



HOUSE OF LORDS

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Inquiry on

BBC CHARTER RENEWAL: PUBLIC PURPOSES AND LICENCE FEE

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Witnesses: Lord Hall of Birkenhead CBE and James Purnell

Dan Brooke, Magnus Brooke and Huw Jones

USE OF THE TRANSCRIPT

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

Members present

Lord Best (Chairman)
 Earl of Arran
 Baroness Benjamin
 Baroness Bonham-Carter of Yarnbury
 Bishop of Chelmsford
 Lord Goodlad
 Baroness Healy of Primrose Hill
 Baroness Jay of Paddington
 Baroness Kidron
 Lord Sherbourne of Didsbury

Examination of Witnesses

Lord Hall of Birkenhead CBE, Director-General, and **James Purnell**, Director of Strategy and Digital, BBC

Q173 The Chairman: Lord Hall, James Purnell, you are both extremely welcome. Thank you very much for coming before our Committee. As you have gathered, we are looking at public purposes, scale and scope, and the processes for setting licence fees, so three big topics. We are not doing governance, so that is not on our agenda, but almost all the rest of this big agenda is there. You will be transcribed and televised today, so bear that in mind if you would. Lord Hall, would you like to make an opening statement before we kick off?

Lord Hall of Birkenhead: Thank you very much. I would like to say a few words, because I have been following the evidence to your Committee carefully. I want to emphasise a point made by two contributors, in particular, about the creative economy and British content. I hope it is helpful, because it also explains why we are putting forward an additional public purpose on the creative economy.

I start with the position that the BBC is Britain's greatest cultural force. It is why I want an open BBC, a BBC working in partnership and a distinctive BBC. British content really matters to British audiences. They tell us that is what they want. When you list the programmes that people are watching, you have to go through roughly 3,400 programmes of the most watched programmes to get to the first non-UK programme. British content matters to our audiences and it matters culturally. It is who we are. Of course, it also matters economically in terms of the creative industry.

If you look at spend on first-run UK origination in, let us say, the nations and regions of the UK—this is an area where, a couple of decades ago, ITV was doing better than the BBC—the BBC is spending £207 million a year, which is down a little on 10 years ago, and ITV is spending somewhere around £71 million, which is down from over £200 million over the same period, but they are still the second biggest spender on UK content in the nations and regions. This should worry us. These are data from Ofcom. Add that to the data from Enders and others, and it is clear that investment in original UK content is going down, and that worries me.

In part, that is because the licence fee has gone down by 20% over the last six years, and there is less to spend, but the key point is that others are not picking up the slack, and that is why the BBC is so important in the creative economy. We still have 20% of the spend in television and produce 40% of the investment in what we hope are original, great British programmes. That is why we are saying we want to build a strong production arm with IP, giving British talent—writers, musicians, journalists, artists and actors—their voice, and backing new talent, but also giving existing greats a chance to make work they could not make elsewhere. I commend particularly Richard Eyre’s “The Dresser”, with Sir Ian McKellen and Sir Anthony Hopkins, as an example of that.

We should be the risk taker and the investor in British creative talent, creating programmes that are distinctive. By the way, that is also why we want a strong BBC Worldwide, showcasing British creativity to the world. It is a public purpose and it is one in which the BBC has something very powerful to offer.

The Chairman: We will come to that within the public purposes. May I ask Baroness Benjamin to kick us off?

Q174 Baroness Benjamin: I am glad you started off with public purposes, because much of our evidence has been around that subject. Accusations have been made that the systems of measurement are so complex and layered it is difficult to know whether the BBC is succeeding or failing. The purposes are drawn so widely that one could make the case that almost everything the BBC does meets the purposes somehow. Is it possible for policymakers, competitors, or audiences to know if the BBC is delivering against its public purposes?

Lord Hall of Birkenhead: The public purposes are defined by the BBC Trust and by us in the service licences which we agree for every service, and James may want to talk a little bit about that in a moment. Those service licence agreements are reviewed every so often by the trust.

Before my time, there was an examination, using audience data but also using the creatives of Radio 2, which I think led to Radio 2 changing and becoming even more distinctive than it was before, and that was extremely good. That is one level at which they work in a very concrete way.

Since I arrived, we have been laying out objectives each year whereby the trust and ourselves agree what those objectives are and then communicate them right the way down the organisation. One of the objectives for the coming year, set by the trust but then communicated by us, is around distinctive programmes. The debate and discussion then within the organisation is about how we deliver against that. This came up in evidence in one of your earlier sessions. You can deliver against data. We have a lot of data on “fresh and new” and other scores, which shows that our audiences increasingly appreciate what we do. The other way in which you ensure, for example, distinctiveness, you are doing what you say you are doing, is by making the right appointments, and holding to account the people whom you have appointed for delivering against that.

To take an example, I was pleased with and proud of what the controller of BBC1 has been sharing about the things that she is planning for Christmas and through next year, including “War and Peace”, which I am looking forward to, and some other dramas. You also need to employ people who are not just delivering against the data, but exercising their judgment to

match against things which, in a creative, cultural organisation, are matters of judgment. Of course data matter hugely, but you also want to make sure that your judgments are right and that you are employing people with the right judgments.

James Purnell: I think it is worth picking up on something that has been said in evidence to this Committee by ITV about the fact that there is a danger that there are so many different ways in which the BBC is regulated, sometimes it is hard to know what the priority is.

We very much agree that there needs to be a clear framework, with purposes, service licences and effective regulation to balance public value and market impact, but I think ITV is right, that there is a bit of danger now that, if you have hundreds and hundreds of pages, it is quite hard to know what the fundamental framework is. We thought we would illustrate that. That is an ITV licence from Ofcom; it is quite detailed. If you look at this, this is a selection of the things that apply to us. I think it would be hard to say that there is not detailed regulation of the BBC.

Going forward, we all want effective regulation to make sure that we take market impact absolutely into account. The framework of balancing market value with public impact has worked really well in this charter. We want the right opportunity for competitors and the audience to be involved in discussions about new services. Particularly at a time when the money is being cut, the BBC needs the appropriate flexibility to reinvent our services to make sure that we continue to remain universal, be distinctive and serve all the public purposes. If we cut the money and freeze the BBC in aspic, as it is now, with very detailed regulations, which cannot change except by a one or two-year process, as happens with PVTs now, there is a real danger over the next charter period that we will end up with a BBC that is not fulfilling the public purposes in the way that it has in the last charter period.

Baroness Benjamin: Are you saying that it depends from where you are standing and viewing the situation whether you agree with the accusations or not?

James Purnell: I am agreeing with ITV that if you have too many different frameworks and too many different priorities, the organisation does not know what the framework is and what the priorities are. You want a strong, effective regulatory system, with clear public purposes. I am warning against adding more levels of values on top of purposes. You could get to a point where the thing becomes even more detailed and even more ex ante interventionist than it is now, and I think that would be bad for audiences.

Q175 Baroness Benjamin: So what do you say about this next question then? It has been suggested that the BBC would be better served by a set of key principles or values, such as in the original *Building Public Values* document of “universality, fairness and equity”. Do you agree that this would be more effective than a set of quantitative measures?

Lord Hall of Birkenhead: I think you need both because you need to be very clear, as we have both been trying to say, what it is you are trying to do. I put a huge amount of weight on the distinctiveness of our output. That does not mean it is market failure BBC, but it does mean producing programmes that are of quality or seek to be of quality. It is also to admit that you do not always succeed. In doing that, and asking people within the organisation to apply judgment to those criteria, values are really helpful. The value of distinctiveness is good. The value of universality, for example, giving quality to everybody wherever they come from, is really important. Trust is so important, especially when it comes into our

journalism. We know that, from the surveys that we do. It can be very easily lost, as we can see all around us in things that are going on today. That really matters, too.

The other thing that is important to recognise is that we are a creative organisation, although this may not be completely relevant to the things you are asking about in this Committee. None the less, what I am trying to achieve by slimming the organisation managerially—and making creative decision-making and risk-taking, and all the things that we should do as the BBC because of the way we are paid, easier and clearer and better—matters too. I am saying values matter because they determine how you do things.

Baroness Benjamin: How do you go about measuring them?

Lord Hall of Birkenhead: On fairness, it is quite difficult. If you look at our news services, we are trusted a country mile beyond any other news service. It is really important to make sure that each day we earn that trust. People turn to us to check on whether the things they are reading elsewhere—because people use other sources of news—are true or not. There are a lot of things you can do, which are driven by audience surveys and so on, to see whether you are delivering what audiences want.

The other thing is the culture of an organisation. What I see, when it is really working well in the BBC, is a culture which is, with confidence—because that is important, you do not want an unconfident organisation—asking questions of itself: “Did we get that right? Should we have done more here?”. In the BBC and in my previous place of employment, that was one of the things that struck me as very particular and very special about those organisations. I quote a brand guru who described my previous place of employment as “excellence without arrogance”, and that is what I seek from the BBC: excellence without arrogance. That means being open to people saying: we could have done a bit better; we could have listened there; we could have done more.

Baroness Benjamin: Do you think there should be a more diverse group of people making those decisions then?

Lord Hall of Birkenhead: Yes, I do, and perhaps I had better say that the Committee is advising me and keeping my feet to the fire very well on diversity. It really matters that we ensure that on screen and backstage and back of camera or microphone we employ people from a range of different backgrounds. That is why I have been seeking to make a real difference on BAME representation, both on screen and behind it.

Last week, I spent a few hours in a day with 42 really bright local radio trainees. They would not have found employment in the media, but for the fact we had said, “Let’s employ people in the locality of these radio stations and go to people who otherwise would not have come into the media”. Likewise, that is part of the diversity I want and the chances we can give. They are a great bunch of people and a number of them said to me—and I felt slightly overwhelmed by this—“The BBC has given us a chance we wouldn’t have had”. I think that is really important too.

Q176 Lord Goodlad: There have been accusations that the public purposes do not translate into the everyday activities of the BBC. How do you see the six public purposes of the BBC being translated into action on a day-to-day basis?

James Purnell: We see it in two ways, the first being the formal governance regulation that we have with the trust. As the director-general was explaining, it goes very clearly from purposes, to purpose remits, to the purpose survey and service licences, and then the annual

performance review and, if you sat in or looked at the minutes of trust meetings, you would be able to see all of the issues which the chairman of the trust talked to you about happening in every meeting. They are absolutely hard wired into that governance process.

Even if you looked at it from the other way round, from the programme maker up, and you looked at the priorities which they think matter for that particular year, most of the time you would be able to find a quite clear line from that more formal process into what people are doing. If you went to talk to people who are commissioning in TV, for example, they would all say that diversity is one of the key things which they are putting as a priority for this year. You can then trace that through into the objectives which we set for the organisation and the governance process. I would not say that every single person at the BBC could explain every single detail of the governance process, but it does impact directly on what programme makers do. We think that part of the system works extremely well.

Lord Goodlad: The purposes have been in place now for nearly 10 years. Do you think there is any excuse for people who work for the BBC, for your employees, not to know what is expected of them?

James Purnell: We have a problem here which is that Lord Reith had quite a hit with “inform, educate, entertain”, and that is definitely something BBC staff would be able to reiterate. I would guess that most people would be able to talk about the purposes. Certainly, they talk very often about the purposes that affect their area. In my area, the digital teams will often quote the fact that there is a purpose for digital and technology and they very much value that. It is one of those things where, at first blush, you might wonder why the BBC has a role in technology, but, if you go back, the BBC was founded as a way of getting people to take up the wireless, and then we have had a role in TV, colour TV, digital terrestrial, HD, Super HD, iPlayer. It is a very important part of what the BBC has always done and they are very proud of that. Similarly, when Jenny Baxter was in front of you, she said the same about the purpose of representing the whole country. People do know about the purposes. I would not say that everybody can recite them, but they do shape what we do.

Q177 Lord Goodlad: How effective are you at putting into action the trust verdicts on your performance against the public purposes?

James Purnell: I think we are effective. Again, the chairman of the trust made clear, for example, on distinctiveness, which is something it has set as an objective for quite a few years, that she thought in the last couple of years there had been very significant progress. If you look at the data, for example at our “fresh and new” score, which is one of the ways in which we measure that, it has gone up significantly. Similarly, in the purpose remit survey, the number of times people say they are getting things they would only get from the BBC is increasing. Ofcom found that BBC1 was the most distinctive channel, 10% ahead of ITV. You can go through all of the purposes and say over the last five years there has been quite a big improvement.

The one where performance has been flat is around regions and nations, and that is a particular area of focus for us in our proposals for the next charter. As the director-general was saying, the BBC now does the main part of that in broadcasting. We think that is an area in which we can go further.

The short answer is we have to do it because that is the regulatory system. If you look at distinctiveness, for example, the trust has been quite frustrated over the years, but it is now seeing that there has been very significant progress on that.

Lord Goodlad: So, your verdict is that everything is pretty much perfect?

James Purnell: I think we would say that on nations, for example, there is still further to go. That is the one that lags behind. What we would say is, look at all the objectives the trust sets us. It has set us an objective on distinctiveness, but also on serving all audiences, and we have done this at a time when we have taken 40% out of our running costs. Sometimes people on BBC1, for example, take that for granted. The fact that distinctiveness has improved, without sacrificing a whole bunch of the audience, which would be the most obvious and easiest way of doing it, but the wrong way of doing it, is a tribute to the people who run BBC1. When you look around the world and ask audiences to rate the channels in their countries, BBC1 comes out right at the top of that. There is a danger in thinking that something which is brilliant about the UK is something that everybody else has; not everybody else has it. The way the BBC1 achieves its popularity is through distinctiveness. It has become more distinctive and it has maintained its popularity at the same time. Sometimes people think, "Oh well, you can get that audience only by diluting your standards". If you look at the data and the regulatory reviews, distinctiveness is improving. We can go further. We absolutely want to go further in the next charter.

Lord Goodlad: The BBC Trust has suggested a number of changes to the public purposes. Do you agree with its proposals?

James Purnell: Yes, we are quite content with them. You can get into drafting differences, but, broadly, they are saying the same thing. We feel there should be a separate creative industries purpose and a separate one on digital technology. On digital technology, whereas in the last charter, with far more money around, the BBC led things such as the switchover, we will not be able to afford to do that in the future. It would be slightly mad to make the BBC spend money on radio switchover in a way that would force us to cut our digital radio services, and, if we were running a big campaign to get people to take up digital radio at the same time as cutting some of the best services on digital radio, that would be the consequence. We are saying that, given the financial constraints, in the next charter, we should pursue that purpose through our services. There is a lot that we can do there. For example, when you ask people why they have got the internet or broadband, 10% to 15% say it is to get BBC services. There is a lot we can do, but in a different way from the last charter.

Q178 Bishop of Chelmsford: I want to take you back and press you on two things that have already come up a little bit in the discussion so far. Obviously, there are the six public purposes, but each of these contains a whole series of priorities and measurements. The purpose remit survey translates these into 34 statements which participants are asked to rate in terms of how well the BBC performs on these measures and how important they think they are. The purpose remit which is rated lowest is "representing the UK, its nations, regions and communities". This will not come as any surprise to you: the views expressed most strongly were in Scotland. James, you have already mentioned this, but do either of you want to say what measures have been put in place to tackle this?

Lord Hall of Birkenhead: This is one where, in all sorts of ways, we feel a huge responsibility. As I was saying earlier on, a couple of decades ago more people were doing more things to

reflect the regions of England and the nations. I think this is an area where people, rightly, expect great things out of us. I would say that it is improving slightly, but the situation we are facing is changing rapidly.

The success over the last charter period is that over half the people working in the BBC are now outside London, which is a good thing, and the fact that 53% of television output now comes from outside London is a really good thing. However, we need to do more, and I said this in a speech I made in early September, outlining the way ahead for the charter. We need to do more to reflect specifically what is happening in Scotland, Wales and Northern Ireland. Those conversations are going on at the moment. As we all know, in the UK devolution is happening at a variable speed, and we need to be with our audiences, delivering what they need. That is one point.

My second point would be that where we have had some success—but, as with all things, it is not over yet—is in delivering physical things to the various regions and nations of the UK. Pacific Quay in Glasgow and the MediaCentre in Salford have been huge successes. Even the most ardent critics would now agree on that.

Last week I was in Birmingham. When I came into the BBC, that building was half empty; it is now full of 700 people. We are spending £125 million in the Midlands, and it is not finished yet. We are also doing something fascinating with the Digital Guerrilla Group at Fazeley Street. In Wales, we have Roath Lock. Two decades ago you would have thought, “Drama from Wales? Unbelievable”, but it is producing some really classy things, and we are moving our centre there as well.

There are judgments about how we could do more for the nations and regions. That is under active consideration at the moment and we have to keep going at that. There is also building on what has been the real success of moving chunks of the BBC away from London.

Bishop of Chelmsford: As you may be aware, the Committee has heard from various young people, and they have said that they feel the BBC underperforms in representing them, as does the BAME community, as you have already mentioned. What is your reaction—and you may not agree with it—to this perception?

Lord Hall of Birkenhead: Let me start with the good and then the problem. The good thing is that when you ask young people about public service broadcasting, they believe in it and what it can deliver, every bit as much as any other part of the community. That is a big plus.

The issue is how you deliver things that matter to them in the places where they are. Again, this is constant work, going back constantly to whether we are doing the right things. Part of that is delivering on BBC1, and those places where everybody comes together, programmes which will bring everyone together. That is one part of it.

The second thing is the innovation that has happened in, for example, Radio 1. I take my hat off to what has been done. Not only is it a station that is listened to by 40% of younger audiences each week—so consumption there is really important—it is the online radio station on YouTube with the biggest audience globally of any radio station, which again says you need to take what you have got and find places where the audience can consume that.

It is also the reason behind us moving BBC Three online. At the time we said it was a risk, but, when you know that so much consumption is going on to mobiles and tablets, finding out ways in which we can deliver factual programming, drama, comedy, things that young

people are going to want to watch in an online environment, it is really important to experiment there.

When I was in Birmingham last week, I went down to see the Fazeley Street Digital Guerrilla Group, which is also looking at the way you can use content in new ways to reach audiences. It is remarkable what it is managing to do with apps and other things to reach new audiences.

In Birmingham, BBC WM came up with a scheme during the election called #brumvotes, brilliantly done by a producer, where candidates and others were being quizzed by young audiences as they were appearing in places online. It really reached a younger audience with what they were doing and I commend their entrepreneurship.

What I am trying to say is that you need enough flexibility overall to make sure that you can experiment and creatively try new things and find out what is going to work to tackle those audiences. Those audiences really matter to us, because the future of public service broadcasting depends on us reaching them.

Bishop of Chelmsford: What about the very specific criticisms that some people make about certain programmes that you may purchase, which are very popular among young people, but are also available at the same time on another channel? I come from a household which does not have Sky Television, so I do not really know what I am talking about. However, I know that young people like these programmes and they can see them on any number of channels.

Lord Hall of Birkenhead: People fly to quality. We are not about doing a programme which can appear by some other means. We are about originating great British content. If you compare 20 or 30 years ago, when we were all watching—I do not know whether you were—things such as “Kojak”, things like that, we are not doing that any more. If you look at the commitment to fresh, new content on the BBC, and ITV for that matter, then that is what we are doing.

You are raising a really important question about British content for young people, but also for very young people, too. CBBC and CBeebies are vital, and that is why we have put forward an idea for taking them online. We will keep with the channels, but take that great British content online for the zeroes to whatever, because again British content really matters for those age groups.

Bishop of Chelmsford: You have not said anything about the BAME community.

Lord Hall of Birkenhead: When I arrived at the BBC I felt that we were staring at data, and I suspect that is what others were doing too, and saying this is really difficult to do anything about. I set very clear targets for portrayal on air of BAME. Secondly, behind the scenes I have made some very deliberate changes. We have a commissioner programme, because in the commissioning of programmes it is really important to ensure that you have people of different, diverse backgrounds. We have six people from BAME backgrounds working with us on a senior leadership programme. James has one working for him and I have one working for me. They are people who I hope will be the management candidates of the future, so that we can begin to break through and get people into management positions where they can influence the output of BAME backgrounds.

We also have a TV apprentice scheme, where nearly half are from BAME backgrounds, and a production trainee scheme, where about the same number applies. For the first time, we

have a creative access programme which has more than 20 of the very brightest people you could want to meet, all of whom come from a BAME background.

I think that it is really important that not just in the BBC but in the whole of the media sector we find ways—and generally I think we are doing this—to bring in people from backgrounds where they might not know anyone working in the media, whose parents and others might not be able to fund them to come and live in London while they have unpaid internships, to make good the idea that the best and the brightest are going to come and work in the media. I hope in all sorts of ways we can do that. If those things do not work, let us try other things. I want to make a difference.

Q179 Baroness Kidron: You have both touched on this in various ways, but I am interested in you explaining to the Committee a little about this transition to digital. What does it mean now to an organisation, such as the BBC, that half of its audience, or perhaps a great many more, are expected to consume in traditional ways and yet, Lord Hall, you have said that the future is digital?

Lord Hall of Birkenhead: It means that we have to do even more with the limited resources that we have. It is why when we come to think about our budgets going forward in the new charter period, we have to make sure that we have enough—and this is going to be very hard and we are going to have to make some very hard choices—to ensure that we can continue to innovate. We have to ride two horses. We have to assume that people are going to consume television and radio, as you are saying, in the way that they are for the foreseeable future—by which I mean the length of this charter period, the next 10 years—but knowing that at some point it will tip and people will watch or listen to whatever they want online over IP networks, and who knows when that tipping point will be.

What matters in all of that is that you have content of the highest quality. Three or four weeks ago, I was on the west coast with Google, Apple, Facebook, and so on, and they kept coming back to this. What the BBC has and must concentrate on is distinctive content of the highest quality, where we are showing risk-taking and backing ideas that others will not back, all of that, and ensuring that can be delivered across as many platforms as possible to where people are consuming content. The short answer is it is difficult, and it is a challenge we are all facing, but I think it is a really exciting challenge.

Baroness Kidron: When you say in the written evidence “an updated version of the current digital purpose linked explicitly to the BBC services”, could you extrapolate the thinking behind that?

James Purnell: That is trying to make clear the point I made earlier to Lord Goodlad that this should not be a charter in which we think there is a huge amount of money to spend on radio switchover or the next digital television switchover, because that would mean we had to close the digital radio and television services people would want on them. We are saying we can do a huge amount through services. A good example would be the iPlayer. Reed Hastings, who runs Netflix, has said it is the BBC that blazed the trail, we helped to create a market, and now that is something which is good for the whole industry.

To give you an example of the kinds of worries we have about detailed ex ante regulation: when Sky were in front of your Committee—it is worth saying that Sky and the BBC get on extremely well and are very good partners compared to 10 or 20 years ago when there was a big ideological difference—David was saying the BBC charter and agreement should say that

we only do content. That would mean we would not have been able to do the iPlayer. The BBC is not just about making programmes. In the future, the ability to take those programmes, curate them, and put them on a service like the iPlayer, or whatever we invent in the future, is as important as the programme. To not let us to do that would be like saying, “Okay, you can make “Strictly Come Dancing”, but it’s going to go on Sky One or ITV 1, wherever people want to screen it”.

I am making a point about the importance of services, content and curation going together, but also we do not know what will happen in the next 10 years, so let us have a regulatory framework that is clear and sets us a real set of public purposes and service licences which give people clarity. But let us try not to have a lawyers’ charter that means we cannot change our services and respond to all the issues about young audiences, for example, or the balance between existing linear services and future internet services. Let us have the right framework, clarity and proper regulation, but flexibility and creativity as well.

Baroness Kidron: Is there an element of that that comes into the scale and scope issue? I noticed in your written evidence you talk about the UK, but just now you both mentioned Google and Netflix and so on. You are scaled differently in relation to those.

Lord Hall of Birkenhead: We are small compared with them. I ask myself what is the right ecology for broadcasting in the UK? Although people say the BBC is spending £3.6 billion of public money—money taken from licence fee payers—which is a responsibility and seems huge, compared to the companies that are dominating our culture, which we all gain from, this is a relatively much, much smaller amount. One of the ideas we put forward for consideration was the ideas service. I profoundly believe there are things which the BBC can offer not just the UK, but, because of digital technology, offer the world. Ideas is one of those things where clearly the World Service, BBC World and online, and what we can offer in news, that soft power is an important part of that too.

Baroness Kidron: Finally, as soon as it is digital the creative community panics that it means underfunded, not high quality production values, and so on. How do you answer that anxiety from the creative community?

Lord Hall of Birkenhead: It depends what you are talking about. If you are talking about drama, quality drama costs, and in some cases costs a huge amount that Netflix can afford to pay for a variety of things. Interestingly, if you look at some of the innovations on the iPlayer, for example, with comedy, or indeed with drama shorts, there can be some real experimentation at a much smaller level. I am interested how we can find a chain of new talent using our internet services and then allow them to develop and flourish, and back them. I think it is a really important role of the BBC for the UK, to be honest with you.

Q180 Baroness Jay of Paddington: In responding to Lord Goodlad, you have both talked about distinctiveness being a watchword. You will not be surprised to hear we have heard a certain amount of evidence of people being “crowded out” by the BBC. I shall give you some specific examples. UTV was talking about the 5 Live service agreement, which does not mention sport. Others have talked about the music playlists. John Whittingdale made a speech earlier in the autumn saying why on earth was it that the BBC news was scheduled at the same time as ITV news later in the evening. How do you make the decisions about your own distinctiveness in those sorts of areas? Is there any way that you can objectively measure them? It seems to me, if you look at the way people describe this crowding out,

that there is not much degree of agreement about how you would measure what that involved.

Lord Hall of Birkenhead: If you look at radio services, for example, and the evidence you have had on Radio 1 or Radio 2; if you compare what Radio 1 does, not just in terms of news, current affairs, comment, and the genres of music it might cover, but on a playlist, Radio 1 is playing 3,868 different tracks every month compared with, say, Capital's 398. There is a very clear way which says we can see the nature of the service we are providing and it is very distinctive from others in the market. The same with Radio 2, which plays 4,423 different tracks each month compared to 1,598 on Absolute Radio. That is why the music industry—never uncritically—is very supportive of what BBC Radio and BBC Music can offer, because not only is it a matter of tracks which you can measure but it is also genres, again which you can measure, volume of news, which you can measure, volume of speech. For example, not only is Jeremy Vine a great dancer, he is an extremely good broadcaster, too. You can measure those things.

When it comes to news, I am slightly at odds with what has been said about our “News at Ten” versus ITV’s “News at Ten”. I think audiences are best served by having two news programmes to choose from; that is people’s choice. If I just take you back, before I went to the Opera House, I was director of news under Greg Dyke when Greg decided to move the news from 9 pm to 10 pm. It was because ITV had moved the news from 10 pm to all over the place to suit the schedule. Greg coined the very Greg-ish sort of phrase, “It’s news at when”, and so we moved to 10 pm. I see no reason to move the BBC’s news. If you look at next week, I think I am right in saying there are four nights when “News at Ten” on ITV is not at 10 pm. We want to maintain the “News at Ten”, Monday to Friday. The new changes to ITN news are interesting and good. People have a choice, and I believe in choice.

Baroness Jay of Paddington: If you look more broadly at the general concept of media plurality, we were all interested in the DCMS request to Ofcom, which they published last week, of the result on the framework for measuring plurality. Do you accept some of those proposals that are being made by Ofcom about measuring plurality in rather precise ways?

James Purnell: It is important to have a framework to measure plurality. We would say, within that, that the BBC’s presence improves plurality. Having a source of impartial news means that people can choose between impartial and free, largely unregulated news. Arguably, it means that people need to worry less about trying to regulate the press even if they wanted to.

Baroness Jay of Paddington: Do you think it is appropriate for Ofcom, for example, to create a framework which might be very specific?

James Purnell: We never had a problem with it. It is worth saying we think the BBC is slightly *sui generis* in that market. If I can pick up on a couple of points in your last question about the evidence from commercial radio: it was great to hear Global Radio saying that Radio 3 was not crowding out Classic, but was becoming even more distinctive. There was one thing we were slightly perplexed about, which was the comparison saying—I think we have got this right from the evidence—there is no station that you can compare Radio 1 to and, therefore, it compared the playlist of Radio 1 to 31 commercial radio stations. That is a bit like comparing a day to a month. If we had 31 radio stations, we would have an even more distinctive playlist. The fact is there is 10% or less crossover. I think this is one of those things where there is a pretty clear difference between the two, as there should be.

They also said that the Playlister and the iPlayer Radio 1 have not gone through a regulatory process. That is not correct; they did go through a regulatory process. They went to Ofcom, and Ofcom's advice was there was not significant market impact and, therefore, the trust decided there was no need for a PVT. That shows perhaps a slight difference of philosophy; that Global would probably value more a system where the BBC had to go to the regulator when it wanted to change its services. What we are saying is there should be service licences and when there is a significant test which has a market impact there should be a regulatory process. The rest of the time, the BBC should be worrying permanently about how to balance market impact and public value. We absolutely do that the whole time. There is a whole bunch of things that we do not do precisely because they would have significant commercial impact and not significant public value. It is not as though the only people who care about this are the regulators and the competitors; we should absolutely care about it day in, day out.

Baroness Jay of Paddington: Going back to my point about the attempt to create an objective framework, is that an ideal which is more or less impossible to operate in practice?

James Purnell: You can take it too far. You do need a framework. The purposes and the service licences have worked well in creating that framework, but the vast majority is about creativity and judgment. There are two models of public policy. One is where an organisation sets objectives and performance indicators, has service level agreements and performance monitoring, and others where you create institutions which have culture, values, history and vocation. The BBC, like the great universities, or even this place, is more in the second group than in the first group. You can still have a framework. If you take it too far you can get to the point where people are not making creative judgments, they are ticking boxes and double guessing themselves, and that would be a problem.

Baroness Jay of Paddington: Thank you.

Baroness Bonham-Carter of Yarnbury: I am taking a slight sideways step on the plurality question. Is it your view that the plurality of our broadcasting system relies on a publicly owned Channel 4, albeit financed by adverts?

Lord Hall of Birkenhead: We have an extremely good media ecology in this country where you have ITV funded by ads, Sky funded by subscription, Channel 4 funded by advertising with its own particular remit, and a licence fee funded BBC. I sat on the Channel 4 board for nine years, ending up as vice chairman. I believe in what Channel 4 is doing. The test for any future change in Channel 4—as far as I know nothing is being proposed—would be how do you ensure the public continues to get the remit which is delivered by Channel 4 as part of that mix. It has got a very specific remit which is very important for the broadcasting ecology in this country.

Q181 Baroness Healy of Primrose Hill: I would like to ask about universality. In your written evidence you state that the charter review should, “avoid changes to the public purposes or scope of the BBC that undermine universality and its ability to serve everyone with public service content”. How do you define universality in relation to the BBC?

Lord Hall of Birkenhead: For me, universality is almost an enlightenment value. It is one of those values that springs out of institutions that the UK has founded, like the British Museum, and which we should cherish. Universality does not mean doing everything for everyone. It means reaching everyone with good things, things of real value, of public value

to them, but of personal value to them as well, whoever they are, however wealthy they are, whatever age group they are, whatever background they come from, whatever part of the UK. I feel value is more important today because of the atomisation of how we all behave. We go into ourselves on the train with the particular music we are listening to, but what brings us together, and what brings us together with quality, really matters. It is a very democratic thing. Everybody should have access to the best.

That is why I give you two examples of that, because I think it matters. When we covered the anniversary of the Simon de Montfort Parliament, the people who knew about that doubled to about 38% because we broadcast that. Four out of five people in this country watched, listened or used online, a programme we did about the origins of the First World War. I profoundly believe people should have access to the best and that is what universality is about.

Baroness Healy of Primrose Hill: You must be concerned about the possible changes that could undermine the BBC's universality that other people are speaking about. Are there particular things you would be very worried about?

Lord Hall of Birkenhead: To carry on and ensure—one of the themes we can deliver—that promise of distinctive quality to everybody in a very changing environment. You need to make sure you have the resources to do that and make the judgments, as Lady Kidron was saying, between the new and existing. You have got to focus absolutely on content of the highest quality. It does not mean you always achieve that, but that should be your ambition. It means that the services you produce are distinctive as well and you feel only the BBC could have done that. It means that things which could come at us, in terms of contestable funding, say, would put that under threat. The most important thing to me is access and ensuring that however we consume media in the future, people can have access to what public services broadcasters—like the BBC—are producing. Those of you who use a lot of new technology—the latest televisions—know it can be a bit of a struggle to find public service content. To my mind, that is really, really important as we embrace this new world.

Q182 Lord Sherbourne of Didsbury: One of the questions in the Green Paper concerns scale and scope. I asked the BBC chair, when she came before us, who determines scale and scope?

Lord Hall of Birkenhead: The scale of the BBC is determined by the charter process we are now going through. The scale of the BBC depends on the amount of the licence fee, and that is something which is in the Government's hands. The scope of the BBC at the moment is also determined by the process of the charter review. We, and the trust, input into that.

Lord Sherbourne of Didsbury: The Green Paper says that the charter does not determine the scale and the scope.

Lord Hall of Birkenhead: There is a discussion about where we are on funding with the Government versus where we are in determining the range of services we provide, how we provide them, if that is what you mean.

James Purnell: The normal process would be that you have the charter review process, and that sets out the scale, scope and purpose of the BBC, and then you have the licence fee process at the end of that. We have done it the other way round this time. The Budget agreement effectively was the licence fee process and that has set the scale of the BBC. That is why the letter of agreement between ourselves and the Chancellor and the Secretary of

State mentions scope and purpose but not the scale of the BBC. You set that overall framework. The money is then normally set afterwards, but this time it has been set in advance. Within that money we are now working out what should the scope and purpose be, what should the services be going forward. In detail, that is every day, with audiences, working out which programmes work and how to meet the public purposes.

Lord Sherbourne of Didsbury: I ask the question because the Green Paper says the charter does not determine scale and scope. The amendment to the charter refers to the fact the BBC determines scale and scope; decisions are made by the BBC Trust. When the BBC makes its decisions about scale and scope, is it constrained or unconstrained by the agreement?

James Purnell: It is a creative process. We did not say the charter set it; it is the charter review process that sets it. The reason it is set out in that way is to prevent getting into a situation where the Government is deciding exactly which services the BBC should have. That happened under the last Government. It was slightly uncomfortable having Tessa Jowell saying, “Should the BBC have BBC Three or not?”. What we have is a classic British constitutional arrangement where the process of charter review discusses all of those things; you then set the purposes through the charter and agreement; we work out with the trust what the services should be, and therefore the scale and scope within that. It is slightly complicated but it is for very good reasons, because otherwise the BBC would tip over into being state organised.

Lord Sherbourne of Didsbury: Presumably the amount you get from the licence fee is pretty important to determine that? Do you feel you will be unduly constrained by the agreement in terms of specificity?

James Purnell: We are certainly worried about it. That is why we try to illustrate the dangers of overly detailed ex ante regulation, because it could prevent creativity. That is a real concern. You have to have clear, effective regulation. You do not want complicated overlapping regulation. In a creative organisation, you particularly do not want everything being set in advance by lawyers and in the charter and agreement, rather than being done in a creative way.

Q183 Earl of Arran: You said that you are going to work more closely with local and regional news organisations. What do you mean by that and how can you judge whether you have been successful or not?

James Purnell: We are in a process of discussion with representatives of the News Media Association. We have set out five proposals. It commissioned a report from Oliver & Ohlbaum, which made some very similar proposals, so there is quite a big area of overlap around, for example, a news bank where we would share video content with local newspapers, or better linking. The BBC is often the third source of traffic for local newspapers after Google and Facebook. We are doing that to try and improve democratic accountability. In the current regulatory framework, you would then put that into some service licences and review it on a regular basis. In the next charter you might think about having some different types of service licences: instead of having service licences for individual channels as the world converges, you might want to think at the level of democracy or locality and put the goals of those proposals into that service licence. Certainly the board would want to review it on a regular basis and it might be that the regulator—whoever that ends up being—would review it as well. The goals are about democratic accountability and that is what the initiatives we are discussing are aiming to achieve.

Earl of Arran: How important do you think this is?

Lord Hall of Birkenhead: I think it is very important. At a local level, we are not the reason why local press is not working, but we have a contribution to make which I think is important.

The Chairman: You have come up with the idea of 100 locally engaged journalists who you would share with the local media. What reaction have you had to that proposal?

Lord Hall of Birkenhead: To be honest with you, that was not our idea, but we thought we would run with the idea. We have taken advice on what would be best. That has not gone down particularly well, but conversations are going on, as James was saying. I am hopeful that we are talking. A year ago, I was in Leeds talking with some local editors there, who said, “Look, we’re in a room and we’re talking, and that’s a really good thing. What should unify us is the desire to ensure we have a thriving local democracy”. We are not the cause of this problem, but I hope we can be part of the remedy.

Q184 Baroness Bonham-Carter of Yarnbury: Lord Hall, you mentioned at the beginning of this session that the licence fee has already gone down and other television institutions are not picking up the slack. Recently, on the “Media Show”, the Secretary of State said, “What happened in July was not the licence fee settlement”. How do you react to that statement, which must put a bit of a chill through you?

Lord Hall of Birkenhead: He said in Edinburgh that the Chancellor and No. 10 have said we have an agreement, unless there is some fundamental change in the scope of the services that the BBC offers. I am sticking with that as being what has been agreed with the Government, and I have every belief they will honour that.

James Purnell: There is a technical point being made about what is a licence fee settlement. As I said to Lord Sherbourne, it was a Budget process but, in effect, we have done the licence fee as well, that is the point. In terms of an agreement, it is very clear to everyone in Government that has been said.

Baroness Bonham-Carter of Yarnbury: Except it has not been very clear, has it? It has been rather unclear and messy. Do you think the process by which the licence fee is set should be changed?

Lord Hall of Birkenhead: Yes, I do. The conclusions we came to about the licence fee settlement showed a real weakness in how these things are settled. There should be a much more open process. It needs other brains to work out what that might be. It strikes me that Parliament, licence fee payers and others should have a role in this. This has happened twice and it is so important to the British public, the people who pay for us, to what we can offer the creative industry in this country, that we find a better way to do this.

Baroness Bonham-Carter of Yarnbury: The fact is that you are dealing with smaller revenue. How are you going to make these savings? That is a very big question. Are there ways in which you think you can mitigate this possibly through an increase in revenue from BBC Worldwide, or is there a possibility of the charter being tweaked in a certain way and you being allowed to raise money from sponsorship?

Lord Hall of Birkenhead: Sponsorship has a whole series of problems running through it. You are right that we are setting challenging targets for Worldwide. BBC Worldwide is integral to the way the BBC operates. If you take one of David Attenborough’s wonderful series—never

mind “The Hunt” but last year’s series—over 70% of that was funded by money that Worldwide brought in to help us deliver real quality, to do something very, very special. In my view, the notion of any split between the BBC and BBC Worldwide would destroy the essence of what is working really well at the moment, as well as taking away from the BBC what is a great showcase of British creativity. We need to be very clear that we expect even greater returns from BBC Worldwide than it is delivering at the moment. It is also a very successful media company. We need to look at how we are spending every pound of our money, and on what, and come back to the nexus we were talking about earlier, which is what we spend on the linear services at the moment and how much we invest in the new. I have said to everybody I want to spend my time working that out because that will mean some very hard choices. It will mean some change in the services that we offer. I want to make sure that is done thoughtfully, properly, and in as open a way as I can manage.

Baroness Bonham-Carter of Yarnbury: Because of the fixed-term Parliaments, we now have this five-year charter renewal butting up against new Governments. Do you think it would be a good thing to un-phase those two?

James Purnell: Yes.

Lord Hall of Birkenhead: Yes.

James Purnell: We like the trust proposal of 11 years. That is quite clever because it takes it to halfway through the Parliament. There is an important principle, which is once a charter has been done it should not be in the Parliament after that, it should be in two Parliaments’ time, because that underpins the constitutional independence of the BBC. If we are always worrying, when we give a politician a hard time, are they going to come back after the constitution for the money, that will chill the independence of the BBC. We would see any move to anything shorter than that—there has been mention of five years in the press—as a huge breach of the independence of the BBC. We should take the precedent of Willie Whitelaw, who went for a 15-year charter in 1979 or 1980. That meant the BBC had the certainty to adapt to the digital age, as happened under Lord Hall and John Birt in the 1990s. The trust proposal is a very good one.

Baroness Kidron: There has been quite a lot about new production and some curiosity about why it is not tied into BBC Worldwide. That seems to be an open question.

James Purnell: BBC Studios is based on a very simple belief that the BBC is a programme maker as well as a broadcaster. It has a proud history of making programmes. We are very happy that, for example, ITV makes programmes for the BBC, and indeed ITV is taking one of our programmes. That is fine, but what we want to do is ensure that the BBC can thrive as a programme maker and we are saying we will end the restrictions there are on television channels, open up our television channels, but give us the chance to employ our programme-making skills in a way where there is a completely level playing field for other people to take programme ideas that we might have. In truth, a lot of that will be directed towards digital channels and programmes outside the UK. I really believe that in-house we have a very highly skilled, creative bunch of people, and I want to give them a chance to make as many programmes, and to pursue and realise as many ideas as they can.

Q185 Baroness Jay of Paddington: Another postscript, as it were: another potential cost saver in the digital age is the thought that perhaps you will put the BBC News Channel exclusively online, like BBC Three. Is that likely?

James Purnell: I cannot say. It is exactly the issue of the two horses that we talked about earlier. The BBC News Channel is doing extremely well. It is the most watched news channel and gets all sorts of plaudits from our audiences. Yet we know, after the general election, 20% of people were looking at the results of the general election on their mobile phones. As Lady Benjamin knows very well, it is the same with young people too. It is how we manage this transition: keeping the people who want and value what they get from us, whilst at the same time making sure we serve audiences as they move in different directions. Audiences will move differentially and it is an issue we have to manage. It is an exciting issue. I go back to the point, which I hope I registered earlier on, which is the good thing is young people want the benefits of public service broadcasting as much as the rest of us. Therein lies a great hope.

The Chairman: Could you take away a request from us? The Committee would find it very helpful to have the figures for how much the BBC has spent on each genre for each year of the current charter period. We are keen to discover how it is the different genres are being treated in terms of the financial commitment that you are putting into each. This may be a technical question.

James Purnell: We do not normally do that publicly, because you could work out how much we are spending on individual programmes, but we can provide it in confidence. It is very sensible to look at genre spending because it is a good example of the danger of unintentional consequences in regulation. If you look at the arts, in ITV's submission they have said they are reducing the amount they are spending on the arts. We have increased the amount of money by 20% from £30 million to £36 million; we are just concentrating it on fewer hours because we want to have real impact and reach big audiences. Looking at things holistically, and having something which can be done in the relationship between the BBC and its regulator where you exercise judgment and look at things in the round, is very important. As long as we can do it in confidence, we are very happy to do that.

The Chairman: We would be delighted to receive that.

Lord Hall of Birkenhead: It is interesting looking channel by channel across the spectrum of public service broadcasting to see what genres each channel is offering. What comes out of that is a sense of the BBC offering something very different.

Baroness Benjamin: A very quick question. There is something that has been raised to me by people working for the BBC on the new ideas you are coming up with about spreading the way people can work for the BBC. How are you going to protect the programme makers and people with the ideas against the people who are working as independent producers?

Lord Hall of Birkenhead: I believe in the idea, by which I mean the best idea, should win through. One of the issues at the moment is our in-house teams. I see them, I talk to them, and there are some really brilliant people. Often they have nowhere else to take their ideas. Limited places to take ideas is one of the problems that we are facing. I want to make sure their ideas thrive. I think that is the best answer to the question, which is how do you make sure there is a level playing field between those outside with lots of ideas—and, boy, independents are full of ideas—and in house as well. I want it on a level playing field. It is fair to both sides. The best ideas should thrive.

Lord Goodlad: For clarification, can I ask about the supplying of information on genres “in confidence”? What does “in confidence” mean? This is a transparent, public proceeding. I

thought the BBC was transparent, but I am beginning to learn. What do you mean by “in confidence”?

James Purnell: The danger is if our competitors could see how much we spend on individual genres they could cross-check that with Ofcom information and, when there are not very many titles, work out how much we are spending. That creates a real commercial risk. All transparency is subject to what is commercially in confidence. We would genuinely have an issue if that data was released to our competitors, because it would give them an unfair commercial advantage. There is nothing new about this. We have always done this with quite a wide range of commercial issues because we operate in a market. We are happy for it to be provided for you to be able to draw conclusions, but we would have an issue with it being published because it would put us at a commercial disadvantage.

Q186 Baroness Kidron: Now we are into this area, some of the commercial operators have said you should not be buying in certain sorts of programmes, particularly things from the US. I just wonder what you would like to say about that.

Lord Hall of Birkenhead: When people were saying, “What do you think about ‘The Voice’?”, I said at the time that I thought “The Voice” was a really good programme; we made it and it is brilliant. I am sad it is going, but there we are. I hope ITV—I am sure it will—will run with it and keep making it a success. What I am after is both formats and programmes which are home-grown. I will never say “never”. As I said earlier, if you look now at what ITV, Channel 4 and we are doing, there is so much that is British content, which is really important. If you said, “Do you know what, you should never take formats of programmes that are not British”, you have a problem: “Wallander”; I loved “Borgen”; I was hooked on “The Bridge”; “The Killing” had me absolutely thrilled. There is a role for the BBC to say—it could be from any part of the world—“There is something here that we can take and show to people”, and we should be proud of that. I worry about the easy response which says, “Nothing from North America”, or wherever.

James Purnell: It is an absolutely tiny proportion of our output. It is now “University Challenge”, “Dragons’ Den” and “The Apprentice”. As Lord Hall was saying, it used to be that 30% of the content on BBC at peak time was acquisitions; it is now nothing. If you compare what we are doing with ITV 1, we do twice as much news and factual, half the amount of entertainment, much less soaps. Within that, we are spending less than they do. In four of the last six years we have spent less money than they have. As Ofcom found, we are more distinctive. It is not clear what the problem is. The tiny number of acquisitions of formats, which includes something such as “Dragons’ Den”—taking a Japanese format that was okay and making it something great—is fine, but it should be the exception rather than the rule.

The Chairman: We are going to have to call it a day. We have gone miles over time. Are there any final words you would like to share with us?

Lord Hall of Birkenhead: No. Thank you very much for your time. I say this without any complacency, but I have to say the BBC at the moment—I thank all the staff for this—is in creative great shape. We are doing some amazing things. Thank you for listening.

The Chairman: Thank you both.

Examination of Witnesses

Dan Brooke, Chief Marketing and Communications Officer, Channel 4, **Huw Jones**, Chairman, S4C Authority, and **Magnus Brooke**, Director of Policy and Regulatory Affairs, ITV

Q187 The Chairman: Dan Brooke, Huw Jones and Magnus Brooke, thank you all very much for joining us. You were tuned in to some of the last session, but you have gathered we are looking at the public purposes of the BBC, we are looking at the scale and scope of the BBC and we are looking at the process for setting the licence fee. We are going to ask you a whole series of questions, if we may, but you might like to introduce yourselves, say who you are and then, if you wish, give us an opening statement, as we are being transcribed and televised. Dan, would you go first?

Dan Brooke: My name is Dan Brooke. I am the chief marketing and communications officer and a board member of Channel 4. I am an enormous fan of public service broadcasting and of Channel 4, where I have worked for 12 years over two different stints. The rest of my time I have spent working for American multinational companies, which I also enjoyed. In any discussion about any public service broadcaster, but not least the BBC because it is the largest, this concept of the ecology is the most important thing. Despite some of the nonsense that I read sometimes in the media, television is in extremely good shape. Indeed, television in this country, in many respects, in some genres, rules the world. We are the best in the world at factual television, and this is something to be very proud of. Why is this the case? Partly because we are a fantastically creative nation but also because of this very sophisticated ecology that has been built up in broadcasting over many years by parliamentarians like yourselves, working in partnership with industry, which has produced a variety of companies with different objectives and funding models. This is fantastically good for producers because they have a wide variety of different customers to whom to pitch their ideas. In turn, this is terrific for you and me at home and the diversity of what we can then watch on our television screens. It is a fantastically successful market economically but, also, in the contribution that television makes to democracy, and to our culture. It is a sophisticated ecology, and at points of potential transition for any public service broadcaster—as I say, particularly the BBC—the impact that that might have on this very successful, but also delicate, ecology is incredibly important to bear in mind.

The Chairman: Thank you. Huw Jones.

Huw Jones: I am Huw Jones, Chairman of the S4C Authority. S4C is an independent statutory organisation. We have the privilege, in this world of multi-channels and multi-platforms, of delivering the only Welsh language television service in the world. We have a unique relationship with the BBC. Since 2013, the majority of our funding comes from the licence fee through the BBC Trust and, clearly, any changes to the quantum of the licence fee are likely to have an impact on our services; therefore we have an interest in offering our thoughts on that subject as well as, possibly, some thoughts on how this unique relationship with the BBC has worked hitherto. I am happy to respond to any questions which you may have.

The Chairman: Thank you very much. Magnus Brooke.

Magnus Brooke: My name is Magnus Brooke. I am director of policy and regulatory affairs for ITV. Before I worked for ITV, I was working for the Director-General of the BBC, so I have

a reasonable perspective, I think, from both sides of the fence. The BBC is clearly an important part of life in the UK and we want it to be strong, successful and popular. At the same time, we think it is right that the BBC, in return for £3.7 billion of public money each year, ought to provide content and services that the market cannot provide, but it is emphatically not to suggest that the BBC should be confined to the fringes. It should be popular and it should offer something for everyone, but its popular content should take risks, should be different and innovative, if it is to enjoy the enormous advantages of public money. In a sense, we could not really put it better than the BBC itself puts it regularly, including some of the things you have just heard from the BBC executive. The BBC Trust has talked about a responsibility to be distinctive and about the licence fee liberating it from the need to chase share. Indeed, even in its 2005 pitch for the current charter, the BBC said that it would eliminate derivative programmes and ideas from the BBC schedule. Our simple proposition is that the BBC just needs to be held to deliver what it says it is going to do. That is the very simple thing we would ask you to think very hard about.

The Chairman: That will come out of our questions to you, I think, in more depth. Lord Goodlad will start us off.

Q188 Lord Goodlad: Thank you. The public purposes were designed to be a new quantitative performance measurement framework. Do you think that the public purposes have achieved this, and why?

Dan Brooke: The BBC public purposes are extremely good; they are clear and wide ranging. Channel 4 is supportive of them. Over the course of the charter period, to the naked eye, the BBC has done a pretty good job of delivering against them. I would say, however, that I do not feel over blessed with data that tell me that; there are some but I am not, as I say, over blessed with them. Any organisation needs a clear set of objectives but also a clear measurement system for how to judge the extent to which it is fulfilling those objectives. Particularly, in thinking about the next charter, the BBC has to think about the relationship between ratings delivery and public service delivery. Obviously, in an ideal world, those two things always travel in the same direction, but of course, as we all know, life is not quite like that. I do think a robust measurement system for things which are sometimes nebulous and hard to define, and therefore hard to measure, is possible. We have 12 distinct and some hard-to-pin-down things—such as innovation, alternative views, stimulating debate—in our special public service remit and statute, and we have developed a very clear and audited set of 30 measures that look at provision, consumption and look at viewers' feedback and opinion about what we do against those objectives, which we publish every year in our annual report. We are very happy about that. We convened a conference last year of what I would call public value companies for people in that space to share best practice about measuring themselves and being accountable. I am happy to say Channel 4 received very good feedback on the methodology that we use and we were able to share that with a variety of other companies in completely different sectors of the world.

Magnus Brooke: The purposes are the very high-level statements of broad direction for the whole BBC. They are a bit like a mission statement. For an organisation like the BBC, without a profit motive, it is critical to have purposes which set an overall direction for the organisation. However, they are not a very practical guide to what the BBC should actually do and the decisions it should actually take. The vital thing is that they are turned into practical obligations or commitments that determine what it should, or should not, do. That is where I think the problems have occurred for the BBC, for a number of reasons. First,

there is massive complexity. We heard a bit about that and saw the large pile of documents that James brought in. There are purposes, there are purpose remits, there are purpose priorities and there are purpose plans. I can see how it is bewildering for the BBC genuinely to know, “What am I supposed to do? I have too many documents here purporting to tell me one thing and another, not all of which I suspect are consistent”.

Secondly, the relevant obligations are imprecisely defined and mostly apply to the BBC taken as a whole, not to any particular service. This has enabled the BBC to concentrate delivery of many of its core obligations in its minority appeal services rather than services such as BBC1, and BBC1 accounts for approaching half the licence fee. What is more, there is no binding obligation on each channel of the BBC to innovate, to challenge or to be original. One of the things we found which surprised us when we looked at this was that, provided the content on BBC1 is high-quality or engaging, the BBC has effectively discharged its obligations in relation to the relevant content for the channel. The truth is there are plenty of other channels that have high-quality and engaging content that do not require public funding.

Thirdly, although the concept of BBC services each having a service licence is welcome, in practice those licences are vague and undemanding, with regulatory obligations which, in a lot of cases, are a little different from those of ITV. Finally, even where the BBC Trust has repeatedly expressed concern about the distinctiveness of BBC1, which it has done twice, in 2010 and 2014, there do not seem to be the powers and the levers to change the approach of the BBC executive under the current system.

Q189 Lord Goodlad: S4C, your operating agreement requires you, as an independent PSB receiving the majority of its funding from the licence fee, to ensure that your services contribute towards the fulfilment of the BBC’s public purposes. What assessment of the purposes and your contribution to fulfilling them have you made and would you like to share with us?

Huw Jones: The operating agreement is the document that defines the relationship between the S4C Authority and the BBC Trust from 2013. However, S4C has to fulfil two functions, the first of which is to fulfil its statutory remit, which continues and is fairly broad. The BBC Trust requires that the licence fee money used by S4C should accomplish or contribute to the achievement of BBC public purposes. In reality, there is no difficulty in squaring that circle because, clearly, both organisations have public purposes and S4C’s public purpose is entirely about serving the public in ways consistent with the BBC’s. When the document was drawn up, it identified the ways in which S4C could contribute to the six public purposes; for example, sustaining citizenship and the provision of objective news. There are references to encouraging creativity and so forth, and reflecting culture—that S4C should reflect Welsh arts, and so forth. Each heading contains a reference that S4C is expected to, and welcomes the opportunity to, accomplish because that is what it does in any case. The reporting in the annual report does not specifically take the headings as such because the framework that has been agreed for annual reporting refers to the RQIV structure used by the BBC Trust, which is about reach, quality, impact and value for money. The qualitative report does refer throughout to ways in which S4C’s impact does contribute to the BBC public purposes.

Q190 Baroness Jay of Paddington: Could I press you a little further on the question of distinctiveness, which you have already talked about, and how you measure that? Magnus Brooke, you said in your written evidence to us that service licences are too high level, and

you have already talked about their generality. You say they do not contain any demanding metrics around the delivery of distinctiveness. Could you give us some particular examples, both of what you would see as being the relevant type of distinctiveness and how you would measure it?

Magnus Brooke: Sure. I should say, to start, of course, that the BBC makes a number of highly distinctive programmes, and it would be surprising if it did not. For us this debate needs to be a bit more empirical; particularly, our analysis of BBC1 shows there is a lot more to do, and I will explain what we mean by that. Excuse me if this answer is a little lengthy because I think we need to take you through it. There are two sets of indicators for distinctiveness. One is a set of, if you like, subjective indicators that should be used by people commissioning programmes, and there is a second set of more objective numeric indicators. In relation to the more subjective indicators, in very simple terms, distinctive content is content that is different in some important ways from that provided by the competition.

Baroness Jay of Paddington: You are not talking there just about market failure, are you?

Magnus Brooke: No, we are absolutely not just talking about market failure. Of course, being of high quality is important but not sufficient, we would say. The sort of indicators I am talking about are: is a programme new, as opposed to being acquired, repeated or a further series in an existing strand? Is the subject matter, format or genre a common one on television already? Is the subject matter or genre mainstream? Is the programme dealing with an unusual subject or doing it in an innovative way? Does the programme feature new talent in leading roles on the screen or in the writing? Does a programme create a new genre or sub-genre? There is a series of indicators—there are lots of others you can think of—and those are relatively subjective.

What we have also done though is look under the bonnet, if you like, of BBC1 and said, “Okay, what is it actually delivering beyond some headline programmes?”. Again, just to emphasise, we are not saying that the BBC is not providing distinctive content. Clearly it is. “The Dresser” is a fantastic programme, highly distinctive, and exactly what we are talking about. However, by contrast if you look at elements of the daytime schedule, it is highly static and does not change very much. It consists of programmes largely about property and collectables, and we struggle to see the justification for publicly funding the 42nd series of “Bargain Hunt”, the 19th series of “Homes under the Hammer”, the 16th series of “Escape to the Country” and so on. That does not seem to us to be particularly innovative, risk-taking or interesting. There has to be more that comes with public funding than that.

In peak time, BBC1 has become more and more reliant on a smaller and smaller number of programme titles over the past 10 years, even fewer than ITV. It seems very risk-averse to us. What is more, the percentage of hours of genuinely new programmes on BBC1—so not repeats and not returning series—has fallen substantially in “all hours” and in “peak” since 2007. Again, this seems very risk-averse—not commissioning new programmes, relying on the ones you have and spreading them out through the schedule as much as you can. In recent years, from a genre point of view, the volume of specialist factual programming on BBC1 has halved and that has been accompanied by a steady rise in factual entertainment. James talked about a massive distinction between ITV entertainment and factual programmes. But if you look at the numbers, although we run a lot less factual programming than BBC1, in practice BBC1 runs 10 times the amount of factual entertainment

programming than ITV runs. In fact, the distinction between ITV running lots of entertainment and the BBC running lots of factual programmes is not quite right because factual entertainment is a massively greater part of the BBC1 schedule than it is for us.

Furthermore, there has been a steady decline in arts and classical music as well as comedy on BBC1. There is also little contemporary music on BBC1, and the channel runs little more peak-time current affairs than ITV does now.

If you take all those things together, looking at the channel as a whole, we struggle a bit to see a very high level of innovation and distinctiveness across the schedule, by which I do not mean “unpopular” content.

Q191 Baroness Jay of Paddington: I understand what you are saying, but does your analysis apply to other BBC channels or is this simply about BBC1?

Magnus Brooke: BBC1 is important because, as I say, it is approaching half the entire licence fee, so we have absolutely focused on BBC1. BBC1 is probably the least distinctive of the BBC services. By the way, it is not just me saying that; the BBC Trust has said consistently, in both 2010 and 2014, that there is an issue with the distinctiveness of BBC1. So it is not just ITV’s view, it is actually the Trust view that something needs to happen.

To answer your question about metrics, we put quite a bit of detail into our submission to DCMS, but one can think of obligations around a minimum number of new formats and new programmes, particularly in peak time. The levels we have suggested would be substantially higher than at present, but only about 4.5% higher than they were in 2007, for example. We are not talking about a kind of revolution from where the BBC has been in relatively recent times. There should be an obligation to invest in on-screen and off-screen talent new to BBC1, so growing talent and bringing new talent on to BBC1, which is a fantastic national showcase for talent, particularly in comedy, drama and documentaries. That could be captured, for instance, by a requirement for a new talent zone on BBC1, where you guarantee that new talent will come forward and have its place at peak time in the schedule. We also think there is a strong case for clear and more demanding genre obligations on BBC1: for single dramas, for documentaries, for comedy, for contemporary music—more of “The Proms” on BBC1. There are a number of things you could do to reinforce, in a sense, many of the things that the director-general and James Purnell were talking about.

Baroness Jay of Paddington: Given that you have demonstrated that you could have a fairly clear set of metrics, whose responsibility would it be to enforce those?

Magnus Brooke: This is a very important point because, in the end, the definition of these things, and then the way you implement them and ensure they are binding and that you get the information that enables you to assess whether they have been applied, is incredibly important. We would say that responsibilities here should lie with Ofcom. In the end, Ofcom has a set of obligations in relation to public service broadcasting. We are subject to Ofcom’s remit in relation to our public service output; it sets very clear and detailed licence obligations; it collects all the evidence from the PSBs across the sector, and we think they are extremely well positioned. By the way, it is also a highly sophisticated and effective organisation used to dealing with very large players who are very well resourced, and we think it is the best body to do this job for the BBC.

Baroness Jay of Paddington: Dan, without inviting you to, perhaps, give such a lengthy answer, which was very interesting, do you agree with what Magnus has said? Is that your broad outlook?

Dan Brooke: Yes, “distinctive” is quite a broad word. It is just being different, from what I can see. I would like to make a remark about how that relates to Channel 4, because of course we are the ones given a remit by you to be different. Yes, there are things that can be measured, and probably should be measured, in relation to the BBC. People talk about distinctiveness in what the BBC should not be doing as much as anything else. You can measure acquisition versus British production, which is an important measure of distinctiveness. Counterscheduling is an area which you could measure. I admire what ITV has done in publishing in advance their scheduling for “The X Factor”, in the hope that it would not be counterscheduled against. There is an element of subjectivity in making copycat programmes, but I think you could measure it. Pulling back from that, of course, Channel 4 is given our own detailed remit, just as the BBC has its own detailed set of public purposes to be different and to be alternative, and it is important that the BBC should always be mindful of the public service responsibilities that Parliament has given to other organisations. In saying that, it is really a matter of breadth and depth; it would be silly to say the BBC should not do things that Parliament has asked Channel 4 to do. It is all about the prioritisation and allocation of resources. For example, Channel 4 is given a specific remit to produce public service content that appeals to younger people, and I believe we are very successful in that. The reason I believe that is that we are the only public service broadcaster in the entire world to have a share of viewing for young people that is higher than our share of viewing for the general population—the only one in the world. Could young people be even better catered for in public service programming? Possibly. When the BBC came along and said they wanted to move their channel aimed at that age group, BBC Three, online we said, “Okay, we think that’s fine because this audience is being well catered for”. In contrast, the BBC is one of the only providers for other age groups, such as children’s, and were the BBC to say they think they should reduce their levels of distribution—let us put it like that—for that age group that would be more of a problem.

In any event, I am confident that, because of the characteristics of our two different organisations, the same set of homework produces a completely different set of results, more or less every day. What Channel 4 did with the Paralympic Games is an example of that and, as I am sure you are all aware, it had always been with the BBC. Another example is our extensive reporting about the ending of the Sri Lankan civil war. We were the only media outlet in the world to be reporting there. That is now being investigated by the UN. That could have been covered by other broadcasters in this country and it was not. The third example I would give you is Steve McQueen, a black filmmaker. Ten years ago he was a contemporary artist. I used to go and watch videos of his in churches in the East End. He said, “I want to make a film”. Channel 4 took a risk with him. We made three films with him, the third of those was “12 Years a Slave”, a massive box office hit, and the entirety of Hollywood now wants to work with him. He is the first black director to win a best director Oscar. Those things are all completely unique to Channel 4. I would not bleat at you that the BBC should not have words in its public purposes that do not overlap with Channel 4’s remit, but I do think the BBC should always be mindful of the jobs other people are given and the success with which they fulfil them.

Q192 Baroness Healy of Primrose Hill: The Communications Act 2003 sets out a large number of purposes for the PSB system. Is it appropriate for the BBC's public purposes to differ from the purposes set out for the other PSBs? I hear what you said about channels having different remits, et cetera, but would it make it easier if everybody had the same original mission: to inform, educate and entertain? I am interested in all your views.

Dan Brooke: I have slightly answered that question already in our respect. The most important thing is the ecology as a whole and whether the public service broadcasters, taken together, are fulfilling the goals and definitions of public service broadcasting. I read them all last night and, broadly, I think the system does. The BBC is always going to operate on a much wider waterfront because it is much larger because of the scale of the licence fee. However, as I say, I think compartmentalising different organisations, saying, "You should do this", "You should not do that" is not right, but it is all about being mindful and the allocation of resources, bearing in mind what is going on in other parts of the jungle.

Huw Jones: Very much the same reply, in that our remit is stated in the Communications Act and it is implicitly part of the big picture. We have a specific role to perform and that is clearly understood and, therefore, it is consistent with having a big picture and a specific remit.

Magnus Brooke: I do not think it is essential to have the same purposes. The BBC, as a publicly funded entity, is always going to have a broader set of purposes, I suspect, not least because it has an international purpose which I do not think the other PSBs are necessarily going to have. What would be useful, and it goes back to the question I was answering before, is having a single organisation with an overview of delivery as a whole for PSBs. We would say Ofcom is the right organisation to have that, but I do not necessarily think that means you have to have the same remit.

Dan Brooke: I would agree with that. Ofcom's public service reviews, which are excellent and happen every five years, take the BBC into account but they do not focus as much attention on the BBC as they do the commercial public service broadcasters, and they probably. You have to consider the thing in the round.

Q193 Baroness Benjamin: In principle, how do you view the market failure argument? By that I mean one that restricts the BBC's content to that not provided by the commercial sector. Is the BBC's current scale and scope appropriate? Are there any areas of the BBC's work that you would reduce in size or even discard? Alternatively, are there areas you think the BBC does not do enough?

Dan Brooke: I am happy to come in on this. I feel very strongly about this. I feel that the BBC should be operating in all genres and should not be restricting itself to market failure genres; I think that would be a real mistake. A broad-based BBC of services and genres, appealing to a wide variety of different audiences, is incredibly important, and I would worry if that were to change.

Going back to what I said before, this sometimes inverse relationship between ratings and public service delivery—of course, one wants a bit of everything—often goes in opposite directions, and having a broad base allows you to do two things, quite apart from just appealing to a wide variety of different people. The first is you can have high-rating programmes which deliver a high audience to high public service content. The news would be a terrific example of this, where we certainly schedule a high rating soap opera for young

people, “Hollyoaks”, right before the news to maximise the amount of young people who go on and watch “Channel 4 News”. I know the BBC do the same with their scheduling.

The second thing would be this concept of smuggling, which has proved itself very successful over the years, where you take programmes that do not appear to be public service programmes and you smuggle public service issues into them. That happens across a wide variety of different programmes. In many ways soap operas are the best examples, and it happens on “EastEnders” just as it happens on “Hollyoaks”, where we have plenty of public service subjects—mental health, alcoholism, abuse, sexuality and so on—which are riddled through the storylines of those programmes. People do not come out of it thinking, “I have just been educated about a public service issue”. They think, “I have watched a great entertainment programme, a soap opera”, but in the course of it important messages have been delivered and, I think, absorbed by the audience.

Baroness Benjamin: What does it not do, then, in your view? Are there any areas you feel it should be covering?

Dan Brooke: I honestly think the BBC does, broadly, a very good job across the range of what it does. The one thing I would say is, again, it being mindful of what other people do, particularly as that relates to other activities by other people, like us, that fulfil public service objectives.

Magnus Brooke: I think it is vital that the BBC does remedy market failure because, in the end, by definition, no one else is going to. The market is not and, therefore, the licence fee, ultimately, as a starting point, should remedy market failure. I think that is fundamental. However, that does not mean that is all the BBC should do, and I agree with Dan that, of course, it should have a broad range of content and it should have popular content. The critical question for us is how it does that and whether it does that in a way which is distinctive. We do not think they should just be confined to the market failure role, but the market failure role is important. One of the things that strikes us, just on your point of scale, is that expansion of the BBC in recent years has been an expansion of more distinctive services, interestingly. A lot of the new services—BBC Three, BBC Four, 6 Music, CBeebies, CBBC—are highly distinctive services. There is a degree of market failure remedied in some of those services. One of the things we would be concerned about, I think—you can see this with BBC Three—is taking money out of existing distinctive services and putting it into, in the case of closing BBC Three, the least distinctive of the BBC service, which is BBC1. There is a question about making sure those distinctive services continue to flourish and that the market failure role of the BBC is maintained, but, of course, not to the exclusion of other things. The conversation you were having earlier about the nations is an incredibly important conversation, which I suspect Huw will have a view on, because there is a real pressure in the nations. We certainly feel that the economics of nations’ provision, particularly beyond news, is genuinely quite challenging. There is a real case for the BBC having to maintain an adequate and appropriate level of funding for those activities.

Huw Jones: There is a difference between saying that the BBC should not just be about market failure and saying that the licence fee should not be about market failure at all, I agree. Market failure is real, it exists, and Welsh-language television is probably one of the most obvious examples.

It is interesting, however, to go back to the setting up of S4C because, over the years, there have been different funding mechanisms which have provided funding for S4C, of which the

licence fee is the most recent. The funding mechanism for S4C for the previous 15 or 20 years was principally government, but before that S4C was funded out of a levy on the profits of ITV companies, for example. There have been different mechanisms at different times for addressing market failure. One of the issues here is that it appears that the only mechanism that exists at the moment, apart from the obligations placed on ITV and others by Ofcom and by statute, is the licence fee, and that raises interesting questions about how far it is meant to go.

Q194 Baroness Benjamin: In talking about market failure, how would it work in practical terms? What would be the costs and consequences to the UK creative sector, and do you have any evidence to support your view?

Dan Brooke: I have seen this report the BBC has done—okay, it is produced by the BBC—which appears to show that in countries where public service broadcasting is strong, and where the equivalent of the BBC is strong, the commercial market is also extremely strong. That looks quite convincing to me, and it is definitely the case that a strong BBC produces a quality bar to which we all have to aspire and reach, and it keeps us all on our game. That is very effective as a mechanism. If you make the BBC just about market failure, you do not reduce the height of that bar in those areas, but you do generally.

Baroness Benjamin: We talk about children's television. The BBC, as you quite rightly say, is probably the one doing the massive amount of work for children's, so there is a market failure as far as independent producers are concerned, whether ITV or all the other commercial channels. What is your view on the point that I have just made?

Magnus Brooke: I would agree with quite a bit of what Dan said. Clearly, the licence fee is an enormous stimulus to the UK creative economy and enormously important in encouraging competition. As Dan says, we have to raise our game. The question for me is whether the BBC's positive impact is sufficient? In other words, is there enough innovation? Is there enough constant encouragement of new talent? Are they commissioning the 42nd series or are they commissioning a new series? If they are commissioning a new series, that is a fresh infusion into the UK creative economy, an opportunity for a new producer, potentially an opportunity for new talent and, potentially, an opportunity for a production company in a different part of the UK. That is really our central point, which is not to say in any way that the BBC ought to be just about market failure; it should be risk-taking and innovative, using the licence fee in the most effective way it can. Just on children's, ITV still commissions some children's production, and indeed we are one of the most—in fact, we may be the most—popular, commercial UK children's channel, but it is a very challenging market. The BBC's role in funding children's content in the UK is incredibly important because it is a very challenging market to be in.

Huw Jones: The use of public funds and the use of licence fee funds to fund S4C has created, through our commissions, an independent production sector in Wales which has then gone on to create businesses which are the foundation of the drama productions which are now happening in Cardiff and of international exports. There is an economic impact through that use of market failure in this very particular way.

Baroness Benjamin: So you are saying, putting aside financial considerations, there are other social benefits this would achieve for the rest of the UK?

Huw Jones: Yes, indeed—absolutely. The jobs provided through television outside London are hugely important. They are very often of a higher economic value than the other jobs which are available in an area. I live in north-west Wales; there are some important independent companies there making a huge contribution to the local economy and to the whole cultural and entrepreneurial confidence of the area.

Q195 Baroness Kidron: My question is just a granular aspect of what you have already been discussing. ITV said, “The BBC should not be permitted to acquire content that is already made (or a format that already exists in another territory) where another commercial rival is prepared to purchase that content or format”. That is a very robust statement. I would like, in a narrow sense, to ask you whether it is really a problem for commercial companies if the BBC is so choosing? I am not talking about the distinctive question or the qualitative question; I am talking about the commercial positioning.

Magnus Brooke: In a sense, the problem here is less for us than for the UK creative economy and for licence fee payers, I would say. It seems strange to us, as a country, that we should publicly fund a broadcaster to buy programme formats and indeed US content which commercial broadcasters could do equally well but at no cost to the licence fee payer. Our question really is: what is the point of the public funding that enables it to do that? Conversely, it does strike us that public funding could do so much more in developing new programmes and new formats for UK viewers and for the UK economy. That is riskier, certainly, but without the need to make money surely that is the thing the licence fee enables the BBC to do. There is more jeopardy in that, but in the end if you do not have the commercial downside you have the freedom to experiment, to innovate and to go and do those things rather than reducing your risk by buying an existing programme or an existing format. Of course, we are not saying—and the BBC slightly elided this point—that these things should somehow not appear on British television so that you would never have “Wallander” and you would never have “The Apprentice”. We are saying the BBC should be the buyer of last resort so that in the event that those things simply are not on British television and no one else is interested—and Scandi Noir is a good example of that—then absolutely the BBC’s role is to say, “Okay, there is this rather obscure genre of content from Scandinavia, we are going to show it on our channel and make it popular”. That is a core role for the BBC. We question a risk-mitigation strategy, which is familiar in the commercial sector. In the end, the BBC licence fee is there to enable you to not have to engage in that risk mitigation and take more risk with the UK programme sector.

Baroness Kidron: We heard earlier about the balance between being popular and how it might feed into other things, but I am interested in this very commercial question. Do you think there is any disadvantage in being a buyer of last resort, as you call it, for the BBC in selling its programmes? Is this a “clipping of commercial wings” question?

Magnus Brooke: No. In a sense, it is quite the reverse. If the BBC did not acquire existing formats and existing programmes, it would have to take the risk in commissioning new programmes and new formats itself, both in-house but also externally from independent producers. If it made a success of those, it would have its own programme or format—or indeed the independent sector would have the secondary rights in the programmes and formats—which it could then sell around the world. In a way, what we are saying to the BBC is, “The licence fee gives you the ability to take risk, go outside and do new things, and you might actually find you end up with more than you started with” and, in the process, licence

fee payers will get something they would not otherwise have had but continue to get access to the acquired content.

Baroness Kidron: You are talking as if you have the licence fee. We are trying to get at the commercial question of how does it affect you? Would you like to have those formats available for commercial players specifically, rather than say, “The BBC could do it better”? I understand your argument.

Magnus Brooke: In some cases we might well, yes.

Dan Brooke: I do not think this is the end of the world. What the BBC has done, reducing the amount of acquired programming that it produces, as we have just heard from Lord Hall, is commendable and brilliant. It should be concentrating on British programmes that they originate, because I think that is better for the economy, for producers and in all sorts of other ways. I also agree with what Lord Hall was saying, that you cannot be binary about this, and should the BBC never do a particular activity? That is too extreme. Should the BBC only ever be allowed to buy a format when it has been shown over X period of time and not one single person has put in a bid for it? Then you get a situation where people put in these silly bids in order to warehouse formats so that no one else can have them. It is very difficult to police, I think. It is, possibly, viable to have some top-down measures that ask: is the balance right and not getting worse over time?

Baroness Bonham-Carter of Yarnbury: Magnus, we are talking about a BBC that is facing a serious cut in its funding, so choices have to be made. Listening to you say, “Retain BBC Three”, that is a huge expense, of course. May be you think the licence fee should be higher than it is. I do not know.

Magnus Brooke: No.

Q196 Baroness Bonham-Carter of Yarnbury: Coming to the question, which Dan mentioned earlier, of the overall ecology of our television in this country, the BBC has just told us—I think you did not actually hear that—that they very much support the plurality of our broadcasting system, which includes a publicly owned Channel 4 financed for advertising. You also talked about how Channel 4’s remit is to be different as part of this very successful creative hub which is television in this country. Can a privatised Channel 4 retain that remit of being different?

Dan Brooke: You could retain it on the page but what would end up on the screen would be quite different. Let me explain what I mean by that. We have a hybrid model which has shown itself to be very successful over 30 years. We raise all of our money commercially at absolutely no cost to the taxpayer and it has never been a cost to the taxpayer. Being commercially funded we have to be relevant, but we also do not have to pay dividends to shareholders, so we can put all of our revenue back into programmes. Within that, we operate what we call a “Robin Hood model”. There are a variety of different programmes that make money, for example “Come Dine with Me”. That is a very profitable programme made for us, as it happens, by ITV. That exercise enables you to pay for a considerable number of activities which lose money. The way we do “Channel 4 News”, “Dispatches”, “Unreported World”, the investment that Film4 makes into British film, even the Paralympic Games, in the fulfilment of our remit does not make money. On the assumption that a privatised Channel 4 would be a profit-maximising Channel 4—I have spent half my career working for profit-maximising companies—when it looks around its empire and says, “What

are we going to carry on doing and what we are going to stop doing?" you can be as sure as eggs is eggs that the things that do not make money are the things that will either go completely, or will be done in a completely different way so that they do make money. A little bit depends on what you want, but I take issue with this idea that you can somehow change the fundamental incentive structure of the organisation and continue to have the delivery of the remit at exactly the same level. If I could put it this way: the idea of having your cake and eating it is a little bit pie in the sky.

Baroness Bonham-Carter of Yarnbury: And there would be a knock-on effect on the BBC's contribution and public purposes?

Dan Brooke: I think there would, yes. It is inevitable. It would change the ecology. As I said, it is a sophisticated and delicate ecology. That is not to say that it is not itself always changing and does not need modernising; it does, and of course it is absolutely right and proper that government should have a look at how the organisation is doing, but big changes to this delicate system; I fear that once things go it is extremely hard to get them back.

Q197 Lord Sherbourne of Didsbury: Just for Mr Jones: in the last four years or so you have suffered quite a considerable reduction, in real terms, in your budget, of about one-third, perhaps more. Looking forward, first of all, how concerned are you about further reductions and, secondly, what would the impact be on viewers and how would they suffer?

Huw Jones: Thank you. We have two primary sources of funding: the licence fee accounts for some 90% and we get about 10% of funding directly from DCMS. The agreement with the BBC Trust comes to an end at the same time as the charter, so there was always going to be a process of reviewing S4C's needs going forward. Our concern is that there is uncertainty regarding both sources of funding and that there is not a process in place to look specifically at S4C's needs. The Secretary of State and the Chancellor said in their letter to Lord Hall, when they set out the parameters of the new financial agreement—if such it is—that they should assume there would be an equivalent percentage cut in the S4C "grant", as they call it, to any cut that the BBC would face. At the moment we do not know what that means in financial terms, and it appears to range from a possible cash flat outcome to something like minus 20%. There is obviously a lot of concern there.

As far as DCMS funding is concerned, this is subject to the comprehensive spending review which we may know more about at the end of this month, but departments are being asked to model quite heavy cut scenarios. Both of those create considerable uncertainty for us. We are talking to the BBC Trust in trying to understand its interpretation of the read-across to S4C's funding, and we will see what happens there. Indeed, as we think about what might come of these two scenarios, on top of having a 36% real-terms cut since 2010 and having to cope with that, we have generated some £12 million cumulative cuts in our administration and non-programme costs, and the programme budget has come down by about 19% overall. Producers have done enormously well in cutting costs. Your question is: what will the future impact be? We will do everything we can to protect the programme service and to implement cuts wherever else we can find them, although having cut 36%, there will not be many places we can find easily, and our concern has to be that, ultimately, the service will suffer in some shape or form.

At the moment, 57% of our output is repeats, which has gone up from about 54%. That is an interesting indicator of where the pressures lie, and therefore we can assume is the sort of thing that will happen. It would mean inevitably that we would face choices about priorities

as between different ways of serving a broad audience. Do we cut the children's service? Do we cut the service which appeals primarily to older people, which is a form of social service, if you like, or what? Yes, we have concerns and we would like a transparent process of looking at SC4-specific needs rather than it being an add-on to a process which addresses another organisation, namely the BBC.

Lord Sherbourne of Didsbury: That is very helpful, thank you.

Q198 The Chairman: I am afraid we have run out of time but we have a couple of questions left. I am going to ask you, if you would, to give us some final thoughts. You might or might not wish to address any part of these last two questions. If you are not able to cover them, perhaps you could write to us afterwards, and we will take it from there. One of those questions is about your views on the closer partnership that the BBC has pledged, working with you and with others, and indeed opening up the iPlayer to showcase content from other broadcasters. If you have a particular reaction to that, please tell us. The final questions were about the funding for the BBC: how did you react to the licence fee settlement carried out the other day, and in times past? Do you feel the BBC should think about raising money from other sources, such as advertising on its website, and looking at subscriptions for its content? Please do feel free not to answer more than one of those questions.

Dan Brooke: I can rattle them off quite quickly. We welcome the BBC's attitude to partnerships. The specific things you talk about in relation to iPlayer and technology we also welcome. Indeed, we think the concept of partnerships, in particular as it relates to other public organisations, should be one of the BBC's public purposes. In relation to the licence fee process, one of the consequences of it not being an open process was this iPlayer loophole, which was closed down, but in the process there is the potential, certainly for us and the other commercial public service broadcasters, that going forward it might be illegal for people to use All 4, which is our online service, unless they can prove that they are a licence fee payer. That does not seem quite right. Of course, if there is a mechanism for them saying, "I am a licence fee payer", we think that will reduce the audience potential for our service because it is a faff to put your details in, and that will reduce the revenue and, consequently, the amount of money we can then put into public service content.

As far as other funding sources of the BBC, one thing we feel absolutely categorical about is that the BBC should not be taking advertising.

The Chairman: Thank you very much.

Magnus Brooke: One thing which has really struck us in the current debate around the BBC charter is the similarity of the pitch in 2005 for a new charter and the pitch in 2015. They have the same themes of partnership, openness, distinctiveness and efficiency. The question for us is whether things are going to be different this time, which goes to the central theme of what I have said today, which is how do we make sure the BBC actually delivers what it says it is going to deliver? It is saying all the right things, but we need to put in place a framework which ensures it delivers. We have lots of effective partnerships with the BBC in YouView, in Freesat and Freeview, but partnering the BBC, frankly, has not always been very easy. On the iPlayer specifically, we have not seen any details; it is difficult to be specific. I would say that in the end the BBC starts from the position that everyone should be on a BBC proprietary service, with all that entails, and that may not be the easiest way to start with commercial players which require dynamic advert insertion and various other things.

On funding, we are in a very similar position to Channel 4. The licence fee is fundamental for the funding of the BBC and we support the licence fee; we support a well-funded BBC. We do not think it should take advertising. We are sympathetic to the idea that the iPlayer loophole ought to be closed and that people ought to pay the licence fee if they access iPlayer. However, as Dan says, we can see no earthly reason why, if you use ITV Player, you should as a consequence of that have to pay the BBC licence fee on pain of criminal penalty. That seems to us to be a very odd situation, without any analogy to the current regime in linear television services, where it applies to every single service. To single out a handful of services, the Channel 4 service, the Channel 5 service and the ITV online service, as being the thing which triggers the obligation to pay money—to somebody else, by the way, not to us—feels a very odd situation.

The Chairman: We have that.

Huw Jones: Very briefly, S4C has a formal partnership with the BBC and one of the results of that has been that S4C programmes are now available on the iPlayer to the great benefit of the public and to Welsh-speaking viewers.

The Chairman: Interesting. Thank you very much, and apologies that we have run well over time. It is all the fault of the BBC.