Public Accounts Committee

Oral evidence: Managing the BBC's estate, HC 976

Wednesday 25 February 2015

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Members present: Margaret Hodge (Chair); Mr Richard Bacon, Guto Bebb, Mr David Burrowes, Stephen Hammond, Austin Mitchell, Stephen Phillips

Sir Amyas Morse, Comptroller and Auditor General; Gabrielle Cohen, Executive Leader, National Audit Office; Peter Gray, Director, National Audit Office; and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Anne Bulford OBE, Managing Director, Finance and Operations, BBC; Lord Hall of Birkenhead CBE, Director General, BBC; and Nicholas Prettejohn, BBC Trustee and Chair of the BBC Trust Value for Money Committee gave evidence.

Q1 Chair: Welcome.

Lord Hall: Thank you.

Q2 Chair: Is this your first one?

Lord Hall: No, No. 2.

Q3 Chair: I am going to ask a question that is not entirely relevant to the agenda, but I want to get it out of the way and on the table first—I think it is probably one for Mr Prettejohn. As you know, the House has been looking at HSBC and its activities with a Swiss bank. It has been drawn to my attention that Rona Fairhead has been a non-exec director since 2004, that she was on the audit and risk committee from 2004—throughout the whole period during which the HSBC files were an issue—and that she was chair of the audit and risk committee in 2007. The audit committee is responsible for governance and compliance, obviously, across the global bank. Being chair of the BBC is a really prestigious job. I am not sure whether this question is for you, Lord Hall, or for you, Mr Prettejohn. The Trust is the guardian of the licence fee revenue and of the public interest in the BBC. Given the important questions that are now being asked about HSBC’s role in not just aggressive tax avoidance but potential tax evasion, I wonder what due diligence you are now doing between you.

Nicholas Prettejohn: I don’t think it would be appropriate for me to comment on the HSBC situation specifically. As far as the Trust is concerned, Rona Fairhead took over as chairman in autumn last year and at the moment appears to be doing a very effective job. Clearly there will be a number of investigations into what is happening at HSBC, and it would not be right for me or the Trust to comment on it at this stage.

Q4 Chair: What I asked you was, given what has emerged, what due diligence are you now undertaking?

Nicholas Prettejohn: We are not doing anything specifically ourselves.

Q5 Chair: What about you?

Lord Hall: I don’t think it is for me to do due diligence.

Q6 Chair: That is what I thought.

Lord Hall: With respect, Chair, we are answerable to the Trust for all the things that the BBC does. What I would add to what Mr Prettejohn was saying is that the relationship with Rona Fairhead as chair is very businesslike, strong and good. She is doing a very effective job as chair.

Q7 Chair: That may be, but there are clearly question marks arising out of her role. I was taken aback that she was chair of the audit and risk committee. I don’t know whose job it is to look at it, but I think that does raise issues that somebody should be looking at. I look to the Trust. You are our guardians on this.

Nicholas Prettejohn: I would make two points on that. The first is that it was not the Trust’s own appointment for the chairmanship of the BBC. Therefore, it would not be right for us to revisit that decision. Secondly, there will undoubtedly be a number of inquiries by different regulatory authorities and so on into the affairs at HSBC. Obviously the Trust will take note of the content of those inquiries.

Q8 Chair: She is still on HSBC, isn’t she?

Nicholas Prettejohn: I believe so.

Q9 Chair: I just don’t think that is good enough. We will consider what we do with that. Right, let’s go to the Report, which on the whole has some good things in it. You have modernised and reduced. There are some good things. Within the context of recognising the progress that has been made, I will start asking some questions boring into whether things should be better. You are shifting from freehold to leasehold. That is clearly a policy decision. Can you just take us through that first and explain why and what you see as the benefits?

Lord Hall: Yes. The big policy over the past decade has been to reduce the estate and to keep the cost of the buildings in the estate of the BBC level in real terms to where it was in 2001. Swapping from freehold to leasehold has been a part of getting that right. In terms of the overall plan—as I think you acknowledge, thank you, because I am sure we will spend time looking at some of the more difficult issues—I think we have made a lot of progress. That is not to do with me but people before me who made a lot of progress. It has been a period of massive change over 14 years in what we expect of our buildings, and also in reduction of the number of buildings we have got. In terms of moving from freehold to leasehold, the aim has been to keep flat in real terms the cost of our estate.

Q10 Chair: But why leasehold? Why get out of freehold and into leasehold? Then I want to ask you a little bit about some of the leaseholds you have got into. Why specifically that?

Lord Hall: Leasehold because the assumption has been that wherever we can do things that are cheaper in the long term and get the redevelopment of our sites and buildings in all terms done but keeping within that cap that we have set of no increase—to cost flat in real terms—we should do that. Leasehold has worked out cheaper in those terms than going to freehold.

Q11 Chair: Let me just question that a little bit. There are three examples of where you have entered into these rather long leases—25 to 30-year leases—that actually limit your flexibility as technology changes and as you produce content in different ways. One example that comes up in the Report is Mailbox in Birmingham, where you signed a 25-year lease in 2001. When was the decision taken to build the new Broadcasting House?

Anne Bulford: The early 2000s. The re-plan was discussed in 2004, so it was really quite a long time ago.

Q12 Chair: So at about the same time that you were deciding to build the big new Broadcasting House, you signed a 25-year lease for a site in Birmingham—figure 16 on page 31—that you are not using; it is under-occupied. It is 40% empty and you cannot sub-let it. There is then another one—

Austin Mitchell: Media Village.

Q13 Chair: Media Village, and then a third one: Pacific Quay in Glasgow. There was a change in strategy to go to leasehold. You are then tying yourself into these long leases that do not give you the flexibility to respond to the changing profile of staffing.

Lord Hall: Can I take those bit by bit, Chair, if that is helpful? On Mailbox, you're right; it was either half empty or half full, depending on how you look at it, because staff were taken away to Bristol, among other places. When I arrived at the BBC 22 months ago, I went to Birmingham to look at what was going on there. I thought that it was unacceptable, not just because of the relative emptiness of the building but also because Birmingham is an important city and the BBC's role in Birmingham should be an important one.

What we have decided to do—I spoke to a number of local MPs about this—is to move HR and the BBC academy training there. Our outreach, apprenticeships and work placements will all be co-ordinated in Birmingham, because it struck me when talking with people in Birmingham—civic leaders, the local enterprise partnership and others—that that fitted with what Birmingham was about. I hope, within the next year, that we will have gone a long way towards curing the issue in figure 15—the spare capacity of 351 for Mailbox—and that we will have something that Birmingham can be really proud of.

Q14 Chair: Good. And the others? The issue of principle is this locking yourself into long leases. Pacific Quay, which is in figure 2, was at about the same time. Am I right? You started that at about the same time. The Report says that the operational target date was 2006, and it opened in 2007. It says on page 13: "The site is underused and the layout makes it more difficult to sublet parts of it that are surplus to the BBC's requirements. Local market conditions may also limit subletting opportunities."

Anne Bulford: I will go back to the overall principle and then talk about the specifics. The BBC property strategy that we are at the end of—the 15-year programme—was absolutely designed to modernise the estate. We had a vast number of buildings around the country, many of which were well loved but were not fit for purpose and where significant investment was needed in both the bricks and the mortar and the technology. Different approaches were adopted.

At the heart of the strategy was a proposal that the cost of the estate should be no more at the end than it was at the beginning in real terms and that the transition arrangements—the capital funding needed for those buildings—would be funded by going to the market, taking the freehold estate and refinancing it through these long leaseholds and bonds to achieve that. That was the principle behind it.

In order to fund the work required to upgrade the estate in London, Scotland and Birmingham, the lease approach was adopted so that we worked within the borrowing constraints we had and did not take any money out of content and services unnecessarily. The potential downside of that, as you rightly suggest, is that one might argue that you finish up with less flexibility than you perhaps have with owning freehold buildings.

There are a couple of points on that. Of course, if you are investing very significant technology into your freehold buildings, which historically you were, you have got a lot of sunk investment there, so you are still tied in for a number of decades to recoup your investment. The other thing is that the lease structures are different in the different sites, but across the piece we look for opportunities for breaks, and we also retain the opportunity to sub-let wherever we can, and we have good experience of having done that. So, we have sub-let Henry Wood House, which was excess capacity next door to new Broadcasting House. At the moment, we are marketing and doing well in sub-letting part of the W12 estate—the White City estate—that you referred to.

So the sort of trade-off between using private finance, through the bond structures, to invest in the infrastructure in the fit-out and in the technology infrastructure, which is so important, was the underlying principle behind this shift between the two.

Tony has spoken about the Mailbox. With W12, we have excess capacity there as a result of a deliberate policy of rationalising our London estate and relocating people out of London. We are in the process of moving around 450 jobs to Salford and Birmingham, which will help with those sites, in terms of some of the excess capacity that you see here, and then releasing that site for sub-lease or sale.

Q15 Austin Mitchell: Is that Media Village?

Anne Bulford: Yes.

Q16 Austin Mitchell: But you only leased that in—what? 2001?

Anne Bulford: Yes, but as I just tried to explain, when we took that lease we retained the ability to sub-lease on and therefore we have that opportunity to release excess space there, and that is our objective. So, the objective would be that by the time we have completed that, the surplus capacity, which is the occupier but under-utilised, would move from 12% down to around 6%.

Q17 Austin Mitchell: It may or may not be admirable shifting from freehold to leasehold, but the essence of the problem is that you are paying so much over the odds for the freehold in Broadcasting House, which is a much higher cost than anything else comparable or around it, that you are forced into leasehold in order to cut costs in other areas, such as Manchester.

Anne Bulford: With new Broadcasting House, the cost there, which pushes the cost of new Broadcasting House over the benchmark, is in the bond cost; you are completely correct. That is the proportion of the annual rental that drives that through, as a result of refinancing it. That cost, and we can take that now or you may want to speak about new Broadcasting House later—

Chair: Let us deal with that a bit separately.

Sir Amyas Morse: I want to make a couple of points quickly, if I may. First, on Mailbox, I recollect having a previous opportunity to discuss this at a hearing. I think we established that you had actually emptied the Mailbox building and tried to market it for quite a long period of time, but you had not been able to get anyone who was prepared to come in as a sub-tenant. So, even though I think it is excellent that you are now using it, it represents an inflexibility in your portfolio; I think it is probably fair to say that. It is good that you are able to use it, but one of the options not available to you is going to market and getting rid of it if you wanted to. I think we established that before, so I am just reminding the Committee of that.

The other point is that you were making a point about technology. However, normally you would not expect technology life—I mean, we are talking about 25-year leases, whereas technology life is about seven years max, and probably rather less for quite a lot of technology. That's right, isn't it?

Anne Bulford: That is true, but not necessarily for core broadcast infrastructure, which has a longer life.

Sir Amyas Morse: Thank you.

Q18 Mr Burrowes: There is quite a lot of low-hanging fruit of waste, as it were. Just look at the recurring costs. I understand that you have a target to deliver £67 million annual savings in recurring costs. You are confident this year that you will meet that target?

Anne Bulford: Yes, we are confident that we will hit that target. We are on target to achieve £67 million under the DQF programme, which is 20% or so ahead of the original target. Of that, £39 million is already delivered on a recurring basis. As the numbers reflect, a further tranche of that comes through as a result of us having just completed a retender of our facilities management contracts, which brings quite substantial savings, and then the rationalisation of the W12 site will bring it through.

Q19 Mr Burrowes: So that is by the end of this financial year, and you are confident that you are going to be able to meet the same targets for the next financial year.

Anne Bulford: Yes, we are. We RAG rate our DQF programme, and we do not have any red risk on our savings programme. That is not to say that it is straightforward—it requires a great deal of work and effort to achieve—but the plans are in place and we are working through them.

Q20 Chair: You still have not convinced me on the general point. It seems to me that in the early 2000s you just got hold of or committed yourselves to too many buildings. You were building the great big new Broadcasting House, you got the Mailbox, and you got Pacific Quay in Glasgow—even Salford looks very under-occupied. It looks to me that you are spending more than you need to on property—you are locked into these long leases—at the expense of programmes.

Lord Hall: When I am looking at this, I am absolutely as keen as I suspect you all are to ensure that every pound possible goes on to programmes and services—that is the reason why we are there. Nevertheless, looking at this, I am impressed by the amount of change that there has been in the nature of the buildings that the BBC is occupying. Roughly two thirds of the buildings are new. I do not mean new in the sense of their being all gleamy and wonderful for people to be in, although I hope that they are, but new in the sense of enabling people to work in different ways. We have also reduced the number of buildings we have by 30% as well. That is a very necessary reform that the BBC had to go through.

Q21 Chair: I accept all that, but I do not think it answers the question. Whoever took these decisions in the early 2000s just locked themselves into too much.

Anne Bulford: Some of what we are dealing with here is at a point of transition. At the moment, the surplus capacity that we have talked about is 12%. By the time we have completed the W12 programme, that surplus capacity will be at 6%. When we complete the programme that we have in mind for Cardiff, that will take it down further to under 5%. We would always have an element of swing space anyway. For example, in Pacific Quay, that building has been extremely busy over the most recent period as a result of the Scottish referendum and the Commonwealth games. Most of the time we would expect to be running with surplus capacity of somewhere between 3% and 5% in any event.

Q22 Mr Bacon: When will you get to below 5%?

Anne Bulford: That depends on the timetable of our being able to sub-lease W12, but I hope that we will be down to 6% by the close of the calendar year—

Q23 Mr Bacon: Of 2015.

Anne Bulford: Of 2015, and then the Cardiff programme will take longer to come through.

Q24 Mr Bacon: Yes, but that was my question: when, calendar-wise, do you expect to be below 5%? Two years? Five years?

Anne Bulford: Probably two to three years.

Q25 Chair: May I ask something of the Trust? We have this 6% target floating around. It says somewhere in the Report that the Executive came to you and wanted to raise it, and you clearly thought that that was not a politically sensible thing to do at the time. You were monitoring them on a target that they did not really own, so my first question is: did that make sense? The second is: as a Trust, today, how do you know that 6% is about right? How do you know that we are getting value for money?

Nicholas Prettejohn: The origin of the 6% was as a proxy for the target of not having a real-terms increase in the size of the estate costs, but it happened to be the percentage of the licence fee at the time. As the NAO Report points out—I agree with it—it was not a terribly sensible target to adopt, at least not in retrospect. The Executive came to us, I think twice, in 2010 and 2011 and asked to change the target. The Trust decided not to for a number of reasons, particularly because of the context we were in at the time, which was, first, a licence fee settlement and, secondly, the DQF programme. So at that time we declined to change the target. Instead of simply measuring against the 6% target, we took a number of other performance measures, which again the NAO report details in terms of cost per person and cost per square metre and so on, and used those measures in addition to the 6%, to look at the effective use of the estate over the period.

Over the course of the last year, we have been talking to them about a revised property strategy and some revised measurements and targets. We are great believers in now using several measures to judge success. That is the right way to go, rather than fixing on a single target. Actually, the fate of the 6% target is probably a good illustration of that.

In answer to your question about how we judge future efficiency, I think we need to look in particular—again, as the NAO quite rightly point out—to benchmark costs. Benchmarks are very useful in looking at all aspects of property costs, whether those are the rent or the maintenance costs, or the services costs, and so on. We intend to use those in addition to the sorts of measures that are already identified and that we have already been using over the course of the last few years. So we can look at trends and benchmarks and, out of that, we will be able to judge whether value for money and management is tightly—

Q26 Chair: What is your ambition? What you have really said to us is, "It was all a bit daft until recently, so we had this target, which is a bit meaningless and we did not do much, and anyway the executive weren't working to it, so it was a bit daft. We're now going to get a bit more sensible." Maybe I read this wrongly. How do we know what is sensible? We will come to the benchmarks, which do not look brilliant. What pressure are you bringing to bear, particularly at a time of financial constraint? Since 2010 you have had a flat licence fee, as well, so you have had all those pressures. Maybe 6% is wrong. I have no idea.

Nicholas Prettejohn: We are not proposing to use the 6% target in future.

Chair: At all?

Nicholas Prettejohn: No.

Q27 Chair: What is your ambition for the executive on the benchmarks?

Nicholas Prettejohn: Well, we are currently working through those benchmarks. It is useful to have the NAO report to be able to help us establish, first, what the right measures are and then, secondly, what the right benchmarking group is to measure performance against, because for different elements of cost there are going to be different appropriate benchmarks. So we are putting together a series of measures—a small number of measures—that we will use to do that in future.

Chair: When will that happen?

Nicholas Prettejohn: Over the next couple of months.

Q28 Stephen Hammond: Your usage of Broadcasting House, in terms of per square metre, is quite impressive in terms of what you have driven down there. Therefore there must be some concern. Can you reassure about your ability to drive down the benchmark? The benchmark of Broadcasting House against comparable space in the same area is about 49% higher, according to the NAO report. So if you are going to move the overall benchmark, you are going to have to do something about your overall operating cost at Broadcasting House.

Anne Bulford: The rental on new Broadcasting House is, as explained in the Report, around £80 million a year. There are two parts to that: the first part is around £62 million, which is the interest and bond payments; and the remainder is the utilities and facilities.

We work extremely hard on the controllable element of the £26 million, and actually we benchmark pretty well. We will continue to push that further. So we are at or under utility bill inputs. We perhaps use more electricity than an HQ building in W1, but our unit costs benchmark well, because we forward buy in an efficient way, for example. The second thing that we do is work very hard on the utilisation of the building. New Broadcasting House has a rate of 8 square metres a person, which is 1.3 people to every desk.

Q29 Stephen Hammond: That is impressive, but even in the £20 million range, your ability to drive down from there is going to be depressed, because one of the ways that you would normally have done that is by increasing use.

Anne Bulford: It is constrained over time. In terms of the £60 million bond, you are completely correct. That is what it is, and that is a function of the capital costs that we invested in the building in the first place. It is important that new Broadcasting House is seen as part of the overall property portfolio, and the investment in it enabled a lot of savings elsewhere. If we go back to the headline, the overall cost of the property estate is 4% less than when we started as a result of all this work.

Q30 Stephen Hammond: But if I read the NAO Report, the overall benchmark cost is still some 30% higher than comparable property. I take your point on what you are doing on utility bills, but how will you drive that cost down? That has to come through usage per square foot, which means that you have to have more vacant space.

Anne Bulford: Yes, there is an element of that benchmarking that we will not be able to fix. What we have to concentrate on is the overall cost and the utilisation of the building that we have. You are completely correct, to drive it much more below 8 square metres a person when the benchmark is 11 square metres would be very difficult. There is a limit to what you can do through re-procurement and all the rest of it.

Q31 Stephen Hammond: But the rest of your portfolio has on average 12 square metres a person, so there is some capacity there.

Anne Bulford: Yes, there is more capacity to bring the rest of the portfolio down.

Q32 Stephen Hammond: What would that drive in savings?

Anne Bulford: The savings target to the end of the period is £67 million. That is based on getting us down to around about 10 or 11 square metres.

Q33 Stephen Hammond: Taking all that into account, if you look back at the decisions—I accept that you were not there in the early 2000s—do you not think that you are open to the criticism that you would have done better to expand west London? Even with the sunk costs in technology, your overall operating costs would have been lower. You could have expanded that estate, rather than putting it into Broadcasting House.

Anne Bulford: You are correct. The decision on Broadcasting House was taken a very long time ago and it was complex, not least because it is a listed building. Its secondary use would be different.

Chair: Aren't they both listed?

Q34 Stephen Hammond: But the point was that you could have—there are uses for listed buildings. Whoever was taking the decision at the time, sitting here now—I accept that this is hindsight—it looks as though it was the wrong decision to develop in central London, where the costs are inevitably higher as opposed to west London, where you could have driven operating costs considerably lower.

Lord Hall: This is an expensive building. We can all accept that. I do remember that 20 years ago—I do not want to sound awfully old—when we moved the news operation, the current affairs operation and radio out to White City, there was a great uproar of people saying, "We will never travel out to White City." What we have done here is not only bring the news operation together, but bring the news operation together with the World Service. It is an iconic building, and the newsroom space must be the largest in Europe, if not the world. There are benefits to that, but it is an expensive building.

Mr Bacon: There are also benefits for your customers—not just your listeners, but the people who will go on your programmes. It is a lot easier to get to than schlepping out to Hammersmith or Shepherd's Bush.

Q35 Stephen Hammond: The 15% difference in cost to the public purse is another matter. Just following on from the Chair's questions about leases, you have rightly made the point on why your strategy was there. It seems not unreasonable to me, but how many of your leases have break clauses in them? What percentage?

Anne Bulford: I am sorry, but I do not know that number. We would have to come back to you on that. The arrangements in each of them are slightly different.

Q36 Stephen Hammond: Correct. I obviously accept that. For some of the leases, even if you sub-let, the primary lessee obligations would still be with you. You will not be able to pass those on.

Anne Bulford: Yes, exactly.

Q37 Stephen Hammond: I am trying to get some balance about what costs you may be able to pass on by sub-letting. That is potentially a big area for you to work on driving your costs down.

Anne Bulford: It is.

Lord Hall: We can get back to you on that and give you a note. I would also say that in the past 22 months that you and I have been working together, we have been signing short-term leases and no long-term ones.

Q38 Austin Mitchell: Looking back historically, one of the BBC's problems has been the frequent changes of mind over what you are going to do with Broadcasting House, which is much more expensive than the properties around it. You changed your mind—it has been like the hokey-cokey, because you moved your whole self in, you moved your whole self out, you moved your whole self back and you shake it all about, then you build it as a huge blossoming place. Certain services have obviously got to be in London, but there is a lot more that can be dispersed. Why have there been so many changes of mind about Broadcasting House and the use that it is going to be put to?

Lord Hall: I think—if I have the history right—in the early 2000s the decision was taken to reshape the whole of the BBC's property portfolio. At that point, the decision was taken, not without controversy, to move Bush House into Broadcasting House and at the same time to move the news operation from White City. These are non-financial things, Mr Mitchell, but the combination now—the fact that the World Service is alongside our domestic services, which enables World Service correspondents and others to appear on the national services—is an extraordinary strength that we can build on while also delivering savings. That much has been, to my mind, utterly coherent since 2001—for the past 14 years.

The other part of the property strategy was to say, "How do modernise the estate, reduce the number of buildings we have got and make two thirds of the buildings modern for today's broadcasting at a cost that is flat in money terms?" We have held to that principle, and that is very impressive. The other restraint is that we are a national broadcaster, and therefore we have to have all sorts of buildings in all sorts of places, because we are rightly reflecting the UK.

Q39 Austin Mitchell: Yes, I can see that, because you want to interview me somewhere nice, central and convenient. But why is Broadcasting House so much more expensive?

Lord Hall: As Anne Bulford was explaining, the difficulty with Broadcasting House is the cost both of Broadcasting House and of rebuilding an iconic building up to the sort of standards that can cope with the demands of a 21st-century news operation, and other operations, on top of the bond structure. As we were saying earlier, we are working hard on the chunk of the running costs that we can control to make sure we get best value out of the money for the building. I have to say that it is difficult to see how we can get more out of that building. The occupancy rates are high: half the output of the BBC comes from that building and roughly a quarter of the staff of the BBC—not just for the radio and news, but for television and online—are in it.

Q40 Austin Mitchell: Are there not more functions that can be transferred out of London? Figure 12 shows the costs for Manchester. We are told that Salford Quays is underused—I thought it was a magnificent building—but the costs are so much lower. The process of moving, persuading or bribing people to go from London to Manchester seems to have petered out.

Lord Hall: No, it hasn't, actually. The third part of the strategy was to move production and people out of London. We are now at the point at which half our production comes from outside London. If you look at Salford, where I was earlier this week, the BBC is a kind of anchor tenant on that site. ITV has come as well. It presaged the whole "devo Manc" debate and the issues that are going on at the moment. I think the BBC—it was nothing to do with me; it was not in my time—was ahead of the game there. We are now looking at ways in which we can move more out of London. Sorting out Birmingham is important to me, because it is a very important city. We have got good relationships there with the civic leaders and the local enterprise partnership. We are going to build Birmingham around skills as well.

Q41 Guto Bebb: Can I first apologise, because I have to leave in a minute? I have a school visit, which is the most important thing you can do as an MP. You just mentioned "devo max", and undoubtedly the Scots do very well—this is not a party political point—out of the UK Government. The unknown secret is how well Wales does out of the BBC. That is reflected in figure 6, which shows that we have something like 12% of the BBC estate in Wales, even though we have 5% of the population. You are now committed to building a new BBC Wales centre in Cardiff. My first question is this. To what extent will that reduce the spare capacity within the estate in Wales? I understand that the spare capacity at the BBC Wales headquarters at the moment is about 40%. What sort of reduction will we see, and what will be the overall reduction in the estate in Wales?

Lord Hall: Can I make an overall point then Anne Bulford could go into a bit more detail? It struck me on visits around the BBC that the Wales Broadcasting House at Llandaff is well past its sell-by date.

Q42 Guto Bebb: I think you first started looking at moving out in 1996.

Lord Hall: About 15 years ago; something like that. What is worse about it is that it does not allow the sort of working that a modern news operation—which it primarily is—needs. You want to have the service for Welsh language next to the English language services, television, online and radio all in one. As you know, it is not like that at all. It felt to me like something that had been going round and round for some time and that we needed to make a decision.

I am pleased that the progress that we have made with the Welsh Assembly Government, with Cardiff and the BBC, could lead us to a very good solution, where it will be a much smaller building but one I hope will provide an anchor tenant for others moving in. There is some real interest in that, in the site near the station. That should increase our rate of usage as well.

Anne Bulford: The site at Llandaff and the site opposite make 25,000 square metres and the new site estimate is 14,000 square metres.

Q43 Guto Bebb: So, in terms of the figures here, it won't look quite out of synch?

Anne Bulford: It will reduce the vacant space by just over 1%.

Q44 Guto Bebb: One concern I have is that I understand at the moment the site in Llandaff is fully owned by the BBC but the new site in the city centre will be on a lease agreement. My calculation, based on what I have read, is that that lease will be in excess of £3 million a year. What will be the ongoing effect of that change on the finances of BBC Wales?

Anne Bulford: It will lead to a small increase in cost overall, because that additional lease cost, the cost of refurbishing all that technology, is offset by three things. First, there is the cost of running a bigger site. Secondly, the maintenance costs in BBC Wales at the moment are very significant just to keep things on. Thirdly, there are some operational savings. There is also a small contribution because it has been announced that S4C is looking at sharing some facility. It is a manageable increase in the annual cost.

Q45 Guto Bebb: Moving forward, the situation is that there will be an increase in the cost of the estate in Wales, even though there will be a significant reduction in the space that is not utilised.

Anne Bulford: Yes, but it will also be in a fit-for-purpose building with technology that is appropriate for the digital age. There is a huge technical debt in the current building in terms of what is there.

Q46 Guto Bebb: My final question refers back to what Mr Hammond was asking. Will there be a break clause on this agreement, or is it a long-term agreement?

Anne Bulford: We are still negotiating that, so I am afraid I can't tell you.

Guto Bebb: Commercially confidential, okay.

Q47 Chair: Right, let's get back to Television Centre and two issues. One is the Luxembourg link. Figure 5 covers the deal you did with the Whitewood TV consortium. You used God knows how many—I've got a list somewhere of nine or 10—Luxembourg companies. That was clearly a tax-avoidance scheme. What on earth were you doing signing up to that?

Lord Hall: The motivation on the Television Centre sale was clear. It was to get the best value for money we could back from that sale for the BBC, and therefore for the licence-fee payers. I think it is on page 16, but you may correct me—yes it is. In the second paragraph the Report says, "The sale price was more than double what the BBC's advisers valued the site at in August 2008 and generated a profit of £78 million."

Q48 Mr Bacon: Can I ask how much you paid your advisers?

Lord Hall: I can't answer that question but I am happy to get back to you.

Q49 Mr Bacon: When you got more than twice yourselves what they had told you that you were going to get for it, what did they say?

Lord Hall: I wasn't around at the time; I am simply reporting back, Mr Bacon, what the NAO Report is saying.

Chair: Write to us about that because it is one of our niggling points.

Sir Amyas Morse: I think they said that you could get a better consideration if you structured the deal differently, actually, at the time. I think that is what it said.

Q50 Chair: Anyway, I accept that you got more money than—although I am slightly sceptical as to whether you got a good deal. We will come back to that. But that is not a good excuse, Lord Hall, for selling it knowingly to a consortium that deliberately set up a very, very complex structure, the purpose of which was only to avoid tax. It involved 10 companies, all in Luxembourg and all set up immediately after the deal.

Anne Bulford: The sale of the Television Centre generated a capital receipt of around £200 million.

Q51 Chair: You are avoiding the question.

Anne Bulford: No, I am not; not yet. I am just starting.

In order to select that consortium, we undertook a full market process. That came up with the sale to the consortium that comprised Stanhope, which is a UK-listed company, AIMCo, which is the investment arm of the Alberta government and deals with their pension fund, among other things, and Mitsui, the well-established Japanese property developer. That consortium was absolutely the lead bidder on value-for-money grounds.

As is very common with overseas investors bringing capital into the UK, they brought their funds in via an EU investment vehicle, which was based in Luxembourg. They parcelled up the site into different blocks to give them flexibility as they developed it. That was AIMCo's established practice for investment into Europe, and one that they have used on many occasions. We took full legal advice on the structure, which we shared with the Trust, and it was concluded that the structure was both lawful and commercially efficient. We proceeded with the transaction as a way of realising full value for licence fee payers' money.

Chair: I am quite shocked by that answer, if I may say so. You are a public service broadcaster. You live and thrive on public money. You might have seen the occasional tax sessions that we have had here. What is absolutely clear is that you knowingly sold on to—it does not really matter whether they are Canadian or wherever they come from. The whole purpose is that this was a public asset being sold to them—I am not sure that you got best value, but we'll come back to that—and they deliberately structured how they were going to manage it to avoid paying tax here in the UK on the profits they made out of that site. They are putting hundreds of homes on there at some point.

I think that you and maybe Mr Prettejohn need to answer that. You have a responsibility, as public servants, to protect the public interest. In the end, if we do not get the taxes, it damages the British taxpayer in the long run. It does not damage you directly, because you are a licence fee service, but you are still a public service. You always say that you are a public service, and we support you on that basis. I just think that it is shocking that you did this. Shocking.

Q52 Mr Bacon: From what I understand of this, you are saying that the way you did it produced more money for the BBC than it would otherwise have done. Is that right?

Anne Bulford: What I am saying is that the consortium was the lead bidder in terms of value for money for the BBC as a result of a market exercise.

Q53 Mr Bacon: Yes, but had a bidder come along who did not have this type of structure—am I to take it that Whitewood TV City UK SARL was a special purpose vehicle for this international consortium with the Canadians, the Japanese and the British?

Anne Bulford: Yes.

Q54 Mr Bacon: So Whitewood was designed for the purpose of this transaction by that consortium. Is that right?

Anne Bulford: Yes, it is.

Q55 Mr Bacon: What I was really asking was, had a consortium not come along and known that this was how they would do it, are you saying it is likely that the value the BBC would have received from the sale would have been lower than the consortium were able to pay you because of the structure they had?

Anne Bulford: No, I am saying that we undertook a market exercise and this was the best-value bid that arose, rather than imagining that different structures might come through. This is what came through. It is lawful. It is investment through an established route, and it is a very hard burden to put on the BBC or anybody else to have to make judgments about the way—

Stephen Hammond: And presumably—

Q56 Mr Bacon: Hang on, I would like Ms Bulford to be able to finish her sentence.

Anne Bulford: It is a very hard burden to put on the BBC to have to make subjective judgments. This is an established route for bringing international funds into the UK.

Stephen Hammond: There is a really important point here, which I think—

Q57 Mr Bacon: Stephen, can I just finish my point? I had not finished my line of questioning. Anne, I agree with what you are saying, but what I am trying to establish is that presumably the reason that they were able to bid more than others is because of their structure. That is why their bid was, from your point of view as the vendor, the most competitive one. Therefore, as it were, you got the benefit of the higher payment because they were in a position to make it as they had this special purpose vehicle structure. Those were payments that would otherwise, perhaps, have later gone in taxes elsewhere, but which instead came early on in terms of the transaction here and benefited the BBC directly. Am I on the right track?

Anne Bulford: Well, the value that any developer puts on a bid is a function of all sorts of different things, including their ambition for the site. The ambition of the consortium for the site is very substantial. That is part of the reason. A number of factors come into it. Our job is to evaluate the material that we have in front of us and to take advice on that to support it.

Q58 Stephen Hammond: I am afraid that I take a slightly different view from Mrs Hodge. I think it is quite different, actually. It is a pretty normal route of bringing investment into the EU and, therefore, through. Presumably, they say they set up the 10 companies because they want to build the structure of the deal out at differing times. Therefore, it would not be unusual to parcel up chunks of investment in portfolios so you decrease your portfolio risk, particularly if you are the pension fund.

Presumably, your commercial adviser also said that the 10 companies were a pretty normal structure for development out of properties. You see that in the UK. It is not unusual for a UK developer to structure an SPV with two or three SPVs underneath it. Then they build the scheme out in differing phases. Presumably, that was, you could argue, and I would certainly argue in this particular case, much more likely to be the explanation.

Anne Bulford: Yes.

Q59 Stephen Hammond: Another thing—who gave you legal advice?

Anne Bulford: Hogan Lovells, I believe. Sorry, let me check.

Chair: There is a difference in view among the Committee. My view is that you are a public body. Therefore, when you are disposing of what, in effect, are public assets, there is a responsibility on you to ensure that the people to whom you dispose the asset manage it in a way that does not avoid tax. It is simple.

Mr Bacon: There is a complete disagreement. Sorry to have this argument in public, but it is probably not an unhealthy thing. What Anne Bulford said was rather important. It is a high burden to place on the BBC that they should do this. What I think that you are saying, Chair, is that the BBC should sell to the person whom the BBC will be sure pays the most tax in the future. That is the burden of what you are saying and it seems an unreasonable burden to place on an organisation such as the BBC. I would expect the BBC to sell to the entity that will be the best for the BBC.

Your responsibilities are not to worry about the defence of the nation, whether we have enough tanks or whether entities out there in the future pay x amount of tax rather than y amount. Your responsibilities are to the BBC. If you fail in those responsibilities, you should be called to account, but if you are acting in a way that protects the position of the BBC and, indeed, produces more money for the BBC than your advisers told you that you would produce, you have fulfilled your responsibilities rather well.

It is unfair to criticise you for having gone ahead with a transaction in which the subsequent owner of the property acted in a way that might produce less tax in the future. You cannot know—I think Lenin said that prediction is always difficult, especially about the future—to what uses the property will be put in the future. Those uses could be multifarious and, even if they were, they could change from what the original buyer had decided. It is placing not only a very high burden, but an impossible one, on you. It is not at all obvious to me that it is one that you should be expected to bear. There is a clear disagreement between the Chair and other members of the Committee about this.

Chair: Apologies, but I strongly disagree. I think there is an onus on public bodies to ensure that when they deal with public assets, they do not do so to the detriment of the public purse. The way in which you have handled this is to the detriment of the public purse, and I feel very strongly about it. Did you discuss it? Let me ask this question—

Mr Bacon: There is no evidence of that, but there is evidence of the fact that it has been to the benefit of the BBC, which is what these folk are responsible for.

Q60 Chair: Well, you don't know. Did you discuss at all the fact that the structure was being set up to avoid tax?

Lord Hall: I can't tell you that, because we weren't around at the time.

Q61 Chair: Did you discuss it in the Trust?

Nicholas Prettejohn: I wasn't around at the time, but I have seen the minutes and the legal advice. It was quite clear from the Trust's point of view that our primary duty was to make sure the licence fee payer got the best possible deal. Secondly, that the structure was legal. Thirdly, that the structure was commercially appropriate. Fourthly, that there was nothing unusual about the structure. The legal advice that we got on all those points was clear.

Q62 Mr Bacon: When you say unusual, you mean that it was not novel or contentious?

Nicholas Prettejohn: Yes.

Stephen Hammond: It was acting within a tax framework that was set up—

Chair: We are going to have to shut up about this in public. The issue is that it is too commonplace for structures to be set up for avoiding tax.

Stephen Hammond: But Governments can change that. If the Government doesn't like it, they can change it.

Mr Bacon: You should stop voting for tax reliefs, then.

Q63 Chair: Well, we agree with that. That is probably the one thing we do agree about.

Let me ask you another question about Television Centre. There has been a lot said about whether the building is fit for purpose[1]. I was able to get hold of endless quotes: "I've just had to try seven toilets across three floors of Broadcasting House before finding one that was actually available for me to use"—this is the head of technology at BBC radio—"I suggest we extend the meeting room booking system to the toilets." Another one about loos: "I don't often manage to find an available toilet on my own floor and spend increasingly urgent minutes trying to find one on other floors." One from a "World Tonight" reporter: "On one single day before Christmas, I had to deal with our telephone system not working, the

[1] The issues raised in this question relate to Broadcasting House rather than Television Centre.

internet connection breaking down… and the Davina system for searching out archive having an 'on-going issue'. Fed up with trying to work like this, I set off for the canteen but the lift was broken, and the non-automatic automatic door still had its sign apologising for the inconvenience of its continued breakdown… How did a brand new building with brand new equipment end up with so many of its fixtures and fittings not working properly?"

Lord Hall: As we were saying earlier, we have a building that is being intensively used by more than 6,000 people, with guests, visitors and so on coming in. I know from this life and my previous life that in running a building you have to be on top of things that are not working—toilets, lifts and all those sorts of facilities. It is something that I personally feel we have to keep on top of and do better at. I, too, have complaints from people telling me that this doesn't work or that doesn't work, but I feel that the facilities management people—the people running the building—are doing a good job and are being more responsive to the complaints of our staff. It is really important that we have a good workplace; on that much I think we are united.

Q64 Chair: Are there more? Is it just that these have hit the press? Are the loos always out of order?

Lord Hall: I wander round quite a bit. I don't see loos that are consistently out of order. What I know about the BBC staff is that if things are not working they will tell me, and I will respond. That is the benefit of going round the buildings and seeing what is happening.

Q65 Chair: On page 18, figure 7 includes an interesting little figure. Your square metreage of car parks is about half your square metreage of studios.

Anne Bulford: The car parking is distributed pretty widely around the UK and it encompasses car parks that are used for outside broadcast and other production equipment vehicles as well as staff car parking. There is quite a lot of car parking underneath the W12 estate, which again will come out of these numbers when we release that. We don't have any car parking at all at New Broadcasting House. It is very limited on our other sites and we have mechanics for staff paying for use, which is anything other than essential—

Q66 Chair: So what does that come down to?

Anne Bulford: I don't know. I would have to check the percentage coming out of that.

Chair: Anything else, anybody?

Q67 Austin Mitchell: I just have a patriotic question; not your kind, Margaret. Why is there so little use of premises and facilities in Yorkshire? Why has the concentration in the north all gone to Manchester? If you look at the square metre usage in figure 6, it is enormous in the north-west at more than 33,000. East Yorkshire and Yorkshire together amount to only about 7,000 square metres. Why is it so concentrated in Manchester and not spread out over the north?

Lord Hall: The benefits of Salford, as you yourself—

Q68 Austin Mitchell: It is magnificent in Salford, but Leeds is wonderful, too.

Lord Hall: I know Leeds is wonderful and I have been to Hull, which is also wonderful. My point about Salford, Mr Mitchell, was to say that the scale of concentrating Radio 5 Live, sport and children's programming in Salford in Manchester has led to other people coming along, and we have become an anchor tenant and there has been growth on the back of that.

That does not mean that on a smaller scale we can't do other things around the country as well. I am very interested in how we grow the journalism in Yorkshire. I have made two visits so far to Hull to see how we can help Hull as the UK City of Culture 2017, and I think there are things we can do there. So please don't take a lack of a very big building as a sign that we are uninterested in what is happening in Yorkshire. We have a big role there, I am very proud of what the teams are doing in Yorkshire and I hope we can help to do an even better job.

Austin Mitchell: Thank you.

Chair: Good. Thank you.