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Culture, Media and Sport
Committee

**BBC Annual Report
2008–09**

Fifth Report of Session 2009–10

*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.

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1 Introduction

1. The BBC Annual Report and Accounts for 2008–09 is the third to be published under the current Royal Charter (“the Charter”) and Agreement between the Secretary of State for Culture, Media and Sport and the BBC (“the Agreement”). The Charter and Agreement set out governance arrangements for the BBC, including the establishment of an independent BBC Trust, which has 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.

2. On 16 July 2009, we held an oral evidence session with the BBC on its Annual Report and Accounts for 2008–09 (“the Annual Report”). We took evidence from Sir Michael Lyons, Chairman of the BBC Trust, and from Mark Thompson, Director General, and Zarin Patel, Director of Finance, BBC Executive. We carried out a similar scrutiny exercise on each of the previous BBC Annual Report and Accounts published under the current Charter and Agreement, publishing a short Report on both occasions.¹

3. The Committee covered a range of issues and questions at the July 2009 oral evidence session. In a number of instances, however, the BBC’s replies were not as complete as we would have liked or raised additional points that merited follow-up. There were also questions that we were unable to raise in the limited time of the session. We therefore wrote to the BBC on 3 September 2009 with further questions about its Annual Report and Accounts and matters raised at the oral evidence session. On 4 December 2009, the BBC submitted its response to these questions. Our follow-up questions and the BBC’s responses are attached to this Report.²

4. In March 2010, after the conclusion of our correspondence with the BBC, the BBC Trust published the BBC Strategy Review,³ which discusses what the future direction of the BBC ought to be in the remainder of this Charter period. As we did not take evidence on the Strategy Review the Committee is not yet in a position to comment in detail on its proposals.

BBC response to the Committee’s report on the BBC Annual Report and Accounts 2007–08

5. When we published our Report on the BBC Annual Accounts for 2007–08,⁴ the BBC Trust immediately released a press statement in response. It stated that “The Trust [...] does not accept the findings on the Trust’s consideration of Project Kangaroo”,⁵ and promised

1 Culture, Media and Sport Committee, Fourth Report of Session 2007–08, *BBC Annual Report and Accounts 2006–07*, HC 235; Culture, Media and Sport Committee, Fourth Report of Session 2008–09, *BBC Annual Report and Accounts 2007–08*, HC 190

2 Ev 26

3 BBC Trust, *BBC Strategy Review*, March 2010

4 Culture, Media and Sport Committee’s Fourth Report of Session 2008–09, *BBC Annual Report and Accounts 2007–08*, HC 190

5 “Statement from the BBC Trust in response to the Culture, Media and Sport Select Committee’s report into the BBC’s Annual Report 2007–08”, BBC Trust press release, 28 January 2009

“The Trust will submit a full response to the select committee in due course and at that time respond to all of its conclusions and recommendations.”⁶

6. No such response was received, however. We raised this matter with Sir Michael Lyons during the 2008–09 Annual Report session, and he promised that “we will fill that gap as a matter of urgency.”⁷ We did not in fact receive the response until 4 December 2009, nearly five months after Sir Michael’s assurance and more than ten months after the publication of our Report on the BBC Annual Report 2007–08. It is incorporated into the BBC’s response to our written follow-up questions for the 2008–09 Annual Report session, and is published as part of this Report.⁸

7. We are disappointed that the BBC Trust, having made a public statement rejecting some of the Committee’s findings and undertaken to submit a full response to our conclusions and recommendations in respect of the 2007–08 Annual Report, did not provide that response for nearly a year.

2 BBC Annual Report and Accounts 2008–09

8. The BBC has a public service remit and also commercial interests in the UK and abroad. Our oral evidence session was wide-ranging, covering many aspects of the BBC’s work, as well as the role of the BBC Trust as the body that oversees the BBC. We now consider a number of issues raised at our oral evidence session, and in written follow-up questions, in more detail.

The allocation of the licence fee

9. One important issue that we discussed with the BBC was the idea of allocating some of the television licence fee to organisations other than the BBC. This is often referred to as “top-slicing”, and has been a matter of some concern to the organisation.

10. Following the publication of the *Digital Britain: Final Report* in June 2009,⁹ the Department for Culture, Media and Sport (DCMS) published a consultation document seeking views on the proposal to provide public funding for regional news consortia through a contained, contestable element to be introduced in 2013 as part of the next licence fee settlement.¹⁰

6 “Statement from the BBC Trust in response to the Culture, Media and Sport Select Committee’s report into the BBC’s Annual Report 2007-08”, BBC Trust press release, 28 January 2009

7 Q 119

8 Ev 26

9 Department for Culture, Media and Sport and Department for Business, Innovation and Skills, *Digital Britain: Final Report*, Cm 7650, June 2009

10 Department for Culture, Media and Sport, *Sustainable independent and impartial news; in the Nations, locally and in the regions*, June 2009

11. In the BBC's Annual Report 2008–09, Mark Thompson, BBC Director General, stated that “unique receipt of the licence fee is critical to maintain the BBC's political and editorial independence.”¹¹ In evidence to us Sir Michael Lyons, Chairman of the BBC Trust, described top-slicing as “a matter potentially of constitutional significance to the BBC”¹² and said he believed “top-slicing was not in the interests of licence fee payers.”¹³

12. We asked Sir Michael whether he accepted that the setting of the licence fee and the use to which it is put was a matter for Parliament and not the BBC. He replied: “Absolutely.”¹⁴ However, he added the following caveat:

“It is a matter of some public moment, I think, if, after 50 years of the licence fee having been collected solely on the premise that it is to fund the BBC and nothing else, that any change in that is a matter that the public need to be very clear about the pros and cons of and the risks that might flow from it.”¹⁵

13. Sir Michael went on to say that “the terms explicitly used in the Charter are that the Trust should be the guardians of the licence fee.”¹⁶ We put it to Sir Michael that this was not strictly accurate,¹⁷ as the Charter in fact states: “The Trust is the guardian of the licence fee revenue and the public interest in the BBC”.¹⁸ It does not say that the Trust is the guardian of the licence fee in totality. Sir Michael Lyons implied to us that this was merely a matter of interpretation:

“I can see how you interpret it that way, Chairman. For 50 years the licence fee and the BBC have been indivisible and I can only say that it seems to me that was drafted in the context of 50 years of history of the licence fee being used entirely for the BBC, but I take your point.”¹⁹

14. We also discussed with Sir Michael the fact that the BBC licence fee is already used for other purposes. For instance, money from the licence fee is supporting the digital switchover help scheme. The BBC also uses licence fee money, for instance, to support S4C.²⁰

15. Shortly after our oral evidence session, the *Financial Times* published an article stating that there was archival evidence that the BBC had shared the licence fee in the past.²¹ The article revealed that from the inception of the licence fee in 1928 until 1962 up to 12.5 % of the licence fee went straight to the Treasury as part of its general revenue. It also quoted

11 *BBC Annual Report and Accounts 2008–09: Part Two, The BBC Executive's review and assessment*, p11

12 Q 3

13 Q 4

14 *Ibid.*

15 Q 4

16 *Ibid.*

17 Q 5

18 Department for Culture, Media and Sport, Broadcasting – Copy of Royal Charter for the continuance of the British Broadcasting Company, October 2006

19 Q 5

20 Q 6

21 “Archives reveal BBC shared its fee”, *Financial Times*, 18 July 2009

Richard Collins, Professor of Media Studies at the Open University, who said that, in addition to the Treasury's share of the fee, 8 or 9% was kept by the Post Office and that this was "almost certainly more than it actually cost the Post Office and represented a concealed subsidy to a government department".²² Professor Collins went on to suggest that the BBC was also ordered to pay additional amounts to the Independent Television Authority (which regulated ITV), although it appears that no such sums were ever paid.

16. The fact that the BBC did not historically receive all of the licence fee was also discussed by our predecessor Committee. In its Report *A public BBC*, the Committee noted that in 1928 the BBC effectively received just 71.5% of the licence fee, as the Post Office took 12.5% to cover administration, and the Treasury took 10% of the first million licences, 20% of the second million and 30% from the third million in excise duty.²³

17. The Government's position is clear. Its consultation document on the proposal to provide public funding for regional news consortia through a contained, contestable element to be introduced to the next licence fee settlement in 2013, states:

"The Television Licence Fee is not the "BBC" licence fee. In principle the BBC has no exclusive right to the Television Licence Fee. This is a matter of historical practice. This device levy is paid into the Consolidated Fund like any other tax, for the government of the day to determine how it should be used."²⁴

18. Sir Michael sought to assure us that he understood the role of Parliament in decisions on licence fee allocation, but that he wanted to ensure that the Trust had a voice before changes were made:

"We have established unequivocally that Parliament has the power to decide and if it did decide I should not seek in any way to do anything other than follow what Parliament has decided, but we are in a period of debate in which the Trust should be allowed to voice its concerns."²⁵

19. We agree with the Government that the licence fee is not as of right the "BBC" licence fee. However, it is important that there is clarity about the pros and cons of licence fee being used exclusively for the BBC or shared with others, and the BBC Trust should be able to voice its views on the licence fee's allocation.

Audience reach

20. During the 2007–08 BBC Annual Report session, we asked if the BBC set a reach target for each of its television channels. Mark Thompson told us: "we do and we can lay them out for you. I think we have met or exceeded our reach targets [...] for pretty much every channel."²⁶ However, when we asked in a written follow-up question what the individual

22 "Archives reveal BBC shared its fee", *Financial Times*, 18 July 2009

23 Culture, Media and Sport Committee, First Report of Session 2004-05, *A public BBC*, HC 82, para 122

24 Department for Culture, Media and Sport, *Sustainable independent and impartial news; in the Nations, locally and in the regions*, June 2009, para 18

25 Q 6

26 Culture, Media and Sport Committee, Fourth report of session 2008-09, *BBC Annual Report and Accounts 2007-08* HC 190, Q 5

channel targets were, the BBC Executive did not provide the target for any individual BBC television service. Instead it referred to an overall target by the Trust for all BBC services to reach 90% of the population's target and for the BBC Executive to "maintain the maximum reach consistent with its purposes and values."²⁷

21. This meant that it was impossible for us to verify the BBC's claims that reach targets do exist for each of its television services, or that these targets were "met or exceeded" in 2007–08. We commented in our Report of that session: "it is a significant failing of the BBC Executive to have sidestepped the question of reach targets, and for the Trust not to have commented on, let alone rectified, this deficiency."²⁸

22. We returned to the issue of reach in follow-up questions to the 2008–09 Annual Report session, asking what reach targets had been set for each individual channel in 2008–09, and for the current year (2009–10). The Trust told us that it did not set reach targets for individual channels, but that targets were set by the BBC Executive for internal use:

"In line with our role setting the strategic direction for the BBC, the BBC Trust has set an overall target for all BBC services to reach 90% of the population. The Trust does not itself set reach targets for individual services, as we believe the BBC Executive are best placed to judge how to achieve the overall reach target across the portfolio of BBC services. The BBC Executive does however produce some reach targets for its own internal use. Copies of these for 2008–09 are included elsewhere in this submission and the Executive would be able to supply earlier sets of data if required.

Whilst it is a matter for BBC management to ensure that the overall target is met, and to establish the relative contribution each service should make, the Trust maintains an ongoing interest in the performance of all BBC services (including reach) and their contribution towards the delivery of the BBC's public purposes.

As well as commissioning our own research on the delivery of the BBC's public purposes, the Trust also carries out regular in-depth service reviews and other work including a quarterly performance dashboard in order to measure the performance of individual services, and track trends in usage."²⁹

23. The Trust's assurances have not dispelled our concerns over the audience reach of the BBC's television channels. The figures provided indicate that in 2008/09 there was a decrease in reach from the prior year for each of BBC One (-0.6%), BBC Two (-0.2%), CBBC (-2.2% amongst its target audience), CBeebies (-1.5% amongst its target audience) and BBC Red Button (-1.3%) services.³⁰ Indeed, this detailed channel by channel information suggests that the first three of those channels may be failing to fulfil the reach aims contained in their Service Licences.

27 Culture, Media and Sport Committee, Fourth Report of session 2008–09, *BBC Annual Report and Accounts 2007–08* HC 190, Ev 25

28 *Ibid.*, para 13

29 Ev 26

30 Ev 31

24. **We are disappointed that the BBC Trust and the BBC Executive took so long to provide to us information on reach targets. We are further concerned that BBC services may be failing to fulfil the reach aims in some of their Service Licences, something that does not appear to have been addressed by either the Trust or the Executive in the Annual Report or in its oral or follow-up evidence to us.**

25. During our evidence session on the 2008–09 Annual Report we discussed other aspects and implications of reach. We noted that the BBC’s overall weekly reach figure of 93% in 2008/09 indicated that 7% did not use any BBC service on that basis. With regard to television alone, the BBC’s weekly reach figure (84.6%) showed that 15% did not watch any BBC television service on that measurement basis.³¹ Sir Michael Lyons told us:

“Can we get our definitions absolutely right because, again, I think this is important? The reach figures that we use are 15 minutes’ usage in a week, so it would not be right to say that we know that the 7%, in the case of all BBC services, never use BBC services, and that would be a dangerous thing to suggest, but what we do know is that they did not use it for 15 minutes or more in that week period looked at.”³²

26. Sir Michael’s definition could be taken to represent any aggregate of 15 minutes viewing or listening to a BBC television or radio service in a week; in fact, there must be at least 15 or more consecutive minutes of viewing or listening to be counted. In the case of most BBC television programmes, therefore, which are typically scheduled for 30 or 60 minutes, the 15-minute reach figure does not even indicate whether an entire programme has been watched.

27. The 2008–09 Annual Report figures indicate that 7% of the public did not use any individual BBC service for more than 15 consecutive minutes weekly on average in 2008/09. On the same measurement basis, more than a fifth of the population did not watch BBC1 (76.7% reach, down from 78.2% last year), a channel for which the Executive stated last year “almost everyone in the UK has a direct relationship with” and offered “something for everyone”;³³ more than 40% of the population did not watch BBC Two (57.4% reach v 57.6% last year); and more than 80% of the population did not watch BBC Three (18.7% reach, up from 17.3% last year). In the case of BBC Three, some three-quarters of its own target audience did not watch the channel on the reach measure.

28. Sir Michael told us that the BBC sought to get the fullest possible understanding of the use of its services and the value the public places upon them, and that:

“Reach is a good figure to use as part of this equation; it is not the whole story but it is a good figure to use because of the Trust’s absolutely unequivocal view that if you raise a universal charge in the form of a licence fee then it is a direct obligation for the BBC to show that it demonstrates value to all fee payers, and so it is the right indicator in that respect.”³⁴

29. Mark Thompson also told us:

31 Q 20

32 *Ibid.*

33 *BBC Annual Report and Accounts 2007/08: Part Two, The BBC Executive’s review and assessment*, p33

34 Q 21

[the BBC has] Developed a new way of looking at media usage across the platform – television, radio, the web and mobile, and although we have kept to the same methodologies in the annual report, we think the 93% reach figure understates usage of the BBC. We think the truer figure is about 98% of the population.³⁵

30. While 15-minute reach may be a good measure for advertising-funded services (where viewing of commercials, which will normally be placed within a 15-minute period, is an aim of those funding the content), it may not be appropriate as a key indicator for a public service channel with no adverts. Here, alternative or additional metrics, such as 30-minute or 60-minute weekly reach figures, might provide a more meaningful measure of the consumption of public service content. The BBC has provided us with information on 30-minute and 60-minute reach on a confidential basis only; it does not make such figures publicly available.

31. Overall, we are concerned at the interpretation presented by the BBC of its figures on reach, particularly taking into account other reach figures, such as 30-minute and 60-minute reach, which we believe are likely to provide a better measure of viewership of entire BBC television programmes. The Trust has a strategic objective that the BBC should “maintain the maximum reach consistent with its purposes and values”. We agree that it should not simply maximise reach “as this could create a perverse incentive that might work against the high-quality output audiences expect from the BBC.”³⁶

32. However, as long as there is a compulsory licence fee from which the BBC benefits, the BBC should be providing value to all payers, and that should include their consumption of content consistent with public service purposes and values. From some of the figures it is not clear that this is currently the case; nor is it clear from the BBC’s transparency failings whether every service is making a sufficient contribution towards the delivery of the BBC’s public purposes. It is difficult, for instance, to reconcile the reach figures for BBC Three with success when the overwhelming majority of its own target audience, or of licence fee payers generally, do not watch it even for 15 consecutive minutes a week.

33. We agree with Sir Michael Lyons that there is a direct obligation for the BBC to show that it demonstrates value to all licence fee payers and that measuring audience reach is a useful component of that. However, the proportion of those who do not use any BBC television or radio service for at least 15 minutes per week, and the figures for some services which are used only by a minority of their own target audiences, indicates to us that this value is not being delivered to enough people.

34. The BBC should be more transparent in setting out its reach targets, including the figures for minimum level of reach considered necessary to serve its target audiences. It should also consider publishing additional measures of reach likely to provide a better indicator of the proportion of the public watching entire BBC television programmes, and the time licence fee payers spend on individual services each week, rather than just 15-minute reach figures.

35 Q 21

36 *BBC Annual Report and Accounts 2007/08: Part One, The BBC Trust’s review and assessment*, p9

Audience share

35. References to share (the proportion of an individual's total viewing or listening time spent on a particular service) are absent from the 2008–09 Annual Report. This is in contrast to previous Annual Reports. The 2006–07 BBC Annual Report contained a detailed table providing figures on the percentage of viewing or listening in an average week – not only for each BBC television and radio service, but also comparison figures for other broadcasters – alongside comparative figures for the previous year. A year later, in the Annual Report 2007–08, two brief share tables were presented for the BBC's television and audio/radio services, and no competitor figures. The 2008–09 Annual Report did not appear to contain any share information on individual BBC services (or competitors) whatsoever.

36. We raised this with Mark Thompson. He told us:

“The story of share is one of a fairly high level of stability, with small declines in television in BBC1 and 2, increases in share for our digital television channels, a slight increase in share of BBC radio, a significant increase in usage of BBC.co.uk weekly users up by a third year on year and a doubling of the number of people who use the BBC iPlayer over the year.”³⁷

37. We subsequently asked the BBC to provide the audience share of each of its television and radio channels in 2008–09. This and comparative figures for the previous two years, along with figures for its competitors, are included in their response to one of our follow-up questions.³⁸ The figures show that the BBC's average weekly share of the UK television audience declined from 34.3% to 33.4% between 2006–07 and 2008–09, a fairly small decline, while its total radio share increased slightly from 54.9% to 55.5% in the same period.³⁹

38. The figures that the BBC provided for its competitors, however, do not add up. Under the heading “Other Television”, the figures for the channel portfolios of ITV (23.2%), Channel 4 (11.8%), Five (6.0%), and Sky (6.2%) should total 47.2%; however, the summary figure of “Total other channels” in fact reads 39.3%.⁴⁰ Were the figure for “Total other channels” (39.3%) intended to refer to additional channels, other than those provided by the BBC, ITV, Channel 4, Five or Sky (i.e. other multichannel TV services), the figures still do not add up. The sum total of the BBC, ITV, Channel 4, Five, Sky and “Total other channels” as a separate and additional category of broadcasters would add up to a market total of 120%.

39. While the share figures provided by the BBC for the period 2006–07 to 2008–09 show a fairly small decline for the BBC's television portfolio, we note that figures contained in the 2008 Channel 4 Annual Report indicated a more significant decline over a longer period. The last page of the Channel 4 Annual Report shows audience share figures for its own, and the BBC's, core and portfolio services. This indicates that the BBC's television channels

37 Q 24

38 Ev 29

39 *Ibid.*

40 *Ibid.*

had a total 33.5% share in calendar year 2008 – one-third of all UK television viewing – while the share of the BBC’s portfolio was closer to 40% only five years earlier (1983 share: 38.3%). The BBC therefore appears to have had a loss of 5% of all television viewing between 2003 and 2008 (and a loss of nearly 13% of its own previous portfolio share), despite the addition and growth of new BBC digital channels.

40. The BBC’s figures seem to us to have been presented in a somewhat cavalier manner. Mark Thompson’s description to us of “the story of share” as “one of a fairly high level of stability” does not seem an accurate assessment for television, when considered on a five-year rather than two-year basis.

Quality and distinctiveness of the BBC’s output

41. A key strategic objective of the BBC is that it “should increase the distinctiveness and quality of its output.”⁴¹ Mark Thompson told us:

“Those who give the BBC the highest score for quality, eight, nine or ten out of ten, that number has gone up over the year. For those who give us high scores for producing and delivering original and different programming, distinctive programming, it has also gone up significantly over the year. Those who score us most lowly for quality, a score of four out of ten or below, which was 13% last year, have gone down. The quality measures are definitely heading in the right direction.”⁴²

42. We pointed out that the movement was small, to which Mr Thompson replied that “these may seem fairly subtle but we are talking about movement over a vast number of people, over 26 million households in this country. Believe me, statistically these are significant shifts.”⁴³

43. Mark Thompson’s claims of a “significant” shift in the figures contrasts with the Trust’s presentation in the Annual Report of a “slight improvement across all metrics” and “headline measures” that “show a small positive trend.”⁴⁴ While the proportion who agreed strongly that BBC Television is ‘original and different’ rose from 32% to 36%, the other figures given suggest that the “positive trend” is indeed small: the average score out of 10 for ‘High Quality’ rose from 6.3 to 6.4; the proportion who agree strongly the BBC is High Quality has risen from 32% to 34%; the proportion of those who agree that the BBC is High Quality has remained stable at 66%; the “average appreciation index (AI) score” for BBC Television rose to 79 to 80; and the average AI score for BBC Radio rose to 78 to 79 in the year.⁴⁵

44. Nor is it clear, without further information on the research methodology, whether this reflects movement over the “vast number of people, over 26 million households” suggested. In the case of the average appreciation index (AI) scores, for instance, the relevant footnote

41 *BBC Annual Report 2008/09: Part One, The BBC Trust’s review and assessment*, p 6

42 Q 21

43 Q 22

44 *BBC Annual Report 2008/09: Part One*, p 6

45 *Ibid.*

states that the survey gives the weighted average for programmes across all hours “with minimum 50+ respondents per programme”. A further footnote, relating to AI scores and to the figure for the proportion “who agree strongly that BBC Television is ‘original and different’” – the figure that Mark Thompson stressed had “gone up significantly” – states that “Changes to the BBC Pulse panel may have had some impact on trends from 2007/08 to 2008/09.”

45. We fully support the BBC’s objective to increase the distinctiveness and quality of its output. However we are not convinced that the claim of statistically significant positive shifts in perceptions of the distinctiveness and quality of BBC output is supported by the information contained in the BBC’s Annual Report. We agree with the Trust’s assessment that there has been a slight improvement, although we note that changes in the measurement system may be responsible for some of this shift. Appropriate and reliable measurement is essential and we look forward to seeing continual improvement of this year-on-year.

Spending in nations and regions

46. Licence fee spending in the nations and regions increased significantly in 2007–08 but decreased by £40m in 2008–09.⁴⁶ In evidence to us Sir Michael Lyons said that the BBC Trust had set “some new and very demanding targets to be achieved by 2016,”⁴⁷ in terms of 50% of the BBC’s network output to be produced out of London with new targets set for the amount to be achieved in Scotland, Wales and Northern Ireland. He told us:

“What we see here is the progress already made in changes, although inevitably as you start to move things around you get some perverse results if at the same time you are looking for efficiency savings. In terms of where we are going to, I am very clear on the targets that have been set and they are demanding.”⁴⁸

47. Mark Thompson told us that “the efficiency programme in the BBC is reducing some of the absolute numbers being spent on services”.⁴⁹ He explained that he believed that quality had been maintained: “As we divert money for example to pay for the analogue to digital television switchover, we are still delivering high quality but we are squeezing the money. Some of the absolute numbers have gone down across the board.”⁵⁰

48. The Director General also noted that, “although the total cake has been getting a bit smaller because of this efficiency programme, the share of the cake that has been spent outside London has been growing.”⁵¹ This is supported by written evidence which we have received. For example, the total spend in television in the nations and regions which was 32.6% in 2007–08 in 2008–09 had risen to 34.9%, and the proportion of spend on network production in Scotland, Wales and Northern Ireland had gone up from 6.4% to 7.9%.⁵² The

46 Q 25

47 *Ibid.*

48 *Ibid.*, [Lyons]

49 *Ibid.*, [Thompson]

50 *Ibid.*

51 Q 25

52 *Ibid.*

share of network commissioning from Scotland, Wales and Northern Ireland has also been growing. By 2016, the BBC expects that more than 50% of all its spend will be outside London and more than half of all the BBC staff will be based in the nations and regions of the UK.⁵³

49. We commend the BBC on its increased targets for the proportion of network output to be produced in Scotland, Wales and Northern Ireland, and note that the proportion of spend in television in the nations and regions has generally been rising. However, the fact remains that the BBC is spending less now than before. After rising by £100m to £984m in 2007/08, licence fee spend in the nations and regions decreased by £40m to £948m in 2008/09.⁵⁴

Acquired and imported programming

50. Spending on acquired and imported programming has increased from £88m in 2006/07 and £90m in 2007/08 to £101m in 2008/09. This is despite previous BBC statements of intent to reduce the amount of money and airtime it devotes to such programmes.

51. Mark Thompson suggested to us that the £11m (12%) year-on-year increase represented a “slight increase” and attributed this to “a slightly more expensive year in Christmas films [...] and slightly more in the current year on acquired programmes.”⁵⁵ He told us that in 2009–10 “that number will go back to around 90 million”. His view was that “the direction of travel for acquisition is likely to continue to be downward over time.”⁵⁶ The Director General said that overall, the entire category of acquired programming “now represents really quite a small proportion of total spend” and “well under 10% of our spend in the creative economy.”⁵⁷

52. We noted in our recent Report on Channel 4⁵⁸ that, in May 2009, the then Chief Executive of Channel 4, Andy Duncan, told us that the BBC outbid it for the series *Harper’s Island*, a horror thriller series first broadcast on CBS America, in which one or more characters was killed in each episode.⁵⁹ Mark Thompson disputed the outbidding claim, stating that “Channel 4 ultimately decided for editorial grounds that they did not want to pursue this particular programme and withdrew for editorial rather than economic grounds.”⁶⁰ He also suggested that competition law was a factor in its acquisitions decisions:

“What we cannot do, as some publishers and broadcasters have sometimes suggested, is collude with them or agree with them to withdraw from markets. Quite

53 Q 25

54 *BBC Annual Report 2008/09: Part One*, p 9.

55 Q 54

56 *Ibid.*

57 *Ibid.*

58 Culture, Media and Sport Committee, Third Report of Session 2009–10, *Channel 4 Annual Report*, HC 415

59 *Ibid.*, para 59

60 Q 55

rightly, we are not allowed by law to interfere with the proper workings of markets for rights, including acquired rights.”⁶¹

53. The Director General further stated that there was not a single American-acquired programme in peak hours on BBC1 and that elsewhere “we believe they can add to the richness and flavour of the network,”⁶² citing *Mad Men* (as a programme which no other British broadcaster was interested in) and *The Wire* (for showing to a broader audience – it had been on commercial multichannel TV). He said that:

“Occasionally we will find ourselves wanting a programme which other broadcasters want as well. I have to say the rights’ holders understandably would expect a reasonable and lawful market to take place in that case. Although I think you would have every right to be concerned if this was a very large amount of the licence fee and you could see it going up steadily, year on year, any long-term view will show that this is an area where the BBC has been withdrawing rather than increasing its spend. Our concentration has been as far as possible to invest the licence fee in original UK production...The main use for the licence fee is to make programmes here with British talent and then, as far as we can, get them to audiences around the rest of the world.”⁶³

54. We were not convinced by the BBC’s arguments on acquired programming. While there may be cases where the justification for acquiring high-quality programmes or series from overseas is strong, justification on *bona fide* public service content grounds is likely to prove relatively rare. Over the last three years the BBC has spent £279m on acquired programmes. Taking into account the Mark Thompson’s estimate of £90m for the current year this will have risen to a total expenditure of nearly £370m for the period 2006–07 to 2009–10. We therefore welcome the commitment by the BBC, contained in its Strategy Review, that it will reduce spending on programming from abroad by 20%, to £80m by 2013, and thereafter cap spend to 2.5p in every licence fee pound.⁶⁴

BBC Three and younger audiences

55. During our session on the 2007–08 Annual Report the BBC told us that it would review BBC Three in-depth as part of its review of services and content for younger audiences.⁶⁵ This report was published in June 2009. Among other things, the review concluded that “BBC Three’s effectiveness in reaching young people makes it an important part of the BBC television portfolio.”⁶⁶

56. Sir Michael Lyons has praised progress with BBC3. He told us:

61 Q 55

62 *Ibid.*

63 *Ibid.*

64 BBC Trust, *BBC Strategy Review*, p56

65 Q 70

66 BBC Trust, *Service Review Younger Audiences: BBC Three, Radio 1 and 1Extra*, June 2009, p3

I think it is very important that the Trust flags when it feels progress has been made. One of the reasons why we are confident progress has been made is we have just completed our review of services for young people which showed a very strong audience support for BBC3 and progress against our key issue of more distinctive television.⁶⁷

57. In its service review the Trust states that “BBC’s value for money appears to be improving, although we are unable to make a definite assessment because usage and cost allocations are becoming more complex.” Mark Thompson told us that BBC Three’s budget (£115m in 2008–09) was actually slightly declining in relation to the others with, for example, a slight movement of resource away to BBC Four.⁶⁸ He also told us that the cost per viewer hour of BBC Three is coming down as the channel becomes more popular.⁶⁹ According to the Annual Report, “Cost per viewer hour for the year was 10.6p (down from 12.9p in 2007–08)”.⁷⁰ The Director General confirmed, however, that this figure ascribes no cost to BBC Three for the programmes transferred from BBC One and BBC Two, which account for a substantial proportion of BBC Three viewing.

58. Thus, it appears that BBC Three has been receiving a “free ride” to date with no costs allocated to the channel for some of the most expensive and popular BBC One and Two content (such as *Eastenders* and *Doctor Who*) which it broadcasts. Although Mark Thompson noted that this “cuts both ways”, so that when BBC Three programmes such as *Little Britain* move to BBC Two or BBC One, the current accounting approach ascribes the full cost to the “originating” network, BBC Three has been significantly more reliant on repeats from other BBC channels for its audience figures than the other way around.⁷¹

59. Moreover, the BBC includes the hours viewed of the repeated BBC One and BBC Two programming in BBC Three’s cost per user hour figure. Given that the cost to BBC Three of this content is nil but the viewing hours significant, this substantially lowers the cost per user hour for the channel.

60. We therefore asked the BBC to provide the cost per user hour for BBC Three excluding both the hours viewed of acquired imported programming and transfers from BBC One and BBC Two, in order to have a measure of the cost per user hour of BBC Three’s UK originated output. Adjusted to remove the costs and viewer hours of acquisitions and transfers from other channels, the per user hour was 19.1p, nearly double the 10.6p figure stated in the Annual Report. This was reduced to 17.0p after taking into account the costs and user hours of BBC Three programmes transferred to other channels (e.g. BBC Three programmes repeated on BBC One and BBC Two), but still reflected a significant increase (+60%) on the cost per user measure used in the Annual Report. Whether the Trust considers that BBC Three offers value for money on this basis remains to be seen.

61. At the Annual Report session Mark Thompson also told us that “if you look at young people’s viewing of television, actually the presumption [...] that young people are ‘turning

67 Q 60

68 *Ibid.*

69 Q 63

70 *BBC Annual Report 2008/09: Part Two*, p 35

71 Q 61

away' from television is not really based on the data. The fact of the matter is, despite video games and everything else, overall television viewing is increasing."⁷² He then noted, in apparent contradiction: "Although it is not true that young people's viewing of TV is increasing, it is not declining as quickly as many people would argue".⁷³

62. The data supplied by the BBC in response to our follow-up questions confirms there is some 'turning away' from television by younger audiences, at least in respect of the BBC's own services. This indicates that, despite increased reach among 16 to 34 year olds by the BBC Three and BBC Four, reach of BBC television overall among that audience has fell by over 7% between 2003 and 2008, from 82.6% to 75.4%.⁷⁴ The data provided by the BBC also shows the amount of BBC television viewing by teenagers has fallen from 39 minutes a day in 2003 to 24 minutes a day in 2008, a decline of nearly 40%.⁷⁵

63. We consider that some of the claims regarding BBC Three made by the BBC Trust and Executive are not fully supported by the evidence. The BBC has been more ready to highlight favourable over unfavourable information and its implications. In particular, we note that the Trust's claim of "BBC Three's effectiveness in reaching young people" is not supported by its audience reach. We are also surprised that the test of the value of BBC 6 Music and the Asian Network in the latest strategy review appears not to have been applied to BBC Three.

Project Kangaroo

64. In our Report on the 2007–08 BBC Annual Report we discussed concerns regarding the BBC Trust's oversight of Project Kangaroo, its now-defunct proposed joint venture video-on-demand (VOD) service with ITV and Channel 4. We concluded:

"We find it difficult to reconcile the BBC Trust's claim to have given only limited authorisation for the Executive to "talk to other players in the industry" with information on the subsequent development of Kangaroo and statements in the provisional findings of the Competition Commission. It is apparent that the Trust reviewed proposals for the joint venture at a number of stages, including a detailed review on 19 June 2008, in advance of our oral evidence session. The statements by the BBC Trust Chairman to the Committee therefore appear, at best, incomplete and, as a result, potentially misleading."⁷⁶

65. As discussed earlier (paragraph 5), on publication of our Report the Trust immediately issued a rebuttal of our conclusions. The Trust stated that it did:

"not accept the committee's findings on the Trust's consideration of Project Kangaroo. [...]As would be expected for a project of this nature, the BBC Executive updated the Trust on progress (in June and October 2008). At these meetings, the

72 Q 67

73 *Ibid.*

74 Ev 34

75 *Ibid.*

76 Culture, Media and Sport Committee, *BBC Annual Report and Accounts 2007-08*, para 18

Trust made clear to the BBC Executive that this proposition would still need to go through the Trust's formal regulatory processes.⁷⁷

66. We returned to the issue of Project Kangaroo during the 2008–09 Annual Report session. In the 2008–09 Annual Report the BBC disclosed a substantial write-off, of £9.1m, on Project Kangaroo.⁷⁸ Amongst other things, costs for the project included the appointment by the joint venture partners (announced by BBC Worldwide and reported to the Trust) of the BBC's Director of Future Media and Technology, Ashley Highfield, as CEO of the venture,⁷⁹ and a reported staff of 50 at its own London offices.⁸⁰

67. We questioned whether, in light of the limited level of authorisation which the Trust claimed it had given to the BBC Executive, a spend of £9.1m was appropriate. Mark Thompson told us that there had been no direct use of the licence fee to fund Project Kangaroo, and that:

“expenditure took place within the controls of appropriate financial and other conditions which are set up for our commercial subsidiary where there is an understanding that sometimes [BBC] Worldwide will take commercial risks to build its business.”⁸¹

68. He argued that it was necessary “to get the proposal to a level of precision so that the competition authorities should consider it properly”⁸² and that “Project Kangaroo became Project Roadkill before the Trust managed to consider it fully”.⁸³ He added the risks involved in the project were, in his view, commensurate to the potential gain: “it is not inappropriate that an amount of money should be spent on a new project which, had it been successful, could have potentially delivered very large revenues and a very high return back to the licence fee payer.”⁸⁴

69. Instead of bringing a profit to the licence fee payer, Project Kangaroo has resulted in considerable cost. We note the potential return which Project Kangaroo, if it had been approved by the Competition Commission, might have offered. We also note the BBC Trust's suggestion to us in follow-up written evidence that the cost of the project will be mitigated to some extent by the subsequent sale of its technology assets, and that the additional write-off does not mean that no value can be secured by BBC Worldwide from these investments.⁸⁵

70. Nevertheless the level of expenditure on a project for which there would clearly be regulatory hurdles seems to us excessive. We are alarmed by the Trust's statement that

77 “Statement from the BBC Trust in response to the Culture, Media and Sport Select Committee's report into the BBC's Annual Report 2007-8”, BBC Trust press release, 28 January 2009

78 *BBC Annual Report 2008/09: Part One*, p 9; BBC, *Full Financial and Governance Statements 2008/09*, p F31

79 “Ashley Highfield appointed as CEO of Kangaroo”, *BBC Worldwide press release*, 14 April 2008; Minutes of BBC Trust meeting 17 April 2008

80 “Project Kangaroo: 50 jobs to go as broadcasters rule out appeal”, *Guardian Online*, 4 February 2009, www.guardian.co.uk

81 Q 121

82 *Ibid.*

83 *Ibid.*

84 *Ibid.*

85 Ev 34

it “did not set any specific limits on development costs”⁸⁶ for Project Kangaroo, and that the Trust did not intervene to halt such excessive spend and development despite, by its own account, being involved in and updated on the project at regular intervals.

BBC staff and talent costs

71. For some time this Committee has led calls for significantly greater transparency of BBC employee and talent costs, an aim to which the BBC has at times appeared resistant. For instance, during our oral evidence session on the 2006–07 BBC Annual Report, Mark Thompson told us 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.⁸⁷

72. We subsequently asked if the Trust would be prepared to publish figures that were 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 £1m–£5m, £750k–£1m, £500k–£750k, £250k–£500 – 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. In its response, the Trust told us that it accepted 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.”⁸⁸

73. Regarding other employee costs, the Trust asked the Executive to give consideration to publishing additional information about employee remuneration, including by salary bracket, to improve transparency to licence fee payers. However, in our Report on the BBC Annual Report 2006–07, we concluded that it was not clear why the Trust took 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.

74. Prompted by the Committee’s request, BBC introduced a table in the 2007–08 Annual Report listing senior BBC managers’ headcount by salary band. We welcomed this move to increase transparency but stated that “the same requirement should be applied to BBC ‘talent’, whether they are employed or under contract”. We further welcomed the undertaking by the Chairman of the Trust to give this further consideration, although his

86 Ev 27

87 Culture, Media and Sport Committee, Fourth Report of Session 2007–08, *BBC Annual Report and Accounts 2006–07*, HC 235, Q 21

88 *Ibid*, Ev 20

position at the oral evidence session was that the publication of top talent salaries in detail “will almost certainly lead to worse value”⁸⁹ for the BBC. He said that he did not wish his agreeing to consider our request to be “leaving any suggestion that I think it might be in the licence fee payer’s interest for us to move in that direction.”⁹⁰

75. At the 2008–09 Annual Report session, Sir Michael Lyons told us that the BBC had “gone further this year and that is reflected in the decisions to be completely transparent”,⁹¹ referring to Mark Thompson’s “commitment to publishing details of all top salaries and all the expenses associated with them”.⁹² We note that in November 2009 the BBC subsequently began to publish details on a quarterly basis regarding the precise salaries and business-related expenses of 107 senior decision-makers in the Corporation. This was billed as “a direct response to the public who have indicated that they would like more information about how the BBC is run in a way which marks a step change in openness, simplicity and accountability.”⁹³

76. In February 2010 the BBC disclosed the total amount it paid to “artists, presenters, musicians and other contributors across its services for the year ended 31 March 2009” (£229m), and a breakdown of the total amount paid in four bands: “To £50,000” (£115m); “£50,000 to £100,000” (£44m); “£100,000 to £150,000” (£16m); and “£150,000 plus” (£54m). It further stated that the total amount would be published each year in the Annual Report. However, the BBC statement did not disclose the numbers of individuals in each band.⁹⁴

77. We welcome the BBC’s move towards greater transparency regarding its staff and talent costs, including the disclosure of senior BBC managers’ headcount and payments to talent in bands. However, the BBC’s commitment to this level of transparency is long overdue. This Committee has been one of a number of voices pushing for some time for greater openness. We believe that the information released by the BBC should be expanded, at minimum, to include a breakdown of headcount by salary band not just for senior managers but all BBC employees, and the number of individuals in each payment band for talent. We further recommend that additional payment bands for talent should be introduced, disclosing the number of individuals and total payments for those earning £250,000 to £500,000; £500,000 to £750,000; £750,000 to £1m; £1m to £5m; and £5m plus. We do not expect to see any entries in the £5m plus category.

78. During the 2008–09 Annual Report session Sir Michael Lyons told us that

“even after reductions in bonuses and incentive payment [...] the payment for the Director General does not look out of line with the sorts of areas that we would have to look to if we were to recruit a new Director General [...] if you just look at what is being paid by other public service broadcasters, although it is not always easy to be

89 Culture, Media and Sport Committee, Fourth Report of Session 2007–08, *BBC Annual Report and Accounts 2006–07*, HC 235, Q 64

90 *Ibid.*, Q 65

91 Q 42

92 *Ibid.*

93 “BBC disclosure: April to June 2009”, BBC press release, 12 November 2009

94 “BBC disclosure: July to September 2009”, BBC press release, 9 February 2010

sure of the comparable package and it is not always as transparent as we might want, they are paying higher reward packages than the BBC pays.”⁹⁵

79. We do not agree. Qualified applicants might be willing to undertake the job for substantially less than the current incumbent in light of the prestige, public service ethos and potential benefits in post-BBC employment. As Mark Thompson told us,

“People come to the BBC accepting they will get paid less to move to the BBC [...]. People come from the private sector expecting that they will have to take a pay cut to come to the BBC. When they leave and go back to the private sector they typically are going for more pay. That is the pattern, of a reduction of pay when you come to the BBC and then an increase when you go out of the BBC again.”⁹⁶

80. Nor is it clear, as Sir Michael Lyons has claimed, that other public service broadcasters are paying higher reward packages than the BBC.⁹⁷ The only appropriate comparator for a publicly owned public service broadcaster is that of Channel 4. The 2008 Channel 4 Annual Report indicated that Andy Duncan’s total earnings in the year were £683,000, down from £1.2m in 2007.⁹⁸ We also note the recent statement of the former BBC Director General Greg Dyke that the BBC “doesn’t have to pay its director general £800,000”⁹⁹ and that the current Director General “earns more than twice what I earned when I was doing it”.¹⁰⁰

81. In October 2009, the BBC announced plans to cut the amount it spent on senior managers by 25% and to seek to reduce the total number of its senior managers by 18% by 31 July 2013.¹⁰¹ It further announced that senior management salaries would be frozen until at least August 2011, and the salaries of Executive Directors, members of the BBC Direction Group and the Director General would be frozen for a further three years on top of that.¹⁰² The Trust also undertook that the BBC’s remuneration policy would set out “a clear and explicit discount against the private sector when setting senior manager pay.”¹⁰³

82. The reward packages of the Director General and senior management of the BBC are seen to be out of step with the current economic climate and the need for public sector pay restraint. The BBC must look to cutting its costs, and leadership on this should come from the top of the organisation. We therefore welcome the BBC’s commitment to making a 25% cut in the BBC senior management pay bill by 31 July 2013. However we recommend that the BBC’s remuneration policy should include benchmarks not only with the private sector but also with senior management pay scales in the public sector.

95 Q 42

96 Q 51

97 Q 42

98 Channel 4, *Channel Four Television Corporation Report and Financial Statements 2008*, p 129

99 “What do we want from the BBC?”, *The Guardian*, 1 March 2010

100 *Ibid.*

101 “Trust agrees 25 per cent cut in BBC senior management pay bill”, BBC Trust press release, 29 October 2009

102 *Ibid.*

103 *Ibid.*

Conclusions and recommendations

1. We are disappointed that the BBC Trust, having made a public statement rejecting some of the Committee's findings and undertaken to submit a full response to our conclusions and recommendations in respect of the 2007–08 Annual Report, did not provide that response for nearly a year. (Paragraph 7)
2. We agree with the Government that the licence fee is not as of right the “BBC” licence fee. However, it is important that there is clarity about the pros and cons of licence fee being used exclusively for the BBC or shared with others, and the BBC Trust should be able to voice its views on the licence fee's allocation. (Paragraph 19)
3. We are disappointed that the BBC Trust and the BBC Executive took so long to provide to us information on reach targets. We are further concerned that BBC services may be failing to fulfil the reach aims in some of their Service Licences, something that does not appear to have been addressed by either the Trust or the Executive in the Annual Report or in its oral or follow-up evidence to us. (Paragraph 24)
4. We agree with Sir Michael Lyons that there is a direct obligation for the BBC to show that it demonstrates value to all licence fee payers and that measuring audience reach is a useful component of that. However, the proportion of those who do not use any BBC television or radio service for at least 15 minutes per week, and the figures for some services which are used only by a minority of their own target audiences, indicates to us that this value is not being delivered to enough people. (Paragraph 33)
5. The BBC should be more transparent in setting out its reach targets, including the figures for minimum level of reach considered necessary to serve its target audiences. It should also consider publishing additional measures of reach likely to provide a better indicator of the proportion of the public watching entire BBC television programmes, and the time licence fee payers spend on individual services each week, rather than just 15-minute reach figures. (Paragraph 34)
6. The BBC's figures seem to us to have been presented in a somewhat cavalier manner. Mark Thompson's description to us of “the story of share” as “one of a fairly high level of stability” does not seem an accurate assessment for television, when considered on a five-year rather than two-year basis. (Paragraph 40)
7. We fully support the BBC's objective to increase the distinctiveness and quality of its output. However we are not convinced that the claim of statistically significant positive shifts in perceptions of the distinctiveness and quality of BBC output is supported by the information contained in the BBC's Annual Report. We agree with the Trust's assessment that there has been a slight improvement, although we note that changes in the measurement system may be responsible for some of this shift. Appropriate and reliable measurement is essential and we look forward to seeing continual improvement of this year-on-year. (Paragraph 45)
8. We commend the BBC on its increased targets for the proportion of network output to be produced in Scotland, Wales and Northern Ireland, and note that the

proportion of spend in television in the nations and regions has generally been rising. However, the fact remains that the BBC is spending less now than before. After rising by £100m to £984m in 2007/08, licence fee spend in the nations and regions decreased by £40m to £948m in 2008/09. (Paragraph 49)

9. We were not convinced by the BBC's arguments on acquired programming. While there may be cases where the justification for acquiring high-quality programmes or series from overseas is strong, justification on bona fide public service content grounds is likely to prove relatively rare. Over the last three years the BBC has spent £279m on acquired programmes. Taking into account the Mark Thompson's estimate of £90m for the current year this will have risen to a total expenditure of nearly £370m for the period 2006–07 to 2009–10. We therefore welcome the commitment by the BBC, contained in its Strategy Review, that it will reduce spending on programming from abroad by 20%, to £80m by 2013, and thereafter cap spend to 2.5p in every licence fee pound. (Paragraph 54)
10. We consider that some of the claims regarding BBC Three made by the BBC Trust and Executive are not fully supported by the evidence. The BBC has been more ready to highlight favourable over unfavourable information and its implications. In particular, we note that the Trust's claim of "BBC Three's effectiveness in reaching young people" is not supported by its audience reach. We are also surprised that the test of the value of BBC 6 Music and the Asian Network in the latest strategy review appears not to have been applied to BBC Three. (Paragraph 63)
11. Instead of bringing a profit to the licence fee payer, Project Kangaroo has resulted in considerable cost. We note the potential return which Project Kangaroo, if it had been approved by the Competition Commission, might have offered. We also note the BBC Trust's suggestion to us in follow-up written evidence that the cost of the project will be mitigated to some extent by the subsequent sale of its technology assets, and that the additional write-off does not mean that no value can be secured by BBC Worldwide from these investments. (Paragraph 69)
12. Nevertheless the level of expenditure on a project for which there would clearly be regulatory hurdles seems to us excessive. We are alarmed by the Trust's statement that it "did not set any specific limits on development costs" for Project Kangaroo, and that the Trust did not intervene to halt such excessive spend and development despite, by its own account, being involved in and updated on the project at regular intervals. (Paragraph 70)
13. We welcome the BBC's move towards greater transparency regarding its staff and talent costs, including the disclosure of senior BBC managers' headcount and payments to talent in bands. However, the BBC's commitment to this level of transparency is long overdue. This Committee has been one of a number of voices pushing for some time for greater openness. We believe that the information released by the BBC should be expanded, at minimum, to include a breakdown of headcount by salary band not just for senior managers but all BBC employees, and the number of individuals in each payment band for talent. We further recommend that additional payment bands for talent should be introduced, disclosing the number of individuals and total payments for those earning £250,000 to £500,000; £500,000 to

£750,000; £750,000 to £1m; £1m to £5m; and £5m plus. We do not expect to see any entries in the £5m plus category. (Paragraph 77)

14. The reward packages of the Director General and senior management of the BBC are seen to be out of step with the current economic climate and the need for public sector pay restraint. The BBC must look to cutting its costs, and leadership on this should come from the top of the organisation. We therefore welcome the BBC's commitment to making a 25% cut in the BBC senior management pay bill by 31 July 2013. However we recommend that the BBC's remuneration policy should include benchmarks not only with the private sector but also with senior management pay scales in the public sector. (Paragraph 82)

Formal Minutes

Wednesday 24 March 2010

Members present:

Mr John Whittingdale, in the Chair

Mr Peter Ainsworth
Janet Anderson
Philip Davies

Mr Adrian Sanders
Mr Tom Watson

Draft Report (*BBC Annual Report 2008-09*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

Motion made, to leave out paragraph 19 – (*Mr Peter Ainsworth*)

The Committee divided.

Ayes, 2
Mr Peter Ainsworth
Mr Tom Watson

Noes, 2
Janet Anderson
Philip Davies

Whereupon the Chair declared himself with the Noes.

Paragraph 19 agreed to.

Paragraphs 20 to 82 read and agreed to.

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

Ordered, That the Chair make the Report to the House.

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

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

[Adjourned to a day and time to be fixed by the Chair.]

Witnesses

Thursday 16 July 2009

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Sir Michael Lyons, Chairman, BBC Trust, **Mr Mark Thompson**, Director General,
and **Ms Zarin Patel**, Director of Finance, BBC

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Oral evidence

Taken before the Culture, Media and Sport Committee on Thursday 16 July 2009

Members present

Mr John Whittingdale, in the Chair

Mr Peter Ainsworth
Janet Anderson
Philip Davies

Paul Farrelly
Mr Tom Watson

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

Q1 Chairman: Good morning. This is the Committee's annual session in which we take evidence on the BBC's annual report and accounts for the previous financial year, and I would like to welcome this morning the Chairman of the BBC Trust, Sir Michael Lyons, the Director General of the BBC, Mark Thompson, and the Director of Finance, Zarin Patel. Perhaps I could start. There are plenty of people at the BBC that do not feel it is a well-led organisation. Do you agree?

Sir Michael Lyons: I think you are quoting from the comments of the Secretary of State.

Q2 Chairman: Indeed.

Sir Michael Lyons: Of course, I have no way of knowing how wide a survey he has undertaken to reach that view. He was making that comment in the context of the line taken by the BBC Trust in particular, a view shared by the Director General, about top-slicing. All I can say is that in meeting many BBC staff I have yet to be approached by anyone who has any reservations at all about the line on top-slicing. Are there, in an organisation that employs many thousands of people, lots of different views? Yes, and absolutely that is a healthy state of affairs. Is there a seething discontent? I see no evidence of it but let me ask the Director General to give you his views. He is much closer.

Mr Thompson: As I said a couple of days ago, I have seen absolutely no evidence at all of any disunity in the BBC on the issue that I think the Secretary of State was mainly referring to, which was the issue of top-slicing. On the contrary, I have had emails and comments, frankly, messages of support from BBC staff at every level. I think there is a great deal of unity in the organisation, both about the mission of the BBC, its public service mission, but also on this issue of unitary receipt of the licence fee. I do not have to tell you that the BBC is a very large, disputatious organisation with many views on many different topics and there are certainly things that happen in the BBC where there is a lively internal debate, but in terms of belief in the values of the BBC, its mission, its future but also the importance of the licence fee in delivering the best services to the public, I think there is a great deal of unity.

Q3 Chairman: You are right: the Secretary of State identified the position that you have taken with regard to the proposals to use part of the licence fee for alternative public service broadcasting services. He described that as "wrong-headed and ultimately self-defeating". It is a policy of government. Do you think it is appropriate that you, as Chairman of the Trust, should be questioning what the Government wishes to do with the licence fee?

Sir Michael Lyons: I think this is the point in question. It is whether it is yet the policy of the Government. The discussions that we had with the Secretary of State questioned whether, in the closing days of the completion of Digital Britain, the Government's position had moved from one of regarding top-slicing as one of the options to be considered. We were trying to explore whether they had moved to a position of it being their preferred option, and making the point that if it was their preferred option this was no small matter. It is a matter potentially of constitutional significance to the BBC and should be the subject of consultation. That point was essentially conceded in the final stages of the drafting of Digital Britain when the Government agreed to consultation on this matter. In the context of that consultation, I think it is entirely appropriate for the BBC Trust to make it clear, as it had done for the preceding year, that it believed that top-slicing was not in the interests of licence fee payers. I will not rehearse those arguments at this point because you might want me to come on to them in later questioning, and I have absolutely no discomfort about that, but let me underline that it is not just the view of the BBC Chairman. What you have in our statement is the view of the entire BBC Trust.

Mr Thompson: Chairman, if I can just say, the Secretary of State went on to BBC Radio 5 Live that afternoon and he said there that he had not made up his mind on the issue, that he thought it was very healthy to debate the issue, that nothing that he had said in the *Financial Times* should be seen as an attack on the BBC nor just a distillation of his views, so it is by no means clear from his remarks on 5 Live—he seems to welcome the debate.

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Q4 Chairman: But do you accept that the setting of the licence fee and the use to which the licence fee is put is a matter for Parliament and not for the BBC?

Sir Michael Lyons: Absolutely. The setting of the licence fee is a matter for Parliament, and indeed the use to which it is put. However, it is a matter of some public moment, I think, if, after 50 years of the licence fee having been collected solely on the premise that it is to fund the BBC and nothing else, that any change in that is a matter that the public need to be very clear about the pros and cons of and the potential risks that might flow from it. If I can just finish this point, in the creation of the Trust—it is not something that I have brought to the situation—the terms explicitly used in the charter are that the Trust should be the guardians of the licence fee. How could it be inappropriate in that role, as the voice of licence fee payers, that we would not seek to make it clear that there could be some very serious implications of top-slicing?

Q5 Chairman: With respect, what the Charter actually says is that the Trust is the guardian of the licence fee revenue and the public interest in the BBC. That means that you are the guardian of how the licence fee is used to support the activities of the BBC. It does not say that you are the guardian of the licence fee in totality.

Sir Michael Lyons: I can see how you interpret it that way, Chairman. For 50 years the licence fee and the BBC have been indivisible and I can only say that it seems to me that that was drafted in the context of 50 years of history of the licence fee being used entirely for the BBC, but I take your point.

Q6 Chairman: Firstly, that is not the case. The BBC licence fee is used for other purposes. For instance, it is supporting the digital switchover help scheme. The BBC also uses licence fee money, for instance, to support S4C, so it is not the case that all the money has always been spent by the BBC. Even so, if Parliament decides that it is appropriate to use licence fee money for other purposes then that is a matter for Parliament and there is nothing in the Charter which says that you should oppose that.

Sir Michael Lyons: Chairman, we have established unequivocally that Parliament has the power to decide and if it did decide I should not seek in any way to do anything other than follow what Parliament has decided, but we are in a period of debate. Are you suggesting that, feeling strongly about this matter, the BBC Trust should not voice its concerns? That would be an extraordinary situation.

Q7 Chairman: Let me give you another example. When Parliament debated whether or not there should be an increase in the licence fee for this year you went on the *Today* programme essentially to oppose that.

Sir Michael Lyons: No, not at all. If you go back to my comments you will see me very clearly acknowledging that this was a matter for Parliament, acknowledging very clearly that there was proper debate about the size of the licence fee and about the search for efficiencies in the BBC, but

then going on to say that the danger, the only point that I was raising there, of moving from the current five-year settlement, which is part of the constitutional arrangements which protect the independence of the BBC, to a year-by-year debate would mean perpetual discussion on the funding of the BBC which almost inevitably could lead to erosion of the independence of the BBC, which we know from all of our work—again, back to licence fee payers—is right at the top of the public's appreciation of the BBC as it stands at the moment.

Q8 Chairman: You say you were not opposing it. You made a speech saying, “Tomorrow Parliament debates a proposal to freeze the licence fee. That is a recipe for curbing the editorial independence of the BBC”. That sounds like opposition to me.

Sir Michael Lyons: In the context of moving from a five-year settlement, which as you go further into that you will see very clearly explained, to a year-by-year unpicking of the licence fee. That was the only principle and I have repeated it on a number of occasions, including in conversations with the Leader of the Opposition.

Q9 Chairman: Are you concerned that the Trust appears to have arrived at a position where it is in conflict, quite serious conflict, with both the Government and the official Opposition?

Sir Michael Lyons: I do not know that I do see that situation. Indeed, one of the interesting aspects of the debate about top-slicing is that the official spokesman of the Opposition seems to be making increasingly strong statements against top-slicing and in favour of the licence fee remaining entirely for the BBC, so I do not see opposition on that principle. There will be different views on different issues. Do I feel that the Trust, which is charged under the Charter with more clearly speaking for licence fee payers, should keep quiet when it believes that licence fee payers' interests are at risk? No, I do not think it should, and I am absolutely unashamed about that and if it means finding myself out of favour with a minister from time to time, well, unfortunately, that is the price of the job.

Mr Thompson: It is worth saying on top-slicing that a number of Opposition politicians—the Liberal Democrats have said they are against top-slicing, amongst your own party who are against top-slicing Jeremy Hunt, Ed Vaizey.

Q10 Chairman: I was not necessarily just referring to top-slicing. You have attacked the Opposition for putting down a motion simply suggesting the licence fee should not go up. You have dismissed the Opposition's complaints about the continued appearance of Alan Sugar on your programmes.

Sir Michael Lyons: Can we come back to both of those, Chairman, because there is a danger that your characterisation of those will go on the record and you will forgive me for feeling that I need to challenge you on both of those. I did not attack the Opposition for seeking to question either the size of the BBC or value for money within it. That is absolutely the prerogative of not only the

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Opposition but indeed Parliament as a whole, and, in the case of the Alan Sugar situation, that is a matter where there is an official complaint from Jeremy Hunt which is currently being considered by the BBC Trust, so any suggestion that that has been rejected by the BBC Trust would not be well-founded.

Q11 Chairman: But so far you have made it pretty clear that you do not believe there is any difficulty in the BBC—

Sir Michael Lyons: Chairman, I have made no such statement. It is important to distinguish between our roles. I know you will want to do that later on.

Q12 Chairman: I am keen that we should have as much distinction as possible.

Mr Thompson: Just to be clear, Chairman, in my role as Editor-in-Chief of the BBC I have reached a conclusion that, given that certain strict conditions are met, I do not believe it is inconsistent for Alan Sugar to continue to be the presenter of *The Apprentice* in the present circumstances. In conversation with Jeremy Hunt, the Shadow Culture Secretary, I said to him that if he remains, as he clearly was, unhappy with that decision he should take the opportunity to make a formal complaint to the BBC Trust. He has done that and the Trust are currently considering that.

Q13 Philip Davies: Sir Michael, you come here each year and tell us how you are the champion of the licence fee payer, but do you not recognise that you are getting an increasing reputation for being not somebody who represents the licence fee payer but somebody who represents the BBC itself? In a recent report we described you as an apologist for the BBC and you wrote to the Committee to say that you were unhappy with that description. On reflection, I think you were right to disagree with that description of you because I think it was far too moderate and kind, and some of the words I have heard you described as are “cheerleader”, “a lickspittle for the BBC”. Are you not worried that that is the reputation that you are getting?

Sir Michael Lyons: I certainly do not welcome terms like that and I am sure that, given time, you can come up with some even more exciting descriptors. The heart of this job is sometimes misunderstood, including by very eminent people who played a part in the discussions which led to the creation of the BBC Trust. The BBC Trust is not some external regulator. If you had set that up as the benchmark, and I have said this from the moment that I took this role on, you would find it very difficult to understand some of the behaviours and decisions reached by the BBC Trust. It is instead the sovereign body—and again I go back to the Charter—of the BBC. All of the property rights and the employment responsibilities of the BBC eventually are rooted in the Trust, so it is absolutely unequivocally part of the BBC, but the Board is charged, and I have said it publicly, not unlike boards of many other organisations, with trying to ensure that the management are firmly focused on the interests of

the shareholders and in this case the shareholders are licence fee payers. The distinction of the Trust, distinct in two respects, is first that it is given by Parliament some self-regulatory powers within the BBC, and it needs to be very clear that it undertakes those and that it does it in an independent-minded fashion. We have established special mechanisms to do that. I have lost the train of my thought. Let me stop because my answer is too long anyway.

Q14 Philip Davies: Hopefully you will acknowledge that you are supposed to be operationally independent of the BBC and yet you wrote an article for *The Independent* on 17 April where you wrote within it that the BBC Trust is there to strengthen the BBC, which I am not entirely sure is accurate, and you also went on to say that you are there to defend the editorial decisions that it takes. Do you really think it is an appropriate role for the BBC Trust to be there to defend the editorial decisions of the BBC? Is it not there to hold the BBC to account rather than to be a defender of the editorial decisions it takes?

Sir Michael Lyons: Can we take those a step at a time because firstly I do not recognise “to defend the editorial decisions”.

Q15 Philip Davies: It says here in the article, “not least so that he can defend the editorial decisions it takes”. Those are not my words; they are your words.

Sir Michael Lyons: I think if you just go into context, but, please, if you would like to show me them I will make sure that I make no mistakes in this, my understanding of what I said there was that one of the jobs of the Trust is to defend the freedom of the Director General to make the necessary editorial decisions, not to second-guess him, and to avoid the situation where he comes under pressure from other quarters. You see this very clearly illustrated in the action the Trust took over the Gaza appeal issue, a matter of very considerable public controversy, where the Trust was, firstly, very clear that it should speak up when there was the danger of inappropriate political pressure being applied, but, secondly, in reaching a decision about whether the Director General had made the right decision, decided to focus our attentions on the process by which he had made decisions and that this was a reasonable decision to take rather than to second-guess that editorial decision.

Q16 Philip Davies: You go on in this article to say that the Trust’s job is to help the BBC chart a course through this and ensure that “we” are scrupulously careful about standards of accuracy and impartiality—not “they”, “we”. Do you not think that all of this adds up to the fact that you are not there to hold the BBC to account? You come here as a double act. You come here agreeing with each other *ad nauseam*. That is not a position of responsibility. You are two peas in the same pod, are you not?

Sir Michael Lyons: No, we are not, and, listening carefully to the answers that we give to you, you will be able to tell very clearly the distinction for us. Can

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I come back because I do think there is a danger that you, like others, have set up a false hypothesis here? The Trust is not an external regulator. It is the governing body of the BBC. That is why I am here at the same time as Mark Thompson. If that were not the case you would see us on completely separate occasions. Do I use the wrong term when I talk of “we” to describe our different roles within the BBC? I do not believe I do, but if you persist in testing me against a different proposition then I am very likely to fail.

Q17 Philip Davies: Can I finally, on this bit, Chairman, put a point that you made during the debate on the freezing of the licence fee, which I thought was a very pertinent one? Sir Michael, you repeated it again today, that you thought that annual reviews of the licence fee would upset the independence of the BBC because it would be in the political arena, and that five-year settlements protect the independence of the BBC. Does that mean in the year before the five-year settlement that the BBC is politically influenced?

Sir Michael Lyons: No, I do not think it is. There is always a risk, is there not, but I think there are two points. The point that I seek to focus on every time I come back to this is that there are essentially two mechanisms that historically we have adopted in this country and have been recognised and valued by successive governments that are the hallmarks of why the BBC is seen, not only in the United Kingdom but throughout the world, as independent of government, and those are, one, the Charter. We revisit it every ten years to make sure that the remit given to the BBC by Parliament is refreshed and renewed, but also, on the five-year settlement, not to avoid the situation where from time to time Parliament considers how big the licence fee should be and how much resource the BBC should have, but to avoid a situation where, month by month, year by year, that discussion is going on all of the time and would inevitably be the opportunity for those who had a mind to it, to seek to influence the BBC.

Q18 Philip Davies: But surely one or the other must be the case. Either the BBC is politically influenced in the year before the five-year settlement because that is the nature of what happens before the settlement is made, or there is no risk of the BBC being politically influenced if there were annual settlements. You cannot have it both ways. You cannot say that it would be politically influenced or there would be a risk to its independence on annual reviews of the licence fee if there is none of that going on in the year before a five-year settlement.

Sir Michael Lyons: I am not the architect of these arrangements, of course; they have existed for many years, but let me indicate how I have interpreted the importance of those debates over the years. It is one thing every five years for there to be an open and public discussion about the licence fee for the following five years. Everybody is put on alert that that discussion is taking place. The official Opposition have a clear knowledge that that is taking place and therefore an opportunity to watch

and scrutinise what ministers are doing at that time. If you move from that to annual rounds of budgeting I think we might all agree that that would be effectively perpetual discussion about funding, just like we have had perpetual discussion about public service broadcasting over the last two years. The problem with that is that discussions take place that people are not aware of. I think there is a profound difference between a discussion once every five years on an open basis and a discussion annually which effectively goes into perpetual discussion.

Q19 Philip Davies: But why should we not have a continual debate about the BBC and the licence fee? Why do you want to close down the debate for five years at a time?

Sir Michael Lyons: I do not think we are short of public debate about the way licence fee monies are used by the BBC, but I am, of course, referring to a different situation in terms of the influence that ministers might bring to bear and we might have different views on this.

Mr Thompson: There are some international examples of annual debate and annual setting of fees for public service broadcasters. The setting of the fee for the Canadian Broadcasting Corporation, CBC, is an example of that, and if you look at the Canadian example I think it has a debilitating effect on the public broadcaster and has over time undermined the independence and the confidence of that public broadcaster.

Q20 Chairman: Can we now have a look at some of the specific provisions within the annual report? In terms of the BBC’s success in serving its audiences, you attach enormous importance to reach and you say that you are exceeding target in that 93% of the population of adults enjoy some BBC service each week, and that, of course, means that 7% do not ever use anything from the BBC, but equally, if you go further down, when we get to television the report shows that 15% of the population does not watch any BBC television service. Are you concerned about that?

Sir Michael Lyons: Can we get our definitions absolutely right because, again, I think this is important? The reach figures that we use are 15 minutes’ usage in a week, so it would not be right to say that we know that the 7%, in the case of all BBC services, never use BBC services, and that would be a dangerous thing to suggest, but what we do know is that they did not use it for 15 minutes or more in that week period looked at.

Q21 Chairman: There are other measures you could use which might give you that information.

Sir Michael Lyons: I accept that there is a case, and indeed I think the BBC is making progress on this, in seeking to get the fullest possible understanding of the use of BBC services and the value the public places upon them. Reach is a good figure to use as part of this equation; it is not the whole story but it is a good figure to use because of the Trust’s absolutely unequivocal view that if you raise a universal charge in the form of a licence fee, then it is a direct

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obligation for the BBC to show that it demonstrates value to all fee payers, and so it is the right indicator in that respect. It is, of course, part of a changed arrangement for monitoring the performance of the BBC, the RQIV framework itself being evolved over time, which is an attempt to move away from a history of focusing solely on audience share, which tended to concentrate on the competition between broadcasters, and to focus instead on audiences, how many of them use BBC services, their appreciation of the quality of the services, and particularly to bring into that equation the issue of value for money. This is not the end state but a step on the journey of a much broader evaluation of what the BBC does and the value that it gives to licence fee payers.

Mr Thompson: If I can raise two very brief additional points, firstly, and we are very happy to show this to the Committee, we have developed a new way of looking at media usage across the platform—television, radio, the web and mobile, and although we have kept to the same methodologies in the annual report, and rightly so, we think the 93% reach figure understates usage of the BBC. We think the truer figure is about 98% of the UK population of weekly reach. The important thing to say about reach is that it does not replace other measures of usage entirely, like, for example, share, but we absolutely, as Michael mentioned, see reach alongside quality and the public's perceptions of quality of the BBC. If you turn to page 13 of the annual report you will see a couple of important measures. Those who give the BBC the highest score for quality, eight, nine or ten out of ten, that number has gone up over the year. For those who give us high scores for producing and delivering original and different programming, distinctive programming, it has also gone up significantly over the year. Those who score us most lowly for quality, a score of four out of ten or below, which was 13% last year, have gone down. The quality measures are definitely heading in the right direction.

Q22 Chairman: The movement is small as you would expect.

Mr Thompson: I would accept that these may seem fairly subtle but we are talking about movement over a vast number of people, over 26 million households in this country. Believe me, statistically these are significant shifts, though I absolutely would be the first person to accept, as the Trust have said, the movement is welcome. Would we like to see it go further? Yes, we would.

Q23 Chairman: You say that you are giving greater emphasis to reach but you also said that does not replace share and it should be seen alongside that. In actual fact, it does replace share since in your report in 2006–07 you gave a figure for percentage of hours of viewing or listening for each BBC television and radio service and indeed comparison figures for other broadcasters. Last year that was reduced to two brief share tables and this year there are no share tables in the report at all.

Sir Michael Lyons: Whatever the BBC uses to look at, I would expect them to take the fullest possible perspective in trying to understand the adequacy with which they are serving audiences. As far as the Trust is concerned, this report shows effectively the dashboard by which we judge the BBC. It is developing but we are absolutely clear that reach, quality, impact and value are much more important indicators in terms of audience satisfaction than share.

Q24 Chairman: So you will not be publishing share figures in the future?

Sir Michael Lyons: I do not think they are likely to play a part in the Trust's judgment.

Mr Thompson: There is absolutely no secret and we are very happy to share all our share figures with you any time you want. The story of share is one of a fairly high level of stability, with small declines in television in BBC1 and 2, increases in share for our digital television channels, a slight increase in share of BBC radio, a significant increase in usage of bbc.co.uk weekly users up by a third year on year and a doubling of the number of people who use the BBC iPlayer over the year.

Q25 Janet Anderson: I wonder if I could ask you about the licence fee spend in the nations and regions which did increase significantly in 2007–08 but decreased by £40 million in 2008–09. I wondered if you would like to tell us why that was?

Sir Michael Lyons: The explanation is that this is work in progress. On behalf of the Trust, let me say that this is a year in which we have set some new and very demanding targets to be achieved by 2016, in terms of 50% of all our network output to be produced out of London with new targets set for the amount to be achieved in Scotland, Wales and Northern Ireland. What we see here is the progress already made in changes, although inevitably as you start to move things around you get some perverse results if at the same time you are looking for efficiency savings. In terms of where we are going to, I am very clear on the targets that have been set and they are demanding.

Mr Thompson: If I take you to page 41 in the annual report, what is happening is that the efficiency programme in the BBC is reducing some of the absolute numbers being spent on services. As we divert money for example to pay for the analogue to digital television switchover, we are still delivering I believe high quality and indeed the public tell us that, but we are squeezing the money. Some of the absolute numbers have gone down across the board. On page 41 you will see that the percentages that we are spending have generally been rising. For example, the total spend in television in the nations and regions which was 32.6 in 2007–08 in 2008–09 had risen to 34.9. You can see in the nations, using the Ofcom definition which we have adopted, in 2007–08 the proportion of spend on network production in Scotland, Wales and Northern Ireland was 6.4%. It has gone up to 7.9%. Although the total cake has been getting a bit smaller because of this efficiency programme, the share of the cake that has

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been spent outside London has been growing. The share of network commissioning from Scotland, Wales and Northern Ireland has also been growing. This is part of a story over the coming years to hit pretty testing targets we have set ourselves by 2012 and 2016. By the end of the chart, 2016, we expect more than 50% of all spend to be outside London and indeed more than half of all the BBC staff to be based in the nations and regions of the UK.

Q26 Janet Anderson: There was an Ipsos MORI poll last year which showed that the further north you live the less likely you are to feel the licence fee is an appropriate way of funding the BBC. Do you recognise that there is still more to do? If I could particularly ask you about the move to Salford because I understand a number of senior and middle managers have refused to move to Salford. Could you explain to the Committee what kind of incentives you are offering staff to move to Salford? I believe there is quite a generous package. Could you just outline that for us?

Sir Michael Lyons: We can take that in two parts. I will just deal with the Trust's perspective on this and Mark can take the issues of the steps that are being taken to achieve the move. The Ipsos MORI poll links directly to the work that the BBC has its first undertaken which has been very influential with the BBC Trust in its first two years of life which is as you move further away from the South East, broadly affection for the BBC declines and I think that is why you see people feeling rather more equivocal about the licence fee being the right way to pay. One of our headline issues is to make sure that the BBC delivers for all audiences and has a strong geographical component to it. We believe that it is important that the BBC has more of its staff working outside of London and the South East and we have reflected that in the target for 50% of staff outside of London. The Salford move and the establishment of BBC North, of course, is an important part of that but it is not the only agenda because what comes through very clearly from all of our research is what people want to see is their lives reflected and represented in BBC programmes. This is not just about where people are. It is also about the types of programmes that are made and that is the force of the dialogue that is taking place and the expectations which are being set for the BBC.

Mr Thompson: The whole of the Executive of the BBC believes that getting this right is one of the most important things we have to do and in particular to recognise that it is quite a complicated story across the UK. On the broad principle that the further north you go the more question marks you have, it must be said even in the parts of the UK where the approval is lowest it is still very strong compared to other public institutions. The north of England is a particular issue for us. That is partly why we have gone for this very big development in Salford. Let me tell you a bit about what is going on there. There is a package of benefits to BBC people who decide to move from operations in London to Greater Manchester. It is very important to say that the cost of this package is in all cases—there are lots of rather

complicated variations of different kinds of benefit you can get to help you with your move—is substantially cheaper for the BBC and the licence fee payer than a redundancy for the employee would be.

Q27 Janet Anderson: Some of them might be made redundant, will they, those who refuse to go?

Mr Thompson: Those whose jobs will close in London will be eligible for redundancy. We are still going through a process. Most of the most senior grades of staff have made their decision. Even this month we have two or three more significant blocks of staff making their decision. Around half of those staff whose posts, jobs and programmes are moving to the north have decided to go, which tells me two things. One, that the incentives are about right.

Q28 Janet Anderson: Could you tell us what the incentives are?

Mr Thompson: My colleagues will give you the detail. They are essentially a range of things which help with the physical move of the individual from a residence in London to a residence based in Greater Manchester. I believe that we are seeing slightly more people moving than we predicted. We modelled rather fewer people moving. Around 45% or 50% of staff are deciding to move. In my view for this project, that is about right. This means that we will be recruiting for a great number of people in the north of England and looking to get the best talent and the best up and coming people. When we open BBC North in Salford Quays in 2011, you are going to see a combination of the experienced, tried and tested BBC staff in sport, children's and other divisions who have moved from London but also plenty of opportunities for new jobs in the region.

Q29 Janet Anderson: Mr Thompson has said that it is cheaper to offer this package of incentives than it would be to make people redundant. I wonder if you could just give us a comparison. What would be the average cost of making someone redundant? What is the average cost of the package to incentivise them to move to Salford?

Ms Patel: Relocation would be roughly a third cheaper than redundancy.

Q30 Janet Anderson: Could you give us some figures?

Ms Patel: I do not have the exact figures to hand. It depends on the number of individuals and their length of service as well but, on a typical average employee, relocating them would cost a third of making them redundant assuming an average life at the BBC.

Q31 Janet Anderson: You still have not told us what that package includes.

Ms Patel: One of the things we did this year was we looked at the package again in the light of the downturn in the economy and affordability and reduced the level of package, but also introduced slightly more choice. There are three things that we

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will be offering employees. Firstly, there is a house purchase scheme. I will go through that in a little bit more detail. The second is paying for relocation costs, the cost of moving, the cost of estate agents, the cost of finding your children new schools. The third is the remote living allowance for two years for those people who are still trying it out.

Q32 Janet Anderson: What is the cost of finding children new schools?

Ms Patel: All of our packages are in line with the Inland Revenue's rules on this. For example, it will be estate agents' fees—

Q33 Janet Anderson: Unless you educate your children privately, what is the cost?

Ms Patel: It is the cost of finding schools, going to see the different schools, helping people. Carter's, our relocation company, will send a pack of what are the schools available, what are the schools like. It is about giving information. Another part of the assisted relocation is estate agents' fees for selling your house, reasonable move expenses. All the expenses will be justified by receipts for the actual expenditure. There are limits to the expenditure as well. Can I just talk a little bit about the house purchase scheme, because I think it is important for people to understand what that offer is. We will have two independent valuations if someone wants to sell their house. They will be priced to sell and in the current climate it is really important that they are proper valuations. We will then only offer 85% of that value towards the purchase of a new house up in Salford. This relocation package is offered by a company called Carter's so they will take the underlying financial risk. What the BBC will pay is interest costs for the period between buying the property and selling it and a transaction fee of £3,000 per property. The BBC is really limiting how much risk it takes, particularly in the current economic climate.

Q34 Janet Anderson: You are saying that is a third cheaper than it would be to make them redundant. You still have not given us an average figure for the cost of the incentives per employee as compared with the cost of redundancy. You must have that figure somewhere.

Ms Patel: We do. I do not have it to hand because it really does depend on the individual circumstances of each individual. If the Committee would bear with us, we would be able to give you that.

Q35 Janet Anderson: You could not tell us roughly how much it is costing to move one person to Salford?

Ms Patel: I do not have those figures to hand right now.

Mr Thompson: What I can tell you is because a higher proportion of staff appear to be choosing to go rather than choosing not to go, the outturn of the costs is likely to be lower than the original budget. In other words, it is going to cost us less than we thought. If I can just emphasise on the matter of finding new schools, all that is being offered here is a

service of information and advice. It is absolutely not about paying school fees or anything like that. It is simply to make sure that if staff are moving their family they can get information and advice about local schools in the area. It is perhaps worth saying that when Zarin was talking about house purchase or this allowance for living, these are alternatives, they are not additive. Staff have a number of choices: either a permanent relocation with the guaranteed house purchase at 85% of the actual market value of the house or, alternatively, if they want to spend a couple of years seeing what it is like and deciding over that period whether they want to move, there is this allowance.

Q36 Janet Anderson: Finally, Sir Michael, I notice from the annual report the licence fee payer pays for your life assurance. Could you explain to me why?

Sir Michael Lyons: Yes. When I was appointed to this post in May 2007, the package on offer and advertised for the Chairman, included entry to the BBC pension scheme which I did not take up, but I asked that that component of the pension scheme which related to life insurance—death in service, only whilst I am in the role—should be continued. This is only a fragment of what was included in the offer for the job I applied for that I have taken up.

Q37 Janet Anderson: Private medical insurance was included as well.

Sir Michael Lyons: Yes, it was.

Q38 Chairman: You work for a public corporation financed by the taxpayer. Do you think it is right that the taxpayer should pay your private medical insurance?

Sir Michael Lyons: I come back to the fact that that is part of the terms and conditions of senior BBC management. The benefits that I receive are very significantly less than those that were advertised because I do not take up the pension right. I do not take up the entitlement of door-to-door use of a car which was part of the package that was advertised. Do I feel that I am offering better value? Yes, I do, but it is for others to make a judgment about how well I do the job.

Chairman: You will be aware that the area of salaries and expenses is one of some controversy perhaps on both sides of the Committee room so I think perhaps we should move to that now.

Q39 Mr Ainsworth: There has been a certain amount of interest, I am sure you have noticed, in remuneration both at the BBC and in this place in recent months. Can we approach this by way of the general economic climate and the recession. You say that you are not immune from outside economic activities, despite the fact that you are funded, many would think very generously, by a licence fee which is set in stone over the five-year period that we have talked about. Can we begin to think about the whole question of remuneration with an answer to the question: how is the BBC affected by these outside

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pressures? With very low inflation and a steady income stream, one might have thought that you could be a beneficiary of the recession.

Sir Michael Lyons: This might be an opportunity to bring Zarin in as our financial adviser but after she has gone through the issues I am certainly happy to add a personal comment.

Ms Patel: For us, whilst the licence fee as you say is a guaranteed source of income, there are two things in the licence fee that affect us. First is the rate of new household growth in the UK. In the last licence fee settlement, we had estimated that some 0.8% per annum, which is about £30 million, would come from household growth, new immigration into the UK as well as more single households. As a result of the recession, that 0.8% estimate of household growth has been reduced to under 0.5% so that directly affects our income. There is no doubt also that as disposable incomes come under pressure inflation will come under some pressure as well. We are seeing some signs of that in the current year. Our income is affected a little bit. Deflation does have an impact on us. About 45% of our costs are either directly or indirectly linked to inflation. We are driving through a lot of savings in our contracts, in pay restraint, which we will talk about later, as well as in talent costs, which I am sure will come up later as well. What the BBC is doing at the moment is ensuring that its baseline costs are reducing well in line with deflation. Our estimate is that with quantitative easing inflation will probably spike in later years and therefore having a lower baseline now, saving the money now to be able to withstand inflationary pressure, will be important.

Q40 Mr Ainsworth: You seem to be making some progress towards the 3% efficiency target. Do you think 3%, given what you have just said, is enough?

Ms Patel: Again for us these are 3% cash releasing targets for every single year of the five-year settlement. It is useful to go back to the 2005 to 2008 Value for Money programme we had. In that programme we really reduced our overhead and fixed cost base. We outsourced a huge amount. We took a huge amount out of overheads. The 3% that we are now delivering falls on all of our programming costs. For example, in television production, we are taking something like 5% per annum out of our cost base so these are pretty big, ambitious efficiency targets. On top of that as a result of the recession we have been looking again at the level of savings, at talent costs, pay restraint and also overheads again to ensure that we can withstand the recession.

Q41 Mr Ainsworth: On the question of pay restraint, belt tightening and all of that, how do you justify, Mr Thompson, the fact that your personal remuneration rose over the last year from £816,000 to £834,000?

Mr Thompson: What happened last August was there was a general pay award across the BBC of 2%. This was at a time when the retail price index was at 4.8%, so this was an increase which was 2.8% less than the current rate of inflation. My pay and

virtually every other director's pay went up in line with that general below inflation increase. As you know, I am sure, in the current year we have imposed a freeze on the pay of staff who earn £60,000 or more. My pay set by the BBC Trust is absolutely going to be frozen alongside everyone else's. Most directors whose pay is set out in the remuneration report show a decrease because they were awarded bonuses last year. We have also decided not to award any bonuses this year and indeed it has been agreed with the BBC Trust that bonuses for Executive directors will be suspended indefinitely. The reason that my pay in the remuneration table shows that 2% increase is because I am not getting a bonus this year in line with the freeze, but I waived my bonus last year as well. Indeed, I have waived my bonus every single year I have been Director General. In addition, every single year I have only taken an increase in line with the general BBC increase which I think every year so far has been below inflation.

Sir Michael Lyons: Could I offer a couple of headline comments on the Trust's perspective?

Q42 Mr Ainsworth: Including a justification of your own 30% pay increase?

Sir Michael Lyons: I will certainly deal with that. The Trust has been very sensitive to debate not only outside the BBC but within the BBC about the right level for top salaries. This is not new. Indeed, one of my reasons for putting in the public domain last week the fact that we had commissioned a review in February of this year of top salaries was to reflect the fact that there have been discussions now for two years within the BBC. The mechanism is that the BBC Trust sets the rewards for the Director General but then sets the framework within which the Executive Board makes decisions for all other employees. We tightened the framework last year to emphasise more strongly the public acceptability of increases and the issue of the importance of recognising that there should be an appropriate set of relationships within the BBC. We have gone further this year and that is reflected in the decisions to be completely transparent. The Director General made a very welcome speech about his commitment to publishing details of all top salaries and all the expenses associated with them; and indeed the freeze this year on bonuses and salaries and the step further of suspending the bonus arrangements for the executive board until further notice, not to be reintroduced without the approval of the Trust. This is an issue but I am very clear in all of my public statements about the importance of getting this right because I do not think that the public will thank us if we take measures driven by short-term pressures, although those are real, which make it impossible for us to recruit for the future. It is very important to say that as we look at what is paid elsewhere, even after reductions in bonuses and incentive payments, particularly the payment for the Director General does not look out of line with the sorts of areas that we would have to look to if we were to recruit a new Director General. Indeed, if you just look at what is being paid by other public service broadcasters, I think without exception, although it is not always

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easy to be sure of the comparable package and it is not always as transparent as we might want, they are paying higher reward packages than the BBC pays. Let me turn to my own remuneration. Last year I received a 2% increase in salary from £140,000 to £142,800. My salary is set by the Department for Culture, Media and Sport. In fact, they recommended a 3% increase for all trustees. The trustees felt that it was inappropriate to take a larger increase than was being enjoyed by BBC staff, so they only took two-thirds of what was on offer, so that is the 2% rather than the 3%. What you see in the table is the bringing together not only of my salary but of the costs of my transport, because I have an office in London but I live in Birmingham, and hotel accommodation which under HMRC rules are regarded as taxable benefits, although I have to say—and we might even have shared experience in this room—that I do not regard them as benefits. I regard them as the costs I incur to do the job. If you find yourself sitting in a hotel four nights a week, I need hardly tell you that is not something to celebrate.

Q43 Mr Ainsworth: You will find a degree of sympathy on this issue here. The numbers remain for people sitting in our place eye-wateringly high, I must say, and it is very difficult not to resort to envy but we will not do that. What you have not explained is why the figure rose so steeply from £163,000 to £213,000. That is a lot of hotel rooms, obviously.

Sir Michael Lyons: Many more nights.

Q44 Mr Ainsworth: They must be very expensive hotels.

Sir Michael Lyons: Not at all. When I joined, having previously from time to time visited London and by and large I actually had some choice over where I stayed, I found the BBC was nothing like as generous as that. It gave me three choices. I have chosen what I regard as the best of those. It is a chain hotel based in Paddington. I am not going to give you more details than that for fear that this appears absolutely everywhere. The point you address is the increase and let me turn to that. Last year of course was not a full year and this year, thanks to the joys of the debate about public service broadcasting, I ended up spending many more days on BBC activity than I had originally anticipated. I rather cavalierly said, when I was appointed for the job, that I was confident that I could do it in three days a week. I have to say that was extraordinarily naïve of me.

Q45 Mr Ainsworth: The number of senior managers who have tipped over the £100,000 mark, which is now 373 and there were only 340 in the previous year, is within the 2% increase. It just happens that they were paid just under and they just flipped over the barrier?

Mr Thompson: There is a number of things going on there. Something else this Committee studied, our commercial arm, BBC Worldwide, has been expanding. You will have seen its turnover has gone

just over the £1 billion mark in the current year and there have been some new posts there, so there are some new people.

Q46 Mr Ainsworth: Of that 373 who are paid over £100,000, how many of those come from the commercial business?

Ms Patel: 14 come from the commercial businesses and 19 from the public service of the increase, so the increase in senior managers earning over £100,000. Last year we had 340 of them; this year we have 373 of them. That is roughly 1.5% of the total workforce. Of that increase of 33, 19 people were in the public service, 14 people in our commercial businesses and of course in our commercial businesses they are not just in the UK; they are across the globe as well.

Mr Thompson: On that 1.5% of the workforce on over £100,000, we do look quite closely at comparable organisations. At Channel 4 for example the comparable figure is 10% of staff on over £100,000 compared to 1.5% at the BBC.

Q47 Mr Ainsworth: What about the vexed issue of what you pay your talent? The National Audit Office (NAO) recently had a look at the salaries of radio presenters and thought there was a possibility that you were over-paying. What is your reaction to that?

Sir Michael Lyons: This is something again that the Trust has taken very seriously. We know there is concern amongst licence fee payers and the public at large. About a year ago now we commissioned Oliver & Ohlbaum to do a substantial piece of work to question whether the BBC was following the market or making the market. The analysis showed very clearly that with some complications in the area of radio the BBC was unequivocally following the market rather than making it. Nonetheless, as a result of that report, we were very clear that we wanted the BBC to take further steps to tighten its control of top talent payments, to do more effective benchmarking, to draw more clearly on audience information and to develop new talent. What we put into the public domain just this week when we published this report is the progress that has been made on that front, showing all of those recommendations acted upon. You are right, of course. We commissioned the National Audit Office to pursue the issue of radio fees which did appear to be the one area where there was a danger, partly complicated by the fact that the BBC retains performers who perform on television and radio. That was one of the issues there.

Q48 Mr Ainsworth: When you say you are following the market rather than leading it, it is incredibly difficult surely to establish what the market is, because you do stuff which nobody else does?

Mr Thompson: If I may say so, I think that is a very fair point. It is one of the points the NAO pointed to and one of the things they recommended is that we should work harder at internal benchmarks, in particular comparing for example costs of network radio with BBC radio stations based in the nations and regions, to try and get better benchmarks. Having said that—and the public recognise this—we

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have exceptional performers and exceptional radio stations which are not really directly comparable to commercial radio. They also represent remarkably good value for money. We have some fairly well paid broadcasters on Radio 2 but you will see in the annual report that the cost per listener, per hour of Radio 2 is half a pence. The whole of the BBC by the way costs a household 39 pence a day for all of the services. It remains a remarkably small amount of money given the extraordinary range of services the BBC provides. Although of course we need to have proper regard to every cost line, absolutely to include presenters and broadcasters, in some ways if you are looking at the efficiency and effectiveness of the BBC in its delivery of value for money for the licence fee, we also need to look hard at these measures. By those measures, our national radio music stations, Radio 1 and Radio 2, are both extremely good value for money.

Q49 Mr Ainsworth: Do be careful about these very straightforward measurements. I am a Radio 3 listener. I look at the figures and I start to sweat slightly when I see how Radio 3 stands in relation to some of your other matters. It is not just about a simple, numerical analysis of who is listening to what.

Mr Thompson: It absolutely is not. At the same time it is quite important to say in many ways that the most expensive services the BBC makes in terms of their delivery to audiences are services like Radio 3. I am also a passionate, personal fan of Radio 3. BBC Parliament is a very expensive service because it is a relatively *recherché* pleasure.

Q50 Mr Ainsworth: Extraordinarily *recherché*. Talk about minority tastes!

Sir Michael Lyons: This goes right to the heart, does it not, of the BBC's mission to serve all audiences, coupled with the need to be distinctive and to do things that other people do not do. When you look at radio and you see the cost of Radio 4, which is distinctive not only in the UK but arguably across the world in terms of speech radio and the quality of speech radio, it is important to remember that it costs more than one and two put together that serve very, very much larger audiences. That is not to say that you should do without any of them but they are part of a broad range of services which justifies a universal licence fee.

Q51 Chairman: You say you do not set the market but you have to pay the market rate. There are 373 people earning over £100,000. You really believe that, despite the appalling state of commercial broadcasting, unless they receive those kinds of salaries they are going to be poached by your competitors?

Sir Michael Lyons: The Trust is itself concerned to explore this very issue. That is why back in February I wrote to the Director General asking him to ask the Remuneration Committee, which is made up of the non-executive members of the executive board, to

explore in some detail and report back to us on current arrangements, including whether or not pensions were fully valued and whether there is a danger from external benchmarking. We know that there is a debate across the UK economy about whether the well-established process of external benchmarking is in danger of escalating top pay and that applies as much in banks as in broadcasting. This is responding to a number of controversies and also emphasising our interest in the issue of relativities within the BBC and whether there are any complications arising from an expansion of those relativities. We are exploring these issues. I do not want to sit here and give you the impression that the *status quo* is something we are entirely satisfied with but, equally, it is important that I underline that the primary concern here is to make sure that the BBC is in a position to recruit and retain the skills that it needs to do a good job on behalf of the licence fee payer and that we should not get into a token exercise of looking for reductions or changes which damage that ability. I think that goes as much for the rewards for parliamentarians as it does for anybody else.

Mr Thompson: The answer to your direct question is yes, we are still losing senior people. Most recently, a few weeks ago, Lucy Lumsden, our head of comedy commissioning in television, a great person who had done a great job for us, has moved over to Sky. We recruit internally. We have internal promotions of course but we also are recruiting from the public and private sectors. What is interesting is that of the 60 most recent senior managers we have appointed into the BBC from outside the BBC, 57 have come from the private sector and only three from the rest of the public sector. The labour markets in which we are operating when we are not making internal promotions are predominantly private sector. We have made two senior director appointments, both from the private sector, a new director of human resources and a new director of marketing at the BBC. They will be examples. People come to the BBC accepting they will get paid less to move to the BBC, so the BBC is getting talent because it is a great privilege and it offers great creative opportunities to people. People come from the private sector accepting they will have to take a pay cut to come to the BBC. When they leave and go back to the private sector they typically are going for more pay. That is the pattern, of a reduction of pay when you come to the BBC and then an increase when you go out of the BBC again.

Q52 Chairman: That cannot apply to your talent. Just taking the radio sector, Chris Moyles, Jonathan Ross, Terry Wogan, you cannot seriously believe that they could command the kind of salaries that you pay them in the commercial radio sector at the moment?

Mr Thompson: I was talking about executives and there are slightly different considerations with executives than there are with talent, particularly radio talent. Particularly when you are talking about

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BBC radio, you are often talking about on-air artists who have substantial other potential earning ability in television and even potentially with newspaper columns and so forth as well as their work for BBC radio. Overall, I believe that our approach to talent in radio is quite tough-minded about value for money. I also believe that in the relatively small number of cases where we have really quite highly paid broadcasters working in key parts of the schedule—typically, breakfast shows and drive time shows—the benchmarks and processes we use to look as far as we can at what is an appropriate and competitive way of approaching their pay are robust. I read the NAO's report with great interest and we are going to look further at whether we need to do more work. Something we always look at is whether there is an in-house alternative. Is there a way in which, with some talent you already have somewhere else, you can promote someone and at least for a year or two, on the basis that someone is growing into the role, get them to work for a lower price.

Sir Michael Lyons: If you have a moment to look at that report we published beside the annual report and progress on the pay of top performers, one of the most heartening aspects of it for the Trust was the energy that is being put into really challenging and bringing on new talent, which I think is the key to this. The BBC has a track record, which it should do more of, to bring on new talent so it never finds itself in a position where it does not have a choice. There is absolute agreement on that between the Director General and the Trust. That is an area where progress has been made. It has a lot further to go but it is nonetheless welcome.

Q53 Mr Watson: I am new to this Committee so go easy on me. You have put up quite a robust case to defend your high paid celebrity talent and I admire you for doing that. You should do that. Under those circumstances though, why do you let the man from the *Daily Mail* beat up on you so badly about it? If you think Jonathan Ross is worth the money, why not tell him just to get stuffed, people like him, he is well regarded and you are going to stick by him rather than leaving these guys swinging in the air for months on end?

Sir Michael Lyons: The Director General and I might have just slightly different views on this issue. After all, he is responsible for the care of top talent. That is an important part of his job. What is the right perspective for the Trust to take? It is to question whether we are paying any more than we need to and to make sure that the BBC has a wide range of talent that it can draw on, to make sure that it brings forward talent that audiences appreciate. All of that you see reflected in that report. I do not think it is for the Trust to defend but of course there have been some circumstances in the last two years where some of these names have been associated with some very serious problems for the BBC and in those circumstances the right stance, frankly, for both the Director General and the Trust is challenge rather than defence.

Mr Thompson: I am merely Editor-in-Chief at the BBC. I have not yet gained complete editorial control of the *Daily Mail*. I have a limited ability therefore to influence what they print. I believe that although of course we should be challenging and striking the best bargains we can in getting top talent with the artists and their agents, and absolutely going into negotiations in a tough-minded way, at the same time one of the things the British public want from the BBC is great entertainment and great entertainers. It was true when we had Morecambe and Wise in the 1970s. It is still true today. I have been and am very happy once again to be robust in defending the public's right, if you like, to expect that of the BBC and the BBC's duty, to quote a former Secretary of State, to take the business of entertainment seriously and to make sure that as far as we can we get the best and we allow great entertainers to take risks sometimes within appropriate boundaries. I believe I have been repeatedly robust in public in saying that is part of what we should do. We are blessed to have some of the best entertainers that the BBC and British broadcasting has ever had working for us right now. I am proud of that.

Q54 Chairman: Obviously your budget is under pressure as you have frequently stated. One area is that of the amount of money you spend on acquired and imported programming. Mark, you told us two years ago that essentially you were going to cut back on the level of imports, particularly of American shows. Can you tell us how much you could reduce spending on acquired and imported programming?

Mr Thompson: Partly because it now represents really quite a small proportion of total spend, the entire category of acquired programming is well under 10% of our spend in the rest of the creative economy, the overwhelming majority of which is commissioning. There are fluctuations year on year and we have seen a slight increase from 2007–08 which I think shows £90 million on page 18 up to £101 million in the year in question. That is a mixture of a slightly more expensive year in terms of Christmas feature films—that varies depending on the particular mix in a given year—and slightly more in the current year on acquired programmes. In the year we are currently in, 2009–10, that number will go back to around £90 million. My own view is the direction of travel for acquisition is likely to continue to be downward over time. There is a slight increase in this year but it returns to previous levels next year.

Q55 Chairman: I remember an interesting discussion we had about the merits of *Heroes* a year ago. You might have been aware of some criticism levelled at you in this Committee by Channel 4 over your acquisition of *Harper's Island*, where Channel 4 told us that the BBC paid about one third more than Channel 4 regarded as commercially justified and you outbid Sky, ITV, Five and themselves.

Mr Thompson: Firstly, the numbers of acquired series that we are competing for are far lower than they would have been even three or four years ago.

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Harper's Island is perhaps one of two programmes in the last 18 months that we have been in competition for. The second obvious point to make is that not only should there be a law against rigging markets but there is; it is the Enterprise Act. What we cannot do, as some publishers and broadcasters have sometimes suggested, is collude with them or agree with them to withdraw from markets. Quite rightly, we are not allowed by law to interfere with the proper workings of the markets for rights, including acquired rights. My understanding about *Harper's Island* was that Channel 4 ultimately decided for editorial grounds that they did not want to pursue this particular programme and withdrew for editorial rather than economic grounds. Our position is as follows: acquired programmes have a small but useful role on our networks. When I was growing up BBC1 was dominated in its prime time by acquired programmes: *Starsky & Hutch*, *A Man Called Ironside*, *Dallas*, *Dynasty*. The core of the BBC main schedules—people forget this—was based on acquired programmes. We do not have a single American acquired programme in peak hours on BBC1. Elsewhere, we believe they can add to the richness and flavour of the network. I point out a couple of examples: *Mad Men* is a programme which no other British broadcaster, I believe, was interested in; and *The Wire* was shown in the multichannel world but we bought it for showing to the very broad audience, which I think has been welcomed by the public. Occasionally we will find ourselves wanting a programme which other broadcasters want as well. I have to say the rights' holders understandably would expect a reasonable open and lawful market to take place in that case. Although I think you would have every right to be concerned if this was a very large amount of the licence fee and you could see it going up steadily, year on year, any long-term view will show that this is an area where the BBC has been withdrawing rather than increasing its spend. Our concentration has been as far as possible to invest the licence fee in original UK production. We are the only public service broadcaster—in fact, we are the only UK broadcaster—to be a net exporter. We are one of the world's largest net exporters of programmes. The main use for the licence fee is to make programmes here with British talent and then, as far as we can, get them to audiences around the rest of the world.

Q56 Chairman: *Harper's Island* was acquired for BBC3. BBC3 is going to cost £115 million this year. At the moment, it is achieving roughly 25% of its target audience of 16 to 34-year-olds. If we look at the top ten programmes on BBC3, in the last week of June, the top ten were five editions of *Match of the Day*, four editions of *Eastenders* and one edition of *Family Guy*, which is an acquired American programme. The composition the week before of the top ten was exactly the same. It does appear that you are spending each year over £100 million on a channel which is not reaching very many of the people it is supposed to and showing them programmes which they could either have seen on BBC1 or which were American acquisitions.

Sir Michael Lyons: This takes us back to the BBC's mission to serve all audiences. All of our research demonstrates that there is more to do in ensuring that the BBC delivers value to young audiences. This has been quite a positive year for BBC3. The earlier discussion distinguished between the need to both provide programmes which reach a large audience but also to be distinctive. It would be unfortunate if we left the impression that the figures you have shared summarised the net achievement of BBC3. If we instead add to that list things like *Blood, Sweat and T-Shirts*, which is one of the most appreciated programmes produced by the BBC this year—and I think from my own watching of it a very clear public service contribution aimed and very effectively targeted at a young audience—

Q57 Chairman: It is *Takeaways*, is it not? You said *T-Shirts*.

Sir Michael Lyons: Did I? Forgive me. Also, *Being Human*. This has been a year for some very distinctive material coming from BBC3.

Q58 Mr Ainsworth: What exactly is the public service value behind *Family Guy*?

Sir Michael Lyons: As John Reith would have underlined, going back to his very clear statement right at the very beginning of the BBC, one of its functions is to entertain as well as to inform and educate. It is important that we get the balance between those right. I am just underlining that from the perspective of the Trust on behalf of young audiences we see this as a year of quite notable progress for BBC3.

Mr Thompson: I agree with him.

Q59 Mr Ainsworth: Not for the first time.

Mr Thompson: If you look at the schedule—I am very happy to look at the schedule for the present week—you will see absolutely that we have some programmes like *Family Guy* which are bringing an audience into BBC3. You will also see for example this week the series on pregnancy, *My Big Decision*. It is an absolutely classic piece of public service broadcasting aimed at that target audience and looking at quite interesting and difficult questions around sex, health, pregnancy and the decisions that young people sometimes find themselves making. I would say at the moment under the control of Danny Cohen's leadership, the level of creativity, and *Being Human* is a good example of that, is very high. More than that, in some ways some of the team on BBC3 might kill me for saying this, a rather classic public service method of investigative journalism, programmes which confront young people with some of the big issues in their lives and of the day, is absolutely part of the mix. The reason this channel is winning awards, the reason its share in reach is going up, is actually because it has got a mixture of programmes which in my view are a very good definition of the best of public service broadcasting.

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Q60 Chairman: It is terribly easy—the BBC always does this—to justify the entire cost on the basis of the fact that there are some very good programmes, and there are some very good programmes, but are you really confident that justifies £115 million on their own channel?

Mr Thompson: Firstly, what is happening in the current portfolio of channels is that BBC3's budget is actually slightly declining in relation to the others. There has been a slight movement of resource away from BBC3 towards, for example, BBC4. Over time you are going to see a slight reduction in the BBC3 budget. Moreover, I believe you are seeing the money we are spending on BBC3 being put to better and better use. I think you can see that in the awards the channel is winning and the number of programmes which migrate from BBC3 to our main network. Something else we want to try and do is get the flow of new talent and new ideas working even more effectively from our digital channels to BBC1 and BBC2 and BBC3.

Sir Michael Lyons: Can I just come back to the headline issue here, if I can. I do not want you to see my comments as in any way complacent. I think it is very important that the Trust flags when it feels progress has been made. One of the reasons why we are confident progress has been made is we have just completed our review of services for young people which showed a very strong audience support for BBC3 and progress against our key issue of more distinctive television, which is at the heart of your question I think, Chairman. The tone that we strike in the report as a whole is even more relevant to BBC3. I want to acknowledge that progress is made, not only in terms of retaining reach but very particularly providing more distinctive material with all of the indicators pointing in the right direction, although the changes are modest. Are we satisfied? Not at all. The pressure that we continue to apply for more distinctive programmes, a stronger emphasis on bringing new things forward, of dropping things which are regarded by audiences as past their sell-by date, will continue.

Q61 Chairman: I would like to press you on the cost. £115 million is a lot of money already in the present climate, but, as I understand it, that figure ascribes no cost to BBC3 at all for their top programmes which are transferred from BBC1, so *EastEnders* and *Dr Who*, which bring in very large audiences, are costed at zero to BBC3.

Mr Thompson: But that cuts both ways, so when *Little Britain* moves from BBC3 to BBC2 and then to BBC1, again the current accounting approach we have has been to ascribe the full cost to the originating network.

Q62 Chairman: Usually when they move in the other direction it is not a repeat of the show shown on BBC3, whereas in this case BBC3 was showing repeats.

Mr Thompson: No. To be quite clear, we would define an episode of, let us say, *Little Britain*, which is shown on BBC1 having previously been shown on BBC3, as a repeat. There are repeats both ways.

Q63 Chairman: That £115 million, therefore, is actually being spent on a relatively small proportion of programmes if you take out all the programmes which are BBC1 first showings?

Mr Thompson: I think what is encouraging is that the cost per viewer hour of BBC3 is coming down and down because it is becoming more popular and more and more people are finding this programming. It takes time for new television and radio stations to get established, but the progress of BBC3 is very positive.

Q64 Chairman: BBC3 has been around for quite a long time.

Mr Thompson: But if you look at the history of BBC2, of Channels 4 and Five, it takes years to establish new television channels in the public's mind.

Mr Watson: Have you not got a young audience who do not do telly any more, they are pulling down their content through the net and they do not just see the BBC as their channel? Should you not be migrating some of this content, and my Radio 3 listening friend should know the benefits of *Family Guy*, it is very entertaining show—

Mr Ainsworth: I did not say it was not funny!

Q65 Mr Watson: Are young people not downloading through iPlayer? Could you not be channelling this content in another way, more cheaply?

Sir Michael Lyons: This week, of all weeks, we should be cautious about being confident that all young people behave the same because we have seen evidence published this week which demonstrates that some of the assumptions about young people's consumption are wrong, there is room for discussion. What came out of the service review was very clearly that young people continue to value television. Yes, they do use the iPlayer but it is not their sole mechanism for viewing. They do value shared moments of family viewing. Although they might be rather better than those of us who are rather longer in the tooth at doing several things at once, television still plays an important part in their lives.

Mr Thompson: The programme for the Committee we are recommending tonight is *Make My Body Younger*. It is about someone who is seeking help when her addiction to partying begins to threaten her professional security. I will send you all copies.

Q66 Chairman: I am still waiting for you to send me the copy of *Bizarre ER*, which you promised me last year.

Mr Thompson: I will do. I warned you, did I not, not to try it at home. I will send you the DVD.

Q67 Mr Watson: When it comes to my section on online perhaps we can tease this out a bit more. The trend is away from channel delivery to young people, is it not? Are you not chasing a diminishing audience?

Mr Thompson: What I want to say, Mr Watson, is firstly there is a reason why we made BBC3 the first BBC television channel to stream live on the web, because we recognised that is an effective way of

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reaching a target audience. When we have a programme like *Being Human*, the overwhelming bulk of the cost is in actually making this piece of content. We are working very hard to try and find as many ways of getting this content effectively to audiences and in ways which are convenient for the audience and that absolutely means the iPlayer and extensive use of mobile. We have a service called *GCSE Bitesize*, which is a revision service for young people doing those exams and the equivalent exams in different parts of the UK. Mobile phones are an incredibly important mechanism for transmitting *GCSE Bitesize* to the target audience because mobile phones play such a big part in these young people's lives. I want to assure you that we are looking very, very hard at this. Of course, one cannot rule out the thought that at some point in the future linear television channels will make less sense for some audiences. My own view is if you look at young people's viewing of television, actually the presumption, and this goes back a little bit to what the Chairman was saying, that young people are "turning away" from television is not really based on the data. The fact of the matter is, despite video games and everything else, overall television viewing is increasing. Although it is not true that young people's viewing of TV is increasing, it is not declining as quickly as many people would argue.

Q68 Mr Watson: The study on digital natives said that when given the choice of losing TV or Internet, three-quarters of under-30s would say they would lose TV. That is a tangible difference from my generation, the Eric and Ernie generation. That is not going to go away. These people are under-30, they are using the net in very different and creative ways and are detaching themselves from telly at a rapid rate of knots. I would challenge your complacency on that a little bit.

Mr Thompson: I am not trying to deny this trend is happening. What I want to say is I think it is a slightly more complex picture than you are painting. For example, when we can find programming, and this is quite a new rediscovery for us, like *Dr Who* and *Merlin* which work for young people and, by the way, work for their parents and grandparents as well, young people quite like the idea of getting in front of the television and watching something with older relatives. That idea has not gone away even though, of course, what they also expect is that there will be a website, there will be mobisodes on mobile phones and all the rest of it. The broader point is this is a kind of both/and world and it is too simple to imagine linear television is over for young people. They will still use linear television but, of course, they are very interested in using other devices as well.

Q69 Mr Watson: So why not make BBC3 more interactive with the online service? I hate to bring up your rivals, Channel 4, but what they have done with *Battle Front* for adolescents is remarkable.

Mr Thompson: I agree.

Q70 Mr Watson: If that is what you believe, why is BBC3 not more enmeshed in net content with the way it delivers its service?

Mr Thompson: I would honestly encourage you to have a look at what we have got behind some of the sites on BBC3. We think that across our television services we are right now leading the field in interactivity, especially interactivity for younger audiences.

Sir Michael Lyons: You do go to the heart of the dilemma facing the BBC as a whole, the Trust and the Executive, as you try, within no real growth in the licence fee, to respond to changing audiences, preferences and behaviours at the same time as you try to maintain existing services. That is at the heart of the debate that we are engaged in here and at the heart of the debate about any increased expenditures on *bbc.co.uk* which actually plays into this debate which, again, has been the subject of considerable Trust discussion this year.

Q71 Mr Watson: If the Chairman will allow me to open that up. You have been online since 1994?

Mr Thompson: Yes.

Q72 Mr Watson: Since then you have spent about a billion pounds on your online service, having gone back through your accounts. Would you say we have had value for money?

Sir Michael Lyons: Let us look at two possible answers to that.

Q73 Philip Davies: Yes or no?

Sir Michael Lyons: I really thought you were looking for a more sophisticated answer, but let me start with yes and then give you a bit more detail. When the Trust undertook its review of *bbc.co.uk* what was absolutely unequivocally the headline finding was how much this service was valued amongst its users. Let me say, not just by us in our homes and on our mobiles, but increasingly it is valued as a tool of the British economy. One of the points that is made to me most frequently, although this was not explicitly picked up in the review, is from the captains of British industry that this is a very important tool in business life in this country. That is why you find in the latest statistics, reinforcing it again, that of the top ten most used sites in the UK, *bbc.co.uk*, currently ranked fourth, is the only one of the top ten of UK ownership. If you put that together with the very detailed review, I think you can see that this is not only a valued intervention by the BBC but very important to the British nation.

Mr Thompson: Now we have got well over 20 million people using the website every week, it is established for the public as one of the things the BBC does and the BBC is no longer just a television and radio broadcaster in the public's mind, and they welcome that.

Q74 Mr Watson: You have given me a partial answer on whether you think it is value for money, and obviously the web is new and you have got to try these things out, I understand that, but what about using the leverage you have got to create new and

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original creative content with the web? Do you think you are using your authority and power rightly to do that?

Sir Michael Lyons: Perhaps the Director General is more appropriate to answer that in detail. Certainly in our review, once again, we have continued to press, and will continue to press, our headline concerns of serving all audiences and distinctiveness in BBC output. I have not spent much time on the distinctiveness issue today. In looking at where the British public feel that the BBC has more to do to deliver against its public purposes, the issue of producing distinctive output is the one that demonstrates the biggest gap, so that is right at the top of our agenda. There is absolutely no room for complacency here. We have recently agreed an increase in the budget for *bbc.co.uk* content for this year, all of it based on new developments, new content coming forward. Do you want to say more?

Mr Thompson: Let us scale this. Roughly 5% of the 39 pence that we cost each household, or thereabouts, a couple of pence, is going on the website. My answer is this: on the first stage of the web and the first stage of the content that became possible on the web, the BBC did pretty well delivering a good essentially text-based news site and then information across a broad range of subjects. The second step, which we are currently engaged in, which is about getting much more video and audio on the web, again we have made progress. Perhaps I am agreeing with the thought behind your question. There are incredible creative opportunities here, new opportunities. Do I think the BBC is fully seized of them yet? I do not think we are. We are still wrestling with what 360 degree commissioning might be. If you look at *Darwin* on the BBC this year, or the poetry season, we are trying to use the web in interesting ways, but I think we have just scratched the surface. The potential is there, particularly in areas like knowledge building, history, science, the arts, culture, and also for sharing. A lovely little partnership that was mentioned in the report was with the Tate. The Tate were doing Francis Bacon last autumn, a wonderful exhibition. They rang us up and said, "What have you got on Francis Bacon?" and instead of the usual, "Don't bother us now", sort of thing, we looked in the archive and found hundreds of hours of Bacon and some untransmitted interviews on Bacon which we gave them for their website rather than our own. I would say potentially this is an area of enormous creative potential and we could do, and must do, more to exploit it.

Q75 Mr Watson: I acknowledge that you are saying you are partially there. There is not quite a 4iP model, is there, in the sense I do not perceive that you are looking at digital start-ups and trying to surface a Google or a Wikipedia in the UK so that we can compete against the world.

Mr Thompson: I could not disagree more. We signed our first contractual arrangement with Google Youtube more than two years ago and we have very strong relationships with the big American players, the strongest of any of the UK broadcasters. More

than that, remember we are committed to 25% of our commissioning—minimum—going outside the BBC absolutely to small start-ups. We would absolutely say that for the last few years we have been very much focused on working with that industry. It is going to be a big part of the future of the creative industries and we would say that 4iP is a response to some of the ideas that we put into the market a few years ago.

Q76 Mr Watson: Sir Michael, the *Graf Report* in 2004 recommended that you have a governor who has got a professional web background. Have you managed to plug that gap on the Board yet?

Sir Michael Lyons: Of course, it is not in the gift of the Trust to go and recruit willy-nilly its own members, that is actually a process that is done through DCMS. During the life of the Trust so far, just two and a half years now, there has only been one vacancy and the priority we attached at that point was to finding someone who strengthened the financial and business skills of the BBC Trust. We do have, amongst my colleagues, people who have an interest and, indeed, skills and knowledge in this area. Whether Philip Graf's recommendation in the context of the old governors has been fully discharged, I would probably say it has not been.

Q77 Mr Watson: So we have got to put pressure on the DCMS on that one. I am new to this Committee, I do not know.

Sir Michael Lyons: Or they can change the rules and allow me to appoint trustees and that might be a welcome freedom.

Q78 Philip Davies: In your section on serving all audiences we have got the usual guff that we get in every Annual Report under "Equality and Diversity" and it is the sentence that you read in every organisation. We have actually shamed Channel 4 into taking it out of their Annual Report, thankfully, so we will have a bash at the BBC. They are not short on political correctness at Channel 4, I might add, but even they have been shamed into taking it out. It is the sentence that says: "We believe that to represent licence fee payers most effectively the BBC staff should reflect the diversity of the UK population". It is the same guff you hear in every organisation, if I might say so. It is meaningless because there is a proportion of the UK population that is persistent criminals, so is the BBC saying under this mindless kind of sentence that it believes in recruiting a proportion of persistent criminals because that would help to make up and reflect society at large, or do you accept that it is actually meaningless guff?

Sir Michael Lyons: I do not accept that it is meaningless. Let us go to the heart of this. I have said several times today, and reiterate it again, the Trust is concerned that the BBC needs to do more to ensure that it delivers value to all parts of the United Kingdom, that it gets better at understanding the diversity of views, and let us not go for any one set of characteristics, be they ethnicity or age, but understands better the characteristics which define

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different audiences. That is about running a great business and a great set of services for the public. How do you go about doing that? It is partly about research, but it is also about the type of people that you employ, where they are based, what their history is, what their characteristics are. I am absolutely convinced that you are likely to run a more effective organisation in serving a very disparate set of views and aspirations if you are rather better at representing those experiences amongst your workforce. How do you make that a reality? For most organisations, and certainly for most public organisations, it is about how you ensure that your recruitment processes are open and you monitor what you do. Let me just go one step towards you if I can, Mr Davies. I also believe that this is not just a matter of routine, of putting it in the statements, it is about leadership. This year in the annual review of the Director General's performance, when he and I sat down to discuss the very considerable achievements this year under his leadership, we talked not only about the progress that has been made in this area but actually about the importance of demonstrating publicly that there is further to go. You see that reflected in his objectives for the year and, indeed, in his personal commitment to that. I agree with you that it is not just a matter of routine.

Q79 Philip Davies: We do not seem to have got the same commitment from you as from Channel 4 that they accept it is rather mindless and meaningless and will take it out in future and not insult our intelligence. Anyway, we live in hope. The same paragraph goes on to say: "One of our major ongoing concerns is the proportion of staff at a senior level from black and ethnic minority backgrounds. The proportion has risen from 5% to 5.6% but still lags behind our original target of 7% which we had hoped to achieve by 2007. We have made it clear to the Executive that we expect them to take action to address this". You said that what was important, particularly for a public body, was that there was an open selection process. I would say what is important is that people are selected on merit, and merit alone, and that people's race, religion and gender should be totally irrelevant, the organisation should be colour-blind. Can you tell me what action you are expecting the Executive to take on this front as you have put in your Annual Report?

Sir Michael Lyons: I welcome that question. Let me firstly say that there is absolute clarity here that we do not want any dilution in terms of the expectations of the BBC in terms of the skills that it is looking for, but, frankly, it has to get better at finding those skills in a way that makes sure the BBC to anybody looking at it is transparently reflecting this country at large. You and I both have the same experiences as we move round the country. The strong feeling in some parts of the country is that there are communities which do not feel as fully represented in the public bodies of this country and that is an issue for which we are all responsible. Let me ask the Director General to say a few words about the steps he is taking.

Mr Thompson: I believe appointments should be made on merit, absolutely believe that, and absolutely without regard to race, gender or religion. That must be right. To give you an example of one of the things we are doing at the moment, and I happen to be involved in it personally, we have got a mentoring scheme. The mentoring scheme is working with people who are just below the senior management, who are rising stars, and some of us in more senior management are working with them, helping them to develop their careers, make sure they have got the right training to give them a stronger chance of thinking about their career and developing their career and competing for those jobs. When jobs come up they should be done exactly as you said, on the basis of merit.

Q80 Philip Davies: If you have an open process and are selecting people on merit, given that there are an awful lot of talented people amongst ethnic minorities, why do you need a target because these people will come through and be selected on merit anyway? If it happens to be that the best people for the job are the people you go for and the end result is that means 6% of people are from an ethnic minority, or 8% or 9%, why does it matter? Why have a target of 7%? Surely if you just have that open process and selection on merit you do not need this kind of quota.

Sir Michael Lyons: As you know, your own party decided that it needed to—

Q81 Philip Davies: It is what you are doing that I am interested in. I will ask my own party similar questions, but I am asking you about the BBC.

Sir Michael Lyons: The issue might be more fundamental. If we come back to why we are setting the target, it is because we believe that there is a need for leadership in this area. We are not alone in that. Your own party, the Metropolitan Police, other public bodies believe that targets need to be set and leadership needs to be given.

Q82 Philip Davies: If we can move on because we started on the political correctness front and this brings me on nicely to Peter Sissons, who left the BBC. Mark, you were saying earlier that you are losing senior staff and putting it down to pay, but it is not just pay because Peter Sissons was happy to leave the BBC not because of pay but because it had become too politically correct. The final nail in the coffin for him was that apparently he said he wanted to ask Harriet Harman why the Queen had not been invited to the 65th anniversary commemoration of D-Day and the response he was given by his bosses at the BBC was that it was not a topic worth raising because it was only a campaign being run by the *Daily Mail*. What do you make of Peter Sissons' comments?

Mr Thompson: If you watched or listened to the BBC's coverage of that controversy, it was very extensively covered and numerous politicians were asked about it. We covered it over a period of days before the ceremony took place in Normandy.

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Q83 Philip Davies: Are you saying he is lying by saying he was told not to?

Mr Thompson: I watched and listened extensively to the BBC's coverage and I could not see any evidence in the broader coverage that there was any desire by the BBC not to cover that story, it was a very good story which I thought we covered extensively and interviewed multiple politicians. I do not know what was in Peter's mind when he said it and I was not party to any of the conversations he had. I cannot recognise from our coverage that point at all, I thought we covered it objectively and fairly and it was manifestly a perfectly legitimate story to explore.

Q84 Philip Davies: You also said earlier that there were lots of people in the BBC with lots of different views. One area where that does not appear to be the case is in some of your coverage on certain issues because Peter Sissons went on to say that the Corporation's view on global warming was that effectively BBC policy was to ignore climate change sceptics. What do you make of that?

Mr Thompson: It is simply not true. We have continued to broadcast the views of a range of experts, both scientists and non-scientists, who take a range of views, both about whether global warming is happening and whether it is anthropogenic and what the appropriate response by different governments should be to that. I think it is true that one of the benchmarks the BBC has used over the past decade has been the regular reports from the IPCC, the International Panel for Climate Change, set up by the United Nations. It is a topic which the majority of expert opinion, as represented by the IPCC, has influenced. We have reported on the IPCC reports and also used them to some extent as a benchmark for majority expert opinion on this topic. We do not exclude different voices. The voices range from those who believe it is not happening at all, whether they are scientists or not scientists, and who bring a very precise perspective to it, to those like my friend and colleague, Jeremy Clarkson, who brings a broader dose of scepticism to the topic. You will hear plenty of people on the BBC who ask all sorts of questions about whether it is happening, or if it is happening whether it was caused by humans, and if it is caused by humans what the appropriate policy response is.

Q85 Philip Davies: So you are satisfied that your coverage on it is entirely fair, balanced and impartial?

Mr Thompson: The BBC is a big organisation and we broadcast many programmes and many services. I believe that the thrust of our coverage on climate change has been very good. The challenge we face now, having got to the first stage of extensively exploring the phenomenon, is making sure that we are as thorough as we can be in making sure the public understand the policy debates now about the different solutions that are being proposed by different parties and others in the debate.

Q86 Philip Davies: The BBC's view is climate change is happening, there is no doubt about that. Most of the parties are agreed on this, are they not, so just an argument between the parties on this is not really going to give you a balanced view, is it?

Mr Thompson: I really did not say that at all. What I said was we believe there should continue to be a broad debate on the topic and we should have proper regard for the fact that the majority of expert opinion amongst scientists and climatologists is that there is a high probability, most recently at 80% by the IPCC, that anthropogenic climate change is taking place. An analogy: we do sometimes have on the air people—the painter, David Hockney, would be an example—who doubt that smoking is bad for your health. However, we do not think it is responsible to believe the balance in the context of smoking and health is one person who doubts the majority medical opinion for every time we have a doctor or another medical expert coming on. Having someone like David Hockney coming on once in a while and talking about it is fine. In the case of climate change we have extensive critical voices who frequently discuss this. Lord Lawson's book, for example, was extensively discussed on different BBC programmes. We do have some regard to the benchmark evidence of where majority scientific opinion stands, and as that moves the benchmark moves.

Q87 Philip Davies: Can I just ask you about one final issue. You talk about reach to the BBC and the importance of quality. I would submit to you that one of the sports that has probably the greatest reach in terms of all sectors of society being interested in it is horseracing. I would also submit to you that one of the things the BBC has been renowned for in the past in terms of quality is its horseracing coverage. In fact, it was recently winning awards. I remember being brought up as somebody who followed Peter O'Sullivan's commentaries and he was probably the epitome of high standards within the BBC.

Sir Michael Lyons: Yes.

Q88 Philip Davies: Yet you are hugely reducing your amount of horseracing coverage on the BBC, which seems to me to be going against the spirit of quality and reach. Would you like to have a rethink about this?

Sir Michael Lyons: Let us first say there is no doubt here that the BBC is cutting its cloth to meet the resources that are available, not to mix my metaphors. Within this licence fee settlement the only way that new plans are accommodated is by following what the Director General brought to the Trust in the autumn of 2007, which was a concentration on quality and fewer, better programmes, and that is exactly the strategy that we see being carried through in sport.

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Q89 Philip Davies: You say the BBC has got to cut its cloth, but let us face facts, the BBC has a guaranteed never-ending increase in its income so there is not a lot of cutting of its cloth that needs to be done.

Sir Michael Lyons: Let us be very precise. It is not continuing to increase, it is static in real terms. Let us then come to this issue: against the expectations of the public, against the expectations even of this Committee that we have heard reflected here, to do better on online services, to do better for younger audiences, there is always more to do than there is a budget to provide for it. To pretend that the BBC does not have to make tough choices is, frankly, not very helpful to us. This is one area where there has been a careful review and I think I should hand over to the Director General to give you some more details on that review and the decisions reached.

Mr Thompson: One can sometimes get the impression listening to Members of the Committee that you think the licence fee has been increasing in real terms. So far, this is a settlement which has been below the rate of inflation and our prediction is by the end of the settlement—based on mid-case assumptions about both RPI and CPI—it will turn out to have been less than inflation by both the retail price and the consumer price index.

Q90 Chairman: You are still getting household growth though.

Mr Thompson: It is true we are getting household growth but you will also remember, Chairman, that a significant proportion of the settlement goes not to BBC services but to the targeted help scheme and the marketing costs for analogue to digital television switchover. The expectation is that the amount of licence fee, even taking household growth into account, with mid-case assumptions about inflation in 2010, 2011 and 2012, will be below inflation both by RPI and CPI terms. In other words, it will be a licence fee which has declined in real terms over the period. The BBC's funding is stable, not forever but for five years, but it is declining in real terms. That is the background.

Q91 Philip Davies: Your racing coverage goes way beyond that. The cut in it is much more severe than that. *The Racing Post* ran a petition about this and they had 180,000 signatures which were presented to 10 Downing Street fairly recently, along with Frankie Dettori and Peter O'Sullivan, who was appalled by the reduction in coverage planned by the BBC. Those 180,000 people, and people of the calibre of Peter O'Sullivan and his heritage in the BBC, do they not mean anything to you? Do you not want to go back and reflect upon what all of those people are saying?

Mr Thompson: What I want to say is we are very proud of the racing we cover on the BBC and we have many of the great dates in the racing calendar, we are very proud to cover them and we know the public expect events like the Grand National and Royal Ascot from the BBC. There are two specialist racing channels and I believe with the specialist racing channels which are there, with a very significant commitment by the BBC to carry as

many of the great dates as we can in the racing calendar, and add to that what I hope will be continued commitment by Channel 4, which since its foundation has taken over from ITV the largest responsibility for covering racing, you have two terrestrial public service broadcasters committed to racing and two specialist channels, I think that is a pretty reasonable delivery of this sport to the British public, to be honest.

Q92 Mr Ainsworth: We ought to get back to the Annual Report at some point, but since Philip Davies has raised the question of sport, and I am hoping to leave here and go and watch a bit of Test cricket at the earliest opportunity, can I raise the question of cricket. I think it is an enormous pity, notwithstanding the brilliance of *Test Match Special* obviously, that you are not showing cricket on television. Do you regret not making a play for that, particularly in light of the huge success of the Twenty20 championship and the fact that we have got an Ashes series on in England right now?

Sir Michael Lyons: The heart of this problem is apparent right at this moment with the review of the listed sporting events, which we just signed off the BBC's response to at the Trust Board meeting yesterday. At the heart of this, is it not, is the tension between the opportunity for governing bodies to secure very, very substantial sums of money from selling their rights and the pressure on the BBC as to whether it can reasonably compete against other broadcasters who are in very different circumstances. It is a helpful case study, of course, because it reminds us that although much of the debate about broadcasting over the last couple of years has focused on the weak and declining broadcasters, actually there are winners in this case as well. We are in a world in which Sky now has even bigger revenues than the BBC. The Trust line on this is very clear: we are absolutely clear about the importance of sport and the value that audiences place upon it, but we are equally clear that the BBC simply cannot be held over a barrel when it is faced by sums that would take a disproportionate part of the licence fee. That is the dilemma that the Director General and his colleagues have to manage.

Mr Thompson: Again, we are very proud to have radio rights to Test Matches but it is worth saying that it was the decision by the ECB to leave BBC Television in the 1990s after a partnership lasting decades. It was not the BBC's decision to abandon Test Match cricket, the ECB decided to leave the BBC. Had they not done so, I am quite certain that Test Match cricket would still be on the BBC.

Q93 Mr Ainsworth: Thinking back to those times, I seem to remember that the ECB rather felt that the BBC was not showing an adequate degree of interest in continuing that relationship. It is history now.

Mr Thompson: I think it was more a question of money actually. At that point they appeared to give an undertaking to the then Secretary of State that they would make sure that at least some Test Match cricket was available free-to-air. That was an assurance which manifestly has not been

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maintained. My view about cricket is looking hard at whether we can give the right flavour, particularly with these rather exciting new developments of Twenty20 and one-day competitions, and keeping an open mind about Test Match cricket is the right way forward. To be honest, this whole process of taking Test Match cricket away from free-to-air broadcasting, leaving us in the situation where the incredibly exciting end of the first Test is watched by something under a million people—it could have been ten million people had it been available free-to-air—is something which is absolutely bound up with the decision taken by the ECB to depart from the BBC. Secondly is the fact that one absolutely recognises this is a sport with important grass roots and it has got its own economics, and currently manifestly cricket has economics which are based in part around significant pay television revenues.

Q94 Mr Ainsworth: Also a sport with a very interesting ethnic profile in terms of its reach.

Mr Thompson: I agree.

Sir Michael Lyons: You find no disagreement here, this is a big public issue, not only in terms of what audiences want to see but the dilemma facing governing bodies, and clearly the opportunity to sell their rights to the highest bidder brings a stream of income in, of which the ECB is a very good example, which is used to improve facilities, but by moving away from a mass audience to a minority audience you run the risk of losing the interest of the participants in the future. It is quite a challenge and one of those that David Davies and his colleagues have to balance in their review.

Q95 Mr Ainsworth: Can I row backwards to young people. We were talking earlier about the difficulties of engaging young people in the context of the discussion we had about *Family Guy*, but you highlight a particular problem in reaching young people with news and current affairs under the citizenship agenda that you have set yourselves. What are you going to do about that?

Sir Michael Lyons: My only intervention here is to say the Trust is very focused on this as a result of its services for young people and it is one of the areas of intense challenge for the Executive.

Mr Thompson: I will give you a couple of examples of practical steps that we have been taking. It is trying to find places in the schedule where you are likely to reach younger audiences. The founding of a short but rather good eight o'clock bulletin on BBC1 of news headlines, both UK and national or regional headlines, aimed to sit typically at the end of *EastEnders*, a programme which continues to get a very big young audience, the particular way in which we deliver the news on BBC3, obviously support for *Newsbeat* on Radio1 but also development of the *Newsbeat* website, so you have got a way on the web of capturing the imaginations of young people with a tone of voice and a news agenda that is more likely to work for them, these are all things we can do. Also, there are some very interesting other things going on. *Question Time*, on the face of it the kind of mainstream BBC news and current affairs television

programme you would expect would have an older audience, has a surprisingly young audience. It turns out that many young people actually find the cut and thrust of *Question Time* very interesting. When we do our *Schools Question Time*, which is a very big competition where schools compete to produce an edition of *Question Time*, and we had a special edition of the programme done last week which was really based around editorial decisions and guests chosen by young people, again that is an attempt to try and engage young people in the news. Finally, *School Report* is something we do in schools up and down the country which is growing in strength every year. This is a chance for schoolchildren to get a chance to have a go at making their own television and radio news and pooling their work into something which at national level we can play out across the web. These are all ways of trying to hook them in and also to get them to think about how news and journalism works.

Q96 Mr Ainsworth: In relation to formal education, again your own report says you failed to match expectations in attracting under-16 year olds. It is not that you are not trying but what you are trying is not really working at the moment, is it?

Mr Thompson: In terms of formal education we have a very successful service in *Bitesize* and that is very, very widely used, used by the overwhelming majority of young people taking the relevant exams. We have a good track record in broadly educational output, our natural history output and so forth. We are doing reasonably well in meeting the needs of teachers in providing audio-visual material, and I am thinking here of the Learning Zone broadband project, and giving teachers what they want, which is no longer typically whole programmes but segments and material they can use in the warp and weft of lessons. What I would say is that formal education and capturing the imagination of young people with content which feels like it is directly relevant to what they are doing in the classroom and at home, doing all of that in a way which does not adversely affect the market for educational software and textbooks and so forth, is one of our big challenges. It has been a disappointment in recent years and it is one of our big challenges.

Q97 Mr Ainsworth: First of all, is it the case that viewer numbers for *Newsround* and *Blue Peter* are continuing to fall? If so, is that not really quite a serious worry because most of us in this room will have begun watching the BBC with *Blue Peter*, it is the way you hook them in. That must place a serious threat to the future.

Sir Michael Lyons: That was explicitly picked up in the Trust review of services for children. That led us to be absolutely unequivocal in the priority we believe should be attached to the scheduling of children's programmes. That is a matter where we are awaiting the Executive's response. I should say in the spirit of frankness that the area of learning is probably the area where the Trust has the most concerns about the need for urgent progress. The Director General is aware of that and that is

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something which we are very strongly focused upon. You are touching on areas here which are very much issues of intense attention.

Mr Thompson: We are certainly wrestling with this challenge. You will appreciate that increasingly children's first port of call, if you like, in terms of children's output today on the BBC is CBeebies and CBBC, and these are very successful services and the websites are very successful. Looking at the value of these important slots on BBC1 and BBC2 in getting broad reach amongst children to these programmes, and looking at the programmes themselves to see what we can do with those programmes, we are considering that and will be coming up with some conclusions and discussing those with the Trust in the autumn, I hope.

Q98 Paul Farrelly: I just wanted to come to one project before coming onto Worldwide, where some of your competitors in the industry have started to raise some concerns, and that is Project Canvas. I think we have done Project Kangaroo to death almost in the past. I just wonder whether you can say a little bit about the Trust's current approach towards Project Canvas.

Sir Michael Lyons: This is formally under examination at the moment. It is a non-service approval. Forgive me for using that terminology, but basically this is going through the same process as Freeview went through. It basically has the same two components, an examination of the public value likely to be secured and also of the likely market impact, but a slightly briefer exercise than a full public value test. The stage that this has got to is the first stage of consultation has been completed with a very substantial response, 800 different submissions both on behalf of audiences and the industry, and a series of meetings with stakeholders. Out of that came some pretty clear views which my colleagues who sit on the committee that are undertaking this exercise have taken very seriously. They need to provide some more information before we can be satisfied that consultation is as complete as we feel it needs to be in the areas of technical standards of Canvas, the way in which the BBC will work and cooperate with industry bodies, the exact proposals for control of the electronic programme guide, the governance arrangements for the joint venture, and the use of editorial controls. The stage we are at at this moment is that the Executive have been asked to bring forward more information in each of these areas and that is in preparation. We expect to receive it in the very near future. This first phase of consultation will then be extended to allow people to respond to that extra information. The Trust will then reach, and this is an established procedure now, its provisional conclusion and then again consult on that provisional conclusion before it reaches its final position.

Q99 Paul Farrelly: Clearly Freeview was a phenomenal success without which many of us, including myself, simply would not be watching

digital TV today before switchover. Could you just remind the Committee of who your partners are in Canvas?

Sir Michael Lyons: Perhaps I should hand over to Mark because they are his partners.

Mr Thompson: The initial partners have been ITV plc and BT plc, although I want to say the intention behind this project is to garner as wide support as possible amongst broadcasters, ISPs, the key consumer electronics companies and so forth. Subject, of course, to the approvals process I would expect by launch there will be other broadcasters, other ISPs and other players involved in the project as well.

Q100 Paul Farrelly: The scope of the project has long been a sort of Holy Grail almost of the industry to deliver this sort of service through a television set.

Mr Thompson: If I may say so, Mr Farrelly, also, rather like Freeview, providing a very simple, clear proposition which the public can understand very readily and where, if they buy a product which meets this standard, they will have a very high level of expectation of plug and play, of it working immediately and delivering a very simple, clear, easy to use service. Manifestly, alongside things that other people are doing as well, this is potentially quite an important piece in the jigsaw of boosting, as it were, the voluntary take-up of broadband in the country towards that goal of universal broadband.

Q101 Paul Farrelly: So far as you are aware, are there any rival similar projects out there in the UK today?

Mr Thompson: There are absolutely a number of different products and multiple, almost myriad, ways of potentially trying to plug up your TV to the Internet. It is quite important to say about Project Canvas that what we are trying to do is to set a standard, indeed a minimum standard, although there is no reason why people could not meet the standard and add more functionality or more proprietary products or services to any box they create. The BBC would not be making boxes itself or trying to make money out of making boxes, this is more about trying to set a standard which then means you have got something which the public can learn about very readily and then potentially promote take-up in the way that we believe Freeview, Freesat and, although we found it slightly harder, DAB have done already.

Q102 Paul Farrelly: One of the concerns if we look at the pay TV market, which Ofcom is now looking at again, is who controls the interface. One of the concerns that seems to have bubbled up is whether the BBC's position is such that it will control the interface in whichever way you wish to interpret that. Maybe the analogy with Sky is not perfect, but you understand where I am coming from.

Sir Michael Lyons: It is quite properly an issue to be tested in this exercise. I think it is fair for me to say that if you look at the vision, put to one side the proposals for a moment, and the potential contribution this can make to audiences and, indeed,

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business activity in the country, the contribution it might make to dilemmas over regional and local news, very exciting, look at the proposals of the BBC, they have to be very carefully evaluated in terms of market impact and that issue of access and control is right at the heart of that.

Q103 Paul Farrelly: Are these relevant concerns, Mark, or are they misplaced or overblown?

Mr Thompson: Obviously in an environment where you are going to be offering Internet protocol television services—slight shorthand—via a TV style EPG, issues of priority, order and prominence, as they have been for BSkyB, Virgin and others who are in this area, indeed for people selling Freeview boxes, are relevant issues. I do not want to either short-circuit or pre-empt the appropriate processes of approval, but what I want to say is the philosophy behind Canvas is that this should be offering people services that the public want in as open a way as possible, which absolutely means there should not be a bias towards excluding some services or putting others to the forefront, it should be based on what is going to work for the public. It absolutely should mean that big established services, like Youtube, for example, you would expect to be very prominent on this platform.

Q104 Paul Farrelly: The BBC's position is rather different as the custodian of the public and the licence fee payers' interests from, for example, BT, another major corporation but which is a public limited company, a private enterprise. How will you resolve in your considerations any tensions between the two standpoints?

Sir Michael Lyons: I am going to resist the temptation to be taken into the process other than to acknowledge these are legitimate questions to be asked and answered in the evaluation that is currently taking place. Just let me take the opportunity to show that the Trust has become quite accomplished at understanding the distinction between the purpose and the proposal. If you look, for instance, at the last PVT exercise that we had to take a look at, the proposition of local video, despite the fact that we were very clearly aware of a very strong audience desire to have more local news, the proposition in front of us was not right. I only cite that to give you a bit of confidence that what my colleagues are doing here is working their way through these very issues to ensure that, of course, there are always likely to be some competitive concerns but how do they balance against the public value that can be achieved.

Q105 Paul Farrelly: In terms of timing, what is the next stage with Canvas in terms of the product itself and your own views and your review?

Sir Michael Lyons: Literally, the next stage is we will receive, and I think this is a matter of a short number of weeks, probably two or three, the information we have asked for from the Executive, the more detailed information under the headings I have shared with you. That will be published and there will be an extension of the current consultation exercise for

people to have a chance to digest that information and submit further views. At the end of that point the Trust will establish, absolutely in keeping with its established process, its provisional view on whether it can approve the service or not, and which conditions it might want to attach to the service if it is approved, and then there will be a subsequent short period of consultation because we have found that so valuable in the past for actually adjusting the dial in the final approvals. I cannot tell you, and it would not be right to, where my colleagues' minds are on this matter, that is quite properly for them to be reflecting on.

Q106 Paul Farrelly: Can I just move briefly on to BBC Worldwide. I say "briefly" because I am sure that you will want to amplify your response in due course to the report that we made. I have only just seen a photocopy of the Worldwide review that has come into the Committee this morning, but both in your report and Worldwide's it seems the controversy about Worldwide has just passed everybody by at the BBC, it is not mentioned or referred to as if there were no issues about BBC Worldwide.

Sir Michael Lyons: I do not think I feel it has passed us by, if I can say that. I sit here with this being one of a small number of areas of frustration. You know that we started a review of BBC Worldwide that was motivated both by public controversy about market impact and our own concerns about protection of BBC brand reputation and intellectual property rights. All of that in the context of recognising, and forgive me for repeating this but it is important, that since 2004 we believe Worldwide has been run as a vigorous business and has brought back very considerable benefits to licence fee payers, both in terms of investment in programmes and also contribution to the BBC's budget. We have been frank with you that we believe there was a case for tightening the shareholder expectations of Worldwide, being clearer about the focus on contributing to the BBC's public purposes, being clear about the focus on BBC intellectual property, and having a rather less permissive regime for mergers and acquisitions. To some extent, what I think you see reflected in Worldwide's Annual Report is that some of this, even though the review has not yet been formally completed, has actually been taken account of in Worldwide's thinking in the last year. I stand by our decision that in the light of first the Ofcom document pointing to the possible role of BBC Worldwide in the future of Channel 4 and subsequently *Digital Britain*, which is a rather complicated document and apparently pointing in more than one direction at the same time in its attempt to look at some issues here, both raising the position of a nascent global rights organisation as well as coming back to the issue of a connection between Channel 4 and Worldwide we felt that it was not the right time to try to conclude this exercise. In the document we have submitted to you we have tried to be as frank as possible about those points on which we believe we are completely agreed with you and those areas where at the moment we are not

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completely congruent, but there is a clear undertaking in that letter that as we complete this exercise we will bear your views in mind and reflect further on those issues.

Q107 Paul Farrelly: *Lonely Planet* was a lightning conductor for some of the unease and was a different sort of event in the history of BBC Worldwide in terms of the size of its acquisition, and you paid one hell of a price for it. I am just looking through the notes. Most of the price was stated to be for the books business, but the books business has been clobbered really looking at its profitability. At the time when we were talking to you, Sir Michael, during our report you said that you had yet to come to a view as to whether that price was justified. Have you got any further on that?

Sir Michael Lyons: The Trust's line right from the beginning was we believed this had been carefully scrutinised, both by the Worldwide Board and the BBC Executive, and that it represented a proposition for which we could see the potential value. The whole purpose in securing *Lonely Planet* was to find a way of exploiting existing BBC IP in the areas of travel and related matters. We could see that was a proposition with some validity. We could see that this seemed a reasonable price to be paying for the organisation, but we approved it wanting to see very clearly demonstrated both that it did lead to the exploitation of BBC IP and that it generated a proper return. I think it is fair to say that our position is still one of waiting to see this fully evolve. This has been a difficult market to develop the business in, but progress is being made. Do you want to say more?

Mr Thompson: Our view about the progress of the business itself would be manifestly the global downturn, and in particular its impact on international travel and tourism, has had an impact on the core book business. We think it is doing well benchmarked against its rivals, it is performing well. *Lonely Planet* magazine has launched in many markets now and is doing very well. We have already seen a big increase in the traffic to the website and we are launching a more sophisticated, more interactive version of our website this autumn. The underlying progress in restructuring and reorganising this business, and also, above all, trying to make sure we are demonstrating the point that BBC IP, BBC archive programmes and other forms of BBC IP, can add value to this business is going well. If you have not seen it I will send you a copy of the magazine. I think you have got to read the magazine to see the extent to which we are trying to leverage BBC IP.

Q108 Paul Farrelly: I have not actually seen a recent copy but I did see one of the first copies. Although I say it seems controversy had passed you by in your report—

Mr Thompson: Both the Chairman of BBC Worldwide and the Chief Executive do refer to the Select Committee's review.

Q109 Paul Farrelly: I have only had a photocopy this morning, we have not got a full copy of that review. When I saw one of the first editions of the *Lonely Planet* magazine there seemed to be an implicit recognition that it was a bit controversial because I could not find "BBC" anywhere and I had to look inside on page two or three in the small print as to who it was published by. You say you are damned if you do and damned if you do not, but it seemed an odd way of leveraging the BBC's IP not to have the BBC logo displayed prominently.

Sir Michael Lyons: I have read the magazine and personally I think it has improved significantly since its launch. There is no shortage of BBC talent included in that magazine.

Q110 Paul Farrelly: I did not see "BBC" anywhere. Maybe it has changed.

Sir Michael Lyons: Can I just come back to your point as to whether this was overlooked in the Annual Report. Given the difficulties of not being able to conclude the review, we have been judicious in our references to this. It is very clearly flagged up on page 11 that we began the review in July 2008, so no coyness there.

Q111 Paul Farrelly: I do not want to join Philip in this sort of approach. Can I put a technical question to Ms Patel. There is no mention of acquisitions in the footnote regarding the outstanding 25% which is under option for *Lonely Planet*. That is under option to October this year, is it not?

Ms Patel: Under option until October 2009.

Q112 Paul Farrelly: It has not been exercised yet?

Ms Patel: It has not been exercised as yet, no.

Q113 Paul Farrelly: But you expect it to be?

Ms Patel: We are still in discussion with the Wheelers. They are very happy with the way the business is running so we do not expect them to exercise it, but until we are through to October 2009—

Q114 Paul Farrelly: They have a fairly short period in which to exercise it.

Ms Patel: Yes.

Q115 Paul Farrelly: It would be a no-brainer for them to wish to cash in, would it not?

Ms Patel: Do not forget, the Wheelers are involved in the business as well, it is still something they are interested in. They could have exercised the option at any time from 1 April this year; they have shown no sign of exercising that so far.

Q116 Paul Farrelly: My final question is there was a report at the weekend—these things come around—regarding a potential spin-off IPO flotation of BBC Worldwide. As part of any review to value the organisation, for instance for the purposes of any

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possible combinations with Channel 4, you might expect not only a valuation but the valuation could be for different purposes as part of, “Well, if we are doing this, we might as well look at all these scenarios”. Is it a case of people getting the wrong end of the stick or is a flotation a possibility?

Sir Michael Lyons: Any organisation owning a subsidiary business will always have an open mind as to whether it is in the interests of its shareholders that it retains that business or it sells it, and the BBC is absolutely no different here. There is no active plan at the moment, far from it. There have been discussions in the context of *Digital Britain* and there are questions to be answered there. The BBC, both at Trust level and Executive, will be focused on what is in the best interests of licence fee payers. One point I would want to add just because of the public controversy around this is there have been some rather simplistic views of if you were to be interested in the role that the BBC might play in the development of an independent UK rights organisation. Let me say now, for the record, that the BBC would be absolutely certain in any future scenario that it held very firmly on to the rights associated with its intellectual property and its brand. The notion that you just—some have used this term, have they not—free BBC Worldwide, it would be a rather different company from the one we have at the moment. There is absolutely no plan.

Q117 Paul Farrelly: No discussions with Government on that?

Sir Michael Lyons: No discussions other than we are properly having to respond to the questions raised in *Digital Britain* and we are trying to do that as openly and frankly as we can.

Q118 Chairman: A couple more questions. You mentioned *Lonely Planet* and you will recall, or you may be aware, that when we were taking evidence about Worldwide extreme concern was expressed by the publisher of *Wanderlust*, which was an existing travel magazine, and we were assured by BBC Worldwide that they would be very, very different publications. Indeed, I asked John Smith: “It is your assurance to us that when the *Lonely Planet* magazine appears it will look very different from *Wanderlust*”, to which John Smith said, “Yes”. This is the December 2008/January 2009 edition of *Wanderlust*, “100 greatest travel secrets”. This is the July 2009 edition of *Lonely Planet* magazine, “Travel secrets. 50 reasons why you must read”. It is the contention of *Wanderlust* that they do not look very different at all, that the BBC have entered a market which was already being well served and they are having a severe detrimental effect on an existing commercial publication.

Mr Thompson: If you open the covers of those two magazines I would put it to you they are significantly different magazines. The fact that in the world of travel magazines sometimes broad headlines or organising principles occur I do not think really makes the point. *Lonely Planet* is broader spectrum

in its range and the target audience in terms of the kinds of holidays that are covered. My reading of *Wanderlust*, and I have to say I have not read those particular editions of either magazine, is it is a rather more specialist piece of work. If the publishers of *Wanderlust* have got concerns about it they should come straight back to us and I am very happy to see them or to suggest that John sees them to talk about concerns they have.

Q119 Chairman: Thank you, because they do and I think they will want to take those up. Paul said we had done Kangaroo to death but I just want to ask a couple of questions. You will be aware that the Committee last year expressed some concern about the amount of time and money committed to Kangaroo. You wrote to me but said you will be giving a full response and we have never had it.

Sir Michael Lyons: Forgive me, I thought as we prepared to come and see you again this year that we had satisfied ourselves that we had discharged all of our responsibilities and you were satisfied. Can I just give you an undertaking that we will fill that gap as a matter of urgency.

Q120 Chairman: Thank you. You had originally told us that the Trust had authorised preliminary talks about Kangaroo, yet the consequence of that is that this year you are writing off £9.1 million. That seems an extraordinarily large amount of money for talking to other players in the industry, which was what you had told us had happened.

Sir Michael Lyons: Let me give the Director General a chance to say a little bit about the stage of development and the investment that is involved there. I still think the Trust’s position was the right one. It is very difficult to get the regulatory alignment right here. Our view was very clear that if there were competition issues to be considered it was appropriate the Competition Commission should have the space to make those decisions before we discharged our responsibilities. Clearly, the BBC is right to continue to explore how it can meet public aspirations. The desire to give people greater choice, reflected in the Kangaroo proposition, continues to be a motivator for the BBC. I do not think that I would want to get to a stage where we were so anxious not to take risks, but quite the reverse, that people were discouraged from bringing forward new ideas.

Q121 Chairman: You gave limited authorisation to conduct talks about Kangaroo. That has resulted in a £9.1 million loss to the BBC. Are you satisfied that is acceptable?

Sir Michael Lyons: I think the short answer to that is we have not finished our discussions about that sum of money. I am very happy to come back to you when we have finished those discussions.

Mr Thompson: Firstly, on the matter of substance, it is worth saying that one of the reasons you will have seen from the Worldwide review is that Worldwide’s turnover has gone over a billion pounds, and,

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indeed, Worldwide gained a Queen's Award for Enterprise for International Trade in the current year. This is a successful company, partly because it has invested and taken commercial risks to build its business, and manifestly it is a business which has been built. To my knowledge, the Chairman is quite right about the sequence of events, the decision taken that the competition authorities, first the OFT and then the Competition Commission, should consider this work. The necessity, therefore, to get the proposal to a level of precision so that the competition authorities should consider it properly meant substantial work was done on Kangaroo before it got to a point—Project Kangaroo became Project Roadkill before the Trust managed to consider it fully. We are talking here about money spent and invested by our commercial subsidiary rather than direct use of the licence fee. My recollection, and we can certainly write in more detail, is that at each stage of the process there was full disclosure to the BBC Trust of what was going on and, moreover, that this expenditure took place within the controls of appropriate financial and other conditions which are set up for our commercial subsidiary where there is an understanding that sometimes Worldwide will take commercial risks to build its business. They have to be tested, approvals have to be sought, but it is not inappropriate that an amount of money should be spent on a new project which, had it been successful, could have potentially delivered very large revenues and a very high return back to the licence payer.

Q122 Chairman: It is a question to what extent it was authorised to spend.

Sir Michael Lyons: There is no inconsistency between the two lines we are offering here. I am not in a position to give you a full answer on that today, but I will be.

Q123 Mr Watson: If you recall, Sir Michael, Mr Davies drove his politically incorrect horses through my questioning of you about BBC Online. Just going back to last year's report and the Committee's inquiry, at one point you said there was insufficiently strong management control over *bbc.co.uk* and a wider concern about how the Beeb marshals its web assets. How confident are you that situation is changing?

Sir Michael Lyons: That view was based on the work that the BBC Trust had done in its very first service licence review, that for *bbc.co.uk*. It was a very significant exercise for the BBC because it exerted a discipline to be very clear about the content costs associated with online as a service which had grown up out of an organisation that had previously produced content for radio and television, so it was a defining moment. It got characterised in the press as if this was out of control, but what it was, of course, was a moment of saying, "We now need to be very clear precisely about the costs associated with this service" and that was the discipline that the Trust brought to it. My answer to your specific

question is that the last year was a year of very considerable progress and everything we have seen makes us confident that this matter has been seriously addressed in terms of proper budgetary control and, what is more, clear accountabilities and leadership. We have made progress. It is a complicated and growing area of the BBC's activities, so it is very much work in progress. No, I am not giving an open cheque here, you would not expect me to, but the Trust is satisfied that the very clear recommendations of the service review were taken seriously and acted upon with energy.

Mr Thompson: The management challenge here is that the BBC has historically organised its spend against services in fairly straightforward vertical silos. BBC2, you can see what goes on in BBC2. The Chairman raised the question about how you ascribe value around repeats, but essentially linear services have been run as discrete silos. *bbc.co.uk* sits across the entire BBC and much of the BBC contributes to it. It is putting appropriate financial and management controls in place so we understand precisely, at a time when, to be fair, people around the BBC are constantly thinking about inventive new things they can do, very much to your own point earlier on, any proposal to add value and, therefore, to add value to the website.

Q124 Mr Watson: Just to tease you a bit on creative content and how you manage that, how you assess and incentivise creative content. You have got BBC TV, you have got BBC Radio, why do you not just have a third tier, BBC Web?

Mr Thompson: It is interesting. Five years ago that was the psychology about the web, it was a third service. For millions of people every day the web is a way in which they get BBC Television and Radio. The iPlayer and streamed radio services are on the web but they are television and radio. You cannot distinguish clearly any more between what is television, what is radio and what is the web.

Q125 Mr Watson: My concern is that you have migrated, and done it very well, a fabulous amount of radio and TV content on to your web platform, but you have not quite got new and inventive ways of doing creative content using the web alone. iPlayer is your great success this year, it is unbelievable and has brought the BBC alive to probably new audiences, but I do not quite know how you celebrate success in getting some of these small start-ups which can come up with whacky ideas that become mainstream?

Mr Thompson: We are working with them. We are winning multiple awards for our interactive and web content more than any other broadcaster. Should we do more? Yes. I would be delighted, if Members of the Committee wanted me to, to come back with some forward-looking strategy about areas like knowledge building, science, history, culture, where we are trying to embrace pure web content in a way which perhaps we have not done in the past.

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Q126 Mr Watson: My colleagues will think this is a slightly cranky question, but in your report you mentioned that you have made great progress in linking to external sites from BBC Online.

Mr Thompson: Yes.

Q127 Mr Watson: Is it still the case that the average BBC net user only clicks on an external link once every three months?

Mr Thompson: No, I think it is more frequent than that. I can come back to you with stats.

Q128 Mr Watson: The idea that the BBC is the UK's trusted place on the web and that you would use that web presence to signpost citizens to other sites is now—

Mr Thompson: It is very important to us. We are doing many more external links than we used to. We deliver very significant traffic to all of the major newspaper sites. One of the main ways people find *The Telegraph*, *The Guardian*, *The Times* online is via the BBC website. We want to develop that further. The idea comes from sharing the iPlayer so that from the iPlayer site people can find great content from other broadcasters.

Sir Michael Lyons: Just to underline, which I am absolutely sure you recognise, some of the difficulties here of both being ambitious but also being careful not to have inappropriate market impact. One of the decisions that the Trust made was to demand that the web-wide search from *bbc.co.uk* be removed. I know that has caused some frustration in some areas but that is a very clear illustration of trying to get this balance right, both being a way of encouraging people to access but not being too market dominant. It is quite a difficult balance to strike.

Q129 Mr Watson: I think people can use other search engines to find content, but you giving links to other bits of content is very helpful to the user.

Sir Michael Lyons: It is a balance we are trying to strike.

Q130 Mr Watson: Could I just ask about progress on Greg Dyke's commitment in 2003 to have the entire BBC archive available for creative reuse.

Sir Michael Lyons: This is what I call a big and ambitious commitment and it takes a bit of time to deliver.

Q131 Mr Watson: How are you doing on it?

Sir Michael Lyons: In the early promises that are made the actual delivery is not always as fully addressed as it might be. This is one of the most ambitious things the BBC is working on at the moment. The Trust is properly excited by what we have seen and the progress that has been made. We formally approved the current stage of work at our meeting yesterday.

Q132 Mr Watson: Good.

Sir Michael Lyons: It is a massive project.

Mr Thompson: It is one of the two or three biggest things the organisation is thinking about now and we are actually doing it in a practical way. In a sense, iPlayer and focusing on catch-up as the first stage of extending back from the broadcast window occupied us for a few years, trying to work out what was the right way of doing that. iPlayer is a very simple interface but the business of getting the conveyor belt of all the content on to the iPlayer was a non-trivial thing for us to do. We are now looking hard at a progressive rollout of the archive with still that vision of essentially getting everything ultimately up there. There are some technical challenges for us. There is quite a big issue, which will be dear to the Committee's heart, about how you do this as between what is paid for by the licence fee and what is, as it were, commercially exploited in ways which work for rights holders, so people who have made great content for the BBC, writers, performers, independent production companies, can actually see long range revenues from that content, but do it in a way which does not have an adverse market impact on other players. As it were, if the BBC was to tip its entire archive up onto the web tomorrow there is a danger that you would blow other businesses out of the water. Trying to find the right way of getting that balance right and also thinking quite hard about the boundaries between what is made available on a commercial basis and as part of the BBC's public service mission, I would say we are at a point where we have got quite a clear roadmap at a high strategic level, we have got some early thoughts about how to operationalise that and make it happen. As Sir Michael said, we had another briefing and, indeed, approval from the Trust yesterday. I think it is going to be one of the biggest things we do in the next two or three years and I am very happy to keep the Committee informed on our progress.

Sir Michael Lyons: One of the things we will be watching very carefully in this as well as the market impact will be to ensure that we do not end up with the perverse situation where investment is going into bringing online programmes shown in 1974 at the cost of programmes being produced in 2009.

Q133 Mr Watson: So you need to develop your own revenue models, you have got to work that out. Is that very close?

Sir Michael Lyons: I do not think it is ready for public exposure at the moment, but the work is going on and it is heartening. Let me just underline the Director General's offer, that as soon as we are in a position to share thinking on this we will include Members of this Committee.

Mr Thompson: Two other thoughts. One is the public themselves may well have a role in helping us to find and recommend the content in there. It is the public who know more about our content in some cases than we do. Secondly, this is a big area for partnership. We have signed, for example, an MoU with the BFI to try and work with them to get their archive up there. I talked about the example of the Francis Bacon exhibition. Other people may well be able to do something with our archive and bring it to

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the public for a particular project. The other thing you will see is new alliances building up. These archives, and certainly the BBC archive, are national assets and exploiting them, making them available for education but also for entertainment, is going to be a big part of the future I think.

Q134 Mr Watson: Would you go so far as to say it is the most culturally significant archive in British history, as many have said?

Mr Thompson: I do not want to make it sound ludicrously vainglorious. It is clearly one of the big collections and, oddly enough, in areas which you may not necessarily immediately think of. We think we have the largest sheet music archive in the world, for example.

Mr Watson: Fabulous.

Chairman: It has been a marathon session, thank you for your patience. There are several areas where you have said you will come back to us and there are one or two areas we might wish to follow up. Thank you very much.

Written evidence submitted by the BBC

BBC ANNUAL REPORT 2008-09: FOLLOW-UP QUESTIONS

The questions below are a combination of commitments made by the BBC in the oral evidence session on 16 July 2009 to supply further information, and additional questions arising from the session and the BBC's Annual Report. The Committee would be grateful for responses from the BBC Executive and/or BBC Trust.

The responses to the Committee's questions (in italics) below are from both the BBC Trust and BBC Executive, and in one case from BBC Worldwide. Who is responding is marked on each question.

BBC ANNUAL REPORT 2007-08

On 28 January 2009, the day of publication of the Committee's report on the BBC's Annual Report and Accounts 2007-08, the BBC Trust released a statement in response. The statement said that "the Trust will submit a full response to the select committee in due course and at that time respond to all of its conclusions and recommendations". This response has not been received, but Sir Michael Lyons gave an undertaking in this year's session to "fill that gap as a matter of urgency".

1. *The BBC Trust made a public statement in which it committed to respond to our report on the BBC's Annual Report and Accounts 2007-08. We would be grateful if this response could be supplied.*

The conclusions and recommendations of the Committee's report on the BBC's Annual Report 2007-08 are set out below with responses from the BBC Trust.

1. *We believe it is a significant failing of the BBC Executive to have sidestepped the question of reach targets, and for the BBC Trust not to have commented on, let alone rectified, this deficiency. (Paragraph 13)*

In line with our role setting the strategic direction for the BBC, the BBC Trust has set an overall target for all BBC services to reach 90% of the population. The Trust does not itself set reach targets for individual services, as we believe the BBC Executive are best placed to judge how to achieve the overall reach target across the portfolio of BBC services. The BBC Executive does however produce some reach targets for its own internal use. Copies of these for 2008-09 are included elsewhere in this submission and the Executive would be able to supply earlier sets of data if required.

Whilst it is a matter for BBC management to ensure that the overall target is met, and to establish the relative contribution each service should make, the Trust maintains an ongoing interest in the performance of all BBC services (including reach) and their contribution towards the delivery of the BBC's public purposes.

As well as commissioning our own research on the delivery of the BBC's public purposes, the Trust also carries out regular in-depth service reviews and other work including a quarterly performance dashboard in order to measure the performance of individual services, and track trends in usage.

2. *We find it difficult to reconcile the BBC Trust's claim to have given only limited authorisation for the Executive to "talk to other players in the industry" with information on the subsequent development of Kangaroo and statements in the provisional findings of the Competition Commission. It is apparent that the Trust reviewed proposals for the joint venture at a number of stages, including a detailed review on 19 June 2008, in advance of our oral evidence session. The statements by the BBC Trust Chairman to the Committee therefore appear, at best, incomplete and, as a result, potentially misleading. (Paragraph 18)*

3. *We believe that it would have been more appropriate, in the first instance, for the BBC Trust to have given further consideration to the Kangaroo proposal and a preliminary indication of its approval or rejection of fundamental aspects in principle—subject to amendment and compliance with competition law as appropriate—before the launch of a full scale investigation by the competition authorities. (Paragraph 19).*

The Trust stated in its press release of 28 January 2009 that:

The Trust first considered the Kangaroo proposition in June 2007. It agreed with the Executive that the proposition should be developed further, including work on fair trading compliance and consideration against the commercial criteria, and that formal approval would be required.

As would be expected for a project of this nature, the BBC Executive updated the Trust on progress (in June and October 2008). At these meetings, the Trust made clear to the BBC Executive that this proposition would still need to go through the Trust's formal regulatory processes.

The Trust considered that, in the light of the Competition Commission's review, it was right to postpone the Trust's own regulatory processes, as the Commission's review might significantly alter the proposition that the Trust would be asked to consider. The Trust also assisted the Competition Commission in their enquiries. The Trust considered that this was the most cost-efficient outcome for licence fee payers.

The Trust subsequently offered further evidence on its decision making process in front of the CMS Committee at its 18 November 2008 hearing.

This remains an accurate account of the Trust's consideration of the project Kangaroo proposals. To fulfil its regulatory process the Trust would have had to assess a more fully developed proposition using its commercial service approval procedures. In June 2007 when the Trust first considered the proposal in principle it did give the BBC Executive permission to consult other bodies in the industry and to develop the proposal so that the Trust could fully consider it at a future date.

The Trust's consideration of the proposals in principle pre-dated entry by the BBC Executive into a short-form agreement on a non-binding basis. Its intention at a future stage would have been to review both the final long-form agreements with partners and conduct an assessment both for consistency with the BBC's overall strategy and against the four commercial criteria set out in the BBC Agreement.

The BBC Executive did not submit either a fully formed proposal or a final four criteria assessment to the Trust, and once the OFT had referred the matter to the Competition Commission in June 2008 the Trust explicitly postponed its consideration to until the Competition Commission investigation had been completed. It is the Trust's view that consideration at this later date would not only have allowed the Trust a better understanding of the proposal in regard to competition issues but would also have allowed for any possible alterations to the proposal that the Competition Commission's findings might have led to.

The subsequent updates from the BBC Executive to the Trust during 2008 were reports on progress with the Competition Commission investigation and on discussions with potential partners.

The Trust did not set any specific limits on development costs. As is the case with any BBC proposal subject to approval from the Trust, there was a clear understanding with BBC Executive that there were regulatory risks, as well as no guarantee that either the Trust or other relevant regulatory authorities would clear the proposals. The BBC Executive therefore undertakes any development expenditure with this in mind, and remains accountable to the Trust for delivering value for money.

The Trust remains of the view to consider the proposal in full before the Competition Commission had completed its investigation would have been counter-productive, led to additional expenditure for licence fee payers and may well have led to further consideration being required if the Competition Commission's conclusions had significantly altered the nature of the proposal.

4. *We welcome the efforts made by the BBC to increase transparency through the publication of the numbers of senior management in various different salary bands. However, we continue to believe that the same requirement should be applied to BBC "talent", whether they are employed directly or under contract. We welcome the undertaking by the Chairman of the Trust to give this further consideration. (Paragraph 23)*

The BBC Executive has stated that they are committed to reducing the amount spent on top talent over the next few years. They have given an undertaking that in future the BBC will disclose the total amount spent on talent as a whole and work on a plan to make spend on talent more transparent while protecting commercial confidentiality.

The BBC Trust has been pushing for further disclosure of salaries and expenses as part of a drive for greater openness and transparency across the BBC, and the Trust is in discussion with the Executive about how best to do this.

The Trust recognises that this is an issue of concern to licence fee payers and in June 2008 published an independent report on the BBC's role in the on-screen and on-air talent markets. The Trust undertook to carry out a follow up review after 12 months of the BBC's progress against the review's conclusions. This was published alongside the 2008–09 Annual Report and Accounts.

The Trust's follow-up review concluded that although the BBC Executive has taken positive steps to strengthen its approach to talent negotiations and the processes it uses to control talent costs, the recent economic downturn presents an opportunity for the BBC to do more to reduce its spend in this area. The Trust believes that it is right for the BBC Executive to go further than it already has in meeting the Trust's earlier recommendations and that it should look to reduce its overall talent spend on a like for like basis during the current licence fee period, with a particular focus on reducing its spend on talent at the top end.

The Trust intends to publish a short statement on the BBC's future progress in the Trust's annual report each year, focusing on value for money and the BBC's approach to developing and nurturing new talent. The Trust will report sooner on any significant developments should they arise.

The BBC Executive have also given an undertaking that in future Annual Reports the BBC will disclose the total amount spent on talent as a whole and work on a plan to make spend on talent more transparent while protecting commercial confidentiality.

The BBC Trust has been pushing for further disclosure of salaries and expenses as part of a drive for greater openness and transparency across the BBC, and is in discussion with the Executive about how best to do this. The Trust remains of the position that the interests of licence fee payers are not best served by publication of details of individual talent contracts however will keep this issue under review.

5. *We are pleased that the BBC Trust has acknowledged this error but remain concerned that a material figure in the Annual Report and Accounts was misrepresented, despite proof reading by both the BBC Trust and its external auditors. Nor is it clear that this error was identified until the Committee brought it to the BBC's attention. (Paragraph 25)*

The Trust acknowledged this error and is grateful to the Committee for bringing it to its attention. The Trust has improved its processes to avoid any repetition of a similar error in the future.

6. *The deficiencies outlined in this report should not detract from the overall improvement in the BBC's response compared to its approach in the previous year. While there remains room for further improvement, we are generally satisfied with the quality and detail of the responses received this year. We hope that in future years the BBC will continue to strive to provide accurate and thorough responses to our scrutiny. (Paragraph 26)*

Recommendation noted.

7. *The broadcast of The Russell Brand Show on 18 October was a serious editorial lapse which exposed major failings in the BBC's system of editorial control. These failings must be addressed and such a lapse must not be repeated. The broadcast of the show was bad enough, but the BBC's failure to respond quickly exacerbated the situation. It seems extraordinary that BBC senior management were not aware of the broadcast until some eight days after it went on air. We find it inexplicable that an apology was not issued until 27 October. Even then, the BBC failed to check the wording of its apology with the main victim of the broadcast, Andrew Sachs. (Paragraph 31)*
8. *The decision by the BBC to announce on Radio 2 that Jonathan Ross would be back on air immediately after his three month suspension, despite the fact that the Trust had yet to approve the BBC's action, was premature and wholly inappropriate. It suggests to us an arrogance on the part of the BBC in apparently assuming that the Trust would not seek to alter the BBC's ruling. As the Chairman of the Trust himself accepted, the announcement should not have been made until after the Trust had approved the action. We also find it bizarre that the Trust should then issue its own statement suggesting that Jonathan Ross would face no further sanction ahead of its own meeting to consider the matter. This was the last in a series of major errors of judgement from the BBC relating to this matter, which started with the broadcast itself and was compounded by the unacceptable delay in acknowledging its inappropriateness and issuing apologies. We trust that all concerned will learn the appropriate lessons and that the Trust Chairman's declared intention to make sure that there is no recurrence is fulfilled. (Paragraph 33)*

The BBC Trust considers that the BBC Executive acted promptly to apologise for the breaches of the editorial guidelines through a public statement on 27 October 2008, as soon as they became aware of the programme's broadcast. An on-air apology was broadcast on 8 November, the first date after this that the programme would have aired.

Following the Trust's decision to uphold the breaches of the BBC's editorial guidelines caused by the broadcast of these programmes, the BBC Executive announced a range of measures to ensure that lessons could be learnt and future failings avoided, in particular in the Audio and Music division, where this particular breach occurred.

Beyond this action the Audio and Music division have reported to the Trust regularly since the breach occurred on the actions being taken to ensure that failings are addressed. The BBC Executive also announced earlier this year new guidance for talent-owned independent production companies.

In September 2009, the Trust launched an independent review of the compliance measures that have been put in place in Audio and Music. This will be carried out by Tim Suter, former Partner for Content and Standards at Ofcom, and Tony Stoller, former Chief Executive of the Radio Authority. It will report back in early 2010.

Separately, the BBC Executive has commissioned a major piece of research into the public's views on taste and decency which has helped to inform the BBC's new draft Editorial Guidelines that are currently out for consultation.

AUDIENCE REACH AND SHARE

2. What was the audience share of each of the BBC's television and radio channels in 2008–09? (If possible, the definition of share should be consistent with that used in 2006–07 and 2007–08, to permit comparison.)

BBC Executive responds:

Ave weekly share BBC and competitors

	2008–09	All Homes	
	%	2007–08	2006–07
	%	%	%
BBC Television			
BBC One	21.7	21.9	22.7
BBC Two	7.8	8.3	8.6
BBC Three	1.1	1.0	0.8
BBC Four	0.4	0.4	0.3
CBBC Channel	0.5	0.5	0.4
Cbeebies	1.2	1.1	1.0
BBC News Channel	0.8	0.7	0.5
BBC Parliament	0.0	0.0	0.0
BBC i	0.1	0.1	0.1
BBC HD	0.0	—	—
BBC Alba	—	—	—
Total BBC Television Share	33.4	33.8	34.3
Other Television			
All ITV	23.2	23.3	22.7
All C4	11.8	11.5	12.2
All five	6.0	6.0	5.9
All Sky	6.2	6.2	6.8
Total other channels	39.3	37.2	34.1
BBC Radio			
Radio 1	10.0	10.5	10.1
Radio 2	15.9	15.9	15.8
Radio 3	1.2	1.1	1.2
Radio 4	12.1	11.6	11.4
Radio 5 Live	4.7	4.4	4.3
Five Live Sports Extra	0.2	0.2	0.2
1Xtra	0.3	0.3	0.2
6 Music	0.4	0.3	0.2
BBC7	0.5	0.4	0.4
Asian Network	0.3	0.3	0.3
BBC Local & Nations Radio	9.3	9.8	10.2
World Service (UK only)	0.7	0.7	0.7
Total BBC Radio Share	55.5	55.2	54.9
Total BBC Television & Radio Share	42.3	42.7	43.1
BBC Radio			
Local Radio in England TSA	8.7	9.3	9.8
Radio Scotland/nG in TSA	8.3	8.3	8.4
Radio Wales in TSA	9.4	9.6	9.1
Radio Cymru in TSA	3.8	3.6	4.6

	<i>All Homes</i>		
	<i>2008–09</i>	<i>2007–08</i>	<i>2006–07</i>
	<i>%</i>	<i>%</i>	<i>%</i>
Radio Ulster/Foyle in TSA	22.7	23.3	24.9
Commercial radio			
Virgin AM/FM	1.3	1.5	1.5
Classic FM	3.9	4.1	4.2
Talksport	1.8	1.9	1.9
All Local Commercial Radio	31.6	31.4	32.3
All Commercial Radio	42.4	42.6	43.1

Notes:

TV

Base Individuals age 4 +

BBC Alba is not currently BARB measured

Total BBC = BBC One, BBC Two, BBC Three, BBC Four, BBC HD, BBC Parliament, BBC News, CBBC, Cbeebies

All ITV = ITV1, ITV2, ITV2 + 1, ITV3, ITV3 + 1, ITV4, ITV4 + 1, CITV, Men & Motors

All C4 = CH4, CH4 + 1, S4C, S4C2, E4, E4 + 1, Film4, Film4 + 1, More4, More4 + 1, 4Music (from 17 August 2008).

All Five = Five, Fiver, Fiver + 1, Five USA, Five USA + 1

Total Other = BARB definition

BBCi = DSAT Streams only 6870, 6871, 6880, 6881, 6882, 6883, 6884, 6885, 6886

Radio

Base Adults age 15 +

RAJAR data are an average of Q208–Q408

Total BBC TV & Radio Share calculated using combination of BARB and RAJAR data.

3. *What reach targets were set for each individual channel in 2008/09 and what targets have been set for this year?*

BBC Executive responds:

The following table shows the service licence reach targets for individual services together with the actual reach for 2007–08 and 2008–09:

<i>Television</i>	<i>Service licence reach target (15 minute weekly reach, age 4+, unless otherwise stated). Source: BARB</i>	<i>07/08 Reach</i>	<i>08/09 Reach</i>
BBC One (all homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	78.2%	77.6%
BBC Two (all homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	57.6%	57.4%
BBC Three (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach, particularly amongst younger adult viewers.	20.2% (16–34: 24.8%)	20.5% (16–34: 26.6%)
BBC Four (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach.	8.4%	8.7%
BBC HD (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to grow its own weekly reach.	n/a	0.7%
CBBC (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach, particularly amongst its stated target audience.	6.6% (6–12: 28.7%)	5.8% (6–12: 26.5%)
Cbeebies (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach, particularly amongst its stated target audience.	8.9% (0–6: 43.6%)	8.7% (0–6: 42.1%)

<i>Television</i>			
	<i>Service licence reach target (15 minute weekly reach, age 4+, unless otherwise stated). Source: BARB</i>	<i>07/08 Reach</i>	<i>08/09 Reach</i>
BBC News Channel (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	16.3% (3 min weekly, adults 16+)	16.5% (3 min weekly, adults 16+)
BBC Parliament (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	1.0% (3 min weekly, adults 16+)	1.0% (3 min weekly, adults 16+)
BBC Red Button (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach.	11.0m (wkly users)	9.7m (wkly users)
BBC Alba (digital homes)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach to around 250,000 people each week.	n/a	n/a

<i>Online</i>			
	<i>Service licence reach target (weekly reach, age 16+)</i>	<i>07/08 Reach</i>	<i>08/09 Reach</i>
BBC Online (BBC ARA p68)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach.	16.5m (wkly users ¹)	22.2m (wkly users ¹)

¹BBC Online UK Weekly PC browsers. Source: Sage Metrics, UK Only

<i>Radio</i>			
	<i>Service licence reach target (15 minute weekly reach, age 15+, unless otherwise stated). Source: RAJAR</i>	<i>07/08 Reach</i>	<i>08/09 Reach</i>
BBC Radio 1	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach, particularly amongst its stated target audience.	21.5% (15–29: 42.9%)	21.3% (15–29: 42.4%)
BBC Radio 2	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach, particularly among its stated target audience.	26.2% (35+: 31.6%)	26.1% (35+: 31.4%)
BBC Radio 3	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	3.7%	3.9%
BBC Radio 4	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	18.7%	19.1%
BBC Radio 5 Live	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	11.7%	11.9%
BBC Radio 5 Live SE	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach.	1.5%	1.4%
BBC 1Xtra	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach, particularly amongst its stated target audience.	1.0% (15–24: 3.6%)	1.1% (15–24: 4.3%)
BBC 6 Music	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach.	1.0%	1.2%
BBC Radio 7	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach.	1.6%	1.7%
BBC Asian Network	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to increase its own weekly reach, particularly amongst its stated target audience.	1.0% (Asian 15–34: 18.5%)	0.8% (Asian 15–34: 15.4%)

<i>Radio</i>	<i>Service licence reach target (15 minute weekly reach, age 15+, unless otherwise stated). Source: RAJAR</i>	<i>07/08 Reach</i>	<i>08/09 Reach</i>
BBC Local Radio in England	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach, particularly amongst its stated target audience.	18.7% (50+ : 28.8%)	17.4% (50+ : 27.0%)
BBC Radio Scotland (including Radio nan Gaidheal)	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	21.5%	21.6%
BBC Radio Wales	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	17.9%	17.8%
BBC Radio Cymru	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	6.2%	6.4%
BBC Radio Ulster/ Foyle	Contribute towards the maintenance of combined BBC weekly reach at over 90% by aiming to maintain its own weekly reach.	38.6%	35.6%

4. *What was the reach of individual BBC television services in 2008–09 using 30-minute and 1-hour weekly reach measures?*

BBC Executive responds: Information redacted due to confidentiality issues.

DIVERSION OF FUNDING FROM SERVICES TO DIGITAL SWITCHOVER

5. *The Director General stated, in reply to Q25, that funds for BBC services were being diverted to pay for analogue to digital switchover. How much is being diverted for this purpose, and what proportion of it represents funds otherwise earmarked for programme content?*

BBC Executive responds:

The annual cost of distribution prior to the start of the digital switchover was 5% of the licence fee (£165 million per the 2007 annual report and accounts). Following the digital build at the end of the switchover period, the annual cost of distribution will rise to just under 6% of the licence fee including the impact of inflation and the cost of both the DTT and DAB networks. This increase was predicted and budgeted for in the licence fee settlement of 2007.

In addition, to ensure that there is no service disruption over the six-year switchover period, the BBC is running its analogue and digital transmitters concurrently, with digital spend increasing at a higher rate than analogue reduces. There are also a number of one-off set-up costs to switch to digital such as centralising our coding and multiplexing and one-off charges to facilitate digital distribution.

As above this expenditure was budgeted at the time of the 2007 licence fee settlement. However, as that settlement ring-fenced monies only for the DSHS and DUK, the BBC's current six-year efficiency programme was implemented so as to make sure the BBC could self-fund its digital build commitments, as well as continue to invest in new technology and enhance the quality of its programming. The programme will make efficiencies across all areas of the BBC, both in programming and non-programming areas. Its critical success factor is ensuring that there is no impact on the quality of BBC content and programming.

Since its implementation in 2008, it has delivered £237 million of gross savings, and has a target of £1.9 billion to 2012–13.

WILLINGNESS TO PAY/VALUE FOR MONEY

6. *In response to Q26, the Chairman of the Trust referred to work relating to the public's view about the appropriateness of the licence fee as a funding mechanism. The Committee would be grateful for information on this and any other research commissioned by the BBC on the public's willingness to pay and value for money perceptions.*

BBC Trust responds:

Research has shown that the public is, on average, willing to pay at least the current level of the licence fee for BBC content and services:

A nationally representative survey of 2,474 people for Ofcom¹ found that when informed of the current licence fee, the average monthly value that people would pay for BBC content and services was £11.56 from a personal perspective and £13.87 from a citizen point of view (similar to the current licence fee).

¹ Source: Holden Pearmain, June 2008. Sample: UK adults, 18+ 1,257 (citizen), 1,217 (personal)

Similar independent willingness to pay research conducted with a national sample of over 4,500 people on behalf of the BBC² found that respondents were, on average, prepared to pay £20.43 per month to keep the BBC as it is now rather than see it close. In this study respondents were not informed of the current licence fee so as to let them make a unencumbered judgement of how much, if anything, they would be willing to pay³.

Ofcom's research also found that 81% of people are willing to pay for the BBC from a personal point of view and 82% are willing to pay for the BBC from a citizen point of view.

Attached at Appendix 1⁴ to this response is the Purpose Remit Tracking Study 2009—UK findings prepared for the Trust in July 2009. This found that the value audiences place on the BBC is rising—85% said they would miss the BBC if it wasn't there, compared with 70% two years ago. In more detail, pages 13 to 15 of the report look at value for money perceptions while appendix C⁵ looks in detail at licence fee payers' relationship with the BBC, including overall perceptions, value for money and whether people would miss the BBC if it did not exist.

The Ipsos MORI research referred to was commissioned by the *Guardian* (full report attached at Appendix 2).⁶ Pages 94 to 99 look at whether people believe the licence fee is an appropriate way to fund the BBC. Pages 100 to 107 look at whether people believe the licence fee represents value for money.⁷

BBC THREE

7. What are the 15-minute and 30-minute weekly reach figures for BBC Three among (i) 16 to 34 year olds and (ii) its overall audience, when acquired programmes and programmes transferred from BBC One and Two are excluded?

BBC Executive responds:

15-minute weekly reach for 08/09:

- (i) 1.9m/14.2% for 16–34s
- (ii) 5.4m/10.5% for individuals

30-minute weekly reach for 08/09:

- (i) 0.9m/6.6% for 16–34s
- (ii) 2.6m/5% for individuals

8. Does the cost per user hour figure for BBC Three include the hours viewed of acquired programming and transfers from BBC One and Two? If so, what is the cost per user hour excluding this content?

BBC Executive responds:

The cost per user hour figure of 10.6p does include both the costs and hours viewed of acquired content and transfers from BBC One and Two.

Cost per user hour is calculated using the £87.3 million content costs for BBC Three. Content costs include the direct costs of programming (ie commissioned and acquired programmes—first run and repeats), presentation costs as well as some other production related costs including, for example, copyright costs. Content costs represent the annual expenditure on the channel as defined in the Service Licence budget.

The cost per user hour figures requested are as follows:

BBC Three—as stated in annual report	10.6p
Adjusted to remove costs and viewer hours of acquisitions and transfers from other channels	19.1p
Adjusted to include costs and viewer hours of BBC Three transfers to other channels	17.0p

We are not able to provide accurate 08/09 audience figures for BBC Three content viewed via the BBC's iPlayer—which would of course reduce the above figure of 17.0p.

We schedule programmes across the portfolio of channels to both benefit audiences and increase value for money from content. Such programmes on BBC Three are those titles which particularly appeal to younger audiences such as *Doctor Who*, *Dragons Den* and *Top Gear*.

We know the audience value high quality acquisitions as part of the whole mix of quality programming across our channels. Acquired programmes not only provide variety for the audience but also represent very good value for money—which in turn allows us to protect higher level of investment in other parts of the schedule and in individual original productions.

² Source: Ipsos Mori, May 2008. Sample: 4,577 UK adults, 16+

³ Another reason for the difference in price between the studies for Ofcom and the BBC is that they included different potential price points for the licence fee. In both studies respondents were presented with different prices and asked if they would pay this amount per month for the BBC. The prices in the study for the BBC went up to “£45”; in the research for Ofcom they went up to “more than £32.50”.

⁴ Ev not printed.

⁵ Ev not printed.

⁶ Ev not printed.

⁷ Ev not printed.

YOUNGER AUDIENCES

9. *What has been the 15-minute reach of the BBC's television services (in aggregate) among 16 to 34 year olds in each of the last five years?*

BBC Trust responds using data gathered for its younger audiences service review:

The 15-minute weekly reach of the BBC's television services among 16 to 34 year olds for the last five years are:

16–34s	2003	2004	2005	2006	2007	2008
BBC One	77.3	74.5	71.9	69.6	67.8	68.3
BBC Two	56.8	49.0	45.4	43.2	45.5	45.0
BBC Three	9.5	11.4	14.3	15.9	20.2	26.3
BBC Four	1.2	1.8	2.3	3.2	4.0	4.8
BBC Portfolio	82.6	79.8	78.1	76.5	76.1	75.4

Source: BARB/TRP, 15 min % weekly reach in all homes (NB BBC Three and Four reach in digital homes only)

10. *According to the service review for younger audiences, the average amount of BBC Television viewing for teenagers was 24 minutes a day in 2008, compared with 75 minutes for all individuals. What are the comparative figures for the previous five years?*

BBC Trust respond using data gathered for its younger audiences service review:

The comparative figures for the last five years are:

	2003	2004	2005	2006	2007	2008
Individuals	86	83	77	74	74	75
Teens (13–19)	39	33	29	26	26	24

Source: BARB, Minutes of viewing BBC Television per day

PROJECT KANGAROO

In response to Q121, Sir Michael Lyons said “we have not finished our discussions about that sum of money [the £9.1 million loss to the BBC from Project Kangaroo]. I am very happy to come back to you when we have finished those discussions”.

11. *Can the BBC Trust give an indication of when it expects to be able to supply its response on Project Kangaroo?*

BBC Trust responds:

The Trust has now had an explanation from the Executive as to the composition of the £9.1 million figure published in the annual report. BBC Worldwide's share of the loss resulting from the closure of the UKVOD venture was £5.3 million. This loss will be mitigated to some extent by the subsequent sale of the technology assets owned by the venture to Arqiva. In addition, BBC Worldwide has written off in accounting terms its investment in capitalised assets (mainly investments in developing the technology) related to the Kangaroo proposition. This additional write-off accounts for the difference between the £5.3 million loss on the UKVOD venture and the figure published in the 2008–09 Annual Report. The additional write-off does not mean that no value can be secured by the business from these investments. BBC Worldwide expects to be able to use the technology it has invested in future activity in the TV download arena.

In the meantime, the Committee hopes that the BBC is able to respond to the following specific queries. Channel 4 told us that its write-off on Project Kangaroo, as an equal one-third partner with the BBC and ITV, was £6.4 million.⁸ This contrasts with the BBC's disclosures in the 2008–09 Annual Report of £9.1 million (Part Two, pages 81 and 108).

12. *Why did the BBC write-off £9.1 million due to Project Kangaroo, whilst Channel 4—an equal one-third shareholder—only lost £6.4 million?*

BBC Worldwide responds:

As John Smith, Chief Executive of BBC Worldwide set out in a letter to the Committee Chairman on 6 August, although a direct comparison for write offs between BBC Worldwide, ITV, and Channel 4 is difficult to achieve due to different accounting periods and different types and levels of internal spend, BBC Worldwide spend was generally in line with the other broadcasters.

⁸ Uncorrected transcript of oral evidence taken before the Culture, Media and Sport Committee on 12 May 2009, Qq77–78

ITV quotes a figure of £8 million. The £6.4 million investment stated in C4's accounts relates only to the investment in the UKVOD joint venture, which mirrors the level of investment made by BBC Worldwide. However, BBC Worldwide also incurred internal costs in the work carried out to create systems and digitise content for Kangaroo. Worldwide has chosen to write these costs off too, but it is an investment that will be useful in future ventures in the TV download arena. Since these figures were published the technology assets for Project Kangaroo have been acquired by Arqiva, and this deal will go some way towards recouping the development costs incurred.

13. *Channel 4 told us at its 2008 Annual Report oral evidence session on 12 May that its "very clear understanding from the BBC Executive was that "they had a series of sessions with the BBC Trust along the way and it was very clearly understood that if the Competition Commission gave it [Project Kangaroo] the green light, it was also expected the Trust would give it the green light". What is the BBC's response to this claim?*

BBC Trust responds:

The Trust did not at any stage seek to pre-judge the outcome of its consideration of project Kangaroo and did not advise either BBC Worldwide or any of the proposed partners that it was minded to approve the proposals subject to Competition Commission approval. The short form agreement entered into by BBC Worldwide and its proposed partners on a non-binding basis made clear that the proposals would be subject to Trust approval. The Trust's intention had been to review both the final long-form agreements with partners and a final four criteria assessment before reaching a decision. The Trust was never in a position to conduct this assessment. The BBC Executive did not submit either a fully formed proposal or a final four criteria assessment to the Trust, and once the OFT had referred the matter to the Competition Commission in June 2008 the Trust concluded that it should not make a decision until the Commission's own investigation was complete.

PROJECT CANVAS

14. *Has the BBC Trust or the Executive Board set expenditure limits and controls on the development of Project Canvas while the Trust is still considering the venture? If so, what controls and limits have been set?*

BBC Trust and BBC Executive responds:

The Trust has not set any specific limits on development costs. As is the case with any BBC proposal subject to approval from the Trust, there is a clear understanding with BBC Executive that there are regulatory risks and no guarantee that the Trust will clear the proposals. The BBC Executive therefore undertakes any development expenditure with this risk in mind, and remains accountable to the Trust for delivering value for money.

Consent for any expenditure on Project Canvas (as with any significant project) has to be given by the BBC Executive's Finance Committee via a funding application, supported by legal and fair trading advice. Through this process the Finance Committee has effectively controlled development expenditure on the project. In recent months it has been setting a monthly limit on expenditure. Limits have been set at the minimum level necessary to keep the project sustainable. Project expenditure has stayed within these limits.

BBC COMMERCIAL ACTIVITIES

15. *The BBC has on some occasions suggested that successive Charter or Agreement settlements have required it to undertake or increase revenue from commercial activities. The Committee would appreciate clarification on where this requirement appears.*

BBC Trust and BBC Executive responds:

Governments in successive Charter and Agreement settlements have encouraged the BBC to maximise commercial revenues. Licence fee payers have also supported this position. Below is a summary of how this has informed the BBC's commercial strategy over successive Charter and Agreement settlements.

History of requirement in BBC's strategy to maximise commercial revenue

The BBC has engaged in commercial activity since the launch of Radio Times in 1923 and the Government's support for that activity also has a long history. BBCW's predecessor, BBC Enterprises, was set up in March 1979 with the support of the then Labour Government. Support for commercial activity continued under successive governments; support typified by the Rt Hon Virginia Bottomley MP when, in 1996, she wrote to the Chairman of the BBC that "The BBC must take full advantage of the new commercial opportunities which are now available." In 1998 the Culture, Media and Sport Committee stated that:

"The licence fee is not and should not be the BBC's sole source of income. In 1993 the National Heritage Committee urged the BBC to institute "a restructured system to support a more aggressive strategy for the sale of material, facilities, services and expertise at home and abroad."⁹

⁹ Culture, Media and Sport Committee, *The Report and Accounts of the BBC for 1997-98* (Eighth Report, Session 1997-98), paragraph 11 citing HC (1993-94) 77-I, para 101.

For the previous Charter (eighth Charter: 1 January 1997–31 December 2006):

“Gavyn Davies—later to become BBC Chair—was commissioned to examine options for additional funding for the BBC, assuming the licence fee remained the principal source of revenue until Charter Renewal in 2006. The Davies report stated that the BBC was essential to take coverage for digital above 50–60% of the population. The report emphasised the need for additional funds to enable the BBC to maintain and enhance its role in the digital age, and recommended that these come from a new digital supplement to the TV licence fee and from efficiency measures and increased commercial revenues.

Government response to the Davies report rejected a digital supplement and announced that the licence fee would increase annually on a formula of RPI plus 1.5% for the remainder of the Charter period, linked to increased requirement on the BBC to raise additional funds through efficiency savings and commercial income.”¹⁰

In 1999 the Culture, Media and Sport Committee stated that:

“We [. . .] continue to believe that the BBC must prove its capacity for much greater increases in net cash flow from BBC Worldwide to the BBC in coming years under the current organisational arrangements.”¹¹

The Government responded to the Select Committee’s report as follows:

“The Government agrees that the BBC should be able to deliver significant additional proceeds from its commercial activities and the BBC has been challenged to raise more revenue from both BBC Worldwide and BBC Resources. The Government is, however, leaving it to the BBC to decide how best to achieve this.”¹²

In 2000, the Rt Hon Chris Smith MP wrote to the Chairman of the BBC in 2000 arguing that “. . .faster gains in efficiency and commercial activities will be needed [. . .] it should be possible for the BBC to [. . .] increase commercial revenues.”

BBCW’s core business is the commercial exploitation and export of the BBC brand and BBC content. Yet BBCW’s scale and capabilities as a global media business also give rise to opportunities to distribute non-BBC content and thereby earn additional revenues for the licence payer. The most recent BBC Charter Review encouraged BBCW to develop these opportunities:

“The BBC should not restrict itself to the sale of BBC programmes. It should look to work closely in partnership with other UK broadcasters in developing its programme sales strategy. It should use the scale and power of BBC Worldwide to showcase the widest possible array of UK talent and secure the best possible deal for UK plc.”¹³

The White Paper for the current Charter (“A public service for all: the BBC in the digital age, DCMS, 2006) stated that “[t]he Green Paper set out a clear policy, backed up by strong findings from consultation and research, that the BBC should continue to relieve pressure on the licence fee by generating commercial income. It should seek to maximise commercial revenue, in appropriate areas, to reinvest in programming and talent to the benefit of licence fee payers.”¹⁴ Support for BBC commercial activities continues, with DCMS Minister, Gerry Sutcliffe MP, stating in 2008 that “The BBC should seek to maximise commercial revenue in appropriate areas and reinvest it in programming and talent to the benefit of licence fee payers.”¹⁵

Licence fee payers have also expressed their support. Government research to inform the latest BBC Charter Review gave an overwhelming endorsement for the BBC to use “all responsible methods” to offset the licence fee. In findings subsequently confirmed by the Government’s Green Paper consultation, 90% of those surveyed agreed that the BBC should raise as much money as it can from selling its programmes and

¹⁰ Department for Culture, Media and Sport (“DCMS”), *Review of the BBC’s Royal Charter: A strong BBC, independent of government*, Green Paper, March 2005), page 110, available at http://www.bbccharterreview.org.uk/pdf_documents/bbc_cr_greenpaper.pdf

¹¹ Culture, Media and Sport Committee, *The Funding of the BBC* (Third Report, Session 1999–2000), paragraph 62.

¹² DCMS, *The Funding of the BBC: Government Response to the Third Report from the Culture, Media and Sport Committee, Session 1999–2000* (March 2000), paragraph 12.

¹³ DCMS, *Review of the BBC’s Royal Charter: A strong BBC, independent of government* (Green Paper, March 2005), page 44.

¹⁴ Paragraph 7.1.2. The wording of the policy in the Green Paper that was adopted in the White paper was that “[t]he BBC should be encouraged, as it is now, to generate as much income as it can through commercial activity, including the sale of programme rights.” (see DCMS, *Review of the BBC’s Royal Charter: A strong BBC, independent of government*, (Green Paper, March 2005), page 99.

¹⁵ House of Commons Official Report, 20 May 2008, Col. 51WH

other products.¹⁶ Clear support for the BBC continuing to undertake commercial activities beyond just TV sales was also confirmed by other responses. 92% of participants thought that the BBC should continue to sell programmes, and 93% said it should continue to sell other products like books, DVDs and magazines.

In July 2008 the BBC Trust launched a review of BBC Worldwide's mandate, strategy and governance arrangements. This review was driven by two concerns. The first was to ensure that BBC Worldwide's strategy was properly aligned with the BBC's public service interest and so had a positive impact on the BBC's brand and reputation. The second was to ensure that in its strategy and operations BBC Worldwide was duly sensitive to the concerns of other commercial players in the market.

Although the Trust put back any final decisions in order to take proper account of the broader public policy debate about the role BBC Worldwide might play in sustaining a second public service broadcasting entity, it did issue an interim statement in March, ahead of publication of the Culture, Media and Sport Select Committee's own report in April 2009, summarising its emerging thinking. Whilst recognising the value of the BBC's commercial activity for licence fee payers it concluded that the Trust should bring greater clarity to the direction, parameters and strategic priorities of BBC Worldwide's commercial activities in the UK and overseas, to ensure that they aligned properly with delivery of the BBC's public purposes.

The Trust announced that it had agreed a revised governance framework within which the BBC must operate its commercial activities in September 2009. These changes are designed to strengthen the oversight of the BBC's commercial operation and ensure even greater clarity and confidence in the separation of the BBC's public service and commercial activities.

The Trust is now close to finalising its review and to issuing a further statement on its intentions.

BBC EXECUTIVE BOARD

Brief biographies of the BBC Executive Board members are supplied on pages 86–87 of Part Two of the Annual Report. It states that Dr Mike Lynch OBE is the founder and CEO of Autonomy plc, and Robert Webb QC is the Chairman of Autonomy plc.

16. *Why does the BBC Executive Board contain two members with interests at a very senior level (Chairman and CEO) at the same company, Autonomy plc?*

BBC Executive responds:

Rob Webb (non-executive director of the BBC Executive Board) was appointed Chairman of Autonomy in May 2009. Mike Lynch (also a non-executive director of the BBC Executive Board) is CEO and founder of Autonomy.

It should be noted that Rob Webb's appointment as a non-executive director of the BBC Executive Board and his subsequent renewal in this post were approved prior to his appointment as Chairman of Autonomy, and consideration of this matter was not therefore part of the appointment and renewal process.

However, both the Director-General (Chairman of the Executive Board) and the Senior Independent Director of the Executive Board (who chairs the Nominations Committee for non-executive appointments), having both considered the issue, did not deem it to present an issue in terms of the suitability of both individuals to remain on the BBC Executive Board. The Senior Independent Director cited in particular the strong independence of each and their strong sense of personal integrity.

BBC ONLINE

In response to Q125 from Tom Watson MP about whether the BBC is considering "new and inventive ways of doing creative content using the web alone", Mark Thompson undertook to: "come back with some forward looking strategy about areas like knowledge building, science, history, culture, where we are trying to embrace pure web content in a way which perhaps we have not done in the past". In a follow-up question (Q127), Mark Thompson then made a commitment to provide statistics on the frequency with which users of the BBC website click on external links.

17. *The Committee would be grateful if the BBC could follow-up on both these undertakings.*

BBC Executive responds:

A key challenge for the BBC in these areas has been around combining the best of our radio and television programmes with the content we make specifically for the web. Radio and TV programmes are now available on demand, but usually only for a limited period. One expectation of the web, of course, is long term availability and this creates a natural tension. Text and graphic content is more permanent but does not always bring a subject to life and rarely showcases the best the BBC has to offer at a particular time. There is also the question of how the BBC should position itself in relation to third party providers of high quality information in different subject areas.

¹⁶ DCMS, *Review of the BBC's Royal Charter: What you said about the BBC* (July 2004).

Over recent months two key building blocks have come into place which will form the basis for much of our web centred activity in the knowledge areas:

- a page for every programme, providing a permanent record of each episode as well as a place to go for clips, descriptions, links and other material related to an episode; and
- a growing understanding of how to model knowledge “domains” so that all of the BBC’s assets in a subject area are labelled consistently and the relationships between them mapped out. This allows content to be accessed in multiple contexts, and encourages different types of exploration.

Perhaps the best way to understand these ideas is to look at the recently launched Wildlife Finder: <http://www.bbc.co.uk/wildlifefinder/>

Here, the best of the Natural History Unit’s archive audio and video programmes about animals have been segmented, classified and described alongside information about habitats, behaviours, global distribution and so on. A user interested in viewing footage of a lion may note that one of its habitats is desert and click through to a page describing that habitat and showing all the animals living in the desert. For each animal on the desert page there is also “homepage” allowing the user to watch it in action, hear its sound or follow up on other characteristics such as behaviours.

BBC content in Wildlife finder is supplemented by information sourced from content partners including Animal Diversity Web, the World Wildlife Fund and Wikipedia, which is particularly strong in this area. Users are also linked to a wealth of other sites.

The essence of the product is to exploit the unique capabilities of the web in order to enrich users’ understanding and appreciation of the natural world. Users who simply want to hear or watch animals or birds can do so. But they can also explore a wealth of in depth information around ecology, distribution, behaviour, taxonomy and conservation. By creating a web product, it becomes possible to link together information, entertainment and education seamlessly.

A key point, too, is that the product will be continually supplemented by new material from our natural history programmes. It is integrated with our broadcast output but is also independent of it. For example, each animal or habitat page is permanent and will be updated as new data or pictures become available.

Another project worth noting in this context is Your Paintings, announced by the Director General in January. Here, the BBC is working with a range of partners in the UK art world to make all the paintings in public ownership in the UK available online. While the details have yet to be worked through, we would expect users to be able to explore this huge 200,000 image gallery in the ways that appeal to them—by period, artist, subject, style, colour and so on. We hope to launch this product some time in 2010.

The key elements of this approach an online database and a rich archive—could be applied in a number of areas. The priorities in the knowledge building areas for the next period are Science (as 2010 is the Year of Science) and History. However, we are keen to explore how some of this thinking might be used more widely to enhance our services in comedy, drama and entertainment.

In the context of “new and inventive ways of doing creative content using the web alone”, two other recent developments are worth mentioning.

Our Digital Revolution project—www.bbc.co.uk/digitalrevolution/—is an attempt to develop a new approach to programme making, using the resources and features of the web. It will be a documentary, made in collaboration with our users, which explores the changes to our lives brought about by 20 years of the internet. The website will allow us to open up the production process as far as possible, sharing plans, potential new ideas and the latest rushes, stage by stage, to the thoughts, contributions and stories of our users. Digital Revolution is due for transmission next year.

The renowned documentary film maker, Adam Curtis, is also experimenting with new ways of engaging with the audience in his blog: www.bbc.co.uk/blogs/adamcurtis Adam describes it as “a website expressing my personal views through a selection of opinionated observations and arguments. I’ll be including stories I like, ideas I find fascinating, work in progress and a selection of material from the BBC archives”.

Blogs, of course, are now extremely popular as a supplement to normal broadcast and journalistic activity but it will be interesting to discover how far a blog such as this can open up new avenues of creativity and enhance traditional programme making processes.

In a follow-up question (Q127), Mark Thompson then made a commitment to provide statistics on the frequency with which users of the BBC website click on external links. Over the past six months, we’ve seen an average of 10.8 million clicks per month on links on BBC Online leading to external sites (UK only).

SALFORD RELOCATION

In response to Q29 from Janet Anderson MP, Zarin Patel said that the relocation of staff to Salford would be roughly a third cheaper than making them redundant. In Q34, Janet Anderson requested the average cost of the incentives per employee as compared with the cost of redundancy, to which Zarin Patel replied that she would be able to supply that information.

18. *What is the average cost of the relocation incentives per employee, compared with the average cost of redundancy?*

BBC Executive responds:

On average the cost of the relocation assistance is around £39,000 per person whereas the average cost to the BBC of a redundancy is around £53,000 (depending on length of service). This equates to an average cost of relocation being approximately one quarter cheaper per employee than redundancy and not a third as incorrectly stated in the hearing.

There is obviously a need to relocate some staff in order to maintain business continuity and quality of output; however it is also recognised that providing a relocation package to staff enables specialist skills and knowledge to be transferred and improves the overall transition process of complex business areas.

The move of approximately 1,500 roles from London to the North of England, including an assessment that the costs and benefits of the move represented value for money for the licence fee payer, was approved by the BBC Board of Governors in 2006.

As part of the move, a Guaranteed House Purchase Scheme, based on 95% house valuation was proposed. The aim of the scheme was to help staff with moving, to facilitate the process of relocation and to ensure that staff were provided with a level of help consistent with other schemes of this nature. The scheme was benchmarked against HMRC standards and other private and public sector relocation packages to ensure that it was in line with the market.

Following the fall in property prices over 2008, the BBC made the decision to adjust the relocation scheme. It was recognised that a change to policy was required so as to:

- Reduce the level of financial risk associated with the GHPS scheme in an adverse housing market.
- Introduce greater choice and flexibility into the relocation support, safeguarding the quality and continuity of output by enabling the transfer of specialist talent as required to the new location.

There are three options for the new relocation scheme for homeowners. Each option has clear limits around the structure so the costs are not open ended and all reimbursements need to be backed up with receipts. The options are:

- a Guaranteed House Purchase Scheme, based on an initial advance of 85% of the market value of the property to be sold. The scheme is handled by Cartus, a relocation agency, with the BBC bearing the cost of funding the advance and other transaction costs. The market value is determined by three independent valuers and priced to achieve sale.
- an Assisted Relocation Scheme, reimbursing the major items of spend associated with relocation (such as buying and selling costs, physical removal) but leaving the property sale as the responsibility of the staff member; or
- a Remote Location Scheme, funding a second property for employees in the North West for two years, limited to a maximum of £1,900 per month.

The reduction in the advance to 85% from 95% reduces the cost risk to the BBC. The scheme compares favourably from a value perspective to other organisations, which continue to offer 95% or 100% of house value (e.g. The Ministry of Defence).

PENSIONS AND BENEFITS

There has been significant recent press coverage relating to the BBC Pension Scheme:

- *The Sunday Times reported on 5 July that it had asked Hargreaves Lansdown, the financial services group, to analyse BBC executive pensions. The analysis reportedly found that Mark Thompson had a second “hidden” BBC pension worth nearly £2.9 million. No details of the pension, accrued between 1979 and 2001, appear in the BBC’s accounts; they reportedly record only the pension rights earned since his appointment as Director General, after returning from some time spent working at Channel 4.*¹⁷
- *The Times reported that the BBC had warned its pension scheme members that in April last year the fund was £470 million in the red. According to the Times, industry experts said that the plunging stock markets around the world since then would have increased the deficit by a further £1.6 billion. Jeremy Peat, the Chairman of the Trustees, had admitted that the corporation had set aside “additional funds” from its £3.6 billion licence fee income to reduce the liability.*¹⁸
- *The Guardian reported the BBC’s denial that it would have to cut into its programming budget to meet its growing pension deficit.*¹⁹

The Financial Statements report, on page F06, shows a deficit in the pension scheme of £139 million as at 31 March 2009, compared to a surplus of £528 million last year. This is described as reflecting “market turbulence”. Page F37 discloses the fact that employer contributions by the BBC have been increased to 19.35%

¹⁷ *The Sunday Times*, 5 July 2009, “Licence payers fund BBC Chief’s £8 million pension”

¹⁸ *The Times*, 7 July 2009, “BBC to cut programme budget to fill £2 billion pension black hole”

¹⁹ Guardian.co.uk, 7 July 2009, “BBC: Programming will not be hit by pension deficit”

to address the deficit, but these are expected to drop back again to 17.85% by 2011. Page F30 (note 4b) shows that the pension costs relating to the main BBC Pension Scheme actually dropped during the year, from £173.2 million in 2007–08 to £158.9 million in 2008–09.

19. *How does the BBC plan to tackle the deficit in its pension scheme?*

BBC Executive responds:

The deficit figure is based on an annual update of the BBC Pension Scheme's ("the Scheme") funding position as at 1 April 2008. It is not based on a full actuarial valuation. The next full valuation is due on 1 April 2010. At that time should the Scheme have a deficit, the Scheme trustees and the BBC will consider and agree a recovery plan. The valuation, discussions and agreement will take some time, possibly running into 2011. The BBC is considering a range of options to deal with a deficit should it arise. These options include looking to employees to increase their contributions or to extend their working life. The BBC is also able to review its overall pension provision—as it has done in the past when it closed the final salary scheme to new members and introduced career average benefits, a scheme which costs less to the BBC as it reduces the overall benefits package. The BBC is also able to make further efficiencies to fund an increase to deficit contributions. It could also provide the pension scheme with added security of income by providing security over assets.

If there is a need for deficit contributions, these will need to be taken into account in the BBC's financial planning once the outcome of the 2010 valuation and the scale of the contribution requirement is known, and as part of the wider process of reviewing the BBC's financial plans. It is premature to have fixed plans in place at this stage.

We are also mindful of the fact that the current deficit reflects short term market turbulence whilst the scheme's liabilities will fall due over a much longer period (more than 50 years). The scheme continues to be cash positive now and in the long term. It is appropriate to continually review the design of the scheme to ensure it remains affordable to licence payers and to recognise that people are living longer and pensions may cost more; however it is equally important to recognise that we are making decisions for the long-term, which may then be irreversible. These decisions should not be made solely in response to short term market volatility.

20. *Is the BBC redirecting funds from programming budgets into the pension scheme?*

BBC Executive responds:

The BBC is not redirecting funds from programming budgets into the Scheme.

The BBC Pension Scheme, like many other schemes, has not been immune from the turbulence that has affected markets around the world; however as noted above, its investments, like all pension funds, are long-term in nature.

The BBC continually reviews long term financial plans in the light of changing strategic priorities and cost pressures—pension costs will continue to be an important (and, in the short term, potentially more material) element of this equation.

However as noted above, the BBC has a number of options available to ensure the long-term sustainability of the scheme. A few years ago for instance the BBC used money derived from efficiencies to increase the contributions it makes into the scheme. From this year, employees also are paying more into the scheme. There are many further steps the BBC could take, before even considering any impact on services to the public.

21. *In 2006 the BBC changed the pension scheme from final salary, to career average salary for new members. What was the basis of this decision?*

BBC Executive responds:

We took the step of introducing a career average section in the interests of the financial health of the Scheme. The Scheme, like other UK schemes, is not immune to the increasing costs of pension provision—people are living for longer, and the expected return on investments is lower than it has been in the past. We also have responsibilities to our licence payers. That is why we needed to make changes to ensure that we can maintain a healthy pension scheme over the long term, whilst also offering reasonable pension provision for all those who work for us.

22. *Why hasn't the BBC moved to a defined contribution pension scheme?*

BBC Executive responds:

The BBC considered in depth a defined contribution pension arrangement for all staff in 2006 as part of the review leading up to the introduction of career average benefits. In making its decision, the BBC considered the relative costs of defined contribution and career average benefits as well as the fact that the pension scheme continues to be one of the important reward levers available to the BBC to attract and retain staff within the organisation. The Career Average Benefits scheme offered a savings for pensions which remained attractive at a relatively modest cost, so was considered an appropriate way forward. It was also

noted that employers can find that the introduction of a defined contributions scheme can, over time, inflate the cost of reward in compensation for a limited contribution to pension schemes. The BBC does have a defined contribution arrangement in place for its fixed term contract staff (the BBC Group Personal Pension Scheme).

In order to curtail the cost of the career average benefits section, the level of pension provided by the career average benefits section is modest compared with other similar schemes. For example the rate of build up of pension is lower (the BBC scheme has a 1.67% accrual rate, compared with 2.3% in the Civil Service scheme). In addition, the BBC has sought to limit its risk exposure. The pension for active and deferred members is revalued annually on a discretionary basis, rather than on a guaranteed basis.

23. *Does the accrued pension disclosed for Mark Thompson in the Annual Report include amounts accrued during his prior service at the BBC? If it does not include this, please could you outline the reasons why.*

BBC Executive responds:

Mark Thompson does have a deferred pension in the BBC Pension Scheme from an earlier period of service with the BBC. This is not disclosed within the Annual Report. As noted on page 89 of Part Two of the Annual Report and Accounts 2008–09 the BBC prepares its Executive Board Remuneration Report in line with Directors' Remuneration Report Regulations 2002 to the extent that they are applicable. In relation to pensions the Regulations require the disclosure of pension benefits a director has become entitled to as a result of his/her service as a director.

Therefore because the value of a deferred pension from an earlier period of service is not affected by earnings in any subsequent period of service the deferred pension is not part of the remuneration receivable as a result of the service as a director. In contrast, for a director who has unbroken membership of the BBC Pension Scheme, all of the pension obligation will be based on current (ie directors) pensionable pay and will therefore be disclosed.

Page 64 of Part One of the Annual Report and Accounts 2008–09 discloses that Sir Michael Lyons receives private medical insurance cover as a benefit "at the same level as BBC senior managers". Table 23 on page 98 of Part Two of the Annual Report shows that there were 751 individuals classified as senior managers' during 2008–09, but it is not specified whether all of these individuals receive private medical insurance. Page 91 of Part Two of the Annual Report confirms that all Executive Directors receive this benefit.

24. *How many staff are receiving private medical insurance, paid for by the BBC?*

BBC Executive responds:

536 BBC Employees receive private medical insurance paid for by the BBC.

25. *Does the BBC pay the tax due on private medical insurance cover for its staff?*

BBC Executive responds:

No, employees are responsible for paying the benefit in kind tax due and as such the benefit is declared on the employee's P11D. The BBC obviously pays the Insurance Premium Tax (IPT) due on the premium of 5%.

26. *How much does the provision of medical insurance cost the BBC, both in paying for the benefit itself and paying the tax bill [if applicable]?*

BBC Executive responds:

Total cost for the BBC is £714,147 including IPT @ 5%. The BBC does not fund the benefit in kind tax due on the benefit.

27. *Does the BBC feel it is achieving the best value for money for licence fee payers by offering staff private medical insurance cover?*

BBC Executive responds:

PMI is offered to senior managers for two main reasons. Firstly to ensure that time lost due to illness or medical treatment is minimised by offering access to prompt and convenient treatment. Providing PMI enables senior managers to get back to work after illness or injury as quickly as possible and therefore minimise periods of paid sick leave.

Secondly this is offered as it is a prevalent and expected employee benefit for senior managers in the external market.