HOUSE OF LORDS

Communications and Digital Committee

Corrected oral evidence: BBC future funding

Tuesday 10 May 2022

4.40 pm

[Watch the meeting]

Members present: Baroness Stowell of Beeston (The Chair); Baroness Bull; Baroness Buscombe; Baroness Featherstone; Lord Foster of Bath; Lord Griffiths of Burry Port; Lord Hall of Birkenhead; Baroness Harding of Winscombe; Lord Lipsey; Lord Vaizey of Didcot; The Lord Bishop of Worcester; Lord Young of Norwood Green.

Evidence Session No. 14 Heard in Public Questions 109 - 115

Witnesses

I: Gareth Davies, Comptroller and Auditor General, National Audit Office; Kate Mathers, Executive Director, National Audit Office; Louise Bladen, Director, BBC Value for Money Audit, National Audit Office.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Gareth Davies, Kate Mathers and Louise Bladen.

Q109 **The Chair:** We are now pleased to welcome witnesses from the National Audit Office. We are conducting an inquiry into BBC future funding. With this panel we hope to explore the BBC's financial situation; its approach and progress in delivering efficiencies; its financial planning for the future in anticipation of a lower licence fee, or the licence fee not increasing in the foreseeable future; and potentially changes to its funding model. Before we get to questions, may I ask each of you to introduce yourself and say which position you hold at the NAO?

Gareth Davies: I am Comptroller and Auditor General and head of the National Audit Office.

Kate Mathers: I am one of the NAO's executive directors, and responsible for audit and overseeing the work we do at the BBC.

Louise Bladen: I am our director for value for money audit for the BBC.

The Chair: Thank you very much for being here. We are currently live on the internet. A transcript will be taken and will be published in due course. I know that you give evidence to Select Committees all the time, so this will be familiar to you. We start with the Lord Bishop of Worcester.

Q110 **The Lord Bishop of Worcester:** I echo my thanks to you for being with us this afternoon and for all the work you have done, which is very pertinent to our present inquiry.

We are aware of the recent reports you have done on the BBC's strategic financial management and its savings and reform programme. The key areas of concern you have identified seem to echo those that have been articulated during the course of this inquiry: cost inflation in production in comparison with SVODs; falling audience share; funding licences for some over-75s; Covid-19 and the impact thereof; and the 2022 licence fee settlement and ongoing issues as a result of that. Could you drill down a bit into those and give us a summary of what you see as the main financial challenges that the BBC will face over the next 10 to 15 years?

Gareth Davies: Perhaps I could start and my colleagues who are closer to the detail can add to it. As you say, that was a very recognisable list from our work as well. It all starts with fundamental changes in viewing habits and the impact that technology is having on the broadcast and streaming market leading to significant shifts in behaviour, which I know you have heard a lot about in your inquiry already. Clearly, the financial challenge that presents is, first, dealing with a greater level of uncertainty because of the speed of the change. We have already seen in the last few months, for example, that the streamers themselves have had to recalibrate their plans and take account of significant shifts in demand for their services.

All of that suggests that financial planning will have to deal with significant strategic uncertainty for some time to come. That has led to increasing competition for audiences, and a lot of the assumptions that the BBC's financial model is based on are having to be challenged in light of that. Understanding what the BBC is fundamentally trying to achieve and how it can achieve those objectives in a very different market is at the heart of all these issues, so that is where I would start.

You mentioned the impact on the licence fee of recent changes and the responsibility for dealing with over-75 licence fees. From a financial point of view, that change has gone better than the BBC expected. We think that the financial risk that it entailed has been quite well managed, and the BBC performed better than it had budgeted for in collecting licence fees from the over-75s who are eligible to pay them.

The pandemic is the other big recent financial challenge. Obviously, it had a very big impact on both income and expenditure, but again the BBC emerged from that experience in financially better shape than it had feared it might. Although the risks are coming thick and fast, we think the performance of the organisation in managing the financial response to them has been quite effective.

The Lord Bishop of Worcester: Looking forward over the next 10 to 15 years, can you identify where you think the real strains will be?

Gareth Davies: Fundamentally, it is around the funding model. That is the focus of your inquiry, and it is what the Government are looking at for the next charter period. The big issue is the financial consequences of changes to that model. From the BBC's point of view, the big advantage of the licence fee is its stability and predictability. It does not suffer the volatility of income from that source that pretty much all the other broadcasters who rely on advertising or subscriptions and so on face, so the decisions to be made on that will obviously change the level of predictability and stability for the future.

That implies a different organisation, one that can respond more quickly to some of the changes. For example, in our work we have pointed out how long it has taken the BBC to have a clear plan for dealing with the reduction in viewership of younger audiences. It has been a clear trend for a long time, but it has taken a long time for the BBC to develop plans to deal with that. That kind of pace will not be possible if the types of income that the BBC is relying on become more like those of other broadcasters. The point about volatility, sensitivity to market conditions and the speed of change required is one of the big things, but perhaps I could ask my colleagues to add other changes over the next 10 years.

Kate Mathers: Currently, the licence fee is the BBC's biggest source of income. What we are seeing there is not a huge but a steady decline over recent years. It has had a bit of an increase as the over-75s have switched into paying it. If you take that out and adjust for it, you see a continuing decline. Over the last few years, about 450,000 fewer people have purchased TV licences, so that is continuing to build up. That trend continues. It is driven largely by the huge choice consumers now have in what they want to watch on TV and how they watch. That competition will only increase, so we could see that particular trend increasing as well.

The other big source of income for the BBC is its commercial activities. For the BBC those are building over time. It was about £1.3 billion last year. We are looking forward to seeing the results this year, which are under audit at the moment.

It is quite interesting to think about the contribution those commercial activities make to the PSB part of the BBC, because producing TV content is a really expensive business. The return to the BBC last year was about £200 million, which is quite a small percentage of the overall licence fee. That is an important area for the BBC to grow to help manage changes in funding. The current rate is about 6% of the licence fee, so that puts it into context.

Some of the challenges faced in the commercial sector are also about inflation. We have general inflation in the economy but, before that, TV content production was subject to its own quite high inflation levels. It is a very competitive market. TV production costs have increased quite significantly.

Louise Bladen: Perhaps I could add to the point on inflation. It has come up in a number of our reports that the BBC finds that situation difficult. For high-end drama, the BBC has told us that its costs have gone up by about 20%. It has talked to us about its sports pundits. If they went to work for a commercial organisation, they would be earning four to seven times more. That feels like a real challenge for the BBC. From our reports we have seen some ways in which it has been able to try to mitigate that—for example, leveraging in more spending for content from third parties. One issue with that is that, if you are getting in cash in that way, sometimes you have to make trade-offs with your long-term values. For example, intellectual property has been traded off to get cash in. Managing what sometimes feel like short-term problems with that kind of long-term thinking has definitely been a challenge.

Q111 **Lord Griffiths of Burry Port:** Thank you very much for that, although I think that in this conversation we are in danger of one person’s questions overlapping another’s. I was supposed to ask a question about past financial performance against future performance, which you began answering by talking about the past, so let me make a slightly different shift.

From what I read, it seemed that the BBC was broadly on target to make the £800 million savings it undertook to make, but within that savings regime it had not done so well in cutting costs in productivity. You also hinted in a previous answer at a number of proposals aimed at achieving cost cuts in what is produced. I am worried that it might lead in overall terms to a worsening of content value, the unique selling points of some of the programmes and so on. How can you achieve productivity cost savings, which I am sure are honourable and proper—that is your job anyway—without harming content?

If I may use a personal example, I am a bit player with the BBC; I have been doing radio work for ever and a day, since the year King Uzziah died. What has happened since the pandemic is that I am not allowed into a studio. I have to produce everything at home, so I have had to buy my own equipment to do the job at home. I have to manage the technological requirement myself at my age, which I will not reveal to you, but you would be surprised because I am older than I look. I have to manage that. I have to transmit it to a producer, who then asks me to make some changes and I send it again. All I did in the past was produce scripts and deliver them to a microphone. How do you get these cuts in productivity costs if it is not at the human cost of spreading them to a body of people who may be less able to provide the quality of content? My example is a poor little one, but you see what I am aiming at. Can you comment on that, please?

Gareth Davies: Of course. The figures show the pattern you have described. Over the period of the savings programme, the balance of those savings shifted. In the early stages, quite significant amounts were productivity improvements without any loss of content and so on, but, towards the end, the proportion of content cuts grew and has become a fairly significant element in the past couple of years. The BBC would say that it did that very reluctantly but it had to find those savings, and that was all it felt able to find at that stage.

Part of our role is to be a challenge on value for money to every organisation we audit, including the BBC. Our challenge would be to say that it is very unlikely that an organisation the size of the BBC has run out of opportunities to make productivity gains. It is not as if we have a magic list of those that we can just hand over to it, but we have the experience of the pandemic. You gave one example, which, as you say, comes with some fairly serious downsides but which is potentially also a genuine efficiency gain for the BBC if, without loss of content, it can reduce the cost of producing the same material.

A lot of lessons have been learned from the BBC's pandemic experience and applied in practice, including that one, I think, but there are more to work through. We know from our own work with the BBC that there is still duplication in some of its structures. For example, there are three teams dealing with advertising revenue from the US and other niche bits of advertising that the BBC earns, rather than one. There are some obvious areas of further opportunity to reduce costs.

Lord Griffiths of Burry Port: When you make that point to it, what does it say?

Gareth Davies: It agrees that there are plenty of those opportunities left. I think it is bandwidth for management. The pace at which you can implement change and how much you can take on in any one year is probably the main constraint. I do not think anybody at the BBC is genuinely saying, "We think we've done everything we possibly can on efficiency". I think they would say, "We've done a lot. We've met our targets and we've more to do, but we have to phase it in, in a manageable way", but they are better placed to answer that question than I am.

Lord Griffiths of Burry Port: My worry is that the quality of content is where an undue price might have to be paid, as opposed to the quality of bureaucracy, management and those kinds of things.

Gareth Davies: From a public interest point of view and from the auditors' point of view, the job is to hold the BBC to account for both—in other words, maintaining quality while pursuing further efficiencies, where they can be obtained. Clearly, in the end there are significant editorial decisions to be made. It would be surprising if there were no changes in the provision made for different audiences, given the speed at which those markets are changing. How important the changes are depends on the beholder and what they think is important. Our job is to help the BBC focus on where there are still opportunities to extract value from current budgets.

The Chair: Thank you.

Q112 **Baroness Harding of Winscombe:** Perhaps I could ask my question as a couple of supplementaries. As Lord Griffiths said, we are overlapping each other's questions.

Pushing a bit further on efficiencies, as you look forward, do you think there is scope for the BBC to maintain or even improve the proportion of the cost savings that come from real efficiencies versus content cuts?

Gareth Davies: I might ask Louise to comment. This follows from my previous answer. We think there are still opportunities. We could not possibly say that we have a figure in mind to return to a certain percentage of total savings that come from efficiencies, but we would strongly resist the argument that there are none left, or that they are very hard to access. There are still some big opportunities.

It is partly because the organisation is changing all the time. Like any big, group-structured organisation, as the different bits of the group grow and shrink in response to changing activity, there will be big opportunities to consolidate functions, spot overlaps and reduce duplication. The job is never over, essentially. In an organisation with a turnover of £4 billion to £5 billion, it is a continuous challenge, and just staying on top of how the organisation is developing, and how you can provide your back-office services efficiently as it changes shape, is a constant job.

Louise Bladen: To put some numbers on that, in our most recent report we looked at the percentage of savings of the BBC's total savings programme that came from productivity savings. It was 36%. That is quite significantly down on the previous programme that the BBC had, which was over the prior five years, when it was 70%. You can already see that kind of trend. What we were pointing to were some of the areas where we felt that there was still further the BBC could go.

We have already talked about some potential savings from Covid and new ways of working. We thought there was further the BBC could go in technology and IT. Some of the changes being made to news in the nations and regions have not been completely rolled out yet, so it can go further in making sure they are rolled out in all the regions and across all of the BBC. There is definitely something there.

We also looked at the BBC's use of benchmarking. It does pretty well in its overheads when it benchmarks comparable organisations, but there are quite significant bits of the BBC that it does not benchmark, so we recommended that it could go further in looking at some of the internal costs to understand those better compared with others. It has accepted that recommendation, so we think there is further opportunity there. Those are just a few examples.

Baroness Harding of Winscombe: Which areas are not benchmarked?

Louise Bladen: They tend to be internal costs where it finds it difficult to benchmark because it may be geographically different, or there may be different demographics. It tends to be around areas where it finds it difficult to make those comparisons.

Baroness Harding of Winscombe: On the flip-side, how well do you think the BBC measures the impact of savings on the quality of its output?

Louise Bladen: When we published our last report, we could definitely see the BBC doing some of that and being able to look directly at the impact on audiences, but it struggles to do that in some cases. That tends to be where it is making the sort of productivity cuts that we were just talking about, for example on overheads, where it maintains that there is no direct link. It could be something like procurement costs and how audiences would react to that. That is the kind of area where it is not doing that sort of analysis on how audiences respond.

The Chair: Tim Davie has said that the BBC has perhaps spread itself too thinly in the range of channels and platforms it offers, which is interesting given that it reversed a decision and made BBC3 a linear channel again, it having been online. Is that an area you have discussed with the BBC where there is scope for greater efficiencies, such as not having so many places or channels for it to have to occupy with more stuff, if I may put it in that rather crude and inelegant way?

Gareth Davies: Absolutely. It is the idea of focusing on priorities to make the most impact with the available resources. It illustrates the point I made earlier: this is a very fast-moving market, with customer behaviour changing very quickly. BBC Three is a great example. If the BBC has to become more commercial, it will have to do more of that and experiment with responses to what is happening among its viewers. Occasionally, it finds that it has made a mistake and needs to reverse it or try something different. That will probably be an increasing feature with experiments, in that case, to try to reach a younger audience more reliably and better serve them, and finding that the approach it had taken has backfired and needs a rethink.

We probably have to get used to that kind of experimentation, and to rapid responses to consumer behaviour being more frequent, but underlying that point is whether it is better to focus the available resources where you can have most impact and, as you say, to not try to cover all the bases. That requires you to be honest with the organisation itself about what is achievable given the resource base, which is not always easy if you have ambitious people who are constantly wanting to develop their services. It takes a lot of strategic discipline to hold to your priorities and to say no to apparently good ideas that will actually take you away from those priorities.

The Chair: These are conversations that you are having with them.

Gareth Davies: Certainly on strategy, and the impact of strategy on the financial plan, yes.

Q113 **Lord Foster of Bath:** Prior to 2010, the NAO was highly critical of the BBC's failure to make public details of its budget and so on. You criticised the lack of accountability. Now that you have had the opportunity to review its budgets and so on, would you say that the relationship has been helpful to the BBC or not?

Gareth Davies: It will have to answer that. It will depend on it.

Lord Foster of Bath: I am asking you.

Gareth Davies: I have been auditing the BBC for three years in this role. I think it has been helpful, because the knowledge that a public auditor is not just carrying out value-for-money reviews but auditing the accounts as well has given us a more rounded view of how the organisation works in practice. I suspect there is a better informed approach to our value-for-money work as a result of auditing the accounts.

What I and my teams have observed in dealing with BBC staff at all levels is acceptance of the purpose of our audit and, increasingly, willingness to be challenged constructively and to respond constructively to that challenge. I would characterise it as a pretty healthy relationship between auditor and auditee. There are plenty of points of disagreement. It would be unrealistic to expect sweetness and light on every point, but it is based on a good level of respect for the role we are both playing. That is my summary, but obviously you will have to ask the BBC for its view.

Q114 **The Chair:** I have a specific question on the BBC's commercial borrowing facility. I see that it is making only limited use of its existing facilities. As you know, it has now been given a much greater facility for borrowing: up to £750 million. How much difference do you think that will make to its effectiveness in the commercial strategy it has been pursuing?

Kate Mathers: The increase starts to take effect from now. It is coming in stages. There is a £400 million increase in the borrowing limit from £350 million, as it had been for many years. That is in response to the BBC's wish to invest in and develop its commercial activities. It has set itself the target to increase commercial returns by 30%. To do more, it feels it needs to invest in production and its other business revenue streams and make sure that it has the wherewithal to be responsive to the changes in the market that Gareth has just talked about.

The Chair: Is there any reason why it did not take advantage of the current limit before it was extended? What justification did it give for that?

Kate Mathers: It has been relatively cautious and tried not to use the borrowing limits unless necessary. The BBC tends to use the borrowing facilities as and when it needs to, when it has a strong business case to do so.

Q115 **Lord Vaizey of Didcot:** This inquiry is taking place in the light of pretty strong statements from the Government about their plans to change the BBC funding model. As the auditor, would your advice to colleagues in the BBC be to prepare for all scenarios? Is that a wise strategy? Should it be modelling how to fund itself in the future if, for example, it has to have a subscription service?

Gareth Davies: Absolutely, yes. Obviously, a lot of modelling already goes on, albeit on a less broad range of scenarios. The BBC has a well-established financial planning approach that models different things—for example, annual licence fee settlements and so on. On the need in the current year to respond to a licence fee freeze, there were lots of models already in place to deal with that, but you are talking about much bigger changes over a longer period. We advise any organisation facing that level of uncertainty to start scenario planning.

Lord Vaizey of Didcot: For example, every organisation will be planning for inflation, but the BBC now has to plan for an existential crisis.

Gareth Davies: Before there is much more clarity on exactly what it will be dealing with, the challenge is how much money it ploughs into detailed modelling before it knows how realistic those scenarios are. It is a judgment call. Clearly, to do nothing would be pretty unwise in this situation. The way I would put it is that in carrying out its various savings programmes in the last few years the BBC has learned quite a lot about its cost base. We think there is more to do in understanding the costs associated with each of the BBC's public service broadcast objectives. I think that speaks to a fundamental point when it is modelling for the future, which is that, rather than starting with different types of funding, it is important to start with what the BBC will be tasked with achieving in the future. That has to be the first question before we start looking at different funding models.

Lord Vaizey of Didcot: It has become a chicken and egg issue, as has emerged from our evidence. Do you change the funding model and then the remit of the BBC has to change, or do you change the remit of the BBC to give it room to change the funding model?

Gareth Davies: In organisations of any kind the key question is what you are trying to achieve. Everything else flows from that. An unwise approach for all parties in this would be to say, "Here is the funding model. Now let’s work out what you are for”. That would really be backwards.

Lord Vaizey of Didcot: I have enjoyed this evidence session and I have learned a bit about how the National Audit Office operates. I have probably got hold of the wrong end of the stick, but I was particularly interested when Louise said that the BBC traded off IP to get cash in. I was fascinated by that. Gareth talked about the different advertising teams. It felt as if I was listening to a management consultant rather than an auditor. I hasten to add that I do not mean that pejoratively.

The BBC has announced BBC Ventures, for example. The BBC has an enormous library of IP. Do you go to the BBC and say, “You have incredible IP. What are you doing to exploit it?” Do you suggest commercial possibilities?

Gareth Davies: No. We are not commercial advisers to the BBC. There are better qualified people to do that. IP is a good example. As an auditor, we need to understand the IP the BBC owns, because it has a value and it needs to be accounted for in line with accounting standards.

It is a good example. In doing our audit job properly, we acquire a lot of knowledge about the way that is working, and it allows us in our value-for-money work to make constructive suggestions about a more efficient approach or more value to be extracted. On the point about managing IP, that has been an interesting point of discussion between our audit team and the BBC’s audit committee that is tasked with understanding how those processes are being managed. It is also a highly productive one, leading to changes in the way the BBC has organised its approach to that topic.

Lord Vaizey of Didcot: What did Louise’s statement mean? Did it mean that because the BBC needs more cash more quickly it cannot exploit its IP long term?

Gareth Davies: It is making commercial decisions all the time. For example, to have some co-funding for a new nature programme from a commercial partner, it will allocate some of the IP to that commercial partner in return. What is the right balance to strike? Obviously, you make your calculations about expected sales, how long those sales will last in the future and so on. The BBC is getting quite adept at that; it now has a lot of practice in making those judgment calls. I do not know whether Louise has anything to add.

Louise Bladen: It is about short-term versus long-term trade-offs. One thing we noted in a previous report when we looked at BBC Studios, its commercial arm, was the age of IP. A lot of it is quite old and was commissioned over 10 years ago, such as “Doctor Who” and “Strictly”. We are trying to understand how the BBC is making sure that the IP is coming through the pipeline so that it can capitalise that income stream. That was an observation we made in a past report about where it will come from in the future.

Lord Young of Norwood Green: In getting value from IP, does BritBox come into your assessment?

Gareth Davies: It certainly does in the sense that it is an element of the BBC's income generation strategy that needs to be accounted for properly. Louise, do you want to say anything about how it is performing so far?

Louise Bladen: On the income generation strategy and getting 30% more, it is very much part of that, but that is the overseas BritBox. It is not what you would get here; it is what is sold to other countries. There is also BBC Select as part of that, which is about the streaming of documentaries, and selling more children's stuff. There is a variety of things that the BBC is doing with its overseas markets to bring in commercial income.

Baroness Harding of Winscombe: I have a quick follow-up on the exchange about selling IP. It prompted me to think about my experience. In all cost-saving programmes, you start off full of enthusiasm; you find duplication and genuine efficiency benefits where there is, if anything, an upside for consumers and the cost base comes down. You then start to face one-offs: the sale of legacy assets, even crown jewels. You then face the really nasty trade-off of needing the money now, so you sell something in the short term, even though you know it will be worth more if you keep it long term. Then you start cutting services.

You have triggered a slight alarm bell for me about the selling of IP. What would be your assessment of the quality of the cost-saving initiatives? There is a further stage that, sadly, a number of large companies reach, in that they begin to finesse the rules to get non-cash cost savings. How much should we be worried that the BBC is starting to sell things that really should not be sold?

Gareth Davies: We have not come across clear examples where we have felt obliged to raise points of concern, where, on the evidence we can see, they appear to be genuinely bad commercial decisions. I do not think we have examples of that. Clearly, there are plenty of people who are disappointed by the ending of programmes they particularly valued watching. That is normal interaction with customers, and it is about keeping very close tabs on how changes are being received. Unless Louise can find particular cases, I do not think we have examples of where we think there are misconceived decisions, made under duress or just badly advised.

Louise Bladen: Nothing like that. When we looked at content in our savings and reform report we saw some examples of things the BBC had done. There are examples of it just cutting things that did not perform for it any more. There were some interesting examples where it decided to cut programmes that had good viewing, but they were the same people who would already be well served by the BBC, so to try to bring in people who were not so well served, it made quite robust editorial decisions. We also had some interesting points in the report about the volume of repeats going up. I think that on BBC1 it had gone up by 22%. The BBC sees that as part of its strategy; getting out content several times over is part of what people almost expect these days.

Baroness Harding of Winscombe: Triangulating it, there is scope for more, good-quality efficiency savings. We are not seeing the institution resorting to doing short-term expedient, long-term bad things.

Gareth Davies: We think there are still good-quality savings to be obtained, albeit with some tough decisions along the way that not everybody will like.

Lord Foster of Bath: You talked about challenges to the BBC of any change in its funding model. What are the challenges of a change in the BBC's funding model for the NAO?

Gareth Davies: Assuming we are still auditing the BBC at that point—I guess that depends on how much it is still publicly determined funding—the nature of the audit would change. I suspect that the income would become riskier to audit if it became a more commercially focused income model. The licence fee income of £3.5 billion per year is quite easy to audit. We know what the rate is and how many licence fee payers the BBC has collected from, and it is a straightforward figure to verify. As soon as you have commercial risk involved, the job of auditing becomes trickier, but of all the issues you will be considering in your inquiry, that is probably well down the list of things to worry about when deciding on the future funding model.

The Chair: I know you were not in the room for Ofcom's evidence. One message that came through was about a reluctance on the part of the BBC sometimes to be more open in outlining its strategic plans. It is unusual for an organisation not to want to do that when it has challenges to face. An interesting thing to emerge from what you have said is that the BBC is perhaps not taking as much control of financial planning and modelling in the face of potential different funding options coming down the line as you might expect. Am I right in understanding what you said? I heard what you said about purpose being very much an important driver in choosing a model, but none the less identifying a model is important.

Gareth Davies: I think the BBC is quite strong in its tactical modelling of funding challenges, looking ahead to the next two or three years, and the proof of the pudding is its ability to react to decisions such as the freezing of the licence fee in the current year. Tactically, it is pretty good. I think the question was more about long-term strategy in the face of very big uncertainties. There, I have some sympathy with the challenge of, "What do we model out of the very large number of options in front of us?" It is important to get into the modelling, at least to acknowledge that we are likely to be dealing with a greater level of uncertainty in the future. What does that mean for how we manage our cost base, for example? That is the modelling you have to start doing now.

The Chair: You have not seen sufficient evidence of that up to now.

Gareth Davies: No, because I guess this is a new policy environment.

The Chair: You could argue that it is not that new.

Gareth Davies: No, but it may be a more immediate prospect than it was, in which case, given that the new charter period is only a small number of years away now, it feels very important that that modelling gets under way seriously.

The Chair: From other witnesses we heard earlier in our inquiry, one of the messages we took was that, if there is to be a change of funding model, it might be straightforward for the regulator or for you as auditor, but for the BBC it could take some time and it has to start preparing or planning for that sooner rather than later.

Gareth Davies: It is hugely important that the timetable for any change is realistic, because what we have seen in other contexts in government is that rapidly imposed change that is faster than the capability of the system to deal with it is itself bad value for money. For example, we have just reported on the very rapid reduction in overseas aid spending. That is a perfectly valid policy decision for the Government to take. We have no comment on that, but the way it was done, at high speed, resulted in demonstrably poor value-for-money outcomes in several cases. We would certainly caution against a rushed change to a financial model that led to poor value for money.

The Chair: All the more reason, therefore, for the BBC to start doing the work now.

Gareth Davies: Absolutely.

Lord Young of Norwood Green: If I could make one quick comment, Greg Dyke famously said that it is only a repeat if you have seen it before.

The Chair: I think that was even said before him, so he was repeating it as well. Thank you very much indeed.