



House of Commons  
Committee of Public Accounts

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# Scrutiny of value for money at the BBC

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Twenty-ninth Report of Session  
2009–2010

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

*Ordered by the House of Commons  
to be printed 24 March 2010*

**HC 519**  
**[incorporating HC 359-i and HC 494-i, Session 2009-10]**

Published on 7 April 2010  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## The Committee of Public Accounts

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## Summary

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The BBC is a great British institution delivering highly valued public service broadcasting to viewers and listeners across the United Kingdom. Our interest in the BBC is promoting value for money. The BBC receives £3.5 billion a year of public money (76% of its income), provided by taxpayers in the form of an annual grant voted by Parliament. The BBC receives that grant having collected the licence fee, which is paid into the Consolidated Fund. The licence fee is itself a tax.

This report sets out our reflections on the BBC at the end of a Parliament in which the Government has renewed the BBC's Royal Charter and revised the arrangements under which the Comptroller and Auditor General conducts value for money examinations of the BBC at the invitation of the BBC Trust, which replaced the Governors in 2007. To reflect the BBC's independence from Government the Royal Charter created the BBC Trust to oversee the work of the BBC's Executive Board, including examining the value of money achieved by the BBC.

We are not in a position to assess the effectiveness of the BBC Trust in holding the BBC to account across the full range of the BBC's work. Nevertheless, through the lens of a series of 12 value for money reviews by the Comptroller and Auditor General and our examination of BBC witnesses we have considered a broad cross section of BBC work. We have identified particular concerns in:

- the BBC's track record of committing public money without full analysis of the costs and benefits;
- the BBC's apparent reluctance to apply value for money considerations to editorial decisions;
- the BBC's mixed record of seeking and applying lessons that could improve value for money.

As a creative organisation it is important that the BBC has the freedom to succeed as well as the room to fail. The BBC's editorial independence, however, does not absolve it from responsibility to deliver value for money. With that freedom goes the responsibility to make sure there is strong financial control. Too often there has been a culture where ends have overridden means.

We are also concerned that the Comptroller and Auditor General, in contrast to his role in other public sector organisations, has no right to audit BBC expenditure on behalf of Parliament. Although the BBC Trust consults the Comptroller and Auditor General when drawing up its programme of value for money reviews, the Trust has the last word on what value for money work is to be done, who will do it, what information will be made available, and what is published and when. The current arrangements constrain both the Comptroller and Auditor General's access to information and, in a practical way, his discretion to report to Parliament. The Trust has also refused to provide the Committee of Public Accounts with information unless the Committee guaranteed that it would not make the information public. The Trust seems to think it is acceptable to negotiate the

terms on which it will do business with Parliament. This is unacceptable and a discourtesy to Parliament.

## Conclusions and recommendations

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1. As we step back to consider our interactions with the BBC over recent years, we recognise that there are some underlying tensions in the accountability model for the BBC. In particular we believe that the British public's view of what level of transparency and accountability can be expected of a publicly owned and funded corporation today is different from that currently prevailing at the BBC, both in the Corporation's management and in the BBC Trust. We believe that there is a significant 'expectation gap' between the two, and that this needs to be bridged to provide a stronger basis for public confidence.
2. The BBC is a public corporation, editorially independent of government; operating in a competitive broadcasting market; and generating income and capital from commercial activities. At the same time it receives guaranteed public funding provided by Parliament, using taxpayers' money to deliver editorial and creative freedom from the commercial constraints faced by other public service and commercial broadcasters. Yet unlike other publicly funded organisations it is not subject to the usual expectations of public accountability through independent audit by the Comptroller and Auditor General, operating on behalf of Parliament.
3. Audit is not a cure all. Achieving value for money is in large part about culture and leadership. But independent audit scrutiny certainly has a contribution to make, and being subject to review by the Comptroller and Auditor General, who would decide for himself what to do, see and report to Parliament, could have a galvanising effect on the BBC. There is no tension between the BBC's creative and editorial freedoms and the usual expectations of accountability to Parliament which go with being a taxpayer-funded organisation. We firmly believe that the two are essential and entirely compatible.
4. **Proper consideration of the BBC's accountability for its use of public money cannot wait for Charter renewal in 2016. We would like to receive Ministers' views on the reflections in this Report, and on the adequacy of the current arrangements for securing proper accountability and value for money for the BBC's use of public money.**



# 1 Introduction

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1. The television licence fee is a tax which the BBC collects and is paid over to the Consolidated Fund, the Government's general bank account<sup>1</sup>. The BBC then receives from the Department for Culture, Media and Sport an annual grant of money voted by Parliament. In 2008–09, the grant to the BBC was £3.5 billion.<sup>2</sup> In short, the BBC is a public corporation funded by taxpayers.

2. The BBC was established by a Royal Charter, and the current Charter runs from 1 January 2007 to December 2016. Under the Charter the BBC's main object is the promotion of its Public Purposes, including the promotion of education and learning and the stimulation of creativity and cultural excellence. The BBC delivers its Public Purposes primarily through the provision of television, radio and online services.<sup>3</sup>

3. The BBC Executive Board is responsible for operational management of the BBC and conducting the BBC's affairs in a manner designed to ensure value for money. The 2006 Charter replaced the BBC Governors with the BBC Trust. The BBC Trust is responsible for setting the strategic direction of the BBC, including overseeing the work of the BBC's Executive Board and examining the value for money achieved.<sup>4</sup>

4. Under arrangements agreed between the Secretary of State for Culture, Media and Sport and the BBC (see chapter 5 of this report), since 2003 the Comptroller and Auditor General has produced 12 value for money reports on aspects of the BBC's work and we have taken evidence from the BBC on eight of the reports (Appendix 1). Drawing on our work and the Comptroller and Auditor General's this reports reflects on:

- the BBC's financial management and control (part 2)
- how the BBC's balances value for money and creativity (part 3)
- the BBC's approach to lesson learning (part 4)

5. In addition, chapter 5 sets out the limitations of the current arrangements for scrutiny of the BBC's use of public money by the Comptroller and Auditor General and, therefore, Parliament.

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1 National Statistics, National Accounts Classifications: Public Sector Broadcasting, NACC 2003,/27, January 2006

2 BBC Annual Report and Accounts 2008-09

3 Broadcasting: Royal Charter for the continuance of the British Broadcasting Corporation (October 2006, Cm 6925)

4 Broadcasting: An Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation (July 2006, Cm 6872)

## 2 Financial management and control

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6. Making decisions which are informed by rigorous evaluation of the likely costs and benefits is central to strong financial management. Otherwise value for money is at risk and accountability for the results delivered is weakened. Without clear project goals there is room for scope creep. Across a range of BBC activities we have been concerned that there is a culture which allows commitments to be entered in to and extended without sufficient clarity, and robust challenge by BBC management, Governors and now the BBC Trust.

7. We recently examined three BBC estates projects—Broadcasting House in central London, Salford Quays in Greater Manchester and Pacific Quay in Glasgow—on which the BBC is spending in excess of £2 billion over 30 years. A series of project management failings on phase 1 of the Broadcasting House project cost the BBC over £100 million. For none of the projects did the BBC set out at the outset a clear assessment of the intended benefits from its investment in a way that would allow achievements to be assessed. In the case of Pacific Quay, the BBC only drew up a benefits realisation plan a year after the project was completed.<sup>5</sup>

8. Whilst the Governors initially approved the three projects, in 2007 the BBC Trust approved a revised business case for Broadcasting House which did not set out measurable benefits, and the business case for Salford which did not include a delivery timetable or project milestones.<sup>6</sup> In addition, scope changes added to the costs of Broadcasting House (£28 million) and Pacific Quay (£60 million).<sup>7</sup>

9. The estates projects bore similarities to what we saw in connection with the BBC's building project at White City. The approved cost of the project was £210 million, but basics such as the cost of fitting out buildings, the cost of furniture and the cost of relocating staff were excluded. The costs increased by £69 million (33%) as a result. The need for significant increases in scope and costs a relatively short time after approval raises questions about the quality of the BBC's planning, particularly for long-term projects.<sup>8</sup>

10. Assessing full costs and benefits of proposed spending, and evaluating options, is equally important to the programme-making end of the BBC's business. In 2008–09 the BBC spent £246 million securing the rights to, and a further £111 million covering, sporting and music events, including the Beijing Olympic and Paralympic Games, the Proms, and Glastonbury. The coverage was delivered within 5% of the total budget for each event.<sup>9</sup> The BBC did not, however, formally evaluate different coverage options and draw together all of the costs so that the full cost was clear at the approval stage. Nor were the

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5 C&AG's Report, *The BBC's management of three major estate projects*, February 2010, paras 1 and 9

6 Qq 149 and 151

7 C&AG's Report, *The BBC's management of three major estates projects*, February 2010, Figures 6 and 7

8 Committee of Public Accounts, Twenty-fourth Report of Session 2005-06, *The BBC's White City 2 development*, HC 652, para 2

9 C&AG's Report, *The BBC's management of its coverage major sporting and music events*, December 2009, para. 16 and Box 2

intended benefits from the coverage of individual events identified at the approval stage, leaving the BBC poorly placed to evaluate the cost effectiveness of its coverage.<sup>10</sup>

11. Another example of the importance of getting things right from the outset was the way management prepared the case for the technology framework contract with Siemens in September 2004. When the BBC Governors considered the investment case the BBC told the Governors that the contract would deliver guaranteed annual savings of £35 million. However the savings were not guaranteed. The BBC's estimate of the annual savings fell to £27.5 million when the contract was signed one month later, and to actual annual savings of £21.8 million by April 2006.<sup>11</sup> Although the BBC has now issued guidance on the requirements for business cases, it has a long way to go to achieve a culture of compliance.

12. In addition to weaknesses in the business case for the contract with Siemens, there were implementation problems. Whilst reported performance against key service targets was high, most of the early technology projects commissioned under the contract experienced delays, with the result that there were cost overruns and some benefits from the projects were available later than planned. The BBC also lacked sufficient control over the services procured by divisions through the contract, as many areas of the BBC were still buying technology services and commodities from suppliers other than Siemens, undermining the delivery of savings from the contract.<sup>12</sup>

13. The BBC has not always protected its commercial position through its contracts. For the White City 2 building, the financing mechanism meant the BBC was unable to calculate the return to shareholders although the contracts included a provision to cap the return at 30%, which was much higher than typical rates of return for deals of this type.<sup>13</sup> For the Siemens deal, the contract did not provide for the BBC to share profits if Siemens return exceeded a specified level.<sup>14</sup>

14. The BBC has been securing savings through its efficiency programmes. The BBC's radio stations achieved efficiency savings of £11.7 million in the period from April 2005 to March 2008.<sup>15</sup> The BBC could go further to identify the scope for more efficiency savings, however, as there are wide ranges of costs for similar programmes. For example, the average cost for an hour of comparable music programmes on Radio 2, at almost £1,500, was almost 50% higher than on Radio 1. In addition, the costs of the BBC's breakfast and drive time shows did not compare favourably with those of its commercial rivals, largely due to the costs of presenters. We were not persuaded by the

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10 Qq 11, 17, 34, and 35

11 Committee of Public Accounts' Report of Session 2006-07, *BBC outsourcing: the contract between the BBC and Siemens Business Service*, HC 118, para 3

12 Committee of Public Accounts' Thirty-fifth Report, paras 7 and 13

13 Committee of Public Accounts, Twenty-fourth Report of Session 2005-06, *The BBC's White City 2 development*, HC 652, para 7

14 Committee of Public Accounts, Thirty-fifth Report of Session 2006-07, *BBC Outsourcing: the contract between the BBC and Siemens Business Service*, HC 118, para 8

15 C&AG's Report, *The efficiency of radio production efficiency*, February 2009, paras 56 and 57

BBC's argument that that the market, and not its own actions and behaviours, was driving the pay of the BBC's top presenters.<sup>16</sup>

15. The BBC, by March 2008, also secured savings of £157 million from its strategic contracts<sup>17</sup>, exceeding the target of £135 million when the contracts were first let. In part this was due to previously overlooked savings of almost £39 million from the Siemens contract.<sup>18</sup> The BBC has been successful in reducing the cost of other goods and services. The BBC achieved procurement savings of £37 million in the two years to March 2007, and established a centralised procurement function with qualified staff to strengthen its procurement procedures and to control its spending more effectively than in the past.<sup>19</sup>

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16 Committee of Public Accounts, Twenty-fifth Report of Session 2008-09, *The efficiency of radio production at the BBC*, HC 285, paras 9, 12, and 16 and Figures 2 and 3

17 The BBC defines a strategic contract as those which have an annual value of at least £2 million, a term of at least five years, and which make a key contribution to its business

18 C&AG's Report, *The BBC's management of strategic contracts with the private sector*, March 2009, para 31

19 Committee of Public Accounts, Nineteenth Report of Session 2007-08, *BBC Procurement*, HC 221, paras 2 and 8

### 3 Balancing value for money and creativity

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16. In addition to examining the BBC's 'back office', we have been turning our attention to the BBC's programme-making activities. In the last year we have taken evidence from the BBC on the efficiency of its radio production and its coverage of major music and sporting events. We recognise fully the importance of the BBC having the editorial independence it needs both as a public service broadcaster and as a creative organisation. Neither the Comptroller and Auditor General nor this Committee has challenged the BBC's editorial judgements, and the BBC has consistently acknowledged that audit scrutiny has not put at risk its editorial independence.<sup>20</sup>

17. The BBC's editorial independence, however, does not absolve it from responsibility to deliver value for money. Artistic endeavour involves risk and failure. We accept that. With that freedom goes the responsibility to make sure there are appropriate internal challenge and review mechanisms.

18. In 2004, the BBC introduced a bespoke performance measurement framework for assessing its performance in delivering public service broadcasting. The framework, with its four overarching criteria—*Reach*, *Quality*, *Impact*, and *Value for Money*—is intended to provide assurance that the BBC is delivering public value.<sup>21</sup>

19. In 2005 the Comptroller and Auditor General reported on the design and early implementation of the framework, concluding that the BBC had made good progress and that there was some evidence that the framework was beginning to influence decision making. Recognising that it was early days, the Comptroller and Auditor General identified a number of areas on which the BBC should focus, including the need to assess the extent to which the framework was embedded at all levels of the BBC.<sup>22</sup>

20. Six years later, there are clear indications that the framework is not being used to its potential. The BBC uses the framework to set targets for the overall performance of the portfolio of programmes for each television channel and radio station, and has only very recently started to set targets for some of its major sporting and music events.<sup>23</sup> We saw that despite spending over £350 million in 2008–09 on rights for and coverage of major sporting and music events, neither BBC Sport nor BBC Audio & Music Divisions had any *Impact* objectives.<sup>24</sup>

21. Similarly, there was no clear evidence that the BBC had made any systematic use of the performance measurement framework when considering radio production efficiency initiatives.<sup>25</sup> In addition, we were concerned that the BBC's use of cost per listener hour as

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20 Committee of Public Accounts, Twenty-fourth Report of Session 2005-06, *The BBC's White City 2 development*, HC 652), para 16; Qq 238-241

21 C&AG's Report, *Public service broadcasting: the BBC's performance measurement framework*, May 2005, para 1 and Figure 4

22 C&AG's report, *Public service broadcasting: the BBC's performance measurement framework*, paras. 5, 12, and 13

23 Q 33

24 C&AG's Report, *The BBC's management of its coverage of major sporting and music events*, December 2009, para 23

25 C&AG's Report, *The efficiency of radio production at the BBC*, February 2009, para 73

its main measure of the value for money it secures from its radio output could lead to the justification of high costs on the strength of increasing audience size, introducing a potentially inflationary spiral. The cost per listener hour measure does not provide assurance that programme costs are the minimum necessary to reach the required quality and intended audience. Using a basket of measures, drawing on the BBC's own performance measurement framework, to manage costs would produce a more rounded view of performance.<sup>26</sup>

22. In our investigations into programme making, we found that the BBC used editorial necessity as the rationale for some of its expenditure decisions, effectively placing some of its expenditure beyond value for money considerations. For example:

- the BBC spent what we now understand to be £576,000 on a studio in the centre of Vienna for its coverage of Euro 2008 based the proposition that it provided an editorially necessary backdrop and was consistent with the BBC's editorial approach to covering major events.<sup>27</sup>
- the BBC argued that differences in scope and editorial ambition contributed to variations in the costs of radio programmes.<sup>28</sup>
- the Comptroller and Auditor General found no evidence of a structured review of the scale of, and differences in the costs of, staff, studios, and outside broadcast facilities used in the BBC's coverage of major events.<sup>29</sup>
- the BBC appeared to be paying some of its radio presenters more than twice what the commercial radio stations were paying their presenters, but had not investigated why.<sup>30</sup>
- while the proportion of the total costs of talent for covering major sporting events ranged from 6% for one to 20% for another, the BBC had not taken steps to demonstrate the cost-effectiveness of the amount spent on presenters.<sup>31</sup>

23. The BBC appears to consider that certain aspects of its expenditure represent value for money simply because they deliver what the BBC describes as 'editorial ambition'. Our view is that, by employing this argument, the BBC is placing some expenditure beyond the reach of proper analysis, in which the cost-effectiveness of expenditure is evaluated on an evidence-based informed manner. In this way, without challenging editorial or creative independence, editorial choices can still be subject to value for money scrutiny by the BBC and BBC Trust.

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26 Committee of Public Accounts, Twenty-fifth Report of Session 2008-09, *The efficiency of radio production at the BBC*, HC 285, para 15

27 Q 1; Ev 31

28 Committee of Public Accounts, Twenty-fifth Report of Session 2008-09, *The efficiency of radio production at the BBC*, HC 285, para 10

29 C&AG's Report, *The BBC's management of its coverage of major sporting and music events*, December 2009, para 53

30 Committee of Public Accounts, Twenty-fifth Report of Session 2008-09, *The efficiency of radio production at the BBC*, HC 285, Conclusion and Recommendation 4

31 Q 86

## 4 Learning lessons to improve value for money

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24. Identifying and applying lessons from previous experience can improve value for money. The BBC's track record, however, suggests that lesson learning is more opportunistic than structured and culturally embedded.

25. We were pleased to see from our recent examination of the BBC's three major estates projects, that the BBC had applied lessons from phase 1 of the Broadcasting House project to phase 2, and to the Pacific Quay and Salford Quay projects. The BBC also, over the lifetime of these three projects, improved the way it identified and recorded lessons learnt. For example, it prepared a post-project implementation review for the Pacific Quay project which identified good practice and areas for improvement when managing future estates projects. In addition, the BBC had introduced arrangements for sharing lessons between these projects.<sup>32</sup>

26. Lesson learning has been less evident in other areas of the BBC's work. The Comptroller and Auditor General's report on the BBC's management of its strategic contracts showed that the BBC's Strategic Relationships Board was little more than a talking shop, and that the lack of executive authority meant it was unable to enforce compliance with minimum standards in contract management. The report also showed that while the BBC's approach to supplier relationship management was above average compared with other organisations, the engagement of senior managers varied, as did the extent to which the BBC and the supplier had a shared understanding of the status of the relationship. The latter point was a particular difficulty in the case of the BBC's largest strategic contract, the £230 million spent annually with Siemens.<sup>33</sup>

27. In June 2007, we recommended that the BBC ensure that contractors' profits were not excessive through the robust enforcement of the 'open book' terms of its contract with Siemens. However in 2009, the Comptroller and Auditor General reported that the BBC had failed to utilise its 'open book' provisions across four of the five strategic contracts he examined.

28. In looking to challenge the cost of programmes, the BBC has made limited use of the information available to it. The BBC's reviews of its coverage of major events lacked coherence as they did not bring together a review of the cost and quality of the coverage and of the management of the coverage, in one place. The impact of the reviews was further weakened by the absence of criteria for measuring success and the irregular frequency of the reviews.<sup>34</sup> Internally, the BBC did not use the results of a report it commissioned into the cost of similar radio programmes to identify possible savings.<sup>35</sup> Nor

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32 C&AG's Report, *The BBC's management of three major estates projects*, February 2010, para 2.33 and 2.34; Qq 196 and 197

33 C&AG's Report, *The BBC's management of strategic contracts with the private sector*, March 2009, paras 46 and 64

34 Qq 9 and 33

35 C&AG's Report, *The efficiency of radio production at the BBC*, February 2009, para 55

has it benchmarked internally the different cost elements of its coverage of major sporting and music events.<sup>36</sup>

29. Comparisons with rival programme makers can also be helpful, although we recognise that commercial sensitivities can make that difficult. However, in response to our report on the efficiency of its radio production, the BBC committed to work with the commercial radio sector to develop a suitable benchmarking process and for radio production and major events it has acknowledged the need to take a more systematic approach to cost comparisons.

30. The BBC recently established a pan-BBC Programme Management Office to support its programme and project management capabilities. The Office offers guidance and bespoke support to specific programmes, and looks to spread good practice. The early focus of the Office's work is on the BBC's strategic priorities. Over time, the work of the Office could usefully cover, say, production as a way of ensuring good practice is applied as widely as possible.<sup>37</sup>

31. Elsewhere, the BBC faces and needs to manage a variety of risks, ranging from the reputational risk of its programmes to the health and safety risk of those working overseas. Using external guidance, such as that provided by HM Treasury, could help the BBC. For example, contrary to Treasury guidance, the BBC had not aligned its main themes for risk management with its corporate objectives, and had not assigned all risks to named owners. In addition, many BBC risk managers (29%) had never looked at the BBC's guidance.<sup>38</sup>

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36 Q 97

37 C&AG's Report, *BBC's management of its coverage of major music and sporting events*, December 2009, para 58

38 Committee of Public Accounts, Sixty-sixth Report of Session 2006-07, *The BBC's management of risk*, HC 643, paras 3, 4 and 11

## 5 Improving the BBC's accountability to Parliament

32. The current arrangements for the Comptroller and Auditor General to examine value for money at the BBC arise from a 2006 agreement between the Secretary of State for Culture, Media and Sport and the BBC, which replaced a similar agreement made in 2003. Under the agreement the BBC Trust can ask the Comptroller and Auditor General and others to conduct value for money reviews, but it has the final say as to which subjects are examined and by whom. The BBC Trust also decides what information is made available. The reports go to the BBC Trust and are subsequently laid before Parliament by the Secretary of State.<sup>39</sup>

33. **Table 1** summarises the differences between the Comptroller and Auditor General's statutory powers to carry out value for money work in other organisations and the arrangements for his work at the BBC, where he has no powers.

**Table 1: Statutory value for money audit compared to the arrangements for the Comptroller and Auditor General's work at the BBC**

<b>THE COMPTROLLER AND AUDITOR GENERAL'S STATUTORY AUDIT</b>	<b>AGREEMENT-BASED WORK AT THE BBC</b>	<b>PRACTICAL CONSEQUENCE OF THE DIFFERENCE</b>
The Comptroller and Auditor General has full discretion to decide the subjects for value for money examinations	The BBC Trust has the final say as to which subjects are examined, and which subjects are offered to the Comptroller and Auditor General.	The Comptroller and Auditor General is not in a position to insist on examining and reporting on those activities where he considers value for money is most at risk.
The Comptroller and Auditor General has the right of access to the information he considers necessary to complete his work.	The Comptroller and Auditor General has no right of access to BBC information. The BBC Trust decides what he can see.	The Comptroller and Auditor General is reliant on the BBC's willingness to share information, and is not as well informed as he would be if he audited the BBC's accounts. The Comptroller and Auditor General's value for money work for the BBC Trust is limited by barriers to access such as the Data Protection Act and confidentiality clauses in contracts with, for example, presenters and contractors.
The Comptroller and Auditor General determines the timing and content of what he publishes.	The Comptroller and Auditor General's work is commissioned by the BBC Trust and published by the Trust, in conjunction with the Department for Culture, Media and Sport, which lays the reports before Parliament.	The Comptroller and Auditor General does not have the final word on the content of his reports and when they are published.

<sup>39</sup> Broadcasting: An Agreement between the BBC and the Secretary of State for Culture, Media and Sport, July 2006 (Cm 6872)

34. We have noted a number of practical ways in which the absence of statutory powers for the Comptroller and Auditor General's value for money work of the BBC has hampered both his access to information and his ability to report his findings.

- In his review of the BBC's management of its coverage of major sporting and music events, the Comptroller and Auditor General was not in a position to judge for himself whether the BBC's arguments against disclosing the total costs of talent for individual events would have constituted a breach of the Data Protection Act, as he had no right of access to the primary data. As a matter of prudence, in the light of representations by the BBC Trust who were responsible for publishing his report, he published combined figures for staff and talent costs, with the result that even aggregated talent costs for individual events were not published.<sup>40</sup>
- The Comptroller and Auditor General was not able to develop a complete understanding of the costs of making radio programmes as he did not have a right of access to the breakdown of programme costs, including those for talent. He was not prepared to sign the agreement offered to him by the BBC to give him access because of the constraints it would have placed on his discretion to report his findings.<sup>41</sup>
- Confidentiality clauses in the contracts between the BBC and some presenters have prevented the Comptroller and Auditor General's full access to the information he considered necessary to complete his audits of the efficiency of the BBC's radio production and of its coverage of major sporting and music events. By entering into confidentiality agreements with some presenters the BBC is putting public money beyond the scrutiny of the Comptroller and Auditor General and Parliament.<sup>42</sup>

35. If the Comptroller and Auditor General had been able to act under his statutory powers of audit in the above instances he would have been able to use his professional judgement to balance the public interest in disclosure against the impact such disclosure might have.

36. The BBC has also been less than transparent in the information it has offered to this Committee on several occasions.

- In our hearing on *The BBC's management of risk* we identified talent costs as area of the BBC's expenditure in which we were interested.<sup>43</sup> The BBC Trust chose to commission an examination of this subject from a private sector consultant. The BBC Trust decides what is published, and in this instance published a report with many figures redacted. This redacted report is what the BBC offered us in response to our interest in talent costs. Box 1 makes clear the inadequacy of this document, offered to this Committee, as a basis for public accountability.<sup>44</sup>

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40 C&AG's Report, *The BBC's management of its coverage of major sporting and music events*, December 2009, para 46; Q 11

41 Committee of Public Accounts, Twenty-fifth Report of Session 2008-09, *The efficiency of radio production at the BBC*, HC 285, para 2 and 13

42 Committee of Public Accounts Twenty-fifth Report, para 16

43 Committee of Public Accounts, Sixty-sixth Report of Session 2006-07, *The BBC's management of risk*, HC 643

44 Committee of Public Accounts, Twenty-fifth Report of Session 2008-09, *The efficiency of radio production at the BBC*, HC 285, Q 38; BBC Trust Report, *On-screen and On-air Talent including an independent assessment and report*, Oliver and Ohlbaum and Associates, May 2008

**Box 1: Extract from Oliver & Ohlbaum report *On-screen and on-air talent to the BBC Trust*, May 2008**

The total spending on these contracts adds to £redacted in 2006/07 of which £redacted m was on the top 150 to 200 contracts of over £redacted, £redacted m was on the redacted contracts ranging from £ redacted to £ redacted, and a further £ redacted m was on the redacted contracts of less than £5,000 a year from the BBC redacted at a value of less than £ redacted.

Source: Oliver & Ohlbaum report, page 103

- At our hearing on the BBC's management of its coverage of major events in February 2010, we asked the BBC to provide a breakdown of the aggregate figures for staff and talent costs for each of the six events in the report. The BBC Trust refused to provide this information, which it had already shared with the Comptroller and Auditor General, unless this Committee confirmed in writing it would not disclose those costs.
- At the same hearing on major events, we asked the BBC for a breakdown of the market for outside broadcast providers. In its subsequent note the BBC Executive simply refused to provide the specific value of individual contractual elements or the bids of individual parties, citing commercial confidentiality.

37. This Committee represents Parliament in examining how public money is spent. On issues from national security to commercial contracts of great sensitivity we have examined contracts and sensitive material. It beggars belief that the BBC Trust refuses to provide, or attaches strings to, information required by the Committee to examine the BBC's use of public money.

38. In October 2009 the Government agreed that the National Audit Office's access to the BBC should be unrestricted, but left the BBC to discuss with the National Audit Office how this could be achieved.<sup>45</sup> This is unsatisfactory in that the Government is willing the end without providing the necessary means to that end. Neither the National Audit Office nor the BBC can legislate to give the Comptroller and Auditor General the statutory right to audit the BBC that this Committee has been demanding, so the Government cannot be neutral in that discussion.

39. The BBC Trust has since committed to using its best endeavours to provide the Comptroller and Auditor General with improved access to the BBC's information and agreed with the Comptroller and Auditor General arrangements improving access. This is helpful but it falls short of, and is by no means a substitute for, the full statutory access rights the Committee of Public Accounts is seeking. The fact remains that the BBC retains discretion over the information the Comptroller Auditor General has access to and publishes.

40. In October 2009, the Secretary of State for Culture, Media and Sport told the Committee of Culture, Media and Sport that if the National Audit Office and the BBC were unable to arrive at satisfactory access arrangements, the next charter review, in 2016, would

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<sup>45</sup> Treasury Minutes on the Twenty Fourth to the Thirtieth, the Thirty Second to the Thirty Ninth, the Forty Fifth, and the Forty Seventh to the Forty Eighth Reports from the Committee of Public Accounts Session 2008-09, paras 4 and 6

be the time to address the issue.<sup>46</sup> Putting proper accountability to Parliament on hold for six years, is unacceptable.

41. As a matter of principle, the BBC's use of public money should be subject to the same statutory audit of its financial statements and value for money scrutiny by the Comptroller and Auditor General as is the case for other publicly funded organisations. The BBC has not accepted this, arguing that Parliament has set up the BBC Trust with an explicit duty to scrutinise the BBC's expenditure, which it has done in part by commissioning reports from the Comptroller and Auditor General and others and by appointing private sector accountancy firms as the BBC's external auditors. The BBC has offered no convincing argument as to why the Comptroller and Auditor General could not be the external auditor of the BBC.

42. In November 2009, the Chairman of this Committee wrote to the Secretary of State for Culture, Media and Sport setting out why access which is at the BBC's discretion rather than through statutory right, cannot deliver satisfactory accountability for the use of billions of pounds of public money the BBC receives and then spends each year. He did not reply.

43. At our hearing on the BBC's management of three estates renewal projects in March 2010 the Treasury confirmed that there is a very powerful case for the public audit of public resources to make sure that the public and Parliament can be assured that resources are being used as Parliament intended. The Treasury also confirmed that extending the scope of public audit to this end was the clear direction of travel. The BBC Trust's rearguard offer to allow the Comptroller and Auditor General to tender for the audit of the BBC misses the point. Public audit of public money should be a right, not a possible outcome of commercial considerations.<sup>47</sup>

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46 Oral evidence given on 20 October 2009 by Rt. Hon. Ben Bradshaw MP, Secretary of State

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## Appendix

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### ***The Committee of Public Account's reports on the BBC***

*The BBC's investment in Freeview*, Third Report of Session 2004–05 (HC 237, incorporating HC 1065-I, Session 2003–04)

*The BBC's White City 2 development*, Twenty-fourth Report of Session 2005–06 (HC 652)

*BBC outsourcing: the contract between the BBC and Siemens Business Services*, Thirty-fifth Report of Session 2006–07 (HC 118)

*The BBC's management of risk*, Sixty-sixth report of Session 2006–07 (HC 643)

*BBC Procurement*, Nineteenth Report of Session 2007–08 (HC 221)

*Government preparations for digital switchover*, Twenty-eighth Report of Session 2007–08 (HC 416)

*The efficiency of radio production at the BBC*, Twenty-fifth report of Session 2008–09 (HC 285)

### ***In addition to the above reports, the Committee of Public Accounts has taken evidence on the following reports from the Comptroller and Auditor General.***

The BBC's management of its coverage of major sporting and music events (hearing held on 8 February 2010)

The BBC's management of three estate projects (hearing held on 17 March 2010)

### ***The Comptroller and Auditor General's reports on the BBC***

*The BBC's investment in Freeview* (published July 2005)

*The BBC's White City 2 development* (published July 2005)

*Public service broadcasting: the BBC's performance measurement framework* (published July 2006)

*BBC outsourcing: the contract between the BBC and Siemens Business Services* (published July 2006)

*The BBC's definition of overheads* (published July 2006)

*The BBC's Management of Risk* (published October 2006)

*The BBC's preparedness for digital switchover* (published October 2007)

*BBC Procurement* (published December 2007)

*The efficiency of radio production at the BBC* (published February 2009)

*The BBC's management of its strategic contracts with the private sector*  
(published March 2009)

*The BBC's management of its coverage of major sporting and music events*  
(published January 2010)

*The BBC's management of three estate projects* (published February 2010)

# Formal Minutes

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**Wednesday 24 March 2010**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Angela Browning  
Mr Paul Burstow  
Keith Hill

Mr Austin Mitchell  
Dr John Pugh  
Rt Hon Don Touhig

Draft Report (*Scrutiny of value for money at the BBC*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 43 read and agreed to.

Conclusions and recommendations 1 to 4 read and agreed to.

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

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

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

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

[The Committee adjourned.]

## Witnesses

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### Monday 8 February 2010

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**Mr Jeremy Peat**, BBC Trust, **Mr Mark Thompson**, Director General, **Mr Roger Mosey**, Director of London 2012 and **Mr Tim Davie**, Director of Audio and Music, British Broadcasting Corporation

Ev 1

### Wednesday 17 March 2010

**Mr Jeremy Peat**, BBC Trust, **Mr Mark Thompson**, Director General, **Ms Caroline Thomson**, Chief Operating Officer and **Ms Zarin Patel**, Chief Financial Officer, British Broadcasting Corporation

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## List of written evidence

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Exchange of correspondence between BBC Trust and the Committee

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## List of Reports from the Committee during the current Parliament

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First Report	A second progress update on the administration of the Single Payments Scheme by the Rural Payments Agency	HC 98
Second Report	HM Revenue and Customs: Improving the Processing and Collection of Tax: Income Tax, Corporation Tax, Stamp Duty Land Tax and Tax Credits	HC 97
Third Report	Financial Management in the Foreign and Commonwealth Office	HC 164
Fourth Report	Highways Agency: Contracting for Highways Maintenance	HC 188
Fifth Report	Promoting Participation with the Historic Environment	HC 189
Sixth Report	Train to Gain: Developing the skills of the workforce	HC 248
Seventh Report	Young peoples sexual health: the National Chlamydia Screening Programme	HC 283
Eighth Report	Department for International Development: Aid to Malawi	HC 282
Ninth Report	The procurement of legal aid in England and Wales by the Legal Services Commission	HC 322
Tenth Report	Services for people with rheumatoid arthritis	HC 46
Eleventh Report	HM Revenue and Customs: Dealing with the tax obligations of older people	HC 141
Twelfth Report	Maintaining financial stability across the United Kingdom's banking system	HC 190
Thirteenth Report	Excess Votes 2008–09	HC 360
Fourteenth Report	Department for Transport: The failure of Metronet	HC 390
Fifteenth Report	Equality and Human Rights Commission	HC 124
Sixteenth Report	Regenerating the English Coalfields	HC 247
Seventeenth Report	Department for Business, Innovation and Skills: Venture capital support to small businesses	HC 271
Eighteenth Report	Vehicle and Operator Services Agency: Enforcement of regulations on commercial vehicles	HC 284
Nineteenth Report	Improving Dementia Services in England—an Interim Report	HC 321
Twentieth Report	Department for Work and Pensions: Management of Benefit Overpayment Debt	HC 444
Twenty-first Report	The Decent Homes Programme	HC 350
Twenty-second Report	The sale of the Government's interest in British Energy	HC 356
Twenty-third Report	Ministry of Defence: Major Projects Report 2009	HC 338
Twenty-fourth Report	HM Revenue and Customs: Handling telephone enquiries	HC 389
Twenty-sixth Report	Progress in improving stroke care	HC 405
Twenty-seventh Report	Ministry of Defence: Treating injury and illness arising on military operations	HC 427
Twenty-eighth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 443
Twenty-ninth Report	Scrutiny of value for money at the BBC	HC 519

# Oral evidence

## Taken before the Committee of Public Accounts on Monday 8 February 2010

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr Douglas Carswell  
Keith Hill

Mr Austin Mitchell  
Dr John Pugh  
Mr Alan Williams

**Mr Amyas Morse**, Comptroller and Auditor General, **Mr Rob Prideaux**, Director, Parliamentary Relations and **Mr Ashley McDougall**, Audit Manager, National Audit Office, gave evidence.

**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL THE BBC'S MANAGEMENT OF ITS COVERAGE OF MAJOR SPORTING AND MUSIC EVENTS

*Witnesses:* **Mr Jeremy Peat**, Trustee, BBC Trust; **Mr Mark Thompson**, Director-General, **Mr Roger Mosey**, Director of London 2012 and **Mr Tim Davie**, Director, Audio and Music, British Broadcasting Corporation, gave evidence.

**Q1 Chairman:** Good afternoon, welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report *The BBC's management of its coverage of major sporting and music events*. We welcome back to our Committee Jeremy Peat, who is a BBC Trustee, and Mark Thompson, who is the BBC's Director-General. Mr Thompson, would you mind introducing your two colleagues with whom we are not so familiar?

**Mr Thompson:** I have with me Tim Davie, who is the Director of the BBC's Audio and Music Department, and Roger Mosey, who is a former director of BBC Sport but is currently in charge of our planning for the 2012 London Olympic Games.

**Q2 Chairman:** You will be expecting me to ask this question because it was widely covered in the press when the NAO published their initial Report. It is dealt with in paragraph 42 on page 20. I do not want to spend too much time on this, but the only reason I ask is it is because it illustrates what we would consider to be a lack of attention to value for money. We are talking about Euro 2008 and unfortunately there were no home nations there, but the BBC "... paid an additional £250,000 for the construction and operation of its local studio in Vienna" because the studio they would otherwise have had did not have a view. Most people would consider this to be extravagance. Without wasting a lot of time on this, can you perhaps give a reply?

**Mr Thompson:** I must say I am very grateful to have an opportunity to talk about this. We took a decision firstly that we should broadcast coverage of Euro 2008 locally, that is from where the games were taking place rather than from London. If you look at the statistics, we believe the public overwhelmingly prefer coverage of sporting events on the BBC than

on other broadcasters when they can see the same event. One of the reasons we believe they do that is because we try to bring the sense of occasion and the place to life and to report what is happening from on the ground. Decision one was not to broadcast coverage from London but from Vienna. Had we elected to build a studio in the International Broadcasting Centre in Vienna, it would have perhaps saved us something like €50,000 as compared to building one in the centre of Vienna. We believed that it was better to build it in the centre. So the difference between what it would have cost to do it from the International Broadcasting Centre and the centre of Vienna was around £50,000. That is the difference, not £250,000 but £50,000; actually €50,000 rather than pounds. The key point is that 39 million people watched our coverage; 39 million people watched coverage of Euro 2008 on the BBC. They told us that they thought the coverage was extremely good and they gave us a much higher score for quality than they gave the equivalent matches on our partner, ITV. We believe that the placement of the broadcasting in this studio contributed to that and we believe that to spend an additional €50,000 for 39 million people, in the context of coverage which cost inevitably many tens of millions of pounds, did represent good value for money.

**Q3 Chairman:** I do not want to go on about that.

**Mr Morse:** I think we have some conflicting information. We understood that this costing was, in fact, incremental and not substitutional. I apologise for contradicting you, Mr Thompson, but I have to state our understanding.

**Q4 Chairman:** What we were told was that it was £250,000. This is why we want agreed reports. The NAO did tell me that it was £250,000. You say it is £50,000.

**Mr Thompson:** Because, had we elected to build a studio in the International Broadcasting Centre, we estimate that would have cost us £200,000, in other words, once you had taken the decision to broadcast from Vienna as opposed to London. Had we elected to broadcast from London, we would have had to have hired a studio in London, again at cost. So the £250,000 is not the correct incremental figure.

**Q5 Chairman:** Perhaps we can have a note to resolve this between you. We go by the Report and I am going to use this as an example, because I do not want to spend the whole of my time on this one tiny point, not in money terms but compared with everything else. All it says is: “The BBC therefore paid an additional £250,000 for the construction and operation of its local studio in Vienna”. I should like to get to the bottom of this in a note.

**Mr Thompson:** If I may say so, it is very important to say that it seems to me this is not an example of excess, not least because the figure is wrong.

**Q6 Chairman:** You should agree these reports together.

**Mr Thompson:** We do our best to help them.

**Q7 Chairman:** That is precisely why we want you or the government department to agree these reports with the Comptroller and Auditor General beforehand so we do not waste a lot of time arguing about the figures.

**Mr McDougall:** The Report was agreed. The words were “an additional £250,000”. The BBC spent north of €300,000 hiring this studio in the centre of Vienna and that was additional money that would not have been paid otherwise.

**Mr Thompson:** To state the obvious, if you are going to have a studio you have to hire one. It is true that the studio cost €300,000 but the question of the additional cost is not that number, it is that number less what it would have cost to have a studio in the International Broadcasting Centre in Vienna or to have hired a studio, let us say, in Shepherd’s Bush in London. The incremental cost is the difference between the two different studios. You cannot ascribe the whole of the studio cost and say that is incremental.

**Mr Mosey:** Just to be clear about this, we did have facilities in the International Broadcasting Centre but that was office space. We were not allocated studio space, nor did we pay for studio space in the International Broadcasting Centre. The difference is between the cost of the rent in central Vienna and the cost of the rent at the IBC which we did not pay. So it is an incremental cost not a completely new cost.

**Mr Thompson:** All of this was made clear to the NAO.

**Mr McDougall:** I am sorry, that was not our understanding. We played the understanding back to the BBC and that was not our understanding. There were numbers that did change in the same paragraph around the cost of the studios for Beijing. The numbers we had for the additional costs in Vienna were not played to us.

**Mr Peat:** May we take up your suggestion? We will get together with the NAO and produce a note for you.<sup>1</sup>

**Q8 Chairman:** Yes, I accept that; for our Report. Thank you. When we meet instances like this which we say might be extravagant and you say are not, and we have had a useful discussion, you defend yourself again and again on the ground that this is editorial policy. The trouble is that this can cover everything. Can we get this right? I understand editorial policy as being the content of programmes. It does not apply to the cost of programmes or of studios or, indeed, of presenters, otherwise it is rather like a government department saying “PAC you cannot look at this because it’s policy” and they just use the defence of “it’s policy” for everything. We have to get this right if these hearings are going to mean something. You cannot just stop us investigating something because you say it is editorial policy.

**Mr Thompson:** If I may say so, I think this conversation about the relative cost of studios is an entirely legitimate and appropriate conversation and I would not suggest for a second that we could not discuss this. However, manifestly there are examples where the amount you spend on something relates to programme quality and editorial decisions about quality. For example, a decision to shoot a drama on location, let us say a classical adaptation on location, rather than shoot it indoors in a television studio adds greatly to cost but also might add greatly to the editorial merit of the drama you are shooting. I would absolutely accept that it is not a general sort of get-out-of-jail card to say, “I’m sorry that is editorial decision-making”. However, clearly some editorial decisions we take do affect and in my view properly affect this. One other example is that most news organisations around the world are cutting back on international news reporting because it is very expensive and it is very expensive to have bureaux around the world with journalists covering events. It is much easier if you just base all that on wire services and on material provided by AP and Reuters. We believe that we will deliver a better news service to the public by actually having BBC journalists around the world. That significantly adds to the cost of news gathering, but we believe it also adds to the BBC’s delivery of its public purposes.

**Q9 Chairman:** Others may come back on that if they wish. May I look at the review performance? This is dealt with in paragraphs 60 and 62. What concerns me is that you do not seem to set detailed objectives in advance. What you seem to rely on is backward-looking reviews after the event. Is this not just an expensive exercise in self-congratulation, Mr Thompson?

**Mr Thompson:** No, I do not believe it is. Firstly, what is the broader context? Every single major event, a commitment by the BBC to invest in major events, sits in the context of our overall strategies, in this case for sport and audio music. Those strategies are

<sup>1</sup> Ev 31

carefully constructed; they have and include performance metrics for these divisions which are reported on quarterly and become part of the annual performance review cycle. Every budget is set and RQIV targets are set for the departments. We began in 2009 to set individual event-by-event targets across audio music; in sport we have started setting individual targets with indicative objectives for different sport. Formula One and Wimbledon would be examples of the sports and the Winter Olympics which are starting just now. Do we believe that it makes sense to have individual event-by-event targets? Yes, but you should not think that because we are only just beginning to develop those now that we have not been looking in great detail at all of the metrics for these events and making quite sure that we are pushing the departments in question hard to improve their performance where they can.

**Q10 Chairman:** All we want is normal business practices, a business plan, costed options, detailed objectives, so presumably we are moving in that direction.

**Mr Thompson:** Yes.

**Mr Peat:** Yes. We entirely accept the NAO's recommendation that there should be better identification of potential benefits in advance, there should be clarification of how those may change due to external events which may change the context in which it operates and that will provide a much better environment against which the performance of the events can be evaluated after the event. We are fully accepting the recommendations from the NAO, these will be included in the action plan which we will of course talk to the NAO about and we will be following up to make sure what is already happening is pursued rigorously.

**Q11 Chairman:** All is sweetness and light now. This next one we may not agree so much on. The cost of presenters. We read in paragraph 47 on page 21 that you spent 20% of the coverage budget on presenters for one sporting event. Mr Thompson, what was that sporting event?

**Mr Peat:** I think it is better that I answer that one, if I may. As the NAO have briefly explained in this Report, unfortunately we are not in a position where we can reveal the split between talent and staff by each individual event because the legal advice we have received tells us that if we did that then it would be possible for people, on the basis of information that is available or could be made available, to get a very good approximation of the cost of some individual talent for some of these events.

**Q12 Chairman:** Yes, that is exactly what we do want.

**Mr Peat:** That would be against the terms of the Data Protection Act and the confidentiality agreements.

**Q13 Chairman:** This is nonsense. This is why this half-way house with the NAO is completely unsatisfactory. If the NAO had full access, there would be no question of this kind of defence under the Data Protection Act.

**Mr Peat:** But they have this information.

**Q14 Chairman:** A government department cannot come back to us and say they cannot tell us a bit of information. I questioned the NAO beforehand. The officer here actually seems to know the answer but he cannot tell me. The three events in question are Wimbledon, Euro 2008 and the Olympics. At Wimbledon the lead presenter is Sue Barker, for Euro 2008 the lead presenter is Gary Lineker, for the Olympics the lead presenter is Gabby Logan. Do you not think that we, on behalf of taxpayers who are paying for all this, would be quite interested to know the event in question and how much these people have been paid?

**Mr Peat:** May I just repeat—

**Q15 Chairman:** Just forget about data protection. Do you not think the public has some right to know where their licence fee is going, especially as I suspect tens of thousands of pounds are being paid to individuals. This is not Dan Maskell presenting Wimbledon for, in today's money, £1,000 or something. These people are being paid huge amounts of public money, I think because of your obsession with celebrities, and as we pay for this as taxpayers we would like to know. If you can justify it, like you attempted to justify your studio, fine, justify it, but do not shelter behind data protection which, by the way, is a protection which you yourself create because you will not let them have full access rights.

**Mr Peat:** Just to clarify, they have had access to this information, it was made available to them and they made use of the information throughout the Report.

**Q16 Chairman:** But not to us. Do you accept that they are not allowed to tell us?

**Mr Peat:** If you would wish this information I could write in confidence to you with the information.<sup>2</sup>

**Q17 Chairman:** Good, we are making progress. Shall we move on? BBC Sport missed over half its targets. It did not test value for money through options. Are you doing a good job in the Trust in overseeing this corporation?

**Mr Peat:** One way we are doing our job is by having this type of report and by taking the findings extremely seriously. We do receive regular quarterly reports to the Trust on a whole battery of performance measures and achievements which are looked at very thoroughly by the Audience and Performance Committee, so we are aware of what is going on. We have found out as a result of this Report that there are improvements which could be made, for example, in looking at perhaps including impact as one of the measures which is included in sport in looking at value for money along with others. All the recommendations in this Report are accepted, all will be followed up and we will be using the Report and the follow-up in order to make sure that we enhance value for money for licence-fee payers.

<sup>2</sup> Ev 31

**Q18 Chairman:** Thank you. One last question. Under the Royal Charter you can appoint the Comptroller and Auditor General as your auditor. Will you?

**Mr Peat:** At the moment we are not following that route; we have our own external auditors.

**Q19 Mr Bacon:** When you say that at the moment you are not following that route, does that mean that in future, when you next review who your auditors will be, you will continue not to follow that route? Is that what you meant by that answer?

**Mr Peat:** That is my expectation. What we have done is had a further exchange of letters between my chairman and the Comptroller and Auditor General offering further information to be made available to him and his colleagues in order to help him to determine where they can best work with us to enhance value for money.

**Q20 Mr Bacon:** Who is your auditor at the moment?

**Mr Peat:** KPMG.

**Q21 Mr Bacon:** The old Peat Marwick.

**Mr Peat:** It is KPMG.

**Q22 Mr Bacon:** Your surname is Peat. Are you related to the Peat Marwick family?

**Mr Peat:** Sadly not.

**Q23 Mr Bacon:** I just wondered.

**Mr Peat:** My forebears came from Midlothian; very poor.

**Q24 Mr Bacon:** In the heart of, no doubt. I should just like to pursue this question for a second. What is the objection? I understand that you are using KPMG and your present view is that you should continue to use KPMG and not the National Audit Office as your auditor, although you could. What is the objection to switching to using the National Audit Office?

**Mr Peat:** The view we have taken is that KPMG or an alternative from that profession are best placed to undertake the major audit for us and NAO are best placed to work very closely with us on enhancing value for money and we are working as closely as we can with NAO to that end. We believe our relationship is improving, is deepening and that we are achieving more and more benefits from their work with us.

**Mr Thompson:** If I could just add, simply as a statement of fact, that the BBC is an organisation with fairly large-scale and complex international commercial operations and historically the view has been taken that a large internationally based auditor with experience of the audit environment in many different countries around the world was valuable in terms of getting an overall perspective and the right risk management around our operations.

**Q25 Mr Bacon:** Moving on to the question of talent, can you explain why it is that the BBC has taken the view that it is better not to divulge the costs of talent?

**Mr Thompson:** Jeremy has already talked about data protection, but in addition—

**Q26 Mr Bacon:** Hang on a second. At the end of the day data protection is a bit of a red herring. You have entered into a contractual agreement with these folk that you will not reveal their salaries. What I am saying is that if you had entered into a contractual arrangement with them which said, “By the way your salary will be revealed”, which you could have done, then data protection would not be an issue. I really want to get to the heart of the question as to why you have decided it is better not to reveal the cost of talent.

**Mr Thompson:** Firstly, in the matter of senior officers of the BBC, there is no question that the public have every right to see the expenses, the salaries, the remuneration.

**Q27 Mr Bacon:** Can you just remind us? Each time I have asked about your salary on the last three occasions you have given a different answer and the answers you gave me were £420,000, £620,000 and £640,000. Could you just remind us for the record what your salary is at the moment?

**Mr Thompson:** I knew you were going to ask this so I brought a sheet of paper with me.

**Q28 Mr Bacon:** Excellent. It is just that it keeps on changing.

**Mr Thompson:** Sadly, actually, it does not keep on changing; it stays exactly the same and will be staying the same for quite a while. The basic salary is £664,000.

**Q29 Mr Bacon:** The last time I asked that question it was £640,000 and the time before it was £620,000 and the time before that it was £420,000, so it does keep changing.

**Mr Thompson:** If I may say so, there was a freeze last year. In the financial year 2007-08 and in 2008-09 small increases were given to all BBC staff members and my pay went up in line with that general staff increase; in both cases slightly below CPI and RPI inflation by the way. So the basic fee there is £664,000 in the most recent annual report.

**Q30 Mr Bacon:** Then there is your bonus on top, if you get it.

**Mr Thompson:** To be clear, we suspended bonuses two years ago. I have been entitled to a bonus since I became Director-General in 2004. I have waived my right to be considered for a bonus every year I have been Director-General, so I have never received a bonus as Director-General.

*The Committee suspended from 4.54pm to 4.59pm for a division in the House.*

**Q31 Mr Bacon:** The issue I was really trying to get to was the rationale. Let me ask a slightly different question. I take it you think the payments you make to your talent are justified. Is that correct? Yes or no, are they justified?

**Mr Thompson:** Across the piece I believe we get good value for money out of our talent deals. We have said that we believe, partly because of the external current climate, that over this period we are going to be able to drive them down further, but yes, overall I think we get good value for money and the Oliver & Ohlbaum Report, which the Trust commissioned into this very question, also suggested that is the case across the BBC.

**Q32 Mr Bacon:** So you think you get value for money and you think you can justify the money you are expending on your talent. The question then is why you feel that it is necessary to keep those costs confidential.

**Mr Thompson:** There are three reasons. There is the issue of individual confidentiality. There is the second issue which is that we work in an industry where no other broadcaster has to reveal these facts and most artists do not believe that these facts should be released. The danger is that if you insist that the BBC uniquely, or the public service broadcasters uniquely reveal star or celebrity or top talent salaries and no other broadcasters do, there will be many people who choose not to work for the public broadcasters and we are unable to get all the talent we want. Thirdly, our experience on those occasions where talent costs have leaked—and this is something the Chairman of the BBC Trust talked about in this morning's *Guardian*—is that because we try to pay less than the market where we can, the effect of leaks has been inflationary not deflationary. I should say that the Information Commissioner, in a matter of freedom of information on this topic, has accepted these arguments and in a number of such cases has recognised that whereas with senior managers at the BBC the balance of argument is in favour of disclosure, in the case of on-air talent the balance of argument is against.

**Q33 Mr Bacon:** Thank you; you put that very clearly. May I ask you about the criteria for achieving success? On page 25 it states that a post-implementation review: "... reported successful achievement of objectives ... using quantified assessments of actual performance even though the objectives had not been quantified and a baseline against which success could be measured had not been established". My question is how can you say that it has been successful when you have not established criteria against which such a judgment can be made?

**Mr Davie:** Perhaps I might give you a flavour of how it works on the ground in terms of the Audio and Music group, because that is relevant. Your question is valid. The comment around commercial plan robustness was interesting and I have to say, having been 20 years in the commercial sector, my annual planning against the service licences is absolutely robust against clear objectives set previously. We had a situation where events did not have individual metrics against them prior to 2009, so when we looked at the post-implementation review, as the general manager in effect, I would look at progress

versus historic years. Unlike a one-off event, these events tend to have a long series, a record and we can look at performance versus history, so you had a clear track of historical metrics to assess against. Taking the NAO's points, which were helpful actually, we have increased the robustness of that process, which you have to say in 2008 we were still delivering on budget and the events were effective and the Report says that. But in 2009, what we were able to do was add the Reach Quality Impact Value targets and believe me there is a fairly long list of metrics which we then put against the individual events. In 2009 I assessed against those metrics which are developed for the individual year and that is where we are at the moment.

**Mr Thompson:** So in prior years he had overall objectives for his division and was judged against his performance and delivery of those metrics. What we have moved to is now looking at the contributory major event within those overall targets and we are going to and have set targets for those individually.

**Q34 Mr Bacon:** This takes me rather neatly on to paragraph 31 where it talks about consideration of various options allowing those approving expenditure to consider whether there is more than one way of covering an event and to see what trade-offs may be available. It goes on to say that the budget submissions the NAO examined had an iterative consideration of different cost elements and there was no structured consideration of distinct budget options or cost and quality trade-offs as part of the approvals document. Only the preferred coverage option is presented for approval. Would you not be wiser to have a structured approach which enabled you to look at different options and the cost and quality implications of each of those options rather than just incrementally producing one preferred option budget?

**Mr Thompson:** I want to say in general that it is worth saying that quite a few of these major events, arguably all of the ones covered by the Report, are essentially business as usual for these parts of the BBC, in other words they are things we have covered for many years, for example we started covering Wimbledon in 1927 on radio and 1937 on television, and they are absolutely part of the stock-in-trade of the BBC. You can see, given many, many years, for example of covering Wimbledon, that what you do not want to do is spend too long looking at parallel universe, theoretical alternatives of having the main base for covering Wimbledon in New York or Wrexham. There is a way of doing Wimbledon that we know. What we do is track very carefully core parameters like the cost per user hour and public satisfaction and work on those. Of course, what is interesting is the discussion about the studio options in Euro 2008 is a good example of a process which did look at alternatives. Again, I would say it is useful for the NAO to point out that it might well be that this kind of process of looking at cost options should be more structured than it has been in the past.

**Q35 Mr Bacon:** This brings me on to one further point and that is the way, according to paragraph 28, you do not: “prepare a single budget for individual events that gathers together the total cost of coverage across platforms”. You have sprouted platforms like Topsy in recent years and one would have thought that a very good way of assessing the overall effect, the overall impact, the overall value for money, the overall cost-effectiveness would be indeed to look at the total budget across all platforms against various metrics. This seems to say you do not do that. Is that correct?

**Mr Mosey:** In sport we do. We are responsible for TV, radio and online.

**Q36 Mr Bacon:** I am talking about paragraph 28 where it says you do not. Is this paragraph correct that you do not prepare a single budget for individual events that gathers together the total cost of coverage across platforms?

**Mr Thompson:** It depends on the event is the answer. For example, for the Beijing 2008 Games there were essentially two substantive budgets: there was the BBC Sport budget for the main coverage and then there was a component in the BBC News budget for the news coverage. Both those budgets would have been cross-platform.

**Q37 Mr Bacon:** Which are the ones for which you do not do it?

**Mr Peat:** Just to be clear, each of the points you have raised is an example of improvements of the procedures that have in part been brought in and in future will be brought in in line with these recommendations.

**Q38 Mr Bacon:** Basically you think this is a good suggestion.

**Mr Peat:** We accept all these recommendations and in most instances there is a good answer that one of my executive friends can give. The principles are not fully endorsed in all instances. From 2008 those options were set out in full but we accept each of the recommendations and we will make sure they are implemented fully and appropriately from now on.

**Q39 Keith Hill:** I want to ask a series of perhaps rather more routine questions which will slightly lower the temperature of our exchanges. However, there is one issue which has occurred to me before I go into those and that is this. You argue against an audit of the BBC by the National Audit Office on the grounds, it seems to me, primarily of commercial confidentiality. But the fact is that the NAO are used to dealing with secrets and, for example, it audits the Ministry of Defence, audits the Secret Service. Are you saying the BBC has more important secrets than the Secret Service or MoD?

**Mr Thompson:** No, I would not argue that the NAO should not be able to audit the BBC, be the BBC’s auditor, on the basis of confidentiality. Those are not the grounds.

**Q40 Keith Hill:** What are the grounds? What has the BBC got to lose then by having a full audit by the NAO?

**Mr Thompson:** Historically the BBC has tendered from time to time for auditing and to date has chosen to award the audit to large international commercial auditors. The only argument I adduced in this afternoon’s hearing was the fact that the BBC has complex international commercial operations which those companies, which are set up in many parts of the world, are familiar with handling.

**Q41 Keith Hill:** Are you not aware that the NAO audits government departments all over the world and has that international experience? What is the argument about international experience which precludes the NAO?

**Mr Thompson:** The substantive point I was trying to make to you—and we could debate the international expertise of the NAO versus KPMG, I suppose, but what I do want to be clear about—is that I am not suggesting for a second that there is an issue about confidentiality which would prevent the NAO from being the BBC’s auditor.

**Q42 Keith Hill:** So it is international experience which precludes the NAO.

**Mr Thompson:** There have been several reasons why.

**Q43 Keith Hill:** Let us have a few more then. It is not commercial confidentiality and it is not international experience. What is it that prevents the NAO doing a full and proper audit of the BBC?

**Mr Peat:** I do not think anyone is suggesting that the NAO is wholly incapable of undertaking a full and proper audit. We believe that the international companies which we utilise and have utilised in the past undertake it very fully and we bring in the NAO for a range of value-for-money work. We are asking them to come in and look at the efficiencies achieved as a whole over the efficiency programme which is in place. We believe that they play a very valuable role in those contexts. At this stage we continue using KPMG as our external auditor because of the experience they have in dealing with other large complex multinational organisations. That is the position we are in.

**Q44 Keith Hill:** Government departments are huge spending departments, even huger than the BBC.

**Mr Peat:** Indeed.

**Q45 Keith Hill:** The NAO is perfectly capable of dealing with the audits of those departments. Why not the BBC?

**Mr Thompson:** KPMG, for example, deals with many broadcasters and many other media companies around the world. As with any other big broadcaster, they deal with many organisations in our sector, which is broadcasting.

**Q46 Keith Hill:** Are the principles of audit not fundamentally the same across all essentially taxpayer-funded institutions?

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**Mr Thompson:** Yes, but where you could find an auditor who has sectoral experience is potentially a benefit clearly.

**Q47 Keith Hill:** They have wide experience of many official and semi-official organisations. I take your point that there is a certain broadcasting expertise, but you are essentially accountable to the taxpayer and your accounts ought to be fully exposed to the taxpayer within the parameters of confidentiality.

**Mr Thompson:** Of course. Let us agree the point. I would say, of course, that in our annual accounts, which the executive board and the executive board audit committee take responsibility for, we absolutely try to meet all of the appropriate standards for disclosure and accuracy for a public company and with our auditors only signing off on those accounts when they are completely satisfied. What I would say is the fact we are using a private auditor rather than the National Audit Office should not lead you to believe that in a sense there is a less complete audit taking place or there is less disclosure than there would be with the NAO doing it. There might be other arguments you might want to put forward why it should be the NAO rather than KPMG, but I do not believe the public will learn less about the BBC's accounts or its operations because the audit is done by KPMG rather than by the NAO.

**Q48 Keith Hill:** If I might say so, the very contents of this Report, which looks at only certain aspects of the BBC's operation, demonstrate that the National Audit Office is able to identify a series of shortcomings in terms of process which obviously they are capable of identifying, you have accepted in part and presumably KPMG have not identified for you in the past. Is that not a clear benefit of the NAO being involved in your procedures?

**Mr Peat:** I totally agree about the huge benefit that we obtain from this Report and similar reports that are undertaken. However, there is a difference between the type of work an external auditor can do across the piece and the detailed in-depth work that NAO can do on particular elements of BBC activities that they undertake at least twice a year for us. What we do try to ensure is that the NAO have full access to sufficient information and sufficient contacts across the BBC so that they can help us to identify where next to go for this type of study so we obtain more information on improvements that can be made. We are working very hard on opening up information to the Comptroller and Auditor General—a recent exchange of letters with my Chairman—trying to give them more and more access so they can work with us to determine where to go next for further value-for-money studies. That process and the in-depth studies which come are done over a period of months not weeks and the in-depth work is hugely valuable. We want to know where to go next and over the five years I have been doing this we must have had ten studies from the NAO, each of which has been very valuable. That process continues and the in-depth work is of huge value. That is very different from overarching

external auditor work which is equally valuable and the NAO work in this instance really does yield benefits.

**Q49 Keith Hill:** Let me ask the Comptroller whether he thinks the NAO would be capable of delivering this overarching analysis of the BBC?

**Mr Morse:** Yes.

**Keith Hill:** There you go. Chairman, I was going to ask about benchmarking and post-implementation reviews but I have had so much fun on this I am prepared to draw a line and pass the baton over to my colleagues.

**Q50 Chairman:** May I just ask one question? Why not just tell the truth? The reason why you do not want the NAO to have full access is nothing to do with international experience or the fact that they cannot cover the whole organisation, such as the MoD which they do cover. The reason is that you do not want poxy parliamentarians like us crawling all over your programmes. It is quite an understandable point of view. Just tell the truth.

**Mr Peat:** That is not the reason.

**Mr Thompson:** If I may say so, there is a distinction as well between “full access” for the purposes of these kinds of studies and the overarching issue of the general audit of the BBC. They are both topics we have discussed but I would say they are actually slightly different topics.

**Q51 Mr Williams:** We have this argument time and again and you can never ever give us any sound reason. You have accepted that NAO is as competent as your existing auditor, have you? Or are you saying they are not as competent?

**Mr Peat:** No, I would never doubt NAO's competence.

**Q52 Mr Williams:** So it is not a matter of competence. If it is not competence, what is it?

**Mr Peat:** I have attempted to explain why I believe the arrangements we have are best in providing value for money for licence-fee payers.

**Q53 Mr Williams:** That is not an answer, that is an obfuscation. What is the one factor in your mind that says, “Over my dead body. They are not going to get at our accounts”? Tell us what it is.

**Mr Peat:** It is not “Over my dead body” and the reason is that my view is that NAO in their present role are very effective and very valuable and KPMG are doing an excellent job and they can continue for the time being as our external auditor.

**Q54 Mr Williams:** Can you not see that this does look, in the present circumstances of openness about finances, at the very least evasive, inexplicably evasive, and self-indulgent.

**Mr Peat:** I think we have been extremely open in a large number of instances and ever since the Trust was formed transparency has been a watchword that the Trust has operated to. The amount of external consultation and the amount of transparency is of substance. We happen to have a disagreement on this

particular issue, but I believe that we do generally operate in an extremely open way as per the terms of the charter.

**Q55 Mr Williams:** You see, from where we are sitting, we listen to this every time—every time—and all that comes through—and it must come through to the audience as well—is that you are sitting there and what you are saying to us is, “I can stop it so I am going to stop it but I cannot give a good reason why I am going to stop it”.

**Mr Peat:** I am very sorry you see it that way. What I am trying to say is how much we value this work.

**Q56 Mr Williams:** Do not be sorry, mean it.

**Mr Peat:** I am sorry because I genuinely believe the NAO work on value for money is of huge importance and that we are making every effort to enhance the extent to which we provide and give them access to information so the work can be even more valuable for the licence-fee payer.

**Q57 Mr Williams:** That is information you want to give them. You want to choose where they can go. We want to know where you do not want them to go. That is the important part, which are the areas you will not let them look at? You are only picking the nice bits which suit you.

**Mr Thompson:** To be quite clear, if any auditor, and this would absolutely go for KPMG at the moment, felt that in any way they were being prevented from seeing any part of the BBC’s financial operations, they would not be able to perform their role and they would have to tell the BBC Trust that they were unable to perform their role.

**Q58 Mr Williams:** You are not the obstacle here, Mr Thompson; Mr Peat is, so you stay out of it. Mr Peat is the one who is being bloody-minded; absolutely, regularly, consistently bloody-minded about it. You have reached a situation where you have virtually had to accept that almost the only reason which can be put forward is that you want to limit the NAO from going to areas which might be dangerous to you. Is that not so?

**Mr Peat:** I think the discussion on NAO as external auditors—

**Q59 Mr Williams:** Answer the question, please. Answer the question, please. Is it not that there are areas you do not want them to look at?

**Mr Peat:** No.

**Q60 Mr Williams:** No? Then what is the problem?

**Mr Peat:** The only limitation I have stressed throughout my appearances before the Committee of Public Accounts is that I wish to reserve the right to say where I believe NAO seeking information would risk the editorial and total independence of the BBC. Other than that I am totally—

**Q61 Mr Williams:** That is absolute rubbish. The overseas broadcasting has been covered by them ever since it was set up and I specifically asked the head the last time they were here whether they had

ever run into any problems that caused them embarrassment with the National Audit Office and they said no, they had never tried to interfere in editorial matters. If they did you could complain and refuse to give it.

**Mr Peat:** I have said in the past that I have never had any evidence of them attempting to interfere.

**Q62 Mr Williams:** Because you will not allow them to.

**Mr Peat:** I reserve the right to inhibit their access where I believe there is such a risk. We are working very hard to make sure the NAO have sufficient information to do their job to help improve efficiency for licence-fee payers. That is our view.

**Q63 Mr Williams:** I have about ten weeks to retirement. How long do you have to retirement?

**Mr Peat:** To the end of this year.

**Mr Williams:** So there is hope next year.

**Q64 Mr Carswell:** The Report shows that the BBC are spending quite a lot of money on some big sporting and music events. Do you not think the fact that you have all this money to draw on from the licence fee perhaps gives the BBC an unfair advantage? I know your Royal Charter says you have a duty to inform and educate, but are you basically not eating into something that others could be doing better?

**Mr Thompson:** The Government White Paper in relation to the BBC also went out of its way to emphasise that the public expected and had a right to expect major sporting events from the BBC. I should say that by and large, in terms of my postbag, I get many, many more letters asking us to consider extending our portfolio of sporting events, for example to include television cricket, than traducers. When we talk to the public at large, they are very clear that they expect outstanding sport free at the point of use from the BBC on television, radio, the web and so forth. Although the BBC does have to have regard to market impact, I would say to you that if you look at the current broadcasting environment, particularly if you care about free-to-air sport, sport which you do not need a subscription to enjoy, the role of the BBC as a guarantor that some high quality sport will be available to the public at large, if anything, is growing stronger at the moment.

**Q65 Mr Carswell:** When you go out to buy the rights, yes, of course once you have bought the rights you can show it free-to-air so that means people are not having to pay for it because they get access to it through the licence fee, but on the whole in fact you are inflating the cost so that the cost of broadcasting those events in the round will be higher than if you were not bidding against other broadcasters.

**Mr Thompson:** You say that. Frequently the BBC fails to secure rights or loses rights. In one recent example, the 2012 Paralympics, we were substantially outbid. Channel Four may have bid as much as double our bid for the Paralympics. We recently lost the FA Cup and England home

international rights, again to a much larger bid from the market. The answer is that we are frequently outbid for rights so we take great care, and the BBC Trust monitors what we do very closely, to make sure that we do not overbid. I believe, to be honest, that what the BBC does, as it tries to do with top talent, is to make the case to sporting bodies that the totality of what the BBC can do and also the fact that audiences in particular like to see many sports uninterrupted by advertising means that we can underbid the market somewhat.

**Mr Peat:** May I just add that following a fair trading appeal that came to the Trust, we are about to go out to tender for a study on value for money for sports rights to make sure that the processes and procedures are appropriate to gain full value for money. We will be sharing the terms of reference with the NAO and the report will be published and made available to this Committee later this year.

**Q66 Mr Carswell:** Sure, but it is the quangos deciding what is value for money again.

**Mr Peat:** External.

**Mr Thompson:** Also there are some straightforward methods. How much does it cost per viewer or per listener to achieve a given right? Often sports are split between the BBC and other broadcasters and you can see to what extent the public rate BBC coverage of, let us say, Euro 2008 versus ITV coverage. Again, there is good evidence that in terms of cost per viewer hour and in terms of audience appreciation the outturn of our rights benchmarks very well.

**Q67 Mr Carswell:** I do not want to dig up the rich vein of conversation that was going on before but, in layman's terms, my constituents are forced to pay for you and the BBC. Why will you not tell them which presenters are being paid and what? Let me put it another way. Listening to some of the justification that you give for not doing so reminds me of the arguments put forward by the "Duck House Gang" in this place as to why there should not be disclosure and transparency. Any institution can find exceptions that they believe justify why they should not disclose. In layman's terms, my constituents want to know why they should not know.

**Mr Thompson:** Should the public have a good sense of how much the BBC spends as a whole on talent and on top talent? Secondly, should the public and, indeed, this Committee and Parliament be able to track what the BBC is spending? We have said we want to reduce what we spend on top talent. Are we achieving that? I think you should and we will very shortly publish numbers for the total amount the BBC spends on talent and what we spend on top talent and each year, in each annual report, we will repeat that so people can see what the trends are. If I may say so, I think it is absolutely appropriate that the public should have a good sense of what is going on. Is it going up? Is it going down? How much of my licence fee goes here? I am not persuaded, though

I am sure the public would be very interested, that there is a public interest argument for divulging individual artists' fees.

**Q68 Mr Carswell:** That is not what it says here.

**Mr Thompson:** Crucially you will not find it for ITV or for Channel Four or any other broadcaster in the world except in one or two European countries.

**Q69 Mr Carswell:** Not every broadcaster around the world is given a vast subsidy on pain of imprisonment by each household.

**Mr Thompson:** To be clear about it, we are trying to go essentially into the labour market to get the best talent for the British public, the best entertainers and the best sports presenters. We do not want to have one arm tied behind our back because actually what the public tell us is they do want the best presenters and the best stars on the BBC.

**Q70 Mr Carswell:** Quite often the Committee of Public Accounts gets people who appear before it who invoke the idea of confidentiality and contractual obligations as the reason for non-disclosure. You are saying that it is not simply your contractual obligations to these multi-million-pounds-a-year presenters who are presenting for you; you actively do not want to disclose it even if you were in a position to do so.

**Mr Thompson:** We think it would be commercially, in terms of our ability to attract and retain the best talent, deleterious and we think it would have the effect of putting the prices up. So we think there are practical reasons for being against it. We made this case to the Information Commissioner, who, in the context of freedom of information, has accepted the arguments.

**Q71 Mr Carswell:** We keep hearing that you are on a mega salary because you are worth it and because you could draw a comparable figure in the private sector. Which private sector companies organise individual projects on the scale that you do without knowing the total cost first and without the clear objectives first?

**Mr Thompson:** May I say I believe that in all of the cases we are talking about we have known the total costs first. One thing in the Report which is just worth explaining is that at the point when we are securing or thinking about securing the rights to broadcast a particular event—and this moment is sometimes many, many years before the event itself is broadcast—we put in indicative costs of production so that my committee, as the decision-making body, can get a sense in the round of how much this is likely to cost, but we fine tune production budgets closer to the event, not least because technology changes. We secured the Beijing Olympic Games in the 1990s in an age before we had anything like our current operations, for example, on the web and before high definition. What happens in the case of sporting events is the precise line-up of artists and, therefore, the fees involved in a music event may not be completely clear until—

**Q72 Mr Carswell:** So you are saying there are huge variables.

**Mr Thompson:** The point is that there is a process. London 2012 is a good example at the moment. We secured the rights many years ago, we have recently taken the core budget through the system two years in advance, but we will go on refining that budget over the next 18 months in the light of learning more about the event and more detailed creative plans. What we do not do is we do not broadcast events without knowing how much they are going to cost.

**Q73 Mr Carswell:** A lot of this debate hinges on the question of accountability and you receive billions of pounds of public money from a dedicated tax source, the licence fee. Sky receives billions of pounds but the difference is that they have to get that money by persuading every punter to part with their money of their own freewill. Are you satisfied—I think the BBC even made a programme about it—given the digital revolution is forcing a new system of accountability, it is forcing hyper accountability rather than corporatist accountability, that the BBC Trust model is sustainable?

**Mr Thompson:** Firstly, I am in a sense the chief poacher in this relationship; I lead the organisation which the Trust is there to oversee. I have to say that on the ground I believe the Trust, from my point of view, has been a much more challenging—much more challenging—much more focused governing body than the governors who came before it. They have taken the lead in commissioning value-for-money reports from the National Audit Office and also other value-for-money reports. They have been more assiduous in holding me and my colleagues to account. In my view, on the ground—and I appreciate there is a large public policy debate about this—from where I am sitting it has felt like a very effective organisation.

**Mr Carswell:** I am very interested in freebies and lobbying and making sure there is transparency. Could you let the Committee have a list of all the free tickets and free access that you have given to all elected officials and regulators?

**Chairman:** This is going to be a bit of a long list.

**Q74 Mr Carswell:** I should like to put it on my blog, if I may. If you could let us know who is going to Glyndebourne, who is going to Glastonbury, because some people could say you are buying influence with taxpayers' money to maintain the status quo. I think the public has the right to know which elected officials and unelected officials are benefiting from these arrangements.

**Mr Thompson:** We will look at the data requirements and do our best to satisfy you in that regard.

**Chairman:** We want to know how many times you have been to Wimbledon and all that sort of stuff.

**Q75 Mr Mitchell:** It always struck me, in those dim and distant days when I worked for ITV, that when you were comparing outside broadcast costs ITV crews consumed more in beer but the BBC crews were bigger and more efficient. Have you compared

your costs on these major events with the costs of the competition, ITV, Sky and international ones, ABC and CBS?

**Mr Thompson:** It is very interesting. Firstly, both we and, indeed, if you look at the Report, the National Audit Office have found it very hard to get access to other UK broadcasters for benchmarking purposes. We are in favour of open benchmarking with all the UK's other broadcasters to establish what we can learn about value for money. I have to say that our experience, particularly in recent years, is that other broadcasters have been very unwilling to enter into that and I think the NAO would have had a similar experience. However, we are able to benchmark with some international broadcasters. There was much fuss in the British press about the numbers of BBC people, somewhat under 500, who went to Beijing. NBC, which is a unit of General Electric, is a purely commercial company who broadcast about the same number of hours from Beijing and sent over 3,000 people. There were articles in the German papers, because the German public broadcasters sent more people than we did, asking why their broadcasters could not be as efficient as the BBC. So we have this particular piquancy that we are often used by other international broadcasters as a benchmark for efficiency, even though, as it were in the domestic market, what are considered internationally very small production teams, given the scale of the undertaking, are written up as though they are very large.

**Q76 Mr Mitchell:** Coming back to the accusation of being overmanned, I see from figure four on page 22 that when it comes to Wimbledon, which is just down the road, you have 358 people there. Presumably some of those might be freeloaders just dropping in to see a game; I do not know, but it is a huge number, whereas when it comes to the *Proms*, which is a fantastic event and you do broadcast from Northern Ireland and Scotland and all over the place and is very impressive you are making do with 145. Why the discrepancy?

**Mr Mosey:** For Wimbledon we are the host broadcaster so we have to cover nine courts minimum at any point. Also those figures include people who go to rig, put technical equipment in, the cameramen, the guys in the camera hoists and so on.

**Mr Thompson:** Somebody who comes onto the site for two hours to rig something and then leaves, he is there for two hours and is counted in this number.

**Mr Mosey:** The maximum number we ever had on any one day was 232. It is interesting that I saw a commercial broadcaster advertising how many they had for one Premier League match and that was 130 people doing one Premier League match, so that gives a bit of context with Wimbledon and 232 on a day for nine courts.

**Mr Thompson:** The problem is obviously a very lean operation, but the *Proms* are a very different animal.

**Q77 Mr Mitchell:** It is a big event and lots of coordinating. You have musicians and all sorts trundled in.

**Mr Davie:** We have. The reason why we can make the *Proms* so effective in terms of staff costs is obviously the *Proms in the Park* night and other nights. Beyond this the *Proms* themselves obviously work in the Albert Hall and the other minor venues so you can be quite concentrated. We are not there to staff up. People like myself are really pushing this number down, but it makes the *Proms* very lean in terms of staff numbers, whereas at Glastonbury, where you are covering all those stages in a quite intensive period, there is just a different dynamic. We are pretty robust in terms of benchmarking these, looking at these, versus what we see as an effective number of people. Clearly we get well analysed in that regard as well.

**Q78 Mr Mitchell:** I see from the summary, page four, paragraph two, that in 2008-09 you spent £246 million on procuring rights to broadcast sporting and music events and only £111 million on coverage. Why are you paying so much for rights? You are now in an overwhelmingly dominant position; ITV is bust, Sky is mean and stingy, you dominate the field. Why are you coughing up so much?

**Mr Thompson:** Firstly, our portfolio of sports rights—and I think this is what the public wants from us—is very extensive. There are some sports rights which in recent years have reduced in value; we have been able to get the same or better rights for less. Other rights in fact I have to say remain very competitive.

**Mr Mosey:** Some rights. Because it is a regulated process the one figure that ends up being published is the Premier League and the Premier League rights, it is no secret, have gone from £35 million to £57 million or more a year for highlights on *Match of the Day*. Sky pays about £4.8 million per game on Sunday at four o'clock. The market is incredibly lively in parts of the sports rights.

**Mr Thompson:** It is more than £4 million for one game on a Saturday afternoon.

**Q79 Mr Mitchell:** You are not bidding for rights for everything in a competition. For some you are in a position actually to dictate what you are going to pay. Why do you not get the costs down?

**Mr Thompson:** Where we can, where there is less commercial interest, obviously we try to achieve a much, much lower price than we would for something which is contested.

**Mr Peat:** The Trust is commissioning a study of the sports rights processes from an external body which will be published and will be available to this Committee later this year. Given the sums that are involved, we feel it is appropriate to attempt to ensure the most appropriate events are secured at the best price.

**Q80 Mr Mitchell:** If you want an example of economy, I can give you Pennine Radio where Roger Mosey was our sole broadcasting correspondent working from a telephone box in Bradford.

**Mr Mosey:** For ten shillings and sixpence a week.

**Q81 Mr Mitchell:** That was very efficient.

**Mr Mosey:** I should declare an interest. I was employed by Mr Mitchell.

**Q82 Mr Mitchell:** Take Glastonbury, what rights are you paying for there? The rights to the music or the rights to cover the festival?

**Mr Davie:** To cover the festival.

**Q83 Mr Mitchell:** Why do you need to pay so much? You could come to a joint deal to merchandise products.

**Mr Davie:** Actually the figures for the rights are a small proportion within the £1.7 million budget. The relationship in sport is very different from music, but those rights actually represent extraordinarily good value versus what others would pay, and others would pay. I could name companies, music, television companies and video companies.

**Q84 Mr Mitchell:** But nobody is bidding against you.

**Mr Davie:** I am not aware of what the other bidders pay.

**Q85 Mr Mitchell:** So you overpaid.

**Mr Davie:** No. We would look at what we pay and see the cost per listener and viewer and absolutely see that was well within the metrics. In fact, Glastonbury is particularly good value for money.

**Mr Thompson:** Glastonbury used to be on Channel Four but came to the BBC. It has been built up as an event on broadcasting and we tried to use television, radio and the web to bring it to life. They are now pretty valuable rights actually because of what we have done with them and because Glastonbury itself has grown as a festival. There is a handful of major sports—and you all know what they are—where the rights are competitive and the costs are pretty high. For minority sport and most music events rights are a smaller proportion of the mix. You have heard that. One fifth of this entire budget is going on premiership highlights.

**Mr Davie:** We will adjust rights to market conditions. I do not want to get into the details of negotiations with the Eavis family, but I absolutely would be looking for value based on the context of the market. The idea that we just roll forward budgets does not represent the practice.

**Mr Thompson:** Each time we consider investing in major sports rights, we see a complete market analysis. We look at what the cost per viewer or per listener will be. We look at the historic track record of this right in terms of the audience it can achieve and we try to make sure we pitch our offers always so that they do not inflate prices. The point made earlier is absolutely right, that one danger for the BBC would be that if we did not have regard to that, we would inflate prices. We try extremely hard to make sure we under spend.

**Q86 Mr Mitchell:** Why can you not use your dominance in the market in respect of talent? It is interesting to see that costs of talent are 20% in some

sporting events and 6% in other sporting events. Surely you can pick and choose what talent you are using and drive the price down.

**Mr Thompson:** Yes, but obviously you have to be careful about apples and oranges, that the presentation of a classical music concert from the *Proms* might be very different from a really major, mainstream sporting event. We intend to and already in the current financial year we have had some success in driving down top talent costs. The critical point, both about sports rights and about talent costs, is the economic climate is very different now than it was two or three years ago and the opportunity to drive down costs is there.

**Q87 Mr Mitchell:** Let us take BBC Sport. BBC Sport is more likely to fail in achieving its targets than other sections of the major events market. Why is that? First of all, figure two, page 13, who sets the targets? Some of them seem daft: “Best for great presenters” “Best for expert opinions”. These are futile targets.

**Mr Thompson:** The way those targets work is that they are questions we ask the audience. These are trying to set targets for audience reaction to what BBC Sport does.

**Q88 Mr Mitchell:** So you set a target saying this is the best for great presenters and then you ask them whether BBC was best for great presenters?

**Mr Thompson:** Yes.

**Mr Peat:** Yes.

**Mr Thompson:** What I would say about this particular pair of targets is that they were set—

**Q89 Mr Mitchell:** If you pay too much for talent, you are bound to get the best presenters.

**Mr Thompson:** A broader point about these targets, a number of which were missed, as was made clear earlier, is that these were a very, very ambitious set of stretched targets. We absolutely want to increase the impact and the value of BBC Sport. If you look at these targets individually, in almost every case BBC Sport did really well if you compare it year-on-year. I will give you one example. One of the targets was that the number of people using BBC Sport on mobile telephones should increase. In the previous year it had been 1.2 million and the target which was set by Sport and which we agreed with Sport was to move it from 1.2 million to 1.9 million in a year, an increase of 700,000. They actually achieved 1.84, so they achieved 640,000 out of the 700,000 increase. That was a “missed” target, but these targets are not a minimum statutory that you must hit. These were because we wanted Sport to develop and grow and if you look at the actual change in the impact of sport and the increase in approval, this was a very strong performance by Sport even though yes, it is true, these stretching targets were not met in some cases.

**Q90 Dr Pugh:** I attended the Open Golf last year at Royal Birkdale and I was shown round by the BBC. I rush to add that I was not a guest of the BBC. I was actually surprised by the complexity and the size and the cabling and the lengths of wiring and the

enormous number of vans there were. I was a little taken aback when I looked at paragraph 43 on page 20 which suggests that a private sector company provides the bulk of the outside technical facilities for the BBC. These vans I saw all had BBC written all over them. Am I right in thinking that?

**Mr Thompson:** Yes, you are. We sold our Outside Broadcast division to a company called SIS who provide these services at the Open Golf, for example. Part of the sale was a multi-year contract which is a bulk contract with SIS which guarantees that the BBC will get a big discount on SIS’s overall charges.

**Q91 Dr Pugh:** But you get financially penalised if you do not give them enough work, is that right?

**Mr Thompson:** This is in addition obviously to getting a fairly large sum in respect of the actual purchase. There is a commitment to use SIS for a number of years. That commitment tapers over those years and we are guaranteed a significant discount on their normal rate card and we also believe we are achieving a good discount against the market. In my view, the arrangement, in terms of value for money and in terms of quality, is a good one.

**Q92 Dr Pugh:** I understand that. If they get 84% of the work though and the rest of the companies get 16% that raises the question of how many other companies are out there pitching for this sort of work.

**Mr Mosey:** I could not give you a precise number but clearly there is a market in that 16%.

**Q93 Dr Pugh:** Can any of these companies bid for any of the big events or are they just picking up the small pieces?

**Mr Mosey:** Clearly there will be a longer-term strategy post-2012. Part of the reason for the SIS deal was to guarantee we do have the right number of outside broadcasts available for major events like London 2012 or for state funerals or any other events that come up along the way. Whether the market liberalises after that is unknown.

**Mr Thompson:** The other logic behind the sale was that SIS were prepared to do something we felt was not a good use of the BBC’s fairly limited capital resources, which was to invest significantly in new technology for the outside broadcast fleet. This is also part about making sure the fleet is ready for high definition and some of the needs we are going to have as a broadcaster in years to come.

**Q94 Dr Pugh:** I am questioning whether there is a genuinely competitive market out there. I really want to know how many people are pitching for this work, what their size is and, in fact, how many of the contracts do they bid for? Can you give me that information?

**Mr Mosey:** We can write to you.<sup>3</sup>

**Mr Thompson:** We can certainly write to you with details. I should say overall that the outside broadcast market, which is not just a UK market but

<sup>3</sup> Ev 31

also is a European market and frequently you will see trucks from other European countries working in this country, from everything I know is a lively and functioning market.

**Q95 Dr Pugh:** Broadly speaking, on the 16% of contracts they have won did they win them by a substantial margin or by a normal commercial margin?

**Mr Mosey:** You understand that in terms of the commercial tendering of the outside broadcast sector, that is something handled by our head of production.

**Q96 Dr Pugh:** Could you provide us with some data? Just convince me that there is a competitive market out there.

**Mr Mosey:** Yes.<sup>4</sup>

**Q97 Dr Pugh:** The NAO criticised you for having no formal cost benefit consideration of different coverage options and limited use of potential internal benchmarking. I had the impression when reading this Report—which is not the most lucid report I have ever read—that to some extent this area is a bit like knitting fog because all events are slightly different, are they not, *sui generis*? Not many other comparable organisations do these events, so you do not have a benchmark there and there is a continual technical uplift going on all the time.

**Mr Mosey:** Yes.

**Mr Peat:** The Report that NAO did for us last year on radio again suggested internal and, if possible, external benchmarking. We have run into the same problem on external benchmarking as Mr Thompson mentioned with regard to sports rights, which is the confidentiality of information, but we also had the same position of fog with the suggestion that different genres of radio are very different and it is difficult to make comparisons. Since then a lot of work has been done by Mr Davie and his team and a huge amount of internal benchmarking has been undertaken. I would expect progress to be made on internal benchmarking as appropriate as a follow-up to this meeting.

**Mr Davie:** Very clearly the process was good and is improving in terms of internal benchmarking, ensuring we are cost effective. We could provide lists of suppliers in the OB area.<sup>5</sup> External benchmarking is an issue. External benchmarking the *Proms* is not an easy brief. It is something we have discussed with the NAO. We would like to do more. We can look at costs of concerts covered elsewhere but when you are going for events like Radio One's *Big Weekend* or the *Proms* where you construct events which generate unique value and actually go to unique venues and deliver something different, you have a genuine issue. We are interested in progressing external benchmarking and that is something we want to continue the discussion on. The idea that it is a fog is not right. That particular area is something we are keen to develop.

**Q98 Dr Pugh:** If you have enhanced technical production costs every year and production does change quite rapidly, it is changing quite rapidly and has changed over the last decade, is it not rather difficult to establish what the budget should be?

**Mr Davie:** But it is not all cost. If I look at the OB technology we are now putting in, we have just put in a more efficient in-house fleet which can deliver better value for money. Technology does not just drive up costs; it drives down costs as well. We are getting puts and takes on the technology side.

**Q99 Dr Pugh:** So the accusation in the Report that you are rolling forward budgets from year to year—

**Mr Davie:** We historically use them as a start point. That does not mean we just take them.

**Mr Thompson:** It is worth saying that these are divisional budgets which are rolling forward but with pretty aggressive value-for-money targets in the departmental budgets. Across the television outputs, for example, 5% net per year as a value-for-money target. So there is a presumption each year that it rolls over but, depending on the area of the BBC, minus three or minus five, in other words progressively squeezing because we need to extract money from existing output to put to things like digital switchover. There is also a progressive process which is a different process, top down, of trying to get as many savings as we can out of our existing services so we can invest in other things.

**Q100 Dr Pugh:** If we analyse an individual event in your overall costs and we try to get a value-for-money assessment, you are fairly confident that you would know the cost of user hours, you are fairly confident you would know the split between various platforms.

**Mr Thompson:** Yes.

**Mr Davie:** Yes.

**Q101 Dr Pugh:** Do you know what each element, say, for example, technical costs and other costs make up the overall figure for the production?

**Mr Thompson:** Yes.

**Q102 Dr Pugh:** You may not reveal them to us but you know them internally.

**Mr Thompson:** Yes.

**Q103 Dr Pugh:** Do you know how each individual element is valued or do you just assess the whole production?

**Mr Mosey:** The useful thing in the NAO Report is to say that we should formalise our cost benefit analysis. We do it all the time. It is what we do every single day. When you are talking to the head of football and the production executive on Vienna, they are looking at options all the time for a range of studio options and cost options. What we do not do is formalise it or bring it to our finance committee. I think it is a good recommendation that we should do that.

<sup>4</sup> Ev 31

<sup>5</sup> Ev 31

**Q104 Dr Pugh:** Say, for example, you are talking about *Match of the Day*, you know what it costs you to do the irritating computer graphics which you get all the time with rings round the players and things like that?

**Mr Thompson:** Yes, of course.

**Q105 Dr Pugh:** You also know, presumably, how they are valued by the viewers, do you?

**Mr Thompson:** Yes.

**Q106 Dr Pugh:** You always have a fine-grained analysis of the programme.

**Mr Thompson:** Yes. The point about the way viewers in particular think about sport is quite complicated. By and large, to give you two examples, Andy Murray having a good run at Wimbledon is transformational in terms of the metrics for Wimbledon. The average audience for Wimbledon can vary by many millions depending on whether there is a British hopeful. Rain is a very big factor for quite a few sports, notably tennis, certainly before the new roof in the centre court and, again, a rainy Wimbledon can significantly affect the way the public views and thinks about that year's Wimbledon. Of course, the point about all of these events is these are strategic choices which the BBC has made, in many cases over many years and in some cases over decades, to commit to them and we look at performance over many years.

**Q107 Dr Pugh:** My last question takes us back to editorial policy which is the subject we started on. If it is the case that you come across an element in production which appears to be of high cost but of low value so far as the general public are concerned, is it ever the case that editorial policy intervenes in order to say that should go ahead because you think it is a sport worth supporting or there is a minority very interested in that, even though on a purely commercial basis you cannot justify it?

**Mr Mosey:** Yes.

**Mr Peat:** We would go back and ask the Director-General to go back to the public purposes as set out in the charter and make a view as to how the particular example you are quoting related against the public purposes. If it fitted in with those purposes, then that is something which should be considered because of the public purposes which govern the way we operate.

**Q108 Dr Pugh:** But it would not necessarily please the NAO.

**Mr Peat:** I hope it would, because that is the charter.

**Mr Thompson:** To be fair, the NAO Report is rather good in recognising there is some complexity here. Because of the BBC's public purposes, for example, investing in minority sport which nobody else would cover could itself represent actually not just a proper delivery of the public purposes but also something which, if you have RQIV, the reach, quality, impact, value metrics configured properly, it should rate highly with RQIV, but it is a very different animal from something like Euro 2008 which is going to be watched by nearly 40 million people. Having said

that—we are back to the Chairman's remarks at the beginning—we must not use that as an argument for never stopping doing anything. Sometimes we have to say “Actually, you know what, this is neither fish nor fowl; it neither hits a particular market failure out there nor is it quite delivering and therefore perhaps we should do something else”. We do have to interrogate these things as well.

**Mr Davie:** These discussions are pretty robust in the finance committee. For instance, I have the proposal for the *Radio 1's Big Weekend*. It goes down to a few thousand pounds per item. We will look at it and discuss, for instance, the *BBC Introducing* stage, which is for new acts, just to bring this alive. We would say perhaps it does not give the right cost per viewer/hour versus putting it on. If I want to get the cost per viewer/hour I just get the biggest act on the biggest stage and then I will get to millions of people and drive the cost down. There is clearly a benefit there. Having said that, the NAO Report is helpful; it helps set a cultural tone in which we can start stopping things if they are not delivering value. The idea that we are not having robust conversations, having been in the commercial world running pretty hard P&Ls for a while, the conversations are comparable in terms of running through these line economics. That is the reality of our conversations.

**Q109 Mr Bacon:** If I might ask a couple of quick questions, one about the World Cup this summer in South Africa with 32 teams playing in 10 different venues. There is a chart which describes in figure three a breakdown into talent and other staff, outside broadcast infrastructure, technology and studios, travel and accommodation and miscellaneous for a variety of events including Euro 2008 and the Beijing Olympics. Do you have such an indicative budget that you expect to be spending for the World Cup?

**Mr Thompson:** Yes.

**Mr Mosey:** Yes.

**Q110 Mr Bacon:** Can you write to us with it, please?<sup>6</sup>

**Mr Thompson:** I do not see why, if it is done on the appropriate confidential basis, it cannot be done. Generally you will understand why at this stage some months before transmission it would be highly unusual for us to release a budget for a programme not yet transmitted, but if we may can we take that under advisement.

**Q111 Mr Bacon:** What it would be interesting to do, and I am sure it can be done confidentially, would be to compare it with the outturn; these numbers in figure three of the Report are outturn figures. It would be interesting to compare what you currently have—and perhaps the NAO can review this to make sure that you are not sending us unduly tweaked numbers—basically your current indicative numbers and we can compare them later with what your actual outturn is. That is what I would like to see, please.

<sup>6</sup> Ev 31

**Mr Thompson:** I do not see why not in this case, with many of these parameters, including the number of people we send. The challenge is to send fewer people than we sent to the last World Cup.

**Mr Morse:** I am sure we can work out something.

**Q112 Mr Bacon:** That would be very helpful. The second question is about the Olympics. I know it is some years away still but you spent just under £16 million in Beijing. Do you have some idea yet of roughly what you are going to be spending in London 2012?

**Mr Mosey:** Rough ideas, yes. Budgets are being gone through at the moment and we are working on those. Clearly the scale of the Olympic Games in London, the Cultural Olympiad and the Torch Relay and all the other events around it will make it the biggest event the BBC has done and those budgets are being finalised at the moment.

**Q113 Mr Bacon:** Do you get revenue out of it?

**Mr Mosey:** No, not really.

**Q114 Mr Bacon:** Are you obliged to provide your feeds, your images to other broadcasters?

**Mr Mosey:** The feed is provided by an international consortium of broadcasters of which the BBC is part. That is actually a transaction between the London organisers and the International Olympic Committee and host broadcast organisation.

**Q115 Mr Bacon:** Can you tell us roughly, indicatively, what you think you will be spending or not yet?

**Mr Mosey:** Not yet. We will do and, like Mr Carswell, I like blogging so I think that may be something we come to in a few months.

**Mr Peat:** May we discuss with the Comptroller and Auditor the best way to deal with your questions?

**Q116 Mr Bacon:** Yes.

**Mr Thompson:** It is worth saying that this will probably be the biggest peacetime event covered by the BBC in its history.

**Q117 Mr Bacon:** Even bigger than the *Proms*?

**Mr Thompson:** Bigger than the *Proms*.

**Mr Bacon:** By the way, I was actually once a guest of the BBC at the *Proms* and it was very good too.

**Chairman:** This explains an exceptionally soft line of questioning.

**Q118 Keith Hill:** I have never been a guest of the BBC. Mr Peat, do you think the BBC gives value for money?

**Mr Peat:** Yes, I do. I believe it has given increasing value for money but I do not think we should in any way be complacent.

**Q119 Keith Hill:** Let me ask you then how do you know that it gives value for money.

**Mr Peat:** From the work that we do in a whole host of areas. We carry out reviews of all services on a periodic basis. We set service licences with targets and look at each of them.

**Q120 Keith Hill:** Who does that work?

**Mr Peat:** It is done by the BBC Trust and the Trust Unit. We publish and consult fully on each of those service licence reviews. We look at each proposal which comes to us and carry out full public value tests, again with consultation and again in the public domain, involving Ofcom to assist us.

**Q121 Keith Hill:** But you do not have an independent assessment of that value for money.

**Mr Peat:** We put it all in the public domain and are open to comment and observation.

**Q122 Keith Hill:** But you do not have independent assessment of that value for money.

**Mr Thompson:** The point is that the BBC Trust is independent; it is itself an independent body.

**Mr Peat:** Apologies if I did not make that point myself. Essentially we are charged under the charter with delivering value for money to licence-fee payers. We consider that to be our role and I take that role, as do my colleagues, very, very seriously.

**Q123 Keith Hill:** Are you equipped with a support body which gives you independent auditing advice?

**Mr Peat:** We have a very strong support body with very good skills. Unlike the governors when I joined, who had a handful of people, we now have a strong team in the Trust Unit who support us with different disciplines and I believe we, with their help, do a very good job of holding the executive to account. We do not agree with the executive on everything. We challenge them in different areas. We have challenged them on talent costs. We want to see talent costs going down, particularly for high talent. We want to see more talent developed. We have demanded that the pay for senior management declines. We have challenged on a whole host of fronts. I really do ask you to take our views very seriously, that we take this very seriously. We look at value for money regularly.

**Q124 Keith Hill:** Are these specialists in value-for-money analysis?

**Mr Peat:** I have been doing it for the last 30-odd years in different fora in public and private sectors. I believe I have a degree of expertise, but I believe also that the NAO add tremendous expertise, which is why we work so closely with them.

**Q125 Keith Hill:** Particularly you would agree in the area not only of auditing the accuracy of accounts but especially in the area of value-for-money where I think it would be acknowledged as a market leader.

**Mr Peat:** That is why we so much value their work and why I want to see them focusing on that area because that is their expertise and that is where we make use of them.

**Keith Hill:** I think that is a cue for you, Chairman.

**Q126 Chairman:** When the budget for Wimbledon exceeded that agreed by the Finance Committee by £700,000 you were on top of them like a ton of bricks, were you.

**Mr Peat:** The information would have been made available and, if you look at the other events, you will see that they were very much within budget.

**Q127 Chairman:** I asked about that particular event. The budget was exceeded by £700,000. We think you are a bit sloppy. Did you demand that you had to approve this additional expenditure?

**Mr Peat:** That would not have been a specific budget which was signed off by us.

**Q128 Chairman:** Over budget by £700,000 is quite a lot for one event.

**Mr Peat:** If they go over any licence for individual services, then we have the right to require a public value test of what has gone on.

**Q129 Chairman:** So you do nothing.

**Mr Peat:** We do monitor them very, very seriously.

**Mr Mosey:** May I offer clarification on the budget? The indicative budget in 2003, when we acquired the rights, was £700,000 lower than the outturn in 2008. The budget process in 2007-08 was spot on; in fact we came in slightly under budget. The point is that between 2003 and 2008 high definition, broadband streaming and increased courts coverage happened. That was why the outturn was over budget.

**Mr Thompson:** This is quite an important point. The early budget was an indicative production budget—indicative—five years earlier to try to inform the decision about the other important part which was the purchase of the rights. If we buy these rights, roughly how much will it cost to make the programme?

**Q130 Chairman:** We are back at the same arguments. All I can do is read the Report in front of us and coverage for Wimbledon was £0.7 million above the budget.

**Mr Thompson:** The actual final agreed budget was not exceeded.

**Mr Mosey:** There is no dispute with the NAO over this.

**Q131 Chairman:** May I ask one last question? You are not going to tell me what the sporting event was where 20% of the budget went on presenters, but there was one sporting event where they took 20%. There was another major sporting event which only took 6%. What was the added value of the 20% compared to the 6%? What could Gary Lineker give, say, that Sue Barker could not give, just for the sake of argument?

**Mr Thompson:** We have tried to say that different events have a different profile.

**Q132 Chairman:** Why? It is a huge difference when one took 20% and the other 6%.

**Mr Thompson:** We talked about the golf, the Open. The point about golf is that because there are 18 holes, it is colossally expensive in terms of OB trucks to cover the entire sport. If you look at golf, there is an enormous expenditure on OBs. Each of these events is different and they have a different profile and that, I am afraid, also includes the numbers of commentators you need, for example, the numbers of presenters you might need in different locations. It is not just the rate; it is also the numbers of people you need. Each one varies.

**Q133 Chairman:** I thought in this case we were talking about Euro 2008 and Wimbledon. Were we talking about golf?

**Mr Peat:** No, golf was not included.

**Mr Mosey:** The proportion of talent does depend on the overall spend. Beijing is almost four times the cost of Wimbledon because doing a big OB from China does cost a lot more than SW19.

**Mr Thompson:** Each of them varies. I was not trying to suggest that golf was one of the top ones; I was just saying that golf was an example of a sport where the outside broadcast costs are much greater because of the nature of the sport.

**Mr Peat:** Just to clarify, we did make the information available to the NAO and we did say they could make it available on a confidential basis to this Committee. They did not make that offer and I have repeated it to you.

**Chairman:** Thank you very much. That concludes our hearing.

**Wednesday 17 March 2010**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr Ian Davidson  
Nigel Griffiths

Keith Hill  
Mr Austin Mitchell  
Mr Alan Williams

**Mr Amyas Morse**, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General and **Mr Keith Hawkswell**, Director, National Audit Office, gave evidence.

**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

**REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
THE BBC'S MANAGEMENT OF THREE MAJOR ESTATE PROJECTS**

*Witnesses:* **Mr Jeremy Peat**, Trustee for Scotland, BBC Trust, **Mr Mark Thompson**, Director General, **Ms Caroline Thomson**, Chief Operating Officer, and **Ms Zarin Patel**, Chief Financial Officer, British Broadcasting Corporation, gave evidence.

**Q134 Chair:** Good afternoon. Welcome to the Committee of Public Accounts. First of all I would like to mention the Speaker and Deputy Speakers of the Legislative Assembly of Ontario who are with us this afternoon and also the Clerk of the PAC of Swaziland. You are all very welcome. Today we are considering the Comptroller and Auditor General's Report on *The BBC's Management of Three Major Estate Projects*. We welcome back to our Committee Jeremy Peat, who is a BBC trustee. Am I right in thinking this might be your last appearance before us, Mr Peat?

**Mr Peat:** I leave the Board of Trustees at the end of this year, so unless we complete another report and come to a hearing in that period this is likely to be my seventh and last appearance.

**Q135 Chair:** Thank you very much. We are very grateful to you for coming before us. Of course we welcome back Mark Thompson, who is the Director General. We also have Zarin Patel and Caroline Thomson with us. The BBC has been involved in delivering four major estate projects over the past 10 years and we have already reported on one of these, the White City development. That was in 2005. Together these projects cost more than £2 billion. It is a lot of money. There are obviously some concerns in the Report about the way phase one of the Broadcasting House project has been carried through, although there have been some recent improvements in the management. However, Mr Thompson and Mr Peat, I would like to pursue some of these problems with you. Mr Thompson, we know that the problems on Broadcasting House cost the licence fee payers over £100 million. How did you allow this to happen?

**Mr Thompson:** These three projects represent a very, very big modernisation and transformation of large parts of the BBC, its main central London headquarters, BH, our headquarters in Scotland and our new Salford headquarters. Taken together, I believe this has been a very successful programme indeed. It will leave the BBC with state of the art

digital facilities. The way the projects were constructed meant that the current licence payer has not had to have money diverted from services to pay for the capital investment involved. That has been organised in a different way and we have maintained our services. At the end, the BBC is ending up with a property portfolio which costs less than the property portfolio it replaces. The underlying picture of fit for purpose buildings enabling the BBC to deliver the service of the future, with costs lower than when we started, is a story of success, but it is true that the first phase of Broadcasting House encountered a number of problems. The building itself, Broadcasting House, is a listed building. When work began on the refurbishment part of the building, it was discovered that the so-called Regent Street disease was present in the building. This is an eating away of the underlying metal structure of the building which needed much more refurbishment and replacement than was believed necessary. There were some other issues with the construction of the project as well. In 2004 we thought it was necessary to take steps to put this project back on track and that involved some changes to the leadership of the team operating and driving the project, a new head of property, a new project leader on the project itself. I had arrived in June 2004 as Director General and very quickly I then started talking to and working with the then Board of Governors to make sure that the governance of the project was put in place. As the NAO Report acknowledges, from mid-2004 we started getting the project back on track and essentially, although it took us some time to fully stabilise the project, BH and in particular phase two of BH has got back on track, and phase two of BH is currently on schedule and somewhat below budget. We think we took a project which did have some difficulties with it, where there was a cost overrun, and we now have it back into place. One of the issues pointed out by the NAO—I think we would accept this—is that, when in the early years of the decade Broadcasting House phase one was approved, inadequate provision was made by way of

contingency. It seems to me, to be honest, if an adequate contingency had been put in place at the start of the project, this is a project which would not have overspent.

**Q136 Chair:** Ms Thomson, you appeared on BBC *Newsnight*, your own media outlet, when there was quite a lot of controversy about this at the time the NAO Report was published, and you said, “The level of overspend on the early stage of Broadcasting House, while a lot of money and while it should not have happened, was 5% of the total cost of the project. That actually compares very well with a lot of other public building projects. The NAO itself has had an office building project at the moment which is 7.5% over budget.” Would you like to justify that statement?

**Mr Thompson:** I think—

**Q137 Chair:** I was asking Ms Thomson that. She made the statement, not you, Mr Thompson.

**Ms Thomson:** Clearly we should not have had an overspend on phase one, as I said. However, 5% overspend does compare well with a number of other projects, not just the NAO’s own offices but for example Portcullis House which I think was 18% overspent.

**Q138 Chair:** You said on your own media outlet, “The NAO itself has an office building project at the moment which is 7.5% over budget.” Will you please justify that statement?

**Ms Thomson:** Yes. That was based on a report to the PAC, the papers which I have somewhere.

**Q139 Chair:** Did you check this figure with the NAO before you spoke about it?

**Ms Thomson:** I checked it with the PAC papers.

**Q140 Chair:** Did you check it with the NAO before you made this statement?

**Ms Thomson:** No. I checked it with the PAC papers.

**Q141 Chair:** What would you feel like if the NAO made a statement about the BBC without checking with you first?

**Ms Thomson:** I suppose I would prefer them to check with me first.

**Q142 Chair:** Would the Comptroller and Auditor General like to comment on the accuracy of this statement that Ms Thomson made on her own media outlet?

**Mr Morse:** In the outturn the project will cost more than the original budget, that is true, but the reason for it is because of unknowable defects at the start of the project and not because of any element of project management.

**Q143 Chair:** It is slightly different in this case. May I ask the NAO officer who compiled this Report, how much of this £100 million overspend of the BBC might be put down to unknowables?

**Mr Hawkswell:** It is very difficult to quantify the unknowables but there were knowables within that £100 million, if I could put it that way. There were about £28 million-worth of scope changes and £55 million-worth of that £100 million is what we might call knock-on costs from the fact that the Broadcasting House one project was delayed. That meant that the lease had to be extended on Bush House and some technology costs had to be incurred because of the delay on the Broadcasting House project.

**Q144 Chair:** Is this statement right, Ms Thomson, because you made the statement on *Newsnight* so presumably it is accurate. You were trying to say that the NAO building is 7.5% over budget. You have said that any overrun that was made was entirely due to unknowables. You have just heard the NAO say that £28 million of your overrun was due to matters which you should have known about if you had a proper business case. Either what you told *Newsnight* was true or it was not. If it is not true, you should apologise to the NAO.

**Ms Thomson:** First of all, I did not say it on *Newsnight*, just for the record.

**Q145 Chair:** Where did you say it?

**Ms Thomson:** Probably on the ten o’clock news.

**Q146 Chair:** I am sorry to make such a terrible mistake. You used your own media outlet—

**Ms Thomson:** I would quite like to answer the question if you give me a minute.

**Q147 Chair:** You used your own media outlet to not tell the truth about the NAO.

**Ms Thomson:** I told the truth about the NAO in that the document which I had access to, which was the report to the PAC, showed this was what it indicates. Unfortunately, I am not in a position to comment on whether the NAO overspend was on knowables or unknowables because I do not have access to any more detailed information. You are in the fortunate position that you have more detail of the BBC’s information because we are being transparent and letting the NAO in.

**Mr Thompson:** Let me read from a note by the C&AG to the PAC about the building. It talks about the outturns, “This will increase the total amount of funding approved for this project from £77.4 million to £83.24 million, an increase of just under 7.5%”. Shall we talk about knowables and unknowables? The £28 million in BH one, the increase of scope, unquestionably included new things that the BBC believed it wanted to do in this building which it had not known about at the time of the original approval of the project. Let me give you an example within the £28 million. In that time, the BBC World Service successfully argued the case for and got approval from the Foreign and Commonwealth Office to launch two new television services, an Arabic television service and a Persian television service. It was decided, as part of the long range plan for the whole of the World Service to move into the new Broadcasting House that it made more sense, rather

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than launching these services at Bush House, building television studios and then transferring them at the end of the project to Broadcasting House, to launch them in the building, so two new services. One of them is now a 24-hour a day service. The Persian service, I believe, is 12-hours a day. One of the things we added to the scope of Broadcasting House to save money in the long term was facilities for two new Arabic and Persian television services. That was an increase in scope. It is not unreasonable, it seems to me, to vary the budget. There was no way that the people who originally submitted and approved the original Broadcasting House project could have known at the time that these services would come into scope. There are other service changes and other adjustments in the budget, but my own view is to say that I am sure that the National Audit Office, just like the BBC, finds that actually these projects take a sufficiently long time to develop and sometimes the precise mission of the organisation and therefore its needs change; secondly, also, you sometimes come across previously unknowable and therefore eventualities that you are unable to plan for. It seems to me that it is a better process to try and adapt and develop these projects. Specifically the Scottish project for example, we changed the scope to reflect the fact that we believed the studios should be equipped for high definition rather than just standard definition television. That affected the technology spend. I think the idea that you adjust these things as you go is not an unreasonable one.

**Q148 Chair:** For the sake of the record, the NAO project was delivered on time whilst yours was four years late. Do you think, Mr Thompson, it would have helped if there had been a proper business case set out on these projects at the beginning, so you would set out exactly what you want? We saw this problem before in White City, did we not? Was this a failure on your part not to set out in a proper business case exactly what you wanted to achieve?

**Mr Thompson:** The point I have just tried to make is exactly what you want to achieve in an industry like the media—

**Q149 Chair:** Or what would be delivered, rather, may be a better way of putting it.

**Mr Thompson:** I think my view is that across these projects the basic business case and business proposition was put well. Best practice, to be honest, has changed over this period but where we would accept that the early cases, particularly for the Broadcasting House project, were not as complete as they should have been is in the identification up front of the benefits that could be realised. That is an area where we are now seeking to improve the way—and indeed I believe we have already improved the way—that we set out our cases. Having said that, as I said at the start though, there is absolute evidence that we have and will deliver with these projects actual benefits to the licence payer who will end up with properties and facilities which are cheaper than the ones they have replaced.

**Q150 Chair:** Mr Peat, you have now prepared the Trust's new guidance on issuing business cases, have you not? A lot of these projects were started under the previous regime of the governors. How have you changed the culture of the BBC to ensure that the licence fee money is spent with more care, with a proper business case setting out at the beginning what is going to be delivered? You are obviously trying to change the culture. What success do you think you have had?

**Mr Peat:** I think we can demonstrate a considerable amount of success but no-one would claim that we have everything absolutely right yet. What I am pleased that we are able to have confirmed by this NAO Report is that the second phase of Broadcasting House, the project at Pacific Quay and the project that is underway at Salford Quays all have been or are set to be delivered on time and on budget. That to me is significant success in this very difficult world of major property projects. I think that is success. What happened so far as the Board of Governors and then the Board of Trustees were concerned is that we saw, part way through the first phase of Broadcasting House, that all was not well, as did Mark as Director General and his colleagues. We brought in external consultants from Ernst & Young to help us to look at the project, how it was being specified, how it was being managed, and to help us to help the BBC to get it back on track. Ernst & Young worked very closely with us and we made all their reports available to the National Audit Office. They produced excellent reports that helped us to set the scene for the continuation of BH into phase two and helped us to be better prepared for the PQ and Salford Quays projects, as did the report on White City which you referred to earlier, which came in during this period. We made significant changes with the Executive to the approach. We made sure that high quality project management was in place for each and every one of the projects as it went forward and I do not think the management had been adequate in BH phase one for various reasons. I think the demonstration of our success is in this NAO Report, which shows a very positive and desirable outcome for the three projects I have referred to, but all is not yet perfect. It has been demonstrated in the NAO Report that at times we are not setting out with total clarity what is required in business cases. As you mentioned, we are revising our protocols which will be published shortly and we are setting out in those protocols the requirement of exactly what is required in business cases. We also now have the Programme Management Office in place, which is staffed with very senior and effective people, and we at the Trust receive regular reports from the PMO on all major projects and how they are developing. We have better processes. We will require better articulation of benefits going forward. We have the PMO in place and we have the successful delivery of those three projects I have referred to. Clearly, BH phase one was a disappointment. The overrun in time and in cost was not satisfactory, but I think we are much better placed now and we accept all the recommendations in this Report for how we can further improve things.

**Q151 Chair:** I am very grateful for that response, Mr Peat, because it is quite clear from the way you speak that you are admitting quite frankly the problems and you are not just acting as an apologist for the BBC. You approved Salford Quays in 2007. It did not include delivery dates. That is still three years ago, but we are still waiting for the detail of the benefits that it will deliver. I just wonder whether you are still struggling in the Trust to change the culture in the BBC. Obviously the previous answer you have given was a very honest answer. There had been problems. You are trying to turn it round. You are getting more expert people in the Trust, but I wonder whether you are still finding it difficult.

**Mr Peat:** Others may be able to provide finer detail but I think it is a slight misunderstanding as to this lack of time lines in the Salford Quays approval process. I was engaged in this as a member of the Finance and Compliance Committee and on the full Trust. Salford Quays came to us several times in several guises as the process was developed. We certainly saw full time lines for the project at different stages in that process. If they were not in one particular paper, it was not because they did not exist; it was because there was a knowledge assumed that we all had and it was part of the overall understanding of the project. I accept there was not full articulation *ex ante* of the benefits and that is part of the process that needs further tidying up, but I think on the time lines all of us in the Trust knew what those were and they were articulated in other papers.

**Q152 Chair:** I do not want yet again to get into the same argy-bargy with you about the NAO having full access rights, but I would like to ask the Treasury, what is your latest thinking on whether you believe in the Treasury that the National Audit Office should have full access rights to the BBC?

**Ms Diggle:** There is a very powerful case for public audit of public resources to make sure that Parliament and the public can be reassured that Parliament's wishes about use of public resources are being carried out. We have not achieved that everywhere. The direction of travel is quite clear because we have just achieved NAO audit of the FSA. We plan to make further advances in that direction.

**Q153 Mr Williams:** May I say I was fascinated by the remarks from the Treasury in that it appears, for some reason, the Treasury loses the battle every time with the Department of Culture. I would have thought it would be the other way round but I would not expect you to comment on that.

**Ms Diggle:** I do not think I can say very much more, Mr Williams.

**Q154 Mr Williams:** I do not think you should. We like you too much to lose you from the Committee.

**Ms Diggle:** I have probably built in a bit more colour than I should have.

**Q155 Mr Williams:** Can I turn to the NAO. If you had been regularly auditing these accounts for some years as we have asked, is there any remote possibility you might have picked up that something was wrong in one or other of the projects a bit earlier than it was discovered?

**Mr Hawkswell:** Undoubtedly, if we did audit the accounts of the BBC, our day-to-day knowledge of the BBC would be superior just by virtue of being there and absorbing what is going on in the organisation, looking at the transactions going through the organisation's books. Yes, it would certainly be helpful.

**Q156 Mr Williams:** Part of the cost of keeping you out is the mess we are dealing with today?

**Mr Morse:** First, we have been aware of these issues for some time so I am not going to suggest they came as a great surprise. It is one of the reasons we were so keen to carry out the study on the instructions of the Trust.

**Mr Peat:** It is the reason we asked you to carry out a study.

**Mr Morse:** Exactly. That is fine. Be that as it may, we were keen to do it and you were keen for us to do it. If you are in an organisation as auditor, one of the things you have most concern about and a right to give general comment about is the control environment. Therefore, when you are looking at the position of whether or not objectives are really clearly set, the BBC is a strong organisation with a lot of management capacity and a very powerful advocate for whatever its current management views are. There is nothing wrong with any of that but the ability of the auditor to be heard on the record by statutory right, to comment and press for improvement is something which allows you to have a different role from the role, however valuable it can be, to do these reports, and I hope they are valuable. The BBC is certainly being more and more open with us in access to records. The reason that we do not see that as the same as being in the audit role is because of that ability to take the overview of what the control environment is like, which is really the role of the statutory auditor.

**Mr Peat:** Would it be helpful if I gave some further thoughts that we have had on the role of auditor following the discussion we had at our last meeting?

**Q157 Mr Williams:** Of course it would. That would be very helpful. I might have got there eventually, but it is helpful to have it brought forward.

**Mr Peat:** Obviously I went back to my chairman and discussed with the Trust the issues that you and others had raised about the role of auditor. We have looked at the position under the Charter and the Agreement and considered matters very carefully. We certainly believe that we have to abide by the arrangements set out in the Charter and the Agreement where the Trust is given the responsibility for ensuring value for money, for approving the BBC's auditor and for presenting the annual accounts to Government and Parliament. As you know, following that presentation, members of the BBC Trust and the Executive give evidence to the

Culture, Media and Sport Select Committee. Our view is that, in order to carry on with this role, and indeed to maintain the BBC's independence which we have discussed before, we need our auditor, whoever that may be, to report directly to the BBC and the Trust. We also, as we discussed last time, require an auditor with a range of experience covering media, international matters, commercial matters and indeed the public sector. We have reflected and we would be very happy to consider the NAO as an auditor if they wish to tender for the contract when it is next renewed, which is likely to be in about 2012. They would of course need to demonstrate they were the best people and they would need to work within the current Charter framework, reporting to the BBC and the Trust. It is for the C&AG to consider whether this is something they could undertake within their present arrangements. I thought you might wish to note that we have reviewed this and that is our present thinking.

**Q158 Mr Williams:** C&AG, is the answer yes?

**Mr Morse:** That is a very helpful response and of course I appreciate it fully but why we need to think about it carefully is because what we have to be very careful of is that this does not take away from our statutory independence. I know you understand that, Mr Peat, and therefore we need to consider that carefully and how we can respond.

**Mr Peat:** I have here a note that it may be necessary for the NAO to go through some legal work, to work out whether this is appropriate. I would also note that what we have done in the course of the first months of this year is to agree with the C&AG an enhanced protocol whereby there is access to further materials, risk reports, audit reports, board minutes and the like, to add to the information available. We are trying to be as transparent as possible to the NAO because we value their work very highly.

**Q159 Mr Williams:** I now wish I was not retiring because I would like to be here for your next appearance before this Committee. Sadly, I will miss it. Thank you. That is a positive response and I appreciate that fact. Can I put to you three situations and just ask you to confirm whether they are correct or not? In the Siemens Technology contract, you overstated the projected savings by more than £10 million a year. That is correct, is it?

**Ms Patel:** I do not have the figures to hand but there were certainly comments in the NAO Report about the completeness of our costing and business cases.

**Mr Thompson:** Nonetheless, the savings through that contract were very, very substantial and by any possible value for money criteria the contract has delivered very substantial savings to the licence payer. In other words, had we not entered into that contract the licence payer would be much worse off than if we had.

**Q160 Mr Williams:** I know you never lose; you just would have won with more. On the second proposition, for the White City two development, you missed out £60 million of costs. Is that correct?

**Mr Peat:** If that is taken from the NAO Report as discussed, then I am not going to question it.

**Q161 Mr Williams:** For Pacific Quay, you increased the budget by £60 million over three years?

**Mr Peat:** For Pacific Quay I can answer fully. There was a project put to the Board of Governors in 2002 which was then revisited by the BBC Executive. It was increased in scale to allow for more activities by the BBC in Scotland. It was increased in technology scope to make it the first fully HD broadcasting centre, rather than the last fully SD broadcasting centre. The budget was then revised. It was taken back to the Board of Governors in 2005 and the figure of just over £180 million was approved at that stage. It was delivered to that budget, so the project was changed significantly between the 2002 figures and 2005.

**Q162 Mr Williams:** Just so I am clear, you have therefore agreed three points. You overstated projected savings by £10 million in one; for White City, you missed out £60 million of costs and for Pacific Quay you had to budget for an extra £60 million.

**Mr Peat:** The project changed significantly for Pacific Quay and it came back to the Board of Governors. The new, revised project increase in scale and technology cost was fully evaluated and approved.

**Ms Thomson:** Could I just add on Pacific Quay, I think the confusion occurs because the first approval given by the Board of Governors was a conditional approval. It was conditional on the finance being raised to build the project and they were told they could not spend any money on the project until they came back and had confirmed that the arrangements for the development were in place and the finance was in place. They did that two years later. During that two year period, we changed our broadcasting strategy to increase the amount of programming we were requiring from Scotland so the size of the building had to increase. They spent £12 million on design but that was all they spent in that two year period. They came back for final approval, having had that conditional approval, when they had the money and the development agreement in place.

**Q163 Mr Williams:** The facts are the facts.

**Ms Thomson:** The facts are indeed the facts.

**Mr Thompson:** That Pacific Quay delivered on time and on budget is the central fact.

**Ms Thomson:** And it has delivered 32% savings for BBC Scotland so it has been a very significant value for money proposition.

**Mr Thompson:** Please do not try and pretend this is some sort of debacle.

**Q164 Mr Williams:** No; it is just a mess.

**Mr Thompson:** In your view.

**Ms Thomson:** I have to say not in the NAO's view.

**Q165 Mr Williams:** If you do not mind, I ask the questions. You answer the questions that I ask. Could the reason for your conversion to the

National Audit Office be because your internal auditors have been rather nasty to you? They actually said that the lack of relevant expertise in assisting the Broadcasting House project team was without precedent. Do you feel proud of that?

**Mr Peat:** I have already accepted that the first phase of Broadcasting House was unsatisfactorily managed and lessons have been learned since then. In sending the report out, we accepted that we regretted what had gone wrong.

**Q166 Mr Williams:** It is not about the project. It is about your control of it. That is what they are talking about. You did not provide the adequate expertise to get the right results. It was without precedent, it was so bad. That is the issue, not the fact of buildings and so on.

**Mr Peat:** What I am trying to get across is that I am accepting there were failings with the first phase of Broadcasting House. I am suggesting we learned major lessons from them and, for the second phase of Broadcasting House, for Pacific Quay and for Salford Quays, there have been significant improvements as shown by the NAO Report. Nothing is yet perfect. There are further improvements to be made, which we are working on, and I believe that there is a record of success in improvement but that does not take away that the first phase of Broadcasting House was not as well handled as it should have been.

**Q167 Mr Williams:** Because you have answered at such length, I will not go beyond this question. Do you realise that one of the fundamental errors as far as this Committee is concerned—and we have hammered it to department after department—is varying contracts after they have been agreed? It is Christmas Day for the contractor. When you vary a contract, you are over a barrel. You cannot go to anyone else. You cannot get competitive bids, so you are caught with it. Is that self-evident?

**Ms Thomson:** I would agree with you entirely. I was brought in to manage the BBC's property portfolio at the end of 2006 and the first lesson I learned was that the one thing you do in building projects is you control variations. That is why on Broadcasting House phase two we have had fewer than 10 variations. That is why it is coming in on time and slightly under budget, with any luck. Certainly that is what the estimates are now. Whereas on Broadcasting House phase one, we undoubtedly did not control the change requests well enough and that is something we have owned up to and learned the lessons from.

**Q168 Mr Williams:** In fact, you not only did not control them. You went in a rather round about way at not controlling them. During phase one of Broadcasting House the BBC circumvented the contractual relationship with the developer by liaising directly with the subcontractor on contract variations. It is one mess piled on another mess.

**Ms Thomson:** That was indeed, quite openly, one of the problems with phase one of Broadcasting House that we learned the lesson from. We put a developer

in place and then the relationships did not work out properly and we dealt directly with the subcontractor rather than with the developer. That is why we put it right. The Board of Governors called in the internal audit and then Ernst & Young. They helped us a lot to get a better structure in place. We put in the settlement and we have not done that in phase two. As the person responsible for phase two, I can tell you I have regular meetings with the developer and on every occasion he has said to me that the BBC's behaviour has been exemplary in how we have handled phase two. My point is simply not that we did not make mistakes. I think you are trying to have an argument, if I may say so, about something where we are actually in agreement, but we have learned the lessons from those and in phase two the proof of the pudding is in the eating.

**Q169 Mr Williams:** We paid for it.

**Ms Thomson:** We did not, actually.

**Q170 Mr Williams:** The licence fee paid for it. You learned the lesson but the public paid for it.

**Mr Thompson:** Even in phase one of Broadcasting House, the numbers of variations are, by the way, not exceptionally large for major public contracts. It was one of the weaknesses we recognised in phase one. I came on to the scene as Director General in the summer of 2004. The fact that there were too many variations being requested and that the controls of variations were not good enough was one of the problems with the project. A second problem with the project was it was too complex and there were one or two engineering and design aspects of the project which were too complex. One of the first things we did was to simplify the project and to work out a simpler way, in particular, of getting phase two to work—quite a painful process in some ways—so that we could make sure that phase two delivered on time and on track. If you track, if you like, the way the BBC has dealt with these very big projects—Broadcasting House phase one, Pacific Quay, Broadcasting House phase two and Salford Quays—you can see, and the Report is rather clear on many of these lessons that have been learned.

**Chair:** Poor Mr Williams. His period of questioning lasted over 15 minutes but he only had about two or three minutes and, ladies and gentlemen, you had over 12 minutes, so can we please have crisper answers. It is not fair on my colleagues. I know the BBC talks for a living.

**Q171 Mr Mitchell:** Just looking back, the BBC has form on Broadcasting House, has it not? I can remember—I do not know how long ago it was—first of all you were going to move everybody out and go to White City. Then you were preparing luxurious offices. Then you moved everybody back and now you are doing something else. In view of this history, one, should you not have been in a position to know what the faults of the building were and that it was going to cost more when you came to do this major refurbishment and, two, should you not have been in a better position for controlling it and managing it?

**Mr Peat:** I am going to say, to an extent, what has been said earlier. We are not disagreeing. I am not disagreeing that there were failings with the way in which the first phase was handled and it could have been handled a lot better. We knew that. We discovered that. We tried to deal with it as best we could. We brought in external advisers. We learned lessons. What I am keen on in the context of this Report is whether we have learned those lessons effectively going forward.

**Q172 Mr Mitchell:** That history does make it look as though you did not know what the hell to do with it.

**Mr Peat:** There were a lot of very difficult decisions—

**Q173 Mr Mitchell:** It is a fundamental decision.

**Mr Peat:** There was a fundamental decision as to whether to refurbish Broadcasting House or to move everyone to a greenfield site, which was a difficult decision and one that was taken many years ago. Some of the actual problems when Broadcasting House was refurbished were known in advance. Some of them were identified as the project developed including this existence of the Regent Street disease. Maybe a lot more should have been known but what I am really interested in is whether we have learned from those mistakes and whether we are well placed to deal with the projects going forward.

**Mr Thompson:** The two basic ideas behind the property strategy were, firstly, to consolidate the BBC's operations in London essentially around two sites. Having had well over 100 sites across London, all sorts of antiquated and not fit for purpose facilities, the idea was to congregate around two sites. One, a refreshed Broadcasting House to do the BBC's journalism and radio, and a second West London site with television production and multimedia production as a core. The other thing that has happened in recent years is a strong sense the BBC should also be investing and making programmes across the UK. That is why we have also invested in major headquarters particularly in Greater Manchester and Glasgow. It is a very simple idea which is fewer, fit for purpose buildings ready for the BBC in the future.

**Q174 Mr Mitchell:** Given that you knew the problems, should you not have set aside a bigger contingency reserve?

**Mr Thompson:** Yes. In phase one there should have been a bigger contingency reserve. Had such a reserve been in place, the project would not have been overspent.

**Q175 Mr Mitchell:** Now at the end of the day, here is this iconic building which I am quite enthusiastic about. You need to retain it but you are not retaining it because it now passes to a developer. You have 10%, you can buy it back if you put up the other 90% at the end of 30 years but effectively you are not going to be able to afford to do that, so an iconic building associated with broadcasting, with the BBC, central to you, is lost.

**Ms Patel:** Shall I just explain how the sale and lease back works? When we undertook the development, we granted 150 year long leasehold to the special purpose vehicle, but we still retain a very strong residual interest. At the end of the 30 year occupational lease we can either renew the lease, buy back the building or the building can be sold if we decide to move elsewhere. The BBC shares in the economic interests of lapsed time so we have not sold all of our freeholds without getting value and without retaining a proper economic interest in the long term.

**Q176 Mr Mitchell:** You have less and less control because as problems have multiplied you have transferred more and more responsibilities to the developer, both at Broadcasting House and in Manchester.

**Mr Thompson:** What we were able to do both with Broadcasting House phase two and with Salford Quays was more effectively hand responsibility and risk to the developer with tight control over variations in a way in which we were not fully successful with Broadcasting House phase one. That business of successful risk transfer is one of the reasons why the remaining projects so far have proven more successful in their progress, because the developer much more fully than in phase one is holding the risk. I think that has been an improvement. If I can also make the obvious point, the BBC exists to serve the public with outstanding programmes, and where we can more effectively get the facilities we need via leasehold and other financing arrangements rather than sitting on very large scale freeholds, we believe that is in the public interest.

**Q177 Mr Mitchell:** I want to move to Manchester, unlike some of your staff.

**Mr Thompson:** If I may say so, that is a complete myth. The average run rate of other public institutions moving from London to other cities around the UK is of only 15/20% of staff agreeing to move. The numbers we are getting between 40% and 50% of staff are unusually high. Often the press try to imply that this is a very low number. Actually, it is an unusually high number of people deciding they would like to be part of this project.

**Q178 Mr Mitchell:** The move to Manchester, while I am all in support of it because I like stuff moved to the North, does look a bit like a leap in the dark. Let us start by asking why you did not want to go ahead with the proposal that came up from Granada, when Granada was a healthy organisation, of a media city on which you both developed?

**Ms Thomson:** When we took the decision to move North, we looked at a number of cities and we came to the conclusion that the Greater Manchester conurbation was the right one. We then did a very exhaustive search and we looked at four options initially, one of which was indeed Quay Street with Granada, one of which was staying in our existing site in Oxford Road and developing that and then there were two new sites. We did a proper public

procurement style exercise and we looked at value for money. Quay Street did not stand up on value for money. We ended up with the two, the choice being between the site in Manchester and the site in Salford.

**Q179 Mr Mitchell:** It was not just that you wanted to be on your own and keep yourself separate?

*Ms Thomson:* No.

**Q180 Mr Mitchell:** That would have been a healthier development.

*Ms Thomson:* If I can say, we are very keen indeed that ITV should come to the Salford Quays site if at all possible. I have been doing quite a lot personally to try to help move that forward. We want to be as much as possible on a site which has many occupants.

**Q181 Mr Mitchell:** Now, here you are, in a sense, it is a leap in the dark or is it the Irwell or the Manchester Ship Canal? I am not sure what the water is. I have seen the building.

*Ms Thomson:* It is the Ship Canal.

*Mr Thompson:* I could take you for a swim.

**Q182 Mr Mitchell:** I would not fancy that. You are not certain that it is going to work because, according to the Report, 2.6, you have only 418 staff who have confirmed the transfer to Manchester, but there are going to be places for 2,500. You are either going to have to coerce them in some way or cut down the use of the building.

*Ms Thomson:* First of all, we have 800 staff already in Manchester, so they are part of the 2,500.

**Q183 Mr Mitchell:** You are moving the Television Centre on Oxford Street?

*Ms Thomson:* Oxford Street is closing and one of the benefits we will get which is not in the figures here is the sale of Oxford Road as a result of that. Those 800 are moving. We have never envisaged that of the 1,500 other jobs that are going everyone would move. To be honest, that would be a bit peculiar because one of the points of doing all of this is to do some economic regeneration and create job opportunities and so on and indeed to recruit new people with different perspectives from the north of England. We have about 45% of our staff who have decided, as Mark was saying, to move, which is rather a high run rate by comparison with other people who shift. We have already started looking for recruits for the new jobs. I think the recruitment website has been going—Mark launched it about three weeks ago, it is very interesting—there are 5,000 people registered on the job websites.

**Q184 Mr Mitchell:** I am going to interrupt you because a lot of estate agents in Hebden Bridge are dependent on your answers. You have cut down the amount of studio space. You have cut the costs by cutting down the studio space. Did you do that as a saving or did you do that because you did not have the staff to staff it?

*Mr Thompson:* Neither. What is happening is that throughout these projects you are constantly looking at what you are going to need in terms of the programmes and services you are delivering. The underlying point is that the shift of many forms of production into location production, rather than studios, means that our expectation is of a slightly lower need of studios for the programmes and services we deliver to the public than the previous plan.

*Ms Thomson:* We have not cut the studio space. The studio space is being provided by the developer and remains the same. All we have done is cut the guarantee of our usage of it and we have done that for the reasons Mark was outlining.

**Q185 Mr Mitchell:** Why have you put yourself at the mercy of Peel in respect of purchase of studios and equipment? I would have thought the BBC would have big purchasing power on its own without putting itself in hock to a developer who can charge you anything.

*Mr Thompson:* That is not true because there will be long range, not just guarantees, but also contracts which guarantee we get a very good deal with these studios. The point is we are moving in Salford Quays from a philosophy, which I accept may well have been the right philosophy for the BBC through much of its history, of in a sense building and owning fully specially designed, special purpose, integrated buildings for broadcasting like Pacific Quay and indeed like Broadcasting House. Salford Quays is the next step forward. What we are saying is a combination of office space which can be expanded or contracted, depending on the BBC's mission, and access to world class facilities but where again someone else is taking the risk in terms of the capital investment and the running of those facilities, gives this organisation greater flexibility as we go forward because we are building now for media which is changing every three or four years, rather than getting locked into bricks and mortar and technology which a generation ago you might have been able to use for 10 or 20 years—if you go to Quay Street in Manchester, Granada, just like we are in Shepherds Bush, is running studios which were built in the 1950s—television, media and radio are all changing. Salford Quays is an attempt to get a really flexible set of facilities which we can adapt and change without being trapped into the wrong kind of technology for too long.

**Q186 Mr Bacon:** I would like to start with Broadcasting House. I know you have said that phase one was in many respects poorly managed. There is no point in going over that or arguing about it because you have acknowledged it. Mr Peat, you are about to say something.

*Mr Peat:* I was just suggesting that you should be allowed to continue with your question.

**Q187 Mr Bacon:** I am under advisement to treat you very gently, Mr Peat. Last time I encountered you in this Committee *The Daily Mail* said that you boiled. I am not sure whether that is true.

*Mr Peat:* I did not notice it.

**Q188 Mr Bacon:** I do not want to make you boil.

*Mr Peat:* Thank you, Mr Bacon.

**Q189 Mr Bacon:** Do your folk get any training before you appear in front of this Committee?

*Mr Peat:* Yes.

**Q190 Mr Bacon:** Does it cost money?

*Mr Peat:* No, not to my knowledge.

**Q191 Mr Bacon:** Who does it then, if it is free?

*Mr Peat:* In terms of the training for coming here, there are a lot of BBC people who very much enjoy the prospect of being able to ask us as difficult and nasty questions as they can. There is no shortage of volunteers and they do not need extra pay for it at all.

*Mr Thompson:* It is not training. We will have a couple of conversations and ask each other questions as well. There is no formal training.

**Q192 Mr Bacon:** It has the same kind of informality about it as the approach that you initially adopted on phase one. The thing that staggers me about it is not that you admit you got it wrong, because obviously the Report is very clear about that—it was only 2003 when the project started—but that you were going into the business of spending what you thought was going to be £990 million, it is now slightly over a billion. The notion that you could spend such a huge sum of money without first putting in place a full scoping, which the Report says that you did not, and without identifying all the criteria properly at the outset, which the Report says was not done, is really quite startling. I find it difficult to understand. Then I read on page 24 something which one of my colleagues referred to earlier about the internal auditors. This is talking about the Pacific Quay project where it says, “. . . some early staffing decisions were made on the basis of who was available rather than who was best for the role, which may have contributed to a finding in the BBC’s post project review”—that was an internal review, I take it—“that it was sometimes difficult to engage senior staff in decision making about their area as some seemed to either not fully understand their responsibilities or take them seriously enough.” At the top there it says if it is an organisational structure that is going to be effective it has to have the right staff with the right mix of skills and experience in position at the right time. At the risk of labouring the point, the next paragraph talks about the auditor’s comments on Broadcasting House “. . . showing a lack of relevant expertise on or in assisting the project team which was without precedent . . .” and that “. . . the project director . . . did not have experience of such a large-scale transformational project.” The point about all that is it is so obvious that you would not do that. It is so obvious, if you are going off and spending £991 million, as you thought, of somebody else’s money, that you would put all of those systems in place to start with properly to make sure you got it right.

Does it not say something rather eloquent about the culture that was prevailing in the BBC at the time in terms of using public resources?

*Mr Thompson:* The first thing I want to say is from literally the first day I arrived back as Director General in 2004, where already some issues with the first phase of this project had been identified and actions taken, making sure that we got the right people involved in Broadcasting House and across the property portfolio became one of the top two or three things in my mind. For the first two or three years as Director General, stabilising the Broadcasting House project and making sure it was back on track was a critical priority.

**Q193 Mr Bacon:** I understand that. From what I have seen and read and your answers so far, it looks like you were aware of it very early on. You got to grips with that. What I am really asking is: how on earth did we get into this position in the first place? What was it about the culture that allowed that to happen, that you could go ahead and spend so much money without these controls in place in the first place?

*Mr Peat:* I think there is one other issue that merits mention, which is that for Broadcasting House phase one there was an arrangement entered into with Land Securities, which was an attempt to transfer some of the risk and some of the management to that organisation. There was a feeling, I believe, that by bringing them in and their professionalism one had to have less full on project management within the organisation. What was learned was that did not work.

**Q194 Mr Bacon:** Anyone will tell you that you still need to be an intelligent customer.

*Mr Peat:* Yes, indeed. I am agreeing with you, but there was at least some feeling that the LST role reduced it. I am delighted, quoting back the NAO to you, Mr Bacon, that there is a reference to the fact that the BBC has since strengthened its project teams by recruiting individuals with relevant skills from industry. “The BBC addressed the weakness by appointing an experienced project director for Broadcasting House in January 2005 and for Salford Quays the BBC has recruited staff from the construction industry and appointed people with experience of relocation projects”. We did learn and there was some reason for thinking that the LST would help, but we have learned from this experience.

**Q195 Mr Bacon:** Are you saying that, if there was another project, you are completely confident that all the required scoping of the project, all the required definition of the benefits, all of the required budgeting, projection and contingency work and so on would be done in the right order in the way that it was not in the early phases of these projects?

*Mr Peat:* We have been given a specific recommendation as the BBC Trust by the NAO. I would like to say that that has three elements to it. First of all, that we should make clear the evaluation

criteria. There are four main criteria: affordability, value for money, fit with strategy and furthering the public purpose.

**Q196 Mr Bacon:** Indeed, and one of the comments in the Trust's report said that you took very seriously the NAO's conclusion that although the investment case improved with each project none contained all four of those elements, not one.

**Mr Peat:** Which is why these are already in our protocols but they will be set out far more clearly in the revised protocols and that will be a requirement. Secondly, we will continue to require and will reinforce the need to make sure that BBC Finance, Zarin's people, and the Executive board, including the non-executive directors of the BBC, have appropriately reviewed cases before they come to us. We will when necessary bring in external advice. For Salford Quays the BBC Trust brought in Deloitte to provide external advice to help us to make sure that project was well developed. We have picked up all three elements of this recommendation. We will have a full action plan for implementing it and my chairman and Mark Thompson have already exchanged letters. We are getting a full report on 31 March from Mr Thompson on the way forward. We will be doing everything we can, not just to say we are going to follow it through, but to set the processes in place that require it to be followed through.

**Mr Thompson:** Caroline, as the chief operating officer of the BBC, is personally responsible for all of these projects. We have set up the Project Management Office. We have monthly meetings. I see monthly reports from the Project Management Office which is looking at something which this Report does not deal with, which is we are engaged in projects—Broadcasting House, Salford Quays, our digital media initiative and three or four other projects—which have complex interdependencies. They relate to each other. One of the particular things we want to do is make sure the organisation co-ordinates across major projects as well as within them. We now have all of that in place.

**Q197 Mr Bacon:** In the Report at paragraph (d) on page nine, talking about the Programme Management Office, it says, "... the BBC should make sure it not only provides guidance and advice"—that is to the PMO—"but also acts as a single centre of corporate expertise with the capacity to identify the best way to translate the BBC's business requirements into well-defined solutions ...". Is it doing that now already?

**Ms Thomson:** Yes.

**Mr Thompson:** I believe it is, yes.

**Mr Peat:** And we are receiving at the Trust at one of our committees quarterly reports from the PMO.

**Q198 Mr Bacon:** What about the previous paragraph where it says, "At Salford Quays there will be ongoing contracts for the availability of critical services to manage, and the BBC will need to make sure", will need to make sure, it says, "that

those responsible have the commercial and legal skills necessary to monitor whether services are provided as specified". Now, are those all in place?

**Ms Thomson:** Yes, they are. We have a new director who is running the project and who is going to run BBC North, and he is recruiting a team at the moment and looking precisely for these sorts of skills.

**Mr Thompson:** Your point about being an intelligent and effective customer is exactly right. Irrespective of whether one is getting services from an external contractor or a number of contractors, it is still incredibly important that you get the right people in place, so we would agree with this recommendation and we believe we are putting steps in place to make sure we have got the right people.

**Q199 Mr Bacon:** I am glad you say that because I think that the skill to contract properly is probably one of the absolutely core competences.

**Mr Thompson:** If I may say so, I would say that actually the BBC is in the journey; we are modernising a great public institution. The contracting skills came earlier than how do you manage and run a contract after you have done the contract. As Jeremy hinted, I think, one of the problems with Broadcasting Phase 1 was a slight over-reliance on the contractual phase and not quite enough focus on how do we, as the ultimate client, manage this business.

**Q200 Mr Bacon:** You have got to look at it as a whole-life thing, have you not? Can I just ask you about the Olympic Media Centre. I was interested in your reply to Mr Mitchell about not having bricks and mortar and in 30 years' time who knows what the BBC's needs will be, but we will have after the Olympics this enormous Media Centre which has 50 megawatts of electricity going into it, which is enough to power a reasonably sized city, and enough communications capacity to communicate with the entire planet, which is exactly what it will be doing in 2012. Have you got somewhere on the back of an envelope a little team of people who are looking at that as a possibility? It is obviously, given all this property strategy that is going on, likely to be superfluous after the Olympics, but have you got somebody thinking about what might be being done with that from the BBC's point of view or whether you might be able to be involved?

**Mr Thompson:** I shall be fairly straightforward about this, that our long-range strategy has been about the consolidation in London, and the consolidation over the last three or four years has become more radical as we have taken the decision to sell Television Centre and not replace it. Part of the story is that we in Television Centre cease to be a part of the BBC, we have some office buildings in West London and we have Broadcasting House, and then we have much of our output by the end of this Charter, the majority of the BBC's public service staff and a majority of TV and multimedia production, based outside London, so we are not looking for additional facilities in London, we are shrinking our footprint in London, so it is not

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obvious to me, and I do not want to rule things out, but the BBC is not looking for another enormous digital broadcast centre in London.

**Mr Peat:** It might make sense for Mr Thompson to have a word with Baroness Ford who is running the Olympic Legacy Centre, or it is already happening.

**Ms Thomson:** I am about to see her.

**Q201 Mr Bacon:** Good. I have run out of time, but I would just like to ask Mr Peat one final question. Some years ago when *The Da Vinci Code* came out, it stated on your CV that you were on the Committee of the Rosslyn Chapel.

**Mr Peat:** That is correct.

**Q202 Mr Bacon:** And you denied having found the Holy Grail in answer to my specific question on this point. I notice now that you are no longer on the Committee of the Rosslyn Chapel. Is there something you want to tell us?

**Mr Peat:** I do not believe that I was sacked because I took the Holy Grail away with me! I found that the joy and preoccupation with the BBC was such that I did not have sufficient time to devote to looking after that marvellous building, especially with so many visitors coming, and they had less need of my financial input because they were doing very nicely, thank you.

**Q203 Chair:** Well, if you think we give you a bad time, we gave even more of a bad time to the Olympic Delivery Authority over this building, the Media Centre, but we are just hoping this afternoon that you might take it on. It is £300 million for two weeks' work. Even by your standards, that is quite a lot, but unfortunately not?

**Mr Thompson:** Well, Caroline is going to see the head of the Legacy Authority, but it is not obvious to me that the right thing for the BBC is to take on another enormous building.

**Mr Bacon:** Mr Thompson, you could finance it personally out of your salary!

**Q204 Mr Davidson:** I start from the perspective that I support the BBC and I support public sector broadcasting and, as I have said to Mr Peat before, this is actually for your own good, even though it might not always appear that way. The intention is to try and help you beat off vested interests, like Rupert Murdoch and the like, but there is an issue of culture, I think. At the beginning of this, we were just discussing the responses you were giving and you very clearly give the impression that you do not like being questioned by oiks like us and that really we are beneath your level, and I think that that is not particularly helpful. This is intended to be a co-operative venture, we are intending to try and help you and maybe it was just unfortunate at the beginning because things seem to have mellowed a bit since, but I just thought I would mention that for the general edification of the company.

**Mr Peat:** May I just say that, if any of us have given the impression that we resent being questioned by any member of this Committee, that is entirely wrong; we are very willing to come to this

Committee. What I always want to do is to get down to talking about value for money and how we can improve it. You may sometimes feel I am taking umbrage when I feel that we are getting off the subject, which matters and which is dear to my heart as a member of the BBC Trust, which is delivering value for licence fee-payers. You can ask me about that until the cows come home.

**Q205 Mr Davidson:** Yes, I remember in a reception you held, I referred to you, I think, as "Mr Grumpy" and everybody knew who I meant at the time!

**Mr Peat:** They call me "Mr Happy" at other times!

**Q206 Mr Davidson:** Yes, indeed, at Christmas possibly! Can I come back to the Pacific Quay and to the fact that in 2002 the building was estimated at £126 million and then in 2005 the estimate was £188 million. Now, I have heard people speak at length about how this changed, and this smacks to me of the same sort of approach that the Ministry of Defence takes. They get an agreement for a minesweeper, they expand the size, the capacity and the function and, before you know where you are, you have got an aircraft carrier. I am anxious that what seems to have happened here is that you got an agreement and then you just started expanding and, if you did not realise these other things were coming down the track that led you to justify the expansion, then where is your planning capacity? Do you understand our anxiety?

**Mr Peat:** I understand your anxiety completely. Now, this was in the days of my predecessor, Sir Robert then and now Lord Smith, who obviously took the responsibility, as the BBC Governor for Scotland, very seriously and was very keen on making sure that Pacific Quay was fully equipped to deliver more network commissions, more programmes from Scotland and also very keen that it was a modern, new facility rather than an outdated one, so, in between 2002 when the original estimate was made, and 2005 when the final project was signed up, two things happened. First, the BBC agreed that it wished to be more ambitious about how much to deliver, and we have subsequently had the Network Commissioning Review and, I am glad to say, there is good progress happening in Scotland on additional network supply for the BBC and that is in large part because the Pacific Quay is there—

**Q207 Mr Davidson:** I understand that.

**Mr Peat:**—so the scale has increased, and then—

**Q208 Mr Davidson:** I know that.

**Mr Peat:**—and then we had to have HD and I do not think anyone in 2002 would have appreciated how quickly HD was going to become the future.

**Q209 Mr Davidson:** Well, let me separate those two things. Having the best of intentions about expanding what you wanted to do, I do not understand why that could not be seen in 2002. I'm prepared to accept that yes, perhaps HD was a technological development which could not have been foreseen in any way in 2002 and it was only in

2006, but I think you can see how that potentially is a never-ending process. Presumably, there are more things that have happened since 2006 that you could also expand on, and it is a question of value for money. My anxiety is that the BBC often gives the impression of being like a kid in a sweet shop and, if it is there, you want it and there is then the issue of value for money and what is attainable and achievable.

**Mr Peat:** I agree entirely, and I am not trying to avoid your question at all. I personally believe that between 2002 and 2005 the BBC actually developed a greater out-of-London vision and, rather than trying to be hideously London-centric, as it has been described in the past, it tried to think of developments out of London. As part of that process, which Lord Smith encouraged and I continue to encourage, it was accepted that there could be a case for more happening in Glasgow and that required a bigger building, and I think it has worked tremendously to the benefit of the broadcasting sector in Scotland, but we need to do more to make the most of it and I think that that extra scale has been justified.

**Q210 Mr Davidson:** I understand that. Mr Thompson?

**Mr Thompson:** We are essentially close to tripling the amount of network television production in Scotland from 2002–03 to 2016, but the important point to make here is that the plan is partly about building and growing Pacific Quay and building Salford Quays and it is also about closing down and selling Television Centre. This is not an estate which is growing, it is actually shrinking in overall terms and there are large disposals in the mix as well—

**Q211 Mr Davidson:** Yes, that is right, but you understand the point that there is an element of minesweepers becoming aircraft carriers as your ambitions develop?

**Mr Peat:** I understand that.

**Q212 Mr Davidson:** What I do not quite understand in all of this, and I do not know whether the NAO looked at that, is whether or not the larger project was as good value for money as the earlier project and to what extent did simply your ambitions grow because there was more money available. It is the question of the rigour with which you approach things. I am happy with what has happened in Pacific Quay, but, I must confess, I do not know how much less I would have been happy with Pacific Quay had it been 10% less or how much more happy I would have been had it been 10% more. I am just not entirely convinced that the process that you go through that arrives at these figures is sufficiently rigorous.

**Mr Peat:** Well, I can give two examples where I believe there have been significant benefits. One is that partnerships have evolved with others and there has been a capacity to share some of the space with others to the benefit of the broader broadcasting sector. The other is that I think it is a 32% saving in the current costs within Scotland over a five-year

period, which is significantly above the saving in other locations, but I cannot give you a comparison between one project and the other.

**Q213 Mr Davidson:** Well, can I just clarify with the NAO what their view is.

**Mr Morse:** These additional benefits are understandable and these changes are understandable, but the truth is that the reason we cannot be clear whether it was all good value for money or not is because the looked-for benefits were not set out, as our Report says, at great length in the first place. The reason why that matters is because it keeps everybody honest because it is exactly as you say, otherwise you keep on adding things on and it all seems like a good idea at the time and, if projects go on for a long time, you can keep on; it is called 'scope creep'. It is quite a good idea to deliberately build things into the way that you manage projects to make it very difficult for that to happen. Really, what we are saying is that you just need to defend that as strongly as possible. We are not saying that some of these things were not good things, but just saying that a pretty tight grip on that is necessary, otherwise you find every expansion is only upward.

**Mr Thompson:** All I would say though, and we would accept that point about the laying out clearly of the benefits, is the other thing which, in a way, is a slight drawback of this key approach that we have necessarily taken is that that big picture of the complete estate, the complete technology support for the BBC and those other large decisions, eg, to shut down Television Centre, are enormous steps for the BBC to take and that is not in the mix and it needs to be if you want to understand the whole picture.

**Q214 Mr Davidson:** I have only got three hours to ask questions, so we are going to have to move on slightly! One of the things which causes me a bit of anxiety, for example, is that there is mention in paragraph 2.28 where I think there was a saving on the contingency which got spent, and at one point in the Report, I think it was 1.15, there was evidence of a £3 million saving because stuff that was in a truck got moved inside, but you still spent up to the budget, so there is £4 million saved, but you still spent up to the budget, so you just get the impression that there was a budget there and you were going to spend up to it. Unless there was £4 million of additional spend which, by coincidence, balanced those savings, then it does look to me as if there is a lack of discipline there.

**Ms Thomson:** I think what you are referring to on Pacific Quay is the use of the contingency and, first of all, it is worth saying that that was properly authorised spend, but it was also—

**Q215 Mr Davidson:** By whom?

**Ms Thomson:** By me, by the two of us.

**Q216 Mr Davidson:** So you authorised this additional spend?

**Ms Thomson:** Yes, we authorised this additional spend.

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**Q217 Mr Davidson:** Well, you authorised your own spend. I can understand that.

**Ms Thomson:** No, this was not my spend, this was BBC Scotland's spend. We have a separate Finance Committee approval process.

**Q218 Mr Davidson:** Is there any other spending that they wanted to do that you did not authorise?

**Ms Thomson:** As someone who manages the other building projects, and I did not manage Pacific Quay, I am frequently not authorising spend.

**Q219 Mr Davidson:** Sorry, if you do not manage this project, how then did you authorise the spending on this one?

**Ms Thomson:** Because we have a Finance Committee which authorises spending and the specific provisions on the sign-off of the Pacific Quay contingency was that they could not spend it without Finance Committee authorisation. Zarin, as Chief Finance Officer, is the Chair of the Finance Committee, and I am a member of it. I just also want to come back to this point about scope creep because the evidence does not bear it out.

**Q220 Mr Davidson:** No, the way that the system works is that we ask you questions and we have a limited amount of time, and I understand the tactics of stalling, I have done it myself on occasions, but I do not want to do it here. Coming back, there is £1 million of contingency and they have £3 million saved from this equipment which was moved in from a truck, and I would have thought, all other things being equal, that the building would then have come in at £184 million, was it, but no, it came in at the spend. You can see how in those circumstances you just wonder about whether or not there is the rigour there about your controls.

**Ms Patel:** Shall I try and help the Committee? First of all, let me take the £3 million for an OB truck. Pacific Quay has got two studio spaces, Studio A, which is a large studio which we have fitted out for HD, and Studio B where we took a decision at Finance Committee, which was endorsed by the Governors at the time, that we should not take the risk of fitting that out to HD because we could not be absolutely certain of getting commissions. Therefore, we went for a very low-cost option and a flexible option and we put studio lighting in the thing and we put in an OB truck, and that has borne out to be the right thing to do.

**Mr Thompson:** That has the same use as a studio, but you do not have the capital cost of a permanent studio, and that is the point.

**Ms Patel:** So that was Studio B. In using the contingency, the full process that I went through was this: that the bond that financed Pacific Quay only allowed that money to be used on the building and we could not hand it back until right at the end of the 30-year lease and all of the costs and risks—

**Q221 Mr Davidson:** Sorry, you could not hand it back?

**Ms Patel:** We could not hand it back until the end of the lease, which is the financial structure around PQ, but at the time—

**Q222 Mr Davidson:** Sorry, you got yourself into a position so that, if you saved money, and suppose it had been £20 million, you are saying, you had to spend it and you could not hand it back?

**Ms Patel:** Let me try and explain. Because Pacific Quay—

**Q223 Mr Davidson:** I think I understand it fine actually. I do not think that needs to be explained. Unless I am mistaken, you are saying to me that you saved the £1 million and you had to spend it because you could not hand it back?

**Ms Patel:** We could not hand it back until the end of the lease.

**Q224 Mr Davidson:** I do not think I need to know any more on that particular point, thank you. The final point I wanted to ask, and I have raised before, is about your personnel in the BBC and how you are basically public school boys from Oxbridge, which does not apply to all of you, I understand. You mentioned that you are recruiting lots more people from the North.

**Mr Peat:** Yes.

**Q225 Mr Davidson:** Can you give us a note, indicating that they are from a different social background and that the pattern is different, because I think you have in the past said that you are trying to change the intake.

**Mr Thompson:** I can tell you myself that we have got partnerships and I have been up there to meet the students at the University of Central Lancashire, the University of Teesside, and we are typically looking for graduates, but—

**Q226 Mr Davidson:** Fine, so give it to us in writing. That is what I am asking for.<sup>1</sup>

**Ms Thomson:** We have not done the recruitment yet, but it will be about a year and a half before we have done the recruitment, but we can certainly do that.

**Mr Thompson:** We can actually give you a note about the approach that we are taking and it is very much to your point.

**Q227 Mr Davidson:** I want some evidence really, I think.

**Mr Thompson:** Okay, we can provide that.<sup>2</sup>

**Q228 Mr Bacon:** I have a question which is slightly outside the scope of this property estate report, but is to do with the recent well-publicised controversy about the decision to close Radio Six and the Asian Network. I have not written to the Trust yet about this, but, since you are here, you may want to comment on it. I have had a number of letters and emails from constituents who listen to Six Music and the things that they said are along the lines of, "I might be in a small minority, but I value Six Music

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<sup>1</sup> Ev 31

<sup>2</sup> Ev 31

hugely, and isn't the whole point that the BBC provides for, and serves, minority audiences, like me", the people who are writing to me, "rather than doing things that can be done commercially?" It is fairly obvious that there are lots of things that the BBC does, like Radio One and Radio Two, that are now very well established and that could easily be done commercially. I know that this is a proposal which Mr Thompson, who is sitting there, has put up on behalf of management to the Trust, but would either of you like to comment on it?

**Mr Peat:** I will be very brief. We have the strategic review proposals which are out for consultation at the moment. As far as the Trust is concerned, we will be listening to the results of that consultation and we will then see whether the Executive wants to put any specific proposals to us with regard to Six Music, the Asian Network or anything else. If they do, then we will go to the Charter and the Agreement and see if we need to do a full public value test or any other approach and then make a decision, but at the moment it is consultation and we will listen to what the consultation tells us.

**Q229 Mr Bacon:** When does the consultation close?

**Mr Peat:** It is a three-month period which is already under way.

**Mr Thompson:** Let me in brief say that Six Music is actually a high-quality service, and shutting or proposing to shut any BBC service unquestionably is painful for those people who listen, watch or use the service. Six Music, there is a relatively small number of people who really rely on it. The number of people who only listen to Six Music amongst the BBC radio stations across the UK of 60 million people and 25 million households is about 4,000 people, as it were, exclusively using Six Music, so it is quite a specialist service. We have concluded that we have currently got, depending on how you count them, nine UK-wide radio networks and we believe that actually there is a strong case for us making a slightly smaller number which we can put more quality programmes into and drive digital radio better with. You should see the decision, the painful decision, to propose shutting Six Music alongside our desire to make, in particular, Radio Two substantially more distinctive and to include a lot more specialist music programming on Radio Two. I am not suggesting we can, if you like, preserve and transfer everything on Six Music, but we want to make sure that we think it is right to go ahead with two rather than three popular music stations into the future as we think two is enough and should be enough to give the public a really broad range of experience of popular music, but we want to see, in particular, Radio Two become strikingly more distinctive and more different from commercial radio.

**Q230 Chair:** Well, I tend to agree with Mr Bacon, not that I care a damn about Six Music, which I have never listened to in my life as I only listen to Radio Three. So few people apparently listen to Radio Three that it would be cheaper to telephone the Radio Three listeners than actually put it on the

radio. I am sure that is apocryphal, but you are shaking your head. You would never dare close down Radio Three because it is listened to by people like me and a load of other arty-farty people, but Six Music is fine, is it not?

**Mr Peat:** I can assure you that any formal proposal to close Six Music will be subject to full and transparent consideration by the BBC Trust, and you and Mr Bacon and anyone else will have an opportunity to comment as much as you wish.

**Q231 Chair:** Of course, yes!

**Mr Peat:** And we will listen very carefully to you.

**Mr Thompson:** Can I emphasise, we are not shutting Radio Three!

**Chair:** Thank you very much. There would be a row if you did that!

**Q232 Mr Davidson:** I have one final point and perhaps you could give us a response to this in writing if it is easier. We went to see the Olympics site and we have seen the preparations that they are making for the Olympics, and we were very impressed by the efforts they are making about training and local recruitment. I think it would be helpful if you could give us a note, just indicating what efforts and what targets you had and whether or not you met those in terms of training and on construction, your role as client basically for the development. As I think I have indicated before, I know that, for example, the BBC in Glasgow still buy their sandwiches from the West End rather than buying them from anywhere locally and are clearly not having the economic impact in the area in which they sit that we would want, so perhaps you could give us something back about that, please.

**Mr Peat:** Certainly.<sup>3</sup>

**Q233 Chair:** I am not going to have another spat with you about Gary Lineker's rooftop terrace, Mr Thompson, because we went through that at such length last time, but in *The Daily Telegraph* on 17 March, and being in *The Daily Telegraph* it must be right, apparently the cost, they say, is not £250,000, which we were having that spat about, but it is now £573,000.

**Mr Peat:** I would suggest you read the attachment to my letter of 11 March which sets out the fully agreed position between the NAO and the Executive.

**Q234 Chair:** Yes, your letter of 11 March. Thank you for reminding me.

**Mr Peat:** What a shame!

**Q235 Chair:** I had almost forgotten to ask you about this letter.

**Mr Thompson:** Would you like me to talk about it?

**Q236 Chair:** No, give us a note because we had about 10 minutes on Gary Lineker's studio last time.

**Mr Thompson:** The *Telegraph* story is essentially wrong in almost all the particulars.

<sup>3</sup> Ev 31

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17 March 2010 BBC Trust and British Broadcasting Corporation

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**Mr Davidson:** I find that difficult to believe!

**Q237 Chair:** Okay, we take your word for it. Your latest letter to us, Mr Peat, we are not very happy with it because all we wanted to ask you was about the total cost of the talent and we were not asking for individuals, but once again you have taken, we think, the sort of extreme legalistic view. We are at an impasse now, are we not? We have asked for information and you are refusing to give it to us, are you not?

**Mr Peat:** Well, I can simply repeat what I said to this Committee last time and what I said in the letter, which was that we are quite prepared to give you what we gave to the NAO, which is the breakdown between talent and staff costs by the category, provided that is treated in confidence.

**Chair:** Well, I am afraid, this is a committee of the House of Commons and we have to do things in public.

**Q238 Mr Bacon:** Mr Peat, your statement earlier about the National Audit Office possibly becoming the auditor and that you would invite them to tender was interesting and it was a welcome step forward. The reason that you used to give for not having the National Audit Office as the auditor was in a long, rather convoluted sentence which mentioned editorial independence, and I never quite saw the sequiturs in it, but there appeared to be some justification that revolved around not having the NAO involved because it would, in some not clearly specified way, compromise your editorial independence. It always looked a little spurious because of course the NAO audits the BBC World Service, which is a byword internationally for editorial integrity. My question is: are you no longer adducing the argument about editorial independence in relation to the National Audit Office?

**Mr Peat:** Mr Bacon, I think the very long conversations we had in previous meetings before the last one, in meetings from 2005 through to 2009, were much more about full and open access of the NAO in all aspects. The discussion we had a few weeks ago was specifically about the role of auditor and that is the specific response I have given you today, so our previous discussions were on a different matter where my views have not changed.

**Q239 Mr Bacon:** I recall, though I do not have the transcript in front of me, that the justification for not having the NAO doing the audit revolved around

the potential, “perceived”—was the word you used—threat, however slight, to editorial independence.

**Mr Thompson:** If I can just intervene, those conversations were not about, my recollection, the NAO “doing the audit”, in other words, the overall audit of the BBC, but it was about whether or not the NAO should have “an unfettered access” in the context of the value for money studies.

**Q240 Mr Bacon:** But, if the National Audit Office had full and unfettered access in the same way that it does statutorily for all other bodies that are publicly funded, which was what the conversation was all about, then it would follow, as night follows day, that the National Audit Office became the auditor.

**Mr Thompson:** No, not at all, and the terms of the audit are laid out very clearly in our Royal Charter. It is a separate issue, there are two things. It is not obvious that, if the NAO is the BBC’s auditor reporting to the BBC and the BBC Trust with a published audit which is then laid before Parliament, that is exactly the same as an NAO study done of some other statutory body.

**Q241 Mr Bacon:** I am taking it that there would need to be a very small change in the law in order to provide for the NAO the kind of statutory access that this Committee has been seeking for a long time. My real question is that your previous concerns about editorial independence no longer stand. Is that what you are saying?

**Mr Peat:** No, I have always said that I reserve the right to be prepared to limit, the BBC Trust reserves that right to be prepared to limit, in case there is ever any risk to the editorial independence of the BBC. I have never had any evidence that that is likely through the work of the NAO, but, given the Royal Charter, we reserve that right. For the audit position, which is what was raised by Mr Williams and others, I have given the response today which was an attempt to make progress.

**Q242 Chair:** Well, ladies and gentlemen, that concludes our hearing, which is our last hearing with you in this Parliament. May I say, Mr Peat and Mr Thompson particularly, thank you very much for answering all of our questions. We will obviously want to report this and, as this will be our last Report, we will obviously want to report our relationship, but I think we have made progress today, Mr Peat, and we are very grateful to you.

**Mr Peat:** Thank you, and can we again thank the NAO for a very valuable Report.

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#### Letter from BBC Trust to Chair

I refer to the PAC hearing on 8 February concerning BBC Major Events.

We discussed, in total, six areas where we agreed that the BBC Executive or I would see what further information could be provided to you and the PAC. These are as follows:

1. Clarification on the confusion between the BBC and NAO as to the incremental cost of the Vienna studio.
2. Talent spend for each of the six events considered in the report.

3. World Cup 2010 budget.
4. Olympics 2012 budget.
5. The Outside Broadcasting market.
6. MP attendance at BBC events.

Before I formally respond to each area discussed, I wanted to highlight the sensitivity of point 2). In the PAC hearing, I offered to send you the talent spend for each of the six events considered in the report on a confidential basis. We discussed at length in the hearing the reasons why I did not feel able to put them in the public domain, so I will not go into them in this letter.

However, we understand from the PAC clerk that your usual assumption would be that any information I send to you and the PAC would be made public. Obviously, if true, this would restrict the amount of information I would be able to send to you.

I would therefore be grateful if you could confirm that, as discussed at the PAC hearing on 8 February, information I provide to you and the PAC on a confidential basis, particularly about talent spend, will indeed be treated as confidential and not published. In the meantime, I will prepare my response, to send as soon as I hear from you.

*Jeremy Peat*  
Trustee for Scotland  
BBC Trust

3 March 2010

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#### **Letter from the Chair of Committee of Public Accounts to BBC Trust**

Thank you for writing to me yesterday. As you note in your letter, at our recent hearing you and Mark Thompson undertook to provide the Committee with further information. For clarity I have set out what is expected as an appendix to this letter as this differs to what you listed yesterday.

You requested confirmation that any information you provided relating to the BBC's talent spend for the Major Events would be treated on a confidential basis. The Committee does occasionally agree to receive information on a confidential basis, for example on matters that relate to national security. However, I find it implausible that you, as a publicly funded broadcaster, are unable to provide this information to the Committee without such a qualification.

Your argument holds little weight given that only this week BBC published the talent spend on artists, presenters, actors, musicians and other contributors across its TV, radio and online services, divided into four salary bands, in the national press.

As you are no doubt aware, Select Committees have formal powers to send for people, papers and records. The Committee is prepared to use these powers if you continue to obstruct our scrutiny of your work. I therefore look forward to receiving the information you offered during the Committee meeting on receipt of this letter and without further qualification.

I am copying this letter to Mark Thompson.

4 March 2010

#### **Appendix**

##### **NOTES REQUESTED BY THE COMMITTEE OF PUBLIC ACCOUNTS FOLLOWING THE HEARING ON BBC MAJOR EVENTS**

1. Clarification on the confusion between the NAO and the BBC regarding the additional costs of the Vienna studio against the International Broadcasting Centre.
  2. Talent spend for each of the six events considered in the report.
  3. Projected budgets of World Cup South Africa and London Olympics.
  4. On Note 4, (the non-SIS OB contracts), Dr Pugh actually asked about how many people are pitching for outside broadcasting work, what their size is and, in fact, how many of the contracts do they bid for (Q94) and whether on the 16% of contracts [bidders other than SIS] have won did they win them by a substantial margin or by a normal commercial margin (Q95). His interest seems to have been in establishing whether there was a competitive market for OB services (Q96).
  5. Hospitality given to elected officials and regulators to BBC events.
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### Further letter from BBC Trust to Chair

Following our discussion at the Public Accounts Committee on the NAO report on Major Events, I am writing as agreed to provide some further information. As I set out in my letter of 3 March, there were six areas where I or the BBC Executive agreed to see what further information could be provided to the PAC.

1. Clarification on the confusion between the BBC and NAO as to the incremental cost of the Vienna studio.
2. Talent spend for each of the six events considered in the report.
3. World Cup 2010 budget.
4. Olympics 2012 budget.
5. The Outside Broadcasting market.
6. MP attendance at BBC events.

I will respond on item 2 following receipt of your reply to my letter of 3 March. So far as item 1, the confusion between the BBC and NAO as to the incremental cost of the Vienna studio, is concerned, the NAO and the BBC Executive are currently finalising a note on the subject. I very much hope to be able to send this to you by the end of this week.

#### WORLD CUP 2010 BUDGET

The Executive advise me that it would be premature to disclose a precise budget figure at this stage, since they have yet to agree a final split of matches with ITV. However, once that agreement has been reached they will provide indicative figures to the Committee for budget and for staff numbers, provided you are able to give an assurance of confidentiality in reply to my letter of 3 March. You will understand that public disclosure could prejudice the sensitive commercial negotiations that are in train.

#### OLYMPICS 2012 BUDGET

At the PAC, Mr Mosey said he was unable to tell the Committee the budget as it is currently under development. The BBC is therefore unable to share a figure with the PAC at this stage. However, as Mr Mosey said during the hearing, we will do so when possible—we hope within the next few months.

#### THE OUTSIDE BROADCASTING MARKET

The BBC works with a number of leading outside broadcast providers. Various elements of outside broadcasts are tendered at a number of major events. For example, five different suppliers were asked to tender for Glastonbury in 2009 and, following this competitive tender process, three separate suppliers (Arena, O21 and SIS) were awarded different elements of the outside broadcast. The BBC's approved supplier list includes eleven providers of outside broadcast facilities, as detailed in annex 1 to this letter.

#### ATTENDANCE AT BBC EVENTS

The BBC is careful to ensure corporate hospitality events provide value for money and in 2008–09 the BBC Executive significantly reduced the amount of hospitality offered. It also announced a further tightening of policies on corporate hospitality in order to drive down costs even further over the next year.

In order to manage the data request for this response we have looked at which MPs attended the events detailed in the NAO report.

The BBC Executive advise us that they only hold centrally records of attendees who are invited via the central Corporate Affairs office. It is not unusual for Directors of BBC departments to individually invite MPs to events but this information is not recorded centrally. This is particularly true for the Proms—the BBC Corporate Affairs office arranges the first night of the Proms which is hosted by the BBC Chairman and the Director General. There are boxes available to the BBC throughout the Proms season but these are hosted by individual departments and we therefore do not have a record of who attended. In annex 2 to this letter, as explained above, I copy the information held by the Corporate Affairs department—but this is by no means exhaustive. I have also included two MPs and one peer who were guests of Sir Michael Lyons at the Proms. Details of Trust hospitality are on the Trust website.

I hope this is helpful to you and the Committee.

*Jeremy Peat*  
Trustee for Scotland  
BBC Trust

4 March 2010

## THE OUTSIDE BROADCASTING MARKET

The BBC's approved supplier list includes eleven providers of outside broadcast facilities which are listed below:

### O21 TELEVISION LTD

O21 Television provides outside broadcast facilities across the UK and Europe. Their trucks and broadcast equipment include both HD and SD kit. They service terrestrial and satellite networks, as well as independent production companies and overseas broadcasters.

Previous credits:

- UEFA Euro 2008.
- UEFA Champions League Football.
- The Boat Race.
- Rugby World Cup.
- Top Gear.

### ARENA TELEVISION

Over the past four years, Arena has grown to become a leading provider of OB facilities. Their fleet of trucks includes four HD double expanders, two SD non-expanders, one HD rigid and one SD rigid. They have a team of around 45 staff. Their sister company, Arena Aviation, provides aerial filming, with both SD and HD gyro-stabilised camera mounts and a fleet of five helicopters.

Previous credits:

- Concert for Diana.
- Live Earth.
- Queen's Birthday Party at Buckingham Place.
- Wimbledon 2008—centre court coverage.
- Glastonbury 2008.

### ARQIVA OUTSIDE BROADCASTS

Arqiva has a fleet of OB units, including three new Sony build HD units, offering full Dolby 5.1 audio and Sony fibre optic cameras. Their range of OB units includes large full HD units through to small four camera HD trucks and a range of 16x9 SDI units.

Previous credits:

- Proms in the Park.
- Antiques Roadshow.
- Question Time.
- Brit Awards.
- Opening night—Glyndebourne.

### BARCUD DERWEN

Barcud was formed in 1982 as an OB provider, and now also provides studios and post production. The company has provided OB facilities in locations including Wembley (3 Tenors), Llangollen Eisteddfod, Cardiff's Millennium Stadium, Royal Welsh Agricultural Show and Bryn Terfel Festival. Barcud provides production compounds with two to three scanners, post-production and transmission facilities, including web access and new media upload facilities:

- from 3 camera SDI to 24 camera HD both in the UK and Europe.
- PSC crews, satellite links and post production compounds based around Avid Unity, with direct playout via scanner to air.

Previous credits:

- Live Easter Service from Liverpool Cathedral 2008.
- Live Easter Service from Coventry Cathedral 2007.
- Kickboxing for EuroSport.
- Children in Need.
- General Election Counts.

#### CTV OUTSIDE BROADCASTS LTD

Since 1986, CTV has developed into one of the largest independent OB companies in Europe, with an all HD fleet. CTV is a Euro Media Group company, with OB Partners in Belgium, France, Germany and The Netherlands.

##### Previous credits:

- The European Tour Golf.
- International, test and domestic cricket.
- International boxing.
- The Brit Awards.
- The BAFTA Awards.

#### ENFYS LTD

Enfys are an independent facility company based at a studio centre near Cardiff city centre. They are presently upgrading OB I with a new chassis and HD matrix. Facilities include:

- Unit I-SDI/HDSDI 8–10 cameras.
- Unit 2-SDI Mercedes 816 4–6 cameras.

##### Previous credits:

- Young Musician of the Year.
- Great British Poker Tour.
- ITV book awards.
- Operas at Millennium Centre, New Theatre and St David's Hall Cardiff.

#### NEON BROADCAST SERVICES LTD

Neon Broadcast Services has been trading since 1995, supplying both television broadcasters and independent production companies. They operate live satellite vehicles, OB vehicles (both SD and HD) and PSC units. They have worked on a variety of genres, providing:

- Live satellite uplink vehicles.
- HD outside broadcast units.
- SD outside broadcast units.
- PSC shooting kits.

##### Previous credits:

- The One Show (live inserts).
- The Politics Show (the London opt).
- The Osmonds Concert (HD OB).
- Songs of Praise (HD OB).
- BBC Breakfast News (live single and multi-camera inserts).
- The Justin Lee Collins Show (five covert inserts).
- Children In Need (SD live OB).
- The Andrew Marr Show (SD live OB).

#### NEP VISIONS LTD

NEP Visions has almost 25 years experience delivering television production facilities Worldwide. They have the largest fleet of HD trucks in the UK, with a fleet of 20 OB trucks plus a fly-pack division:

- HD and SD outside broadcast trucks.
- HD and SD fly-pack OB facilities.
- Edit trucks and multipurpose vehicles.

##### Previous credits:

- BBC London 2012 handover ceremony.
- Nelson Mandela 90th birthday concert.
- Glastonbury.
- Reading Festival.
- Summer Olympics, Beijing 2008.

## OMNI TV

Since forming in 2006, Omni have been involved in many high profile events from international sport to drama. Omni provide a range of services, including kit, crew and production support. Their fleet provides all levels of OB and Studio facilities, from international multi-truck events in HD to single camera coverage.

Omni is part of the Barcod Derwen Group—the largest television facility outside the M25. They also provide production support for related fields, including project management.

## SIS OUTSIDE BROADCASTS LTD

Formerly BBC Outside Broadcasts, SIS is the largest supplier of OB facilities in the UK. They are experienced in dealing with international projects, providing acquisition facilities in over 30 different countries per year.

Service provided:

- Multi-camera, multi scanner, complex, live OB coverage in SD and HD.
- PSC.
- 5.1 sound acquisition and editing, including dedicated sound mobile.
- RF expertise, digital links, radio mics, radio cameras.
- Custom camera systems for covert work, in-car POVs, underwater, hot heads, track and rail cameras, cricket stump cameras, helmet cameras, remote control systems, extreme environment equipment, miniaturisation.
- On-site editing facilities with multiple seat real-time editing on most platforms including Avid, EVS and Final Cut Pro.

Previous credits:

- The Coronations of King George VI and Queen Elizabeth II.
- Every UK general election since 1945.
- Every Olympic Games since the XIV Olympiad in London in 1948.
- 1966 FIFA World Cup.
- Live Aid 1985.
- Funerals of The Queen Mother, Diana Princess of Wales, Pope John Paul II.

## TELEVIDEO

Televideo has 30 years experience as an independent outside broadcast provider, providing standard and high definition outside broadcasts, with a range of truck sizes available. They specialise in:

- Sporting events.
- Music concerts.
- Light entertainment.

Previous credits:

- Match of the Day.
- Coronation Street outside broadcasts.
- Emmerdale outside broadcasts.
- BBC HD Kaiser Chiefs concert.
- Tour de France UK leg.

## Annex 2

### MP ATTENDANCE AT BBC EVENTS REVIEWED IN THE NAO REPORT AS GUESTS OF THE BBC EXECUTIVE

The BBC Executive advise us that they only hold centrally records of attendees who are invited via the central Corporate Affairs office. It is not unusual for Directors of BBC departments to individually invite MPs to events but this information is not recorded centrally. This is particularly true for the Proms—the BBC Corporate Affairs office arranges the first night of the Proms which is hosted by the BBC Chairman and the Director General. There are boxes available to the BBC throughout the Proms season but these are hosted by individual departments and we therefore do not have a record of who attended. Below, as explained above, I copy the information held by the Corporate Affairs department—but this is by no means exhaustive. I have also included 2 MPs and 1 peer who were guests of Sir Michael Lyons at the Proms. Details of Trust hospitality are on the Trust website.

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**BEIJING 2008**

— Rt Hon Tessa Jowell.

**EURO 2008**

There were no centrally organised events.

**WIMBLEDON 2009**

There were no centrally organised events.

**GLASTONBURY 2009**

There were no centrally organised events.

**BBC PROMS 2009**

First night attendees:

- Mr Peter Ainsworth.
- Mr John Barrett.
- Dr Vincent Cable.
- Mr Mark Field.
- Mrs Sandra Gidley.
- Rt Hon Sir Gerald Kaufman.
- Mr David Lidington.
- Dr Howard Stoate.
- Ms Sarah Teather.
- Mr Nigel Waterson.
- Mrs Betty Williams.
- Lord (Melvyn) Bragg (guest of BBC Trust).
- Eric Pickles MP (guest of BBC Trust).
- Tom Watson MP (guest of BBC Trust).

**RADIO 1'S BIG WEEKEND 2009**

- Mr James Gray.
- Mr John Whittingdale.

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**Further letter from BBC Trust to Chair**

Thank you for your letter of 4 March, which I have discussed with Sir Michael Lyons.

At the hearing on 8 February, the NAO and the Trust agreed to send you a note to clear up any misunderstanding relating to the incremental cost of having a studio in central Vienna for Euro 2008. I apologise for the delay in this, but I am pleased now to be able to give you the details supplied to me by the Executive, which you will find in annex 1 to this letter. The NAO has had an opportunity to review the cost figures in the annex and has confirmed that that additional cost outlined for the Vienna studio is a reasonable estimate.

In my letter of 3 March, I offered to provide a summary of the World Cup 2010 budget and forecast staff number to the Committee in confidence once the ITV match split has been agreed (likely to be in w/c 15 March). Following your letter of 4 March, we have considered the BBC's legal and commercial position in relation to this. On the basis of what the Executive have explained to me we have decided that, although there is a commercial risk to the BBC arising from any publication of the data, we will be able to provide you with the summary World Cup budget and forecast staff number once the match split is agreed, without receiving any assurance of confidentiality.

In my previous letter, I also provided details of MPs' attendance at BBC events. Further to this, I understand that you would like details of regulators' attendance as well. I attach as annex 2 to this letter an updated list which includes both MPs and regulators.

In my previous letter, I provided details of the BBC's preferred suppliers for Outside Broadcasting. Further to this, I understand that you would like some more information; this has been provided by the Executive and I attach this in annex 3.

The BBC does, though, continue to have concerns centred on the information requested at item 2 in the appendix, unless we can be assured that it is not your intention that, once supplied, it will be placed in the public domain.

Can I first mention the disclosure of the talent spend in salary bands to which you refer? That disclosure was specifically designed so that it would not be possible for any individual's remuneration to be identified. It does not therefore set a precedent for the disclosure you are requesting or undermine the BBC's case that confidential treatment of certain information is appropriate.

Although information was provided to the NAO on a more detailed basis (to facilitate the conduct of the study), subject to the NAO observing appropriate confidentiality requirements, it was agreed with the NAO that the information set out in their Report on Major Events for talent and other staff costs would be aggregated in order to safeguard a number of issues which the BBC believe it is reasonable and proper for us to seek to secure. The BBC was concerned that certain legal obligations owed to the individuals concerned should be respected. These are:

- publication of individual data (or of information which enables this to be ascertained) will constitute a breach of the relevant individuals' rights, under the Data Protection Act 1998; and
- contractual arrangements vary between different individuals, but in some cases involving key, high profile, talent, the supply of the information leading to the publication of payments to individuals (or of information which enables those payments to be ascertained) will place the BBC in breach of contractual obligations to the individuals concerned.

In addition to those legal issues, the BBC Executive remain concerned about the following broader considerations:

- that the disclosure of payments will tend to place inflationary pressure on costs, thus undermining the objective of controlling expenditure and the key objective of securing value for money for licence fee payers: what the BBC pays could tend to be a benchmark; competitors may aim to outbid the BBC for talent, having been provided information as to what the BBC pays; and the BBC will have to raise fees again if they wish to retain talent;
- that the publication of individual talent fees (or data allowing such fees to be calculated) will place the BBC at a competitive disadvantage in negotiating for talent against other organisations, which do not have to make similar disclosures;
- that it may well be difficult or impossible to secure the services of some key talent at all, if confidentiality cannot be assured; and
- that there is no public interest in any publication of this information since the individuals do not set the BBC strategy or policy, nor are they responsible for how large amounts of public money are spent (the criteria used to determine the disclosure of senior executive salaries). Further, other broadcasters do not have to publish similar data and consequently the public will be unable to compare BBC costs with those of other broadcasters.

I should also mention that the reasons set out above, for not publishing data that is sufficiently detailed to enable individuals' payments to be ascertained, have also been accepted by the Information Commissioner in cases where similar information has been requested from the BBC under the Freedom of Information Act.

I hope you will therefore understand that the BBC does have legitimate reasons for not wishing to see the relevant data placed in the public domain. In particular, the Trust wishes to respect the legal rights and legitimate interests of the individual presenters in question. Having said that, we remain willing to supply to your Committee the underlying more detailed information previously supplied to the NAO in the interests of transparency and in order to enable your Committee to consider the issue in greater detail. However, for the reasons mentioned above, we remain of the view that it would not be proper for us to supply that information, unless it is accepted that it is supplied on a confidential basis.

*Jeremy Peat*  
Trustee for Scotland  
BBC Trust

*11 March 2010*

## **Annex 1**

### **COST COMPARISONS FOR THE CENTRAL VIENNA STUDIO AND THE INTERNATIONAL BROADCASTING CENTRE FOR EURO 2008**

The BBC, as part of its editorial approach to coverage of major sporting events, wished to have a studio in Austria for the Euro 2008 football competition. The BBC considered some additional cost would be justified, on editorial grounds, to have a studio in central Vienna with a view of the city and the Fan Mile, at the heart of the tournament rather than one without any windows at the International Broadcasting

Centre. A studio in the Vienna International Broadcasting Centre would have nothing to distinguish it to the television audience as being in Vienna. None of the major broadcasters covering Euro 2008 based their main studio at the International Broadcasting Centre in Vienna.

The final budget for Euro 2008 included £250,000 as the cost of the central Vienna studio. This cost was in addition to the cost of the space and facilities which the BBC occupied at the International Broadcasting Centre. However, there was no duplication of studio space between the Vienna studio and the International Broadcasting Centre as the BBC did not pay for any television studio space at the International Broadcasting Centre. The equivalent cost of a studio at the International Broadcasting Centre, calculated from rate cards for Euro 2008, was £237,000. That was the basis for Mark Thompson's comment that the incremental cost was below £50,000.

There were three principal cost elements for the Vienna studio: rent, telecommunications and studio construction and installation costs. The costs for these elements were:

- Rental expenditure on the central Vienna studio of £349,000, an increase on the budget which in part reflected the fact that in April 2008 the BBC was obliged to extend the rental by nine additional days, because of access restrictions to the Fan Mile, where the studio was located.
- The BBC estimates the additional costs of telecommunications links between the central Vienna studio and the International Broadcasting Centre to have been £72,000.
- Studio set build costs for the central Vienna studio of £152,000. The BBC was able to build a simple set because the windows of the studio, and the views of Vienna, were such a feature. However, a studio in the International Broadcasting Centre would have been provided to the BBC without windows, so would have required a more elaborate and expensive set, comprising screens and projectors which are commonly used in internal studios. Based on previous studio construction and equipment hire costs, the BBC estimates it would have cost approximately £240,000 to have constructed a studio and set at the International Broadcasting Centre. This estimate would mean the Vienna studio cost some £88,000 less than constructing a functioning studio at the International Broadcasting Centre.

The actual additional cost of having the central Vienna studio rather than having a studio at the International Broadcasting Centre is set out in the table below as approximately £96,000.

	<i>Vienna studio</i>	<i>Estimated cost for International Broadcasting Centre</i>	<i>Difference</i>
Rental cost for space	£349,000	£237,000 <sup>1</sup>	£ 112,000
Additional IT costs	£72,000 <sup>2</sup>	£0	£72,000
Studio and set	£152,000	£240,000 <sup>3</sup>	(£88,000)
Total	£573,000	£477,000	£96,000

Note 1. Based on rate card for International Broadcasting Centre space, adjusted for lighting rig and telephone line costs to give a like-for-like comparison between the two sites.

Note 2. Additional costs for telecommunications connection from International Broadcasting Centre to Vienna studio.

Note 3. Based on generic costs incurred for Vienna studio that would also have been incurred for constructing a studio at the International Broadcasting Centre (£113,000) and BBC estimate of additional costs for screens and projection that would have been incurred to create acceptable studio space at the International Broadcasting Centre.

The BBC believes having a studio in the centre of Vienna allowed it to capture all the atmosphere of Vienna, and take viewers to the heart of the tournament, not least on the evening of the thunder storms when all broadcasters lost live pictures and the BBC was able to reflect the exceptional circumstances and chaotic scenes of that night.

The NAO has had an opportunity to review the cost figures and has confirmed it is content that the additional cost for the Vienna studio of £96,000 is a reasonable estimate.

## Annex 2

### MP AND REGULATOR ATTENDANCE AT BBC EVENTS REVIEWED IN THE NAO REPORT AS GUESTS OF THE BBC

The BBC Executive advise us that they only hold centrally records of attendees who are invited via the central Corporate Affairs office. It is not unusual for Directors of BBC departments to individually invite MPs to events (and, in theory, possible for them to invite regulators) but this information is not recorded centrally. This is particularly true for the Proms—the BBC Corporate Affairs office arranges the first night of the Proms which is hosted by the BBC Chairman and the Director General. There are boxes available to

the BBC throughout the Proms season but these are hosted by individual departments and we therefore do not have a record of who attended. Below, as explained above, I copy the information held by the Corporate Affairs department—but this is by no means exhaustive.

I have also included relevant guests of the BBC Trust. Details of Trust hospitality are recorded and retained in full by the Trust Unit, with summaries available on the Trust website.

**BEIJING 2008 (BBC RECEPTION AT THE BEGINNING OF THE GAMES)**

- Tessa Jowell (who was in Beijing representing the Government).

**EURO 2008**

There were no centrally organised events.

**WIMBLEDON 2009**

There were no centrally organised events.

**GLASTONBURY 2009**

There were no centrally organised events.

**BBC PROMS 2009 (BBC RECEPTION PLUS TICKETS TO THE 1ST NIGHT OF THE PROMS)**

- Peter Ainsworth.
- John Barrett.
- Vincent Cable.
- Mark Field.
- Sandra Gidley.
- Sir Gerald Kaufman.
- David Lidington.
- Howard Stoate.
- Sarah Teather.
- Nigel Waterson.
- Betty Williams.
- Lord (Melvyn) Bragg (guest of BBC Trust).
- Eric Pickles (guest of BBC Trust).
- Tom Watson (guest of BBC Trust).
- Colette Bowe (guest of BBC Trust).
- Don Foster (guest of BBC Trust, at a later Prom).
- Philip Graf (guest of BBC Trust, at a later Prom).

**RADIO 1'S BIG WEEKEND 2009 (TICKETS PLUS SHORT BEHIND THE SCENES BRIEFING—THESE TICKETS ARE PROVIDED AT NO EXTRA COST TO THE BBC AND ARE FREE TO THE GENERAL PUBLIC)**

- James Gray.
- John Whittingdale.

**Annex 3**

**FURTHER INFORMATION ON COMPETITION FOR OB CONTRACTS**

In my previous letter, I provided details of the BBC preferred suppliers for Outside Broadcasting. Further to this, I understand that you would some more information, which have requested from the BBC Executive and provide below.

The BBC works with many leading providers of outside broadcast services. The BBC's approved supplier list for outside broadcast services includes eleven providers, details of each have been provided previously.

- O21 Television Ltd.
- Arena Television.
- Arqiva Outside Broadcasts.
- Barcud Derwen.
- CTV Outside Broadcasts Ltd.

- Enfys Ltd.
- Neon Broadcast Services Ltd.
- NEP Visions Ltd.
- Omni TV.
- SIS Outside Broadcasts Ltd.
- Televideo.

#### SATELLITE INFORMATION SERVICES (SIS)

In March 2008, BBC Outside Broadcasts, a part of BBC Resources, was sold to SIS (Satellite Information Services) for a consideration of £19.3 million.

Independent advisers Ernst & Young concluded that, considering the competitive nature of the market, the high fixed costs of BBC Resources' outside broadcasting, union agreements (relating to staff employment conditions) and the comprehensive sales process, the SIS offer was appropriate for the BBC.

The sale included a minimum volume guarantee within the contract which gradually decreases each year until the contract comes to an end in March 2013.

This deal ensured that the BBC retained the expertise of staff and consistency of coverage during a transition period, and enabled it to secure the best price for the business.

The BBC is still able to tender under this deal—indeed we have done at Glastonbury in 2009, where SIS successfully bid outside its contract with the BBC for one element of the broadcast, and the Big Weekend which was awarded to Arena TV.

The BBC also receives a substantial discount against SIS' standard service charges.

In addition, the contractual arrangement has:

- Delivered a consistently reducing price over the period.
- Allowed investment in new, High Definition trucks, provided at a competitive market rate.
- Protected the BBC from inflation in the marketplace leading to 2012, and provided access to experienced staff to ensure robust delivery.
- Avoided additional costs of extra staff to manage resource provision.

The BBC's outside broadcast expenditure with SIS and other providers 2008–09 is:

Actual pan-BBC spend—other providers 16%.

Actual pan-BBC spend with SIS, over contractual minimum 19%.

Contractual minimum—SIS 65%.

Competitive tenders with other providers demonstrate that their rates are competitive in the market place. For example, SIS have successfully competitively tendered for elements of OB provision at BBC events.

In terms of the specific events within the NAO's report, SIS were unable to provide all outside broadcast facilities at Glastonbury under the framework contract. The BBC competitively tendered for OB facilities at three stages, which were awarded to:

- Glastonbury Other Stage—Arena.
- The Jazz World Stage—Arena.
- The John Peel Stage—O21.

For reasons of commercial confidentiality, the BBC Executive are unable to provide the specific value of individual contractual elements or the bids of individual parties. Those contracting with the BBC have a legitimate expectation that the value of their contracts is not publicly disclosed by the BBC, and this would damage the confidence that suppliers have in the BBC.

Such disclosure would:

- Prejudice the negotiating position of the BBC in future contract negotiations; for example those for outside broadcast services at 2010 events.
- Breach the BBC's contractual obligation to safeguard confidential information of third parties.

- Weaken the position of third parties within a competitive environment, by revealing market-sensitive information of potential usefulness to competitors. This would prejudice the negotiating position of SIS and other third-party suppliers in contractual negotiations with other third parties. This could have a corresponding detrimental impact on the commercial revenue of third parties supplying goods and services to the BBC.
- Weaken the BBC's bargaining position with suppliers of outside broadcast services, and all other services for which the BBC negotiates, potentially reducing the BBC's ability to drive value for money in purchasing such services.
- Harm the ability of the BBC or third party contractors to obtain goods and services in the future.

#### **Further letter from BBC Trust to Chair**

Following our discussion at the Public Accounts Committee on 17 March regarding the NAO report on BBC Estates, I am writing as agreed to provide some further information. I believe there were two areas where I or the BBC Executive agreed to see what further information could be provided to the PAC.

1. Q91–94: A query by Mr Davidson as to the extent to which the BBC will be recruiting people from diverse backgrounds to work at Salford Quays, and how this will be achieved.

2. Q99: A query by Mr Davidson concerning the BBC and the 2012 Olympics; specifically “about training and local recruitment . . . what efforts and what targets you had and whether or not you met those in terms of training and on construction, your role as client basically for the development”.

I am pleased to be able to provide information supplied by the BBC Executive on both of these areas below and in two annexes.

In my letter of 11 March, I said that I should be able to provide you with the World Cup budget and forecast staff numbers once the ITV match split was agreed. I am pleased to be able to tell you that the ITV match split has now been agreed. However, the Executive tell me that the BBC has received some new information from the South African tax authorities that affects the BBC's tax position (specifically, the VAT position) and hence the budget. They also report that this is likely to be clarified within the next two weeks (although this is dependent on the South African tax authorities). I therefore hope you will agree that, in order to be able to provide the most accurate information to the PAC, I must ask for a delay in sending the information (likely for two weeks) until this matter is resolved.

#### **1. SALFORD QUAYS RECRUITMENT**

Over the next 18 months, the BBC will launch the largest recruitment exercise it has ever undertaken. Hundreds of jobs, of all grades and types are becoming available, as key parts of the BBC's output, including Sport, Children's, Learning, Radio 5 Live and parts of Future Media and Technology, join the departments from BBC Manchester at MediaCityUK Salford Quays.

Moving these departments to the north is part of the BBC's commitment to spending 50% of our network spend outside London by 2016. Both Executive and Trust are determined to see the BBC get closer to our audiences and find and develop new diverse talent across the UK. The search by the Executive starts now for individuals with experience or potential to help the BBC make great new content for audiences across the UK and beyond.

Attracting prospective talent focuses around two key areas:

- Pre-entry: raising aspirations, creating positive perceptions—engaging with individuals and communities who currently would not view the BBC as an employer of choice, if one at all, for whatever reason(s).
- Information, advice and guidance: giving individuals sufficient information and opportunities to understand what it means to work for the BBC and explore whether they have the potential and desire to succeed.

A targeted approach is proposed to identifying audiences who the BBC want to attract to work at the BBC (albeit based on the notion that talent can come from anywhere and everywhere).

There is a commitment to develop new routes of entry, at a variety of different levels, with a strong diversity agenda, especially around ethnicity and disability. Young people, career changers and adults with no formal qualifications are also of priority consideration. The talent attraction strategy must identify individuals from these priority groups who can feed into new routes of entry and continue their progression towards jobs. The Executive's activities around entry-level talent are summarised in Annex 1.

In particular, links with universities and colleges across the North are well developed. The Executive is working with a network of 26 institutions, chosen not just for the excellence of their teaching but also for their links into diverse communities. During the current academic year:

- they have engaged 1700 students working on 18 different challenges;

- 32% of students attending the workshops for our Great Northern Film Challenge were from BME communities;
- over 80 students have been chosen to come in on work placements since September; and
- research indicates that each student working with the BBC tells 5 people about the experience. Across the year, the ripple effect is that 12,000 people right across the North feel that the BBC has reached out into their communities.

Finally, a new recruitment website has been launched at [www.bbc.co.uk/jobs/north](http://www.bbc.co.uk/jobs/north). The website carries information on the type of role for which the BBC will be recruiting in Salford Quays, and will add to the diversity of new recruits. For instance, if it proves to be a struggle to attract people of a certain demographic for a chosen role and/or there is a perceived stereotype as to who would work within a specific job or department, then the website has profiled someone who would not reinforce this (eg using female staff in the technology role profiles).

## 2. 2012 OLYMPICS

The BBC is not, in the way Mr Davidson suggests, a “client” for the Olympic development. It has no say in the construction or current ODA/LOCOG staffing and therefore no targets are appropriate in that area. The BBC secured rights to the Olympic Games through the European Broadcasting Union, and they are responsible for acquiring space in the International Broadcast Centre—which is then occupied by the BBC, principally using staff from its existing production departments. Catering and other facilities within the site are provided by LOCOG.

However, the BBC does recognise the importance of driving economic and other benefits for London and the Olympic boroughs in particular. As an illustration of commitment, the Executive is co-operating on a number of digital media initiatives; and planning cultural events in East London as part of Festival 2012. The BBC has also made an ambitious start on the skills agenda by announcing the BBC 2012 London apprenticeships. I attach the press release from February 2010 relating to this in annex 2.

I hope this information is helpful to you and the Committee.

*Jeremy Peat*  
Trustee for Scotland  
BBC Trust  
25 March 2010

## Annex 1

### ENTRY LEVEL TALENT INITIATIVES

#### *North-based Initiatives*

Advanced Apprenticeship in Media Production	Designed as a new route of entry for young people aged 16–22 with a maximum attainment level at GCSE, this was the first ever media production apprenticeship in the UK. The 18 month programme is a combination of formal learning combined with industry placements in TV, radio, new media and post production. This joint initiative run annually was devised by the BBC, Northwest Vision and Media, Skillset and the Learning and Skills Council.
BBC Education Partnerships	We work with education institutions across the North, linking students with BBC staff in Manchester departments and those in scope to move from London. The aim is to identify the best talent from all areas and communities in the region and establish realistic pathways into the industry for them.
BBC Manchester Mentor Project	Now in its 12th year, the Mentor Project aims to reflect the views and creative ideas of people from local communities that may have previously felt excluded from the BBC. Over nine months, participants gain one-to-one mentoring with a BBC Manchester member of staff, attend exclusive sessions where they learn about different aspects of programme production and have access to a four week paid placement in production.
Journalism Foundation Course	BBC Radio Lancashire and the University of Central Lancashire (UCLan) have collaborated to create a year-long work placement based course. The programme aims to attract local people from a wide range of backgrounds—providing a new way into the industry for those who would not normally see a journalism degree or career as an option.

Media Foundation Placement Scheme (MFPS)	<p>MFPS is a positive-action scheme, providing successful Black, Asian and Minority Ethnic candidates on-the-job training and career development within the media industry. Trainees are placed in a broadcaster or independent company for 12 months, giving them hands on experience in wide variety of roles across all platforms and departments, the support of a buddy and mentor and exclusive training opportunities.</p> <p>The annual scheme is run by a partnership of the BBC, ITV and independent production companies and is supported by local screen agencies and regional development agencies. Run in North West and Yorkshire.</p>
<i>National Initiatives with Northern Involvement</i>	
BBC Training Schemes	<p>Wherever possible, there are placements available in the North or departments that will be based in Salford Quays, for BBC schemes that run across the UK. This includes:</p> <ul style="list-style-type: none"> <li>— <i>Journalism Trainee Scheme</i>—exists to attract budding or existing journalists with high potential but no broadcasting experience for year-long paid traineeships. Applications are encouraged from under-represented groups in the industry.</li> <li>— <i>Production Trainee Scheme</i>—an 18 month scheme to attract creative production talent into the BBC to develop the programme makers and commissioners of the future.</li> <li>— <i>Extend</i>—A first point of entry to BBC for disabled people, offering 6 months paid work.</li> </ul> <p>Upcoming</p> <ul style="list-style-type: none"> <li>— <i>Step Up</i>—North version will run from September this year (announced by Mark Thompson in February—same time that the website was launched). Scheme is designed to give people the skills and confidence to work within the media industry—particularly news—through training, work experience and mentoring. Aimed at attracting those who may not have considered working here/people we may not normally attract.</li> </ul>
BBC writersroom	<p>BBC writersroom identifies and champions new writing talent and diversity across film, television, radio, and theatre. There are a range of schemes, workshops and open access sessions for writers across the UK. There is a writersroom North which focuses on identifying and developing talent from the region.</p>
Your Game	<p>Your Game is a BBC Sport initiative which uses football, music and the media to engage young men and women from under-served communities at events across England. We (North recruitment team) have joined up with Your Game and are involved in an event they're taking part in this March, to promote North opportunities.</p>

## Annex 2

## BBC 2012 LONDON APPRENTICESHIPS

## PRESS RELEASE FEBRUARY 2010

The BBC is launching its first apprenticeship scheme in London specifically aimed at people who want to gain a qualification whilst working rather than through the traditional university-based route.

Over the next three years, to 2012, year-long apprenticeships will provide on the job training across BBC Vision Productions, alongside a study program. Delivered by the BBC Academy, in partnership with Westminster Kingsway College, the apprenticeships will lead to a Creative and Digital Media Apprenticeship Level 3 qualification.

BBC 2012—London Apprenticeships will provide an opportunity to kick-start a career in the media for people who may never have thought the BBC was for them. Open to people aged 18+, the scheme will be looking for apprentices from diverse backgrounds across London.

Lucy Adams, Director, BBC People, says: “We are looking for people who are passionate about the media, full of ideas, and with real understanding or experience of the issues facing London’s many diverse communities. It’s really important to us that the BBC reflects the many different backgrounds of the people who make up our audience. This new scheme takes a significant step towards making entry into BBC employment more accessible and will help create a more socially inclusive workforce.”

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Roger Mosey, BBC Director 2012, added: “2012 is going to be a massive year for London and the UK. The BBC is the official Olympic broadcaster and will also cover the Cultural Olympiad and the Queen’s Diamond Jubilee. We are going to need good people to tell some fantastic stories. With new intakes into the scheme over the next three years, by 2012 we will have trained three groups of apprentices with the necessary skills to be able to apply for jobs within the BBC and the wider industry.”

The BBC has chosen to work with Westminster Kingsway College because it has considerable experience of delivering learning and accreditation frameworks for apprenticeship schemes.

Nicole Barber, Assistant Principal Employer Training Solutions, Westminster Kingsway College, said: “We are delighted to be working in partnership with the BBC on the new Creative Media Apprenticeship framework, which we have customised to specifically meet the BBC’s mission and values. Apprentices will have a high quality experience leading to an exciting and tangible result.”

The BBC 2012—London Apprenticeships scheme opens for applications on Friday 5 February 2010. More information is available at [bbc.co.uk/jobs/apprenticeships](http://bbc.co.uk/jobs/apprenticeships).

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