

WEDNESDAY 7 DECEMBER 2005

Present

Armstrong of Ilminster, L
Bonham-Carter of Yarnbury, B
Fowler, L (Chairman)
Howe of Idlicote, B
Kalms, L
King of Bridgwater, L
Manchester, Bp
Maxton, L
O'Neill of Bengarve, B
Peston, L

Memorandum submitted by Channel 4

Examination of Witnesses

Witnesses: **Mr Andy Duncan**, Chief Executive and **Mr David Scott**, Consultant, Channel 4, examined.

Q1125 Chairman: Good morning. Thank you very much for coming again. You know where we are up to in this inquiry; we have done our first part and I am going to come back to that, if I may, just on a few points. We are now moving on to other areas which we did not have time to consider properly in the first part; I suppose notably sport in this session because we have already taken evidence on religious broadcasting. Just on the first inquiry, we were unable to find a figure for how much the Government stood to make from the sale of the analogue spectrum and I wondered whether you could help us in any way about this. Obviously, it will not be known until it has been sold, but has Channel 4 made any estimate as to the value of its own allocation of analogue spectrum?

Mr Duncan: Not in terms of what it might be worth at the point of going to switchover, because it is a very hard figure to predict. Clearly various estimates are kicking around the place which other people have come up with. Our view is that it depends partly on what the

spectrum is used for. For example, up to 14 channels will be released and one of the things we think would be a very good idea would be to reinvest a chunk of that capacity into building a seventh multiplex which is going to be crucial in order to keep DTT up to date and technologically robust. It is also going to be crucial if we are ever going to see high-definition television properly available on DTT. If that sort of policy decision were taken, clearly that would not really generate any money at all, in fact quite the opposite, whereas if it were sold off for other uses, potentially mobile phone companies or things along those lines, it could generate a significant amount of money. It obviously depends heavily on the economic cycle at the time and, to some extent, how some of the current activities that are taking place on developing 3G technology, on broadcasting on mobiles and so on, takes off over the next few years as well. Our view on the value of what we have is that historically it has obviously been incredibly valuable. When it was one of only four channels initially and latterly one of five it has clearly been the main public subsidy or mechanism by which Channel 4 has been allowed to operate. Any surplus we generate through commercial revenue we keep and reinvest, but it has been a crucial part of the whole model of Channel 4. It is reducing in value over time, so if you were to value it now, it would clearly be less than it was at its peak and our benchmark for that would be the lowering of licence payments which both ITV and Channel 5 are making for their spectrum. To be honest, by the time we get towards the end of the switchover process, it will clearly be worth significantly less again, unless it is used in some major different way. Our feeling is that it is more about trying to find a replacement for us for that indirect subsidy and possibly using some of the spectrum at the end of switchover for new issues like high-definition, but it is very hard to put an exact value on it.

Q1126 Chairman: But if you were the Government, you might look at it slightly differently and wonder what the value to you, the Government, would be if you sold this?

Mr Duncan: Yes. There is quite a wide range of views. There are some people who believe there is potentially quite a bonanza in store and potentially the economic windfall could be one of the reasons for going for switchover. Others are more sceptical as to whether there will be any real value in terms of cost benefit and even the report which was done a year or two ago indicated £1 to £2 billion maximum.

Q1127 Chairman: That is not an inconsiderable figure. I do not know what your feelings are, but £1 billion to £2 billion seems to me rather a lot of money.

Mr Duncan: It is a lot for Channel 4. The point is that it is predicated on a few key assumptions and those assumptions do not have to change much to wipe that £1 billion to £2 billion out. Our feeling is that the purpose of switchover is not really around the economic windfall: it is more about citizen benefits, consumer benefits, choice and some of those sorts of things.

Q1128 Lord Maxton: I must say that I am not very clear on this. The switchover to digital starts next year in some areas, but presumably the sell-off does not come until the final in 2012, is that right? So that means there is going to be quite a lot of expense between 2006 and 2012, which presumably is going to reduce the benefits from selling off in 2012, particularly if by 2012 the technology is such that there will be practically no value at all in it. Would that be right?

Mr Duncan: The marketing campaign has effectively started already and the first area Border is switching off in 2008. You are right that there is going to be a significant period of investment and a lot of effort and upfront cost to drive the switchover through before potentially the whole spectrum becomes available nationally. I am slightly repeating what I said when I came to the Committee before. From a Channel 4 point of view, it is an easier life if switchover never happens; the old analogue world suits us rather well. With a broader

hat on, we support the purposes behind it and think it is broadly a good thing to do, but I do not think the major arguments are economic. The major arguments are other arguments.

Q1129 Lord Maxton: But in fact, the way the Government are doing it actually suits you best really, does it not? It suits the terrestrial broadcasters to keep digital terrestrial rather than going to some other form, some other way reaching every household.

Mr Duncan: What would suit us best is not to have switchover at all.

Lord Maxton: Given that, the next best is ...?

Q1130 Chairman: As a working assumption, we can take it, can we not, that the Government are going to have some receipts from the sale of analogue? There has been a slight assumption up to now that once we have gone to digital, analogue will simply fall to the ground and that will be that, but that really is not the case.

Mr Scott: That is a correct assumption and it will depend on the use that public policy puts this spectrum to. There will be a process, which Ofcom will manage, of allocating the spectrum in due course and of course it is the Government which will get any receipt which comes from that.

Q1131 Chairman: May I just ask you a second question? Given that, what is your view on the costs of digital switchover? Should those be met by the Government out of the receipts of general taxation, or should it all be placed on the licence fee?

Mr Duncan: It is a decision for Government. Their current thinking that it will be done via the BBC seems to us perfectly appropriate. The BBC have historically taken on the responsibility for driving through some of the broadcasting changes that we have seen. In particular, the BBC have this imperative of universality, so they are putting hundreds of millions of pounds a year into their various digital services and up to this point there are

licence fee payers paying who still cannot get those services or certainly cannot get them free-to-air. So the BBC seem perfectly appropriate to us and clearly you have different chunks of cost. You have the transmission build-up which they absolutely have to do simply to deliver their services to their audiences. Taking on a key role in the marketing and communications campaign is perfectly sensible and they have air time availability to do those sorts of training type campaigns and so on. There are clearly other options, but it seems to us a perfectly reasonable way to go.

Q1132 Chairman: It does not trouble you that it is a regressive form of taxation?

Mr Duncan: You get into the whole issue of how the BBC are funded. Our feeling is that it is appropriate, although there clearly are other options.

Q1133 Baroness Bonham-Carter of Yarnbury: I think they may need a little help from Channel 4 on the marketing, but that is just a personal opinion. I should like to ask you a question about the Window of Creative Competition which you, in your previous evidence, supported but you did say it had to be managed very carefully in order not to, to quote you, “feed big fat indies”. Do you think that the way this Committee have recommended that the BBC should set indicative targets within WOCC satisfies your concerns?

Mr Duncan: I first of all welcome the fact that the Committee have picked up on the issue. I guess my honest view is that I do not think indicative targets are strong enough. Having spent three years at the BBC, if there is not an absolute requirement, it will get lost in the wash. Even since we last spoke about this issue our feelings on this have strengthened, because it is really clear now that within the independent sector a few very big independents are merging, buying up other independents; you have probably seen some of the deals yourselves, the likes of Shed, who recently bought Ricochet, RDF who have just bought IWC and so on. They are very good, very strong companies and in most cases Channel 4 is their biggest customer still,

but it is getting harder and harder in fact to secure quality programming from some of the small- and medium-sized independents and that is a particular issue outside of London. It is almost inevitable that the BBC, unless they are forced to do otherwise, will put a disproportionate amount of extra spend into the big, strong, London-based independents. In some cases - groups which have bought up one or two regional offices to satisfy round the back door - a real opportunity would be missed. If an appropriate amount of that money - in our case it would be 30 per cent and something similar for the BBC would work very well - had to be spent properly to help drive regional development, it would be a fantastic thing for the independent sector and it would also strengthen the available supply base outside of London for other broadcasters including ourselves. My sense is that it has to be an absolute requirement on the BBC, otherwise, if it is just a good intention and they are given some indicative targets, it will get lost.

Q1134 Baroness Bonham-Carter of Yarnbury: Picking up on what you were saying about the regional companies, we were up in Manchester recently and they were saying that a lot of the big London-based independents have opened offices up there. Now those offices will obviously employ local people. Does that not satisfy your desire for the BBC to invest in the region?

Mr Duncan: That is part of the answer. It is perfectly reasonable for some of the regional spend to be with major groups which happen to have a regional office; that is perfectly legitimate. There are also mechanisms which could be put in place. In our case, we source programmes from over 300 independent suppliers, substantially more than anybody else does, and quite a few of those are one- or two-person operations which literally make perhaps one or two programmes in a year. Out of that breeding ground you get some very innovative new companies emerging and it is a real struggle regionally. Being very specific, it would be fine for the BBC to put some money into the Manchester branch of Endemol or the Manchester

branch of RDF, but you also want BBC money going into the little independent in Newcastle or in Bristol or in North Wales or wherever it might happen to be. A regional quota could work with some sort of guidelines around spreading it across a mix of different sized companies as well.

Q1135 Baroness Bonham-Carter of Yarnbury: And that regional quota would be operated through ...?

Mr Duncan: There are several ways of doing it, but in the same way that the 25 per cent to 50 per cent WOCC has to be managed and, prior to that, the old 25 per cent quota had to be managed and reported on by the BBC, you would simply put in place within that, that a minimum of 30 per cent has to be spent outside London.

Q1136 Chairman: May I ask just one other question. Do you think there is a case for Channel 4 as a not-for-profit broadcaster and, for that matter, the BBC as a licence fee funded body, to be allocated free digital spectrum by Ofcom?

Mr Duncan: Yes.

Q1137 Chairman: And have you put that case to Ofcom?

Mr Duncan: Yes, we have. It is a very current and live debate for us at the moment, which is back to the conversation that we had before. We are doing very well in the short term, but we are increasingly anxious about the pressures in the medium to long term and, almost by the week, life is moving on. We saw the Virgin/NTL deal, we have the cable merger which is taking place, Sky have bought EasyNet and so on and so forth. Our own sense is that some of the competitive developments which are emerging mean that we are perhaps two to three years away from when some of the pressures really start to bite, not least with the switchover process coming in as well. Capacity has historically been a very good way of helping drive

the public service model, both in our case and the BBC's case and, going forward, we think it is one of the best ways in which you could underpin Channel 4. We are pushing quite hard on some opportunities, which we are discussing both with DCMS and with Ofcom, which exist specifically at the moment around possible use of some of the BBC capacity and the possible windfall that will come through if 64 QAM is adopted through switchover. In both cases we think it is a very good way of giving Channel 4 more head space through capacity.

Q1138 Chairman: That would mean Government giving up potential revenue, would it?

Mr Duncan: There are two quite distinct options: one of which is complicated and I suspect will take some years to resolve and one of which could be done very quickly. The complicated longer-term option is what you do with the released analogue spectrum. Do you sell it off and maximise income or do you reinvest it to create the chance to do high-definition, those sorts of issues. I am sure that would be a process of some years of debate and there is the big International Spectrum Conference next year which will be part of that. The very specific short-term opportunity that we see, that we are currently discussing, is that the BBC has a commitment to run Five and S4C and S4C2 on their BBC multiplexes, one of which is controlled by Ofcom and one of which is licensed directly by Government. Capacity will be available outside Wales, because S4C will run just in Wales on DTT, and Scotland in the other case because of the Gaelic service. It is very, very unlikely that the Treasury or Government will take a decision to take that capacity out of public service broadcasting and there is a very simple opportunity to rebalance how that is allocated. We are using our spectrum very efficiently. We have run out of spectrum actually and are having to buy it on the open market at a very expensive price. The BBC are using theirs very inefficiently. There is a very simple opportunity which could be taken literally in the next six months or so, alongside the White Paper and the licence fee. We are trying to differentiate between a very

specific short-term opportunity to reallocate some capacity from the longer-term policy decision about whether more capacity in total is put into PSB.

Q1139 Chairman: Is there any estimate of how much it would actually cost you if you were not allocated free digital spectrum?

Mr Duncan: Yes. We have acquired two sources of capacity this year, two slots from National Grid Wireless, and although the figures are actually confidential in terms of how much we paid, the press has speculated that the last one was in the region of £12 million. We have certainly had to pay a very significant amount of money which we have decided to do as a premium for certainty now. The market is obviously developing very rapidly and if we are going to get on and launch things like More4 - and we are looking at other channel ideas including Film Four going free next year - we have to do them now while the market is developing. Our assumption is that we will not have to continue to pay those very high prices indefinitely and at some point it will be a clear way to underpin us by providing capacity in some other way.

Mr Scott: Certainly going forward there is the idea of spectrum charging, which I know the BBC have written into their licence bid. The concept of spectrum charging was trying to look for efficiency in the use of the spectrum and the allocation of the spectrum, but the way the forecast spectrum is allocated it is money which will just come straight from the programmes, so it does not actually lead to any behavioural change.

Q1140 Chairman: So the spectrum charging would just be another cost.

Mr Scott: For us.

Q1141 Chairman: And for the BBC.

Mr Scott: And for the BBC.

Chairman: Having said all this, let us move on to what we are looking at now. Thank you for that précis of where we were. Let us go to sport.

Q1142 Lord Maxton: I am tempted to ask you whether you would have been so disappointed at losing the test matches if Australia had hammered England last summer, but maybe I should not ask that. You did say in the evidence to the House of Commons Culture, Media and Sport Select Committee that you were disappointed that the English Cricket Board did not look at a partnership between you and Sky. Did you make that proposal? What was the proposal? Why do you think they turned it down?

Mr Duncan: We were very disappointed to lose the cricket, regardless of whether we lost to Australia or beat Australia. The reality is that we covered cricket for seven years and I think Channel 4 did an excellent job in terms of the innovation of the coverage. A lot of money was invested in production, a lot of money was invested in marketing as well as the rights cost and it was basically a very successful partnership over those seven years between us and Sky together with the ECB. Having said that, we lost over £100 million over that seven-year period, so it had always been a significant loss-maker for us. The ECB had a very simple choice when the most recent contract negotiations came round. They could have driven the process to strive to continue that successful partnership and gone for sufficient money and a balance of exposure across both free-to-air broadcasters like ourselves and Sky, or they could have gone down a route of trying to maximise money by going for an exclusive contract. Clearly in Sky's case, and you only have to look at the football debate to understand that, exclusivity does attract a premium. We put in what we thought was a very full and fair bid. It would have meant us continuing to lose the best part of £15 million a year and it was a very full bid for the main test series of each summer. We were genuinely surprised and disappointed that the ECB did not try to pursue that more strongly as some sort of partnership approach.

Q1143 Lord Maxton: Presumably Sky offered on the overseas, which you do not?

Mr Duncan: Yes. The ECB are quoting very widely this £80 million figure as being the difference between what we effectively bid and what Sky bid as a joint bid, versus what Sky bid exclusively, but the reality is slightly different to that, or I should say that we have a different way of looking at it. Sky have for many years covered the international overseas cricket extremely well and for reasons of scheduling, and it varies by time of year and time of day, they have done a very good job with that through their specialist sports channels. We have covered the main test series of the summer and shared the minor test series of each summer. For example, we shared one test each with Bangladesh and that makes it more difficult in marketing terms because you cannot own that whole series. We only bid for the main test series, we bid just over £3 million a test, which was close to what we had been paying, but not quite as much. In total it would have meant about £5 million less from Channel 4 per year. The ECB had more rights to sell this time around because they had an extra one and a half tests on average to sell to somebody else, possibly Sky; they had more 20/20 internationals, they had more one-day internationals. If they had driven the process down and made it very clear up front they wanted a joint solution, my own view is that they could probably have had broadly the same amount of money going forward as they had been getting historically and, at worst, if Sky had been prepared to pay no more money, they would have only been £5 million worse off a year. What Sky did, once they knew that the ECB would potentially go for an exclusive contract, was to offer a lot less than they had been paying on the basis of sharing it with us and offer more on the basis of it being exclusive. I do not blame Sky: for Sky, it was a smart deal but in my view the ECB made a big mistake. The idea of having no live cricket coverage in any form, winter or summer, on British television for five years and effectively nearly three quarters of the country being unable to

see any live cricket - most people in this country will probably never see Freddie Flintoff live again - is a bizarre decision for a sporting authority to take.

Q1144 Lord Maxton: “Most people” is probably a slight exaggeration.

Mr Duncan: He may not be playing cricket in five years’ time.

Q1145 Lord Maxton: I meant that people watch Sky in a variety of different ways, in pubs, in clubs and all the rest of it. I shall leave that one aside because our interest is the BBC. Did you not consider the BBC being involved in this partnership? I know they did not bid in any way.

Mr Duncan: Essentially the way the partnership worked very well was the free-to-air terrestrial broadcaster offering the exposure and the coverage to all homes and then the specialist pay/sports broadcaster, sports channel was able to offer all the coverage including some of the county coverage as well. The BBC were in many ways replicating what we have been doing and so a joint Channel 4/BBC thing would not really have covered some of the other matches, if that is what you mean. They would have been presenting an alternative to us to partner Sky; that might have been a different option. My understanding is they did not make a serious bid at all.

Q1146 Lord Maxton: The whole problem with cricket is that it is a long day and it disrupts every other form of scheduling you have to do during the day and, of course, there is no guarantee that it will not finish early, it will not be put off because of bad light, that it will not rain, whatever. Did you have some form of deal with the BBC to use archive material when you had breaks of that nature? If so, did you have to pay them for it and what did you pay them for it?

Mr Scott: I am afraid I cannot recall the answer to that question.

Q1147 Lord Maxton: Obviously, if you wanted, in the interval or when it was rained off at some point, to show Ian Botham playing in a great test match, you would have had to obtain that material from the BBC. You presumably could not have obtained it from anywhere else.

Mr Scott: We have gradually built our archive across the seven years of our coverage.

Q1148 Lord Maxton: You just use your own archive?

Mr Scott: Yes.

Q1149 Lord King of Bridgwater: How much did you say you lost over the period?

Mr Duncan: Over £100 million.

Q1150 Lord King of Bridgwater: Is that in lost advertising?

Mr Duncan: Essentially there are three blocks of cost. The rights cost is the biggest chunk of cost and then there is about a further £5 million pa for production, £5 million pa for marketing. We were spending around £25 million a year and the income we were generating from our advertising was only about £10 million, so it was actually a net cost of about a £15 million pa. The actual opportunity cost was potentially even bigger, because we could have run much cheaper programming during that time and generated bigger audiences, but the pure factual loss that we made per year on average was about £15 million.

Q1151 Lord King of Bridgwater: This thing about the tragedy for the great British public and how much of the audience cannot see cricket is that quite a lot of the public would actually hate the idea of having to watch any cricket at all. What percentage of the Channel 4 audience are actually cricket watchers? This is what I am trying to get to. There is this point when you say only so many people can get Sky. We were talking to Sky yesterday who made a big pitch. Obviously they use sport to sell packages to people and obviously the sport lovers tended to sign up to that and people who are keen on bringing up their children to be

interested in sport would tend to sign up to that. I am trying to get a feel for what the truth really is about it being awful because most people cannot watch it. What percentage of people interested in sport actually will get it on Sky?

Mr Duncan: Our average audiences for test matches in the first six years of showing them were just over one million throughout the entire test match, but of course at key moments, when England were batting or towards the end of the day when perhaps there were more people around, you might get figures of three or four million in some cases. This summer was obviously an exceptional series, a once-in-a-generation series in many ways, and the average audience was over two million, but at various points along the way it peaked at seven or eight million. There is a difference between the hard-core cricket lover, assuming they can afford it, who might be a sports lover and subscribe to Sky Sport, and those people who love cricket but either cannot afford to pay for subscription or who are occasional cricket lovers. This summer in particular we saw a lot of people who were perhaps on the fringes who came in to watch the sport. The simple facts are that Sky Sport is only available in a quarter of homes. I am sure a disproportionate number of cricket lovers have Sky Sport but there are many, many cricket fans, people who would have watched cricket on Channel 4, who are either unable or unwilling to afford or do not want to subscribe to Sky in order to get that cricket.

Q1152 Lord King of Bridgwater: In a population of 60 million, what is your audience for cricket?

Mr Duncan: On average we had around two million with peaks of seven or eight million. We could go back and try and do some sort of cross-analysis, though it is quite difficult, but our sense is at least well over half and probably two thirds of that audience is coming from non-Sky homes.

Q1153 Chairman: The £100 million loss was over how many years?

Mr Duncan: Seven years.

Chairman: Seven years; so £100 million over seven years.

Q1154 Lord Peston: My questions are generalisations of those. You have public service broadcasting obligations and of course the BBC is a public service broadcaster. I take it you would interpret the loss on cricket and any other losses you make on other sporting events as fulfilling your public service obligations. Therefore in a sense what you are telling us is that the ECB does not regard itself as having any public service obligations at all; they are simply going for the most remunerative package they can sell. Is that not a bit bizarre? They are in charge of an asset which actually really belongs to the public.

Mr Duncan: My personal view is that they took a strange decision. At the end of the day, as a sporting authority, they have to make their choices. One can understand why they made the decision.

Q1155 Lord Peston: They wanted the money.

Mr Duncan: Clearly cricket is struggling financially. There is a county structure which probably needs a radical overhaul, but my slight fear is that the money will largely be dissipated around county ground building projects and overseas players inflation and so on and although they plan to put a few million into grass-roots development, it cannot possibly make up for the fact that a lot of people will not be watching and seeing cricket any more. For a sporting authority to put its entire rights throughout the year for live cricket away from the majority of the British public is a strange decision, but that is their judgment call.

Q1156 Lord Peston: I understand that; I just wanted you to get it on record explicitly in that way. Looking more broadly at sporting rights, they are clearly becoming mostly more

expensive. The point the Chairman has led us towards is whether it would be a good idea in other areas if you and the BBC cooperated. You both have a public service obligation. It seems a bit bizarre if you two are bidding against each other to fulfil a public service obligation.

Mr Duncan: The reality, to be honest, is that sport is probably now our most difficult genre to compete in effectively. Channel 4 has a fantastic tradition as a sort of multi-genre channel and we aspire to deliver our public remit whether it is through drama, through news, through current affairs, through the innovative way we did the cricket. Obviously we have horse racing, but in reality it is very hard and the reason is basically Sky and the BBC. Firstly, with Sky, sport more than anything drives their business model; they are prepared to pay huge amounts of money.

Q1157 Lord King of Bridgwater: That is not what they said.

Mr Duncan: I am sure it does drive their business model. My perception is that it drives their business model, but they ought to know better than I do. On the surface it looks as though it drives their business model. They are certainly prepared to pay a lot of money for it. The BBC changed tack on sport a few years ago. I was obviously there when Greg Dyke was Director-General, but prior to that they had exited sport and not fought that hard when Sky and others had come in. There was quite a level of disappointment from licence fee payers, particularly younger males who did not feel that their sporting interests had been catered for, so the BBC actually massively reinvested back into sport, did long-term deals on tennis and rugby and so on, which broadly was a good thing. It means a combination of Sky who are able to pay a lot of money because of the business effectiveness for them and the BBC who have the licence fee, which actually means that sports rights inflation has been very high and it is very difficult for us to get sport at sensible levels.

Q1158 Lord Peston: I speak as someone who regards himself as very strongly pro the BBC for the sports traditions and the BBC. However I get the feeling, though I cannot quite put my finger on precise evidence, that the BBC do not like cooperating. Would I be mistaken in saying that they would typically, whatever they are doing, really like to do it on their own if they possibly could? There is less cooperation in sport for example than I would have predicted *a priori*.

Mr Duncan: Culturally that is exactly true. I think the BBC are an incredibly important and good institution, but they tend to operate best when they are able to do everything themselves. Where they do share things, and they have to share things like the World Cup with ITV, there is a reasonable sense of cooperation, but it is very much about the BBC doing their coverage and ITV doing their coverage and the BBC do not have many good examples of sharing activities. My understanding is that both Michael Grade and Mark Thompson have talked a lot about partnership during the Charter process. It will be interesting to see whether that then comes through once the Charter is agreed.

Q1159 Chairman: To whom have they talked about the partnership process? To the Government?

Mr Duncan: A lot to the Government and other people. It is fine to talk about it, but it would be quite hard; the BBC would need to demonstrate some action. Funnily enough, on some of the digital platforms emerging now, there is a chance for cooperation in a way which is easier than it was historically.

Q1160 Lord Kalms: A slight twist on the same question. The BBC has an obligation, does it not, to bid against everybody for certain sporting events? Do you think it is compatible with its obligation that it is always high competitive against people like yourselves? Does the

BBC fulfil its public service obligation by being very competitive in its bidding? Can it get around the problem of its obligation to bid?

Mr Duncan: My own sense is that it is valid for the BBC to do sport and to bid competitively to try to secure sports. That seems to me a perfectly reasonable thing for them to do. They are in a privileged position. They are able to put a lot more money in than might necessarily be economically justified. Where they perhaps need to be careful and where it can have an impact, radio is probably quite a good example of this, is where the funding of BBC Radio is at such a vast level compared to any other radio anywhere else in the world. BBC Radio is very good quality but there is very little public service competition for that and it would be almost impossible for somebody to come in and perhaps secure the sports rights on radio given the amount that the BBC will pay for football or cricket and, regardless of how well you think they might do it, if you take the television equivalent with cricket, the competition there really stimulates them to do a better job than for some of the rest of their sports. They need to be careful there, but I am not sure that you can prescribe that the BBC should keep out of something just because Channel 4 is trying to go for it, for example.

Q1161 Lord Kalms: Could you twist this around? Could you say that as long as those sporting events are in the public domain on free-to-air or some of the other media such as Channel 4, why should the BBC artificially compete? Is it because the BBC feel they have to have it on their channel? In other words, they are creating a market for a product which they might not necessarily need but it might mean the consumer, the listener or the viewer, can have their product. Is it a slightly artificial pressure on that sports event?

Mr Duncan: There is an element of truth to that. To be very specific, if the BBC got there and I do not think they are quite there but they almost got to the point, if the BBC were of the mindset that says “We must get sport no matter what and we are prepared to pay whatever it takes to get it”, that would have an impact in artificially inflating the price; that is definitely

true. Probably the move they made over the last few years to strengthen their sports portfolio was appropriate, but they probably have adequate sport now and if they were suddenly to decide they wanted to do even more, that would probably be quite distorting in terms of the market.

Q1162 Lord Maxton: I am a bit confused about this public obligation to show sport. If you do have and the BBC do have it, it is to encourage people to take part in sport for the general health of the nation. Otherwise, if you are just putting on football matches between two bunches of foreigners, it is as much an entertainment as putting on a play or putting a film on really. You are not necessarily encouraging anything. If that is the public obligation on you to encourage people to take part, have you looked at minor sports? Probably as many people play badminton and squash and sports like that throughout the country as play cricket. Do you ever think about putting these minor sports on? It is relatively cheap to purchase the rights, in fact some sports may even pay you to put them on.

Mr Duncan: We have had a tradition over time of trying some rather unusual and interesting sports. There was clearly a period when we did the American Football quite successfully. We actually do a very interesting range of sports that run overnight, extreme skateboarding amongst others. There are some quite niche and minority sports. We had a serious go at covering the World Rally Championships two or three years ago, a big investment which did not particularly work; audiences did not come to it. You get back into some of the same kind of economic problem.

Q1163 Lord Maxton: American football and rallying is hardly high participation sport in Britain.

Mr Duncan: No, not particularly, but you are back to some of the same economic issues, to take your badminton example, because you would find audiences were extremely low. This is the truth.

Q1164 Lord Armstrong of Ilminster: I was wondering whether the European Commission's reform of the sale of Premier League broadcasting rights was going to present a genuine opportunity for terrestrial broadcasters to acquire live rights.

Mr Duncan: The decision that was made was rather disappointing. The situation where effectively five out of six packages can still be bought by one broadcaster has not forced the extent of sharing that one might have anticipated or hoped for. We shall look at it. It is very unlikely that we should be able to justify paying the sort of money that will be needed to secure one of those packages. Most people think that Sky will bid very heavily to get the five packages. They even said to you yesterday and it was reported in the papers today that they would be prepared to pay virtually the same for five of the six packages. I am sure others will look at it, including the BBC and ITV. If you are only able to get 23 games, it is hard to do much with that in terms of really promoting it or driving a business. Presumably, somebody will pick up at least one of the packages, but it is quite difficult.

Q1165 Chairman: Do you regard it as a sort of victory for Sky?

Mr Duncan: I should have thought, given some of the possibilities that have been talked about, they would have been very satisfied with the eventual outcome.

Q1166 Chairman: We talked to Sky yesterday and I am not sure they were particularly informative on this point. Did you do any lobbying yourself on this issue?

Mr Duncan: No. We did not have a serious interest in bidding for the football. It is something we shall look at, but other broadcasters made various noises along the way.

Obviously ITV and NTL put forward a suggestion of wanting to bid for up to half the matches. But no, this was not something we were lobbying behind the scenes on.

Q1167 Lord Peston: It looks as though the Commission, having talked very loudly on the desirability of competition, suddenly lost their nerve on the six packages. I was astounded that they would allow that; to be able to sell five just makes no economic sense at all. Would there be any possibility of more than one terrestrial channel jointly bidding for one of the remaining packages? Would that make any economic sense to you or to the BBC?

Mr Duncan: Back to the point, even having only one of six packages is quite hard to properly utilise as one broadcaster, so the idea of further splitting that and sharing would make it even more problematic. Football is quite complicated because you have also got the FA Cup, the Champions' League, international matches, big tournament events like the World Cup and the European Cup, so if you are ITV and you are showing some other football anyway or if you are the BBC and you are showing some other football anyway, I cannot speak on their behalf but I can imagine that you could think about how it is part of a wider football proposition. For Channel 4, we do not show any football now. We used to show Italian football.

Q1168 Lord Peston: It was a marvellous way of showing it, if I may say so. Bravo are nowhere near your league.

Mr Duncan: We are looking at it, but it is hard to see that with just 23 games you can really do enough.

Q1169 Lord Peston: You were talking in terms of a kind of halo effect, when you were going back to the test cricket: it created a vision or view of you and that was part of the pay-

off. Do you not think that might happen with one of the Premier League packages or something like that? Obviously you have thought about it.

Mr Duncan: We are looking at it. We are yet to conclude whether we are going to bid and if so, on what basis we bid. It is less enticing than it might have been, given the decision that was taken by the Commission.

Q1170 Chairman: If the Commission had given half and half or some other proportion, you would have been more persuaded, would you?

Mr Duncan: It would have opened up many more options including partnership options and really given ourselves and other people more opportunities to do something very imaginative.

Q1171 Baroness O'Neill of Bengarve: May I turn to the system of listing events? Do you think the present lists are reasonable? Do you think the criteria for compiling those lists are reasonable, or would you like to see them change?

Mr Duncan: DCMS have said they are going to review listing over the next two or three years. Our view is that would be a sensible thing to do. We have not particularly spent a lot of time thinking through what changes, if any, are necessary. Particularly given the recent controversy over the cricket, it would be a good time to dust them off and take a view. The listing of some crown jewels is very important.

Q1172 Baroness O'Neill of Bengarve: But you do not have a wish list.

Mr Duncan: No, not that we have formulated at this stage.

Q1173 Chairman: Do you have criteria? Do you have a sort of definition of the crown jewels?

Mr Duncan: To be absolutely honest with you, no. Ultimately, it is an issue for Government to work out, but the basic principle of having some listed events is a good thing. A serious

piece of work has not been done on it for a number of years and, given how much technology has changed and the whole digital environment has changed, a debate back to first principles would be a very good idea, but we literally have not spent any time on it whatsoever.

Q1174 Bishop of Manchester: May I take up a point you made earlier this morning when you were enthusing about regional development and you mentioned several places, some of them relatively small. You did also mention Manchester. Forget I am the Bishop of Manchester, because I want to be absolutely fair on this one. When the BBC came to us, on several occasions they emphasised their commitment to the move to Manchester. They have also emphasised how that will depend upon the appropriate licence fee being agreed. At various stages during our meetings, it is fair to say we have all expressed some concern about aspects of the proposed Manchester move, for example, there have been some real worries over the cost, particularly the early figures that we were given and whether or not that is actually an appropriate use of the licence fee and whether we ought to be protecting the interests of the fee payers by saying that is too much. Then there are the fears that if you move departments up to a region, you also move them away from what, rightly or wrongly, could be regarded as some of the corridors of power in London. Then there are all the domestic upheavals of people, with all their fears about what it must be like living near the North Pole and all these sorts of things. It would be interesting first of all to find out from your viewpoint as Channel 4 what you feel about that proposal by the BBC. Just forgetting for the moment how that might fit in with you, as a professional company, what do you think about this move?

Mr Duncan: I went to university in Manchester, so I am quite proud of Manchester. I was also involved in the Manchester project when I was at the BBC. From a Channel 4 point of view, our perspective is that it is actually a good thing that the BBC are looking to invest significantly outside London and, being party to the debates which took place two or three

years ago, I think that having one strong centre does make more sense than trying to spread it too thinly. The broad thrust of the Manchester proposal is a very good thing. I should say that there are two very significant points. One is that it should not be a Manchester-only solution, going back to the earlier WOCC debate. If Manchester is part of a broader strategy to help the BBC really broaden out from its over-London-centric approach, then that would be very good; if it is a Manchester only thing, then it is a big opportunity missed. Given that all licence fee payers across the whole of the UK pay for the BBC, to have a broader spread like that does make sense. In particular, the North of England is a real weak point. The second thing is, being very blunt about it, that the costs are far too high. I think the BBC are involved in some licence fee negotiation tactics. You could be much smarter and much more sensible about how you could really build, creatively and imaginatively, the sort of centre of gravity around Manchester, perhaps in conjunction with the independent sector, perhaps opportunities for cooperation with the likes of ITV who have a centre there. Certainly compared with some of the figures I saw before, they look very high indeed and it is a classic BBC Rolls-Royce, “We’ll have a completely spanking brand new office and we’ll ship thousands of people up there”. From a commercial perspective, if you were Channel 4, you could probably pull off something more creative, more imaginative at a fraction of the price. They should be supported in doing it, but they should be pushed very hard on how much it really costs and they should be encouraged to do it in a way which really tests their commitment to partnership.

Q1175 Bishop of Manchester: May I now take up something you said in providing that answer. You were referring to “sharing” and of course having this shared hub is meant to be one of the key features of the move. You did say earlier this morning that the BBC are not really very good at cooperating. You said in fact that there are not many good examples of sharing activities. That does not sound hugely hopefully prophetic given their plans. Could

you comment on what you feel their ability is, given past evidence, to produce the hub that will really work and would Channel 4 in any way benefit from that?

Mr Duncan: On the first point, my sense is, particularly given the amount of money that they are requesting against it, that they have had several years of debating and discussing it and very tangible concrete plans should be put on the table now and they should demonstrate very clearly and very vividly how the partnerships would potentially work. It is a very, very good test case to see whether this commitment to partnership is something they really mean or whether it was just fine words during the Charter renewal process. Before any licence fee is set next summer, whenever the time period is, the BBC should get that money subject to putting a very clear plan together illustrating that. As far as Channel 4 are concerned, we are a kind of very lean mean organisation. There are only 900 people; less than the old BBC HR department. We do not have regional bases as such; we source our programmes from all over the country. Our prime interest would be how this could be used to help nurture the independent production sector in the North generally, not just in Manchester. Certainly indirectly we benefit from that: whether there are any direct cooperation benefits is less likely. ITV have just walked into the room, but I can imagine that there are more opportunities for them because they have a physical base there.

Q1176 Bishop of Manchester: On the whole do you think it is a workable idea?

Mr Duncan: It is a really good idea. It is one of the most important ideas in the Charter. It is an incredibly important opportunity. To repeat myself, it should be part of a broader strategy to broaden outside London, including the WOCC point from earlier, and it should be done more cost effectively.

Q1177 Chairman: We need to get the costs right. The costs are changing almost as we speak, but at one stage there was going to be a 25-year payback. How many investments do you do on a 25 year payback?

Mr Duncan: None.

Q1178 Baroness Bonham-Carter of Yarnbury: I just want to go back to our WOCC conversation. You were saying you thought the BBC needed mandated targets for sourcing from regional companies, but I did not quite get who you thought would oversee that?

Mr Duncan: You have a number of options and it depends a bit on the Government's whole debate which is still going on in terms of the Charter. Clearly, it could be something the Trust manages or it could be something that Ofcom manage. I suspect they are the two options.

Q1179 Baroness Bonham-Carter of Yarnbury: Would you have a preference?

Mr Duncan: As long as they actually stuck to the target and were given a target, then no, it would not matter.

Q1180 Lord Maxton: May I just look to what is already becoming the future in a sense and that is, and it has happened, certainly so far as I am concerned, since we saw you last? We are moving into the world of what I call multiple choice rather than multiple channels. I am a cable subscriber and one of the things which is already happening is that I am now being offered what TeleWest call teleport, which is the ability to watch programmes from the last week at any point, any time, forward them, fast forward them, reverse them, watch them, watch films, pay for them, programmes and all the rest of it. At the moment, as far as I can see, they are very largely showing BBC programming. Are you in negotiation with these companies for that sort of facility to show your programmes?

Mr Duncan: Yes, we are. Probably the single most profound issue that we are facing at the moment is the Channel 4 position vis-à-vis rights. Essentially, we are a publisher/broadcaster, so we do not have our own production base and in that sense we are different to the BBC or ITV, the majority of whose programmes are produced in-house. But for all of the broadcasters there is a very profound issue, as the audiences want to get programmes and content when they want them, how they want them, on the device that they want, around the rights management in terms of new media platforms, which is very important and is being looked at as part of an Ofcom production sector review as we speak. We are very, very anxious about it. To be very specific, we fully fund the programmes, we take all the risk. At the moment, we have, in exchange for fully funding the programmes, rights to show that programme on Channel 4 twice, potential rights to show it across our emerging digital portfolio, More4 and E4 and so on. We think it absolutely essential that we also have the ability to show those programmes on broadband, on demand, potentially versions of those shows via a mobile and so on. We are particularly arguing for two things. One is a public service window which we think needs to be around 30 days where we are able potentially to offer those for free. Advertising revenue might be generated but it would be largely substitutional from the main broadcast platforms and subsequently some sort of fair share of any commercial revenue which is generated between ourselves and the independent sector. If a fair outcome is achieved by the Ofcom review, that would be very satisfactory. If in fact a bad outcome is achieved, particularly for us and Channel Five, but I should say especially Channel 4 with our public remit, it would be quite devastating and our ability to deliver our remit going forward would be badly damaged.

Q1181 Lord Maxton: Presumably one of the real problems is the advertising revenue. If I can watch one of your programmes the following day or even two hours later and I am able to

fast forward through the adverts every time they come on, then the advertisers are going to look at you and say “Why do we bother”?

Mr Duncan: Yes, there are two very specific points. The basic business model of paying for a programme, showing a programme then getting the money back via advertising would be broken. If people are watching some sort of catch-up service or on demand or watching it after the event, you could have a mechanism where they are still advertising there but it will have been substitutional from the main broadcast platforms. If people are paying subscriptions, particularly if we do not get that money, that money goes to the independent sector for example, that means our ability to fully fund programmes is taken away. It is a very, very important issue. The BBC and ITV are also concerned about it, but they are somewhat cushioned because of their in-house production.

Q1182 Chairman: Thank you very much. Did you want to make any other points to us?

Mr Duncan: I do not think so.

Chairman: Thank you very much; you have been very patient with us. Thank you for coming again and thank you for your evidence, which was very clear. If we have any extra points, perhaps we could write to you.

Memorandum submitted by ITV

Examination of Witnesses

Witnesses: **Mr Charles Allen**, Chief Executive, ITV Plc and **Mr Clive Jones**, Chief Executive, ITV News and Sport, examined.

Q1183 Chairman: Welcome. Thank you very much for coming. It has been a very busy time for you and we are even more grateful because of that. May I start with the latest headlines that are being created by ITV and ask you about your aim to buy Friends Reunited. I see in the *Financial Times* one fund manager is quoted as saying “We cannot work out why ITV would want Friends Reunited. We cannot see the industry logic, or how it would link to ITV’s other businesses”. We are not a bunch of analysts, but tell us what the purpose is.

Mr Allen: This is part of our overall strategy. I laid out a strategy 18 months ago which said that we needed to stabilise ITV1 but we needed to grow our revenues outside ITV1. People have more choice as ITV1 moves from analogue to digital and that has a direct impact on our revenues. In an analogue home we get a 27 per cent share, in a Freeview home we get a 22 per cent share and in a Sky home we get a 16 per cent share, so as we transition from analogue to digital our ratings will decline. It is not about the performance of the channel, it is about an arithmetic calculation, that people have more choice and we are more affected because we are a mass market channel. So what are we doing about it? The strategy is to grow our business outside ITV1 in two areas. One is to create a family of channels that would compensate for people who, once in multi-channel, wanted content of their choice; so ITV2 is younger female, ITV3 is ABC1 and ITV4 basically is younger males. We also said that we wanted to try to create revenues outside advertising and we created a whole new consumer division with the objective of building relationships with the consumers, ideally turning viewers into consumers. We have started down that path: we have created something

called ITV Mobile. Rather than lose the viewers when they go out of their front doors, they will actually get content on the move, which we think is quite exciting. We have created ITV Broadband which is our on-line offer and we are piloting something called ITV Local, which is a very local service in Brighton; the early signs of that are actually quite interesting because we are able to use the massive infrastructure we have. We see it as creating communities of interest. Where does Friends Reunited fit into that? It is a pay business; 80 per cent of the revenues come from subscriptions. The core business was basically catching up with old school chums, but they have built a series of businesses. They have built a genealogy business; if you want to know where you are from. I am told we are all six steps away from royalty; maybe if you are Scottish it might be seven or eight, but most people are six steps away from royalty, or six steps away from a star. We can see an opportunity to build up a database there for people to find out about their relatives and we use that to build that up. It also has a dating business in there and it also has a jobs business. Effectively what we are doing is using this as the engine room to drive ITV's community of interests. The way we see ITV is that it is about bringing people together, it is about backing creativity and it is about acting responsibly. The brands Friends Reunited and ITV fit well within that.

Q1184 Chairman: It presumably shows another step on the diversification of all the media groups?

Mr Allen: Yes. When we joined the two companies together, Granada and Carlton, 90 per cent of our revenues came from ITV1; just two years later, now 30 per cent of our revenues come from outside ITV1 and we know, because of the move from analogue to digital, that we are going to have to build that and we have set ourselves public targets to do that. The revenues from ITV1, because of the move from analogue to digital, simply will not be enough to fuel growth for ITV.

Q1185 Chairman: What, if any, relevance does this have for the BBC? What implications does what is happening here have for the BBC?

Mr Allen: One of the most significant things which worries people outside the public broadcasting space is the BBC's untrammelled ability to move into a whole range of services. So one of the key things which would be an issue is if the BBC had been able to create or buy similar products and one of the things you have touched on before is that there needs to be absolute clarity on the service arrangements for the BBC; not only new service arrangements, but, really important, public consultation on the existing service arrangements, full debate, full review of all of the services so we can then move forward. A good example is the MP3 stuff the BBC is doing which you were chatting about earlier. My view is that there has been no public consultation on that and if there were on umbrella BBC.co.uk, then that would cover a multitude of sins. There needs to be much greater clarity on exactly what the current services are, so that things do not go under the wire. There is relevance related to this, related to all commercial activities and the commercial activities of ITN - you have heard from ITN before - and the worries which the commercial sector has that the BBC will be able to do a number of these things under their existing service agreements and how we police that going forward.

Q1186 Chairman: So your real concern is fair competition and duplication of services.

Mr Allen: Yes; clarity of public funding. We want to know why public funds are being used to create something that the commercial sector will provide anyway. That is a basic premise of the things we are looking at: it has to be something that the structure addresses.

Q1187 Lord Maxton: Do you see Friends Reunited as a continuing growth? It seems to me that schools, colleges, everybody else have their own websites and their past members subscribe to it or log into it and there are organisations like the Records Office in Scotland. It

is cheaper for me to go into the Scottish Records Office to find out about my genealogy than it is to go to Friends Reunited. As you see more and more people getting their own websites, do you actually see that as an area which will continue to grow?

Mr Allen: The thing to remember is that Friends Reunited has about 15 million members already and it is already a community of interest as such. One of the interesting statistics I have found is that on the genealogy side, when we started the due diligence for buying this business eight weeks ago, there were 40 million names on it and six weeks later, there were 46 million names there because it is much easier than any other option. What is happening is that people are populating that site with their relatives, their friends and that is creating a really interesting asset. What I also see is that as we are able to introduce video capability, to have moving pictures there, pictures of your children now and in the future, pictures of your grandparents or whatever, that will make it very interesting. It really is a live, living family album.

Q1188 Chairman: Let me go back to our first report and ask you about one of the issues that came out of it, which was the value of the analogue spectrum. Have you ever made any sort of estimate of the value here? There was at any rate an assumption that once we went digital, analogue spectrum would actually have no value at all, which is clearly not the case.

Mr Jones: Are we talking about what will be done with the spectrum which remains?

Q1189 Chairman: Yes.

Mr Jones: I think the key issue here is that it can be valid in a number of different ways. There has to be a serious appraisal of what one should do with the spectrum that is freed by the move to digital switchover. One of our key concerns would be to try to ensure equality across the digital platforms in terms of high definition television. We have an opportunity next year when we shall hopefully be doing an experiment with the BBC around the World

Cup. We have wonderful television pictures in the UK through the PAL system, but when one is able to see an HDTV, particularly for sporting events or high quality drama, it is a leap forward again. Some people have compared it with the difference between black and white and colour; that is a slight exaggeration, but it is very significant. One of the aspects of HDTV is that it is actually very spectrum hungry. Sky will begin HDTV next year, TeleWest, to which Lord Maxton subscribes, are talking about beginning HDTV services next year. It would be deeply unfortunate if DTT, which we think would be the most popular delivery mechanism to the bulk of the population and of course will be free, did not have an HDTV capacity on Freeview. I would hope that some of the spectrum that is freed up is not automatically put out to the highest bidder, but that Government and Ofcom make their own value judgment and take proper concern for the citizen consumer and use some of that spectrum for HDTV. We should certainly like to put some of our high quality dramas out on HDTV, as would the BBC, as indeed might Channel 4. Equally, as we move forward on the basis of listed events continuing, it would be great to be able to put World Cups, Olympics and other significant events on HDTV.

Q1190 Chairman: Valuation is going to depend exactly on purpose.

Mr Jones: Absolutely; absolutely.

Q1191 Chairman: And there is really no guide, you can put no guide on value, except that one does know there is value.

Mr Jones: There is value, but also it depends on other things. For instance, if one, at the point of digital switchover, and I hate to use technical terms, moved the current system on Freeview, which is called 16 QAM, which means about 30 channels can be put out, to 64 QAM, you could probably move the number of channels you could put out to around 50. One

could make adjustments there and still create space for HDTV. It is also dependent on the power that is actually used, so a number of ratios could be used.

Chairman: We might come back to those points. Let us get on to what our inquiry is about on this occasion. We are looking at sports and other areas, but sports in particular.

Q1192 Lord King of Bridgwater: You have mentioned the issue of Sky scooping the pool on cricket and the issue around whether there is more scope. You said that the BBC had a big role to play in helping sports be more available free to all viewers. Can you work together more?

Mr Allen: We already work together on big events like the World Cup; we tend to work together on big international events and there are more examples. The key to this is ensuring that we maintain the listed public events; that is the key to it. Then both of us, and for that matter the BBC/Channel 4 or BBC/ITV, BBC/Channel Five, can work together. We do have quite a close relationship with the BBC in buying these rights together.

Q1193 Lord King of Bridgwater: You did not see cricket as your sport really?

Mr Jones: No. ITV did briefly show cricket. We showed the Gillette Cup about 20 years ago when Yorkshire were about to win it with a sterling innings from Geoff Boycott. Unfortunately David Frost insisted that we switched to his programme, so we missed the final two overs. Cricket has not been very keen on ITV since. It is problematic; given the length of cricket games and our advertising break structure, cricket is not a natural fit with ITV. Traditionally, it has not been a sport we have bid for. We have bid for everything else, for athletics, boxing, soccer, but cricket has never been a natural fit with ITV, so we did not put in an offer.

Q1194 Lord Peston: More generally than cricket, you take the view, probably an arguable view, that if, say, you were providing some free-to-air sport of some sort, it would be absurd for the BBC then to bid against you to do the same thing. I understand the argument, but the counter-argument which is always there, which has been around for a very long time actually, is that if the BBC does not show these things, then people will ask why they are paying a licence fee to the BBC. It is quite tricky getting the balance right. My difficulty is that I can see both arguments are valid, but you have to come to a practical conclusion on this.

Mr Jones: When you have a major broadcaster like the BBC, it is hard not to agree that they should not provide a fuller range of services from sports, through current affairs, through drama, through entertainment. Our concern going forward has to be that actually there is a logical and level playing field and our particular concern with the enormous licence fee increases that they are seeking over the next number of years, not millions of pounds but many billions of pounds, is that a very useful market intervention, because that is what the BBC is, which has produced one of the great broadcasting organisations of the world, does not use those very large sums of money to create a major distortion in the market. A number of years ago we faced the BBC bidding against us for the Champions' League, a tournament which was designed for commercial broadcasters, a tournament built around sponsorship, which frankly sits uneasily in the licence-funded BBC. One does not in any way wish to see a diminution of sport in the BBC, but one wishes to see a level playing field and one does not want to see them using money which might be being supplied to them to ensure digital switchover being switched into overarching bids for sports rights.

Mr Allen: May I just pick up on Lord King of Bridgwater's point and add to that. The reason the BBC and ourselves work together is that they do not often have the funds to do all of it. If they had the funds to do all of it, they would not talk to us. If you look at their current proposals, of the £6 billion they are looking at, they are saying they want £1.6 billion

for additional quality and therefore if they had the money, they would not talk to us. They are looking at £1.4 billion for super inflation. Only the BBC and we have the capability to buy these rights, so if one party has £1.6 billion of funds, either they do it on their own or they actually become the self-fulfilling prophecy that creates super inflation. Whether that is for sports rights or buying the best talent or buying the best writers, or buying the best scripts, that is where we should have a material problem with the current proposal.

Q1195 Lord Peston: What you are really talking about is fair competition and a level playing field.

Mr Allen: Yes; absolutely.

Mr Jones: Our annual programme budget on ITV1 for all our programme services is around £800 million and they are seeking £1.6 billion.

Q1196 Lord Peston: I understand that argument. Concentrating largely on sport, Freeview, or whatever it is called, is very important to you and when you showed your Champions' League game on ordinary ITV, I cannot remember whether you had another one on.

Mr Allen: We did; we had the other game on ITV4.

Q1197 Lord Peston: I thought you did. The thing that troubles me a bit is that at the moment, whereas virtually everybody can get ITV as an ordinary terrestrial channel, where I live in the country I cannot get the ITV channels on Freeview, which I find amazing because I can get an enormous number of other channels I do not want.

Mr Allen: ITV4 is not only on Freeview; ITV4 is on Freeview, Sky and cable.

Q1198 Lord Peston: I am in a terrible area myself in the sense that, where I live, on the one hand I cannot get Freeview and on the other hand I am in an area of natural beauty so I cannot have a Sky dish either. This means that if I were stuck in the country I could not, to take a

different example, get the old *Taggart*. Happily I was in London so I was able to get it, which showed me that sometimes standards do fall because it was great, which is why archiving is a dangerous business, let me tell you. Are you investing more in making sure that your Freeview stuff, or whatever it is called, is more generally available? It seems to me that your case for sport would depend considerably on that.

Mr Allen: Our challenge is to show a sport across a number of platforms. When you only had ITV1 in the old days you would only have been able to see one game anyway. This was an additional game that we were able to show because we now have ITV4 which has access to Freeview, cable and satellite. The good news is that hopefully, with improvement as we move from analogue to digital, you may be in an area which can then receive it. The signal will improve as we invest in the DTT infrastructure and hopefully as the BBC does.

Q1199 Lord Peston: Just to conclude this whole bit. The BBC clearly sees its role as being able to reach everybody. Is that your philosophy as well?

Mr Allen: Absolutely. We see our philosophy across ITV1 and all of our channels as we move from analogue to digital as providing across a range of channels.

Mr Jones: Under our digital licences, which we have only just agreed with Ofcom, we have agreed alongside Channel 4 to replicate the map, in so far as it can be replicated because there are slight differences between the digital and the analogue map. That 98.5 per cent of the population which currently receives analogue signals will get the digital signals. As we move through to 2008 and on until 2012, we shall provide the same universal service as the BBC do and hopefully we are about to agree our transmission contract with a supplier.

Q1200 Lord Kalms: I think I heard you say that you are working closely with the BBC, though actually they are your competitor and you expect to have competitive bids. I am not sure how you can actually work closely with them and not break any anti-trust law that exists.

Perhaps you would explain to me what you meant. When the BBC makes a bid it is excluded from the same rules and regulations that you may have to have in making that bid. Do you think that is equitable? In other words, you already start with a slight handicap in that their bidding process is more relaxed than yours; though there are punitive measures they are more punitive for you than they are for the BBC and whereas they get their hand slapped, you get your butt kicked, so there is clear demarcation. Having said that, presumably you might have a comment to make on how can you work closely with a competitor.

Mr Allen: It is really worthwhile understanding that although we compete with the BBC for viewers, we do not compete with the BBC for money. Let me explain that. If 100 people are watching television, I of course want as many as possible watching ITV, but say 40 of those people watch ITV, if the rest are not watching ITV, I desperately, desperately, desperately want them to watch the BBC, because we are rewarded on a share of people watching commercials, we are not rewarded on ratings. Just to give you a couple of practical examples, a few weeks ago we had headlines which said “The Daleks exterminate Ant and Dec”. *Doctor Who* was getting nine million, Ant and Dec’s *Game show Marathon* was getting seven. On that Saturday evening we had a 67 per cent share of people watching commercial television. I opened a bottle of champagne and that was good news. The opposite can be shown when you read the headlines that say “Fantastic *X Factor* on a Saturday night wiping out the BBC’s show about a man and a baby”. We had seven million, they had two. That was actually bad news for me because some people were not watching us, they were not watching the BBC and they were watching my competitors. What you want with a key public service broadcaster is complementarity. Yes, we compete with them, but we want complementarity. The worst thing that can happen to me is that I am doing a period drama and they put a period drama up against it. Effectively we split the audience that would watch period drama and, frankly, we frustrate the public because they would want to watch both.

The best thing for me is when I have a younger screen programme and they have an older screen programme, or vice-versa. It is important to understand that that is where we can work in a collaborative way.

Q1201 Lord Kalms: Do you pre-agree not to have a costume drama at the same time, or is it just chance? If it is chance, then you are not working together.

Mr Allen: The way the system works is that the BBC are required to publish their schedules three weeks in advance of us so we can have complementary scheduling. Under the previous regime of management, they still complied with that, but against all of the key programmes it said "To be advised" and literally on the day we had to publish it, they came out and changed it. That was why you would get head-to-heads; the previous management saw beating ITV as their principal objective. Fortunately currently under the new management that is not the remit and they are now back to publishing what they are going to do and we can avoid frustrating the public. There will still be some element of head-to-head, that is inevitable, but what happened under the old regime was that they had a brief to beat ITV and that was not necessarily in the public's interest because you would have common shows then.

Mr Jones: There is also a limited number of events, in terms of sport, on which we truly cooperate. This Friday the draw will happen on the World Cup and England is obviously in that World Cup draw. It is a big tournament. It is one of the great major sporting events. It would be crazy, as used to happen in the past, if we were both trying to schedule the same games. We shall sit down post Friday and agree a concordat, so the first four England games will be split two and two. Equally, we shall try to split some of the other matches, whether Germany, Brazil or Italy, so the consumers get the best possible deal over three weeks. We did the same with the European Cup last year. We only work together on a limited number of occasions. There will be a point later in the tournament, particularly if England progresses,

where we shall both want to show the games and may the best broadcaster win, but it is in the interests of the viewers.

Q1202 Lord Kalms: You did not answer my question about the rules. Do you want the rules changed so the bidding process is an absolute level playing field, or does it not worry you a great deal?

Mr Allen: Because we do not compete, that part of it does not worry me. There were two parts to the question: there was that part, but there was also the issue of the BBC and us bidding together and whether we could do it. Absolutely we can do it; it is absolutely legal to bid for the football rights together, there are no constraints on us. The only worry I would have comes back to the financial issue. If the BBC felt they had so much money, then why would they not just buy the rights themselves? The constraints of the licence fee are the things that actually made it work to the benefit of the public in the past. My serious worry is with what is on the table currently and for the reasons I said earlier. We want a strong BBC, you can understand now why, but people find it a bit strange that the chief executive of ITV should say he wants a strong BBC. I want it for the commercial hard-nosed business reasons I gave earlier, but an over-funded BBC would have the exact opposite impact: they would not work in concordat with us and they would drive a level of inflation that is just so significant; that is the big worry. The numbers they are talking about, just to underscore it, the £1.6 million they are seeking for additional quality, is twice the level of our overall budget. The quantum is just so ridiculous that you really do need to focus on it. When I came to see you last time, you will see that I said I was very supportive of the BBC, incredibly supportive of the licence fee because I thought it was the right way to do it, but the quantum that has now been asked for is just so ridiculous that I am slightly surprised, although there has been some negative reaction, that nobody has really quite clocked the scale of it. Just one item alone is twice our overall budget and you can imagine how that would distort the market.

Q1203 Chairman: It is a rather curious way of doing it, but do you think it is just a sort of bid on the part of the BBC so it can be scaled down?

Mr Allen: That has certainly been the situation in the past and when you do have that, you tend to average at somewhere between what you had and what you were asking for. The point I am making here is that if you got anywhere near a third of what they were asking for, that would be ridiculous. My view is that the BBC can be made more efficient and we should be looking for an RPI minus situation going forward; they could certainly afford it. You heard from Channel 4 about the scale of their human resource department. We can give you figures for every single department which just demonstrate that this is not the most efficient organisation and when all of us are being asked to be more efficient, then surely building in a structure which asks the BBC to be more efficient over time will give them the benefits that we get. As we move from analogue to digital we are not paying for both analogue and digital. I do not see any of that in the document and the figures are so broad brush that you cannot even go back and analyse them. What does £1.4 billion for super inflation mean? What does that actually mean? The quantum is just so great. I feel very passionately about it because I think that broadcasting is about an ecology and what we have had to date is the BBC and ITV and Sky and multi-channel which have operated an ecology. If you significantly change that ecology, then you damage it quite significantly.

Q1204 Lord Kalms: We are talking now about big bucks, the Olympic Games. Do you see opportunity and danger? You are talking serious money, so how do you see your position vis-à-vis the BBC? Are there dangers?

Mr Allen: There is definitely an opportunity with the Olympics. I had the privilege of being the vice-chairman of the London bid and I am delighted it is coming to London; that is the good news. The less good news is that the BBC have already secured those rights for 2012. Having said that, I should rather they went to the BBC than went to any of my other

competitors. So, for the reasons I gave earlier, that is not a particularly unhappy situation. The good news for us is that key global advertisers will need to advertise around them, so the BBC might have them but they will take some of their advertising time and invest with us. It is not a particularly bad situation as such. We do not have the distribution to take all of the rights anyway and the BBC have historically taken them. Historically, the BBC have done a very good job. I chaired the Commonwealth Games in Manchester which the BBC covered and they did a fantastic job. At the opening ceremony nobody expected anyone to watch and the viewing figures were going up from seven to eight to nine million which was fantastic for me as chairman of the Commonwealth Games but not so fantastic for ITV. However, I do not see any particular problems with the Olympics as such. I think the BBC will do a great job and they have the rights.

Q1205 Chairman: Let us just go back to that BBC licence fee point again, which is rather an important point for us. The BBC are bidding for RPI+2.3 or it could be RPI+2.8 depending on what decisions are made. You simply regard that as completely out of the question.

Mr Allen: I think it is the scale of it. Just to give you a sense of the numbers, in 1999 before the licence fee decision, ITV had revenues of £1.9 billion and the BBC had revenues of £2 billion. Today, because our revenues are declining in ITV1 with the switch from analogue to digital, we have £1.6 billion of revenues and the BBC have nearly twice that. If you then project forward to the end of the licence period, we should have revenues less than that, less than £1.4 billion and the BBC would have revenues of nearing £6 billion, depending on how you calculate it. The sheer quantum of it is just ridiculous. Surely you would be looking for the BBC to be getting fitter for the next licence round, whether or not there is a debate to be had on how they are funded, rather than exploding in terms of costs. Mark Thompson talked about the BBC having a Jacuzzi of cash when he was chief executive of Channel 4; this sheer

quantum is a Jacuzzi of cash. If I leave nothing else with you today: £800 million is the total revenue investment we make in programming and across a number of areas they are asking for twice that and one and half times that in key areas on figures which I just do not understand. They are light in terms of cost reduction and heavy in all the costs. Another thing in there which I am very supportive of is the move to Manchester. Again, here is a quantum of £600 million to move to Manchester. That is a lot of Pickford trucks, that is a lot of money and I do not see the £50 million they are getting from the North-West Development Agency in any of their figures.

Q1206 Chairman: We shall come to that precise point but just a last point on this. Tell us about your own budget going forward.

Mr Allen: What we are basically saying for the ITV budget is that because of the constraint on ITV revenues, because ITV1 revenues will continue to decline, what we are attempting to do is constrain it at the current level. So the objective for our team is to try to constrain it to the current level by changing the mix of the programmes. We are not looking at inflation-busting increases in that; we have to do that. Just to put that in context, going back five years 30 per cent of our revenue ended up on screen, now over 50 per cent of our revenue ends up on screen but with the revenue declining, though we are holding it stable, an increasing part of our revenue will end up on screen. When we hear the BBC talking about inflation plus, plus, plus, that just does not make sense when the major commercial competitor is moving in the opposite direction because of this move from analogue to digital.

Q1207 Lord Maxton: On cost, one of the reasons the BBC are asking for an increase is to cover the switchover. Most of that money will be going to marketing but also into improving the digital terrestrial television. I have to say that it seems to me that the BBC would be on whatever platform the Government had decided to use for digital switchover. You, however,

are a major beneficiary if it remains terrestrial digital rather than Sky, whether satellite, cable or telephone, which is the other alternative. In a sense the BBC licence fee payer is going to be subsidising you, are they not?

Mr Allen: I find it difficult to see how. Every single viewer who moves from analogue to digital costs me money, every single person, for the reasons I gave earlier.

Q1208 Lord Maxton: But if it is terrestrial, you are more likely to benefit, if you are still on that platform.

Mr Allen: It is better than them going to Sky. Let us be very clear that the figures I gave you earlier, 27 per cent peak time share to 22 per cent peak time share for Freeview, every percentage point costs me £20 million. There is no advantage to me from everybody who moves. In addition to that we have an £80 million licence fee to pay and we are funding our share of the roll-out. So I struggle to see where we get a benefit. Is it advantageous for us to be on DTT rather than Sky? Absolutely. Are we working hard to build up that platform? Absolutely. That is in line with government policy to ensure that there is a choice out there for people and 15 million people in Britain have chosen not to have to pay and that is a really legitimate choice. That is why we have created an investment in ITV2 and ITV3 and ITV4, to give them the best choice in DTT. ITV2 is now the most watched digital channel; it is ahead of Sky One. ITV3 is in the top five and ITV4 has recently been launched.

Q1209 Lord Maxton: By 2012 DTT will be such an outdated technology.

Mr Allen: It may be an outdated technology, but it will be the one which is in most people's homes. It will absolutely be the technology.

Q1210 Lord Maxton: There are telephones in most people's homes.

Mr Allen: Absolutely. The cost of putting our pictures down telephone lines is too expensive. This is the cheapest route to get mass market broadcasting to the viewers.

Q1211 Lord Armstrong of Iminster: Does the European Commission's reform of the sale of Premier League broadcasting rights present a real opportunity for terrestrial broadcasters to acquire live rights?

Mr Allen: To be honest, we are very disappointed with the current proposal. It does not bring in real competition to the marketplace; it absolutely fails to do that. Just to give you the background to that, the last time round the agreement was that eight games could be sold outside the overall package. Sky then put in place a minimum price which was so high that none of the players could actually bid for it. This time round I felt very comfortable that the Commission was taking this very seriously and was looking at having real competition here. Just to explain how that market works, Sky pays approximately £340 million for FA/PL rights. There is a debate about how much, but £180 million comes from them selling those rights on to pubs and clubs, approximately £100 million comes from cable companies, so Sky effectively gets all the rights to those football games for £60 million a year. That is actually a very small proportion. What we were arguing was that the rights should be split into two packages. Why two packages? If you wanted to access that pubs and clubs market, if I were to come to you as the owner of a pub or club and I said I had 10 per cent of the games or 20 per cent of the games, you would not talk to me. If two players came to you and we both had 50 per cent of the games, you would be able to access that marketplace. The current proposal does not allow that. It allows one player to have five or six packages and that may allow some access for free-to-air broadcasters, but it is quite limited. An opportunity has absolutely been missed here and I only hope that the next time round we shall see the real benefits of having a couple of players bidding this out and see how we and other key players

could have got together, with some rights for free-to-air, either ourselves or the BBC and other rights going to pay TV.

Q1212 Chairman: What you were saying about selling on, could you not have done the same?

Mr Allen: The issue is that Sky has the incumbent customer base, so they are incumbent players with that customer base. You would have to take it out of that and bid against them. The real problem is that one of the ideal partners for us would have been a cable company. If the cable company did bid up the costs and lost, that would bid up their own costs, because Sky just passes the cost back to them. They are then in the invidious position that if they bid and lose, they bid up the cost and Sky just passes the absolute cost back to them, whereas this would have avoided that as an issue.

Q1213 Lord Peston: What is puzzling me, certainly wearing my economics hat, is that I took it for granted that what the Commission were interested in was promoting competition and since the Premier League has a monopoly of the highest level of club football in this country, that is a monopoly the Commission are saying must not be exploited to the full. Therefore, what they have done makes no sense whatsoever in terms of their own objectives. Would you agree with that?

Mr Allen: Not only would we agree with it, the input coming from Ofcom, the UK regulator, absolutely supports our argument. They fully supported the argument that you need to break it up in a particular way. You still have a dominant buyer; you have a single seller and a dominant buyer so it makes no sense.

Q1214 Lord Peston: As someone who watches lots of sport, we lose one of the best things which comes from competition, which is innovation. In other words, there is no incentive at

all for Sky to find different ways. The one I should most like to have is the red button where you can switch off the commentator. The BBC did have that for a while and you could just have the picture. I am still hoping that one day someone will get the rights and I do not have to have commentators boring the pants of me. Do you agree that this is a serious matter in terms of innovation?

Mr Allen: I completely agree. The idea of having two equal and opposite parties who were competing both on quality and presentation would really have driven it up and it would have allowed the consumer to have access. At the moment, unless you are prepared to pay the full package, because what Sky does is package those contents within the total package, unless you are prepared to pay £30 to £40 per month, it is bundled so you have to buy the whole thing. This would allow the consumer who wanted more than the free-to-air rights to buy some additional games but not all of them. That was the idea. We are disappointed that did not happen.

Q1215 Chairman: If I am in the Premier League, I just want to get the best price possible, do I not?

Mr Allen: Yes.

Q1216 Chairman: It is a monopoly of the Premier League, but goodness knows, there is enough sport around to show. Why should the Premier League be forced to give this portion here and a portion there to other broadcasters?

Mr Allen: Because we believe it would have brought real competition, there would have been benefits in that competition exercise, benefits for the public, and you would have wider exposure for sport. They did not choose to do that; they fought against this kind of thing. They fought against anything which the European Commission wanted to do and that should be a question this Committee should rightly put to them.

Q1217 Baroness Howe of Idlicote: What do you think the logic was for them to come to such an uncompetitive decision?

Mr Allen: We found the decision very surprising, considering that we had had detailed discussions with Europe, very detailed discussions with our own regulator and we had made our case very clear.

Q1218 Chairman: Are you talking about the Commission?

Mr Allen: Yes.

Q1219 Chairman: A certain amount of lobbying took place. Have you heard that?

Mr Allen: There was indeed; allegedly.

Chairman: We still find it quite difficult to get the detail of this lobbying.

Q1220 Lord Maxton: It seems to me that the one advantage in sport that you and the BBC have over Channel 4, Channel Five and Sky, is regional. In other words, you ought to have the ability to show regional sport within the regions where you operate and the BBC should be doing the same thing. I come from Scotland and I know you have no direct ... It seems to me, if anything, certainly STV are retreating from that position. They used to do rugby; they do not do rugby any more on a Saturday afternoon. Where do the regions stand on this? Are they providing that level of sport?

Mr Allen: We cannot speak for Scotland but Clive manages this for England and Wales.

Mr Jones: We provide regular regional sports programmes every Thursday night throughout England and Wales and certainly within our regional news magazines we still provide the deepest and broadest regional news and sports coverage of any UK broadcaster. We are providing 27 regional and sub-regional news services. Whether it is rugby, whether it is

athletics, whether it is the Premier League clubs or the championship, we are already providing detailed information and match coverage.

Q1221 Lord Maxton: Do you cover rugby in Wales along with BBC and S4C?

Mr Jones: We bid for the rugby in Wales. The rights are currently held by S4C and the BBC.

Q1222 Lord Maxton: You did bid for them.

Mr Jones: We did bid for them. It is quite a small market. You are talking about 2.5 million people, so the rights went for quite a high sum of money.

Q1223 Baroness O'Neill of Bengarve: Do you find the current system of listing adequate for the listed events which do come free-to-air and which are guaranteed free-to-air? Do you like the list? Do you like the criteria the list is based on? Do you think there is a case for reviewing it?

Mr Jones: In general terms we are happy with the listed event structure. I was somewhat surprised that test cricket came off the listed events list and it is somewhat ironic that after the Ashes victory probably more people were watching test cricket on terrestrial television than had done for many, many years. It is now going to disappear for quite a long period of time, apart from the highlights on Channel Five. One does not blame Channel 4 or the BBC for that; it was a direct result of lobbying by the England and Wales Cricket Board. They wanted them removed and as a result they were removed. If there is an issue around that it should be raised with the England and Wales Cricket Board. Largely what the list does is identify and protect the crown jewel events going forward, the world cups, the European cups, the rugby world cups, the Olympics and ensure that these are generally available to the mass of viewers because they are great big landmark events which unite and excite the country as a whole.

Mr Allen: You need to have a more public and robust process when you are delisting events. That just passed us by; nobody picked up on it until it was too late. There needs to be a far more public process which says when an event is being considered for delisting. The public then are able to comment on it and there is a more robust process. I just do not feel the profile is high enough.

Q1224 Baroness O'Neill of Bengarve: And the other way round, given that test cricket is lost from it at the moment. Do you think there should be a public process for considering listing events not currently listed?

Mr Allen: Yes, I should be happy with that. That would be an interesting way to look at it and would work well. Reflecting on why we ended up where we are and why this is an issue, I am a great believer in public consultation, because you will get everybody's view through that process and nobody can then say that they did not know or did not understand. If it is behind closed doors and lobbied, you would not get it all out in the public domain. I do think your suggestion would also be a good one.

Q1225 Chairman: It is quite difficult, is it not, to define these crown jewels? You are the second witness today who has actually referred to them as the crown jewels. Wimbledon tennis finals and the Derby are in the crown jewels category, but you find that the Commonwealth Games are not in the crown jewels category and test cricket as well of course. Are the difficulties of definition so great that it is really not worth pursuing this?

Mr Allen: That could be overcome with public debate. If the debate were to say that the Commonwealth Games should become a listed event, then that is how you should approach it. From a purely commercial perspective the Commonwealth Games are very valuable if they are in a decent time zone and they are not very valuable if they are not in a decent time zone. I know that. The Commonwealth Games in Britain was fantastic for the BBC because they

were held in Manchester. They will be much less valuable now they are going to be in Melbourne next year. That is why it can be great. What is interesting is that if that were the debate which was being had, a number of you wanted to do it, you would have the debate and then all parties, all interest groups would be able to comment upon it and flush through exactly the point we have just made to you.

Q1226 Bishop of Manchester: I was just looking at what Mr Allen was saying on our last occasion with you. You referred to the BBC's proposals and said that it was a great opportunity, a fantastic idea and you passionately believed in it. Since then we have all had the cold shower of financial details, or seeming details. Do you feel that the BBC is playing a bit of a game over this in terms of negotiations for licence fee, or, to put it in another way, what would you, as a proven operator in this sphere, reckon the costs ought to be for the move by the BBC to Manchester?

Mr Allen: I absolutely stand by what I said last time; it is in Britain's interest for there to be a centre of excellence which would host the BBC, ideally ITV, we should like to work with them, the independent sector which services Channel 4 and Channel Five, in what I would call a creative hub in the North West. If the BBC have enough money, will they want to do it together? I would question that. I do think, however, that it is still the right thing to be done and it would be a great move for the North West as such. The second thing is that I also believe that the BBC should be asked to do as much production in the region as we do. We do 50 per cent of our production outside London. It is not all about having the facility, it is about having a code of practice or something which could be reviewed either by Ofcom or by the Trustees and that would also make it real and make it happen and make sure production is actually coming from the regions as such. I cannot reconcile the figure of £600 million which is being quoted. I do not understand how it works. I should like to see a detailed breakdown of that to be able to answer your question in a lot more detail. I do not see any of the

£50 million which I know has been offered by the North-West Development Agency and Manchester City Council in the funding model. I should like to see a detailed breakdown, because I genuinely believe that if we were working together, then we, ITV and the BBC, could be sharing the costs and I do not see how you could get anywhere near those figures. It would be inappropriate for me to comment on what the figures should be, but it would be great to see how the BBC gets to the £600 million and analyse it in full. To go back to your final point on whether it is a tactic of the BBC, I believe it is. We have had so many false dawns at the BBC, trying to find the M25 up to Manchester and getting onto the M6. This time round they cannot use the shoot-the-puppy strategy, “If you don’t give us that amount of money we shoot the puppy and we don’t go to Manchester”. That is unacceptable and I feel passionately that that is exactly what is happening. If you talk to colleagues in the North West and people you know well, there is a real fear that is what is happening this time around.

Q1227 Bishop of Manchester: One of the worrying things which has come up this morning in both the sessions that we have had in relation to the shared hub proposal is the reputation the BBC seems to have for not being able to share. Channel 4 said to us earlier that there were not many good examples of the BBC sharing. Earlier on you raised precisely the same point. What realistically are the opportunities as you see them for sharing in this shared hub, or will it in fact end up just as a BBC hub?

Mr Allen: We have put a joint proposal together and put it to the BBC. We have very detailed plans for this hub where we, the BBC and the independents share a common facility. While we are investing in new studios, while we are investing in new kit, surely we should be investing in a common infrastructure which we can all use. There are detailed plans there which demonstrate that we can work together and how we should work together as a common facilities operation. I genuinely do not believe that the BBC need to be in the facilities business. I am very happy for a facilities company to operate that site, provide us with the

facilities we need, but we are all there together, it becomes a creative honey pot. If you have young creatives and they do not have a job in Manchester, they come to London. If you then have us, the BBC and independents all working together, they stay in that area, young writers, young producers and directors, and then it works. I have not heard anything from the BBC which says they cannot make it work. Yes, it would be unique, but it would be a blueprint for the future.

Q1228 Bishop of Manchester: What opportunities do you see for this kind of thing, not necessarily in a brand new building, being developed in regional cities other than Manchester?

Mr Allen: There is an opportunity to do it. You cannot have the same scale, because there is not the opportunity to create super units. You can probably have three or four at maximum outside London which are major production centres. A good example would be to look at Bristol. The BBC based their wildlife operation in Bristol. We closed our wildlife operation in Anglia and moved it to Bristol, because that was then advantageous because the people in this industry who knew about wildlife were then in a central hub. There are models which demonstrate that we can do it. This would take it one stage further and I absolutely think that it is going to work. If the BBC have too much money, they will not share, they will do it on their own.

Q1229 Chairman: Presumably the proposal you would put forward uses your site in Manchester.

Mr Allen: The proposal we have put forward uses our site, but we have also said that we would be happy to go to other sites. They have not said it is a condition.

Q1230 Chairman: So there are two other sites.

Mr Allen: We are looking at other options.

Q1231 Chairman: It would not be a bar if they chose another site.

Mr Allen: No; absolutely not.

Mr Jones: One of the things I find quite baffling is that ever since ITV began in the regions our major soaps, our major dramas have always been made outside London. Obviously that is an historical tradition with us, but also one of the reasons we make so many of our programmes outside London is that it is cheaper; it is cheaper to make programmes in Manchester, it is cheaper to make programmes in Leeds and in Bristol and in Cardiff than it is in London because of high transport costs, high housing costs, so many other reasons. I cannot understand why moving to Manchester is going to cost the BBC so much money and why we do not see a discount there for them coming in.

Q1232 Chairman: To be fair, the cost is coming down almost as we are speaking; certainly when we went there, there was no question that the cost would come down, but we take the point. There is also your idea of a regional production partnership fund. Is there scope for a joint regional production and development fund with the BBC?

Mr Allen: We believe something is possible. If they were given the same levels that we have, the 50 per cent outside London, then there would be a reason for us to do things together and you could see why that would work for them as well. Whether it is a joint or two separate funds, we could certainly look at that.

Q1233 Chairman: How would this operate in practice?

Mr Jones: We have committed £9 million to new to network producers outside London. That can apply to in-house producers, people who have made regional programmes for ITV but never made a network programme, but it is equally applicable to independent producers

around the country. It only began this year. It began through a process of commissioning editors for this particular fund going around the whole of the UK with a caravanserai of presentations explaining the forms of programmes that we are interested in, the slots which are available in the various parts of the schedule. Basically it splits into two forms: it is either money for commissions, new programmes, or it is sums of money for development, for training, for seed corn. It might be a new writer who may have made a short, ten-minute film but now has ambitions to do more and that might be money which we would put out as a script development fee, to see whether we can move them from being a shorts writer to a major writer. That is the way it is evolving over time.

Q1234 Lord Maxton: I do not know whether you heard the question I asked about teleports and also linked that in with PVR, SkyPlus and all the other things which are coming along. This makes your work even more difficult, does it not? Are you negotiating with the cable companies on the teleport thing?

Mr Allen: Basically PVR and teleport actually make our life much more difficult as we go forward because viewers can choose to skip the ads, viewers can choose to go back and look at programmes they have seen before and when they do that they tend to skip the ads. We are quite fortunate in that we have a high proportion of original programming and we have high volumes of live and as-live programming. From the data we are looking at, we are less affected than some of the couple of hundred small channels. If you really want to watch *Fools and Horses* again, it is probably on your hard drive, so we are not as disadvantaged as some of them, but nevertheless it does have a direct impact. Picking up the Channel 4 point, we too have a similar issue on rights because we pay for our content in full; we give them 100 per cent cost plus a margin and the big debate coming up with the independent sector is on how those rights are used. We are fortunate in that we actually make a lot of our own

programmes and most of them in the regions, therefore it is not as big an issue. Those are both issues for us but not quite as big as they might be for others.

Q1235 Lord Maxton: So while I, if I wanted to, and I do not, go home on Friday and watch every episode of *EastEnders* I cannot do that with *Coronation Street*.

Mr Allen: No, you could not, unless we got regulatory change. Because we are currently managed on a process called contract rights renewal, for every viewer who does not watch it on ITV1 I get penalised. Until we actually change the regulation, there is a disincentive for me to provide that service, because I need you to watch ITV1.

Q1236 Lord Maxton: If I had SkyPlus I could have recorded every programme and watched them all.

Mr Allen: That gets counted, but the other way does not and we are arguing that what gets counted in terms of our viewership needs to be changed and at the moment that needs regulatory change.

Q1237 Lord Peston: I do not know whether you have seen the evidence we took in Manchester from the BBC but when we put it to them that one of the whole points of this was to save money, they flatly told us that we did not understand them at all and that it had nothing to do with money. Did you see that? Were you as astonished as we were?

Mr Jones: I was struck dumb. We are in the midst of spending £45 million on completely upgrading our whole regional news infrastructure and we are in the process of building what will be briefly – because it is always briefly where technology is involved – probably the most modern newsroom infrastructure anywhere in the world. We have invested that money for two reasons: one is that we think it will markedly improve quality because it improves our ability to move pictures all around the country; 15 seconds after pictures are ingested in any

part of the system, they will be available all around the system in different newsrooms. Two is that it saves us money. Once we move to a file server technology our ability to edit pictures, to move pictures around is much, much quicker, therefore we can have fewer people. How they could argue that it does not save them money astonishes me.

Mr Allen: That is why, to reiterate, it would be fantastic to see that £600 million, or whatever the figure is, broken down. I think we are only looking at one side of the equation; we are looking at cost and not looking at the benefit. What are the properties they are vacating in London? Are the BBC able to sell them? Even if they rented properties, I can assure you that the cost of rents is a lot less in Manchester than it would be in London, particularly because you actually have the North West looking to subsidise that to bring the BBC there. The cost of labour is substantially less. We have the facts, because we actually operate there. We were completely astounded. Our managing director came and presented to you. When we heard that we just could not reconcile it with the facts we have.

Q1238 Chairman: Without putting words in your mouth, you would be moderately in favour of our proposal that the National Audit Office should look at the licence bid which the BBC makes.

Mr Allen: Absolutely; I do think we need to go through that, not only with the move to Manchester but every aspect of these claims. We just do not understand. With the limited information which has been put in the public domain we are not able to get access and get a real review. It needs to go further; it needs to go back to the existing services and review the value for money aspect. That is why the policy of having the RPI minus structure in place which may be reviewed in five years' time might be a more appropriate way than an RPI plus, plus. One point I did not make earlier was that there is always an inherent benefit for the BBC to be based on licence fees from homes. In fixing the current licence fee they got £300 million of benefit because there were more homes than there were at the beginning of

the previous licence fee. That £300 million is also built-in going forward because it is calculated as something like £380 million because there will be more homes, more single parents, in the next ten years than there were in the last. I do not see any benefit; they are pretty heavy on costs and pretty light on any form of efficiency. We should want to be as helpful as possible and the National Audit Office have already been to see my finance people with this in mind, actually looking at comparing and contrasting, and we should be very happy to help to compare and contrast our cost base with the cost base of the BBC.

Chairman: We end on a point of agreement, which is a good point on which to end. Thank you very much indeed for the evidence today, the evidence you gave before and the way in which you have answered our questions. If we have any other issues, perhaps we might write to you. Thank you very much.