purpose and the type of BBC we are trying to create for 2012.

Mr Thompson: I concur with that. Can I also say that I think one of the things I felt really came home to me during the Charter debate was the criticism from some other parts of the media industry that you never quite worked out what the BBC is going to do next; and I think there is an advantage, and I think the autumn is the right time to do this, in addition to saying what we are going to do, to have some clarity about some of the things we are not going to do so that you do not end up with, as it were, the equivalent of planning blight. I do not think this can be absolute in every area, because if the UK wants a really strong, relevant BBC, as media evolves and as audience appetite changes, the BBC should respond, but I think a bit more clarity in advance, as we look over the next three or four years—what kind of new services is the BBC thinking about? What kind of things has it ruled out?—would also help the rest of the industry as well as also make sure that we do concentrate the licence fee in a way which delivers really outstanding content to the public.

Q27 Janet Anderson: Could I briefly take you back to something you said earlier, Mark, about the growth in the number of households which we had all assumed would mean a greater income to the BBC. I think you said that you thought this had been rather over-emphasised because of the kind of households. I just wondered what you meant by that?

Mr Thompson: Because this is partly Zarin's responsibility, I think I might get Zarin to respond to that.

Ms Patel: Historically households have grown by about 0.7% and 0.8% per annum, and that is worth a significant amount of income, but what we are seeing in population growth is that it is happening much more in urban areas and in single person households, and those areas traditionally have much

higher innovation and they also move around much more, so they are much harder to find and then retain in payment. Therefore, it is getting harder to collect that population growth than it was historically.

Q28 Janet Anderson: So it is about problems with collection?

Ms Patel: Yes.

Q29 Janet Anderson: Thank you.

Mr Thompson: The point in economic theory terms is that you can end up in a situation where the marginal cost of securing the licence and maintaining the licence is much greater than the value of the licence itself, so you get to a point of diminishing and then, as with negative returns, at the margins of evasion. So, actually monetising this next stage of growth is going to be harder than it has been in previous years. It does not mean we are not going to try extremely hard to do it, but it does present more challenges for us.

Q30 Janet Anderson: So would you perhaps prefer the kind of system they have in Canada where the public broadcaster is funded directly by the Exchequer?

Mr Thompson: I can think of nothing worse than the nightmare that my colleague Robert Rabinowicz and others at the CBC have to go through every single year and the vagaries of the politics of Canada, of the provinces and of the federal government, and the way that plays directly into the funding of the public broadcaster. If you do not believe me, do get the CBC to come in and talk to you about that system.

Janet Anderson: We have met them recently.

Q31 Mr Sanders: They would like a licence fee.

Mr Thompson: I think that is the point. It is about political independence, above all, and about certainty. You cannot make programmes like *Planet Earth*, which take years to make, without the kind of certainty—. The reason that the BBC makes them and very few other broadcasters around the world make programmes like that is because of the certainty of our funding, and it is very hard, although the CBC tries very hard, to maintain political independence in your news and current affairs, or elsewhere, if you know that you are never a few months away from a debate about your own funding.

Q32 Chairman: But you would not accept that the whole year that you were locked in negotiation with the Government about the licence fee settlement that that had any effect on your editorial independence.

Mr Thompson: What I say, Chairman, is that the idea of a really thorough airing of everything, the BBC mission, its charter, its system of governance and its funding, in one go once a decade is so public, is so open to public scrutiny and so open to Parliamentary, both through its committees and on the floor of the House of Commons and, indeed, in the Lords, that we have some protection. The system

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in Canada, where we are just focusing on funding once a year, leaves an awful lot of power to influence the broadcaster. I am not saying that the Canadian system necessarily leads to that, but I think the risks are much greater. If you look at different European models, I think you can see the same thing happening.

Sir Michael Lyons: It is a magical process, is it not, whereby money collected from the tax payer instantaneously becomes government money, and that creates some issues for us, not only in the BBC.

Q33 Chairman: I have to say, I am not sure this Committee would regard the process you underwent in the past year as particularly open, but on the issue of transparency, I think Nigel wants to come in.

Q34 Mr Evans: And public money, indeed. How much does Jeremy Paxman earn?

Mr Thompson: Firstly, I do not have those facts to hand. Secondly, we have and we would preserve with the overwhelming majority of BBC staff and employees a confidentiality between them as an individual and us as an employer. Officers of the BBC, and I am one of them, expect to have their remuneration not just published but picked over with delight or disappointment, or whatever it is, but with our employees, including some well-known employees, we feel we have a duty of confidentiality towards them.

Q35 Mr Evans: I do not quite see it in that way. Everybody knows the Prime Minister earns £187,000, everybody knows that Jacqui Smith, as Home Secretary, earns £136,000. A minister of state earns £99,000. Mark, your remuneration package is £788,000, four times that of the Prime Minister. I would see that as a badge of honour for yourself, quite frankly, to say that you are earning a substantial sum of money. People tend to know in round figures what Ronaldo earns, and Rooney, so why are you so coy? Indeed, I think the BBC was angry when some of the salaries of some of their top earners—Jonathan Ross, for instance, and Terry Wogan—was leaked. Do not the public have a right? With £3.5 billion pounds worth of tax payers' money, does not the public have a right to know if people are earning substantial sums of money?

Mr Thompson: I think the framework, the strategy and the safeguards by which the BBC secures rights—sports rights, programme acquisition rights and talent—should be the subject of scrutiny and value for money studies. I very definitely, absolutely believe—. The idea came up at the Public Accounts Committee when I was giving evidence. I said at the time I was not only content that there should be an examination of this but actually enthusiastic. It is a good topic for a value for money study. So I was taking that forward, the Trust was taking it forward. I welcome scrutiny, but I think there is a world of difference between: let us make sure a BBC is securing value for money, it is not distorting the market, it is not driving inflation, it is not paying over the odds for key talent, but I think that is different from saying that the public have a right to

know about individuals. Public figures, and I recognise I am ex officio a public figure, I think it comes with the territory, but I would say our employers, including our presenters, have a right to confidentiality.

Q36 Mr Evans: Can I ask you then, Sir Michael, on this issue as well. Everybody knows what the Prime Minister earns and everybody knows what MPs earn, they even know in round figures what our staff earns and, indeed, our travel expenses, in round figures. They have got the costs, and, indeed, journalists enjoy adding them all together and saying, "This is how much an MP earns. MPs earn a quarter of a million pounds." If only! The fact is we do not, there are distortions, but these figures are made public once a year, so everybody can pore over those. Do you not believe that people who are struggling to find the licence fee every year, and some people do find it quite difficult to find the licence fee—I know it may be difficult for you, Mark, on £788,000, but imagine a farmer in my constituency, some of them earning £20,000 a year. This is a significant amount of money out of their total pay. Do they not have a right to know how such Jonathan Ross is earning or, indeed, Jeremy Paxman, John Humphrys or any of the other big earners?

Sir Michael Lyons: First of all, can I focus on what I think is the most important issue. I will not dodge your question at all. The most important issue is that all licence fee payers (and I absolutely accept your point that for some it will be a struggle to make that payment) are confident the BBC uses that money wisely, and there is no doubt that there is public controversy about whether or not the BBC pays too much for top performing talent. Members of Parliament have raised that issue, it has been in the public domain and the Trust has responded to that by saying, next year, one of our value for money studies, carefully designed and drawing an independent head, whom we have not yet identified, with knowledge of this area, will be to look at the market for top talent, the BBC's policy; and amongst the questions that we want to satisfy ourselves on is, is the BBC responding to a market, set not only in this country but internationally, or is there any danger that it is such a big player in the UK that it actually becomes a market major? So, that is amongst the questions that we will look at. It is not out of the question that we might also look at whether there are dangers, and how serious they might be, in greater disclosure about these figures. I myself start from the position that the most important point here is that the BBC gets the best value, and it may be (and I just put this to you) that if we move to a world where all salaries of performers were subject to the same rules that apply to my job and your job, which is clear and complete public disclosure, that we might actually find less people willing to work for the BBC, and that would be to the detriment of the licence fee payer. I think there is a pro and a con here. We need to be careful to get the balance right. For me it is not an issue of principle, it is an issue of what works best for the licence fee payer.

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Mr Thompson: I think, on that point of disclosure, if it is just the BBC that is required to disclose and no other broadcasters do and its competitive effect and also from the fact, I have to say, from one's own experience, of the leaks, disclosure tends to be inflationary. As to any idea that disclosure is going to reduce the costs—please! One's experience is disclosure tends to be inflationary in terms of the running rate. I suppose the last point I want to make both about presenters and, more generally. Firstly, we recognise that the licence fee is a real burden for many licence payers as a proportion of disposable household income. It is going down rather than up, it has been for some years, and it will continue to go down over this period even for the poorest 10% of licence fee payers. We recognise it is a real burden. We try and look every single time, even though I know the sums of money can seem very large, at value for money, and we walk away. We have had a couple of recent examples with rights where we have walked away. With *Neighbours*, a programme much loved on the BBC, where we thought the price no longer made sense for the licence fee payer, we walked away. We walked away from the FA Cup rights. There are many examples where we decide it does not make sense to pay, and I have to say—of course we will wait to see what the Trust's study comes up with—I do not believe that the BBC drives inflation. The BBC was trying to hang on to talent it already had. It was not poaching talent, it was not trying to go into the market with a cheque book to buy, it was trying to hang on to the talent it had, and in the most notable cases the people stayed at the BBC, turning down substantially bigger offers from other broadcasters.

Q37 Chairman: Why do you need to hang on to talent? The BBC is there to find new talent, to groom new talent, but there may come a point where the talent is so successful, let them go to the commercial sector.

Mr Thompson: Absolutely, and throughout the BBC's history you will see that happening, from Michael Parkinson back through Morecambe and Wise, Des Lynam. The idea of established BBC talent going to work for lucrative contracts with other broadcasters is part of, in a sense, the system working, and it is vital that the BBC across its main television and radio networks but also with its new digital services is constantly trying to find new talent. As it happens, I think the numbers of key established presenters, entertainment stars, the BBC should try and hang on to is very small, for that reason, and there is a walk-away price in every single case in a sense, it should be a small number, but when you look at the total economics of television, talent costs are only one of the costs-lines. To every single significant contract we apply various criteria, we look very closely at the costs per viewer hour or per listener hour, we benchmark the particular costs of the contract with other similar, and we make an investment decision and then we go back and review those investment decisions afterwards. We treat it like an investment and we often say no.

Q38 Janet Anderson: Could I turn now to the question of repeats. It is clear from your report that repeats in peak time on BBC1 are not popular and I think the proposal is to reduce those. I wonder if you could set out for us what your policy is in terms of repeats in the future, and, if there is to be an increase, partly as a result of audience fragmentation, do you expect to save any money as a result of increasing the number of repeats?

Sir Michael Lyons: Can I, again, start the response, and Mark will undoubtedly want to come in on detail? Firstly, what the Annual Report clearly shows is that the BBC's target of reducing repeats on peak time for BBC1 set for it by the governors has actually been progressed; there is a reduction in the repeats there. What the Trust's Report seeks to do is, again, based on the research that we have been doing with audiences over the last six months, to try to bring a desire to open this debate up a little bit, because for some people a repeat is just an opportunity to see something they did not see the first time round, and it is very clear, with people having busy lives, many choices, a wider range of output on both television and radio that actually our public are saying very clearly that they appreciate the opportunity to have a second opportunity to catch up with something, particularly if it is part of a series or an on-going serial. So, we are saying, look this is not as simple as a simple index of more repeats or less repeats; what we have got to try and do is to map the pattern to more clearly reflect the choices that the public want, and so this is going to be an issue that we take forward in the reprioritisation exercise.

Q39 Janet Anderson: Do you think it will save you money or do you think it will cost you more money?

Sir Michael Lyons: I think that is a very complicated question to answer at the moment. On the face of it, it ought to be a way, if it is done skilfully, of making the money go further and meeting our other objective of concentrating investment on outstanding, distinctive programmes. Then there should be an appetite for people seeing repeats, enough for as wide an audience as possible to see it, but to not fall into the trap of repeating so frequently that people get tired. Can I share with you an anecdote which I shared with the press this morning. I spent last week at a number of engagement events with audiences and particularly one in Oxford where a group of very challenging people were talking about what they wanted from the BBC, and one particular participant said that they wanted less repeats. Knowing that today was coming up, I listened very carefully and I asked her what she meant by that, and she said, "Well, too many episodes of *Only Fools and Horses* repeated endlessly." I said, "What do you want to see in its place?" And she said, "I want to see more *Steptoe and Son*". I think that captured the complexity of responding to the public appetite.

Mr Thompson: I think Michael has more or less said it. We understand that peak time BBC1 is a particularly sensitive area, and if people feel that there is too much on the archive they get cross. This

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is a very British thing. Interestingly, in the United States there is a presumption that typically most of the pieces, the dramas and comedies, which are launched in the fall, in the autumn, will then all be repeated from Easter to September. So the summer schedules in the United States in peak time on the main networks are basically largely repeats, second showings of everything. Our public here like original programming throughout the year. Even in July and August they want original programming. What I want to say is, had we got the licence fee we had asked for, I think that the idea of a repeat-free BBC1 peak time would have been possible. I am not sure we can do that, but I think it is possible that you will see a pattern whereby we are trying to move money to create more originations for BBC1 at peak time and to some extent paying for that by having slightly greater repeats on some of our other networks. So in a way it is more like a mixed change; it is more like shifting the resources towards BBC1 peak time.

Q40 Janet Anderson: So if you are going to continue to show repeats on BBC1 peak time, it is the Government's fault. Is that what you are saying?

Mr Thompson: I think we have to do the absolutely best job that we can do with the money we have got. I have to say, I am completely clear, with three billion pounds a year from the British public, we have got to be able to deliver pretty amazing services and, if at all possible, rising standards of quality and origination for all that money. Do not worry; I am not completely cap in hand. I recognise it is a very privileged position for the BBC and we have to deliver.

Q41 Chairman: When you came before us in April you said to us that you have tried to progressively reduce the amount of money and the amount of air-time devoted to acquired programming, and you went on to say, "You do not need the BBC generally to show you American programming, as there are lots and lots of other ways of seeing it", and this morning you have highlighted *Neighbours*, for instance, as a programme that the BBC has not sought to retain the rights for.

Mr Thompson: Yes.

Q42 Chairman: In which case, why did the BBC enter a bidding war against ITV, Sky, Channel 4 and Virgin Media in order to get the exclusive rights to *Heroes*?

Mr Thompson: For people who do not know, *Heroes* is a new American piece. The BBC acquired the first series of *Heroes* when there was very little competition for it.

Q43 Chairman: Not the first showing rights.

Mr Thompson: The first series, the terrestrial window of the first series.

Q44 Chairman: It was on Sci-Fi?

Mr Thompson: It was on Sci-Fi. It became clear, for a variety of reasons, that there was going to be competition for this title and the BBC team, BBC2, the whole BBC Vision Group, took the view that this

particular piece, which we had selected, was one we should go out and acquire if we could. My understanding is it became clear in the bidding process that it was going to make more sense and probably was going to be the only way of securing it if we secured all rights, in other words digital rights as well as terrestrial rights, but I have to say, I think *Heroes* is an exception. It is a very good piece of work. I think it will fit very well into BBC2 as a whole. I believe that you will see, as you have seen over the last few years, two things: the proportion of licence fee going to acquired programmes reducing—I cannot promise it will reduce every single year, but over time it has reduced—it will continue to reduce and the number of times when the BBC is bidding head to head with other broadcasters will also reduce and the occasions where the BBC steps out of auctions will be more frequent, and *Neighbours* is an example of that. *Heroes* to some extent is a counter example, but it is an exceptional piece, I think, and it is a piece we had already acquired, and we would have acquired, by the way, many more years if we could at the time when we initially acquired it. Having made the commitment to it, we decided we should secure it for a BBC channel, but I think it is an exception to the rule.

Q45 Chairman: I am sufficiently geeky that I actually watch *Heroes*, and I agree with you, it is a good programme, but it is actually similar to many fast-paced American dramas, like *Lost*, for instance. It does not seem to me that there is anything about it which says "BBC" all over it. Actually, in many ways, it looks more like the kinds of programme you would find elsewhere. I am still not sure why the BBC felt that this programme was one that it should bid against all the other broadcasters.

Mr Thompson: To some extent, obviously, commissioning and acquiring programmes is a matter of taste, is it not? It is not to do with one's own taste, but one's taste on behalf of one's network. As it happens, I think of *Lost* as much more of a Sky One or a Channel 4 piece and *Heroes* as having, to some extent, some of the humour and, dare I say it (I will kill the audience stone dead by saying this), the wholesomeness that I would expect on a BBC channel. So, I slightly beg to differ on that on editorial grounds. The point though, I suppose, I want to make is (and you can see this), in a sense there was a water shed movement when the BBC in 2002 stepped back from *The Simpsons* and let it go, in that case, to Channel 4, where I happened to be just about to arrive, and it was simply based on the fact that we could not justify with the licence fee the kind of funding that you could justify if you looked at the commercial impacts that the programme could generate and translated that into advertising income. In a sense, I think that set the new trend and the *Neighbours* decision is a good example of that, and there are others. We let *24* go, for example, to Sky. So, I think there are examples, you will see more examples. Acquisition, whether it is a feature film to play on Christmas Day or Boxing Day, or whether it is one or two pieces just to get a network to work in the right way for us, almost always in the BBC's

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case not a string of acquired programmes together but often acquired programmes, one or two original programmes, a comedy or entertainment around it, you will still see that, but it is a much smaller part of what we do. If you go back and look at the schedules of the BBC in the 1960s, every single night was held together by an American programme. I have looked at the 1962 schedules quite recently and it is extraordinary how much central American programming was on BBC television. There was only one channel in 1962. It was the same in the seventies, the same in the eighties. American acquired programming and sports rights play a smaller part in the BBC schedules today than they ever have done, and, by the way, in terms of big entertainment, big entertainment stars, again, a much smaller part. What has grown is news, current affairs and original drama.

Q46 Chairman: If you go back 30 years, then you did not have Channel 4, Five or any of the digital channels; there was some very good stuff being produced in America and if the BBC had not shown it, people otherwise would not have seen it. Now you are having to compete with all these others and, arguably, you could say that if another channel is going to acquire an American programme and therefore British viewers are going to see it, why do you need to bid up the price to the benefit only of the American production houses by using the licence fee payers' money?

Mr Thompson: I think that is exactly the argument, and, although I think there will be some exceptions to that rule, that is why, in my view, the BBC has responded to the greater choice and that is why the BBC has been right to reduce its exposure and reduce its spend to all of these genre. The BBC is focusing much more of the licence fee than it used to on original programming in areas—drama, comedy, news, current affairs, and so forth—which are much less well provided by the market, and you can see that in the numbers.

Sir Michael Lyons: I would add as a final comment, if I can, Chairman, that amongst the value for money studies that the Trust will be commissioning this year will be one looking at commissioning practice.

Chairman: Thank you. Adam Price.

Q47 Adam Price: The Trust has announced a service review of bbc.co.uk, which is due to start, I think, in the summer. I was wondering if you could say just a little bit about some of the issues that you intend covering in that review and also comment on the results in your survey of licence fee payers, which showed that the Internet and, I suppose, related areas like TV-on-demand and watching TV on mobile phones ranked way down in people's, in viewers' and listeners' priorities, in terms of what they wanted to see from the BBC. So, do you think that this area of new media has been over-prioritised because it is a fashionable area for media professionals rather than it being driven by demand from consumers?

Sir Michael Lyons: I think this is one of the big challenges reflected in the Trust's report. We have tried faithfully to convey what we have heard from the public for further discussion rather than to reach too premature a judgment on it. Clearly this needs to be interpreted. I wonder whether you might expect people to vote more strongly for what they know and enjoy at the moment than for something that they do not yet know about, and that might be the right way to interpret this. I would be cautious, because, as you rightly say, it may be that they feel we are spending too much money, but certainly the exercise that Mark and his colleagues are involved in at the moment in terms of bringing proposals to us for how the licence fee is going to be used over the next six years, one of the big questions is the right balance between programme content and investment in the platforms and enablers that get people to make the choice. All of the evidence points to the fact that, if you are not ahead of the public, they quickly catch up with you as new opportunities, new technological moves are made, and to some extent, if I bring your two questions together, the growing popularity of bbc.co, the use of bbc.co as a way that an increasing number of people access BBC services, and particularly BBC news services, is a case in point. That is something that has moved very quickly. Just to focus on the job the Trust has, again I mentioned the service licences because they are a very important mechanism for detailed and precise governance of the BBC. The service licences dictate in some detail the shape of the service and the expenditure that should be associated with service content. As the Trust came into being, one of its first jobs was to grant the 27 licences covering the existing services of the BBC, and the Trust took the decision that we should not at that stage seek to vary those licences, they should reflect the service as it is at the moment; but there is a clear understanding that we now methodically will work through those licences testing them against current public opinion and other research that we commission as well as the dialogue with the Executive. As you rightly say, the first we have singled out for that job is bbc.co. That, in part, reflects that it is a very fast-moving service. Even within one year you would expect both the size and parameters of that service to change, because it is already challenging some of the presumptions that were made for it. Do you want to add to that?

Mr Thompson: Just to say that the thing about BBC.co.uk manifestly for people who do not yet have the Internet, it is not as close as a universally available service like BBC1, but it is growing very rapidly. The most recent numbers I have seen, I think, for May are more than 70 million adults in the UK are using bbc.co.uk. It has now overtaken Yahoo and is the third most widely used website in the UK after Google and MSN. It is growing very strongly. 49% of the people who use it rate it eight out of ten, nine out of ten, or ten out of ten for quality, so amongst content sites it is on its own in terms of quality rating, and it is growing rapidly. One of the public purposes we have been given is to build digital Britain, and that is partly helping to put in front of the public high quality digital services to

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encourage them to make this transition, and that has been regarded by the Government and others as an important part of what the BBC should do. We are not alone. Other broadcasters, other players help with it as well, but it is an important part of our mission. I have to say, it is one part of the BBC's mission which I think has gone very strongly over the past 12 months.

Q48 Adam Price: Once digital Britain is built and the use of the Internet becomes even more mainstream than it is today, and there is a plethora of content providers out there, will the BBC then withdraw from that area because there is no longer any market failure to plug?

Mr Thompson: I think there is a big difference between talking about the Internet as a kind of channel for content and the content that you find on the Internet. I think my view is that, if you take our news provision, we are getting extraordinary audiences for our news content, not just in the UK but around the world, because people believe that, despite the already extraordinary scale of the Internet and its content, there is a crying need for really strong content you can trust. All the Internet is is a way of getting content to people, and you could absolutely still have at one level apparently infinite choice but still points where the actual quality of the content available purely to the market is perhaps not what you want, news and current affairs, comedy, there are many areas where I think there is every reason to believe that market failure will continue, not just here but around the world.

Q49 Mr Evans: How do you think BBC3 is faring?

Mr Thompson: Let us remember what a big part of the point of BBC3 was, which was to be a test bed for the ideas and the talent of the future. One of the points the Trust makes in its report is about the need for new talent and innovation and the fact that the public would like more innovation. Over the past 18 months particularly we have seen more programming. *Torchwood* is one rather good recent example and also the development of comedy, *The Mighty Boosh*, *Little Britain*, would be really good examples of comedy which ended up being very strong, mainstream comedy for the BBC, tried out on BBC3. It is a young network. The shape of the schedule, the consistency and quality of the network are not as consistent as you would expect on an established network like Radio 4 or BBC1. Do I like every single programme I see on BBC3? Not necessarily. Is it growing in confidence and is it playing its role in the portfolio? Yes, I think it is. As you can see, its share and reach has grown.

Q50 Mr Evans: From a very small base to very slightly above the small base. I am looking at the good old *Radio Times*, Monday 9 July. New talent? Eight o'clock, *Dr Who*; ten o'clock, *Eastenders*; 11 o'clock, *Two Pints of Lager and a Packet of Crisps*. The viewing figures are being pushed up by what are very popular established shows being repeated on BBC3.

Mr Thompson: The programmes you quote are very good programmes. As long as BBC3 is developing new talent, new comedy, new drama, factual output, often programmes with quite controversial titles doing quite interesting work for younger audiences—BBC3 is aimed at younger audiences—in areas I would describe as fitting very closely into a public service remit. BBC3, like most networks when they begin, is still in its adolescence as a network. I cannot think of any example in the UK of a network which has come fully formed into *The Radio Times* on day one and stayed that way. I think it is pretty encouraging.

Q51 Mr Evans: Are you just going to monitor it? Despite the programmes I have just mentioned, if it is not fulfilling its task, which clearly is divorced from viewing figures, if you take away the viewing figures from the popular shows, how many people are watching the other shows?

Mr Thompson: To state the obvious, BBC2 started with tiny audience figures. Radio 5 Live started with tiny audience figures. If the BBC never tried to launch new ideas or new services, we would have ended up with one television network and about three radio networks. The fact that we can now move ideas and talent across our networks is a strength for us. If you look at ITV, for example, Channel 4, they have been copying the BBC's approach because it is a good one. It was interesting hearing Michael Grade of ITV talking recently about trying to originate more on ITV2, 3 and 4. Other broadcasters can see that having these test beds and nursery slopes for talent is itself a great way of getting the stars and the ideas in the future. Will we look closely at BBC3? Of course we will. We want to go on seeing that audience growing. I do not want to force it too quickly because I want both BBC3 and BBC4 still to be places where we can take lots of creative risks. That is part of the point of them.

Q52 Mr Evans: That was one of the points of BBC2 originally but 3 and 4, costing £170 million a year between them, go back to Janet's question about when you are looking at financial pressures. Are you not tempted to say that that money could go into original programming which then could appear on BBC2 and BBC1 with fewer repeats?

Sir Michael Lyons: There are two clear challenges ahead. The first is the reprioritisation exercise where the Trust is certainly asking questions about the relationship between channels. That is one of the issues that we are debating with Mark and his colleagues so we will be asking some searching questions there about the extent to which the channels and radio stations are true to their distinctive roles. Coming back to the service licences, each one of those service licences at some point in the next five years will be going through a very exacting test about whether the channel lives up to the original vision and, if not, whether we need to go through a new public value test before a new licence is granted. There are some big hurdles to clear in the future.

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Q53 Mr Evans: You will look at the schedules and see whether it is fulfilling its remit? I do not know whether you buy the argument that a repeat of *Dr Who* on 3 acts as a magnet for other things?

Sir Michael Lyons: I try and avoid getting into detailed discussions of individual programmes myself but I can assure you that the testing of those licences will include careful scrutiny of the programme mix.

Mr Thompson: It is a simple matter of fact that if we place a new comedy or drama on BBC3 after an episode of *Dr Who*, it gets a much bigger audience. You literally bring more people in to see the new content. I would catch, by the way, *The Thick Of It* special on BBC4 tonight. It is recommended.

Q54 Chairman: Which presumably will be shown on BBC2 in due course?

Mr Thompson: There will be other opportunities to see it, no doubt.

Q55 Paul Farrelly: I am sorry for my delay. I have just had a meeting with my county council and also a number of terrorists have been arrested in my constituency. This is a question not particularly about BBC3 but, Sir Michael, we have all these channels now. What do you think of the state of investigative current affairs reporting on British television at the moment? *Panorama* has gone back to a half hour slot on Monday. The days of *World in Action* are long gone. What do you think the BBC might be able to do better in that respect?

Sir Michael Lyons: A long, proud tradition of the BBC and one of the reasons why the BBC's independence is such a sensitive matter is that it feels empowered to be bold to investigate, to get to the root of things and therefore to be a news source that the British people can rely on. Am I satisfied with current standards? Do I think there is more to be done? Those are proper challenges for the Trust to constantly make of the Director-General and his team.

Q56 Paul Farrelly: In terms of the BBC's standing and its impartiality, do you think the correct response to the Gilligan affair might be, from the BBC's point of view, to stick two fingers up to the Government and say, "We are going to reprioritise the investigative reporting of this corporation"?

Sir Michael Lyons: If you do not mind, I am going to side step trying to relive the events of the Gilligan affair. Let me instead seize on your interest in impartiality. The Trust has continued work started by the governors in investing in good quality examinations of impartiality in the BBC. As you know, we have published two reports ourselves. The first is Alan Budd's work on impartiality in business coverage and the second is a recent report published on impartiality in the 21st century. It is a proper job for the Trust to be doing, to be exciting a public debate about impartiality, to be exciting a debate which I have to say I have found Mark and his colleagues ready to engage in about the standards of impartiality in the BBC. That report on impartiality in the 21st century, for me, introduced a very

powerful issue. This is not just about what you do in news and current affairs. It is also about what you do in mainstream entertainment.

Q57 Paul Farrelly: I was not particularly addressing impartiality. It was rather more partiality for investigative journalism.

Mr Thompson: On the point of the subject matter of the Gilligan Report—in other words, is it appropriate for the BBC to explore issues around handling intelligence in the run up to a decision to go to war in Iraq—that is absolutely an appropriate thing for the BBC to do. Since the Gilligan/Hutton affair, we have had a series of, I think, outstanding *Panoramas* by John Ware on this topic. More recently during Iraq, John Simpson, our world affairs editor, I thought, had some further authoritative work on that specific issue. Without falling into bias or prejudice either way, it is an entirely appropriate subject for the BBC to cover with investigative journalism and more broadly the costs and risks associated with investigative journalism mean that there is a danger that other players will do it less frequently. It is particularly important that the BBC continues to do it. What is interesting about *Panorama* is that, although the regular show is running half hour pieces at 8.30 on a Monday, we have already run some hour specials. Where a particular investigation requires more time than we can give in the regular slot, we will run it. Peter Taylor's recent programme about terrorism will be an example of this. We will find hour slots. We remain totally committed to putting in the money, the investment and also accepting the risks associated with doing tough minded investigative journalism. I want to make sure we keep the range of investigative journalism broad. In the last few years we have had some interesting, sometimes controversial hidden camera work and all the rest of it. It needs to be broadened. Some of it needs to be classic investigative journalism which is about policy and about the public. The *Panorama* recently about BAE and Saudi Arabia was an example of a good, solid, classic piece of investigative journalism.

Sir Michael Lyons: I want to add a little to my earlier answer, play on the issue about those historical incidents. I believe that that clearly fed into the debate which led to the creation of the Trust. I would like to believe that the Trust will be more searching in its processes and therefore put itself in a position where it can protect the independence of the BBC were that ever required in the future.

Q58 Philip Davies: You have both skirted around the subject. Can we have a direct answer? Is the BBC impartial? Yes or no?

Sir Michael Lyons: You cannot give a simple answer to that, can you? You will have one judgment; I might have another. It might vary—

Q59 Philip Davies: What is your judgment?

Sir Michael Lyons: I will just finish my answer to the first question. It will depend upon individual programmes, individual news items and the extent to which we feel there is a degree of prejudice at work.

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I am very clearly aware—in my earliest meeting with some Members of Parliament they impressed upon me their view—that the BBC was less than impartial. What is my answer? Sometimes I wonder, as I watch different programmes, as I watch different presenters and journalists, exactly where they are coming from but it is a very balanced palette. Do I think there is systematic bias? No, I do not, but I do think this is an area in which to be ever watchful. The debate that has been engendered by the work of the trustees and the governors before us is entirely helpful. We should have this in the public domain.

Mr Thompson: Remember the scale of what the BBC does. Its annual report suggests 57,000 hours per year of television, 363,000 hours of radio. The website has about six million pages. It is a vast amount of content. No one human being can watch and listen to it all, let alone judge it all for impartiality. My view about impartiality is that the fundamental values of the BBC around impartiality are very good. Public trust in the BBC is high because the public can see we try very hard to get this right. My view about impartiality is it is something you constantly work at and you constantly look for improvement in. Sometimes you make mistakes. The reason I welcome this series of often quite critical reports is because they can lead to improvement. I think our business reporting is substantially better than it was five or ten years ago. We have business journalists who are interested in business and often caught up in business in the sense of finding it interesting rather than being hostile to the whole idea of business. One of the points that the Budd Report made was they thought there was too strong a bias towards a consumerist perspective to business rather than business from the point of view of business itself. Consumerism and a consumerist perspective in business is important but we should take what the Budd Report said very seriously. Our European coverage is a further area where, from being poor, it has become good and I hope it can become better. To me, it is a process of trying to improve things.

Philip Davies: Do you not think there is a general perception that the BBC is full of trendy, leftie, *Guardian* reading, sandal wearing, lentil eating, politically correct do-gooders?

Q60 Mr Sanders: No.

Sir Michael Lyons: That is not a new accusation, is it? I absolutely recognise it as an accusation made by some parts of the British public. For all of those people who would like to see their prejudices and prejudgments reflected in the BBC there will be others who have a disagreement.

Mr Thompson: If you ask the British public who is the most impartial broadcaster, they will say the BBC.

Q61 Philip Davies: Let us take Geoff Randall who said, “It is a bit like walking into a Sunday meeting of the Flat Earth Society. As they discuss great issues of the day, they discuss them from the point of view that the Earth is flat. If someone says, ‘No, no, no, the Earth is round’, they think this person is an

extremist. That is what it is like for someone with my right of centre views working inside the BBC.” Is there no part of that that has a bit of a ring of truth about it?

Sir Michael Lyons: I think it is very healthy that that report showed Geoff Randall’s views and recognised that there are some people who feel that these prejudices exist. The only way to deal with them, were they to exist, is by putting the spotlight of public scrutiny upon them and encouraging the BBC to debate these issues and to set itself very exacting standards.

Mr Sanders: Why have you not fired him?

Q62 Philip Davies: It is not just Geoff Randall; it is Andrew Marr. Andrew Marr is hardly a right of centre man. Andrew Marr said that the BBC was not neutral or impartial; it was a publicly funded, urban organisation with an abnormally large proportion of younger people, people in ethnic minorities and almost certainly gay people compared with the population at large, which led it to have an innate, leftie bias. Do you think there is any truth in that?

Mr Thompson: You will appreciate that in my job I hear a large number of different perspectives on how people do well or more particularly badly with bias being suggested in everything from the BBC being part of the military industrial complex to being one of the dodgier bits of the Glastonbury Festival in terms of its outlook on life. Many of the people who most worry about political correctness in British society and in the BBC are in the BBC from Jeremy Clarkson through to Melanie Phillips. Successive business editors have worried on this topic. They are broadcasting every day themselves. I think it is good and a sign of a confident organisation that you have this debate going on inside the BBC about how to get this right. It is encouraging—the impartiality report provoked a rather positive leader in *The Daily Mail* on this very topic—and good that we are having a debate about these things. I do not think impartiality is something where you can sit there smugly and say, “We are impartial.” You have to worry away at it.

Q63 Philip Davies: Given that concerns have been expressed over business, over the EU, Israel, Palestine, climate change, global poverty, you are having a debate. What are you doing about it?

Mr Thompson: If we take the example of Europe, I believe that discernibly our coverage of Europe has improved. Often when people worry about impartiality the issue is more around the depth of knowledge of the people doing the coverage and the consistency of the coverage. Moving Mark Mardell to become our European editor has immeasurably improved the depth and the contextualising of the coverage. In Europe as well the breadth of speakers about Europe and in particular the way in which, over the last year or so, you have seen many more people who are in various ways sceptical about the entire European project, about the currency, about the new proposed Constitution, appearing on *Question Time*, *Newsnight*, *The Today Programme*. There is a much broader range of voices. Our scrutiny and journalistic testing of the European

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institutions have become more consistent and more regular. We are also seeing more depth to the debate we are having about the future of Europe. That is an example of measurable improvement over the last couple of years.

Sir Michael Lyons: Can I offer you one thing which the Trust has been impressed by? It exactly answers the question you pose, not just how to do you feel about this but what is being done differently. That is the College of Journalism Initiative within the BBC and very specifically the Trust expressed its concern—indeed there is more to be said and researched on this—about the quality of both reporting and the precision of what was going on in the devolved administrations. That is now a distinct training component within the College of Journalism and one which all members of the journalistic staff have to sign up for.

Q64 Philip Davies: After this debate is concluded, are we to expect some sort of output from it?

Sir Michael Lyons: I have sought to give you an illustration there of changes that are made. The most important output indicator is that, when we come back to you year by year, you should have perceived some difference. If you perceive a problem at the moment we should have listened to that and there should be some difference. That will always be complicated. Listening to the Andrew Marr point, I have always found it very dangerous to assume from what somebody eats for breakfast or even their sexual orientation that I know which way they vote. This is a very complex web of different views and interests that we have to balance. If there is a strong view in one part of the community that the BBC is partial or biased, quite properly that needs to be debated both by the Trust and within the BBC. Hopefully you should then see some change.

Q65 Philip Davies: Fewer job adverts in *The Guardian*, for example?

Mr Thompson: We make sure we now advertise in a range of different newspapers. What is interesting is that by far the best way of advertising is talking to our members on our own website. We get 100,000 hits every day for jobs on our websites. Making sure we have done this in the last couple of years and that job adverts for the BBC are more broadly spread across newspapers is a really good example of where we are trying to change.

Q66 Mr Hall: On pages 21 and 22 of the Annual Report we have figures that say the BBC respondents to the survey showed that 76% of the vote trusted the BBC news. Over the page, the overall belief is that 53% rate the BBC as fair and impartial. If that was reported on Ceefax and it was about the National Health Service, it would say there was disquiet about performance and it would be 18% that would be emphasised. If that was a report by Network Rail into travellers' views about their journeys, 20% would be concerned about overcrowding and the punctuality of the trains. Here

we have the BBC emphasising the positive about itself. Why does that not happen on Ceefax for the NHS and rail travel?

Mr Thompson: Given the public nature of the impartiality report, the debate around it, the seminar at which Andrew Marr and others spoke, which was screened live on the Internet, we had an incredibly open debate about the issue of impartiality in the BBC which has been very widely reported because we have been so open about it. This is not new. We have done this before.

Q67 Mr Hall: On Ceefax there is a bad news story about the National Health Service every day. There is very rarely a good news story about the National Health Service. Where does that fit in with your requirement to balance?

Mr Thompson: This issue has been extensively covered on the BBC's own airwaves.

Q68 Mr Hall: On BBC Ceefax there is always a bad news story about the National Health Service and never a good news story.

Sir Michael Lyons: This is in the Trust report and it is a proper issue to focus on because the issue of the extent to which the BBC is trusted is one of the absolutely key indicators of the value the licence fee payer gets for the licence fee and its place in this country. I do not think it is the job of the Trust to seek to emulate the standards of critical journalism, but rather to lay out here the facts as they stand. As we know in this debate about the Trust in this country this would rate as a pretty good return compared with many other public institutions. I will not look at which ones you might compare them with but I think you know the drift of my comment. This is a good figure compared with many others.

Q69 Mr Hall: How can a 47% disapproval rate be good? If only 53% rate it fair and impartial, that means 47% have a different view. I think that is very complacent. 24% do not think the news is trustworthy. Those figures are not highlighted in the report, are they?

Sir Michael Lyons: They are reported.

Q70 Mr Hall: They are not highlighted. On page 21 it is 76% and it is 80% at the top of audiences reached. When you read the small print 53% this year has been cut down from 57% last year, so you are going in the wrong direction.

Sir Michael Lyons: Let me agree with you that there is certainly no room for complacency. These figures represent a continuing challenge to demonstrate impartiality and to establish public confidence. I do not wish to disagree with you on that point at all.

Mr Thompson: Perhaps I can disagree a bit. 76% of people trust the BBC news. In terms of any other medium, that is a very high number compared to newspapers or government. 76% of people is incredibly high.

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Q71 Mr Hall: 80% of people say when they use the National Health Service it is very good but you do not quote that.

Mr Thompson: I believe that we are trying to give a balanced picture of what is going on in the health service.

Q72 Mr Hall: How can it be balanced when there is a bad news story every day on Ceefax and never a good news story? There is no balance on Ceefax.

Mr Thompson: I will gladly go away and look in particular at the way we are covering the health service on Ceefax.

Q73 Rosemary McKenna: The previous Prime Minister attempted to have a national debate on the role of the media in society. Do you agree with me that the BBC has a major role to play in having that debate without it being spun in the way that it was in some of our media, both printed and broadcast?

Sir Michael Lyons: This is the speech he gave a few weeks ago?

Q74 Rosemary McKenna: Yes.

Sir Michael Lyons: He did raise some very important issues about standards. In doing that he conceded that government had some responsibility for the quality of debate. Personally, it seems to me that what is important is that the public have confidence that the news media are able to search out, with confidence, the full story that lies behind any public decision. The way that is done and presented means there is room for quite a lot of discussion about how we might improve standards and indeed his point in particular about the dangers of the press acting to follow the first line that is taken. We will all have seen illustrations of things that we know the facts of quite well, where a first story sort of defines the way that everybody else will follow it. I would support an ambition for greater courage on behalf of the press, greater diversity in terms of being willing to explore to see whether there are other aspects to a story and indeed those would be the sorts of standards that the Trust would be expecting and I think would be broadly satisfied with in terms of current BBC conduct.

Mr Thompson: The speech was very interesting. I am not suggesting we always succeed but we do try to focus on light first and foremost rather than heat in our news coverage, even in current affairs. We are one of the places where people of differing perspectives can come together to exchange views and debate what is going on in our world. Newspapers with a particular, understandable political perspective tend to reflect back to audiences of the readership that they already believe. We are one of the places where people come in, debate and share. As we go forward I think it is quite important that media players, politicians and others work out what is the best way of engaging the public positively with the big issues of the day and, between us all, leaving the public with the idea that politics and discussion about what we do about climate change, what we do about some of the other big issues are valuable and meaningful to get interested and

engaged in. I would not want to go into any detail about this. It is not the right venue to do that, but it is not a party political thing. It is absolutely across politics. You can see people disengaging in a number of indicators. They are disengaging to some extent from some aspects of news and current affairs across broadcasting as well. Trying to figure out ways of re-engaging people and making them feel that it is important to get engaged is critical to our democracy. Figuring out ways of doing that while still staying true to the fact that politics are going to be rough and tough and that is our tradition and character, but not giving way to cynicism is a big challenge for all of us.

Q75 Rosemary McKenna: Do you want to comment on the fact that the BBC cut off the last few minutes of the last PMQs?

Mr Thompson: That was a complete cock up. It goes with the category of very unfortunate mistakes. Although overall our coverage of Tony Blair's departure from Number 10 was very good, that was straightforwardly a mistake which I am very happy to apologise to the British public for.

Q76 Rosemary McKenna: Do you not think *Question Time* is a bit dated and needs a real good hard look?

Mr Thompson: We look at all of our programmes all the time. If you ask me personally, I think *Question Time* is going through a rather good period. I can talk to you off line and find out what your particular anxieties are.

Q77 Rosemary McKenna: Engaging with young people is the issue.

Mr Thompson: What is interesting about *Question Time* is, if you look at the demographics, *Question Time* attracts a surprisingly young demographic. *Question Time* is a rather golden example of why you do not need 16–34 presenters to attract a 16–34 audience. I am not going to give you the precise date of David Dimbleby's birthday, but he is slightly out of that demographic and yet his authority and the wit and the speed of that programme have wide appeal to younger audiences. I think *Question Time* is rather good. We have to look across what the BBC and the media are doing and try to work out whether there are ways of breaking out of a slight downward cycle of cynicism and, "Why bother?"

Q78 Mr Sanders: On impartiality, I look at it from a jaundiced Liberal Democrat point of view and see a number of political programmes that do not have Liberal Democrat representation on them. *Question Time* is a case in point. There is many a week without any representative of the Liberal Democrats. No doubt that delights my political opponents but it does not delight me at all. The same is true of a number of other political programmes like *This Week*, for example, which has two permanent representatives, one a sitting Labour MP and the other a former Conservative Member of Parliament, but not a Liberal Democrat in any recognised term of the words on a regular basis. Why is that?

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Mr Thompson: I look forward to engaging with a political party which is completely satisfied with the BBC but it has not happened yet. Literally every single party I talk to has a petition and clearly one of the things we try and do is, broadly across our output, apportion the balance of time and voice appropriately across the political spectrum.

Q79 Mr Sanders: When one is asked for a definition of that, it has come down to, "Oh well, we tend to judge the amount of time on the basis of representation in the House of Commons." We know that that is totally disproportionate to the actual support for parties outside because it is a disproportionate system. Should you not find a more up to date way that would then lead to seeing more Liberal Democrats on the television, more Greens on the television, more independents on the television?

Mr Thompson: We look at a range of different factors in weighing this up. As always, we are very happy to talk to all political parties about what we are trying to do. If they have complaints which we believe are justified, we change our practice. We try to engage with these issues in ways which are fair but also absolutely reflect a process of listening to and engaging with the political parties. This is not new. I cannot, I am afraid, today give you any specific comfort on the particular points you make.

Q80 Paul Farrelly: 18% in the polls means the Liberal Democrats do rather well out of the BBC on a PR basis at the moment. Usually also before these sessions we are inundated by people who are very partial who want to put their point of view over, from the national voice of a viewer and listener to the independent producers, but this time round it has been radio silence. That suggests to me that the BBC is doing something right. If I look at page 75 of your annual report and accounts and your independent and regional programme quotas, the figures all exceed the quotas. The only gripe can be that in terms of over performance the only point you under perform on is that your spend on qualifying programmes from the region is just 2% above 30%. Is there an argument, because you are over performing, to say to Ofcom, "Look, we do not want to backslide at all. We want to maintain this performance so lift the quota, for instance, of independent programming or hours or spend on qualifying regional programming from 25 to, say, 30%?" Is that something you would engage in?

Mr Thompson: Our commitment throughout this charter period through to 2016 is in terms of our spend and our presence in the rest of the UK to increase it. Long before this charter, the majority of public service employees in the BBC will be based outside London and the south of England. We are moving investment and spend out to the rest of England, into Scotland, Wales and Northern Ireland. In that matter and in the matter of production, we do not need regulatory quotas to do this any more. We regard it as a core part of our mission. We will report repeatedly. We recognise that it is in the BBC's interest because we will get

better programmes and we will reflect the whole of the UK better and build support for the BBC across the UK. It may be that other broadcasters need quotas. We do not need a quota to do this any more.

Sir Michael Lyons: I do not want to speak for Ofcom other than to acknowledge that of course it is significantly diluting the requirements of other broadcasters in terms of regional content. The BBC has further to go in this direction, so I follow the drift of your question. You have heard from Mark that that is his intention as well. The Trust will continue to pursue this both in terms of the better value that can be achieved by looking for lower costs elsewhere in the country and, even more importantly, a continuing requirement and an area where the BBC must do better to reflect the different voices in the regions and nations of this country.

Q81 Paul Farrelly: In terms of the classification of regional programming, when you move to Salford will that unfairly distort the statistics to the detriment of the rest of the country? How will you handle that?

Mr Thompson: Clearly it is going to increase the out of London number and reduce the London number because large parts of our London operation are going to move to Salford. I see Salford very much as something we are doing as well as our other commitments rather than instead of, so I would expect the increase to be a net increase.

Q82 Paul Farrelly: We can expect the Trust to look at the figures in a reclassified way?

Sir Michael Lyons: We need to be very clear next year. It is the distinction between decentralisation and devolution, so that we are clear here what is associated with the move to Salford as a new base for national programming and what is achieved in terms of regional impact.

Q83 Alan Keen: Now you have the licence fee fixed, why do you not keep all the ministers, shadow ministers and even official spokespersons from the Liberal Democrats and put back benchers on for an entertaining programme? Before the next licence fee you could go back to giving the ministers—

Mr Thompson: We are starring on BBC Parliament right now anyway.

Sir Michael Lyons: I can see a new impartiality study coming.

Q84 Alan Keen: A while ago this Committee brought up the fact that John Humphrys was starting to write newspaper columns. One person that affected me was Nick Ferrari on the Commercial Programme. He is absolutely appallingly biased but the BBC were still employing him at the same time on BBC radio, where we tended to trust the BBC more.

Mr Thompson: He never appears on BBC programmes.

Q85 Alan Keen: Which way is radio going to go now? What are the next trends?

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Mr Thompson: At the moment BBC radio is really playing at the top of its game. Radio 1 and Radio 2 have become more distinctive from their commercial competitors in the last few years and as an unintended consequence have become more popular. Radio 4 is very strong at the moment. Radio 5 Live is offering a real alternative in tone and flavour to Radio 4. Radio 3 has been through quite a big series of schedule changes recently and is also a very strong format. You can also see the radio player which will soon be integrated into the iPlayer. In November last year, just one month, there were a million people downloading *The Archers*. The BBC radio audience is really moving into new technology. In a way, it is part of the BBC where current performance is very strong but in the future we hope that we will be able to give radio listeners extraordinary choice in what they listen to. We have the concept My BBC Radio, which is the idea that radio listeners, initially on their computers but ultimately on radios, will be able to adjust what they want to listen to. If you like Baroque music, instead of the whole of Radio 3 we can give you effectively your own Baroque channel or you can start picking and choosing a play list of programmes of different kinds of music and different kinds of speech which build around your taste. The wonderful idea is of a kind of magical bookshop where you open the door and the books rearrange themselves so that the ones you like best are in the display in front of you. That is what we want to be able to do with radio and ultimately television. I hope there will be more choice, flexibility and convenience but, in a sense, more personalisation. Radio is the most personal medium and I think we can make it stronger by making it feel more personal.

Sir Michael Lyons: We are within the same organisation but with different roles and the Trust will be challenging. We have included in our report the fact that during the licence fee renewal period there was considerable concern expressed by other radio operators about whether or not Radio 1 and Radio 2 were distinctive enough. That continues to be an issue on which we will be pressing Mark and his colleagues and it will be included in the debate about reprioritisation and when we come back to look at those respective service licences.

Q86 Alan Keen: I have forgotten whether it was Tchaikovsky or Beethoven that caused problems with a commercial.

Sir Michael Lyons: It was Beethoven that was controversial.

Q87 Alan Keen: When people can pull down this stuff, will that not cause greater problems?

Sir Michael Lyons: In the case of orchestral music in particular, this was such a sensitive issue that when my colleagues undertook the public value test for the iPlayer one of the things they decided to change in terms of the proposition coming out from the executive was that it was not possible to include orchestral music in the programmes that can be downloaded from the iPlayer, because it represented

such a threat to a very fragile industry in terms of recorded orchestral music. That issue was taken directly into the public value test.

Mr Thompson: There was a bit of disagreement and we said we thought that in a contained way, ten minute episodes or perhaps single movements, making classical music widely available to the public would have built public value and ultimately broaden the opportunities for the public at large. It is an interesting example but they are the boss not me so what they say is what is going to happen and we are not going to do that at the moment.

Q88 Alan Keen: You mentioned that Radio 5 presented news in a different way from Radio 4. The top programmes, *The Today Programme*, for example, are on when we can get the news on Radio 5. Do you not think that Radio 5, when it does that, should be more the same as Radio 4 so that people can get that sort of news and not quick talking DJs that tend to annoy people, like Radio 4?

Mr Thompson: It is a good example of the choices we face. The other thing which interrupts the news on 5 Live is live sports coverage. The combination of live sports coverage and news has worked rather well on 5 Live. It is part of the strength of the network. One way or another, particularly if you throw BBC local radio and our national radio stations, Radio Cymru, BBC Scotland and BBC Ulster, into the mix as well, you are not far from BBC news at any hour of day or night if you just move a dial. I take your point but if what you need particularly are basic headlines they are very extensively available across our complete portfolio.

Q89 Alan Keen: You already mentioned the lack of distinctiveness between Radio 1 and Radio 2. Should not 5 therefore be more like 4 because we already have 1 and 2 which are similar?

Mr Thompson: Many people say to me they particularly like 5 Live because of its difference from Radio 4, particularly at breakfast. We are trying to produce a set of services on radio stations and television where, across the portfolio, you are doing the best job you can matching what different audiences want with different services. It is imperfect. One of the reasons we are so interested in these on demand applications like the iPlayer is that on demand offers an almost perfect match of content to individuals because you can decide exactly what you want to watch or listen to and you can get it. As a complement to our broadcast services on demand helps us but the object is to try to use this portfolio to give the best match we can with our linear services.

Q90 Alan Keen: I still think that radio alone is worth the licence fee.

Mr Thompson: We do accept donations, by the way.

Q91 Chairman: Last week BBC Worldwide announced an increase in profits of 24%. The chief executive has said that he intends to go on a spending spree for over £400 million of acquisitions, of which £60 million is coming out of the cash flow generated by the business. BBC Worldwide, I understood, was

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there to exploit the value of the BBC brand and keep down the licence fee. Why is £60 million going to be spent on acquisitions which include, I understand, magazines in the US and Australia, rather than keeping down the licence fee?

Sir Michael Lyons: In terms of the role of BBC Worldwide, you are absolutely right. It is there to exploit the BBC product, continue the BBC's mission and contribute as it does to the costs of producing programmes, both directly in terms of investing in some specific new programmes coming forward which is increasingly important, but also as a contribution coming out of the annual surplus that it generates. This is a self-standing company and the chief executive's report very clearly indicates that acquisitions may play a part in the future. Those will be scrutinised very carefully, particularly in terms of the parent company which is the executive board, and the Trust will be overseeing that as well to make sure that any acquisition is in line with the BBC's purposes and is likely to contribute rather than to detract from that ambition of securing a continuing, growing flow of money into the BBC.

Mr Thompson: If I take the example of *Top Gear*, a well known UK public service programme, potentially the underlying intellectual property relating to *Top Gear* is very valuable in many markets in the world. *Top Gear* is already the biggest car magazine in many parts of the world and is the top selling car magazine in India, for example. Versions of the television programme are used extensively on BBC World. The *Top Gear* website is very significant in the commercial website of BBC Worldwide in the UK and so on. The magazine business is a business in which we have focused in the last few years very closely on the intellectual property which is associated with the licence fee. We sold *Eve Magazine*, which had very little to do with the BBC's content. The whole of Worldwide but magazines in particular we have tried to focus on intellectual property created by the BBC. Worldwide believes—and I think they are right—that there is a potential for exploiting the *Top Gear* intellectual property in north America, in the United States, with the potential of an American version of the programme and with the potential launch of a *Top Gear* magazine in the United States. What we are looking to do with Worldwide as a whole is to focus it more clearly around the four criteria laid out in the charter, fit it with the original public service intellectual property and public purpose activities, commercial efficiency, protection of the brand and of course compliance with fair trading. Where we can get global exploitation of our intellectual property we should do that. Worldwide was not delivering great returns three years ago. Now our margin and return on sales and all of the life signs look very good—indeed, better than most commercial broadcasters in this country. We believe that the global value of the BBC brand itself and of some of the subsidiary brands like *Top Gear* is very considerable. All of this of course must be approved by the Trust but my belief is it is our duty to make sure we exploit it thoroughly.

Q92 Chairman: There is a difference between exploiting it thoroughly by selling the rights to use programmes like *Top Gear* or licensing it and by moving into the magazine publishing business of Australia. Why is a British, state owned institution going to become a major magazine publisher in Australia?

Mr Thompson: The idea of franchising BBC titles and the right to exploit BBC intellectual property is absolutely part of the strategy. For example, with BBC Books, that is exactly the road. We have divested ourselves effectively of our books business. In magazines we have a very strong track record in running effective magazine businesses in different markets. In many ways there are economies of scale in the magazine business and continuing to develop that business absolutely only on the basis of proven financial and economic efficiency and absolutely congruent with our brand and what it stands for is legitimate. As long as it ultimately creates more value for the licence payer, I think it is a legitimate thing for us to do.

Q93 Chairman: You can use that argument on anything. With *Ready, Steady, Cook*, you could open up a chain of restaurants using that as a brand which is trusted by the consumer. Where is the limit?

Sir Michael Lyons: I absolutely accept the key tenet of your proposition that it cannot possibly be the case that anything the BBC chooses to do in terms of commercial endeavour is justified because the BBC chooses to do it. The principles of the public value test are the way that we will seek to explore whether this is an appropriate way forward. If there clearly is an opportunity whereby, with the BBC doing it itself, we are likely to secure better public value in terms of the return for the investment made historically by the licence fee payer, whether it is in intellectual property rights or anything else, but balancing that against a sense of who else might do it and whether indeed the BBC is in danger of damaging either innovation or investment by other organisations. That has guided us so far and I think it can be a proper set of questions to ask as we evaluate any proposition coming out from BBC Worldwide.

Q94 Chairman: BBC Worldwide is going to be subject to a public value test?

Sir Michael Lyons: No, it is not. I did not want to suggest that at all. It is a commercial organisation within the structure which is provided with considerable operating freedoms and that is absolutely right if we are to get the best from it. It is overseen by the BBC executive and I am confident that that will be a testing oversight. It seems to me that these are the sorts of questions that might properly be asked as we seek to understand whether it is a publishing proposition or a joint venture or whatever. We ought to be looking to see a clear demonstration of public value against the BBC's corporate entities.

Mr Thompson: We are moving from a Worldwide which had lots and lots of different, disparate businesses to a commercial arm which has a smaller

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number of businesses, where we see the potential for significant growth to drive more value for licence fee payers and magazines. Our magazine business started in 1924, three years before the creation of the

British Broadcasting Corporation, so this is not a new area for the BBC. Magazines are a successful area which we think we can drive more value out of.
Chairman: We have no more questions. Thank you.

FOLLOW-UP QUESTIONS

1. *The BBC's in-house factual division was described recently in Broadcast as suffering a crisis of confidence. Have either budget or staff cuts had—or are they likely to have—any adverse effect on the quantity or quality of its output?*

The 2008–09 commissioning process is not yet complete (92% of programmes commissioned so far). However, looking at commissions to date, the quantity of output made by in-house factual producers has slightly reduced as a result of the WOCC.

The type of content being commissioned has changed, reducing the volume commissioned of more traditional narrative documentaries, affecting both in-house and independent producers. This shift has particularly affected London factual production areas due to their historical specialism in this area and the increasing commitment to “out of London” production in 2008–09.

There are no indicators suggesting that the quality of in-house output has reduced.

2. *What has been the effect of Window of Creative Competition (WOCC) on your in-house producers? What feedback have you had from independent producers?*

The 2008–09 commissioning process is not yet complete (92% of programmes commissioned so far). The quantity of output made by in-house producers has reduced slightly as a result of the WOCC. The WOCC is designed to be a “competitive space” so it should be noted that BBC Vision would expect that the proportions of business won by in-house/independent producers would change from year to year.

In-house production has achieved the “In-house Guarantee” level of business and has won some additional business in the WOCC, though this has fallen slightly below commissioning levels in previous years.

The reduction in the volume of in-house production has had an impact on morale in some areas and some talent loss may be attributable to this.

Vision Studios are currently embarking on a review of structure to ensure it is in as strong a shape as possible to compete effectively in the WOCC.

Feedback from independent producers regarding the WOCC indicates that there has been a significant improvement in perceptions of the BBC's editorial and business processes. A recent *Broadcast Magazine* survey found that, for the first time, the BBC was voted “best broadcaster to work with”. The same survey also found that the BBC was also voted “worst broadcaster to work with”, though the percentage of respondents voting the BBC “worst” was lower than in previous years.

The PACT Census 2007 also reported that “54% of respondents judge that the BBC offers the best opportunities for the future, compared with 22% choosing Channel 4 and just 9% selecting ITV”.

All WOCC-related specific complaints made by independent producers have been resolved at early stages of the escalation process.

BBC Vision will work to ensure that any future budgetary or structural changes do not have an adverse impact on quality.

3. *The licence fee bid included figures for additional income from household growth as part of the BBC's “self help” initiatives. Are those figures still valid, or is the BBC projecting that they will be reduced due to the licence fee collection problems referred to in oral evidence (for example at Q 17 and Qq 27–29)? If so, by how much?*

Those figures are still valid but they are not without risk. The key risks are:

- that household growth will not materialise at the rate expected;
- that it will be extremely difficult or uneconomic to collect the licence fee from a proportion of new households due to the problems referred to; and
- some households may, over the period, move only to consume television services in such a way that a licence will not be required (eg video-on-demand). This could impact either existing households or new households.

The BBC's Licence Fee Team seeks to mitigate these risks through innovative collection techniques.

4. *The Director General acknowledged a dip in programme spending in Scotland in 2006–07. He then said that he expected network programme figures for Scotland to look much better in 2006–07 than in 2005–06 (Q 840): did he actually mean the forthcoming year, 2007–08, rather than 2006–07?*

Yes: the BBC anticipates that network spend in Scotland will be higher in 2007–08.

5. *The Director-General said (in answer to Q 21) that it was necessary to preserve confidentiality regarding individuals' salaries (including presenters) at the BBC, other than normal disclosure of senior executive employees such as those on the Executive Board. Would the Trust be prepared to publish figures that are not attributed to named individuals, in the form of tables disclosing the number of employees per salary bracket—for example, the number of employees earning £5m+ per annum, £1m–£5m, £750k–£1m, £500k–£750k, £250k–£500k—and to do so on a separate basis for programme talent and other employees, and in a way which makes payments via third party companies transparent?*

The Trust aims to exercise rigorous scrutiny of public money and to ensure high standards of openness and transparency. In considering what information the BBC publishes about talent and other employee costs, the Trust must give due regard to issues of commercial prejudice and to the BBC's duties under the law to protect personal information.

The Trust recognises that the level of fees paid to on-air and on-screen talent (eg presenters) is an area of concern to some licence payers. The BBC's strategy for talent must support the delivery of quality programmes that create maximum value for the public. The Trust is therefore commissioning an independent review of talent costs and how the BBC operates in the market which will cover talent across all forms of contract (freelancers, via third party companies, and BBC employees).

The Trust accepts the BBC Executive's position that disclosing talent costs, even if grouped in bands, is likely to cause commercial prejudice to the BBC. It could provide the BBC's competitors with valuable pricing information, inflate costs, and deter individuals from working with the BBC as against other broadcasters. Disclosure may also expose the BBC to actions for breach of confidence. The Trust is also mindful of legal advice regarding protecting personal data and is therefore not seeking a change in the BBC's publication policy at this time. The Trust will be publishing the findings of its value for money review in spring 2008 and will take a view then as to what ongoing reporting may be appropriate.

With regard to other employee costs, the BBC already publishes information about Executive Board salaries, remuneration policy and total employee costs; and makes available on request further information about its employee profile, including salary data. While continuing to be mindful of confidentiality issues, the Trust has asked the Executive to give consideration to publishing additional information about employee remuneration, including by salary bracket, to improve transparency to licence fee payers.

6. *The Trust Chairman, in exchanges about BBC3, said that each of the service licences would at some point in the next five years "be going through a very exacting test about whether the channel lives up to the original vision" (Q 52). When does the BBC expect that such assessments will be made for BBC3 and BBC4? Does it accept that there is doubt about whether BBC3 and BBC4 do indeed live up to their original visions?*

The Trust has not yet taken a decision on when to review BBC3 and/or BBC4. It expects to take decisions on its next service reviews (following bbc.co.uk which has already started) later this year. The Trust expects to review every service every five years. Its primary reason for reviewing a service will always be that it is in the "public interest".

Has the BBC made an estimate of viewing figures for BBC3 and BBC4 if repeats of popular BBC One programmes are excluded?

The total weekly three minute reach of BBC3 in 2006, amongst its target audience of 16–34-year-olds, was 27%: of this, 23.4% watched digital originated programmes while 10.2% watched terrestrially originated programmes (such as narrative repeats of *Eastenders* from BBC1). The numbers do not sum to 27% because some viewers watched both digitally and terrestrially originated programming.

A comparison with channels targeting a similar audience shows: of ITV2's 24.9% reach, 21.4% watched digitally originated programmes and 9% terrestrially originated, while for E4's 26.9% reach, 11.4% watched digitally originated programmes but 22.5% terrestrially originated programmes. The figures for the whole audience are similar to those for the target audience.

7. Pages 21 and 22 of the BBC Trust Annual Report describe perceptions of the BBC's impartiality as remaining stable over time; yet audience research suggests that the proportion of people rating the BBC as "fair and impartial" declined from 57% in 2006 to 53% in 2007, while the proportion perceiving bias rose from 16% to 18%. How does the BBC Trust justify its judgement that perceptions of the BBC's impartiality are "stable", given the audience research which suggests a decline in confidence in impartiality?

The narrative statement quoted in the Trust Annual Report reflects the long term trend however the figures quoted gave the year on year comparison. The figure for 2006 was the highest over the past three-year period. However this research comprises part of a long term tracking survey and it needs to be considered in that context. When looking at the data from the past three years there is no discernible decrease in perceptions of the BBC's impartiality and the trend appears stable with fluctuations both up and down over the period. This is only the second year that such figures have been included in the Annual Report. In the light of the Select Committee's question the Trust will consider carefully the context in which they are quoted in future reports.

8. Nearly £70 million of licence fee payers' money was spent on BBC Jam before the plug was pulled. Why didn't the BBC change or suspend the service at an earlier stage in light of the compliance problems that were known?

The BBC did not accept that it was in breach of any applicable requirements and had sought to defend its position with the Commission over a considerable period. At the end of 2006 the Commission proposed that the Trust conduct an early review to address complaints that it had received from the commercial sector. This review would have been in addition to the review that Trust was in any case committed later in 2007 under the service's approval conditions. After careful consideration the Trust concluded that two consecutive regulatory reviews would seriously hinder the effective delivery of the service. Doing nothing however, was not an option, because the Trust faced the prospect of the Commission opening a formal investigation and seeking the suspension of the use of licence fee funds for the service. In the circumstances therefore, the Trust felt that it was in the best long-term interests of licence fee payers to suspend BBC Jam and bring forward a fresh proposition, building on the successes of the service and taking into account changes in the market for online educational materials since 2003 when consent for jam was granted.

Are there any other complaints about BBC activities currently under consideration by the European Commission?

The BBC has not been notified of anything by the Commission (or the Government).

9. Now that the BBC's Freesat proposition has been approved, when will it launch? What is its annual budget, and what will it cost consumers for the equipment and installation?

Freesat will launch in spring 2008. For reasons of commercial confidentiality it is not possible to disclose the annual budget of the joint venture company. The Freesat company will not make or sell receivers itself therefore cannot control retail prices, however it hopes that there will be a range of price points for consumers from launch.

10. Does the Trust believe that the BBC should have discounted access to spectrum compared to other public services such as defence and the emergency services? Does the Trust believe that HDTV will provide greater social and economic value than using digital terrestrial spectrum for mobile TV, wireless internet and other applications?

The Trust does not believe it is appropriate for it to comment on the relative merits of different public services in terms of which ones are more deserving of spectrum than others. The Trust made its provisional PVT ruling on the HDTV proposals by considering the public value that might be created and any impact on the market place of the specific BBC service proposals. In doing so it considered the options for the BBC's use of its own spectrum.

The answers to questions 5, 6 (first part), 7, 8 and 10 have been provided by the BBC Trust and the answers to 1, 2, 3, 4, 6 (second part) and 9 by BBC Management.

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