

WEDNESDAY, 18 JANUARY 2006

Present

Armstrong of Ilminster, L
Bonham-Carter of Yarnbury, B
Fowler, L (Chairman)
Gibson of Market Rasen, B
Holme of Cheltenham, L
Howe of Idlicote, B
Kalms, L
King of Bridgwater, L
Manchester, Bp
Maxton, L
Peston, L

Witnesses: **Mr Michael Grade CBE**, Chairman and **Mr Mark Thompson**, Director General, BBC, examined.

Q1939 Chairman: Welcome again. We are in the last lap now of our investigation and we heard from the Minister yesterday that the White Paper is to be published shortly, which is something we have been hearing for the last few months actually, but we shall see what happens. May I start the questioning with the licence fee which is obviously one of the issues of interest? The Minister yesterday described your proposals as an “opening bid”; I quote. Is that how you see them?

Mr Grade: Not at all My Lord Chairman. The process that led to the publication of the BBC’s licence fee bid has been a very orderly process. It has been a process designed to reflect, as far as is possible, the views, the expectations of the licence fee payers. It began with the BBC’s publication of the *Building Public Value* document which set out a potential vision for the BBC. That was refined by the Government in their Green Paper and in the Green Paper was contained a clear view of what the Government wanted from the BBC in the next charter. We took that away and we costed it; the management initially did the work. At

that point, the governors got into the frame, scrutinised the costings which the management had presented, we brought in independent consultants working to the governors and not to the management, adjustments were made, there was a rigorous scrutiny of that, but what we presented to the public in that bid was as accurate a costing as we could possibly manage given the number of variables in it at that time. Based on what views we had received from the public on our vision, the Government, the department, the DCMS had done extensive research on the *Building Public Value* document which led to the Green Paper. So that bid is not an opening bid, it is a costing for the vision which has been endorsed by the Government. We go forward from there into the next round of conversations.

Q1940 Chairman: So it is unlike the ministerial process that one or two of us are accustomed to for public spending, when you make a bid to the Treasury and you realise you are putting in too much because you can then cut it back. The Treasury make a bid back to you in which they argue friendly things like abolishing the old age pension or something of that kind and you then have an agreement at the end.

Mr Grade: It is for the Government to decide what the process should be. What I am particularly pleased about is that we have a more transparent process now than we have ever had before. The BBC has gone public with its bid. That is now the subject of considerable scrutiny by the DCMS and their consultants and arising out of that hopefully will come a settlement which reflects the expectations and the needs of the licence fee payer.

Q1941 Chairman: And are you working to try to reduce it?

Mr Grade: The governors would certainly like the bid to be as low as is consistent with what the licence fee payers tell us they want from their BBC over the next ten years; absolutely.

Q1942 Chairman: What I find quite difficult to understand is that the licence fee was first linked to RPI in 1988 and until 1998 each year's increase matched RPI or was below. Then from 1998, we have had a situation where it has been anything from RPI plus one point five per cent to RPI plus three per cent. Have BBC programmes improved to that extent over that period?

Mr Thompson: The fundamental change which happened at the end of the 1990s was the Government asking the BBC to take a leading role in helping to lead the processes of creating a digital Britain by launching entirely new digital services in television and radio, by investing more in interactive services and so forth. The Green Paper of 2005 is actually part of a bigger thrust of public policy which began at the end of the 1990s. The central part of the next stage in this digital build-out is the public policy around the switching of analogue television to digital television where, as you know, the Government see the BBC playing a central role. From the late 1990s onwards, the Government was not merely asking the BBC to continue with its existing analogue age services, but to launch many new services and to take a bigger role involving capital investment and also the running costs of new digital services as part of a new vision for what the BBC should do. It is quite possible for someone to say that actually the Government should not have asked the BBC to do that, but if you go back and look very closely, look at the settlement between the Government and the BBC in 1999, the letter from the Secretary of State, what the Government asked for was a number of new things from the BBC. The Green Paper asked for a number of additional new things from the BBC. If you look at like for like, if you look at the BBC's expenditure on like-for-like services over the entire period, the BBC has found efficiencies and is delivering existing services for less year on year in the period. However, because new things have been required the licence fee has grown in real terms, though it is also worth pointing out that over this period the licence fee has declined as a proportion of disposable income, not just for median

households, but also for the poorest 10 per cent of households all the way through the period. So as a burden on even the poorest licence payers, it has declined.

Q1943 Chairman: Your latest proposal is RPI plus two point three per cent, plus anything that is required in terms of social provision for helping disadvantaged people with the switchover, which the Minister regards as broadcasting policy and not social policy. The licence fee now is £126.50. What does it actually mean in real terms that the licence fee is going to be in seven years' time?

Mr Thompson: In real terms, it would mean a licence fee of about £150 in today's money; if you take a median view of RPI over the period, probably a headline number at the end of the seven years of around £180.

Q1944 Chairman: What concerns me and probably what concerns the Committee is that we support the continuance of the licence fee, as you know from our first report, but are you not concerned that the licence fee is going so high that the public are not going to accept the height that it has got to?

Mr Grade: Let me say first of all that I and my colleagues on the board of the BBC do not regard the highest possible licence fee settlement as a badge of honour. We are there to represent the licence fee payers. We must argue for a licence fee which is as low as possible, but which is capable of meeting what the licence fee payers tell us they want from the BBC over the coming years. They want fewer repeats; that costs money. They want more local services; that costs money. There are several things in our bid which arise directly from what we presented to licence fee payers and what they have told us they want. There is a cost for that. We have to arrive at a number that the board can support, which we feel is consistent with what the licence fee payers tell us they are prepared to pay and which is consistent with us having a reasonable chance of delivering what it is they tell us they want us to do. The

benchmark for resistance to price increases seems to me to be this statistic that Mark has described which is the percentage of disposable income in households at all different levels of income. That is a key benchmark for us and we need to see the licence fee continuing to fall as a percentage of disposable income.

Q1945 Chairman: You also have opinion polls which actually show public acceptability, do you not?

Mr Grade: We and our sponsoring department have done a great deal of research which suggests, at various different levels, that there is very, very little resistance to the current levels and the projected levels.

Q1946 Chairman: So very little resistance and that resistance is not getting greater at the moment? Is that what you are saying?

Mr Grade: No; there is no evidence of that. Obviously it is for the governors and the trust in the future to keep very, very close indeed to that level. In terms of targeted help, which is the generic term for helping the lowest income groups to achieve digital switchover, in agreeing with the Government to use the licence fee for that purpose, it is conditional that it is not so onerous that it brings into question, or increases resistance to, the licence fee. It is also a condition that we must not be in a position where, in using the licence fee for this targeted help purpose, we have to cut services in order to meet that requirement. There is a large measure of conditionality in terms of our support.

Q1947 Chairman: But will you put it up from plus two point three per cent to two point eight per cent?

Mr Grade: We do not know yet.

Q1948 Chairman: Is that a working assumption?

Mr Grade: No, there is no working assumption.

Q1949 Chairman: Do you regard it as broadcasting policy?

Mr Grade: It is consistent with the BBC's mission to be universally available throughout the nations and it is entirely consistent with that.

Q1950 Chairman: When it comes to free licences for the over-75s, that presumably comes out of social budgets, does it not?

Mr Grade: Yes, it does.

Q1951 Chairman: It seems a very odd division to make.

Mr Grade: We are in a unique set of circumstances. The digital switchover is an unprecedented revolution in broadcasting.

Q1952 Lord Holme of Cheltenham: I am very interested in what you have both said about efficiency savings and one of the things which worries me slightly is the notion that we discuss paying for your extra commitments and your extra responsibilities and the Committee can well understand the case you have made there. I am puzzled why RPI is taken as a given, why it is what they call in the European Union an *acquis*. Why do we assume that RPI should be and is a starting point, a sort of platform from which extra commitments are then costed? A lot of regulated utilities would have a model which had RPI minus and that is for a really good reason, which is that of course there are extra costs, salaries and wages go up and other costs go up, but, on the other hand, there are possibilities of operating more efficiently which would produce, for large organisations, at least an offset to those general inflation costs in society and would therefore represent an RPI minus model. There is a danger, both to the public and this Committee, in thinking about it, in assuming that the RPI is somehow a given

from which you bounce upwards with extra commitments which need extra funding. I should really like to explore that, if you would.

Mr Grade: Before I hand over to the Director General, could I just make a point about the RPI minus formulae for regulated utilities? They are virtually monopoly suppliers of the commodity to the public for profit, nothing wrong with that, but the calculation of RPI minus is based on an acceptable return on capital for the selling of a monopoly to the consumer; it is there for consumer protection. May I just make that distinction?

Q1953 Lord Holme of Cheltenham: But you would not still argue that the pressure it engenders in driving down costs is a valuable one?

Mr Thompson: What I should like to say is that at no point has the BBC suggested that it should not ensure that it achieves testing savings efficiency targets as part of a broader agenda of self-help, of finding the resources itself for what it needs to do. For a number of years now the BBC has, as part of previous licence settlements, been engaged in meeting targets for efficiencies agreed with the Government. In proposing this new licence fee bid for the next charter, again we said that part of the way in which the BBC should pay for its future is through self-help and through efficiencies. Indeed, if you average the efficiencies the Government asked the BBC to make in the last charter, two point eight per cent a year, in this bid we said that we believe we can stretch, on average over the next seven years, to three point three per cent per year; a figure above inflation. In terms of like-for-like services, the routine running of one of our radio networks, we should expect to achieve RPI minus, to make deeper savings than we get from inflation, so we can take some of the money we save to put against the various new things which the Green Paper asks us to do. In the bid, laying out the combination of what we believe are inevitable rising costs and, more importantly and by far the bigger element our costing, what we believe achieving what is set out in the Green Paper would cost, we arrive at a sum of about £5.5 billion over the next seven years. We

believe we can achieve 70 per cent of that through becoming more efficient, absorbing our own rising costs, but also then making further efficiencies so that we can go as far as possible to meeting what we are being asked to do through our own resources. At the moment we are engaged in a programme of reducing the headcount of the BBC by some 6,000 to 7,000 people; one quarter of the organisation either leaving through outsourcing or many thousands of people being made redundant. We are engaged in by far the biggest efficiency programme that the BBC has ever been through. I should not want you to think that self-help and efficiency are not at the front of our minds. What we are saying though, and it really comes back to the first point, is that the mission for the BBC laid out in 1999 and even more laid out in the Green Paper is not like for like. It adds a large number of new elements and indeed some of the elements agreed in 1999-2000 are now coming on stream. We are about, in ten days' time, to launch the digital curriculum which is £150 million, a new educational service available to every child, every classroom in the UK, to support curriculum learning, done in partnership with the Government. It is going to be a wonderful service, but it is something entirely new. We accept the broad principle that the BBC should accept that it should absorb inflation and become more efficient like every other part of the public and private sector. If you look at what we are being asked to do, the list of new things is very long.

Q1954 Lord Holme of Cheltenham: Thank you for that, it was extremely helpful and well understood. May I just ask, in terms of governance, which is a point of disagreement between our Committee and the BBC at the moment, taking the present model of governance, how far does the board, which Mr Grade chairs, represent the interest of the viewers, listeners, licence payers in pressing the management, Mr Thompson and his colleagues, to produce the best possible deal for those who pay for and enjoy the service of the BBC, rather than the natural pressures on management to meet these demands which are now being put on them? Is there a tension there?

Mr Grade: There has been unprecedented independent scrutiny of the management's initial proposals in respect of the licence fee bid. Under the new governance arrangements which anticipate the way the trust will operate, there was a lot of tension, a lot of scrutiny, we the governors brought in PA Consulting and as a result of our own scrutiny and PA's scrutiny, considerable adjustments were made to the bid. This was why I was prepared and the board was prepared to support the bid when it went public, because we felt we had really gone through it and we improved the incentives to efficiency which are contained in the bid, what is colloquially known as self-help, which we did not feel were stretching enough and we pushed those a lot harder. We thought the estimates for the profits that the BBC's commercial activities were going to be able to contribute were over-ambitious. We pegged those back, which put pressure on the self-help targets and so on. There was an unprecedented, in the history of the BBC, level of independent scrutiny of the management's bid, but this was not a management bid designed to get the most amount of money possible. This was, as best we could at the time given the variables in the bid, as accurate a costing as we could get to at that time of what the Government had asked us to cost in the vision for the future of the BBC contained in the Green Paper.

Q1955 Lord Peston: Essentially, what you are saying is that your first calculation will always be the cost of doing like for like over the relevant planning horizon and that makes perfectly good sense to me. Then you say there is a second bit, which is an outside force, really the Government. I am not sure whether they ask you to do things or tell you to do things.

Mr Thompson: I do not want to be disingenuous about this. The BBC itself has, since the mid 1990s, believed that it could do a great deal in the digital space, that it could launch an effective website, that it could launch interactive services, it could extend its educational mission to projects like the digital curriculum. We have been enthusiastic about this

development of the BBC. Crucially, it is for Parliament and the Government to dispose. Successive governments have felt that that was the right thing for the BBC to do.

Q1956 Lord Peston: The bit where I cannot quite follow what happens in practice is that in addition to responding to outside suggestions, what you are really saying is that there are things you want to do: more programmes, different programmes, more channels, all sorts of things. You are an innovative body and you want to do those things because you think that is what the licence payer would want you to do. What I am not clear about is the process which lies behind that. Do you say to yourselves that you really could put on more drama but you need more money for it, therefore you have to calculate a licence fee which enables you to do that?

Mr Thompson: May I begin from the management side and Michael might want to talk a bit about the role of the governors and potentially the future role of the trust. From the management point of view, I should distinguish between continuous incremental improvements for which we should all strive everywhere in the BBC all the time, without demanding bigger budgets and things which go beyond those. We want the *Today* programme, we want our classic adaptations of Dickens's novels, to grow in ambition and imagination and quality without putting more money into them. We talk and listen to our audiences all the time and sometimes our audiences ask us for things which go beyond what I would describe as incremental improvements. An example would be the balance of repeats and original productions on BBC1. We know, again it is reflected in the Green Paper, that there are widespread public views out there that, certainly as far as BBC1 peak time is concerned, that they would like to see fewer repeats and rather more original programmes. It comes out very strongly in almost all the research we do. Moreover, the public at large, licence payers at large, opinion formers, critics, some politicians also believe, and they are right, that the BBC should think very carefully about the balance between high quality

documentary, drama, comedy, current affairs and so forth, proper investment in news and the use of some of the cheaper forms of factual programming, reality programming. If you look at the BBC1 schedule and you want to make significant switches from repeats and low-cost factual programmes on the one hand and *Bleak House* at £600,000, £700,000, £800,000 per hour on the other hand, you very quickly get into an economically very significant shift in investment. I am quite clear that it is what the public would like us to do. When we have programmes like David Attenborough's *Life in the Undergrowth* and *Bleak House* in the schedule, Stephen Poliakoff on Sunday, there is an overwhelming sense from the public and indeed from others as well, that the BBC is doing what it should be doing, but over the course of a year we are talking about literally tens and in some cases hundreds of millions of pounds which you cannot achieve by the kind of small per cent of changes. So we start gathering up a number of ways in which we could respond to what our audiences are asking for and then in addition there are ideas like the digital curriculum or like digital switchover which are, if you like, structural changes in the shape and character of broadcasting. Some of these we can very quickly value very precisely. We can predict very accurately the genre mix changes on BBC1. Other things, such as precisely what it is going to cost the BBC to build out the DTT digital terrestrial transmitter chain, are for commercial negotiation and it is less easy to be absolutely precise. We build that up into a model of what a BBC would look like which met the challenges of the future and also met the challenges put to us by our licence payers. Then we shape that into a complete economic picture and then propose that to the board of governors for them to consider.

Q1957 Lord Maxton: My only concern about RPI, and in the past I have supported RPI plus on the basis of digitalising the archive, which is a very important part of the job you have to do, is that lower pricing in technology is what drives the RPI down to the level it is. You are in a technological business and therefore I do not understand why you are not, if you like,

perhaps using more technology, for instance in the production of plays. I do not know how much technology you now use but it seems to me you can use a great deal of computer generated scenery and so on, which allows you massively to reduce the cost of production.

Mr Grade: RPI is a measurement tool in common usage throughout industry, public and private sector. The key issue in terms of the BBC is what incentive to efficiency is built in to the BBC. How can the public be guaranteed that, where you have a fixed income laid out for, in this case, seven years, there is the incentive to efficiency. An incentive to efficiency has to be built absolutely into the water supply of the BBC. Where the current bid stands presently, the incentive to efficiency, a figure of something like 70 per cent of the incremental ambitious plans that the BBC has to meet licence payers' expectations and needs, is going to be paid for out of efficiency savings. The figure that Mark mentioned, three point three per cent per annum across seven years, assuming that to be above RPI, is a pretty ambitious target. We shall see whether or not the Treasury, the Government and so on, accept that interpretation of that number. I feel that it is pretty ambitious, given the base from which we are actually starting, which is that the value for money changes which are being implemented at the moment will make us as efficient as we can be, given what we know we have to do presently. So the key question is not what measurement tool you use. The key question is whether an incentive to efficiency is built into the financial infrastructure of the BBC spending plans that people can rely on, that is transparent and that can be policed and measured month-in, month-out by the trust, through the management accounts and so on and so on.

Mr Thompson: Practically, in terms of programme production, we want to improve quality incrementally across our output, we want to deliver three point three per cent of savings across the BBC. Technology is one of the main ways we are going to do that and we believe we can do that with several thousand fewer employees than we have at the moment.

Mr Grade: I should just like to add, if I may My Lord Chairman, a very brief coda to that. Historically, the BBC has been accused of generally being an expansionist institution. In some cases that is a fair criticism, in some cases it is not. What the governance reforms are designed to achieve going forward and are presently achieving are that before any expansion plans that the management wishes to propose to the trust or to the present board of governors, are even going to be considered, we have to be satisfied that these plans are underpinned by a clearly demonstrable support from the licence fee payers. This is not just the institution expanding for the sake of it, saying “Would it not be nice to do this?”. Yes, it would, but is that what the licence fee payers want? The whole of the governance reforms, culminating ultimately in the formation of the trust are designed to put a check and balance in that natural state of any well-funded institution to go on expanding and so on. We have to be absolutely certain, and I am certain, that everything that is contained in the BBC’s licence fee bid arising from the Green Paper has been tested against licence fee payers’ needs and expectations. That is what is driving it.

Q1958 Chairman: It is not the only thing you have been accused of in the past. The chief executive officer of Channel 4, Mr Mark Thompson, said that the BBC had, and I quote “a Jacuzzi of cash”. I assume that those were in the old days before you got to the BBC.

Mr Thompson: Perhaps I might remind you of the context. The then Director General of the BBC, Greg Dyke – and it is interesting to see the way the world has changed - said that Channel 4 was awash with cash. Now this was a time over the turn of the century when advertising as a whole had collapsed and Channel 4 in particular – I remember because I had arrived two weeks earlier as chief executive - was £40 million in debt at the bank and there was no money at all. I was just kind enough to point out that if anyone was sitting on cash it was he.

Q1959 Chairman: You were swapping insults.

Mr Thompson: I was returning a kind thought from a colleague.

Q1960 Lord King of Bridgwater: You said how important it was that the public had confidence in the justification levels of the licence fee and the BBC. You said that you gave it unprecedented scrutiny this time in making this bid and you brought PA Consulting in to advise you. Did you publish that report?

Mr Grade: No we have not yet; no.

Q1961 Lord King of Bridgwater: Would you be willing to?

Mr Grade: In due course; yes.

Q1962 Lord King of Bridgwater: This is my ignorance, but I am not quite clear about how long this settlement is supposed to run.

Mr Grade: Seven years.

Q1963 Lord King of Bridgwater: Are you then going to call in the trust, presumably, at arm's-length which will want annual confirmation, as will the licence fee payer, that in these rapidly changing circumstances the original judgments remain valid?

Mr Grade: Absolutely.

Q1964 Lord King of Bridgwater: Would you envisage calling in maybe PA or other consultants every year to advise the trust on the annual situation, looking at the annual budget, looking at the annual expenditure, the experiences which have come out, the variances from budget during the year and, as a measure of public confidence, publish their report, the report that goes to the trust.

Mr Grade: Yes. I have no problem with that at all.

Q1965 Lord Armstrong of Ilminster: Do we know what your licence fee bid would be if you were not making these efforts to achieve efficiency savings? RPI plus five per cent or ...?

Mr Grade: It would be even higher than that. I should have to go away and look at the compound arithmetic, but yes, it would be substantially higher, very substantially higher.

Q1966 Lord Peston: We have partly covered some of this, but I am still very lost in following the argument put forward by the Government rather than by you. The Government seem to be saying that it is in the national interest that we have digital switchover. They think it would be a good idea if you took the lead in it, but then they come to what seems to us to be a completely illogical conclusion that it ought to be paid for out of the licence fee. We can understand the argument that we should switch over. We certainly would very much favour you taking the lead role, but we have some difficulty working out why, if it is in the national interest, it should not be paid for in the normal way if things are in the national interest, namely out of general taxation. What are your thoughts on that?

Mr Grade: There are several constituent elements to the cost of digital switchover. There is the cost of re-engineering the transmitters, which is a reasonable cost for the BBC to bear since that is the means by which it will get the signal into the homes and is no different to moving from 405 to 625 lines, from black and white to colour and so on. Re-engineering the transmitters is unquestionably a matter for the BBC. In addition to that, the Government are potentially concerned about the ability of Channel 4 going forward, which is a statutory corporation, it has no shareholders and may – I am not sure whether it will, but it may - depending on the state of Channel 4's finances ask us to help in the quite low cost of Channel 4's switchover. The costs are not greatly material in the great scheme of things. The issue of targeted help seems to me to be the issue that has raised eyebrows around the place using the licence. Those who argue against our involvement suggest that using the licence fee

payer to pay for equipment in the lowest income homes and so on is a form of social policy which has no part in the licence fee. It is a debate we can have. So far as the BBC are concerned, it is entirely consistent with our objective of making all our services available universally throughout the four home nations in every single home. That is an absolute prerequisite of the licence fee and we have to achieve that. Targeted help is directly designed to achieve universality which seems to me entirely consistent. I would lay down some conditions on that, which I have done with the Government. One is that if the quantum of targeted help were to put at risk support for the licence fee, then I think we would have serious objections and/or, if there were a risk that in order to meet the targeted help quantum we had to cut services to licence fee payers, that would be absolutely unacceptable on behalf of the licence fee payers. So overall, to achieve universality is entirely consistent with the BBC's *raison d'être*.

Q1967 Lord Peston: Just to make sure I understand, universality would still mean universality for all broadcasters. It would not mean just for the BBC. In making this technological change all broadcasters ---

Mr Grade: Yes, the commercial players will pay their share.

Q1968 Lord Peston: I did not realise that.

Mr Grade: We are not paying for ITV.

Q1969 Lord Peston: Are you saying that the cost of digital switchover will be borne in part by the commercial players?

Mr Grade: We are not paying for ITV's transmitters.

Q1970 Lord Peston: I do not mean that. There is much more to it.

Mr Thompson: Just as point of information, the unique part for the BBC alone, which the Government are proposing to pay through the licence fee, is around targeted help. The broader costs are being borne by all the broadcasters with the exception, potentially, of Channel 4 bearing some ---

Q1971 Lord Peston: I can understand about Channel 4.

Mr Thompson: It is proposed that targeted help should be ---

Q1972 Lord Maxton: And Sky?

Mr Grade: Sky is already digital.

Q1973 Lord Maxton: I appreciate that, but it is not paying anything towards the costs of setting it up.

Mr Thompson: The costs the other commercial broadcasters are paying are the costs of conversion from analogue to digital. That is not a cost that is relevant to Sky because they are already a digital broadcaster. The same will be true effectively of the cable operators.

Q1974 Lord Peston: Just to make sure I really understand this, there are equipment costs ---

Mr Grade: Transmitters.

Q1975 Lord Peston: These apply specifically to different broadcasters.

Mr Grade: Yes.

Q1976 Lord Peston: And then there are further digital costs.

Mr Grade: There are some marketing costs for ensuring that the public gets what one might call customer service to enable them to make the switchover effectively and efficiently. So there is some marketing; there is a lot of public ignorance about what this all means, so there

are some marketing costs around what it means, how it is going to be effected, how they are going to be affected, helplines and all the rest of it, which we shall pay our fair share of.

Q1977 Lord Peston: Leaving Channel 4 on one side, what you are really saying is that it is only, in a sense, the BBC side of the costs of digital switchover that the licence fee payer is paying, is that right? Leaving Channel 4 on one side.

Mr Thompson: No. I think it is fair to say that the contentious part of the costs of digital switchover is around the so-called targeted help costs. These are the costs of helping some disadvantaged groups - those over 75 and those in households with people with severe disabilities - to pay for and to effect the change to digital. This is a government plan to ease the universal switchover and specifically the ability to switch off the analogue signal by making sure that these disadvantaged groups are in a position to receive digital television. The Government are proposing this tranche of costs should be borne in the licence fee. The biggest point of contention in this area is the so-called targeted help costs, just to clarify that.

Q1978 Chairman: You said the over-75s. Is that one of the broad definitions?

Mr Grade: We do not know yet My Lord Chairman.

Q1979 Lord Peston: Could you give us some idea of how much of the total cost corresponds to these? I shall very soon be one of this deserving group.

Mr Thompson: There is currently a large-scale trial going on in Bolton, which is fairly advanced now, to try, as it were, in microcosm to gauge what the likely costs of this are going to be by trying it with real households and real people. When the results of that trial are clear we shall have a much better idea of both the organisational challenges in achieving it, which are probably not inconsiderable, and also what the likely costs will be.

Q1980 Chairman: What does this do to your argument about top slicing? You are giving help to Channel 4; you are giving help, which is questionable, in social policy as well. Do you not think you are sliding into that?

Mr Grade: It is a one-off cost. This is a unique event in the evolution of broadcasting in this country. It brings huge benefits for viewers and listeners and so on. The problem with top slicing the licence fee, which is another argument for another day, is that it would be an annual event and it would entirely confuse the public as to where their money was going, who was responsible for the spending of their money and it really cuts right against what the whole of the governance reform and the reform of the BBC is designed to achieve, which is a direct link between the trust and the licence fee payers.

Chairman: I have to say that they might not be entirely unconfused by this targeted help situation for the over-75s.

Q1981 Baroness Howe of Idlicote: I just want to clarify one small point. I understand that targeted help will be rather costly for the over-75s, not least in getting over to them how everything works, but having said that, are we also taking into account any extra costs of actually getting the digital wavelength, whatever you call it, to the areas which cannot receive it currently? Is that your cost?

Mr Thompson: Yes. Within the licence fee bid are estimates for the cost of building out the digital terrestrial transmitter and repeater chain to a level of coverage at least as good as the current analogue television coverage in the United Kingdom.

Q1982 Baroness Howe of Idlicote: That is not very good in some areas.

Mr Grade: It is 98.5 per cent of the population.

Mr Thompson: It is 98.5 per cent; at least as good as that. We should like to be better.

Q1983 Baroness Howe of Idlicote: And what is going to happen to the remaining percentage? Will they have to be dealt with by going through Sky and that being paid for by Government or by whom?

Mr Grade: It is hard to predict, but we are working on the possibility with other partners of a free satellite, the satellite equivalent of the Freeview box, which would be the answer to all those small pockets.

Q1984 Baroness Howe of Idlicote: Free of charge?

Mr Thompson: A low-cost single payment satellite solution for people who, largely for topological reasons to do with the physical geography of the United Kingdom, cannot get line of sight to a transmitter.

Q1985 Baroness Howe of Idlicote: What does low cost mean under those circumstances? Would somebody on social security be exempted from paying the low-cost charge?

Mr Grade: We are not anywhere close to struggling with that issue yet.

Mr Thompson: It is worth saying that so far the only proposed help that the Secretary of State has announced in switchover relates to the groups that I have mentioned: households with serious disabilities and those over 75.

Q1986 Chairman: So the over-75s are definitely in. Okay.

Mr Thompson: Definitely in.

Q1987 Baroness Bonham-Carter of Yarnbury: Presumably the DTT, which you are financing, would be accessible through Sky. So in a sense you are subsidising Sky?

Mr Thompson: No. I am sorry this is so complex. The proposal emerging around targeted help is that a sum of money will be made available and households would have a choice about which digital platform they wanted the money to be spent on so we are platform neutral. I

have to say that the very low cost of digital terrestrial television means DTT is moving very quickly through the population and may make all of these questions less difficult than they appear now. Freeview now costs below £30 and, by the way, quite apart from targeted help, is spreading at an extraordinary speed; a million Freeview boxes were sold just in December last year, about ten million boxes have been sold. People will have a choice. To be clear, there is a difference between offering people, as we all believe we have to, universal access to free-to-air public service, indeed other free-to-air channels and the whole issue of whether people want to elect to subscribe to pay services. This exercise is about making sure that every household can continue to receive television after analogue switchover. Sky and other pay operators will continue, of course, to market pay services to the public, as they have every right to do.

Q1988 Baroness Bonham-Carter of Yarnbury: Freeview does help ITV and Five.

Mr Thompson: There is a very small number of households using digital terrestrial television for pay services, the top-up TV venture with a few hundred thousand subscribers, but the overwhelming majority of people using Freeview are using it to watch free-to-air channels, the public service channels and also some other free-to-air channels.

Q1989 Baroness Bonham-Carter of Yarnbury: There are already rumblings and grumblings about analogue switch-off. Are you worried that the BBC's very close association with it might possibly lead to a lack of popularity?

Mr Grade: The industry organisation has been set up to manage the switchover. Digital UK will manage it and the issues of where the risk will settle are yet to be discussed.

Q1990 Lord King of Bridgwater: Having had a constituency with a number of curiosities about reception, it seemed to take an awful long time to sort out. Am I right in thinking that

when you switch over a lot of it will be suck-it-and-see and find out where actually the new problems arise? When you said you were going to move towards better coverage, how quick can this be for people who you find to your surprise cannot get the reception and then you start to do something about it?

Mr Grade: I hope it is going to be fairly predictable in the sense that if you can get the analogue signal now from a transmitter or a booster station or a feeder station, that will pretty well guarantee that you will be able to receive the digital signal. I do not think that is a real problem.

Mr Thompson: We have very, very good predictive computer modelling now of signals.

Q1991 Lord King of Bridgwater: You are putting yourself on the record and I am very pleased to hear it.

Mr Thompson: That is the first thing. The second is that we are still sending people out in Land Rovers to test the signal on the ground to make sure. There are sometimes signal problems which relate to a chimney pot or a tree or something which literally relates to a single house. There are some parts of the country where houses, particularly in hill country, have unique attributes because of the topography around an individual house or new building developments. By the way, generally when we cannot solve a signal problem quickly, it is because there is some, as it were, in principle problem. However, I believe that we shall deliver a very, very high level, to the level we said, 98.5 per cent or higher, everywhere where we do the switchover at the time of switchover. It is worth spending a moment perhaps on one of the reasons why we cannot do it before switchover. In many areas where analogue reception is difficult because of topography, in addition to the main transmitters, we also need a number of repeater stations which irradiate from the main transmitter, the Rhondda Valley would be a good example. The sweeps of these repeaters overlap with each other and you have to use a lot of different frequencies to stop the repeaters interfering with each other. In

areas like the Rhondda Valley we are using much more frequency to deliver our 98.5 per cent than we are in London or elsewhere. What we shall do, as we plan switchover, is get the entire alternative DTT system ready to go and there will be a day when we pull one lever and pull another one and you flip to a system of a DTT master transmitter and DTT repeaters.

Lord King of Bridgwater: I live in hope.

Q1992 Lord Holme of Cheltenham: If you look at the whole switchover project, if you think of it as a switchover, it has costs, which you have been discussing, and the issue of who should bear them. Equally, it has now become apparent that there are revenue benefits in terms of spectrum becoming available. We have been told by the Government that the value to the economy as a whole might be between £1.1 and £2.2 billion, but as well as that general economic benefit to the country there is also the question of what the sale of spectrum itself will represent as a revenue stream for someone. At the moment, Ofcom sell it on behalf of the Government. If you look at the project as a whole, one cannot help wondering why the revenue, that is the spectrum, is not offset against the costs so that you look at the project as a whole. I just wonder whether the BBC have themselves got any estimates of the likely value of the spectrum sold.

Mr Grade: Are you referring to the sell-off of the analogue?

Q1993 Lord Holme of Cheltenham: Yes.

Mr Grade: No, we have no fix on that at all.

Mr Thompson: I have to say that the spectrum is a great public resource, it does not belong to us in the end and you can see why it is not part of our bid. What I want to say as a public service broadcaster though is that it is our position that we do not have enough spectrum. We are unable to show BBC Parliament full screen currently on Freeview. We believe that going forward important developments are happening in television in particular, radio as well but

television in particular. I mentioned high definition television. There should be a public debate on the best use of the spectrum as it becomes available. It would be very worrying for the long-term future of public service broadcasting if free-to-air public service broadcasting were unable to keep up with developments in broadcasting. Although the band width used by high definition will reduce, it will be very considerable and, in my view, we shall begin high definition transmission on satellite and cable this year. As a trial, we hope to show the World Cup in Germany in high definition. We shall also do some test transmissions from at least one digital terrestrial transmitter in high definition. If we are to safeguard the future of free-to-air public service broadcasting on all platforms, there needs to be a debate about exactly what the use of the spectrum is. In other words, should it be sold off or should the value of the spectrum be gifted, not just to the BBC but to the public service broadcasters, so we can maintain and indeed improve the quality of our services?

Q1994 Lord Holme of Cheltenham: That is very interesting and, if I may say so, quite a persuasive point. In a way, what it underlines is that the analogue spectrum will have value, however that is utilised.

Mr Thompson: Yes; definitely.

Q1995 Lord Holme of Cheltenham: I just wonder whether there is any view within the BBC, rather than going back to the licence payer to pay for this or the taxpayer in general, about whether there would not be a symmetry about using potential revenues from the spectrum sale to offset the costs of digitalisation.

Mr Grade: It is a matter of public policy and a matter for the Government, not a matter for the BBC. The difficulty, not insurmountable, is that it is much easier to predict the costs of digital switchover than it is to predict how the market will value vacated analogue spectrum. Very difficult.

Q1996 Lord Maxton: My concern with all this is that by using DTT as your method of ensuring you are going to get the digital switchover, firstly, particularly if you are going to provide high definition television on that and interactive services much better than you can do at the present time, you are actually going to use a large amount of spectrum; of digital spectrum I accept but it is digital spectrum. Surely what we should be looking at is how we can do the switchover using means which do not use any spectrum such as cable or telephony. BT are moving into the television market this year. They are going to provide television services. I do not know what their penetration is in terms of landlines, but it must be not that far short of your 98.5 per cent; it is not that, but I think over 90 per cent have landlines.

Mr Thompson: It is not as high as that yet for the delivery of broadband.

Q1997 Lord Maxton: I accept that. We are talking in 2006 now and we are talking about switchover in 2012. Go back six years and see how technology has changed; move forward and undoubtedly telephony will provide that in 2012.

Mr Thompson: The broad point to make first of all is that we are not solely relying on Freeview to achieve switchover. There is already an installed base of eight million households with Sky digital television. There are some millions of households with cable. It is possible that we shall see some households who, quite quickly, do their entire viewing via ADSL or some other fibre optic or other landline technology. All of this is possible. We do think, however, that the public should have a choice of platforms. We think that the extraordinary rate of sales of Freeview suggests that the particular proposition of being able to buy a very simple low cost receiver with a single payment without the complexity of a subscription or a bundling of your television viewing with your choice of telephone is something which manifestly many, many millions of households are opting for. Almost everyone else, in particular, understandably, the telephone and cable operators, have models which are based on subscription. Their basic model is subscription. I am not suggesting that

they will not, in some cases, offer free-to-air television perhaps as a free add-on to subscription. In some ways what Freeview offers the public is a rather reassuring continuation of what they expect from broadcasting, which is that you purchase a receiver, it then works and is free at the point of delivery forever. You do not get phoned from a call centre; nobody tries to tell you that in order to get this you have to take this subscription out. It is very, very straightforward and, as a matter of fact, in the last couple of years the enormous movement of people into Freeview suggests that this is one of the most powerful platforms in their view of how they want to convert to digital. You may say that the public are wrong, but, as I say, there are many, many millions of them out there now making the choice.

Q1998 Lord Maxton: Why then, are we not developing a Freeview box which can be expanded to be used by other digital broadcasters?

Mr Thompson: It is worth saying that the BBC does not make Freeview boxes. Freeview is a standard for a decoder of the DTT signal. We are already beginning to see boxes which use DTT and which can be used for pay television, top-up television. We are seeing Freeview boxes which have personal video recorders, hard disks built into them. I am sure that you will see, both with Freeview and we hope free sat, boxes which combine that with broadband and so forth. It is not for me to say that you are going to see an extraordinary plethora of diverse boxes for getting content from PC to television, to record, to playback, to have a return path and so on. I should say the more choice the better. The only point I am making is, given what is actually happening in terms of the public take-up of digital and terrestrial at the moment, it is manifestly a solution which is working for many millions of households.

Q1999 Baroness Bonham-Carter of Yarnbury: Last time we were talking together you said that in the digital age there was no shortage of spectrum, which does not seem to be the

view of lots of other people and indeed there is a feeling, you mentioned high definition television, that the BBC is potentially a bit greedy about it. As you know, Ofcom have stated that they are going to consider charging companies who use the spectrum from 2006 and that that would give broadcasters an incentive to use as little as possible. What do you think the effect of charging for spectrum would be on BBC and indeed public service broadcasting and do you think it would increase efficient use of spectrum?

Mr Grade: May I respond to my comment about unlimited spectrum? That was in the context of looking at the digital world against the analogue world. In the analogue world, pre satellite, pre digital, spectrum was a very, very scarce commodity. It took British broadcasting 50 years to get to five channels, because of our proximity to the continent, frequency agreements and so on. It was a very scarce commodity. Comparatively speaking, the digital world is a world of plenty. Now we see what the demand is for the spectrum, obviously there is more demand than there is potentially supply outside of the satellite option, but you can always add on satellite capacity, so there is in a sense unlimited capacity. It is the terrestrial, the use of the analogue, the use of DTT now, which is finite. It has added considerably to viewers' choice and listeners' choice but it is finite. In respect of spectrum charging, it is reasonable to make a distinction between the private sector for-profit organisations and the BBC. There seems to be a lack of logic. The justification for charging the private sector for-profit organisation for the use of the spectrum seems to me intellectually perfectly justifiable in the sense that this is a national resource, the airways belong to the nation, shareholders are making hopefully a decent return on their exploitation of that publicly owned utility. They should therefore pay something back to the nation; give the nation back a return on its own resources. It seems to be inconsistent to apply the same logic to the BBC, because the BBC is there to provide a public service for which the public pays and to take money back through spectrum charging seems to me to be fundamentally illogical. That is

not to say that some mechanism needs to be arrived at which ensures that the BBC is an efficient user of spectrum, but to penalise the licence fee payers for the use of spectrum seems to me to be unacceptable.

Q2000 Baroness Bonham-Carter of Yarnbury: What about other public service broadcasters? What about Channel 4?

Mr Grade: Channel 4 is not for profit; it is a statutory corporation and it is in a sense in the same league. In fact in the private sector advertisers supported the world of broadcasting hitherto and Channel 4 has been exempt from spectrum charges that the ITV companies, Five and so on, have been subject to.

Mr Thompson: Professor Kay, whose work related to the spectrum, described the BBC as an efficient user of spectrum, having actually studied it. Inevitably our competitors may want to cast aspersions, but there is no evidence that we are not very efficient users of the spectrum.

Q2001 Baroness Bonham-Carter of Yarnbury: It is people thinking about the future and the pursuit of high definition television which is very spectrum greedy. So you are really agreeing that if the BBC were to be charged for spectrum, that would be a tax on the licence fee payer.

Mr Grade: Absolutely.

Mr Thompson: All other things being equal, it would take money out of the licence fee and out of investment in programmes and move it into the general exchequer, to achieve quite what is not clear.

Q2002 Bishop of Manchester: If we can talk for a moment about the Manchester move, at the very beginning of our discussions and when you, Director General, were with us before, you talked about the move depending upon the right funding settlement being achieved. We

had a helpful letter yesterday from the head of public affairs outlining some of the issues and where you have got to at the moment. It is certainly a relief that we have come down from that enormous £600 million to £400 million and maybe there is another £200 million to go as well, but maybe not. What I really want to ask though is in the light of one of the things which the head of public affairs says and it is on page two. He says that the key driver for the move to Manchester is not to generate savings. Then at the end of that paragraph he says that you clearly want to identify the most cost-effective way of undertaking the move and to realise savings. That obviously is very important, very laudable, but my question is: what advice are you receiving on how these savings can be achieved? In terms of the licence fee payer, what assessments are being made in terms of value, to quote the Chairman earlier this morning, the importance of any expansion being underpinned by clearly demonstrable support from licence fee payers? I want to explore this issue of the value for money of what you are doing.

Mr Thompson: Perhaps I should begin about how, as a management team, we are looking at the project and working up the proposal and Michael should talk about how the governors would expect to scrutinise the proposal. From our point of view, we have spent the past few months working at a much closer level of detail on how practically Manchester might work. We have been through the process of looking at and short listing progressively fewer and fewer sites which we believe, and there is good evidence to believe, would be the right places to achieve the vision we want to achieve. The nature of doing that means that the costs involved become much clearer. We have also achieved a breakthrough, absolutely thinking with colleagues and other stakeholders on the ground, the local councils, the North West Development Agency, also other broadcasters and other players in the creative industries, about whether the BBC could achieve what it wants to achieve in partnership with others, creating a so-called media enterprise zone and, in particular, thinking about achieving its

resourcing needs, studios and so forth, in a way which is shared with other broadcasters rather than a separate build solely for the BBC. Now, if achievable, and we think the media enterprise zone is an exciting idea for us, also potentially for the creative industries in the West and indeed North West and indeed the whole of the North of England, that potentially is a very substantial impact on costs of what is being achieved. We are trying to look at every part of the vision that we have laid out for Manchester to see whether it can be achieved at the minimum possible cost consistent with what we want to achieve. That process has been going on. We have been working; you have met some of my colleagues and heard about it. Where that will lead to is a moment when the management formally put a proposal up to the board of governors for the board of governors to consider and, in a nutshell, there are three things the governors have to look at: they need to look at whether they believe what is being proposed is congruent with the BBC's overall strategic ends and the best long-term interests of the licence payer; second, whether or not the proposal represents value for money, literally, once you accept that it is the right thing for the BBC to do, whether it could be achieved for less money; then third, whether it is affordable. So it is possible for someone to think it is a great idea and, for what it is, value for money, but for it not to be affordable because the BBC does not have the resources to do it. So strategic fit, value for money and affordability and it is the last of those three which obviously relates to the licence fee settlement. The scrutiny of this will be done by Michael and his colleagues with outside experts.

Q2003 Bishop of Manchester: When you mention outside experts, what about the National Audit Office. They are doing some value for money reviews already in the BBC, why not in an important area like this?

Mr Grade: When it comes to proposed spending plans, that is a matter for the governors, provided the governors do take independent advice; that is not a matter for the NAO.

Q2004 Bishop of Manchester: What is the independent advice you will be taking?

Mr Grade: Deloitte & Touche are presently employed by the governors, not by the management, to scrutinise the way the management is developing its proposals for Manchester. The governors have agreed in principle that investment in Manchester is in the best interests of the licence fee payers. We are much heartened by the results of our investment in the three home nations, as it were, Scotland, Northern Ireland and Wales. That has produced great benefits for licence fee payers in the nations. The English regions have fallen way behind. Everything that the licence fee payers tell us indicates that they want greater identification with their own region, with their own nation, with their own area, with their own community and so on. There is a clear signal coming to us, the governors, that that is what the licence fee payers want us to do. That is why, in principle, we approved the notion of a significant move to Manchester, not a token move but a very fundamental move to Manchester. We shall take a lot of satisfying that what is proposed is value for money and then we get on to the question of whether we can afford it or not. The first question is whether it represents value for money and we are scrutinising it at every stage.

Q2005 Bishop of Manchester: What about a public value test?

Mr Grade: I think a public value test is applicable to new services and so on. This is an investment decision and that is not really applicable. A public value test to a change in an existing service is designed to measure market impact and public value created and to balance those two things. That has been designed entirely for the specific purpose of looking at material changes to existing services or the creation of new services, not applicable to a development project like this.

Mr Thompson: I am sure that is right, but I should not want you to think therefore that we do not believe there is any public interest in doing it. On the contrary, we think that a very substantial investment by the BBC, not just of money but also moving talent and bringing

broadcasting to the North West, will make a big impact in the development of Manchester, the North West and the North. It will provide new opportunities and hopefully will be a magnet for other broadcasters, other producers and other people in the creative industries. It is part of a bigger vision of the future of the North of England in particular, of the creative industries in the North of England which we think will, in the long run, add real value for licence payers across the country.

Q2006 Bishop of Manchester: Let us explore what you just said about the opportunities with other broadcasters and industries, focusing now on the two sites in Manchester and Salford announced yesterday, which appeared on the surface to rather push ITV at least slightly out of the picture. We all remember the great enthusiasm of Charles Allen sitting there and saying how wonderful it was all going to be. Can you reassure us that the whole concept of the media hub with ITV and independent broadcasters is still as strong a hope as it was when you first mentioned it?

Mr Thompson: It is. I wrote to Charles yesterday just to emphasise that we want to go on talking to ITV and involving ITV in our plans. Clearly, they must in the end make their own choices, but ITV, I think it is fair to say, face many of the same issues that we face. There is a step change in technology, new formats like high definition are arriving and ITV, just like the BBC, will have to think about the future of their resource base and about the capital costs of upgrading their resource base. Both sites offer ITV a range of choices: the central site very close to the city centre, very close indeed to Quay Street: Salford Quays somewhat out of town but very competitive in terms of the economics. The kinds of choices we are making are very similar to the ones ITV will be making and the numbers will look very similar to both of us. I should want to assure you that we very much hope to continue to talk to and engage with ITV as possible partners in this.

Q2007 Bishop of Manchester: That sounds very exciting, but I do recall that on at least three occasions in evidence that we have received on this Committee, there are people who have said something like “Well, the people at the BBC are lovely people but they are awful to work with”. They certainly said the second bit and I am sure they would have said the first bit as well. Can you just address this point? It has been repeated that the reputation of the BBC is not very high when it is thought of in terms of being a potential partner.

Mr Thompson: Historically, it sometimes may well have been true that the BBC was not a good partner; it may well have been true. If you look at what we have achieved in partnership over the last 18 months, if you look at the Freeview partnership, if you look at the way in which the BBC’s relationship with Pact and the independent sector has changed over the last 18 months, if you look at the way we are going about thinking about this Manchester project, I should be surprised if any of those partners would say that we were not being upfront and supportive of them. The Minister yesterday was making this point. We are trying extremely hard to set a new path in terms of the way we work with other broadcasters, other key stakeholders and, in the change in the climate, with the independent sector, with the success of platforms. Freeview is a very good example of that; you can see tangible results of that. Although that was said historically, I hope that that is the kind of comment you will hear less and less of as we go forward.

Q2008 Lord Kalms: One of the advantages of digital will be the opportunity to expand into local broadcasting and you have some fairly big plans; you intend to open some 60 stations. We have had quite a lot of lobbying about this. This might be an opportunity perhaps for you to expand on it. Some of the lobbying follows up the Bishop of Manchester’s views that you state that you want to go into some sort of partnerships and the point was repeated to us time and again that you are not the people to jump into bed with, particularly if you are going to have a broad number of local stations. Then a further point has been put to us that you are

going to use the existing radio footprint for your local broadcasting and it has been pointed out that this is not quite local broadcasting, in other words, the footprint is not absolutely appropriate. Then of course it goes further to what you actually mean by local broadcasting and how many hours, what the content will be, what the impact on the community will be vis-à-vis local newspapers. There have been some very good ideas of the potential that local broadcasting could bring to the community with the concept of digitalisation and the ability to data transmit good local programmes very quickly. If you could give us a little bit more of your thinking and take some of the criticism and respond to it, it would be helpful.

Mr Thompson: Michael might well want to talk about what will happen when the local TV idea, if it becomes a proposal, is put before the BBC trust, the steps that will then be taken by the trust to ensure that it really does deliver public value and in particular that any adverse market impact it might have is understood and weighed in the balance as the trust decides whether or not to give the management permission to go ahead. I am very clear that we cannot just launch this sort of stuff without external and objective scrutiny of whether or not, taken together, it actually makes sense. The idea of local TV, as set out in *Building Public Value*, and as developed since, is really to say that we have a very strong heritage going back getting on for 40 years in local radio, one of the best loved services of the BBC. In recent years we have also launched websites which broadly mirror the local radio stations; you now can get, where I live in Oxford, both a website showing you the journalism of BBC Oxford and also a radio station. The idea is to complement that also with a relatively modest journalistically based television service for the same area, paralleling radio and the web, so that the BBC's offer of news and information and comment for the people who live in and around Oxford is offered on all three media. What is most convenient? Do you want to sit down to watch some television? Do you want to catch it maybe on a mobile device? Do you want to listen to the radio in the morning? It is also very efficient. We have one centre there.

Increasingly we shall have people who are trained to work in all three media, so we can actually deliver this added service with relatively modest extra investment and for the television component we are not talking about 24 hours, we are talking about quite small segments of news and so forth, being delivered on broadband and also potentially delivered on digital satellite to consumers. We are testing this idea at the moment in the West Midlands. In the West Midlands we have a number of very different communities, urban communities, rural communities, and we are trying out various ideas to see what works for the public. A big say in what happens will be listening to the people using the trials and listening to the public more generally and trying to build what they want into the eventual plan. We are also very aware that, although the BBC has a big local presence already, this idea of local television sounds worrying to some of the other commercial players, particularly local newspapers. One general caveat: when we talk about local television we are talking about something which is happening at the level of BBC local radio, which is therefore nothing like as local as community radio or most local newspapers. Second, to state the obvious but I shall say it anyway, the BBC will not be competing for revenue with the other players. For example, we shall not be offering classified advertisements which are critical to the business plans of local newspapers. Third, we are going to learn from the review and be very careful also not to replicate those parts of web services and newspaper services which are particularly important in terms of revenue generation and which are well provided by local newspapers, both through their websites and newspapers. So, for example, we shall not get involved in listings and the ability to buy tickets for the cinema and other local attraction which, again, local newspapers see as an important revenue stream,. In fact, in the West Midlands and I hope around the country if we go ahead with this, we are actually in partnership with local newspapers, sharing journalism, expecting to link on our website to the local newspapers' websites. We should see ourselves very much in partnership with other

players and I understand absolutely why, at national level, there is a lobbying going on. We need to try to do everything we can to reassure them that we understand the dangers of market impact. On the ground, I have to say, collaboration between us and local newspapers is going very well. We hope we can evolve a proposition which adds real value to licence payers, works on the ground, is based on the actual experience of people using our pilots, which works in partnership with other players and which fits into a bigger idea of the BBC's information offer at local, regional, national and global level. Once we have done all of that, we shall pass the proposal over to the board of governors to consider objectively.

Mr Grade: May I reassure the Committee that the trust - by the time this is ready for sanction we shall have turned into the trust - is not going to put its signature to a proposal to roll out local television without applying the public value test, which will assess market impact, both negative and positive, public value created, value for money and all the issues which are now familiar. I can reassure the Committee that there is going to be no blank cheque to roll this out, it will be subject to the public value test.

Q2009 Baroness Howe of Idlicote: Can we just have a look at the World Service/FCO/Government interaction? I am sure we all remember Lord Carter of Coles's definition of public diplomacy and he certainly regards the World Service as a diplomacy tool. He defines it as "work aiming to inform and engage individuals and organisations overseas, in order to improve understanding of and influence for the United Kingdom in a manner consistent with governmental medium and long term goals". Does it concern you that this is the view? Is it going to influence in any way the editorial independence of the World Service and how it operates? Is it a good thing?

Mr Grade: In the course of the gathering of evidence and Lord Carter of Coles putting together his report, I can assure this Committee and the world outside that there were some very robust conversations indeed between the board of governors, particular our international

governor Sir Andrew Burns, but also supported by the governors. There were some very robust conversations, the result of which is a report that we do not feel in any way undermines the independence of the World Service. There was a robust debate.

Q2010 Baroness Howe of Idlicote: That is good to have on the record too. Nevertheless he suggested also that a representative of the World Service should sit on the public diplomacy board which is to be chaired by a minister. Is that a good idea?

Mr Thompson: It is what happens at present. There is no change there.

Q2011 Baroness Howe of Idlicote: And you think it is okay, you are not worried?

Mr Grade: Yes. There is a difference between being an observer and being a member of that body.

Mr Thompson: It is worth emphasising that the World Service representative will be an observer rather than a participant. We are currently represented as observers on the public diplomacy strategy board. It is not a great change. I should emphasise that we are very grateful that Lord Carter of Coles repeatedly makes it clear that he accepts the BBC's editorial independence should be complete. Certainly from our point of view the World Service's editorial independence is precisely why the World Service is valuable to the United Kingdom because it is a credible voice around the world. Editorial independence is a very, very important central point, the central point for us, but we are satisfied that, as it is laid out, Lord Carter of Coles's report will not compromise that and that the observer status which exists currently in the context of the diplomacy strategy board, will not of itself compromise our editorial independence. If we thought it did, we should say it was impossible and we could not do it.

Q2012 Baroness Howe of Idlicote: It is perfectly fair that he did emphasise the context of the editorial independence, but it is good to hear you confirm that. Just one point about the funds allocated to launch the new Arabic service. In contrast to Al-Jazeera's English channel which is being launched and will cost £100 million a year, Channel 4 News is £20 million a year and yet the service you are about to launch is £19 million a year for 12 hours as opposed to 24-hour programming. Are you happy with this and do you really think you can achieve the right sort of competition for what already exists?

Mr Grade: I regret that we are not able to launch with a 24-hour service, the costs of which have been calculated at around an additional £6million, so we shall be on the air for 12 hours a day. Everyone, including myself, seems satisfied that we can present a very respectable service for the money which is available. The difference between us, Al-Jazeera and anybody else is that this is an activity at the margin, a marginal cost for the BBC; we already have the international news gathering capacity which Al-Jazeera will presumably have to build for themselves from scratch, that already exists across the BBC.

Mr Thompson: And indeed an Arabic radio service and a very rich Arabic website, so our complete investment in broadcasting in all media to the Arab world is much larger than this £19 million suggests; having said that, we should rather do 24 hours than 12.

Q2013 Chairman: You are saying that only £6 million actually stands in the way of having a 24-hour service.

Mr Thompson: Yes.

Q2014 Chairman: But that is pathetic, is it not? Here we are trying to start what I imagine and hope would be an important service and for the sake of £6 million we cannot go 24 hours?

Mr Grade: Indeed.

Mr Thompson: That is the position.

Mr Grade: But happy to be accused by this Committee of giving too good a value for money at £12 million.

Chairman: It depends what you mean by value for money.

Q2015 Lord Holme of Cheltenham: I must say that I am impressed by your equanimity at being described as a tool. The World Service has an enormous reputation throughout the world and if on every broadcast that goes out on the World Service you were to put a sub-title which says “A tool of British governmental goals”, how do you think people would feel about it? Although we have heard reassuring words from Lord Triesman, the sort we have had from you about the respect for the independence of the BBC, it does not seem to me a promising development that the BBC World Service, which is one of the great decorations of this country in the external sphere, should be described as a governmental tool. I think that this Committee, and indeed all of us who value the BBC World Service, are going to need very specific reassurances that there has not been some step change in the approach towards the World Service.

Mr Grade: The governors of the BBC have proven over the years and will continue to prove, whether they are governors or trustees, more than capable of defending the independence of the World Service and indeed every other service of the BBC. We did not have the privilege of drafting the report for him and the use of the word “tool” is perhaps an unfortunate word but at the end of the day, it is the audience perception of the services that we actually provide and they will continue to be independent and the board of governors and the trustees will carry out their public responsibility to the licence fee payers to ensure the continued independence of the World Service vigorously, robustly and aggressively, if I may use that word.

Mr Thompson: Notwithstanding his broader definition of public diplomacy, he does repeatedly emphasise the importance of the BBC's editorial independence. I should certainly want you to be in no doubt that we do not believe there has been any change in the Government's intention that the World Service should remain wholly editorially independent of the Government.

Mr Grade: I am very grateful that the Committee has picked this issue up. It just reinforces very much what we have been saying and what has led to the drafting of Lord Carter of Coles's report, with which we feel comfortable, but we have taken a very, very deep serious interest in the drafting of this report.

Chairman: As you know from our first report, we are concerned about the independence of the BBC from government. You do not necessarily agree with all the proposals in ensuring that independence.

Q2016 Baroness Gibson of Market Rasen: What progress is being made – and I hope it is being made – with the employees affected by the changes at the World Service? I know that you have been having discussions with the unions and I just wondered how they were progressing.

Mr Thompson: Rather like the bigger redundancy programme across the rest of the BBC in the World Service, we are in detailed conversations with the trade unions and individual members of staff to try, where we can, in every case to deliver the best outcome we can for individual members of staff. Clearly there are particular challenges in the World Service where, in time, radio services are being closed. I believe it is the right strategy, but clearly it is a very tough message for the teams who have made these services so successful over many years. We are trying to do everything we can to get the best outcomes for those individuals. Across the BBC as a whole, we have made good progress in minimising the numbers of redundancies we are going to have to achieve through compulsory means. Overall we are

spending a great deal of time in recent months trying to make sure that although these changes clearly will be unwelcome to many members of staff, we handle them in a way which is flexible and which puts the welfare of the individuals involved very high on the agenda.

Q2017 Chairman: Remind me. How much is BBC World now losing?

Mr Grade: In the last report and accounts £16 million was the loss.

Mr Thompson: Sixteen million pounds.

Q2018 Chairman: Where does that money come from?

Mr Grade: Commercial activities; there is no licence fee money in that.

Q2019 Chairman: They are resources which are available to the BBC.

Mr Grade: Yes.

Mr Thompson: Yes.

Q2020 Baroness Gibson of Market Rasen: I have a couple of points about religious broadcasting particularly for Mr Thompson. You are on record as saying that you do not have a closed mind about *Thought for the Day* and the possibility, as already happens in the BBC Northern Ireland, for those who have heartfelt belief systems other than religious systems speaking on it. I wondered whether there were any actual plans to bring anyone into *Thought for the Day*. My second point, which I raised with the Minister yesterday and quite rightly he said that it was your decision rather than the Government's, is about the importance of religion in world affairs which I think we would accept has increased. Should the BBC be given a specific public service duty to educate and inform the public about the role of the major religions?

Mr Thompson: What I said about *Thought for the Day* was as follows. It is rather equivocal. "On the one hand he" that is me "considers *Thought* successful so not needing to be

changed”. Then he says, with a deftness of which a politician would be proud “You can make a case for opening it up to people with other heartfelt belief systems; I would not close my mind to it”. The situation is that as recently as 2004 the BBC looked quite closely, after representations from a number of groups, at this question and decided on balance to keep *Thought for the Day* as it currently is, in other words an opportunity in the schedule for people with a specifically religious perspective, different religions but a religious perspective, to comment on some aspects of contemporary events or contemporary life. It is something we can look at from time to time; it is not something I should want to reject out of hand for ever. It was very thoroughly debated inside the BBC and indeed outside in 2004. I do not think it is the right moment to come back and review it again at the moment. I am very content to remain with the recommendations which came out of the review in 2004.

Q2021 Chairman: Just before you leave that point, you do not actually follow the same policy in Northern Ireland. When we went to Northern Ireland we were told that in the equivalent of *Thought for the Day* four contributors a year, who are non-believers and who are chosen because it is considered they have something useful and important to say, are able to do *Thought for the Day*.

Mr Thompson: Let us just be clear about this. Across our coverage as a whole there are many opportunities for people, both with a religious perspective and a non-religious perspective to make contributions, to make documentaries, to take part in debates and so on. What happened in 2004 was that the BBC looked at the particular circumstances of *Thought for the Day* in the middle of the *Today* programme, weighed it up and on balance – there was some conversation with the governors as well – decided to leave it in this case as a window for people from a particular perspective. We try not to deal with every editorial question on an absolute, one-size-fits-all basis; this was in the context of looking at the *Today* programme. I take a very high level of humility about editorial questions. It was looked at thoroughly, I

do not believe there is a strong argument for a review today but we shall look at it again and when we do in due course look at it we shall certainly see whether we have anything to learn from the way we broadcast in Northern Ireland.

Q2022 Lord Maxton: In Scotland, where 27 per cent of the population in the last census said they had no religious views whatsoever, can I assume, in view of what you have just said about other people getting their point of view across, that 27 per cent of broadcasts relating to religion is done by people who do not believe at all?

Mr Thompson: I do not think that follows at all.

Q2023 Lord Maxton: Why not?

Mr Thompson: *Thought for the Day* was set up specifically with the purpose of enabling a window for a religious perspective on events. That was the original point. It began predominantly as a Christian religious perspective from the different churches and has been broadened in recent years to include perspectives from other religions. That is the point of that.

Q2024 Lord Maxton: That was at a time when, if you go back to *Thought for the Day*, if you looked at the censuses then you would find that a very, very small percentage of the population said they had no religion. Now that is a larger and growing proportion of the population which is not ever represented on *Thought for the Day*.

Mr Thompson: I should say that *Thought for the Day* is not a piece of radio which we are trying to handle in the way we might handle a party-political broadcast on the basis of a precise allocation.

Q2025 Lord Maxton: That is what it sounds like morning after morning.

Mr Thompson: If you want to ask whether the BBC, across its output, reflects sufficiently the diversity of belief and non-belief, that is a reasonable question to ask. I have to say that I think we do not do a bad job. I should say that is a broader question. We would have the same debate about *Prayer for the Day*. I think that most people would accept that you would probably only want to have people on *Prayer for the Day* who thought prayer had some point to it. A broader point is whether the BBC has a duty to reflect the diversity of belief in the UK and also to educate and inform its audience about the diversity and significance of different religious and non-religious beliefs around the world. Absolutely; yes. I am not sure it needs to be written into a particular public purpose: it is there and we take it very seriously. Particularly since 9/11 I should say that the prominence of religious questions more broadly in all media in news and current affairs has been very prominent.

Q2026 Lord Peston: Declaring an interest as an atheist, my only question is on the diversity of view. I am worried as a former educationist that one might include the setting out of nonsense, because a lot of people believe a lot of nonsense, that you should portray that. We can discuss that on another occasion. The problem for those of us outside the BBC is that you have a specific religious group within the BBC, which I referred to as a religious pressure group when we saw them, but you do not seem to have any equivalent groups for any other philosophies. There is no philosophy department, to take an obvious thing, sitting there saying there is a need to create a set of philosophy programmes. What is there about religion that makes you feel you have to have this very special committed group of people doing it?

Mr Thompson: Let us not over-simplify what is going on here. We certainly feel as an organisation that we should reflect the religious life of this country and the world.

Q2027 Lord Peston: There is nothing between us on that.

Mr Thompson: There is an interesting signal in the fact that we now call the department which makes many of these programmes the Religion and Ethics Department. There are certainly some programmes which that department has produced and indeed other programmes as well – *The Moral Maze* would be a good example – which do take philosophy and ethics seriously. You cannot listen, for example to Melvyn Bragg’s programme on Radio 4 *In Our Time* and not think the BBC is interested in exploring the world of ideas, absolutely touching on religion and issues like intelligent design, but ranging far beyond that to other broad issues of both philosophy and other ideas and belief systems. We are rather good at that and I certainly should want to encourage our Religion and Ethics Department to take the ethics half of their title seriously as well as religion, whilst recognising that the central part of their mission is around reflecting the specifically religious aspect of British national life.

Q2028 Bishop of Manchester: In a country where 72 per cent, according to the census, say that they are Christian and another ten per cent belong to other faiths, with that substantial majority I suppose that it is understandable that the 5,000 members of the British Humanist Society and 3,000 members of the National Secular Society occasionally feel marginalised. I also think that one has to take into account the fact, as I understand it, that all the audience research which has been done on *Thought for the Day* indicates that, as it is at the moment, there is very, very substantial backing and I think that I am right in saying that *Thought for the Day* is regarded by audience research as one of the most popular bits of the whole programme.

Mr Thompson: Yes.

Chairman: We might draw a line here. I should like to thank you very, very much indeed for coming today. What I should also like to do is thank the BBC and its staff for all their helpfulness and kindness over the last months. We could not have done this inquiry without

that help; they have gone to every length to answer our questions and we are very, very grateful for that. I hope you will pass that on. Thank you very much.