



House of Commons

Committee of Public Accounts

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# The BBC's management of its Digital Media Initiative

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Twenty-ninth Report of Session  
2010–11

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

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## Committee of Public Accounts

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Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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## Summary

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The Digital Media Initiative (the Programme) is designed to transform the way in which BBC staff create, use and share video and audio material. It involves the development of new technology to allow staff to manage content efficiently on their desktops, in order to give greater accessibility of digital content for audiences on TV, online and radio.

Successful implementation of the Programme has a wider strategic importance for the BBC, including supporting the BBC's move to Salford from May 2011. After a difficult start, which resulted in the original delivery contract being terminated, the BBC brought the Programme in-house and has since made good progress in delivering it.

The Programme is, however, no longer expected to deliver the overall net financial benefit of £17.9 million originally anticipated. The BBC approved the Programme on the basis that it would cost £81.7 million and deliver benefits of £99.6 million, but now forecasts costs of £133.6 million and benefits of £95.4 million – a net cost of £38.2 million.

In February 2008, under its Technology Framework Contract, the BBC let a £79 million contract to Siemens without open competition. The contract covered the delivery of the technology and the operation of the Programme until March 2015. The technology was not delivered and the BBC and Siemens agreed a no-fault termination of the contract with effect from July 2009.

Despite the scale and technological innovation of the Programme, the BBC chose not to test through competition the capacity and capability of potential suppliers to take on such a challenge. The contract with Siemens transferred too much financial risk to the contractor, such that the BBC felt unable to intervene proactively in the development of the Programme until it was too late. The contract was terminated and the Programme taken in-house, but by then the BBC had suffered two years of delay and lost £26 million in benefits as a result.

To cover the costs of delay and completing the Digital Media Initiative in-house, the BBC found £26 million of efficiencies within BBC Divisions, and negotiated £24.5 million of new efficiencies in the Siemens Framework Contract. We questioned whether these savings could and should have been identified earlier.

The BBC has made a strong start on the in-house development of the Programme. It has successfully delivered four technology releases and it is on course to deliver the complete technology for the Programme by Summer 2011 and within the new budget of £133.6 million. We welcome the BBC's success to date in developing this technology and look to the BBC to share lessons with the wider public sector.

The Comptroller and Auditor General told us that he did not have full and unfettered access to all the information he required to carry out his review, delaying the start of his work. This is not satisfactory. We expect the BBC and BBC Trust to ensure that full access

is given promptly in the future.

On the basis of a report from the Comptroller and Auditor General<sup>1</sup> we took evidence from the BBC Trust and BBC on the management of the contract with Siemens and the BBC's in-house development of the Programme.

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<sup>1</sup> Report by the C&AG presented to the BBC Trust's Finance and Compliance Committee, *The BBC's management of its Digital Media Initiative*, 13 January 2011

## Conclusions and recommendations

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- 1. The BBC's contract with Siemens failed and was terminated by mutual agreement and the BBC is now delivering the Programme in house.** The contractor did not deliver against the key contract milestones and the contract was terminated as part of a no-fault settlement. There are still risks to be managed, but the BBC has made good progress in delivering the technology necessary to support the Programme.
- 2. By letting the contract without competition the BBC did not test the capability and relative strengths of prospective suppliers. The Trust acknowledged that it would now be more sceptical about such an approach.** Whilst we accept that we are judging this with the benefit of hindsight, testing the capacity and capability of suppliers was particularly important in this case as there was a high degree of innovation involved. The BBC therefore would have done better to test Siemens against alternative suppliers. We welcome the Trust's assurance that it would now take a more challenging approach when considering procurements. In doing so, the Trust should take into account the level of innovation sought, the delivery risks, and the need to understand the contractor's capacity and capability.
- 3. The BBC transferred too much financial risk to the contractor, Siemens, given the level of technological innovation involved. This approach meant that that BBC did not have a good enough understanding of the contractor's design and development work, and was unable to intervene effectively even when it knew delivery was at risk. This resulted in a two year delay in securing the technology for the Programme.** We welcome the BBC's commitment to consider more carefully the appropriate degree of risk transfer for future contracts. It should have a close understanding of the design and development approach being taken by a contractor and should retain the ability to intervene without waiting for non-delivery or contract termination.
- 4. While the BBC expects financial benefits from the Programme, it also expects non-financial benefits. These benefits include transforming the way the BBC makes programmes and supporting the forthcoming move to Salford.** The BBC gave more attention to the non-financial case later in the life of the Programme, and should do so from the outset in considering future investment cases.
- 5. The fact that the BBC easily identified new savings to compensate for the financial consequences of the contract failing suggests that the BBC should be more vigilant in securing real value and efficiency.** The BBC was able to find £26 million in efficiencies to make up for the losses it bore through the late delivery of the Programme. It identified a further £24.5 million in new efficiencies in its wider Technology Framework Contract to cover the additional costs of completing the Programme in-house. The BBC Trust should obtain an explanation of why these efficiencies only came to light when the BBC came under financial pressure, and should identify what lessons can be learned for its other contracts and Divisions.
- 6. So far the BBC has made good progress in delivering the Programme in-house.** Since taking the Programme in-house, the BBC has successfully delivered four

technology releases and is currently on course to deliver the complete technology for the Programme by Summer 2011, although this is five months later than planned. The BBC attributes its success to date to a strong supplier management team and to the creation of an in-house software development team. The Office of Government Commerce should work with the BBC to identify practical lessons to be shared across the wider public sector.

7. **The BBC's confidential settlement with the contractor delayed the C&AG's access to relevant information, and led to the National Audit Office's review being held up for eight months.** We are pleased that the Trust agrees that there should be speedy access to all the information that is required when the C&AG decides to do a study. The C&AG should have full and unfettered access to the information he considers necessary and discretion over what is published.
8. **We welcome the Trust's constructive approach to giving evidence and its willingness to acknowledge the mistakes of the past.** The Trust acknowledged our concerns about the need to provide more robust challenge before engaging in non-competitive procurements. We share the Trust's interest in pursuing value for money for the licence fee payer and look forward to the Trust having a similarly open approach with us in the future.

# 1 The contracted-out stage of the Programme

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1. In January 2008 the BBC Trust approved the Digital Media Initiative (the Programme), for an estimated cost of £81.7 million and with projected benefits of £99.6 million to March 2015.<sup>2</sup> The Programme is a fundamental re-engineering of the way the BBC makes programmes. It is designed to allow BBC staff and commercial partners to develop, create, share and manage video and audio content and programming from their desktops.<sup>3</sup>

2. In February 2008 the BBC awarded a £79 million contract to Siemens for the development, delivery and operation of the system supporting the Programme, with the technology to be delivered by May 2009. The BBC awarded the contract without competition under its 2004 Technology Framework Contract with Siemens.<sup>4</sup> However, Siemens did not meet the contractual milestones and Siemens and the BBC agreed a no fault termination of the contract with effect from July 2009.<sup>5</sup>

3. Not openly procuring the contract was a risk to the BBC, given the scale and innovative nature of the Programme.<sup>6</sup> If the BBC had taken a different procurement route it would have had the opportunity to test the relative capabilities of potential contractors. The Trust told us that if the original proposal setting out the BBC's intention to contract with Siemens were submitted to it now, it would be unlikely to give its approval.<sup>7</sup>

4. In its oral evidence to us the BBC based much of its case for contracting with Siemens on the ground that in 2007 Siemens had successfully completed a similar digital installation for the BBC in Pacific Quay, Glasgow.<sup>8</sup> The BBC also suggested that a reason for not going out to open competition was because a previous recommendation by this Committee meant it felt under pressure to procure through the Technology Framework Contract.<sup>9</sup> However, the Digital Media Initiative is a much larger and much more innovative Programme than Pacific Quay.<sup>10</sup> The Committee was also clear that when making decisions, either to use the Framework Contract or to go outside it, the BBC must clearly demonstrate why the chosen route offers better value for money, rather than presuming that the work should be let through the framework contract regardless.

5. The BBC contracted with Siemens on the basis of a fixed price contract and fixed delivery milestones. The risk was therefore transferred to the contractor. When things did not go to plan the BBC told us that the terms of the contract meant it was unable to

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2 C&AG's Report, paragraph 2.1

3 Q 1, C&AG's Report, paragraph 1

4 Qq 60, 62, C&AG's Report, paragraph 6 and Figure 4

5 Qq 3, 5, 49, C&AG's Report, paragraph 9

6 Qq 61, 67

7 Q 65

8 Qq 4, 41, 44, 62

9 Q66, *BBC outsourcing: the contract between the BBC and Siemens Business Services*, Thirty-fifth Report of Session 2006-07 (HC 118), Recommendation 3

10 Qq 49, 64, 66

intervene in the design and delivery of the system technology without the risk transferring back to the BBC.<sup>11</sup> The BBC acknowledged that it would think very carefully about using a fixed price contract again in similar cases.<sup>12</sup>

6. Although the BBC had not agreed with Siemens the causes of the delay, it believed that the Programme had proved much more challenging than Siemens had first believed and that Siemens had lacked in-depth knowledge of the BBC's operations.<sup>13</sup> The BBC itself had only limited knowledge of Siemens's design and development work.<sup>14</sup> The BBC now considers that where software development projects rely heavily on in-house specialist expertise, or where the project will drive significant changes to the working practices of specialist roles within the organisation, it is better to have direct control of the project in-house.<sup>15</sup>

7. In September 2009, as part of a no-fault settlement, the BBC reached financial arrangements with Siemens which allowed the BBC to allocate £27.5 million to meet the increased cost of completing the delayed Programme. This was partly funded through £24.5 million in new efficiencies identified in the Technology Framework Contract.<sup>16</sup> Although the BBC referred in general terms to other efficiencies it had secured through the Technology Framework Contract, it did not provide an explanation of why these particular efficiencies had not been identified sooner.<sup>17</sup>

8. The financial arrangement with Siemens did not cover the £26 million of benefits the BBC lost through the two-year delay to the Programme. The BBC was confident that it covered the loss for 2009-10 through savings in BBC Divisions, and by implementing some of the efficiencies expected from the Programme through other means. We asked for a breakdown, and from the information subsequently provided by the BBC the main savings have been through changes to the mix and volumes of programmes produced. In addition efficiency initiatives in areas such as post production, talent negotiations, staff utilisation and workflow management had been accelerated.<sup>18</sup>

9. The no-fault settlement was dependent on a confidentiality clause. The BBC told us that the confidentiality agreement provided for National Audit Office access to the details of the settlement to protect public accountability. However, the start of the C&AG's review was delayed by eight months due to protracted discussions about the consequences of the confidentiality clause for his access and what would be disclosed in his report. The reason National Audit Office access had to be explicitly written into the confidentiality agreement is because it does not have statutory powers of access to the BBC. The Trust confirmed the C&AG should have prompt access in future to all information he requires.<sup>19</sup>

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11 Q 3, 6, C&AG's Report, paragraph 2.12

12 Q 7

13 Qq 6, 94

14 C&AG's Report, paragraph 2.11

15 Ev 24

16 C&AG's Report, paragraph 2.16

17 Qq 19-23, Ev 17

18 Qq 18, 79-80, Ev 17

19 Qq 22, 25-40

## 2 The in-house delivery of the Programme

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10. After the contract with Siemens was terminated the BBC brought the Programme in-house, but did so without testing the value for money of this approach. In February 2009 a review commissioned by the BBC concluded that taking delivery in-house was the highest risk option, yet by July 2009 the BBC had decided this was the only option. The BBC considered that time was a crucial factor, because the move of some BBC operations to Salford depended on the Programme technology being ready by May 2011 and it would take six to nine months to procure a new contractor competitively.<sup>20</sup> The Trust believed the most important thing was getting the Programme back on track.<sup>21</sup>

11. Since bringing the Programme in-house, the BBC has successfully delivered four technology releases and early feedback from users is positive. The Programme is running five months later than the BBC estimated when it took the Programme in-house, but the BBC is on track against its revised schedule to deliver the complete technology for the Programme by summer 2011 and to deliver the technology required for the move to Salford.<sup>22</sup>

12. When it brought the Programme in-house, the BBC adopted a more iterative ‘agile’ approach to delivery. This involved breaking down technology development into smaller steps and getting quick feedback from users to improve products.<sup>23</sup> The BBC attributed the successful delivery so far both to adopting this ‘agile’ approach and to having a strong supplier management team. The BBC also emphasised the importance of having the capacity and skills to develop aspects of the Programme in-house and then integrate the software.<sup>24</sup> Under the leadership of its now-departed Director of Future, Media and Technology, it had built up its in-house software development team.<sup>25</sup>

13. We asked the Director of Future, Media and Technology about the lessons learned from the in-house delivery of the Programme. The lessons highlighted included the importance of:

- A senior leader who has a track record of successful delivery of large, complex software development projects;
- Clear roles and responsibilities;
- Cooperation between, and integration of, the various functions on a project, including development, deployment and support; and

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20 Qq 90-94

21 Q 85

22 Qq 1, 93, 95, C&AG’s Report, paragraph 13, and Figure 6

23 Qq 1, 93, 95, C&AG’s Report, paragraph 3.14

24 Qq 109-110

25 Qq 90, 93-94, 112, 115

- Clear and effective project governance with the appropriate representation on each group or board from across the project, business and suppliers.<sup>26</sup>

14. The estimated cost of delivery and implementation of the whole Programme to the end of March 2017 is £133.6 million. The increase is largely because of a wider rollout across the BBC than originally approved by the Trust in January 2008, offset by the £27.5 million available to the BBC as a result of the settlement with Siemens.<sup>27</sup> The BBC expects the Programme will end up saving the BBC money and aims to work in partnership with independent commercial companies and other public organisations to get as much value as possible out of its investment.<sup>28</sup>

15. However, the financial case for the Programme has weakened over time. The BBC originally approved the Programme on the basis that it would cost £81.7 million and deliver benefits of £99.6 million, giving a net benefit of £17.9 million. It now forecasts costs of £133.6 million and benefits of £95.4 million – a net cost of £38.2 million.<sup>29</sup>

16. As the estimated costs were higher than the estimated financial benefits, when the Trust approved a revised investment case for the Programme in June 2010, the non-financial benefits expected from the Programme, such as improved creativity and partnership working with other organisations, were a crucial factor in the decision. The Trust therefore pressed for greater clarity on the deliverability of such benefits. It also gave weight to the strategic benefits of the BBC moving more fully into digital technology. The BBC saw the Digital Media Initiative as transforming the way the BBC makes programmes and supporting the forthcoming move to Salford, and considered it essential to the BBC's future rather than a 'nice to have'.<sup>30</sup>

17. The Programme is being delivered by a team within the Future, Media and Technology division. We questioned the BBC on the cost of BBC senior management and on the number of organisational layers, specifically within the Future, Media and Technology division.<sup>31</sup> The BBC told us that it intended to reorganise this division following the recent departure of the Director of Future, Media and Technology. The BBC was also planning to simplify its structure and was reviewing both the number of layers and the way in which different divisions worked together.<sup>32</sup>

18. Over a year ago, the BBC announced its commitment to reducing the salaries for senior managers by 25%, and the number of senior managers by 20%, by the end of 2011. The Trust told us it believed the BBC should have tackled these issues sooner. It acknowledged that the BBC's senior management costs and numbers were a matter of legitimate public concern and assured us that it was committed to seeing the reductions were implemented. As we requested, the BBC subsequently provided a breakdown of the expenses of the 39

26 Ev 24

27 Q 23, C&AG's Report, paragraphs 1, 3.6

28 Qq 1, 12-17, 56

29 C&AG's Report, paragraph 15 and Figure 1

30 Q1, C&AG's Report, paragraphs 3.8, 3.9 and 4.5

31 Qq, 98-106, Ev 17

32 Q 103

senior managers in the Future, Media and Technology division. In addition the Trust told us that from April 2011 the BBC will publish the salaries and expenses for all senior managers earning more than £150,000 a year.<sup>33</sup>

# Formal Minutes

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**Monday 28 March 2011**

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Stephen Barclay

Dr. Stella Creasy

Jackie Doyle-Price

Jo Johnson

Austin Mitchell

Draft Report (*The BBC's management of its Digital Media Initiative*) proposed by the Chair, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Summary 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.

[Adjourned till Wednesday 30 March at 3.30 pm]

## Witnesses

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**Tuesday 15 February 2011**

*Page*

**Mark Thompson**, Director-General, **Erik Huggers**, Director of Future Media and Technology, BBC, and **Antony Fry**, Trustee, BBC Trust

Ev 1

## List of printed written evidence

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1 BBC Trust

Ev 17; Ev 24

2 BBC

Ev 24

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

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

### Session 2010–11

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808



# Oral evidence

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## Taken before the Public Accounts Committee

on Tuesday 15 February 2011

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon  
Stephen Barclay  
Matthew Hancock  
Chris Heaton-Harris

Joseph Johnson  
Nick Smith  
Ian Swales

**Amyas Morse**, Comptroller and Auditor General, gave evidence. **Gabrielle Cohen**, Assistant Auditor General, NAO, **Keith Hawkswell**, Director, NAO, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

### Examination of Witnesses

*Witnesses:* **Mark Thompson**, Director-General, BBC, **Erik Huggers**, Director of Future Media and Technology, BBC, and **Anthony Fry**, Trustee, BBC Trust, gave evidence.

**Q1 Chair:** Good morning. Thank you for agreeing to give evidence this morning. What we are going to do is first of all try and deal with the Siemens side with regard to the contract with Siemens, and then move to the in-house management of the contract. So we will try and keep it in those two parts. I really wanted to start with a very general question: what went wrong?

**Anthony Fry:** Thank you very much for having us here this morning. If I may, I would like to take that question in two parts. The first thing that I think is very important is to make sure that the Committee has a full understanding of the nature of the DMI project, against which we can then discuss and come back to the question of Siemens. For that, I would just like to defer to the Director-General to make a few comments.

**Mark Thompson:** Yes, okay. There is actually a rather helpful diagram on page 12 of the Report, which gives you an overview about DMI. But in a way, the point about DMI is that it is a fundamental re-engineering of the way the BBC makes television across not all but much of its television production activity, reflecting a world of demand from the public that is changing very, very rapidly indeed. Indeed, the world looks very different now from at the point when we took the decisions about DMI. But DMI was designed to point into the future, and designed to help us take lots of what were traditionally disparate and typically high-cost professional activities, bring them to the desktop, and enable what in the jargon we would call an “end to end digital workflow”. That means that essentially one person is able to grab content, manipulate it, edit it, finish it and then deliver it to a number of platforms, and then to be able to see not just rushes shot for a particular programme, but also the entire BBC deep archive and be able to manipulate that as well. It allows multiple users to be using the same material, potentially at the same time.

What is interesting, but is also what I think makes DMI quite a complex project, is that we expected

DMI to help us with platforms and expressions that had not been invented, and it is happening. iPad arrived long after DMI was conceived. DMI will help us and is helping us with some of the deployments we have already got of DMI to deliver content to iPad and other tablets in a way that will save us money. But because it is a moving target of platforms, devices, user behaviour, and also editorial priority in terms of the BBC’s priority shift, the character of DMI has been that we would expect its benefits to emerge over time and to be quantifiable over time. For example, the ability to deliver content to iPad is not included in the benefits of DMI.

DMI is a fundamental way of thinking afresh about the way we make content at the BBC and is critical to projects like Salford and to aspects of our WI Project. If you like, it sometimes comes across in the report as if this is a “nice to have”; it was an absolutely essential “have to have” for the BBC over this period. One of the reasons we are very pleased the project is going well now is that a lot of the future of the BBC is tied up in the successful delivery of this project.

**Q2 Chair:** Okay. I think we are going to come to some of the details of Salford and the impact on Salford, but I want to really go back and focus on when Siemens were commissioned to it: what went wrong?

**Anthony Fry:** Madam Chair, for that I would like to ask Erik Huggers, who is responsible for the entire IT and related activity in the BBC, to talk about the specifics of having chosen Siemens as the contractor.

**Q3 Chair:** Hang on a minute. I have asked a question: what went wrong? Rather than your explanation of why; what went wrong?

**Erik Huggers:** I think what went wrong is that Siemens was awarded the contract, and we were completely confident that they were the right partner

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15 February 2011 Mark Thompson, Erik Huggers and Anthony Fry

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for us. We had just gone into a ten and a half year strategic arrangement with them.

**Chair:** Not just gone; you had done it four years before.

**Erik Huggers:** Yes, that is true, but it was very recent in a ten-and-a-half-year period.

**Chair:** Well, you could have checked. You could have checked.

**Erik Huggers:** Well, what went wrong was that we, in the end, had a set of clear deliverables that we said Siemens needed to deliver on. They had two big timelines, as the report illustrates. When we checked in with Siemens to look at, "Okay, where are these deliverables? Where is the software?" it turned out that the project was not going according to plan at all. So, basically, the relationship with Siemens with regards to DMI was one of a particular nature where the risk was transferred to Siemens, and as a result of that, the relationship was rather distant, because we could not get involved, because that would mean the risk would transfer back to the BBC. And may I say, Siemens did not want us involved, because that was the nature of the agreement and the nature of the original deal?

**Q4 Chair:** I am really trying to get to specifics. As Ian Swales said in our pre-meeting, this is another one in a long list of IT projects that have not gone to plan, to time or to cost. So this attempt to transfer cost to Siemens, and therefore, your very hands-off approach in the BBC, was that one of the factors that went wrong?

**Mark Thompson:** Can I have a go? The context for this is a relationship, which as you rightly say, had begun with Siemens some years earlier, with an overall relationship which was actually delivering the majority of projects on time and on budgets. It is a little unfair to suggest that there has been a long list of recent delays or problems with IT projects. Actually, the main so-called TFC with Siemens was performing well and was delivering above expected efficiencies; and indeed, the efficiencies and savings we have got from the Siemens contract have continued to improve. There was an NAO Report some time ago on this contract that recognised the scale of the savings, and the savings have got better. So the first thing is that the broad relationship with Siemens was going well. Specifically, Siemens had just successfully completed a similar but rather smaller scale end-to-end digital installation in Pacific Quay BBC Scotland headquarters for the BBC, and so Siemens had a track record of recent success; not without its issues, but essentially recent success in exactly this area. Siemens, manifestly, because of the scale of the relationship, had a very good, we thought, broad understanding of our business, were well integrated in terms of colleagues across the BBC, and seemed very well placed to deliver DMI in the way that they had already delivered the Pacific Quay Scottish installation.

So there were powerful reasons at the time for believing that a fixed-price contract with Siemens, under the terms of the TFC, was the right way forward for delivering DMI. Now, subsequent events showed that this was not the case.

**Q5 Chair:** So, why? What went wrong?

**Mark Thompson:** I think, essentially, in the end we reached a commercial settlement with Siemens.

**Q6 Chair:** I know. What went wrong? I am sorry to keep asking this. I know other members of the Committee might feel differently, but I think if I was sat in your shoes, I might have signed the Siemens contract. But what went wrong?

**Mark Thompson:** I think the scale of the contract and the level of innovation required in the contract meant that it was a much more challenging contract to deliver than Siemens had first believed. It turned out that, although I think Siemens' broad understanding of the BBC has been very good, they struggled to achieve the depth of understanding that would be required to deliver DMI in the context of this contract. Now, it is partly to do with the nature of the contract. The idea of the contract was fixed-price to minimise the risk that the BBC was holding, but the character of this kind of fixed-price contract is that the contractor goes away and delivers against the fixed-price. As soon as the milestones started being missed we knew we had to act, and although we had milestones to tell us if things were going wrong, we did not have direct levers into the contract, precisely because of the kind of contract that we had elected—

**Q7 Chair:** Okay, so am I right in assuming two things? One thing: is a contract that transfers the risk but then does not enable you to keep a tight hold on it a thing you would not enter into in the future? Yes or no?

**Mark Thompson:** It turns out, for this level of innovation, where you are asking for so much new code to be written, that probably for this level of innovation, you would think very carefully about a fixed-price contract. I have to say, for many, many other things, including other IT projects, the benefits of a fixed-price contract, which transfers risk to the contractor, when there is utter clarity and functionality are both in the private and public sector characteristically regarded often as best practice. In this case, scale and complexity means that I think, were we to revisit it, we would look very hard at whether fixed-price was the way to go.

**Q8 Chair:** I am just going to ask one more, then I am bringing Amyas in. You knew in November that your first milestone was missed, but you did not act then. That struck me when reading the Report: "Why the hell didn't you do something then?"

**Mark Thompson:** Actually, from that moment in November, there was what I would describe as extraordinarily energetic management action to try and do our best with Siemens to understand what the issues were and, in so far as we could, informally to help Siemens with the issue, but also, crucially, to prepare for plan B if the warning signals we were seeing in November turned out to be terminal and if Siemens were not going to be able to get this contract back on track, so we were then able to move as quickly as we could the following year to come up with the right alternative plan. That is what we did.

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What I would say is that there are many stories of IT programmes where the person who has commissioned the project waits for months or years at signs of trouble in the hope that the problems will sort themselves out. We were very active. The moment it looked like we were encountering difficulties and milestones would be missed for a very big project, we came up with a comprehensive, alternative plan for implementation, which we then executed the following year, and which is now on track.

**Chair:** Okay, I just think it is worth putting on the public record that Siemens asked to give evidence to us, and the Head of PR wrote to me. I was very happy to take evidence, but wanted the senior responsible official to come and give us evidence, and when I made it clear that that was whom I wanted, they withdrew their offer.

**Q9 Amyas Morse:** Can I just be clear on Pacific Quay? In the process of writing this Report, nobody offered Pacific Quay to us as a validatory project on Siemens. I think the reason for that was because it was a pretty small and mostly off-the-shelf application. Is that not true, Mr Huggers?

**Erik Huggers:** I don't think it was pretty small; it was the right size for that particular location.

**Amyas Morse:** Right, when you were discussing with us about this particular Report, it was not cited to us as an example.

**Erik Huggers:** I do not know what my colleagues have discussed with you. I certainly have not discussed it with you.

**Q10 Amyas Morse:** Would you regard it as a valid example?

**Erik Huggers:** Absolutely. It is an end-to-end digital production workflow that, if you look at it, is a smaller instance of what DMI intends to do, where DMI tries to do that for the rest of the BBC.

**Q11 Amyas Morse:** Did it have the same level of origination as this one? Obviously not.

**Erik Huggers:** Origination: what do you mean by that?

**Amyas Morse:** What I mean by that is the amount of original application that had to be applied here and the amount of adaptation.

**Erik Huggers:** It is a systems integration job.

**Mark Thompson:** To be honest, it is broader in its functionality, because it deals with both radio and news, as well as television production. The volume of production that goes through it is much smaller than DMI and the architecture is slightly different, but this should not have come as a surprise to the NAO. The NAO covered it in your Report on Pacific Quay, at least in passing.

**Chair:** I have a list of colleagues who wish to ask questions, so I ask everyone to keep their questions tight.

**Q12 Joseph Johnson:** I will come straight in on the point that Mark Thompson was making, please. When you said that DMI was essential and it was a "must have" not a "nice to have" initiative, surely everything has to be judged in relation to a cost-benefit analysis?

**Mark Thompson:** Yes.

**Q13 Joseph Johnson:** There comes a point where the costs mean that it is actually not an economic enterprise to enter into.

**Mark Thompson:** I would absolutely accept that. If I can give you an example in the context of Salford, the BBC North project. You are building a big broadcast and production centre in the north-west of England and you are having to making specific decisions about procurement for the television production equipment that will be required to make the programmes that you are going to make in Salford. Although it would be theoretically possible for you to use, as it were, the traditional forms of professional non-joined up kit that the BBC and other broadcasters have used over the years, if you are not careful, you end up opening a new broadcast centre in 2011, with technology which, in a sense, is looking obsolescent in 2007.

So, because you want to get the best possible advantages because the new technology drives efficiencies, as well as delivering production in ways which could work across all the new platforms, when you are thinking about Salford, you have to think about the future, and as it were, emerging technical solutions for the future. So your choice, it seems to me, if you are going to take this sensibly, and especially if you want to drive value for money over this period, is to try and look ahead to the future needs of the organisation, the emerging technologies that will be available, and also state of the art thinking around the world about how you can make programmes more effectively and efficiently, and deploy systems which do that.

Although DMI is now cutting edge globally, if you talk to any broadcaster around the world, the philosophy behind DMI of more and more work on the desktop; more and more joined up digital working; absolute real-time connection to the archive; and delivery of content to multiple platforms is where you are going to go. So, I think, DMI absolutely makes sense conceptually.

Now, once you have decided that you have got to go for some version of this, there are 101 questions about how you contract it, what the scope should be, how you deploy it, what the benefits could be, what benefits are financial, what benefits are non-financial, and so on.

**Q14 Joseph Johnson:** Viewed through a financial prism, though, at what point did you realise that it was going to destroy value, in terms of the revenue benefits it could bring in versus the costs?

**Mark Thompson:** I am completely and utterly unpersuaded that it will destroy value.

**Q15 Joseph Johnson:** So you dispute the cost-benefit analysis that is laid out in the Report?

**Mark Thompson:** I mention the iPad; it is a really good example.

**Q16 Joseph Johnson:** But those embedded options are going to be crystallised in the expectations of future benefits. They are captured in those benefits.

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**Mark Thompson:** You will see in the Report quite a detailed timeline on the business cases, and the challenge both from the Management Finance Committee—my finance committee—and also from the Trust’s Financial Oversight Committee looking at the benefits. The approach we have taken with benefits, and in particular, specification of benefits, is to adopt a conservative view. We only ascribed to the project those benefits that we can immediately identify. If you take Pacific Quay, the digital workflow in Pacific Quay has delivered savings far beyond our initial expectations, and has paid for itself comfortably. I have got no doubt at all that DMI similarly will deliver. Some of the benefits for programme quality and delivering multiple platforms, in addition to the work with partners, will mean the actual outturn on benefits is much higher.

**Q17 Joseph Johnson:** Fine. But it is a fundamental point of disagreement with the NAO Report, which clearly lays out that there is going to be a financial net cost to the BBC of £38.2 million by March 2017. I know there may be a spurious accuracy in those sorts of calculations, but nonetheless, there is still the general position that there is going to be a net cost, i.e. value destruction, to the BBC.

**Anthony Fry:** I actually dispute that. If you actually look at the NAO Report, it concludes on page eight, “In addition, success of the programme will depend on take-up by users across the BBC. It is therefore too early to conclude on the likely value for money of the programme.”

**Erik Huggers:** Exactly.

**Anthony Fry:** I understand that we can dance on the head of a pin about what the benefits may or may not be. I absolutely endorse that conclusion. I am quite prepared to be supportive of the Director-General and management’s position, which is that, at this stage, with the programme in the state it is in, the analysis that has been done, as set out by the NAO in the back of this document through a very clear timeline on figure 7 on page 30, setting out the improvements in the cases that were produced in front of the Trust through January 2008 and June 2010, that is the right conclusion at this stage to reach. I understand the numbers and I think we could look at a lot of different numbers, but I believe that conclusion is the right one for you to draw from this Report.

**Q18 Stephen Barclay:** Following on from Joe’s question, could I take you to paragraph 2.17? “The BBC covered the lost programme savings for 2009/10 through increased savings from other areas.” £26 million is rather a lot of small change to suddenly identify. Could you tell us where those savings were achieved?

**Mark Thompson:** Absolutely. Firstly, if you like, the context of this is that these savings were to be delivered through a number of divisions of the BBC—all the divisions—but the divisions in scope delivering their value for money targets for each of these years, which they successfully did. The way they did that is through the value for money programme. Essentially two things happened. Some of the changes to working practices that we associate with DMI, we

implemented, to some degree, with existing technology and with some elements of new kit, for example light-weight cameras. We also looked at some of the other planned savings for the later years in the value for money programme, and brought them forward. Because DMI was delayed, the cost and the management time that was going to go into the implementation was also delayed, and we asked all of the managers involved—the Programme Commissioners, the Controllers, the Heads of Production—to look at bringing forward other savings earlier.

**Q19 Stephen Barclay:** We will come on to that. Perhaps you could provide the Committee with a detailed note, firstly, of where those savings came from, how much they were, which business areas they were, and the balance sheet of the budget of the relevant departments. In the hearing we had on Ofcom, it emerged that Ofcom was making savings. When we got to the breakdown of their budget, there was £2.7 million for thought leadership consultancy. So, can you provide us with a detailed breakdown of those savings and the departments? But could we come on to where you were just leading us, which was on the point of efficiency savings, which is referred to in the first two bullet points of paragraph 2.16? Reading that, the obvious question, I would have thought, is: if you can find £24.5 million of efficiency savings, why had you not identified those sooner?

**Mark Thompson:** Firstly, the BBC public service economy is close to £4 billion of spend a year. We have a multi-year programme of efficiencies across the organisation, using a methodology that has been worked out with the NAO, and against which our auditors report each year in the annual report.

**Chair:** I think, Stephen, just to be helpful, there are two sets of savings. There are your in-house savings that you had to put in because you were not getting the extra money, on which Stephen has asked for a note. There is then the money that you have got back from Siemens.

**Stephen Barclay:** Which came from the technology contract. Yes, I understand the point.

**Chair:** What I think you are asking there is: the Siemens savings had something called efficiency savings. Why were they not identified?

**Q20 Stephen Barclay:** Yes, this was from the wider contract with Siemens. As I read it, the £27.5 million was not a payment from Siemens; that was efficiency savings from the wider contract. So if you have got a wider contract that has got that much fat in it, it begs the question: why could that not be found sooner?

**Mark Thompson:** I think I understand the point precisely. There is an entire value for money programme built into the Siemens contract, which is delivering, and delivering above expected savings. These savings are over and above the already contracted savings.

**Q21 Stephen Barclay:** So the original estimates were pretty modest, then, in terms of the ambition of the original value for money?

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**Mark Thompson:** No, not at all. Let's be quite clear, this is part of a settlement. This is money that was not expected to be paid, and it was in lieu of another cash settlement.

**Q22 Stephen Barclay:** Therefore, you say, "as part of the settlement". Let's go back to the start. What I found remarkable was that the Comptroller and Auditor General proposed doing a study of this area back on 5 November 2009, and yet it took eight months before the BBC Trust gave the NAO approval to go ahead. What I wanted to ask about that eight-month delay was, my understanding of that is that you were prepared for the NAO to see the confidential settlement, but not Parliament. Could you just clarify why there was an eight-month delay, and why Parliament would be excluded from this?

**Mark Thompson:** Could I just deal, first of all, with the Siemens contract again? Just to spell it out, the Siemens contract—which itself has been the subject of an NAO Report and which the NAO have correctly identified as delivering above its expected savings and is now delivering even further above its expected savings—has saved the BBC and the public a great deal of money. I think that is uncontentious.

**Q23 Stephen Barclay:** Could I just address that specifically, because you are citing that Report as saying how good that contract has been, but on page 20 of that Report, it says at figure 12, "The BBC and Siemens have different views of the strategic nature of the relationship." So it suggests that there were problems that that Report identified there.

**Mark Thompson:** The key performance indicators in the contract are all currently being met. The relationship is very strong. But on the point of savings, I think there is no dispute here that this contract has saved the BBC and the public a great deal of money. It is continuing to save the BBC money, and the £27.5 million that is part of this settlement, is over and above all of the other savings that the contract is making.

So let's not pretend that this £27.5 million is some sort of additional little piece of value for money that could have been found years earlier. This is a very lean contract, we are managing it very tightly and it is delivering real savings. The £27.5 million as regard to this settlement, is over and above that, and is straightforwardly in lieu of, as it were, cash the BBC otherwise would have had to have spent in the contract.

**Q24 Stephen Barclay:** Okay, well, perhaps again we can have a detailed note setting out what the original value for money savings were on that wider contract—the technology contract.

**Mark Thompson:** I would urge you to read the original NAO Report. We can give you an update on it, by all means, but the original NAO Report is very good on this topic.

**Q25 Chair:** Can I just come in on that, Stephen? I think one of the things that is a bit concerning that the NAO draw attention to is that the deal was confidential, which I think caused some of the delay

in the NAO Report. In dealing with public money, confidential settlements are not a very good thing. I just wanted to explore that a little bit with you, as to why you felt it had to be confidential, given that you are a public service, dealing with taxpayer's money.

**Mark Thompson:** Yes, why don't you answer that first, Anthony? I have got some details on that, but why don't you go first?

**Anthony Fry:** I recognise the point, Madam Chairman, but I think also one has to recognise that one is dealing with a large commercial organisation in the shape of Siemens. We can have a long debate about whether the BBC did the right or the wrong thing to enter into a confidential agreement and settlement with Siemens, rather than going down a legal route. I am happy to debate that. But on the specific point, given the nature of the relationship between any organisations, I think it is unrealistic to expect the BBC and Siemens to enter into this sort of settlement on any basis other than a confidential one.

**Q26 Stephen Barclay:** I have got the note here from the House of Commons library, which says, "National Audit Office to have full access to BBC accounts. The revised agreement will include NAO access to confidential BBC contracts with third parties and NAO rights of access to any information it needs to identify and carry out its studies. NAO have routine access to BBC management information." Could you just confirm, moving forward under the revised agreement, that there will be full and unfettered access for the NAO to BBC data as the NAO sees fit?

**Anthony Fry:** Firstly, let me say this: I think often it is suggested that there is a greater divergence of opinion between the BBC Trust, in particular, and the NAO than there is in reality. We have the same interest. We are responsible, through the Royal Charter, for the delivery of value for money as the BBC Trust. That is our responsibility. We use every means we can to ensure that we, as the BBC Trust and the body responsible for that, have the necessary information to deliver that. That includes the use of the NAO and the use of other external organisations. So my first point, which I think is important, is that there is no fundamental difference of opinion as to what we are trying to achieve.

Now, the question of full and unfettered access in regard to studies that the NAO is undertaking is something that I believe is completely accepted, and as you rightly say, is part of the agreement reached with the Secretary of State. In regard to that full and unfettered access, you will also be aware it does not apply in the case of DMI. It has applied in previous cases, and I have got no doubt that it will apply in future cases. There is information of a commercially confidential nature, which, notwithstanding the fact the NAO may have access to it, is not put into the public domain for good commercial reasons.

So, I think in the question of full and unfettered access, if we are talking about a Report that is being produced by the NAO in agreement with the BBC Trust, there is no difference between us. If we are talking about something different, which is the NAO having a supervisory authority to investigate whatever it wants, whenever it wants—if that is what you mean

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by full and unfettered access—then we do have disagreement.

**Q27 Mr Bacon:** Hang on a minute, this is extraordinary. Full and unfettered access is clear in English; everyone understands what that means. You have just said you do not really mean full and unfettered when you say, “Full and unfettered.” You are either pregnant or you are not.

**Anthony Fry:** You are absolutely right. Unfortunately, I did not draft it and no one around this table, I believe, drafted it. There is a Royal Charter which specifies that the people responsible for the delivery of value for money are the BBC Trust. That is to be responsible under the Royal Charter.

**Q28 Mr Bacon:** The Royal Charter is a red herring. The London Borough of Kensington and Chelsea has a Royal Charter, for heaven’s sake. Why did NAO access have to be written into the confidentiality agreement?

**Anthony Fry:** I am sorry. The confidentiality agreement has a specific—

**Q29 Mr Bacon:** Why did NAO access have to be written into the confidentiality agreement?

**Anthony Fry:** Specifically, the NAO, as a responsible body under the commercial confidentiality arrangements, was specifically one of the authorities that could be covered by someone if we are required to give access.

**Q30 Mr Bacon:** Hang on. Actually, you did not answer my question. My question was: why did the NAO have to be written in?

**Anthony Fry:** I am sorry. I am not trying to be stupid here. In what sense?

**Q31 Mr Bacon:** You had a confidentiality agreement, didn’t you?

**Anthony Fry:** Yes.

**Q32 Mr Bacon:** NAO access had to be included and specified in that confidentiality agreement?

**Anthony Fry:** Yes.

**Q33 Mr Bacon:** Yes. Now, my question is: why?

**Anthony Fry:** I am sorry. Why is that a negative?

**Q34 Mr Bacon:** Why did the access of the NAO have to be written in? Why did it have to be stated?

**Mark Thompson:** Because we were trying to be helpful, is the answer.

**Mr Bacon:** No, the actual answer is because they do not have statutory access, isn’t it?

**Stephen Barclay:** Yes. Absolutely

**Q35 Mr Bacon:** Isn’t that right? Because if they had statutory access, it would not matter whether it was written in or not. When the Department for Culture, Media and Sport, or the Ministry of Defence, or the Department for Transport enters into commercially sensitive agreements with its interlocutors, with its contractors or with companies with whom it does business, the NAO does not have to be written into

those confidentiality agreements in order for it to have access.

**Anthony Fry:** With respect, sir, the BBC is a different sort of organisation.

**Mark Thompson:** There is a very straightforward point that is really worth getting on the table here, which is that the BBC is not in the same position. For almost every other bit of the public sector, Parliament has got the ultimate responsibility for holding public bodies to account for the use of public money. That is not the case in respect of the BBC.

**Q36 Mr Bacon:** Even though it is public money?

**Mark Thompson:** It is incredible clear. This is from the Royal Charter: “The Trust is the guardian of the license fee revenue and the public interest in the BBC. The Trust has the ultimate responsibility for the BBC stewardship, of the license fee revenue and its other revenues.” The BBC, because of the need for it to be independent of Government, and by the way, independent of Parliament as well, has got different constitutional arrangements. You may disagree with that, but that is simply fact.

**Q37 Mr Bacon:** By the way, that is an interesting way of putting it, because the NAO is independent, both of Parliament and of Government. Can I just ask the C&AG, if you wouldn’t mind, Mr Thompson, how did the confidentiality agreement impact on the NAO’s ability to do this study?

**Amyas Morse:** Well, in the end, we were able to get full access, and in the end we had various discussions about what the legal liability resulting from that agreement might be with the BBC. We understood that they had a different position from us; we thought that we had a reasonable discussion with the BBC, and in the end it was established that we could require access to this information. We were able to do so, and so in the end we had full access. But it did take us quite some time to get there.

**Q38 Chair:** Can I come in, because I want to move us on as well. I think the point we are trying to make here is that our understanding from the NAO is that it took eight months from when the NAO wanted to undertake the study, 5 November 2009 to 2 July 2010, before we got the go-ahead. That is just too long. What I would really like to hear from you is just an assurance that, in the spirit of the new agreement that is about to be signed between the Government and yourselves, you will be accountable in the way that is defined to Parliament, so that there should be speedy access for all the information that is required when the NAO decides to do a study.

**Anthony Fry:** I agree, Madam Chairman.

**Q39 Chair:** You agree?

**Anthony Fry:** We agree.

**Q40 Chair:** So, in the future this will be different. Can I ask you one other question, which I did not get an answer to, namely that I think that it is iffy to sign confidential agreements when you are dealing with public money? In this instance you did. My understanding is that you do quite often, and I can

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understand the temptation to do so. Do you think this was wise, in this event, because it has led to difficulties in ensuring proper accountability in an IT project that went wrong?

**Mark Thompson:** I do not think that the Comptroller and Auditor General will disagree with this, but I think you will see in this case that we were mindful in the negotiations with Siemens of the importance of a number of authorities, the BBC Trust and the NAO specifically, having access to the details of this contract. So in the context of the negotiation, we were very clear that we needed to make sure that the appropriate authorities—these two authorities—could look at the details of the contract.

At the same time, you are talking about a commercial contract and a world where confidentiality is an absolutely normal part of this kind of contract and this kind of settlement. Had we insisted on an utter lack of confidentiality, the danger was that we would have gone down the other route of a legal solution to this issue, which we also considered. We were advised by leading counsel that our chances of success were very high indeed—exceptionally high—but where we were told that it would take at least two years in the courts, potentially, to get to a resolution.

What we had to balance was all of the disbenefits of doing a commercial settlement, which included some limitations around confidentiality, against the benefit of being able to get on, deliver the project and do it at the minimum risk to the organisation and to the services being delivered to the public. We had to weigh this in the context of a commercial route, where it is standard practice for confidentiality clauses to be included in this kind of settlement.

**Q41 Ian Swales:** This is obviously a really ambitious project, but the actual underlying science of digital media is not that new. We can all manipulate sound, video and photo and store it on our own PCs with software costing next to nothing these days, and I also know from personal experience that the BBC were looking at the whole digital archive at least 10 years ago. So how much experience of DMI did Siemens have when you gave them the contract initially?

**Mark Thompson:** Well, the key thing, as we have said already, is that they had already delivered a similar, albeit smaller, digital workflow project successfully for BBC Scotland. They had also, because of all the work they are doing for us across the entire digital landscape, whether it is supporting our desktops, helping us with other forms of production or whether it is the coding or multiplexing of signals, a lot of experience of the organisation.

**Q42 Ian Swales:** Specifically on DMI? Before you gave them the 10-year contract, what experience did they have? Surely this is crucial. You must have known it was crucial to your business at the time of the 10-year contract.

**Erik Huggers:** My understating of when the 10-year contract was given to Siemens was that one of the key reasons for getting into the arrangement with the BBC was Siemens's desire to build up a new vertical in media and entertainment. That is the area where they

decided to go and partner very deeply with the BBC, to build up that knowledge and understanding.

**Q43 Ian Swales:** You are telling us that there were no players who had worked in newspaper, TV or whatever—

**Erik Huggers:** I am not saying that; I am answering your questions with regards to Siemens, and what Siemens's experience was at the time that we got into the TFC contract.

**Q44 Ian Swales:** So you decided to help them to develop their new business in partnership with you. Is that what you are saying?

**Erik Huggers:** No, I would not say it in that way at all. When the TFC contract was awarded in an open tendering process to Siemens, they were simply the best partner for the BBC at the time.

**Mark Thompson:** It is fair to say, though, that their strength was in networks, rather less than, as it were, the end user part of this project. But, as I say, in BBC Scotland, they had actually integrated. So they do a lot of work as an integrator of software and kit provided by a number of other contractors. They have extensive experience of that.

**Q45 Ian Swales:** With today's software development techniques, a project that is lasting years is from first principles. It is a project where people have not done it before. If they have done it before, they should have been able to move very quickly. Was it a mistake to ask them to do this project in the first place?

**Mark Thompson:** What I want to say is that, in a sense, there are two aspects to DMI, one of which is to do with the long range building out of networks to deal with the very, very big data flows, which you will understand are associated with something like this. The other aspect, of course, is making sure that you have the right pieces of software available on the desktop for different bits of the content handling. The assumption was always, at the desktop level, that there would be support for multiple systems, and we would be continuing to change, adapt and use different systems as we went. So, this is not building a hydroelectric power plant; the assumption was always that at the desktop end there was going to be continuous evolution and, for example, multiple editing systems supported, and so forth.

**Q46 Ian Swales:** The last area is: if all that is true, how do you judge the performance of the BBC management, in first of all specifying this contract initially, then doing the DMI contract and, as it says at 2.11 in the Report, managing the contract itself, given that it is quite critical about the BBC's knowledge of the adequacy of the design and development work and the fact that the BBC did not have any independent technical assessment? So, to what extent is the BBC management at fault for allowing this whole situation to occur?

**Mark Thompson:** If I may say so, a lot goes back to the decision—which manifestly, in hindsight, as I have said, we would look very hard at before we did it again—to go for a fixed-price contract rather than

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to go for a contract that gave us more risk but more visibility of what was going on inside the contract.

**Q47 Ian Swales:** So you wanted to pay them more money. Is that what you are saying?

**Mark Thompson:** No, no.

**Q48 Ian Swales:** If it had not have been a fixed-price, what would have happened? Would it have cost us more?

**Mark Thompson:** The forecast savings from the Siemens multi-year contract were £144.5 million. Their current estimate of savings to be made is £186.6 million, so we have saved more than £40 million more than we thought, and the £27.5 million as part of the settlement is over and above that. So we are talking about savings well over £200 million. So, the context was of Siemens delivering pretty effectively across a broad range of projects, including one very like this one; and secondly, with a track record of delivering deep savings against other solutions.

**Q49 Ian Swales:** If all that is true, what went wrong in this case?

**Mark Thompson:** If I may say so, as you have heard me say already, the scale and the amount of innovation required in this project meant that, in this case, Siemens, who previously had a good track record with us, were unable to deliver the contract to our timetable. The key control that the BBC has in this are the milestones for delivery, and that is part of the agreement. As soon as the milestones started getting missed, my view is that Erik and his colleagues inside Future Media and Technology actually responded pretty quickly and pretty aggressively, and within a few months we had a complete plan B, which we implemented and which we have implemented successfully.

**Q50 Ian Swales:** You talked about the degree of innovation; can you give an example of something that was truly, truly innovative as part of this work?

**Erik Huggers:** Absolutely. I am going to be a bit technical, if you will allow me.

**Ian Swales:** Go on, try me.

**Erik Huggers:** Well, it is not that technical. Basically, everything stands and falls with metadata. Metadata is the data that describe the actual audio and video assets. Now, if you look at the sheer volume of output that the BBC produces, no one in the world had ever created a system to capture all that metadata in the way that we have done. We have talked to every broadcaster who is up there in scale and size, and they all say that this is unique. One unique thing that we have done is that we can track each frame of every video, literally down to the frame. No one has done that before. So, you can now search on a frame-by-frame basis—and there are 25 frames per second?

**Mark Thompson:** Yes.

**Erik Huggers:** For every bit of video ever shot.

**Q51 Chair:** You mean all this little bit as we are being filmed now?

**Erik Huggers:** Yes, absolutely. We would be able to track it if we were using DMI. We know for a fact

that that is one real innovation. I think the other innovation is that it has never been done at this scale. There is no other organisation in the world that has the scale of output that we have.

**Q52 Chris Heaton-Harris:** Is it not the point that you are spending public money on something that no one else has done, because there is no market value to it? I have got a whole bunch of questions on this, but why do you need all that? Why do you need to spend public money on all that?

**Erik Huggers:** I think Mark already explained all of the big changes that are happening in media. If you look back to 2007, with us now in 2011, would you have believed in 2007 that iPlayer would have delivered 163 million programmes in a single month to UK citizens. No, is the answer: you would not have believed it. But yet, here we are today. The landscape is changing very, very rapidly indeed. iPad came to the world and we did not expect it to be as successful as it is, yet there are over 800,000 British citizens who have an iPad now, and it is growing astonishingly fast and they are using it to consume BBC programmes.

**Q53 Chris Heaton-Harris:** You have just launched an iPlayer app on 8 February: how much did that cost?

**Erik Huggers:** I do not know the exact data.

**Q54 Chris Heaton-Harris:** That is interesting, because on 6 July last year, the BBC ran a news story criticising the Government for spending between £10,000 and £40,000 on Government apps for these sorts of things, and asked a whole bunch of freedom of information requests. So you are happy to criticise the Government for spending money on these things?

**Anthony Fry:** To be fair, that is an editorial decision; it is not a management decision.

**Chair:** Yes.

**Anthony Fry:** I think that is an unfair comment.

**Chris Heaton-Harris:** I know, but the point of the question is: if you are not looking after the pennies, you are certainly not going to be caring about the pounds so much.

**Q55 Chair:** I think what would be helpful on that is if you could provide, for the Committee in the notes that you are going to provide, just something on what the app is.

**Erik Huggers:** The cost of the app.

**Q56 Chair:** I have to say, I think with the way media is going we all want to be able to access this stuff. I do not think we should quarrel with the purpose of this.

**Chris Heaton-Harris:** It is not the purpose; it is the cost.

**Mark Thompson:** If I may add one other thing though, one of the BBC's roles, frankly, since 1927, has been in research and development in production and in platforms development. One of the aspects of DMI that I think is interesting is that this has been developed not just for the BBC. I believe it will end up saving the BBC and licence payers very significant amounts of money. But we are also going to share this technology with key independent suppliers for the BBC and with other public bodies. So the idea is to

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try and get as much value out of this investment as possible. So that not just the BBC, but independent, commercial companies in this country, and also other public bodies, get the same kind of state of the art ways of manipulating content.

**Q57 Chris Heaton-Harris:** I would love to come back to the argument as to whether you should be acting in this field when there is plenty of competition already in it and whether that is the job for a public sector broadcaster. But that is not the point of this inquiry, and Margaret would tell me off. I am very interested in the relationship you had with Siemens. You said that they did a similar, albeit smaller, digital workflow contract for you. What was the value of that contract?

**Mark Thompson:** The whole of Pacific Quay is about £180 million, of which this is one segment. We will come back to you with details on that.

**Q58 Chris Heaton-Harris:** Okay, fair enough. You had “complete confidence in them” and “a very close relationship”—both quotes from you on the Panel, there. Now, was this relationship too cosy, then, with Siemens?

**Mark Thompson:** I have just mentioned the savings we have been driving out of the relationship. We ride extremely hard, in terms of contract management.

**Q59 Chris Heaton-Harris:** How did you procure this contract; the larger contract?

**Mark Thompson:** I will get Erik to talk about this in a bit more detail, but we got some consultants to help us think through what was the best and most effective way, both in terms of likelihood of success and value for money.

**Q60 Chris Heaton-Harris:** Did it go to open competition?

**Mark Thompson:** It did not.

**Q61 Chair:** Given the scale of this in relation to the previous Scottish thing, in hindsight, would it not have been more sensible to go out to open competition?

**Mark Thompson:** Two or three points from me, and then perhaps I will get Erik to reflect on this as well. Firstly, although there are a lot of people active in the area, there was no one obvious who had a complete solution to offer. At this level of integration, there was no one anywhere in the world. There were people doing lots of bits, and indeed there are lots of different segments inside DMI, today.

**Q62 Chris Heaton-Harris:** But Siemens didn't have a solution to offer, either, so that is not a valid defence, is it?

**Mark Thompson:** Siemens understood our business, they understood our networks and they had already found one way of gathering a solution together for us. We were advised by our consultants that, although it was true that potentially because of price competition an open tender could have delivered a somewhat lower price for delivery of DMI, the total aggregate cost, both of doing the tender and the additional cost

that would be required to get whoever won the contract into the BBC and understanding the business, it would be more expensive and less good value for money, in this case, to go down the tender route.

**Q63 Chris Heaton-Harris:** Did you actually take legal advice on this, as well? How close to the wind are you sailing on EU procurement and legal advice throughout this?

**Mark Thompson:** We are confident that what we did sat within EU procurement.

**Q64 Amyas Morse:** I just want to make sure, if I may, Chairman, because this area of discussion does turn on one thing, doesn't it? You have said very frankly that the serious difficulty was in the much larger scale and the much broader application.

**Erik Huggers:** And innovation.

**Q65 Amyas Morse:** Yes. That leap up turned out to be too much to expect. You have got the previous track record. The really interesting question is, if you had taken a different procurement route, would you have had a chance to find that they had that difficulty in scale and capacity? Would you have detected that? I understand why you wanted to move ahead so fast, and it is there in the Report, but the truth is, you had a chance to prise out of the situation the fact that they might find this very substantial step up challenging and maybe more challenging than some other potential contractors. I am not talking about price; I understand the point about price, but really the point is about success in the project, isn't it? Just so as we are all talking about the same thing, I think that is the most important subject.

**Anthony Fry:** Let me make a comment from the viewpoint of the BBC Trust. I was not at on the BBC Trust at the time, although I have obviously reviewed the papers, so I can therefore see what the minutes said. If this came to the BBC Trust today, given the journey that the Trust has been on for the last two to three years, I think it is highly unlikely that the Trust would put it through on the basis it was put through in 2008. There is no point in me sitting here and saying, “We would do it exactly the same.” That is just a judgment call, but on the balance of the lessons that you continually learn, I think if this came to the Trust today, someone like me would sit there and say, “Do you know what, guys, I hear all of this. But on the balance of it, you have got to do something slightly differently.” I understand the arguments and I understand exactly what was said in this Report, in what has been said by BBC management, and indeed what has been said by the BBC Trust; I am merely giving you a reflection that I think the world looks very different to the Trust three years on from how it did then.

**Mark Thompson:** If I can add one other point. There are lots of different pressures at play here. One of the points made in the NAO Report about the Siemens contract was that because of the benefits and savings potentially within the contract, the BBC should do a better job in making sure as much as possible of the IT that it was doing went through the contract. I can quote from the PAC Report. It says: “Although the

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BBC expects the contract with Siemens”—this is the broader contract—“to deliver significant savings, many areas of the BBC are still buying technology services and commodities from other suppliers. The BBC should institute controls over services purchased by divisions through the contract so that technology services and commodities available through the technology framework contract with Siemens are procured through the contract where they are available and offer better value for money than procurement outside of the contract.” So, this is a period where, absolutely following the NAO and PAC, there is quite strong pressure inside the BBC to say, “If it is not done within the contract, there better be a pretty good reason why.”

**Q66 Chair:** I think, Mark, you would recognise that this is scale, really. This is massive.

**Amyas Morse:** You weren't obliged to use that agreement.

**Chair:** Hang on a minute, because we have got to get on to the next bit.

**Mark Thompson:** It is about matter of judgment.

**Q67 Chris Heaton-Harris:** Mr Fry, thank you for saying what you did. We have expected public bodies to openly procure contracts way less than this, for a very long period of time. It is nice to hear someone recognise that. I think it was a risk not openly procuring it.

**Anthony Fry:** I agree with that.

**Q68 Chris Heaton-Harris:** So, I thank you for saying what you did. I do not expect you to know the answer to this, but could you provide a small note on staff interchange and whether staff interchanged between the BBC and Siemens or Siemens and the BBC in the course of going from the small contract to the large contract or shortly afterwards? I would be surprised if there were any.

**Mark Thompson:** At the point of the original contract, there was a very substantial transfer of staff, because essentially the core of the Siemens contract was also a complete transfer. There was a very substantial TUPE. The BBC technology division became part of Siemens as a result of the original contract.

**Anthony Fry:** That is the original contract.

**Mark Thompson:** The original contract.

**Erik Huggers:** With regards to DMI?

**Mark Thompson:** Yes.

**Erik Huggers:** No, because it was a black box.

**Q69 Chair:** I think the reason we are asking this question is because we have found that, in other contracts where consultants and contractors have been used, suddenly public servants miraculously appear on the books—

**Anthony Fry:** It is a very good point, Madam Chairman. We will revert to the Committee with any information on that.

**Mark Thompson:** We will check, but we do not believe we did.

**Q70 Matthew Hancock:** I just want to come back to a point that you made earlier, and just ask you a bit

about it because it seems inconsistent with something in the Report. In defending and explaining the fixed-price contract, you said that risk was transferred to Siemens, and that one of the purposes of having the contract set up that way was that the risk was transferred to Siemens. So when it was clear that Siemens were not delivering and you brought it in-house, how come there were costs to the BBC of £26 million?

**Mark Thompson:** So, at the moment when you identify that the contract is going wrong, you have potential recourse to the courts, using the fixed-price nature of the contract to pursue a case for, essentially, breach of contract or failure to deliver and seeking both recovery of costs and any damages you believe that you have felt. So, you are in the legal position where under the fixed-price contract, you can then go to court, and in a sense either get the contractor to perform or to pay you costs and damages. This is true of all fixed-price contracts, but the complexity is that the process of going to court itself involves very considerable delay, interim expense and inevitably, no matter how strong your case is, some level of risk.

**Q71 Matthew Hancock:** So you chose to settle? So would you say that the transfer of risk was effective?

**Mark Thompson:** The answer is that I believe that, as I have said to you before, given the scale and innovation in this contract, I do not believe that if we went back to it, we would have gone so readily into a fixed-price contract.

**Q72 Matthew Hancock:** No, you are answering a different question, which you have answered before. My question was: was the transfer of risk effective?

**Mark Thompson:** It is as effective as any fixed-price contract can be.

**Q73 Matthew Hancock:** So, was it effective? You went into a project attempting to transfer the risk, you had a load of contractual agreements not to interfere—which Mr Huggers has explained—because Siemens took on the risk, and then when the thing collapsed, the BBC still took a cost to public money.

**Mark Thompson:** The point about risk transfer is that no risk transfer in any contractual arrangement is absolute because, obviously, the one risk that you can never fully mitigate is the risk that the contractor will fail to perform to the contract. You have recourse to the courts, and you have recourse potentially, therefore, for both costs and damages, but there is no such thing on planet earth as 100% risk transfer. The risk transfer that you succeed in getting with a fixed-price contract, as long as you have specified clearly what you want, is that the risks that you mitigate are to do with the contractor arguing that you have changed your specification, or there have been additional calls, or that it is your fault that there has been a delay. You push it over to the contractor and say, “You have agreed to deliver this, for this price.” You can never obviate the risk of a failure to perform the contract.

**Matthew Hancock:** Of course you can, you write it into the contract.

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**Mark Thompson:** But, if I may say so, the whole point we are talking about is a failure to deliver the contract. Even if you write into the contract about a failure to deliver the contract, the existential character of a contract is: if a contractor fails to deliver to a contract, you have to, in the end, either negotiate with them, or go to court.

**Q74 Matthew Hancock:** I am sorry, Mr Thompson, you have just said that you cannot have a contract that takes into account the failure of the contractor to deliver to the contract. Of course you can. You have penalty clauses in the contract, and then you would have been in a stronger position to have reached a settlement without the cost to the public.

**Mark Thompson:** No, let me restate it. The contract includes all the appropriate penalty clauses; they are already in there.

**Q75 Matthew Hancock:** So why, in that case, did it cost the BBC £26 million to settle?

**Mark Thompson:** Again, in the real world, at the point when a fixed-price contract is going wrong—this is true of a building contract or any other kind of fixed-price contract—you are always faced with a practical choice about whether or not you want to pursue your rights in the courts.

**Q76 Matthew Hancock:** Hold on. But if you write an effective contract, then you can effectively get out of it without the cost if the contractor clearly fails to deliver, as they did in this case.

**Mark Thompson:** But you have to accept that that might take you a number of years in the courts.

**Q77 Matthew Hancock:** If you write a good contract, then they know the costs of the court, and you can settle better. At the moment, you settled with a loss of £26 million.

**Mark Thompson:** Well, we do not accept that there is a loss of £26 million.

**Q78 Matthew Hancock:** But that is in the NAO Report. So hold on, do you accept that the cost of investment rose from £81.7 million to £133.6 million, which is on page five of the NAO Report?

**Mark Thompson:** But you have seen that there is £27.5 million offsetting reductions for charges elsewhere in the contract.

**Q79 Matthew Hancock:** Offsetting, right. And that leads to £26 million in benefits that you expected from the programme in the period that did not materialise, and that you then had to meet by efficiency savings elsewhere. Now, I put it to you, that those efficiency savings could have been made and gone back to the—

**Mark Thompson:** I do not believe so. We changed, as it were, the order of the efficiency plans that we wanted to implement, and we made those savings anyway.

**Q80 Matthew Hancock:** So you made those savings anyway, in order to—

**Mark Thompson:** No, but the point about DMI is that DMI was two years late, and all the managers and

trainers that were going to be working on the implementation of DMI focused on other savings. We understood that we had this gap and we had savings targets that we had to hit, and we hit the targets by doing other things.

**Q81 Matthew Hancock:** So how does the fact that there was a no fault settlement reconcile with the fact that you thought, in advance, that you had transferred the risk of this project not working?

**Mark Thompson:** So what happens is, the BBC has the choice of spending two years, which was the estimate, in the courts with a high chance of success.

**Q82 Matthew Hancock:** Not if you had written a better contract.

**Mark Thompson:** Well, if I may say so, one's experience of many contracts in the commercial environment is that you are always faced with this choice. I think there is nothing wrong with the contract; it is a perfectly well-constructed contract.

**Q83 Matthew Hancock:** Hold on, so you would sign exactly the same contract again, today?

**Mark Thompson:** One of the things you have to accept when you build a building or you build anything else with a fixed-price contract is that, if there is a dispute between you and the contractor about whether the contract has been fulfilled successfully or not, you may have to go to court. Now of course, you try to avoid all that delay.

**Q84 Matthew Hancock:** Hold on, earlier you have just argued that because of the milestones it was clear to both sides that you were not delivering. If I have a contract with a builder to build a house for me, and he fails to deliver on it, I have penalty clauses. I would structure them such that I would be able to settle at no cost to myself. Of course, I could go to court and try to push for more, but you ended up with a settlement in which the BBC lost out.

**Mark Thompson:** I absolutely do not accept that the BBC lost out, though.

**Q85 Chair:** I just wanted to ask Mr Fry, from the Trust's point of view, was it your view that this confidential settlement was the best value, in the circumstances, that you could get for the taxpayer?

**Anthony Fry:** Sitting where you are in the Trust, you are not part of the negotiations. You have to clearly take a view on the information that is provided. Whilst I have listened with some considerable interest and some sympathy to some of the questions in this regard, having spent many years, for my delight, serving on the board of a large construction company, where, as far as I could see, every single contract ended up in the courts, I am afraid I start from a seriously negative view about the desirability of—not withstanding how many of my friends are lawyers—ending up in that position. This is very difficult.

The view that we took at FCC and reported through to the BBC Trust when the BBC came back to talk to us about this was that the most important thing was to do the very best to get the project back on course. I have to say to you, we were far more focused on the

assurances we were being given by BBC management as to their ability to handle the project than we were in regard to whether or not the final settlement was going to end up there or there; because frankly, if you are not part of that negotiation, trying to assess the willingness or otherwise of the other party to settle is a judgment call.

So at the end of it, Madam Chairman, I think the view taken at the Trust was that following the guidance from management, looking at the overall position of the DMI project, and looking at the numbers, particularly the assurances given by management in regard, sir, to the £26 million you are referring to, as to how further savings could be clawed back to make sure that there was no loss to the public purse, I think we were satisfied.

There has been some comment, Madam Chair, so I would just like to say this: I am interested about whether or not the savings that were achieved through the arrangements with Siemens that came back to the BBC through further efficiencies, rather than through cash up front, were appropriate. I merely note that in a recent case of Rolls-Royce with Qantas, Rolls-Royce has gone to Qantas specifically to enter into similar arrangements around its long-term servicing, where they would deliver benefits to Qantas over and above the original contractual terms to take into account the fact of not making an up-front cash payment. This is normal commercial stuff.

**Q86 Stephen Barclay:** Before you get to exercising the termination clause, you would use the levers under the contract. On the vast majority of contracts you would have the number of performance indicators mapped to those indicators that are linked to payments. On the Siemens contract, you had 250 performance indicators, but just 28 of those performance indicators linked to payments. Why was it so low?

**Mark Thompson:** The reason there were so many KPIs is the broad range of services that Siemens offers the BBC. I have said to you, the current position, broadly, with Siemens, is that 97% of KPIs are currently being met, and as I say, we are making £40 million more savings than—

**Q87 Stephen Barclay:** What I am saying is: how many performance indicators are linked to payments? That is the vehicle through which you could enforce the contract. Only 28 out of 250 link to payments; surely that was an error?

**Anthony Fry:** I do not have the 222 to hand that do not link to payments. I think it is a perfectly reasonable question, and one which I will ask my colleagues to revert.

**Q88 Chair:** The point you are making, Stephen, is that there should have been more?

**Anthony Fry:** I take the point. Why weren't there? Why weren't there more penalties in this contract?

**Q89 Stephen Barclay:** Before one gets to a termination clause, you would look to use the levers built into the existing contract. What I am saying is, you drafted the contract with a large number of

performance indicators that did not match to performance.

**Anthony Fry:** I suspect the answer—but I know this is a pure guess—is to do with the nature of some of those 222, but we will come back to you on that.

**Q90 Chair:** If you can come back to us, that is a very important question. Come back, and we can feed that in.

I am going to now move on to in-house, if we can. It is clearly going well, but in February 2009, when you did a review—it is referred to on page 21, paragraph 3.2—the review said that the in-house approach would be “the highest risk option”. Then, in July 2009, paragraph 3.3 on page 22, it became the “only solution”. So how does your highest risk option become your only solution in the space of a few months, and is that not a bit of a cavalier way to treat the licence payer?

**Erik Huggers:** Yes, I joined the BBC in 2007 and became Director of the Division in 2008. My background is one where I worked for Microsoft Corporation, a software giant, for over nine years. So it was very close to the world of software. Since the day that I arrived at the BBC, understanding the importance of software, I have been building up the capabilities around software development, software engineering, software architecting, testing and everything you need to successfully build products, because those capabilities simply were not there.

So we have seen the fruits of that on BBC Online, the iPlayer, the news site refresh and so on. So, one of the key hires that I made, which gave me the comfort that in-house was the way forward, was employing a CTO who had over 20 years' experience in very complex software engineering problems.

**Q91 Chair:** When did you arrive?

**Erik Huggers:** I arrived at the BBC in 2007.

**Q92 Chair:** So, in 2009, you still thought it was the highest risk option?

**Erik Huggers:** That was a consultant who said that to us.

**Mark Thompson:** It means the BBC is shouldering the highest risk.

**Q93 Chair:** Okay, but it became the only solution. Please answer the question, which is: you arrived and you employed a whole load of people, but the documentation we have before us suggests that you moved very rapidly from the highest risk to the only, and that just seems to me to be questionable.

**Erik Huggers:** So, time was of the essence for us. We had a major, major product under way, which was BBC North. BBC North was going to depend on, and still depends on, DMI technologies being deployed. We have 2,300 people who are going to be based up there in Salford in a brand new environment. If we had gone down a complete open procurement process, at the point of, “It went wrong; now we have a settlement, now we have to take another six to nine months”, given that previously, it did not look like it was going to be successful with external resources, we figured that the internal capability that was built

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up since 2007, where we had turned around some very important projects—like the iPlayer, which was in a similar state, I would say, in 2007—gave us the confidence that we could take it on. If I may say so, 17 weeks after taking it on, the first release of the project was issued to the business, and we have been hitting all the milestones.

**Q94 Chair:** I completely understand the time constraints, and, in a sense, what would happen to Salford if you didn't have the DMI in: presumably you couldn't open Salford.

**Mark Thompson:** Yes, we had a complete contingency plan for Salford if we were unable to get DMI to work. But I think if I may say so, you should see the decision to reach a commercial settlement and the decision to move rapidly to an in-house solution as part of the same basic new philosophy we have brought to this project, which is we believed we had a very strong team led by Erik in-house. We believed that the reasons—never finally agreed with Siemens—why Siemens had difficulty was partly to do with, in a broader sense, knowledge of the operations of the organisation.

Although, self-evidently, there was more formal risk involved in the BBC shouldering it as an in-house project rather than going, let's say, for another fixed-term contract with another external provider, it meant that we would be fully in control of the project and of our own destiny, and we would have complete visibility of what was going on. So I would be the first person to say, we adopted, essentially, the opposite strategy once we had encountered the problems with the fixed-term contract and said, "Actually, we have got to get in and sort it out."

**Q95 Chair:** Let me just say to you, when you originally signed the Siemens contract it was going to be a 15-month contract, if I read the timelines right in the Report. We then build in a 22-month delay. You have had responsibility for running a new contract for about a year, and there is already a five-month delay on top of that, according to the Report. So it looks to me very iffy if this high-risk option, which becomes the only solution, is performing as well as you think.

**Mark Thompson:** I would be careful about that, because what is happening now is we are taking, in the jargon, an agile approach to this. What is happening at the moment is that DMI is out in the business. There are many programmes that are already being made with DMI, and some have gone to air and are going to air with DMI already working. It is true that some modules are slightly later in delivery than we initially planned, but other modules have been brought forward, though. Crucially, is it on track now to fully deliver over the course of this year for BBC North and Salford? Yes, it is. Are there going to be any significant further delays in benefit from the way we are delivering it? No, there won't be.

We have got a more flexible way of delivering, but it is out in the business. The modules which are out there are working and are making programmes, and what is exciting about DMI is that the feedback from users of the system is very positive. I think you are going to see a broader deployment of the system

across the BBC than we expected, because of the enthusiasm with which it is being used.

**Q96 Chair:** I just wanted to ask Mr Fry: are you content with the degree of oversight and challenge that you have of the programme now?

**Anthony Fry:** I attended my first FCC in January 2009, and since then I do not think there has been a single meeting of the Finance Committee where the subject of DMI in its various guises has not been discussed. As I said to you earlier, we were more focused, rightly or wrongly, on the potential loss to the taxpayer, which is clearly very important in terms of the short-term cost of terminating the contract. The longer-term loss to the taxpayer and the licence fee payer in the event that this contract goes wrong when it is managed in-house is much more serious.

Am I content? No, of course I am not content. Until this is done and dusted and delivered, I am going to spend every FCC worrying the heck about this. This is a big contract.

**Q97 Chair:** I asked a different question: are you content with your capability of overseeing and challenging?

**Anthony Fry:** I think we have now a sufficient flow of information to actually understand what is happening and where the problems may or may not be occurring in the delivery of the contract. At the moment, I think we are content. But I am content this month; I may not be content next month. If I am not content, I can assure you I will be asking the Director-General to make me content.

**Mark Thompson:** It is always worth saying, on the management side of the issue, all the way through this process, we have had an absolute policy of open book with the Trust, and the moment we encounter problems with any projects, we share it with the Trust. I cannot think of a single example of delaying or trying to put off the bad news. One's experience of these projects is that warning lights are well worth paying attention to.

**Q98 Stephen Barclay:** In terms of picking up on the Chair's question about the work coming in-house, could I ask just a very basic question, which is: how many tiers are there from the most junior person within Future Media up to yourself, Mr Thompson, as the DG?

**Erik Huggers:** I think we should come back on that, but that is easy to find out.

**Mark Thompson:** We'll come back.

**Erik Huggers:** Yes.

**Q99 Stephen Barclay:** You do not know actually how many levels?

**Erik Huggers:** We know how many people are on the project, but between me and the CTO there is one layer.

**Q100 Stephen Barclay:** I think Tesco has six people from the Chief Executive down to the most junior person. I am sure you are looking at management efficiencies and deficiencies in the organisation. The BBC gets criticised, from time to time, for being top

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heavy. Surely you know how many tiers you have got within your organisation roughly to a near estimate, don't you?

**Mark Thompson:** It varies somewhat across the BBC. It is about six in some areas and it is deeper than that in other areas. But we will come back to you with an answer.

**Q101 Stephen Barclay:** You cannot give me a maximum for what it might be from the most junior to the most senior person in the BBC?

**Mark Thompson:** I would rather come back to you with a written answer on that.

**Q102 Stephen Barclay:** Okay. I was just a little surprised when looking at the breakdown that in your area, Mr Huggers, in addition to your remuneration of over £400,000, which is well reported, you have six senior people reporting in to you; beneath which you have nine Controllers; beneath which you have 18 Heads of Department; beneath which there are a further five Project Directors; and that is not including vacancies and those temporarily acting. I was just wondering whether you would be willing to work with the NAO to produce a detailed breakdown, as they did for Ofcom, of the expenses and costs associated with the senior management tier?

**Erik Huggers:** I think that is for the Trust to decide.

**Anthony Fry:** I think it is certainly a matter that should be discussed between the Trust and the NAO.

**Q103 Stephen Barclay:** So you cannot even give a yes? Expenses of senior managers is not an issue of independence, is it?

**Anthony Fry:** With respect, I cannot give a yes or no. I am here representing the Trust; I am not the Trust. It is a matter for the Trust, with respect.

**Mark Thompson:** Just a few things from me. We have committed to, and are making steady progress on, by the end of this year, 2011, reducing the pay-bill for senior managers in the BBC by 25%, and the numbers of senior managers by 20%. In the context of Future Media and Technology, Erik is departing the BBC to go and work for Intel in the States. With Erik's departure, I have announced a reorganisation, and we are going to have a small Future Media department that is based on public facing, audience facing and user facing services. The technology part of Future Media, which is Broadcast and Enterprise Technology—

**Q104 Stephen Barclay:** But you are very eloquently answering a different question from the one I asked.

**Mark Thompson:** I am going to get there, I think. That is going to form part of the Operations group at the BBC, alongside Distribution, Workplace and so forth. We are looking at very, very extensive simplification, both in terms of numbers of layers, but also the way in which different parts of the organisation work together inside Operations. So that, for example, if we are delivering a major project, like Salford, we have alongside each other Property people, Technology people, Distribution people and Human Resources people. We hope to see further

extensive reductions in layers and complexity by reorganising in this way.

**Q105 Stephen Barclay:** I am pleased to hear that, but you have been in post for quite a while. So if these savings are there to be made, the question is why have you not made them sooner? Mr Huggers, as I am sure you are familiar, *The Guardian* was running this story last year, which is obviously favoured reading for new intake Conservative MPs. It quoted you spending £639 on a limo and chauffeur in the States, the day after spending at £538 on another one. Now, what I am driving at is that this Committee is not looking at editorial independence and policy; we are looking at value for money. It just strikes me as surprising if you cannot actually say, even for your senior management, "We can give you a breakdown of their expenses."

**Erik Huggers:** I can give you the breakdown. We provide it to you and it is on the website.

**Anthony Fry:** We do; we publish it.

**Mark Thompson:** Senior managers' salaries and expenses are on the website.

**Q106 Chair:** Can you repeat that again?

**Mark Thompson:** We routinely disclose the salaries and expenses of all senior managers. You just go on the website and have a look.

**Stephen Barclay:** Well, I have. Hence my being surprised that you cannot give a breakdown, in the form I have requested with the NAO, along the lines we secured with Ofcom. So, perhaps we can have a note on that

**Q107 Chair:** What we have as an agreement there is that you will go back to the Trust and see whether it is a similar breakdown. The relationship between this Committee and Ofcom is different from the relationship between this Committee and the BBC. Accepting that this is an issue that has to be considered by the Trust, we would be grateful, Mr Fry, if you could consult and see whether or not you are able to.

**Anthony Fry:** I will certainly talk to my colleagues.

**Q108 Stephen Barclay:** What I am really driving at, Mr Fry, is that in the evidence to this Committee in September 2004, Mr Gleeson, who came with Mr Thompson to give evidence there, drew what I thought was an important distinction; because he said that, "We need to recognise maintaining the BBC's independence means not only guaranteeing its editorial freedom, but also giving it the right to manage its own affairs, free from political or other external interference." So that was his quote. What I am trying to establish from you is whether you see the NAO as external interference?

**Anthony Fry:** As I said right at the beginning, I think actually there is often a lot more made of the relationship between the NAO and the BBC Trust than should be. The BBC Trust is charged under the Royal Charter to have regulatory authority over the BBC. The BBC manages its affairs. We ask the NAO, and we consult with the NAO, and the NAO comes in to help us, as the Trust, in performing our functions; but we also, on occasions, use other people. We have

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recently used somebody else in support of that. So, I am slightly questioning the premise that somehow or other there is this huge battle between the NAO and the BBC Trust. There is not.

**Stephen Barclay:** But there was an eight-month delay in this Report.

**Chair:** But we have been through that.

**Anthony Fry:** To be fair, as I said, I did not regard that, personally, as acceptable, and said that it was something that would not happen in the future. I cannot really go further than that.

**Q109 Ian Swales:** Yes, I would just like to explore one thing, which is this Committee, sadly, has to listen to a litany of failures of public IT projects. We have some very common stories: lots of consultants and contractors who actually seem to have a vested interest, almost, in complexity and long time scales; huge sums of money get spent—sometimes billions—and very often we have to listen to failure. By the way, this is now not critical; this is in the spirit of learning, which we do not do very often on this Committee, I think, in terms of trying to get some good news. Mr Huggers, you are obviously a world player in IT, and congratulations on your new job; you have decided, with your experience, to create an in-house development team and to use an “agile approach”, to use the words in the Report. This is your legacy now for the UK: do you think there are lessons for the UK public sector in how it develops IT projects, based on what you have seen?

**Erik Huggers:** Personally, I think the answer is yes. As I think I said in some of my opening statements, the importance of software is only going to grow for everyone, whatever business you are in, whether you are in banking, in retailing or whether you are in broadcasting. So having a very clear and deep understanding of that, so that you are not completely in the hands of third parties, is absolutely critical, I think.

**Q110 Ian Swales:** Just to explore that a little bit further: even then, there is still a line between buying in what you think of as world expertise. So how much is it intelligent buying, and how much is it doing it yourself?

**Erik Huggers:** Absolutely. I think it is a combination of both. You need to have fantastic supplier management teams who can get the best out of the marketplace in open and transparent ways. At the same time, I think having the capability to innovate, to stay competitive and to deliver value for money is equally important.

**Q111 Ian Swales:** In-house?

**Erik Huggers:** Yes, in-house.

**Anthony Fry:** May I just say, because I think it is important, that this is, of course, an important and large project? I suspect you are looking, on this Committee, at projects of a considerably greater size. If I may say, I would be very nervous about using this as some poster child for the wider public sector at this stage. I am happy to come back in two years when it has been done, and say to you, “I hope you got some

lessons learnt”. I am still in the nervous position of: let’s deliver this thing.

**Q112 Ian Swales:** Well, the reason I am asking the question is that I actually think this is more complex than a lot of the systems that we look at. They are just giant databases, and a database, as Mr Huggers will know, is not complicated by having 1 million, 10 million or 20 million records in it.

**Anthony Fry:** That is a fair comment.

**Ian Swales:** So I am very interested in your—

**Mark Thompson:** Two other things from me, one of which is about Erik. One of the things is: you need a leader, and we had a leader of technology, in Erik, with the courage to come in and say, “Folks, this isn’t working, and we have got to do something now.” So, the other thing is that if it is not working, you need to confront that. The second thing about in-house, though, is that the BBC is in a very advantaged position because of our brand and reputation around the world and because we are beginning to get well known in the United States and elsewhere for innovation in this space. Because of that, and I won’t embarrass Eric, but we can get people whose normal pay is, and will be, many millions of dollars to come and work for a fraction of what they are worth on the market because of the interest of working for the BBC. Not many other public bodies in the UK are in that position.

**Q113 Matthew Hancock:** I think this is a really interesting coda in terms of the lessons you have learnt from doing it in-house, because the in-house phase certainly reads to me much better than the contracting phase. But this is a value for money Committee, and historically doing things in-house in the public sector has run into problems with value for money. Could you just give us a brief explanation, in the time that is left, of both how you have managed to bring it in-house into a public sector organisation and have it result in increased agility, more innovation, whilst remaining, I presume, on track, in terms of the financing?

**Erik Huggers:** That is a trade secret, I am afraid. If I tell this Committee that, I won’t be employed anywhere else.

**Q114 Matthew Hancock:** I will also wait a couple of years to see if you can actually deliver it, and if these five-month delays do turn out to be just modules, but how do you do that?

**Erik Huggers:** Mark was spot on. As a foreigner, allow me just to say this: it is interesting how the British public have a love/hate relationship with the BBC—mostly love—but, if you are outside the UK, you admire the BBC.

**Matthew Hancock:** But if you are outside of the UK, you do not have to pay for it.

**Chair:** Increasingly, we hope you do.

**Erik Huggers:** What that brand name has given us the ability to do, and the fact that we have been doing these innovative things, like the iPlayer, which are absolutely known around the world now, is attract some fantastic engineering and software talent. People who used to run the Apache Software Foundation now

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work for the BBC, helping to fix really difficult problems. At the end of the day, this is about empowering staff and letting them get on with doing their job. It is about making sure that when issues are there, you are there to clear the path for them, set them on course and hold them to account. I think driving modern software engineering capabilities through is something that has encouraged our staff, because they get to work in new ways, and that becomes valuable for them after their BBC career.

So I think we have been very fortunate that the brand has been able to attract fantastic talent. Number two: the problem space—the project itself—is world class. This is some difficult stuff to work on, and engineers love difficult problems.

**Q115 Chair:** So why are you leaving, Mr Huggers?

**Erik Huggers:** They made me an offer I couldn't refuse.

**Mark Thompson:** What is interesting about it is that it is a global space. We have to recruit globally.

**Erik Huggers:** And we have.

**Mark Thompson:** And we have, and Erik's successor, again, is somebody moving from America to come and join us. What is interesting is how far we can get people, for a fraction of what they get in the market, to come and work for us for a few years—although after a few years we tend to lose them again.

**Q116 Amyas Morse:** Sorry, can I just suggest something on the salaries, Chair? Would the Committee find it helpful to have a note from Mr Huggers of some of his thoughts on this?

**Chair:** Yes.

**Matthew Hancock:** Especially on the value for money thing. I can see that you are recruiting interesting people because you have got interesting projects, and for less than you would have to pay them in the market.

**Erik Huggers:** I will write something.

**Matthew Hancock:** In terms of value for money and keeping a grip on stuff.

**Mark Thompson:** The other thing that I would say is that, although I know it sometimes goes against the mythology of the BBC, the BBC is very operational. It is a very operational organisation and it is full of creativity. It is very flexible and agile, and that is whether it is covering Egypt or the comedy *Miranda*. That is the character of the organisation. When we were founded, we were founded with a tradition of engineering as well as content creativity. Indeed, the BBC's founders, including John Reith, were engineers. We are recapturing the sense that we can be a place where really innovative, creative engineering can take place, as well as creative content work. That has also changed the flavour and the way we think about these big IT projects.

**Q117 Nick Smith:** Do you know, I have been absolutely convinced by your arguments to invest in DMI. It has been very powerful. I think it is good that you have acknowledged the failure of contracting with Siemens on this contract; I think it is important that we hear that in this Committee. Thank you for that. I am also convinced that you have got a grip since, with

Mr Huggers' appointment, and all that is very good. I am still not convinced that you have properly addressed Mr Barclay's points, and I am a little bit afraid that Mr Huggers's salary has led to wage inflation for other senior managers at the BBC. I want you to tell us why it has taken until now for you to seek a 25% cut in senior managers' salary at the BBC?

**Mark Thompson:** We announced that well over a year ago, and we have been implementing that. This is an area where we are talking about very big projects, including DMI. No matter how you configure the contracts, whether they are direct or indirect, there are substantial risks. It is an area where there is acute competition for the best people. In this area, we expect to get leaders to work for a very, very small percentage of what they could earn in the market. When I say a small percentage I mean, maybe a quarter of what they could earn or less than a quarter of what they could earn. I spend a lot of my time talking to people and trying to persuade them to come and join the BBC, even though it is going to mean an enormous pay cut. Of course, you can always find someone to do a job at any price, but the stakes are so high and the skills base is so important that you have got to balance, it seems to me, absolutely appropriate issues about the public acceptability of high pay with the reality, which is that this is an area where the most able people can earn many millions, and do.

**Q118 Nick Smith:** Mr Fry, can you answer that question? I am interested in your view about senior managers' salaries at the BBC, and why it has taken so long to get a handle on it.

**Anthony Fry:** I think, from the BBC Trust's viewpoint, there has been a considerable degree of worry for a long time. Mark will know only too well, from attending the Remuneration Committee on which I sit, that this has been a subject of considerable discussion, particularly since I joined the Trust. It is a matter of legitimate public concern, and I think, as the Trust, we are very focused on that. We have encouraged the Director-General in his efforts along the lines that he has been describing to you. He is right to say that the announcement was made, I believe, 12 months ago, Mark?

**Mark Thompson:** More than 12 months ago.

**Anthony Fry:** More than 12 months ago. If you are asking me a different question, whether I wish that those announcements had been made 24 months ago, I certainly do, and I think this is a subject that is in the public domain, and one about which licence fee payers and actually the generality of taxpayers—who tend to one and the same, but not entirely—feel very strongly. I think the BBC, through the Director-General, is getting a grip on this. I think at the Trust we will continue to press, and the pressure is in two regards. One, it is in regard to the reduction of the number of overall managing layers, and managers within those layers. So that is a structural issue. There is also just a simple, straightforward issue that some of the numbers, to anybody who is on an average wage, will appear to be telephone numbers. I recognise that that is a subject of considerable public

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interest, and we as the Trust are very focused on it, and will continue to be focused on it.

There is a big delivery programme that the Director-General has implemented, and at the Trust in the Remuneration and Nominations Committee we spend a lot of time challenging both the Director-General and Lucy Adams, as Head of HR at the BBC, on this issue. I can assure you—you can have my word—that I, personally, will remain very hot on this topic. It is a very important topic, and it is a legitimate topic.

**Chair:** Okay. I think, on that note, we have covered the ground. Many thanks for giving us evidence. If you can let us have the notes we have asked for as quickly as possible, that will enable us to complete our Report and put it in the public domain, too. So thank you very much, indeed.

**Anthony Fry:** Thank you very much, Madam Chairman.

### Written evidence from the BBC Trust

Following our discussion at the Public Accounts Committee on 15 February (where we discussed the BBC Trust/NAO report on the DMI), I am writing as agreed.

I've summarised below the areas where the Committee asked for further written details, in the order discussed. Please let me know if I've noted any of these incorrectly.

1. Breakdown of the savings that were brought forward to counter the DMI delay to benefits.
2. The Value for Money savings of the wider Siemens contract.
3. The cost of the element of the Pacific Quay project that was comparable (although smaller) to the DMI.
4. The number of staff that interchanged between the BBC and Siemens.
5. Siemens KPI and the link to payment.
6. How many personnel tiers there are in BBC FM&T.
7. The expenses of the 39 senior managers in the BBC FM&T division.
8. Erik Huggers's view on value for money lessons learnt.

I'm pleased that I have been able to gather all of the information requested, and I present below my written responses to the first seven points. On the eighth point, Erik has written a separate memo to you which I enclose.

The Director-General told the Committee that the BBC routinely discloses the salaries and expenses of all senior managers. I should clarify that what appears on the website are details of the expenses of the "top 110" most senior managers in the BBC,<sup>1</sup> of whom eight are in FM&T. However, the term "senior managers" is often also used to describe anyone in the top two grades at the BBC (of which there are 39 in FM&T under the broader definition). Those not in the "top 110" (ie including the remaining senior managers in FM&T) are not routinely disclosed. In response to Mr Barclay's query, we have provided a note with the expenses of all 39 senior managers (under the broader definition) in FM&T (note 8).

#### *1. Breakdown of the savings that were brought forward to counter the DMI delay to benefits*

The Executive have provided me with a full response, which I attach in Annex 1.

#### *2. The Value for Money savings of the wider Siemens contract*

The Executive have provided me with the following information.

The original Siemens contract (Technology Framework Contract—TFC) was awarded in 2004 and forecasted average annual savings of £27.5 million per annum over each of the 10 years from 2005—2015. These savings have been reviewed by the NAO on two occasions, in 2006 and 2008. Following the 2008 report, the NAO concluded that the TFC was delivering annual average savings of £34.7 million. The TFC continues to deliver savings in excess of this figure.

At the end of the financial year 2009–10, the cumulative savings delivered through this contract amounted to £186 million against forecasts of £144.5 million. This does not include the £27.5 million secured from Siemens as part of the DMI settlement.

#### *3. The cost of the element of the Pacific Quay project that was comparable (although smaller) to the DMI*

The Executive have provided me with the following information.

This project was successfully delivered by Siemens and provided a useful proof of concept for DMI. However, whilst fully compatible with it, the solution provided in Pacific Quay is not comparable in size and scope with DMI, so the numbers quoted below should not be used to draw any comparisons.

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<sup>1</sup> Available at <http://www.bbc.co.uk/aboutthebbc/running/bbcstructure/az.shtml>

The costs related to the creation of a Digital Library within BBC Scotland, and the associated provision of production viewing, browse, rough cut tools and capability are set out below:

Capital (one-off) costs:

- Cost of Digital Library Development (including software, hardware, design, build & integration effort): £4.1 million.
- Approx cost of digital production tools and capability (software packages and licences—eg Avid and VCS): c £0.7 million.

Revenue (recurring) costs:

- Digital Storage: £0.6 million per annum.
- In addition, there will be a level of annual maintenance and support costs which would be attributed to these investments: c £0.1 million per annum.

Therefore, an approximate level of total costs over eight years (that is the same period as for DMI) would be £10.4 million.

#### 4. *The number of staff that interchanged between the BBC and Siemens*

The Executive have provided me with the following information.

As part of the sale of BBC Technology to Siemens, 1,288 members of staff were listed in the BBC Share Sale Agreement and transferred to Siemens on 30 September 2004 under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE). Amongst those, 1,216 were employees of BBC Technology in the UK; 64, employees of BBC Technology subsidiary companies in the USA and eight employees of BBC News.

TUPE regulations did not apply to the termination of the DMI contract, therefore no staff was transferred to the BBC under TUPE as a result of bringing DMI in house.

However, since the BBC took control of the project, four individuals having previously being employed by Siemens have been engaged via the TFC or on contract with the BBC, to work on the DMI project, as part of the BBC standard recruitment process in view of their experience, expertise and skills.

There may also be individuals working elsewhere in the BBC, who worked for Siemens during their careers (and vice-versa).

#### 5. *Siemens KPI and the link to payment*

The Executive have provided me with a full response, which I attach in Annex 2.

#### 6. *How many personnel tiers there are in BBC FM&T*

The Executive have told me that there are 6 personnel tiers under the Director-General in the BBC Future Media & Technology (FM&T) division.

#### 7. *The expenses of the 39 senior managers in the BBC FM&T division*

The Trust has spoken with the NAO to discuss the disclosure requested by Mr Barclay. We understand the request to be for the expenses of the 39 senior managers in FM&T, broken down into 5–10 appropriate sub-categories, and presented with one row per manager. This is in line with the information provided to the PAC by Ofcom. I'm pleased to say that the Executive have been able to provide me with this information, which I attach as a table in Annex 3.

### **Annex 1**

#### **BREAKDOWN OF THE SAVINGS THAT WERE BROUGHT FORWARD TO COUNTER THE DMI DELAY TO BENEFITS.**

##### **INFORMATION PROVIDED BY THE EXECUTIVE TO ANTHONY FRY**

The Digital Media Initiative (DMI) is a technology transformation project designed to allow BBC staff to develop, create, share and manage video and audio content and programming on their desktop, and intended to improve production efficiency and creativity across the BBC.

The BBC appointed its existing IT contractor (Siemens) to develop the Programme. The contract with Siemens was terminated by mutual agreement in July 2009. The BBC then took responsibility for delivery of the project in-house; which is now running with a 21 month delay. As a result, the BBC did not achieve £26 million in benefits originally expected from the Programme in the period 2008–09 to 2010–11.

BBC Vision's Continuous Improvement (CI) efficiency target over the same three year period is £449 million, which includes all planned DMI related savings. Vision made £257.5 million of efficiency savings up to the end of financial year 2009–10 and is forecasting to achieve savings of £216.1 million in 2010–11 giving total savings in the three year period of £473.6 million. The delivery of £24.6 million of additional efficiencies in

the period, despite the loss of planned DMI related savings, is the result of rigorous cost management in Vision and across the BBC.

The delay to the DMI programme has seen the loss of £2.3 million of planned production efficiencies (mostly impacting Factual Production) and £23.7 million of planned allocative savings (savings achieved by changing the mix of programmes produced without adversely affecting the performance of our portfolio of services) in BBC Vision compared to the original plan developed in 2007.

The DMI related allocative savings were associated with repurposing content (mostly from the archive) to create new lower cost programmes, replacing some higher cost originated content. Allocative efficiencies lost as a result of the DMI delays were recouped by changing the volume and mix of originated programmes, while growing the audience value of BBC Channels.

It is impossible to directly identify ‘replacement’ allocative savings on a like-for-like basis due to changes in strategy, the shape of programme slates and the evolution of our channel offerings since the targets were originally agreed in 2007. The dynamic nature of our programme slates means that allocative savings originally targeted could not have been identified in a granular title by title way but were instead set at a macro level across the portfolio. The savings were achieved by ensuring the mix and volume of programmes commissioned conformed to the required savings profile, albeit not including specific programmes directly enabled by DMI.

The loss of DMI related productive efficiency savings (£2.3 million) have been recouped in Vision by the acceleration of other existing efficiency initiatives: post production (£0.3 million), talent negotiations (£0.8 million) and staff utilisation, editorial change and workflow management (£1.2 million).

In Factual Production the business brought forward significant changes to its workflow around its post production processes, this has enabled the delivery of programme savings and will also help accelerate the adoption of DMI. This involved:

- Move towards IT commodity kit rather than specialist broadcast technology—essentially Macs with Final Cut Studio software—capable of finishing HD programmes for a fraction of the cost of traditional broadcast kit (which have since reduced in cost dramatically).
- Focus on creating more efficient workflows—reducing and controlling shooting formats to minimise storage requirements and the cost of cameras and tape machines.
- Reduced support around post production by self-providing only for those programmes which have limited support requirements—Factual programmes which edit for long periods without the need for any external support.
- Introduced a limited number of desktop edit stations for Directors to rough-cut, organise media, transcribe etc. as a way to prepare for the ubiquitous DMI tools.

In the English Regions Factual Production brought in house the supply of post production facilities previously provided by external providers enabling efficiencies to be achieved through increased utilisation of resources and people.

Factual Production increased its delivery of talent savings in 2009/10, above previous forecast, which helped manage the overall savings target. Factual made successful changes to the on-screen talent on programmes such as: *Never Mind the Buzzcocks* (by casting a less expensive presenter able to deliver to the target audience), *Gardeners’ World* and *Antiques Roadshow*.

Increased staff utilisation and cost savings have been achieved through improved planning and production synergies. For example, on *Crimewatch* the Editor and Production Manager also work across related output (*Crimewatch on the Streets*) and *See Hear* has changed its senior editorial line up with out impacting programme delivery or quality.

Editorial changes have also added to the delivery of additional savings. For example an extra half hour of BBC One’s *The One Show* was commissioned at a marginal cost, helping reducing the overall cost per hour of the programme.

Through a combination of the initiatives above; BBC Vision has mitigated £26 million of forecast efficiencies dependant on the DMI programme while still making exceptional programmes for all BBC Channels that delight, educate and entertain our audiences.

## Annex 2

### SIEMENS KPI AND THE LINK TO PAYMENT

#### INFORMATION PROVIDED BY THE EXECUTIVE TO ANTHONY FRY

*As at 15 February 2011, the BBC has 232 Service Levels of which 37 are currently classified as Key Service Levels that are linked to payments if not net. The figure quoted by Mr Barclay (28) is that quoted by the NAO in their report on the BBC’s management of strategic contracts with the private sector, and was right at the time of the report, in the Autumn 2008.*

The Technology Framework Contract signed with Siemens provides a very wide range of services to the BBC, from the provision of desktop PCs and telephony, to the management of the BBC's use of satellites for transmission, to the maintenance of the server estate running the BBC's web presence, including the BBC iPlayer.

Many of these services are critical to the output of the BBC and as a result the BBC deemed that it was necessary to monitor their performance via a reported Service Level to ensure that Siemens continued to deliver these services to the standard required by the BBC.

The TFC defines performance indicators as Service Levels (SLs), of which a subset attracts Service Credits and are known as Key Service Levels (KSLs). Failure by Siemens to meet a Key Service Level results in the payment of a service credit to the BBC. The TFC allows the BBC to have up to 40 Key Service Levels at any one time—which are used to monitor the critical services provided under the TFC. The BBC may introduce new Key Service Levels by either promoting an existing Service Level to a Key Service Level or by identifying a new Key Service Level at any time.

Service levels are monitored on a monthly basis as part of the contractual governance process for service assurance. Service Levels and Key Service Levels are then reviewed in light of the range of services provided at any point and can be adjusted to focus on new services or services which are not meeting the required Target Service Level.

The table below gives the percentage of those met in FY 2007–08 and as at December 2010.

	<i>Total Performance Indicators Met (SLs)</i>	<i>Performance Indicators with Service Credits attached Met (KSLs)</i>
FY 2007–08 <sup>2</sup>	83%	93%
December 2010	93.1%	100.0%

When the contract was first signed in 2004, it included 446 Service Levels. However, this was felt to be too large a number to be effective at managing the performance of the contract and as a result, the number of SLs was reduced over time. Following the recommendation made by the NAO in the above mentioned report, the BBC has been reviewing “existing performance indicators for relative importance to the business and establishing criteria for identifying the most important performance indicators, while taking account of the objectives of each contract”.

As at 15 February 2011, the BBC has 232 Service Levels of which 37 are currently classified as Key Service Levels.

The BBC could have sought to have a greater proportion of the Service Levels designated as Key Service Levels (which attract service credits). However, this would not have affected the overall value of Service Credits available in any one month, which is contractually capped in the contract at 5% of the total Service Charges payable in that month, that is typically in the region of £750,000 per month.

This figure of £750k is thus available to be spread across all Key Service Levels, regardless of the number of KSLs present at any one time. The greater the number of KSLs, the lower the amount of service credit available for each individual KSL and as a result the financial impact on Siemens for failing to meet a KSL is lower.

	<i>1 KSL</i>	<i>37 KSLs</i>	<i>200 KSLs</i>
Total Value of Service Credits	£750,000	£750,000	£750,000
Service Credit per KSL	£750,000	£20,270	£3,750

*Note: The BBC would be required to renegotiate the contract if it wanted more than 40 KSLs at any one time.*

There is clearly a balance to be had between the number of KSLs and the impact of the financial incentive to the supplier to meet the Target Service Levels for each KSL. As the number of KSLs increases, the incentive to meet individual Target Service Levels decreases.

It was felt that allowing the BBC to identify up to 40 KSLs, gave it a wider enough range of KSLs which attracted a service credits to be representative of the critical services provided under the TFC, but did not dilute the impact of the service credit calculation to such a level that Siemens were not incentivised by the mechanism to deliver the quality of service required by the BBC. As outlined above, the BBC has ability to vary these KSLs at any time.

The BBC could have sought a higher cap on the maximum service credits available than the 5% defined in the TFC. However, suppliers factor the likely cost of a particular service credit regime in to their pricing mechanisms, and had the BBC sought a figure higher than the 5%, it may have been considered “to be punitive”<sup>3</sup> by Siemens and the TFC would have included higher overall service charges.

<sup>2</sup> Reported in 2008 NAO Report—see footnote 1.

<sup>3</sup> [http://www.nao.org.uk/publications/0506/bbc\\_outsourcing\\_the\\_contract.aspx](http://www.nao.org.uk/publications/0506/bbc_outsourcing_the_contract.aspx)

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**Annex 3****EXPENSES OF THE 39 SENIOR MANAGERS IN THE BBC FM&T DIVISION.  
INFORMATION PROVIDED BY THE EXECUTIVE TO ANTHONY FRY**

As requested by Mr Barclay, we have provided the expenses of the 39 senior managers in FM&T for the most recent complete financial year, 2009–10, together with some background information.

**BACKGROUND**

The BBC publishes detailed quarterly expenses for its most senior “top 110” leaders, along with salary details for the additional 462 permanent licence fee-funded senior managers, as part of its continuing programme of transparency.

The BBC has been reducing costs across the organisation as a priority, so that as much investment as possible goes into high-quality programmes. The total expenses claimed by the 110 most senior BBC executives are now 35% lower than they were a year ago.

In addition, new figures show that as of the 31 January 2011 the BBC had cut its senior manager paybill by 14% and the number of senior managers by 9.4% since August 2009. Further reductions will be made by the 31 December 2011 in order to deliver the 25% reduction in pay bill and 20% reduction in headcount agreed with the Trust. In order to increase our transparency, we will publish from April 2011, salaries and expenses for all those earning more than £150k a year.

**HELPFUL INFORMATION RELEVANT TO THE INFORMATION PROVIDED**

For both the FM&T senior managers in the “top 110” of managers in the BBC and those not, we have presented the e-expenses (i.e. the expenses paid for out of pocket and reimbursed). For those that were in the “top 110” in 2009–10 we have in addition presented the central booking expenses (ie the expenses booked and paid for centrally by the BBC, such as flights and hotels) as these have already been gathered as part of the routine publication of expenses.

The nature of the BBC’s expenses systems means that central booking information takes much longer to collate, and so we have not provided this information for the remaining senior managers as this would result in an undue delay to the reply to the Committee. This is due to, in the interests of thoroughness, having to search a number of different bookings under a number of different search terms and then double checking with each manager individually that the booking is attributable to them.

We hope that the information below is helpful. If you would like the central booking information for the remaining senior managers, please let us know and we will provide it (this is likely to take 3–4 weeks).

To clarify, where a cell is blank in the table below, expenses were zero.



Name	One of "top 110" in 2009-10 expenses	Includes centrally booked	Taxis	Flights	Rail	Hotels	Internal hospitality	External hospitality	Subsistence	Business calls	Mileage	Other	Travel— Other	Grand Total
staff #28	No	No												0.00
staff #29	No	No												0.00
staff #30	No	No												0.00
staff #31	No	No												0.00
staff #32	No	No												0.00
staff #33	No	No												0.00
staff #34	No	No												0.00
staff #35	No	No												0.00
staff #36	No	No												0.00
staff #37	No	No												0.00
staff #38	No	No												0.00
staff #39	No	No												0.00
<b>Grand Total</b>			<b>20,269.00</b>	<b>23,943.80</b>	<b>8,280.10</b>	<b>6,864.99</b>	<b>1,713.76</b>	<b>2,841.31</b>	<b>4,630.36</b>	<b>82.15</b>	<b>923.17</b>	<b>6,556.03</b>	<b>554.86</b>	<b>76,659.53</b>

<sup>4</sup> This person was not in the "top 110" in 2009-10 but is now in that category.

### Written evidence from BBC Broadcasting Cooperation

As requested at the PAC hearing of the DMI Project on 15 February, here are a few thoughts on the lessons learned from in-house delivery, including the value for money aspect of in-house programme.

Where software development projects rely heavily on in-house specialist expertise or where the project will drive significant changes to the working practices of specialist roles within the organisation it is typically more advisable to have direct control of the project in-house. In the case of FMI in-house rather than outsourcing the development as a fixed price contract, where control would be with the supplier.

That is not to say that all of the work on the project need be done in-house. On the DMI project we continue to use a number of off the shelf components and also have a number of vendors delivering custom technology under the control and direction of BBC staff. The key difference to a fixed price outsource is that the BBC retains direction and control and can therefore quickly correct the project if deliverables are not delivering as expected. Of course it also means that the BBC carries the financial risk of cost overruns that it would not under a fixed price contract.

Once the decision was taken to pull the project in-house the project team analysed the work to be done to determine who should deliver each component. In priority order, work was categorised into:

1. Existing designs, code or other works that could be used to deliver the project.
2. Components that could be purchased as standard, off the shelf deliverables.
3. Custom components that could be delivered by third party specialist suppliers under the direction of the BBC.
4. Custom components and integration that needed to be delivered by the BBC team.

This approach ensured that, where possible, components were delivered quickly and at a cost lower than could be done in-house while at the same time ensured that the relevant BBC expertise was used to deliver the unique or specialist components and the overall integration of the system. Additionally, at all times the BBC is in control of the direction prioritisation and specification of the deliverables and able to correct issues as they occur.

Key factors in delivering the project successfully include:

1. Senior leaders(s) who have track record of successful delivery of large, complex software development projects (eg BBC CTO).
2. Clear roles and responsibilities on the project.
3. Separation of software development and integration from the business change and deployment functions. This ensures clear accountability.
4. Close cooperation and integration between the functions on the project—requirements, technical architecture, deployment, test, technology operations, deployment, implementation and support.
5. Embedded experts from the business into the project to define and validate the functionality and use cases.
6. Close, ongoing management of the project with regular reporting and review.
7. Clear and effective project governance with the appropriate representation on each group/board from across the project, business and suppliers. DMI in-house project governance attached.

February 2011

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### Supplementary written evidence from the BBC Trust

I write in response to your letter of 24 March 2011 (which I received on 29 March 2011), and am pleased to provide further information below.

#### NOTE 1

You stated that the information requested by Mr Barclay (referred to as note 1) included a request for “*the balance sheet of the budget of the relevant departments*”, but that this was not provided in my letter of 8 March 2011. I have asked the Executive for further information on this point. They have told me:

*We do not have balance sheets per division as funds are held centrally. Consolidated financial information is given in the BBC annual report and accounts for FY 2009/2010 ([http://downloads.bbc.co.uk/annualreport/pdf/bbc\\_ar\\_online\\_2009\\_10.pdf](http://downloads.bbc.co.uk/annualreport/pdf/bbc_ar_online_2009_10.pdf)).*

#### NOTE 7

You asked me to break down the information I provided in response to a second query from Mr Barclay (referred to as note 7). In my letter of 8 March 2011 I stated that the Executive told me that there were six personnel tiers under the Director-General in the BBC Future Media & Technology (FM&T) division.

Within the BBC there are 10 pay-grades of staff excluding senior managers (of which there are two grades). This means there are a total of 12 pay-grades of BBC personnel. I attach a table (available on the BBC's website) showing the 10 staff pay-grades and salaries. My previous answer (supplied by the Executive) informed you that there were six personnel tiers in FM&T. This is different from the number of pay-grades because it reflects the number of levels in any one chain of command. To put it another way, there will never be a strict hierarchy of a pay-grade 2 person who reports to a pay-grade 3 person who reports to a pay-grade 4 person etc. Instead, the longest "chain of command" within FM&T consisted of six people below the Director-General (there were also many shorter "chain of commands" within FM&T).

I should clarify that the BBC FM&T division has, since the PAC hearing, been split into two elements. The Future Media division continues as a separate division, and the Technology division has been absorbed into the Operations division.

## DAYS CONDITIONS

*1 August 2010 to 31 July 2011*

<i>Grade</i>	<i>London</i>		<i>Outside London</i>	
	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>
2	18,298	25,883	14,177	21,762
3	19,951	28,856	15,830	24,735
4	22,150	31,781	18,029	28,208
5	24,447	35,754	20,326	32,181
6	27,321	40,277	23,200	36,704
7	29,995	45,373	26,423	41,801
7L	23,609	45,373	19,488	41,801
8	33,656	51,170	30,084	47,597
9	37,666	57,504	34,094	53,931
10	41,677	63,874	38,105	60,302
11	46,173	71,007	42,601	67,435

I hope this is helpful to you and the Committee.

*March 2011*

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