House of Commons

Culture, Media and Sport Committee

BBC Charter Review

First Report of Session 2015–16

HC 398

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First Report of Session 2015–16

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The Culture, Media and Sport Committee

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Introduction

The BBC is an extraordinary national and global institution. Often one of the very few things people outside this country know about Britain is that it is the home of the BBC.

The BBC's value lies not only in the organisation itself, but in its accumulated reputation, experience and goodwill, in its public service remit, and in its place at the centre of a vibrant broadcasting industry. It sets a standard in broadcasting quality, impartiality and independence that serves as a benchmark for others. For these reasons the BBC has a vast amount to contribute as an international standard of excellence in public service broadcasting. At a time when many media organisations are reducing their international coverage, relying on a few feeds and becoming more prone to crowd behaviour, there is a huge opportunity for the BBC to consolidate this global position.

But the BBC also has a role as a beacon of enlightened values of openness, freedom of thought, toleration and diversity. As the world increasingly divides on ideological and sectarian grounds, it is vital more than ever today to preserve an educated public realm in which civilised debate and the mutually respectful exchange of ideas may flourish.

What would it take to create another? It is very hard to imagine how it could be done. Yet this does not mean the BBC is beyond improvement, or secure from technological, financial or commercial challenge. First, its core activities are under serious commercial threat: from traditional competitors, from new online insurgents, from lower cost providers of access to high quality programming, among others. New technologies and ways of accessing programmes are pushing the BBC to consider long term alternatives to the licence fee. Secondly, the BBC is not well served by its often unwieldy bureaucracy, its internal politics, and a culture which has been criticised as arrogant and introspective. And finally, the BBC's Director General has argued that the licence fee is viable for the coming Charter period. But as commercial and technological pressures converge, as the BBC's market share continues to fall and a new generation consumes its media in innumerable new ways, there is the question whether or not the licence fee funding model can be sustained.

In this context, it is important to remember the particular place that the BBC holds in the broadcasting industry, both domestically and globally, and in the wider online media space as convergence accelerates. The BBC's power, its authority and its reliance on public funding all require that it be properly governed and regulated in the public interest. But arguments about the BBC's domestic role are often distorted by a false dichotomy: the alternative to being "all things to all people" is not a "market failure" model, in which the BBC is the provider of last resort. On the contrary, there are many places in between, and many possible futures, for the BBC. With important exceptions, the BBC has largely succeeded in maintaining distinctiveness across the board, in both popular and more niche programming, as its public service remit demands; and this is also the way in which it can fulfil its aspirations globally, by displaying the United Kingdom and its values to the world from this country, without becoming a multi-local international broadcaster. The challenge for the next Charter period is how to preserve what has been achieved, how to maintain the BBC's breadth and scope and build its international profile, while continuing to streamline management, cut costs, build revenue streams and consider options beyond the licence fee.

1 Background to Charter renewal

1. The BBC is established by Royal Charter, with the current ten-year Charter due to expire on 31 December 2016. Its funding, derived from the television licence fee required from all who view television programmes as they are aired, was last set in 2010 and is due for renewal at the end of Financial Year 2016/17. The fairly regular pattern of Charter renewal has in the past enabled thorough parliamentary scrutiny of and widespread public consultation on the future of the BBC. Unfortunately, because of the introduction of a statutory five year electoral cycle, it became apparent that, on this occasion, the renewal timetable would conflict with the electoral one, meaning that scrutiny would have to take place over two Parliaments/Governments, or be seriously curtailed—or, possibly, both.

2. Our predecessor Committee launched a far-reaching inquiry into the *Future of the BBC* in October 2013, publishing its report a year ago, on 26 February 2015.[1] Meanwhile, the BBC began to put together a series of papers under the heading *British Bold Creative,* which were intended to influence debate on different aspects of the BBC's work, and the BBC Trust commissioned work in other areas, in particular relating to public perception of the BBC. The new Government sent out a wide-ranging, open-ended Green Paper to public consultation on 16 July 2015.[2]

3. As a Committee, we decided that we ought to continue the scrutiny work begun by our predecessors, where possible without duplicating their efforts. We were also aware of the many parallel inquiries under way at present—including an inquiry into 'BBC Charter renewal: public purposes and licence fee' being undertaken by our sister Committee in the House of Lords, the Communications Committee; the House of Commons Welsh Affairs Committee's inquiry into 'Broadcasting in Wales'; the Welsh Assembly's Communities, Equality and Local Government Committee's into 'BBC Charter Review'; and the Scottish Parliament Education and Culture Committee's into 'Renewal of the BBC Charter'—and the work on governance and accountability being undertaken by Sir David Clementi on behalf of the Secretary of State. We were keen to reflect on both the work being done by the Government and the attempts by the BBC and the BBC Trust to inform and guide debate. Taking all this into account, we decided to look in particular at six major areas already identified by our predecessors as key areas of concern, in some of which the BBC itself was bringing forward some interesting, and in places quite radical, proposals. These areas were:

- Governance and regulation;
- The BBC's international presence;
- Production;
- Local journalism;
- Technology and innovation; and
- Reshaping the culture of the BBC.

1 Culture, Media and Sport Committee, *Future of the BBC*, Fourth Report of Session 2014–15, HC 315 (hereafter 'CMS Committee report')

2 CMS Committee report, paragraphs 19–25 and DCMS, *BBC Charter Review Public Consultation, 16 July 2015*

We comment on each of these in this report. However, we would stress that this is a preliminary report: further work is likely as the Government's intentions become clearer, especially after the promised White Paper responding to both the public consultation and the Secretary of State's further consideration of David Perry QC's review of licence fee collection and the current funding arrangements for the BBC.[3] We are also expecting more proposals to be published by the BBC. The Education and Culture Committee of the Scottish Parliament has recently published its report.[4] We look forward to reading the conclusions reached by our other sister committees in due course. We are conscious that the selective nature of this report has not allowed the Committee to take detailed evidence in a number of important areas including the results of the current review of the Terms of Trade, the future of radio, and the status of the nations in relation to the BBC. Specifically, we are acutely aware of the currently active debates about the BBC in Scotland over issues such as management decentralisation and production funding. We intend to hold a hearing in Scotland on these issues.

4. In this report, we cannot avoid commenting on funding for the BBC, given the far-reaching implications of the settlement made in July, 2015, immediately before the Budget after the general election, and the process by which it was reached, especially with regard to future funding of free TV licences for the over-75s. Under this the BBC was given a matter of days to agree to assume, from the Department for Work and Pensions, the future funding of this concession. Though other elements of the deal will soften the net effect, the estimated cost of absorbing this—£630 million, rising to £750 million by 2020—represents a significant proportion of the BBC's income from other licence fee payers.

5. After the 2010 election, the BBC had already been subjected to a hasty settlement, which involved freezing the licence fee at £145.50 until 2016/17, taking over funding from the Foreign Office of the BBC World Service, contributing to the Welsh language channel S4C and supporting broadband roll-out around the country. These additional commitments for the BBC, and savings for the Exchequer, would cost £345 million by 2014/15.

6. In two subsequent Reports in the last Parliament[5], our predecessor Committee—then chaired by the current Secretary of State—strongly criticised the process and the effective 'top-slicing' of the licence fee to fund commitments outside its core remit.

7. In 2010, the Government included the same proposal for the BBC to fund free licences for the over 75s, at an additional estimated annual cost of £600 million. Then, our predecessor Committee was told, the Director General and BBC Trust found that 'wholly unacceptable'. Faced with a warning that Trust members would resign en bloc, the Government did not pursue the demand.

8. Giving evidence to us for this report, it is clear that neither the BBC's management nor the Trust took a similarly robust stance in 2015. When challenged, current Trust Chair Rona Fairhead said it had received legal advice that it could not refuse the Government's request. The BBC Trust has since provided us with a note setting out the basis of that advice.[6]

3 DCMS, *TV Licence Fee Enforcement Review*, July 2015

4 Renewal of the BBC Charter, Third Report, 2016 (Session 4), SP Paper 909, 8 February 2016

5 *BBC Licence Fee Settlement and Annual Report*, Fourth Report of Session 2010-12 *HC 454,* and *Future of the BBC*, Fourth Report of Session 2014-15, *HC 315*

6 BCR0116 (BBC Trust)

9. Essentially, according to that note, the duty on the BBC to provide free licences to over 75s is set out in statute—in regulation 6 of the Communications (Television Licensing) Regulations 2004. The Government's obligation to compensate the BBC for the cost is not set out in law, however, but rather in Clause 78 of its Framework Agreement with DCMS. This expires at the end of 2016, when the current Charter ends. As the Trust explained, "Because the BBC's funding and the entitlement to the concession arise from different legal sources, the BBC has no legal right, by itself, to prevent a situation in which the BBC remains obliged to issue free licences, but is not entitled to compensation after the expiry of the [Framework] Agreement at the end of the current Charter period."[7]

10. **We share the wider sense of dismay that the July negotiations between the Government and the BBC on licence fee renewal, including the issue of licences for those over 75, were conducted in such a hasty and secretive manner.[8] This greatly inhibited not only public and parliamentary scrutiny, but the capacity of either the BBC or the BBC Trust to formulate fully considered counter-proposals. As our predecessor Committee—under its then Chair, now the Secretary of State—found in relation to the hastily agreed 2010 licence fee settlement, "This meant … that the opportunity to consult licence fee payers and Parliament was lost, undermining confidence in both the Government's and the BBC's commitment to transparency and accountability. We recommend that this model for setting the licence fee is not used again." We also echo these sentiments, and ask the Government again to look seriously at how this outcome can be avoided in future. In principle, questions of the BBC's scope, efficiency and funding should be publicly assessed and debated in parallel and in good time.**

11. **In practice, whatever the legal advice, the BBC was under no obligation to agree to the Government's proposal regarding the over 75s free licence. The BBC could, as before, have been more robust in its stance. However, it is not satisfactory that the BBC should face a mismatch between the demands of the law and the time-limited nature of the Framework Agreement when it comes to funding such major costs as the over 75s licence. We recommend that this discrepancy be addressed during Charter renewal so the situation does not arise again.**

12. **One of the key conundrums to be solved in relation to the BBC lies in the balance of accountability and independence. The BBC as a largely publicly funded broadcaster operating under a public service remit must offer good value for money to taxpayers, and be appropriately accountable—both to the public and to politicians as their elected representatives—for its spending, for its editorial decisions and for the conduct of its staff. Yet it must also be protected from pressures, both from the public and from politicians, which might undermine its ability to broadcast programmes that may be unwelcome to the loud, the powerful or the litigious. The question of how to strike this balance between accountability and independence is at the heart of the debates over whether the BBC should be a body established by Royal Charter or by legislation, and how it should be regulated and governed.**

13. **We are of the view that, at least for the present, the BBC should continue to be governed by Royal Charter, subject to certain caveats. The first caveat relates to the period of the Charter. In future, Charter renewals should be divorced from the electoral cycle, to distance the BBC from the political pressures associated with a General**

7 BCR0116 (BBC Trust)

8 See Qq 829–48 (BBC Trust)

Election, and to avoid the additional uncertainty and delay caused by any changes in Government and Parliament. This might be achieved either by extending the current Charter for a little longer, followed by a new ten-year Charter, or by producing a new Charter to be in place at the end of 2016 but giving that Charter a life of eleven or twelve years. We do not believe there is merit in a short Charter of five years or so, since that would not provide the financial or operational stability which the BBC needs to be successful.

14. **The second caveat relates to the need for the Charter renewal process to be as transparent, orderly and well considered as possible. Given the strategic importance of the BBC to the UK's economy, democracy and soft power, both domestically and internationally, it is vital not to hurry public consideration of its future. In the present case, we understand that the very high number of responses to the Government's Green Paper has had the effect of delaying the renewal timetable. The Government is now unlikely to publish its specific proposals for the future of the BBC until at least May of this year. We consider that this will leave little time—very possibly, too little time—for Parliament and for the many other interested parties to scrutinise the proposals properly before the Government's lawyers have to start drafting a Royal Charter to be promulgated before the end of the year. This problem of lack of time may be exacerbated if, as we recommend below, there are major changes to the nature of the governance and regulation of the BBC. We therefore believe, as our predecessor Committee ably argued, that rather than rush matters it would be better to prolong the current Charter for a further period in order to allow more detailed consideration of the Government's proposals for the new Charter.**

15. We would like to thank all those who have contributed written or oral evidence to this inquiry: their help has been invaluable. Both the oral and the written evidence are published on our website.[9] We would also like to record our gratitude to our Specialist Adviser, Professor Charlie Beckett of the London School of Economics, for his extremely helpful advice and insight.

9 http://www.parliament.uk/business/committees/committees-a-z/commons-select/culture-media-and-sport-committee/inquiries/parliament-2015/bbc-charter-review-15-16/

2 Governance and regulation

16. **Our predecessor Committee considered the structures of the BBC and the BBC Trust, and questions of regulation and governance. We do not propose to revisit that analysis here. Instead we will focus on the main issues that should be taken into account in devising any new governance and regulatory structure.**

17. The debate seems to have made some progress since our predecessors reported: there is now a large degree of consensus amongst witnesses that the BBC's present structure is unsustainable. In particular, most argued that, whatever the merit of seeking to move on from the combined cheerleader/accountability mechanism provided by the BBC Governors, with the establishment in 2007 of the BBC Trust, the changes were not radical enough, failing either to meet the BBC's needs for clear management structures and responsibility or to give the public confidence that the BBC was being rigorously held to account by an independent body representing licence fee payers' interests.[10]

18. The issues raised by the quest for good governance are not easy, and—as we shall discuss later—detailed questions of structure are often less significant than the culture of an organisation, which is largely set over time by the people at the top. Consideration of the structure of the BBC has been bedevilled by confusion about different elements of governance: a number of the difficulties experienced by the Trust have arisen over a lack of clarity about where the final decision lay, with issues being passed back and forth between the BBC Board and the Trust with apparently no one being able to take a decision.[11] Adam Crozier of ITV summed this up by saying that the problem with the Trust was that it had 'no teeth', and a number of our witnesses agreed that it was difficult to say precisely to whom the Director General of the BBC was operationally accountable—and therefore who bore what responsibility for final decisions. They generally were of the view that the creation of a strong unitary board for the BBC, with experienced and high-powered non executives well able to challenge the executives, would offer the best chance of achieving clear direction for the BBC. [12] On the other hand, the recent Trust decision to stop the BBC's plans for a new BBC+1 free-to-air, catch-up channel—which was highly controversial for its commercial competitors—has been cited as an example of the Trust acting effectively in practice, notwithstanding the length of time the decision took. The concern expressed with examination of BBC decisions after the event is that the Corporation is so powerful that damage to competitors might not be easily undone.

19. In considering these issues, it is useful to distinguish between three things: governance, regulation and wider accountability. The differences were neatly encapsulated by the BBC Trust in its written evidence to us:

> "**Corporate governance.** This is ultimately about determining the culture and values of the BBC itself: making sure the BBC is well-run, through effective and efficient decision-making and includes [*sic*] developing and implementing strategy; allocating resources; and monitoring performance and compliance.

10 In addition to those mentioned later in this Chapter, see BCR0033 (Commercial Broadcasters Association), paragraphs 8.2–8.6; BCR0044 (Teledwyr Annibynnol Cymru (TAC), Welsh Independent Producers)

11 See, for example, the long drawn-out discussions about the future of BBC Three: Qq 32 (Lord Burns) and 632 (Professor Purvis)

12 Qq 577-84 and 634-35 The current Director General of the BBC agreed: Qq 654–59

> **"Independent regulation.** The BBC needs independent oversight to determine standards and hold the BBC to them. An effective mechanism for objective judgments about the overall shape and scope of the BBC services (or new services) that balances the public value and market impact means that decisions are not taken by those with a direct interest (the BBC) and are not taken in a way that compromises independence (for example, by Government). An effective and independent means of addressing complaints and offering appropriate remedies is essential.
>
> **"Public accountability.** The public interest requires a form of accountability that extends beyond what is traditionally defined as 'regulation', for instance by clearly defining the scope of each BBC service, providing for robust, independent assessment of those services, and of the overall performance of the BBC in fulfilling its public purposes and Charter requirements. It should also give licence fee payers and competitors a say—in assessing performance, in major decisions about changes to services and in the setting of top-level objectives and priorities for the future."[13]

20. The regulatory tasks referred to in paragraph 19 are similar to those undertaken by Ofcom on behalf of other Public Service Broadcasters and the industry as a whole: several of our witnesses were strongly of the view that Ofcom should be the BBC's regulator. However, a number of them considered that the external accountability role needed to be separated from regulation. Professor Stewart Purvis suggested that for Ofcom simply to absorb all the Trust's current roles would be both a very large task and a difficult one, given the fact that it is primarily a competition regulator. He also argued that it was a matter for debate whether it was really desirable to set up a new quango to deal with accountability—an 'OfBeeb' (or Public Service Broadcasting Commission, as recommended by our predecessor Committee)—or to trust to a clearer definition within the Charter of what the BBC was expected to do and a strong unitary Board for the BBC to set a rigorous strategy to achieve that.[14] In either case, he identified a need for any unitary board to be more transparent than most such boards in the private sector so that the responsibility for individual decisions on issues was known: this should give the BBC a better structure for decision-making while maintaining accountability to the licence fee payer.[15] Lord Burns considered that an 'OfBeeb' was still desirable, but that the key was for there to be a more detailed and specific definition in the Charter of what the BBC was expected to do. He added that there should be a strong unitary Board, which should set the strategy to achieve the BBC's goals and make the main decisions about allocation of effort and budget, while a new 'OfBeeb' should focus on examination of the Board's decisions after the event.[16]

21. The current Director General, Lord Hall of Birkenhead, and Chairman of the BBC Trust, Rona Fairhead, largely agreed with this analysis. In particular, Lord Hall believed it would help him in his role to have a unitary board with a strong non-executive Chair and independent non executive directors.[17] He admitted that the complex structure of the BBC increased the difficulty of making decisions and holding people to account. Although he had tried to tackle this—for example, by reducing the number of different boards within

13 BCR0082, para 37
14 Qq 629 and 631
15 Q 633
16 Qq 10 and 32-33
17 Qq 654–59

the BBC from 64 to 20—he recognised that he had more to do, and he committed himself to abolish 1,000 posts and reduce the amount paid for management and ancillary services by £50 million by the summer of 2016.[18]

22. Rona Fairhead suggested that at least some of the complexity in the decision-making process arose from the need for the BBC to ensure that it was fulfilling its varied public purposes—for example, whether it was meeting its diversity targets, portraying nations and regions appropriately, and meeting its editorial standards—but she agreed there was scope to make decisions more quickly. She believed that a unitary board would help in clarifying responsibility.[19]

23. We also have in mind the comments of Mark Thompson, in a lecture given before he became Director General of the BBC himself: "The BBC in particular has a tendency to rediscover old-time religion once every ten years as it enters the run-up to Charter renewal. For them, perhaps for all of us, there's a temptation to reach out for the old ringing phrases again—and, if we're greeted with incomprehension, to behave like old-style English tourists and say it all again A BIT LOUDER to make sure that the message gets through."[20] One of the functions of effective governance is to ensure that the commitments made by BBC management at the time of Charter renewal are carried through in the period before the next one.

24. **At present the corporate governance of the BBC falls some way short of what is desirable. The Director General operates with too high a degree of independence; operationally, he is effectively accountable to no-one. The Trust's Chair has limited capacity to scrutinise executive performance beneath the Director General, and the Chair's power to fire a Director General is too blunt an instrument to be effective in relation to operational matters. The Trust's non-executives have limited insight into the BBC's executive operations, while the executive board's non-executives are not genuinely formally independent of management. By the same token, for all his apparent power, the Director General lacks the close support of a Chair in dealing with difficult editorial decisions and/or driving change through the organisation.**

25. **The Trust was a step forward from the former Board of Governors in terms of increasing transparency and accountability, and it has made real progress in scrutinising new BBC proposals and in handling complaints. Overall, however, we have reluctantly concluded that it has lost confidence and credibility and should be abolished. However, the problem that the Trust was intended to solve—the need for the BBC's top managers to be appropriately challenged and held to account on behalf of the licence fee payer—remains. The other roles played by the Trust (for example, in setting out a strategy for the BBC to meet the public purposes set down in the Charter, and acting as the final court of appeal in relation to complaints about BBC content in relation to impartiality and accuracy) will also have to be re-allocated.**

26. **In the first place, the BBC's Board needs to be reformed as a unitary board and strengthened, with the addition of an independent Chair and the presumption that the non-executives appointed to the Board should have broad experience and be able to challenge BBC management. If the present Chair of the Trust does not continue**

18 Qq 666–69 See also Q 859 (Rona Fairhead)
19 Qq 818-20 and 852
20 http://www.theguardian.com/media/2003/jan/15/channel4.broadcasting

in this role, any new Chair appointed should be a significant figure, ideally with acknowledged experience in managing large organisations, and should be comfortable with the media spotlight that will inevitably follow appointment. Measurable Key Performance Indicators must be reinforced by proper Board-level supervision and processes, including an acknowledged link between the Chair and the Director of Finance, so that the Chair is not overly dependent for information on the Director General.

27. **The Board's non-executive directors should be a group of diverse backgrounds, ideas and experience, selected by competitive process. They should be supported by a small team of high quality executives, in order to enable them to be as effective as possible. It should be clear that the position of non-executive director carries more personal responsibility than it has done recently and that there is an expectation that they will be rigorous and pro-active. Regional and national issues should be dealt with by the board collectively, not via specific director appointments. The non-executives' job specifications should be rigorously drawn and aligned with the BBC's purposes and remit contained in its Charter.**

28. **While part of the Board's task will be to make the BBC an efficient and effective organisation, its over-riding role will be to ensure that the BBC keeps to its public service commitments and maintains its distinctiveness between Charter reviews. It will also have an important role in helping the BBC's management prepare strategically for a decade of rapid and potentially turbulent change.**

29. **Ofcom is the regulator of the industry, and is likely to gain a larger role in relation to the BBC as the result of the Trust's abolition. However, its core regulatory duties do not sit easily at present alongside the task of holding the BBC to account for providing public value as well as the appropriate expenditure of money; and with the addition of the BBC it would need to exercise extreme care to ensure that it treats impartially and fairly the converging broadcasting and telecoms industries which it regulates. We await with interest the results of the detailed review of the BBC's governance and accountability by Sir David Clementi. That said, our judgement is that the issue of wider accountability should be the task of a separate section of Ofcom, which would effectively exercise the functions of the Public Service Broadcasting Commission recommended by our predecessor Committee. One possible model would be that designed for the merger of the National Lottery Commission with the Gambling Commission, where the two bodies share premises and back office support, and are able to share information, but have clearly different purposes, which are likely occasionally to come into conflict when decisions have to be taken affecting both the National Lottery and the wider gambling industry. This would allow for a joined-up approach for holding the BBC to high broadcasting standards—in effect, to be the benchmark for broadcasters and programme-makers.**

30. **In practice, this would mean that the BBC's Board would be responsible for preparing and implementing the Corporation's strategy, including broad objectives for the television and radio channels and online and other services, with broad allocation of expenditure by service, audience and genre. The Board would also approve detailed service licences to implement the strategy, and make proposals for new services or the closure of services.**

31. **The body responsible for accountability would act as guardian of the public interest in the BBC. It would assess the value for money of the BBC and its services. It should openly scrutinise the strategy and carry out public value tests on BBC services and on proposals for new services. In the event that something like the current proposals for BBC Studios are adopted, the body must be given both the powers and the staff to enable it to intervene swiftly to ensure accountability whenever there is insufficient separation between BBC commissioners and BBC Studios. It should have a power to initiate investigations into any activity of the BBC that raises a material concern affecting the public interest. There may be designated members of this body with specific regional and national responsibilities.**

32. **While the accountability body should have no power to mandate changes as a result of this scrutiny—as it should be clear that final responsibility rests with the BBC's Board—there should be an expectation that the Board would respond positively to any recommendations, and the accountability body should have the power to recommend financial and other sanctions (even potentially extending to withholding income from the licence fee or from any successor funding mechanism) if it were dissatisfied with the Board's response.**

33. **Ofcom should continue to be responsible for regulation of competition, economic and spectrum issues, and any other issues facing the whole broadcasting industry.**

34. **One of the issues that most exercises the public is the BBC's response to complaints—and, in relation to this, it has been a source of some confusion that certain appeals from the BBC have been referred on to the BBC Trust in its regulatory capacity. In the proposed new regime, all complaints should still be handled initially by the BBC. If unresolved, they should be escalated to Ofcom both for issues relating to competition and the wider industry, such as quotas and fair trading, and for content and breaches of editorial guidelines (such as impartiality, accuracy and taste).**

35. **Some issues may fall across both Ofcom as regulator of competition and the accountability body: for example, if the BBC's behaviour is unfairly distorting competition. The regulator and accountability body will need to develop appropriate working arrangements to handle this.**

36. **Last but by no means least, the structure should be underpinned by rigorous and transparent auditing. Parliamentary committees have long advocated a greater role for the National Audit Office (NAO) in relation to the BBC. In the autumn of 2015, when we took oral evidence on the BBC's Annual Report and Accounts, we asked the Chairman of the BBC Trust about this. She replied that the NAO could have applied to be the BBC's auditor when the Trust put the audit out to tender, but it did not.[21] Subsequently, the Comptroller and Auditor General wrote to us at our invitation to explain that it would have been inappropriate for the NAO to take part in the tender process as it was for Parliament to decide whether the NAO should audit the BBC. The C&AG added that he still had concerns about having no statutory right of access to information, the fact that the BBC Executive and Trust always wrote preambles to NAO reports, and the fact that he had no control over the timing of publication of NAO**

21 Culture Media and Sport Committee oral evidence on the BBC Annual Report 2014/15, 15 September 2015, Q 145: http://www.parliament.uk/business/committees/committees-a-z/commons-select/culture-media-and-sport-committee/inquiries/parliament-2015/2014-15-bbc-annual-report-15-16/

reports on the BBC.[22] In his words, "These restrictions can all too easily hinder rather than facilitate the independent scrutiny Parliament has a right to expect." The BBC responded to this letter in supplementary evidence to us in January 2016.[23] Despite the BBC's arguments about its difference from other public bodies,[24] we believe that the public deserves the extra assurance given through the independent oversight of the NAO when public money is spent, and we consider that the NAO should be auditor of the BBC.

37. **Our proposed structure is intended to make it clearer where responsibilities lie, and to cut down some of the confusion of purpose and bureaucracy that have undermined the existing governance arrangements for the BBC. It would place responsibility squarely on a strengthened BBC Board, with challenge to the executives from a re-invigorated and properly supported group of non-executive directors. It would separate out the function of representing licence fee payers' interests, and holding the BBC to account for its actions; and it would leave a clear regulatory role—focusing on the BBC's place in the wider broadcasting industry—to Ofcom. Combined with greater access for the National Audit Office to the BBC, this should provide a proper balance between independence from undue influence and public accountability.**

22 Letter of 29 October 2015, published as written evidence: http://www.parliament.uk/business/committees/committees-a-z/commons-select/culture-media-and-sport-committee/inquiries/parliament-2015/2014-15-bbc-annual-report-15-16/

23 BCR 0114

24 See, for example, Qq 872–85 and BCR 0116 (BBC Trust)

3 BBC's international presence

38. The BBC's influence spreads far beyond the shores of the UK. The BBC's editorial and operational independence from the UK Government and its reputation for accurate, impartial and independent news are highly valued by its audience. The BBC has been consistently rated as the most trusted and best-known international news provider, with CNN its nearest competitor.[25] The British Council told us: "People turn to the BBC for trustworthy, impartial news, especially in troubled times": the audience for the World Service's Ukrainian broadcasts have tripled in size since the start of the civil war there.[26] The BBC helps the UK to accrue soft power, both geopolitically and economically.[27]

39. The BBC's international reach is funded partly by the licence fee and partly by commercial activities. Its main commercial arm is BBC Worldwide, which is a wholly owned subsidiary of the BBC. Its other international-facing arm is BBC Global News, which is split into two sections: the BBC World Service (licence fee funded,[28] broadcasting on radio and television and online) and Global News Ltd, a commercial news operation which is in turn split between BBC World News (an international news and information television channel) and bbc.com (an international online service).

40. It was reported in June 2015 that the BBC had reached its highest ever weekly news audience at 283 million, an increase of 18 million people, or 7% on the previous year. This figure combines audiences for the BBC World Service in English and 28 other languages, global news commercial services on TV and online, and the BBC's international development charity, BBC Media Action.[29] The combined weekly figure for measured audiences across all the BBC's global services, both news and entertainment—on BBC branded channels like BBC America and BBC Worldwide's thematic channel brands—is 308 million. This compares with the target of 500 million for the BBC's global reach for 2022 set by Lord Hall.[30]

BBC Worldwide

41. BBC Worldwide Limited is the BBC's main commercial arm and functions as a wholly owned subsidiary. It has first refusal on the commercial exploitation of BBC productions, and is intended to maximise profits on behalf of the BBC through investing in, commercialising and showcasing content from the BBC around the world, in a way expected to be consistent with BBC standards and values. It has various options on how to do this: for example, it can sell programmes directly to other broadcasters, it can license a franchise to another broadcaster, or it can run a television channel itself, on its own or in conjunction with a local broadcaster. BBC Worldwide runs more than 30 channels around the world with claimed audiences of more than 150 million people, is the

25 Kantar Media Brand Tracker commissioned for the BBC, conducted twice a year from October 2012 - July 2015
26 BCR 0106, paragraph 8
27 See, for example, BCR 0106 (British Council)
28 A small amount of funding for the World Service will be provided through Grant-in-Aid, ie from the taxpayer: HM Government, *National Security Strategy and Strategic Defence and Security Review 2015*, Cm 9161: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/478933/52309_Cm_9161_NSS_SD_Review_web_only.pdf
29 The top 10 countries by audience for the BBC's news services are as follows: USA (30.4m); Nigeria (27.4m); India (17.1m); Pakistan (13.1m); Iran (12.3m); Egypt (10.4m); Bangladesh (10.3m); Tanzania (10.1m); Myanmar (6.9m); Russia (6.9m)
30 http://www.bbc.co.uk/news/entertainment-arts-34902244

biggest global distributor of TV programmes and formats outside the major US Studios and recently launched 'BBC Store'—a new digital venture selling BBC shows, current and classic, online—which has been seen in some quarters as the BBC's answer to Netflix and Amazon. BBC Worldwide also generates income in the UK from sales of DVDs. The business is intended to enhance the reach and reputation of the BBC overseas and to champion British creativity. It employs nearly 2,000 staff.

42. In the 2005–10 Parliament our predecessor Committee conducted an inquiry into the BBC's Commercial Operations; it concluded that there were major benefits from the BBC undertaking commercial activities, most importantly, the opportunity to reinvest profits generated by the exploitation of the BBC's intellectual property into the BBC's public services, to the benefit of licence fee payers. However, the Committee found that some recent developments (particularly Worldwide's minority stakes in overseas production companies, its controversial acquisition of Lonely Planet, and its growing portfolio of magazines) suggested that the balance had tipped too far in favour of Worldwide's unrestricted expansion, had risked jeopardising the reputation of the BBC and had adversely affected on its commercial competitors. The Committee also suggested it was likely that the BBC would gain a better return for the licence fee payer if it sold more of its rights on the open market rather than offering them exclusively to Worldwide.[31]

43. The previous Committee and others have been frustrated by the lack of transparency about Worldwide's operations. As a wholly owned subsidiary, it publishes separate accounts from those published in the BBC's Annual Report, and there is far less detail about the strategy it is pursuing. Critics suggest that it consistently hides behind the cloak of 'commercial confidentiality', and seems impervious to the argument that the public has the right to know more about the workings of the company because the content being sold by Worldwide has been paid for largely by the licence fee payer. In the words of the media commentator Steve Hewlett, "Worldwide's profit margin runs at roughly half the industry average for TV distribution business, and the way the company reports its results by geographical territory rather than by business activity makes it impossible to know whether the tens of millions of pounds spent on building overseas production businesses and creating a network of global channels is money well spent."[32]

44. There are three major concerns about BBC Worldwide's finances: that transactions between the BBC and Worldwide may not be charged at the market cost; that the complex arrangements for payments of dividends and profits back to the BBC leave questions over exactly how much is being paid; and that the way the accounts are drawn up makes it impossible to tell whether Worldwide really does provide the best value for money in exploiting the BBC's intellectual property.[33]

45. In relation to the first of these, Mr Tim Davie, Chief Executive Officer of BBC Worldwide and Director, Global, of the BBC, said he was confident that BBC Worldwide paid a fair price for content. It did not win everything on first look, but it did win about two-thirds. It submitted about five big new shows per quarter to formal market testing, putting out a brochure and receiving proposals. However, the situation was complicated by the

31 Culture, Media and Sport Committee, *BBC Commercial Operations*, Fifth Report of Session 2008-09, HC 24: http://www.publications.parliament.uk/pa/cm200809/cmselect/cmcumeds/24/2402.htm

32 http://www.theguardian.com/media/media-blog/2015/nov/15/bbc-worldwide-licence-fee-benefits-commercial

33 See PACT's criticisms: BCR0045, paragraphs 1.31, 1.39 and 1.42: BCR0022, paragraph 4.8 (Ingenious); Qq 397, 422 and 451 (GMG and Mr William Perrin); Q 585 (ITV) and BCR0033 (Commercial Broadcasters Association), paragraphs 7.1–7.3

fact that so many programmes are now co-produced between the BBC and independent production companies, and Worldwide provided a good global-scale distributor for the content co-produced by the 250 small to medium-sized independent companies in the UK sector.[34]

46. The BBC Executive told our predecessors that, despite limited access to capital, BBC Worldwide had delivered a strong financial performance, returning over £1bn to the BBC since 2007, including £400m in dividend payments and £562m of content investment, and that it provided up to 75% of the funding for some of the BBC programmes to which it contributed.[35] The BBC Trust said that, leaving aside investment in content production, Worldwide's annual dividend was equivalent to around 4 per cent of the total cost of running the BBC in 2012/13. [36] Mr Davie said that BBC Worldwide's profit margin of 18% in relation to its Sales and Distribution and Channels businesses was comparable to similar businesses; and while the margins were lower for the Production and Consumer Products businesses, they were still in profit and contributed towards returns to the parent company.[37] PACT (the Producers Alliance for Cinema and Television) has suggested, however, that the target for Worldwide to increase the revenue it returns to the BBC by 15% over the next five years is "very modest" by commercial standards.[38]

47. Until 2014, BBC Worldwide reported turnover and profits for each of the major business activities—sales, production, channels and so on—and then broken down by territory. So it was possible to see, for example, that in territories where Worldwide chose to act as producer—rather than simply sell and license—profitability fell. The justification was that the long-term benefits of being in production would include greater control of content and, critically, better returns to licence payers—dwarfing any short-term loss of revenue and/or investment costs. Similarly, starting channels was initially costly and resulted in reduced sales and licensing revenues as content was withheld from foreign buyers in order to supply the new BBC channels starting up in their territories. The longer term benefit was subscription revenues and advertising sales.

48. In November 2015, Worldwide's CEO Tim Davie said on Radio 4's The Media Show that £37 million of the £63 million profit made by BBC Worldwide Channels businesses came from just one venture: the BBC's 50% share in UKTV.[39] The remaining 30 global channels produced the rest. Moreover, the same UKTV deal accounts for most of the profit declared by BBC Worldwide for the UK (total profit £53 million), which in turn is around 40% of all BBC Worldwide's global profits of £138 million.[40]

49. We tested these two areas—the difficulty of making an assessment of the efficiency of Worldwide and the fears that it was to some degree subsidised by the core BBC—when Mr Davie gave evidence to us. He explained that the changes to the way the accounts were presented were intended to represent more accurately the way the business actually functioned, in accordance with commercial best practice. However, he was willing to report by business type as well as geographical area, and he has subsequently submitted

34 Qq 503–04 and 507
35 CMS Committee Report, paragraph 176
36 CMS Committee Report, footnote 245
37 BCR 0112
38 BCR0045, para 1.42 See also BCR0108 (William Perrin)
39 These figures were confirmed by Tim Davie in evidence to us: Qq 539–44 The UKTV deal was agreed when John Birt was DG, in the late 1990s.
40 BCR 0112 (BBC Worldwide)

written evidence giving a clear breakdown by both geographical region and business type, which is helpful.[41] On the question of transparency generally, Mr Davie said that BBC Worldwide was at least as transparent as any commercial competitors, and he rebutted the suggestion that the BBC had any obligation to be more transparent than them. He agreed that it should be far more accountable than competitors in terms of public scrutiny, the fair trading regime and whether the licence fee payers were obtaining the maximum return for their IP, with accountability being provided by the BBC's internal auditing mechanisms and governance systems.[42]

50. Mr Davie also argued strongly against the idea that programmes could be sold simply on the basis of a 'rate card': he said he could provide much better returns to the BBC—and to the 250 or so independent production companies involved in co-productions—from negotiating individual deals.[43] He explained that he was not looking for the maximum amount of profit in the short term but for a sustainable return. In this context, he had a plan to increase returns from about £1 billion to £1.2 billion over five years.[44] He also gave an example of where he had withdrawn from a business that, had he been keen on aggressively growing Worldwide he might have invested in, but which he thought was not an area in which the BBC needed to compete: the making of video games based on BBC IP.[45]

51. The handling of BBC America illustrates the importance of ensuring adequate financial disclosure. North America is Worldwide's largest business area outside the United Kingdom. In October 2014 BBC Worldwide sold a 49.9% stake in its BBC America channel to AMC Networks, a New York-based cable channel operator, for US $200 million.[46] In justifying the change of strategy it argued that entering a partnership with a major US network operator would be good for the channel's future growth in the American market and that the collaboration would bring more high quality television to viewers in both the UK and the US alike.

52. As anticipated, for 2014/15 Worldwide reported that headline profit for the US market had declined year-on-year from £44.1 million to £32.9 million, almost solely due to its reduced ownership stake in BBC America.[47] In light of the significance of this deal, and the fact that selling almost half of this prime channel to another operator would significantly reduce revenues from this market in the short term, we questioned the Director General on this matter during our first annual scrutiny session with him.[48] We wanted to explore whether the deal struck with AMC represented good value for money and that it would not diminish the BBC brand, now that AMC had operational control of the channel. The transaction itself was not straightforward, as it was payable in two tranches and also involved costs which amounted to 27% of the total cash received. We found the initial response to our questions inadequate, so we decided to follow these up in correspondence. We entered into a somewhat protracted exchange with the BBC to ascertain the nature of the £34 million costs associated with this deal and also to obtain information about the profitability of BBC America in the previous three years. Overall,

41 Q 456 and BCR 0112 (BBC Worldwide)
42 Qq 457–61
43 Qq 474–76
44 Qq 477–79
45 Q 481
46 BBC Worldwide Annual Report 2014/15
47 BBC Worldwide Annual Report 2014/15, page 20
48 Oral Evidence, BBC Annual Report and Accounts 2014/15, 15 September 2015, Qq 92, 95–100

the impression given was that the BBC was reluctant to provide clear, cogent answers to straightforward questions, and we still have not had a comprehensive response.

53. Subsequently, Mr Davie explained to us the rationale for the partial sale of BBC America: there had been very rapid consolidation and vertical integration in the American market, and the BBC was comparatively small and was one of only two independent producers in a market of 60, most of which were part of the huge cable companies. The strategic partnership with AMC gave the BBC the scale it needed to compete.[49]

54. **Clearly, such business endeavours are subject to commercial confidentiality, but the fact that we have had to make specific inquiries into the BBC America transaction—as our predecessor Committee did with the ill-fated acquisition of Lonely Planet—illustrates wider concerns at a lack of transparency at BBC Worldwide. We believe that BBC Worldwide should make every effort to be as transparent as commercial confidentiality allows, including in relation to compensation arrangements with members of staff and staff acting as outside contractors. In that context, we welcome BBC Worldwide's recent commitment in the BBC's agreement with PACT to report results by business activity as well as by regional split.**[50]

BBC World Service

55. As already noted, the BBC's global news services include the BBC World Service, funded by the licence fee, BBC World News (a 24-hour news and information English language TV channel, which is available in more than 200 countries and territories worldwide) and bbc.com/news (the BBC's international news website and app which offers international news, business, features and in-depth analysis), which are funded and operated by Global News Ltd, a separate commercial subsidiary of the BBC chaired by the Director, World Service Group. In addition the World Service Group operates BBC Monitoring, which provides news and information from media sources around the world to the BBC, the UK government and a range of other customers, and international development charity, BBC Media Action.

56. The BBC World Service broadcasts international news and a range of output on TV, radio and digital platforms, either directly or through syndicated content via partners, in English and 28 other languages.[51] Radio continues to be important, but the growth in digital audiences has led to a greater emphasis on the BBC's news website. The World Service also works with local partners, supplying content to news websites in order to reach a wider audience. The BBC World Service increased its global audience by 10% in 2013/14, the first year in which it was funded through the licence fee and now stands at 210 million, with the biggest boost coming from new World Service television news bulletins in languages other than English. In 2013, the audience for the BBC's Persian language service in Iran grew by 90% to an audience of 11.4 million.[52] Working with local partners television programmes have been launched in Swahili, Hausa, Hindi, Urdu, French for Africa, Russian, Ukrainian, Pashto, Kyrgyz, Burmese Tamil and Bengali. Including the dedicated BBC TV services in Arabic and Persian, the World Service now offers TV

49 Q 483

50 http://downloads.bc.co.uk/mediacentre/bbc-pact-joint-statement.pdf

51 The World Service languages with the biggest audiences, after English, are as follows: Arabic (36m), Hausa (18m), Persian (17m), Swahili (16m).

52 BCR 0106, paragraph 4.7 (British Council)

services in 14 languages. All are live-streamed on BBC websites and available on demand, including via YouTube. In 2014/15 BBC World Service English increased its audience by more than 25% on the previous year—up to 52 million.

57. After several years of falling budgets for the World Service, the BBC Trust agreed an increase of £6.5 million for FY 2014/15, to a total of £245 million. Though very welcome, this budget compares with the estimated expenditure of $2.6 billion a year for the Chinese equivalent, CCTV, and $362 million for Russia Today.[53]

58. The BBC global newsgathering infrastructure is large-scale, with BBC correspondents in 102 cities and news bureaux in 65 locations around the world. The World Service's move from Bush House to join other news operations in Broadcasting House and the funding change for the World Service (from Grant-in-Aid via the Foreign and Commonwealth Office to licence fee) have resulted in the World Service working much more closely with the BBC's domestic teams, saving both money through the integration of their news operations, such as sharing bureaux overseas. It has also enabled bilingual journalists from the World Service to bring their insights and expertise to the BBC's UK news services. The balance between licence fee funded newsgathering and commercially-funded newsgathering varies from region to region: for example, BBC Arabic TV (part of the World Service) gathers news in the Middle East for regional audiences, whereas in Australia and the USA newsgathering is done via the commercially-funded BBC Global News Ltd. The BBC emphasises that the budgets for the two organisations are kept separate and carefully regulated.[54]

59. There are dangers as well as benefits from sharing assets between the licence fee funded World Service and the commercial BBC World News. Any blurring of the boundaries may lead to the suspicion, if not the reality, that the World Service is subsidising the BBC's commercial operations (for example, where a reporter employed by the World Service provides material for BBC World News, or where facilities and crews are shared). If true, this would be a misuse of the licence fee, it would weaken the World Service and it would give BBC World News an unfair advantage over its commercial competitors.[55] **There is therefore a pressing need for a clearer boundary between the World Service and BBC World News, in particular to ensure a rigorous assessment and fair allocation of costs and other resources.**

60. As part of the BBC's proposals for the future of the BBC over the next 10 years, on 23 November 2015 the BBC Director General, Lord Hall, announced plans for the World Service to expand into areas where there is a democratic deficit in impartial news. Various options are being considered, including: a bigger digital presence in Russian, together with TV bulletins for neighbouring states; a daily radio news programme for North Korea, initially delivered through short wave, and radio news for Ethiopia and Eritrea; additional language provision online or by television in India and Nigeria; dedicated television output for Somalia and a fully digital service for Thailand; more regionalised content on the BBC Arabic Service to serve audiences across the region better and target new audiences, with increased coverage of North Africa and the Gulf.[56]

53 Figures supplied by the International Broadcasting Trust to the House of Lords Communications Committee: see BCR 0106, paragraph 4.2 (British Council)
54 Qq 484, 487, 801–04
55 BCR0026 (News Media Association)
56 http://www.bbc.co.uk/news/entertainment-arts-34902244

BBC World News

61. BBC World News television (in English) is available in more than 200 countries and territories worldwide, and over 397 million households and 1.8 million hotel rooms. It has a weekly audience of 85 million. The channel's content is also available on 178 cruise ships, 53 airlines and 23 mobile phone networks. It provides hourly bulletins with news, business, sport and weather information, and also broadcasts the best of the BBC's current affairs, documentaries and other programming covering music, religion and ethics. There are seven regional variations of the programme schedule—for Africa, Asia Pacific, Europe, Latin America, Middle East, North America and South Asia. BBC World News also operates in Japanese both on TV and online.

62. The BBC's international activities also extend to local services. In some countries, for example Australia, Global News Ltd has established dedicated local services online: in the USA, the BBC has a newsgathering partnership with ABC News, where the bodies swap and share both international and domestic material; and in countries such as New Zealand, Japan and South Korea the BBC sells its international material to local providers.

63. While there appears to be little dispute that the BBC has a right to exploit its newsgathering and broadcasting capacities commercially in international markets, the argument was made to us that Global News Ltd operates with advantages because it is subsidised by licence fee payer operations, using its financial clout to be a competitor with foreign news providers in their own domestic markets. The BBC insists its objective is to provide a global perspective to stories of interest in, for example, Australia, not to compete with local editions.

64. The BBC has told the Committee: "In common with all the BBC's commercial subsidiaries Global News Ltd operates within the Fair Trading framework established in the BBC Charter and Agreement. A robust and rigorous Fair Trading regime is in place to ensure that all trading activities of the BBC comply with these guidelines and all relevant state aid and competition laws." In relation to international news, the commercial arm buys the services of BBC News at a rate set on a third party basis and regularly independently audited.[57]

65. The Guardian Media Group (GMG) disagrees: it says that the BBC's efforts to expand its commercial news activities internationally disadvantages competitors. As an example, GMG cites the USA and Australia, where its international commercial ambitions clash with those of BBC Global News, which it claims are in direct competition for the same advertising and sponsorship revenues. GMG argues that the BBC should be subject to a much more thorough oversight and transparency regime in future.[58] However, as yet GMG has not launched a complaint about BBC Global News under the BBC's existing Fair Trade framework.[59]

66. GMG says that the BBC could have a productive relationship with the commercial news sector, but this would require "a fundamental change in the BBC's approach to partnership, and a new obligation on the BBC to act as a more open hub for the world class content created by the commercial news sector." Such an approach would require the BBC to exercise restraint before trying to do everything, and to refrain from seeing

57 Q 536
58 BCR0062, para 17
59 Q 394

innovation in the commercial sector as a threat to the BBC's future.[60] GMG makes a number of suggestions for reform to create a more open and transparent BBC, including:[61]

- Ensure that the BBC demonstrates a far greater commitment to use its news platform to drive traffic to commercial news brands;[62]
- Open up the BBC's archives generally, not just the current proposal to open up its archive of video and audio news to the local commercial sector;
- Allow commercial and non-commercial access to the BBC's global news feeds.

67. Though by far the loudest critic to us of the BBC's international operations, GMG was not alone: Lord Burns also flagged up concerns that the BBC's vital newsgathering and publishing activities overseas might be subject to a drift into areas better left to other companies.[63]

68. **Respect for the BBC as an institution and for its output is voiced frequently by foreign commentators on broadcasting. But the BBC's international presence is not only of significance in reflecting the UK to the world. In an era when media companies are reducing the number of reporters they employ, especially those based outside the UK, and relying increasingly on feeds from a limited number of international news agencies, the continued presence of BBC journalists outside the UK is especially valuable because of their understanding of local cultures and the context they can provide as stories develop.**

69. **While we fully support the recent proposals to extend the World Service, we have concerns over the way in which the BBC is developing its commercial arms overseas, in part because of their impact on other parts of the BBC and the Corporation in general, and in part because of concerns about value for money and fair competition.**

70. **The BBC's World Service Group contains both the World Service itself and the commercially-funded Global News Ltd. It clearly makes some sense to use the expertise within these two organisations to reinforce one another, providing the best possible information to those using BBC services. Lord Hall has assured us that the budgets for the commercial international news services and the World Service are kept separate and carefully regulated. There is a risk, however, of a blurring of lines about where costs fall. In this context, we note that BBC Global News has been operating at a loss (of £7 million in 2013/14, attributable to the remodelling of the website).[64] We therefore recommend that the funds provided by the licence fee payer for the World Service should be more clearly ring-fenced, with appropriate protections written into the Charter or Framework Agreement. Because of the difficulties of allocating costs properly, we consider that this is an area that the National Audit Office should keep particularly under review.**

60 BCR0062, para 18
61 BCR0062, para 24
62 Ofcom's 2014 news consumption survey show that the BBC's website or app is used by almost three in five (59%) online news users, with the BBC's nearest rivals lagging, with 18% using the Google search engine, 17% using Facebook, and 17% using the Sky News website or app: BCR0062, para 34
63 Qq 22–25
64 See http://www.bbc.co.uk/annualreport/2014/executive/finances/commercial.html

71. **BBC World News also runs the risk of 'mission creep'. While its avowed purpose is to provide a source of independent and impartial international news in the countries in which it operates, either solo or in partnership with other news-gathering organisations, its other main purpose is to provide income to the BBC, reducing dependency on the licence fee, and this commercial imperative has already led to claims of unfair, publicly-subsidised competition, particularly in the Australian market. We note that as yet, no complaint has been made under the BBC's Fair Trading Guidelines, but this does not necessarily mean that there is no cause for concern. It is for the new unitary board to ensure that Global News Ltd focuses on news-gathering and delivery and resists the temptation to expand into magazine-style material.**

72. **BBC Worldwide provides different challenges. It is vital that the BBC's valuable Intellectual Property be exploited in international (as well as domestic) markets to obtain the best possible return to the licence fee payer. Unfortunately, as a commercial entity, BBC Worldwide provides rather less information in its Annual Report and Accounts than its public sector parent, the BBC. It is therefore impossible to judge which parts of BBC Worldwide are profitable, which are making a loss, and why, whether its strategy is appropriate—or, indeed, whether the BBC would achieve a higher return by selling broadcast rights on the open market, contracting out Worldwide's operations, or whether there is hidden subsidy to Worldwide from the core BBC, such as under-valuation of the assets that Worldwide then exploits commercially. Of course, commercial return is not the only criterion of success for Worldwide: the BBC needs to protect its brand, and to continue to build public value through the creation of new programming and intellectual property. But in the absence of greater information, concerns will quite properly remain.**

73. **We recommend that following any transition to new governance arrangements, the BBC Board re-examine the business case for BBC Worldwide and, if it decides to retain the wholly-owned subsidiary model, that Worldwide is subjected to greater transparency and accountability than it is today. We also expect Ofcom to keep its operations under review.**

74. **As we note below, these concerns have wider implications, too, not least for the proposals to change the BBC's production division into BBC Studios, a new wholly-owned subsidiary operating in direct competition with other domestic and international production companies. If Worldwide's operations raise concerns about public subsidy, cost allocation and profitability, these issues are likely to be even more difficult to address in relation to a changing model for the production of programmes, a core aspect of the BBC.**

4 Production

75. Currently the BBC has a statutory duty[65] to commission 25% of qualifying original network television and non-network television productions from the independent sector each year. Under the BBC's Framework Agreement with the Secretary of State,[66] the 25% quota for independent production applies to both BBC One and BBC Two. 'Qualifying programmes' are those commissioned by the BBC, including co-productions where the BBC meets more than 25% of the actual production costs; news content, continuity announcements and trailers and repeats are excluded from the calculation. The Framework Agreement also requires 50% of qualifying programmes to be reserved for the BBC's in-house production teams, and the remaining 25% to be set aside for competition between independent producers and the in-house resources. This last 25% is known as the Window of Creative Competition, or WoCC.

76. The situation is different for radio and the BBC's online services, where the Trust has specified requirements. For radio, the Trust expects the BBC to commission at least 10% of its eligible radio hours from independent producers, and since 2012/13 a further 10% has been opened up as a WoCC. Radio 4 has a separate network-specific target to ensure that a total of 20% of eligible outlet is available to the independent sector each year. For online services, the BBC is required under its Online and Red Button Service Licence to commission 25% of online spend on content and services from independent suppliers.

77. The Trust has also set the BBC the target of ensuring that 50% of expenditure on network television production should come from outside London by 2016, and within this 17% of network spend should be sourced from Scotland, Wales and Northern Ireland.

Measuring the success of the WoCC

78. This system appears to have been very successful in encouraging the growth and sustainability of the independent production sector in the UK. In 2007, when the WoCC came into effect, the BBC's in-house production was the dominant force in the market, with a few hundred small and medium-sized independent production companies. The independent sector has grown significantly since 2007, with television-related revenues increasing from £1.3 billion in 2005 to some £2.8 billion in 2014 with substantial growth in export sales. Although growth in demand is being driven by multi-channel broadcasters, commissions from public service broadcasters still account for most of the market, with the BBC remaining the largest single purchaser, commissioning over a quarter of all new content made by independent producers in the UK and overall accounting for about 40% of total investment in original television content in the UK in 2013.[67] External producers win a substantial proportion of the commissions under the WoCC, outnumbering the BBC's in-house bids by more than 3:1 in the twelve months ending March 2015.[68] At present the WoCC represents about £250m of the BBC's commissioning spend across

65 First under the Broadcasting Act 1990 and subsequently under the Communications Act 2003

66 The Framework Agreement provides greater detail than the Royal Charter of what is expected of the BBC and how it is expected to deliver it: for a description of the governing documents of the BBC, see CMS Committee Report, paragraphs 14 to 15.

67 BBC Trust, *The supply arrangements for the production of the BBC's television content, radio content and online content and services, June 2015, paras 2.1.2 and 3.2.4 (hereafter 'BBC Trust, Supply arrangements for production of BBC content')*

68 Performance against public commitments 2014/15: http://downloads.bbc.co.uk/annualreport/pdf/2014-15/bbc-papc-2015.pdf

a variety of genres and delivers more than 1,400 hours of programming. In 2014, the BBC obtained 56% of its programmes from BBC production, the rest coming from the wider market, amounting to £468 million being spent on commissions from independent producers in 2014.[69]

79. At the same time, the structure of the market has changed, with scale, control over distribution and the long-term exploitation of Intellectual Property all increasing in importance: all these factors have led to significant market consolidation, with a number of high-profile mergers and acquisitions. The industry has seen the emergence of a number of 'super-indies', with an international presence. Many of the large producers and most of the super-indies have been acquired by international broadcasters, mostly from the USA.[70] At the same time, while the number of small production companies has remained pretty constant, the number of medium-sized companies and their share of the market have declined significantly.[71]

80. Producers owned by groups with UK broadcast interests cease to qualify as independent production companies for the purposes of regulation: any commissions they win from public service broadcasters cannot count within the statutory 25% quota for independent producers. The BBC has seen a significant increase in the proportion of network hours commissioned from such producers in recent years: 9% in 2015 as compared with 2% in 2007–08. The only place that these hours can be accounted for is in the WoCC, meaning, as the Trust explains, "that a space intended to promote creative competition from a wide range of suppliers is increasingly taken up by commissions, including long-running returning series, from a few big producers."[72] Broadcaster-owned companies now earn over half of the UK 'independent' sector's revenues. The Trust concluded that the television WoCC "is no longer stimulating wide, creative competition as effectively as" it did in the past.[73]

81. Moreover, there is some disagreement about the way the sector will develop in future, given the scale and rapidity of change over the last decade: the BBC Executive considers that there will be a gradual shift of power away from broadcasters and towards the bigger global producers, which may affect the BBC's ability to provide the sort of content that UK audiences expect, at a fair price or even at all. PACT, on the other hand, believes that the buying power of the public sector broadcasters will remain the dominant characteristic of the market.[74] Ofcom's third review of Public Service Broadcasting noted: "There is a growing risk that consolidated companies focus on the most commercially attractive genres, leading to a lack of innovation in the less commercially attractive genres"; and: "there is the potential risk that greater vertical integration between broadcasters and production companies could reduce the number of companies competing for PSB commissions and so limit commissioner choice".[75]

82. The BBC claims that it is beginning to feel these constraints: "In particular, the individual 25% quotas for independent producers on BBC One and Two are already

69 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, September 2015 See also BCR0045, paras 1.26-1.28(Ingenious)

70 *BBC Trust, Supply arrangements for production of BBC content, paragraph 3.2.5; Qq 821–24 and 945*

71 *Qq 103–04* (PACT)

72 BBC Trust, *Supply arrangements for production of BBC content*, paragraph 2.1.8

73 BBC Trust, *Supply arrangements for production of BBC content*, Conclusion One

74 BBC Trust, *Supply arrangements for production of BBC content,* paragraphs 2.1.4–2.1.5

75 http://stakeholders.ofcom.org.uk/binaries/consultations/psb-review-3/statement/PSB_Review_3_Statement.pdf

becoming difficult to fill without distorting editorial choices" because of the growing shortage of 'true' independents.[76] It also claims that it is finding it harder to retain in-house talent as the market rapidly becomes more commercial: "BBC programme makers compete with one hand tied behind their back: they can only sell their ideas to one customer—the BBC—and if they lose business they cannot make it up elsewhere."[77] The BBC also notes the rapidly escalating cost of premium content, not least because vertical consolidation and globalisation have led to deep pockets. In the BBC's view, this makes it more difficult for the BBC to acquire premium content externally, and increases the need to maintain a vibrant in-house production centre, capable of creating its own formats and properties.

BBC Studios

83. The BBC's response to these developments has been to bring forward a strategy based on the principles of 'compete or compare'. It is proposing to abolish the 50% in-house production guarantee and:

- transform the majority of BBC production into BBC Studios, a private limited company wholly-owned by the BBC Group producing programmes for the BBC and other broadcasters in the UK and internationally;
- open about 80% of the BBC's programming[78]—i.e. Drama, Comedy (including Radio Comedy, which is already integrated with the Television Comedy Department), Entertainment, Events (including ceremonial events as well as festivals like Glastonbury), Factual (including Natural History), Music Television—to competition from external suppliers by removing the guarantee for BBC production. With the exception of Radio Comedy, Radio would remain within the public service, and radio teams currently integrated into Television production departments (Natural History and Religion) would be moved back into BBC Radio;
- News programming would continue to be delivered solely by in-house teams. Current Affairs would continue within the Public Service (to "ensure that the BBC has the ability to deliver the sort of sensitive, risky investigations that require clear editorial oversight from the Director of News and, in some cases, the Director-General"). In practice, this means keeping the status quo of working with independent producers for a proportion of Current Affairs output.[79]

84. The reason for preserving the status quo for sport is stated as two-fold: enabling the BBC to continue to have an integrated approach between Television, Radio, Online and News teams; and to ensure a critical mass of production to give the BBC the skills to deliver major sporting events like the Olympics and World Cup. As for Children's programmes, the reasoning is that keeping current arrangements would enable the BBC to respond better to changing media behaviour among young people.[80]

76 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, page 7
77 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, page 7Also Qq 503 and 519–28 (Tim Davie) and 755–56 (Director General)
78 Excepting the genres of Children's, Sport and Current Affairs, which would remain under current arrangements.
79 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, September 2015, pages 12-13
80 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, page 7

85. While overall the BBC is proposing to dismantle the 50% in-house guarantee, the BBC and PACT have agreed to support the maintenance of the statutory 25% independent production quota. The BBC also says it remains committed to sourcing programmes from outside London and across the Nations of the UK.[81]

86. The BBC initially announced that it intended to transfer to BBC Studios the right to continue to produce the series that it makes today. It argued that the production of these programmes by BBC Studios was "necessary to ensure continuity of supply to licence fee payers".[82]

87. The BBC estimated that at launch BBC Studios would have total revenues of about £400 million, and would receive a share of a bit less than 15% of total UK commissioning spend. The BBC hoped that the share would remain relatively stable over the near term.[83]

88. The BBC's ambition is for BBC Studios to "become a thriving, commercially sustainable production company creating programmes we are pleased to have the BBC name on. It will work with BBC Worldwide to operate in the global market but will focus on serving UK audiences and the UK creative sector. It will help grow the BBC's commercial revenues by ensuring the British public benefits from the ownership of valuable intellectual property. All profits will flow to, and be reinvested by, the BBC Group…" [84]

Response to the BBC's proposals

89. While there was a widespread welcome for the opening up of the 50% of production currently covered by the in-house guarantee, many of our witnesses believed that there were better ways of increasing competition in production than the Studios proposals. PACT expressed doubt that the detailed proposals for BBC Studios would meet State Aid and competition requirements. It particularly focused on the lack of detail about the interaction between BBC Studios and BBC Worldwide: "Price transparency within the BBC is a big area of concern to the independent production community. We do not believe that the BBC Fair Trading guidelines in their current form are sufficiently robust to address these concerns."[85] ITV agreed.[86] Lord Burns suggested that BBC commissioners might unconsciously be influenced by the fact that commissions given to Studios would, in effect, retain money in house, while producers in Studios would have a better idea of what their erstwhile commissioner colleagues were looking for which would give them an advantage in pitching.[87] PACT has therefore called for a proper system of regulatory oversight, including remedies for addressing complaints that are independent of the BBC and are set out in the Charter or statute.[88] Ingenious, a company that raises capital for investment in film and television production, was also concerned about the lack of adequate mechanisms to enable competitors to seek redress, or to provide remedies for abuse of market power.[89]

81 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, page 18
82 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, page 23
83 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, page 17
84 *British Bold Creative: BBC Studios: Strengthening the BBC's role in the creative industries*, page 11
85 BCR0045, paragraphs 1.21-1.25; Qq 128–29, 138–44 The BBC Trust told us that it was already considering in relation to the Studios proposal how the Fair Trading rules might best be applied, transfer pricing issues, a complaints procedure and appropriate arrangements for the separation from the core BBC: Qq 919–20 and 939
86 Qq 562 and 593–97
87 Qq 6–7 (Lord Burns) and 169 (MECCSA)
88 BCR0045, paragraph 1.20
89 BCR0022, paragraphs 4.3–4.4 and 4.9

90. Ingenious's main concern was that, at a time when broadcasters, including the BBC, were diverting more financial risk to producers (for example, in children's television the BBC usually supplied only about a quarter of the production cost), and finance from banks was difficult to obtain, the introduction of further competition in the form of a well-capitalised BBC Studios threatened to destabilise the market.[90]

91. PACT has challenged the claims that the 'compete or compare' proposals would in practice open up about 80% of BBC network hours to commercial competition. In addition to its support for a publisher model along the lines of Channel 4, it suggested that if the BBC kept long-running strands with BBC Studios then the overall benefit to the UK production sector of the Studios proposals would be "marginal".[91]

92. Individual independent production companies expressed most concerns about the need to preserve the Terms of Trade[92] that had enabled them to gain some control over, and continuing value from, their Intellectual Property: without this, they told us, they would be unable to compete in the increasingly vertically-integrated sector. They were less concerned about whether the WoCC should be increased or the in-house quota abolished, but a number were particularly keen to retain a quota for small independent companies, to sustain the creativity that the sector has shown over the last ten years.[93]

93. Some witnesses stated concerns that the Studios proposal posed a risk to the BBC's capacity to produce high quality public service material itself by encouraging it to focus on formats designed to attract large audiences and with global appeal rather than reflecting the UK,[94] and to set a benchmark for production values. There were also concerns that the focus on Studios in a limited number of locations might make it even harder for regional centres of BBC production to compete for commissions.[95] However, the Chief Executive of MG Alba, the Gaelic media service for Scotland, gave an alternative view. As a publisher/broadcaster, he said that 80% of the funding from the Scottish and UK Governments received by MG Alba went to small independent producers, with two-thirds of the total being applied to three-year contracts which, because of the financial stability afforded by such contracts, enabled small producers to borrow against cash flow, increase the number of staff and upgrade their skills, and generally to be more active outside the contract. [96] The channel run by MG Alba, BBC Alba, accounts for more than 50% of Scottish commissions, though MG Alba is responsible for less than half of the money spent on programmes from the independent sector in Scotland: this is because commissioning on a longer-term basis is much more cost effective.[97]

90. BCR0022 See also BCR0044 (TAC) and Q 125

91 BCR0045, paras 1.26-1.28

92 The Terms of Trade were introduced as a result of concerns that the broadcasting companies were using r=their comparative strength to impose very disadvantageous terms on independent production companies, especially in relation to the ownership of Intellectual property. The Terms of Trade provided a framework enabling independent producers to retain a higher percentage of the continuing value of IP, which acted as leverage to raise money for investment in staff and future productions.

93 See BCR 0086, BCR 0087, BCR 0088, BCR 0089, BCR 0090, BCR 0091m BCR 0092, BCR 0093, BCR 0094, BCR 0095, BCR 0097, BCR 0098, BCR 0099, BCR 0100, BCR 0101, BCR 0102, BCR017 and BCR0118

94 BBC Trust, Supply arrangements for production of BBC content, paragraph 4.3.11

95 BBC Trust, Supply arrangements for production of BBC content, paragraphs 2.4.4, 2.4.8, 2.4.10–2.4.11, Conclusion 5; BCR0021 (Minister of Culture, Arts and Leisure, North of Ireland); BCR0068 (Creative England)

96 Qq 59–61

97 Q 70

94. Several witnesses expressed concern at the future of the BBC's role in providing skills training for the creative industries as a whole.[98] Creative Skillset noted that 79% of TV companies reported gaps between the skills their workforce had and those they needed. One of the key reasons Creative Skillsets gave for its assessment of the importance of the BBC in training was the fact that the sector was very reliant on freelancers "who would not otherwise have ready access to training they need to develop their careers". 54% of the independent TV production workforce is freelance.[99] Ingenious praised the BBC for its crucial role in nurturing talent in the film industry, especially in the high-risk area of script development.[100] Creative Skillset believed that the BBC should sustain a key role in attracting and training new entrants to the sector, and in continuing training of the existing workforce. It therefore suggested that the BBC should be given a new public purpose to support training and skills across the creative media industries.[101]

95. While acknowledging the important role played by the BBC in training, PACT said that in 2013 independent producers collectively invested £40 million in training, diversity and skills progression.[102] The Radio Independents group (RIG) said that their members, independent producers, had set up an organisation called RIGtrain to provide staff with the sort of wide-ranging and multi-tasking skills and pro-active approaches required by small radio stations, as opposed to the specialisation more suited to large organisations like the BBC.[103] Creative Skillset itself also argued that in recent years the BBC had cut its investment in the BBC Academy, its in-house training centre, by a far greater amount than its cuts elsewhere. Creative Skillset suggested this treatment of training as an overhead to be cut, sometimes disproportionately, represented a real risk to the quality of programme-making in future.[104]

Agreement between BBC and PACT

96. Following our evidence session with PACT, the BBC and PACT published a joint statement announcing the outcome of their negotiations.[105] Among other things, the Joint Statement is designed to reduce concerns about the impact of the Studios proposals on the independent production sector. The Statement lays out a number of guiding principles designed to ensure that Studios would operate separately from the rest of the BBC (referred to in the document as "BBC Public Service"), including no cross-subsidies, new measures to ensure separation of personnel, a requirement that Studios should be subject to the same published tariffs and terms as independent producers, the use of the BBC's Fair Trading Policy and Guidelines for both Studios and independents, and fair and transparent competition for returning series. It emphasises the need to comply with State Aid rules, for transparency (accounts to be published) and for the BBC's external regulator to ensure the effectiveness of the arrangements, and it sets out a complaints process. PACT and the BBC agree to support continuation of the statutory 25% independent production quota, with a little flexibility introduced into the separate quotas for BBC One and BBC Two. The agreement covers the amount and timetable for the opening of the in-house guarantee to

98 In 2013/14, the BBC trained 13,500 BBC staff members and 8,000 from elsewhere in the industry: BCR0113
99 BCR0051, paras 20 and 14
100 BCR0022, paras 3.3-3.6
101 BCR0051, paras 7-11
102 BCR0045, para 1.52
103 BCR 0019, paragraph 45
104 BCR0051, para 19
105 BCR0114

competition, increasing the amount reserved to the independent production quota from 25% to 40% in the areas of Children's programming and Current Affairs. It states that the BBC would ensure that overall a minimum of 40% of the current in-house allocation would be open to competition within two years of BBC Studios being established. (This would mean that within two years, 25% of productions would be part of the quota for qualifying independent producers, a further 45% would be open to competition—the current WoCC plus 40% of the current in-house allocation—and 30% would remain with BBC Studios.) It provides for a two-yearly audit of the relationship between BBC Studios and BBC Worldwide, and leaves open the possibility that PACT and the BBC may establish a working group to consider if further arrangements are needed to govern the relationship between BBC Studios and BBC Worldwide.

97. **Even with the caveats about allowing existing 'strands' to be phased into the new arrangements over time, the Studios proposal presents real risks and promising opportunities for the BBC, and for audiences. Much of its underlying purpose relates to the BBC's desire to create and control intellectual property, and to reduce costs by exposing its production facilities to commercial competition. But the BBC has no monopoly of high quality production. There are good arguments for it to keep a portion of its production in-house, to build value and continue to benchmark production quality at the same time as being competitive on cost. At the same time, however, there is a substantial commercial opportunity for BBC Studios to compete successfully around the world. If the Studios proposal succeeds, then BBC Studios themselves could remain busy producing high quality material for the BBC and other customers, while BBC viewers could be provided with the best quality programmes at a lower cost. If the proposal fails, however, then the BBC could lose much of its capacity to create in-house content without adequate returns from commercial commissions; and there could be a collateral impact on the training and development opportunities it brings to the industry as a whole.**

98. **We note that the BBC and PACT, representing independent producers in the UK, have come to an agreement about how the Studios proposal might operate in a way to encourage competition while continuing to nurture small independent production companies, the seed corn of the industry in future. Protection for smaller independent companies should be one of the key criteria that the Government uses to judge the Studios proposal: retaining the statutory quota is one way of achieving this.**

99. **We continue to be concerned about four features of the proposals. The first is that the Studios proposals seem to us still to be vulnerable to challenge on State Aid grounds, especially if the BBC is not rigorous in allocating cost fairly between BBC Studios and its other activities.**

100. **A second concern relates to the relationship between BBC Studios and BBC Commissioners, and the possibility of conscious or unconscious favouritism, or 'sweetheart' deals with former BBC employees, to the detriment of independent producers. BBC Studios would be a major, potentially destabilising, change to the structure of the industry and there is a great need for adequate transparency and good governance arrangements to be put in place here.**

101. **A third concern relates to pay, and the possibility that the new BBC Studios proposal could lead to less transparency and less cost-effectiveness in pay structures and levels, using the argument that commercial confidentiality and pressures require them.**

102. **Our final concern relates to the BBC's regional presence, and the impact that a more commercial approach to commissioning might have on production in the nations and regions: would under-represented regions be frozen out even more? Would those known for one genre ever have an opportunity to develop production in other genres? Would production be further concentrated in a few centres, as appears to have happened in the wake of the move to Salford and cost-cutting initiatives? This is an area to which the Government, as well as the new accountability body, need to pay special attention if the BBC is truly to represent the UK as a whole.**

103. **The Studios proposal is an interesting and challenging development in the process that started with the Terms of Trade. However, it is still too early to reach any definitive judgement of the overall impact of such a development on the industry as a whole. Now the agreement with PACT is in place, we urge the BBC to provide more detail as to how the concerns we and others have raised may be met, to enable the Government to reach an informed view on the proposal.**

Radio

104. The BBC is the predominant buyer of radio programmes.[106]As part of 'compete or compare', the BBC announced that, over the next few years, it would make about 60% of eligible radio hours available to competition from independent producers (as compared with the current 10% overall). The Radio Independents Group told us that it was in discussions with the BBC to ensure a fair approach between in-house and out-of-house production teams, as well as between those inside and those outside London. It noted: "This will require clear lines of separation in the BBC commissioning process." RIG suggested that the BBC's relationship with independent radio producers should be put on a similar basis to that with television producers through these provisions being written into the BBC's Framework Agreement with the Secretary of State.[107] **We agree with RIG's suggestion that the arrangements in relation to radio production should be written into the Framework Agreement; and we intend to return to this and related issues in future.**

106 BBC Trust, Supply arrangements for production of BBC content, paragraphs 1.1.6–1.1.8 and 2.4.17
107 BCR 0019 and BCR 0085

5 Local Journalism

105. After a long run of success, local news sources have come under unprecedented pressure in recent years: many local newspapers have disappeared (150 closed, and many others were issued less frequently or published a more limited range of news, between 2008 and the end of 2014), local television has not taken off (and ITV's regional structure has disappeared), and commercial radio is largely focused on music. Many reasons have been suggested for this: much classified advertising has moved online, decimating newspaper revenues; some local newspapers have struggled to find alternative sources of finance; people have become used to obtaining information online without payment; commercial radio is very competitive; maintaining local news offices is expensive, encouraging the use of feeds from ever-fewer newsgathering centres; and the BBC, especially in its online presence, is a giant which crowds out competitors whether intentionally or not.[108]

106. This picture is only partly accurate. Some newspaper/online news groups are flourishing. Hyperlocal news providers[109] are increasing in number: the best estimate is that there about 600 hyperlocal media publishers or services across the UK at present.[110] What is unarguable about local news in the UK is that the quantity and quality of coverage is very patchy: some areas are well-served by a variety of media; others are barely served at all. Wales and Scotland have national services from the BBC but Wales has no local stations and Scotland very few. The number of BBC journalists in Newcastle upon Tyne has been severely cut, which has had a significant impact on the news coverage of the rest of the North East. Even successful local newspaper groups like the Johnston Press rely much more heavily on microbloggers and trusted contributors (in effect, citizen journalists) rather than their payroll to cover what they consider 'softer' areas of local news, outside the core of court and council reporting—coverage of which has also dramatically declined in many local newspapers.[111] On the other hand, though print audiences are in decline (and even that decline is gentler than previously feared), the net audience across more than 1,000 regional publications is growing, and the audiences for local news has never been bigger.[112]

107. One key issue, therefore, is how to encourage better, more evenly-spread local news services across the UK. But there are also longer-term questions of what news the public wants, how it wishes to consume that news, and how best local journalism can meet the broader duty of providing news, information and entertainment if only a minority of the public want them. It is clear that, while local newspapers are far from dead, for many their financial model has had to move from selling printed newspapers to depending more on online advertising, which is less profitable and more volatile.[113] It is this in particular that has led them into conflict with the BBC, through the BBC's online presence. When giving evidence to our predecessors, the President of the Society of Editors said: "I do not think that the BBC genuinely wishes to trample on everyone and destroy us all… But I think it

108 CMS Committee Report, paragraphs 157-–73
109 Hyperlocal publication is defined as 'online news and information pertaining to a small geographic community': Q 280 (NESTA) and BCR0111
110 Q 279 (NESTA)
111 Q 287
112 Qq 274-75
113 Qq 308 and 327–28 (Johnston Press)

just treads in a little bit like a dinosaur from time to time and, 'Oh I didn't mean to squash you. I'm sorry I have.'"[114]

108. In contrast, testimony to us was mixed. Mr Ashley Highfield of the Johnston Press said: "this is not something where the regional press are holding the BBC to blame in some way for the travails that have affected our industry": rather, it has been the shift in power to the big online players, such as Rightmove and Zoopla, that have caused some of the big structural shifts in the industry.[115] What the industry (both traditional publishers and the hyperlocals) is seeking now is closer partnership with the BBC, to distribute BBC content to areas that the BBC may struggle to reach, and to provide commissioned content to the BBC website which is properly attributed and acknowledged by the BBC.[116] The question of attribution is a particularly sore point: it is widely accepted that the BBC's digital services have become the default point of access to online news for UK consumers, but other media organisations consider that the BBC does not have an open, collaborative approach to hosting and linking to third party content. GMG told us that, unlike global commercial platforms such as Google or Facebook, very little of the traffic which initially lands on the BBC website and mobile app is linked back to commercial creators of public value such as the *Guardian* and the trend in terms of traffic from BBC desktop and mobile sites to the Guardian's digital news services is downwards.[117] GMG would favour an approach where the BBC published snippets or hosted links out to news stories in other media.[118]

109. The BBC provides regional news on television, local and nations' radio services and local websites. The service licence for BBC Online stipulates that it should provide content for licence fee payers in the different nations and local communities across the UK, and that it should offer news, sport, weather and travel "alongside content in other areas which reflects the particular characteristics of each nation or locality". It also suggests that the BBC's online content may be syndicated to other providers—it specifies that the service should commission at least 25% (by value) of eligible content and services from external suppliers—and that the BBC should "actively seek to form partnerships with external organisations, particularly where these can help to promote the BBC's public purposes more effectively." The BBC is also given the aim of increasing the volume of 'click-throughs' to external sites from all parts of BBC Online year on year.[119]

110. In September 2015—as part of its response to the Government's Green Paper on Charter renewal—the BBC announced plans to act "far more openly on a local level" and to help local newspapers. The key points can be summarised as follows:[120]

- To create a pool of 100 reporters to provide impartial reporting on councils and public services
- The content generated by the team would be able to be used by both the BBC along with commercial local news outlets

114 CMS Committee Report, paragraph 160
115 Q 274
116 Qq 276-79 BCR0024 (National Union of Journalists)
117 BCR0062, paragraph 35
118 BCR0062, paragraphs 37-38 See also BCR0111 (NESTA)
119 BBC Online and Red Button service licence, April 2014, page 3: see http://www.bbc.co.uk/bbctrust/our_work/services/online/service_licences/online_red_button.html
120 http://www.holdthefrontpage.co.uk/2015/news/bbc-to-share-public-service-content-with-local-press/

- To set up a "News Bank" of regional or local video and audio content which could be accessed by local newspapers
- To create a hub for data journalism, in partnership with a leading university, that would make BBC expertise in data journalism available to local news groups.[121]

111. The idea of setting up a News Bank was widely welcomed as something the industry had been seeking for some time. William Perrin, a former media policy adviser to the Prime Minister's Office, commented: "The BBC's video news material (and their radio) is of huge public value and something that, despite their best efforts and protestations the newspapers are not very good at. Allowing the papers and local websites to reuse video material massively increases its reach and impact."[122] GMG suggested that commercial news media organisations could not match the scale and quality of the audio-visual network funded by the BBC licence fee. Instead, it argued for a BBC syndication strategy that would allow the commercial news sector to access the BBC's news feeds with proper attribution.[123]

112. The proposal for extra journalists working for the BBC to provide local content caused considerable concern. The Press Association opposed the idea and argued instead for the creation of a new Independent Public Service Reporting Body focused initially on courts and council reporting. Ashley Highfield of Johnston Press said that, while he thought it was probably based on a genuine attempt to increase collaboration, "the idea of 100 journalists employed by the BBC was something that we interpreted as the BBC's tentacles reaching into local media landscape".[124] Moreover, 100 journalists would be far too few to cover the current gaps in court and council reporting, and there were far more cost effective ways of providing local content.[125] Instead, NESTA[126] proposed closer collaboration with the hyperlocal publishers and the industry suggested that the BBC should commission the regional press to engage more staff to provide more content to the BBC.[127] Mr Highfield admitted that this would cost more than the BBC's proposal to employ an extra 100 journalists: "A reasonable intervention of several tens of millions of pounds would make a difference and provide the current content that the BBC wants and enable us to hire a young generation of multimedia journalists with BBC training who might have an opportunity of ending up on a BBC bulletin." He also believed that, in order to avoid the failures of the past, details about this collaboration, and areas such as proper attribution of sources and linking to external websites would have to be written into the BBC's service licences and properly overseen by the BBC's regulator.[128] Both NESTA and the Johnston Press agreed that there would need to be safeguards to ensure impartiality and quality of content provided to the BBC: Mr Highfield suggested this would limit commissions to publishers in print, as their membership of the press regulation body IPSO would give the BBC comfort about standards; NESTA suggested that there were alternative methods of quality assurance that would be suitable for hyperlocal media.[129]

121 http://www.theguardian.com/media/2015/sep/07/bbc-will-offer-staff-and-content-to-help-local-newspapers
122 See also Q 284 (Johnston Press)
123 BCR0062 (GMG), paragraphs 50-51 and BCR0026 (News Media Association)
124 Q 282 and BCR (0110) Press Association
125 Q 285 (NESTA)
126 Formerly the National Endowment for Science, Technology and the Arts
127 Qq 282–83 and 285, 288–90 and 314
128 Q 330
129 Qq 334–36

113. When they gave evidence to us in November, representatives of local media were in negotiation with the BBC about how best to improve court and council reporting, and the amount of money that might be available to achieve this and to deal with other issues such as attribution payments made by the BBC to local media for the provision of content.[130] We are still awaiting the outcome of those negotiations.

114. **Local news is important: people deserve to be able to find out what their local councils, police forces, hospitals and schools are doing, planning and transport issues that affect the community, court reports, the availability of local services and what is happening in the local economy, as well as the fate of local sports teams and more personal news. The BBC's proposal to deploy extra reporters to supplement those employed by local newspapers was doubtless well-intentioned; but it would scarcely have touched on current gaps in coverage and raises questions about the use of public money by the BBC to subsidise and potentially encroach on news-gathering for other media organisations. In some cases, this might be an incentive for local newspapers to stop employing their own journalists for these purposes. It seems to us that the money intended for this proposal could be deployed more effectively, and that attention should be given, subject to budgetary constraints, to the Press Association's proposal for a competitively commissioned new Independent Public Service Reporting Body.**[131]

115. **Other initiatives under way, such as the moves towards opening BBC archives and sharing other resources with local journalists, offer a better way to co-operate with and support local media.**[132] **We would also like to see further progress from the BBC in systematically acknowledging the source of stories that it picks up from local media, and a greater willingness to share content in both directions: though the BBC prides itself on its standards of reporting and impartiality, most truly local stories are unlikely to be covered by non-BBC reporters in any way that would lead to serious accusations of bias or damage to the BBC brand. For its part, the BBC could provide online links back to articles run by trusted local newspaper partners, appropriately tagged, without impugning its reputation for impartiality.**

116. **There are doubtless other ways in which the BBC might help to sustain local news coverage. We note, for example, that many commercial radio stations have cut costs by reducing local reporting of news and sport, and relying primarily on national new feeds for their bulletins. One option that might be explored would be to place apprentices from the BBC's training schemes with local media outlets to help with their newsgathering, which could potentially benefit all parties.**

130 Qq 291 and 343–46

131 Described in detail in BCR0110

132 Though we note the concerns of commercial providers of video content, such as the Press Association, about the BBC's providing content for free: BCR0110

6 Technology and innovation

117. The BBC has a long history of providing benefits to the public and to the industry in general through technological innovation. As one of our witnesses pointed out, it was an industry innovator in radio, television, colour broadcasting, NICAM digital stereo, the BBC microcomputer, and other ground-breaking initiatives, up to and including the iPlayer. It stepped in when the Digital Terrestrial Television initiative was collapsing, and made Digital Switchover possible by supporting Freeview. It has been the key player in the market for DAB radio.[133] It was the lead partner in developing the technical specification of an important file-based transfer programme, the Digital Production Partnership, which brought together the BBC, ITV, Channel 4 and Sky and had led to cost savings across the industry.[134]However, there have also been some prominent failures, a recent one of which is the Digital Media Initiative (DMI).[135] Technological developments, and particularly the continuing expansion in the types of devices and number of platforms for delivery of content and the rise of sectors such as Video on Demand, are rapidly changing the face of the broadcasting industry. Questions arise about whether and to what extent the BBC should continue to create new platforms or innovate in content, given the potential for crowding out competition and the countervailing possibility of using scale and collaboration to drive forward development.

118. The BBC's disastrous Digital Media Initiative demonstrates what can go wrong with the management of new technology. It was a BBC engineering project launched in 2008, intended to produce new editing tools, an online archive of the BBC's programmes and a new database. It aimed to modernise the Corporation's production and archiving methods by using connected digital production and media asset management systems. After a protracted development process lasting five years, and £98 million in expenditure between 2010 and 2012 alone on the project, the BBC finally abandoned it in May 2013. The National Audit Office (NAO), in its report for the BBC Trust, said the BBC was too optimistic about its ability to implement the DMI and achieve the desired benefits.[136] In this area, our predecessor Committee found that rival broadcasters had been using a digital production and media management system bought as an off-the-shelf package. Although it was not possible to make an exact comparison of capabilities, and there were additional difficulties in dealing with a large archive of old footage held by the BBC, for day-to-day usage by current broadcasters the off-the-shelf package appeared to have delivered many of the benefits expected from the DMI at a vastly lower cost.

119. The failure of the DMI contrasts with the success of the iPlayer. This was launched in 2007 but had been devised in 2003. It was, witnesses said, delayed in part because of the previous Charter Review and the associated introduction of the public value test (brought in due to complaints that the BBC was limiting growth in the commercial sector, particularly in new media); in part because BBC management were worried at potential disruption, in that it overturned the current model of broadcasting of Channels and schedules; and in part because the BBC from early on decided that the iPlayer should be launched only if a large amount of content was available for it from the outset, and this in turn required lengthy rights negotiations. In retrospect, the decision to delay until this

133 Qq 183, 187 and 206 see also BCR 0014 (BBC)
134 BCR 0114
135 See next paragraph
136 http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/review_report_research/vfm/dmi/dmi_nao.pdf

level of content was in place was probably the correct one, as it helped to give the iPlayer a clear and sustained advantage over its competitors.[137]

120. Our witnesses noted that the iPlayer could have been developed by another company than the BBC—the fact that rival products appeared at about the same time demonstrated this—but the BBC would have still had to have the technical capability to be an intelligent customer: knowing what it wanted to achieve, being clear about what was possible technically and shaping it in a way to make it reusable by other organisations. Professor Saunders of Trinity College Dublin said that, if the BBC acting as customer stated that it had a technical requirement and needed others to help address it, "there are many who, without even requiring the application of money, would leap into that because it is likely to be an early harbinger of a need that is going to emerge elsewhere."[138]

121. We also explored why so little of note seemed to have occurred since the launch of iPlayer. Mike Flood Page expressed the view that the new innovation public purpose combined with the public value test had had a rather dampening effect on the BBC's tendency to innovate since the last Charter came into effect; he cited a number of projects that had been abandoned since 2007, and said that the BBC had largely confined itself to back-end systems and refinements to the iPlayer.[139] Professor Saunders argued that, the fact that there had been little visible change for the end user did not mean there had not been a great deal of development. The iPlayer was now available on hundreds of different devices, and simply making this possible required a large amount of work.[140] Another project, the launch of the BBC Micro Bit device to encourage schoolchildren to learn coding, is an example of good partnership work by the BBC but its launch has been delayed by problems with the power supply.[141]

122. Despite the failure of some of the BBC's technological projects in the past, the general consensus among the witnesses to the Committee was that they wished to see the BBC continue to invest in technology, but with certain caveats. The first was that the BBC needed to strike the right balance: to take risks and allow its staff to create and test ideas in both technological and consumer terms but, if they were not working, to 'fail fast', abandon them and move on. This seemed to our witnesses the main lesson to draw from the debacle of the DMI. **What has caused most problems to date has been a culture where there has been a failure to communicate (in both directions) between the long-term strategists at the top of the BBC and the engineers undertaking research and development. This has led to two faults: a tendency to emphasise the uniqueness of the BBC and therefore to develop in-house technology that could potentially be more cheaply and easily obtained from elsewhere and, if necessary, modified, and a reluctance to acknowledge likely defeat and abandon cherished but failing projects early enough.** [142]

123. The second caveat was that the BBC's scientists needed a clear strategy to guide them, shaped by a very good technological understanding of options and possibilities available in the market, but open to in-house innovations.[143] The BBC told us that it made

137 Qq 185–89, 198 and 200
138 Qq 191, 195–96
139 Qq 182–84
140 Q 202
141 http://www.bbc.co.uk/news/technology-33409311
142 Qq 193 and 197
143 Qq 178–81 See also BCR0047 (techUK)

strategic technology choices based on "value, maturity of the industry and future agility", with a guiding principle of "re-use before buy, buy before build." It gave examples of all three approaches, saying that the building one was preferred where the BBC needed to differentiate its services, required capability that could not be obtained from off-the-shelf solutions, or where it was too expensive to integrate a partner into the BBC's existing technical platform.[144] Arqiva believed the BBC should support emerging communications technologies and services including HD, red button, 'on demand' and 'catch-up', where there was public value to do so, and where they enhanced the BBC's core offering to the majority of licence fee payers. In particular, although it is hardly a neutral observer in this area, it suggested Freeview should be enabled to continue to evolve to offer viewers extra features, including a growing line-up of HD channels, digital recording and connected technologies. More generally, Arqiva highlighted the leading role that the BBC had fulfilled and could continue to fulfil in building out DAB coverage both for national and local services and in continuing to invest in strong digital-only stations.[145]

124. The third caveat was, given the rapid growth of technology and the plethora of potential third-party providers, to emphasise the importance of open standards. The BBC was criticised by techUK[146] for setting unrealistic thresholds and controls related to digital devices that are designed and enabled to receive BBC content and services, giving the example of the recent BBC distribution framework agreement.[147] They argued that the BBC was unilaterally setting a high threshold for device manufacturers and platform providers, which was not in the interest of an open and platform-neutral position.[148]

125. From an infrastructure perspective it was also notable that Arqiva expressed fear that the Government might opt for a Charter period shorter than 10 years. While recognising the advantages in decoupling the Charter cycle from the electoral cycle, Arqiva was concerned about the need to provide certainty not just for the BBC but also for the wider broadcasting, media, communications and technology sector to take investment decisions. In light of this, Arqiva said it would welcome the Government awarding the BBC a renewed 11 or 12 year Charter.[149]

126. **In the past, the BBC has played a key role in enabling some beneficial technologies to be developed and deployed. It continues to be a valid purpose for the BBC to take part in technological development intended to provide its audiences with the highest quality user experience, whether this is via specific initiatives, such as the development of digital radio, or via new platforms or services. But it is important that the BBC consciously move to a culture which is less risk averse, which encourages innovation and which is prepared for some new technologies not to be viable, without this being considered blameworthy. Successful innovation depends on the freedom for scientists and engineers to try and to fail, and on managers to recognise failure fast and redirect resources without recrimination.**

144 BCR 0114
145 BCR 0056
146 A body representing UK technology companies
147 http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/our_work/distribution_framework/2015/report_distribution_framework.pdf
148 BCR 0047
149 Qq 229–31 Also BCR0047 (techUK)

127. **Clearly, we recognise the importance to long-term business success, including that of the BBC, of the proprietary ownership of technology, including hardware, software and patent rights. The BBC, however, should have a presumption in favour of working in partnership with other companies to develop technology and to operate on open platforms: its technological development is financed by the public, and this approach would spread the benefits as widely as possible. It would also serve to rebut the allegation that the size of the BBC means that smaller competitors are 'crowded out' of the market. In this context, we are pleased about the success of the Digital Production Partnership of all major broadcasters in the UK.**

7 Reshaping the Culture of the BBC

128. Many commentators have criticised the BBC's culture in a number of ways: as over-staffed, over-paid; too bureaucratic; too insensitive and a bad partner; too inclined to think it has to do everything—and to disparage anything 'not invented here'; as too inclined to chase ratings and jump into commercial undertakings without consideration of the harmful impact on the rest of the industry; 'hideously white'[150], male and middle class in both personnel and output; and too London-centric and insensitive to the diversity of culture within the UK. Many of these concerns were repeated to the Committee.

'Over-staffed and over-paid'

129. The BBC has held a number of efficiency reviews, but there appears to have been little or no restructuring and there are still concerns about pay and management levels. A senior programme maker recently denounced the BBC for "Orwellian" levels of over-management and bureaucracy.[151] The television executives who gave oral evidence to us were rather reluctant to admit that top salaries were excessive. Adam Crozier of ITV was of the view that BBC salaries were competitive and fair.[152] Rona Fairhead said it was Trust policy that management salaries should be set at a discount of 50% to 80% of the market rate and the BBC provided us with details of the discounts applied to different grades (ranging from 20% to 80%);[153] but the Director General's salary, though far lower than that of some chief executives of smaller broadcasting organisations, was still £456,000 (including taxable benefits) in 2014/15, with other top executives paid accordingly. As for numbers, while Mr Crozier felt that the 'front line' (those directly involved in the production of programmes) was not over-manned, he made a distinction between these people and management grades.[154] He considered this difficulty could be addressed by having a clear strategy to increase efficiency.[155] Lord Hall told us that the BBC had about ten layers of management when he took over as Director General, and his ambition was to reduce that to seven. Rona Fairhead said she thought best practice was probably about five or six layers, for a corporation the size of the BBC. She suggested that the need to save £550 million over the Charter period would be an incentive to make reductions, but she admitted that there would have to be continuous pressure to keep managerial salaries and numbers under control.[156] Anne Bulford, Managing Director of BBC Finance and Operations, acknowledged in testimony to us that the BBC had failed to hit its targets of a 20% reduction in the number of senior managers earning over £150,000, and a senior management population of 1% of the total work force.

130. Some indication of the complexity of the BBC's structure, and the impact of its numerous layers of management, was provided by the reports of the Pollard Review into the decision not to broadcast the results of an investigation into Jimmy Savile by 'Newsnight' and the McQuarrie Review of the decision to broadcast a story about child abuse that falsely linked Lord MacAlpine to involvement in abuse. The Pollard Review

150 This was a phrase used by Greg Dyke
151 http://www.dailymail.co.uk/news/article-3279578/BBC-programme-chief-slams-former-boss-Danny-Cohen-Orwellian-levels-bureaucracy.html
152 Qq 614–16
153 Q 854 and BCR 0114
154 Qq 614-16
155 Q 587
156 Qq 856 and 862

lists three levels of managers directly above the Deputy Editors of Newsnight who were involved in the decision about the Savile investigation, the Editor of Newsnight, Deputy Director of News and Head of News Programmes, and the Director of News, within the BBC News Group, as well as those involved in other divisions, including the Head of Vision. The Heads of divisions all reported directly to the Director General. There was also a group known as Editorial Policy, which sat outside the divisions but was involved in difficult editorial decisions.[157] This is not a structure which lends itself to swift decision-taking and clear accountability.

'Bureaucratic, arrogant and a bad partner, too inclined to think it has to do everything'

131. Independent producers, especially those based outside London, told us about the difficulty in working with the BBC unless they had BBC connections, either from previously working with the BBC or through networking.[158] PACT, on the other hand, considered that, because the BBC was increasingly dependent on co-productions for content, it had become better at understanding the difficulties faced by prospective partners.[159] We were given an example of the BBC's "arrogance" in dealing with smaller partners, the unwillingness to pay a small facility fee to a concert hall, which led the Chair of the venue to comment: "It needs more of a willingness to engage in genuine partnership, rather than just impose terms".[160] Lord Burns suggested that the more one tried to work with the BBC, the more one realised it was "quite a difficult organisation to deal with".[161] MG Alba in Scotland had a different experience but, as its Chief Executive conceded, it occupies a niche that the BBC could not otherwise fill, and if it tried to expand what it did then it found difficulty in getting the BBC's attention as it had so many other competing priorities.[162] Arqiva—another longstanding partner of the BBC—described its processes as long, but dictated by the public procurement process, rather than a culture of bureaucracy.[163] Mr Jackson of Radio Independents Group was of the view that the BBC was becoming easier to work with in partnership, whereas Mr Tulip of Northern Film & Media Ltd cited two cases where working with the BBC (on finding comedy writers and on a work experience apprenticeship) had been difficult, though this was not always the BBC's fault and he had received support from the BBC locally.[164] The difficulties of partnering the BBC formed a major part of the difficulties in relation to local journalism and in competition with the BBC's commercial arm of international newsgathering and broadcasting.[165] An example of the BBC's refusal to accept that it did not have to do everything itself—'not invented here'—was the BBC's Digital Media Initiative.[166] The BBC also sometimes launches initiatives to great fanfare but without a clear indication of what they are intended to encompass and achieve, and which appear to be followed by little activity, such as the BBC Ideas Service, about which nothing has been heard since September 2015.[167]

157 The Pollard Review: Report, 18 December 2012: http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/our_work/pollard_review/pollard_review.pdf
158 Qq 85–89
159 Q 150
160 Qq 147–49
161 Q 29
162 Qq94–95
163 Q 247
164 Q 96 and BCR0084 (Northern Film and Media) See also BCR0026 (News Media Association)
165 See paragraphs 110–115 and 65–66 above
166 See paragraph 118 above
167 http://bbc.co.uk/mediacentre/speeches/2015/tony-hall-distinctive-bbc

'Chase ratings and compete in areas where it is unnecessary or harmful to the industry '

132. This has been a complaint of ITV, the Guardian Media Group (with reference to the BBC's news-gathering and publication activities in the USA and, particularly, Australia), commercial radio operators and other broadcasters such as Sky. Lord Burns summed it up by saying that the BBC had an instinct, "if it sees anything moving almost, or if it comes vaguely within its orbit, … to say 'We would like a bit of this'…"[168] ITV complained strongly about the BBC's failure to fulfil its obligation to produce distinctive programming: it said this did not mean unpopular or inaccessible programmes or being confined to minority genres, but it did mean having an overall schedule clearly different from its competitors'. It cited analysis by Ofcom to support this argument, saying that there had been a substantial decline in specialist factual programming on BBC One and a rise in factual entertainment; a decrease in the arts and classical music; very little first-run contemporary music; a steady decline in new comedy, and that the amount of peak time current affairs programming was approximately the same for ITV as for the BBC. It suggested that, without dictating to the BBC what programmes it should produce, it would be possible to stipulate that a certain percentage of programmes on BBC One and BBC Two should be new, or that certain genres should have a specific percentage of the airtime on these channels.[169] Adam Crozier suggested that the BBC should be the venture capitalist for the creative community: it should be obliged to produce new, innovative content.[170] The BBC responded to ITV's specific points in detail, arguing that it was already producing new, distinctive content.[171]

'Too defensive'

133. The other side of its reputation for wishing to be involved in everything is that the BBC frequently feels itself under attack, and its default response is to be overly defensive.[172] Professor Stuart Purvis agreed, noting that one programme he knew of had been subject to a major re-edit because of a single complaint, because it fell during a Charter Review process. He also noted that the BBC would not admit to fault quickly when a complaint was made to him as content regulator at Ofcom. This was not because the BBC's managers did not know that they had been wrong, but because they were advised by lawyers not to admit it. He described the BBC as a "fearful organisation."[173]

134. Another example of overly defensive reactions to criticism is provided by a more recent incident, when it was revealed in July 2015 that a letter written in defence of the BBC and signed among others by leading actors was not a spontaneous expression of their concern, but had been orchestrated by a senior BBC manager, Mr Danny Cohen, then the Director of Television, and Ben Cooper, controller of Radio 1. The BBC's response to this revelation was first to deny the involvement of BBC management; and when this was found to be untrue, to claim that their involvement fell within its editorial guidelines and refuse a request from this Committee to investigate what had happened or contemplate

168 Q 22
169 Qq 555–56, 560–61, 588–90 and 612 For a contrary view, see BCR0023 (Media Communications and Cultural Studies Association), BCR0034 (International Broadcasting Trust)
170 Q 612
171 BCR0115
172 Q 31 (Lord Burns)
173 Qq 637, 639–40, 644–45

any disciplinary process. The BBC's website ran, and continues to run, the story as an independent piece of news, without any disclosure in it of the BBC's own coordinating role. Mr Cohen tweeted thanks to some who had signed the letter, as though they had acted independently and without acknowledging his own role in the process. Even after a public newspaper investigation and questions from this Committee revealed the truth, the BBC did not put out an online clarification to this story. The Director General argued that this was simply a case of BBC staff speaking up on behalf of the BBC, when it clearly was not. The Chair of the BBC Trust refused to accept that the BBC had been in any way at fault on this issue. [174]

'White, male and middle class'

135. The BBC has over a number of years received relatively low satisfaction ratings from BAME groups. Sir Lenny Henry has been running a high-profile campaign to require broadcasters to use a quota system to source BAME productions, to which Lord Hall has responded with a Diversity Action Plan for representation of BAME talent both on and off screen.[175] The BBC has also been accused of a lack of understanding of working class communities and a failure to represent them in terms of both hours devoted to them and of giving a rounded picture of them. The arguments about the sidelining of older women from on-screen presence are also well known. While our witnesses acknowledged that some progress had been made in relation to diversity in recruitment, BAME employees tended to leave the BBC prematurely, not least because middle managers were overwhelmingly white—for example, Directors UK found that the BBC employed only a very small percentage of BAME people as directors[176]—and the BAME employees doubted whether they had any realistic promotion prospects.[177]

'London-centric'

136. This accusation has always been made of the BBC, and the move to Salford was intended to meet it head on. However, the recent concentration of production and back office facilities was argued to have diminished the representation of some areas (the West Midlands, Northern Ireland, the South West, the North and North East).[178] In addition, financial comparisons show that some areas, in particular the West Midlands, receive far less investment in relative terms than they contribute to the BBC in licence fee payments. There is also significant disparity across the nations and regions. In 2013/14, scotland raised £335 million in income for the BBC—8.6% of licence fee revenue—yet only £35 million is spent on TV production in the country. Likewise, in the Midlands licence fee payers contributed £942 million to the BBC but the BBC spent £80 million in the region.[179] The accusation about key decisions, especially commissioning decisions, being made far away in London or Salford was made by some independent producers based outside London.[180] RIG noted that, in its most recent annual survey (to which more than half of

174 http://www.bbc.co.uk/news/entertainment-arts-33534105

175 'Tony Hall unveils action plan to tackle on- and off-air BAME representation at the BBC', press notice dated 20 June 2014: http://www.bbc.co.uk/mediacentre/latestnews/2014/bame-representation-plans

176 https://www.directors.uk.com/campaigns/bame-directors

177 Qq 165–67

178 BCR0068 (Creative England) The difficulties were acknowledged by the BBC Trust: Qq 863–64

179 Birmingham Post, 25 February 2015:http://www.birminghampost.co.uk/business/business-news/outrage-91-midland-bbc-licence

180 Qq 41–42, 56–58, 84–88 (Northern Film and Media, Radio Independents Group and Alba MG) See also BCR0068 (Creative England)

its members had responded), 81% of its members' income came from programmes made in London.[181] It suggested that each UK BBC radio network should develop a plan setting out how it intended to reflect the nations, regions and communities properly, including clear arrangements for commissioning outside London and from independent production companies.[182] The Chief Executive of MG Alba in Scotland argued that the devolution of decision-making, especially of commissioning, to people located across the regions and nations would be helpful in redressing the balance. He also suggested that there should be an explicit public purpose for the BBC to take an active role in stimulating economic growth.[183]

137. **A common theme in this report has been problems arising from aspects of the BBC's culture. This is not something that can be amended through direct changes to the Charter: it requires a fundamental reappraisal of what is good and bad in the culture as handed down to date, and some clear leadership in challenging and changing what is bad. The BBC needs to defend its independence, remain committed to high standards, and maintain its pre-eminent position in the UK broadcasting sector. However, it must become more willing to cede some control to others, more aware of needs of potential partners, less bureaucratic, more transparent, less defensive.**

138. **The recent episode of the BBC's lobbying letter exemplifies the problem. The BBC is by some margin the most powerful and influential national broadcaster. It does not lack voice, and it has access to many avenues of legitimate lobbying and protest. It was entirely unacceptable for the BBC to be secretly using stars to campaign "independently" on its behalf, let alone to deceive journalists as to whether this had taken place. It was wrong to have used taxpayers' money for this purpose, and to have involved employees who may have felt pressurised to take part. It was wrong to put up a news story online which failed to disclose its own involvement. The BBC should not have defended itself by arguing that this obviously underhand activity was somehow acceptable because it fell within editorial guidelines. And it is very disappointing that the Director General refused either to investigate or disavow the episode, and that the Chair saw no case to answer and defended the BBC's actions.**

139. **Cultural change within the BBC would be helped by a number of practical measures associated with Charter renewal, and in particular by strengthening and giving clearer responsibilities to the BBC's new unitary Board. Although some progress has been made in addressing the problem of top-heavy management—for example, the decision not to replace a number of top level managers who have recently resigned—there are still too many layers of management, and too many people with diffuse and cross-cutting responsibilities. It is important for the BBC to make continued and substantive progress in hiring and promoting BAME staff. There should be a change in management culture so that responsibilities and, where appropriate, Key Performance Indicators are clearly allocated to individuals within the BBC's organisational structure. Managers should be trusted and permitted to manage, and there should be less bureaucracy over decision-making. It should be accepted that there will be some failures and that the BBC will be subject to criticism, not all of which will be fair. The BBC needs to become willing to accept failures without either buckling under**

181 BCR 0019 and BCR0068 (Creative England)
182 BCR 0085
183 Qq 59-61

criticism or being too defensive, which often leads to a perception of arrogance. Again, the Board will be critical in providing a lead on this.

140. **In relation to the perception of excessively high pay, this is first and foremost the responsibility of the remuneration committee of the unitary board. But the new body responsible for accountability should be actively prepared and seeking to hold the board accountable for overall levels of pay across the BBC. The lack of transparency in Worldwide and in Studios increases the responsibility on the Director General and the unitary board to set salaries—including those paid through management companies and affiliated organisations—in the most cost-effective way. The accountability body should have the right not only to question the Board's decisions on top salaries but also, if it wishes, to publish the relevant information.**

141. **The BBC has made considerable efforts to meet the criticisms that it is too focused on London. Unfortunately, although the move to Salford has been very successful in terms of that area, to many people outside London and Salford it now appears that two centres dominate the BBC landscape, and paradoxically other regions have lost facilities, jobs and the profile that they used to have when the BBC was more dominated by London. Given the pressures to contain costs, it will remain a struggle to maintain a BBC presence throughout the country, let alone to enhance regional development, and the BBC cannot and should not spread its investments too thinly. Some good could be done by commissioners' leaving their bases and actively seeking out talent and opportunities elsewhere. If financial pressures make it unfeasible to expect further major studio initiatives after the major move to Salford, the BBC should consider, at least, a commissioning base in major regional centres. It may not be possible to develop BBC's own activities in every region, but every region has the right to see itself represented accurately by the national broadcaster.**

Conclusions and recommendations

1. We share the wider sense of dismay that the July negotiations between the Government and the BBC on licence fee renewal, including the issue of licences for those over 75, were conducted in such a hasty and secretive manner. This greatly inhibited not only public and parliamentary scrutiny, but the capacity of either the BBC or the BBC Trust to formulate fully considered counter-proposals. As our predecessor Committee—under its then Chair, now the Secretary of State—found in relation to the hastily agreed 2010 licence fee settlement, "This meant … that the opportunity to consult licence fee payers and Parliament was lost, undermining confidence in both the Government's and the BBC's commitment to transparency and accountability. We recommend that this model for setting the licence fee is not used again." We also echo these sentiments, and ask the Government again to look seriously at how this outcome can be avoided in future. In principle, questions of the BBC's scope, efficiency and funding should be publicly assessed and debated in parallel and in good time. (Paragraph 10)

2. In practice, whatever the legal advice, the BBC was under no obligation to agree to the Government's proposal regarding the over 75s free licence. The BBC could, as before, have been more robust in its stance. However, it is not satisfactory that the BBC should face a mismatch between the demands of the law and the time-limited nature of the Framework Agreement when it comes to funding such major costs as the over 75s licence. We recommend that this discrepancy be addressed during Charter renewal so the situation does not arise again. (Paragraph 11)

3. One of the key conundrums to be solved in relation to the BBC lies in the balance of accountability and independence. The BBC as a largely publicly funded broadcaster operating under a public service remit must offer good value for money to taxpayers, and be appropriately accountable—both to the public and to politicians as their elected representatives—for its spending, for its editorial decisions and for the conduct of its staff. Yet it must also be protected from pressures, both from the public and from politicians, which might undermine its ability to broadcast programmes that may be unwelcome to the loud, the powerful or the litigious. The question of how to strike this balance between accountability and independence is at the heart of the debates over whether the BBC should be a body established by Royal Charter or by legislation, and how it should be regulated and governed. (Paragraph 12)

4. We are of the view that, at least for the present, the BBC should continue to be governed by Royal Charter, subject to certain caveats. The first caveat relates to the period of the Charter. In future, Charter renewals should be divorced from the electoral cycle, to distance the BBC from the political pressures associated with a General Election, and to avoid the additional uncertainty and delay caused by any changes in Government and Parliament. This might be achieved either by extending the current Charter for a little longer, followed by a new ten-year Charter, or by producing a new Charter to be in place at the end of 2016 but giving that Charter a life of eleven or twelve years. We do not believe there is merit in a short Charter of five years or so, since that would not provide the financial or operational stability which the BBC needs to be successful. (Paragraph 13)

5. The second caveat relates to the need for the Charter renewal process to be as transparent, orderly and well considered as possible. Given the strategic importance of the BBC to the UK's economy, democracy and soft power, both domestically and internationally, it is vital not to hurry public consideration of its future. The Government is now unlikely to publish its specific proposals for the future of the BBC until at least May of this year. We consider that this will leave little time—very possibly, too little time—for Parliament and for the many other interested parties to scrutinise the proposals properly before the Government's lawyers have to start drafting a Royal Charter to be promulgated before the end of the year. This problem of lack of time may be exacerbated if there are major changes to the nature of the governance and regulation of the BBC. We therefore believe that rather than rush matters it would be better to prolong the current Charter for a further period in order to allow more detailed consideration of the Government's proposals for the new Charter. (Paragraph 14)

6. Our predecessor committee considered the structures of the BBC and the BBC Trust, and questions of regulation and governance. We do not propose to revisit that analysis here. Instead we will focus on the main issues that should be taken into account in devising any new governance and regulatory structure. (Paragraph 16)

7. At present the corporate governance of the BBC falls some way short of what is desirable. The Director General operates with too high a degree of independence; operationally, he is effectively accountable to no-one. The Trust's Chair has limited capacity to scrutinise executive performance beneath the Director General, and the Chair's power to fire a Director General is too blunt an instrument to be effective in relation to operational matters. The Trust's non-executives have limited insight into the BBC's executive operations, while the executive board's non-executives are not genuinely formally independent of management. By the same token, for all his apparent power, the Director General lacks the close support of a Chair in dealing with difficult editorial decisions and/or driving change through the organisation. (Paragraph 24)

8. The Trust was a step forward from the former Board of Governors in terms of increasing transparency and accountability, and it has made real progress in scrutinising new BBC proposals and in handling complaints. Overall, however, we have reluctantly concluded that it has lost confidence and credibility and should be abolished. However, the problem that the Trust was intended to solve—the need for the BBC's top managers to be appropriately challenged and held to account on behalf of the licence fee payer—remains. The other roles played by the Trust (for example, in setting out a strategy for the BBC to meet the public purposes set down in the Charter, and acting as the final court of appeal in relation to complaints about BBC content in relation to impartiality and accuracy) will also have to be re-allocated. (Paragraph 25)

9. In the first place, the BBC's Board needs to be reformed as a unitary board and strengthened, with the addition of an independent Chair and the presumption that the non-executives appointed to the Board should have broad experience and be able to challenge BBC management. If the present Chair of the Trust does not continue in this role, any new Chair appointed should be a significant figure, ideally with acknowledged experience in managing large organisations, and should

be comfortable with the media spotlight that will inevitably follow appointment. Measurable Key Performance Indicators must be reinforced by proper Board-level supervision and processes, including an acknowledged link between the Chair and the Director of Finance, so that the Chair is not overly dependent for information on the Director General. (Paragraph 26)

10. The Board's non-executive directors should be a group of diverse backgrounds, ideas and experience, selected by competitive process. They should be supported by a small team of high quality executives, in order to enable them to be as effective as possible. It should be clear that the position of non-executive director carries more personal responsibility than it has done recently and that there is an expectation that they will be rigorous and pro-active. Regional and national issues should be dealt with by the board collectively, not via specific director appointments. The non-executives' job specifications should be rigorously drawn and aligned with the BBC's purposes and remit contained in its Charter. (Paragraph 27)

11. While part of the Board's task will be to make the BBC an efficient and effective organisation, its over-riding role will be to ensure that the BBC keeps to its public service commitments and maintains its distinctiveness between Charter reviews. It will also have an important role in helping the BBC's management prepare strategically for a decade of rapid and potentially turbulent change. (Paragraph 28)

12. Ofcom is the regulator of the industry, and is likely to gain a larger role in relation to the BBC as the result of the Trust's abolition. However, its core regulatory duties do not sit easily at present alongside the task of holding the BBC to account for providing public value as well as the appropriate expenditure of money, and with the addition of the BBC it would need to exercise extreme care to ensure that it treats impartially and fairly the converging broadcasting and telecoms industries which it regulates. We await with interest the results of the detailed review of the BBC's governance and accountability by Sir David Clementi. That said, our judgement is that the issue of wider accountability should be the task of a separate section of Ofcom, which would effectively exercise the functions of the Public Service Broadcasting Commission recommended by our predecessor Committee. This would allow for a joined-up approach for holding the BBC to high broadcasting standards—in effect, to be the benchmark for broadcasters and programme-makers. (Paragraph 29)

13. In practice, this would mean that the BBC's Board would be responsible for preparing and implementing the Corporation's strategy, including broad objectives for the television and radio channels and online and other services, with broad allocation of expenditure by service, audience and genre. It would also approve detailed service licences to implement the strategy, and make proposals for new services or the closure of services. (Paragraph 30)

14. The body responsible for accountability would act as guardian of the public interest in the BBC. It would assess the value for money of the BBC and its services. It should openly scrutinise the strategy and carry out public value tests on BBC services and on proposals for new services. In the event that something like the current proposals for BBC Studios are adopted, the body must be given both the powers and the staff to enable it to intervene swiftly to ensure accountability whenever there is insufficient separation between BBC commissioners and BBC Studios. It should have a power

to initiate investigations into any activity of the BBC that raises a material concern affecting the public interest. There may be designated members of this body with specific regional and national responsibilities. (Paragraph 31)

15. While the accountability body should have no power to mandate changes as a result of this scrutiny—as it should be clear that final responsibility rests with the BBC's Board—there should be an expectation that the Board would respond positively to any recommendations, and the accountability body should have the power to recommend financial and other sanctions (even potentially extending to withholding income from the licence fee or from any successor funding mechanism) if it were dissatisfied with the Board's response. (Paragraph 32)

16. Ofcom should continue to be responsible for regulation of competition, economic and spectrum issues, and any other issues facing the whole broadcasting industry. (Paragraph 33)

17. One of the issues that most exercises the public is the BBC's response to complaints—and, in relation to this, it has been a source of some confusion that certain appeals from the BBC have been referred on to the BBC Trust in its regulatory capacity. In the proposed new regime, all complaints should still be handled initially by the BBC. If unresolved, they should be escalated to Ofcom both for issues relating to competition and the wider industry, such as quotas and fair trading, and for content and breaches of editorial guidelines (such as impartiality, accuracy and taste). (Paragraph 34)

18. Some issues may fall across both Ofcom as regulator of competition and the accountability body: for example, if the BBC's behaviour is unfairly distorting competition. The regulator and accountability body will need to develop appropriate working arrangements to handle this. (Paragraph 35)

19. Last but by no means least, the structure should be underpinned by rigorous and transparent auditing. Parliamentary committees have long advocated a greater role for the National Audit Office (NAO) in relation to the BBC. In the autumn of 2015, we asked the Chairman of the BBC Trust about this. She replied that the NAO could have applied to be the BBC's auditor when the Trust put the audit out to tender, but it did not. Subsequently, the Comptroller and Auditor General wrote to explain that it would have been inappropriate for the NAO to take part in the tender process as it was for Parliament to decide whether the NAO should audit the BBC. The C&AG added that he still had concerns about having no statutory right of access to information, the fact that the BBC Executive and Trust always wrote preambles to NAO reports, and the fact that he had no control over the timing of publication of NAO reports on the BBC. Despite the BBC's arguments about its difference from other public bodies, we believe that the public deserves the extra assurance given through the independent oversight of the NAO when public money is spent, and we consider that the NAO should be auditor of the BBC. (Paragraph 36)

20. Our proposed structure is intended to make it clearer where responsibilities lie, and to cut down some of the confusion of purpose and bureaucracy that have undermined the existing governance arrangements for the BBC. It would place responsibility squarely on a strengthened BBC Board, with challenge to the executives from a

re-invigorated and properly supported group of non-executive directors. It would separate out the function of representing licence fee payers' interests, and holding the BBC to account for its actions; and it would leave a clear regulatory role—focusing on the BBC's place in the wider broadcasting industry—to Ofcom. Combined with greater access for the National Audit Office to the BBC, this should provide a proper balance between independence from undue influence and public accountability. (Paragraph 37)

21. Clearly, business endeavours are subject to commercial confidentiality, but the fact that we have had to make specific inquiries into the BBC America transaction illustrates wider concerns at a lack of transparency at BBC Worldwide. We believe that BBC Worldwide should make every effort to be as transparent as commercial confidentiality allows, including in relation to compensation arrangements with members of staff and staff acting as outside contractors. In that context, we welcome BBC Worldwide's recent commitment in the BBC's agreement with PACT to report results by business activity as well as by regional split. (Paragraph 54)

22. There is a pressing need for a clearer boundary between the World Service and BBC World News, in particular to ensure a rigorous assessment and fair allocation of costs and other resources. (Paragraph 59)

23. Respect for the BBC as an institution and for its output is voiced frequently by foreign commentators on broadcasting. But the BBC's international presence is not only of significance in reflecting the UK to the world. In an era when media companies are reducing the number of reporters they employ, especially those based outside the UK, and relying increasingly on feeds from a limited number of international news agencies, the continued presence of BBC journalists outside the UK is especially valuable because of their understanding of local cultures and the context they can provide as stories develop. (Paragraph 68)

24. While we fully support the recent proposals to extend the World Service, we have concerns over the way in which the BBC is developing its commercial arms overseas, in part because of their impact on other parts of the BBC and the Corporation in general, and in part because of concerns about value for money and fair competition. (Paragraph 69)

25. The BBC's World Service Group contains both the World Service itself and the commercially-funded Global News Ltd. It clearly makes some sense to use the expertise within these two organisations to reinforce one another, providing the best possible information to those using BBC services. Lord Hall has assured us that the budgets for the commercial international news services and the World Service are kept separate and carefully regulated. There is a risk, however, of a blurring of lines about where costs fall. In this context, we note that BBC Global News has been operating at a loss (of £7 million in 2013/14, attributable to the remodelling of the website). We therefore recommend that the funds provided by the licence fee payer for the World Service should be more clearly ring-fenced, with appropriate protections written into the Charter or Framework Agreement. Because of the difficulties of allocating costs properly, we consider that this is an area that the National Audit Office should keep particularly under review. (Paragraph 70)

26. BBC World News also runs the risk of 'mission creep'. While its avowed purpose is to provide a source of independent and impartial international news in the countries in which it operates, either solo or in partnership with other news-gathering organisations, its other main purpose is to provide income to the BBC, reducing dependency on the licence fee, and this commercial imperative has already led to claims of unfair, publicly-subsidised competition, particularly in the Australian market. We note that as yet, no complaint has been made under the BBC's Fair Trading Guidelines, but this does not necessarily mean that there is no cause for concern. It is for the new unitary board to ensure that Global News Ltd focuses on news-gathering and delivery and resists the temptation to expand into magazine-style material. (Paragraph 71)

27. BBC Worldwide provides different challenges. It is vital that the BBC's valuable Intellectual Property be exploited in international (as well as domestic) markets to obtain the best possible return to the licence fee payer. Unfortunately, as a commercial entity, BBC Worldwide provides rather less information in its Annual Report and Accounts than its public sector parent, the BBC. It is therefore impossible to judge which parts of BBC Worldwide are profitable, which are making a loss, and why, whether its strategy is appropriate—or, indeed, whether the BBC would achieve a higher return by selling broadcast rights on the open market, contracting out Worldwide's operations, or whether there is hidden subsidy to Worldwide from the core BBC, such as under-valuation of the assets that Worldwide then exploits commercially. Of course, commercial return is not the only criterion of success for Worldwide: the BBC needs to protect its brand, and to continue to build public value through the creation of new programming and intellectual property. But in the absence of greater information, concerns will quite properly remain. (Paragraph 72)

28. We recommend that following any transition to new governance arrangements, the BBC Board re-examine the business case for BBC Worldwide and, if it decides to retain the wholly-owned subsidiary model, that Worldwide is subjected to greater transparency and accountability than it is today. We also expect Ofcom to keep its operations under review. (Paragraph 73)

29. If Worldwide's operations raise concerns about public subsidy, cost allocation and profitability, these issues are likely to be even more difficult to address in relation to a changing model for the production of programmes, a core aspect of the BBC. (Paragraph 74)

30. Even with the caveats about allowing existing 'strands' to be phased into the new arrangements over time, the Studios proposal presents real risks and promising opportunities for the BBC, and for audiences. Much of its underlying purpose relates to the BBC's desire to create and control intellectual property, and to reduce costs by exposing its production facilities to commercial competition. But the BBC has no monopoly of high quality production. There are good arguments for it to keep a portion of its production in-house, to build value and continue to benchmark production quality at the same time as being competitive on cost. At the same time, however, there is a substantial commercial opportunity for BBC Studios to compete successfully around the world. If the Studios proposal succeeds, then BBC Studios themselves could remain busy producing high quality material for the BBC and other customers, while BBC viewers could be provided with the best quality

programmes at a lower cost. If the proposal fails, however, then the BBC could lose much of its capacity to create in-house content without adequate returns from commercial commissions; and there could be a collateral impact on the training and development opportunities it brings to the industry as a whole. (Paragraph 97)

31. We note that the BBC and PACT, representing independent producers in the UK, have come to an agreement about how the Studios proposal might operate in a way to encourage competition while continuing to nurture small independent production companies, the seed corn of the industry in future. Protection for smaller independent companies should be one of the key criteria that the Government uses to judge the Studios proposal: retaining the statutory quota is one way of achieving this. (Paragraph 98)

32. We continue to be concerned about four features of the proposals. The first is that the Studios proposals seem to us still to be vulnerable to challenge on State Aid grounds, especially if the BBC is not rigorous in allocating cost fairly between BBC Studios and its other activities. (Paragraph 99)

33. A second concern relates to the relationship between BBC Studios and BBC Commissioners, and the possibility of conscious or unconscious favouritism, or 'sweetheart' deals with former BBC employees, to the detriment of independent producers. BBC Studios would be a major, potentially destabilising, change to the structure of the industry and there is a great need for adequate transparency and good governance arrangements to be put in place here. (Paragraph 100)

34. A third concern relates to pay, and the possibility that the new BBC Studios proposal could lead to less transparency and less cost-effectiveness in pay structures and levels, using the argument that commercial confidentiality and pressures require them. (Paragraph 101)

35. Our final concern relates to the BBC's regional presence, and the impact that a more commercial approach to commissioning might have on production in the nations and regions: would under-represented regions be frozen out even more? Would those known for one genre ever have an opportunity to develop production in other genres? Would production be further concentrated in a few centres, as appears to have happened in the wake of the move to Salford and cost-cutting initiatives? This is an area to which the Government, as well as the new accountability body, need to pay special attention if the BBC is truly to represent the UK as a whole. (Paragraph 102)

36. The Studios proposal is an interesting and challenging development in the process that started with the Terms of Trade. However, it is still too early to reach any definitive judgement of the overall impact of such a development on the industry as a whole. Now the agreement with PACT is in place, we urge the BBC to provide more detail as to how the concerns we and others have raised may be met, to enable the Government to reach an informed view on the proposal. (Paragraph 103)

37. We agree with the suggestion that the arrangements in relation to radio production should be written into the Framework Agreement; and we intend to return to this and related issues in future. (Paragraph 104)

38. Local news is important: people deserve to be able to find out what their local councils, police forces, hospitals and schools are doing, planning and transport issues that affect the community, court reports, the availability of local services and what is happening in the local economy, as well as the fate of local sports teams and more personal news. The BBC's proposal to deploy extra reporters to supplement those employed by local newspapers was doubtless well-intentioned; but it would scarcely have touched on current gaps in coverage and raises questions about the use of public money by the BBC to subsidise and potentially encroach on news-gathering for other media organisations. In some cases, this might be an incentive for local newspapers to stop employing their own journalists for these purposes. It seems to us that the money intended for this proposal could be deployed more effectively, and that attention should be given, subject to budgetary constraints, to the Press Association's proposal for a competitively commissioned new Independent Public Service Reporting Body. (Paragraph 114)

39. Other initiatives under way, such as the moves towards opening BBC archives and sharing other resources with local journalists, offer a better way to co-operate with and support local media. We would also like to see further progress from the BBC in systematically acknowledging the source of stories that it picks up from local media, and a greater willingness to share content in both directions: though the BBC prides itself on its standards of reporting and impartiality, most truly local stories are unlikely to be covered by non-BBC reporters in any way that would lead to serious accusations of bias or damage to the BBC brand. For its part, the BBC could provide online links back to articles run by trusted local newspaper partners, appropriately tagged, without impugning its reputation for impartiality. (Paragraph 115)

40. There are doubtless other ways in which the BBC might help to sustain local news coverage. We note, for example, that many commercial radio stations have cut costs by reducing local reporting of news and sport, and relying primarily on national new feeds for their bulletins. One option that might be explored would be to place apprentices from the BBC's training schemes with local media outlets to help with their newsgathering, which could potentially benefit all parties. (Paragraph 116)

41. What has caused most problems to date has been a culture where there has been a failure to communicate (in both directions) between the long-term strategists at the top of the BBC and the engineers undertaking research and development. This has led to two faults: a tendency to emphasise the uniqueness of the BBC and therefore to develop in-house technology that could potentially be more cheaply and easily obtained from elsewhere and, if necessary, modified, and a reluctance to acknowledge likely defeat and abandon cherished but failing projects early enough. (Paragraph 122)

42. In the past, the BBC has played a key role in enabling some beneficial technologies to be developed and deployed. It continues to be a valid purpose for the BBC to take part in technological development intended to provide its audiences with the highest quality user experience, whether this is via specific initiatives, such as the development of digital radio, or via new platforms or services. But it is important that the BBC consciously move to a culture which is less risk averse, which encourages innovation and which is prepared for some new technologies not to be viable, without this being considered blameworthy. Successful innovation depends on the

freedom for scientists and engineers to try and to fail, and on managers to recognise failure fast and redirect resources without recrimination. (Paragraph 126)

43. Clearly, we recognise the importance to long-term business success, including that of the BBC, of the proprietary ownership of technology, including hardware, software and patent rights. The BBC, however, should have a presumption in favour of working in partnership with other companies to develop technology and to operate on open platforms: its technological development is financed by the public, and this approach would spread the benefits as widely as possible. It would also serve to rebut the allegation that the size of the BBC means that smaller competitors are 'crowded out' of the market. In this context, we are pleased about the success of the Digital Production Partnership of all major broadcasters in the UK. (Paragraph 127)

44. A common theme in this report has been problems arising from aspects of the BBC's culture. This is not something that can be amended through direct changes to the Charter: it requires a fundamental reappraisal of what is good and bad in the culture as handed down to date, and some clear leadership in challenging and changing what is bad. The BBC needs to defend its independence, remain committed to high standards, and maintain its pre-eminent position in the UK broadcasting sector. However, it must become more willing to cede some control to others, more aware of needs of potential partners, less bureaucratic, more transparent, less defensive. (Paragraph 137)

45. The recent episode of the BBC's lobbying letter exemplifies the problem. The BBC is by some margin the most powerful and influential national broadcaster. It does not lack voice, and it has access to many avenues of legitimate lobbying and protest. It was entirely unacceptable for the BBC to be secretly using stars to campaign "independently" on its behalf, let alone to deceive journalists as to whether this had taken place. It was wrong to have used taxpayers' money for this purpose, and to have involved employees who may have felt pressurised to take part. It was wrong to put up a news story online which failed to disclose its own involvement. The BBC should not have defended itself by arguing that this obviously underhand activity was somehow acceptable because it fell within editorial guidelines. And it is very disappointing that the Director General refused either to investigate or disavow the episode, and that the Chair saw no case to answer and defended the BBC's actions. (Paragraph 138)

46. Cultural change within the BBC would be helped by a number of practical measures associated with Charter renewal, and in particular by strengthening and giving clearer responsibilities to the BBC's new unitary Board. Although some progress has been made in addressing the problem of top-heavy management—for example, the decision not to replace a number of top level managers who have recently resigned—there are still too many layers of management, and too many people with diffuse and cross-cutting responsibilities. It is important for the BBC to make continued and substantive progress in hiring and promoting BAME staff. There should be a change in management culture so that responsibilities and, where appropriate, Key Performance Indicators are clearly allocated to individuals within the BBC's organisational structure. Managers should be trusted and permitted to manage, and there should be less bureaucracy over decision-making. It should be accepted that there will be some failures and that the BBC will be subject to criticism, not all of

which will be fair. The BBC needs to become willing to accept failures without either buckling under criticism or being too defensive, which often leads to a perception of arrogance. Again, the Board will be critical in providing a lead on this. (Paragraph 139)

47. In relation to the perception of excessively high pay, this is first and foremost the responsibility of the remuneration committee of the unitary board. But the new body responsible for accountability should be actively prepared and seeking to hold the board accountable for overall levels of pay across the BBC. The lack of transparency in Worldwide and in Studios increases the responsibility on the Director General and the unitary board to set salaries—including those paid through management companies and affiliated organisations—in the most cost-effective way. The accountability body should have the right not only to question the Board's decisions on top salaries but also, if it wishes, to publish the relevant information. (Paragraph 140)

48. The BBC has made considerable efforts to meet the criticisms that it is too focused on London. Unfortunately, although the move to Salford has been very successful in terms of that area, to many people outside London and Salford it now appears that two centres dominate the BBC landscape, and paradoxically other regions have lost facilities, jobs and the profile that they used to have when the BBC was more dominated by London. Given the pressures to contain costs, it will remain a struggle to maintain a BBC presence throughout the country, let alone to enhance regional development, and the BBC cannot and should not spread its investments too thinly. Some good could be done by commissioners' leaving their bases and actively seeking out talent and opportunities elsewhere. If financial pressures make it unfeasible to expect further major studio initiatives after the major move to Salford, the BBC should consider, at least, a commissioning base in major regional centres. It may not be possible to develop BBC's own activities in every region, but every region has the right to see itself represented accurately by the national broadcaster. (Paragraph 141)

Formal Minutes

Tuesday 9 February 2016

Morning

Members present:

Jesse Norman, in the Chair

Nigel Adams	Nigel Huddleston
Andrew Bingham	Chris Matheson
Damian Collins	Jason McCartney
Julie Elliott	John Nicolson
Paul Farrelly	

The Committee deliberated

[Adjourned till today at 2.30 pm

Tuesday 9 February 2016

Afternoon

Members present:

Jesse Norman, in the Chair

Andrew Bingham	Nigel Huddleston
Damian Collins	Chris Matheson
Julie Elliott	Jason McCartney
Paul Farrelly	John Nicolson

Draft Report (*BBC Charter Review*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 141 read and agreed to.

Resolved, That the Report be the First 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.

[Adjourned till Thursday 11 February at 2.00 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry page of the Committee's website.

Tuesday 13 October 2015

Question number

Lord Burns GCB, Former adviser on 2006 BBC Charter Review — Q1–35

Tuesday 20 October 2015

Donald Campbell, Chief Executive, MG Alba, **Iseabail Mactaggart**, Director of Development and Partnerships, MG Alba, **John Tulip**, Managing Director, Northern Film & Media Limited, and **Will Jackson**, Managing Director, Radio Independents Group — Q36–96

Tuesday 3 November 2015

Laura Mansfield, Chair, Producers Alliance for Cinema and Television, **John McVay**, Chief Executive, Producers Alliance for Cinema and Television, and **Dr Martin Smith**, Chair, Ingenious — Q97–152

Dinah Caine CBE, Chair, Creative Skillsets, **Professor John Downey**, Loughborough University, Media Communications and Cultural Studies Association, and **Professor Jeanette Steemers**, University of Westminster, Media Communications and Cultural Studies Association — Q153–177

Tuesday 10 November 2015

Professor Simon Saunders, Adjunct Professor, Trinity College Dublin and Independent Wireless Adviser at Real Wireless, and **Mike Flood Page**, Academic Researcher and Former TV and Digital Media Executive Producer — Q178–226

Steve Holebrook, Managing Director of Terrestrial Broadcast, Arqiva, and **Anirban Roy**, Director of Public Policy, Arqiva — Q227–273

Wednesday 18 November 2015

Kathryn Geels, Programme Manager for "Destination Local", Nesta, and **Ashley Highfield**, Chief Executive, Johnston Press — Q274–342

David Holdsworth, Controller, English Regions, BBC, and **Joe Godwin**, Director, BBC Birmingham — Q343–390

Wednesday 25 November 2015

Matt Rogerson, Head of Public Policy, Guardian Media Group, and **William Perrin**, Advisor in Public Policy and Local Media — Q391–455

Wednesday 25 November 2015

Fran Unsworth, Director, BBC World Service Group, and **Tim Davie**, Chief Executive Officer, BBC Worldwide and Director, Global — Q456–554

Tuesday 8 December 2015

Adam Crozier, Chief Executive, ITV plc, and **Magnus Brooke**, Director of Policy and Regulatory Affairs, ITV plc — Q555–619

Thomas Archer, former Controller of Factual Production, BBC, and **Professor Stewart Purvis,** Professor of Television Journalism at City University London — Q620–651

Wednesday 16 December 2015

Lord Hall of Birkenhead, Director General, BBC, and **James Purnell**, Director of Strategy and Operations, BBC — Q652–817

Tuesday 19 January 2016

Rona Fairhead CBE, Chairman, BBC Trust, and **Alex Towers**, Director, BBC Trust — Q818–960

Published written evidence

The following written evidence was received and can be viewed on the inquiry page of the Committee's website. BCR numbers are generated by the evidence processing system and so may not be complete.

1 Anne Dagen (BCR0041)

2 Arqiva (BCR0056)

3 BBC (BCR0109) (BCR0113) (BCR0114) (BCR0115)

4 BBC Trust (BCR0082) (BCR0116)

5 BBC Watch (BCR0066)

6 BBC Worldwide (BCR0112)

7 BPI (BCR0059)

8 Brinkworth Films (BCR0086)

9 British Council (BCR0106)

10 British Swimming (BCR0011)

11 Brother Brian Astell (BCR0003)

12 BT (BCR0078)

13 Campaign for Press and Broadcasting Freedom (BCR0020)

14 Caroline Levesque-Bartlett (BCR0050)

15 Caryn Mandabach Productions Ltd (BCR0118)

16 Channel 4 (BCR0073)

17 Christopher Fox (BCR0015)

18 Commercial Broadcasters Association (BCR0061)

19 COSLA (BCR0014)

20 Creative England (BCR0068)

21 Creative Industries Federation (BCR0074)

22 Creative Skillset (BCR0051)

23 Department of Culture, Arts and Leisure (North of Ireland) (BCR0021)

24 DNA Films (BCR0093)

25 Dr Frank Ellis (BCR0058)

26 Duncan Edelsten (BCR0028)

27 Eleventh Hour Films (BCR0095)

28 Enders Analysis Ltd (BCR0031)

29 Equity (BCR0013)

30 Finestripe Productions (BCR0091)

31 Fudge Park Productions (BCR0100)

32 Fujitsu (BCR0038)

33 Greg Yates (BCR0060)

34 Guardian Media Group (BCR0062)

35 Hartswood Films (BCR0088)
36 Ian Corke and Philip Ballabon (BCR0012)
37 Icon Films (BCR0117)
38 Illuminated Film Company (BCR0102)
39 Incorporated Society of Musicians (ISM) (BCR0046)
40 Ingenious (BCR0022)
41 Inquiry into the Future of Public Service Television (BCR0104)
42 International Broadcasting Trust (BCR0034)
43 ITN (BCR0069)
44 ITV plc (BCR0075)
45 Kindle Entertainment (BCR0097)
46 Lion Television (BCR0087)
47 Magic Light Pictures Limited (BCR0089)
48 Mainstreet Pictures (BCR0101)
49 MD World Productions Ltd (BCR0098)
50 Media Communications and Cultural Studies Association (MECCSA) (BCR0023)
51 MG ALBA (BCR0040)
52 Mr Alan Simpson (BCR0010)
53 Mr Anthony Ransley (BCR0005)
54 Mr George Eckton (BCR0001)
55 Mr Hugh de Lacy (BCR0006)
56 Mr John MacLean (BCR0004)
57 Mr Jonathan Hoffman (BCR0002)
58 Mr Jonathan Turner (BCR0055)
59 Mr Keith Hindell (BCR0016)
60 Mr Robert Clark (BCR0035)
61 Mr. John Hutson (BCR0007)
62 Ms. Susan Hedley (BCR0025)
63 Musicians' Union (BCR0048)
64 National Assembly for Wales (BCR0070)
65 National Union of Journalists (BCR0024)
66 Nesta (BCR0111)
67 News Media Association (BCR0026)
68 Northern Film & Media (BCR0036)(BCR0084)
69 Oxford Scientific Films (BCR0099)
70 Pact (BCR0045)(BCR0103)
71 Plimsoll Productions (BCR0094)
72 Press Association (BCR0110)

73 Professor Des Freedman (BCR0049)
74 Professor Patrick Barwise (BCR0072)
75 Professor Walter Raymond Crozier (BCR0017)
76 Radio Independents Group (BCR0019)(BCR0085)
77 Radiocentre (BCR0083)
78 Richard Price MBE FRTS (BCR0090)
79 Roughcut TV (BCR0092)
80 Save our BBC CIC (BCR0052)
81 Sheila McKenna (BCR0054)
82 Simon Albury (BCR0030)
83 Sound Start National Campaign for Children's Radio (BCR0081)
84 TechUK (BCR0047)
85 Teledwyr Annibynnol Cymru (TAC) (BCR0044)
86 The Children's Media Foundation (BCR0027)
87 The Public Media Alliance (BCR0105)
88 TV Licence Resistance (BCR0008)
89 UK Minifootball Association (BCR0009)
90 UK Music (BCR0043)
91 UKCCD (BCR0057)
92 UTV Media (GB) (BCR0039)
93 Voice of the Listener & Viewer (BCR0032)
94 Wellcome Trust (BCR0063)
95 William Perrin (BCR0108)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2015–16

First Special Report	Tourism: Government Response to the Committee's Sixth Report of Session 2014–15	HC 382
Second Special Report	Society Lotteries: Government Response to the Committee's Fifth Report of Session 2014–15	HC 415