

## Chapter 5 - Achieving Sustainability

### **BBC Funding After the Charter Review**

**"Against an expectation that the licence fee will remain the principal source of funding for public services for the charter period. . .take a forward look at other possible mechanisms for funding the BBC in the longer term, particularly in the light of technological development."**



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### Introduction

This chapter aims at responding to that last requirement in our terms of reference. But it can only do so by ranging wider. Once we look beyond the next few years, we cannot help but reflect more generally on the position of the BBC in an era where technology will be changing fundamentally.

Today's givens may not - indeed probably will not - be tomorrow's. Today distinctions between the television and the computer are broadly understood. Today the notion that there are things called programmes delivered through mechanisms called channels predominates. Today, though boundaries are already being blurred, it makes sense to talk of something called "broadcasting" and something else called "the Internet".

Tomorrow, however - and the BBC has been very early both to recognise this, and to act upon that recognition - all these divisions may be challenged fundamentally. We live in an era of consumer choice generally. We are moving into an era where choices in broadcasting are no longer driven by spectrum scarcity and where communications are no longer one way, from broadcaster to audience, but two way. In this environment, it is no longer sufficient to fall back on old saws. Fundamental rethinking is required - even if, at the end of that rethinking, it is concluded that more of the old-world way of doing things should be preserved than might immediately seem probable.

The BBC has sought to define the nature of the changes the new era will bring. It believes that it must be allowed to develop its services in the new media, or else it will ultimately decay as the old media fade away. It argues that there will remain a role for a full service public broadcaster, with a meaningful presence in all areas of the market. As the various ways of communicating with the audience multiply, and as broadcasting grows in relation to national income, the BBC's vision implies that its role will grow in importance, and also become more expensive.

In its evidence to us, it says it wants to "build on the strengths of the past", for example by nurturing the diversity of the UK's heritage, to engage people in debate on issues of national, regional and local significance, and to help people broaden their horizons through learning. It also sets itself new purposes: to "ensure that no-one is excluded from access to new kinds of service made possible by new technology" and to "use its ability to reach into every home to engage audiences in new experiences and to act as a trusted guide in a world of abundance." These are admirable statements of its general mission. However, their more specific meaning and their implications require more concrete definition. The public today is only vaguely aware of the digital revolution, and is confused about what changes it may bring. Neither it, nor its representatives, are ready to opine on whether the BBC's role will shrink or expand in the new

world. At the end of the day, this can only change when the nation has had more experience of what the digital era will really be like. Then it can decide if it really wants a full service public broadcaster and, if it does, whether it is prepared to pay for one.

This debate must be fostered in the run-up to Charter renewal. We do not claim to have completed it in the course of our short and limited review. However, we are clear that a longer look is required in the run-up to 2006. We recommend that the Government sets in place a mechanism for debating these issues, both inside and outside government, in the period ahead.

### **The nature of public service broadcasting**

In his speech to the Royal Television Society on 14 October 1998, the Secretary of State for Culture, Media and Sport defined his view of what a public service broadcaster such as the BBC should be doing in a digital era. He envisaged that a BBC strongly committed to maintaining its traditional ethos, principles and purpose would have a key role in the digital era.

He set out five key principles:

- i the BBC should act as a benchmark for quality, driving up standards across the board;*
- ii it should provide something for everybody, making the good popular and the popular good;*
- iii it should inform, educate and entertain, expanding people's horizons with new and innovative programming;*
- iv it should operate efficiently and effectively and provide value for money for licence fee payers;*
- v it should stimulate, support and reflect the diversity of cultural activity in the United Kingdom, acting as a cultural voice for the nation.*

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The Secretary of State went on to say:

*"The BBC must maintain and enhance its primary role as a high quality, comprehensive public service producer-broadcaster, delivering distinctive and creative programmes to the public. The BBC must also continue to nurture and support talent not only in the audio-visual field, but throughout the creative industries. These industries are a central concern of my Department and, accordingly, the BBC plays a central role in our aspirations."*

We judge from the BBC's evidence to us that there is little in this with which they would disagree. The Government, apparently with BBC support, has committed itself to a broad definition of public sector broadcasting for a long period to come.

And yet the environment in which it does so is changing. Public service broadcasting was justified originally on the basis that only a small number of services should be provided, due to the scarcity of spectrum. With choice necessarily limited, those services should be used for the benefit of the public as a whole. And of course Lord Reith's BBC, conceived before the modern democratic era, defined the benefit of the public as a whole with relatively little regard to what that public might choose for itself.

Clearly that justification no longer exists. More services and greater choice have been made possible by developments in technology, particularly digital technology. Digital satellite and digital terrestrial television services have been launched and digital cable services will be launched later this year. The BBC has launched digital radio services and commercial companies will be doing likewise in the autumn. Hundreds of radio stations are available on the Internet, and television pictures are spreading rapidly on the same platform. Audiences already have a wider choice of programmes and services than ever before and this will increase further in the years ahead.

Some organisations believe that public service broadcasting has had its day and that the public will be well served by the growing number and diversity of television and radio channels. Others, including the Government, have argued that there will continue to be an important role for public service broadcasting, however defined.

Again, there are different views about how large that role should be. Some believe that public service broadcasting should concentrate on the types of programme which would not be provided by commercial broadcasters. Others believe that public service broadcasting consists of more than the provision of particular programmes, mainly for minority audiences. They regard public service broadcasting as an approach, which influences the choice of programme subjects, and how programmes are made and scheduled, as well as the scope of the services. Others again believe that public service broadcasters should compete in providing every form of broadcasting.

For there is a basic conundrum that puzzles everyone who looks at this subject objectively. The natural definition of public service broadcasting is that it is broadcasting which, for one reason or another is desirable, but which the market will not provide or will provide in insufficient quantity. As Annex VIII shows, it is impossible to argue for a public service broadcaster unless market failure can be shown. There are reasons for believing that the basic causes of market failure will persist in the digital age. Indeed, some of them may become more rather than less important. The best means of funding such broadcasting yet devised is a licence fee. However, broadcasting which the market will not provide may (almost by definition) be broadcasting that is not very popular. At least it will not necessarily be the kind of “lowest common denominator” which can command the largest audiences. And people naturally resist the proposition that they should pay for programmes that they do not wish to watch. Hence we have a debate which veers dangerously between the purist view of public service broadcasting, the so-called “Himalayas” view, which has it just producing programmes at the top end of the market, and the impure view, which interprets “public service” as potentially embracing any broadcasting, however populist, which a public broadcaster chooses to put on the air.

We have not resolved this conundrum, perhaps because it is unresolvable. We do believe that public service broadcasting, however defined, can play an important role in the competitive and complex broadcasting environment of the multi-channel, digital future. There is good reason to suppose that the market, left to itself, will not provide the broadcasting which our society wishes to foster.

Public service broadcasting exists to serve the community by providing distinctive programmes which inform, educate and entertain. It can help to ensure that the benefits of the information age are available to all at a reasonable cost and that viewers and listeners have access to quality services which cater for a wide range of interests. In all these respects, it can correct the tendency of the market to pull too far in the opposite direction.

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There is a continuing need to support the public policy aims of quality, diversity, choice and accessibility. Pluralism is not guaranteed in the multi-channel age, where the economics point towards fragmentation of audience and concentration of ownership. Public service broadcasting can act as a counterweight to private concentration of ownership and, provided that public service broadcasters are broadcasting distinctive schedules, this will exert pressure on commercial competitors to do the same. Many of our witnesses drew attention to what they described as the “ecology” of broadcasting, where a variety of institutions and funding mechanisms provide a mixed economy which is neither pure Reithian public broadcasting nor pure market, but which in a rough-and-ready kind of way, reconciles conflicting objectives.

It must also be said there are various means of attaining these objectives of public service broadcasting. It is a leap of logic to go from the premise that there is a role for public service broadcasting to the view that the BBC as we have it is the sole instrument for achieving them. Government regulation as now applied to ITV and Channel Four can contribute to achieving these aims. It could be extended. It is also possible to envisage models where public support goes not to particular institutions or particular publishers, but to particular programmes made to achieve particular objectives.

Whatever the role of such mechanisms, the BBC has strong claims, as an existing and highly reputed organisation, to a core place in the new environment. In the digital world more channels are available, but quality, choice and value may not be located easily. Free-to-air broadcast programming, as provided by the BBC, has a claim to remain a focal point for a shared and diverse culture and the quality benchmark for UK broadcasting. Moreover, viewers will continue to want high standards, impartiality and independence, all traditionally associated with the BBC.

What our society should be looking for is a public service broadcasting model, which combines creative and market pressures to achieve the public good. And this requires a balance: between giving public support to programmes which the market simply would not provide while sustaining programmes with a wider appeal in a way that seeks to maintain overall standards of broadcasting quality. It is not “either-or”. It requires a sustainable and defensible mix, just as it always has.

In striking this balance, the BBC's performance should not just be judged by ratings. It should also be linked to whether it offers something of real value to audiences not guaranteed elsewhere. Too often, the BBC in effect behaves as if public service broadcasting is everything the BBC chooses to put out. We welcome the BBC's remarkable success in more or less preserving the market share of BBC One and BBC Two in the face of increased competition. But we worry that this has to some extent been achieved by "dumbing down", in a way that has upset that balance.

We thus want to see the BBC continue to produce a mixed and varied output, developed with one eye on what the market is providing insufficiently or cannot provide. We do not necessarily believe either that the BBC should continue to provide all the services it currently provides, or the full range of programmes that it currently produces. But nor do we believe that it should be prevented from launching new services, particularly digital services, designed to further these objectives. Its optimal scale will no doubt change over time - indeed, it must, since the provision of services by the private sector will constantly change also. The fact that we are recommending that new resources be given to the Corporation in the near future implies that, for the moment, we believe that its scope needs to increase. If it uses these resources well, it will be in a stronger state than it is today to argue for further enhancements to its role in the next Charter period.

The striking of that elusive balance is, under current arrangements for the governance of the BBC, primarily a matter for its Board of Governors, though new services require the approval of the Secretary of State. What the Corporation does is also conditioned by the budgets essentially set for it by his decisions on the level of the licence fee. We welcome the recent emphasis of the Governors in the BBC's latest Annual Report on shifting the balance towards those programmes in which the BBC is providing something distinctive, rather than chasing ratings.

Following that, we should like to see a more cohesive effort from the Corporation in determining its priorities. Its competitors often describe the BBC as a power-hungry monopolist eager to extend its tentacles, under the guise of "public service", into each and every new medium which technology throws up. No doubt these competitors have more than one eye on their own interests in arguing this case. After all, there is nothing they would like better than to confine the BBC to the kind of irrelevant box which "public service broadcasting" occupies today in the US. Yet, we were sometimes struck, surveying the BBC's proposition to us, by an apparent lack of clarity in determining priorities. It is in this sense that most of us felt that the BBC failed to make out a decisive case for the whole of the ambitious spending programmes which it asked us to fund. If the BBC has to think harder in future about priorities, while still achieving critical mass in the new digital marketplace, then so much the better.

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### Recommendations

For the present, we recommend that in planning its public service provision, the BBC should define clearly the purposes of each service. We also believe that all new public service proposals should be tested through wider consultation, particularly with consumers and that the Governors should insist on clearer criteria for what the BBC is doing, and will continue to shift its focus towards its distinctive strength.

For Charter renewal, there is a strong case that the BBC, because of its privileged position, should have a tighter remit than other broadcasters. Today, of course, its remit is much looser than that of ITV, with the “good behaviour” of the BBC being taken almost on trust. But the privilege of controlling £3 billion of public money after 2006 requires a more formal criterion than exists today. We think that the principles set out by Julian Le Grand and Bill New in *Public Purposes in Broadcasting - Funding the BBC*, would be a valuable starting point. Le Grand and New’s CORA principles (community, opportunity, responsibility and accountability) seem to lend themselves to a number of programme genres that serve each of the CORA principles. We are aware of the argument that regulation is by its nature negative and not susceptible to capturing and protecting the essential nature of the BBC’s public purposes, but good regulation can result in qualitative, as well as quantitative values, and it can have a positive as well as a negative function. When the Charter is reviewed, therefore, we recommend that consideration should be given to providing a clearer definition of the BBC’s public service obligations in a way that can easily be translated into performance criteria for assessment under whatever regulatory arrangements apply post-Charter review.

As we said in Chapter 3, we also suggest that at the time of the Charter review, a comprehensive review should take place of the services recently launched by the BBC, in order to decide whether such services continue to fulfil public service criteria. If they do not, they should be closed.

### The future of the licence fee

From the BBC’s point of view, the licence fee is the best way to finance public service broadcasting. The security of this regular income allows the BBC to take a long-term perspective, nurturing creative and performing talent, carrying out research and development and investing in production skills and technology. However, the downside, as with all forms of guaranteed, tax-based revenue, is that it frees the BBC from the need to respond to changing consumer preferences. We do not accept the view, implied in the BBC’s current advertising campaign, that the licence fee is necessary for innovative programming.

As we have discussed in Chapter 2, all alternatives to the licence fee have major disadvantages.

**Advertising and sponsorship** provide an incentive for broadcasters to maximise audiences, particularly at peak times and, therefore, to concentrate on the most popular types of programming. Though popularity is no bad thing in broadcasting, the consequence is that more innovative and challenging programmes (such as education, religion and documentaries) are not likely to command high profile exposure on advertising funded networks. Commercial pressures can also threaten the freedom and independence of programme makers and schedulers.

**Subscription television** by definition is only available to those willing to pay. It therefore negates the BBC's traditional objective of providing free-to-air services which are universally accessible to the nation as a whole. Moreover, since some people who would like to watch particular programmes or channels will, under subscription, either not be able to afford to, or will choose not to at the full price, there will be a consequential loss of consumer benefit.

**Direct funding**, by Government through taxation or grant, gives government even greater power than the licence fee over the revenues enjoyed by the BBC. It creates broadcasters that are inextricably linked to political moods and cyclical economic factors with a consequential potential loss of managerial and editorial independence.

**Mixed Funding systems** (ie, licence fee + advertising or subscription) undermine the principle of fixed and independent funding and are highly vulnerable to either reductions in mandatory funding or eventual mutation into full commercially funded broadcasters. They are also vulnerable to attack by EU regulators.

Arguments in favour of the licence fee as the preferred form of funding are supported by substantial evidence from other countries that have suffered with alternative schemes, as a report on international experience prepared by McKinsey for the BBC shows.

For instance:

In the last ten years the **Canadian Broadcasting Corporation**, has lost 10% of its direct Government grant funding - with 22% of income now derived from advertising and sponsorship. In the same period the level of quality of Canadian drama, arts and children's programmes is widely reckoned to have declined. There has been an increase in US acquisitions - much of which duplicates content received via US channels. CBC is now wrestling with the issue of how to retain audience share while meeting its Canadian content obligations and aspirations.

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**Portugal's** public service broadcaster RTP is grant and advertising funded. RTP has faced strong competition since market liberalisation in 1992 and its share of the developing advertising market has declined markedly in recent years leading to an unstable overall revenue position for the broadcaster. As a consequence, RTP developed a more commercial programme mix in an attempt to compete head to head with advertising rivals. However RTP's divided purposes (public service and advertising revenue maximisation) led both to audience share erosion and evidence of a dilution of distinctive public service programming. Steps are now being taken to stabilise its share at a lower base and to refocus its channels around a more distinctive public service proposition.

**Germany** has a mixed funding system, including a licence fee, for the two state broadcasters ARD and ZDF. Around 30% of their income is derived from advertising and sponsorship. In the last five years, ARD and ZDF's joint share of total advertising revenue fell 39% due to increased competition for advertising - and restrictions on advertising slots (ie, not after 8pm). Subsequently, performance has suffered in key areas. Much cheaper and more mainstream programmes have been introduced to peak time schedules to drive up advertising revenues - leading to a higher overall proportion of repeats.

From a broadcasting point of view, therefore, the licence fee has much to recommend it. However, there is another side to the coin. The licence fee, correctly described, is a tax and a poor tax at that. It is levied on everyone who has a television set. It takes the same amount from every household, rich or poor. A wage-earner on the national minimum wage has to work for a week to earn enough to pay it, but pay it he or she must, whether they choose to watch the BBC or not.

Partly in consequence, there are no grounds for complacency about the sustainability of the licence. Our poll indicates that opinion is divided on whether the licence fee provides good value for money - 45% agree, while 42% disagree. There is a variation in opinion by social class - among ABs, 69% feel they receive good value for money, falling to 31% among DEs. Advertising, and not the licence fee, is the preferred way of funding the BBC amongst the public (see Annex V).

Because the licence fee is unpopular with the public, it tends to be unpopular with politicians. Over a number of years now, it has been demonstrated that few governments are willing to put up the licence fee over a period of years by more than the retail price index. Moreover this means that the BBC is constantly forced to pay great regard to the views of politicians lest they punish it by cutting back the licence fee. This in turn can lead to perceptions that the Corporation is more susceptible than is desirable to political pressures, in turn jeopardising its reputation for impartiality.

None of this means that the licence fee is unsustainable. It has been around for a long time. Licence fee payers take it for granted. They regard it as part of the cost of living. It has a crude but not unconvincing logic: everyone pays for what everyone can, if they choose, get. Its demise has been frequently predicted, but it has proved remarkably durable. However, the dawn of the digital age and the consequential multiplication of channels mean it faces its greatest test.

As the Peacock Committee predicted, the digital age is revolutionising broadcasting, bringing hundreds of new channels, services and innovative technologies and different ways of consuming and paying for media services. We are in the middle of a technological revolution, and, given the pace of technological change, it is impossible at this stage to predict how far if at all beyond 2006 the licence fee will be sustainable.

Technological progress will present both problems for existing methods of funding the BBC and opportunities for new methods. For example, our witnesses including the BBC have agreed that it is likely that there will be a rapid convergence between what we now think of as the PC and the television set. Indeed it is already possible to get television pictures, admittedly of poor quality, on a home PC and thus (for example) to get the latest news bulletins at any time through the Internet. Equally, television sets will be able to use e-mail and perform text-processing tasks. There will therefore be scope for argument as to where precisely the boundary of licensable TVs ends and that of unlicensed PCs begins, which could make enforceability of the licence fee harder.

Moreover, there will be huge changes in TV services themselves which may make different funding systems appropriate. At the moment, the licence fee is supposed to provide for first showings of all BBC programmes, but licence fee payers may have to pay for subsequent viewings showing on the BBC's commercial channels, such as UK Gold. Technology however may make the concept of a channel redundant because anyone will be able to watch whatever is available when they want. The "first showing" principle will not be easy to sustain if the second showing may follow it only a few minutes later.

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Another problem for the future of licence fee is that it is losing its buoyancy. Until recently, the licence fee has been a dynamic source of revenue for the BBC. Revenue was first boosted by the spread of radio, then by the spread of television, and then by the conversion from black-and-white television to colour. If our recommendation of a digital licence supplement is accepted, that will give a further period of buoyancy, until the time of analogue switch-over.

But after that, the next source of buoyancy is not immediately obvious. The BBC is likely to extract some more revenue from the licence fee, both because of a continuing growth in the number of households, and because of more effective anti-avoidance measures, themselves made easier by the new technology. But it will also face increasing demands to spend more: on maintaining and improving its existing services, on new digital programming and on developing the potential of the new technology. Unless the nature of politics also changes, however, it will struggle to get increases in the licence fee which exceed inflation.

So continuing reliance on the licence fee might well leave the BBC short of revenue. Either it would have to embrace forms of financing that it now eschews, or it would have to cut its coat to its limited supply of cloth. The latter choice could mean a weaker BBC, less able to remain an important factor in the ecology of broadcasting.

Finally, the digital age will increasingly be one in which many or most consumers of television pay for packages closely tailored to their needs. As they become more accustomed to choice, to subscription and to pay-per-view, it could be that the licence fee will come to seem an anachronism.

The implications of this changing environment are not easy to assess. Nor is the present the easiest time at which to try to make such an assessment. Technology goes in jumps, followed by periods of development and consolidation. At the moment, we are mid-jump, into the digital era. A glance at the record of previous efforts to forecast where such jumps will find their landing place does not encourage us to feel confident of our predictive abilities. A further and better assessment of the position will, we hope, be more easily achieved in the early years of the new millennium.

One central issue is, however, whether the BBC's role and purpose will endure in the digital world and whether, given the hundreds of channels available in a digital multichannel environment, the BBC will retain the kind of presence and significance in licence payers' lives necessary to sustain a compulsory universal licence fee. It will not be easy. As the number of channels increases, there is likely to be continued fragmentation of audiences, and a consequent reduction in share for network channels, including the BBC's. Multichannel households in the UK already watch less of the main network channels than the average household, and the share

of viewing of networks is in steady decline in the United States. Consequently, it will become more difficult for the BBC to reach on a daily basis those viewers who only rarely switch on to the BBC.

However the task is not hopeless. As the McKinsey report for the BBC notes, while the capacity may exist to launch very tightly focused channels, these channels will only be able to afford a relatively low programme cost per hour. These fees will not be able to fund the sort of high quality star-led programmes that are popular. Nor are they certain to cater for minority interests where production costs are necessarily very high: for example, in the broadcasting of opera. Producers are, therefore, likely to continue to need broad generalist networks to fund their programmes.

We should resist cultural or technological determinism in this field. Whether the licence fee is sustainable beyond 2006 will depend among other things on the BBC's own performance, not only the quality of its programmes, but the maintenance of its ethos and the accountability of its management.

### **The financial accountability of the BBC**

The BBC is an institution with a strong ethos. The commitment of its senior managers to its public service vision has been evident in the course of our inquiry. Any organisation needs a powerful internal culture to chart a consistent course of success. The BBC assuredly still has one.

Clearly, the organisation also recognises that it has a duty to be accountable to those who fund its services and indeed to the taxpayer generally. It has taken a number of steps in recent years to strengthen that accountability. Its Annual Report is no longer the opaque document it used to be, and is reviewed by the House of Commons Select Committee on Culture, Media and Sport. It now produces separate Annual Reports for BBC Worldwide and for BBC Resources Ltd. It goes to some trouble to use opinion and focus group research to gauge public opinion; and holds open meetings, at which management can answer questions and take points from members of the public.

Still, in the course of our inquiry, we have found ourselves asking the question: to whom, exactly, should the modern BBC be financially accountable? We recognise that governance is not directly within our terms of reference, but we have been asked to take a forward look at funding arrangements, and we cannot do this without making some comments about future regulation, at least in so far as this relates to financial matters.

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Clearly, the BBC is subject to a number of outside controls. Its Charter is subject to periodic renewal, at which its structure and purposes are assessed. Its funding is dependent on the decisions of the Secretary of State on the licence fee, as is its ability to launch new services. Nevertheless, it is broadly a self-regulatory body. Its accountability is to the Corporation's Governors. They are appointed by the Secretary of State, but are not subject to his instruction. Senior management reports to them.

The position of the Governors is a problematic one. On the one hand, they are supposed to set the Corporation's general directions under the Charter, and to be the main instrument by which it is rendered accountable. On the other hand, they are often regarded very much as part of the management of the Corporation. The Governors are serviced by a secretariat which is part of the staff of the BBC, and which therefore has to reconcile dual loyalty to its management and to the Governors.

This is in sharp contrast to the arrangements that apply in commercial television companies, which are subject to external regulation by the Independent Television Commission. In regulation more generally, a certain tension between regulators and those they regulate is regarded as desirable, since their interests can diverge. It is not clear whether in the BBC such a divergence of interests can become transparent and effective.

The most serious lacuna that results from this structure concerns financial control. The BBC is disposing of a substantial sum of what is essentially public money. One part of that money is subject to normal parliamentary controls. The Comptroller and Auditor General, Parliament's spending watchdog, can audit the money paid to the BBC through the £170m annual grant to the BBC's World Service. But another and far larger part is not. The grant it gets from the Department for Culture, Media and Sport (which is equivalent to the money paid into the Consolidated Fund through the licence fee, less central government costs) cannot be examined by the Comptroller, nor by the Committee of Public Accounts to whom he reports.

In a letter to us included in our report at Annex VII, David Davis, the chairman of that Committee, argues that the BBC's spending should be brought within his remit. He says that "the Comptroller and Auditor General's inability to report to Parliament on the way the BBC uses the licence fee seriously weakens the public accountability of the BBC." We agree and, accordingly, recommend that the National Audit Office should be empowered (by an amendment to the Charter) to carry out periodic financial audits of the BBC's accounts and its fair trading arrangements.

The BBC is sensitive about external regulation, in particular that it might undermine the Governors' role as the primary regulators. The question then is: are there arguments against such accountability which mean that, despite this, the BBC's money should not be subject to Parliamentary audit. According to the BBC, there are. They fear that such audit would provide politicians with a handle with which to beat the Corporation, on its policy and even on its individual programmes. Rightly concerned for its independence, they oppose this. They also say that the knowledge that BBC executives might be second-guessed by politicians could result in timid and safety-first decisions by programme-makers.

If we felt these fears were justified, we would not recommend a change. But we do not. First, it has to be said that, even at present, independence is not pure. As already noted, the Culture Secretary has considerable power to influence the Corporation, even outside the Charter renewal period. Moreover, nothing protects the BBC against the ultimate threat that Parliament will legislate to control it. Independence therefore is not an absolute; it has to be balanced against other considerations such as accountability and affordability.

Moreover, we think that there is a misapprehension as to the nature of the Comptroller's work, and that of the Committee to which he reports. The Comptroller is appointed by Parliament, not by the Government. It is not his job to report on matters of policy and, in conducting its reviews, it should be made clear to the National Audit Office in its terms of reference that it must not cut across the proper independence of the BBC and, in particular, must not interfere in programming issues. The fact that the licence fee collection and enforcement arrangements are already audited by the National Audit Office, and the National Audit Office also audits the grant-in-aid for the World Service, demonstrates that it can have a legitimate role in ensuring due process in the BBC.

The Panel does not accept, therefore, that more scrutiny need mean more interference. There is nothing in the National Audit Office's remit which threatens the proper independence of the BBC.

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What, beyond that, needs to be done to resolve the problem of accountability and governance that we have identified? This is a matter for Charter renewal. We do however have a sense that the present situation is neither satisfactory nor defensible.

There is a range of possible solutions from (at the one end) the creation of a genuinely independent secretariat to service the governors to, at the other, the imposition of some form of external regulation. We believe that the construction of a more satisfactory model for the governance of the Corporation should be a priority for the Charter review process.

The BBC's ability to produce world-class programming is essential to its future, and we believe that our earlier recommendations will give it a base from which to do that in the digital era. But it is important to its future to underpin its public service ethos by improved accountability, achieved through a modernised system of governance.

For all organisations must adapt or die. That should be the mantra by which the new Director-General, like his predecessor, lives. We hope and expect to see the BBC flourish. We believe our proposals, taken in the round, will strengthen its ability to do so. Beyond that, the Corporation's future is in its own hands, to lose or to seize.

### Recommendations

*In summary, we recommend that:*

- *in planning its public service provision, the BBC should define clearly the purposes of each service;*
- *new public services should be tested through wider consultation, particularly with consumers;*
- *the Board of Governors should insist on clearer criteria for what the BBC is doing and continue to shift its focus towards its distinctive strength;*
- *when the Charter is reviewed, consideration should be given to providing a clearer definition of the BBC's public service obligations in a way that can easily be translated into performance criteria for assessment under whatever regulatory arrangements apply post-Charter review.*

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- *the Government should amend the Royal Charter to give the National Audit Office inspection rights to carry out periodic financial audits of the BBC's accounts and its fair trading arrangements; and that*
  - *it is made clear in the terms of reference for the periodic inspections by the National Audit Office that the NAO should focus only on administrative efficiency and on proper financial management and accounting and not question policy objectives and programming issues and matters of editorial or artistic judgement.*

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