



House of Commons
Committee of Public Accounts

**The BBC's move to
Salford**

Twentieth Report of Session 2013–14

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

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Committee of Public Accounts

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Claire Cozens (Committee Specialist) Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccomm@parliament.uk

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Summary

The BBC met the challenge of moving several departments to its new regional centre in Salford on time, within budget and without disruption to broadcast services. However, the scale of some of the allowances paid to staff to relocate to Salford is difficult to justify. The BBC also failed to properly record the exceptions it made to its allowance policy, which in some cases resulted in even higher payments to staff. The longer-term success of the move depends on the BBC achieving the wider benefits it promised. These include reducing the gap between Northern and Southern audiences in the BBC's market share and stimulating economic and other regional benefits, including creating up to 15,000 jobs.

We are dismayed at the failure of the Digital Media Initiative (DMI) project and allegations that we may have been misled about its progress. We were told by the BBC in 2011 that many programmes were being made with DMI. But the BBC Trust told us in June 2013 that DMI had failed to deliver what was expected and would be terminated; and that the project had delivered little or no assets, despite costing licence fee payers at least £98 million. We will consider this matter in the Autumn once all the facts have been established.

Conclusions and recommendations

1. To help address the fact that most of its decision-making and spending were located in London, the BBC developed plans to relocate several departments to a new regional centre in Salford. The BBC expected the move, which was completed in April 2012, to: serve audiences in the North better; improve quality and efficiency; and provide economic and other benefits to the region.
2. **The BBC completed most aspects of the move to Salford successfully, but longer-term success depends on the wider benefits being achieved.** The BBC completed the move on time at a cost of £224 million, some £9 million below budget, without disruption to broadcast services. However, the BBC is not yet in a position to measure progress in achieving some of the wider benefits expected. It is too early to judge the long-term effects of the move on Northern audiences, the regional economy and the efficiency of the BBC departments that relocated.

Recommendation: *The BBC needs to establish clear measures for all the intended benefits of the move, routinely monitor them and keep the BBC Trust informed of progress.*

3. **Some relocation allowances that the BBC paid to staff to move to Salford seem excessive and its recording of exceptions, some of which resulted in higher payments, was inadequate.** In 11 cases, the costs exceeded £100,000 per person, with one costing £150,000. Around 10% of staff who relocated to Salford received allowances that were exceptions to the BBC's standard policy. In many cases, these exceptions, and the reasons for making them, were not clearly recorded by the BBC.

Recommendation: *The BBC must establish consistent policies and stick to them. Any exceptions need to be properly justified and recorded. In future relocations, the BBC, and the BBC Trust need to achieve a better balance between treating staff fairly and meeting licence fee payers' expectations about what costs are reasonable.*

4. **The BBC risks becoming overly dependent on the Peel Group for long-term success at Salford.** The Peel Group owns the BBC's buildings at Salford, the on-site studio facilities and surrounding property. The future development of the site, and the cost of occupying it, particularly after the BBC's lease at Salford ends, is therefore dependent on the Peel Group's future strategy. The BBC's relationship with significant partner organisations also involves potential reputational risks for the BBC, for example, the extent to which partner organisations are transparent about their tax status in the UK and the amount of tax they pay. We expect the BBC to set clearly-defined expectations for its relationship with commercial partners and to undertake sufficient due diligence to ensure these expectations are met and do not threaten the reputation of the BBC itself.

Recommendation: *The BBC needs to demonstrate to the BBC Trust that it has assessed the potential risks of the Peel Group having a dominant position at its Salford site and taken appropriate steps to address them. It should also make clear*

its expectation that, as an organization funded by the licence fee, it expects companies with which it contracts to pay their fair share of tax.

5. **The fast pace of change in the broadcasting industry means that the BBC's decision to enter a long-term contractual commitment for studio services was risky.** The BBC locked itself into a 10-year contract for studio space at Salford, and committed to a guaranteed minimum annual spend during the contract term. The pace of technological change in the broadcasting sector means that the BBC could end up having to pay for studio services that it no longer needs. In the first year of this contract, the BBC underspent on one type of studio service by £500,000.

Recommendation: *The BBC should only enter long-term contracts when its future requirements are predictable or the contracts provide sufficient flexibility to adapt to changing requirements at a reasonable cost.*

6. **The BBC Trust should challenge BBC management more effectively.** The BBC Trust is prevented by the Royal Charter from exercising, or seeking to exercise, functions of the executive board, which include the operational management of the BBC. However, there is scope for the BBC Trust to be more challenging and robust, particularly when value for money or the BBC's reputation is at risk. The BBC Trust should alert BBC management when it has valid concerns about management decisions; demand greater assurance that risks are identified and managed; and hold the BBC executive to account for its response to these concerns.

Recommendation: *The BBC Trust should be prepared to challenge BBC management vigorously whenever it believes value for money might be at risk.*

7. We are concerned to learn of the abandonment of the Digital Media Initiative at a loss to the licence fee payer of £100 million.

Recommendation: *The BBC Trust should complete its investigation of what went wrong urgently so that the National Audit Office can carry out its own assessment and report.*

1 Managing the move

1. Most of the BBC's decision-making and spending have been located in London. To help address this imbalance, the BBC developed plans to relocate several departments to a new regional centre in the North of England. In 2006 the BBC selected Salford as the location for this new centre. The BBC expected the move, which was completed in April 2012, to: better serve audiences in the North; improve quality and efficiency; and provide economic and other benefits to the region. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the BBC and the BBC Trust on the management of the move so far and how the BBC plans to realise the planned benefits.¹

2. The move involved a significant logistical exercise, but the BBC completed this phase of the project at a cost of £224 million, some £9 million below budget, and within its planned timetable. The move was the largest relocation project in the BBC's estate strategy, involving the transfer of people and equipment from London and Manchester to Salford while maintaining broadcast continuity. The total budget for moving to Salford and operating the site to 2030, when the BBC's lease on the site ends, is £942 million.²

3. To retain existing knowledge within the organisation, and ensure business and programme continuity, the BBC decided it would need to move a significant proportion of its existing staff to Salford.³ It therefore offered relocation packages to staff based in London to encourage them to move to Salford, and spent £24 million on relocating nearly 900 staff at an average cost of £28,000 per person.⁴ In 11 cases, the cost of relocating staff exceeded £100,000 per person, with one costing £150,000. The BBC explained that these cases reflected the higher stamp duty and other costs involved in relocating staff who owned high value properties in the South East. The BBC made exceptions to its policy on relocation allowances for 91 of the staff who moved, at a total cost of £621,000. The BBC told us that offering a more flexible relocation package by making these exceptions allowed it to avoid having to make members of staff redundant, which it estimated would have cost some £1.9 million, an average of £48,000 per person.⁵

4. In March 2012, BBC internal audit found that although the relocation team had kept a record of most of the exceptions that had been made to the standard terms, authorisation of these exceptions had not been documented. In response, the BBC committed to fully documenting authorisations. However, the NAO found in late 2012 that only six of the 44 cases of staff that had received more than the monthly maximum gross remote location allowance of £1,900 had been recorded as exceptions by that time.⁶

5. The BBC Trust accepted that the BBC's management and recording of exceptions to the normal terms had been unacceptable and acknowledged that some of the individual

1 *The BBC's move to Salford*, National Audit Office, May 2013.

2 Qq 2-4, 40, 56, C&AG's Report para 2.2

3 Q 35

4 Qq 17, 31, 35

5 Qq 33, 35, 40

6 Qq 36, 38, 40, C&AG's Report para 10

relocation packages involved 'huge' amounts of money that would aggravate licence fee payers. The BBC Trust explained that it had reviewed the business case for moving to Salford and the overall relocation programme, but it had not been involved in decisions about relocation allowances for individual members of staff. The BBC Trust told us that it had set the parameters for the total costs of moving to Salford and that it exerted a substantial level of challenge on the BBC executive. But it was not the Trust's responsibility to manage the details of the move and associated individual costs. The BBC Trust is prevented by the Royal Charter from exercising, or seeking to exercise, functions of the executive board, which include the operational management of the BBC. The Trust considered that the right person to take such decisions was the person responsible for managing the operations, in this instance, the Director of BBC North.⁷

2 Realising the benefits

6. The BBC expects the move to Salford to: enable it to better serve audiences in the North; improve the quality of content; improve efficiency; and provide economic regeneration benefits to the region. The BBC told us that it has a benefits plan that includes targets for each of these four benefits expected from the move, which is monitored annually by the BBC North Board. However, the BBC accepted that it did not have a framework in place to evaluate the benefits of the move as a whole.⁸

7. The extent to which the BBC is better serving audiences in the North will be measured by a reduction in the gap in viewing figures between the North and the South.⁹ The BBC told us that audiences in the North were watching more BBC television than they had before the move and that the gap between audience share in the North West and the South had reduced from 3.9% to 1.6% in the last year. It attributed this reduction to having made more programmes in the North of England.¹⁰ However, the BBC accepted that in the short-term these figures would fluctuate, reflecting the popularity of new programmes or series. The full impact of the move to Salford on audience figures between regions, and therefore the audience gap, would only be seen over the longer-term.¹¹

8. The BBC currently employs 2,300 staff at its Salford site and estimates that its relocation will help create 15,000 jobs in the region. So far 350—around half—of the new jobs created by the BBC in Salford have been filled by applicants from the North West, including 254 from Greater Manchester, including Salford. The BBC also committed to recruiting 100 apprentices per year from the Greater Manchester area during the start-up phase. The BBC told us it had established work to examine the wider economic impact of its investment in the area.¹²

9. The BBC's buildings at Salford, on-site studio space and surrounding property are owned by the Peel Group. The BBC has a 20-year lease on the buildings that it occupies and a 10-year contract for studio facilities. We were concerned that the Peel Group had a monopoly on capital investment within the area surrounding the Salford site, and that this might prevent the BBC from achieving value for money in its contract with the Group.¹³ The annual cost of operating the site at Salford is £18 million, equivalent to £360 million over the life of the 20-year contract.¹⁴

10. The BBC's relationships with the Peel Group and other partner organisations involve potential reputational risks, for example, regarding the extent to which partner organisations are transparent about their tax status in the UK and the amount of tax they pay. Concerned that public bodies require their contractors to act responsibly in relation to

8 Qq 2-5

9 Q 61

10 Qq 7-9

11 Q 26

12 Qq 41-43, 45-47, 60

13 Qq 20, 54

14 Q 56

paying tax, we raised a report published by ExUrbe on the Peel Group, which suggested that the most profitable parts of the Group pay no UK corporation tax. The BBC maintained that EU procurement rules prevented it from taking the tax affairs of companies into account when letting contracts. However, the BBC told us that it had insisted that the company within Peel Media which it contracted with was UK-based, and that the joint venture on the studios between Peel Media and SIS LIVE was also UK-based.¹⁵

11. The BBC has committed to a minimum level of spend over a ten-year period on its studio space at Salford. The BBC told us that it had made this commitment to avoid using scarce capital to build and refresh studios and help local independent productions, by providing premises that would be available to the independent sector. However, the pace of change in the broadcasting sector could result in the BBC having to pay for studio services that it no longer needs. We noted that during the first year of operations at the site, the BBC did not achieve the minimum spend for one type of studio service. The BBC told us that this had occurred because not all of the departments to be relocated to Salford had done so at that time, but its contract allowed the BBC to roll forward the £500,000 underspend into the next financial year. The BBC also told us that it expected its planned use of the studio space this year to consume the underspend.¹⁶

15 Qq 48-50

16 Qq 51-54

3 The termination of the Digital Media Initiative project

12. In February 2011 the BBC told us that realising the full benefits of the move to Salford depended on installing new technology through its Digital Media Initiative (DMI) project. This project was designed to transform the way in which BBC staff created, used and shared video and audio material. It involved the development of new technology to allow staff to manage content efficiently on their desktops, in order to give greater accessibility of digital content for audiences on TV, online and radio. We examined the DMI project in 2011, when the BBC told us that after a difficult start, which had resulted in the original delivery contract being terminated, the BBC had brought the project in-house and had since made good progress in delivering it. We were also told that programmes were being made using the new technology and that DMI was on track to fully deliver at Salford during 2011.¹⁷

13. In May 2013 the BBC Trust informed us that it was cancelling the DMI project noting that since April 2010, when it had been brought back in house, the project had cost £98.4 million but delivered little or no assets.¹⁸ The BBC Trust stated that it was extremely concerned by the way the project had been managed and reported to the Trust, and that it intended to act quickly to ensure that there could be no repeat of a failure on this scale.¹⁹

14. We questioned the BBC Trust on what action it intended to take. The BBC Trust told us that it had commissioned PricewaterhouseCoopers to undertake an independent review of what went wrong. It confirmed that the review would include who knew what, and when, as well as how the governance arrangements in place allowed this “complete catastrophe” to occur. The BBC Trust expected the review to publish in September 2013 and confirmed that once the review was complete, it would invite the NAO to undertake its own review.²⁰

15. We were concerned that Mr Garrett, Head of Technology for BBC Vision Production, had written to the BBC in May 2012 alleging that the BBC Trust, the Department for Culture, Media and Sport and this Committee may have been misled about the true performance of the DMI project, and that this appears to have been ignored. The BBC Trust was unable to tell us whether the evidence that had been provided to the NAO and this Committee in 2011 accurately reflected the performance of the programme, but confirmed that it had now spoken to Mr Garrett about his concerns and would include these as part of the review being undertaken by PricewaterhouseCoopers.²¹

17 *The BBC's management of its Digital media Initiative*, Committee of Public Accounts, 29th Report of Session 2010-11, HC 808, April 2011

18 Qq 116

19 Ev 22

20 Qq 65, 67-68

21 Qq 67-68

Formal Minutes

Monday 15 July 2013

Members present:

Mrs Margaret Hodge, in the Chair

| | |
|---------------------|------------------|
| Mr Richard Bacon | Fiona Mactaggart |
| Stephen Barclay | Austin Mitchell |
| Chris Heaton-Harris | Nick Smith |
| Meg Hillier | Justin Tomlinson |
| Mr Stewart Jackson | |

Draft Report (*The BBC's move to Salford*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Twentieth Report of the Committee to the House.

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

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

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

[Adjourned till Wednesday 17 July at 2.00 pm]

Witnesses

Monday 10 June 2013

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Zarin Patel, Chief Financial Officer, BBC, **Peter Salmon**, Director, BBC North, and **Anthony Fry**, Trustee, BBC Trust.

Ev 1

List of printed written evidence

- 1 BBC Trust
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Ev 22

Ev 22

List of Reports from the Committee during the current Parliament

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

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| Second Report | Early Action: landscape review | HC 133 |
| Third Report | Department for Communities and Local Government: Financial sustainability of local authorities | HC 134 |
| Fourth Report | HM Revenue & Customs: tax credits error and fraud | HC 135 |
| Fifth Report | Department for Work and Pensions: Responding to change in jobcentres | HC 136 |
| Sixth Report | Cabinet Office: Improving government procurement and the impact of government's ICT savings initiative | HC 137 |
| Seventh Report | Charity Commission: the Cup Trust and tax avoidance | HC 138 |
| Eighth Report | Regulating Consumer Credit | HC 165 |
| Ninth Report | Tax Avoidance – Google | HC 112 |
| Tenth Report | Serious Fraud Office – redundancy and severance arrangements | HC 360 |
| Eleventh Report | Department of Health: managing hospital consultants | HC 358 |
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| Seventeenth Report | Administering the Equitable Life Payment Scheme | HC 111 |
| Eighteenth Report | Carrier Strike: the 2012 reversion decision | HC 113 |

Oral evidence

Taken before the Committee of Public Accounts on Monday 10 June 2013

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Guto Bebb
Meg Hillier

Fiona Mactaggart
Ian Swales
Justin Tomlinson

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

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL The BBC's move to Salford

Examination of Witnesses

Witnesses: **Zarin Patel**, Chief Financial Officer, BBC, **Peter Salmon**, Director, BBC North, and **Anthony Fry**, trustee, BBC Trust, gave evidence.

Q1 Chair: Thank you. Apologies for being a little bit late. Thank you very much indeed Peter Salmon for putting on the tour for us and letting us see a little bit how the place works in practice and talk to people who have been involved in developing the facilities here and using them and benefiting from them. That was really helpful, and thanks also to all the staff involved. What we are going to do—if it is alright with you, Anthony—is start talking about Salford first, and then at the end also cover a little bit a few of the issues on the Digital Media Initiative.

Anthony Fry: That is fine.

Chair: Is that okay?

Anthony Fry: Of course. That is great, thanks.

Q2 Chair: I am going to start by saying that actually, for a public sector project, this on the whole has got a good report. All our questions should be in recognition of that. You have managed the transfer of a lot of programmes into a new facility away from London efficiently. Nobody has noticed it. The viewers have not noticed it, and despite some things we will come to, on the whole it has not gone that much over the original budget that you set in 2006. If you can see it in that context, we recognise the efforts that have been put into securing that, and congratulate you on it. Let us set that context.

I am then going to really start by asking you some questions, first of all about the capital expenditure. It is a lot of money. It is nearly £1 billion over the lifetime of the project, and it is a facility that has got a guaranteed life of 20 years. Looking at it in that context, does that look like a good proposition? Although it was within budget and managed okay, it is a lot of money for what is then 20 years. There is a question mark of what happens in 20 years' time.

Anthony Fry: Thank you very much. Can I start by thanking you, particularly on behalf of all the people who work here, for your comments about the project? I think it is much appreciated by the BBC that you started with those remarks, and I know it will be

appreciated in particular by the people who live and work in the area and in this building.

I think it is important to qualify the question of the amount of money by recognising that it is over the lifetime of the project. You refer to the billion; if you look at it in the isolated case of how much money has actually been spent, obviously that is considerably less. It is a difficult balancing act. It is clearly important for a media organisation of the size, scale and reach of the BBC to have appropriate facilities. It is also very important that the underlying philosophy of moving the building and the number of people to a different part of the country away from metropolitan London, and to create a sufficient scale to make that meaningful and not just some tokenism, inevitably means that you have to take a view in terms of the scale. I am sure there is an alternative structure that could have been thought of and have had a considerably smaller building, considerably fewer people and considerably fewer activities. It was, to that extent, strategically a big decision to move the amount of people and the scale of the operations—the amount of programme making—out of London, and to come up to Salford.

It is very early days, and I have said before to you that I am very nervous about holding things up as poster children for anything until you have really seen it operating. There are a number of questions that I am sure you are going to ask us that will go to the heart of that. However, taken as a whole in terms of the scale and the ambition to do this—to fundamentally change the type and tone of voice of the BBC—I think it is something that was worth doing. There were clearly significant risks associated with it, and by and large, as the NAO Report demonstrates, those have been handled. That is not always the case with largescale projects, as we know. My current view is that this will have proved to be not only strategically the right thing to do but also value for money for licence-fee payers. However, I have to say—and I will echo the comments of the

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NAO—by definition the jury is out, and it is important that the Trust have put in place mechanisms for monitoring the continued drive for efficiency and getting the right value from doing it.

Q3 Chair: Sorry to interrupt, but you have not yet got an evaluation project in place, have you? You want to better serve the audience in the North; improve the quality of content; improve the efficiency; and provide economic regeneration benefits to the region. Those were your four ambitions for the project. You have been here now for a year.

Peter Salmon: Yes, it is the end of the first year operating.

Chair: You have not yet got an evaluation framework in place.

Anthony Fry: We are looking at it from a number of different viewpoints.

Q4 Chair: You have not got an evaluation framework in place.

Anthony Fry: We have not got a complete evaluation framework across all four on a coordinated basis.

Chair: That is not very good.

Anthony Fry: That is partly because we are making sure that we get an evaluation process in place that actually achieves the objective. We will come on later to whether or not evaluation processes are put in place that work, but it is more important to get something in place that works than to put something in place that is proven five years later not to work.

Q5 Chair: I agree with that, but you have had since 2006 to dream one up. It is not that complicated, and you would have thought that if you want to evaluate properly, you would have had something in place.

Anthony Fry: I do not want to leave you with the impression that no evaluation is going on. Across all of the items you mentioned, there is evaluation. The question you are asking is “How is that all pooled together?” and that is the part we are looking at and working on.

Peter Salmon: We have a benefits plan, which is monitored by the Board in BBC North every year, which has got targets against economic benefits, financial benefits, creative benefits, the audience dial for northern audiences, etc. That mechanism is in place internally here, and it is monitored and reports back to our Board.

Q6 Chair: Let us take the first one of those. Can you tell me, in the first year, how has the move better served the audiences in the North?

Peter Salmon: Yes, of course I can. It is interesting that in the latest audience data that has come back to us—talking about the North West, where you are sitting today—the viewing share gap on television between the North and the South has halved in the last year. We already measure continuously, but the share gap between the North West and the South of England has halved in that period.

Q7 Mr Bacon: Can you explain that in English?

Peter Salmon: People in the North are watching more BBC television than they were before the move.

Q8 Mr Bacon: When you say the share gap has halved, do you mean that previously a greater proportion of the people in the North were watching commercial television like Sky or ITV, and are now watching BBC?

Peter Salmon: People were not watching the BBC in the same numbers two years ago. This is the end of our second year in the centre—the end of our first full operating year here. If the figures are different, I will write and correct them, but I think I am right in saying that the share gap between the North West and the South was 3.9% and we have reduced it to 1.6%.

Q9 Mr Bacon: If the end viewer is not supposed to see the difference, to what do you attribute that closing of the gap?

Peter Salmon: We are making many more programmes in the North of England. *Last Tango in Halifax* was the BAFTA award-winning drama series. *Hebburn* was the first sitcom we have made in the North East of England. We are making many more children’s programmes in this part of the world. People in the North are enjoying our programmes an awful lot more, too, as well as people in the South.

Q10 Justin Tomlinson: Just for the avoidance of doubt, because that is a little bit of marketing speak, what are the actual figures? Is it just that fewer people in the South are now watching it, and that has caused the closing of the gap, or is it that there is a significant increase in the number of Northerners who are now tuning in to your vast array of TV programmes?

Peter Salmon: I will give you the numbers if they are different from the ones I mention here. BBC services are still the bestwatched television platforms in the UK, North and South, but the share gap between the South of England and the North of England has halved over the past two years. By the way, these figures had not moved over the past several years, and in the past couple of years, they have moved a little bit. We are not taking all the credit. There are lots of things that colleagues from all around the BBC are achieving in the North of England and elsewhere to make the difference, but it would be nice to think that some of it can be brought back to this venture here in the North West.

Q11 Chair: Let us dig down into that a little bit. For example, you have not moved up here, have you, Mr Salmon? You have not actually moved up?

Peter Salmon: This is my base. This is my fulltime base.

Q12 Chair: Do you enjoy the relocation allowance, or are you actually living here now?

Peter Salmon: I had the relocation allowance, and I pay for myself here now. All of my personal expenses are paid for out of my own pocket.

Q13 Chair: But that is out of your relocation, so you have not actually moved yourself up here.

Peter Salmon: I live here, yes. I rent in this region fulltime, and I pay for myself.

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Q14 Chair: So you have stopped the relocation allowance?

Peter Salmon: I have stopped the relocation allowance.

Q15 Chair: When did that stop?

Peter Salmon: It ended two months ago, so it was two years prior to that that—like everyone else on the staff—I received the same relocation payments.

Q16 Chair: So that was for two years.

Peter Salmon: Yes, for two years, which is the standard package for every member of staff on the site. I received the same relocation payments as the most junior member of staff on the site.

Q17 Chair: It is an area where there is a bit of criticism of you. Let me just get the figures right. Only 574 staff were relocated, out of the ones whose jobs came up here, but you paid for the relocation of nearly 900 staff. Is that right?

Peter Salmon: The first figure relates to the permanent staff on the BBC who were in scope to move, who received the enhanced relocation package. The other figure, I think, relates to people who were not in scope—i.e. there were people in other parts of the BBC who competed for jobs.

Q18 Chair: Why were they offered a relocation allowance? They knew the job was going to be in Salford.

Peter Salmon: There is a standard relocation allowance.

Chair: But they knew the job was going to be in Salford.

Peter Salmon: I think I am right in saying that there is a standard relocation package that we apply.

Q19 Chair: So this applies even if you know your job is going to be somewhere else. Does it apply if you come out of Manchester University and you decide to get a job in London?

Peter Salmon: No. It applies to those people moving within the company.

Ian Swales: It is within the company—they already worked for the BBC. That is normal. In big companies, that is normal.

Q20 Chair: Can I just ask how much you spend on getting guests up to Salford?

Peter Salmon: There is a figure. Do you want to look? I think there is a table.

Zarin Patel: Should we look at figure 14 on page 31?

Peter Salmon: Figure 14, page 31. Clearly, there is a lot more traffic. Yes, page 31, figure 14. That gives you some sense of travel and subsistence costs across the BBC. This is for all people using the site, not just people based here. It has fallen since 2010 and 2011.

Mr Bacon: Did you say figure 14?

Chair: 14 for us is “Reach among Northern audiences.”

Fiona Mactaggart: No, it is figure 13, two pages before.

Q21 Chair: That does not really give me the answer to the question I asked, because there is one issue around the relocation of staff. How many millions has that cost so far?

Zarin Patel: In terms of relocations, £24 million is the forecast spend. I do not have to hand the amount that talent and presenters spend on travel up to BBC North. We can let the Committee have that as soon as possible.

Q22 Chair: Will that include guests? If you have got *Breakfast* up here, my understanding from walking around is that one or two guests are brought in every day. There is a cost for that.

Peter Salmon: That is the same as when *Breakfast* was in the South. People travel from the North to the South.

Q23 Chair: Has there been no change?

Peter Salmon: Well, inevitably, if there are more programmes made here, then the transportation costs to the site to film our programmes are greater than they were.

Q24 Chair: I understand that, but we are just trying to dig underneath the cost. We have got the £24 million, which is the relocation cost, but I just wonder. The question of how many guests are being asked to travel up is part of the value-for-money assessment.

Zarin Patel: I do not have a figure for guests, but right across the BBC, as we move spend on television outside of London—for example, to Glasgow, Northern Ireland and Wales—there is an increase in spend. In the next few weeks, with the Annual Report, the BBC will be publishing all of its travel and subsistence spend. This year, in the year until 31 March 2013, there has been an increase of about 6%. Part of that is to do with inflation at 3.3%, and in part it is to do with a more flexible workforce and guests travelling across the UK. However, the judgment here is that by producing programmes right across the UK, we improve audience approval, and the price we pay is slightly more travel. We have well controlled policies on travel, and all of our spend is properly disclosed by person, so that we have the right controls over how much we spend on travel.

Q25 Chair: You improve audience approval? Can you tell me what that means?

Zarin Patel: A good example would be the example Peter used of *Last Tango in Halifax*, which is made here. *The History of Scotland*, which is made in Scotland; *The Weakest Link* and *Imagine* are other examples. Our programmes are being made right across the UK. I cannot remember the exact figures, but I think *Last Tango in Halifax* had a much higher average approval rating for audiences in the North. I think it was 17% extra approval. That is what I meant.

Q26 Chair: We have got one example. I am just interested in breakfast television. One thing about *The Culture Show*, which I think goes out from Glasgow, is that I do not think anybody who appears on *The Culture Show* comes from Glasgow; they are all shipped up there for the Friday night show. I can

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understand the rationale for why this decision was taken, and I am completely with it, but it would be interesting—if we come to a value for money judgment—to ask whether that means you are actually having to ship more people than otherwise up here to be on the sofa in the morning.

Anthony Fry: I understand. I think that you have to look at that in the context of the overall costs of operating. I am very reluctant to look at a particular line item and say, “That costs more, therefore we should not be doing it.” The question is, if you take your operating costs as a whole, have you got sufficient savings by doing what you are doing to balance that additional cost that will inevitably result? You have given a very good example, Madam Chairman. Can I put that also in perspective? I think things change over time. If you want to take *Breakfast* as one example—although I am trying to avoid getting too much into the creative and news areas, which are not my special subjects—it is undoubtedly the case that when you are now looking at *Breakfast* and they are talking to academics or professors in medicine or whatever else, there is a far higher number who are based and located in the North of England than would have been the case when they were doing it down South. They would largely have got these people from London universities, for example. I do think that, over time—and I think it is a question of time—you will find that the nature of people appearing on these shows will definitely change. I do not think you can look at the cost and say, “If you are transporting people from A to B, that by definition means that it has not been value for money.” You have to look at it in the round.

Amyas Morse: I do not want to cast a pall on the impact of the northern response in the ratings, but I do have to refer you to page 33 of our Report, where we said—and this was agreed with the BBC management and the Trust—that the enduring movement of these sorts of ratings happens over the long term. If you look back over the past few years, they have gone up and down, and things like a new programme or a new series will have the effect of pushing up response. That is not to say that we think there is anything negative take out of it, but we do feel this is something where you have got rather a bit longer than this to put the data together before we can declare victory on narrowing the approval gap. I hope you will think that is fair comment.

Peter Salmon: Of course it is. We were asked the question, so I replied in that context. We completely take that.

Q27 Guto Bebb: On the issue of guests, I am sympathetic to the point that you are making, but can you just clarify the position in terms of the BBC talent who are on the books and are long-term employees of the BBC. What is the position of those employees who might be living in the South East and travel up to do programmes knowing full well that those programmes are now going to be produced from Salford? Does the BBC meet their costs of travel, for example?

Anthony Fry: Can I give you an overall answer, and then ask Peter and Zarin to comment on the detail?

This is slightly following on from the Comptroller and Auditor General’s response, but I have no doubt that if you look at a picture today, you will have a considerably larger number of people who were doing programmes based in the South as talent who are being transferred to do programmes up here in Salford. In the very short term—and you could argue that this could be the case with *Breakfast*, for example—if you look at the habits of who is appearing from an audience viewpoint, you have got to create some consistency. If you ask me, “In 10 years’ time, will the number of talent living in the South moving North on a showbyshow basis look the same?” I would guarantee you that it will be different. I absolutely take the point that was made in regard to audiences. You have to look at continuity on the one side, and how many people you are moving to do individual shows. You can take that as a steady state, or you can believe that if you headquarter a business as important as this is to the BBC in the North, it is very unlikely that the nature of the sort of people who are appearing will always be the same as it is today.

Q28 Guto Bebb: Just to clarify, my point is that I am sure that will happen, but in the meantime you were saying that staff relocated to Salford were getting two years’ worth of help with their costs. What is the position, then, with talent who are still living in the South and are coming up? Are they still being supported, or do they have to meet their own obligations after two years?

Peter Salmon: As you know, some of our onair talent such as reporters and presenters are on staff, so if they meet the framework of remote-location allowances, they are funded and reimbursed to the same extent as any other member of staff, but only to the same extent. There are no exceptions to that rule, but they have to be on the staff.

Q29 Guto Bebb: So it would be a twoyear rule?

Peter Salmon: Yes, a twoyear rule. Just to talk about *Breakfast*, I think the range and extent of coverage of stories on *BBC Breakfast* has changed inordinately, and so do the team. Take business news on *Breakfast* since they moved to the North of England. They felt they were quite City of Londoncentric when they were in the South of England, which was just a factor of the City of London being on the doorstep. Now, when you watch Steph McGovern of the *Breakfast* team cover business news, in just the last couple of weeks, she has covered the new investment in the City of Liverpool docks. There has been coverage of national parks’ encroachment in Penrith this morning and coverage of Bradford. I think the team are at pains to make sure that there is original storytelling from all of the UK, but particularly from the North of England. That is one of the reasons we moved here, and by the way, the audience figures for *Breakfast* are just as strong and marketleading as they were when it was in the South.

Q30 Guto Bebb: Just to clarify, finally, on the issue of the talent, you mentioned the fact that if they are not on the books, then obviously they would have a different deal. Quite often, they are not on the books

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because they are actually better paid. Is it the case, therefore, that talent who are not on the books—who are, for example, moving from doing a programme in London to doing it in Salford—are still getting their costs met for the travelling up and down?

Peter Salmon: If this is your regular base—it is where you are based—we do not meet your travel costs. If you are coming up here for an occasional series, it is as it would be in London if you were travelling from somewhere out of London to make a discrete series, and we may well meet those costs, although it may vary in different circumstances. If you are based here, we do not meet your travel allowances.

Q31 Chair: Does the £24 million that you spent on relocation include the money that has gone on talent?

Zarin Patel: It would if they are permanently based here—they have a staff contract.

Chair: But by definition, a lot of the talent have these personal contracts.

Anthony Fry: We could go back on to that one.

Q32 Chair: What I am trying to see is whether the £24 million covers it all, given that some of the talent will have their own contracts? Will their relocation package be on top of the £24 million?

Zarin Patel: No, the £24 million is a complete estimate of the cost of moving the right people up to Salford. If you have got a freelance presenter who is coming up here for a series, then their travel costs will be met in the usual way, and if they are staff presenters or staff talent who have moved up here, then their costs will be in the £24 million relocation spend.

Q33 Chair: Mr Fry, do you think it is fair that over £100,000 went on relocation costs for 11 staff, with one at £150,000? Do you think that is a good use of BBC licence-fee payers' money?

Anthony Fry: As you know, from the Trust's viewpoint, we reviewed the overall programme. We reviewed the business case for moving to Salford. We did not make—and we would not expect to make—individual decisions around appropriate relocation allowances for individuals. That is not part of what we should do, and more importantly, in regard to the tricky area of remuneration that I am sure we will revert to at some point, the Trust is specifically excluded from having any handle on that, except in regard to the Director-General.

Chair: It is over £1 million for 11 staff.

Anthony Fry: I absolutely understand, and I absolutely understand the fact that from a bald reading of those facts from a licence-fee payer's viewpoint, any numbers of this sort of scale regarding individuals are going to cause at the very least raised eyebrows and, more than that, some aggravation amongst licence-fee payers. It is always the case. As the Trust, we cannot get involved in determining individual relocation packages. In the business case, that was left to the decisions of management, and they were set parameters for the total costs involved in moving to Salford. Those decisions were taken by management, both locally and—I imagine—centrally, and I am

reluctant to criticise individual decisions made. I am not the HR director, and I do not have all the facts.

Q34 Chair: Ms Patel, are you the accountable person?

Zarin Patel: So when we—

Chair: Are you the accountable person for this?

Zarin Patel: I am the group CFO, so I am accountable for the whole BBC, but each of our divisions has a spending limit.

Q35 Chair: Do you think over £1 million for relocation of 11 people is good value?

Zarin Patel: All of the relocation packages were available to everyone, whether they were earning more or learning less. These were packages that were given to everyone, because we wanted a good proportion of people to move up here—for business continuity, but also because of their knowledge. Necessarily, people living in the South have expensive houses, and the guaranteed house purchase scheme had things like stamp duty, which is dependent on the value of the house. The guaranteed house purchase scheme was absolutely one of those that was benchmarked, and we actually gave less than other companies. The whole relocation package has to be looked at in the round. It was the right and necessary expenditure to spend on flexible relocation, because by relocating someone, you spend on average about £28,000. By making someone redundant, you spend about £48,000. It is better to maximise the relocation than to make people redundant, and those were the judgments that were made by the management team.

Q36 Chair: I think I can take that as a general view; the problem is that the general view always gets destroyed by the particular case. There were two things, one that you have not quite come back on, which is the issue of 11 staff over £1 million. In the body of the Report, there is mention made of one member of staff who had two houses, one in your neck of the woods, the East of England.

Mr Bacon: Yes, the East of England.

Chair: They had one in the East of England and one in London, and they were allowed to sell their East of England home, I think.

Peter Salmon: They were allowed to sell their cheaper home.

Chair: They were allowed to sell their East of England home rather than their London home. Presumably, if they were working in London, their permanent residence would have been their London home.

Peter Salmon: Should I come in on that, because I authorised that particular exception? When we looked at the cost of either relocating them on relocation allowances or selling their first home—their other home—it was much more expensive. We saved more than £20,000 in making that decision. It just seemed to me that this was somebody who was businesscritical, a key leader here, and who had done a brilliant job for us. The service that they provide for us is first-class. We wanted them to be committed to Salford. That decision saved the BBC more than £20,000. I thought that was good value for money. I

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signed that off with our Director of HR. I know it may pop out of the Report in an eye-catching way, but in terms of the whole of this project—arriving on time, on budget, and all the programmes landing safely—that was a key decision. That is the kind of decision you have to take from time to time in the exceptions area. I know it may play out in difficult ways in newspaper headlines, but we took that decision really carefully.

Chair: It is just a lot of money to relocate, and it is licence-fee payers' money.

Q37 Justin Tomlinson: Mr Fry, you said you understood that these 11 relocations over £1 million would anger licence-fee payers, but ultimately it is not for you as the Trust to address this; you just set the parameters. Therefore, I ask you: were those parameters right?

Anthony Fry: I think you have to let the management manage. Firstly, I do not think that a supervisory body and strategic authority like the Trust can possibly get involved in the decisions. Secondly, I am not aware of the individual circumstances of members of staff. The right person to make those decisions is the person who has actually got to make the decisions around operating the building seamlessly, and that is Mr Salmon. Therefore, for me to set some phony parameter because it is going to make me or anybody else feel better and/or satisfy some general requirement is not as important as a strategic authority saying, "We need to get this landed. You as management need to land it within these parameters, and we are going to let you have the flexibility you need to do that."

Q38 Justin Tomlinson: I absolutely understand that it is not your job to micromanage, and they are professional managers who have to make those decisions, but who on earth is batting for the licence-fee payer? My inbox is permanently full of complaints saying, "Why are you, as Members of Parliament, not doing something about something that the BBC has done that has been featured in the media?" There may be cases where there was a commercial reason why it was done, or where it was potentially the lesser of two evils, but it always seems to be—and we had a previous hearing about this—that no one is going in to bat for the licence-fee payer.

Anthony Fry: If I may, I would dispute that. I think that if you sat in on the sort of Trust meetings and finance committee meetings that take place—and you would have seen that by reading the Report done by the NAO on financial management of the BBC—you would see that the level of challenge that the Executive receives from the Trust on a regular basis is very substantial. I can tell you that, on remuneration generally, certainly since I have been at the Trust the lead has been taken absolutely consistently on beating back on everything from numbers of senior managers through to pay, and so forth.

In this particular area, some of these numbers—as the Chair has rightly pointed out—are not easy reading if you are a licence-fee payer, and I am not going to sit here and say that they are. With the amounts of money we are talking about, and looking at it from the

viewpoint of average wages, this is by definition a huge amount of money. However, it is difficult for me to sit there and set some parameters, knowing as I set them that they are by definition going to be breached because of the circumstances Mr Salmon gave. The hard fact is that house prices in London are extremely high, and they are much lower elsewhere. If you want to move people from one place to another, it is going to cost you some money.

It is not my job to sit here and say, "I do not care about the viewpoint of the licence-fee payer." I care a lot, and I think that my colleagues and I do the best we possibly can do to try to make sure the interests of licence-fee payers are looked after. There will be exceptions, but I am not going to say to you that, taken in the whole, I believe this was managed appropriately. There were exceptions. In our response to this Report, I have already expressed our disappointment at some of the management of those exceptions and the auditing of those exceptions that were noted in the Report, and we as the Trust made clear that we found that unacceptable. However, that is different from saying the allowances were unacceptable.

Chair: 10% were exceptions. That is very high; 91 is a lot.

Peter Salmon: Can I put that in context, just in terms of the cost of those? We clearly want to guard that money carefully, but that is 3%. Those 91 exceptions were 3% of the overall relocation budget.

Q39 Chair: What is the budget of Radio 3?

Zarin Patel: It is about £45 million.

Q40 Chair: Well, this is a half-year budget. Half of Radio 3's budget was spent on relocation. That is the sort of equation I might make.

Zarin Patel: Let me complete the analogy that Peter made. These 91 exceptions cost the licence-fee payer £621,000—3% of the cost of relocation. If those people had been made redundant because they could not move up if we did not give them a flexible package, we would have spent £1.9 million in redundancy. That was the judgment that the management team was trying to make, which was to trade off one way of doing it versus another.

Amyas Morse: I think I risk saying some of what Mr Fry has said, but perhaps I will say it from a slightly different angle. This Report says that, by and large, this has so far been a successful move. There are lots of things yet to be demonstrated about it, and we are not trying to go back from that. However, there is a real message to be understood here. There is an expectation of a standard of management in these activities. Giving an answer that says, "Well, actually, do you want to make them redundant, or do you want to pay them moving allowance?" does not address the point that is being made in this Report. The point is about having adequate control and adequate records. Many of these decisions were not properly recorded at the time. We know that, and to be quite honest, you know that, too. In some cases, the explanations we are hearing now were forthcoming to our team retrospectively. They were not in any form that we could test at the time. I am only saying that it is not

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too much to ask for management to bear the responsibility for actually doing these things with a degree of consistency and a degree of proper record keeping and rigour. I am not trying to stand in the way of the move, or prevent sensible business decisions from being made—none of those things—but I am just saying that it is not exactly a surprise that people are concerned about these issues nowadays. I am sure the BBC knows that very well.

Anthony Fry: I will let Ms Patel answer the particulars, but can I say that from the Trust's perspective, we are exactly on the same page. That is why we specifically commented on the lack of recording, a matter on which I am sure we are going to revert in fairly close order. The matter of recording on this is totally unacceptable. It has been a constant source of disappointment that in many ways the BBC gets so many things right, and on something like this—which is not a matter of policy, or practice, or even good management but just a simple matter of doing things by the processes you have agreed—the BBC, I am afraid, has consistently let itself down. The Trust has pointed this out, and as I say, we will be reverting to it in other matters, which, I have to say to you, are considerably more serious in terms of the amount although not in terms of the principle.

Q41 Meg Hillier: I just want to turn from the internalfacing issues to the impact of the BBC's move here on the wider region. It was one of your intended aims to deliver some regional economic benefits. Starting with you, Mr Fry, what would you say the benefits have been to date of the BBC's move to MediaCity for Salford?

Anthony Fry: Let me say two things about this. The first is that it absolutely was highlighted as a potential benefit. It is not the BBC's job to act as the economic regenerator of any region, as it were. It would be erroneous of us not to say that we think doing it is going to have some economic impact, but for that purpose, it is not our economic job to do it. I happen to think it is appropriate we should look at it. The first thing I would say is that there is no doubt that, if you look at the amount of activity taking place around the production space—Mr Salmon will be able to talk about this to a greater degree—and you see what is happening in this whole area of MediaCity, there is clearly an element of economic regeneration about that.

Economic regeneration, as Mr Morse so rightly said earlier, is rather like the numbers we are looking at in here. It is not going to take one or two years; gosh, if it could take only one or two years, we could solve quite a lot of the economic problems of the country by getting on with it. The hard truth is that this is a longterm process. I think there are some signs that this is having an impact on the local economy, particularly around the local media economy, obviously. The numbers of people employed so far in the BBC—which I think, and Peter will correct me, runs to 290 or 300 in this building—from the Greater Manchester area will change over time. One of the interesting dynamics is that we are still in the phase where somebody is regarded as coming from London into the area if they have moved here and relocated to

Salford. When do they stop being from London, and start being from Salford and Manchester? Over 10 years, people will not be taking about, "This person comes from London"; they will be talking about, "This person lives in Salford," or lives in Manchester. I think the economic effects are much longer term. Peter, do you want to say something about the local area?

Peter Salmon: It is something we take really seriously. Given that it was one of the benefits we set out to deliver in moving here, we are pleased that 350—approximately half—of all the new jobs created here were from the North West; 254 of them were from Greater Manchester, including Salford; 10% of the BBC workforce on this site live in Salford; and 100 contractors on this site—the people who support us in these buildings—are from Salford as well. I think it goes beyond that, and of course you met some of the Young Ambassadors and apprentices. We have got a commitment to 100 apprentices from the Greater Manchester area.

Q42 Meg Hillier: Did you say 100?

Peter Salmon: Yes, 100 apprentices from the Greater Manchester area.

Q43 Meg Hillier: Is that per year?

Peter Salmon: Yes, in our startup phase.

Q44 Chair: 10% live in Salford. How many live in Greater Manchester? What proportion lives in the local area?

Peter Salmon: It is a much larger number. We do not keep records on where everybody lives, in the same way that we would not in London.

Chair: But that is quite low.

Peter Salmon: Forgive me, sorry, it is 350 new recruits. This is on top of the 638 people who transferred from BBC Manchester down the road.

Meg Hillier: So that is 350 new jobs.

Peter Salmon: That is more than 1,000. Half of all the jobs created when we moved here were filled by people from the North West; 254 of that 350 came from Greater Manchester. They were citizens of Greater Manchester, and 10% of all the BBC staff currently employed here are now domiciled in Salford. We have got a commitment to 100 apprentices in our startup phase—young people from the Greater Manchester area, including Salford—and we have instigated relationships with everybody from the Salford Foundation to lots of Salford schools to the Oasis Academy down the road. We are trying to work on creating a pipeline of skills and jobs for young people to come and work in our workforce more and more. As Mr Fry says, that is hopefully going to be a natural consequence of our being here. We have to work with local communities to make that happen.

Q45 Meg Hillier: That is all great, but I am an MP who was next to the Olympic site, and we saw how people can fiddle the figures on who is local and who is not. What postaudit are you going to do? You said something about not monitoring exactly where people come from, and perhaps you could just unpack that a

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bit more. Are you doing any postaudit to see what real life changes you have made in terms of people who were living here before you arrived like a spaceship from outer space, and then started working here or got jobs over time? I appreciate it will take time, but how are you going to audit that?

Peter Salmon: We have instigated a piece of research on the economic impact of the BBC in the area. I think the NAO had sight of that. We know that the gross value added investment of the BBC in the region has risen by 20% in a single year between 2010–11 and 2011–12. Actually, the exact figure is 19.7%. Already, we are having some impact on the local economy, both in terms of jobs and investment, but we have also instigated a piece of work on our own activities here, so that we can dig deeper into exactly what is happening and where that investment is going.

Anthony Fry: I think it is really important to note that, if you do something of this scale, you are effectively replicating on a smaller—but still very significant—scale what you have got in London. You would regard me as completely crazy if I said to you, “Every single person who we employ in London comes from London.” They do not; they come from all around the country. Of course it is going to have an impact on the local economy, and of course people who grow up in Manchester and want to be in media will have an ambition to join the BBC if we are doing what I think we should be doing. Equally, I am just as hopeful that people who live in Scotland, Wales, Northern Ireland, East Anglia and the South of England will say, “I know I was brought up in Southampton, but why can’t I go to work for the BBC, and why can’t I go to Manchester?” I absolutely would reject the idea that we come to Salford and, in 10 years, the only people who work here will have been born in the Greater Manchester area. That is creating something very different. The balancing act is that, by definition, even if we got lots of people from outside this area to come and live here and work in the BBC, we would be improving the local economy. I think it will be a balance. We will get some people from outside, some from Manchester, and some who get transferred from the BBC in London because their job takes them up here. There will be a mix, and that is healthy.

Q46 Meg Hillier: I appreciate that there will be a healthy mix—you are a national, and indeed an international, broadcaster—but at the moment you have recruited 39 staff from Salford on the basis of the 254 that you have recruited. There is promise of 15,000 jobs in the wider area. I am aware that the council has taken a lot of risk in putting in infrastructure in terms of backing up buses and tram routes, and other facilities. There is a trust thing here. The local community has spent its tax money on supporting and welcoming the BBC, and it seems to me that if I were them, I would want something back for it. It is all very well to make those nice warm words about everyone coming from everywhere, and the apprenticeships are a good thing and we were really impressed with the apprentices we met, but what specifically are you doing to reach out to people across the range of skills you need? It is not all broadcasters; how many of your cleaners are from

Salford or Greater Manchester? What about your other ancillary workers and the catering? Are you looking at those things as well?

Peter Salmon: I think there is momentum. I appreciate the question, but I think there is momentum behind recruitment in Salford. There were 39 new recruits from Salford, which is on top of a couple of hundred from our existing workforce who just moved down from Oxford Road. That number from Salford is now at 61, so already in the time we have been here it has increased, so it is moving in the right direction. There are in addition 100 staff here working for contractors, so 10% of our own workforce now lives in Salford and in addition to that there are 100 contractors on the site who live and now work in Salford as a consequence of the BBC being here. We are working with colleges and schools. We have got a lot of people who sit on boards of colleges and educational bodies, working to make sure our needs and the custom and practice of those colleges can be aligned over a period of time. It will not happen overnight; it is about the longterm skills pipeline.

I would also echo what Anthony says, which is that we have got to do that because we have also got to make sure we employ the right people. We are a UKwide broadcaster, and we need to make sure that the people on this site are world class. The most important thing is to make sure that Salfordians are world class and compete for those jobs openly and fairly.

Q47 Meg Hillier: After all, those of us representing other constituencies would want our people here, too, so I take the point. However, you are talking about creating 15,000 jobs in the region, including for people from Hackney. When will those jobs be created? What is the timescale, and will you really be publishing your evaluation of how well that has worked? Is that robust? We have criticised you before for a lack of robustness in evaluation, and it is very easy to make the warm words at times like this. Actually, in the end, if the delivery is not there, it is the local people who were promised it that lose out—while house prices are rising and all the rest of it. Gentrification can come; it does not help everybody. What is the evaluation in place? When will these jobs be created by? What is your rough timeline?

Peter Salmon: Sorry, those 15,000 jobs are not the BBC jobs.

Meg Hillier: No, they are within the region.

Peter Salmon: We already are the major employer on the site. We have made a commitment to move several hundred more jobs to the site. The BBC is by far the largest tenant on the site, catalysing lots of good things. We have talked already, and I think we have discussed it with the NAO, about how we have instigated a piece of economic research into the BBC’s own economic impact in the area. We will be making that open in the normal ways to people who want to see it. That is so we can find out a little bit more about what we have already done and how we might build on all those stimuli to make sure we have beneficial impacts on the local economy.

We are doing our bit to be part of this major piece of regeneration, but the 15,000 target is not the BBC

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target. We have 2,700 staff here at the moment on this site, 2,300 of whom are core. Already, however, you can see the kind of momentum that has been built as a consequence. These are freelancers and contractors. All work fluxes and flows; of course it does. Our core base here is 2,300, but we have already been successful in winning more work for the site.

Anthony Fry: Obviously, we have the same interest in being able to demonstrate the effect on the locality here as we do in Cardiff, as we do in Pacific Quay and as we do in Northern Ireland—and the other centres of the BBC.

If you are talking about it in the context of the BBC, as a public body funded by the licence fee, it has to be able to justify to the totality of the nation who contribute towards its funding that it is doing the right things to provide the right economic stimuli, and not looking at things only in terms of, “All we have to care about is producing a great programme,” but also, “How do we contribute to the wider community?” This sort of economic evaluation, to which Mr Salmon referred, is exactly the sort of work that we will be looking at at the Trust—and not just in regard to Salford.

Q48 Fiona Mactaggart: Meg asked the question I was going to ask, but I was thinking of moving on to the issue of the Peel Group, which is the body that owns much of the property that we are occupying. It is leased by the BBC from them. You will be aware that this Committee has been concerned about overseas-based entities and their tax habits. I am struck by the report from ExUrbe, which suggests that the most profitable parts of the Peel Group are managing to pay nil UK corporation tax, while those bits of it that are making less profits are certainly paying some. I was wondering what you felt about taxpayer’s money going into funding a company that does not seem to be wholly committed to ensuring that its taxes are paid in the UK.

Zarin Patel: When we did the procurement back in 2007–08, our judgment was that we had to follow the EU procurement rules, which allow any eligible company to apply. However, one of the things we did insist on was that the company in Peel Media that we contracted with was UK-based. Certainly, the joint venture on the studios, which is a joint venture between Peel Media and SIS LIVE is UK-based—as is the Peel Media set of companies that we comply with.

Fiona Mactaggart: The Isle of Man is included in the UK.

Q49 Chair: We do not have a full breakdown of what they do, but the company on the whole, at maximum, pays 10% corporation tax. That is at maximum. That is just totting it up. They do not pay their fair share of corporation tax.

Zarin Patel: Madam Chairman, I think it would be really hard for the BBC to take the part of HMRC in judging the tax affairs of companies with which we contract.

Chair: We are not asking you to be HMRC. We are just saying that when you are using taxpayers’ money—the licence fee is a form of taxation—it

ought to be with companies that pay their fair share back into the communal pot. That is all; it is a very simple proposition. I do not think even the Government has much of a problem with that, except they have a bit of a problem with the implementation of the principle. They have accepted the principle from this Committee when we have argued it.

Zarin Patel: If the EU procurement rules are changed to make that a qualifying proposition, of course the BBC would then comply.

Chair: It is not a question, but I get so fed up with people talking about EU procurement rules almost as an excuse. There is always a way of ensuring, within the way you do your procurement, that you have a company that behaves responsibly in relation to its payment of tax.

Q50 Mr Bacon: Do you think the French have a problem with this, Ms Patel?

Zarin Patel: I cannot comment on that. I can only comment on the BBC’s position, which is to try to comply with EU procurement rules to try to ensure that we only—

Chair: Do not say that, because you really can set the framework in which you put the competition to ensure that you only do business with people who act responsibly. You can do that; I get fed up with people saying that you cannot. All of us who have been responsible for this sort of procurement know that you can find your way around these rules in a proper way.

Mr Bacon: In fairness, HMRC did a sale and lease back of all its properties to a company that promptly moved to Bermuda—so you are not alone.

Chair: They are not very good at it, either.

Anthony Fry: I take the point on board. I am not going to give you any of the defences that have been postulated. One of the issues is that these contracts were entered into some time ago. You have just exactly highlighted, Mr Bacon, one of the problems. I cannot control, on behalf of the BBC, the arrangements in terms of ownership, structure or anything else of any of the people with whom contracts are made. It is very difficult to run a business like this with no longterm contracts, because, clearly, if we only had short-term contracts you could solve the problem, if you wished to solve it, by simply never contracting for longer than two years and getting out of the problem. That would be extremely difficult.

Mr Bacon: You mean like a supermarket.

Anthony Fry: It is a bit like a supermarket, yes, or a dairy company or something else.

Q51 Chair: I need to say two or three things. First of all, you can, as a Trust, set the parameters under which the BBC management then decides how it does its procurement. You can, so I would not accept that. The second thing is, talking to people who live in the area, Peel—whatever it is they call themselves, as they have lots of different companies—have almost a monopoly on capital investment in this area, which always worries me as to whether or not the BBC then get the best price for them. You might want to comment on that: whether you get the best price for what you have.

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The third thing is that we looked around the studios that you are using here. You are committed, there, to giving them a minimum amount of income. I always hate it when that happens, because, of course, in year 1 you did not reach that minimum amount. I cannot remember if it was for wet, dry or damp studios.

Mr Bacon: You were over on wet and under on dry, weren't you?

Chair: Whatever it was, you did not meet the minimum. You are locked into a contract. We walked around, and you yourself, Mr Salmon, said to me it may well be that we make programmes in a very different way in five years' time; we may not need studios. We have seen the same on PFI in hospitals. We put up all of these hospitals and we are now closing hospitals, yet we are locked into a 30-year life. I am concerned that a) you have used this company; b) this company has a monopoly around here; and then c) you are locked into contracts, particularly on the studio side of the business, where you may just be pouring money down that contract without a proper use for the studios.

Peter Salmon: Shall I talk about the studios just for a minute? I understand the other two issues, as well, quite clearly. The year with the underspend, which you mentioned, was our first year of trading here, when not all of our departments were in situ. It was probably fairly predictable that we would undershoot a little bit. Of course, we can carry that underspend across. We are fuller now; we are much more successful.

Q52 Mr Bacon: Can I just be clear? When you say you can carry it across—when I said dry, I meant damp—you mean you were underspent on damp and you can carry across the underspend on damp to a future year of spending on damp. That is right, isn't it? You cannot transfer that across to wet.

Peter Salmon: I think that is right. Sorry, I am not an expert in damp versus wet versus dry.

Chair: You cannot, no.

Peter Salmon: However, I think you are absolutely right: it falls within the category. Actually, we are making a lot more of our programmes qualify in terms of spending.

Mr Bacon: You are throwing a bucket of water over them, are you?

Peter Salmon: Actually, it is a fairly flexible contract, in the main, in terms of being able to move money across years.

Q53 Chair: However, in five years' time, you could not get out of it.

Peter Salmon: Of course, we have reviews of—

Chair: But you could not get out of it in five years' time.

Peter Salmon: We can, but—

Zarin Patel: Sorry, Peter. The minimum guarantee, which is for 10 years of studio life, starts to ramp down after year 5, because we predicted we would need to use less studio space. Just to confirm what Peter said, we only pay for what we use, and the bit we have not used we can roll forward. The forward-commissioning plans that we have show that

the £500,000 that has rolled over into the current financial year will be used up.

Q54 Fiona Mactaggart: We did hear, when we were touring around, that it is not that you only pay for those you use, but that there are some studios you have on a constant contract. While you pay for some of it on the basis of what you use, there are some permanent studios—like the one we saw the fellow rehearsing in.

Zarin Patel: Take children's programming, which goes out every day. You can predict how much studio usage you have, and therefore you can commit to having those.

Can I go back a step to why we did the deal in this way? What the BBC has been finding over the last five to 10 years is that it has too much studio space, particularly in London, and that the nature of programming was changing because we could make it here. Going forward, we did a minimum guarantee for 10 years, which sounds like a lot, I know, but we can predict how well we will be able to use it.

The more important point, from a financial perspective, was that we did not want to have to use scarce BBC capital to build and continually refresh those studios. We wanted less capacity, but we wanted to be able to be sure we would always have first call on that capacity.

Thirdly, we did it in order to attract the indie sector. We knew from London and the BBC Television Centre that the indie sector finds it difficult to work in a completely BBC-owned premises. It was important that Peel Media had a block of studios that could be used by the indie sector. Those were the three reasons.

We were really conscious that, by signing up to a 10-year minimum guarantee, we were binding the hands of the BBC in the future. We worked really hard to build flexibility into that guarantee, so that in year 5 it reduces. The rollover—if you do not use it in one year, you can use it in the following year—was the flexibility that we built into the contract.

Chair: I understand. I would simply observe that 10 years is a long timeframe, given the way that the media sector is changing so rapidly. I would observe that in year 1 you got the figure wrong. You may be able to put it right in year 2, but you did get the figure wrong in year 1.

Peter Salmon: We have put it right in year 2, by the way.

Q55 Chair: You have given Peel Media this great monopoly up here in Manchester and a lot of money, from which you are going to find it difficult to get out. Can you give us a feel for both the cost of the building, running this building and running the studios, and the management costs that come with it? What proportion of the budget up here in Salford goes on that?

Zarin Patel: Broadly, our operating cost for the whole site, 2,300 people, is £18 million per annum.

Q56 Chair: Which is what proportion of Salford's costs?

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Zarin Patel: In total, content spend in Salford is somewhere between £450 million and 500 million.

Chair: Do you agree with that?

Peter Salmon: Zarin, could you repeat the figures again?

Chair: Actually, that is a crazy figure, because that is the operating cost. It does not have regard to the capital cost of coming up here and all of that stuff, which you have to carry over time. It is not very meaningful; that is the annual cost of putting the lights on and everything, isn't it? It is not the capital cost. Otherwise, you would get to your £1 billion.

Zarin Patel: The capital cost is recovered by Peel through the rent and through the facilities charge.

Chair: It is only £18 million a year on £1 billion.

Zarin Patel: The £1 billion is over 20 years.

Mr Bacon: It is £360 million.

Zarin Patel: If I can turn to the right table for the Committee—bear with me for a second, while I find the right table—it is figure 13.

Chair: No, that is travel and subsistence.

Zarin Patel: I obviously have an earlier draft. It is “Changes in the combined cost of moving to Salford”.

Mr Bacon: It is figure 12.

Chair: That is £1.4 billion.

Zarin Patel: So £1.4 billion. The cash cost of moving to Salford is £942 million. The discounted cost—i.e. taking it in net present terms—is £573 million over 20 years. The annual operating cost of this is £18 million per annum. If you take £18 million per annum over 20 years, you get £360 million.

On top of that, we spent £224 million on the one-off cost of building and moving here, which broadly takes you to the £573 million discounted cost. The £18 million includes the running cost here. As a broad comparison with the content that is made here, that content spend—once it fluctuates from year to year, depending on what we commission—is somewhere between £450 million and £500 million per annum.

Q57 Guto Bebb: I wanted to follow up some comments made by Meg in relation to the economic benefits to the area. In particular, I notice that 854 members of staff have been relocated from outside the Greater Manchester area. Is it possible to provide a breakdown as to which parts of the BBC they came from originally?

Peter Salmon: Yes, we can do that in writing, if that is all right.

Guto Bebb: The reason I am asking is that, in the past, I have seen what tends to happen in this type of redevelopment. This is not BBC Salford; it is, after all, BBC North. Is there any potential evidence that you have seen a diminishing of any of your activities in other parts of the North in order to support the work here in Salford?

Peter Salmon: No, on the contrary; this is the headquarters for the BBC in the North of England. Last night, I was in Bradford, working with BBC Yorkshire to do a big network event there. We have built a sizeable children's production sector in the North East of England and now a network production sector in the North East. We are making many more dramas here in the region, etc. The inward investment into the region is really sizeable.

Actually, by the way, we have been lucky to benefit from a lot of people who were probably a little frustrated in some of those other parts of the North. They could not move anywhere else and are now working here in Salford; they have been very lucky beneficiaries. We have had great staff from Hull, Newcastle, Middlesbrough and Leeds, etc. It is a very healthy thing. The churn and turnover—and the investment—in the North of England is, I believe, on the whole a positive thing, but I can give you a breakdown as to where people come from, department by department, via written correspondence.

Q58 Guto Bebb: Your anticipation is that the vast majority would have come from the South East.

Peter Salmon: Of that number, yes. Of the number of internal transfers, yes; they came from the South East.

Q59 Justin Tomlinson: Also following on from Meg's questions earlier on, Mr Fry, can you confirm that it was not one of your primary aims to look at the economic benefits for the local area? That was not one of the BBC's primary aims; it was not an aim full stop.

Anthony Fry: When the original decision was taken—which was in 2004, by the Governors, before the formation of the BBC Trust—as part of the overall discussions around the renewal of the Royal Charter, the Governors, as I understand the position, looked at a variety of different sites. It was not, “Let's just go to Salford, because it seems like a good idea.” They looked at a variety of different sites. Clearly, one of the parts of the equation that went into the overall case that was presented was around economic regeneration and so forth.

I think I am saying that, ultimately, if you look at it from the viewpoint of the BBC Trust and the licence-fee payer, it really is not for us to say, “The most important thing we have to do is to act as an arm of Government and help economic regeneration.” Ultimately, we have to do what is best for the licence-fee payer, which comes down to, “Are we making great programmes—on radio, television and everything else—that they want to watch and listen to?”

Q60 Justin Tomlinson: That is absolutely spot on. Why, then, is Mr Salmon investigating a report to investigate what the economic benefits are? We have all seen today that this is fantastic. If I was the Salford MP, I would be waving all sorts of flags. I am not; I am the MP for North Swindon. Your headcount is 2,300, at the moment. Presumably, when you were picking a site, you needed to look at logistics, but also at a way to deliver a more efficient organisation. What I want to know, as a licence-fee payer, is this: will this new site lead to a fall in headcount?

Anthony Fry: As you know, the BBC has been engaging in a huge period of readjustment in terms of its overall headcount. You will know that working more efficiently absolutely underpins all of the reviews that have been done by the BBC. It is a long journey. If you are asking me whether or not I expect the number of people in the BBC to fall over the next x number of years, I absolutely do. I think that would be true, however, of almost any organisation like this.

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If you are asking me about whether or not it is appropriate for Mr Salmon or anyone else in the BBC to be looking at economic benefits, I would put it slightly differently. The BBC is funded by the licence-fee payer, and the job of the Trust is to protect the interests of licence-fee payers. The BBC, however, is also an organisation that is a major national employer and is part of the perception of the greater UK. The BBC takes its responsibilities—to the wider creative community, for example—extremely seriously.

It would be slightly odd if the BBC stood as an island on its own and said, “By the way, the fact that we may or may not have an economic effect on anyone else is not relevant.” It is a relevant consideration. I am pointing out that it is not the most relevant consideration—nor should it be—for the BBC Trust, but it is one factor.

Q61 Justin Tomlinson: However, it is a given that you have benefited the community here, for which they are very grateful. As we were having a tour earlier, we saw some people to whom it has made a real tangible difference. It will have had a negative effect on wherever you have relocated other things from. It probably balances itself out.

The key, however, is that you had two objectives. The first one was to close that gap between the South and the North viewing figures. I would be interested to see the actual figures, because I am less convinced about that. Secondly, the objective was to allow you to be more efficient. We saw the example with Radio 5, where it was split over different floors in the previous building. What has this building actually given you in terms of the ability to be more efficient? This would mean I am not going back to the residents I represent, who do not benefit from the economic benefits here, to make sure you are not hiking up the licence fee so that they fill my inbox, demanding I do something about it.

Anthony Fry: Unfortunately, the question of hiking up the licence fee is one for Parliament, not for me—though I might have a view on it. Let me ask Mr Salmon in regard to the point about efficiency and working efficiency, which is something of great interest to us.

Peter Salmon: You are absolutely right. The opportunity to move here—to work in new digital ways; to share content; to share aspirations to serve audiences better—has been something we have seized upon. You saw the ground floor, where BBC Sport works—BBC Sport being a national service. There are several national services here, from the website to radio and television. The ability there to ingest material is a real benefit to the audience: we can take material in and serve audiences, for instance, more quickly, more speedily and more creatively with that material, in a way that we could not, given that we were siloed in lots of different ways in London.

You went to the children’s studios. It is equally important for those teams to have the ability to collaborate in a way that allows them to share ideas and to put more of the investment not in individual studios, which were disconnected in London, but into

working together to deliver more impact on behalf of those children’s audiences.

Take Radio 5 Live, which has moved here on to one floor. Again, they were in several places in London. They have just received, for the first time in their existence, the Sony Station of the Year award for their first operating year in Salford. The station sounds different; they are working differently; and it is coming through on the airwaves. As a consequence, they received that accolade from their industry colleagues.

Q62 Justin Tomlinson: A specific area, then, is BBC Sport. One of the biggest criticisms of BBC Sport in the past was that, whenever a major sporting event went on, hundreds of BBC employees would head over there. Was that in part because, operationally, they were in different departments and on different floors in the old buildings and simply could not be co-ordinated, whereas now the vast majority of those staff will not need to provide an economic benefit for that host nation? They can remain here, while the handful of staff that are needed to do the interviewing can travel. Will that actually happen in the future?

Peter Salmon: That is a pretty accurate observation about the way we might have worked in the past. We were less connected than we might have been and than we are now.

Q63 Justin Tomlinson: Would we see efficiency savings because of that?

Peter Salmon: If you see the numbers of people that are sent to major sporting tournaments, they are falling, tournament on tournament. That is a reflection of this.

Justin Tomlinson: It is not because it is cutting quality, but now you have that ability to co-ordinate it here.

Peter Salmon: We have the ability to plan.

Justin Tomlinson: Yes, that is the key.

Q64 Chair: I have one more question; then I want to move on to the DMI. The final question is this. You got rid of the building in Manchester valued at £19.6 million; you sold it for £9.3 million. Was that really sensible?

Zarin Patel: We did do an open competition.

Chair: Would it not have been more sensible to hang on in there until the market turned a little bit?

Zarin Patel: That would have required us to hold it for quite a number of years.

Chair: Well, you do not know that.

Zarin Patel: Our judgment was—

Chair: If enough BBC staff move up here, property prices will increase and grow. If MediaCity takes off, there will be a lot of demand for commercial and other spaces here.

Zarin Patel: Unlike BBC Television Centre, where we were able to compete and which was an iconic building, where we really got more value than we predicated—

Chair: You lost £10 million on this one. You lost £10 million on your valuation.

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Zarin Patel: Our prediction, which was supported by external estate agents, at the height of the property market, was £19 million. When we sold it, we had seen the deepest crash in property prices in the UK for a generation.

Chair: We all know that. I am just saying this: is it wise to have sold at the bottom of the market?

Zarin Patel: It was our judgment.

Chair: It was £10 million.

Zarin Patel: I appreciate that.

Anthony Fry: I think it is the case that one of the next reports that is coming ahead of you is on the management of the BBC's estates.

Chair: We obviously have a question mark.

Anthony Fry: I think I am right that it is coming later this year.

Chair: You are ahead of me, but it just seems to me that it is another £10 million. What is £10 million here and there? It is that sort of thing. Especially if you are serious about the regional regeneration, there should have been consideration for hanging on to it. That sitting there might have been a judgment you might have made.

Zarin Patel: That was absolutely part of the consideration when we considered the case.

Chair: We will reflect on that. When are we getting the Report, Amyas, on the property?

Amyas Morse: It is early next year.

Q65 Chair: Can we go to the Digital Media Initiative? You did actually have the courtesy to ring me and talk to me about this. We will come back to this with a Report. Peter, when are we going to be ready to come back in full?

Anthony Fry: Could I help? As you know, we have PricewaterhouseCoopers working at the moment. We expect them to report to us, I am going to say, in September—but I do not want to be held to that. As you know, I have said to the NAO and I repeat this now: we are keen—that is an odd word coming from me, but I will say it—that the NAO should come in as soon as possible. It makes sense for PricewaterhouseCoopers to finish their work. We are completely open to coming back in front of you when you have the benefit of the PricewaterhouseCoopers report and coming back again when you have the benefit of the NAO Report.

I suspect they will look at two slightly different things. There is a list of seven questions that we have asked PricewaterhouseCoopers. Their report is looking specifically at the question of how on earth, in governance terms, this complete catastrophe—I think that is a fair description, from the licence-fee payer's viewpoint—happened. The NAO, I suspect, will be looking at a slightly different aspect of this. The answer, in value-for-money terms, is a slightly open-and-shut case. It would be hard for anybody to think this represented value for money for anybody other than the consultants and so forth who were being paid to do the work. However, it is going to be important that the NAO signs off itself, not least because of when the NAO Report was produced. We sat here in February 2011, and from the NAO's viewpoint they will want to understand what happened

between February 2011 and the back end of last year. You will have at least two more bites at this cherry.

Q66 Chair: I wanted to draw your attention to that. Let me just say to you that I do not know when you are leaving the BBC.

Anthony Fry: Theoretically, I am supposed to have left already. The reason I am still sitting here is, firstly, because I made it clear that, since I regard myself as the member of the BBC Trust who was responsible for overseeing this, it seems to me that you should have every opportunity, now—I have made this clear to the BBC—and even when I actually go, to question me. I am more than happy to be summoned by you and to come and explain myself. There is an offer that very few people make: please invite me back.

I am in front of you again—I regret to say—in about a month's time. I am doing both of those and I regard myself as the responsible person. I will continue to come here as long as you summon me for matters that were in my period of time.

Chair: We are grateful for that. I would just note that, of course, the previous Director-General, Mark Thompson, will also be responsible for many of the decisions that were taken, both on packages and, certainly, on the Digital Media Initiative.

Anthony Fry: I would very much welcome you summoning him.

Q67 Chair: We will summon him. I wanted to draw your attention, because we get a lot of whistleblowers' letters and it was around this that I was particularly concerned. There are two letters floating around, which came to our attention after you spoke and wrote to me about terminating the project, from Mr Garrett. It is worth quoting from him. Let me get this clear: he was Head of Technology for BBC Vision Productions. He makes some really startling allegations in his letter. He says that when he was originally briefed on it in January 2010, when the BBC took the decision to terminate the contract with Siemens and bring that project in-house, he indicated a very low chance of success with the structure proposed. In essence, it was “professionally difficult for me not to question the value proposition of the revised investment case. I believed the stated benefits to be hugely overoptimistic and difficult to deliver. Accordingly, I made my concerns clear to BBC management.” That was a guy not in a lowly position in 2010. He then comments on the NAO Report and our hearing in 2011. Am I getting my dates right?

Anthony Fry: Yes, it was February 2011.

Chair: I looked back at the evidence given by Mark Thompson. In the Report the NAO submitted to us and in the evidence you collectively gave, you reported that the delivery was on schedule of a basic archive function and basic production tools. You stated that user feedback was positive about the impacts.

We have actually looked it up. Mark Thompson said to us in that evidence, “What is happening at the moment is that DMI is out in the business. There are many programmes that are already being made with DMI. Some have gone to air and are going to air with DMI already working. It is true that some modules are

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slightly later in delivery than we initially planned, but other modules have been brought forward. Crucially, it is on track now to fully deliver over the course of this year for BBC North and Salford.”

Both the NAO Report and the evidence from the BBC suggested that DMI was delivering in practice. What the letter from Mr Bill Garrett then goes on to say is that the reality is at odds with the representation of progress given by the NAO Report: “Specifically, I became aware that no archive functionality has been delivered, despite more than two years having passed since it was claimed.”

Mr Thompson told us that things were already being used because of this great “agile” way of putting it in, and Mr Garrett said that was not true. He then goes on to say that “it is difficult not to consider the report as exceedingly misleading in respect of the latter delivery phase of DMI. The general perception that particular findings in the report convey is contrary to what I have witnessed from my informed position. As a result, I believe the Trust, the Department of Culture, Media and Sport and the House of Commons Public Accounts Select Committee may have been misled about the true performance of the DMI programme since it was taken in-house.” Later, he says, “In summary, the National Audit Office Report appears to have provided false confidence in the progress in DMI since its development was brought in-house by the BBC.”

Now, I accept that this letter has to be tested, but what is really disturbing—and I need you to comment on—is that the letter was received in May 2012. It was not tested, from all I can see, either by the Trust—maybe it never got to you, Mr Fry—or, indeed, by the Executive on some spurious grounds that they never had the permission to use the letter. If I had a letter like that, I would have delved into it straight away.

Therefore, the evidence given to us was not correct at that time. Had you given us the correct evidence, we might have come to a very, very different view from the one we came to when we considered this in 2012.

Anthony Fry: Can I unbundle some of that? You have, as I would expect, gone to the heart of the matter. I cannot tell you today that the evidence that was received by the NAO in producing its Report or presented to you was or was not accurate.

I can say two things and the first is this: there was a tendency, at that time, for people to be doing circuits of hero about the project. I am on record at the Public Accounts Committee in February saying, “Hold on a second. This is not a poster child for IT projects in the public sector. I am actually very nervous about this and I will come back and talk to you about it when we have actually delivered what it says on the tin—but we have not yet.” I was very clear about the fact that I was extremely concerned there was a lot to do on a very complicated project.

At the time that this letter came into the Trust—I have to be very clear about this—it was absolutely part of a whole lot of other evidence that was coming in from expected sources, as opposed to whistleblower sources. This did not come as some massive shock or surprise to the Trust. As you would expect, I have tracked back considerably—in terms of what was going on, the reports coming in to the Trust, when

they were coming in and the reports that were going out, as far as I have understood it. I have sought some clarification from the Executive. There were considerable concerns about the programme.

One of the things we are hoping, as part of the review—of what happened and who knew what when, by PricewaterhouseCoopers—is that the absolute clarity on who knew what when, whom they reported it to and how it came up the chain is made and laid out quite clearly for you. I am glad to say that we have spoken to Mr Garrett.

Q68 Chair: When was this?

Anthony Fry: We have been speaking to him recently, because we have asked him to give evidence to PricewaterhouseCoopers specifically about this and the contents of his letter. There are two things that are important. One is that the Trust was taking action around the issues on DMI by the time Mr Garrett’s letter came in. I freely accept that, with the benefit of hindsight, we were looking at a whole series of things, if you like, down the wrong end of the telescope.

We were concerned about two things. We were extremely concerned at the missing of timelines—and, given the way the money had flowed, they were still, ironically, within budget, whatever you want to say, in this case, that means. By the time we got into the middle of 2012, we were saying, “You had better go away and give us a revised investment case, because we do not believe you are going to hit this within the budget or the timeframe that you have specified.” Secondly, we were expecting that the answer was going to be that somebody was going to come back and say, “I am really sorry, but you are going to have to spend another x million.” I did not know what that x million was going to be, but I knew it was going to give me a very uncomfortable time sitting in front of this Committee, if we, as the Trust, decided to go ahead with it.

It never occurred to me—and, as far as I can see, it did not occur to the Executive either—that the question was not going to be, “It is going to cost you x amount more; do you want to throw good money at it?” It never occurred to us that someone would come along after five months of investigation by Accenture and say, “Actually, I have some really bad news for you. It is not just that you could spend £50 million more; it is actually worth nothing.”

This is what I suspect; it is no more than that. I do not want to get drawn on what I, as the Trust, think the conclusions of PricewaterhouseCoopers will be, because we are being investigated as well. Let me be very clear: the reason I asked for PricewaterhouseCoopers to come and do an independent investigation is I am in the frame, too. Should I have known? I am saying to you that the PricewaterhouseCoopers report, from everything I understand at the moment, is probably going to come up with the suggestion that the fundamental proposition was not sufficiently tested. In other words, everyone assumed it was going to work—not least because of the comments made by Mr Thompson, in front of you and arising out of the National Audit Office Report, that the thing was going to work. The question was how quickly it was going to work.

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Q69 Chair: Actually, I am going to interrupt you, because it is not that it was going to work. What Mr Thompson said to us was that it was working. "It is working." We had already—and we are coming back to it this Wednesday—the saga of the NHS IT system. It was fresh in our minds, at that time, when we considered yours. What your guys said to us was that they were using this agile, little-bit-at-a-time process. The evidence was, "It is working." You then write to me and say it has generated little or no assets after £100 million.

Anthony Fry: I agree. It is extraordinarily worrying. You can imagine this is probably the most, at a personal level, seriously embarrassing thing I have ever seen.

Chair: Either Mr Thompson knew—we will wait for that—or the NAO did. It is most extraordinary that there were assertions that things were being used.

Amyas Morse: I am happy to join in when you want me to, Chair.

Q70 Chair: Were you using it, Mr Salmon? Did you think it was working?

Peter Salmon: We were not using it.

Q71 Chair: When you saw Mark Thompson say, "Programmes are already being made with DMI," did you think that was a load of rubbish?

Peter Salmon: No, in other parts of the BBC there were elements of this programme in play.

Anthony Fry: There were.

Peter Salmon: Whether it was the National History Unit or *The One Show* down in London, working in a limited capacity, some items went to air.

Q72 Chair: "Some have gone to air and are going to air with DMI working." You wrote to me saying, "No asset."

Anthony Fry: It is certainly the case that that statement was, strictly speaking, as I understand it, true. There were some programmes going to air using this technology. What I cannot comment on is what Mr Thompson meant when he said it. Certainly, the Comptroller and Auditor General will have a view as to what they believed, because there is one very unfortunate part about this, which I will be very open about.

After the NAO Report came out, it was intended that there was going to be an internal audit done by the BBC of what was going on in DMI. The project team made a specific request to the Chairman of the Audit Committee to say, "We have just had the NAO crawling all over us. We really would like to have a period where we can get on and do it and get them to come in later." Of course, the Audit Committee then allowed that, because it seemed like a perfectly reasonable request.

With the benefit of hindsight, I would speak out of turn on behalf of the Chairman of the Audit Committee to say, "I wish I had not agreed to that, but on the basis of what I had been told and what was in the Report and what I had said and what I had heard said by the Director-General and by the Head

of Information Technology at that time, Mr Huggers, that seemed like a reasonable request."

Q73 Chair: Never let it be said that I am a conspiracy theorist, but this is more than one individual and you have suspended one individual so far. It reached the stage where there were assertions at Committee and reports. We actually gave you a green light, on the information you gave us.

Anthony Fry: I am afraid that you did.

Chair: I know you have suspended one individual. My conspiracy theory would be that many more people than one are involved. I will let Amyas come in; he is dying to come in.

Amyas Morse: I am not dying to come in, but given that a lot of people have been speaking, more or less, on my behalf, it is appropriate I should, at this point, be allowed to say something.

I was favoured with a copy of that letter on Thursday last week. That is the first time I have seen it, which is quite interesting. Obviously, we are doing careful work to look at exactly what we looked at and what representations were made to us by which members of the BBC. I am not in a position to say much more than that, yet.

Quite evidently, we did work. Quite evidently, we had things produced to us and we had a firm of technology consultants working with us—we were not doing it on our own—who went in, looked at what was available and validated it to us. It is not a question of us doing it on our own. We will go into a lot more detail about that.

The reason we did not offer to do an early report on this was because we knew the BBC had instructed a report and we thought, "Let us see what that looks like and let us get on with doing a report on severance." However, I fully expect that we will do a report and, when the time is right, I will decide the terms on which I will do that report.

I fully accept we need to look at why our Report was done on the basis that it was. We are in the early stages of doing that, as you can imagine, given the time elapsed since we have known about it. However, we clearly need to understand this and what has happened since then.

Q74 Mr Bacon: Can I be clear? You said you were only favoured with a copy of the letter last week. Do you mean the copy of the letter from Mr Garrett to the Chairman of the BBC Trust?

Amyas Morse: We had not seen Mr Garrett's letter to Lord Patten until last week.

Q75 Chair: Can I just ask whether Lord Patten saw the letter?

Anthony Fry: Yes, he did.

Chair: I mean the original letter on 28 May 2012.

Anthony Fry: Yes, absolutely. It was then handled by the BBC Trust Unit and a response was sent, as you know, to Mr Garrett.

Q76 Chair: It is a terribly silly response, a response that says, "We need your permission before we can act on it."

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Anthony Fry: There is actually a serious reason about that, which is all to do with how you handle whistleblowers and the question of respect at work. It is appropriate for an organisation like the BBC to seek the consent of somebody who has sent such a letter. One of the problems, if you do not have that consent, is that there are a whole load of statements made about which the only person who can give you any information is the person who wrote the letter. Now, by that stage, we were already talking to the BBC. Had the gentleman in question responded to the letter and said, "Actually, I do want you to raise this with management," I can assure you we would have done it specifically. We never got a response.

Q77 Chair: Honestly, Mr Fry, I have to say to you that you are a very credible witness but, on that, you did not need Mr Garrett's permission to go in and look at the assertions that he was putting in here: that there was no functionality and that we had been misled. You did not need his permission.

Anthony Fry: We were already talking to the BBC Executive about the issues raised in the letter in general terms.

Chair: That was May 2012; that was a year ago.

Anthony Fry: To be strictly fair, we were talking to the BBC Executive in May 2012. My letter to you, resulting out of the October meeting of the Finance Committee, was in November, where the project was called to a halt. I agree it is a year ago, but, to be fair, from October 2012, the amount of money that has been spent on this project is in line with what I said to you, together with the winding-down costs as a result of the closure order, so I much regret that it took Accenture and the Executive nearly five months to come to that conclusion. It probably shows you, however, just how difficult—these are technology experts, and I freely admit I am not a technology expert—some of the issues around this are that it took that length of time.

I do slightly refute the suggestion that, had this come in with absolutely a clear blue sky, the sequence of events subsequently would have been very different, but it did not. It was one of a whole series of bits of evidence that we, at the Trust, were already looking at and about which concerns were being expressed to us.

Q78 Ian Swales: To emphasise the degree of embarrassment for us all in this is a paragraph from our press release regarding this hearing, which was issued in April 2011. "The programme has successfully delivered four technology releases and it is on course to deliver the complete technology for the programme by summer 2011 and within the new budget." We actually then said, "We welcome the BBC's success to date in developing this technology and look to the BBC to share lessons with the wider public sector." It is unbelievable that we are now in this position. That shows the extent to which we were misled and had no confidence. The clues were in the hearing, actually; I would like to pick up two points. The first one is that it was very clear from that hearing that the BBC was out on the bleeding edge of technology here. They were trying to do things that

had never been done before and we asked them very serious questions, firstly about Siemens' experience, then what the BBC experience was and why they thought it was a good use of licence payer's money to be out there forging a channel.

I know, from discussions with members of your staff in the last few weeks, the problems still have not been cracked. What were the discussions within the Trust about the idea that good licence payer's money should be used to try and develop digital technology that nobody else in the world was doing? Was that not a clue to the problems?

Anthony Fry: As I say, I am very reluctant to get too drawn without the Trust's own role in this being properly investigated by an outsider. I feel as though I am in an unfortunate position, in that I am sitting in front of you with the temptation to do a vigorous defence of the Trust when there is an independent report being produced that will question and challenge the Trust's role in this, including my own.

What I would say to you is that lots of things are very clear with hindsight. You are absolutely right that at that hearing there was some challenge. Indeed, one of the things that has been unfortunate about all of this is that, on the back of the successful delivery of the iPlayer, what the BBC was doing and what it was hoping to achieve—and did achieve successfully—in terms of delivery of the Olympics with some very high technology compared to anything else, there was a sort of feeling, led by Mr Huggers, that, actually, the BBC could walk on water.

I will freely accept that one of the problems in technology generally—I am sure this Committee has had many tales like this to look at—is that there was not enough technological expertise around either the Trust's or, I might argue, the Executive Board's table to go ahead with something of this scale and complexity.

We could have an interesting debate about where you end up and whether you end up with lots of guardians guarding the guarders and whether there should have been a firm appointed by the Trust alongside this, but those are issues on which I hope PricewaterhouseCoopers will—if PricewaterhouseCoopers does not, I very much hope the Comptroller and Auditor General will—come up with some conclusions.

I absolutely endorse your comment, made at the very beginning, that if I were sitting in your shoes I would feel not just furious on behalf of licence-fee payers, which I do—and if that has not come across to you, let me tell you I feel it very strongly indeed—I would also feel that, actually, you went out there with a report that was very favourable to this. In your shoes, I would also feel, "How did I get into that position? Who told me what? How did I end up there?" I understand exactly; I am very sympathetic to it.

Q79 Ian Swales: Let me come back to the other area I want to explore. Mr Huggers was actually leaving when we had our last hearing. He was paid £400,000 a year. He was off to double his salary, I believe, in the USA.

Chair: It was more than that.

Anthony Fry: No, it was £3 million.

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Mr Bacon: More than double it.

Ian Swales: He was off to more than double his salary to a telephone-number figure. He was gone by March 2011. At that time, there was a surreal exchange between Mr Barclay, who is sadly not here, and the team—Mr Thompson in particular—where he talked about the number of management levels in this project. It was in the transcript. There was obviously the Trust; there was Mr Thompson, as Director-General; there was Mr Huggers; and then, below Mr Huggers, we had six senior managers, in turn with nine controllers reporting to them, who, in turn, had 18 heads of department, who, in turn, had nine project directors. That is six levels of management below the Trust. It is not really surprising that the people at the top of the organisation were not getting a clear picture of what was happening at the coal face. Did you, first, think that, and did you, secondly, go away and do anything about it?

Anthony Fry: I have no doubt at all that PricewaterhouseCoopers will definitely be looking at the layers of reporting in this. As you know, Mr Huggers himself, on his departure, appointed a new CTO, who took control of this project with a background from Google—correct me if I am wrong. Did I believe, on the basis of the initial reporting we were receiving, that they had a grip on the question of the number of layers of management? I probably did. With the benefit of hindsight, did I personally focus on that as much as I should to? By definition, no, I did not. It does not matter what I say to you: no matter what I trot out or anybody else around this table does, the hard fact is that £100 million of licence-fee payers' money was wasted.

Q80 Ian Swales: With due respect to PricewaterhouseCoopers—you have also mentioned Accenture—we sometimes find that companies like that are actually part of the problem and not the solution. They come in; they recommend these grandiose project structures, which are very good for their fees, and projects that take a long time, which is also very good for their fees. Was there any move towards simplicity? Did anybody say, “Look, this must be flattened. We have to know what is going on.”? The thing that strikes me is that this is £100 million of BBC money at stake here. I would have thought there would be a fairly close connection. Apart from moving to Salford, it must have been one of the biggest games in town and the type of thing that the Director-General himself—and, certainly, anyone reporting to the Director-General—would be monitoring pretty closely.

Anthony Fry: There is no question of that. As I say—and PricewaterhouseCoopers will lay this out in their report—if you look back at the reports received into the Finance Committee of the Trust, I imagine—although I do not sit on the Audit Committee, obviously; I do not sit on the Executive Board—a similar level of reporting would be going in there. Do not forget that, in regard to both Accenture and PricewaterhouseCoopers, they are reporting on what has happened. In the case of Accenture, it is what the prospects are in technological terms. In the case of

PricewaterhouseCoopers, it is not about the future. It may have recommendations, but it is about the past. One of the things, of course, that was said by the BBC—at the time it was taken in-house, against Siemens—was that, precisely because you have this galaxy of consultants normally doing this, it would be so much better for the BBC to use an agile framework. I love those words, don't you? Agile covers a multitude of sins. It was said that we would actually be better off, doing that.

Q81 Ian Swales: As I understand the philosophy of agile, part of it is a very close connection between management and activity and modular development of projects and so on. You cannot say, “Right, it is going to be agile; now go away for two years and do it.” We are two years on from those days. I think the Chair touched on this earlier: what we are coming back to is that, clearly, it would appear a head has rolled or, at least, is suspended—though maybe not in the right way.

Clearly, first, the management themselves were not close enough to this and, secondly, must have been either negligent or were lied to by other people inside the organisation. We do not always want to see heads on spikes, though we sometimes like to see a few more than we do in the public sector. What confidence can you give us that the learning is going to be extracted from this and that we are going to see some real action come out of this, in relation to the people who have been incompetent or not done their job properly in some way or another?

Anthony Fry: We will take delivery of the PricewaterhouseCoopers report. I believe it will be around September.

Q82 Chair: Is he suspended on full pay until then, this individual?

Zarin Patel: Yes, he is, because HR and legal practice forces us to do that. However, we expect—

Chair: You could do something else.

Q83 Mr Bacon: Can you just clarify who is suspended on full pay?

Zarin Patel: The Chief Technology Officer of the BBC, who was the project sponsor.

Q84 Chair: You could choose to do something else. I think there is probably more than one person involved. You suspended the project in—when did you write to me?

Anthony Fry: My second letter was in May of this year. At the time I wrote to you originally, which was in November, we called a halt to the project because of concerns we had about it. We asked the Executive to report back to us.

Q85 Chair: How much is this guy earning?

Zarin Patel: He is currently on £280,000.

Mr Bacon: That is per annum.

Zarin Patel: Yes, per annum.

Q86 Ian Swales: Is he the direct replacement for Mr Huggers, or have you been through another one since then?

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Anthony Fry: No, that was the gentleman referred to in the hearing that we had in February 2011. He was the person referred to in that hearing.

Q87 Meg Hillier: The letter came to the Chair on the Friday of a Bank Holiday weekend at a very difficult time for this country, after the attack in Woolwich. It made very little media. It got to page 7 in some of the main broadsheets. It was lucky, perhaps, for the BBC, but maybe today we will highlight some of the challenges that need to be dealt with.

Anthony Fry: That is a very fair comment. When I spoke to Madam Chairman earlier in the week, this was not the intention. Unfortunately, as a result of the Woolwich attack, the view was taken that the BBC felt strongly about releasing it when it was intended to be released, which was the day before, which would hit at the same time as all the coverage that was going on of the Woolwich attack. The Director-General spoke to me personally to say that, in his judgment, it would be worse to release it when the news coverage was at its height than waiting a day and releasing it then. We had a long discussion about the fact that, were we to do that—and given it was on the eve of a Bank Holiday weekend—there was a serious risk that it would be misinterpreted as trying to hide bad news. Unfortunately, I took the view—again, I could have been wrong about this, for which I apologise—that to hold over until the Tuesday after the Bank Holiday, having spoken to the Chairman of this Committee earlier in the week, would raise even more questions. If I got that wrong and my judgment call was wrong, I apologise. It was not deliberately done for that reason; it was intended to go out on the Thursday. We came to that choice; I do not know if I got it right.

Q88 Meg Hillier: I appreciate your clarity. It was actually later; it was not intended to be on the Bank Holiday.

Anthony Fry: It was going to go out on the Thursday; that was the intention. I spoke to the Director-General on Wednesday night. We were not in London and we spoke again on the Thursday morning, first thing, to come to a view. That was his strong view and I went along with it. I am sorry if that was misinterpreted.

Q89 Chair: I have to say that on that Friday we had your report and we had the Government putting out the report on major projects at 4.30 on the Friday afternoon before a Bank Holiday Monday.

Anthony Fry: As I say, to be honest I did not know what the better answer was. I bought the argument from the Director-General, who, by the way, has no locus in this in one sense, which is that the Director-General has no more interest than I do in having £100 million being blown by the BBC early on his watch. He took the view, however, that, as the press was, quite rightly, all over the tragic events in Woolwich, it would be even worse and the BBC would be accused of burying bad news. I apologise if that is the case.

Q90 Mr Bacon: Can we just return to the question of the letter? It was in May.

Anthony Fry: It was May 2012.

Mr Bacon: It was 26 May 2012, from Mr Bill Garrett to Lord Patten, the Chairman of the Trust. The Trust replied on 12 June, in the letter from Mr Hamer. It is signed “BBC Trust Unit”. The letter is pretty startling, to say the least, but it appears to me, in reading the reply, to have been treated like a normal complaint, almost.

First of all, the letter says, “As the concerns you raise do not relate directly to the NAO recommendations, they would not have been addressed by the subsequent action plan.” It then goes on to say, “There are currently no plans to carry out a further review of the DMI project.” You said to us earlier that when this letter arrived, it certainly was not out of the blue, which makes it sound like you were already all over it, but here it says, “There are currently no plans to carry out a further review of the DMI project.”

Are you saying that, at that point, all the reviewing that you were doing and all the knowledge that you had had you had already gained?

Anthony Fry: No. It is a catch-22, isn't it? If that letter had said, “We are planning to do a review of DMI,” where is that going to end up, in a letter like this?

Q91 Mr Bacon: You mean this was deliberately bland, in the hope that it would not go any further.

Anthony Fry: No, not at all.

Mr Bacon: That is how it looks.

Anthony Fry: If it does look like that, I can only apologise for the drafting. It is deeply unfortunate that you are talking about 2012, because there were quite a lot of balls being juggled in the air at that particular point, as you will appreciate. You had Diamond Jubilee; you had the Olympics coming up; you had the appointment of a new Director-General, which we have talked about before and do not need to talk about. There were a lot of balls in the air. It would be fair to say that, if you had asked me in May/June 2012 did I expect that, one way or another, DMI was going to be coming back to the Trust with a revised business case, I would have probably answered you “yes.”

Q92 Mr Bacon: That is helpful, because my point is that the whole tenor of this letter is, “There will be no further action.” That is what it sounds like. “As the concerns you raise do not relate to the NAO, they would to have been addressed by the recommendations. They would not have been addressed by the further action plan. There are currently no plans to carry out a further review of the DMI project.”

It then goes on to say, “Given that your concerns relate to actions by the BBC's management, the Executive, we would ordinarily ask them to respond to your concerns in the first instance. In line with the usual BBC complaints procedure, in the interests of privacy we have not shared your letter with the Executive. If you are happy for me to do so, I will ask them to respond to you directly. I hope this is helpful. Thank you for bringing your concerns to the Trust's attention.” Goodbye, go away and do not come back: that is what that sounds like. Yet you say you were all hot and bothered about it.

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Anthony Fry: I certainly was hot and bothered about it.

Q93 Mr Bacon: This letter gives no indication that the Trust was hot and bothered about it. You could have said, “We are very aware of these concerns and, what is more, we are already taking action, because we are so concerned.” Something along those lines is what one would have expected, given what you say was going on.

Anthony Fry: I can understand how you read that letter.

Q94 Mr Bacon: Was it deliberately bland? I say bland; was it actually deliberately dissembling?

Anthony Fry: I would not like to suggest that anything I or the BBC Trust ever did was deliberately dissembling.

Q95 Mr Bacon: No, I am talking about Mr Hamer, not you. I have never met the man. “Bland” may be a completely unfair word and, for all I know, “dissembling” is, too. It is a dreadful thing to say.

Anthony Fry: With the benefit of hindsight—gosh, I suspect the words “with the benefit of hindsight” will come up a lot in regards DMI—and rereading this letter through the telescope that we now have, the benefit or disbenefits of I suspect I cannot disagree with you.

Q96 Mr Bacon: You did not need a telescope; all you needed to do was be able to read. The original letter was startling enough, was it not?

Anthony Fry: I will remove the point about the telescope.

Mr Bacon: Even spectacles would have sufficed.

Anthony Fry: I am not going to defend the drafting of that particular letter, given the benefit of hindsight and what we now know.

Q97 Chair: What you are assuring us of is that the Chairman saw this letter in May 2012.

Anthony Fry: As far as I am aware, yes.

Ian Swales: There is another concern in all of this. You had this project structure; you had monitoring committees, presumably, reporting. In previous studies, we have highlighted the whole issue of scrutiny in the BBC. What you are not doing is filling us with confidence that you have mechanisms in place that are going to avoid this sort of thing happening again. It is one thing to have a one-off review of where it all went wrong, but surely the management of the BBC needs to realise that not everybody has to be creative. You actually need some people who are keeping the show on the road.

Q98 Chair: I was going to ask you a question in relation to that: are you now confident that the reporting on all other major projects by the BBC is accurate?

Anthony Fry: As you know, we have specifically asked the Director-General to come back to us on that question of the state of all the other major projects in the BBC.

Chair: You are not confident at this point.

Anthony Fry: At this point, I am not going to tell you I am completely satisfied on that.

Q99 Ian Swales: Can I just emphasise that, based on our experience, if the Director-General comes back and says, “Everything is fine,” we are now not confident that everything is fine. What we want to know is that the Director-General is working off accurate information from the shop floor with proper scrutiny, proper committees if that is the method you use. In other words, we want to know that the system is being put right, not just each individual project.

Anthony Fry: Unfortunately, that is made more difficult—or the outcome of that, with which I do not disagree, by the way—and your lack of confidence in this is reflected through, as you will appreciate, into how I am feeling about this.

Q100 Chair: Is Mark Thompson giving evidence to PricewaterhouseCoopers?

Anthony Fry: I have not been informed of that, although I can tell you that Caroline Thomson—who was Chief Operating Officer, who was responsible for this project through the bulk of 2012, before she left the organisation—has agreed to give evidence to PricewaterhouseCoopers, about which I am extremely pleased. I think it is the right thing, but I am also pleased, because it makes a refreshing change.

Q101 Chair: Given Mark Thompson’s evidence to us, you need to think about that.

Anthony Fry: Can I make a point about the difficulties on this? Only last year, we received a report on the financial management of the BBC, which made commentary in there about things such as the reporting done within the BBC and, most importantly, the reporting done by the BBC up to the Trust committees and up to the Trust itself. It came up with some recommendations, but, by and large, in this area—about the reliability and accuracy of financial information—it basically said that the Trust operates a very high level of scrutiny and an appropriate level of scrutiny, given its position.

You can imagine—having received that report and then having received what was dropped on my desk in May this year—how I am feeling about the reliability of information. I share your concerns that, if you cannot trust the data—we will have to look and see what PricewaterhouseCoopers say—you, in your position today, will have a high degree of scepticism about anything that someone in my position or anyone else in the BBC says to you. I would share that.

Q102 Ian Swales: With respect, we are not actually talking about financial accuracy. Ms Patel, I am sure, is telling you exactly how much has been lost on this project; I believe the numbers. It is not that. It is not the scrutiny of financial numbers themselves.

Anthony Fry: I understand the point you are making.

Ian Swales: It is the management scrutiny of what is going on; that is what we are talking about.

Anthony Fry: That is a very fair comment and I would like to withhold comment on that until—

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Q103 Chair: Have you replaced this person, who you have suspended?

Zarin Patel: We have an acting CTO who works in our Journalism division. Until that process is complete, however, and, in particular, until the PwC report gives us some recommendations, we want to think really hard about the skills and capability in technology as well—to Mr Swales' point.

Q104 Mr Bacon: One might have hoped that you would have done that before appointing this man who is on £280,000 in the first place.

Zarin Patel: His appointment was by Erik Huggers, who was an expert who successfully delivered the iPlayer. Our CTO has successfully delivered the technology in this building and New Broadcasting House.

Mr Bacon: You mean the one who is now suspended.

Zarin Patel: The one who is now suspended, yes. The degree of confidence that the Finance Committee, which monitors projects, took is that we did rely on the evidence we were given from the Chief Technology Officer, as we were entitled to. The reviews we have done have shown that this was an overly complex project.

Q105 Chair: We understand all that, but you can always hide the technology behind the complexity. The thing that really shook me, when I looked at these letters over the weekend, was that we were told one thing. We were told that there were bits of this system that were working; you were running programmes with them; and that just was not true. That was not true. I do not want that little bit of truth to get hidden behind a web of complexity. You do not want to get seduced by the argument that IT is so complicated we cannot get our heads around it. I do not believe that.

Zarin Patel: The point I was trying to make was that we knew this was complex. We knew it had gone wrong once. Therefore, we tried to ensure that we had all the right things in place.

Q106 Chair: It is just about telling the truth; that is what this is really about.

Zarin Patel: Of course it is, but it is about checking the truth as well. One of the things I will be recommending to PwC—because I will be interviewed by them—is to think really hard about the skills and expertise that those who are challenging the doers have. That, for me, is a very, very big part of our learning.

Chair: You should have that skill to be able to do that in-house, in a big organisation like that. That is my honest view on that. You do not need PwC to tell you that—as an ex-PwC employee.

Amyas Morse: Zarin Patel, fortunately, you have a set of BBC-audited financial accounts that fall at the 2012 year end. You presumably made any concerns you had at that time. The audit must have taken place or have been completed after that date. Roughly when were the accounts signed off, may I ask, first of all?

Zarin Patel: The accounts of the BBC were signed off today. It would broadly be in the first week of June 2012. KPMG, our auditors, looked at the carrying cost

of DMI in the accounts very thoroughly and very deeply at that point in time.

Amyas Morse: And?

Zarin Patel: They endorsed the carrying value at that point in time.

Amyas Morse: The carrying value in the accounts at that time was the full incurred cost?

Zarin Patel: It would have been about £46 million of capitalised loss.

Amyas Morse: Thank you very much.

Q107 Chair: Can I just ask a very final question? How much did you spend, if you have this figure in your brain, on consultants across the BBC in this last year?

Zarin Patel: Do you mean in this last year?

Chair: Let us take the financial year until April, if you can do it for us. I do not know what your financial year is.

Zarin Patel: It is March. For the year to March 2013, we have spent £10.3 million on consultants.

Q108 Chair: This is out of a budget of how much?

Zarin Patel: It is out of £3.6 billion, if you take the full licence fee.

Q109 Mr Bacon: KPMG are your auditor.

Zarin Patel: Yes, they are.

Mr Bacon: They signed off the accounts in June.

Zarin Patel: It was June 2012.

Q110 Mr Bacon: I just want to reprise what the C&AG asked. They signed it off in June. Did you say the most recent accounts had been signed off today?

Zarin Patel: The June 2013 accounts were signed off by the Executive Board today.

Mr Bacon: Last year's were signed off in June.

Zarin Patel: Yes, in June.

Q111 Mr Bacon: Can I just check, Mr Fry, what involvement does the Trust have, if any, in the process of signing off the accounts?

Anthony Fry: It is signed off by the Executive Board. We hear from the auditors. We hear from the Chairman of the Audit Committee. We obviously hear regularly from the Finance Director, but, in the reality of how it is signed off, it is signed off by the Executive Board and the Audit Committee of the Executive Board.

Q112 Mr Bacon: Do the auditors hear from you?

Anthony Fry: The auditors come and see us on a relatively regular basis. They come in to see us without the management being present at least every half year.

Q113 Mr Bacon: You had the opportunity in June, before the KPMG auditors signed off the accounts of the Executive, to tell them about the contents of this letter, where it says that the DMI does not appear to have made any significant progress.

Anthony Fry: I certainly remember that when we talked to the auditors in the session in which we had them, which would, in fact, have been before the date of this letter—though that is an irrelevance. We

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certainly talked to them and we talked about the issues of risks, in particular, within the BBC, as you would expect us to do. We also talked about where we saw risks in regard to projects such as DMI, Television Centre and other major projects at the BBC.

Q114 Mr Bacon: When there was apparently so much information around, it is quite extraordinary—there was not only this letter, but you yourself said by May/June that you were all over it and very worried about it—that there could have still been the conclusion, which did appear to get challenged, that the full carrying cost was a fair reflection of the value of the work.

Anthony Fry: This comes back to what was mentioned right at the beginning and it is a huge issue around this. The assumption was—do not forget this thing was still running at that point—the total amount agreed under the budget was still considerably in excess of the amount that, by then, had been spent.

The result of that was that people were looking at it from the viewpoint of assuming that the kit was going to work. If you assume the kit will work, your attitude to what you are putting in the accounts is very different from being told, 12 months later, “I am terribly sorry, but the kit does not even work.”

Q115 Mr Bacon: We had exactly this problem in the NHS IT problem. One of the suppliers was putting in huge amounts of carry-over and one of the other suppliers—Accenture, actually—had written off a huge amount. The other one had not and it went on for years.

Anthony Fry: I am not going to pull any punches here: this is extraordinarily serious. It raises a whole

series of questions, some of which will be answered by PricewaterhouseCoopers; some of which will be answered by the Comptroller and Auditor General; some of which will be discussed at this Committee; and most of which are going to have to be sorted out at the BBC in terms of how we absolutely validate to you—and, more importantly, to the licence-fee payers—that this cannot happen again.

Q116 Mr Bacon: When will the PricewaterhouseCoopers report be available?

Anthony Fry: We are hoping it will be September. My assumption is that we would not only obviously provide it directly to you, but we will obviously also—as far as I am concerned, I cannot think of a good reason why it should not be published. I would expect that to be a report that would be published. I have not taken any advice on that, but someone is going to have to persuade me very hard that there is anything in there that has to be redacted—that is the vogue word—but I would have thought a report like this would come in the same category as a report produced by the NAO.

Chair: I am sorry we ended on that, but we had to. I know we have been asking you some quite tough questions about aspects of the move to Salford, but, again, I want to end with my starting point. The questions we rightly have to ask on behalf of the licence-fee payer and the taxpayer are legitimate, but they are in the context of a project which, on the whole, having looked at big projects like this—in the hope that you have told us the whole truth and nothing but the truth—is a well managed and effective transition. I wish you well here in Salford, as you develop the programmes here. Thank you very much.

Anthony Fry: Thank you.

Written evidence

Written evidence submitted by the BBC Trust

Following my appearance at Monday's PAC in Salford and the frequent references to PwC, I thought it would be helpful to provide, for your reference, the scope of their review.

PwC are considering the high-level research questions set out below and, where weaknesses and failures are identified, have been asked to make clear recommendations for improvements. Our intention is to publish these review questions on the Trust website later today.

1. What governance arrangements were put in place for the oversight of the project? Were they fit for purpose?

2. What project and financial arrangements were put in place to ensure the project delivered the anticipated benefits on time and to budget and did these arrangements follow an agreed BBC methodology? Were they fit for purpose and followed?

3. What risk management arrangements were put in place and did these arrangements follow an agreed BBC methodology? Were they fit for purpose and followed?

4. What project reporting arrangements (including information on project delivery, technical delivery approach, costs and risks) were put in place for the Executive Audit Committee, the Executive Board and the BBC Trust? Where they fit for purpose and followed?

5. Were the agreed project and risk reporting arrangements followed? Were the reports fit-for-purpose? What actions resulted from the reports? Were they fit for purpose?

6. Did the BBC Executive implement the recommendations focusing on project management governance, and risk management from the NAO's 2011 report on the management of DMI?

7. What are the wider project management and reporting lessons that can be learnt from the project and applied to other BBC projects?

These questions are intended to cover the period after the NAO's report in 2011. If, in order to answer them, PwC need to go back and earlier, they are free to do so.

As I said in the hearing on Monday, we hope to publish the results of PwC's review by September and the PAC will have an opportunity to hold a hearing on the conclusions if it should choose to do so.

Anthony Fry
Trustee, BBC Trust

13 June 2013

Written evidence submitted by the BBC

RELOCATION OF BBC STAFF

In total, 854 people relocated to the North of England. 574 of these were BBC staff from in-scope departments in London who said "Yes" to relocation. Additionally, of the 790 people who successfully applied for vacant roles in BBC North, 207 were internal BBC applicants. Original deployments are held in detail at the individual level and would therefore be time-consuming to collate across the whole population, but the majority—along with those in-scope—came from London with the remainder coming from the North of England. The 207 members of staff received the standard BBC relocation allowance of up to £8,000 as per industry standard practice in line with HMRC guidelines.

TRAVEL COSTS

As the NAO Report stated, travel and subsistence costs to and from Salford/Manchester came down between 2010–11 and 2011–12. The BBC remains committed to controlling its costs in these areas.

The total costs for travel to and from Salford/Manchester for April 2012 to March 2013 were as BELOW. These represent the total costs of travel for the entire BBC to and from the site from across the UK (and internationally where appropriate) as part of both programme making and running the business.

In all categories, the costs directly attributable to the divisions wholly-based at BBC North (BBC Children's, BBC Sport & BBC Radio 5 live) were significantly less than half the total cost for the entire Corporation in each category, although travel from Salford for staff based there to other parts of the BBC across the UK is still necessary. For example BBC Children's and BBC Sport still travel to London or Scotland for instance when necessary to contribute to the direction of BBC Television in terms of production, commissioning, strategy, scheduling and channel management. In general the average cost of a journey for BBC North staff was £68 and for guest/talent & contributors it was £79.

Now that BBC North is fully operational and a major centre of production and journalism, it is inevitable that travel to and from the site to the rest of the UK will fluctuate depending on what is being made and what is happening across the site. During this period for example, there were a number of significant initiatives run by those divisions on the site including Euro 2012 Football, Formula 1, Sports Personality of The Year and the 10th anniversary of the BBC's Children's channels CBBC and CBeebies. Projects such as these—as well as increased production across the North of England for BBC Children's production for example—would account for an higher than usual travel activity to and from the site for these divisions.

Flights

Staff—£363,483

Guests/Talent/Contributors—£307,038

Taxis

Staff—£211,021

Guests/Talent/Contributors—£391,908

Rail

Staff: £1,837,931

Guests/Talent/Contributors—£588,734