

BBC Charter Review

Licence Fee Seminar

Chairman's Opening Remarks

Lord Burns: Good morning everyone and I would like to welcome you all panel members and audience to this seminar on the BBC's licence fee. Before I give an overview of our approach and the agenda for this morning, I want to just cover first of all a few housekeeping issues. The first is that the BBC have kindly provided cameras in the room which is providing a live stream of footage via a link on the Charter Review website and directly on the BBC's website. This means that, you know, whatever you say is going to be recorded of course, but actually even more important than that, I've got to ask you to turn your mobiles and blackberries off if you would please. You have to treat this as if you were on an aeroplane, because we know from previous seminars that we operated that we get terrible feedback on to the microphones from the blackberries hunting. Now because ministers have already started going into No. 10 no doubt, and many of you are obsessed by what it is that is going on this morning, if you want to do that, you're going to have to go outside, and I do have to ask you to do that, otherwise I get into terrible trouble from the technicians. The loos are located immediately opposite the seminar, all the emergency exits are clearly marked. There will be a chance for everyone I hope to make comments and contributions during the course of the day, although the initial responses are going to be coming from members of the panel. I would like you to keep your security badges and name badges on please at all times, and not go into other parts of the building, although I can't imagine what might tempt you to do that. First of all we have the basic structure of the days. We're having four sessions. We have a core panel which consists of Tim Gardam, Margaret Exley and myself. We will take part in all four sessions of the seminar, and then we will have a revolving cast. There is a list of panellists for the other seminars, for all the seminars in the information pack that you have got. The purpose of today is to have one last go at running a seminar on this topic, which seems to have been going on, even from my perspective, forever, let alone those people from the BBC. We had a number last year, was it last year or was it even the year before, and we managed to have quite a useful debate I think on a range of issues, and we felt that it would be useful to bring this cast together for one final performance to look at the issue of the licence fee. As with the other seminars, the aim is to seek to air the issues, to debate them and to explore relevant issues. My objective is to see that all of the issues are addressed, that if people have things to say, they have the opportunity to do that, and if people wish to challenge them, they also have the opportunity to do that, and we'll try and involve as many people as possible. We've divided the day into four sessions. The first one, to look at the BBC's current settlements, see what the lessons are from that. Secondly, to then move on to the future, looking at cost pressures, efficiencies, the BBC in terms of the wider market. In the third session we're going to look at technological development, both from the point of view of the costs that are involved in that, whether there are additions to cost or there are cost savings from technology, but also what it implies for new services, new media and the implications of that, of course it will have some implications for governance, and then we'll finally come to the, if we're not by this stage entirely exhausted, BBC's own future funding proposals and have an opportunity to look at those in more detail. Now there is some overlap between these and inevitably some of the topics will come up more than once, but we will try to stick to this structure. So this session we're planning to run until about 10.30. We want to look at what has happened since the last licence fee settlement in 2000 both in terms of what has been achieved and what has

been happening in the market-place as a whole, and some of the lessons from that. Now, the second session we're hoping to start at about 11 o'clock. The afternoon session we will start at 2, and finally at 3.30 for the final session. We're hoping to wind up at about 5.15. Michael Grade who is of course not only chairman of the governors but also is going to become chairman of the Trust, is not participating on the panels as such, but he's going to be here all day, and I would like to give him the opportunity to say a few opening words to describe this rather transitional position that he finds himself in, and therefore why he proposes to be more in listening mode than in active mode today. Michael.

Michael Grade: Thank you, Terry. A few brief remarks by way of context. The current consideration of the BBC licence fee is I think we can all agree by a very, very long way, the most open and the most transparent that there has ever been. We made the BBC's licence fee bid public at an early stage. It was based on a costing of the government's tasks for the corporation, as set out in last year's Green Paper. The bid had by that stage already been independently scrutinised and amended by the governors, again, for the first time, using our own advisers, PA Consulting. The new draft BBC Charter establishes new governance arrangements for the BBC, at the core of which lies a clear separation of the new Trust from the BBC Executive. It places on the new Trust a clear responsibility to ensure that the licence fee is properly, effectively and efficiently used, and requires the Trust to be fully accountable to those who pay for it. The governors, I should add, are currently proceeding and operating on that basis. We know that the public wants a wide range of quality services from their BBC. We've recently received an independent research report from Professor Barwise which concludes that there is strong public support for the BBC's investment plans. The Green Paper set out ambitious tasks for the BBC going forward, but we are very conscious, that is to say we, the Board, that these and other objectives must be delivered at the lowest possible cost. While the BBC must have the means to deliver the purposes which it has been given, it is also clear that the level of the licence fee should not be seen as a badge of institutional virility. There is a proper balance to be struck between the public appetite for range and quality on the one hand, and on the other their efficient delivery at the lowest possible price. In its continuing focus on value for money, the Board is continuing to exert pressure on costs, for example with regard to the proposed plan to move significant elements of the BBC from London to the north-west, to Manchester. Any ways which are identified to decrease the cost of the licence fee, or to improve what the BBC can offer, will be welcomed by the Board. The licence fee itself represents a deliberate intervention in the market. The value and benefits of that intervention are well understood, but the wider effects must always remain under scrutiny. What the BBC does affects other businesses, and I would add, not always negatively. We will doubtless hear a lot of commercial anxiety today, and understandable advocacy of particular interests, and there are also those who would doubtless find life a lot easier with a much smaller BBC, but all those with legitimate concerns about the market impact of the BBC should be reassured by the White Paper's imposition of real and detailed duties on the new Trust. This is no longer the land of paper promises. The service licences, public value tests and other

tools are there, written down, to do a job and to do it transparently. I should also emphasise that our duty to represent the interests of the licence fee payers is not narrowly focused on what the BBC provides. Our remit, the Trust's remit, extends to safeguarding their interests in sustaining choice in the wider market. The decision ultimately on the level of the licence fee is of course one for government alone. It has a complex equation to consider, involving broadcasting aspirations, public appetites, public policy objectives, commercial impact, and of course, value for money, and I have no doubt that today's seminar will be an important stage in informing its decision. My fellow governor and future Trustee, Jeremy Peat and I will be in the audience throughout today's proceedings, and if I may say thank you to Terry for that opportunity, I'll hand back to you and I will join the body of the kirk.

Session 1: BBC's Current Settlement

Lord Burns: OK, Michael, thank you very much. Let's begin our first session on the BBC's current settlement, where of course what we want to use the session for is partly to look at what has been happening over the last five or six years as a basis for moving forward, but also to try and see if we can draw out some of the lessons from that. Could I begin by just asking each of the people who are here on the panel to introduce themselves in sort of ten seconds.

Conor Dignam: Conor Dignam, I'm the editor of *Broadcast Magazine* which I hope most of the people in this audience will know. It's the weekly magazine for the TV and radio industry.

Alice Rawsthorn: I'm Alice Rawsthorn and I'm a design columnist for *The New York Times* and *The International Herald Tribune*, and a member of the Charter Review Panel, the independent panel convened by DCMS.

Margaret Exley: I'm Margaret Exley, Chairman of Mercer Delta Consulting and a member of the Charter Review Steering Group.

Zarin Patel: I'm Zarin Patel, Group Finance Director of the BBC.

Mark Thompson: I'm Mark Thompson, I used to be in the Jacuzzi business but now I'm Director General of the BBC.

David Lipsey: David Lipsey, I'm not ashamed to admit it, even this morning I'm a Labour peer and I chair the Social Market Foundation and I was a member of the Davis panel on the BBC licence fee last time round.

Tim Gardam: I'm Tim Gardam, I'm from Oxford University. I was a member of the BBC Charter Review Panel. I'm also a non-executive director of SMG but not here in that capacity today.

Paul Brown: I'm Paul Brown, I'm the person who runs the Commercial Radio Companies Association.

Steve Barnett: I'm Steve Barnett, I'm Professor of Communications at the University of Westminster.

Lord Burns: Thank you all very much. In your pack there is an outline of some of the topics that we wanted to deal with in each of the sessions, and I thought the best way maybe of getting it off this morning would be to talk about the settlement, about what it is that has been achieved during that period, what some of the pressures have been upon costs, what has happened to income by comparison with what has been expected and the impact that that has all had upon the wider market-place, and I can think of no better place to start than with Mark. As we know, he wasn't there during much of this period, but my observation is that, as a result of the growth of households, the BBC's income during this period has been rather larger than was anticipated. We have seen that the expenditure which rose very sharply during the early part of the period has been under some pressure, during the more recent part of the period, as you yourself mentioned about the Jacuzzi of cash. From some perspectives, the BBC has seemed to have had rather more income than it anticipated and the television advertising income in the commercial sector has probably been rather less than was anticipated, and I would just like to get your own sense of what this has all meant for the BBC, what do you think it has achieved during this period, the impact it's had on the wider market-place, how it has been dealing with the challenge of trying to achieve efficiencies, and any other observations you have about this as a sort of basis for moving forward.

Mark Thompson: Well, I mean, very big question. Just a few perhaps opening thoughts from me. I was at the BBC for most of the present charter period, and was indeed involved in the debate about the present Charter. It's worth stepping back here. Over the present Charter period, the BBC licence fee has grown in real terms, there's quite a lot of confusion in some of the submissions between real and nominal, in real terms has grown by 2½ per cent per annum. Over the present Charter, TV advertising has grown by 3.1 per cent in real terms per annum. Radio advertising has grown by 6.8 per cent per annum. TV subscription revenue has grown by 11.5 per cent per annum. So if you look at the present Charter, and you often wouldn't get a sense from this from the debate about the future of the licence fee, what's happened is the BBC's income has grown and it's grown in real terms, but as a proportion of money available across broadcasting, the BBC's proportion has shrunk and shrunk significantly. So when we look at, as I think we probably should, at this Charter, at success over the period of this Charter, and the BBC's income over this Charter, of course there are ups and downs. The BBC has a stable source of income, you know, set every few years but nonetheless stable there. Clearly there are variations in other lines of income. The story is not of BBC income growing disproportionately to the market. It is exactly the opposite of that. But let me talk a bit about the ...

Lord Burns: There is some difference between the first half of the period and the second half.

Mark Thompson: Well, I think, as I've said, you would expect, given that, you know, much of public service broadcasting and more broadly the television and radio broadcasting industries see economic cycles, you would expect to see some variation, that has happened, but it seems to me that there's been a public policy in place around giving the BBC real increases against specific purposes, insisting on efficiencies to be taking place, when you look at the BBC income and relate it to the rest of the industry, and stand back and take a broad view of that, it is a story of, certainly of the BBC getting more resources, but less in the rest of the industry, but I just want to come, if you like, to the moment where Chris Smith in 2000 sets out the government's objectives to the BBC in respect of the most recent settlement. There was a list of things the BBC was asked to do: to improve established services; to invest in particular in quality content; to expand its educational work; to reflect devolution across its nations and regions; to develop interactive services; and to provide high quality free-to-air digital services. The idea of building digital Britain is very clearly there in Chris Smith's objectives. I believe that if you measure the BBC's performance against these objectives, there's been real progress and real success. To pluck out one digital Britain, I think the rescuing of the digital terrestrial package without which digital switchover would be impossible, the support for all of the digital platforms with new services and high quality content, even when it's not been directly in the BBC's interests. The BBC's got right behind DAB digital radio, despite the fact that it provides an opportunity for a fairly small number of new BBC services and for literally hundreds of commercial services, and the BBC's never drawn back from that because inevitably it means a much greater diversity of choice for radio listeners. That's something we think is a good idea. So I think if you look at what the BBC was asked to do, it's a very good story. It's also true that the BBC will meet all of the targets it was set in terms of self-help, efficiencies and so forth. I arrived two years ago. I guess what I felt walking back into the BBC was, the key difference between 2004 and 2000 was that everything was moving quickly and more quickly than people have thought in 2000. Digital take-up, the hunger of audiences for high quality services, the hunger for audiences for more. We'd launched children's channels with a fairly small budget for original UK production. We were told almost immediately by the people using Cbeebies and CBBC, they wanted more, they wanted more original content. We could see ahead new digital technologies and new ways of delivering content to audiences arriving. On demand is one example of that. I also believe, coming into the BBC, although the BBC had already thought hard about efficiency, there were particularly in terms of overhead costs, opportunities to go further and to go for transformational change, to take the BBC to the, if you like, the cutting edge of the private sector. We're in the middle of a programme which is going to see 7,000 people leaving the BBC. We have tried to focus our activities that outsource some non-core activities to also develop the commercial activities and again rationalise and focus the work worldwide. Now, I think we're in the middle of a very big change programme in the BBC. It's not finished. I'm not sure efficiency's ever finished frankly. I think it's something that we have to worry about the whole time, but if you look at the extent to which the BBC has confronted the challenge of this period, confronted the new technologies

and confronted the need for change, I would say, you know, although there's plenty more to do, it's a pretty good story.

Lord Burns: OK, thank you very much, Mark. David, could I turn to you next. As you readily confessed at the outside, you were a member of the Davis Panel. You didn't quite get the results in terms of the outcome that you proposed, but it would be, I think, very interesting to hear your perspective on how the last five or six years have turned out by comparison with the discussions that took place in the Davis Panel at the time.

Lord Lipsey: Well, thank you, Terry. I mean, one should never look back at something one wrote seven years ago, because it doesn't do much for the self-confidence, just in the forecasting game that I have and will face up to it here. There's a chapter in the Davis Report, *Achieving Sufficiency Without Excess*, drafted by the BBC's policy, I think, but it sets out our findings, and the Davis Panel recommended that there should be an increase in the BBC's core revenues, that's x efficiency savings and so on, of a range of 2 – 2.5% per annum in real terms. Incidentally that range was a great deal less than the range would have been if you'd asked each individual member of the Davis Panel what they wanted, where I think the range would have been something like nought to probably 20 or 30% in Gavin's case. That's evidently not true but you know what I mean.

Lord Burns: No, that was a joke.

Lord Lipsey: Indeed. In the event, and these aren't precisely comparable, the Secretary of State decided on a licence fee increase of 1.5% per annum in real terms over the period of the settlement. I'm not being too judgmental on this, but I would say that that has actually turned out to be a reasonably full settlement in the circumstances, if I could give one or two reasons why I think that's so. First of all it did allow an enormous increase, though that's now changing, in BBC staff, from 23,640 in the year of the settlement to 28,264 last year, just off its peak, an increase of 17% in staff. That doesn't suggest a very tough settlement. Secondly, and I'm less certain of this, it does not seem from the PKF Report that the BBC was under such financial pressure that it delivered all the financial savings and efficiencies that it promised, I quote from PKF, *'The BBC has in the event delivered only marginal cost-releasing organisational savings.'* Getting the balance right between Jacuzzi and cold bath is not very easy, but I think those two facts tend to make me think that it was more Jacuzzi than cold bath, as Mark originally thought. In terms of return for money on that, I think there have been again a mixed picture. I think there have been completely triumphant successes, and I think that an organisation of this age and nature has adapted to the technical challenge, the digital challenge and the on-line challenge in the way it does, is a really extraordinary achievement. 14.6 million users of bbc.co.uk, 3 billion page impressions in a single month in February, this is a quite extraordinary change, and the BBC's ability to adapt to social change is very good. I will have to show my King Charles' head. I have always thought that any settlement that allowed the BBC to launch BBC3 was a mistake. BBC3 has been, yes, I'm afraid I did confidently predict, not a success, and if anybody

says *Little Britain* to me, I shall scream and scream and scream. 1.7% in digital homes of the market share which is lower than the recently launched ITV2 and there was no need for it, though there is a need to deliver to young people in the forms they require as the new plan shows. What I think, however, was completely unexpected, certainly by Davis, about the settlement, was not so much how much we gave the BBC but what weight we gave the BBC in the market-place, particularly in comparison with ITV, and looking back, we looked at the forecast for advertising revenue generally, and we saw a 7% real per annum increase in advertising revenue generally, and so it looked that ITV would be getting plenty of money from its share of that, and that has turned out to be completely wrong, so that whereas in 2000, ITV ad. revenues were 82% of BBC licence fee revenues, by 2004 they were down to 57%, a very dramatic change with implications on both sides. I mean, it does mean that there's less perhaps of the super-competitiveness for salaries and so on than there otherwise would be, because ITV isn't flush to bid against it, but it also means that it's very hard for ITV to sustain itself against this. The final point I want to make, which may be a relief or not, is as follows. Having spent quite a lot of time looking at it before and looking at it again, anyone who thinks there's a precise science in setting a licence fee is utterly deluding themselves. It is a political decision at the end of the day, and in my view it probably ought to be, because it's balancing what's now officially a tax called the licence fee against a level of services which has to be levied against other levels of taxes and other levels of services. It is very difficult setting that because you're doing it for a number of years ahead. The unexpected frequency, as in the case of ITV revenues exceeds the expected, to make it worse, in most decisions you have in life, the risks are asymmetrical. Let's say if you give somebody too much money, you get slightly better service but some of it gets wasted. You give them too little and it's disaster. I don't think that's true at the BBC. I think the risks are relatively symmetrical. The risk here is that the BBC gets so much money that it, despite the new defences erected through the Public Value Test, that it goes on becoming imperialistic in everything and wipes out the private sector and its contribution. The downside risk, however, of starving the BBC of money is that it doesn't continue with its wonderful technical progress and becomes an irrelevance in the market-place, and those two risks seem to me to be very nicely balanced, and so I'm very glad not to be Tessa Jowell if she's still Secretary of State as we speak. Thank you.

Lord Burns: Thank you very much. Paul, do you want to say anything at this stage?

Paul Brown: Well, thank you, Chairman. I think it depends where you sit in terms of the BBC competition, just how warm the Jacuzzi is, and I would say that from radio's perspective, over the last five years we've found that the BBC's Jacuzzi is moderately hot. Of course there are ways in which commercial radio and BBC radio co-operate and that's exactly right and proper in the interests of listeners, and DAB is a good example of that. I think it's worth bearing in mind that the DAB opportunity which has been described by Mark, is significant for commercial radio, but opportunities of that size require considerable investment, and my reflection on the amount of money

that commercial radio is alleged to have made over the last 10 years, and certainly over the last 5 years, we've been pretty much flat-lining across the 6 years. There have been increases but they've been very marginal increases, not really very much above inflation, so where we are, I think, is we're in a position of intense competition in a market-place which is requiring a lot of new investment. Mark addressed an organisation the other day, indicating that there are all kinds of things in the commercial sector we should be doing. Yes, we should, and if we're going to do those things, and we are doing a lot of those things, as I think will become clear during the day, then we require the finance to invest in it, and if we have somebody of the size of the BBC in our market expanding its services ever onwards, it makes that extremely difficult. I think the real problem we've had over this last 5 years of settlement is not so much the amount of money which we think is more than sufficient going forward was what we've got candidly. It's not so much the amount of money but it's how you use it, and you can't divorce the two, and where we are, we're a commercially-funded organisation, we tend to get our advertising primarily aimed at 25- and 44-year-olds, and that is where the BBC has done a significant damage because they've been able to invest a lot in those services. They say that they haven't spent any more, it's how they've spent it that has been the key, and where we are now is that in the audience which generates finance for us, which allows us to provide proper plurality in media, allows us to provide proper competition for the BBC and invest in the future, the BBC has gained 20% of the audience between 25 and 34, we've lost 14% and they've gained 17% between 35 and 44, and we've lost 11%. Now, that is an active pursuit of the market that is most suitable for commercial radio and it's done us damage. Thank you, Chairman.

Lord Burns: Conor?

Conor Dignam: Well, I think there's no doubt that the BBC's performed incredibly well since the 2000 licence fee settlement. In many respects it's been going absolute gangbusters. It's probably worth recalling as well that before that settlement, you know, in the 90's, there were questions about was the BBC, you know, going to be finished, was the writing on the wall for the BBC, so I think the 2000 settlement obviously secured it the funds to establish a real success story, and unlike Lord Lipsey, I would say, you know, BBC3 for me, I think, yes, it is working, it's got some way to go but it is working. It has some value for the audiences and I think it'll deliver enhanced value over time. BBC4, Cbeebies, CBBC as Mark mentioned, News 24 again, the 2000 settlement, there was a lot of conversation about why is the BBC doing a 24-hour news channel, and I think most people in this room would now recognise that it was absolutely right for the BBC to be in the 24-hour news business and that's going to be a call to BBC News going forward. So I think overall on the things that the BBC was asked to do in 2000, good marks, you know, 7, 8 out of 10 in many cases, but I think the reality of this is, it's not just a success story, it's an excess story, and I think the question is, you know, how much does it require going forward and where is it using the money. As Paul said, it's how does the BBC do these things. I think if you look at one of the key requirements again was to enhance the core services as BBC1. Now, BBC1 again, a fantastic success story over the last few years. I think most people

would say, you know, the BBC has certainly had the money to invest in core services BBC1 and BBC2, and what has it done? It's done a brilliant job in some respects on BBC1 but there came a point where it was doing the wrong things. It's actually how it does these things, so when it was scheduling *Fame Academy* against *Pop Idol*, or when it was pulling new comedies off BBC1 because they weren't getting 3 million viewers on their first few weeks of airings, that's the BBC doing the wrong thing with the money it's been given, so I think the real key to this question is making sure we secure enough money for continued success of the BBC without the excess obviously.

Lord Burns: Thank you very much. Steve?

Steven Barnett: Yes, thank you. I want to say a little bit about non-normalised chip allocation methods, which is a real conversation stopper. It's a very grand way of saying something very simple. But can I just say in response to Paul, I think there's a real danger sometimes of accusing the BBC of doing its job too well. If it's taken 14 or 15% share away from a particular market-place, as Michael Grade said at the very beginning, it is a deliberate intervention in the market-place. There's no point in having an intervention that doesn't do its job, and I think it's actually incumbent on commercial competitors sometimes to say, 'Actually, maybe we should raise our game rather than complain about the BBC doing its job too well,' but anyway, I'm sure we'll come back to that, and it is relevant to what I've got to say. David said never go back to what you're written a long time ago. I wrote a book about the Birt years and I did sort of go back to it a bit yesterday, and I was struck by how little discussion there was in the period up to the '96 Charter Renewal, about the level of the licence fee. It was, as Conor said, about the survival of the BBC, and I think what's changed is the commercial environment, what's changed is the number of private sector organisations who are in the media business and quite reasonably, quite legitimately are struggling to make a living, and I think that makes life more difficult for a public organisation which is large and which commands nearly £3 billion worth of expenditure. The issue for me is actually much more one of where the public support is and public perceptions of value for money, and I was looking at what I think is a terrific study done at the end of 2004 by Human Capital. I'm not sure it got much publicity at the time, but it looked at the BBC in terms of public value both from what it called a top-down perspective and a bottom-up perspective, and the top-down was asking people, this was based on a representative sample of 2½ thousand people, what's the BBC worth to the nation, give us a figure, and what's it worth to people as consumers, give us a figure, and then it looked at the gap between the average figure that people thought it was worth to the nation and what it actually cost, and called that the net citizen surplus, which came out as a net surplus of about £3 million, and similarly in terms of net consumer surplus, it was £2.6 million, but I think there was a much more interesting calculation, which is what they called this non-normalised chip allocation, which in simple language simply means bottom-up calculation. If you de-construct the BBC and ask people what they would pay to each individual service, each TV channel, the radio stations, the on-line etc. and then aggregate the totals, what does it come out to, and in this study again asking people for the benefits to

the country as a whole, it came out to £23.50 per month, that's what they thought the BBC ought to be worth. For individuals as consumers, it was £18.70 a month. This was at a time when a licence fee was actually £10 per month. The two TV analogue channels alone accounted for nearly the whole of the actual licence fee. So I don't think there is any doubt that in terms of what people are prepared to pay, what they think it's worth, the BBC has public support, enormous public support, not just as a national cultural institution, something that they believe in that we ought to have, but actually as a consumer service that provides television, radio, on-line, local services, whatever, that people feel does what they want it to do, and millions of decisions are being made every day to switch into and across to BBC services, and I do think that it's incumbent on people who would like to see a real cut in the licence fee. If we're talking about Jacuzzis versus cold baths, the reality is, what people are saying is, the BBC needs less money. If that is the reality, then what is it that's going to go? Which service is going to be cut? Which programmes aren't going to be made? Which radio stations are going to be closed down? Which presenters are going to be asked to leave? And what is the consumer disadvantage going to be as well as the citizens' disadvantage, and I think if we are going to talk in terms of making the BBC more streamlined, more efficient, that's fine, if there is fat to be cut away, but to a large extent, I think actually what those who criticise the BBC for being too extravagant are really saying is that the licence fee ought to be cut in real terms and some services ought to be cut, and I think we need to pay serious attention to what that would mean in terms of what services the people are getting.

Lord Burns: But this argument though you can take to almost any extent. I think I interpret from the submissions that we have had to this session that where the concerns arise, they relate for example to the fact that because of the unexpected growth of households, that in fact the BBC's income has turned out to grow rather faster than was intended at the time of the settlement. This also happened to coincide, as David said, with a period when commercial television's advertising income has grown rather less rapidly than was expected, and therefore we have seen quite a shift in that, and the accusation is that this has led to the BBC attacking some of the audiences, for example, of either commercial television or of commercial radio to an extent that has caused them further problems, and I mean, people raise the issue about the relative size of the BBC, and I think this is an issue that has been, you know, raised by quite a lot of the people who have responded, whereas in a sense your line simply says, 'Well, the more, the better,' as long as it is in within the bounds of some estimate of what it is that people are prepared to pay. If you really are in the line of what people are prepared to pay, then there are other ways of charging for these things.

Steven Barnett: Certainly not the more the better, and I think that the advent of service licences will actually make it very, very difficult, and quite rightly so, for the BBC just to say, 'We're going to expand willy-nilly.' What I am saying is that I think there is a danger of confusing success with extravagance, and if the BBC is successful in drawing audiences away from other services,

as it has been for many, many years, from the beginnings of ITV, we shouldn't therefore turn round and penalise it by saying it's doing damage.

Paul Brown: OK. Can I just quickly chip in there because Steven related immediately to what I said. I think you have to consider here the public purpose benefit of what we're talking about. Nobody is going to quibble with the BBC beating any competitor, whether commercially or subscription-funded or whatever through the excellence of its programmes, provided that it is adhering to its purpose. I think where we're coming from in commercial radio is simply that a good deal of what is being provided on the national popular music channels has very little relationship to public service broadcasting certainly throughout the 24-hour day, and not much particularly in peak time, and these are important matters. It's not what you do, it's how you do it and we regard the BBC is being extremely well-funded and they've spent an awful lot of money taking away our audience in a way which is completely unnecessary, in a highly competitive market which already exists.

Lord Burns: Tim?

Tim Gardam: I'm just trying to tease out two perspectives. One goes back to a word that the BBC has used quite a lot in the whole charter renewal process, which is predictability, and in connection with the BBC's role and relation to the rest of broadcasting. Michael Grade said at the beginning, 'The BBC is of course a deliberate intervention in the market, bringing benefits as well as challenges.' Mark's figures laid out the growth of the BBC licence fee as being less than the overall advertising and subscription zones, and yet we hear the effect on radio and the point that David Lipsey made on the effect on ITV, are perceived as being very severe, and indeed on those that in the creation of new digital radio channels, the investment, and the channel, and on the network by the BBC is between sort of 10 and 40 times more the network than the market can bear, and I wonder if the issue we're looking at here is the impact of the BBC on the rest of the sector. We're actually looking at the impact on the rest of the content creation sector, because one of the key points in the PKF Report is that if you look at the digital television channels, their reinvestment in original content is about 3%, and so what we're really looking at are those commercial enterprises which do invest in content, and this seems to be a separate argument to those of the BBC's impact on the overall sector, and I was wondering if the BBC now looks at the significant decisions it took over the past licence period, are there any, with hindsight, it would revisit and which as it looks forwards points lessons for the future decisions it might take?

Mark Thompson: On that last point, I've already said that I think to be honest we grossly underestimated the amount of money that we should spend on original content for our children's channels, that the repeat rate and audience reaction to the repeat rate suggests that the original plans for those were wrong, but that in that case was an underestimate rather than an overestimate. If I can, Terry, I just want to just come back to points I guess raised by actually almost everyone who's spoken. Both Paul and Conor and this issue of should the BBC be delivering distinctive content which doesn't

adversely and unreasonably affect the competitiveness of other broadcasters. Yes, it is important we have a very clear distinctive programme strategy. We're trying to do that. Have we made mistakes? I think, well, I mean, you know, the amount of channels we run, I'm sure that, you know, the whole time we've got things to learn, and I believe that over the last 18 months to 2 years, we've really focused what we're doing, but I do want to tease quite carefully away at this. Radio 1 and Radio 2, there are quite a few people in commercial radio who believe that Radio 1 and Radio 2 are this very thing, they're unfairly competing. I don't happen to agree with that at all. It's worth saying that Radio 1 and Radio 2's budgets have reduced in real terms over the last 7 years. The whole of BBC radio has had a budget which has been RPI rather than RPI plus one-and-a-half per cent. No part of the above inflation settlement has gone into Radio 1 and Radio 2. On the contrary, as it were, the BBC's taken real resources away from Radio 1 and Radio 2 to pay for other services, so you cannot relate the above RPI increase to what's actually happened on Radio 1 and Radio 2. Now, should there be clear safeguards to make sure the BBC services remain distinctive, and should the BBC Trust and others be looking hard to make sure there is not adverse market impact? Yes, we need mechanisms to do that. The White Paper proposes them. It's a different question from the question of what the level of the licence fee should be. In my view, it comes really perhaps to David Lipsey's points, the licence fee is a contract ultimately between the British public, British government and the BBC for the delivery of the BBC's public purposes. That's what the licence fee is, and for a big body of public service content, and you've got to be careful about argument which says, you know, one of the points of the BBC, it is a relatively stable investment and delivery of public service content. You've got to be careful about an argument which says that when advertising funded delivery of public service content dips because of market conditions, that the right response is also to reduce the public service side of investment and delivery of public service content. The danger from the public's point of view, from the point of view of the British public is you end up actually arguing that the right thing to do is to reduce the amount of public service content being delivered for the licence fee, at the time that investment in the private sector's at threat. Now, you know, if your entire model is the whole thing should be a balancing act between individual different parts of what's now frankly a completely converged burgeoning market-place, fine, but if the object of the exercise is actually to deliver high-quality public service content to the public, it seems to be one of the strengths of the BBC is at moments when other broadcasters are finding it a little bit harder to invest in talent, in actors, writers, musicians, rights-holders and so forth, and to deliver great content to the public, the BBC can go on doing that. I think that's a strength in the system, not a weakness.

Lord Burns: I agree with that and the predictability and the steadiness is important. I think the point has been raised though that it just so happens that at the time that the commercial sector's income is growing less rapidly than expected, it wasn't that yours kept up with the case. It was planned it actually was that it grew rather faster than was expected because of the household growth, and then the point that's put the other way also is that it's important in a sense also you do keep up the expenditure on talent, but the question is, to

what extent does that actually bid up the cost of this, to what extent does it make life more difficult for the people whose income is suffering, that you are able to outbid them?

Mark Thompson: Well, I'm wholly convinced, and I've had quite recent experience outside the BBC as well as inside the BBC, I'm quite convinced, talent areas where the BBC operates, that the BBC is characteristically playing at or below the median of the market. There are occasions when we're successful in getting talent at below market rates because of what we can offer in terms of the range of different services, we have some advantages there, but I'm utterly convinced we can, I'm sure this will come up again, we can go into great detail about this. I'm absolutely convinced that we are not a prime mover in inflation. On the contrary, I think there's some argument in some markets that we are and can be deflationary in terms of the pressures. Not always, and there are some areas where we are all facing inflationary pressures, one recognises that as well, but I do not believe, what happens? Money that was given to the BBC between 2000 and 2007 fundamentally went into a large range of new services, principally digital services of various kinds, also some enhanced journalism in nations and regions, and into some improvement in the mix on channels like BBC1, fewer repeats, more dramas, more comedies. That's where it went. The unit costs, however, of individual hours of comedy we've kept a close eye on, and one of the things we're committed to in the next charter period is having very, very clear and more clearly defined targets on efficiencies which are not only set more clearly but which Michael and the Trust have said they believed the National Audit Office should come in to audit every year and the BBC's performance against those targets should be published every year in the annual report, so much more clarity and transparency on the whole dimension of productivity gains and cost efficiencies going forward.

Tim Gardam: Can I ask one point there, which is what I found surprising and interesting, very interesting reading the papers was the windfall of households' growth, and Mark hasn't answered the point I think that Dave Lipsey made, which is the PKF Report of the year on year productivity benefits of only 1.3% as calculated by PKF, and I was wondering that given that the household income's obviously a windfall, does that suggest that the BBC did not make economies that it might have had to make if it had not had that money coming in?

Zarin Patel: On household growth, in the last settlement we predicted that household growth, according to government statistics, would be 0.7% per annum. That is exactly how it has turned out, so the windfall I'm afraid is not because households are growing faster than expected. The windfall is because we've driven evasion down to somewhere like 9% at the beginning of the period to under 5% today, and I'm hoping nobody will argue that the BBC shouldn't be driving down evasion. I think the issue is, have you used the money. Can I then just turn to PKF? Can we remind ourselves that it was PKF that helped set the target of the last settlement, and they said two things. After the very high efficiencies from the internal market reforms and producer choice in the 90's that it wouldn't be surprising if future efficiencies were low,

but we also at that time systematically benchmarked our content costs, and we stopped that in 2002 because the industry pulled out. Now, that check on prices has continued because we test our prices with the indie sector, so we've no reason to believe that our programme prices are out-of-line with the market. You know, we've done a huge amount of work when Mark came on board and we used Paul Kirby who was behind the Gershon setting of the targets for government, to fundamentally review all our processes, overhead as well as content, so we believe we've caught up, but the issue turns on how can we best benchmark our content costs of the industry to prove that we are in line with market practice. We'd love to restart the work on benchmarking, because that is a systematic objective way of assessing our efficiency.

Lord Burns: We had a very sophisticated way of deciding who should go on each of these panels, and a bidding process from various people, but it has had the effect that we have, there's the people from the independent sector or the commercial sector by and large chose to be on the other panels, and so I would like, if there is anybody in the audience who is from the commercial television companies who would like to comment in any of this, I think this would be a good point to hear from them.

Audience Q: My name is Martin Lejeune, public affairs at Sky. I just wanted to pick up on one point, which is a point made by Mark about priorities a perfectly reasonable question. I think as a former civil servant, this used to be known in my day as the 'bleeding stump saga' which is the Treasury will come round asking for cuts and departments would volunteer a whole series of very, very important political programmes which no government in its right mind would cut. I think it's worthwhile looking at the BBC's own figures which are very helpful, and I think what they do tend to show is that with efficiency savings, and there's probably more to come as PKF identify, it would be possible for the BBC to provide broadly speaking the same level of service as it currently does without and above inflation or indeed RPI increase in the licence fee because there are substantial savings identified and, as I say, PKF implied that there would be more to come, so I think possibly posing the question the way it is doesn't help the debate and is I would say frankly a little bit spurious there.

Lord Burns: OK. Do we have a microphone, by the way? No, we can't afford that, could we not? Right, OK. You'll just have to shout.

Audience Q: I'm John Cresswell, I'm the Finance Director of ITV.

Audience Q: Sorry, can you speak up a bit please.

Audience Q: I'm John Cresswell, I'm the Finance Director for ITV but just pick out a couple of points that were said earlier on, and I think one of the points David Lipsey made was the relative size of the BBC and licence fee versus ITV revenue, and Mark saying that actually over the last Charter Review that licensing growth had been less than advertising. I think, you know, we can sit here and debate stats all day. Obviously within that Charter Review period they have the highest level of advertising in the dotcom boom

so, you know, you're looking past that for a minute, and it is the relative size. The TV market used ...? is predicted for our own future, but fragmentation means the size of the competitor both in radio and in TV, the relative size of those competitors versus the BBC, you know, has very much going for it and I think, you know, the other thing which, you know, you seem to be ignoring is when our revenue goes up, we have these people called shareholders who expect to see some of that return come out of the bottom, doesn't mean we can spend it all. You know, we have different commercial pressures on us in that period, and I think, you know, going forward, looking to see if BBC's settlement substantially above inflation and look at the relative size to the competition and the competition's ability to sustain competition which they all want to do because that's what drives their business. Tim raised the point that the competition going forward, investing in original content and supporting, you know, originating British content and its market is a big question, and I'm on the second panel so I won't fire off all my bullets yet.

Lord Burns: Is there anyone else who wants to address these issues?

Audience Q: Christy Swords also from ITV. Just to Mark, it seems to me one of the arguments you were making there seems to be completely the reverse of what the BBC argued last time ...

Audience Q: We cannot hear a word, I'm sorry.

Audience Q: Sorry, Christy Swords from ITV. I was just noting that Mark made an argument which seemed to me to be precisely the opposite of what the BBC argued last time round, which essentially was, 'Look at the commercial sector, look at them pulling away. You have to increase the licence fee in order that we can compete, in order that we can keep up with what's happening in the advertising funded sector,' and David mentioned a prediction of 7% real growth. The argument you made a few moments ago seemed to be, 'Well, actually if that television advertising revenue is down to pressure, you've got to invest more in the BBC because we're the only game in town,' so it seems to me, you know, are there any circumstances where it would not make sense to be funded by the licence fee.

Mark Thompson: Of course there are, Christy, and my model is this on those things and it's very straightforward. It is, what do you want the BBC to do, what's it going to cost, fund it to do those things, and so it's very straightforward. I think, you know, what for me this debate over the last several centuries it feels, but a couple of years, has been about is what should the BBC be doing and that's begun to codify through the Green Paper and the White Paper, what is the list of things you want the BBC, what are the BBC's public purposes, what parts of national infrastructure do you want the BBC's support, what industry costs for example in terms of the digital switchover do you want the BBC to fund? What do you want the BBC to do? Then of course, of course once you've got a sense of what you want the BBC to do, test the numbers, are the BBC's proposals, are they reasonable, do they fit in with the public purposes you've set? Is the BBC trying hard enough to become more efficient to maximise its commercial revenue, to reduce licence

fee evasion, and at the end of that work out what it will cost to deliver the BBC services. Now, I'm not saying that this process should not have regard to market impact. Of course not. I mean, we understand that, but the principal aim of the exercise to me, it seems to me, is to achieve a sensible picture of what the BBC should do and then work out, you know, sensibly what it's going to cost, and the key thing is, if the end of this process had led to this country, government but ultimately the country saying, 'We would like a smaller BBC, we would like a BBC which does much less,' then logically you should give it a much lower licence fee, but if you look at the Green Paper and the White Paper, that is now what is proposed. What is proposed if the BBC where every single existing service is maintained, and indeed where we're enjoined to increase quality, to increase investment, to spend more money supporting the British film industry, in addition to take part in a large number of new services and to take the lion's share of the expenditure of a major piece of national public policy, which is around digital switchover. Now, all I would say is the right thing to do is to look at the prospectus of what the BBC's been asked to do, work out what it's going to cost and then fund the BBC, that's the process. Have regard to market impact, but the White Paper includes a large number of measures, the creation of the BBC Trust, the idea of the Public Value Test, market impact assessments done independently by Ofcom, the idea of service licences, major changes to existing BBC services, again to be subject to consultation with the industry, market impact assessments if they're significant and so on. There's a large number of measures proposed to ensure that BBC activities do not lead to adverse net market impact. But I would say, don't confuse that set of issues entirely with the issue of what you want the BBC to do and how much it's going to cost.

Lord Burns: Alice.

Alice Rawsthorn: I'd like to go back to Mark Thompson's point about the licence fee being a contract between the BBC and the public, that's very aptly put, and the general consensus seems to be that that's a contract that the public is broadly satisfied with since 2000, and if you look at the BBC's rough constituencies of consumers, the television viewer is broadly satisfied despite the duds like *Fame Academy* that Conor spoke of. The radio listener is certainly satisfied, and the website visitor is satisfied, because I think we'd all agree that BBC On-line has been a really towering success for the BBC and a great achievement. However, as we near the end of the current licence fee period, there are tensions emerging, and I wonder perhaps if the blogger isn't quite as satisfied with BBC On-line as the old-fashioned, un-interactive website visitor was, and certainly the BBC's *Creative Futures* paper published a couple of weeks ago alluded to the fact that this was the case, but even more scarily, although it was evident in the public research that was conducted during the initial period of the Charter Review, that there was a broad consensus among the general public that the BBC was good value for money. I very much doubt that that would be the case among the 18 to 24-year-olds, whom the BBC's own research suggests 60% of them only watch three hours of BBC programming every week, and 20% of them don't watch any BBC programming at all, so they're the consumers who, as Steve alluded to, are perhaps getting a less better deal from their licence fee, if you analyse it in

financial terms, and surely that is a tension that emerged at the end of this current licence fee period, and bodes rather ill for the next one.

Steven Barnett: The irony is, it's probably their parents who pay the licence fee.

Alice Rawsthorn: But soon they'll be paying it themselves.

Steven Barnett: But then they use BBC services. I mean, that is a serious point actually, that I think you do have to relate the kind of value for money and quality issues in surveys to the extent to which these people actually pay for the services, and you're absolutely right about the 18-24's but my reading of some of that research is that a small minority of them at the moment actually pay the fee, and because of life stage issues, as they get older and they start paying, they actually use the services more.

Alice Rawsthorn: But that predicates on the assumption that they will suddenly become television viewers, which is highly unlikely.

Steven Barnett: I agree, absolutely.

Alice Rawsthorn: And they will be the majority of licence fee payers as they mature in the future.

Steven Barnett: That's true.

Lord Burns: David.

Lord Lipsey: I just want to go back one to the, let me call it, simplicity of the ITV/BBC argument and try to find a way through it. I mean, there seems to be a bit of weight in Mark's point that despite being satirisable, that if ITV is not able to provide us with public service broadcasting, then the BBC should be funded to do so, but also weight in ITV's problems the competitive picture. What's the way round that? Well, if I was ITV, I wouldn't be so much moaning at the BBC's money but moaning at the things that inhibit ITV at the moment in particular from the public service viewer, and they're still paying nought of 100 million a year to the Treasury for licence fees, and I think Ofcom should look again at that. They're still subject to an advertising regime that was imposed post-merger which is multiplying the problems, and I think that does need examination, though I understand the difficulties of that, and personally, insofar as they are providing what is clearly and identifiably public service broadcasting, I think the claim for some smallish share of the licence fee to go to ITV is a very strong one, so I would like to see them make a positive case which is a win-win case for the BBC and ITV.

Mark Thompson: I think I agree with all of that by the way.

Lord Burns: OK. Do we have a mike? Not for this one. OK, so only put your hand up if you really think that you can reach the audience. Yes.

Audience Q: My name is Bruce McInnes, I run the media group for the ...? I'd just like to put a question to the panel because it seems to me that this debate is all framed around relatively small changes to the existing status quo. Nobody's addressed so far whether a radical change would be something worth considering, so the question I would put would be, if you abolished the BBC tomorrow, how much of what is currently broadcast on the BBC would still be available to all viewers because it's popular programming which can be sustained by advertising, and what would you be able to do with £3 million invested in public service broadcasting which could not be sustained commercially and would just be spent through the commercial channels to sustain programming which might not have the popular support to be sustained entirely by advertising?

Lord Burns: Paddy is anxious to speak and I'm not going to let him speak because, I'm going to be a bit unpopular here, this is a debate which we had for some time over the past two years, and we have had a Green Paper on this and we've had a White Paper. We have the government's proposals about what it is it wants to do. I don't want to return to those arguments today. I mean, I think what we have to do today is take the White Paper and decide what that implies, well, not decide, we're not going to decide it, debate what it implies for the BBC's licence fee. I think to go back and say, 'No, it's got to be subscription, should it be whatever, should the BBC not exist,' you know, it may make some people happy, it may make some people a little unhappy, I mean, these are arguments that I would prefer, you know, they're outside of my boundary as far as today is concerned, and say, 'My frame of reference is, we have a White Paper, the government has said what it is that it wants to do with the BBC.' The final piece of the jigsaw is deciding the licence fee, and you know, so within that margin I think, you know, your points are important because I mean, you know, I can see this happen, but as far as mega-changes are concerned, regarding that debate as having, for the purposes of today, been closed. I've got someone at the back.

Audience Q: Peter Blackman from the Churches Media Council and for the licence fee payers, I've brought some papers with me, *The Radio Times*. There are hundreds of radio and television broadcasters out there, we want quality from them all, but I think it important we recognise that some of the language that's been used in the White Paper, that the stakeholders, the true stakeholders are the licence fee payers, the listeners and the viewers, and we have to accept that others who have commercial interests are competitors, not stakeholders, and that there is a deliberate public policy intervention and that is a deliberate public policy decision, and I think it also important to remember that the White Paper has rightly brought back that one of the BBC's key purposes is to entertain and to provide the ...?

Lord Burns: OK. Yes.

Audience Q: Yes, I'm Chris Cavelly, I'm one of slightly less than 10% of the people here who can claim to be the listeners and viewers, because more than 90% of you are associated in one way or another with the industry.

Lord Burns: Don't blame them, blame me for that.

Audience Q: I'm a sample of one and in total in this room we've got a sample of ten, so I can't claim to speak for the however many million people there are out there. I can only speak for me. I'm always concerned when I hear of one instrument achieving two purposes, and it seems to me there are to very distinct purposes which the BBC which I have loved since I was a child has very confidently achieved, but they are two separate purposes. One is to drive the exploitation of the technology, and as a publicly-funded body, I can have confidence that the industry isn't being distorted for the particular benefit of one commercial group or another. The second that I see the role of the BBC is to act as a quality prop, as an instrument that provides a standard of quality that other broadcasters have to meet or die, and I don't feel that it's necessary for the BBC to seek large audience ratings as a proof of this. I think they should take credit for the general quality of television and radio and other broadcasting in this country, and as somebody who, admittedly several years ago, had to spend several nights in American hotels looking at the vast array of television that's available, well I have to say, if any of you have not had the joy of experiencing that, it is a lot worse even than our own daytime television, which does sometimes I feel do less good credit to all of us. Thank you.

Lord Burns: Thank you very much.

Audience Q: My name's Mark Oliver. I'm currently advisor to the BBC on the Charter Review. I was Head of Strategy at the BBC in the early 90's so I kind of did the last Charter and I'm going to mention something about that in a second. I also advisor to PACT so one of your sessions is going to be interesting for me, and I have advised ITV and Channel 4 in the past with their sort of boom and bust, so I think I've been there. I want to mention three things I think we mentioned. One is the word catching up, the other one is which revenue, and the third is crowding out. Catching up, Mark alluded to the whole Charter period. I lived and worked through the RPI linking of the licence on the Peacock Committee until the mid-90's, and there was a sense in which the settlement after that was catching up. It's not the only area of public life where there was some catching up to do, in '97, '98, and I think we need to look at the kind of roller-coaster commercial sector over the whole period. Secondly, which revenue? We talk a lot about advertising revenue, we don't talk very much about ATV. ATV has been the engine of growth in the commercial sector over the last 10 years, yet we have no obligation to public service in ATV sector, so a lot of that money comes into public service. In some ways the BBC sits between advertising revenue at ATV 'cos on the one hand it's universally available like advertising, on the other hand it's a payment, so the BBC's revenue should be a balance of that. And of course there's now a third revenue stream called participation TV and telephony, and we take account of that. The last is crowding out. How much do the BBC spend to actually press the audience share income of commercial competitors? Every study that's been done on network television suggests very little. In fact Ofcom spent a lot of money on a PWC Report, of which the author is

here. They did a lot of analysis and suggested very little. It started ten years previously from Professor Hendry.

Lord Burns: I'm sure you didn't mean that to be an attack on the Report.

Audience Q: No, I didn't, I think it was money well spent. The impact on pay TV hasn't probably been assessed in as much detail, and is a subject of debate, but one can't really get to the answer to a lot of discussions around here, but one's got a pretty certain idea of how much the BBC does collect. Of course one can argue about BBC spending *per se* which fits the purpose and horrible language but there is a crowding out and the evidence is what we're talking about here.

Lord Burns: Right.

Audience Q: And the evidence of crowding out is certainly not definite that it does crowd out, and what evidence does exist suggests it doesn't, so I just want to let you know.

Lord Burns: Thank you very much.

Audience Q: There's one assertion that's made that I think should be challenged before it just passes. In my direct experience, the BBC in the last licence period has led in some sectors cost inflation. The cost of drama for a high-end television drama, the BBC, I mean, I grant this is difficult because if you want the BBC to increase quality, maybe it's perfectly appropriate they should spend more money. The fact is that the average price, the rough and ready price of one hour of high-end television drama went from about £650,000, £700,000 an hour, which everybody was paying up quite quickly to around £900,000 an hour driven solely by the BBC who had to pay for it. They invested more in drama, they did do more drama but quite a lot of that leaked out with these prices, so it's not surprising to me however that the BBC, when it checks it, finds that it is at or around market rates, because it set them and everyone else had to catch up.

Audience Q: Dee Robertson, hi. I just wanted to slightly challenge the two assumptions that have been floating in. One is the pure comparison of the BBC licence fee with the amount of advertising revenue that ITV collects. I think it's that very simplistic, I mean, it ignores the perhaps growth of some of the other advertising revenue of some of the other commercial public service broadcasters like I'd particularly point out Channel 4 in this context, but it also completely ignores the growth for subscription revenue and the revenues going into Sky. Well, the other issue I would challenge is I think David Lipsey's comment that it would be a good thing if some of the licence fee would be handed to ITV and sliced off the licence fee, and I didn't want to say it but I suspect he also meant the other public service broadcasters. I would really question as to whether that would end up with a net gain of public service broadcasting or it would just subsidise the PSB that we commercial PSB's already do. I want to comment on something that Conor said, I mean, I think very few of us have actually looked at the behavioral aspects of what the

BBC does with the money and how the BBC spends the money once the licence fee's been agreed, and some of the areas such as the very competitive scheduling or use that to perhaps copy the model of American TV programming area. I mean, I think these are sort of behavioral issues which can impact on commercial competition and which actually the quantum of the license fee doesn't necessarily, will effect, will be bringing forth a change since the last licence fee settlement is the new system of governance and the new role of the Trust, and I think this is an important area that we also need to take into consideration.

Lord Burns: Someone right at the back who I can't see. Yes?

Audience Q: Jocelyn Hay, VLV. I'd like to come back to the statistic, the comparative statistic of the rise in BBC and other incomes. The BBC income's gone up in real terms apparently by 2½ %, ITV by 3½ and so on, as we heard at the very beginning, but when you look at BBC income, the BBC in fact has four separate cost centres at the moment. There is BBC Television, there's also BBC Radio, and I understand, and we haven't mentioned radio today which is very important, but I understand nearly a quarter of the licence fee goes to fund BBC Radio. There's also BBC On-line and there is the contribution that the BBC is already making towards digital switchover, and we are quite surprised we should be on a visit to Digital UK, the project leader, to be told that the BBC is actually already financing 95% of the cost of Digital UK, so if you divide the BBC's current income into four, then you need to make comparisons with ITV, with BSkyB and with commercial radio.

Lord Burns: Thank you. And the man at the back.

Audience Q: Patrick ...? I don't think we should lose too much sleep over young people not watching much TV. I mean, when I look back at my younger days, *Super Sky special* and *The News at 10* for the opposition, sorry, and *Monty Python, Tom and Jerry*, that was it. I'd rather they were outside enjoying themselves in the sunshine. I mean, they are given polite entertainment but I don't think we should lose too much sleep over this issue.

Lord Burns: OK.

Audience Q: Mark Wood from ITN. I'd like to pick up that last point because it's feeding something else which fortunately is what we've been discussing. They're not outside playing football, they're actually on the web normally accessing media and digital programmes. But there again, we've come into another area of comparability where the current figures in costs are quite startling. The BBC's website has been praised here by Alice Rawthorn and David Lipsey, but it has an operating budget I think of close to £70 million a year. £70 million a year is probably 12 to 14 times more than the next competitor. This is a scale of spending, already in these new media areas which no commercial rival can currently compete with. Now, the marketplace is developing but the BBC is already very far ahead and is now arguing for greater funding to go into this area, and the overall impact is likely to be societal competition which it has been doing in the last few years, and it's said

the BBC's behavior is very like the old Soviet Union, it used to say that the only safe frontier is one we're on both sides of, and it's good to see the BBC does think the same way about new markets, and I think it's sort of slipping under the radar a bit here about what the plans are for the new media and the scale to which the BBC is already more than aptly funded.

Lord Burns: Yes.

Audience Q: Jane Seaton, University of Westminster. It seems to me that the arguments have been rather odd in the sense that the problem with advertising by TV is not the BBC. It's the same problem as is happening all over the developed world with what is happening with advertising, it's just migrating, and so that seems to be rather a specious argument indeed an old argument, and the issue really is whether one puts public money into public pertinences, and it seems to be the argument about television's heartbeat, it's not the contents that are going to be accessed in all sorts of different ways, and it seems to me that's where you have to make the decision, and all of the other arguments are like, it's like being on a roundabout, you know. In the 1980's ITV outbid the BBC all the time on talent, actually the BBC did quite well on talent, but it had a real problem because every time it grew a talent, ITV would throw money at it and buy it, but the BBC did grow it, so there are some issues around those kinds of things, but the simple argument about advertising seems to me a specious one, and there ought to be newspapers here. I mean, you know, we're not in a world where there is this thing called telly and there are these other things.

Lord Burns: Margaret.

Margaret Exley: Let's pick up on that point. I do agree with you on that and I think two points, one is, clearly we're reaching a consensus that the BBC has done a very good job over the previous period, and I think that's to be acknowledged and celebrated, but I think there is a note of caution and I think on the Barwise Report, important to remember whilst 80% generally, you know, said yes, 20% actually said no, they didn't want to continue to support it, and I think that does link to the point you're making, which is that this is a world that is changing phenomenally. The convergence as we've touch on, but the convergence of telephony, or television, or broadband and our kids now actually are not watching television but actually getting content in different ways, this is a world that the BBC is in, it's doing well in, but it needs to be in the future and there is then a very important part of this question about licence fee, about what you need in order to play that game, and how that is going to be managed so that it doesn't have a damaging effect for the rest of the sector, and I want to get back to that as well in the next session.

Lord Burns: OK, I think I'm close now to ...

Steven Barnett: Chairman, can I just say one more thing, just on the question of where the money's coming from, because it also links into the next session which is about creative investment, because we've been talking about money

coming from the licence fee versus advertising, and as someone said, what we haven't really talked about is the difference that's going to be made by the income from pay television. Now, 65% of licence fee revenue goes into original production creative content. The equivalent figure for advertising-funded channels is 40%. The equivalent figure for pay TV is 3% because the money goes on rights.

Lord Burns: You're suggesting that football isn't a creative activity.

Steven Barnett: It's very creative but it's not created by the people who actually transmit it.

Lord Burns: What's that got to do with it?

Steven Barnett: No, no. The point is, it's an original, if we're talking about where original content comes from, we're talking about actually paying for programmes to be made, not simply for the transmission of those programmes, that's the difference. It's a huge difference. It's what Tessa Jowell calls 'the creative capital', and I think there's a massive difference between simply sending cameras to something that's happening somewhere and actually making it happen in order to entertain or inform people, and the difference is that in five years' time, more than a quarter of the income in the creative industries, the broadcast creative industry, is going to come from pay television.

Lord Burns: OK, we're doing pretty well on time. Do you have any final remarks?

Mark Thompson: A couple of specifics. Just to Mark Wood, and Mark's point about On-line, and really as Mark Oliver, all Marks, but Mark Oliver made the point of actually systematic studies of crowding out in terms of kind of core TV and other services, has simply not found systematic evidence that crowding out is taking place. Philip Graf looked very closely at BBC On-line. Philip's conclusion, quote '*The analysis of the market impact to BBC On-line does not prove or disprove the hypothesis that BBC On-line has had adverse market impact,*' I mean, I absolutely understand why there are anxieties out there, and I think by the way, Philip Graf's suggestion of precautionary approach, which I think is one of the things that's led to the idea of public value test, very close involvement with the BBC Trust in that process, I think precautionary is right, but there, you know, the evidence, if there was gross crowding out taking place, the evidence will be there. Philip did a great deal of work, again couldn't find the evidence that it was taking place. Secondly I just want to say to Steve Hewlett, we've got to be quite careful in distinguishing between mixed changed and inflation. The BBC, and I was heavily involved in this in the beginning years of this decade, started getting involved in trying to introduce more high-quality drama on to BBC 1, and by the way, more high-quality specialist factual. If you put *Bleak House* and *Planet Earth* on BBC 1, the price points of these programmes are very high. The gross cost of *Planet Earth* is £1.4 million an hour. It's an astonishing large amount of money to pay for an hour of factual programming. It's a

unique piece of programming. *Bleak House* is far more expensive than an hour of let's say *Bad Girls*, so although I absolutely think we should engage with the debate about inflation, let's be careful about making sure that when we talk about inflationary pressures, we're comparing like with like. And finally I guess just to reflect both what Alice and Margaret said, I think we would accept absolutely, and this is partly what we said when we launched Creative Future, we have issues with key audiences. We're not claiming that we're doing perfectly. We think we have made progress but we think there are significant audience issues with us in terms of delivering value to those audiences, and exactly as you said, Margaret, we have to find a way of balancing this migration on to new device and platforms with, also I accept the legitimate questions about to what extent we can do this in a way which also, as far as possible, helps the rest of the industry rather than hindering it.

Lord Burns: Well, thanks very much. We will have a break now. Next we will basically take on the same topics that we have been debating in this session, but we now move them into the future, and we want to talk about prospects for the market-place in terms of advertising, subscription, what extent the BBC drives cost, how it is that the BBC can generate greater efficiencies and this whole question of the wider economy. So if we could get people back in here please at five to eleven, I'd be very grateful, thank you.