

**NEWSTATESMAN**

**The Smith Institute Media Lecture**  
**Delivering public value:**  
**The BBC and public sector reform**

**by Mark Thompson**  
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Mark Thompson took up his appointment as director general of the BBC in June 2004, after being chief executive of Channel 4 since December 2001.

He had previously worked at the BBC for more than 20 years, having joined as a production trainee in 1979. As controller of BBC Two from 1996 to 1998, he saw the channel retain its share of viewing at a time of increased competition.

Mark became director of national and regional broadcasting in January 1999. In this role he had overall responsibility for all broadcasting activities in Scotland, Wales and Northern Ireland and for local and regional broadcasting in England. During his time in this role, he saw the BBC's regional television audiences dramatically increase their lead over other providers and saw local radio audiences rise.

He became director of television in April 2000, responsible for the management and running of all BBC network television channels, before going to Channel 4.

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# The broadcasting space, the digital media space, is public space — a part of the public realm just as much as our cities and town squares

A few months ago I was at an international broadcasting conference. When it was over I discovered that one of the other attendees — one of those seasoned campaigners who thinks they know the ways of the world — had spent the entire conference asking my BBC colleagues one question about me: whose man is he? Is he Blair's? Or Brown's? Or is he Cameron's?

Well, what an interesting question. Rather more interesting, I'm afraid, than the answer they got, which is that things don't work quite like that over here. In many, perhaps most European countries, the director general of the public broadcaster changes when the government changes. Politics suffuses everything — funding, governance, editorial choices.

We're so familiar with our system that it's easy to forget how unusual it is. The BBC recently had a chairman and a director general who had both been strong and public supporters of the ruling party. The result? They did everything in their power — and ultimately lost their jobs — in an effort to demonstrate both their and the BBC's absolute independence from it. And the government's reaction to the crisis? In many countries that would have been predictable: place people, an attack on funding, bullying, revenge. Here? Well, if anything a sense of rallying-around, not just from the government but from all the political parties. No phonecalls, no arm-twisting.

And as for the BBC — well, I know that some people worried that in the aftermath of Hutton we'd lose our nerve and our spirit of journalistic independence. But I don't see how you can look at our coverage of Iraq, Afghanistan, the loans for peerages investigation or politics in general and argue that we're pulling our punches. No, we live in a country where the main public service broadcaster begins the final furlong in the licence-fee stakes with a *Panorama* investigation about the husband of the secretary of state.

What makes this system work? Independent governance; independent management; strong

institutional values; and strong public consensus. And the result? Well, there are many results, not least, quite a few good programmes and services, but the main result is public trust.

The BBC has its faults, goodness knows. It is still wrestling with many of the same issues as the rest of the public sector. How to modernise; how to reform; how to use the market. How to drive efficiencies and improve quality of service at the same time. How to put the priorities of its users first. But it's still a success story in terms of delivery, public confidence and the ability to change and reinvent itself.

That's why a number of people have asked recently whether some aspects of the BBC model could be usefully applied to other parts of the public sector.

I thought then that it might be useful to share with you a view of the model from the inside. To explore how independence and autonomy influences the way we approach the delivery of our mission; the way we think about internal reform and value for money. To look at how we hope the model will evolve over the course of the coming charter. I'll also examine some of the issues at stake in the setting of the next licence fee.

## The idea of public value

However, I want to begin with what has become the central idea in the BBC model, which is the concept of public value. For us, public value is the sum of the civic, social and cultural benefits the BBC delivers when it meets its public purposes. An economist might describe it in terms of merit goods and positive externalities. Perhaps a more compelling way to put it is like this: the broadcasting space, the digital media space, is public space — a part of the public realm just as much as our city spaces and town squares.

This space could just be filled with private media, commercial content seeking individual private consumers. But, through the BBC and the other public service broadcasters, this country has decided to make room, alongside a flourishing commercial sector, for content that goes beyond private supply

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and demand and which is directed at wider societal goals. An informed and engaged democracy with access to objective, impartial news and information. A population with the widest possible access to culture and talent and to skills and knowledge. Communities who are encouraged to encounter each other and to understand each other's differences.

Fine words, you may say, but do they really take us any further than the traditional justifications for the BBC and the licence fee?

Well, I want to argue that the idea of public value has proven more liberating — and, in terms of developing strategy and running the BBC, more practically useful — than anything that's gone before.

First because we realised it required a much more precise set of public purposes. We proposed an initial draft in our manifesto *Building Public Value*. After nearly two years of public debate, the government settled on a final formula in its white paper. The BBC Trust, the government and, ultimately, the public should judge the BBC on its performance in delivering these public purposes.

But how do you track and measure progress against those purposes? We've developed a new approach to performance management, supported by a range of objective evidence as well as subjective judgement. It is based around four parameters:

- reach — the penetration of a given programme or service across our audiences
- quality — which should be judged first and foremost by audiences
- impact — looking at the effects of our content beyond immediate audience usage
- value — looking at cost not just in absolute terms but against comparators in both the public and private sectors and taking into account the particular ambition of the programme or service in question.

In the case of reach, it means looking at the reach and usage of services across the population, rather than focusing on audience share. With quality, we've

transformed the level of direct feedback from audiences. We have a 15,000-strong internet panel called The Pulse. Every day over 5,000 of them answer a battery of questions about BBC output — not just overall scores for quality, useful though those are for delivering headline metrics, but detailed diagnostics. With impact too, we're making strides in gathering tangible evidence and trend data. In the case of value, we're using benchmarking and measures of perceived value to take the debate from one solely about cost inputs, to one that examines the worth of content from the perspective of end users.

After years of struggling with vast numbers of objectives and monstrous “balanced scorecards”, we now set a small number of objectives, around five per division, focused on the idea of public value, directed at delivery of the public purposes for licence payers, and supported by the reach, quality, impact and value (RQIV) framework. When the National Audit Office (NAO) examined it recently, it commended our approach and said it was ahead of anything adopted by any other public broadcaster.

Public value is also proving useful in addressing another issue: the balance between the public benefits that a new BBC service might bring and the potential disbenefits resulting from any adverse market impact. Again the approach which the new BBC Trust will take will be evidence-based, working with the support of Ofcom, the independent regulator and competition authority for the UK communications industries, to arrive at a judgement of the net public value.

But, although public value is becoming something real inside the BBC, there is a still a missing civic piece. Representative democracy gets periodic opportunities to scrutinise and “strategise” about the BBC. Charter review is once a decade, licence-fee settlements more frequently than that. The Culture, Media and Sport Select Committee, the NAO, the Public Accounts Committee (PAC) — last autumn alone there were 12 separate parliamentary select committee sessions looking at aspects of the BBC.

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But there is also a case for more proactive and dynamic deliberative engagement by the public themselves. At the BBC we routinely rely on audience and market research — as well as several million calls, e-mails and letters from the public every year — to inform decision-making. There is a strong case, however, for the BBC Trust to look for new ways of stimulating a deliberative dialogue with the public ahead of time to help it form its view both of public value and of future BBC strategy.

### The BBC delivers

The BBC's adoption of the idea of public value has piqued the interest of many other public bodies. But it's not the main reason why some have started to argue that elements of the BBC model may be more widely applicable.

That reason is much more straightforward. It is that, benchmarked against most of the rest of the public sector, the BBC has demonstrated one of the strongest and most consistent records of delivery, even as it becomes a smaller part of an expanding, and increasingly competitive media market.

One of the questions that I'm sometimes asked in the context of our current licence-fee bid is: what did you do with the last increase you got? Why can't you use some of that money to pay for digital switchover and the other new proposals?

At the start of this licence fee period, the then secretary of state Chris Smith wrote to the BBC with four new priorities:

- first, the improvement of existing services, notably BBC One
- second, investment in the nations and especially in coverage of the new devolved institutions
- third, investment in educational content, in particular expanding our provision through the digital curriculum
- fourth, and most importantly, the first stage in the build-out of digital.

The funding for these priorities was to come from

two sources: the first and larger was efficiency savings and other self-help measures, accounting for more than 75 per cent of the total; the second was an increase in the licence fee of 1.5 per cent per annum over and above inflation. Over the last six years we have generated those savings and spent that increase on delivering against those priorities.

Today, BBC One has far fewer repeats than it did in the year 2000 — although still more than either we or our audiences would like — and there has been a renaissance in drama on the channel. Six years ago the public found it hard to recall any drama titles beyond *EastEnders* and *Casualty*: today there's *Robin Hood*, *Spooks*, *Life On Mars* and many more. Ambitious drama serials — *Jane Eyre*, *Blackpool*, *The Street* — are more prominent than they've been for years and specialist factual programming is also back on primetime BBC One.

This charter debate has been remarkable for the lack of criticism of the BBC's editorial direction. Governance, scope, market impact, funding: these have been the topics. Not the success of the BBC in serving its customers and shareholders, the UK's licence fee payers.

That itself is unusual in a public sector body. I think it's a result not just of the BBC's creative ethos, but of its ability — with its governors, soon to be trustees, taking the lead — to self-correct as it goes along. The lack of hands-on political oversight doesn't result in systematic poor performance or strategic misdirection. On the contrary, and precisely because it is independent and not in any way reliant on political intervention, the BBC tends to confront issues and problems promptly.

The nations were the next priority — and again we've seen progress. Comprehensive coverage of the new politics of Scotland, Wales and Northern Ireland, but also better national services across the board. Within a few years, network production from the nations will have risen by 50 per cent, to 17 per cent of all network production — in line with their share of

# The BBC rescued the digital terrestrial platform with Freeview. This autumn we expect digital terrestrial television (DTT) to overtake satellite to become the UK's most popular digital television platform

UK population. Our next priority is to substantially increase BBC investment in the rest of England, especially in the north.

The third priority was education. I've already mentioned the massive investment we've made in specialist factual output — programmes like *Planet Earth* and *Ancient Rome* on TV, alongside extensive commitments on both radio and the web. But the centrepiece is undoubtedly the digital curriculum, or BBC Jam as it is now called.

After a difficult and contentious birth, I believe this is shaping up to be one of the most important services the BBC has ever launched. Over the past seven years, the BBC's exam revision service, Bitesize, has grown to the point where it is used by a remarkable 70 per cent of all students taking GCSEs. In time, Jam may enjoy a similar reach, although its educational impact will be more profound, not just because of its imagination and flair but because it has been designed wholly around children and can be used just as easily by students and parents at home as in the classroom.

Jam has already had other benefits too. Professor Stephen Heppell from Bournemouth University is a world class expert in online learning who has been working as an independent advisor to the BBC. This is what he has to say of the creative and technical process that has led to the launch of the service: "What Jam now offers is a uniquely agile, really quite organic, large-scale development model that is without equal anywhere in the world. My belief is that we will need to document and share this agility. Apart from the Jam partners, the UK software industry lacks it and can learn so much from it. This is an unexpected contribution."

The last of Chris Smith's priorities was digital. Over the past seven years, the BBC has launched new TV and radio digital channels, invested heavily in web and interactive services and driven take-up of several critical digital platforms. Taken together, the BBC's activities in these areas have had a bigger impact on the UK's adoption of digital media than any other player.

The BBC rescued the digital terrestrial platform with Freeview. This autumn we expect digital terrestrial television (DTT) to overtake satellite to become the UK's most popular digital television platform. This is largely because of Freeview — which has driven most of the growth in the past four years. Seventy per cent of UK households now have digital television and 7 million secondary sets are also digital, double the number a year ago. Without Freeview, digital switchover would be impossible.

The BBC's digital TV channels have also helped drive digital take up and they've made their own creative contribution: *Little Britain* and *The Mighty Boosh* on BBC3, *The Thick of It* and *Fantabulosa* on BBC4. CBeebies and CBBC were a hit with children and parents from the moment they launched.

In the same way, in radio, a combination of strong new digital channels and a total commitment to the platform have taken digital audio broadcasting (DAB) to a tipping point. Eight weeks ago, Dixons announced that it will no longer be retailing analogue sets through its online site because sales of DAB radios were 30 times higher.

But perhaps the biggest strides have been made on the web. At the start of the year 2000, the BBC site had a total of half a million pages and received around 150 million page impressions per month. Today, the site consists of more than 6 million pages and gets more than 3 billion page impressions each month, a more than 20-fold increase. It is, by some margin, the biggest content-driven site in Europe and one of the most highly regarded sites in the world. Again though, one of its most important effects has been beyond the BBC, driving take up first of the internet, then of broadband, then of high-speed broadband.

In 2000, the government asked the BBC to invest in high-quality services to pave the way for a fully digital Britain. We've done exactly that.

While even sceptics acknowledge that the BBC has performed well, there is a claim that the price for our success has been damage to the commercial sector

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through the twin scourges of market distortion and crowding out. But where are the examples? When a couple of our most prominent critics were asked, in public, at the Edinburgh TV Festival, to offer actual names and numbers, there were several minutes of spluttering, followed by a kind of deathly silence.

Even the *causes celebres* have proved a grave disappointment to our critics. Oneword was said to be at risk from BBC 7's book readings. But Oneword was bought by Channel 4 and is doing fine. RM, the educational software company, thought that even the vague threat of the digital curriculum would blight it completely. RM is, I believe, in as healthy a financial position today as it has ever been.

Yes, the BBC represents a colossal public intervention in the market. Yes, it is vital that the BBC Trust, working with Ofcom, scrutinises management proposals for potential distortion when new services are considered. The new public value test (PVT) process — already in action to test our iPlayer proposals — will deliver this. The fact remains that, having spent around £30bn of the public's money in the present charter period, and despite the Barwise, Gardam and Graf reports, despite Ofcom's work — not to mention the public and private claims of numerous commercial lobbyists — no one has come up with a single evidenced example of any BBC service having seriously damaged competition in the relevant market. Not one.

Of course, back in the real world, nobody even claims it. In all the tens of thousands of words written about ITV, no one even pretends that that network's creative and managerial tribulations are somehow the fault of the BBC.

## **Productivity and reform**

But the BBC's services are only one half of the story. Over the past seven years, the organisation has had to face up to another agenda — one that is shared by virtually every other part of the public sector. This is the agenda of modernisation and reform; of the

opening up of public sector requirements to private sector solutions; of continuous productivity improvements and value for money.

I don't believe we have always been as consistent in this field over the past seven years as we have been with our strategy and our services. However, we have been a lot more successful than we've been given credit for — and here too there may be some lessons from our experience for other public bodies.

The BBC that I rejoined as director general in June 2004 was already embarked on a value-for-money programme — one based on the self-help targets set by the government as part of that 2000 settlement. But the need to free up resources to invest in our — and the country's — digital future led us to look at the scope for increasing productivity and efficiency across the BBC. Very simply, I thought there was more we could do.

With the passage of time, it is easy to forget the scale of the change that has followed from that review two years ago. By March 2008, gains in efficiency and productivity will have enabled the BBC's public service headcount to reduce by 3,780 people or 19 per cent of the total. In addition we decided to sell those divisions that we believed could thrive better — and deliver greater savings to the licence payer — in the open market: BBC Technology and BBC Broadcast, our playout and broadcast services division. As a result an extra 2,500 people have left the organisation.

In the past, and in common with other public sector bodies, the BBC has cut headcount only to find the same, or the same number, of people returning as freelancers, or external suppliers, or consultants. This time we've adopted far tighter controls to make sure that true headcount moves down and stays down.

One effect of this, and of the BBC's increased commissioning of independent production for TV, radio and the web, is that 45 per cent of the licence fee is now passed straight out of the BBC in contracts to major suppliers. The BBC is partnering the market wherever it makes sense in terms of creativity,

## The average price of over 80 per cent of the BBC's television programmes that were analysed, both in-house and independently, were around or below the average price in their genre

effectiveness or value. We've moved further and faster on this route than almost any other part of the public sector.

As a result of these changes, we're on track to deliver £355m of annual savings by the end of the current three-year value-for-money programme.

In its report for the government, the consultancy PKF made the point that that figure does not include restructuring costs. And that's true. But it's also worth noting that we've been paying our restructuring costs as we go and that, from April 2008, every penny of that £355m will be available every year for fresh investment. That's over £3bn of fresh money during the next charter period.

This is a stretching and difficult programme of reform. And we believe it is taking the BBC to the frontier of productivity in broadcasting.

Over the past year we've been engaged with other broadcasters in a benchmarking study, looking at both our and their TV programme prices. The study was undertaken on the basis of strict confidentiality and I can't talk about the other participants or about their programmes. What I can tell you is that the study suggests that the average price of over 80 per cent of the BBC's television programmes that were analysed, both in-house and independently produced programmes, were around or below the average price in their genre. Of the 20 per cent that were above, most were in factual genres. Some are in what you could call the *Planet Earth* category, where the BBC is commissioning output of exceptional ambition and production value. We're going to look at the remainder to see if there are lessons — and savings — to be made.

But the important point to note is that the comparisons were done before the present three-year value-for-money plan which — on average — is removing an additional 15 per cent from programme prices. During the debate about the level of the licence fee, our critics have often implied that BBC costs must be much higher than industry averages. The evidence, which we've passed on to the NAO to help its review

of the BBC's efficiencies on behalf of the Department for Culture Media and Sport (DCMS), is that this is simply not the case.

Again it's often suggested that the BBC is more of a spendthrift than its competitors — or than the rest of the public sector — in the way it pays its employees. Here, too, the facts tell a different story. For the past few years, annual pay settlements at the BBC have stuck close to the retail price index (RPI). This summer's settlement was 2.8 per cent, at a time when the run-rate for inflation was 3.3 per cent. Because the total number of employees is falling, the total pay bill is also falling. Perhaps more interestingly, unit pay — in other words, pay per employee — has also been falling because we've been rethinking the mix of staff we use to deliver our services.

There was a fuss this summer about executive pay. The governors' policy has been that executive pay should keep track with the mean of external comparators — though at a large discount: my pay for example is around one-third that of the chief executive of ITV. But we've been reducing the numbers of directors so the total executive pay bill has also been falling in real terms.

As for the headlines around what some of our stars get paid: well, our audiences expect the best talent from the BBC. We shouldn't drive talent inflation and I don't believe we do. This summer's high profile signings were renewals of contracts for stars who were already working for the BBC: in each case, other broadcasters were prepared to offer substantially more than the figure at which we signed. In any case, "star" costs are included in programme prices which, as I've said, independent research suggests are at or below market levels.

It's tempting, of course, to think of the BBC as a piggy bank that you can always rattle one more time when it comes to efficiency. I believe we can demonstrate that — especially after the abrupt correction of the past few years — we are firmly back on track in terms of productivity and cost reduction. We

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have a good record in using new investment to enhance and expand the services we offer, rather than feeding it straight through into pay inflation. At the moment, as we squeeze out costs, audiences tell us they believe the quality of our services is rising, not falling.

### **BBC's mission in the next charter**

So we're not in bad shape. And, if all that was wanted was a steady-state BBC with the same line-up of services and the same level of quality, we could deliver that well within our current resources.

But that is not the prospectus before us. Instead of steady-state, the government has laid down four ambitious strategic goals for the new charter period:

- first, a step-change improvement in existing services
- second, a further substantial shift of investment and creative commitment to the nations and regions
- third, the development of on-demand, mobile and other new digital services
- fourth, massive BBC engagement in the government's broader digital agenda — in particular, analogue to digital TV switchover.

Let's take each in turn, beginning with quality. The government has been very clear in the quality improvement it wants to see. Fewer repeats; an elimination of low-cost, derivative factual programmes' and every programme to meet stringent public-service criteria.

This isn't just the government's priority; it's the public's. In DCMS's recent study of the public's willingness to pay a higher licence fee, licence payers clearly said they would pay more for more quality content.

That's relevant because, perhaps to state the obvious, the kind of output the public normally associate with quality — original drama and comedy, specialist factual programmes, investigative journalism — cost a lot more, on average, than those they don't. A low-cost factual programme on BBC

One can cost less than £100,000 per hour; a repeat much less than that. Even after substantial investment by co-producers, an hour of *Planet Earth* costs £400,000 net.

In other words, to swap one hour of low-cost or repeated output with one hour of something like *Planet Earth* (that's one hour on one channel each week), would cost £150m or more over the next charter period. And I believe that public and government alike are looking for a lot more than one hour on one channel per week. We recognise ourselves that some of our services — especially our two underfunded children's channels, Cbeebies and CBBC — urgently require additional investment.

The government's second priority — the nations and regions — can be met in two ways: better local and regional services and a redistribution of network spend and creative commitment across the UK. In addition to more relevant, useful output, the advantage of both is their wider economic and social impact. One of the reasons that our plans for Salford have been greeted so enthusiastically in the north is that our partners see the BBC's potential move as a catalyst for much wider development of the creative industries, not just in Greater Manchester but in the whole region.

The third heading is new digital services. Don't think of this as a repeat of the proposals that formed the core of the last settlement. Then the priority was new linear channels to drive uptake of digital TV and radio. Today we plan no new channels but, rather, want to find new ways in which the public can find and enjoy the body of content they've already paid for, at home and on the move; when and where it suits them. So: investment in our on-demand application, the BBC iPlayer, in digital infrastructure, in search and navigation.

Some people say, of course: why can't you make up your minds? Why don't you either stick to your existing services, or, if you're so keen to embrace the future, why not cut some existing services and use

# While millions have adopted broadband, millions of others still rely wholly on current analogue services. To deliver value to all licence payers, the BBC has no choice during this transition but to ride both horses at the same time

that money to pay for these new departures?

But it's an inevitable and demonstrable fact that different groups of the population are moving at different speeds in this digital revolution. While millions have adopted broadband, millions of others still rely wholly on current analogue services. To deliver value to all licence payers, the BBC has no choice during this transition but to ride both horses at the same time. This is why the government has chosen both to support the BBC's plans to develop on-demand, mobile and other new applications, while also taking care to insist in the agreement that we maintain every single existing service. Doing both has obvious cost implications.

The fourth and final government priority for the BBC is also the most expensive one. This is building digital Britain, the centerpiece of which is the colossal task of switchover from analogue to digital television. We are paying for our own costs, paying some of the rest of the broadcasting industry's costs, paying for the so-called targeted help scheme of subsidy to vulnerable groups to help them migrate to digital and paying for the build-out of digital radio.

Few people outside the industry have registered the scale of the task — or the scale of money required. We've just signed a contract for one of the essential elements in TV switchover — the procurement of the build-out of DTT or Freeview transmitters to extend digital terrestrial coverage to the whole of the UK. This one contract is for £1.8bn and it covers just some of the BBC's own transmitter requirements.

Digital switchover is an enormous upgrade of national infrastructure. I believe it's the right policy — most developed countries are on a similar track as the UK and for similar reasons. Switchover supports the BBC's goal of universal access to its services. That's why, to us at least, using the licence fee to fund so much of it is legitimate.

But be under no illusion. This is a project of great scale and intricacy. The risks are formidable.

If it is under-resourced, it will fail. It's as simple as

that — and the failure will impact on many millions of households.

Of course, some of those who have been lobbying in private and public against our licence fee proposals do not wish the government's plans for digital switchover well. Sky, for instance, is implacably opposed to them. It believes that the build-out of digital terrestrial is quite unnecessary and that those people who can't currently get Freeview or cable should simply be told to use Sky if they wish to convert to digital.

The licence fee is the main funding mechanism for switchover. If you want switchover to be abandoned or to fail, what better place to start than to try to use your influence — that influence which Rupert Murdoch boasts about so freely in this week's *New Yorker* — to try to put a squeeze right now on the licence fee?

## The current bid

Digital switchover, investment in quality, nations and regions, new digital applications: that is the context in which the current debate about the future level of the licence fee should be seen.

Plenty of people start from a rather different position. The BBC got a pretty good settlement last time. Why on earth can't it live within its means now? Or, to go a little further: why can't it submit to the same discipline as most of the rest of the public sector and use productivity and efficiency gains to deliver its services within a budget that reduces in real terms — “RPI-minus” in the jargon?

I believe the answer to that last question should be: yes. Yes, the BBC should be able to deliver like-for-like services within an RPI-minus settlement. It should be set efficiency targets, the majority of which should be cash releasing — in other words, freeing up money that can genuinely be transferred to fresh priorities. It should be incentivised to maximise revenue generation, both in terms of licence-fee collection and commercial revenues. The BBC

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should be up for all of that. And we are.

If you want a BBC that does no more than it is currently doing, RPI-minus is the right settlement. But, as I've emphasised in the past few minutes, that is not the mission we have been set. Public policy in the white paper and framework agreement — the wider public policy of the government's plans for digital Britain — is for enhancement, expansion, infrastructural investment. Because broadcasting fits into a wider agenda about modernisation, the creative industries, an informed and engaged society, a skilled and enabled workforce, it is one of those fields, like health and education, where the government has wanted to do more.

This is why the government decided to give the BBC an above-RPI settlement in the year 2000. It knew that this was the only way the BBC could play a full part in helping to build digital Britain.

In the white paper and framework agreement, the government acknowledges that the BBC's digital mission is only half complete — indeed that the biggest challenges lie ahead.

It for this reason, and this reason alone, that the BBC still needs net investment. More than 70 per cent of the money we need to deliver the white paper and agreement can be found through self-help, but it can't all be found.

It is one year to the day since we set out our licence-fee bid in public — the first time the BBC had ever done that. We did it so that there could be an open and transparent debate about the BBC's funding. We also did it so that the cost of the green paper proposals could be considered alongside the proposals themselves.

After all, it's generally not a good idea to order a three-course meal at a restaurant before checking that you've got the money to pay for it. Unless, of course, you plan to do a runner.

In practice, it must be said that despite this, sign-off of the proposals has moved much faster than detailed scrutiny of the costs. And any licence-fee settlement

must factor in the large capital costs of switchover on the current timetable, which raise significant questions around borrowing levels. The length of the settlement term — always critical to underpinning BBC independence from government — has particular importance during this review, in the light of the long-range financial commitments the BBC is being asked to make to drive digital Britain and to support the switchover process.

At the time we announced the bid, we said it was inevitable that the figures would move and that's proven the case. Some — like our estimates on our pension costs — have gone up. Others — like the proposed move to Salford — have come down substantially. Over the past year, BBC governors have kept the pressure on us, on behalf of licence payers, to keep refining our proposals. Although some costs, particularly some of those associated with switchover are still uncertain, the net impact of that work has been to bring our bid down.

If Ofcom decides that it would not be appropriate to levy spectrum tax over the settlement period, then our bid — which a year ago today stood at RPI plus 2.3 per cent — will be locked off at around RPI plus 1.8 per cent. This includes 0.25 per cent to meet wider broadcasting industry costs of switchover. With the authorisation of the BBC governors, we have, in the last few weeks, shared this figure with government to ensure absolute transparency throughout the process around our calculations of the costs of the agenda laid before us. Targeted help, which has anyway to be separately ring-fenced because of state aid considerations, remains outside all these numbers.

So, a bid for a for a licence fee that grows in real terms, but a licence fee for which we have good evidence that the public are prepared to pay.

A few weeks ago, the government published its own research into "willingness to pay" — research that was commissioned from the Work Foundation. It involved 7,000 members of the public and looked specifically into the public's willingness to pay more

# The BBC – and in particular the new BBC Trust – is charged with delivering the maximum possible public value with the resources available to it

for new BBC services. Taken overall, the findings could hardly be more positive. A large majority said they were prepared to pay more when they heard about the plans that were contained in the white paper and framework agreement.

The average figure they came up with – more than £162 in today's prices – was well in excess of the BBC's original bid, let alone the BBC's revised proposal.

## Difficult choices

What happens, I'm often asked, if you don't get the money you're asking for? What will drop off the end of the list then?

Again, I believe that the answer should begin with public value. The BBC – and in particular the new BBC Trust – is charged with delivering the maximum possible public value with the resources available to it. If those resources are insufficient to deliver all of our proposals, it should use the BBC's public purposes and the framework of reach, quality, impact and value to prioritise.

The preferences of the public themselves should weigh heavily with the BBC Trust. It is also possible that some of the proposed new services will fail their PVTs and therefore will not require any funding.

So, a definitive answer to the question will only be possible when the new BBC Trust and BBC Executive Board have got down to work and started to prioritise and operate the new approvals process.

Some things are clear. The proposals in the bid for investment in quality content, for better local services – in particular the idea of local TV – and for on-demand and other new digital applications all score very highly in the government's research on willingness to pay. Nearly 60 per cent, for instance, supported the idea of local TV.

Clearly, local TV is not something the BBC has to do: after all, we and the public have survived without it for the past 80 years. Nevertheless, in addition to

strong public support, it also now has the backing of many of the members of parliament, local politicians and community leaders who have seen it in action in our West Midlands pilot. They recognise that it goes straight to the public purpose the BBC has been set to help citizens and communities engage with each other and with the big issues that affect them. It's a powerful and cost-effective new way of building public value.

Again, one could scale back on the plans to invest in quality content. Replace fewer repeats. Hold investment in children's content at its current level.

It's worth asking though: who would benefit? Some commercial broadcasters certainly believe that they would, but not the independent sector. Not the freelance or craft sectors; not the wider creative industries. Because, when commercial revenues are volatile, the investment in creative Britain that the licence fee represents becomes more, not less, important – £1bn a year flowing through the BBC into the wider creative industries. It helps to support the UK film industry among other areas, as well as around 10,000 freelancers and 230 independent producers in TV, radio and online. ITV investment in British children's programmes is in full retreat. Is this really the right time to prevent the BBC from investing a little more?

In fact, I think it is more likely that, in the event of a low settlement, the BBC Trust will focus on those proposals which – though very important – are lower on the public's list of priorities.

As I think almost everyone knows, I am very committed to the vision we have for a new broadcast centre in Salford. I believe it is right for the BBC, right for the UK's creative industries, right for the north – indeed for the whole country.

It's an idea that began three years ago as a classic BBC *grand projet* – with an estimated price to match. We've transformed the proposal since then, worked with the private sector and local and regional stakeholders and we have come up with what we

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believe is a transformational plan for creativity and jobs in the north.

But from the start, the BBC's governors have made it abundantly clear that they would only approve the case for Salford if it could demonstrate robust value for money, and the licence-fee settlement made it affordable.

I am sure that the BBC Trust is likely to take the same view. Indeed, in the event of a low settlement, I would not even be able to recommend it to them. We would have to find other, more modest, ways of increasing our investment in the north.

Finally, there is the question of digital infrastructure and the enormous investment that requires. We believe passionately in our digital mission and in the universality of service that switchover promises. We're prepared to work very hard at releasing cash from our existing licence fee to make it possible.

But the licence fee is not an endlessly stretchable rubber band. The work by independent expert consultants strongly suggests that we are already at or very close to the efficiency frontier. If those reports are right, the targets we have signed up to in our bid will themselves be difficult to achieve.

We can't do everything. We can't rob existing core services to pay for switchover. In the event of a low settlement, the BBC Trust will face some difficult choices around delivering the broad mission laid out for the BBC in the white paper.

### **A different kind of tax**

The licence fee is a tax but it is very different from most taxes. First, the public knows exactly what it is spent on. They can and do directly connect the money they pay to the services they use.

Second, the existence of this tax, its level and the purposes to which it is put are all regularly and noisily debated. In parliament, in the press and by the public. We are in the middle of just such a debate right now.

Contrast this with other forms of public

intervention in the cultural life of the UK: the funding of libraries, say, or museums. Contrast it with the way in which the budgets of Whitehall departments are set, or even with the complex, and sometimes rather amorphous, way in which the very largest budgets in the public sector are debated and ultimately decided.

To the experts of course — the teams in the Treasury and the departments, the select committees, the think tanks, many of you here today — it's no doubt clear enough. But I wonder how many members of the public could draw even a basic pie-chart showing where their income tax is going and which slices are growing and which shrinking. As a result, taxpayers can find it difficult to relate the money they pay for the services they use. The line of accountability from tax in, to service out, is so long and convoluted that it's almost hopeless as a means of driving performance, let alone public value.

The licence fee is different. The public can make its own informed judgement about whether it's something it feels it can support, not just as consumers but as citizens. Because of that, you can ask them what they think.

I believe that the BBC's funding mechanism — not just hypothecated but clearly understood by end users of our services — is just as important a part of the BBC model as its charter and independent status. The three work together to promote public trust and to enable the organisation not just to develop long-term strategies but to execute them well and to push accountability and audience-awareness all the way out to the producers, directors, journalists who actually make the content for the public to use. Long settlements — like the present seven-year one — are also vital to protect the BBC from political interference.

Now, I doubt whether anything approaching the licence fee is feasible or even desirable for other public enterprises. But anyone who wants to explore elements of the BBC model had better think hard

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# The licence fee has been going up in real terms in recent years but evasion has been going down and today, at around 4.7 per cent, it stands at a historic low

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about transparency and accountability in the funding stream, as well as looking at independent forms of governance and management.

These unique characteristics of our funding model lead us to a third, and I think the most remarkable fact about the licence fee, which is that the overwhelming majority of the public is pretty happy to pay it. The licence fee has been going up in real terms in recent years but evasion has been going down and today, at around 4.7 per cent, it stands at a historic low. The uptake of direct-debit payments for the licence fee is considerably higher than uptake for utilities such as gas, electricity and water.

As it considers the future level of the licence fee, the government finds itself in an almost unique situation. It has a clear and bold vision of BBC's future mission. There is good evidence that the public supports that vision. There is also good evidence that the public is prepared to pay for that vision.

We have now had four successive reports concluding that they are willing to pay more. And, while the most recent research does raise real questions for the BBC about some of the poorest households, our work suggests that the burden of the licence fee should reduce in the long-term for those households too.

Finally, whereas most questions of public expenditure involve difficult trade-offs — If we invest in A, we cannot invest in B — the licence fee stands outside this zero-sum game. Funding its own vision for the BBC has very little impact on any of the government's — or the public's — other priorities. Of course there are other considerations; it would be wrong to call it a no-brainer. But, compared to the nightmare that is the normal business of resource allocation across the public sector, it's a decision that feels more simple.

Debate about the BBC's future and about its future funding has probably been more searching in this charter renewal than ever before. But this is another sign of vigour in the BBC model. It is precisely

because of the fact that, when scrutiny arrives, it is so relentless and public, that licence-payer confidence in the system remains high.

## Conclusion

It's now more than two years since Michael Grade and I arrived at the BBC. During that time, the roles of chairman and director general have become more distinct and separate. Scrutiny and challenge of BBC management is more systematic and rigorous — behavioural changes that will become structural and irreversible when the new BBC Trust is formed.

Nevertheless, it's also true to say that Michael and I both returned to the BBC with similar priorities in mind. Reform and modernisation of a great, but sometimes complacent, institution. A spirit of openness and accountability, not just to stakeholders and policy-makers but to audiences and licence payers. A focus on what the BBC really stands for — above all the excellence of its services — and on the unique ways in which it can build public value. A determination to guide this sometimes cussed, sometimes eccentric, but also precious and utterly irreplaceable ark through the waters of digital change.

The work has just begun. But it's well begun. We have as clear and bold a strategy for the future as any media organisation I know. We've shown that we won't shirk difficult or unpopular decisions if they are in the interests of audiences and our long-term future. We're building new bridges to the rest of the creative industries.

I have no doubt that Michael and the new BBC Trust will pursue the path of reform and engagement vigorously during the new charter. So too will I and the BBC's management.

But reform needs support. And an important part of that support is realistic funding. The public has shown not just that it trusts the BBC model and that it understands the concept of public value, it has shown it's prepared to pay for it. That's a message that I hope the government will now heed. Thank you.



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