

The BBC's preparedness for digital switchover

Review by the Comptroller and Auditor General presented to the BBC Trust's Finance and Strategy Committee

The BBC's preparedness for digital switchover

BBC Trust response to the National Audit Office Value for Money study

It is the responsibility of the BBC Trust, under the Royal Charter, to ensure that value for money is achieved by the BBC through its spending of the licence fee.

In order to fulfil this responsibility, the Trust commissions and publishes a series of independent value for money reviews each year after discussing its programme with the Comptroller and Auditor General – the head of the National Audit Office (NAO). The reviews are undertaken by the NAO or other external agencies.

This study, commissioned by the Trust's Finance & Strategy Committee on behalf of the Trust and undertaken by the NAO, looks at the BBC's preparations for digital switchover and, in particular, at how it plans to meet its obligations set out under the Royal Charter and Agreement.

Whilst Digital Switchover is Government policy, one of the BBC's stated public purposes is helping to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television.

The switchover process itself is a singularly complicated project spanning a number of years, which began in the Copeland area in October 2007 and is scheduled to end in Ulster and Tyne Tees in 2012. The Trust has commissioned this study to ensure that the BBC is well placed, in terms of its governance arrangements; its relationship with its strategic partners and major contractors; its infrastructure

and communications strategy, to meet the BBC's commitment to the licence fee payer to deliver a UK wide network of digital television.

The Trust thanks the NAO for undertaking this review and fully accepts the report's conclusions and recommendations.

The Trust has discussed the NAO's findings and recommendations with the BBC Executive and considered their response, which is published in this document. The Trust is content that the Executive's actions are an appropriate response to the NAO's findings.

Governance

The Trust notes the NAO's conclusion that the BBC now has governance arrangements for the project which give management oversight of all its switchover work, and accepts the recommendation that the arrangements could be strengthened further with independent representation on the project governance board. The Trust endorses the response from the BBC Executive to this recommendation, which is to involve a Non-executive Director with appropriate expertise.

Securing VFM

As stated in the report, the Trust's focus to date has been to ensure any licence fee funding for marketing and communications and the Digital Switchover Help Scheme, including any associated borrowing facility, is wholly ring-fenced to protect programmes and services. The NAO acknowledges that this protection of the licence fee has been largely achieved. The Trust and Management must now turn their attention to ensuring the operational aspects of the scheme are both robust and value for money. Management have stated in their response their intention to bolster the programme of evaluation post Copeland and the Trust will monitor Management's progress as part of the regular digital switchover reports it receives.

In addition, the Trust will commission a review on the Digital Switchover Help Scheme around 2009 to monitor the operational value for money of the scheme.

Digital Switchover Help Scheme Procurement

The Trust will also put in place performance indicators for the Digital Switchover Help Scheme, once the BBC has had chance to digest the learnings following the Copeland switchover and the contractor is in place to deliver the national help scheme. Whilst we acknowledge that not all lessons from Copeland will be known in time to incorporate them into the national contract, we agree with management that there is a balance to be struck in terms of waiting for all the data to be available and the need to allow the successful bidder maximum implementation time before the help scheme eligibility period opens for the Borders switchover (planned for Quarter 4 of 2008). The Trust will however ensure that where possible the Copeland lessons are taken account of in the contract.

The attached response from BBC Management outlines what action is being taken to address the full set of recommendations made by the NAO. It has been considered and approved by the Trust's Finance & Strategy Committee on behalf of the Trust.

BBC Trust
November 2007

The BBC's preparedness for digital switchover

BBC Executive Response to the National Audit Office Value for Money study

The BBC Executive welcomes this review, which examined how the BBC is preparing for digital switchover. This is a uniquely complex project, in which the BBC has taken a leading role. This report recognises that the BBC is in good shape to deliver its obligations.

In particular, the NAO has acknowledged that:

“The BBC has put in place comprehensive programme management for its switchover programme” which “give it visibility of its full switchover activities through its Switchover Governance Board.”

“The contract (that the BBC signed with Arqiva to procure high-powered digital services) contains clauses to support good value for money over its life.” “The contract for digital transmission services gives Arqiva incentives to deliver on time.”

“In contracting with third parties to deliver its switchover obligations the BBC has made good progress in securing transmission contracts for television services during and after switchover”, and that it “has introduced arrangements to monitor progress made by its Contractors.”

“The BBC's focus to date has been on protecting its licence fee income available for programme-making and it has largely achieved this goal”.

Responding to the recommendations of the NAO

The NAO has also identified three areas in which it considers the BBC should act further to protect its position. The Executive has carefully considered these recommendations and is already taking steps to address them.

a Introducing a level of independent challenge to its management of its digital switchover programme

The Executive considers that the presence of Non-Executives on its Executive Board together with the scrutiny of the BBC Trust means that it is now subject to arrangements which ensure a very high level of independent challenge. The digital switchover programme is scrutinised by both Boards regularly through quarterly updates and discussions. However, the Executive agrees that the switchover programme is a unique and complex project, which involves a variety of internal and external stakeholders. In this context, it believes it might be useful to ask a suitably experienced Non-Executive Director of the BBC to take a specific interest in the switchover programme, and to bring their expertise and analysis to the overall governance of the programme.

b **Setting in place arrangements for measuring the value for money of the £200 million investment in Digital UK**

The BBC strives to ensure that the money it spends on behalf of licence fee payers is used as efficiently as possible. It has always taken account of the potential risk that, because it has been ring-fenced, the money set aside for Digital UK's marketing campaign and operational costs could be used up without being subject to the same rigorous analysis as other BBC expenditure.

Therefore, since the beginning of the project, the Executive implemented a series of measures in order to control the risk mentioned above and ensure that Digital UK's communications spend delivers full value for money including:

- discussion and ongoing assessment of Digital UK's marketing strategy and activities as part of the standing agenda of the quarterly Digital UK Marcomms and Finance Committee (chaired by the BBC);
- regular independent econometric evaluation of the efficiency of marketing spend and independent econometric evaluation of the effectiveness of Digital UK's spend; and
- setting aside a reserve of £20m across the period of switchover, held separately by the BBC itself.

The Executive therefore believes the right actions have been taken so far.

Once the flagship switchover project in the Copeland area is completed, the whole programme will be subject to thorough analysis and evaluation by independent experts. This will include analysis of the communications workstream in the context of a real-life switchover campaign.

At this point, the Executive intends to bolster its ongoing programme of evaluation, taking on the lessons from Copeland in advance of national roll-out and significant expenditures.

- From February 2008, the regular programme of independent audits will be extended to assess efficiency and effectiveness of the different communications activities: ad production, direct Marketing, website, call centre and Vulnerable Outreach programme, including usability studies and mystery shopping where appropriate.
- Findings will be presented jointly to Digital UK and the Executive by independent third parties at extended quarterly Marcomms and Finance Committee meetings. Twice a year, the BBC will commission independent experts to review all audited activities and the overall strategy.
- The Marcomms and Finance Committee will keep under review the level of spending necessary to achieve the goals of the communications programme.

- c Incorporating lessons from the Copeland help scheme into the procurement of the national Digital Switchover Help Scheme to optimise risk transfer while protecting value for money

The Executive agrees that it is essential to take any necessary steps to ensure that the help schemes deliver value for money. It is therefore keen to learn and apply all the lessons it can from the operation of the small-scale Copeland help scheme. In order to do so, pertinent data from the Copeland scheme will be provided to the Bidders and incorporated into the Main Scheme procurement on a weekly basis. In addition to this, the Procurement team and all bidders will have the opportunity to visit the Copeland operation. The Executive will continue to review all lessons being learnt in Copeland up to Main Scheme contract signature, planned for February 2008. However, it believes that the relevance of the lessons learned from Copeland for the Main Scheme will be quite limited, as it will not address the significant complexities unique to the national roll out such as scale and geographical overlaps as well as multiple and concurrent switchovers. The Executive considers as more important to the success of the Borders switchover, planned for Quarter 4 of 2008, that the successful Service Provider is allowed maximum implementation time prior to the opening of the Help Scheme Eligibility Period (8 months prior to switchover). A contract award date any later than February 2008 may serve to undermine this.

The Executive fully agrees that digital switchover is a very complex project, which carries significant risks, but also believes it will bring very significant benefits to licence fee payers. This is why the BBC has agreed to take a leading role in making it happen. The Executive is keen to continue to develop a very thorough risk management approach and welcomes the recognition by the National Audit Office that the BBC is well prepared to achieving this task.

The BBC's preparedness for digital switchover



This report has been prepared under clause 79(3) of the Agreement between the Secretary of State for Culture, Media and Sport and the BBC dated July 2006.

John Bourn
Comptroller and Auditor General
National Audit Office

The National Audit Office
study team consisted of:

Ashley McDougall, John Hoadly, Peter Jones
and Gareth Tuck, under the direction of
Keith Hawkswell

This report can be found on the National Audit
Office web site at www.nao.org.uk

**For further information about the
National Audit Office please contact:**

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

© National Audit Office 2007

CONTENTS

KEY FACTS	4
SUMMARY	6
MAIN REPORT	
The BBC has obligations for digital switchover which it is seeking to meet through third parties	9
Governance arrangements for the BBC's switchover programme	10
Delivering television services through broadcast infrastructure	10
The contract for high-powered television services	11
Procuring existing television services	15
Procuring coding and multiplexing services	16
Informing viewers	17
The BBC is funding all Digital UK's marketing communications expenditure	17
Delivering the Digital Switchover Help Scheme	20
APPENDIX	
Methodology	24
GLOSSARY	25

KEY FACTS

Key Facts about Digital Switchover

What is Digital Switchover?

Digital switchover is the programme to replace the UK's existing analogue television network with a fully digital network by the end of 2012. This is intended to provide the public service channels in digital form to 98.5 per cent of UK households, the same proportion of households that can currently receive analogue television. As the new digital transmission network is put in place, analogue television signals will be switched off region by region. Only households which have 'gone digital' (i.e. watch TV through digital equipment, whether terrestrial, satellite, digital cable or broadband) will be able to watch broadcast television.

What is the difference between analogue and digital television?

Terrestrial television is transmitted using radio waves, which form part of the electromagnetic spectrum. These waves can carry both analogue and digital television signals. Analogue transmission converts pictures and sounds into continuous radio waves, and analogue receiving equipment converts these waves back into pictures and sounds. Digital transmission converts pictures into binary code which is transmitted as a stream of zeros and ones, and digital receiving equipment converts this code into pictures and sounds. As digital code takes up less space (or bandwidth) than analogue information several digital channels can fit into the bandwidth needed to transmit one analogue channel, so improving spectrum efficiency.

How is digital switchover being managed?

The core partners in the Digital Switchover Programme are:

- Government: the Department for Culture, Media and Sport and the Department for Business Enterprise and Regulatory Reform have joint responsibility for the policy of digital switchover. They have agreed with the BBC that the BBC should fund Digital UK's public communications campaign to ensure UK viewers are aware of switchover, and manage the Digital Switchover Help Scheme. The Government has therefore ring-fenced within the BBC licence fee settlement £200 million to fund Digital UK's communications activities and £603 million for the delivery of the Help Scheme;
- Digital UK: an independent, not-for-profit organisation established in April 2005 at the request of Government to lead the implementation of switchover by coordinating the switchover activities of broadcasters and transmission companies. Digital UK is a private company limited by guarantee and owned by the BBC, ITV Network Ltd, Channel Four TV Corp, Channel 5 Broadcasting Ltd, S4C, Teletext Ltd, SDN Ltd and National Grid Wireless. The BBC has 56 per cent of the votes cast by Digital UK's members; and
- Ofcom: the communications regulator, responsible for licensing broadcasters and spectrum management.

Why are we switching to digital television?

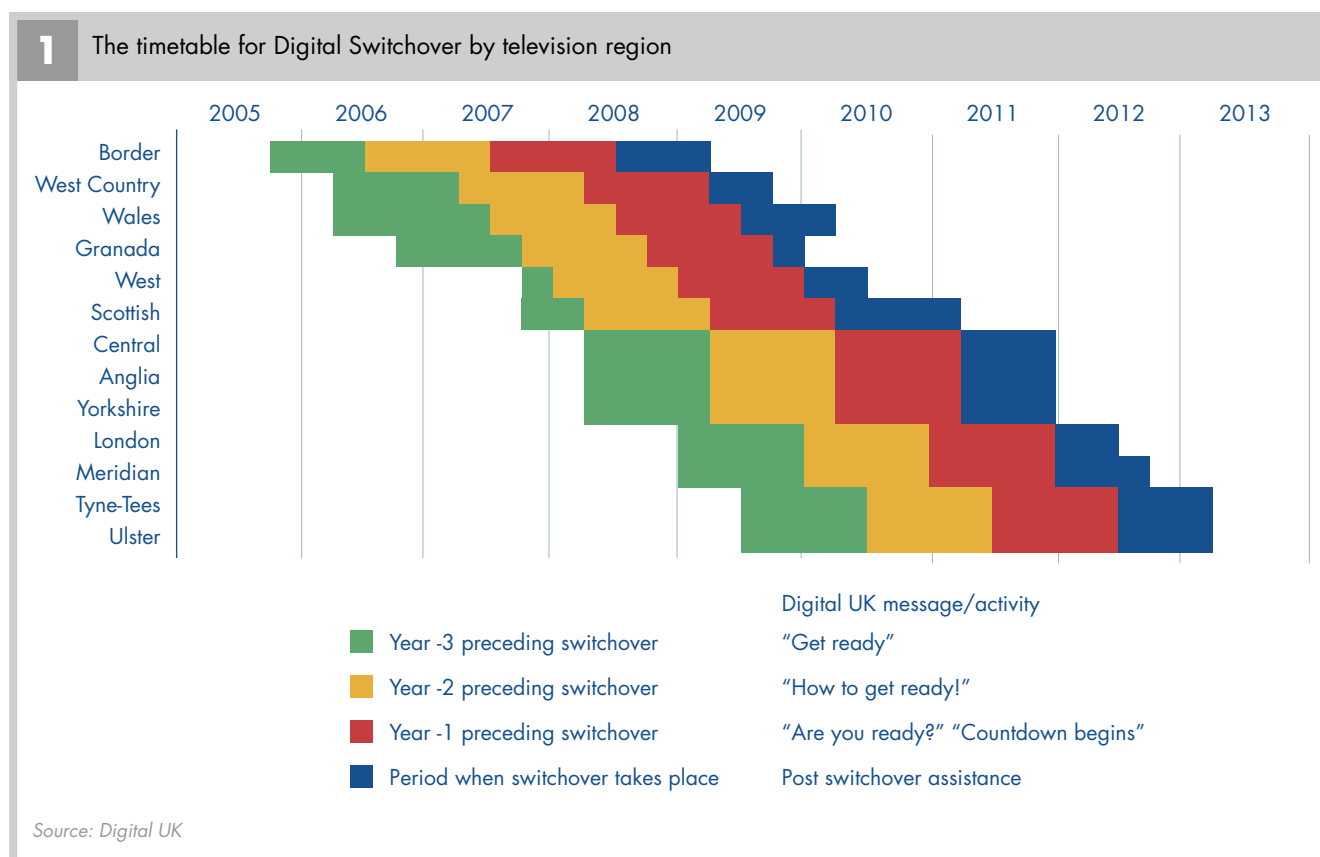
The Government expects digital switchover to have a positive impact through benefits:

- to the UK economy and consumers from the scope for new services through greater spectrum efficiency;
- to consumers from extending and improving the digital terrestrial network to substantially match the existing analogue terrestrial television coverage and thus extending choice of free-to-air television services; and
- to some public service broadcasters from efficiencies and long-term cost savings on terrestrial transmission.

The Government therefore made digital switchover a condition of the BBC's Charter and its associated Framework Agreement and Ofcom has incorporated the requirement to switch to digital only transmission into the operating licences issued to terrestrial broadcasters. Once the switch to digital television is complete the vacated spectrum can be sold by the Government.

When is digital switchover happening?

The switchover flagship area is Copeland in Cumbria, which is due to switch over in October-November 2007. Switchover will then be implemented across the UK, television region by television region, from 2008 to 2012. The time-table for all regions is shown in [Figure 1](#). The actual date of switchover for viewers depends on the conversion date for the transmitter from which they receive their television signals.



SUMMARY

1 This report looks at the BBC's preparations for digital switchover and, in particular, at how it plans to meet its obligations under switchover. These are to:

- broadcast its television programmes to 98.5 per cent of the population using high-powered digital signals;
- inform viewers about digital switchover; and
- procure and deliver the digital switchover help scheme, as specified by Government.

2 The obligations will largely be delivered by third parties, and the BBC is seeking to contract for services while protecting its own financial position.

3 Our main findings are as follows:

On the BBC's governance of its digital switchover programme

i The BBC has established arrangements which give it visibility of its full switchover activities through its Switchover Governance Board. The BBC coordinated its strands at working level from December 2005 which the BBC considered sufficient given the low levels of expenditure at that time. However, it was not until May 2007, five months after the licence fee settlement was agreed, that the BBC coordinated the governance of its separate but linked workstreams through the Switchover Governance Board. The Board does not have any independent contributors to balance the weight of BBC Executive Directors on the Board who are also responsible for individual strands of the programme.

On the BBC's contracting for digital transmission services and broadcasting infrastructure

- ii** The BBC has procured high-powered digital services from Arqiva through a competitively-let contract worth approximately £1.8 billion over 25 years (including inflation). The contract contains clauses to support good value for money over its life. The BBC will seek to maintain its contractual terms with Arqiva in the event that Arqiva's parent company – Macquarie – is successful in its proposed merger with Arqiva's competitor, National Grid Wireless.
- iii** Arqiva bears the financial risk of any delays caused by it in re-engineering the network of 1,154 transmitters to broadcast digital signals. Other delays caused by third parties (other than Arqiva's sub-contractors) that could affect the overall switchover timetable, and force majeure events such as adverse weather conditions (which have already used up some of the available time contingency at an early stage in the programme) are subject to various cost-sharing mechanisms with the BBC.
- iv** On current timetables there is a risk that once France has achieved digital switchover, at present scheduled for November 2011, there may be interference with the current digital terrestrial signal in parts of southern England as a consequence of high-powered digital transmissions from France. Ofcom are leading negotiations with the French regulators to coordinate programmes and minimise this risk. Any decision to bring forward the digital switchover timetable, for example to avoid such signal degradation, would result in some additional costs for the BBC. The BBC considers that changes to the timetable are unlikely but in this event would seek compensation for its additional costs from the Government.

- v The BBC has extended its existing contract with National Grid Wireless to transmit analogue signals during the transition to digital switchover. It has yet to agree contracts for the continued transmission of existing digital terrestrial services, for which the current low powered signals cannot give the geographical coverage required.
- vi The BBC has extended its existing framework contract for technology services with Siemens, negotiated in September 2004, to upgrade its ability to distribute digital signals to the transmission network until 2015 at a cost of £104 million, but this contract extension does not contain as strong incentives as the Arqiva contract.
- x The BBC has limited its financial exposure for the cost of the digital switchover help scheme to the ring-fenced £603 million and in the event the contract were likely to cost more the BBC could exit the scheme, unless additional public money were provided.
- xi The BBC has procured from Capita for around £1 million a contract for the help scheme in the Copeland flagship switchover area. The BBC Trust has not yet set performance indicators to measure the value for money of the operation of the help scheme but plans to do so after the Copeland flagship switchover help scheme, which is due to end in December 2007. The BBC accepts that it will not be able to learn all the lessons from the Copeland scheme and still meet the timetable for the national help scheme procurement, which has already slipped by two months. Procurement of the national help scheme is now due to be completed in February 2008 but as the Copeland flagship scheme will not be fully evaluated until February 2008 not all the lessons from Copeland will be reflected in the procurement exercise. The BBC, while recognising that there is a balance to be struck, believes it is more important to meet the procurement timetable.

On the BBC informing viewers

- vii The BBC has received £200 million of ring-fenced funds through the current licence fee settlement for a marketing programme for digital switchover, which will be run by Digital UK and which the BBC is obliged to fund. The BBC considers that if Digital UK's campaign were not successful, additional funding would have to be found but that the BBC could not fund any additional expenditure from its own resources.
- viii The BBC-chaired Digital UK Marketing and Communications Finance sub-committee exercises financial control over the BBC's investment in Digital UK. The BBC and Digital UK jointly set effectiveness measures for Digital UK, but the BBC has not yet determined its own criteria for what represents good value for money from its funding of Digital UK, even though Digital UK's marketing strategy is fully financed by the BBC.
- xii The time it took to finalise the help scheme arrangements with Government, resolve issues related to the governance arrangements and access to data and settle the terms of the options to be offered under the scheme increased the risk that the Copeland help scheme will not be able to support the installation of digital equipment in time for switchover for all eligible people who seek assistance. Initial take-up of the scheme has been lower than expected but it is not clear why. While all eligible people have been informed of their help scheme options, there remains a risk that late applicants could create a level of demand for assistance that would be too high for the scheme to meet within the time available before switchover is completed in Copeland. In that event, some people eligible for support in receiving digital television services would be left without any access to television until such equipment and support was provided.

On procuring and operating the Digital Switchover Help Scheme

- ix The BBC agreed to procure and deliver a help scheme for certain categories of the population the Government had decided could receive assistance with digital switchover. The Government ring-fenced £603 million for this purpose in the January 2007 licence fee settlement to 2012-13. The BBC is not responsible for policy decisions on the help scheme, for example the eligibility or the assistance available. These decisions are the responsibility of Government. The BBC is responsible for the implementation of those policy decisions through the Digital Switchover Help Scheme.

Conclusion

4 The BBC has now put in place governance arrangements for its switchover programme, and while these arrangements can be strengthened they do give the BBC management oversight of all its switchover work. The BBC's focus to date has been on protecting its licence fee income available for programme-making and it has largely achieved this goal through ring-fencing of its funding commitments for marketing and the help scheme but there has been less emphasis on the cost-effectiveness of expenditure on marketing. In contracting with third parties to deliver its switchover obligations the BBC has made good progress in securing transmission contracts for television services during and after switchover but it will need to take further action to secure value for money in its funding of Digital UK's communications campaign and procurement of the Digital Switchover Help Scheme.

Recommendations

5 Key risks that need to be managed for the successful delivery of the BBC's digital switchover objectives are set out in boxes at the end of each section of this report. Within these risks there are three areas in particular in which we consider the BBC should act to protect its position:

- a** **Introducing a level of independent challenge to its management of its digital switchover programme.** The BBC now has effective oversight of the three strands of its programme through its Switchover Governance Board. While the representation on the Board offers benefits through continuity of key personnel, the BBC needs to introduce a challenge element into this process to avoid the Board becoming a 'rubber-stamping' co-ordinating group and to maximise the benefits for the BBC of having such a Board.
- b** **Setting in place arrangements for measuring the value for money of the BBC's £200 million funding of Digital UK.** All Digital UK member organisations have an interest in the success of Digital UK's marketing campaign. But as the sole funder for Digital UK's communications budget, the BBC, unlike the other parties, has a direct financial interest in the way in which that money is spent. The BBC needs clear criteria by which it can evaluate the value for money of its investment in Digital UK. The BBC Trust has recognised this point in the arrangements for the Digital Switchover Help Scheme where, although it will contract with a commercial partner to run the help scheme and deliver certain outputs, it has still accepted the need to set value for money performance indicators and review the operation of the help scheme.
- c** **Incorporating lessons from the Copeland help scheme into the procurement of the national Digital Switchover Help Scheme to optimise risk transfer while protecting value for money.** It is important for the value for money of the £600 million national help scheme that the BBC learns and applies all the lessons it can from the operation of the small-scale Copeland help scheme. The timing for this is difficult, given that the Copeland scheme will not be fully evaluated until February 2008 and the BBC seeks to issue the invitation to tender for the national scheme by December 2007. The BBC recognises that it will not be able to include all lessons learned from Copeland in the procurement of the national scheme. The BBC should go out of its way in Copeland to test the demand, installation and take-up variables that will influence the optimal cost of, and risk transfer in, the national Digital Switchover Help Scheme. The BBC Trust will need to satisfy itself that the risks to value for money of delaying the procurement and identifying all the lessons from Copeland outweigh the risks and potential cost implications of letting a contract in February 2008 without building in all the lessons of Copeland.

MAIN REPORT

6 The Government has set the policy goal of achieving full digital switchover by 2012, and the BBC has accepted certain Charter obligations relating to this goal. The aim of our review has been to assess, at an early stage in the programme, whether the BBC is well-positioned to meet its obligations by supporting the delivery of digital switchover while continuing to deliver its services to licence fee payers and protecting value for money. The BBC is accountable to the BBC Trust for the value for money of its expenditure under the licence fee. The review is part of a programme of value for money work agreed with the BBC Trust by the Comptroller and Auditor General, head of the National Audit Office, under an agreement¹ between the Secretary of State for Culture, Media and Sport and the BBC.

7 The Comptroller and Auditor General intends to report separately in 2008, under the National Audit Act 1983, on how well placed the Department for Culture, Media and Sport and the Department for Business, Enterprise and Regulatory Reform are to understand and manage the risks to the successful delivery of the digital switchover policy goal.

The BBC has obligations for digital switchover which it is seeking to meet through third parties

8 The BBC has accepted certain obligations for digital switchover (**Figure 2**) and has made arrangements for these obligations to be met, largely through third parties.

9 This report outlines the BBC's arrangements for overall governance of its switchover programme (paragraphs 11 to 14) and sets out how the BBC has prepared to meet its switchover obligations to:

- deliver digital television services (paragraphs 15 to 36);

- inform the public about switchover (paragraphs 37 to 49); and
- deliver the help scheme (paragraphs 50 to 63).

10 This report considers how well placed the BBC is to meet its switchover obligations. As the procurement of the national help scheme is still underway, it does not comment on the value for money of that procurement but rather focuses on how the BBC is managing the risks around delivering the Digital Switchover Help Scheme.

2 The BBC's obligations for digital switchover

To deliver digital television services

The BBC must deliver its principal TV services in digital form to substantially the same proportion of households (98.5 per cent) as it does in analogue form no later than 2012 and continue to provide analogue television services by terrestrial broadcasting in analogue form until the digital switchover date.

To inform viewers

The BBC must use all reasonable endeavours to ensure all viewers of any UK public TV services in analogue form are aware of digital switchover, its consequences for them, the reason for it and the timetable.

To deliver the Digital Switchover Help Scheme

The BBC will procure and administer the Digital Switchover Help Scheme.

Source: A 'Framework Agreement', under Article 49 of the BBC Royal Charter 2006, between the Secretary of State for Culture, Media and Sport and the BBC – Command 6872 dated July 2006, The Digital Switchover Help Scheme – A Scheme Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation, Cm 7118, 4 May 2007

¹ A 'Framework Agreement', under Article 49 of the BBC Royal Charter 2006, between the Secretary of State for Culture, Media and Sport and the BBC – Command 6872 dated July 2006.

Governance arrangements for the BBC's switchover programme

The BBC has put in place comprehensive programme management arrangements for its switchover programme

11 The BBC has three distinct strands to its preparations for digital switchover: delivering television services, informing viewers and delivering the help scheme. Each strand involves one or more projects of considerable size and importance for the BBC in meeting its obligations for digital switchover and has a BBC Executive Director as sponsor, accountable to the BBC Executive Board (Figure 3 on page 12). The BBC co-ordinated its strands at working level from December 2005 and in May 2007 established the Switchover Governance Board to co-ordinate:

- the implementation responsibilities of different BBC Directors; and
- the third parties contracted by the BBC to meet its obligations for digital switchover.

12 The Switchover Governance Board will report to the BBC Executive Board on a quarterly basis and produce an annual report for the Secretary of State for Culture, Media and Sport on its preparations for digital switchover as required by the BBC Charter and Agreement. The Board receives monthly summary reports from BBC workstream co-ordinators. By the point the Board was established, the BBC had been running the workstreams for over two years. It had also been negotiating with the Department of Culture, Media and Sport for over a year on the terms under which it would be prepared to operate the Digital Switchover Help Scheme. The Switchover Governance Board was established by the BBC once it had agreed to run the Digital Switchover Help Scheme and agreed to invest up to £200 million in Digital UK's programme of communications for 2007-08 to 2012-13, following the BBC licence fee settlement in January 2007.

13 The BBC controls 56 per cent of the voting rights of Digital UK and Digital UK is therefore a subsidiary of the BBC. The BBC is represented by a 'Member's Representative' at Members' Meetings, drawn from the BBC Executive Directors, and appoints two Non-Executive 'Representatives Directors' to Digital UK. The BBC also chairs Digital UK's Marketing and Communications Finance committee which authorises the release of funds to Digital UK in line with the annual communications budget approved by Digital UK's Members and the BBC-approved communications strategy.

There is limited independent challenge in the governance arrangements to balance the presence of the same BBC Executives in differing roles

14 While the governance arrangements reflect the programme strands they seek to co-ordinate, some factors create a degree of risk. For example, although the presence of the same Executive Director sponsors at different levels within the arrangements, including the Switchover Governance Board, gives continuity, the absence of an obvious independent challenge on the Switchover Governance Board may undermine the benefits of this continuity. The BBC Executive Board has ten Executive Directors and five Non-Executive Directors. No Non-Executive Directors are involved with the governance of the digital switchover programme, although they can scrutinise it at BBC Executive Board meetings (Figure 3). By contrast, the Government's Switchover Programme Group, which oversees the whole switchover programme, includes an experienced 'critical friend' with no stake in the programme. Similarly, the Digital UK Board is chaired by an independent broadcasting industry figure who, unlike all other Board members, does not represent any of the companies that established Digital UK.

Key risks to be managed

The presence of the same BBC Executive Directors at different levels of the switchover programme in different roles without an obvious independent challenge.

The need for the new Switchover Governance Board to be sufficiently well informed on risks within the complex delivery arrangements on a timely basis.

Delivering television services through broadcast infrastructure

15 The BBC's current analogue and low-powered digital transmission services are not capable of supporting the transmission of high-powered digital signals.² It therefore needed to procure this new service from an existing or new provider, while ensuring the continued availability of existing analogue and low-power digital signals to cover the period until high-powered digital services are available. This part of the report looks at the BBC's contracts for:

- a high-powered digital transmission service;
- extensions to existing analogue and low-powered digital transmission contracts; and
- facilities to prepare its channels for the transmission networks (coding and multiplexing).

² High powered digital signals are needed to give the required national coverage for digital switchover signals. Current low powered signals, for example those which broadcast BBC channels on Freeview, cannot give the geographical coverage required.

16 The BBC has regular meetings with contractors and receives regular reports containing risk-based information about the status of the digital transmission and coding and multiplexing projects. Together, these reports and meetings enable the BBC to monitor progress against the switchover programme timetable.

The contract for high-powered television services

The BBC ran a competitive procurement process to find a supplier to build and operate a new high powered digital transmission network

17 The transmission network sites used to broadcast terrestrial television are owned by two companies, Arqiva Ltd and National Grid Wireless Ltd. To allow both companies to offer a nation-wide transmission service, an agreement, required by Ofcom, exists whereby they must each offer access to their sites and facilities to anyone seeking to provide managed transmission services. In September 2006 the BBC entered into a 25 year contract with Arqiva³, to provide the new high powered digital transmission services. The contract was awarded following a competitive procurement process involving both companies.

18 The BBC evaluated both bids on the basis of:

- commercial proposition, including overall charging proposals;
- quality of delivery, including technical proposals, design and architecture of the network; and resilience; and
- risks – including build and delivery risks and security and transitional risks during switchover.

The BBC concluded that only Arqiva submitted a bid that complied with the BBC's minimum expected threshold across all of the evaluation areas, and found this bid to be ahead in most areas of the evaluation.

19 The contract, which the BBC estimates is going to cost it some £1.8 billion over 25 years, including inflation, will come in to service progressively from 2007 as analogue television is switched off. The cost to the BBC of the high-power digital service is more than the cost of current analogue and low powered digital services, an additional cost to the BBC of £400 million over the life of the contract, reflecting the investment by Arqiva in new equipment. The existing services are not directly

comparable with the new service which will have more capacity and may carry third party transmissions for which the BBC would charge a carriage fee.

Arqiva is responsible for delivering the new digital infrastructure and bears the financial risk of delays or cost overruns on its construction work

20 Through the contract, Arqiva is responsible for delivering high powered digital transmission infrastructure and the service charge paid by the BBC is largely fixed. This means that if construction work costs more, or takes longer than planned due to factors within Arqiva's control, Arqiva will bear the additional costs. However, delays to the construction work would also have an adverse impact on the BBC's ability to meet the switchover goal, as well as the overall switchover programme. The BBC has therefore worked closely with Arqiva to agree a delivery timetable for transmitter work, with milestones and contingency plans.

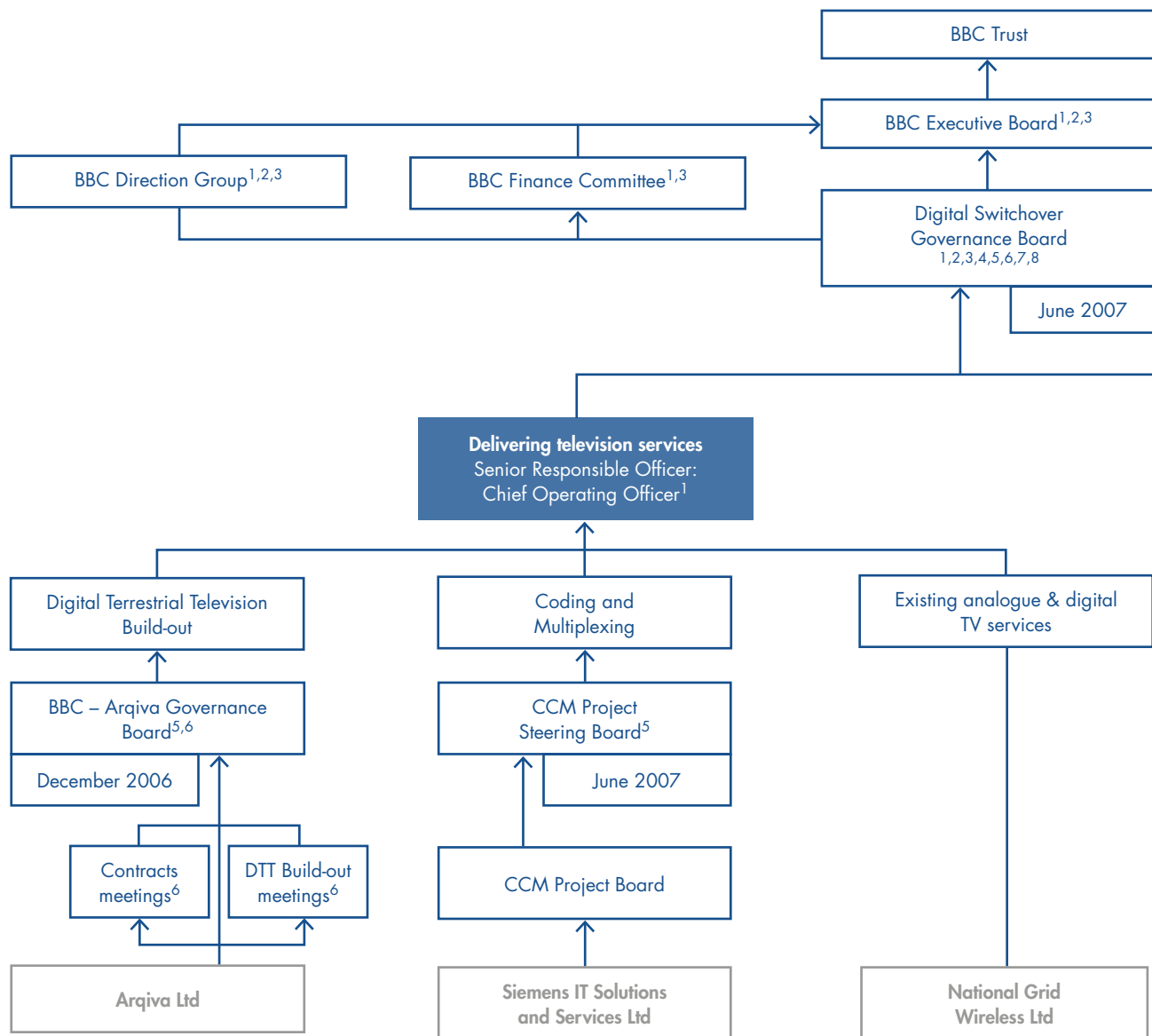
21 The technical challenges of delivering the infrastructure to provide high powered digital transmission services are considerable, due to the scale and complexity of the construction work and the need to minimise disruption to existing transmission services (**Figure 4**).

Factors outside the BBC's control could increase its costs under the Arqiva contract

22 Digital switchover in France, which is due to be completed in November 2011, could create interference in the UK to analogue and low-power digital television in Southern England. This could be avoided if switchover in the affected areas was brought forward to 2011. If the Government decided that the timetable should be brought forward, the BBC would be liable for Arqiva's additional costs. Ofcom is responsible for representing the UK in international discussions on frequency use and planning and is keeping the position under review. Ofcom will be able to make a full assessment of the implications for the UK timetable when a more detailed French switchover plan is available in late 2007 or early 2008, at which point any likely additional costs would be clearer. The BBC considers that changes to the timetable are unlikely but, if they occurred, would seek funding for its additional costs from the Government.

³ The contract includes an option to extend it for two to five years and add a further two year 'handover' period.

3 BBC governance arrangements for Digital Switchover as at July 2007

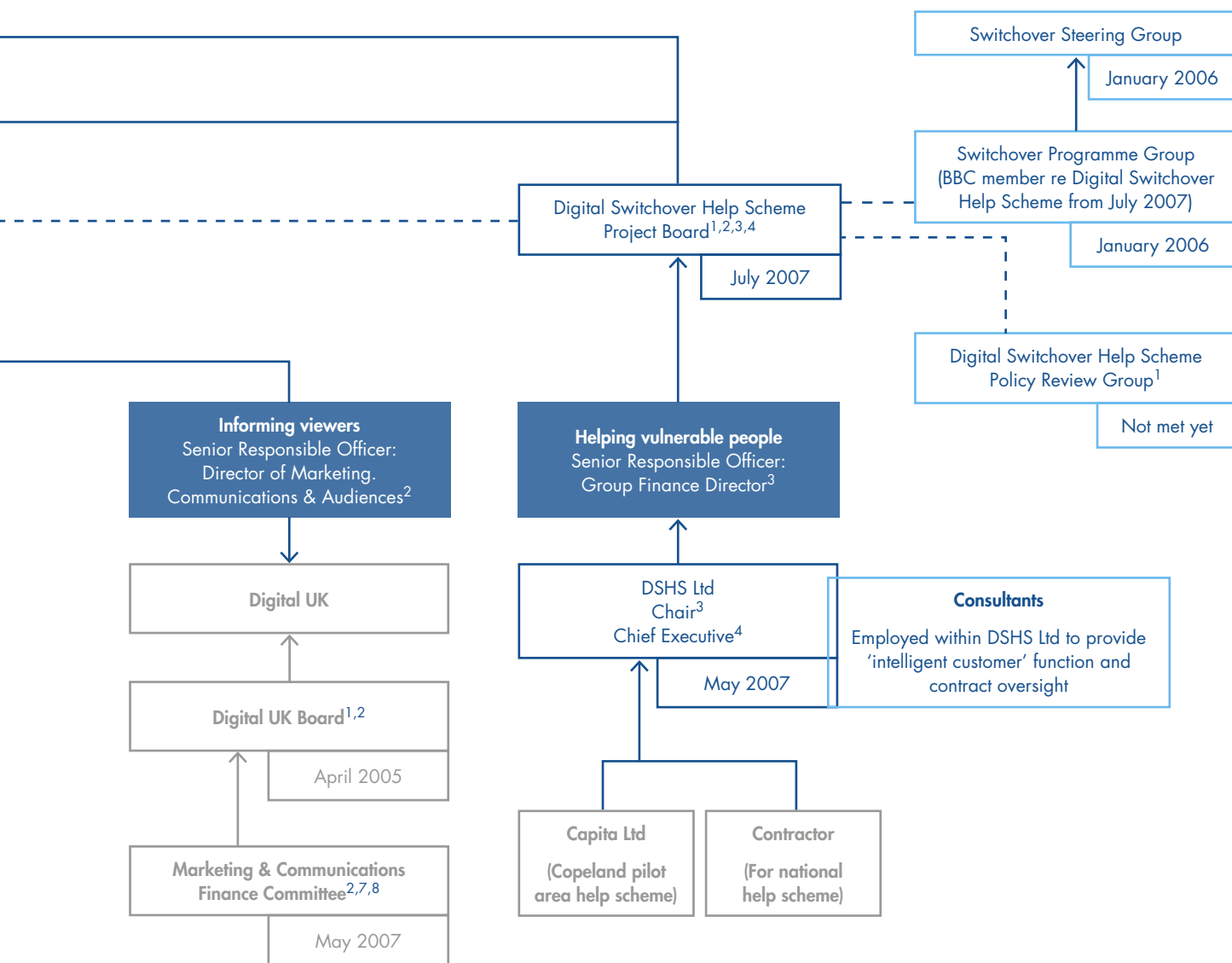


- BBC Entity: Where shown, date formed or of first meeting.
- Work strands: An element of the Digital Switchover programme. Not all sub-stands are shown.
- Organisation or entity outside of BBC.
- Organisation or entity outside of BBC discharging BBC obligations.

Source: National Audit Office

NOTES

- 1 Shows membership, Chief Operating Officer.
- 2 Director, Marketing, Communications and Audiences.
- 3 Group Finance Director.
- 4 Chief Executive, DSHS Ltd.



— Reporting/responsibility lines.

- - Liaison.

5 Controller, Distribution.

6 Project Leader, Transmission.

7 Head of Digital and New Media Marketing.

8 Business and Finance Director for Central Services.

4 Technical challenges of delivering the information to provide high powered digital transmission services

- Arqiva is responsible for delivering high-power digital terrestrial television to 98.5 per cent of households in the UK. This will require work on 1,154 existing transmitter sites.
- Engineers can only climb and work on the transmitter masts in good weather with good visibility.
- Typically, major installation works at each transmission site should be completed within two 'build seasons' (April to September) although for some larger transmitters the design, planning, and installation works will take up to five years.
- Existing services such as analogue television, radio, and mobile telephony may have to be switched off or operated at reduced power temporarily to allow engineers to upgrade antennas. In some cases signals from nearby masts could be boosted to compensate for the reduced service but a significant amount of planning and co-ordination is required to minimise the disruption.
- The frequencies used by transmitters in the UK and in nearby countries, such as France, need to be co-ordinated so that they do not interfere with each other.

Source: National Audit Office

The contract for digital transmission services gives Arqiva incentives to deliver on time and keep charges competitive over the contract term

23 Given the technical challenges facing Arqiva and the importance of them meeting the switchover timetable, the BBC's transmission contract contains incentives for Arqiva to deliver on time. The contract also includes mechanisms to keep prices competitive during the switchover period and over the contract term. The key delivery incentives and value for money provisions are outlined in **Figure 5**. Step-in/step-out and contract termination rights provide the BBC with a course of action if Arqiva fail to deliver. The BBC has not yet documented how these contractual provisions would be put into practice in the form of a contingency or disaster recovery plan.

24 Under the Arqiva contract the BBC has audit and inspection rights and it will be important to exercise these rights to ascertain whether savings may be due through the gain share mechanism. It will also be important to monitor whether the deal remains sufficiently profitable and sustainable for Arqiva, particularly as there is no lower limit on Arqiva's return from the deal. The importance of both of these points was underscored by the Committee of Public Accounts in its report on the BBC's Technology Framework Contract with Siemens.⁴

5 Key incentives for Arqiva to build and operate transmission infrastructure on time and key provisions to keep prices competitive over the contract term

Incentives to deliver on time

Financial incentive

Arqiva can only charge the BBC once transmission services begin which provides an incentive to deliver the necessary infrastructure on time.

Damages

If Arqiva caused a delay to switchover at any key stations (i.e. those which serve a large number of people such as Crystal Palace), they may be liable for Liquidated Damages which would vary in magnitude depending on the importance of the transmission station to the BBC. In addition to liquidated damages, the BBC would be able to recover costs, within a liability cap, for other costs and losses the BBC incurred if Arqiva failed to deliver switchover.

Contract termination

The BBC has the right to terminate the contract if there is a material breach on the part of Arqiva to deliver switchover on time at a defined number of key transmission stations.

Operational service levels

If Arqiva does not meet required service levels the BBC has a set of escalating remedies:

- *service credits* become payable. The BBC has agreed to consider whether to re-invest service credits to fund service improvements.
- *'step-in' rights* enable the BBC to take over management of the services under some circumstances, for instance if there is continued persistent and material failure in service levels. The BBC also has obligations to 'step-out' once the situation giving rise to 'step-in' has been remedied.
- *contract termination* if an extended failure cannot be resolved.

Incentives to keep prices competitive

Gain sharing

Building on lessons learnt from previous contracts¹ the BBC negotiated a gain share mechanism which allows it to share in future cost savings. Above a specified level of profitability, the BBC is entitled to claim reductions in the service charge so that further cost savings are shared 50:50.

Risk of cost increases largely transferred

Arqiva bears all costs of building and operating the new transmission services (with the exception of electricity) unless costs are the result of changes to the switchover timetable or change in specification. If external factors, such as Government policy or a failure of the public communications process, resulted in a delay to switchover, Arqiva would be required to bear a proportion of the delay costs, which varies depending upon the duration of the delay.

Source: National Audit Office

NOTE

¹ In particular the Technology Framework Contract with Siemens Business Services.

⁴ BBC outsourcing: the contract between the BBC and Siemens Business Services, Committee of Public Accounts: Thirty Third Report 2006 – 07, June 2007, HC 103 2006-07.

25 In April 2007 National Grid Wireless was acquired by Arqiva's parent company, Macquarie UK Broadcast Ventures Limited. The transaction was referred to the Office of Fair Trading which, in August 2007, concluded that the acquisition would result in a substantial lessening of competition in the industry. The case has since been referred to the Competition Commission for further consideration and a decision is not expected until January 2008. The BBC will seek to maintain its contractual incentives in the contract with Arqiva whatever the outcome of the Commission's deliberations.

Adverse weather conditions have caused some delays to the construction programme and used up some of the available time contingency at an early stage of the programme

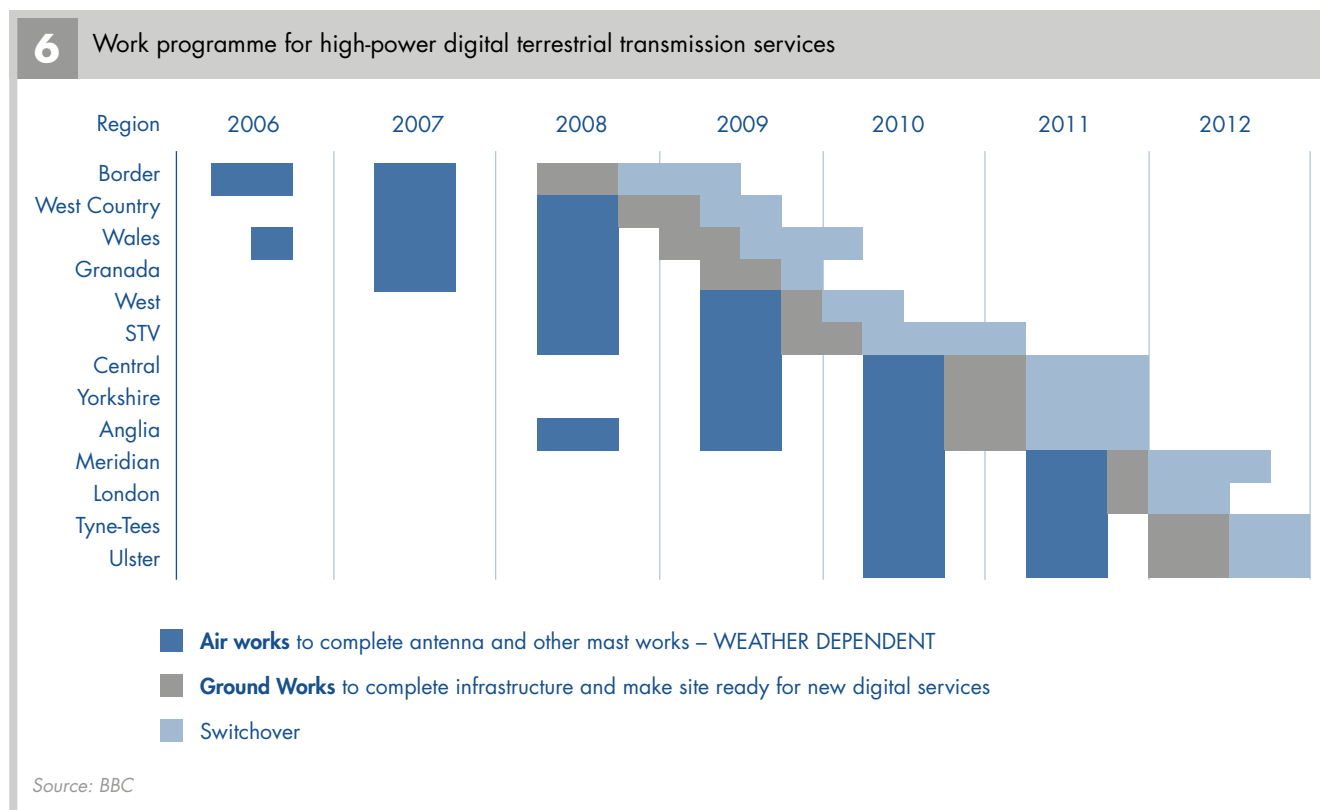
26 Figure 6 shows the outline timetable for infrastructure work.⁵ The work is divided into 'air works' (work to masts and antennas) which can only be completed in fair weather, and 'ground works' (such as updating or installing transmission equipment and power infra-structure). For most sites the timetable allows one year to complete the work and one year contingency but the first year is now under pressure as a result of the significant adverse weather experienced in 2007.

27 Adverse weather conditions in May, June and July 2007 have meant that air work planned in the Borders, West Country, Wales and Granada regions has been delayed. Work on some sites is forecast to be completed in November and December this year but this will depend on weather conditions and the co-operation of current transmission service customers. If the work cannot be completed in November and December the one year contingency will have been used up in these regions and Arqiva has raised concerns that this might have a serious impact on the switchover timetable.

Procuring existing television services

The BBC has yet to agree extensions to some transmission service contracts for existing services that are needed until digital switchover is complete

28 The BBC has an obligation to maintain its existing services, both analogue transmissions and low-powered digital terrestrial transmissions, until high-powered digital terrestrial services are available in each region. Existing services can then be turned off.



⁵ This timetable does not show the lead time required for the design, planning and approval process nor the lead time for procurement and shipping of antennas.

29 The analogue television transmission service has been provided by National Grid Wireless under a contract awarded in 1997 for a minimum term of 10 years and thereafter subject to termination with 12 months notice. The BBC has negotiated an extension to this contract, worth approximately £130 million, whereby National Grid Wireless continues to provide analogue television transmission services until September 2013, including provision to switch-off the service on a region by region basis. The contract extension covers the period until analogue switch-off and provides some insurance against delays in the switchover programme. The BBC considered that there was no prospect of effective competition for this service extension because of the short contract term. In the absence of competition, it secured access to the costs of National Grid Wireless's underlying service charges and developed a joint cost model with them. This model forms the basis for fixed cost pricing, adjusted by the retail price index, for the duration of the extension. The contract gives the BBC audit and inspection rights so that it can verify the amounts to be charged.

30 The contract requires National Grid Wireless to accommodate any changes to the switchover timetable. If necessary, there is provision in the contract for analogue services to be delivered until 31 December 2016 and even switched back on if digital switchover were significantly delayed or halted. This could lead to additional costs for the BBC (due to the need to upgrade the increasingly obsolescent equipment involved in providing analogue transmissions) or a degradation of the service provided.

31 The BBC also has two contracts with National Grid Wireless for the transmission of its low powered digital broadcasts. One contract ends in November 2010 and the other ends either in 2008, when there is a provision for the BBC to terminate the contract early, or in November 2014. Currently neither contract ends when the BBC's need for these services should cease, which is when digital switchover is due to be complete in 2012. In 2006, the BBC withdrew from negotiations on new contracts for low-power digital services so these negotiations would not affect the competition for the new high-power digital services (the contract won by Arqiva). It has yet to restart these negotiations but intends to do so in Autumn 2007.

Procuring coding and multiplexing services

New coding and multiplexing services are being delivered through the BBC's existing Technology Framework Contract with Siemens

32 As part of the digital broadcast chain, the BBC's television services are encoded and compressed into a digital form and then several channels are combined into one 'multiplex' for onward distribution and broadcast by the digital terrestrial television network. These processes together are referred to as coding and multiplexing. The BBC needs to replace and upgrade its digital television coding and multiplexing service prior to the start of the switchover programme in 2008.

33 In October 2004, the BBC outsourced its technology function to Siemens Business Services (now Siemens IT Solutions and Services Ltd), entering into a 10-year Technology Framework Contract. We examined the terms of this contract in 2006 and the Committee of Public Accounts published its own report.⁶ Under the terms of the Framework Contract, Siemens has exclusive rights to provide coding and multiplexing services to the BBC. A new coding and multiplexing service will be required at a cost of £104 million over the period to 2015 and will be located on BBC property to give the BBC greater flexibility to maintain the service.⁷

34 As with the Arqiva contract, Siemens can only start charging the BBC for transmission services when the service is available to the BBC. This gives Siemens a financial incentive to deliver on time. The scope for Siemens to win new business under the Technology Framework Contract gives Siemens a further incentive to perform well and deliver on time, enhancing its reputation with the BBC. Unlike the Arqiva contract, the Siemens agreement does not include liquidated damages to the BBC for late delivery of the service. The BBC considers that the additional financing costs that Siemens would bear in the event of late delivery provide an adequate incentive for Siemens to deliver on time.

⁶ BBC outsourcing: the contract between the BBC and Siemens Business Services, Committee of Public Accounts: Thirty Third Report 2006 – 07, June 2007, HC 103 2006-07.

⁷ The cost includes an element for coding and multiplexing services for transmission by satellite.

35 The BBC's contract with Siemens for coding and multiplexing services does not include a gain share mechanism. Rather, the price agreed with Siemens is a fixed maximum price that reflects savings from the lower prices negotiated by Siemens with their suppliers. The BBC considered this represented better value for money than the gain-share mechanism originally proposed. While the BBC has benefited by up to £0.6 million, Siemens was not incentivised under the contract with the BBC to achieve such savings.

36 The framework contract includes price benchmarking provisions on some services but these provisions do not apply to coding and multiplexing, because, when the framework contract was introduced, Siemens and the BBC concluded that comparable benchmarks for coding and multiplexing would not be available.

Key risks to be managed

That the programme of infrastructure work to deliver new transmission services causes an unacceptable level of disruption to existing services, particularly if delays mean that the intensity of work increases.

That delays to contract extensions for existing low powered digital services limit the time available for the BBC to negotiate robust contracts to cover the period of switchover.

That the BBC fails to maximise benefits from the gain share arrangement with Arqiva and that the return made by Arqiva falls to a level which makes the deal unsustainable.

That adverse weather conditions prevent Arqiva from completing the required work on transmission masts in time for switchover.

That external events, such as digital switchover in France, increase the cost of digital switchover to the BBC.

Informing viewers

The BBC has an obligation to inform viewers about digital switchover which it is seeking to meet through Digital UK

37 The BBC (under its Framework Agreement – paragraph 1 and Figure 2) and other public service broadcasters (through their Ofcom licences), have a duty to use 'reasonable endeavours' to communicate the specific messages involved in digital switchover: what it is; when it will happen; and what viewers need to do to be able to continue to watch television after analogue signals are switched off. In conjunction with other broadcasters, the BBC is using Digital UK to achieve these objectives.

38 Digital UK has been established to support the implementation of this policy by co-ordinating the technical aspects of switchover, communicating with the public and liaising with Government, broadcasters, retailers and manufacturers.⁸ The BBC funds 56 per cent of Digital UK's operating costs, which is why it has 56 per cent of the votes cast at Members' Meetings. When voting in Members' Meetings, the BBC Directors owe their fiduciary responsibility to the BBC. Two BBC Executive Directors sit on the Board of Digital UK as Representative Directors of the Member company and act there not as BBC Officers but owe their fiduciary duties to Digital UK.

The BBC is funding all Digital UK's marketing and communications expenditure

39 Digital UK's annual budget for communications must be reviewed by the Marketing and Communications Finance Committee, where the BBC Marketing, Communications and Audiences Director and a BBC finance director agree it on behalf of the BBC. Eighty per cent of Digital UK's members' votes are required for the budget to be adopted. Once the budget has been approved by the members, Digital UK's articles of association require the BBC to fund Digital UK's entire communications budget.

40 An outline digital switchover marketing and communications budget was put together by independent consultants for the then Department for Trade and Industry⁹ in 2003-04. In 2005 the BBC considered a number of scenarios for this budget ranging from a low case of £127 million to a high case of £384 million. It settled on a marketing investment of £177 million for the period 2005-06 to 2012-13, between the low and medium case scenarios.

41 The Government has ring-fenced £200 million of licence fee money from the current licence fee period of 2007-08 to 2012-13 for Digital UK's communications costs for switchover (£177 million) and the BBC-held contingency (£22 million). The BBC also meets its share of Digital UK's operating costs (£13 million). The BBC had already met marketing and communications expenditure totalling £11 million prior to the licence fee agreement in 2007. The BBC has, however, identified a risk that the peak funding demand from Digital UK in 2010-11 will coincide with a period when there is already pressure on the BBC's borrowing limits. As the only funding source for

⁸ Digital UK is a private limited company formed in April 2005 by its broadcast members (BBC, ITV Network Ltd, Channel Four TV Corp., Channel 5 Broadcasting Ltd, S4C and Teletext Ltd) and distribution network members (SDN Ltd and National Grid Wireless) at the request of Government.

⁹ Now the Department for Business, Enterprise and Regulatory Reform.

Digital UK’s marketing budget, the BBC would be exposed to additional financial demands were the approved budget and contingency too low, which could lead to a requirement for funds beyond the funds ring-fenced in the licence fee settlement.

42 In May 2007, the Digital UK Board established a Marketing and Communications Finance committee with the aim of meeting quarterly. This was a condition of the BBC approving Digital UK’s communications budget to give it control over the financial demands of meeting Digital UK’s marketing objectives. The committee is chaired by a BBC finance director and membership is drawn from BBC and Digital UK staff. Its terms of reference include approval of the quarterly cash request by Digital UK to the BBC and of Digital UK’s marketing strategy.

The BBC and Digital UK jointly set effectiveness measures for Digital UK, but the BBC has not yet determined how it will measure the value for money of its funding of Digital UK

43 The BBC monitors the effectiveness and cost of Digital UK’s marketing and communications strategy against industry standards (**Figure 7**).

44 As Figure 7 shows, Digital UK’s key effectiveness measure is the ‘Switchover Tracker’, a quarterly survey begun in April 2006,¹⁰ which tracks the penetration of information on switchover by region against six stages in digital switchover: Awareness; Understanding; Attitudes; Intention to convert; Conversion; and Satisfaction with digital TV.

7 How the BBC assesses the effectiveness and value for money of Digital UK marketing and communications activity

Digital UK activity

Media Planning

Leaflets

Press coverage

TV, radio and press advertising

Digital UK website

Meetings with main retailers and training for retailers’ staff

Call centre

Means used to assess effectiveness and/or value for money

- Media audits by independent consultants
- Econometric assessment of media channel effectiveness
- Segmentation and segment focus group research
- Quarterly ‘Switchover Tracker’ survey of public opinion
- Reviewed by consumer groups
- Effectiveness and recall research by independent agency
- Quarterly ‘Switchover Tracker’ survey of public opinion
- Monthly scorecard review by consultants of print, broadcast and internet news reports
- Quarterly ‘Switchover Tracker’ survey of public opinion
- Benchmarking by consultants against industry standards
- Reviewed by consumer groups
- Quarterly ‘Switchover Tracker’ survey of public opinion
- Usability testing
- Mystery shopping of retailers
- Monthly monitoring of sales data
- Quarterly ‘Switchover Tracker’ survey of public opinion
- Mystery shopping by Digital UK staff in June 2007 and by external consultants from August 2007

Source: National Audit Office

NOTE

The quarterly ‘Switchover Tracker’ survey is jointly commissioned by Digital UK and Ofcom from independent consultants.

10 The surveys are conducted by GfK NOP.

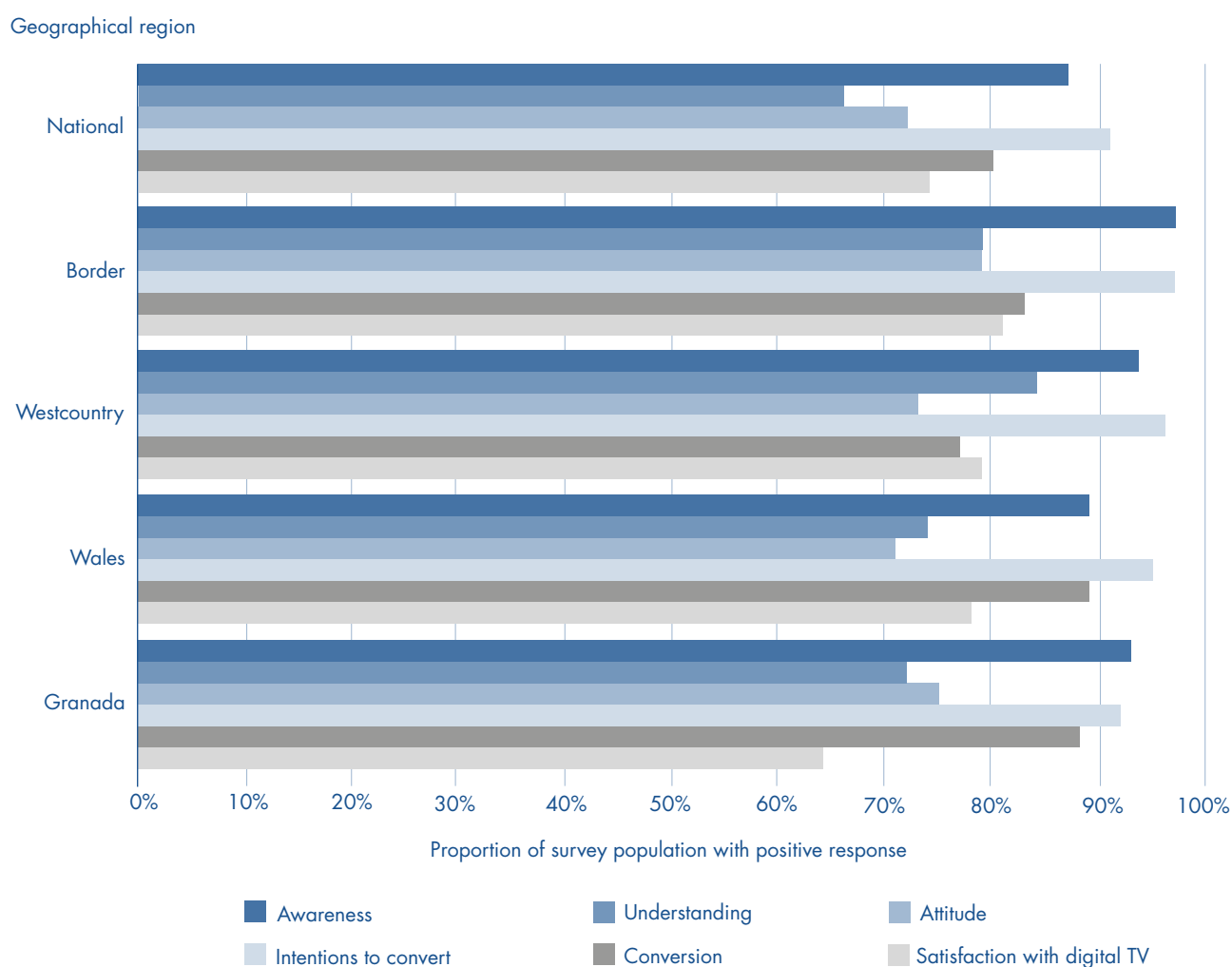
45 Results show that national awareness of digital switchover increased from 66 per cent in the second quarter of 2006 to 87 per cent in the second quarter of 2007. The national levels achieved against all six stages in digital switchover as at June 2007, and those for the earliest regions to switch, are shown at **Figure 8**. From the elements in the tracker survey, Digital UK has set itself three targets:

- ‘awareness’ (“Have you heard of digital switchover?”) at 100 per cent of the population in a region 12 months prior to switchover;

- ‘understanding’ (“Do you understand what is involved in digital switchover?”) at 100 per cent of the population six months in advance of switchover; and
- ‘conversion’ (“Is your primary set converted to digital?”) at 80-90 per cent at the start of the one month switchover transition period, rising to 100 per cent at the end of the month.

There are no targets for the other elements – Attitudes; Intention to convert; and Satisfaction with digital TV – measured by the switchover tracker.

8 Achievement of ‘awareness’ and ‘conversion’ nationally and in the first regions to switchover - as at June 2007



Source: Digital UK/Ofcom Switchover Tracker, August 2007

NOTE

The television regions shown in Figure 8 are the first four regions due for switchover.

46 As part of our methodology for this study we proposed to carry out mystery shopping of the Digital UK call centre to evaluate the accuracy and completeness of information provided to callers. Digital UK subsequently carried out pilot work in this area to determine the need for further work and we have been able to use their results as indicative findings.¹¹ The call centre is contracted out to RHL Ltd at a cost of around £400,000 since it was set up in September 2005.

47 Digital UK's review of the sample of calls made indicated that call centre staff gave confusing or erroneous information in 60 per cent of the calls, including giving incorrect dates for switchover or non-platform neutral information. Digital UK has since taken steps to provide call centre staff with further training and independent mystery shopping in August 2007 found that 82 per cent of the responses were rated as 'excellent' or 'good'. Digital UK will now subject the call centre to monthly external mystery shopping. Until Digital UK carried out mystery shopping of its call centre, almost two years after it began operating, the BBC and Digital UK had no independent assurance about the quality or otherwise of this key viewer-facing information service.

48 The BBC stands behind all the Digital UK Board's decisions on measures and targets, as it has the majority vote at Members' Meetings and takes assurance from the evaluative work that Digital UK and its external consultants conduct. It also takes assurance from the participation of BBC executives in Digital UK's governance structure, through its Members' Representative at members' meetings and the Chairperson of the Marketing and Communications Finance Committee, both of whom act on behalf of the BBC. So far, the focus of the Marketing and Communications Finance Committee has been on financial control rather than evaluation of the effectiveness of marketing expenditure. In the most regular governance forum, the Digital UK Board, the BBC's representatives owe their fiduciary duty to Digital UK, not the BBC.

49 Existing performance measures do not indicate to the BBC whether continuing expenditure is delivering the highest level of awareness for the lowest marginal cost. The BBC and Digital UK are developing tools to assess the incremental value of expenditure on media channels and intend to use these to inform the budget setting process. The BBC has not yet established its own performance indicators for evaluating the value for money of its funding of Digital UK. The establishment of such indicators would parallel the action being taken by the BBC Trust to ensure

that good value for money is being achieved through the operation of the digital switchover help scheme (paragraph 59).

Key risks to be managed

That Digital UK's marketing and communications objectives are met within ring-fenced licence fee resources.

Whether the BBC's interests are adequately represented at Digital UK while the two BBC Executive Directors on the Digital UK Board owe a fiduciary duty to Digital UK in that capacity, rather than to the BBC.

That the BBC has a robust, criteria-based approach to assessing the adequacy of Digital UK's evaluation strategy.

That the BBC has adequate assurance of the value for money of the BBC's expenditure through Digital UK.

That the BBC has robust cash-flow forecasts for Digital UK expenditure to allow such expenditure to proceed without breaching BBC borrowing limits.

That accurate information is provided by the Digital UK call centre.

Delivering the Digital Switchover Help Scheme

The Government set the policy for a scheme to help certain groups of potentially vulnerable people with digital switchover

50 In September 2005, the Government confirmed that there would be a help scheme for certain groups of potentially vulnerable people to prevent them being unduly affected by digital switchover.¹² The help scheme would target those aged 75 and over and people with severe disabilities or visual impairment, and would provide equipment to enable one television set to receive digital television, assistance with installation and use, where required, or funding equivalent to the estimated average cost of providing the most cost-effective assistance. The Government wanted the BBC to deliver and fund the scheme. The Department for Culture Media and Sport developed the detailed specification for the help scheme with assistance from the Department for Work and Pensions, the then Department of Trade and Industry, the BBC, Ofcom, Digital UK and various consumer representatives.

¹¹ 25 calls were made across five scenarios involving: general questions about when it was happening and action necessary; the impact on recording equipment; confusion with high-definition television; the digital switchover help scheme; and services post-switchover.

¹² A public service for all: the BBC in the digital age, Department for Culture, Media and Sport, March 2006.

The BBC agreed to deliver the help scheme

51 On 30 April 2007 the Secretary of State for Culture, Media and Sport and the BBC reached agreement that the BBC would procure and administer the Digital Switchover Help Scheme. This was nearly four months after the licence fee settlement, caused by the time it took to agree the terms under which the BBC would administer the scheme. The eligibility criteria and scope of the scheme are set out in **Figure 9**.¹³ The Government and the BBC estimate the help scheme will cost up to £603 million (the net cost after deducting the charges of £72 million due to be paid by those ineligible for free assistance) over the period 2007-08 to 2012-13. This amount is ring-fenced within the BBC's licence fee agreement.

52 The BBC has established a subsidiary company, Digital Switchover Help Scheme Limited (DSHS Ltd), to procure and oversee the delivery of the help scheme. DSHS Ltd is contracting out the actual delivery of the scheme with a contract for around £1 million already let to Capita Ltd for delivery of the help scheme in the Copeland flagship area. The actual cost will depend on the number of people to whom help is provided and the nature of that help.¹⁴ The BBC anticipates letting the contract for the national help scheme by February 2008. To aid the achievement of value for money, the procurement of the national contract will be subject to Gateway Reviews – independent assessments of the progress and likelihood of successful delivery of a programme or project.

53 The BBC and the Department for Culture, Media and Sport jointly initiated the procurement process with an announcement in the Official Journal of the European Union in February 2007, at which time they anticipated completing the procurement by December 2007. The BBC now expects to issue the Invitation to Tender in November/December 2007, with a view to letting the contract in February 2008, around 8 months before the Borders region is due to start to convert.

54 To determine whether people seeking assistance are eligible for help, the BBC and any contractor it appoints need to know whether claimants are old enough, in receipt of certain social security benefits, or war pensions or registered as having impaired vision. The Digital Switchover (Disclosure of Information) Act was passed in June 2007 to permit social security information and war pensions information from the Department of Work and Pensions, and visual impairment information from local authorities or, in Northern Ireland, a Health and Social

Services Board, to be supplied to the BBC or its contractor for this purpose. The Department of Work and Pensions will be able to supply age, benefits and war pensions information in a consistent format. However, registration of people with impaired vision in England, Scotland and Wales is a responsibility of some 200 local authorities, and the data is not held in a standard format.

9 Summary of the main features of the Digital Switchover Help Schemes

1 Who is eligible for support?

An individual aged 75 or over; or

who is entitled to disability living allowance; attendance allowance; constant attendance allowance; or mobility supplement; or

who is registered blind or partially sighted.

2 What assistance may be provided?

The lowest cost suitable option, or a contribution towards another type of assistance, from the following:

- Equipment that will enable the eligible person to receive the public service television channels at his or her home by means of free-to-view service, and assistance to install and use the equipment provided.
- The installation, repair, replacement, repositioning or re-wiring of a television aerial, a satellite dish or other equipment at the eligible person's home.
- The provision and installation of a set-top aerial suitable for the reception of the public service television channels at the eligible person's home by means of digital terrestrial television.
- An offer to refer the eligible person to the providers of the free-to-view or pay-TV services that are available and to make a contribution towards the cost of providing alternative assistance (equal to the estimated average cost of providing the most cost-effective assistance, which may vary from region to region).

3 Who will have to pay a charge of £40 to receive assistance?

Anyone who is not also in receipt of pension credit, income support or income-based jobseeker's allowance.¹

Source: National Audit Office

NOTES

1 Where the eligible person is a child, if the adult who receives child benefit for that child (or their partner), or is otherwise responsible for the child, and lives at the same address is not in receipt of one of those benefits.

2 This summary is a guide only. It is not meant to cover all the details of the Scheme Agreement. A copy of the full agreement may be found at: http://www.digitaltelevision.gov.uk/pdf_documents/publications/2007/digitalhelpschemeagreement_Cm71185.pdf.

¹³ The Digital Switchover Help Scheme – A Scheme Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation, Cm 7118, 4 May 2007.

¹⁴ The details of the Copeland help scheme contract are not set out to avoid prejudicing the BBC's procurement of the national help scheme.

The help scheme agreement draws a distinction between policy formulation and implementation of that policy

55 Under the scheme agreement, the Government remains responsible for scheme policy, including determining the criteria for eligibility for assistance, and the nature of the assistance which is to be given. Possible changes, for example to the eligibility criteria, will be effected through the Policy Review Group, chaired by the Department for Culture, Media and Sport. Decisions to change the scheme may affect costs, although under the terms of the Help Scheme Agreement (paragraph 51 above) the BBC Trust has to agree any such changes subject to assurances on funding as set out in the Agreement. The BBC is responsible for providing assistance in accordance with the Scheme and for overseeing the scheme through a Project Board.

56 The Project Board is a BBC Management committee and has a number of observers including the BBC Trust. The BBC Trust is the final arbiter of what is policy and what is operational, and considers it helpful to have a Trust observer at the Project Board given the reputational risk to the BBC of the help scheme; there are precedents within the BBC for such an arrangement (for example, in relation to the BBC's information technology and property strategies). The Trust recognises, however, that it needs to guard against the risk that its observer role on the Project Board could lead to it: influencing executive judgements; being involved in decisions at Project Board level that it may later need to review; or providing a less rigorous challenge at its own level within the governance arrangements. The Trust considers that this risk is partly mitigated by the observer being a senior officer of the Trust rather than a Trustee.

The cost of the help scheme is uncertain but the BBC has limited its financial exposure to the £603 million ring-fenced within the licence fee agreement

57 The Department for Culture, Media and Sport has produced estimates for the likely cost of the help scheme although the basis for costs and sensitivity analyses were discussed with the BBC, which agreed the methodology and the resulting estimate. A demand-led welfare scheme of this type contains inherent uncertainties about the level of take-up and therefore cost. For example, the Department forecast that details of some 8,500 eligible people in the Copeland scheme area would be received from the Department of Work and Pensions but in fact the BBC has received details of almost 9,500 eligible people.

Other variables, such as the type and extent of help that people will need or what equipment installation may be required, may also have an impact on the eventual cost of the scheme. The Department for Culture, Media and Sport carried out best case/worst case modelling of such variables and took a central forecast of £603 million as the likely cost of the scheme, including a contingency.¹⁵

58 If the costs of the scheme exceed the estimate of £603 million, the Scheme Agreement states that any cost overrun will not be at the expense of the BBC's programmes, services or other resources. However, there is no guarantee of additional funding for the BBC to meet any cost overruns. If there were a cost overrun, the BBC could protect its financial position, although not the Government's objective of delivering the help scheme, by terminating the scheme. The BBC recognises that in the event it needed to exit the scheme it would have to do so when it still had sufficient funds available within the £603 million to meet any exit costs in the help scheme contract, and that it therefore needs to put in place robust financial forecasting systems for the scheme.

The BBC has a duty to deliver value for money from the help scheme

59 Under the help scheme agreement the BBC Trust has a specific duty to see that the BBC Executive Board achieves value for money in the operation of the help scheme. The Trust is planning to put performance indicators for the national scheme in place following the Copeland switchover once the BBC has had a chance to digest the lessons and will then determine how it will measure the performance of the contractor for the national help scheme against those indicators.

60 The Copeland help scheme is not due to be completed until December 2007 – two months before the BBC expects to appoint a contractor for the national scheme. The timing of the procurement will limit the opportunity for the BBC to apply all the lessons of the Copeland flagship scheme to the national help scheme procurement, although there are significant differences between the flagship project and the national scheme which, in the BBC's view, decreases the pertinence and comprehensiveness of the lessons to be learned from Copeland. The BBC accepts that the time available between the Copeland scheme and the national scheme procurement means that it will not be able to incorporate all lessons from Copeland in the contract for the national scheme. The BBC, while recognising that there is a balance to be struck, believes that it is more important to meet the national scheme procurement timetable.

¹⁵ The details of the contingency are not set out to avoid prejudicing the BBC's procurement of the national help scheme.

Initial take-up of the scheme has been lower than expected but, without a full understanding of why, there remains a risk that some eligible people who seek help may be left without television after switchover

61 The time it took to finalise the scheme arrangements with Government, resolve issues related to the governance arrangements and access to data, and settle the terms of the options to be offered under the scheme, contributed to a delay of approximately four weeks in issuing an 'Options Pack' which set out the switchover options available to eligible individuals. This increased the risk that the Copeland help scheme will not be able to support the installation of digital equipment in time for switchover for all eligible people who seek assistance until after the final switchover in Copeland. Such people would therefore be without access to television until such equipment and support was provided. The BBC has said that its contractor for the Copeland help scheme has plans in place to meet peaks in demand.

62 As a result of the delay, on 9 August Digital UK issued a 'Red Status Alert' for the overall switchover programme. It expressed concern that, given the tight timetable for switchover in Copeland, unless DSHS Limited were able to provide adequate mitigation, the Switchover Programme Group¹⁶ might have to review the start and/or end dates of that switchover. On 19 September the Switchover Programme Group reviewed progress and, after noting that take-up of the help scheme had been lower than anticipated, considered that this was because of good levels of existing digital television take-up and eligible people choosing not to pay the £40 charge for the Scheme, rather than the timescales allowed for response. Eligible individuals will be informed that they should respond by 17 October to ensure they receive assistance by 14 November, and all those responding by this date are expected by the BBC to receive the support requested by the time switchover is completed.

63 The Switchover Programme Group therefore confirmed that switchover in Copeland should proceed as planned, and that the Help Scheme (and hence Project Copeland and the whole Switchover Programme) should move back to 'Amber' status. However, it remains to be seen why the level of response has been low. If it reflects the factors accepted by the Switchover Programme Group then the risk of failing to meet the demand for assistance is reduced. However, if it is because eligible people are leaving it until later to apply for help, this could create a level of demand that could leave some people without television after switchover.

Key risks to be managed

That the procurement of the national help scheme protects value for money for the BBC when considering transfer of demand, processing and installation risks.

That Trust involvement with the help scheme Project Board does not impair BBC management's freedom to manage the scheme as it sees fit.

That there are in place robust systems to forecast future scheme costs to an accuracy which would allow the BBC to exit the help scheme contract within ring-fenced resources, in the event forecasts indicate costs would exceed £603 million.

That the BBC has a quantified assessment of the risks and potential costs of procuring the national help scheme when it has not had the opportunity to incorporate all the lessons from the Copeland scheme, which is itself an incomplete test of all help scheme variables.

That the BBC has a proper understanding of the reasons for initial low take-up of the help scheme in Copeland.

16 See Figure 3 and Glossary.

APPENDIX

Methodology

Aim and scope

This review is part of a programme of value for money work agreed with the BBC Trust by the Comptroller and Auditor General, head of the National Audit Office, under an agreement between the Secretary of State for Culture, Media and Sport and the BBC.

The aim of our study was to assess at an early stage whether the BBC is well-positioned to meet its obligations under digital switchover while continuing to deliver its services to licence fee payers and protecting value for money.

Methods

Interviews with BBC staff

Drawing on the 'gold standard' criteria for good project performance produced by the National Audit Office¹⁷ and on other good practice guidance we interviewed relevant BBC employees. These included the BBC Trust Unit, BBC Executive Directors who are project sponsors for the principal BBC workstreams, the Chief Executive of Digital Switchover Help Scheme Ltd, the BBC subsidiary set up to contract for the national help scheme and workstream leaders responsible for managing the projects which make up the digital switchover programme. We:

- examined the progress on digital switchover achieved so far;
- identified the key risks and challenges to be managed going forward; and
- established the arrangements in place to manage those risks.

Interviews with third parties

We met with Digital UK's Chief Executive and some of his senior staff to better understand the company's relationship with the BBC and Digital UK's role coordinating digital switchover as a whole with particular emphasis on activities which are wholly funded by the BBC.

We also met with the representatives of Arqiva Ltd, National Grid Wireless Ltd and Siemens IT Solutions and Services Ltd which have contracts with the BBC for transmission services during the switchover period to:

- discuss progress so far;
- better understand the contracts; and
- discuss the relationship between these contractors and the BBC.

Contract review

We reviewed the BBC's contracts with Arqiva, National Grid Wireless and Siemens to identify contractual incentives for these suppliers to deliver an effective service on time and keep prices competitive. We did not seek to assess the value for money of the procurement of these contracts as to do so would have taken us outside the scope of this examination of how well placed the BBC is to meet its switchover objectives.

Documentary review and analysis

We reviewed BBC and Digital UK documentation and data relevant to digital switchover including Board approval papers, service level and financial performance data, project delivery reports, and contract management process documentation. We also examined the papers and minutes of meetings of the Digital UK Board, which has two BBC Directors as members. We also reviewed papers prepared for the BBC's Executive Board, its Direction Group, its Finance Committee and for the Board of Governors (replaced by the BBC Trust from January 2007).

¹⁷ Using the contract to maximise the likelihood of successful project outcomes, HC 1047, Session 2005-2006; Driving the Successful Delivery of Major Defence Projects: Effective Project Control is a Key Factor in Successful Projects, HC 30, Session 2005-2006.

GLOSSARY

Analogue television	Conventional broadcasting in which the picture, sound and other information are transmitted as a continuous wave form which is an analogue (as opposed to digital) representation of the source material. Analogue systems allow for a certain degree of signal degradation before users are able to watch pictures or listen to sound.
Arqiva Limited	One of two companies which own the transmission equipment used to broadcast terrestrial television (the other is National Grid Wireless Ltd). The BBC has entered into a 25 year contract to provide the new high-powered digital transmission services following a competitive procurement process.
BBC	In the report this always means the BBC Corporation – references to the BBC Trust are made explicit.
BBC Executive Board	The 15 members of the Executive Board, including five non-executive directors, are responsible for delivering the BBC's services and running the organisation in accordance with the overall strategy set by the Trust.
BBC Trust	The Trust is the sovereign body of the BBC, its independent trustees acting in the public interest. It aims to ensure that the BBC is independent, innovative and efficient: a creative and economic force for good in the UK and for the UK internationally.
Cable television	Television, radio and data services distributed through a cable distribution network direct to the consumer's home via a set-top box.
Capita	Company which has contracted with DSHS Limited to deliver the digital switchover help scheme in the Copeland area in Cumbria.
Coding and multiplexing services	The process of encoding and combining several television channels, radio stations and other services for broadcast.
Copeland flagship project	Analogue transmission for BBC 2 in the Copeland area in Cumbria will end on 17 October 2007 and for all other channels on 14 November 2007.
Digital switchover	Switching off analogue transmission services and changing all of them to digital.
Digital Switchover Help Scheme	A scheme for certain groups of vulnerable people to prevent them being unduly affected by digital switchover. Targeted at those aged 75 and over and people with severe disabilities or visual impairment, the scheme will provide equipment to enable one television set to receive digital television plus practical assistance with installation and use.

Digital television	Digital transmission uses binary code to send pictures and sounds as streams of zeros and ones. Digital code uses less space (or bandwidth) than analogue signals so several digital channels can fit into the bandwidth needed to transmit one analogue channel.
Digital UK	A company limited by guarantee, operated on a “not for profit” basis. It is owned by the broadcasters and multiplex operators and is the lead organisation in the delivery of digital switchover.
DSHS Limited	A subsidiary company set up by the BBC to oversee the delivery of the digital switchover help scheme.
Gain share mechanism	A mechanism which allows an organisation which has let a contract to share in future cost savings arising from a contract (e.g. if the internal rate of return for a contract exceeds a set percentage, further cost savings may be shared).
High-power digital terrestrial television	Digital television transmitted with high power and received through a television aerial.
Integrated digital TV	A television incorporating a built-in receiver able to decode a digital signal and display it conventionally.
Liquidated damages	The amount of damages recoverable in the event of a specified breach (e.g. late performance) which are agreed at the date of the contract.
Low-power digital terrestrial television	Digital television transmitted with low power and received through a television aerial.
Managed transmission service	A service to transmit broadcast television from transmitter sites.
Switchover Steering Group	A high-level governance and assurance group, including ministers, that reviews progress across the programme and takes decisions to resolve significant issues including any that have been escalated by the Switchover Programme Group.
Multiplex	A frequency band in the broadcast spectrum which can be used to transmit several digital terrestrial or digital satellite, television or radio services, in the same space in which only one analogue TV channel could be broadcast.
National Grid Wireless Limited	Company with which the BBC has contracted to secure an analogue transmission until September 2013.
Ofcom	The independent regulator and competition authority for the UK communications industries, with responsibilities across television, radio, telecommunications and wireless communications services.
Platform neutrality	Means not favouring one method of reception or supplier of digital television over another.
Satellite television	Television services transmitted to a stationary satellite that receives the signal, amplifies it and then transmits it back to earth where it can be received via satellite dishes pointing at that satellite, the received signal then being decoded by compatible set-top boxes.
Set-top box	A device which can decode a digital signal and display it conventionally on a television screen.

Siemens IT Solutions and Services Limited	Company to which the BBC outsourced its technology function in October 2004. Using the terms of the framework contract the BBC negotiated an agreement with Siemens to provide a new coding and multiplexing service required for digital switchover until 2015.
Switchover Programme Group	Brings Digital UK, Government and Ofcom together to monitor the progress of the programme, holds parties to account and agrees actions.
Switchover Tracker	A longitudinal survey begun by Ofcom and Digital UK in April 2006, designed to track viewers understanding of Digital UK's messages about digital switchover and the need to take appropriate action.
Technology framework contract	A contract between the BBC and Siemens Business Services to provide the BBC with a range of technology commodities, such as desktop computers and telecoms, and more specialist project work.
Terrestrial television	Television that is broadcast from a terrestrial transmitter to a television aerial.
Transmitter	A device that converts audio, video or digitally-coded signals into modulated radio frequency signals which can be propagated by electromagnetic waves by an antenna, normally mounted at the top of a tall building or tower.