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BBC Chairman

Reshaping today's BBC for tomorrow

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Thank you all for coming.

What I want to discuss with you tonight is how the Trust is accelerating the pace of change at the BBC.

This is an important moment in the life of the BBC.

Ever since the Trust opened for business more than three years ago we've pushed the BBC to focus more sharply on certain key goals:

- quality and distinctiveness
- outstanding value for money
- and on becoming much more open and responsive, both to the public, and to the wider media sector.

Those goals haven't changed.

What has changed is the speed with which we want the BBC to reach them.

We are now in the middle of a major strategy review. And that marks a definite quickening of pace in the mission the Trust has set the BBC.

We will shortly publish the Trust's initial conclusions on the proposals put to us by Mark Thompson and his team.

We've already received a great deal of valuable feedback on those proposals. The VLV itself made a typically thoughtful and robustly-argued contribution to our consultation, for which I thank you.

When we come to make our final decisions in a few months time, we will undoubtedly have to make some tough choices - not least because we can't simply take it for granted that licence fee payers will be willing to pay more year by year.

Now I'm not in a position today to reveal the all the fine detail of our initial conclusions on the strategy review proposals. That must wait for another time.

But what I can do today is this:

- Sketch out the context within which we are making our decisions
- Indicate the direction - and the speed - of travel in which we are moving
- And tell you about a number of important areas where we think the BBC should be upping the pace - taking additional action, beyond what's in the original strategy review proposals.

So, first, the context.

At its most basic, the context is one of severe economic austerity, with tax increases for many individuals, big cutbacks to come in many areas of public spending, and continued tough times for many commercial media operators.

And yet, despite these extremely difficult economic conditions, there is absolutely no let up in the very rapid pace of technological change across the media landscape or from audiences in their expectations of what their media providers will offer.

The BBC finds itself in a challenging position at this difficult time, straddling two very different worlds.

On the one hand, licence fee payers very much see the BBC as part of the public sector. They expect it to demonstrate the values and behaviours of other occupants of that space.

But the BBC is also part of the creative industries, one of the big success stories of the British economy. It's a sector that holds the potential to contribute significantly to the economic reshaping of UK plc that the Government is seeking to drive forward.

This dual role means that the BBC can't be spared the challenges being faced by the rest of the public sector. But at the same time it is also being challenged, along with the rest of the creative sector, to do more to build and promote the skills and talent base of the UK.

Both these roles have been played back to us as we have considered the Executive's Strategy Review proposals over recent months.

And I am clear that, while the BBC is highly valued and, under the Trust's leadership, has made good progress in the right direction, there are distinct areas where further change - and acceleration of change - is needed.

First: to demonstrate that every pound the BBC takes from licence fee payers is used well.

Second: to behave differently towards the private and public sector - to bring more to the party and be a more co-operative and considerate corporate neighbour.

And third: to find ways to drive up the quality and distinctiveness of the BBC's output.

So that's the context.

As far as direction of travel goes, our analysis and consultation has highlighted three core areas for the Trust to consider as it sets the BBC's bearings for the journey ahead.

These are: behaviours, boundaries, and transition.

By **behaviours** I mean the way the BBC does business. Partly that means the way it relates to competitors and suppliers. But, just as important, it also means the way the BBC demonstrates to the public who pay for it that it is spending their money with care.

By **boundaries** I mean both the definition of the right scale and scope for the BBC, but also clarity over future BBC plans for what it will, and will not, do.

By **transition**, I mean how the BBC should be positioning itself for further strategic change as we move ever closer to completing the transition from analogue to digital - a transition that potentially holds very profound implications for the BBC.

And the overarching aim of all of this is to provide the distinctive, high quality content that audiences demand from the BBC.

Let me begin with the idea of transition, since it colours everything.

We already know that the new strategy the BBC is working on will not be the last word on change at the BBC. The journey we are all on from an analogue past to a digital future makes that inevitable. The destination may still be some way off. But we need to be thinking about the journey right now.

The problem about planning this journey is that we're a bit like the airline passengers affected by the recent Icelandic ash cloud. We know where we're going. But we're not quite sure when we might arrive. And not quite sure what route we'll take. Or, indeed, what shape we'll be in when we get there.

The destination is clear: the fully digital on-demand world, where everything is available to everyone wherever they are and whenever they want it.

In line with its public purposes, the BBC has used its scale to help the journey towards this destination - for example through the excellent iPlayer; a move to reach a wider audience through a different platform.

But the ultimate time of arrival is hard to predict. Audiences still have a very healthy appetite for the traditional ways of doing things. The general election, for example, was still very much a traditional "TV election."

Of course, at present the BBC's services naturally straddle linear and online, as they reflect this blend of audience behaviours during the transition. But this will not always be so.

And, just to add a further complication, the time of arrival varies from medium to medium, with different timelines, for example, for television and for radio.

So what we need is a strategy that identifies key decision points during those journeys, as part of our role in reviewing the pattern of BBC services and overall boundaries.

And we need to acknowledge that the Director General's drive to increase investment in content - which the Trust supports - means some tough decisions on platform investment are coming down the line.

Where television is concerned, the first decision point is obvious. It's the completion of digital switchover in 2012. That moment, when the viewing population is fully digital, will be the trigger for the BBC to re-examine its portfolio of television channels.

That will be the time to look at the balance between channels. And to look at whether the hours of broadcast within individual channels should be changed.

There's a second big potential decision point for BBC television - but it's impossible to say exactly when this will be reached. This is the point at which on-demand viewing reaches 50% of total viewing, when we may well need to look again at the emphasis we give to scheduled programming.

Where radio is concerned, the markers on the journey to digital are much less clear.

Digital take-up by radio audiences is proving much slower than by television audiences (even though they are often, of course, the same people).

There are lots of factors at play here. Digital radio reception is problematic in cars. There are question marks over DAB as the key digital radio platform. There is no date fixed for when everyone in the UK will be able to receive DAB signals. And how the full rollout of DAB will be paid for remains unclear.

Progress will inevitably continue to be slow until we have greater certainty over all these things. And this is outside the BBC's control.

The BBC has a duty to promote digital radio and it's a duty the Trust takes seriously. But there are issues where the Government will need to lead and on which commercial radio will need to engage fully. Digital radio is not a problem the BBC can solve on its own.

Let me turn now to the second of the Trust's three core areas in setting the BBC course.

This is the notion of boundaries.

Now, I have to say that the idea of setting clearer boundaries for the BBC is not universally popular. One strong strand of the feedback coming through the public consultation on the strategy review proposals is: what's all this about tighter boundaries for the BBC? We want the BBC to carry on doing everything it's doing now - and do more.

So let me explain why the Trust, which represents licence fee payers' interests, believes that, ultimately, it is in the interests of licence fee payers for the BBC to operate within tighter and better defined boundaries.

The overriding argument is about choice and quality.

Choice promotes competition and competition keeps the BBC on its toes, which benefits licence fee payers.

Choice also implies a diverse media - and we know that this is something BBC licence fee payers value highly.

There are not many licence fee payers whose sole media diet comes from the BBC. The vast majority of television viewers, for example, enjoy not just BBC television but also ITV, Channel 4 and Five, and many have subscriptions to Sky as well.

These viewers would rightly be upset if the BBC did anything that forced any of those players out of the market - or stopped new providers, whose programmes they might also enjoy, from entering the market.

So by keeping the BBC within certain boundaries, the Trust is protecting the interests of licence fee payers as a whole.

And the idea of tighter boundaries should not be interpreted as the Trust wanting the BBC to retreat from serving particular audience groups. The BBC cannot fulfil its public purposes unless it reaches the overwhelming majority of the population. For the Trust, it is a given that the BBC must maintain a very broad reach. This is not just about making sure everyone gets value from the licence fee. The BBC's public service role requires it to engage with the whole population; it can only do that if they are watching and listening to us.

However, it must be right, and especially so when money is tight, that the BBC concentrates its resources on what it does best; commissioning and producing high quality content that goes to the very heart of its public service mission. It may well mean that the BBC needs to get better at making its portfolio of individual services distinct from one another, rather than trying to make each service appeal to the broadest possible audiences.

This is where we strongly support the priorities set out in the Director-General's strategy review proposals:

- world class journalism
- inspiring knowledge, music and culture
- ambitious UK comedy and drama
- outstanding children's content
- and events that bring communities and the nation together.

And this is where quality comes in. If the BBC attempts to spread its resources too thinly the quality of content will take a hit and licence fee payers will lose out.

Mark Thompson called his strategy document "Putting Quality First". And we support him in his view that in the longer term the only way to put quality first is likely to be doing fewer things better.

If you take the BBC's online service as an example: in the Trust review of bbc.co.uk that we published in 2008, we identified a need for a much clearer editorial focus. And much of what BBC management is now proposing follows that line of a tighter editorial focus on the public service mission.

We'll have more to say about BBC Online in our initial conclusions.

But what I can say here is that we support the view that online is a vital part of the BBC's future. It is both a new way to reach people, and also a way of delivering new and enormously valuable content and services that help the BBC fulfil its public purposes.

A couple of examples: Democracy Live, the new BBC site offering live and on demand coverage of the UK's national political institutions and the European Parliament - and much much more, about politics and politicians. It's a remarkable resource, and its public value is self-evident.

Or look at the BBC website developed in partnership with Tate Britain to support the current Henry Moore exhibition. Called "Henry Moore at the BBC", it's another wonderful resource - half a century of BBC television coverage of the great sculptor and his work, brought out of the BBC archive and made available for ever, for everyone, for free.

I think it's fair to say that these are two websites that only the BBC would produce.

So, of course tighter boundaries around the BBC will help the rest of the industry, and that's a good thing in itself as well as producing potential benefits for licence fee payers.

But tighter boundaries also mean a shift of energy and resources within the BBC - a concentrated focus on making sure that the heartland public service content the BBC commissions and produces is of the highest quality. And this brings clear benefits for licence fee payers.

High quality distinctive content is itself a boundary the BBC must work within.

Which brings us to the third of the core areas the Trust is considering in setting the BBC course: behaviours.

This is really important. Behaviour matters. Behaviour is the clearest index of values. Values are what you interpret, but behaviours are what you see. It's no use the BBC just proclaiming its values. It has to live those values and the proof that it is living those values lies in the way the BBC behaves.

We realised the full importance of this when we came to analyse the public and industry response to one of the questions we asked Mark and his team to answer in their strategic review.

The question we asked was: Where if necessary could the BBC's focus be narrowed and its scale reduced?

It was the right question to ask. But the answer we got back from our consultation was rather different from what we'd expected.

What the public and the wider industry have been telling us is that their concerns are not so much about the size of the BBC or about specific services but about the way the BBC behaves.

To the public the BBC can appear spendthrift when it is unclear how the BBC is using the money the public gives it. This underlines the need for much greater financial control and transparency by the BBC.

To the wider media industry the BBC can seem overlarge, or chronically prone to mission creep, when its content isn't sufficiently distinctive from what others in the market are offering; or when it fails to give notice about its future plans; or when it doesn't consult competitors properly.

These are not size issues but behavioural issues.

The answer lies in much more openness by the BBC. Openness about how it's spending the public's money, openness about its plans, and openness about the way it approaches its collaborations with the wider industry.

This is an agenda that the Trust has consistently pushed hard on during its three-and-a-half year lifespan and I'm glad to say that there are clear indications that the BBC is taking on board the need to do things differently.

Last week the Trust gave its approval for Project Canvas, which bridges the gap between the internet and the domestic television.

The project is a collaboration between the BBC and other providers. In this case the BBC's partners are ITV, Channel 4 and Five, BT, Talk Talk and Arqiva. It follows in the footsteps of other successful open platform collaborations that the BBC has had a hand in: notably Freeview and Freesat.

Right from the start, the Trust has been clear that this project had to be developed in as open a way as possible. As a result, the Trust has pushed for the project to publish a set of openly available technical standards.

Any manufacturer can use them to produce the set-top boxes that will link televisions to the internet. Any internet service provider can use the new platform. And, crucially, any programme maker or content provider who meets some basic editorial and technical standards can have access to the Canvas boxes to deliver their content.

The result is a new platform, open to any existing licensed content provider, and a platform that will continue to be open, enabling entirely new players to enter this marketplace should they wish. Canvas opens up the real possibility of new low-cost content providers being able to bring their output to your living room.

It may well mean new competition for the BBC from other content providers. But as I've already made clear that's a good thing too. The BBC is a strong and

confident organisation. It does not fear competition, but recognises that strong competition stimulates creativity.

So I believe that the BBC's participation in Project Canvas is firm evidence of the BBC's commitment to open partnerships and that the Trust can make sure this approach works for the industry and for licence fee payers. But the BBC should not be judged on what it says, but what it does and the way it behaves.

I want to move on to that very point. Because although we've said that the Trust is broadly happy with the general direction of travel of Mark's strategic review proposals, we do think that there are areas where the BBC could and should do more, particularly in openness and value for money.

Due to the way it is funded the BBC has a direct responsibility to licence fee payers who are effectively its shareholders. This goes beyond the obligations that commercial companies have towards investors and is different from the relationship that other parts of the public sector have with tax payers. The Charter charges the Trust with representing licence fee payers' interests; making sure the BBC delivers great programmes which inform and educate, but also delight them.

But it also means ensuring that the licence fee is spent wisely - without waste or unnecessary expenditure. Put simply, that the BBC is as efficient as possible. In holding the BBC executive to account for this we are ensuring that it builds and retains public confidence by delivering value for money and being as open and transparent as possible.

Our audience research tells us this is what the public expects us to do.

So today I can announce a number of initiatives that address these concerns.

Firstly: on **financial responsibility**.

As I said at the start, the context in which we are making our decisions about the future direction of the BBC is one of severe economic austerity. This affects the public sector as a whole; it means continuing pressure on commercial media companies, especially those providing public service content. And it also directly affects the pockets of licence fee payers themselves.

Against this background I want to give a pledge to all licence fee payers today that when we come to the next licence fee negotiations the Trust will enter those talks representing licence fee payers' interests alone.

We will not seek to maximise the BBC's take from the licence fee. We will seek only what is necessary for the BBC to fulfil its public purposes as set out in the Charter.

In the meantime the BBC needs to scrutinise its budgets with as much rigour as the rest of the public sector to see what scope there may be for saving money. The Trust is asking the DG to conduct a rapid exercise and to report back immediately after the summer break, so that we can assure ourselves that we are doing everything possible to remove slack in the organisation.

This takes me to the second area where we want to see the BBC doing more: the area of **efficiency**.

The Trust has pushed for improved efficiency at the BBC and good progress is being made as a result.

The current efficiency programme is designed to produce year-on-year savings of 3% in the five years to 2013 - £1.9 billion of savings altogether, which are going back into new projects and new content. In some areas, like news, this means taking 25% out of existing budgets over five years, money which can then be re-invested in an improved service.

And to provide a bit of context, the BBC's own figures suggest that overheads as a proportion of licence fee have reduced from 24 per cent in 1999 to 12 per cent today. However, we welcome the fact that the Executive has recognised in the strategy proposals that they can make further savings to bring overheads down to 9p in the pound.

The pressure on efficiencies needs to be rigorous and continuous, so we will therefore ask the National Audit Office if they would be willing to conduct further work for us on the overall efficiency of the whole BBC and whether further changes and improvements are necessary.

The NAO has a great deal of experience in finding ways to maximise public sector efficiency and we want the BBC to benefit from that.

We will also consider appointing the NAO as our financial auditors, if they are willing to bid for the work, when KPMG's current contract expires.

But in any consideration of a fuller NAO role, we will want to ensure this does not inadvertently lead to inappropriate involvement in the BBC by either Parliament or Government.

The third area where we are asking the BBC to go the extra mile is in **increased transparency** over how the BBC spends the public's money. Our own consultation and research tells us that, while overall the licence fee is seen by

nearly 60 per cent of the public as good value - a figure which has shown a welcome rise in recent years - there is concern about whether it is being used effectively in relation to senior manager and talent pay.

In response to Trust challenge, the Executive has already made good headway on this. But we think the BBC can do more. So to provide greater transparency for licence fee payers, we are asking the Executive to publish details of all public service senior managers' pay, without exception. This will be set out in bands, alongside a clear costed summary of the overall structure of grades and salaries.

In addition, we want to see greater transparency about what the BBC pays its top on-air talent. We know licence fee payers appreciate on air talent, but this must not come at any cost.

The BBC has already committed itself to capping the amount it spends on talent as a whole and reducing the amount it spends on top talent.

And I'm sure you're aware of the recent cases where the BBC has chosen to opt out of a bidding war with a commercial broadcaster, turning the loss of particular individuals into opportunities to bring on new home-grown talent.

That is exactly what the Trust has been asking for.

But now we want the BBC to go further.

We are asking for publication of presenters' and other top talent pay in the narrower bands recommended by the Culture, Media and Sport Select Committee, including the details of the number of people in each band. This will significantly increase the degree of transparency in this area.

The information will generally be presented in aggregate - that is, anonymously. However, I do believe we should release the names of those who receive the biggest incomes from the BBC.

You might try to characterise this move as a change of mind. It's true that we've been listening carefully to licence fee payers and we believe that this is one of a small number of areas where we need to recapture public confidence. On balance, the BBC should be clearer about who the highest paid individuals are, both on screen and off.

We recognise this is not a simple process. Often stars work for independent producers and the terms of trade currently mean we can't have sight of their fees. Some existing BBC contracts have confidentiality clauses that would prevent immediate publication of salaries. But we are challenging the Director General to work urgently on a plan to deliver greater openness only about

those who are at the top end of the talent pay scale. This does not affect most of those people who are on our screens day in, day out, night time, on air. It is only at the very top, where we believe there is continuing public concern and a simple need to be clearer about who is paid the most. It is not even a question of divulging, we believe, individual salaries. The Trust is giving a clear signal that it wants to see a change in this area but equally that it understands that this is a difficult challenge.

The fourth area where the Trust wants to see tougher action by the BBC is on **pay**.

We recognise that levels of top pay in the BBC is an issue of concern for the public who pay for the BBC and also for those who work within the organisation.

Following challenge from the Trust it was agreed in October last year that the total pay bill for senior BBC management will be cut by 25% over three years.

At that point we also said that the pay of the BBC's executive directors and members of the BBC Direction Group, already frozen for one year, will be frozen for a further three years, making a four-year freeze in all and meaning the average executive directors' pay will have fallen by over 14% in real terms. In addition over the past couple of weeks we have seen the BBC take a firm line on this year's pay award and pensions.

So, first of all, we have asked the Director General and he has agreed to tighten the timetable for the 25% reduction in the senior management pay bill. We would want to see this achieved not in three years, but in 18 months.

We would expect to have in place by the end of this period a different structure for senior management and pay.

As we make this journey to a new structure, the director-general and the Executive Board have each volunteered that for this year and next they will forego a month's salary, working twelve months for eleven months' pay. The Trust welcomes this and I can also announce that, in parallel, Trustees will take an 8.3 per cent pay cut for two years.

And that's right that the Trust and Executive Board show leadership and recognise the climate in which we are operating. Not just for the licence-fee-paying public, but also for BBC staff who have had consecutive years of very limited pay increases and bonus freezes, and who will be affected by the BBC pension reforms announced yesterday as well as other tax increases revealed in last week's emergency budget.

There are clear signs that things are moving in the right direction on the pay agenda - as of the end of May, the number of senior managers has been reduced by 24 leading to £7.76 million off the pay bill.

And this is alongside a drop in the amount that the BBC pays on air talent.

In conclusion, let me outline the vision that we have for the BBC's future.

The Trust exists to get the best out of the BBC for licence fee payers. So we strongly support the Director General's commitment to high quality content that audiences love, whether that be Doctor Who, the recent election coverage or Wimbledon.

But we think there is further to go. We want to see a relentless drive to fill the whole BBC with a clear sense of a public service mission.

As I said at the beginning, the BBC has to recognise the responsibilities that come with being a publicly funded body in turbulent economic times and also recognise its own potential to work with industry partners to contribute to the reshaping of the UK economy.

We must be vigilant in resisting any temptation to act like an international commercial organisation, either in terms of our salary policies or our priorities. We must have a better relationship with the industry, building trust and working collaboratively in the transition to digital.

We think there is further to go in delivering demonstrably better value for money by the BBC; in making more of the BBC's spending decisions open and transparent.

Above all, the BBC must focus its energies on what really matters: commissioning and producing the highest quality new ideas. Ideas that are significantly different from what other broadcasters provide, across the full range of BBC programming. Ideas that don't necessarily mean seeking the biggest audience for each and every programme.

These are bold and ambitious goals. But by reaching them, and by doing so in a way that displays acute and continuing concern about value for money, the BBC will make the case for continued public funding with unanswerable force.

Thank you for listening.