



House of Commons
Public Accounts Committee

The efficiency of radio production at the BBC

Twenty-fifth Report of Session
2008–09

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

*Ordered by the House of Commons
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The Public Accounts Committee

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Summary

The BBC, in 2007–08, spent £462 million on ten radio stations that broadcast to the whole of the United Kingdom (Network Stations) and two stations each for Northern Ireland, Scotland and Wales (Nations Stations). The BBC has set these 16 stations a combined target of efficiency savings of £69 million over the five year period to March 2013, representing an annual saving of 3%.

The BBC proposed unacceptable constraints on the Comptroller and Auditor General's access to information and his discretion to report to his findings to Parliament. Had he agreed, the discretion as to the information to be provided to the National Audit Office, how it could be processed, and what could be reported to Parliament would have been retained by the BBC. The situation arose because the Comptroller and Auditor General does not have statutory unrestricted rights of access to the BBC. In contrast, the Comptroller and Auditor General has statutory and unconditional rights of access to the information he requires to complete his value for money examinations of other publicly funded bodies.

The BBC has wide ranges of costs for similar programmes within and between its radio stations. For example, at £1,486 the average cost for an hour of comparable music programmes on Radio 2 is more than 50% higher than on Radio 1. For most breakfast and 'drivetime' slots, the BBC's costs are significantly higher than commercial stations, largely because of payments to presenters. The Wake up to Wogan show is, for example, more than twice the cost per hour of the most expensive commercial competitor. The BBC has not, however, used cost comparisons across its own programmes, or against commercial radio, to identify scope for efficiencies. The BBC uses its principal value for money indicator—cost per listener hour—to justify the cost of presenters on the basis of audience size, but the indicator does not provide assurance that programme costs are the minimum necessary to reach the required quality and intended audience.

For most radio programmes, presenters' salaries represent the majority of programming costs, but the BBC is paying more than the market price for its top radio presenters. The BBC has been increasing its hourly rates for top presenters when commercial radio has been reducing its hourly rates for presenters. The BBC has prevented full public scrutiny of the value for money of expenditure on presenters by agreeing confidentiality clauses with some presenters.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the BBC Trust and the BBC on the BBC's management of radio production efficiency.

¹ C&AG's Report, *The efficiency of radio production at the BBC*, presented to Parliament by the Secretary of State for Culture, Media and Sport as an unnumbered Command Paper, 5 February 2009

Conclusions and recommendations

1. **The BBC Trust proposed unacceptable restrictions on the audit evidence the Comptroller and Auditor General could see and report to Parliament.** This is a practical illustration of the inadequate terms of the agreement between the Government and the BBC under which the Comptroller and Auditor General carries out value for money reviews at the BBC. The situation would not have arisen if the Comptroller and Auditor General had statutory rights of access, as he does for other publicly funded organisations. The Government should arrange for the Comptroller and Auditor General to have unrestricted statutory right of access to the BBC. The BBC Trust should confirm to the Government that it is willing for this to happen.
2. **By entering confidentiality agreements with some presenters, the BBC is putting the use of public money beyond the scrutiny of the Comptroller and Auditor General and Parliament.** The BBC should provide for the Comptroller and Auditor General to have access to all its contracts, including those with presenters.
3. **The BBC has failed to use cost comparisons to identify scope for efficiencies.** The BBC has not made use of its diverse radio output to compare the costs of similar programmes, and to make comparisons with commercial radio. When it has commissioned internal benchmarking, it has not used the results. The BBC is now trying to establish benchmarking arrangements with the commercial sector, but should also establish a rolling programme of internal benchmarking.
4. **For some presenters the BBC appears to be paying more than twice what commercial radio stations are paying their presenters.** The BBC has not convinced us that it needs to pay so much more than the commercial sector to some of its presenters, who can owe their fame to their jobs at the BBC. There is no obvious core skill for presenters that cannot be found by seeking out new talent. We are not persuaded that the market, rather than the BBC itself, on the back of the licence fee, is driving what top BBC radio presenters are paid. The BBC should:
 - establish why it is paying more than other stations for some presenters, and
 - take advantage of the position of current market conditions and the BBC's standing in the industry to attract and retain talent at the minimum cost necessary.
5. **For 'drivetime' and breakfast shows, the BBC spends over 75% of its staff costs on presenters.** The size of the contracts with top presenters reduces the cost base from which the BBC can seek efficiency savings. The BBC Trust needs to demonstrate that expenditure on presenters is not unduly constraining its ability to identify deliverable efficiency savings.

6. **The average cost per hour of comparable music programmes on Radio 2 is more than 50% higher than on Radio 1.** This is one of many wide variations in the cost of similar BBC programmes, including those programmes that cost significantly more than comparable programmes on commercial radio. The BBC should identify and report to the Trust the reasons for the cost variations set out in this report and, by the end of 2009, the Trust should review the radio efficiency target it has set BBC management.
7. **The BBC's main measure for assessing the value for money of radio is potentially misleading.** Cost per listener hour on its own carries the risk of justifying high costs, including payments to presenters, on the strength of increasing audience size, thus introducing a potentially inflationary spiral. Rather than focus on a single measure, the BBC should use a basket of measures, including cost per hour, to manage costs.
8. **The BBC gave inaccurate information to this Committee on the cost of its top radio presenters relative to commercial competitors.** Witnesses should take proper care that the evidence they provide to this Committee is accurate.

1 Access to the BBC's information

1. The Comptroller and Auditor General's value for money examinations of publicly funded organisations other than the BBC are carried out under the National Audit Act 1983. The Comptroller and Auditor General's reviews at the BBC are carried out under an agreement between the Secretary of State for Culture, Media and Sport and the BBC. Under that Agreement the BBC Trust can ask the Comptroller and Auditor General and others to conduct value for money reviews. The reports go to the BBC Trust and are subsequently laid before Parliament by the Secretary of State. We have previously made clear our concerns about these arrangements, which give the BBC Trust the final say as to which subjects are to be examined, and by whom. It also decides what information is made available, since the C&AG does not have full rights of access at the BBC. In contrast, under the National Audit Act, the Comptroller and Auditor General decides which subjects to examine, and has full rights of access to information necessary for the conduct of his examinations.²

2. In carrying out the review of Radio Production Efficiency at the BBC, the National Audit Office, on behalf of the Comptroller and Auditor General, asked the BBC for a breakdown of the staff and presenters element of the costs for a selection of BBC radio programmes. In principle, the BBC was willing to share information with the National Audit Office, but considered that it was constrained by its responsibilities under the Data Protection Act and confidentiality clauses in the BBC's contracts with some presenters.³

3. The BBC would only provide the National Audit Office with data on individual presenters if the Comptroller and Auditor General was party to a Data Transfer Agreement. Our understanding, however, is that under the transfer agreement discretion as to what information would be provided to the National Audit Office, how it could then be processed and what could be included in a report to Parliament would have rested with the BBC. The Trust failed to recognise the responsible way the Comptroller and Auditor General, an Officer of the House of Commons, handles sensitive information in his wider work, including that relating to national security. Quite rightly, the Comptroller and Auditor General did not wish to accept such constraints.

4. The BBC explained that in seeking such an agreement it was acting on legal advice. The result, however, is that in a review firmly focused on whether the BBC is using public money efficiently, the Comptroller and Auditor General, and now this Committee, have been unable to make a complete and independent assessment of what is driving the BBC's costs. This is a direct consequence of the fact that the Comptroller and Auditor General is not able to exercise the statutory rights of access he has for value for money work under the National Audit Act 1983 for his work at the BBC.⁴

5. In conducting his review of the BBC's Radio Production Efficiency, the Comptroller and Auditor General needed access to information to understand the main cost drivers for BBC

2 Committee of Public Accounts, Nineteenth Report of Session 2007-08, *BBC Procurement*, HC 221

3 C&AG's Report, *The efficiency of radio production at the BBC*, presented to Parliament by the Secretary of State for Culture, Media and Sport, as an unnumbered Command Paper, 5 February 2009, para 54

4 Qq 20-21

'drive-time' (4 o'clock in the afternoon to 7 o'clock in the evening) and breakfast programmes, which had significantly higher costs than commercial competitors. For work carried out under the National Audit Act, the Comptroller and Auditor General has access to information even if the audited body might be exempt from releasing it to others under the Freedom of Information Act.⁵

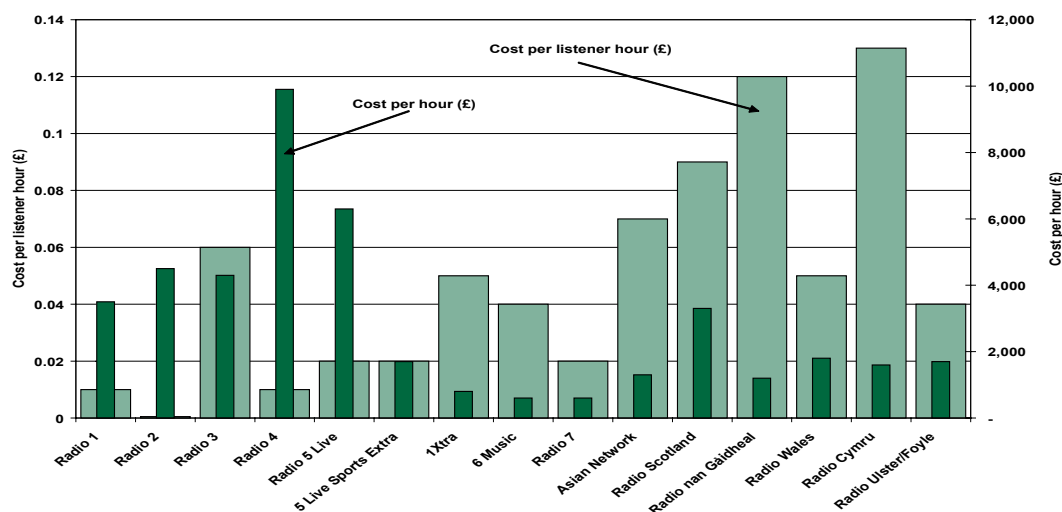
2 The efficiency of radio production at the BBC

6. The BBC's efficiency target for radio is to achieve 3% in annual savings over the five years to March 2013, giving total planned savings of £69 million. This target was set without the benefit of cost comparisons across BBC Radio productions, or against commercial radio.

7. Efficiency is a combination of cost and performance. The BBC is seeking to reduce its costs without incurring an unacceptable impact on performance. The BBC's performance framework has four elements: reach, quality, impact and value for money. The BBC's assessments of the likely effect of savings initiatives on its performance measures have not been fully documented, but the BBC is continuing to develop the way it implements the framework.⁶

8. The BBC's main measure of the value for money of its radio broadcasts is cost per listener hour, which combines cost and audience size. Stations with a low cost per listener hour, however, are not necessarily incurring the minimum cost necessary to achieve the required quality of output and reach the intended audience. **Figure 1** shows both the total cost for an hour of output and the cost divided by the number of listener hours—the cost per listener hour. Stations which have lower costs per listener hour because of higher listener numbers, can have markedly higher costs for an hour of output. For example, Radio 2 has the lowest cost per listener hour but the third highest cost per hour.⁷

Figure 1: Costs of BBC output



Source: C&AG's Report, Figure 6

6 C&AG's Report, paras 4, 11

7 Qq 12, 14; C&AG's Report, paras 28–29, Figure 6

9. As the BBC is aiming to make savings we focused directly on costs. It is possible to compare programme costs by grouping the programmes by genre. **Figure 2** sets out the cost variations within and between stations for comparable programmes in the music, drama and comedy genres. From this we can see that:

- the median cost per hour of music programmes on Radio 2 is 54% higher than Radio 1 and more than twice that of Radio 3;
- the median cost per hour of drama programmes on Radio 3 is 38% higher than those on Radio 4, and
- the cost per hour of Radio 2 comedy programmes is 15% higher than those on Radio 4 and almost 50% higher than on Radio Scotland.

Figure 2: Cost variations within and between stations by broadcast genre

GENRE	STATION	COST PER HOUR (MEDIAN ⁸) £	COST PER HOUR (RANGE ⁹) £
MUSIC	Radio 1	966	743–1,204
	Radio 2	1,486	937–2,222
	Radio 3	650	338–1,211
	1 Xtra	466	383–563
	6 music	558	358–561
	Radio Ulster	391	302–1,113
	Radio Scotland	647	647–826
	Radio Wales	547	412–722
DRAMA	Radio 3	23,965	16,752–24,512
	Radio 4	14,969	No range ¹⁰
	Radio 7	10,496	5,300–16,996
COMEDY	Radio 2	24,212	16,925–27,778
	Radio 4	21,000	13,426–23,920
	Radio Scotland	16,411	13,333–16,411

Source: C&AG's Report, paras 8, 38–42, Figures 7–12

8 The median is the middle number in any range of numbers and so is not affected by atypically high or low programme costs

9 This analysis shows the inter-quartile range (the middle 50%) of programmes in order to give an indication of how comparable costs are for the core of programmes

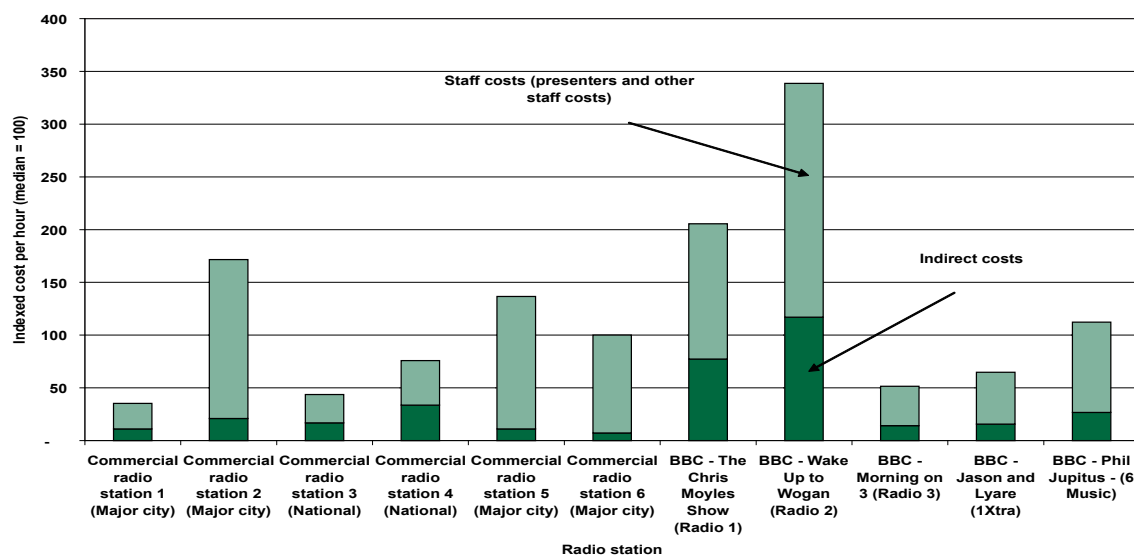
10 One programme, The Archers, occupies the entire middle 50% of the station's output

10. The BBC explained that differences in the scope and editorial ambition of programmes contribute to the cost variations. For music, the costs vary according to the mix of news, speech and music content, as well as the amount of live performance. For example, Radio 2's Jeremy Vine show, while categorised as music output, has a wide range of spoken content and is, therefore, more expensive (about £2,000 an hour) to produce than Radio 1's late evening music output, much of which requires only one person to produce and present it. In drama and comedy, the costs are affected by how much the BBC decides to invest in developing new writing talent.¹¹

11. There are, however, unexplained differences in the cost of similar BBC programmes. The BBC confirmed that it is investigating the significant cost variations, and explained that it was looking in more detail at sub-sets of programmes to establish areas of comparability and identify scope for efficiency savings. The BBC acknowledged the need to compare the costs of its programmes more systematically in future. Although it commissioned a cost comparison exercise in 2007, the results of that work were not used to identify savings or set the BBC's efficiency target for radio.¹²

12. Looking beyond internal cost comparisons, the costs of some BBC radio programmes are also significantly higher than those of comparable programmes broadcast by commercial stations. For example, the cost for an hour of Radio 2's breakfast show, Wake Up to Wogan, is double the cost of the most expensive commercial breakfast show (Figure 3). Although commercial stations provided the Comptroller and Auditor General with cost information, the BBC has, as yet, not carried out any benchmarking with commercial stations. The BBC has now contacted the Radio Centre, the representative body for the commercial radio sector, with a view to establishing benchmarking arrangements with commercial stations.¹³

Figure 3: Costs per hour of BBC and commercial radio broadcasts



11 Qq 40, 50

12 Qq 39, 41

13 Qq 8, 40-41; C&AG's Report, para 55, Figure 16; BBC Trust response to C&AG's Report

3 The cost of the BBC's radio presenters

13. The cost of presenters (the 'talent') makes up a significant proportion of the BBC's radio production costs, although the cost varies from programme to programme. For the reasons set out in paragraph 2 above, the Comptroller and Auditor General did not have access to information on presenters' salaries. The BBC confirmed, however, that for most radio programmes, presenters' salaries represent the majority of programming costs. In respect of the BBC's breakfast and 'drive-time' shows, presenters' salaries account for over three-quarters of total staff costs.¹⁴

14. In May 2008, the BBC Trust published a report by its consultants—*On-screen and on-air talent*—which examined whether the BBC was paying more than the market price for its presenters and whether the BBC was, as a consequence, creating inflationary pressure in the market for on-air talent. The BBC Trust told us the consultants' report concluded that the BBC was not paying more than the market price for talent and, indeed, that it may well be paying less. While this was the consultants' conclusion for the BBC as a whole, the report in fact concluded that "fees paid by the BBC for a small number of top talent working in Network radio are much higher than those offered on commercial radio".¹⁵

15. The BBC justifies the high costs for some presenters because of the large audiences they reach and the resulting low cost per listener hour. The 2008 consultants' report recommended that the BBC uses a wider range of data, benchmarking information and internal challenge, to assist it in considering talent policy and specific deals, rather than a heavy reliance on comparing relative cost per listener hour.

16. The 2008 consultants' report, to which the BBC referred us, found that on average the BBC had until recently been increasing Network radio talent fee rates per hour, while commercial radio had been cutting rates to reflect a depressed radio advertising market and increased audience fragmentation. The consultants suggested that the BBC does not always realise the strength of its own bargaining position when negotiating contracts with presenters and performers, and the benefits to talent of exposure on the BBC. The BBC said it was now challenging individual Divisions to drive better value out of their contract negotiations and that it expected the current market conditions and the BBC's attractions as a broadcaster to result in it spending less on top talent than in the past.¹⁶

17. The BBC has agreed confidentiality agreements with some presenters even though the agreements cover the use of public money. This Committee is against the use of confidentiality agreements which places public money outside of parliamentary scrutiny. According to the BBC, confidentiality agreements in relation to presenters' salaries are standard practice in the media industry. While the BBC assured us that it has attempted to use the BBC's status and range of broadcasting opportunities to negotiate talent contracts

14 Q 4; C&AG's Report, para 55, Figures 16, 17

15 Qq 16, 38; BBC Trust Report, *On-Screen and On-Air Talent including an independent assessment and report by Oliver and Ohlbaum and Associates*, May 2008

16 Q 38; BBC Trust Report

at a discount to their commercial value, it has not used its position in the market to influence the terms of contracts with talent.¹⁷

17 Qq 19, 34, 38

Formal Minutes

Monday 27 April 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Paul Burstow
Mr Ian Davidson
Mr Nigel Griffiths
Rt Hon Keith Hill

Dr John Pugh
Geraldine Smith
Rt Hon Don Touhig
Rt Hon Alan Williams

Draft Report (*The efficiency of radio production at the BBC*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 17 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

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

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

[Adjourned till Wednesday 6 May at 15.30 pm]

Witnesses

Wednesday 25 February 2009

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Mr Jeremy Peat, BBC Trustee, BBC Trust, **Mr Mark Thompson**, Director General, and **Mr Tim Davie**, Director, Audio and Music, BBC

Ev 1

List of written evidence

1 Radio Independents Group (RIG)

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Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 25 February 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr Douglas Carswell

Nigel Griffiths
Mr Alan Williams

Mr Tim Burr CB, Comptroller and Auditor General, **Ms Gabrielle Cohen**, Assistant Auditor General and **Mr Keith Hawkswell**, Director, National Audit Office, were in attendance.

Mr Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, was in attendance.

DRAFT REPORT BY THE COMPTROLLER AND AUDITOR GENERAL THE EFFICIENCY OF RADIO PRODUCTION AT THE BBC

Witnesses: **Mr Jeremy Peat**, BBC Trustee, BBC Trust; **Mr Mark Thompson**, Director General, and **Mr Tim Davie**, Director Audio and Music, BBC, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Public Accounts Committee where today we are considering the Auditor General's Report on the Efficiency of Radio Production at the BBC. We welcome Jeremy Peat from the BBC Trust, Mark Thompson, Director General of the BBC, and Tim Davie, Director BBC Audio and Music. If I may, Mr Peat, I will ask you a couple of questions because obviously you scrutinise the value for money of the BBC. If we look at figure 8 in the Comptroller and Auditor General's report, the cost per hour of music output, you can see that there are enormous variations in the costs for programmes. For example, the costs of comparable music programmes on Radio 2, if you look at this figure, can vary from over £2,000 per hour to £937 per hour for comparable music programmes. Why are there such variations?

Mr Peat: I think, first of all, this is cost per hour and sometimes there will be variations which are significant in the number of listeners, so one can also look at cost per listener hour in order to get a different benchmark, and also, different programmes have different mixes; some have a significant percentage of speech; some have a very low percentage of speech and a large percent of music; some have more news; some have less news. So the actual make-up of the individual programmes is substantially different. In order to form a view as to the value for our licence fee payers, which is what we need to do, we have to look at reach, the quality and the impact and not just cost-per-hour but a broader range of measures.

Q2 Chairman: Are you going to have more challenging efficiency targets to ensure that we get value for money?

Mr Peat: We are indeed. We have already overall set a target from the BBC of achieving 3% net cash-reducing efficiency per year without impacting on

quality; we are looking this year at Radio 1 and Radio 2 as part of service licence reviews; and we will be re-visiting the targets that are set in those service licences. We are constantly looking for ways in which we can challenge the BBC Executive to deliver greater efficiency and greater value for licence fee payers.

Q3 Chairman: Mr Thompson, if we look at figure 7, "The cost per hour of music output—median", we can see the cost per hour of music programmes on Radio 2 is more than half as much again as on Radio 1. Why is that? Is that just because of the salaries paid to Radio 2 presenters?

Mr Thompson: No. As Jeremy has already said, there is a difference in the creative aspiration and the music policies of these different networks.

Q4 Chairman: Yes, but these are equivalent music programmes and the average cost per hour of Radio 2 is half as much again as Radio 1. I just wondered what proportion of that is due to the salaries of the presenters?

Mr Thompson: To repeat, though, when you use the word "equivalent", this range of music programs reflects the enormous range of different kinds of output with live performance by small groups, by large groups. The mix within these is very different. What we are trying to do on Radio 2 is different from what we are trying to do on Radio 1.

Mr Davie: The straight answer to your question is that the percentage of talent cost by programme varies but in most radio programmes, as we can see in other charts, the majority of radio programming costs are within talent. That is inevitable. If you visit a radio station, you will see the technology and three or four or five people. Without doubt, talent is where the cost is. In terms of the two samples here and why there is a material difference, and it is obviously not in anyone's interests for us to drive costs higher, in

the sample that was looked at, if you look at a day-time on Radio 2 based on service licence, you have shows in there such as the *Jeremy Vine Show*, which many of you will know. Obviously, if you are producing a show like that, which is within the music category but actually has a very different editorial remit, based on the service licence for Radio 2, you are inevitably going to get a costly programme—in quantum, around £2,000 an hour as opposed to a TV cost of maybe many multiples of that. The sample is very different and the brief on Radio 2 is different. For instance, Radio 1 music output has a lot of late evening shows, which are particularly cost-effective. You are literally talking about one person who runs it.

Q5 Chairman: It has nothing to do with the salaries of presenters where they are paid more on Radio 2 than Radio 1?

Mr Davie: Within that you have talent costs. If you take a drive-time show on Radio 2—

Q6 Chairman: So it does have something to do with it?

Mr Davie: Absolutely.

Q7 Chairman: That is all the question applied to.

Mr Davie: Yes.

Q8 Chairman: Let us look at this in further detail. If we look at figure 16, we see that *Wake up to Wogan* is twice the cost of the most expensive commercial show. Why is this? The staff costs particularly of *Wake up to Wogan* are twice the costs of the next most expensive commercial show. Why is this?

Mr Davie: It comes back to the same points in terms of the brief for Radio 2 and what it is trying to achieve and its service licence is such that—

Q9 Chairman: Hang on. It is because you are paying Wogan a lot more, are you not?

Mr Davie: Inevitably, in terms of—

Q10 Chairman: Why not say it? If that is what you are doing, say it.

Mr Davie: It relates to this service that we are trying to deliver and the scale of the service we put in the context of the cost per listener hour. Now, the cost per listener hour for Radio 2 relatively is cheaper per listener than any other station in the land. Therefore, we believe it is right to invest in the right presenters. Investing in Terry Wogan is something we should absolutely do.

Q11 Chairman: Why is the cost of *Wake up to Wogan* twice the cost of the next most expensive commercial show? It is because you are paying Mr Wogan so much more money. That is the answer. It may be justifiable but just say it. If you are doing something, justify it. Do not try and dodge the question and treat us like complete idiots.

Mr Davie: I am looking at this chart and very clearly—

Q12 Chairman: Very clearly, *Wake up to Wogan* is twice the cost of the next most expensive commercial show. Why is it?

Mr Davie: Absolutely, and it is driven by production cost and talent cost, of which Terry Wogan is a part of a team cost.

Mr Thompson: The effect of it is worth saying because Radio 2 is a very, very successful national radio service. *Wake Up to Wogan* I believe is one of if not the most popular breakfast radio programmes in Europe. The cost per person reached, the cost per listening hour, is very low. In the annual report of the BBC, you will see the overall cost per listener hour to Radio 2, because it is rounded down, is zero. This is an extraordinarily efficient way of delivering news, sport, business information, current affairs debate and music to the listeners of Radio 2. Radio 2 is probably the most efficient I think of all BBC services; it is more efficient because the costs of commercial radio stations, quite properly, are anonymous; we cannot tell you exactly what it is.

Q13 Chairman: That is all that matters, is it, cost per listener hour?

Mr Peat: No, it is not all that matters. It is one important parameter. What we are looking at is reach, the quality and—

Q14 Chairman: You keep trying to use it as a justification, so I thought it was maybe that overwhelmingly it guides what you pay these people.

Mr Thompson: If I may say so, Mr Chairman, we think—and the NAO has looked at this methodology—that the right way of considering value in the reach and quality impact value approach is to look at it a number of different ways. I would say that the absolute cost of programmes across television and radio is relevant, but looking at the cost when you consider how many people use and enjoy the service is also relevant. The right way, we would say, to approach value is to look at a range of measures of value.

Q15 Chairman: If we look at figures 16 and 17, we can see that you are very much setting the pace, but you claim you have to pay so much to your presenters because of their market value. You are setting the pace, are you not? You are actually continually upping the market. You are a publicly-funded organisation.

Mr Peat: Let me kick off with that. You will remember, Chairman, that we mentioned to you at a previous hearing, and in fact we discussed with, you the need to look at talent cost, and we published last May a report by Oliver & Ohlbaum which was looking at the use of on-screen and on-air talent by the BBC. We specifically asked these well respected consultants to look at value for money, to look at whether we were leading the market, pushing inflationary pressures. We came up with the response that indicated that that was not the case. They certainly came up with a number of recommendations for improvements in the way that the BBC managed talent, including better benchmarking and more challenge to the bargaining

25 February 2009 Mr Jeremy Peat, Mr Mark Thompson and Mr Tim Davie

and use of the bargaining position, but they certainly came up with a view that it was not a matter of the BBC paying more than the market price. Indeed, I quote, "It may well be paying less than the market price for talent". This report, which was handed in to Parliament, looks at that very carefully. We have asked the Executive to look at the recommendations in this report for further improvements in the way the BBC manages talent. That will be coming back to the Trust and that report will be published with our annual report and accounts this coming July.

Q16 Chairman: And it is nothing to do with the fact that you are supported by the licence payer who has no choice in the matter and you are immune from commercial pressures?

Mr Peat: One specific point that is referred to here in this report is that at times the actual market within which we are operating, in which Mark and Tim and his people are operating, we may be the largest player and we have to take full account of that in the way we look at what we pay for talent.

Q17 Chairman: I see, Mr Thompson, in paragraph 71 that you are reducing the volume of original drama on Radio 4, which is rather sad. Why are you doing this? Is it because you are paying so much to presenters on Radio 2 that you do not have the money?

Mr Davie: Within the service licence we have I think it is 600 hours of originated drama within Radio 4.

Mr Peat: Correct.

Mr Davie: So worldwide we are utterly unique.

Q18 Chairman: You are reducing the number of drama originations by 105 hours, so the poor listeners to Radio 4 now have more repeats. Why is that?

Mr Davie: Yes. I am going to come to that. This has to be seen in the context of the quantum, which is that we have 600 hours. Now we have not radically adjusted budgets in drama. What we have decided to do is invest a little more outside the Friday play where we had 32 commissions; we have moved 24. We believe that was the right way in terms of spreading the money. You are always going to get these decisions around commissioning choices. For what it is worth, we are repeating in that slot *Empire of Liberty*, the Reynolds' history piece, because we thought that was the kind of thing listeners wanted to hear again but there is absolutely no big programme to disinvest in Radio 4 drama. It is not our agenda.

Mr Thompson: I take it you were referring me to what you might describe as the first blob on paragraph 71. You should look at the second blob as well: Radio 4 has considered reducing the number of hours and would be allowed to do so under the new service licence but has decided not to do so, for editorial reasons.

Q19 Chairman: Can I ask you about this confidentiality agreement? Why, Mr Peat, did you accept confidentiality agreements with your presenters which prevents Parliament scrutinising them?

Mr Peat: Mr Chairman, the confidentiality agreements are part of contracts which are negotiated by the Director General and his team and they fit in with the pattern that is typical within the business within which the BBC is competing and operating. They are a standard part of that approach. I do not think one can necessarily draw the conclusion that if there were no such confidentiality agreements, if there was total transparency, that would lead to lower costs for staff; indeed, the work from Oliver & Ohlbaum and others suggest that there might indeed be higher costs.

Q20 Chairman: When the Comptroller and Auditor General sent his team in, he immediately saw what we are seeing on figures 16 and 17 and so he thought either you are employing too many people or paying too much money to some people. So he asked you to give him the information; he asked you to tell him what you are paying to your presenters. You then said to the Comptroller and Auditor General that you would tell him as long as he did not share that information with Parliament. Is that not a disgraceful state of affairs, given that you are funded by the taxpayer? How dare you say to the Comptroller and Auditor General that you alone of the entire public sector can decree what the Audit Office can or cannot look at and that if the Comptroller and Auditor General asks you to give him a bit of information you say, "You can have it but you are not going to give it to Parliament"? Is that not a disgraceful state of affairs?

Mr Peat: Mr Chairman, what we had to say to the Comptroller and Auditor General, following taking legal advice, was that under the confidentiality agreements and other relevant factors, we were not able to pass on detailed information on individual contracts without the C&AG being prepared to sign a non-disclosure agreement.

Q21 Chairman: I will tell you why you were not able, Mr Peat. It is because you personally prevent the BBC being on the same basis as every other public body. The fact is that no other public body in the country that the Comptroller and Auditor General audits could say this. He would have the right to go in and find out the salaries of anybody. You can only say this because of this absurd, half-way house arrangement that we have with you that we can effectively only investigate what you let us investigate. I think that is an appalling state of affairs for a publicly funded body. You cannot have it both ways.

Mr Peat: Mr Chairman, we operate under the charter and agreement that this Parliament approved and we operate under the basis of our relationship with the NAO and PAC that is set out within the contract.

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Q22 Chairman: You have done everything you possibly can to avoid us having the same rights of audit as every other public body has.

Mr Peat: I have done everything I possibly can to seek further investigations and assessments of how we can increase value for money for the licence fee payer. That is my role as a Trustee, as it was my role as a Governor. I value immensely, as I have told you on each of the previous occasions I have been before this committee, the work the NAO undertakes and I am delighted to appear before this committee to hear your views on how we can further enhance efficiency to licence fee payers. That is what I am charged with doing. That is what I try to do to the best of my ability. I never wish to limit the information available to the NAO because we value their work very highly. We have a totally good working relationship with them, and we wish them to have information so that they can do their job, which helps us to do our job. On this occasion, I was told that I was bound by the legal arrangements, that I could not release this information without a non-disclosure agreement being signed. I have written to the C&AG in January seeking to sit down with him to talk about how we can improve this. I received a letter back this week. I have just been speaking to his officials. I wish to sit down and talk to them and get through this. I do not wish to have failed to disclose information. I wish the NAO to have all the information they need to do their work and I want to sit down again with the C&AG as soon as possible to see how we can get round this legal hurdle.

Chairman: That is easy. It is in your hands. You write to the Secretary of State and you say you want to be on the same basis as every other public body and then there will be no problem.

Q23 Mr Bacon: You mentioned, Mr Peat, that you operate under a charter. It is a royal charter, is it not?

Mr Peat: Correct.

Q24 Mr Bacon: Do you think it is a good idea to employ people using public money to make obscene jokes about the Head of State?

Mr Peat: You are talking about who?

Q25 Mr Bacon: There are so many of them, I would hesitate to start with which one. I will quote from Reuters: "Despite announcing strict new taste guidelines, gaffs like these are becoming commonplace at the BBC." My question is: do you think it is a good idea, given that you operate under a royal charter?

Mr Peat: I do not think it is a good idea.

Q26 Mr Bacon: Do you think it is value for money to employ people on very high salaries to make jokes about Auschwitz?

Mr Peat: I think that particular comment was made while Mr Davie was in the audience and I believe he immediately responded and made his view on that particular remark very, very clear to the person who made the remark and to all those who were there. I

do not think any of us favour what has been going on in some areas and we have been looking at the particular comment that was made.

Q27 Mr Bacon: Mr Moyles is still in his job, though, is he not?

Mr Davie: Absolutely, and I think—

Q28 Mr Bacon: Do you not understand that it is the inconsistency of the BBC's approach on this that sticks in people's craw? When recently Carol Thatcher was sacked, she had made what was clearly an ill-mannered and offensive comment and many people would say it was right that she was sacked for what she did, although it was not broadcast. What Mr Moyles did in making a joke about Auschwitz was actually broadcast. He is paid with public money. He has 7 million listeners. He is a real role model.

Mr Thompson: Firstly, Carol Thatcher has not been "sacked" from the BBC. She is not working for *The One Show* but she is continuing to work for the BBC and will continue, I am sure and I would welcome because I think she is a good broadcaster, to appear on BBC services. However, it was decided by the executive producer of *The One Show*, and she had done on an occasional basis a number of reports, not to ask her to continue to do those but she was not under contract and she was not sacked. Carol Thatcher decided, on balance, that she did not want to apologise for her remarks. One of the important points, and I believe this is a point of consistency for the BBC, is that when we believe somebody has made an inappropriate remark, it is important they should recognise that. It makes a big difference to us whether or not a broadcaster or a member of staff is prepared to accept that they have overstepped the mark or not. We have tried to be very consistent. When a broadcaster oversteps the mark and recognises that, that makes a difference to the way we react. Having said that, there are absolute limits and if an absolute limit is exceeded, then we will act, and we will act either by disciplining them, suspending them or potentially by simply saying they cannot continue to broadcast.

Q29 Mr Bacon: In the case of Jonathan Ross of course it looked fairly clear that he was contractually safe and he would have laughed all the way to the lawyers and the bank if you had got rid of him because your own BBC senior management approved what went out.

Mr Thompson: You recall that what happened in the case of Russell Brand is that Russell Brand left, the Controller of Radio 2 left, the Head of Compliance for Radio 2 left, and Jonathan Ross was suspended without pay for three months.

Q30 Mr Bacon: I am sure that really hurt, given how much he is paid. I do not really want to dwell on this too much because it is touching on editorial issues and really these are matters not for this committee. We are looking at value for money, but we are looking, as the Chairman said, at figures 16 and 17 about people who are paid extraordinary amounts

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of money. Taking the *Wake up to Wogan* show, you referred to the efficiency being very, very high because of the reach of Radio 2, and of course Radio 2 has more than 10 million listeners at this peak, so of course it is going to be highly efficient.

Mr Thompson: To be fair, the popularity of Radio 2 is not entirely unconnected with the kinds of broadcasters we have. One of the reasons that Radio 2 is so popular with the British public is precisely because it has the services of people like Terry Wogan.

Q31 Mr Bacon: I really want to concentrate on the question of confidentiality. Plainly, talented people who can attract large audiences will attract more bids in the marketplace. That is obviously the case. Nonetheless, these people are very highly paid and then you make secret exactly what they are paid. Mr Peat was getting quite strident a moment ago with the Chairman about exactly what the situation was because he said he was bound by these confidentiality agreements, but it is you who have entered into these confidentiality agreements. You did not have to do that. Mr Peat said it was standard in the business that you are competing in that you do this. We know that you are paid £620,000 a year; at least, that is what you were paid the last time. Can you confirm that is still your salary or has it gone up? What are you paid at the moment?

Mr Peat: The full details of all—

Q32 Mr Bacon: I am sorry, I am asking Mr Thompson.

Mr Thompson: What has happened to my salary is this. I think it is £620,000 or thereabouts. In common of all the BBC senior managers, I would not be seeking and the BBC Trust will not be looking at any review of my salary this year.

Q33 Mr Bacon: I hope not. I remember when you first started coming here it was about £420,000, so it has gone up a reasonable amount in the last few years.

Mr Thompson: My salary has only ever gone up at the same rate as BBC staff on the whole.

Q34 Mr Bacon: In fairness, you lead one of the world's leading broadcasting organisations. The comparables for you are probably the Head of CNN and the Head of some of the major organisations in the world, but my point is it is public; we know what it is. It is public money and so we should know what it is and yet you, the BBC as an organisation, have entered into legal arrangements with these folk who present these shows, who are highly talented you say and therefore must be highly paid. It is you who have chosen to sign confidentiality contracts with them. You did not have to do that. That is my point.

Mr Thompson: I am very grateful for the question. It is very important to say that the BBC is unusual in a number of respects; it is unusual as a public body in being a broadcaster working in all of the labour markets in which broadcasters work, and a labour market in this case is a market for on-air talent. No other public body that I am aware of directly

contracts contributors and artistes, and there are industry norms. It is absolutely normal in the broadcasting industry to have confidentiality built into the contracting of talent. I do not know of—

Q35 Mr Bacon: Not with public money. You see, this is the difference. We had this argument with the Health Service many times over and there is now clear guidance in the Health Service that they should not have confidentiality contracts, particularly in termination terms, although they still do it. The difference between Capital Radio or Classic FM and you is that they are not using public money and you are.

Mr Thompson: The BBC, as you know, is very extensively, and in my view correctly, open to the Freedom of Information Act. The Information Commissioner, however, has given very clear guidance on the issue of talent in the BBC. There is an example, and this is the ICO decision notice, and you can have the number if you want it. This is the Information Commissioner considering a request for on-air talent and the remuneration of on-air talent to be made public. The context was the BBC Northern Ireland but this is in line with his overall guidance. The Commissioner decided that BBC Northern Ireland did not have to release the fee paid to a presenter. The fee had been decided in confidential negotiations in accordance with the standard practice in the industry and was therefore properly treated differently from the salaries of senior employees. What the Information Commissioner has done, because there is an absolutely standard practice in this industry, in the context of FOI, is to decide that you should treat on-air talent and the issue of the disclosure of their remuneration differently from that of senior employees. There are other public service broadcasters of course and indeed there are several not-for-profit public service broadcasters, S4C, Channel 4 and so forth. I do not know of UK broadcasters who do not sign standard confidentiality clauses with talent. The danger, if the BBC were minded or indeed required to approach talent in a different way from every other broadcaster, is that licence payers would be disadvantaged.

Q36 Mr Bacon: Are people such as Chris Moyles and Terry Wogan employed by the BBC? Are they employees or not, or do they have companies that have contracts?

Mr Thompson: Almost universally they are not PAYE employees. They are contracted to the BBC but contracted in various ways, typically on a freelance basis.

Q37 Mr Bacon: It is you, the BBC, that in very large measure are responsible for making these people famous and large stars who can attract big salaries. It is you yourself that have done that. You are market-makers in this.

Mr Thompson: Can I ask, by the way, if you have read the Oliver & Ohlbaum report?

Q38 Mr Bacon: No, I have not.

Mr Thompson: If I may, I might suggest that the Trust sends to you the primary report.¹ Also, the Trust will be publishing the update from the BBC Executive on this, as Jeremy said, later in the year. What is our approach to talent? It is absolutely to try and drive the best bargain we can on behalf of the licence payer for the talent we use. We have a system of controls in place. We do look at the industry at large. We try and get as much information, literally case by case, to try to make sure that we get the best deal. We would expect with key talent to get a discount, as it were, to their market value, to their commercial value, because of the BBC, because of its status, because it is paid for by public money, but also because of the extraordinarily creative range that we can give on-air talent. There is a chance for artistes to work across television and radio on lost of different kinds of programme. That means they should be prepared to work for less for the BBC and they do in general. Oliver & Ohlbaum will show many examples of artistes who are working for the BBC at substantially less than they could get in the outside market. What is happening right now in the BBC is that the external market is changing and there is less money for commercial broadcasters available. I am personally, division by division in the BBC, talking to the top teams and to the talent negotiators to see whether we can, over this next period, drive even better value out of the talent negotiations we do. I would expect, particularly for top talent, to see the total money being spent on top talent over this coming period to reduce because market conditions are changing.

Q39 Angela Browning: Could we talk a little bit about comedy to begin with? On figure 11 it shows us the comparative figures. For example, an hour of comedy on Radio 2 is almost on average 50% more expensive than an hour of comedy in Scotland. What is it about the Scots that they value their comedy at such a lower rate of pay?

Mr Peat: As the National Trustee for Scotland, I obviously would not agree with that conclusion. I should say that following this report and the reference by the NAO to the importance of benchmarking, we have worked with Tim and his team to look a lot more closely at a finer degree of benchmarking that we can undertake because it is necessary to make sure you are comparing like with like. Rather than just taking overarching benchmarking comparisons, we have tried to break it down into segments where that type of benchmarking does make sense. This was one of the areas we did look at. I do not know whether Tim wants to respond.

Mr Davie: It is all in the specifics. There is certainly no strategy by which we would say that comparable output in Scotland versus London would produce a different cost. We would be looking for equal efficiency and delivery across the UK. In terms of the specifics there, that sample that you are looking at

only includes seven shows in 18 hours. On Radio 2 we are up to 60 hours and 19 titles. On Radio 4 you have shows like *Loose Ends* and *Brain of Britain* that do tend to be bigger in scope than just a small local comedy. To the earlier comments, it is very interesting because we do over-invest in certain areas like Scotland on a cost-per-listener-hour basis. It relates to the earlier conversation: cost-per-listener-hour for a Scottish comedy could be up at 19p per listener, down on Radio 2 to about 2.5p per listener. What I am trying to 'dimensionalise' there is the tension between making sure we are investing but also getting the right balance in terms of scale and mix. Overall, I do not think there is much there to suggest that we have any deliberate policy by which we would make comparative output cheaper; quite the reverse—we tend to try to push all the costs down to a comparable level for comparable output.

Q40 Angela Browning: Could I bring you to paragraph 42 where it talks about comedy. Right at the end, it says in the NAO report: "The exercise identified that while talent cost was a key cost driver it was not the full reason for variation in cost across the networks and that further investigation was required." Is what you have told us that further investigation or do you have work in progress on this?

Mr Davie: I think there is still work. One of the helpful things from the NAO, which is, after all, what we are here for and why we are actually supporting taking the work forward --- Within comedy there is further investigation with regard to the production. There is a whole load of variables in terms of a radio production: there is production staff outside, core talent costs, the writing cost—new writing will tend to be a bit more expensive if you have a new writing team. All of this in our world has to be put against the editorial quality of what goes on. I have been in the commercial sector where you are producing comparable units. The editorial value of that comes in. What we have said is that we are interested in getting into more detail—and is new to radio in some ways—on the cost per production at a bit more of a granular level and comparing that. That is what I mean by further work. How can we get more progress on rights? How can we get more progress in terms of digital production? That does require constant work in our world, and that is beyond just talent. Our appetite for that is quite high, to be honest.

Mr Peat: At the Trust I am very pleased with the way this has been picked up thus far but there is clearly more to be done, and Tim has an appetite for that. Additionally, there are references to benchmarking against the private sector.

Q41 Angela Browning: I was going to ask you about that.

Mr Peat: This is what we have done already. The Trust is in touch with the RadioCentre seeking to do that, seeking to be an honest broker so that if they are concerned for confidential reasons about revealing information that could be used by the BBC Executive, we have sought that they co-operate with

¹ *Note by witness:* A full copy of the Trust's Talent Review can be found at http://www.bbc.co.uk/bbctrust/research/value_for_money/talent_review.html

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us in a benchmarking review. The first reaction has been reasonably positive. We are not there yet but we wish to do that and we are in touch with the RadioCentre to try to achieve that.

Mr Thompson: Of course there are some genres, like comedy, where essentially it is not possible because nobody else other than the BBC makes comedy on radio. It is unique to the BBC, which is why internal benchmarking—very much to your question and looking at how different production is around the BBC, how they perform and how they deliver value relative to each other—is important. I think one of the correct emphases, absolutely correct and useful emphases, in the NAO report is about the need for more systematic internal benchmarking.

Mr Davie: Bluntly, no-one more than me would like more external benchmarks.

Q42 Angela Browning: Can I just get the external benchmarks right, because of course in the recommendations on page 6 from the NAO report, the last one (d) does touch on what we have just mentioned and that is that the BBC does not have arrangements with commercial radio stations for assessing its radio production efficiency relative to them. Are you telling me you were doing this before the NAO report?

Mr Peat: No, I am not. I am saying as a direct result of the NAO report, we at the Trust have been in touch with the RadioCentre that represents the interests of the commercial stations to see if this can be done.

Q43 Angela Browning: You are acting in direct response to this report?

Mr Peat: It is a direct response. We have similar arrangements on television, which have been longstanding, but we are trying to achieve exactly what the NAO have suggested and we have taken that action immediately we received this report. We will keep trying to achieve it, but it is not entirely in our hands; it depends on co-operation. We are trying to offer them an option which we believe should be acceptable, and we will keep at it.

Q44 Angela Browning: Thank you very much. Could I just come now to your internal operations and why you have to commission others to provide analyses of cost variations about your programmes rather than having that information at your fingertips internally?

Mr Peat: Do you have a particular reference here?

Q45 Angela Browning: Yes. If you look at paragraph 33, it shows there how in 2007 the BBC was commissioning specific analysis but it says there: “The exercise generated helpful data, although the BBC has not yet followed through on this work to identify savings initiatives, and the timing was such that it did not influence the setting of efficiency targets.” I just wonder why you rely so much on external help with this and do not have a core within your organisation that helps to provide this information more readily.

Mr Peat: If I can give a first response and then pass to Tim, we do place a great deal of emphasis on having the appropriate management information and cost information, and indeed we are in continuing discussions with the Director of Finance and with internal and external auditors to improve the management information and to make sure it is available in the different cuts that are needed in order to help us and the BBC Executive to look at value for money, to look at the factors that are needed. It is a complex area. I was Chair of the Audit Committee under the old regime and I am aware of how difficult it is to have every form of data in every manner that you wish. For this particular study, as I understand it, it was appropriate to get someone else to do the particular cuts using the data that were available in order more efficiently to derive the comparisons that were needed.

Q46 Angela Browning: Is this a systems problem or a people problem?

Mr Peat: We did go through a major process, and we have spoken here before about this, about changing the financial systems in the last couple of years of the Governors’ regime and the first year of the Trust regime. That did lead to major savings in the finance functions and major changes in the way it as undertaken. The new finance functions are certainly fit for purpose but they do not necessarily provide every item in every form, and they can be continually improved.

Mr Thompson: If I may add, there is also a particular story, which I think is instructive. There is a company called Magentum that we had used on BBC television to do a comparative benchmarking exercise between the BBC and other free-to-air broadcasters: ITV, Chanel 4 and Five. The reason we chose an external consultant for television work was to gain the confidence of the other broadcasters. So it was precisely to get the kind of benchmarking that we are talking about, and Magentum do have some expertise in this area. We thought in radio that for a variety of reasons, partly because there was not a tradition of broadcasters swapping anonymised cost data but also partly because there were so many things in BBC radio that do not really happen elsewhere, it would be useful to get the expertise which this company had built up and to apply it, having over some years learnt how to use it in television, to radio.

Q47 Angela Browning: This will be my last question because I am running out of time. I do not want to fill you with too much Dutch courage here, but there are very few recommendations in this report from the NAO compared to some of the reports we have before us. Usually there is quite a long list of recommendations. Primarily, on page 6, and we dealt with item (d) just now and it is well underway as a result of this report, can you very briefly tell us where you are with (a), (b) and (c)? Are those recommendations that have been triggered into action as a result of this report?

Mr Peat: If I can briefly take you through them, so far as the comparison of costs of comparable programmes is concerned, already some further work on this has been undertaken and further work is under way. We have a timed implementation plan that we have put to the Executive. Certainly improving the benchmarking cost comparisons is way up on that and it is certainly already under way. “The BBC: should assess and document the likely and actual overall impact of efficiency savings initiatives on each of its public value criteria . . .” Yes, already our QIV is embedded within the decision-making-process but Tim and his team are making it more powerful and more engaged and making sure that discussions that already take place are properly documented and properly followed through so that lessons are learnt across the piece. That systematic sharing is seen. That will take place internally and we have approached the radio network externally. We are progressing each of these recommendations.

Mr Davie: We are doing some very specific things on this. Our own internal audio music talent review goes to the Trust; we are going to be ready by May. It is important to us to keep driving on this. Secondly, we are carrying out our next round of benchmarking, which will come through in July. I then want to take this into genre, because one of the issues we have here is, frankly, that on things like drama you have to go into readings; excuse the terminology but you have to go into sub-genre really to drive out cost and become efficient. We are working on that quite rapidly. There are some genuine issues in radio production on (b) because, unlike TV, you get into levels of spend where you are in the hundreds rather than thousands. With some of our evening radio shows, we are down to a couple of hundred pounds. You have to work out the granularity of your system and the quality of your system to extract programme level data and deliver efficiencies against a programme. Our current systems are good enough to have delivered and over-delivered on the efficiency targets to date. I think we need to keep working on those systems, and that is why we are having an external look over this. There is also a very lean finance team. I think there is a degree to people’s insistence—and I not talking about over-use of consultants in any way, shape or form—and limited studies can help us. We are addressing (c) and sharing it. There is a particular issue on documenting and meeting where we are sharing best practice; that is being done and fixed. Indeed, as you have heard, we are in the hands, to a large extent, of a discussion with the RadioCentre, which the Trust is very helpfully leading, and I think we will make progress. It has been an interesting journey with them because they do not necessarily want to give up all the information, quite understandably. I am not pointing a finger. I do think we could benefit by going a bit more deeply into some analysis. I think progress is pretty good.

Q48 Mr Carswell: I am just curious. The internet allows very cheap distribution, and you can already listen to the radio on-line. There are already devices

that basically are like a radio, and I am sure you have heard of them, but they allow you to listen to the radio piped in through your home hub and into wi-fi. In five or ten years’ time, could there be a situation where radio is distributed basically that way and not as it is at the moment and would that not radically reduce costs?

Mr Thompson: Is there a kind of nirvana of an ultimate world where distribution has become very simple and very low cost? It may be out there somewhere in the future, but we face between here and there, and I would argue probably over a 10 or 15 year period, quite a complicated world where we are trying to support people listening to the radio in a number of different environments: in an analogue environment, and there will still be people who, whatever the merits of new ways of listening to radio, will continue to expect the Roberts radio that they have had for years to continue to work; in a car environment; in parts of the country where wi-fi is not available and where people are a long way from an internet connection and so forth; as well as people who are expecting to listen to radio in new ways. I think distribution of radio faces some quite significant strategic and economic challenges. Tim may want to add something on DAB.

Mr Davie: It is a very good question and it is one of the questions, coming into the job, I asked. Most people believe, and I am not the most technically able expert, that it will take 15 to 20 years minimum before a robust wi-fi IP delivered solution for radio can exist, and that is very loose in terms of timings. What I mean by that is that radio of course has to be robust and mobile. It has to be robust for cars and, in that context, on Mark’s point, I think you are going to see a hybrid solution. You are going to see rapid growth in internet radio and in the long term that will take distribution costs down; there is no doubt about that. In the short to medium term, there is absolutely no doubt we need an analogue or digital broadcast platform for radio. It is delivering 98% coverage; that is the sheer value of Radio 4 and the radio services we bring. That is why DAB is so important as a complement to the internet solution as well. The short answer is that we see a hybrid solution.

Mr Thompson: For example, both the Barry Cox Digital Radio Working Group and also Lord Carter’s emerging conclusions in his first *Digital Britain* report see a strong recommendation that the BBC should build out its DAB network further to the point where it is supports DAB and car manufacturers believe that they should be putting digital radios rather than analogue radios in cars. We see distribution being potentially a call on new money over this period, though ultimately I think the direction of travel is as you suggest.

Mr Peat: There are major gaps, let us not forget. I can still drive to Inverness and lose radio entirely for an hour or more on that journey, whether it is DAB or analogue or any form. There are major gaps in provision that have to be sorted.

Q49 Mr Carswell: Looking to that world where you may have access to literally 10,000 radio stations on your home radio and given, as you have probably

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gathered, there are some concerns in this room about how you use public money and the BBC licence fee and given the unease that is out there, and also given how the internet allows protestors to mobilise, do you not worry that it is inevitable that sooner or later there is going to be some sort of organised boycott of the licence fee where people say, “Why should I pay for this? I can access all sorts of other different radio channels”?

Mr Thompson: To be honest, were we to switch off analogue or digital radio signals to the British public, quite apart from a boycott, if you took Radio 4 away from the British public they might even sharpen their stakes and come looking for us. It seems to me, absolutely, that the core part of the proposition between the BBC and the public is that in return for the licence fee they would get services they can use, they can actually get and which they really value. I would say that actual complaints about the licence fee have been going down, not up; 93% of the UK population is using BBC services every week. Despite the extraordinary change in media, the BBC remains a big part of most families’ lives, even today. The most important thing for the BBC to do is make sure that the quality of the services and the range of services are as good as they can be. I believe that people will continue to support the licence fee if we achieve that. We have challenges, and this goes back to Mr Bacon’s point, because there are very different people out there with very different ideas about taste and value. There are occasions when A hears something that was intended for B and there are occasions clearly when B hears something that was intended for A. Sometimes there are individual things where we make editorial errors and when the public, as a result, and understandably, get annoyed. Overall, over a period of years and decades, the important thing is to have a range and quality of services. It is also about distribution, which means the public can actually get them and enjoy them.

Q50 Mr Williams: I have a couple of quick points. In paragraph 43, it points out that Radio 3 and Radio 4 are remarkably similar in the price of producing drama in-house, £23,965 to £24,000, so we could say £24,000 for each of them. The amount paid for independent production in the case of Radio 3 is between £5,000 and £6,000 an hour cheaper, according to the figures we were given, than they can get them from independents. Why do we not just tell them to get from independents?

Mr Peat: Again I will let Mr Davie give the detail. What we have done is look in detail at what programmes are referred to in the sample, look at what slots they are in, what coverage they have and look in more detail at the causes in the variation of cost to see whether they are justified, whether they stack up by sensible criteria when you segment the sample.

Mr Davie: This is another case where, if you look at the comparable items, we have very similar costs between “inde” and in-house. With regard to Radio 3—I do not know how many people here are avid drama listeners on Radio 3—there are essentially

two main strands: a strand for *The Wire* and Drama on Radio 3. *The Wire* is generally done in-house and is slightly more expensive. The reason for that is that it is new; it is within the service licence and it is experimental new writing. We have an editorial difference between Radio 4 and Radio 3 that is quite carefully thought through. Radio 3 is more challenging; there is a lot more new writing in there. It is absolutely critical to the future of new writers in this genre. If you want to get a radio play produced and written, something like *The Wire* will look at enormous amounts of new scripts and get what is often quite challenging work commissioned. That is a more expensive process. If you look at it in a common strand, like what I will call standard (although I would never describe BBC drama in that fashion), for a standard drama production on Radio 3 costs are quite comparable. I can go through it. You have £22,000 for a Friday play versus £20,000 for an “inde”; £17,000 to £18,000 for the afternoon play. I am giving you “inde” in-house figures. There is no evidence that when we are commissioning the same type of work we have a difference; it is purely mixed. Another point on this, by the way, is that the quantum of cost is not the key figure for the “inde”. There “inde” is looking at margin, and obviously at the creative quality. To commission and produce new writing can often be a very expensive business for an independent production company. They might actually prefer a slightly cheaper drama, where they can deliver slightly more sensible margins, versus new writing.

Q51 Mr Williams: Following on from that, we are told that comparisons of costs of similar programme types to what we have been talking about—music, drama and so on—can be made. We are told the BBC commissioned such cost comparisons from external consultants in 2007 but did not follow through on that work. Why, or why not?

Mr Davie: There are two points on this. One is that we are at a very early stage in terms of benchmarking within the radio sector; this is completely new work. The NAO report is helpful in this regard in terms of me managing this because this is relatively new work. It was part of discussions and in areas like drama we did begin to use that analysis for context in terms of beginning to compare costs. I think the opportunity for us now is to take that work further by sub-genre and really get to the programme level economics where, hopefully, we can drive out more savings, but we have to do this carefully. Drama is not, as I say, something where you strip out costs simply without the creative context. I am not for a minute saying we do not want to find more efficient ways of doing things; we just do not want to do it at the expense of creative quality.

Q52 Mr Williams: That is drama but this study that you commissioned did each category: it did music, it did drama and it did comedy. The factors are not the same in all of them,

Mr Davie: I am saying specifically that the analysis was used for the general context across all the genres. Because it was a new type of work, we took it deeper

into drama to see whether we could extract savings using this approach. Remember that no-one has used this approach before. Culturally you have programme teams in the various areas. This is quite a big piece of work. We are beginning to get quite long-serving and very good programme makers into a world which is driving out costs and looking for ongoing efficiency. That is why it is taking a little bit of time.

Mr Peat: There are two points from the Trust. I think what we have taken from this is that more use should have been made of this comparison, and in future more use will be made of work of this type because we are better placed now to understand the variations and the causes of it. We have learnt a lot from the NAO work; a lot was learnt from the 2007 work. In the future, much better use will be made of these data.

Q53 Mr Williams: This was 2007. We are now in the early days of 2009. It is a period of 18 months. Have you made any further ventures into this area of study since then? Are you planning to do so and, if so, when?

Mr Davie: Yes. I said earlier in terms of actions that we have commissioned a detail benchmarking analysis that will report in July of this year, but that does not imply we are waiting purely for that analysis. We are already beginning. We have been out with independent and in-house companies looking at strands like *Gardeners' Question Time* which will go out to the market. We are already beginning to use this benchmarking approach more proactively in a way that allows us to look at a sensible guide price, not only just in terms of historical cost but also at what we think should be the right cost for that drama. That is the critical value of this analysis; not just to be looking at historical cost but looking at the absolute cost we think we should be paying. That is now affecting all our programming pricing to a greater or lesser extent at this point in time.

Q54 Mr Williams: What did the original study cost?

Mr Peat: We can let you have a note on that, certainly. We believe it was around £25,000 but we can confirm that.²

Q55 Mr Williams: It is not critically important. Is it a similar type of comparison you will look at in future or what? What do you have for the future?

Mr Davie: It will be similar but, as I have said, based on the NAO's findings and our growing expertise in this area, one thing we will be trying to do is push a little bit deeper into the sub-genre levels. If you want to find more value for the licence fee payer, you have to get through the sub-genre level within radio and work on our system. Hopefully, we will be able to push more deeply. Remember that this comes in a context of us having over-delivered our savings targets. I do not think we have been sitting there saying that we cannot make savings—far from it. We

have delivered, and over-delivered, our value-for-money targets. I think the team can be justifiably proud of that. This is about going further.

Mr Peat: We at the Trust will be seeking a report back on the implementation of this and other recommendations within the next 12 months.

Q56 Mr Bacon: While we are on radio, by courtesy of my BlackBerry, I was pulling up a couple of headlines about digital. It reminded me, first of all looking at Mr Davie's CV, that he is a director of Digital UK. I also declare, Mr Chairman, that I met Mr Davie many years ago. We did come across each other but I had completely forgotten. I am just wondering, having heard some items recently on the radio about the threats to digital. The headlines I have just pulled out say, for example: "BBC Trust questions the future of digital radio in annual report"—that was July 2008; "Industry summit to save digital radio"—that was October last year; and, "Fears for future of digital radio. Digital sets are at risk of becoming obsolete unless sales pick up, industry analysts have warned." I just wondered if you could give us a general context—it might be from Mr Thompson or indeed from Mr Davies, or both—about the future of digital in light of these concerns.

Mr Thompson: Personally, it is as you say: it has been very widely discussed and the BBC has been involved both with the Barry Cox Digital Radio Group which was set up by the DCMS Secretary of State, and it clearly is forming part of the research work that Lord Carter is doing in his *Digital Britain* work for the Government. I think it is fair to say that the issues which have arisen around the DAB platform have largely been because of the challenges around the business model for commercial radio in supporting their multiplex and the as yet unsuccessful attempt by Ofcom to get a second commercial multiplex going. From the BBC's point of view, we have launched digital radio stations; we are broadly pretty satisfied with their growth in audience and usage and with all of the reactions to those digital radio stations. We think that digital radio has brought more choice to the public. We remain committed to providing radio to our licence payers, frankly, in ways which are convenient to them. In addition to DAB, we have streamed radio on the internet; we also provide radio stations on digital satellite and on Freeview digital terrestrial television. We want to work with the rest of the industry to make sure there is a really strong future for digital radio. Specifically in the case of DAB, we continue ourselves to be committed to the platform. We will look hard at the suggestion that we should build out our DAB transmitter network to make it even more widespread. I have to say, despite the gloom about DAB, sales of DAB sets have continued to be reasonably buoyant, I think it is fair to say.

Mr Davie: Even with the various shades of gloom across the electronic sector, DAB sales are still up. To Mark's point, I think from a consumer standpoint, for anyone who has a DAB radio in coverage, the feedback is very strong. We also believe in and

² Note by witness: The cost of the Magentum Study was £57,104.

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remain committed to a digital future for radio. We think it would be a mistake to take radio out of the functional benefits and the other things you can do with digital technology. With regard to DAB specifically, and I will not go on about it because Mark has outlined that, it has largely been about the economics for the commercial sector and their multiplexes and whether they can make them work. We believe, working with the Government, that we can see a way through, put it that way, but it requires a few commercial agreements to take place, which

are in some ways out of our hands. From our point of view, we believe in the future of digital. Definitely, it will be a digital future, and we believe DAB will play an important part. That remains broadly on track. I think we need to see a couple of developments from the commercial sector to get fully to a place where we can even begin to be looking at the switch-over in the same way as we did with television.

Chairman: Thank you, gentlemen. That concludes our hearing.

Memorandum from Radio Independents Group (RIG)

Radio Independents Group response to NAO report on *The Efficiency of Radio Production at the BBC*

The Radio Independents Group was pleased to be consulted in the preparation of the above report. We welcomed the opportunity to discuss with the National Audit Office some of the workings of the independent radio production sector.

However, having examined the report we feel that there is more work to be done by the NAO to ensure that it is clear how the sector works, in particular its economics.

Independent radio production companies are structured to provide value for money. RIG is therefore highly supportive of the basic premise of ensuring best value for money for the licence-payer. We therefore welcome the point in paragraph 50 which, although stating that “In considering where and how the BBC might identify efficiency savings, the most expensive programmes by genre could be a reasonable place for the BBC to start”, does go on to say that “This is not to suggest that the most expensive programmes are produced inefficiently”.

However other than this statement we are deeply concerned that ‘value for money’ seems to be interpreted throughout the rest of the report as primarily about finding the minimum possible cost. These two things are not necessarily the same. In addition comparisons of costs across different BBC networks are bound to be misleading, and much more so with the commercial sector, which does not have to comply with the same PSB remits as BBC services, in terms of making a wide range of programming which appeals at some point or other to every licence-payer.

In radio production, as in many areas of business, the cheapest solution is not necessarily the best, and the extraordinary reputation that BBC Radio enjoys around the world has not been built by an emphasis on minimum expenditure above all other considerations. Radio production is already a shoestring operation and long has been, achieving high quality results with budgets that cannot take further reductions.

It is important to consider the cost in real terms to the listener. For Radio 4, for example, the report quotes the cost per listener as being 0.01 pence per hour. That means that a listener can hear 24 hours of Radio 4 for less than one quarter of a penny, or continuously for an entire year for 91 pence. We are of the opinion that very much represents value for money.

That value and quality is achieved by creative production teams who are passionate about radio as a medium and are not primarily motivated by the financial rewards, routinely devoting much more time to each programme than they are paid for. That applies to both in-house staff and independents, although we would also argue that our lower overheads and minimal management hierarchy mean that more of each programme budget goes into the final product from an indie—and our consistently above-average success rate in the annual Sony Radio Academy Awards supports that claim.

Bearing this in mind, we would question whether it is appropriate to concentrate on “efficiency drives” within the BBC when Radio is already such good value. It would have been beneficial if in the report the NAO had chosen to consider the effect upon the quality of radio programming of 3 per cent-per-year rolling cuts on the professionals at the bottom end of the chain. Unlike television, a radio programme is ultimately made by two or three people and the budget pays primarily for their time: a reduction in budget necessarily leads to a reduction in income, a phenomenon which is affecting companies across our industry.

Although technology has as in many industries brought some modest cost efficiencies, these have now already been applied—and even the real value of these savings is debatable, as we are now on a treadmill of constantly upgrading equipment where the old analogue tape-recording machinery lasted for many years without major expense. The major cost in the programmes we make comes from people’s time, and we cannot reduce the time we spend with interviewees by 3% every year, or ask our actors to speak 3% faster every year.

We also note with considerable concern at least one fundamental error in the section headed “Drama”. The report says (para 40) “Our analysis of drama productions shows that the median cost per hour of drama on Radio 3 is £23,965, 60% higher than that for Radio 4 (£14,969, the cost per hour of *The Archers*)”. But in para 43 it states “the median cost per hour of in-house productions of plays for Radio 3 and Radio 4 are £23,965 and £24,000 respectively.” Therefore it appears to state in one place that the “median cost per hour of drama” on Radio 4 is £14,969, and in another that it is £24,000. We wonder whether the report has confused “drama serials” such as the *Archers* with single plays, the latter being the mainstay of drama on both Radio 3 and Radio 4.

RIG would also question the accuracy of the claim that “for Radio 4 there is no range . . . in cost per hour of drama output . . . as *The Archers* occupies the entire middle 50% of this station’s output”. First we cannot see any analysis of Radio 4 drama, whether by hours or budget, with or without repeats, that has *The Archers* occupying the entire middle 50%. Even if there were figures that indicated this, they would merely demonstrate that choosing the inter-quartile range as the measure of range of costs per hour is a very poor use of statistics, excluding as it does the bulk of single play production at around £24,000 per hour.

Leaving aside these specific problems with the report’s calculations, we would also ask the NAO to consider whether this kind of analysis has any relevance in the light of recent events in the economy, which have cast doubt on the effectiveness of stringent budget cuts.

There is not any sign that in general the overall cost of radio programming is in any case an issue. There is no indication of concern from the radio audience about the cost of their programmes, and we are confident they would want all who make them to be properly and fairly rewarded. Indeed the 2006 Barwise report contained audience research indicating people’s willingness to pay current or even increased licence fee rates to preserve quality public service broadcasting.

In conclusion RIG wishes to express its concerns about the accuracy of certain sections of this report. As a result we would not welcome its being used as a basis for reducing the programme budgets available to independent radio producers, in a sector where economies of scale or departmental efficiencies are limited in terms of their positive effects.

Instead we would welcome at its earliest convenience a conversation with the NAO to discuss how further work might be done to examine genuine value for money issues of BBC radio production, as opposed to simple cost reduction. We would recommend that a key component of any such work would be to reflect upon the implications for the quality of public service radio if production costs continue to be squeezed year-on-year.

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