

Public Accounts Committee

Oral evidence: BBC strategic financial management, HC 939

Monday 22 March 2021

Ordered by the House of Commons to be published on 22 March 2021.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Gareth Bacon; Sir Geoffrey Clifton-Brown; Peter Grant; Mr Richard Holden; James Wild.

Gareth Davies, Comptroller and Auditor General; Louise Bladen, Director, National Audit Office; and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-107

Witnesses

[I](#): Tim Davie CBE, Director-General, BBC; Glyn Isherwood, Interim Chief Operating Officer, BBC; and Charlotte Moore, Chief Content Officer, BBC.

Report by the Comptroller and Auditor General
The BBC's strategic financial management (HC 1128)

Examination of witnesses

Witnesses: Tim Davie, Glyn Isherwood and Charlotte Moore

Chair: Welcome to the Public Accounts Committee on Monday 22 March 2021. We are here today to look at the future of the BBC. As the way we consume our media continues to evolve, the BBC faces particular challenges as it straddles its important public sector broadcasting obligation and has to raise enough money to deliver on this, with the licence fee income, which is its main source of income, shrinking as audience numbers shrink. In addition, it is in the middle of negotiations with the Government about the future operation of that licence fee funding, so it has a considerable challenge ahead.

We have had discussions with the previous director-general, and I am delighted that we have the new director-general, Tim Davie, as one of our witnesses today, to talk through the strategy that the BBC unveiled last week and the National Audit Office's excellent Report, which underlines the considerable financial challenge that the BBC faces. As well as Mr Davie, we have Glyn Isherwood, the interim chief operating officer at the BBC, and Charlotte Moore, the chief content officer at the BBC. A warm welcome to our witnesses, and I ask Gareth Bacon MP to kick us off.

Q1 **Gareth Bacon:** Thank you, Chair. My initial question is to Mr Davie. How concerned are you about the threat that declining audiences pose to the future of the BBC, and to what do you attribute the declining audiences?

Tim Davie: Thank you, Mr Bacon, and thank you, Chair, for your opening remarks.

I have been very clear that I think that the media industry is not free from the seismic changes that the internet brings in terms of distribution. Whether you talk to taxi businesses, food delivery, retail or whatever, there is not a sector where if controlled or limited means of distribution—in our world, that means linear channels and FM—are suddenly opened up, you get, in effect, infinite distribution, and there is no doubt that it poses fundamental challenges to traditional broadcast operations and media



HOUSE OF COMMONS

companies across the globe. We will no doubt come to the commercial businesses of the BBC; I have spent much of my time in that market.

With regard to the BBC itself, I thank the NAO for a very helpful Report. I think that I have been very clear and very transparent that there is jeopardy, if we all care and want to maintain universality in terms of the BBC and its provision. I happen to believe that is worth fighting for. I can give you the “glass half full” statistics, which are that 90% of the people in this country are still coming to the BBC weekly, and we have seen really strong performances in terms of reach, but there is no doubt we need to deliver value for the licence fee on reduced time spent. That is inevitable. Having said that, I think the BBC has got a strong case going forward with audiences, for the unique value it brings. But there is jeopardy, which I am sure we will talk about, in terms of young audiences and more competition.

As a final point from me, I am pleased to say that, to some degree, on some of the absolutely spot-on analysis from the NAO, in terms of some of the uncertainties going into the Report—I read it again last night—with regard to covid impacts, over-75s and the commercial impacts of that, we do have a little more certainty at this point. Of course the big uncertainty, although it is within parameters, is the licence fee settlement for '22-'27.

That is my overview. There is jeopardy there, but certainly not to a point where we can't see the strength of the BBC. We are sitting on some good numbers, which gives us some hope that we have a strong position from which to go forward.

Q2 Gareth Bacon: Thank you, Mr Davie. How sustainable do you think your current business model is if you are unable to stop the pace of decline? It has been declining for a while now. If you are unable to change that, how sustainable do you think you will be going forward?

Tim Davie: The first thing to mention is that we have a Charter, which is an incredible privilege, through to '27, which gives us sustainability to '27 in terms of a licence fee. In my job, I worry—I have good healthy paranoia—about the sustainability of our model, but versus some of my commercial colleagues that sustainability is an incredible privilege and does provide us with some certainty in terms of our being able to do the right thing and build for the long term. My personal view is that we can fight and preserve universality, but we have to be incredibly well focused on where we differentiate ourselves versus the rest of the market.

We have always sat alongside competition. I have been very clear in saying our role is not to beat Netflix. Just to be clear to the Committee, we are not going to beat Netflix. We need to do something radically different. We make thousands more hours of content: the US streamers make about 200 hours of UK-originated content; the public service broadcasters make 30,000 hours. We are differently shaped. We always have sat alongside competitors. The issue is that the BBC needs to be highly distinctive, whether that be Bitesize education provision or locally made drama. I remain optimistic that we can maintain reach and maintain our value, but



HOUSE OF COMMONS

I have been very clear with the BBC: there is jeopardy there and we have no inalienable right to exist. There can't be room for complacency about that, but I do not subscribe to the view that universality is an impossible mission to deliver.

- Q3 **Gareth Bacon:** You have touched on the fact that the licence fee gives you a very solid platform to build on that your competitors do not have. That is perfectly true; it is of course a privilege to have the licence fee. We will probably go into some of the detail around that later and whether the BBC is continuing to earn the right to have the licence fee. How do you see the future balance of the business changing from traditional broadcasting to online viewing? That is where your main threat is coming from now, isn't it?

Tim Davie: Of course. It's a threat—or an opportunity. If you look at some of the dramas, not everything has to be a threat. There is the fact that 6 million students went to Bitesize, largely online. Weirdly on that one, I put it back on linear for those households that did not have good broadband connections. But if you look at many genres now—dramas, other things—we did 9.6 million on "Line of Duty". I suspect that might not be quite as much on iPlayer. Even we can't deliver that. If you look at some of the medium-size dramas, they are doing as much volume on iPlayer. Charlotte can talk about this later; I am sure we will get into the context discussion. There are real opportunities around online. The issue is that you have to be on your toes. Thank goodness we have got iPlayer and Sounds. We can begin to reshape our delivery.

One thing I would note—one of the only numbers with the NAO that we would dance around a bit—was that the numbers are often attributed to TV linear viewing, or TV channel viewing. I have restructured the content division and we are no longer looking at our numbers in that way. We are looking at delivery in the round, and there are opportunities there. I don't subscribe to the inevitable decline here, because it's about content and the quality of the content.

- Q4 **Gareth Bacon:** I will push you a little bit. You said that online gives you an opportunity as well as a challenge, but the online viewing does not yet make up for the loss of your linear viewers, so what will change?

Tim Davie: I don't want to minimise the challenges. We are not in a naïve place here. My bar here is to maintain very high reach. I suspect we will have slightly less of people's time, but we will have to make that count. I am being open about that.

Now, within that, we have to keep growing Sounds and iPlayer—and we are seeing rapid growth. We are actually winning share on iPlayer. Again, we will see that migration over time. Reach to news at the moment is 86% of the adult population—up five points versus a year ago. I accept it has been a fairly tumultuous news year, but we have delivered a lot of that reach through online. I think over time the primary reach will be online, and that is where we have got to go.

- Q5 **Gareth Bacon:** You touched on content a couple of times, so I will switch



HOUSE OF COMMONS

to Ms Moore as the senior person for content within the BBC. What assurance can you give us that any new plans you have for addressing the decline will succeed where previous attempts have not?

Charlotte Moore: As Tim said, we do come at this from a very good place. Again, I do not want to be complacent, but there has been a huge explosion in competition both for content itself, which has caused huge inflation—there is massive competition for content—and for audiences. As you said, Mr Bacon, it is particularly about younger audiences and underserved audiences, and we have done a lot to really try to identify and understand who those audiences are. As I say, we are reaching them—the BBC reaches 80% of 16 to 34-year-olds every week and 93% every month—but that is our job and our priority. Universality is what we are about, but Mr Davie and the team I work with have set out a very focused plan to prioritise how we reach all audiences. Where we are not reaching those audiences with as much content as we would like for them to feel that they get enough value from the BBC, we are really looking at where those audiences are and what content we should be making that would make them feel that there was value in the BBC and the licence fee that they are paying.

That probably splits into four main things that we are doing. Partly, we are looking at our content mix and whether we are making the right content that reaches all audiences and that younger audiences and underserved audiences feel is relevant to them as well. I would say that shows like “Line of Duty” last night, with enormous 16-to-34 figures, really show that we can do that. This year’s “Strictly” was the largest one we have had in 10 years for younger audiences. There is “Top Gear” and “Great British Sewing Bee”—the shows we have moved from BBC Two to BBC One to really maximise the value that audiences get from the content we make and to make sure it reaches a wider audience. First of all then, it is really focusing on our big brands and how we can make sure we keep those really healthy and relevant to younger audiences.

The next thing, of course, is iPlayer and the work we are doing to bring more audiences to it. Actually, the last couple of months have been a landmark moment for the BBC and the growth of iPlayer. The growth of iPlayer among young adults more than offset the year-on-year decline in broadcast TV for the first time this January. That is very exciting for us. We were growing total TV minutes month on month and year on year in 2019-20, but in January for young audiences we actually went above that and offset it.

We have only had that critical 12-month window for our content that allows iPlayer to be a destination for young people in its own right, that allows us to have boxsets and to reach young audiences, who of course want whatever content they want whenever they want it—at any time. We have only just reached that critical moment, but it is very exciting to see that growth, because if we have made that progress in the last year, I think it shows that we can make more.



HOUSE OF COMMONS

The next thing we have done—again, I can talk about this later in more detail—is BBC Three. We have committed to younger audiences and underserved audiences, which I think includes many of the lower socioeconomic groups that we have identified. In the last three years, BBC Three has had success with extraordinary content and fantastic shows like “Normal People”, “This Country”, “The Young Offenders” and “In My Skin”, and we really want to make sure that we can do more of that. So we have doubled our budget for that content for the young 16—now 13—to 34.

On what Mr Davie was talking about with Lockdown Learning and Bitesize, we have realised just what the digital divide means in the UK today. We are very aware that not all of the audience that we are going after has access to multiple devices. Many homes only have one television and they may not have access to fast broadband, either. That became really obvious to us when we did Lockdown Learning and we saw the numbers of young people coming to our content on BBC Two. The number of parents, teachers and pupils using that content showed us how effective it can be.

We would like to bring BBC Three back as a linear channel. This isn’t going backwards, in my mind, but absolutely going forwards. It is looking at the maximum value we can give to audiences, particularly younger audiences, of that double-the-budget content that we are putting into BBC Three. In fact, when we started, I asked Mr Davie, “You know what, why wouldn’t we do it?” The cost it takes to go on to the channels, once you’ve made the content, is minimal. It is about making sure that we can maximise the impact of that content.

The final thing that I would say is about the plan that we have for growing young audiences. Obviously, the BBC Three content, by being on the channel, would also activate and be a trigger for iPlayer, and allow audiences that perhaps don’t realise quite what we have on offer to come to the BBC and explore much, much more, and the thousands of hours that we have available for them.

Critically, we recognise that some of the audience that we are not reaching enough or frequently enough is in the north and in some of the nations—in Scotland and in Northern Ireland. We know that we need to provide more content and allow them to understand that there is more content. The plans that we announced last week expand our footprint across the UK, to really double down on decision making and the authentic portrayal of communities across the UK.

That is part of our BBC Three plan as well. We want to focus a lot of the content that we are budgeted to make on BBC Three. We aim that two thirds of it will be spent across the UK and we intend to expand radio, audio, television and iPlayer. Our money will go into expanded content across the UK and, I hope, help to get closer to those audiences, to serve underserved audiences a lot better and therefore bring in value. It is a very clear plan, set around the high-impact content that Mr Davie set out as our priority, but it is about abstracting all the value that we can from our services and our products, particularly those that are online.



Q6 Gareth Bacon: Thank you for that comprehensive answer, Ms Moore. You talked about the regions towards the end of your answer, but most of it was about attracting younger viewers. Do you have any understanding, figures or analysis of how you are retaining pre-existing viewers or whether you are losing them? I will be clear about what I am asking: judging by my inbox you are losing audience. What are you doing to reverse that trend?

Charlotte Moore: Some of the figures in the Report refer to TV and do not, as Mr Davie said, include iPlayer. We can see huge growth in our iPlayer viewers from the 35 to 54-year-olds and the 55-plus group. Of course, we know that young audiences were the people who first migrated to digital viewing, but this is now becoming more the norm. It is important to look at all these figures in the round, across all our services and products.

Do we understand audiences and who we are not reaching? You are absolutely right that it isn't just about young audiences. It is about reaching all audiences. The plan that we set out last week about expanding the impact that we have with audiences across the UK is about that. It is about trying to get closer to audiences, to make sure that we can increase the consumption and impact of our output between those different audience groups across the UK.

We look at those audiences and we compare the usage. We compare both the time spent and the reach, but we also look at whether audiences feel that our output is having effectiveness. We give effectiveness scores if people feel that the content is for them. We have seen that in some of the groups that we talked about there are lower levels of usage of the BBC compared to the comparative groups.

From the statistics I gave earlier we know that 97% of adults come to us every month, but that differs in different parts of the country and in different segments of audiences. We have been looking at that and really trying to map our content, in order to be sure about what we need to be making to reach those audiences across the UK that perhaps we have not reached in as much quantity. There are absolute relative appeal scores that we look at and we can see—

Q7 Gareth Bacon: Are you concerned that you are losing previous punters?

Tim Davie: Could I answer that? Overall, the data is pretty clear, which is overall reach, and I suspect your inbox has some of the same individuals that I do. But overall, reach is holding up. Even for a lot of people who are dissatisfied or who want the BBC to do more for them, or feel that we may have got the wrong view on something, largely, the research is that they are still coming to the BBC. To be blunt with the Committee, the people I am most worried about are those people for whom the BBC is not part of their repertoire, or younger people who have not connected with the BBC.

There is nothing more important for an organisation like ourselves to make sure our core viewers and listeners are sticking with us. The data suggests that, overall, they are, but the time spent is a bit under pressure for



HOUSE OF COMMONS

certain groups. They may be going elsewhere and doing different things. That is something that we should be conscious of, and it is why—we will get to it in this discussion, I'm sure—we want to make sure that representation across the country is there. We want to make sure we have the right local provision. These things are critical in terms of holding up the support of the BBC.

Q8 Gareth Bacon: Okay. Sorry, I have to cut across you—it's just that the answers are quite long, and lots of other Members will need to get in. You are generally content that your reach is holding up okay. You want to tweak it a little bit by bringing back BBC Three. It prompts the question why BBC Three was dropped in the first place. Is that because the content was no good at that time and it is going to be refreshed this time, or are there other reasons?

Tim Davie: Not at all. It was largely a very simple thing: there was an assumption about the migration path of digital, and we had to make choices around our budget. It's a strange one, and I don't particularly like going back to the future, but the truth is that linear has proved to be very resilient over the last few years. It was a very straightforward decision when we looked at the incremental cost of having a linear channel. Remember that we have cut back CBBC a bit, so I'm using the same capacity; I am not having to buy more capacity. It makes absolute sense to deliver reach to more families with what is essentially a relatively small incremental amount of money. No, it was never a question of the content.

Q9 Gareth Bacon: The reason it was dropped then was because nobody was watching it, so why would they watch it now?

Tim Davie: That is simply not true. The reach—

Q10 Gareth Bacon: So it was very popular, and it was dropped anyway?

Tim Davie: The BBC had to make choices around where it spent its money: distribution versus content. The BBC has had its budget cut 30% since 2010—we will probably get into the efficiencies and all the things we have had to do. I think we felt optimistic about being able to deliver reach through digital. That migration has not happened as fast as it should have done. The performance numbers for BBC Three were not bad at all.

Q11 Gareth Bacon: Okay. It was a popular channel, and you dropped it because you wanted to do more digital.

Tim Davie: Correct.

Q12 Gareth Bacon: So why would that work now, when it didn't work then?

Tim Davie: What do you mean? We are going back to what was working.

Q13 Gareth Bacon: So it was working. Okay, fine. Does that mean you are abandoning the digital side, or you are waiting for it to power up?

Tim Davie: Of course not.

Q14 Gareth Bacon: Forgive me, I don't mean to be cynical, Mr Davie, but if it



HOUSE OF COMMONS

didn't work before, why it is going to work now? Why is the answer to your falling audience share? I haven't really heard a convincing answer yet.

Tim Davie: It is not the only answer. It is one component part, and it is a highly statistical piece of analysis that says if you are trying to deliver reach cost-effectively to that audience, what is the best way of doing it? The primary goal is to give Charlotte a good commissioning budget of over £70 million, which we have invested more heavily in to say, "Okay, we want the content." Once you have the content, I am somewhat agnostic about the distribution. In other words, it doesn't matter where it is on. I just want people to connect with those shows and the brand.

Q15 **Gareth Bacon:** So it comes back to the original question.

Tim Davie: All I am doing is looking at the most cost-effective distribution. I am less worried about whether it is future or past; I just want to deliver to audiences.

Q16 **Gareth Bacon:** The original question I asked is whether the content is going to be different on BBC Three this time. Is that fair?

Tim Davie: We are investing more in content, and of course we learn. Charlotte might want to answer that, but we learn as we go. I think we absolutely see distinctive youth content. The other thing that BBC Three does well is a bit more social purpose than others. We are not just about hunting for audience; we are also doing about the right things on the BBC purposes. I think we are getting better at that. I think there are some fantastic shows on BBC Three.

Q17 **Gareth Bacon:** Okay. I am going to move on a wee bit. One of the things that platforms like Netflix have is that they can personalise their content, so based on your previous viewing habits they can make recommendations for things for you to log in and see in the future. How is the BBC making use of new technology to personalise the content that you are going to be putting out going forward?

Tim Davie: We are doing a lot of that within our online products, so one of the four priorities I talked about when—my strategy is very, very simple, which is how do you as a household get more value for £157.50. It is as simple as that. It is about trusted news, high-impact content so when you are looking at that infinite choice of an evening, we make the cut.

The next one was about those online products. Of course, we need a degree of personalisation there. We need algorithmic technology; we need all the things. We have got good teams. We have a very capable design engineering team working on products like iPlayer.

The one thing I would say is we don't want to, in my view, be too editorial and this is where I don't think we are just simply copying the US streamers. I don't know how you find it, but I find some of that personalisation too much. It pigeonholes me. If I buy something, it may keep recommending it when I have only—



HOUSE OF COMMONS

I think, as the BBC, we also have a curatorial role where we, as the newsroom and as the iPlayer, can choose things that we think are important. It is not just driven wholly algorithmically, but we have sophisticated algorithmic technology and are building our capability in that area. We also have millions of people now signed in. We need to do more.

Q18 **Gareth Bacon:** So what is the BBC's unique selling point going to be in what is now a very crowded digital environment?

Tim Davie: High-quality British content that you can trust. We are absolutely coming from a different point of view—

Chair: That is very clear.

Tim Davie: Yes. We are not trying to make a pay subscription business work. I am there for everyone and I want to have highly differentiated UK IP. One of the things we have got to do together is decide for the UK how much IP do we want to own locally, regionally. I am talking news IP and I am talking TV and radio.

If we care about the creative industries, which are an incredible success story, our role is to deliver that IP and also act as a catalyst for the wider creative industries. There is no model of success for the BBC, by the way, that is not driving the wider creative industries. We are incredibly porous in terms of the amount of money we flow throughout the 14,000 small companies and 50,000 people that are working on BBC projects. That is what we are here for. We have a different purpose. I am not running a business for profit, I am running a business for purpose—an organisation for purpose, I am not even running a business.

Q19 **Gareth Bacon:** The media market has changed rapidly, exponentially, over the last 15 to 20 years. You have previously said that the BBC has been quite sluggish and quite slow to change. What do you think the impact of being slow to change has been, and do you think the BBC is still slow to respond?

Tim Davie: It is funny, I think we have been patchy. We are still kicking at 99 years old. We are still delivering 90% reach and if you went into the newsroom at five to 10 with a story breaking you wouldn't say the BBC is slow to change. As for the way we have gone into online and the iPlayer, I have a queue to my door of people from around the world in public service broadcasting asking how on earth we moved so fast and responded in the way we have done. So, if I am allowed a smidgen of pride around the BBC in that regard.

What I do think is that all organisations that are entrenched—we have got fixed revenue—can be slightly slow to respond to consumer changes. If you look at something like the audio market, no one loves linear radio like I do. I care about it passionately, but the truth is we had to move into Sounds and we have to go into other areas. I almost say it with a slightly heavy heart sounding like the old stick-in-the-mud here, but you have got to move fast. I just think we can move with more speed in some of those areas. This is not rocket science and that is what we have got to do.



Q20 Gareth Bacon: How do you plan to make that happen?

Tim Davie: As editor-in-chief, I have been very clear about establishing jeopardy and a burning platform for the BBC. The biggest lever I have got, honestly, is to give leaders full accountability for audience metrics and very clear delivery targets, and to get on with it. It is simply about leading the organisation and making a case about external change, rather than assuming that we can just continue as we are. That is hard; it's hard in terms of cultural change, but that is the heart of what we've got to do.

Q21 Gareth Bacon: Okay. I will finish off my section by talking about covid—because, of course, we can't talk about anything these days without touching on covid. What impact do you think covid has had on BBC audiences?

Tim Davie: There is the audience question and the financial one. We have seen very good audiences, too—I was crediting the news team. Of course, when we are in a pandemic like this, people come to trusted sources, so it will not surprise you that, as I mentioned earlier, the reach to our news services has gone up by 5%. Of the total population, the last number I saw was 86%—overall reach of 90%. You see those services—again, I have mentioned Bitesize with 6 million. Overall, we're broadly up. Viewing is up 8% of BBC television.

Look, we are seeing good numbers—that is not surprising when you lock people in their households and you are running a media business. However, I think there is something deeper going on—this is a broader topic. I was on something this morning, talking about it to journalists around the world. You will all have your views on how well we're doing, but in a world of misinformation, an organisation that is, at its heart, trying to get fair, impartial coverage and proper public information out has been a place that people have come to.

If I may make one other quick point, the biggest show over the period, in UK television, has been the 6.30 regional news—that is bigger than anything. The thing that the pandemic has also taught us is the validity of local, regional and national storytelling, so what is happening in Scotland, what is happening in Wales or Northern Ireland; all these things have proved themselves to be extremely important to people.

Q22 Gareth Bacon: I think one of my colleagues is going to come in on that a bit later on. It occurs to me that several of the things that you lost out on last summer, and everyone collectively lost out on, would be things like Wimbledon, the Olympics and Euro 2020. Do you think that these things have had an impact on viewing figures?

Tim Davie: Of course. It is mechanical that you lose the reach from the sports events. I have to say though, on things like the FA cup and the Six Nations, we had, I think, 64% of the Welsh population watching England beat Wales—

Gareth Bacon: I think you will probably find that Wales beat England, sadly.



Tim Davie: Sorry—that was wishful thinking in my mind. I’ve got the horrors of the French match in my mind! Yes, when Wales beat England—apologies to everyone for that. That was 64% of the population, so we have still been able to deliver big numbers through sport. However, there is no doubt that for some of those events that moved, like Wimbledon, we would lose out, but we have more than made up for that through the other things that I have just talked about.

Q23 **Gareth Bacon:** What about people’s viewing habits over lockdown? I would obviously imagine—correct me if I am wrong—that you weren’t able to make some of your dramas, for example, certainly initially in the lockdown, so your production schedules would have slipped with it.

Tim Davie: Yes

Gareth Bacon: Have you been able to make those up? I know that you plugged a lot of the gap with pre-recorded stuff or repeats and so on. Do you think that people’s viewing habits have been permanently changed by this?

Tim Davie: It has not been easy. Charlotte, do you want to answer that?

Charlotte Moore: I think we have seen real impact, because of the very factors that you say; that we didn’t have as much sport, and those big sporting events are often real activators for people coming to the BBC and to iPlayer. We saw huge success with shows like “The Salisbury Poisonings”, “Normal People” and “I May Destroy You”. We had some content—some drama, particularly—that was already nearly finished, and we were able to get it through and spread that throughout the summer.

As you say, we also brought in acquisitions, did lots of repeats and re-versioned content, so we made the best of what we could, with a much smaller budget. For several months, we weren’t able to make drama or comedy. We made entertainment programmes like “The Big Night In”; we managed to get “Springwatch” on air; we moved “The Repair Shop”, and we got huge numbers. In many ways, some of the hits of covid for us were shows like “The Repair Shop”; really fantastic, “bring the family together”, heart-warming shows, and we managed to entertain as well.

However, we were operating with smaller budgets during that period, because of having to delay sports and having to be really agile with our schedules. Of course, with some of that, we’re only managing to get up into production on some of the projects, so things have been delayed. It was a constant juggle of the schedules, and it continues to be so. Shows like “Line of Duty” have taken a lot longer to finish because they had to stop mid-way through production, but thankfully everyone rose to the challenge, and we’ve managed to get huge numbers for shows like that.

We didn’t have as many episodes of “Strictly”, for instance, but we have managed to have one of the best Strictlys we have ever had, with the largest “young” figures.



HOUSE OF COMMONS

It has been extremely challenging, and I think viewing behaviours have changed. I think it has given more ability for people to discover choice elsewhere and not everybody has had the same pressures that we have had. Some of the streamers globally have been able to make dramas all over the world, wherever it has been covid-safe, and we have obviously been operating under restrictions in the UK and unable to travel.

So it has absolutely impacted our schedules, and you will have noticed that shows like “Call the Midwife”, which thankfully is coming to our screens again soon, usually would play out in January, as would “Silent Witness”. We would have had many more dramas, many more comedies, than we were able to have. Again, we made the most of it at Christmas and had some of our highest viewing ever. I think a lot of that was also because of the box set offer that we managed to have on iPlayer because of the change in our windowing and our rights for box sets.

We got through it, but it will take us some time for that drama to come through, and I think the next year will be incredibly important to us—and those big sporting events coming up will be the way we bring viewers in who may have become slightly less frequent viewers. With “EastEnders” back on air, again, that is really about being able to bring in those frequent viewers to then allow people to see the amazing choice that we have on iPlayer.

Q24 Gareth Bacon: My final question to you is: you mentioned earlier on, Ms Moore, in your final answer, that the pandemic has given people the opportunity to go elsewhere. Are you confident that they will return?

Charlotte Moore: Yes. When I say they have lots of choice I would also say it has given them an opportunity to explore iPlayer, and we have had the largest ever figures and we have broken all records for the extraordinary number of hours that we have had on iPlayer—billions of requests—in a way that I think it has benefited us. As Mr Davie said, we are growing our market share, as well, of iPlayer, in an extremely competitive marketplace.

So, again, I think we are doing very well, all things considered, and actually our share during the pandemic has been driven—obviously, as Mr Davie said, the 6.30 news has brought huge numbers, and we have done such a great job of informing and educating, as well as entertaining, that we actually have managed to stem the tide of decline on linear, and actually in the year during the pandemic we have done very well from it; but we are not complacent. That is why our very clear plan and priority is to really focus on audiences that we are not reaching frequently enough. They come to us, 95% of the young come to us, but we have really got to make sure that there is more on offer and that they come to kind of explore the range. So I don’t think we are at all complacent.

Earlier I think you said we are content. I don’t think we are content. I think everybody realises, in the media landscape at the moment, the competition is huge. I think if I was a streamer, I would be saying exactly the same. There is huge competition.



Do I think that we fill a very distinctive place in that marketplace, which perhaps is becoming more and more defined because of the wealth of competition? We are absolutely sure what we are here to do, and that is in the breadth and range of the content that we make. It is the breadth and range of our drama, our comedy, our factual, our entertainment and the sports that we are able to offer to a universal audience. So I am not complacent or content. I think we really have to carve out that space and make use of the fact that we are both locally and across the nations and regions, across the whole of the UK, able to tell those stories and find talent from across the UK. I think it will make us stand out in this very competitive marketplace.

Gareth Bacon: Thank you, Chair. I am done with my section now.

Chair: Thank you very much Mr Bacon. We may come back to you a little later. I am now going to ask Peter Grant MP to come in and talk a bit about the nations, among other things.

Q25 **Peter Grant:** Thank you, Chair. Before I do that, can I come back to the director-general, please, to follow up a couple of his comments earlier on? Looking particularly at licence paying numbers, as opposed to the reach as measured by other measures, if we are able to take out the impact of changes to the arrangements for providing licences for the over-75s, which I know has caused a bit of turbulence for the BBC, what is your assessment of the number of people, say within the last five years, who have just stopped paying the licence because they don't want to have a licence any more, and what information do you have as to the reasons behind those decisions?

Tim Davie: I can turn to Glyn in a second. The number on evasion is broadly in line, marginally up—

Peter Grant: To be clear, Mr Davie, I am not talking about people who dodge the licence. I am talking about people who make a conscious decision to stop accessing BBC services.

Tim Davie: Households that claim they do not need a licence?

Peter Grant: No, I want to be perfectly clear. In fact, you have reminded me of an issue, which is that my constituents who have decided not to do anything that requires a licence are being hounded on behalf of the BBC and are accused of not paying the licence fee. This is something I want to be absolutely clear about. I am not talking about people who are doing anything vaguely illegal, I am talking about people who have taken a rational decision not to do anything that requires a licence and therefore decide not to acquire one anymore. What information do you have over, say, the last five years as to how many people have taken that legitimate, lawful decision, and what the reasons for it might be?

Tim Davie: Glyn, do you want to give the numbers and then I can give an observation?

Glyn Isherwood: While we do not have the numbers of the last five years, we do know that last year there was a small increase. The current



HOUSE OF COMMONS

figures show that 1.7 million people have taken that option and that grew from the previous year of about 1.5 million people. So it is still a relatively small number, and it is within the context of having annual licences of between 25 million and 26 million each year. It is quite solid in terms of the level of support for the licence fee, but there are a number of people who take that option.

Q26 Peter Grant: Can I get some clarification on the numbers you quoted there? Was it 1.7 million compared to 1.5 million?

Glyn Isherwood: Yes, correct.

Q27 Peter Grant: Is that 1.7 million additional people who have not renewed their licence, or is it 1.7 million who do not have a licence? How do you measure that, because there are not 54 million licences in the UK? There are tens of millions of people who do not have a licence. How do you measure that 1.5 or 1.7 million?

Glyn Isherwood: Licences are collected on the basis of the number of households in the UK. There are more than 27 million households in the UK. At the moment, 1.7 million of those take the option that you stated and elect to not have a licence and do not enjoy the BBC services. The rest of them—more than 25 million at the moment—do have the option and pay for a licence. That includes people over the age of 75, some of whom get a free licence if they are in receipt of pension credit. It has only been a small increase from 1.5 million in the previous year to 1.7 million, so that is a 200,000 increase. I do not think it is true to say the number is substantially growing, but we could get you the figures that look back at the last five years.

Q28 Peter Grant: If we look at the impact it has on the BBC's finances, you are talking about either side of 1% of your licence fee income disappearing in a single year. Although 1% of your main source of income may not seem an awful lot, 1% of your operating surplus or potential operating deficit year on year could potentially become quite significant. If that 200,000 fewer licences a year becomes a regular trend, at what point does it start to undermine the financial sustainability of the whole operation?

Glyn Isherwood: We are very fortunate to have a secure form of funding through the licence fee guaranteed right out to the end of the Charter. Licences can go up and down, but it has been between 25 million and 26 million over the last five years. You are right that over the last couple of years we have seen a little bit of decline, but there is still strong support around the licence fee. The level of decline we are talking about is in the region of 1%.

Actually, despite the operational challenges of collecting during a global pandemic and all the issues it has given people in getting out to pay the licence fee or us in running our call centre, and we did see a decline in the first quarter, but in quarters 3 and 4 we saw it come back really strongly as people sought to find a way to pay the licence fee this year. We remain cautiously optimistic that there is still strong support. And we cannot do



HOUSE OF COMMONS

anything to reverse the change in media consumption habits. Some people are finding viewing in other places and changing their habits, and some people choose not to have the BBC licence.

Tim Davie: Just to be clear, there are two levers to the number we are talking about in terms of our income risks. One is the level of households, obviously, and the other is this number of 1.7 million that say they no longer need or technically don't qualify for the licence. It is worth saying that we are watching that number like hawks. It is the majority of our revenue, so it is utterly critical to us.

If we look at the longer term, obviously we are healthily concerned about that, but the balance is that we are also seeing forecasts of household growth as well. You have pretty much the scenario for the next five years—we can talk beyond '27—in which you can see 25-odd million households. That is supported by the earlier discussion about the facts around the usage of BBC services, which is holding up pretty well, despite all the debate around it. Your question is spot on, because it is a number that we must watch. It is clearly critical to us, in terms of maintaining our broad income within the licence fee.

Q29 **Peter Grant:** So if you are watching those 200,000 lost licence payers in a year, what information do you have about the reasons why those 200,000 customers walked away? Do you have factual information about that, or is it just estimates and assumptions?

Tim Davie: It is not estimates; it is factual. In terms of individual motivations, Glyn, I don't know whether we have got anything that would bring a bit of colour and texture to that.

Glyn Isherwood: We are not able to collect information around why people leave, but we do have a natural turnover of households. We occasionally do studies around people's propensity and desire to pay, but we would have to come back to you with that information. I don't have that today.

Q30 **Peter Grant:** If you don't know why they are choosing not to, how is it possible for you to take steps to persuade the next 200,000 people to carry on paying?

Tim Davie: It is a question of how granular you make the analysis. The reason why they are not is that they are understandably saying—this is exactly the conversation we have been in—that in the land of a lot of competition, are they watching a live television stream? It is not surprising that when on demand is burgeoning in the way that it is and other services are there, you are going to get some marginal erosion of people who are not watching a live stream or television.

Our role is simply to make very relevant content, build the role of live and do all the things we have talked about. I won't go through that as it would take too much of the Committee's time. We understand in some detail—we speak to audiences all the time—the overall specifics of the market change. You can look at this number in two ways. I think the number



overall for the BBC is proving itself to be resilient versus other sectors and the level of change that we are getting, but as I say, we need to be conscious of it, and we need to be doing our work, as we talked about earlier in the session.

- Q31 **Peter Grant:** Thank you. I know we are going to be a bit short of time later, so I will leave that question for now. I want to come back to you, Mr Davie, about the announcement that you made last week, in which, among other things, you announced an additional £700 million, I think it was, to be spent outside London. How does that tie in with the BBC's ongoing need to make significant financial savings on what you term the nations and regions spend?

Tim Davie: We are making savings everywhere, in terms of getting more efficient. Currently, in terms of video content, we spend about £1.4 billion. Over time, if you multiply that over the years, that is a huge sum of money. We have talked about 10% of that, very specifically. This isn't about increasing our budgets; it is simply what we should be doing with our budgets to extract more value. It is not about incremental spend at this point. By the way, the good news is that it is incremental spend if you are outside the M25 and you are a producer or a maker of programmes, because it means money is coming your way. It is not incremental spend; it is 60% of Charlotte's television budget and 50% of the radio budget, versus a previous 50%—nearly 40%—coming outside the M25.

That will allow producers in Scotland and producers in the nations and regions to have a bigger slice of money to make, critically, network production in areas beyond London. That is what we want to do. It is really important that this is also about portrayal and representation as well. We want those dramas based in Scotland and other places. We have been talking to Creative Scotland, Northern Ireland Screen and all the various bodies, and I think this is really good news for them, in terms of getting more money.

- Q32 **Peter Grant:** Coming back to my initial question—incidentally, I think you described some of the previous cuts as efficiency savings; certainly, some of the cuts that have been made in the nations and regions news teams over the last few years have not been about efficiency and have had a significant impact on either the amount or the quality of the output—the question is whether this is new money after you have netted off the impact of the savings that you said you still have to make in the nations and regions, or whether we have to take the value of those savings off the £700 million that you announced last week?

Tim Davie: Very specifically, these are separate. So yes, we will be delivering through the savings plans, which we are largely through, by the way; you will hopefully have seen in the NAO's Report—we should be proud; it has been very tough work—that we have delivered £950 million-plus of savings. Those plans are largely done; we are largely through them. We made one announcement last week with regard to network news, but we are largely through that phase of plans. We are now coming into, obviously, the '22 to '27 window, and we will see what we need to do



HOUSE OF COMMONS

there. You are right to pick me up on that, because the vast majority were efficiencies, but you cannot avoid scope in certain places.

- Q33 **Peter Grant:** Obviously, anyone who represents a constituency outside London will welcome the possibility of any kind of BBC work being carried out in other parts of the United Kingdom, because of the potential for job creation and so on. Are you able to give more details just now as to what difference that will make to what is actually being produced? For example, I note that your technology team is mainly moving to Salford, with smaller numbers posted in a number of your other studios. Will the viewing public notice any difference in the technology stories that you carry and in the technology programmes, or are you moving the production somewhere else but with the intention of producing pretty much the same kinds of programmes?

Tim Davie: That is a fascinating question. There are two parts to the answer. One is a direct "Yes, without question." The other takes a bit more time. Let me explain what I mean by that. The money going across for scripted productions, which Charlotte's teams will push across the UK, is absolutely about representation and portrayal in those regions. One of the announcements was that we are going to look to rearrange our continuing drama offer, to make sure that one is set in a nation network and one is set in the north of England. There is no doubt that that will have a direct impact on audiences' appreciation scores and how close they feel to the BBC. In scripted, I think it is very proven.

When it comes to news output story teams, technology and presenting programmes such as "Newsnight" from Glasgow and other things, I personally am a believer that that does change the very nature of the editorial. I think 5 Live feels different because it is in Salford, not London. I think 6 Music feels different when a lot of it comes from Salford. I think you begin to change the shape of the editorial. I think you begin to change the way people refer to stories and the way they think about the UK. I think that can only be helpful, and that over time it counts.

Peter Grant: Thank you. I may try to come in later on, Chair, as I have some other questions that I want to ask, but I know that several other Members are keen to come in just now.

Chair: Thank you, Mr Grant. We are interested to hear, as we go forward, about how much the savings you are making will materialise into investment outside London. I am sure we will come back to that a little later. I must apologise to Mr Isherwood; I mis-introduced you. You are of course the chief financial officer at the BBC. I sincerely apologise. I am not sure whether I was downgrading or upgrading you, but you are not "acting"; you are the chief financial officer. Apologies for that.

- Q34 **James Wild:** Mr Davie, you talked in your opening remarks about jeopardy and the licence fee, yet the Report says that the BBC had not modelled the impact of a fundamental change to the licence fee from next April. Why were you not better prepared for these negotiations?



Tim Davie: We have only just begun our negotiations and responded to DCMS as part of the process. Within that, clearly, we have control of some elements, and there are elements that we cannot control. On the controlled elements, such as our commercial return and our cost base, we are fully across those. When it comes to the income, that process now begins with DCMS, and I think we are well prepared and are laying out a clear plan. Remember that we have some runway on this one, from a business planning point of view. We have a fully agreed budget with the BBC board for 2021-22, in some detail, so we are not staring at something that will change in the next two months. Clearly, there are significant levels of jeopardy around the licence fee, but I think we are in a reasonable position versus most of our peers and how you would see an organisation of our size.

Q35 **James Wild:** Yes. It is just odd that you had not done any of that modelling until the process had kicked off. This is going to set the licence fee through to 2027. You have been asked to assume flat cash as the baseline for your submission. Obviously, a number of my constituents—Mr Moore is one of them; he has written to the Committee—would like to see the licence fee abolished, if not cut. How likely do you think it is that there is going to be a freeze in the licence fee for that whole period?

Tim Davie: As you can tell, I will answer any question, but the likelihood of a freeze is absolutely not a question for me; it is a question for DCMS. I think we have a good, robust process, working with DCMS and exchanging information. I think there is a clear case for sustainable investment in the BBC, but that is something that we need to work with DCMS on. Clearly, we do our planning. I think it is appropriate that we have a process with DCMS whereby we respond to their requests, as you have outlined them, and we go from there.

Q36 **James Wild:** Do you accept that it is a realistic possibility, particularly given the wider climate that we are in at the moment, that a freeze is on the cards?

Tim Davie: I am not speculating on anything. I do not think that it is my job to do it. I have made the case for sustainable investment in the BBC, and that is where I am.

Q37 **James Wild:** Okay. One of the things that your announcement referred to last week was the added value of the KPMG report that you produced. Why did you wait 10 years to update the last economic impact of the BBC?

Tim Davie: I am not sure about the pause, to be totally honest with you. I take the NAO's point that it is useful to have that economic impact report, and I am glad that we have done it. Clearly, it is the right time to do it as we go into this work.

Q38 **James Wild:** Is that something that you are going to commit to do more regularly, on a three or five-year basis, rather than leaving it?

Tim Davie: I will certainly consider it. I haven't got in my head what the exact timeframe is. It is very useful for me. Quite frankly, it is a very



HOUSE OF COMMONS

useful report to show the multiplier effect of investing in the BBC and what it brings. Without being funny about it, there is no downside for me to have that report.

I think we have a very strong case in terms of the BBC's multiplier effect. That works in a number of ways. It is not just the money that we are putting into the licence fee. Look at the jobs created in Salford in the creative industries since we went up there. The creative industries are dependent on creating world-class hubs. There is absolutely no doubt about it. I speak as chair of the Creative Industries Council, and I think that we have a very compelling case in terms of this anchor investment. If you talk to small independent companies—whether that be in Northern Ireland, working on BBC Three projects, or the Scottish channel, BBC Scotland, and working on projects there—there is absolutely no doubt about it. I think we have a strong case in terms of the economic impacts of the BBC.

It is a curiously efficient use of spending because it is also very accountable. You can look at us and say, "Are we delivering for £157.50?" I am a passionate believer in the public and private ecosystem that works on the creative industries. I do not think that it is a coincidence that we have world-class creative industries; I think it is due to interventions, whether they be free museums or the BBC. We should fight to protect that. It is worth investing in it. We will clearly be making the case that we need investment to do that.

Q39 James Wild: Absolutely. Obviously, four things that will need investment are your four priorities, which you set out when you became director-general. How are you going to pay for those priorities? Also, how might they have to adapt in a context where the licence fee may well be frozen for four years?

Tim Davie: The priorities remain the same because they are the levers of value. It is really quite simple. I am honestly just focused utterly with my senior team on what delivers value to a household. I think of the four levers as different things that have different financial impacts. Impartiality clearly is at the core of the BBC. Whatever your budget is, you are absolutely focused on that. Could we do more on that in terms of investing in things like misinformation units and the reality checks? Of course we could. There are concerns, and I want to make sure—this also relates to the earlier questioning—that regional and local newsrooms have the resources to do investigative reporting. We have the resources to do that, so there are clearly things that should be invested in, and we have our plan on that.

When it comes to content, I think that is where the real action is, in terms of all this hyperinflation in the market for premium content. Charlotte and the team are having to make some tough choices. We have to decide, and I think we need investment to make sure that we have that in place.

Online is a similar story, and the commercial return just helps, which I am sure we will get on to. All those things are about choices because the truth



HOUSE OF COMMONS

about the BBC is that we are at best a mid-scale revenue player, in global terms. We are very big in the UK, but let us not forget that an enterprise of £5 billion, weirdly, is not that big when you look at the players to the east and west of us. I think we have to be very focused. There is no scenario in which we do not have to make quite tough choices, even if we are invested in, to make sure that we are focused on British content, where we really make a difference. We cannot just keep pushing out.

As a final point, one of the things that I have said is that on the content side we will probably have to make less but ensure that the impact is high. We are in a demanding situation in terms of the global market and what we need to do.

Q40 **James Wild:** Okay. We will come to a few of those areas very shortly. Mr Grant referred to the £700 million of extra investment outside of London. Obviously you do not know what the settlement will be for that period, but is that £700 million guaranteed regardless of what settlement you get?

Tim Davie: That was literally, just mathematically, if you took our current budget, at the 50% or 60% level for television, and 40% or 50% for radio, if you follow me, just playing that across the year. Welcome to the situation here. Everything is subject to a licence fee settlement, but that is a reasonable number based on our current financing.

Q41 **James Wild:** It is an interesting pledge to make when you do not know what the settlement will be, but maybe that is why you made it.

Tim Davie: That is not why I made it. I made it because if you look at drama lead times, and you want to change and make sure we are delivering in 2024-25, you have got to get motoring. That is why.

Q42 **James Wild:** Okay. In your discussions with DCMS, are you looking to increase the borrowing limits that have been in place since, I think, 2003, whether for the PSB side or the commercial side? Is that something that is holding you back from increasing revenues, particularly commercial revenues?

Tim Davie: Indeed. Glyn, do you want to take that?

Glyn Isherwood: Sure. On the commercial side, we currently have an operational borrowing cap of £350 million, and on the public service side it is £200 million. Those were set many years ago—I think in 2003—so they are slightly out of date and do need revisiting. Although we are comfortable with the operational borrowing on the public service side, on the commercial side, to generate further growth, more access to investment capital would be really welcome to compete with the really big players that we have. Most organisations do not operate with a cap, particularly if they are in the commercial space. Their natural cap is how much they are able to raise in the market, whether it is through banks. So £350 million is well supported. We could raise more in the market if the cap were lifted. Now is a good time to revisit that, and we should do that through the process.



Q43 **James Wild:** What number are you pitching for?

Glyn Isherwood: The profit level across the commercial organisation pre-pandemic was around £180 million to £190 million. That could support a borrowing level of some £500 million, so one and a half times the current cap we have. To the extent that we grow further, there is potential for having higher levels of borrowing and investment, but I think that is for discussion when we set out and discuss our plans with DCMS.

Q44 **James Wild:** Thank you. I want to come on to content. The Report talks about the high levels of inflation in the entertainment sector and industry. Given that and the decline in the licence fee, how sustainable is your current spend on content? Do you want to take that, Mr Davie?

Tim Davie: I can. It is fairly straightforward because our budget is not that complex. If you look at the £3.7 billion-odd, we have spent a vast amount of time trying to reduce our overheads to an absolute minimum level—I know we had work to do. If you look at the NAO Report, it mentions the fact that we are now into the top 25% in terms of comparator organisations. We have now got our overheads that are not being spent on content and distribution to under 5%. So it is right that you are fairly straight through now on to content and distribution spend. From a business standpoint, there are two variables. There is what you get from the licence fee and the value of that, and then your commercial contribution, which I keep saying we will get on to.

James Wild: We are coming to that next, don't worry.

Tim Davie: Okay, great. That returns number, which we can debate in itself, is the investment that BBC Studios makes into content, as well as the dividend, so you have got those two component parts. You have got the commercial side. It is very straightforward. Whatever we get on the licence fee added to the commercial—we are more in control of the commercial side, so you will see, hopefully, our plans in terms of increases there, which again we might come on to. You just add those two up. If you think the biggest stress for us is inflation in the content market and what we can actually afford, the price of premium drama, like for like, is up about 9%. It is really, really inflating in the global market—the one thing you want to be at the moment is a scriptwriter or a quality executive producer. I am not being facetious.

The question is how much volume and how much scale we can deliver for our money. I am confident, because if you look at the value attributed to the licence fee from most households, I think we have a very good story. We have people that we must secure and do some work on—to the earlier discussion—but overall we are holding up pretty well.

My final point is that I would rather make slightly less and ensure the quality than spread ourselves too thin. As I said in my opening speech, we are going to look everywhere and say, "What would it take if we made 20% less but made a real impact?" I think we will have to make some of those choices, regardless of how good the licence fee settlement is.



Q45 James Wild: You have mentioned a number of times making choices and wanting to focus on the really high-quality, distinctive content. When might the public—the licence fee payer—see those plans? Are you making 80% of your content hours, rather than the full 100% that you are at the moment?

Tim Davie: I do not think the licence fee value can be described just by volume. If I gave you two or three dramas a week that are unmissable and a couple of good documentaries—you know what that connection with a radio station is like—it is not a case of simply stack it up and do as much as we can. The universal brief means that you have to have a broad offer. You have to be broad, but you don't have to make everything in every space. The BBC is clear about that under my leadership with Charlotte and everyone. We do not want to be doing things that are just the same as the market; we want to be distinctive.

Q46 James Wild: That was my point about not doing everything. When will the licence fee payer see what you are not going to do so that you can focus on those three or four shows a week? When will people know what the other stuff is that you are going to stop doing?

Tim Davie: Over the last few years, aside from the efficiencies we have been making within our own organisation in the back office—all the various things—we have taken down our volume levels in factual programming and have focused on the big documentaries. I could name a few—"Once Upon a Time in Iraq" and those other landmark documentaries. This is a balance, isn't it? We don't want to move away from the specialist documentaries and the wonders of BBC Four, but sometimes we just cannot do everything. We have cut down some of that volume, and we will continue to. There is no scenario in which you are not getting a very fulsome offer for your £157.50, just so we are clear. I don't think we are going to go skinny, but I do think we could be more focused.

Q47 James Wild: Obviously, public service content does not have to be produced only by public service broadcasters. If you have got Netflix or others who move in and start producing wonderful natural history or drama programmes, do you see it as integral for the BBC to step back and say, "This is being provided by the market. If we don't need the licence fee for that, we can spend it on something else," or, "If we don't need that much licence fee, we will let people keep it in their pocket"?

Tim Davie: I think we have to keep setting the standard. I don't think that a BBC that is purely driven by market failure is a good model. I think that would not work and we would soon unravel in terms of the value that we provide to the UK creative economy. I come back to that point I made: we make over 20,000 hours of UK content; the US streamers made over 200 hours last year. We are doing completely different things. Of course, there will be the occasional landmark natural history documentary or dramas, but we are talking about regional news, local radio stations, orchestral provision and learning provision. We are completely asymmetric to Netflix in so much of what we do, and we must ensure that we remain distinctive—I agree with you.



HOUSE OF COMMONS

My view is: how do you take natural history to the next level? We set the standard in natural history around the world. I have sold natural history around the world, and it is something to be very proud of. I think we continue with that advantage. Frankly, I do not see us stepping back in those areas, because I think we can be world beating.

Q48 James Wild: I want to come to the commercial income. At the moment, it is a pretty paltry 6%. How are you going to grow that share? You mentioned the Studios announcement of a 30% increase over a period. How will you drive that further forward? What do you think is a healthy percentage that you should be aiming for?

Tim Davie: Although you say it is paltry, a £1.4 billion subsidiary is something that is admired—allow me two minutes of defensiveness and then I will move on to the main answer. A £1.4 billion revenue subsidiary delivering competitive EBITDA margins of 13% is not to be sniffed at. There is not a public service broadcaster around the world, including all the major territories, who would not bite our arm off for a commercial subsidiary of that size.

Although it is 6% of the licence fee, it is highly material in certain genres, such as drama and natural history. If you take our natural history landmarks, 70% to 80% of those are funded by co-productions. Again, you are not going to get a commercial model that funds all of our news provision and some of our local radio provision, so we have got to be careful here. There is only so far we can go.

Having said that, I think we have set out that we should be winning share and growing ahead of the market, and there is further potential. I do not quite know where the ceiling is on that—we need to do a bit more work—but we have a very specific base plan to grow returns by 30% over the next five years. Make no mistake, I would like to be going further, and I think some of the conversations we have had around the levels of borrowing could be material. I think there is also something that the Committee is interested in: the shape of the cash that comes from that. I clearly think that we have got potential in direct-to-consumer services and potentially in premium services in places like the States. We began it with a successful service with ITV in BritBox, and we can definitely expand on that, but that does not necessarily generate cash in the next five years. Look at Netflix's cash profile—we could not cope with that.

So I think there are some choices in terms of how far we go, but, to your point, we have committed to 30% growth and I think we can go a lot further than that. But I think we also have to be realistic: this is not going to replace the licence fee in the medium term. At that EBITDA level, you would need a business 10 times this size because you have got commercial economics there, not licence fee economics.

Q49 James Wild: If you were sat in your old job and you had been asked to produce this return, which the NAO tells me is a 4.5% annualised growth rate, would you be thinking, "Oh, they could have pressed me for a bit more. I'd want to be more ambitious than that"?



HOUSE OF COMMONS

Tim Davie: I would be thinking, "That's a decent base plan," because it beats the market. The market is not going to be growing at 4.5%, so I would be beating it as a base plan. But I would definitely be sitting there thinking, "How could I go further?" No doubt. Of course. That is what the commercial subsidiary should be doing.

Q50 **James Wild:** You don't have a percentage you would like to see that 6% go to longer term, maybe over the period of the next licence fee.

Tim Davie: At the moment, I will stick with the 1.5. You see, the percentage is dependent on the other bit of the income, isn't it, in terms of what we look at? I am not being opaque; I would like to see a meaningful increase, but I do not know what that is until we get to the licence fee settlement and then regroup with regards to some of the factors we have talked about. I am happy to come back and talk about that, because I think we can really get into that in some detail. But what it does not do is materially change the discussion about the licence fee in the short term.

Q51 **James Wild:** Sure. How important is the British part of the BBC in maximising that content overseas?

Tim Davie: Utterly essential.

Q52 **James Wild:** I wanted to touch on the discussion about flags last week. In your annual report last year—268 pages—do you know how many Union flags featured in any of the graphics in those glossy pages?

Tim Davie: Of all the briefings that I got for this meeting, that was not one of them, I'm afraid.

Q53 **James Wild:** Would you care to take a guess?

Tim Davie: I have no idea.

Q54 **James Wild:** It was zero. Do you find that surprising?

Tim Davie: No. I think that is a strange metric. One of things I looked at when I came into the building this morning was a Union Jack flying proudly on Broadcasting House, as it does on many days of the year. I have travelled around the world championing the UK. I sit on the private sector council for the GREAT campaign. I don't think there is any problem with the BBC in terms of championing the UK and Britain abroad. We are incredibly proud of it. If you wander up Regent Street today, have a look at the Union Jack flying proudly on top of the BBC.

Q55 **James Wild:** It is always good to see the Union Jack flying, but in a 268-page report about the BBC—the British Broadcasting Corporation—my constituents would probably expect to see more than one flag appearing.

Tim Davie: With respect, I just don't see it as a metric.

Q56 **James Wild:** You may not, but licence fee payers may do. The Union Jack features prominently in the GREAT campaign that you mention. In the report you published last week, "The BBC Across the UK," how many images of the Union Jack were in that?



HOUSE OF COMMONS

Tim Davie: I could hazard a guess based on where the question is going, but I haven't looked.

Q57 **James Wild:** Again, it was none. In the annual report this year, some imagery around the Union flag may be welcomed by some of my constituents.

Tim Davie: To emphasise, we are very proud of the BBC being British. We have been out there selling Britain and the UK creative industries abroad for many years, generating strong exports on the back of that. I am fiercely proud of that. We have the Union Jack flying proudly on top of the building; there is no problem with that at all. I think that is absolutely what we should be doing. We should all be incredibly proud of the UK creative industries. It is not just about the flag, let's face it. It's about the UK and us getting out there, building business for the country.

Q58 **James Wild:** Yes, rightly so. That is why last week's episode was so disappointing, and the people involved have apologised for their reactions. We can move on from that now, but I think it is important to acknowledge the issues about the annual report, among other points.

My final question in this section is around the impact of covid. You initially forecast that there would be a drop-off in the licence fee, but that hasn't materialised. Could you give us an updated position on the impact in terms of covid, Mr Isherwood?

Glyn Isherwood: Of course. In the first lockdown we had to reset the budget across the BBC quite significantly, because we knew that we weren't immune from the pressures of covid, operationally or financially. At the time, we were finding it quite difficult to collect the licence fee because our outsourced service provider, Capita, had to set up a new operation, with a lot of people working remotely. People weren't able to get out and about to pay the licence at PayPoints.

In the first quarter our licence fee collection was down 3% to 4%. We were concerned that if lockdown continued, that would continue throughout the rest of the year. I am happy to report that that hasn't happened, and it has come back strong in the last part of the year.

As well as that, we have had other impacts on our financial position because of covid. The commercial area, which you just talked about, has been down largely because of impact on the UK TV advertising market. That is down about 10% in 2020, which, again, is not as bad as was anticipated. We have also incurred extra costs through the period, through keeping our staff working in a covid-safe environment and through additional costs on production, because of disruption costs, resetting and working in a different way. That has had an impact of £60 million.

The decision we took to delay the collection of licences for the over-75s for two months, which was absolutely the right decision at the time, also cost the BBC £70 million. In total terms, our financial impact from covid was more than £200 million. We have balanced that through a savings programme of £125 million that we put in place right at the beginning, but



HOUSE OF COMMONS

we have been helped by some of the events that were clearly cancelled because of covid—that is how we have broadly sought to balance the books—but some things have shifted, such as the Olympics and [*Inaudible*], which have both shifted to next year. That is not a saving; that is just a movement of an event from one year to the next.

Q59 **James Wild:** Thank you. To bounce back some points, BritBox US has, I think, been going for several years now. What is that looking like in terms of subscribers? How do you want to see growth in that, and in the revenues and the EBITDA generated? Is there much room for expansion and growth in that market?

Glyn Isherwood: It has been very successful. It is a partnership with ITV, curating the best of British content overseas. Subscriptions—Tim might be checking them—I think are approaching 2 million, in terms of numbers of subscribers in the US. It is already profitable, so, while it is a long-term play, the profits are being used to fund roll-out in new territories. We are really confident that it will continue to grow.

Q60 **James Wild:** What is your ambition for the UK version? I was going to say “variant”, but “version” might be a better word.

Glyn Isherwood: The UK one is, again, a joint venture with ITV. It is mostly being run with them, but we have a small equity stake in the business. It has reached half a million subscribers so far, which ITV published last week.

Q61 **James Wild:** What is your ambition for that over the next five years, in terms of users?

Glyn Isherwood: I think it comes down to agreeing with ITV how much unique content goes into it, and the continued supply of archive content to the proposition. I know that ITV, in particular, are looking to increase that substantially. They are not disclosing numbers at the moment, but they are looking for a healthy level of growth, because these subscription services are growing quite rapidly.

Q62 **James Wild:** You mentioned the archive. What proportion of the archive has been released in various forms? To what extent is more of it ready to be released, if you see what I mean—if you need to digitise it, or whatever? Where do you see the strategy going forward?

Glyn Isherwood: There has always been a healthy market in the UK for secondary programming that was originally paid for and funded by the licence fee, to give access to archive programming. That can be done either through subscription services like BritBox or through our own commercial subsidiary, UKTV, which is an advertising-run business.

As far as possible, we seek to digitise all our archive. Where it is uniquely used and not in digital form, we will digitise it so that it can be used. We are most of the way through that now. We can see strong demand for heritage BBC programming played out on a number of platforms.



Tim Davie: If I may, this is really interesting. It is such a good question, because we have wrestled with how far we can go with it. The truth is that it is very dependent on genre. We did a huge deal with Discovery, with the natural history archive, which you can see is searchable and interesting.

To be very transparent, there is a slight problem in that most of the archive has not been monetised, because it is live or factual programming. We have challenges in terms of what the right monetisation model for such programming is. We have to keep considering that, because digital might give us some opportunities.

When it comes to older content that is monetisable, we have done a pretty good job with UKTV. Remember that we have £0.5 billion in sales around the world, based on our content, at a decent margin. The problem, by the way, if we went to a global iPlayer or anything, would be that we have to give up and go cold turkey on that revenue. That is the balance. We evaluate it constantly.

I am very pleased with the way that BritBox has gone, by the way. This is hard yards in the US, very hard. We cannot give away the numbers, because we are in a joint venture and it is commercial, but let us just say that the economics are good—very good. Heading towards 2 million subscribers is really good progress on which we can build.

I have said publicly that I am interested in the potential for further premium products in the States, like news and other things, where we can look at direct-to-consumer and use digital to get more revenue. I think that that remains an exciting area of opportunity for the commercial service, and one in which we can invest capital and get other partners involved. We did that in linear television with AMC Networks; I think that there is some real potential there.

- Q63 **James Wild:** You obviously have a very good commercial pedigree and have been successful. Do you think that that is wide enough across the BBC, in terms of driving forward the commercial side, or do you need to do more to bring in commercial skills?

Tim Davie: We need to keep going, of course. I have just hired a chief operating officer who ran a big chunk of Centrica, who is driven and who understands the business world. I think that we are much more externally driven than we have been historically. The challenge for us in terms of talent and leadership is that you have to be able to blend editorial skills with commercial nous and grit—that is the balance that I am trying to get. From a UK perspective, bluntly put, I think we need to develop more executives who have both sides.

That is what the BBC can do, but you are right that we are in the midst of significant cultural change. There are not a lot of people on my top team who I do not believe are externally focused or who could not go into the market and be significantly in demand. I am in danger of being a long-in-the-tooth BBC executive after 15-odd years, but we definitely want people—I hire on this—who get the outside world, really understand the



HOUSE OF COMMONS

operational grip needed and have the detail of economics to get a commercial return alongside the public return. So yes, it is absolutely a good challenge, but we are on our way.

Q64 **James Wild:** Mr Isherwood, did the BBC furlough any staff during the pandemic?

Glyn Isherwood: No. On one site on Studios, they had an application for furlough, but they then returned and did not access it. On the public service side, we ran a mirror scheme for a number of freelancers, to offer strong support for many of the people who had worked quite closely with the BBC and had pre-booked scheduled working arrangements for the BBC.

Tim Davie: On Studios, we applied but, bluntly, because the team have done such a good job of mitigating covid to deliver a reasonable performance, we did not need it.

Q65 **Chair:** I think we have got the message. Mr Isherwood, you talked about having a shadow scheme. Was that funded by the BBC for those freelancers?

Glyn Isherwood: Yes, exactly. I think it was appropriate for those people we had scheduled—

Chair: Just to be clear, was it just people who were scheduled? For example, would a freelance make-up artist on a news programme have been furloughed?

Glyn Isherwood: No. For most people, we continued working across many areas in lockdown, but there were people who had pre-booked work that had to be ceased. Either we honoured the contract, or, for people who had regular work normally for a three-month period, we operated a scheme where we gave them a contribution in line with a furloughed payment.

Q66 **Chair:** So you mirrored furlough but funded it out of your own funds. Can you tell us what that cost?

Glyn Isherwood: It was just above £1 million in total.

Q67 **Chair:** We have had a lot of talk about the bigger picture, but before I go back to Mr Wild, who will probe further on some of the finances, could Mr Davie or Mr Isherwood drill down and give us some specifics? You have a big savings target of £1 billion a year, you have an ambitious plan to move a lot of work out of London and you have seen your payroll increase by 9% over the last five years or so, so you have a lot going on. Can you give some specific examples of what you are not going to do in order to make those savings? We have heard a lot about the positives of what you are going to do, but where are the cuts going to hit?

Tim Davie: That is a good question. I will hand over to Mr Isherwood in a minute, but you will note that I have made it public that by the end of the year we will be 900 people smaller as a public service, which is the first time in a number of years that the headcount will be significantly smaller



HOUSE OF COMMONS

in the BBC. So a direct answer to your question is “We are going to have a lot fewer people,” and I think we needed to do that.

Glyn, you may want to talk about other things we are doing, in terms of driving out cost. By the way, not all the things we talked about are incremental—they are about reshaping the money—but your challenge is right.

Q68 Chair: Exactly. We need some specifics, please. That would be very helpful.

Tim Davie: I have given you the numbers for the headcount, which is hard. Glyn, do you want to add anything?

Glyn Isherwood: Yes, we have an existing savings programme that goes out to March '22, and we have made good progress on that, so by the end of this year we will be more than £800 million through that. We are continuing to make the headcount savings, so the numbers that Mr Davie referred to will save us approaching £60 million a year, because although our headcount reduces by more than 900 this year, there is still a tail end of the high-level reduction through the voluntary redundancy programme that we have had in place all year round. We have also had a recruitment freeze, so our headcount will come down again next year.

Through our technology investment, we drive a lot of savings. We are constantly looking for new technologies. We have restacked how we operate our technology, which has driven a lot of savings and simplified those contracts so they are more flexible in how they operate. They are not just standard costs. We have also put systems in place that allow us to operate more flexibly as a business.

Through the operation of covid, we have learned quite a lot. Most of the time, we have operated with less than 15% of our staff in offices, so we are absolutely embracing agile and what I guess is now called blended working. We think that gives us an opportunity, and it is something that staff are keen to explore. It gives us an opportunity potentially to use our offices more efficiently, and perhaps have fewer of them in the future, like many organisations. Those are a few of the specifics, but there are more.

Q69 Chair: On the headcount number, how many are journalists and how many are managers, roughly? Can you give us a breakdown?

Glyn Isherwood: Of the number that Mr Davie referred to, about half are from across the nations and regions. A lot of those are what we call support functions—back office functions—but there are a number of people who are frontline. Across our news, there are about 150, and then the remainder are support functions, whether that is through digital and technology or corporate overhead areas. It is true that because we made such strong progress in our savings—we have top quartile overheads, in comparison with other media organisations—we are having increasingly to look at savings in what would traditionally be called front office, journalistic skills and those kinds of areas, because we are cutting a bit to the bone on the back office areas.



HOUSE OF COMMONS

Q70 **Chair:** Okay, but you are also moving a substantial amount of your operations outside London. Are you going to rehire people? How do you cut your cloth accordingly? I am just a bit puzzled about how you match the two, Mr Isherwood.

Glyn Isherwood: We have already put in place a significant change. We now have a commitment to have some of our radio services out of London, and clearly some of the TV production will be done in other places. In some cases, we will look for further efficiencies in how we do that. We are configuring news at the moment to work on a story-led basis so that we get the same level of news, but more productively created. Going further across multiple platforms gives us further efficiency to go for. Inevitably, when a third of our cost base is people, it is quite difficult to make savings without impacting on the number of people we engage across the organisation.

Tim Davie: Very specifically, Chair, the changes are not inflationary in that regard. They have some temporary costs, but in network news, we are looking at 210 roles moving outside the M25. Now, that is not immediate; you do it over the next couple of years, and you work that through. We have got a number of challenges in that, but it is fairly standard relocation work that any organisation would undertake. We are not talking about hiring incrementally in many of the changes we are talking about.

There are a couple of areas where we will continue to look to get efficiencies more generally, but they are very contained. We have looked at how we can do more digital journalists in local, and at apprenticeships. Those are the areas where we need to look at our overall financing over the next five years and see how we go. Most of this is standard relocation. We have a degree of churn within the organisation anyway. With sensible planning, I think this is well within the bounds of normal business.

Chair: Okay. I think we are just puzzling how it matches up, but I am going to go back to Mr Wild, who is good at the maths.

Q71 **James Wild:** I will hopefully get a bit more light. The Report talks about the savings target increasing to £1 billion by the end of this year. Mr Isherwood, did you say that you were at £800 million, or have I misunderstood your answer?

Glyn Isherwood: At the beginning of the Charter, we set out a target of £800 million by March '22. For a number of reasons, we have had to increase that target over time. At the end of the last financial year, we delivered £618 million. I am confident that we are going to deliver at least another £200 million this year, so we will be over £800 million.

Q72 **James Wild:** Okay. How clear is your line of sight on getting the final £200 million? Obviously, efficiency targets get harder as you get nearer to the target. We have had the MOD in here. They have wedges against things, but they do not have any specific plans. Do you have specific plans to deliver that £200 million?



Glyn Isherwood: This year, because of the addition of covid savings, where we have had to move very quickly, we have good line of sight on next year because we have just been through a detailed budget process. Actually, a lot of the savings are run-rate savings from actions taken this year. While we have reduced the headcount this year by 900—more than 900 people will have exited the organisation by the end of March—most of the saving of that counts towards next year's total.

Q73 **James Wild:** Okay, but are you continually looking for further efficiencies?

Glyn Isherwood: We are relentless in looking for further production efficiencies. Actually, part of the work that we have done and presented to DCMS out of the Charter is to continue to have a level of efficiency built in going through that period as well, so out to '27. We have had a lot of success. We have been delivering 2%-plus annual efficiency each year. I think a Government benchmark from areas that we have looked out is broadly 1%. We would like to continue to beat that 1% as we go out of the term of the Charter.

Q74 **James Wild:** Mr Davie made the point, and the Report makes the point, that your back office running cost is a fairly small proportion of the budget, so is there a danger that the content budget has to be looked at for driving efficiencies when you are up against the inflationary costs that you have described in terms of some of the types of content?

Tim Davie: There is a very real danger, absolutely. Our budget is utterly transparent. To Glyn's point, we have pretty clean sights to March '22. The BBC gets understandable pressure on this, but to have delivered over 2% through the whole period is pretty strong work.

I think you are seeing that degrade slightly to 1.6% in the last years because of the enormity of what we are trying to do. It goes exactly to your point, which is that I then begin to have to make quite tough choices around content. I would never want to be in an organisation that is not looking for a decent level of efficiency. As has been said earlier, we are seeing comparable benchmarks commercially and within Government of getting to about 1%. I would like to keep seeing us deliver that kind of level.

I think you can always find that—just keep pushing, pushing, pushing—but once you get to a certain level the BBC budget is very clear that you begin to impact the newsroom and the content. It is inescapable. That is not where I want to be, but that is where our economics are.

Q75 **James Wild:** How do you decide the trade-offs between your point about universality of content and giving something for everyone and distinctive content that may have a more discrete audience? Where do you fall on that balance?

Tim Davie: I am smiling because that is the joy of this job, and it is what makes it unique versus a commercial job where you have one metric, which is profit, so the decision making becomes quite clear. Welcome to



HOUSE OF COMMONS

the joys of the tightrope that we walk. The metric that I am trying to produce with the top team is audience value in the round. Something might be small, but it has to have a deep connection with its audience. Some of the radio services are not the biggest, but they have a deep connection and they really mean something to someone in terms of the value of their licence fee. I think that is going to be our key metric.

I say this with a slightly heavy heart, but it is not enough to say, "That is a good piece of work," "That fits," or "That has merit." We will have to make choices so that a piece of work not only has merit, but delivers value to audiences and delivers on its targets. I am not trying to commercialise the BBC—that is a different metric—but your question is extremely well put.

The truth is that we have to land as much as possible in the centre of the Venn diagram between the two positions. If you take "Blue Planet" or Bitesize, the obvious examples that a director-general would give you, they are the things that do both. I want more in the middle ground, where you have things that are of some scale but are also delivering what is clearly special and what no one else would do. That is the game: you are trying to maximise the percentage of things to get your return, but it is an extremely welcome question.

Q76 Mr Holden: On your point about redundancies, Mr Davie, paragraph 2.9 of the Report says that "significant numbers" of staff did "express an interest in voluntary redundancy". Were there more than you needed expressing interest in leaving the organisation?

Tim Davie: Yes. We had 2,189 received and 1,034 accepted, of which 798 were in '20-21 and 236 will be in '21-22, so we had to make some choices.

Q77 Mr Holden: So more than twice the number of people applied for voluntary redundancy than actually took it.

Tim Davie: They put in requests, as I understand it, to see what their options would be and see what it would look like, so I would not take it as everyone wanting to just walk out the door. The figures are for applications that were then discussed.

Q78 Mr Holden: Mr Isherwood, there is a lot of concern about where around the country this headcount is leaving the organisation from. Where are these positions leaving from? Was there a geographical distribution?

Glyn Isherwood: To add to what Mr Davie was saying, the reason why the number of applications is higher than the number accepted is that we had to work through in real detail around where we could take them. What we did not want to do was take people's applications for redundancy and put extra pressure and stress on teams, so we had to work quite closely with teams around how work can be redistributed and what we might stop in doing that. That resulted in the 1,000-plus that we were able to accept. Some people, although they might have wanted to leave the organisation, were not allowed to accept redundancy.



HOUSE OF COMMONS

I stated earlier the broad breakdown of where those roles came from. More than 400 came from nations and regions, which was fulfilling an existing programme of change. I think we need to reflect that because we have taken so much of the headcount and numbers out of the corporate overhead over a number of years, it was inevitable that some of the savings would have to come from other areas, including news and some of the functions across nations and regions, but it is in no higher proportion than anything else that we have taken out in other parts of the organisation. Because those are people-heavy parts of the organisation, understandably their savings are reflected in a reduction in headcount; that is unavoidable.

Q79 Mr Holden: One of the most valuable things to my constituents is certainly our regional news coverage, because it provides that proper link—it is probably the only real output that we see from the north-east.

I am interested in your broader switch from an issues-based news agenda to “Follow the story.” If you are doing that, surely it will be across nations and regions. Are you not in danger of having to fire and rehire people in the organisation in order to meet the different news cycle that you are now pushing towards?

Tim Davie: It is a fair challenge. Forgive the corporate word, but I think it is more about reshaping our resources, as opposed to taking enormous numbers of new people. On the story teams, there is not a newsroom in the world that is not going through enormous change and revolution. It is traumatic—talk to any of the newspapers about what they are going through, or any media company. What we have decided to do—and this is sensitive—is because we have all these teams that are working on television and online. We are often criticised, to be fair, for having too many reporters going through the same story and all that, so the story team is designed to pull that together while allowing the programmes to still have their different flavours, whether that be “PM” or the six.

Q80 Mr Holden: I understand, Mr Davie, but in answer to my question, you are switching to wanting more digital content from the regions—that was one thing that you mentioned to Mr Wild.

Tim Davie: Yes.

Q81 Mr Holden: Are you not going to be literally firing some people under voluntary redundancy from one part of the organisation, only to potentially have to rehire them to do this new digital content that you are pushing for?

Tim Davie: I am not being funny, but we are not firing anyone if they are taking voluntary redundancy.

Q82 Mr Holden: No, effectively you are not—you are actually paying them a lot more because you have given them voluntary redundancy. In answer to my question, which is about where you are deploying resources, is there a danger that the BBC is going to be losing people in one area with voluntary redundancy packages just to rehire them in a separate area down the line?

Chair: I think Mr Isherwood is shaking his head.

Tim Davie: I think the risks are low in that regard, although I take the point, because the journalists we are trying to bring in are the digital journalists with the digital skills and the apprenticeships; I think that they are a different cadre of individuals. I also think that the BBC needs to be in a position where it is training and bringing people in skills-wise. That is where the opportunity lies, not in rehiring people who have wanted to leave the organisation, put bluntly.

Mr Holden: Fair enough, Mr Davie. Mr Isherwood?

Glyn Isherwood: Because we have driven the right level of efficiency from our nations and regions and taken voluntary redundancy, Tim Davie is right: we are hiring a different set of skills in different parts, so we can have specialist news teams in different parts of the country, running very specific areas of the news agenda. That is different from more generic local journalists.

Q83 **Mr Holden:** But if you are story-focused, how can you be more specific? That does not seem to make sense. If you are moving from content that is following an issue to following a story, surely the general story is what you are after.

Glyn Isherwood: We are going to have specialist news teams: for example, climate change and environment will be based in Cardiff and technology will be based in Glasgow. Those are not specifically regional stories; those are national stories, with a co-ordinated news team who run a particular news agenda from that locality. Those will be new people—different people from those who have taken voluntary redundancy, who worked on local news stories. It is an opportunity to reshape and refresh the team and bring in different news stories.

Mr Holden: Thanks, Mr Isherwood. I remain slightly unconvinced by that, but back to you, Chair.

Chair: We are certainly going to keep a close eye on the numbers, given the cost of redundancies and the people who are going.

Q84 **James Wild:** The Report talks about a couple of projects where the costs have been significantly above the budgeted figure, namely the “EastEnders” set and the campaign management system for the licence fee, which you spoke about earlier, Mr Isherwood. What changes have you made to governance to prevent similar cost growth from happening in other projects?

Glyn Isherwood: It is worth putting this into context at the very start. The NAO rightly points out a couple of projects that have been more challenging.

First, we take on very challenging projects because we want to move the agenda of the BBC forward. Since 2012, we have done 29 of the large-scale projects on what we call our critical project list. On average, they



HOUSE OF COMMONS

have been 9% below budget and have delivered £1.28 billion of benefit, with a benefit-cost ratio of £2.18 to every £1 we have spent. We have had a large majority of successful projects, but we have had challenges on a few of them, as the NAO has pointed out.

Each project now has an executive champion, a project sponsor and a programme director. We have set up regular assurance programmes, and our project management office now has representation on each of the projects to make sure that we have continual feedback to the board. Each month, the BBC board receives a short update on the projects that are currently in train. The oversight and responsibility have increased quite significantly over the last few years. We are a learning organisation, and we continue to make improvements. Are we happy that we have had to write off some costs in these projects? Of course we are not. We want to do better, and we strive to do that. There is good, strong oversight by the audit and risk committee. In terms of E20 and the "EastEnders" set, we wrote to the Committee in October, as we now do annually, to give you a regular update on how that is progressing.

Q85 James Wild: Where are we in terms of the "EastEnders" project and expected costs and completion date?

Glyn Isherwood: The total costs are on the budget, which was reset a number of years ago. It is in two parts. There is the front lot, which is by far and away the largest part, and that is on track to complete this year and will be handed back over to the production team. For the smaller bit—it is called the back lot—which will be built on the existing set where "EastEnders" is at the moment, we have a concept design agreed. Sensibly, we paused the build, because we wanted budget certainty on the building of the front lot, which we have done, but we also did not want to go through a tender process at a time when there are a lot of challenges around launching build projects. We have paused that, but as soon that restarts, we will have a completion or finish date for that. We are absolutely committed to keeping this within the budget that we have.

Q86 James Wild: Okay, this will probably be the final one from me in this section. In terms of the wider portfolio of projects, which are the two that give you the most concern? Which ones are you worried about?

Glyn Isherwood: We have to think quite carefully just now, having set out our plans across the UK, about how we ensure that we deliver on those plans and really establish the benefit for audiences across the UK. Having had the commitment and the announcements so far, we are now in the foothills of thinking about the governance around how we deliver those things. That is one thing I would call out.

Some of the areas around technology projects are more and more difficult. We have to take those on. As we rethink the future, we are going to have to draw more on technology. Such areas are notoriously complex, as was demonstrated with the campaign management system.

Q87 James Wild: Is there a specific project in that space that you are thinking of?



Glyn Isherwood: We are looking at a number of areas around enterprise systems. We have an existing SAP system, and at some point we will have to take on the challenge of upgrading and renewing that. That is potentially a significant change, because we want to access the benefits of running a much more refined enterprise management system, and that does not come without its challenges.

James Wild: Absolutely.

Q88 **Sir Geoffrey Clifton-Brown:** Good afternoon, Mr Davie. Picking up on Mr Wild's point about governance, we have talked this afternoon quite a bit about the mid-term licence review, but we have not talked at all about the Ofcom review. How do you know that the changes you are proposing are going to be compatible with what Ofcom might require you to do?

Tim Davie: Again, we are responding to what is set out in the Charter as our purposes and guidelines. The conversation specifically with regard to Ofcom is then about whether we feel that any of our proposals—obviously they will have to look at all our proposals, whether that is BBC Three or any of the other things they wish to look at a regulator. In broad terms, the last annual report and discussions with Ofcom involved an early discussion about how we ensure that we are delivering to young audiences. I think that is absolutely central to our plans and what we are doing, so I am hoping that that responds to the Ofcom challenge.

The other thing is that I think we are considering appropriately the environment in which we exist and ensuring that what we do is highly distinctive and different from where the market is going and that we are doing that in our own way. I cannot answer for Ofcom, but I cannot see anything in our plans that is not in line with where the BBC should be going and what it needs to do to remain distinctive in the market. You may have a different view, but that is where I am.

Q89 **Sir Geoffrey Clifton-Brown:** Have you had any informal discussions with Ofcom to know where it is likely to come out in its review, and to ensure that the significant changes that you have announced this week will be compatible?

Tim Davie: Most of what we have been talking about this week, which is only one part of what we are doing, is making sure that our supply base is sitting around the UK. We have got very good portrayal and we have got current money. I understand the Committee's concern about whether it is new money, but I repeat: this is how we would spend current budgets to make sure that we are driving audience value on portrayal and representation.

Clearly, we have a significant number of quotas for genre and channel licences, but unless I am missing something, what we are talking about sits alongside the Ofcom regime. There are certain things we have announced in recent weeks, such as BBC Three on linear, which Ofcom will have to take a look at, but we are not talking about expansion of scope in anything we have discussed, so I hope that we can have a constructive and good dialogue with Ofcom on that.



There is a separate thing—the PSB reviews, where, to take your point, we are having discussions with Ofcom and we input around topics like the prominence of public service broadcasting, which are grade-one issues. Where we go in terms of what prominence we give to public service broadcasting in future, how we support platforms—we have had Freeview and Freesat in the past—what type of platforms we are going to have, what kind of partnerships among the public service broadcasters: these are the things that are really important to the ecology of the UK media market. That is where I think Ofcom will be very helpful in setting the right regulatory framework for those things.

Q90 Sir Geoffrey Clifton-Brown: Thank you very much for that full answer. May I ask you a question, Mr Isherwood, just to make sure that you have got a joined-up policy? In the changes you have announced this week, you will need to relocate quite a lot of real estate. In your real estate portfolio, you have done quite a lot of sales and leasebacks—complicated deals—recently. Will you find yourselves in a position where you have sold off the ownership of a property, but still rent it back on a lease, and then need to relocate? Is the policy on property joined up?

Glyn Isherwood: We have a number of legacy deals that were put in place some time ago around leaseback arrangements. Those exist on a couple of properties in London and in Pacific Quay in Scotland. The most significant one is New Broadcasting House, which is BBC HQ. We have no plans to exit that. Indeed, we have a very long-term lease on that building. That is where the large investment around our news operation has been made and it has that technology resilience. I do not think we will find ourselves in the situation you describe, but where we have excess property, we will seek to sublet that where we can.

Sir Geoffrey Clifton-Brown: Thank you. I will leave it there for now, Chair.

Chair: Thank you for now, Sir Geoffrey. Back to Gareth Bacon.

Q91 Gareth Bacon: This is a question to Mr Davie about employee remuneration costs. Paragraph 2.17 of the NAO Report notes that the increase in remuneration costs for the BBC between 2015-16 and 2019-20 went up in real terms by 9% or £1.5 billion, compared with employee growth in the same period of 7%. I think that a previous Public Accounts Committee Report noted that the reason for the increase in remuneration, or the difference between the increase in staffing and in remuneration, was because the BBC was trying to address fairness, transparency and consistency issues. I seem to recall that at the time there were some fairly well-publicised gender pay gap issues, which the BBC was attempting to address. In February 2019, the BBC calculated that the changes that it would make going forward would produce a net saving of £4.9 million to the pay bill over the seven years between 2017 and 2023, which is 0.1% of the overall total staff pay bill over that period. Do you think you could have been a bit more ambitious on that?

Tim Davie: I don't know. I would have to get into some of the detail. Glyn is waving, so he might be able to give a more specific answer.



Glyn Isherwood: The Committee will know from the Report that it received on “Managing the BBC’s pay-bill” that the BBC undertook a significant amount of pay reform across a number of years. Those reforms were put in place to align all the allowances and legacy allowances, bring people up to a minimum standard and put in place a real, transparent way of managing pay across the organisation. In doing that, we had to make an agreement with unions around what those changes were, and they were always done around making sure that we had centrally controlled and aligned pay processes; they were not done around saving money per se. As you know, over the last two years we have had some pay, but we have had real pay restraint across the BBC over many years. We have had to put in place a number of fair pay adjustments, which was absolutely the right thing to do. The situation changes quite substantially now because we are in a period where we are significantly reducing headcount, so our pay bill is now coming down. That is made easier because we can and do have comparative market-related pay for everybody in the organisation.

Q92 **Gareth Bacon:** Trade unions are not famous for accepting pay reductions, I think it is fair to say, so I am not surprised that trade unions agree with what you have done. But you are against a time where your costs need to be reduced in order to meet your challenges going forward. The reason for the question was: is 0.1% of total reduction up to 2023 ambitious enough? Are you going to end up where you need to be, or are you going to have to find further savings in this area?

Glyn Isherwood: I think that the 0.1% reduction was specifically in relation to those reforms that were agreed with the unions. Of course we are looking at ways—

Q93 **Gareth Bacon:** Yes, but that was a historic thing that you—I don’t mean you personally; I mean the BBC—had got yourself into. Nobody forced there to be a discrepancy in pay between men and women, did they?

Glyn Isherwood: Since that point, you have to reflect on the fact that during the last year we have put in place a pay freeze for all senior managers, and we have not given an annual pay review, so we have had a significant saving. Part of our plan going forward is to bring in up to 1,000 apprentices each year across the BBC. We are making an incredible effort to reshape the organisation. At the same time, we have massive cost pressures in terms of digital skills, which are in high demand. We have very high turnover around those areas, and around talented commissioners. We are losing people all the time to other areas. We have got the twin track of intense competitive cost pressure at the same time as we are trying to keep our pay levels at a reasonable level and in line with inflation. I think we have done a good job on that.

Q94 **Gareth Bacon:** But would you accept that that is a reasonable question to ask, given that the bulk of your income comes from a compulsory licence fee?

Glyn Isherwood: Yes, and our record on pay has been tremendous. Our number of senior managers has halved over the last 10 years. In terms of proportion, it is 1.5% of the total staff base; the market norm is about



HOUSE OF COMMONS

2.3%, so I think we are very strong in terms of that level. Of course, the shape will change over time. We have more opportunity to do that, and we are trying hard to do that. We are absolutely aware of our income coming from licence fee payers, which is why we take the actions that we take.

- Q95 **Chair:** Only the timing of elections let the BBC off the hook of a hearing, which we had done detailed preparation for, about your pay issues. The discrepancies that were very public were between men and women, particularly senior talent and senior presenters, but there was also a very marked discrepancy between black and minority ethnic staff and white staff, generally speaking. I paraphrase for ease and speed, but there are a number of issues in your payroll. Do you think, Mr Isherwood, that you have now really got to grips with that? As Mr Bacon said, this is largely publicly funded, so it is right, surely, that you are setting the lead in making sure that your pay set-up is proper and fair, as well as good value.

Glyn Isherwood: You are right that we did not have the session on "Managing the BBC's pay-bill", but let me quote you what the NAO said: "It is a considerable achievement that the BBC has now established pay ranges that are centrally controlled, systematically benchmarked and market-informed." That is what the NAO said, so we do have pay set at the right level.

Going through that clearly highlighted a number of anomalies. We have invited people to come forward and question their pay. We have unique, unprecedented transparency around pay in this organisation now. People sit within a clear pay range and we have the PeopleView system so that people can see where they sit within the cohort of people who are doing a similar job in the pay range. There is clear progression in how people move from grade to grade and, as the Committee knows, we have dealt with more than 1,300 queries about pay. We have sought to resolve those over a period of time and have put in a substantial amount of effort and a robust system to deal with them. Of the 1,300-plus queries, we have seven remaining that we are dealing with. That is a substantial effort to get this right. We are industry-leading in the efforts we have put into this space.

- Q96 **Chair:** Thank you. That is quite helpful to wrap up the session we never had. Before I throw the questioning back to Mr Bacon, can I just check a point on apprenticeships? I think that £7.4 million of your budget goes to the apprenticeship levy. Are you spending any additional money on apprenticeships? From the figures, I think the maths roughly means that you are adding on two thirds of your own money to buy more apprentices. Is that right, roughly?

Glyn Isherwood: I couldn't tell you exactly, but we have to employ our own money, and of course money is involved in running the scheme and providing the training. It is not all coming through the levy.

- Q97 **Chair:** Can I just check how many of those apprentices end up with full-time jobs in the BBC? Apprenticeships are very good, but really what we



HOUSE OF COMMONS

want is a job at the end of it. Do you know what percentage turn into permanent fixtures?

Glyn Isherwood: I don't have the exact percentages, but it is a high proportion. When we bring people in to do production training schemes, because it is a very fluid market we do not offer permanent contracts at the end and they generally go off and work in the industry, but to the extent that we have production available for them, we keep them. There is less of a proportion in that area, but in the corporate and support areas it is a high proportion, which we try to maintain.

Chair: Thank you. Over to you, Mr Bacon.

Q98 **Gareth Bacon:** Thank you, Chair. I am going to stay with you, Mr Isherwood. How much income do you now expect to bring in with the ending of free licences for most of the over-75s?

Glyn Isherwood: The stepdown in income from DWP was at its lowest level last year, at £253 million. This year, we have had a successful programme in the collection of income. We expect to collect 86% of licences from over-75s from those who are able to pay outside pension credit. In numbers terms, that is about 2.7 million pensioners; then, on top of that, we have about 770,000 who have applied for pension credit. Broadly, our income from over-75s this year will be over £400 million in the end.

Q99 **Gareth Bacon:** What is the current estimate for the implementation? You have had to set up a new scheme to do this, haven't you?

Glyn Isherwood: We have, and it has been incredibly complicated. Reaching out to 4.2 million people who are over 75—it has almost been a social outreach programme, and we have had to be incredibly sensitive about how we put systems in place to allow people to engage and to deal with them sensitively, whether that is in the call centre or online or if they visit. Right in the middle of that, we had the global pandemic, so we had to revisit how we put that together to ensure that it was Covid-safe and to ensure that people did not have to leave their home to pay the licence fee. That has gone really well. Our final cost of implementing that will be in the order of £65 million.

Q100 **Gareth Bacon:** Is that £65 million coming off the £400 million figure that you gave me, or is it a net figure?

Glyn Isherwood: No, it is a separate figure. The amount that we take in will be £400 million, then there is the cost of setting up the programme, which was £65 million. To an extent, that is a one-off implementation cost for this year. It goes across technology, because we put in a 75-plus payment system so that people can pay in regular payments rather than paying one-off. We also had to increase the number of call centre operators as well as making all the technology changes and dealing with all communications required during that period.

Q101 **Gareth Bacon:** How much of that do you think is going to be just a one-off cost? If you put in a call centre, will you need to retain that or not?



Glyn Isherwood: As we have done it through the same provider, Capita, it provides synergies going forward. We have had our arrangements with Capita for a number of years on the existing contract. As we go forward and negotiate a new contract, we will have to look at what efficiencies can be made across the piece. It will be well below the £65 million, because obviously a lot of that was one-off costs in-year.

Q102 **Gareth Bacon:** So this year there will be a £65 million bite that is taken out of the £400 million or thereabouts; going forward, that should reduce substantially.

Glyn Isherwood: Correct.

Q103 **Peter Grant:** Can I come to Ms Moore? I want to follow up on some of the discussion earlier about the commercialisation of some aspects of the BBC's work, in particular where there are programmes such as documentaries or dramas that are made primarily for airing on the BBC but with a view to marketing them internationally afterwards. I find it quite obvious, especially with documentaries: you watch an hour-long documentary and you can see where the gaps have been put for the advert breaks when they are sold to other broadcasters. To what extent do you tailor the content of a BBC programme with an eye to being able to selling it to other networks?

Charlotte Moore: No, absolutely not. My job is not to do that; my job is to get the very best content for the audiences to the BBC. I am sure that the suppliers for that programme will be thinking about how they can maximise their revenue in their own way, but from my point of view, when we commission something in discussion with co-production partners—particularly dramas, but increasingly comedy, some factual programmes and natural history, which is a big co-production area for us—it will depend on the co-producers' needs, but primarily the shows are commissioned by us and therefore editorially we take the lead. That is not something that I have to take into consideration; it is one of the great privileges that I am first and foremost thinking of a UK audience.

Q104 **Peter Grant:** So are you saying that where there are examples in which a programme that first airs on the BBC appears to have been made for advert breaks, either it has been commissioned from somebody else who may then want to sell it, or alternatively it has been co-commissioned and each of the co-commissioners has had input?

Charlotte Moore: I would be very interested to know what those were, but I imagine that they might be acquisitions. Obviously we have acquisitions from other broadcasters, which allow our audience to find content that they would not see otherwise. It might be that you are referring to that content, in which case we make it available to our audience without ad breaks—we take out the ad break cuts and the fade to black. But that is in acquisitions; I do not think that it would ever be the case in any of our own content, and certainly not with the co-productions. I do not know of any for which that has been the case.



HOUSE OF COMMONS

Tim Davie: I would certainly say, having run BBC Studios, which is the biggest supplier to the BBC, that I have never once provided something to BBC public service and thought about ad breaks, ever. I would love to hear the example, because it must be an acquisition—we would never do that. We absolutely want to do things that deliver for BBC public service audiences; that is non-negotiable.

Q105 **Peter Grant:** Thank you for that clarification.

Ms Moore, I am not sure whether this falls in your area of responsibility, but I want to look at the World Service and the BBC's obligations to worldwide broadcasting. The Charter requires the BBC to "reflect the United Kingdom, its culture and values to the world". Who decides what "UK values and culture" actually means?

Charlotte Moore: I do not think that that is a question for me if it is about the World Service, I am afraid.

Tim Davie: The World Service is operated by the news division, with some outstanding editors who make the call in terms of the programming across different genres on World Service. It is Jamie Angus who currently runs the World Service specifically. Those editors, as they do in any of the BBC's services, are choosing what is the best in terms of our cultural output and our news output, as well as science here. It is editors who are deciding how to fulfil their mission as the World Service. Obviously, that is funded by the £254 million within the licence fee, and then we have the £86 million that comes on top of that from the FCDO for the language services.

The answer to your question is that that is run within the news division very well, and they make the decisions editorially on what goes on air, in line with their Charter obligations.

Q106 **Peter Grant:** So if an individual viewer, for example, thought that the content on the World Service didn't properly reflect what they believed to be UK values and culture, would that be a question for the BBC to deal with in the same way as a complaint about—

Tim Davie: Absolutely, come to us and then you work through that complaint in the normal process as you go through the stages. If that is not satisfactory, it goes further up to the regulator. I would hope that that would be feedback that, in the first instance through the system, would be responded to by the World Service. For what it's worth, I'd love to hear the feedback, because I think we're always trying to do the best we can in that regard.

Q107 **Peter Grant:** I don't know whether it is the Charter or the current short-term agreement that requires the World Service's objectives and priorities to be agreed with the FCDO Secretary. There is a Government Minister who has to have some kind of conversation with you as to what the priorities are. You'll rely on the Government in licence fee negotiations to agree to the licence fee, so if you seriously upset whoever are the Government of the day at a particular time, that could impact on



HOUSE OF COMMONS

your licence agreement.

Part 49 of the current agreement actually says that the Secretary of State for DCMS, in agreement with the Treasury, can decide not to pay all the licence fee income to the BBC anyway. Given that there are so many ways in which different Government Ministers and Departments could take decisions that would significantly impact the BBC's financial sustainability, how do you manage to set all that aside each time you have to make an editorial call to ensure that the output is absolutely impartial and is not only not influenced by request being made from elsewhere, but is seen to be completely independent and impartial of any kind of external interference?

Tim Davie: Indeed. I think it goes to the very heart of the BBC, which is that we have to commission without fear or favour and go after the story and be utterly fair and impartial. Everyone has a view on that, but that is how we operate. I think the answer to your question is that, clearly, there can be risks in this area, but I think over years we have worked out good management systems for that.

With regard to the FCDO, it is appropriate that we work with them on the scope of our services. For instance, they are investing money, so what language services do we wish to deliver? What objectives do we want to deliver in terms of reach and return on that investment?

That is wholly different from specific editorial decision making on a daily, weekly or monthly basis. I have to say that, in my experience, not only is that honoured, but I see it as sacrosanct. It wouldn't be acceptable if we had any editorial interference at all in that regard, having agreed the scope in the Charter and agreed the scope of the services.

When it comes to DCMS, it is a clean discussion, which is about the Charter and about the funding. Once we are through that, I can guarantee you that we are fully editorially independent. I have to say that, overall across the political spectrum, despite the noises that we will always suffer in terms of people's views on our output, I think that is widely respected. If you came to the BBC and spent time with the senior team here, they value our editorial independence above everything, and we have an absolute faith in our ability to deliver impartially and fairly. That is not to say that we're perfect, but that is what we are trying to do.

Peter Grant: Thank you. No more from me.

Chair: Mr Davie, you had almost the last word there to parade the BBC's credentials. I thank our witnesses very much for their time. We will be watching this matter closely with our sister Committee, the Select Committee on DCMS, to keep an eye on what's happening at a critical financial time for the BBC. The transcript of this session will be up on the website uncorrected in the next couple of days, and our Report on this will be published at some point after the Easter recess.



HOUSE OF COMMONS