BBC response to the House of Commons Committee of Public Accounts report “BBC commercial activities”

The BBC welcomes this report from the Public Accounts Committee (PAC) which recognises that the BBC’s commercial activities have an important role to play in delivering additional value for the licence fee payer by providing extra funding for BBC programmes, by contributing to the BBC’s Public Purposes and by promoting the BBC brand around the world.

The BBC’s Charter permits it to undertake commercial activities, provided these fit with its mission and Public Purposes. These commercial activities are not funded by licence fee income and they are undertaken with a view to generating a profit. In 2016–17, the BBC’s total commercial revenue was £1.2 billion; over the past five years, BBC Worldwide (now within the new BBC Studios commercial entity) has returned almost £1 billion to the Public Service.

The BBC has considered in detail the PAC’s "Conclusions and recommendations", which seek to highlight a number of important challenges that the BBC faces:

The Committee recognises that the BBC needs to take risks to be commercially successful, but it should learn appropriate lessons from past failings, including the BBC Store, and should establish in advance fixed points at which it will assess whether all new ventures are paying off.

BBC Studios carefully assesses all new ventures before they are entered into, monitors performance of these ventures closely, particularly in the early stages of their development, and then formally assesses their performance at fixed intervals.

BBC Studios follows a standard commercial governance process where investments and new ventures are approved with increasing levels of financial exposure requiring increasing levels of Executive signoff prior to an investment being made. All investments require a detailed business case and assessment of risk to be presented for approval, against which performance can then be tracked. Large investments will have passed through a number of approval bodies prior to final approval to ensure appropriate level of challenge before seeking final Executive signoff.

For all approved business cases, once approval is given each investment enters the Post Investment Review Pipeline process. At these formal Interim and Final reviews there is a focus both on the specific venture including assessment of performance and follow-up actions required, but also on lessons learned from the investment that might have broader application to other investments under consideration.

The Committee’s recommendation is fully recognised and BBC Studios will continue to ensure that appropriate lessons are learned from all investments to enhance decision-making for future investment cases.

The BBC should monitor its partnerships for signs of divergence between its and its partners’ interests, and should make contingency plans for when these relationships end in order to minimise unexpected hits to its bottom line.

We welcome the Committee’s recommendation. BBC Studios pursues a range of partnerships in the market, from one off co-production relationships to longer term, strategic / corporate ventures. The latter enables BBC Studios to bring together our assets and expertise with other parties to
better respond to the changing media environment and participate in new market opportunities (e.g. BBC America with AMC and “Britbox” our Best of British VOD partnership with AMC and ITV in North America).

In line with this recommendation, we will continue to monitor that BBC Studios only partners with organisations with whom we have core strategic alignment, performing careful assessments of their values, culture and the relative financial and other assets each of us bring to the partnership.

We continue to monitor these factors throughout the life of the partnership to ensure we have strategic alignment on an ongoing basis, and receive regular financial information from our partners to ensure we understand financial performance and potential risks to our bottom line. We also have contingencies in place in case of future strategic divergence. For instance, we aim to ensure contractual protections are in place to give us an exit route if the partnership is no longer in the interests of the BBC, and have formal review / renewal points within long term agreements for key commercial terms. Most recently we have increased our stake in LookOut Point and exited our relationship with Greenbird. We therefore take an agile approach to our partnerships to keep up with the changing market.

The BBC should set out how it will provide the Board with better information in future, so Board members can understand how the BBC’s commercial performance compares to market norms. The Board should also publish the results of the commercial review it must undertake by the end of 2018, including high–level information about any benchmarking this generates.

The BBC Board is provided with Financial Reports on a quarterly basis which set out the financial performance of the commercial subsidiaries. In addition, the Board reviews the annual budget proposals of the commercial subsidiaries. The budget targets which are agreed (and reported to Ofcom) are based on knowledge and understanding of the dynamics of each subsidiary’s business and their marketplace (including considerations of their performance levels compared to market norms).

In accordance with Charter obligations, the Board appointed EY to conduct a review of its commercial subsidiaries. The purpose of the review was to consider whether each subsidiary meets the four commercial criteria that are set out by DCMS in the Framework Agreement that sits alongside the Charter. This report was published in December 2018: https://www.bbc.co.uk/mediacentre/latestnews/2018/commercial-review

The BBC Board should assess whether the unique “financial returns” target is fit for purpose. It should also, as a minimum, set sub–targets in future to distinguish between dividends and up–front contributions to programme costs, and should monitor delivery against these.

The BBC Board sets the budget, which historically has included elements for both dividends and up-front contributions to programme costs. When looking at future targets for financial returns, the BBC analyses the expected returns. In line with the Committee's recommendation, the Board will continue to review this.

The Board has also published targets for each of the subsidiaries, as required by the Framework Agreement. These targets give a long-range view on what the Board expects each of the commercial subsidiaries to achieve over a three to five year period. The new profit targets are informed by benchmarking analysis carried out as part of the BBC Commercial Review.
The BBC should clarify for itself, Ofcom and Parliament how it will resolve tensions between commercial activities and Public Purposes in future, and should develop its ability to quantify the level of commercial performance it is sacrificing due to the Public Purposes. Specifically, the BBC should quantify the commercial income it will forego if it decides to make more series available for longer to licence fee payers via iPlayer. The BBC should also write to us explaining how Global News could continue as a commercial venture if it were to receive a public subsidy.

The Public Purposes are the fundamental tenet of the BBC. It is the responsibility of the BBC Board to deliver these Purposes both via Public Service Broadcasting and also via the commercial entities, as outlined in the Charter. All of the BBC’s commercial activities must comply with the four commercial criteria set out in the BBC Agreement, one of which is that they must fit with the BBC’s Public Purpose activities.

On the specifics of iPlayer, work to quantify the potential impact on commercial income in the UK is already underway, recognising that this is a fast-moving, nascent area where commercial value is changing and a number of different organisations are experimenting with different release models. We therefore expect to keep this quantification of potential commercial trade-off under constant review, as market data becomes more available.

Global News’ commercial model would not be impacted as a result of any public subsidy; we have written previously to the Committee in respect of this request (which is repeated below):

**BBC response to the Public Accounts Committee’s (PAC) findings in the BBC Commercial Activities Report (Fifty-First Report of Session 2017–19)**

This document notes the Public Accounts Committee’s (PAC) findings in the BBC Commercial Activities Report (Fifty-First Report of Session 2017–19). The Public Accounts Committee asked the BBC to write to them explaining how Global News could continue as a commercial venture if it were to receive a public subsidy.

**BBC Global News Ltd as a commercial venture**

BBC World News is the BBC’s international English-language television news channel. It is operated by Global News Ltd (GNL), one of the BBC’s commercial subsidiaries. The channel is funded by advertising and, in some countries, pay TV subscriptions. GNL’s commercial model would not be impacted as a result of any public funding.

Any public funding would take place within the existing regulatory structure. The details would depend on the precise funding mechanism chosen by government, but the Ofcom regulatory framework and the underlying state aid rules that govern our commercial subsidiaries would continue to apply. These would ensure that GNL continues to conduct its commercial operations at arm’s length and on a level playing field with the rest of the market.

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The BBC should set clear expectations for the performance of the merged BBC Studios and should act decisively if the business seriously underperforms. The BBC Board should be kept informed of varying levels of profitability within, and not just between, the subsidiary’s individual lines of business.
Profit and cash targets were set for the merged BBC Studios/Worldwide entity as part of the budget process ahead of the merger. The Board currently receives the profitability by lines of business of BBC Studios on a quarterly basis.

Following the BBC Commercial Review, in December 2018 the Board published targets for BBC Studios and each of its commercial subsidiaries to achieve over a three to five year period. The BBC Board has set these targets in order to provide clear and transparent measures of commercial performance.

Recognising the Committee’s recommendation, the BBC Board will continuously monitor these targets to ensure there is robust oversight and governance of the BBC’s commercial activities, with annual reporting of performance against these targets.