HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: BBC Commercial Activities, HC 670

Wednesday 25 April 2018

Ordered by the House of Commons to be published on 25 April 2018.

Watch the meeting

Members present: Meg Hillier (Chair); Bim Afolami: Sir Geoffrey Clifton-Brown; Chris Evans; Anne Marie Morris; Bridget Phillipson; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Tim Phillips, Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1–137

Witnesses

I: Lord Hall of Birkenhead, Director-General, BBC, Anne Bulford, Deputy Director-General, BBC, and Tim Davie, Chief Executive, BBC Studios, and Director, Global.

Report by the Comptroller and Auditor General

The BBC's commercial activities: a landscape review (HC 721)

Examination of witnesses

Witnesses: Lord Hall, Anne Bulford and Tim Davie.

Q1 **Chair:** Good afternoon. Welcome to the Public Accounts Committee on Wednesday 25 April 2018. We are here today on a new venture for both the Public Accounts Committee and the National Audit Office, because the NAO has had the pleasure of investigating the BBC's commercial activities for the first time. I am sure it was a pleasure for the BBC as well as the NAO. We are now looking at its Report, which is really the first stab it has had at looking across the wide range of commercial activities that the BBC undertakes, and it is able to share that with us, so it is our first stab as well. We know that our sister Committee will be looking at a lot of these issues with us. We are excited in Parliament that we are able to get to grips with how the BBC manages its commercial activities, and what the risks and challenges there are. We will cover some of those issues. There will be a couple of other issues that I would like to raise with you at the beginning, Lord Hall—you might guess what they will be about—but I will start by introducing our witnesses.

Tim Davie is the chief executive officer of BBC Worldwide, which is the largest part of the commercial element of the BBC. Lord Tony Hall is the Director-General of the BBC—welcome back to you. Anne Bulford is the Deputy Director-General of the BBC.

Before we get into the main session, Lord Hall, you have had a bit of an unfortunate run with staffing and pay issues recently. Obviously there was the personal service company issue. I think particularly of that photograph outside Parliament the other week of all those presenters and others, who felt that they had been corralled into setting up these personal service companies. We have also had the gender pay gap issues. I wonder if first of all you would like to give us an update on how you are tackling those two issues and what progress you have made.***Lord Hall:*** Yes, most certainly. Maybe I could take the IR35 and the tax PSCs issues first. What has taken place is a series of changes from HMRC, ending up in the last tax year with a new test for presenters and our front-of-camera and mainly front-of-microphone staff. The third change came quite recently, when HMRC said that the test that it was applying, and was asking us to apply, was not fit for purpose, so we need to work out yet another CEST, as it is called.

This has caused a good deal of confusion for individuals and a great deal of anger among our frontline presenters, mainly on radio and news. In some cases, it has also caused some hardship. Anne and I have met with as many of those people as we can—not all—to talk about how we resolve those issues, and if there are cases of hardship we have made it absolutely clear that we want to deal with those as a priority.

We know that there are issues here to address. Both Anne and I are on this case. We have set up an independent process, under the supervision of the Centre for Effective Dispute Resolution, to determine the right approach for where on-air presenters believe that the BBC bears some liability for the sort of contracting done in the past. We are actively on this, because we seek a resolution that is fair to those presenters and front-of-camera and front-of-microphone people but that also balances our responsibilities to make sure that the public money that we receive through the licence fee is spent properly.

It is something we are both spending a lot of time on. It is a big issue. I wish it were not as it was. My sympathies are with the people who are on the raw end of this, so I want to make sure that we act.

Q2 **Chair:** Before we move on to gender pay, I will just ask a couple of questions on this issue. You talked about hardship cases. Does this mean that the BBC will pay extra money to people who can't pay the tax bills for the years that they were under these contracts that they are now being presented with?

Anne Bulford: At the moment we are dealing with the transition from the previous regime under the old mechanics, whereby people were taxed under schedule D at the end of the year, into a PAYE system. For some people—especially some lower-paid presenters—that represents a very big challenge, because the cash flow is different.

We have set up a helpline for people who have queries or questions, and particularly for those who face any sort of financial difficulty or difficult in meeting bills as they fall due through that transition. That helpline is there to assist them. We have helped some people with temporary cash flow.

Q3 **Chair:** Does that mean you have given them loans?

Anne Bulford: Yes, effectively, or advance payments. That kind of thing.

Q4 **Chair:** What sort of scale are we talking about? Thousands? Hundreds?

Anne Bulford: We are talking about comparatively modest sums of money in the overall scheme of things, but they are important to the individuals. We are talking about 15 individuals.

Q5 **Chair:** Is there a cost to the BBC of having given that out?

Anne Bulford: There will be a small cost of money. Given where interest rates and things are, it is quite small. It is actually not dissimilar to the sorts of issues that the Revenue would deal with during the course of the year. If your tax code is wrong, you don't particularly get interest in and out of that. We think it is the right thing to do. It is very challenging for people to go through this sort of transition. Because of the timing of the introduction of the new test—there was very little notice—we weren't in a position to reassess people until quite far into the current financial year, so they didn't really have time to plan.

Q6 **Chair:** What about any retrospective tax bills that individuals have to pay? That is quite devastating for some people.

Anne Bulford: It is, and I think that is exactly at the heart of the process that the Director-General has described. These issues are historical; they date back some time. People's individual circumstances are different.

Where the Revenue looks backwards and assesses people's status differently, and where bills arise from that, the challenge that has been put to us, even though individuals are contracted through personal service companies—the liability sits with their personal service company, not the BBC—is to find whether there are circumstances where the BBC should take some responsibility, and in balancing responsibility for public money with responsibility to our very important on-air, on the whole, talent.

Those are difficult questions, and each case is different, which is why we have set up the process to consider that. Recognising our regulatory responsibilities, we kept the NAO fully informed of that as we started to think about that process.

Q7 **Chair:** Do you agree with the assertion that many of these people were told they had to go on to personal service contracts, or set up personal service companies, and be paid that way, or they would lose their job? In fact, there is one individual who wasn't paid, I understand, for several months, because they didn't do what they were told to do by the BBC, and they have some evidence of that.

Anne Bulford: There are different groups of people running through this. I think the conclusion that people haven't been asked to move from staff contracts on to personal service companies is correct. The evidence given to this Committee in 2012 largely around entertainers, who were a group of people at that time who absolutely were unequivocally regarded as freelance, being asked to work through personal service companies was true, and that was what was said at the time.

People may very well remember that at that point the challenge was very much about how the BBC could be certain that individuals were paying the right tax and that there wasn't exposure. It was very much about tax evasion.

What has happened is that the mechanism put in place to deal with that challenge of course leaves individuals personally responsible for this reassessment of the past contractually, and our process is designed to consider exactly whether that feels fair in the round. And it's not straightforward.

Q8 **Chair:** You say it's not straightforward and it may depend on individual circumstances. Will there be cases where the BBC—in fact, the licence fee payer, of course—will be paying some of the back tax for some of these individuals?

Anne Bulford: I can't conclude on that until we start to work through the individual cases—

Q9 **Chair:** You can't conclude on that, but is that a possibility if you find—

Anne Bulford: In entering into a process, particularly an independent process, of course you have to be prepared to abide by the outcome of it.

Q10 **Chair:** Okay. I know that we and our sister Committee—the Digital, Culture, Media and Sport Committee, which of course Damian Collins chairs—have been talking, and we will be watching this.

Lord Hall, do you think this is a very edifying period for the BBC, both bouncing people in and out of these personal service companies, and now left with this mess?

Lord Hall: The fact that we've been trying to apply one set of rules from HMRC, which then are withdrawn, and we have to have another set of rules, in the space of a year, is really not great. And I—

Q11 **Chair:** We are seeing HMRC on Monday, actually. Are there any questions that you think we should be asking HMRC, if you're saying it's their fault?

Lord Hall: No. We're also trying to manage it, so we've got to take our responsibility for that. I think we've got to learn whatever lesson there is, so I'm not going to pass the buck and just say, "It's all down to them".

However, I think that clarity about applying the new test will be really important. And I say in all honesty that I don't like the fact that a number of our presenters in radio, local radio and news are going through all of this. I don't take any pride in that at all; it's not how I want to run things.

Q12 **Chair:** Briefly on to the gender pay gap, which obviously had a lot of publicity, and I know our sister Committee spoke to a lot of people in January. I wonder if you've got a latest update, or anything new to add to the discussions that have been going on.

Lord Hall: Let me just say where we are. There is a whole block of reforms that we've been bringing forward, since before the disclosures last summer, around career path framework and terms and conditions. This was something that had been talked about when the Delivering Quality First programme of efficiencies was first talked about, some time ago under a different Director-General, and it was kind of pushed, and pushed, and pushed out.

The Deputy Director-General and I feel very strongly that these are reforms we need to start on. We started on those conversations with the unions maybe two and a half years ago. We are going to ACAS in 10 days' time to try to bring to a conclusion those reforms, which I think are really important, because for the first time staff will be able to see how their pay relates to others'. We're reducing the number of job titles from many thousands down to a few hundred. And I hope this reform, in transparency terms, is going to be very big for our staff. But let me tell you that, as I'm sure you all appreciate, changes like that are also very difficult, very hard, and not at all easy, but we're determined to get something that is fair and proper for our staff. So that is one block.

The second thing is our gender pay gap, which, as we announced way before anyone else last summer, was a 9.3% median gender pay gap. Since then we have been working very hard upon plans for each division as to how we can honour the commitment I have made to get to plus or minus 3% by the end of 2020. I hope that we are making real progress on that.

The thing that I think is most interesting, and I hope relevant to the Committee, is a review of progression, because how people progress in the organisation is really important. We offer lots of things to women to help them if they want to leave for a bit and come back, or to work part-time or whatever, but the take-up is not that good. When I said I wanted to do that, Donalda MacKinnon, who is the director of BBC Scotland, volunteered for it. I hope that her findings, which we should have in preliminary form in the early summer, will lead to real change in the way that women are employed and the things that they can have to help them progress within the organisation. Those are just some of the headlines.

Q13 **Chair:** That is the future pipeline. We understand that you are also reducing the top pay of some men to bridge the gap. Given that they were paid more than many of the women they were working with, where that has happened, do those women not deserve a pay boost for the years that they forwent the extra pay that the men were getting?

Lord Hall: We are working through a number of cases. There is the main block of our staff of 18,000 people, where we have had an audit and a review, which has thrown up a few cases. That is not surprising, given the other reforms that we are doing. On the presenters, yes, we have taken down some male presenters' pay, and we are adjusting some other presenters' pay as well. We will put the conclusions of all that work in the annual report and accounts, which we will lay before you in July.

Chair: We look forward to that. I am sure the NAO will be looking forward to going through that as well. Thank you for that. We will leave it there for now, because we know that, as I say, our sister Committee is examining that in detail as well. Chris Evans has another point not directly related to today's activities, but you will be aware of the issue.

Q14 **Chris Evans:** Good afternoon, Lord Hall. I want to ask a few questions about Capita before I go on to today's main business. You will be aware that there was a statement in the House earlier in the week about the financial future of Capita. At the same time, the BBC has signed a five-year extension for an audience services contract. In the light of what we know from Monday, do you think that was a good idea?

Lord Hall: May I ask the Deputy Director-General to answer that, because she has been handling the direct relationship with Capita?

Anne Bulford: There are two aspects to the question you have raised. One is whether Capita are best placed to do that work for us, and the second is their financial security and the associated balances, checks and controls we have around that. This is a renewal of a contract. Capita have had a relationship with us for more than 15 years. The team is based in Belfast. It works very well in dealing with enquiries coming through, and the investment in technology there is good.

We have had a full tender and gone through the proper process—scanned the market—and we have also checked that against options to insource and looked at it in the round. Capita came through as the winning bidder. Having gone through that process, that is correct. In terms of their financial stability, they provide services for licence fee collection, which is a much bigger contract, as you are aware.

Chris Evans: I want to speak about that.

Anne Bulford: You will not be surprised to know that we keep a very close eye on them. We are in regular contact with their chief executive and their financial officer. We absolutely understand what they are doing to restructure the business, the additional capital that they are seeking to raise and their confidence in that. We are in touch with the Cabinet Office about those similar balances and checks. Alongside all that, we have mechanisms in both contracts so that if anything were to happen, we would be in a position to step in, take over and run that service ourselves through a transition while we worked out what to do next. We have all the rights that we need to protect ourselves against any sort of issue.

Q15 **Chris Evans:** What is concerning is that the Minister said on several occasions in that statement that the Government have not signed any new contracts with Capita. Does it concern you that the Minister is proceeding in that way with Government contracts?

Anne Bulford: We remain concerned about all our external suppliers and monitor them in that way. We have not received any advice or information that we should not be signing contracts with Capita. This contract, the audience services contract, simply came to the end of its term in the normal course of business, and that is the timing of the contract. Having gone through the procurement, Capita, who have been doing a good job as the incumbent for a number of years, came through that process and met all the criteria. As I say, we have the balances and checks to monitor their financial performance and to deal with any issues.

Q16 **Chris Evans:** Just a quick one, being pedantic: you said that you are concerned about all external contracts.

Anne Bulford: We monitor all our external contracts.

Q17 **Chris Evans:** Nothing specific, then.

Anne Bulford: No, no. Clearly, as an organisation that relies on outsourcing providers, we need these mechanisms in place to ensure that we are able to run the service.

Q18 **Chris Evans:** As you know, last year we had a session about the TV licence. There was a story in the *Daily Mail,* I think this morning, that states Capita are giving bonuses for filling out prosecution statements. As you know, in the past comments have been made to this Committee that the BBC says prosecutions are the last resort, but this report tells us that one third of the £7,000 a year bonus on offer to managers is for prosecution statements. Do you have a comment on that?

Anne Bulford: Yes, I do. We have also provided comment to the *Daily Mail,* which did not print our comment, as far as I am aware. The position with the field officers is as exactly as we have described. Our objective is to get people into licence. They are incentivised on sales; they are not incentivised on collecting the record of interview, the prosecution statement.

There was an old scheme that was in place, which is not there any longer, for area managers, whereby they were encouraged to collect those evidence statements. But that is a different thing from being incentivised on prosecutions. This is about ensuring that,i the few cases where people do not come into licence, it progresses through in that way. The material is there to flow it through.

The other thing that is unhelpful—and we have spoken to Capita about this—is using this phrase "prosecution statement". That is very unhelpful because it is actually collecting the evidence of what is going on when the people visit. That area manager scheme—

Q19 **Chair:** For what else would that be useful, if not prosecution?

Anne Bulford: It is used for prosecution, but it does not automatically mean that they are going through to prosecution. They collect many more statements than flow through to that point. The other thing, which we spoke about when we came to the Committee before, is that neither of those two groups—neither the field officer nor the area manager—has any influence over prosecution. Those decisions are taken by quite a different group of people.

Q20 **Chris Evans:** I have the Report in front of me, and it says that this is particularly targeting the most vulnerable in our society, and that many of these prosecution cases have been dismissed before they get to court. At the same time, the BBC is taking £5 to put people on to direct debit. I addressed that at the previous Committee you attended. Has that £5 been addressed? Do you think the most vulnerable are being targeted because of Capita's pursuit of them?

Anne Bulford: Again, there are two parts to that question. In relation to targeting the most vulnerable people, that is not the case. The visits are targeted on unlicensed households. The way in which subsequent failure to come into licence is dealt with is handled through a public interest test, which does its best to ensure that people who can't pay aren't prosecuted and taken through a whole process in an inappropriate way, which is exactly the issue that we would all be concerned about.

In relation to the direct debit scheme, following that Committee meeting we looked into that further and exchanged correspondence with DCMS. That scheme has been in place for a very long time, right back to 1988 or 1998, I think. The price of it—10p a week, £5 a year—has stayed the same throughout that period and it is in common with other Government schemes.

The work that we did identified two things—first of all, that that represented a reasonable charge, given that the nature of the scheme is that there is exposure to cash. You are paying in arrears as well as in advance. There is about £160 million outstanding to the licence fee collection at the end of every quarter.

Secondly, we also had a look at the demographic. What that identified was that it is an extremely popular scheme with particular groups of people. The churn through that scheme is not enormous; it is really quite low. It is very popular with people who are mobile and want to dip in and out, if they are either moving or not in the country for three months, or something like that. You can do it on a quarterly basis.

We exchanged correspondence with DCMS. They considered it and concluded that it was an appropriate scheme to continue with. What we have done, which I hope will reassure you, is beef up the choices and improved further the communication on, "You can do this or you can do that." I am very pleased to be able to tell the Committee that the simple payment plan, which is absolutely targeted on lower-paid households, went through its legislation, came into force on 1 April, and we have already had 17,000 people take that up. Hopefully, that will reassure you.

Chair: 17,000 since 1 April. So there was a need for it.

Chris Evans: What happens to the £5? Does it get donated to a charitable trust or does it go to the BBC?

Anne Bulford: No, the £5 is offset, as we explained last time, against the overall cost of the collection of the licence fee.

Chair: We now need to move on to the main Report, but was great to have full answers on those things.

On the main Report, we are obviously abreast of what is in it. We do not need to repeat everything that the NAO has already told us and that you are aware of as well. We are hoping to set an example with quick questions, and we will reward you in time for quick answers. We might even get home early—let's focus on that. I will get Chris Evans to set an example.

Q21 **Chris Evans:** I am looking at figure 11 on page 30. As you can see, the figure shows flat profits over the past six years. Is that good or bad, Lord Hall?

Lord Hall: I think it is good, but not in a complacent way. I would love us to do even better. Over that period, you are seeing the return to the BBC going up from £157 million in total to £211 million, and that £211 million is roughly 12% of the TV content budget, which I think is very necessary and good, but I do not say that in a complacent way.

If you look at it, what you are seeing is a change. DVDs are becoming a much less important part of what we do. A half share of BBC America was sold to AMC, which is a different way of doing it. There are the interesting yellow and orange bars at the bottom of that table. Studioworks has gone through some revamping of what the business is about—there are far fewer studios, which I think is right, but it is now coming into profit. Then there is BBC Global News. The NAO Report makes it very clear that it is doing something a bit different. It has a reach of 440 million households, is growing at 12% a year and is trusted.

Q22 **Chris Evans:** You picked up on BBC America. Paragraph 2.15 states that profits fell because of the sale of the "stake in BBC America, meaning that profits from the channel…were now shared". Why was the decision made to sell that stake in BBC America? It seems to be a profitable part of the business.

Tim Davie: It was delivering a profit. I can probably check that in terms of leading the sale. It will be no surprise to the Committee that there were issues with the long-term future of linear channels. First, there are the strategic issues. When I looked at it, I found that we were one of the only independent small channels facing massive US affiliates—cable companies and satellite companies. I looked at my negotiating position. I saw that there were renewals every three to five years, and I thought we were going to take a significant impact in terms of our strength as a standalone channel. I thought that we needed to be part of a portfolio.

AMC fitted us editorially. It is a premium content provider, and it was willing to pay a good sale price. When you look at the profitability of BBC America, the way that relationship has worked has meant I have never regretted the deal. We took cash in for the licence fee payer, which boosted the return over the period. It was £68 million in one year and £50 million in the next over those two years. We are much stronger for the deal in the US. Frankly, we would not have survived as a small, less than 1% share channel in the very competitive linear market in the US.

Q23 **Chris Evans:** With all due respect to Lord Hall and Mr Davie, Ms Bulford, you are only one on the panel with private sector experience. If you were still reporting to real shareholders with a board who wanted a profit, would you be satisfied by the flat profit over the past six years?

Anne Bulford: Yes, I think we would. First, you have got to look at what you are seeking to achieve with the different businesses. If we look at Studioworks as a business, for example, it gives us security for the group by holding studio facilities. We have seen other studio facilities in London in particular close down, so having those is helpful.

It is a profitable business. It has been through a transition when Television Centre was being refurbished and the work had to be relocated to Elstree. That has been handled very well, but that drove cost and tipped it into loss. It had a small digital repurposing business, which went into loss. The decision was taken to close that. That was a structural problem. Now it is back in profit. Television Centre has reopened; in fact, it servicing ITV's daytime sequence programmes. It is profitable, and it is a good business. If we were a plc looking into subsidiary, we would be very happy with that return. We look at BBC Worldwide's margins, and we feel comfortable about that. We set growth targets for it—those are comfortable.

Global News is more challenging. The market for global weekly news is very difficult. It had been in loss for a long time. We have done a huge amount of work with that business over the last three to four years. The team have done a great job in restructuring the cost space and looking again at the way in which ad sales operate to bring it back into profit. At heart, it is trying to do a very difficult thing, which is to sell advertising on a global basis against hard news. That is tough, and that is one of the reasons—

Q24 **Chair:** Can I just cut across you? Mr Evans was asking whether, if you were in a private sector company such as you have worked in before, there is anything that you think would be different to what you are doing here. We will then bring Lord Hall in on the same point.

Anne Bulford: No, I don't think there is.

Lord Hall: I was just going to make the point that the shareholder perspective is a very good one to look at, but we are also being asked to do things within our four commercial criteria that are different: things that support the mission and purpose of the BBC; things that are concomitant with the brand of the BBC; things that make a return for the BBC; and making sure that the activity does not swamp what other people are doing.

In a way, we are not, and cannot act as, a full-blooded plc, and we shouldn't. We are quite proud of—

Chair: No, we recognise that you are in an interesting hybrid position. That is why it is interesting for us and others to get to grips with how things work.

Q25 **Chris Evans:** Obviously Global News has been challenged; that is borne out by the Report. Which commercial subsidiaries have over-performed, and which ones are you concerned about?

Lord Hall: Which things have over-performed? We are very pleased with the performance of UKTV. That has done extremely well for us in the secondary market. As I think you know, it has just changed ownership. Our partnership now is with Discovery, not with Scripps as it was before. We are looking at the future, and what that might hold for UKTV with Discovery.

Q26 **Chair:** What are you going to be doing now, because you sold it to Discovery—

Lord Hall: Discovery bought out—

Chair: Sorry, it bought out the ITV bit. Are you going to keep the rest?

Lord Hall: It is a 50:50 joint venture. We own 50%. Scripps owned 50%; now it is Discovery. What we are doing now is working through it with Discovery. They have owned it for the last six weeks. We have had a very good relationship with Discovery, and we are working out now what, together, we do with it.

Q27 **Chair:** But just to be absolutely clear, the 50% share you have remains at 50%.

Tim Davie: BBC Studios, formerly BBC Worldwide, owns 50% of UKTV as a deadlock.

Q28 **Chair:** And you do not have any plans to sell that?

Anne Bulford: It has been a joint venture from inception.

Q29 **Chair:** But is it still a joint venture, even within the new structure? Sometimes a new partnership does not work. I know it is early days, but—

Anne Bulford: No, it is a very successful partnership.

Q30 **Chris Evans:** The second part of the question, which you did not answer, Lord Hall, was about the subsidiaries that you are concerned about. What part of the businesses are you most concerned about going forward?

Lord Hall: I am concerned about most things. I want to make sure that the Worldwide-Studios merger, which Tim Davie is now in charge of, works well, and that we grow our business, not just to the BBC channels but also to other broadcasters. I was delighted to see for the first time on Channel 4 last night, on a programme about fatbergs, the BBC Studios credit.

The thing that we did in the charter that I think was really important was to say that the in-house production arm of the BBC, in return for opening up our airwaves to complete competition by 2027, would set up as a commercial subsidiary. That is a huge change; it is the biggest change that the BBC has been through in a generation. Making that work is of utmost concern to me. That is the thing that I want to make sure that we get right over the next two years.

Q31 **Chris Evans:** I want to jump forward a bit now. Before the Chair mentioned Discovery's purchase of the ITV section of—

Tim Davie: Just to be clear, it is Discovery's acquisition of Scripps's share. Scripps Networks owned 50%, therefore we are in a deadlock partnership in UKTV with Discovery, post-Scripps. ITV is not part of the game.

Q32 **Chris Evans:** Okay, sorry. How dependent are you on joint ventures for commercial profits for the future? Do you see this as a model, as a way forward?

Lord Hall: I think the joint venture which Tim mentioned early on, with AMC on BBC America is really important. I think our joint venture in UKTV, delivering money back to the BBC for its investment in programmes, is really important. Beyond that, co-productions are phenomenally important for the future of what we do. For example, "Blue Planet II", a brilliant series, was 78% funded by deals we had done to sell that programme around the world. Likewise, about two thirds of our drama slate is funded by other commercial deals that we do. Those are not direct partnerships, but it just shows you the importance of the relationship between Studios-Worldwide and the public service part of the BBC.

Q33 **Chris Evans:** I will come back to that. What I am interested in, Mr Davie, is how do you ensure that your partners' interest and the BBC interest stay on the same page and there is no divergence?

Tim Davie: There are a number of answer to that. One is that we are very clear about what our purposes are—our intent—as part of the BBC group. We have a clear role. It relates to the earlier question, which I think is important, as to what our role is. We value cash return and supply of programming. We have invested more in programming, often at the expense of EBITDA delivery, but we are not trying to deliver earnings per share. I am also not trying to build an asset value for sale. I am trying—as part of the commercial enterprises—to feed the BBC with IP effect and monetise what the licence fee payer has invested in.

With regard to partners, we have a good record of ensuring that we spend a lot of time on pre-selection of partners in terms of their editorial values. By the way, when it goes wrong, it can go very wrong. You can't do it all by bits of paper. We need people who are clear about where they sit editorially and the kind of values they have in their organisation. That is why we went with AMC, which we feel very strongly about. That is why we went with Sony in India on a BBC Earth channel. By the way, the reason we are doing this is that because we are alone in the channels market, we need scale.

There is a separate point on the programming side, which the Director-General has mentioned. It is often about not just scale but creative partnership. Having said all of that, we also need to be clear about what we own. We don't share everything. I think it is very important for the license fee payer, for instance, that they own the IP of "Blue Planet" and are able to monetise it.

Q34 **Chris Evans:** I want to ask about something you said—the "values of our partners." What are you looking for in a potential partner? Is there anybody you won't work with, for example?

Tim Davie: Absolutely.

Q35 **Chair:** Would you like to list any examples?

Tim Davie: No, I am not going to do that. But I think we would not get into equity partnerships where we felt that someone creatively wanted to go in the wrong direction, or frankly, just in terms of due diligence, we didn't feel that they were editorially aligned with where we wanted to take the business.

Q36 **Chris Evans:** Can you actually put into words what you mean by "the values of our partners"? What are you potentially looking for, if I came to you and said, "I've got an idea"?

Tim Davie: If you came with a programme idea, it is very straightforward. We are very clear about what the BBC stands for in the global market—by the way, this isn't restrictive, but this is our position in the market—which is high-premium, British-driven content of the very highest quality. We are paid to make judgments like that, and I think our record is good on it. I could name certain reality series which, if you came and said, "Is this right for you?" we would say no.

Chair: Mr Evans, you could pitch, but he would say no.

Chris Evans: I haven't got any ideas, sorry.

Tim Davie: If you want to send me something—

Q37 **Chris Evans:** Lord Hall, I just want to roll back a bit to BBC Studios. Now that Worldwide and Studios have merged, how will you ensure that the production arm of the new BBC Studios is delivering profits, instead of being subsidised by other parts of the business?

Lord Hall: Could Tim deal with that? He is the CEO.

Tim Davie: Well, it is a bit early, by the way, to give you full details of this year's profitability, but I expect Studios to be profiting.

Q38 **Chris Evans:** You expect them to be profiting

Tim Davie: Yes, from this year onwards.

Q39 **Chair:** From this financial year we are in?

Tim Davie: I wouldn't be surprised if you see a positive outturn in the year just gone, and certainly from a Worldwide perspective we took some individual elements that led to the suppression of the EBITDA—quite rightly, by the way. We can go into the items, but for last year I expect to see significant growth in our EBITDA performance. We can clearly benchmark that against the industry.

In terms of Studios, we are not a half-commercial enterprise. We are absolutely informed by BBC values and editorial values, but we are out there to make a proper return. We evaluate and have a very well articulated process in terms of individual propositions. You mentioned a programming idea that you may want to bring to us. We would look at that as a single investment, but we would make a basket of investments. Some would win and some would lose. On every single programme, we run a rigorous process of whether we make a margin on the production elements of it, plus, as we sell it around the world, what a predicted return is. We have a pretty advanced system for the possible sales we can make of that programme. We look at that on the production side and on the distribution side, and both sides have to wash their face.

Q40 **Chris Evans:** I must say, Mr Davie, I admire your confidence, but if you are that confident about BBC Studios, what lessons can other subsidiaries that are less profitable learn from its example, which you are painting as a success story?

Tim Davie: I would say that these are early days for BBC Studios. My confidence was responding to the rigour of the investment criteria we have put in place. I think there is real jeopardy around growing this business in the context of the global market and all the things we could talk about.

In terms of where my confidence is, it is in the process. I think we have a distinctive growth business in BBC Studios. Having said that—I am sure Anne and the Director-General can talk about this—I think we are talking about fundamentally different business models when it comes to Global News and the provision of Studios. They are utterly different. Their structural economics are utterly different. They may be loosely associated in the same markets, but they are fundamentally different in their challenges.

Q41 **Chair:** Mr Davie, you have given a very clear exposition of your belief in the public values of the BBC, but you head up a big element of the BBC's commercial activities. To what extent does that public service broadcasting requirement and purpose hinder your commercial opportunities to make more profit?

Tim Davie: The others can speak about the primacy of a public service-driven commissioning system in the UK. It would be wrong of me to say that there were not tensions sometimes, when you think, "Well, maybe we could do something slightly more".

Q42 **Chair:** Can you give us a couple of examples of tensions?

Tim Davie: As a director of the BBC, I think it absolutely right that our primary aim is to get value for the licence fee payer and deliver against that. I would say—

Q43 **Chair:** That's interesting, because that can be split different ways. That can be cash, but it can also be value because you are putting money into some production to produce a better-quality production, like "Blue Planet".

Tim Davie: Yes, and that is the balance we are trying to strike. Exactly right.

Q44 **Chair:** How do you make that judgment? The public sector value is very difficult to quantify against the cash income or profit.

Tim Davie: We have two filters. One is, does it meet our editorial threshold? We do not have to invest in anything. We do not invest in most BBC programming; it is delivered for the licence fee payer within the licence fee. But where did we make most money this year? "Blue Planet", "Doctor Who", "Sherlock". We are a very big company when it comes to the exploitation of rights by a public service broadcaster. No one gets close to us. We should be very proud of a £1.4 billion subsidiary. But we are also, in a global market, very focused on being the BBC. That is our calling card. My view is that the dichotomy between public service and all-out commercialisation is overstated, because we make most money when we are most BBC, actually.

Anne Bulford: From my perspective, having worked in the commercial sector, the main difference—certainly, there is a very stark difference between us and, say, an integrated US-based operation—is that we commission programming for licence fee payers that meets our public service purposes and our commitment to British content. We commission and put out a whole range of material that our viewers know and love that does not necessarily have international global appeal.

If we were running the licence fee to maximise returns on a global basis, which is not our job and not what we are doing, we would commission differently and there would be a different flow of intellectual property into all distributors, including our own distributor, BBC Worldwide, now Studios, to do better with. That is the difference, but that is the job, therefore it is not a tension that is being pushed back against all the time.

Within that public service commissioning, as Tim has explained, there are some tremendously popular, brilliant hits, alongside all the other brilliant work, which have international appeal. Our job, when we find those, is to do absolutely the best we can, with best commercial practice, to return money to the licence fee payer.

Q45 **Chair:** We know that some of them do not have a commercial appeal today, but they may in future. We will come on to that a little later.

Anne Bulford: Exactly.

Q46 **Chris Evans:** Lord Hall, you have suggested that Global News has been a challenge. I am looking again at figure 11. I notice that it has been in loss for a number of years. It is now barely in profit. Is there any point in the future where you will say, "Enough is enough," and walk away from it or from any subsidiary in the same position?

Lord Hall: Let me answer in a slightly different way. I would be surprised if, in the outturn for the past financial year, this was not also in profit. We are pushing very hard to ensure that this does remain in profit. We are getting to a balance, which you will understand completely, between the advertising market for news and the cost of our service, which we want to maintain and grow. The advertising market overall is not good but with the advertising market for news, we have to be really careful who we put up against our news.

What is interesting about figure 10, for example, is that you can see the impact of an editorial uplift we did in the early years to make the service even better—that was a direct policy—and then the difficulty we had of getting in the advertising, subscriptions and so on to back it up. We are trying very hard to ensure that we can make a profit out of this in this coming year.

I think it is an open secret. I have also been talking to the Secretary of State for DCMS who has been extremely supportive in our trying to do what we have already done with great success with World Service radio, which is finding extra money to put into that. The service is now doing really well globally. We want to do the same with World News TV, if we can, recognising the fact that money is very tight. I think that, especially in a Brexit world, this is a really important service, and it is growing at 12% a year.

Q47 **Gareth Snell:** Lord Hall, when you say you are finding different revenue sources, are you talking about a public subsidy?

Lord Hall: Yes. I've been talking with the Secretary of State, Matt Hancock, about seeing whether we can find some funding to bring into World News to support it in two ways, one of which is editorially. Secondly, because it is a commercial subsidiary, in sub-Saharan Africa, for example, we have to charge and put it behind a paywall. We have been talking to various arms of Government—the Foreign Secretary and others—about taking that free-to-air and not having to get that money in. Wouldn't that be a good thing for the UK?

Q48 **Gareth Snell:** That was my next question. If you are looking at a public subsidy from the British taxpayer to the BBC World Service for television and then looking at a paywall in some parts of Europe and sub-Saharan African, what is the benefit to the British taxpayer of that taking place?

Lord Hall: The benefit to the British taxpayer is British views, the trust that the BBC has and the extremely impressive range of news that we have. Likewise, we would like to expand the broadcasting that we do, to have programmes of background and analysis as well. I think World News is part of an answer to fake news. Having that free-to-air in sub-Saharan Africa would be very good. The previous Minister for Africa, who has moved now, was very interested in that as a proposition.

Q49 **Gareth Snell:** I don't disagree with you but isn't that a benefit to the UK Government as opposed to a benefit to the UK taxpayer? What tangible benefit will the people I represent in Stoke-on-Trent see from public subsidy going into the World Service and removal of the paywall in sub-Saharan Africa? I appreciate that there is potentially a role for the news helping to form opinion, but what benefit does that derive for the people I represent?

Lord Hall: I think there are soft power benefits. In surveys done about two or three years ago, not by us but independently, it was interesting to see that where the BBC is strong, through news or other programming, so trade with Britain tends to be strong as well. There are tangible benefits in this.

Q50 **Chair:** Do you know what the penetration of television is in sub-Saharan Africa? Is it still a viable business?

Lord Hall: Yes it is. Television is a viable business. Television on mobile is also a viable business. One of my arguments is that this is a valuable, expanding market for the UK and one where our news services could play a part.

Q51 **Gareth Snell:** I don't disagree that there is potential benefit in soft power, but do you fear potential editorial conflicts? For example, if trade increases and you ask the Department for International Trade if it wants to put some money behind World News, do you suddenly find yourselves in a position where your editorial content has to align somewhat with DIT policy, in order to boost trade with that country?

Chair: That would be exciting.

Lord Hall: You're spot on on an issue that would, of course, concern us. Actually, I think we have had a history with the BBC World Service from the very beginning of being able to take money from Government—albeit in smaller part now than before—and ensure that we are editorially independent. There is a very grown-up relationship there that we understand.

Q52 **Gareth Snell:** It is very different in places like sub-Saharan Africa than in some of the other markets where you have been operating, I would imagine.

Lord Hall: I don't think it is, actually. I think we absolutely know how to stand back and say, "That money is providing a service, but editorially, we are independent." In all the relations that I have had over the World Service with the Government since I have been Director-General, both sides have understood that.

Q53 **Gareth Snell:** In terms of how much it would cost to remove some of the BBC World Service from behind the paywall in sub-Saharan Africa and Europe, what sort of figure would you have to give up? What income do you derive from that paywall that you would no longer access?

Lord Hall: If I recall correctly—if I get it wrong I will have to tell you—I think the money we make from subscriptions is somewhere around the £20 million to £30 million mark. I am very happy to be more precise, if I can, later.

Chair: You are saying, really, that you are concerned that if you don't get some injection of cash on that, you might have to—

Lord Hall: The danger is—I think this is part of the question—when do you get to the point when you editorially cut to match a diminished advertising budget and say, "This is not really working"? I don't want to get to that point. I believe in this service and I believe in the people who are working in the service. But it is a very difficult market going forward, especially against people like Russia Today, CCTV and al-Jazeera, which have large amounts of money coming from we know where.

Q54 **Chair:** Do you have World Service reporters doing stuff to camera?

Lord Hall: Yes, we do.

Q55 **Anne Marie Morris:** The BBC can undertake commercial activities provided they fit the BBC's mission and public purpose. What system do you have within the BBC to make sure that, when you look at any commercial decision, you look at both those aspects?

Lord Hall: Right from the top, the four commercial criteria, which I outlined earlier on, apply to all the decisions we make within our commercial subsidiaries. They have to be concomitant with the BBC's overall brand and our public purposes, they have to make money and they cannot in any way swamp the market.

Q56 **Anne Marie Morris:** Could you explain that in more detail? We are still getting grand phrases, which is what is written in the charter. Could you give some examples of what that really means in practice? Give me a real-life decision you have had to make and how you have made it, looking at both those aspects.

Lord Hall: I'm sorry. To support the BBC's public purposes means that if we are going to, for example, bring in money from outside to do "Blue Planet" or "McMafia", you want to make sure that that is done for reasons where you say, "We are going to commission a programme that fits what we are trying to do on BBC 1 or BBC 2." You mentioned certain reality programmes—we would not go off and do them. It absolutely has to feel like it is in the BBC's public purposes. Before Anne, Tim and I were at the BBC, there was Lonely Planet. In my view, that was out of the purposes and the mission of the BBC.

Q57 **Anne Marie Morris:** What purpose specifically did you think it was fulfilling?

Lord Hall: I really don't know—I was not around.

Q58 **Chair:** We were critical of it at the time, I remember.

Lord Hall: You were, and I was off in the Royal Opera House.

Anne Bulford: I think what might be helpful is to run over how it works if we are looking at a new venture, or closing or changing a venture. When the board was considering entering into partnership with AMC on BBC America, which we spoke about earlier, there is a rigorous process. It is led by the BBC corporate centre, not the commercial subsidiaries, where analysis, scenario planning and checks are done against each of the four commercial criteria, in quite a formal way. Where it is appropriate, it involves economists, lawyers and accountants. That paper is provided to the board and the board has a thorough discussion about whether it meets the criteria.

That process is very rigorous and if it trips particular levels of materiality or concern, there is a further level of scrutiny that comes from Ofcom, as our regulator. It is not, "How do we feel about this one?". Those big corporate mergers and acquisitions sorts of decisions, in PLC-speak, go through that very rigorous process.

Q59 **Anne Marie Morris:** But in the same way that you have a list of the four commercial purposes, do you have a separate list of what your principal objectives are, as a public provider of that service?

Anne Bulford: We do.

Q60 **Anne Marie Morris:** Do you go through four or six of those to the same degree?

Anne Bulford: Our public purposes are laid out in our charter and that is also a very important part.

Q61 **Chair:** So you are going through both those at the same board, at the same time?

Lord Hall: Yes.

Q62 **Anne Marie Morris:** At the end of the day, you have to look at how you monetise the benefit, because some of the benefits you have are not money. It is just that it is made easier. It has used space that would not otherwise be used full time. It has saved you rent or whatever it is, if you look at what is in paragraph 13 of the NAO Report. How do you then begin to work out what is the appropriate payment from commercial back up to the BBC? In a way, that dividend is made up of money that you can track because it is money, but it is also made up of things that you have to value and monetise in some way.

Anne Bulford: There are two separate bits. One is sharing out of the central provision of services, whether it is property, IT systems or whatever. We operate a very rigorous framework of transfer pricing that has been in place for a long time. We cost properly and we allocate out properly around the whole of the BBC, but in particular that boundary between licence fee-funded activity and commercially-funded activity is very important because, under our framework, as you would all expect, we cannot have inappropriate cross-subsidy. Our objective all the time is to get best value for money for the group as a whole, so we try to squash people in and make best use of the whole resources, but that transfer pricing between different parts of the organisation is rigorously policed and is based on use.

On the separate issue about the dividend and the cash flow back into the public sector, it is probably worth just concentrating on BBC Worldwide because that is the biggest part. BBC Worldwide has a five-year plan. That plan has outlined returns back to the BBC. Within that plan, as part of the annual planning cycle, we look at the budget stage on BBC Worldwide's forecast profit, which we challenge against benchmarks and all the rest of it, and, importantly, BBC's forecast cash conversion. Book profit is one thing and, of course, what that turns into in terms of free cash flow is another issue. We, therefore, as part of the budget process make a recommendation to the main board about the returns we are seeking. It is very important because that cash flow coming in from BBC Worldwide is then used to fund our public services and our content. It is not icing on the cake; it is intrinsic to getting things done.

When it comes to the end of the year when we look at the dividend to be paid up, normally we will go exactly with the plan, but the commercial board and then subsequently the main board will double-check that the performance and outturn, both profit and cash, look sensible against the original plan, and will make adjustments if that makes sense.

Q63 **Anne Marie Morris:** So what is the percentage that you send upstairs?

Anne Bulford: The balance was £200 million in the last couple of years—the dividends are outlined in the Report. It varies from year to year, because there is another aspect to it, which is how much investment is BBC Worldwide—now BBC Studios—putting in for the future. So the dividend goes up and down from year to year. The overall return of the £200 million is the return that we have seen in the last two years.

Q64 **Anne Marie Morris:** But how do you measure whether that is a fair and appropriate return back to, effectively, the licence payer?

Anne Bulford: We are looking at it in both directions because, like all organisations, we are having to check that the investment in the future versus the cash return back to the licence fee payer makes sense. What we have seen over the last two to three years is more cash being thrown off from BBC Worldwide and that dividend going up.

Q65 **Chair:** You mentioned benchmarking. Which companies or organisations are you benchmarking against to make sure that you are getting this in the realms of reality?

Anne Bulford: In relation to all of our operations, we benchmark in more than one way. We benchmark inputs, so we would look at overhead rates, distribution rates and costs of teams at one level. Then separately, we benchmark margins wherever we can against equivalent organisations.

Q66 **Chair:** So who are the equivalent organisations?

Anne Bulford: Of course, it is always difficult. You have to find subsets, but we would look at ITV, Fremantle and parts of other big media organisations where you can match across to either the production activity or the distribution activity.

Q67 **Anne Marie Morris:** And do you think that properly reflects what the public expect and deserve back?

Anne Bulford: I think, overall, we have BBC Worldwide working against very stretching targets. The £1.2 billion plan to return back to the BBC over five years is stretching. The growth rates in that look reasonable from what we can see, against the sorts of targets others are working to. It is a very tough market, with lots of new entrants coming into it. The business is being pushed very hard, but we keep it under review.

I think there are two points that come through from the NAO Report. One is about the combination of the making-the-programmes operation with the selling-the-programmes operation. We need to revisit that plan and we will do that to see if there are more cost synergies and benefits to come out. The second, I think, is that the board will want to consider carefully whether the right thing to do is to be more prescriptive about the balance between investment into programmes versus dividend up. I think that is a good challenge from the NAO and that we should think about that more.

Q68 **Anne Marie Morris:** Do you benchmark yourself against any other—maybe not in the same sector, but businesses which are in the public sector rather as you are, looking at the return? Do you look at any comparable operation, even if it is a different sector?

Anne Bulford: We are very eclectic in who we benchmark with, and we have a whole programme across the BBC group, which we call "compete and compare". Our objective is to benchmark or market test pretty much all of our activities, one way or another.

Q69 **Anne Marie Morris:** Can you give me an example of something that has the same dilemma as to the public purse versus the commercial return?

Anne Bulford: It is hard to find organisations which have that dilemma and, of course, what you are really dealing with is something that all companies have, which is the balance between the short term and the longer term. I think my colleague Tim put it very well. What we are looking for is cash return out, but of course we also want that cash return to keep on coming, so we have to make that balance between investment for the future and taking the cash back to pay for the public purpose.

Tim Davie: I will give you a tiny bit of reassurance around the inbuilt competitiveness of the process, because that is what you want reassurance on. On the money we deliver as programme investment, we have a strategic partnership with the BBC, but it is able to take that money from elsewhere as well. That tension is an inbuilt system that says, "As a programme maker you do not have to go with Worldwide or Studios." That system has been tested over time to make sure it is competitive. We are very alive on our side to the rigour by which that is assessed. That is a large component part of the return.

When it comes to the key measures of cash return—EBITDA, and even return on capital employed—we are absolutely looking at the comparator companies, because I think the licence fee payer needs to know they are in a well-run benchmarked company. That is absolutely what we do with the board and with Anne, and that is the kind of questioning we will get for the five-year plan.

Q70 **Anne Marie Morris:** Has the board ever rejected a commercial proposal because it conflicts with its public purpose?

Lord Hall: I think the board have spent a lot of time on commercial activities since they were founded one year ago. They test us very hard about all our proposals.

Q71 **Chair:** Have they rejected any?

Lord Hall: They haven't rejected anything but they have given us a tough time and questioned us very hard on the things that we have been putting before them. Of the 11 meetings last year, I think nine of those meetings took hefty papers to do with our commercial operations. Remember this was a brand new board. They came in a year ago, just over a year ago, and had the new Studios operation—this is the most fundamental change in the BBC structure for a generation. They actually had to tackle that and make sure the right metrics were in their charge for that and make sure it was being led properly, then take a proposal to merge that with BBC Worldwide, where, again, we were challenged properly on a number of occasions to make sure we got that set up right as well. So they have been extremely active in the commercial area.

Q72 **Anne Marie Morris:** Without giving names away—because I appreciate there is commercial sensitivity—can you give me an example of any particular opportunity which has been particularly difficult and where you have really struggled as to whether or not you can do it within the BBC's purpose?

Lord Hall: Not within the BBC's purposes, but I don't want you to underestimate—I am sure you don't—the huge difficulty of setting up BBC Studios. We did that because I could see you had in-house production gradually diminishing year on year. We knew we were going to have our airways opened up to complete competition. To make the cultural as well as business change of taking that in-house into a commercial subsidiary is absolutely huge. We spent so much time on that over the last year, and on the merger with Worldwide, and I really think those have been the most testing decisions we have been talking about.

The other thing I will say is: what is the future of video on demand, and what is the right balance between iPlayer and what commercial returns we can get from video on demand—either advertising-funded VOD or subscription VOD?

Q73 **Anne Marie Morris:** I understand what you say, in that you have had quite a lot to consider as a board, but none the less the balance between the commercial return and the, if you like, public benefit is key. It is what the BBC is all about. Despite all of those things—I totally see culture change is a major issue—I am still not convinced that this is really top of mind, in terms of how the board looks at this.

Can you give me an example of where you have not been able to maximise the commercial return because of some specific constraint, because of the public purpose? Let's say that you have gone ahead and done whatever it was, but you have done it on different terms because of that conflict.

Tim Davie: We wouldn't do it on different terms. I think it is about scope. I think the question is about what we would or wouldn't do. We have chosen not to take up—on your question about things getting rejected, that happens one level down. In terms of individual project proposals, we have rejected them because they are editorially not right for us. For independent companies looking for acquisition from us or investment up-front for what we call "first look"—you pay to get them—we have rejected those proposals. My team will often say to those who might propose those that they are not right. We have divested companies this year. I don't want to go into detail, but—

Q74 **Chair:** Are there any first looks that you have passed back that have done very well-any ones you've missed?

Tim Davie: I am sure there are countless.

Q75 **Chair:** Any you want to name—the ones that got away?

Tim Davie: No. If you talk to television executives—

Chair: It is not an exact science. I'd say that we won't beat you up, but then you'll tell us one and we'll be cross about it.

Tim Davie: Historically, we had stakes in companies that have gone on to do extremely well. That is how it happens. There is a very active process around exactly what you are talking about, which looks at whether something fits editorially. Our record over the last few years shows that we are not managing Studios or Worldwide to maximise the value beyond the BBC, with a float in mind or anything like that. It is an integral part of the BBC to return value for the licence fee payer. That is why we sold off Lonely Planet. We were very clear about the focus.

Lord Hall: That is a big change in the way that we regard the commercial activities of the BBC.

Q76 **Anne Marie Morris:** I am beginning to feel a bit of fuzz. It seems to me that, as to what the board is doing and what, as you call it, the next level down is doing, you kind of take the same decision, whereas the idea was to separate them.

Anne Bulford: Perhaps I can give you another example that might be helpful. If the strategy is broadly in line, the projects and the proposals very much come through.

One thing that we deal with on the boundary between the public service and Studios is what is known as windowing. Traditionally, and it is still the case, we use the licence fee to buy the licence for the programming from the producers and all the artists and creatives and musicians and everybody involved. That is known as the first window. The first window was traditionally very straightforward, in that you have a number of transmissions on BBC 1 and repeats. What is known as the secondary window is what you can commercially exploit. Years ago, that was extremely straightforward, because that was DVD. UKTV then came along and we had secondary channels.

In a world where the public expectation is to be able to consume much more on demand, that model is much more challenging, because in the public service you want to be able to watch it for longer and binge on it and watch it all at once. In the secondary market, commercial players want those rights early and exploit them commercially.

One issue that we spent a lot of time talking about and that challenged the board a lot is how to get that balance between the primary public service window—what you get for your licence fee money—and when to put it into the market to exploit it. Where do you draw that line, and how do you deal with your rights holders, who also have views on that sort of thing?

It is a very interesting set of questions, and it absolutely comes down to the sorts of things that the board needs to discuss. I hope that is helpful. If you are a commercial broadcaster, it doesn't make any difference, because you are managing all windows the same.

Q77 **Anne Marie Morris:** That is a very helpful example, but I am still unclear that there is a division between the two boards as to how they make those decisions. I think what I am hearing is that the commercial board, if I can call it that, effectively looks at the public purpose piece at the same time. When we get to the main board, the BBC board, they are looking at the commercial—

Anne Bulford: No, it is the other way around.

Q78 **Anne Marie Morris:** That is what it should be, but I'm saying it doesn't look like that. They are both doing both.

Anne Bulford: I am sorry if we have been unclear.

Lord Hall: I am so sorry; we have not been clear enough. I apologise. It is the wrong way round. It is very clear that the public service commissioners—BBC 1, BBC 2, BBC 3, BBC 4 and other parts of the BBC—are absolutely in charge of their channels. A very high proportion of what they do never goes anywhere near Worldwide, because it is news or programmes that have no value other than that first transmission.

The interesting area you are probing is where a decision is made by a commissioner on BBC 1, for example, as I keep mentioning, for "Planet Earth" or "Blue Planet" or whatever. You are saying, "How can we afford to run a programme like that? I want to run it on BBC 1. Now, can I talk to Studios and Worldwide about how I can get funding to make sure the programme fits the values I want for the Natural History Unit, to make it a real success on BBC 1?" Those conversations are led by the public services commissioners on BBC 1, BBC 2 or whatever.

Q79 **Chair:** To be clear, then, because I think Tim Davie said, "We would say no to things that didn't fit the public service element as well," you were talking about collaborations in particular?

Tim Davie: Collaborations, but we are also an important player in the UK distribution market, so if you are a small independent company and you have made a programme for ITV, we will offer that service to distribute your programme and co-fund it. What I am saying is that as a BBC group company, we are clearly a commercial entity, but I don't think that frees us from being part of the BBC group.

Q80 **Chair:** But you maintain that public sector quality ethic? That is what you are aiming to do.

Tim Davie: Absolutely—well put. That is exactly right.

Lord Hall: I will volunteer another point. The other interesting thing we are now doing, having Studios working and selling programmes to other broadcasters, is testing ourselves to say, "Does that programme that we are offering to Channel 4, Channel 5, Sky, Discovery or whatever—or PBS for a programme we are doing about the royal wedding—match the values we think the BBC stands for?" That is new ground for us, because normally it is done by the commissioners, but I feel strongly that we have to match them.

Chair: I think we've got that loud and clear.

Q81 **Sir Geoffrey Clifton-Brown:** Lord Hall, I have just been googling the biogs of the members of your board. Would you say that your board, as a whole, is light on commercial experience?

Lord Hall: No, I think Simon Burke, the chair of the finance and audit committee, who was on the former executive board of the BBC and is now on this board, is extremely strong on retail and other commercial experience. We are thrilled to have Steve Morrison, who as you may know ran All3Media and has a distinguished record as a maker of television. He is extremely good too. I could keep going: we have Ashley Steel, who also has a distinguished record, and the chairman himself, who has been in a different field but again has a good record. When the chairman put through—

Anne Bulford: And Tom Ilube.

Lord Hall: And Tom Ilube, yes. When the chairman was trying to get the board together, he was extremely keen to make sure that we had as much experience of the commercial world as of the public service world, for the reasons that I suspect lie behind your question.

Q82 **Chris Evans:** I have a brief question for Mr Davie about the production hubs outside London and the south-east. There are six. Does that make commercial sense?

Tim Davie: Yes, because creativity is all about centres of excellence. It is quite wonderful that in a few square kilometres of Bristol, we have 80% of the world's premium natural history being made.

Q83 **Chair:** Okay, but I think Mr Evans's point is partly that they are all quite concentrated in the same region. What about other parts of the country, where land is cheaper and there might also be creative talent?

Tim Davie: Sorry, what is the point—that we should do more?

Q84 **Chair:** Have you ever thought of relocating any of those or doing it on a cheaper basis?

Tim Davie: I thought you were going the other way, because most people would challenge me commercially to say, "Do we really need six bases?", and I would argue we should, because we have that balance between scale and appropriate creative clusters. I think we are pretty well balanced at the moment. When I go around and see what we are doing in Glasgow on science and in the various places, I think it is an edge for us that we can draw in talent from around the UK. It is a fair question in terms of managing our cost base.

Q85 **Chris Evans:** What I am concerned with is that, if you look at Birmingham, Bristol and Cardiff, with due respect, they are quite close together. I wonder if you have thought of spreading your field further north? You jump from Birmingham to Salford and then to Glasgow. Have you thought of maybe the north-east or somewhere like that?

Tim Davie: That is a very interesting point. I am looking to what we can do from the north-east, because we are not well covered there. There are two things to say about this. One is the point made by the Chair and yourself. If you took away from commercial activities and looked at design engineering—software people—then moving away from London things which require people who are really good to Salford and now also to Glasgow is something we are actively pursuing, because there is a wealth of talent there. The second point goes back to the basics. One of the strengths of what we are now doing is actively commissioning and finding new talent, voices, and directors and presenters—all that sort of stuff—from elsewhere around the UK other than London. I think that will be one of our strengths versus Netflix or whatever in the future.

Q86 **Chris Evans:** That leads me to the next question I was going to ask you, Lord Hall. You said that there is a trend with information technology. I know that a number of businesses do not have headquarters in London anymore, because of land values and so on. Have you thought of moving outside London and the south-east, maybe to Islwyn, Oakdale or Newbridge? We would take you there.

Lord Hall: I am not a Londoner myself, so the more we do from outside London, the happier I am. We are actively looking at what more we can push outside the M25.

Q87 **Chair:** Before we move back to Ms Morris, I just want to ask you, Mr Davie—if you can't give it to us now, perhaps you could to write to us—what percentage use time the different bases have?

Tim Davie: I haven't got that in front of me.

Chair: If you have a figure, are they used 100% of the time or 50%?

Tim Davie: We would be well above that.

Chair: If you could, please provide us that information in writing.

Anne Bulford: The BBC overall is committed to at least 50% outside of London. We meet that.

Chair: Sorry, I meant the usage. So when we went to visit Salford with the Committee a few years ago, we learnt then about how fast the turnover is, and you were looking at percentage usage and didn't want those studios to sit empty and unused. So I wonder, given that you have these regional bases—I expect you don't have the figures to hand for each one—if you could write to us with the percentage time that they are actually being used for making programmes, that would be very helpful.

Q88 **Anne Marie Morris:** Corporate governance is clearly a very important issue. While you are not obligated by the Companies Act to comply, under your new charter you agree on a voluntary basis that the rules of corporate governance should apply to the BBC. Can you tell me how you have implemented that for the two levels of board?

Lord Hall: The main board, both in terms of its make-up and the way it has been structured, I think has grown immensely fast over the last year, given that it is absolutely brand new, to the point where it is now actively challenging us and making sure that we are making our decisions properly and in a thought through way. I think it has been a remarkable achievement of the chairman David Clementi to make that happen so quickly.

Q89 **Anne Marie Morris:** How many of the usual sub-committees have you established—the audit committee, the nomination committee and so on?

Lord Hall: We have an audit committee. We have a fair trading committee, which is making sure that the boundary between the public service part of the BBC and the commercial part of the BBC is absolutely as Ofcom, the board and the charter think it should be. On top of that, there is RemCo.

Anne Bulford: We comply with the code, apart from where the charter trumps the code. The two areas, from memory, where that is the case are the appointment of the chief executive—the appointment of the Director-General is a different mechanic—and secondly the appointment of auditors.

Q90 **Anne Marie Morris:** Right, but you still have a nomination committee.

Lord Hall: Yes.

Q91 **Anne Marie Morris:** So you have a nomination committee—

Anne Bulford: Fair trading, remuneration and audit.

Lord Hall: And then we have four committees, one each for Scotland, Northern Ireland, England and Wales.

Q92 **Anne Marie Morris:** And this is the top level board we are talking about.

Lord Hall: This is the board and then the sub-committees are below that.

Q93 **Anne Marie Morris:** Where is risk covered?

Anne Bulford: Risk is in audit.

Q94 **Anne Marie Morris:** How active are those committees? How many reports have you had from them? I appreciate it is early days and it has only been a year, or whatever.

Lord Hall: The finance and audit committee is extremely active. Anne might want to run through that. The risk function there is very active.

Q95 **Anne Marie Morris:** What sort of risks have you identified?

Anne Bulford: We have an integrated risk register, which looks at two aspects of risk. One is strategic risk, so we look at long-term market trends, we look at threats to supply of intellectual property and we have a people list. We also consider operational risk on a regular basis. There, we would look at everything around continuity of service. We look at all aspects of security—everything from child protection to health and safety. A very big focus of the audit committee in recent months, the Committee won't be surprised to know, has been cyber-security. We have had a number of particular presentations and discussions around that.

Q96 **Anne Marie Morris:** Is that structure replicated at the next level down, on top of—

Anne Bulford: Yes.

Anne Marie Morris: So you also have an audit and risk management committee, nominations committee and so on?

Anne Bulford: Oh, sorry, no.

Lord Hall: No. The risk function absolutely goes down the organisation.

Q97 **Anne Marie Morris:** Okay, so the corporate governance piece is really at the top level, for the board?

Anne Bulford: Yes.

Lord Hall: Yes.

Q98 **Anne Marie Morris:** So there is no equivalent, if you like, for the commercial bit?

Lord Hall: There are then two committees. One, below the board, is an executive committee, 15 or 16 strong, which includes Tim, me, Anne and others. Then there is a commercial holdings board, which is where I and Anne hold to account, run and direct the four companies that you have seen in the NAO Report.

Q99 **Anne Marie Morris:** How do you go about selecting your non-execs? You have non-execs, I think, on both boards. Is that right?

Lord Hall: Yes.

Anne Marie Morris: With your nominations committee and so on, how did you go about selecting them?

Lord Hall: That was a matter for the chairman, David Clementi, who ran a nominations co. Some of our board members at the top level are appointed by the DCMS, but with David on the board, and some are appointed by the chairman himself, in a fair and proper process.

Q100 **Anne Marie Morris:** You appreciate that, under corporate governance rules, two things are abundantly clear. One is that to avoid group-think, you try to make sure you—and indeed under your charter you need to—refresh every four years. Secondly, it is generally accepted that you need people with a diverse range of experience and backgrounds. As I understand it, your non-execs have all come from former BBC roles, so they will have had experience of more than four years—

Tim Davie: No.

Lord Hall: Actually, at the very top level, it's a distinctive make-up of the main board. There are four of us executives on the board; that is by the charter and agreement. But there are also some members nominated by the DCMS, with the chairman's assent, and others nominated by—I'm thinking of the background of Tom Ilube, Steve Morrison, Nick Serota from the Tate and public service, and Ashley Steel. Then there are also people who have been nominated and gone through a process involving the devolved Administrations, so they come from very diverse backgrounds and through different processes to get on to the main BBC board.

Q101 **Anne Marie Morris:** Can you give me some examples? You ran out some names. I would love to think that I was an expert on all these names and what they did. When you go into the report and accounts and the list of directors, it says whether they are exec or non-exec, and the non-execs all look to me like they had backgrounds in your sector, so perhaps you could identify who are technically non-executives for the purposes of corporate governance and what their backgrounds are.

Lord Hall: Yes. Why don't I start, and then please chip in? David Clementi, the chair, comes from a distinguished background in finance. He was a deputy on the Court of the Bank of England. Steve Morrison—I think I mentioned him—was at All3Media and, before that, Granada. He comes from a very, very strong commercial television background. Nick Serota was the director of the Tate until about a year ago and now is chairman of the Arts Council. Simon Burke, who was on the executive board of the BBC and transferred across, because he was chairman of the audit committee, to make sure that that function carried on well into the new thing, has been in retail. He has had a very distinguished career and is an accountant, too. Where have I got to? I am going round the room. Tanni Grey-Thompson, as you will know, is in the House of Lords. Ashley Steel also comes from a finance background, at KPMG. Elan Closs Stephens comes from an educational background and is also from Wales. Tom Ilube, who is from a BAME background, also has a distinguished record in finance and tech.

Q102 **Anne Marie Morris:** And they are all non-executives?

Lord Hall: Yes, those are all non-executives. The only place we don't have a non-exec from at the moment is Northern Ireland, for reasons that are obvious.

Q103 **Anne Marie Morris:** Yes, I appreciate that. What about the other board for commercial?

Lord Hall: On that, we have two non-execs at the moment. With the chairman we will be thinking about whether those are right or not, or whether we need to expand them. We have Sir Howard Stringer who used to run Sony and also CBS—

Q104 **Anne Marie Morris:** Has he ever had any involvement with the BBC?

Lord Hall: Yes. He was on the executive board of the BBC before as a non-exec. We wanted to carry his commercial experience over because he has run CBS. He knows all the figures of power in the States on first-name terms. He has been immensely useful to us. We have also got Dharmash Mistry, who was a venture capitalist with a fantastic IT background and is extraordinarily engaging.

Q105 **Anne Marie Morris:** But he also has a BBC background, does he not?

Lord Hall: No, none of these people have BBC backgrounds. When I say they were on the executive board, we had a different structure before, which was the trust and the executive board, which we thought was not a good structure.

Tim Davie: They were both non-execs.

Lord Hall: They were non-execs on that board.

Q106 **Anne Marie Morris:** They therefore still have experience of your organisation, albeit you have shifted the hat into a new structure.

Lord Hall: Yes, they have some experience. One of the issues that has been interesting in setting up a completely new board—the chairman has rightly been very mindful of this—is that you need a bit of experience in how it used to work to carry over into the new system, as well having new people, because it is a big organisation. It is complex. On all the issues we have been discussing today, you need some experience.

Anne Bulford: None of those people have ever held executive responsibility.

Q107 **Anne Marie Morris:** It is not about the executive bit. It is about involvement with the BBC as a non-exec. Otherwise, you land up with group-think and you do not get good decision making.

Anne Bulford: Sure, but the rotation rules have been run through in the past.

Lord Hall: Also, we have been in some board meetings over the last few months where group-think was not the issue. They were extremely interesting, challenging and rigorous and all you would want out of a board.

Q108 **Anne Marie Morris:** So next time round when you get to a rotation, what sort of background will you look for to make sure you get that mix, because at that point you will not be looking at the challenges of setting up first time round?

Lord Hall: It is not my responsibility. I am the Director-General, but of course it is the chairman's responsibility. I hope I was helpful in this whole process. Doing exactly what you are suggesting, which is looking at what skills you need and making sure you get skills that are appropriate to the challenges you face, is absolutely key. But that is his responsibility, not mine.

Q109 **Anne Marie Morris:** But he would undoubtedly discuss that with you. On the finance front, we have some challenges with some of those subsidiaries, which account in different ways when you look at profits. I think there was an undertaking to try and sort that out. Where have we got to? Not sorted out is not really consistent with good corporate governance, is it?

Anne Bulford: We have spoken quite a lot about the four main subsidiaries—or three, now they are combined. They are quite different businesses operating in different markets on quite a different scale. Studios has £60 million turnover compared to BBC Worldwide. We have used different metrics at different stages to review those businesses, consistent with what they are doing. For example, we looked at profit before tax for Studios. We looked at EBITDA for Worldwide on a routine basis. Obviously, we have all the measures that you would expect in P&L in our detailed management accounts. Those have always been available to us to monitor those businesses. But we took the point from the NAO that it would be more helpful to the board to present all of them on the same basis and then the board can dip into other numbers if that is helpful. So from the beginning of this financial year, we have conformed all the management reporting on to the same basis.

Q110 **Anne Marie Morris:** Excellent, and what benchmarks will you begin to look at—all the usual financial measures, such as return on capital employed, margin and so on? There are quite a range of them.

Anne Bulford: We have always looked at EBITDA. We are very focused on free cash flow for the reasons that we talked about. Return on capital is a more challenging measure for us because these are home-grown subsidiaries, but what we are looking in particular at the Studios business at return on the investment in IP, which is the biggest single block on the balance sheet of investment.

Q111 **Anne Marie Morris:** Okay, so next time we see you, because I suspect this is not the first and only, but one of many, it will be good to hear from you exactly how you move that agenda on in terms of that performance measurement, so I am grateful.

With regard to commercial decisions, I was a bit concerned to learn that the benchmarking exercise seems to have been something that was done and dealt with and agreed and signed off by management without really any reference to the board.

Anne Bulford: We commission benchmarking all around the BBC for all sorts of different things at different stages as part of our "compete and compare" process, so all the time we are checking.

BBC Worldwide undertook a particular piece of work as part of its transformation programme when it was very much looking at its overall cost base, with a particular focus on overheads and the cost of operation. That benchmarking was used by the business, and flowed through into our business planning and discussion. We had not shared it with the board. It was commissioned by Worldwide operationally. There is always a balance between what strategic information you provide, and what operational information you provide. We have subsequently discussed it at the commercial holdings board, where we are more involved in the detail. There was not anything particularly not shared. It was not commissioned for that purpose; it was an operational support.

I think the NAO raised a very good point with us about what the board uses to know that things are good. The Committee will be aware, I am sure, that one of the things that the BBC board is required to do over the next period, by the end of this calendar year, is undertake its own review of the commercial operations. We very much expect the board to use extensive benchmarking data to help it with that, and to use external help. For the future, one of the things we will do is put into our monthly management report a reference to any significant piece of benchmarking that has been undertaken, and then provide that to the board if that is helpful.

Q112 **Anne Marie Morris:** Okay. One final area from me: Ofcom. What is your relationship with them like?

Lord Hall: It has been good. Again, we are getting to a new relationship. We argued, during the charter process, for a single regulator—that is, Ofcom. It is therefore up to us to make sure that we get—

Q113 **Chair:** So you can't complain now?

Lord Hall: We can't complain—that's right.

I think it is working very well. They have set requirements on us to make sure that our commercial activities do not in any way distort the market. They are asking for a lot of information to ensure that we are doing what we say we should be doing. They are watching very carefully the boundary that we talked about a little while ago between the public service and the commercial, to make sure that there are no cross-subsidies or any other leakage from one to the other. Transfer pricing and all that sort of stuff was very much on their agenda.

My view is that we are learning a lot. We are having to learn to work with an out-of-house regulator. That is a change for us, but I think it is the right change.

Q114 **Anne Marie Morris:** How does it work in practice? They take a lot of information, but clearly you need to then have dialogue with them, and they need to read it and say whether there is or is not an issue. How does that piece work?

Lord Hall: On, for example, one of the new things that we are doing, the merging of Worldwide and Studios, that plan went to the main board. I think we had a couple of discussions about it in some detail at the main board. We then submitted that to Ofcom. The main board said, "We don't believe this is material—in fact, it's going to strengthen the public service operation at the BBC." That then went to Ofcom, and they came back with a judgment, having assessed it, that indeed it was not material. In fact, if I recall, their judgment was: "This is line with what other operators do as well."

On, for example, not the commercial operations but BBC Scotland, where we are doing a new channel, that has gone to Ofcom. They have accepted that as a thing that they think we should be doing—again, after consultations and so on. We are working out this relationship whereby anything new we want to do that is material we take to Ofcom, and I think that is working well.

Q115 **Anne Marie Morris:** How do you decide what is material?

Lord Hall: The board has to decide what is material. Is this going to impact on the market? Is it a change to what we are trying to deliver under our public purposes? There are definite criteria about that.

Q116 **Anne Marie Morris:** Have Ofcom ever called you in because they think you made the wrong decision?

Lord Hall: Let's say the board decides something is not material. It is then open for Ofcom to say, "Come on—we want to look at that more." They could decide it is material, and then put it through a proper public test.

Q117 **Anne Marie Morris:** Has that happened?

Lord Hall: It has not happened yet, because actually—I am touching wood like mad—I think the board's judgment about what is and is not material has been good.

Anne Marie Morris: Long may that last.

Q118 **Chair:** While we are talking about the commercial aspects and the relationships of the different boards, can I point you to figure 13 on page 33 of the NAO Report? It highlights what seems a slightly confusing method of reporting to the board. Notwithstanding you have just highlighted the high calibre and expertise of board members, it is not very clear if you are presenting profits. I won't read it all out, but you can see the different ways of reporting. Have you done anything since to make it easier to have a comparison?

Anne Bulford: My answer is the same as the answer to Ms Morris, which is that we use different measures for the different subsidiaries, depending on their market context. We were looking at it ourselves—the NAO made the same point—and now that we have a new board with this focus, it is more helpful to use the same measures on routine reporting for all of them, and then if we want to put more material in to elucidate why a particular number is important, we can. However, we had all the measures for all the subsidiaries, so it is very much a reporting presentation point.

Q119 **Chair:** Okay, but you take the point?

Anne Bulford: Yes, the point has been taken and the material that the board considers has been reshaped for the current financial year.

Q120 **Chair:** Okay. I want to pick up on what is coming through very strongly, both from the Report and also from what you have said, which is that you are still very much a content-driven organisation at the BBC, yet we are moving into a world in which people consume news and information in many different ways. It is interesting that television is still alive and kicking in parts of sub-Saharan Africa. Not having been there, I can see it, too, up to a point.

However, don't you think there is a danger—Mr Evans will be coming in on some of the specifics—that there are many new commercial opportunities that it will be very challenging for you to keep up with? Are you as confident as you sound that focusing on content is the way forward? Is that your position?

Lord Hall: Yes, completely. I think content is absolutely key. Developing IP is absolutely key. To go back to Studios, Studios developing IP is absolutely key. Given that we have a charter with a licence fee going through to 2027, we are in a strong place to play a kind of David to the Goliaths of Netflix and Amazon and so on.

Q121 **Chair:** I cannot find the reference, but I think it was you, Lord Hall, who spoke about the percentage of young people, aged 16 to 24, who consume their news through YouTube. I think it was 80% through YouTube and less than 20% through iPlayer. You are already in a very tricky place if you are looking simply at audience share, which is not that good as a proxy for money.

Lord Hall: I think what you are saying is really interesting. This is the challenge we are facing. You absolutely cannot write off channels. Channels are very strong and still doing well—not as they were 20 years ago, but they are still a good way of getting to lots of people.

This is why I am focusing the organisation on how we reinvent ourselves—not so we lose the older audiences and our core audiences there, but so we can present the values, programmes and news we stand for to that next generation. That means looking at YouTube and at mobile as a method of delivery, where we are actually reasonably successful, and making sure we can build on that for news.

It also means that, when it comes to growing our programme platforms, iPlayer is important, as is iPlayer Radio. We are revamping in the autumn to do something very different and very new, which, again, will be for our existing audiences, but I hope will also bring new audiences.

Q122 **Chair:** But given that figure of 80% of young people consuming information through YouTube—YouTube is very unregulated; you and I could pop up and say anything we want—how will they be driven to the excellent, high-quality, high-cost content of the BBC, when some young rapper or poet or performer, or some fake news thing, is doing something instead? What will get across to new audiences that the BBC brand is the way you have all eloquently described today?

Lord Hall: Trust—people use a lot of different news sources, but where do they go to find out the news that they trust? It is very interesting. We had an audience panel in Coventry two or three weeks ago with a whole load of under-25s and we discussed what the BBC stood for. It was quite interesting that they still recognised the BBC as a place to go to for news if they actually wanted to find out what had happened. How do we build on that?

Q123 **Chair:** But will that be through the website?

Lord Hall: It is a whole load of things, from, broadly, online to using mobile to using social media. We are really pushing that very hard.

Chair: There are threats all over the place. Mr Evans will pick up on a couple where things went awry for you. Who would have thought five years ago that Netflix would be where it is now? You were still selling DVDs at that point.

Lord Hall: We still are.

Q124 **Chair:** You still are. Okay. That is a good plug—buy your DVDs from the BBC. However, the technology has moved on immensely. How are you going to be sure that you can keep that brand profile in the market?

Lord Hall: I actually think the reverse of what most people think. There is a lot of concern and a lot of worry around the sector more broadly, but I think we have two things going for us. One is the trust that we have in news, and the second is the quality of our content, which is why I go back, Chair, to the point you made at the top, which is that we are a company that makes really great content.

Versus a Netflix or a Google or an Amazon, who can and are taking people from us, and who can outbid us on all sorts of things, we have to be very clear about what we stand for. That is why the building of Studios over the next five years is critical for the BBC. Netflix and Amazon are doing a great service—we all use them and they give us access to all sorts of content. We should really rejoice in that. But that does not mean that what the BBC is doing is no longer of importance—quite the reverse. Looking together, not just ourselves, but with ITV, Channel 4 and others, at the way in which the ecology of public service broadcasting in this country can grow, and not seeing ourselves as in total competition, is one of our big challenges.

Q125 **Chair:** How many commercial tie-ins do you have with Netflix at the moment?

Tim Davie: I don't know. Quite a few.

Lord Hall: Tens of millions invested.

Q126 **Chair:** So you are buying into the opposition.

Tim Davie: It is that hideous word "frenemy", or whatever—choose your word. The jeopardy is very significant around content supply for single country operators, however big they feel their scale is. It is very significant. With global buyers in there and the hyper-inflation on drama, it is a highly competitive situation for us, but we have some in-built advantages. The key rationale for Studios, underneath the securing of the creative and financial underpinnings of the BBC—it is that fundamental—is to secure talent. This is a talent-driven business. We should not put the white flag up here. I will give you a very specific example. The producer of "Blue Planet II" has had a lot of choices. Without going into detail, we want to keep him working with the BBC and delivering, in Bristol, the finest natural history, which works for us. That is what we have to do, and I think we have some advantages.

Lord Hall: Could I give just one example? I am trying not to go on too long. We think two series of "The Crown" cost Netflix £100 million. It was viewed by 40% of UK adults. For that amount of money—this is why I have hope for the future—we have made 18 series and 85 hours of content, which has reached 74% of UK adults. I could read you the list of things we have done, such as "The Moorside", "Apple Tree Yard", "Doctor Foster", "Call the Midwife" and so on. My point is, that is what we have to do. I feel confident because, in the end, the Netflixes are great people doing great things, but if you want to see UK content by UK writers, directors and so on, most of that will come from the public service broadcasters. Of course, if you can sell your idea to Netflix, that is wonderful.

Chair: I guess the big rub there is whether people want to see UK content. It will be interesting to see if our children and children's children continue to in future. That is the challenge for you.

Q127 **Chris Evans:** One point I want to make on that is about the pipeline of talent. If you go on Netflix or Amazon in particular, there are options on their website to submit ideas. How are you ensuring that pipeline has access to BBC productions?

Tim Davie: We have numerous schemes.

Chris Evans: With Amazon, I can go on now and put my idea in front of them.

Tim Davie: I understand.

Chair: Chris is desperate—it might be quicker to give him an option.

Chris Evans: Where do I put my idea?

Tim Davie: We had better talk about that afterwards. I think two things have made a big difference to the point that you are making, Mr Evans. One is that I have been a huge fan of BBC Introducing, which uses local radio stations or you upload your music and we sift through it. It could end up on a local radio station, Radio 1, Radio 2, Radio 1Xtra or whatever it happens to be, and then end up on the BBC Introducing stage at Glastonbury. My view is there should be more of that in comedy and other areas as well.

One of the other things we have done, after a lot of examination about what we are doing in the nations of Scotland, Wales and Northern Ireland, is to look at how our commissioning operation in drama can really be out there in the nations with writers' rooms, where we test out ideas and encourage people to write. We are beginning to get some really good things back from that operation too. We are very active in getting out there, as well as in the BBC Introducing sense of saying, "Upload stuff to us".

Q128 **Chris Evans:** Last question. My concern is that we could be heading to a football-style transfer market. You have a very talented writer or a very talented actor. They start in the BBC and they move to Netflix and then to Amazon. They are used to the big wages. How do you attract them back into the BBC?

Lord Hall: I think that is where we are sort of going, in which case our future is in finding either the right talent on its way up, nurturing it and giving it a home and a heart, or—I have just seen a Lear we have done by Richard Eyre that is going out shortly. The actors in that have been given the most wonderful chance by the BBC, and by the wonderful indy that has done it, to do the roles they always wanted to do and work as an ensemble. We have to be very clear about what our role is in the market, and I think it is a very clear one.

Tim Davie: Our entry level offer is very strong. Take "Doctors", "Pobol" and all the other soaps we have. That is the breeding ground of drama writers. I was at Elstree yesterday. We have an amazing scheme. Actually, we are short of writers coming out of school. You are absolutely right to say that the risk is when they begin to deliver some good episodes. We are definitely at risk there. The one thing about a commercial subsidiary that is not funded by the licence fee payer is that we can bring in foreign investment and look at how we work with these people. We do have more flexibility. Also, we can be a bit more aggressive in collaborating with them on long-term planning around their careers. The game has changed, and we need to be very active.

Q129 **Chris Evans:** I have two last questions. BBC Store was a failure, Mr Davie.

Tim Davie: It was.

Chris Evans: Even with your confidence, you must admit that.

Tim Davie: I do.

Q130 **Chris Evans:** What have you learned from that, and what will you put in practice to avoid another BBC Store happening?

Tim Davie: We did take learning from Lonely Planet. I have had a few in my time over 20 years of commercial life. We got out quick, which is one learning. The other is a very specific learning: when the market is moving, what people say they will pay for and what they will pay for can often catch you out. We did believe—and we had good research—that people were willing. We asked, "Would you like the BBC archive? Would you be willing to pay?" I am being very open with you: the research was pretty good, but when it really came down to it, with the tsunami of premium, fresh content coming through, we just could not get the model to work. So there are learnings for us. We absolutely get out fast. We win most, but sometimes we put our hands up and take a hit.

Q131 **Chris Evans:** I am very interested in BritBox. This is something I learned from the Report. BritBox is something that ITV are also very interested in—it is the first time their content has been sold in America.

Tim Davie: We are in a joint venture with ITV.

Q132 **Chris Evans:** Yes. This is the last question from me: are there any plans to launch a UK BritBox? It seems like quite an exciting project.

Lord Hall: It is a really interesting idea. We are talking to ITV about taking BritBox elsewhere in other territories around the world, and we are having a lot of conversations in this country as well. Forgive me for not saying more.

Q133 **Chair:** Watch this space. We will tip off the DCMS Committee to probe that next time you are in front of them.

I have a couple of final questions. You mentioned intellectual property a number of times. We know the arguments about that. If you have it, it is good. You must have a lot of legal advice to make sure that you tie down that IP in commercial negotiations. Who is paying for that? Presumably it is BBC Worldwide. No, sorry, presumably it is—

Anne Bulford: If the intellectual property resides with Studios, Studios will pay for all the necessary advice to protect it. The intellectual property in programmes up to the point of transfer over belongs to the public service, and the public service would therefore bear the cost of protecting our IP there.

Q134 **Chair:** The cost of those lawyers is not published in your accounts, so can you give us or write to us with a ballpark figure for what you are spending on legal advice to make sure you lock down intellectual property?

Anne Bulford: I don't have that number. We would need to write to you.

Q135 **Chair:** Will you also, if you are able, give us any cost-benefit analysis you have done about the cost of legal advice versus the long-term benefit?

Ms Bulford, you mentioned cyber-security being a very big issue that you have been discussing. I am glad to know that. Again, can you give us an idea of what you are having to do to make sure that the BBC is strong in terms of preparedness and a ballpark figure for the cost of that?

Anne Bulford: Again, we probably need to write to you about that.

Q136 **Chair:** Fine. I look forward to that.

Anne Bulford: And we would want to highlight anything sensitive in that material.

Q137 **Chair:** Absolutely. We can discuss exactly how you submit that.

Anne Bulford: But it is a very significant risk for everyone, and it is something we take very seriously indeed.

Chair: We recently did a Report on WannaCry, and we know the weak links across various organisations are immense, so we are keen to know where the BBC is. It would be interesting if we turned on the television one day and found another broadcaster broadcasting instead because they had cyber-attacked you. Let's hope that doesn't happen.

Thank you very much indeed for your time. The transcript will go straight on to the website in the next couple of days uncorrected, so please get back to us if there is anything wrong on that—factual errors only. I am not sure when our Report will be out, but it will be in a few weeks' time. Let me flag up again that we are working closely with our sister Committee, the DCMS Committee, and looking forward to getting to know more about how the commercial operations of the BBC operate and how they provide good dividends for the taxpayer. We have given you a reasonably gentle ride today as we have got to know the landscape, but we will be closely watching the figures in this Report and what the next few months and years show. Thank you very much indeed for your time.