



National Audit Office

Report

by the Comptroller
and Auditor General

BBC

The BBC's commercial activities: a landscape review

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BBC

The BBC's commercial activities: a landscape review

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

5 March 2018

This report is a landscape review of the BBC's commercial activities, setting out how the BBC organises these activities and the key risks and challenges they currently face.

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Key facts

4	£1.2bn	£312m
main commercial subsidiaries in the BBC Group, as at December 2017	revenue generated from the BBC's commercial activities in 2016-17	total dividend paid from 2012-13 to 2016-17 by BBC Commercial Holdings to the BBC Group for use on public service broadcasting

4,900	staff employed by the BBC's main commercial subsidiaries in April 2017
16	countries in which the BBC has registered subsidiaries
110	subsidiaries owned by the BBC and undertaking commercial activities, as at July 2017, including the four main subsidiaries
£450 million	in financial contributions by BBC Worldwide to programmes shown on the BBC's public service broadcasting channels and services between 2012-13 and 2016-17 (in addition to dividend payments)
1 April 2017	was the date on which BBC Studios became a commercial subsidiary of the BBC, having previously been a division of its public service broadcasting operations
1 April 2018	is the planned date on which BBC Studios and BBC Worldwide will merge to create a new commercial entity, also to be called BBC Studios

Summary

1 This report is about the commercial activities of the BBC. The BBC's Royal Charter permits it to undertake commercial activities, provided these activities fit with its mission and public purposes, are not funded through licence fee income, and are undertaken with a view to generating a profit.

2 The BBC cannot undertake commercial activities directly, but must do so through commercial subsidiaries. In 2017-18, the BBC has four main commercial subsidiaries of varying size and complexity to manage its commercial activities:

- BBC Worldwide (Worldwide) accounted for approximately 90% of the BBC's commercial revenue in 2016-17, mainly from the sale and distribution of TV content and formats internationally and in the UK. In 2016-17, it generated the largest turnover of any UK media distribution company.
- BBC Studios (Studios), the BBC's newest commercial subsidiary, established as a company in April 2017, creates and produces content, principally TV programmes, for the BBC and other clients.
- BBC Global News (Global News) provides English-language news services overseas via the BBC World News TV channel and the BBC's international website, BBC.com.
- BBC Studioworks (Studioworks) provides TV production facilities, equipment and crews, and post-production services for the BBC and other clients, with bases in Elstree and London's White City.

3 In November 2017, the BBC announced that it intended to merge Worldwide and Studios from 1 April 2018. This will create a new commercial entity, to be called BBC Studios, which will unite the BBC's commercial production and distribution arms as is the case among many of its competitors. As at February 2018, the merger was still subject to regulatory review. Throughout this report, all references to Studios refer to the subsidiary that was established in April 2017 unless otherwise stated.

Scope and approach

4 Under the BBC's December 2016 Royal Charter, we were granted access for the purposes of audit to the BBC's commercial activities for the first time, starting in April 2017. This report, our first on this subject, examines:

- how the BBC's commercial activities are organised, overseen and regulated;
- how the activities have fared in terms of their commercial performance and contribution to the BBC's public purposes; and
- how the BBC is responding to the opportunities and challenges its commercial activities face.

5 This report is a landscape review. We have not, therefore, drawn a value-for-money conclusion, but have made concluding remarks about some of the important issues the BBC needs to focus on in future.

Key findings

Scope and set-up of the commercial activities

6 The BBC has been undertaking commercial activities for a long time, but these activities have become increasingly important to its overall strategy. The BBC incorporated BBC Enterprises Limited, the forerunner of Worldwide, in 1979, with a focus on selling finished BBC programmes to other countries. Since then, the BBC's commercial activities have expanded considerably so that they now operate at significant scale. The commercial activities generated revenue of £1.2 billion in 2016-17, and employed 4,900 staff in April 2017.¹ The most recent major expansion in the BBC's commercial activities, in April 2017, occurred when the BBC moved a large part of its public service broadcasting (PSB) production operations into a new company, BBC Studios. The BBC's latest overall strategy identifies several of the commercial activities as fundamental to the BBC's overall future vision and ambitions (paragraphs 1.4, 1.5 and 3.6).

7 Including its four main subsidiaries, at July 2017 the BBC had 110 subsidiaries of different types undertaking commercial activities, with Worldwide accounting for 93 of these. We have not examined the specific purpose of all the BBC's subsidiaries. However, a large number exist to facilitate commercial operations in financial, legal and regulatory ways that are normal for international media organisations. At a high level, we found the number of BBC companies to be in line with other international media groups operating in the UK, with the number falling by 23% since March 2012. For management purposes, the four main subsidiaries are run as individual consolidated businesses, irrespective of the number of subsidiaries they contain (paragraphs 1.8 and 1.9).

¹ The figure of £1.2 billion is distinct from the BBC's 2016-17 licence fee income of £3.8 billion, which it received to fund its public service broadcasting operations. The figure excludes the costs incurred by the commercial activities and relates to a period before the creation of Studios as a commercial company in April 2017.

8 Since April 2017, the BBC has made significant changes to the structure and oversight of its commercial activities, the full implications of which will take time to become apparent. Under the new Charter, responsibility for overseeing the BBC's commercial activities now rests with the new BBC Board. Between the BBC Board and the main subsidiaries, a holding company exists, BBC Commercial Holdings (Commercial Holdings), which now plays an important role in governance and oversight. In October 2017, the BBC expanded the membership of the Commercial Holdings Board, appointing non-executive members to it for the first time. The BBC plans for this Board to oversee the four main subsidiaries' operations and performance at a level of detail greater than the main BBC Board can provide. Although the BBC has agreed terms of reference for the enhanced Commercial Holdings Board, it is not yet clear how the various boards will interact in practice, particularly given the planned merger of Worldwide and Studios (paragraphs 1.10 to 1.13).

9 Ofcom has replaced the BBC Trust as the BBC's regulator, with responsibility for regulating aspects of the commercial activities. A principal focus for Ofcom will be the relationship between the BBC's licence fee-funded PSB divisions and its commercial subsidiaries. Ofcom has set requirements on the BBC to ensure that the commercial activities do not, as a result of their relationship with the UK PSB divisions, distort the market or gain an unfair competitive advantage. Ofcom's new requirements include one for the BBC to notify it if any commercial line of business is not making a commercial rate of return. Ofcom also has to decide by April 2019 whether to conduct a formal regulatory review of Studios' operations. It is not yet clear how the scope of any such review might be affected by the BBC's decision to merge Studios and Worldwide (paragraphs 1.14 to 1.18).

Performance of the commercial activities

10 The BBC's main commercial subsidiaries are significant businesses in their respective markets, creating important additional value for licence fee payers.

Overall, the BBC's total revenue from its commercial subsidiaries was broadly stable at more than £1.1 billion in each of the five years from 2012-13 to 2016-17. Only Worldwide made profits throughout the five years. Its profit after tax, sometimes referred to as the bottom line, was 68% lower in 2016-17 than in 2012-13, £40.4 million compared to £127.6 million. This change mainly occurred in 2016-17 when Worldwide incurred two large one-off costs: a major change in the accounting treatment for distribution rights, worth £67.9 million, and a write-off of £12.5 million following the closure of BBC Store. Both Global News and Studioworks returned to profitability in 2016-17, making a profit after tax of £0.4 million and £2.8 million respectively. Similar data are not available for Studios as it did not become a commercial company until April 2017 (paragraphs 2.1, 2.3, 2.11, 2.13, and 2.15).

11 As with any company, high-level data on revenue and profits are not a straightforward guide to the subsidiaries' performance; context is required to interpret the data. This context includes the performance of the wider markets in which each subsidiary is active and the short- and long-term effects of major strategic decisions that the subsidiaries, and the BBC as a whole, have taken. We describe some of these factors in the body of the report, but we have not set out to evaluate as part of this landscape review the quality of the BBC's management of its subsidiaries or the relative importance that different factors have had on their performance. These are subjects to which we will return in later value-for-money reports (paragraphs 2.2 and 2.14 to 2.17).

12 Between 2012-13 and 2016-17, Worldwide paid dividends of £423 million. The BBC chose to use most of this money in its PSB divisions, but retained a significant minority in the commercial part of the BBC. Worldwide was the only main subsidiary to pay a cash dividend over the last five years. Of £423 million paid since 2012-13, £312 million (74%) has been used to supplement licence fee income in the BBC's PSB divisions. Commercial Holdings retained £111 million (26%) in its own reserves. The BBC then used these reserves to lend to the main commercial subsidiaries, including Worldwide. By lending from Commercial Holdings' reserves, rather than borrowing money from external lenders, the BBC has avoided incurring interest costs. Between 2012-13 and 2016-17, Commercial Holdings' lending to Worldwide more than doubled, from £79 million to £199 million, while its own borrowing from external lenders increased by just 7% to £201 million (paragraphs 2.9, 2.21 and 2.22).

13 Alongside any dividends, each of the main subsidiaries also contributes to the BBC's public purposes:

- Worldwide's key contribution takes the form of direct payments for programmes shown on the BBC's PSB channels and other PSB services. Between 2012-13 and 2016-17, these contributions, which reduced the cost of programme-making for licence fee payers, were worth £450 million. Each year in its Annual Review, Worldwide combines these payments with dividends and a number of other payments, and describes the resulting figure as its financial return to the BBC. This metric is unique to Worldwide and is not comparable with measures of financial performance used by other commercial media companies.
- Global News has provided independent news, and sought to reflect the UK and its values of accuracy, impartiality and fairness, to citizens of other countries; it has increased its audiences considerably over the last five years, for example reaching 450 million households with the World News TV channel in 2016-17, compared to 366 million in 2012-13.
- Studioworks provides the BBC and its programme makers with studio capacity in London and the South East of England, where many of its programmes are made, as well as providing capacity to third-party companies at a time when other studios in the area have closed either temporarily or permanently.

- Still in its first year of operations, the new Studios subsidiary is intended to provide a secure basis for the BBC to continue producing distinctive output, as well as creating new intellectual property (IP) for the BBC to exploit in future through its work for the BBC and others (paragraphs 2.23 to 2.26).

14 The new BBC Board receives regular updates on the performance of the main subsidiaries against a number of standard commercial metrics, but there is scope to improve the information it receives. The BBC Board receives reports on the performance of the main commercial subsidiaries in terms of their revenue, cash flow and profitability. However, up to February 2018, the BBC has used different measures of profit for each of the subsidiaries in these reports; it told us in February that it intends to introduce a standard set of measures shortly. In its reporting to the Board, the BBC has also not made regular use of other financial indicators that businesses commonly employ to assess commercial performance, such as margin and return on capital employed. Furthermore, in recent years, BBC management has commissioned benchmarking exercises to understand more about how Worldwide and Studios compare to other businesses in their respective markets. Management has used these exercises to inform business planning, but it has not, as a matter of course, shared the findings of the exercises with the Board. The Board is able to commission its own benchmarking if it considers this to be necessary (paragraphs 2.2, 2.18 and 2.19).

Opportunities and challenges

15 Like the wider sectors in which they operate, the BBC's main subsidiaries face important opportunities, challenges and risks in the immediate future.

Audiences, particularly younger people, are increasingly accessing content digitally, including via fast-growing global subscription video on demand (SVoD) services such as Netflix. These new entrants to the market have been willing to invest large amounts in creating new programmes, particularly drama, and in acquiring distribution rights. The BBC's commercial subsidiaries have benefited from these developments in a number of ways, but both they and other companies also face increased competition and costs to secure the valuable IP that underpins the contemporary media business model. In response, Worldwide has entered into more co-productions and partnerships with other international companies, bought stakes in independent production companies, and partnered with, or established its own, small regional production businesses. These actions have the potential to deliver greater financial rewards than more traditional lines of business in the changed commercial environment in which Worldwide now operates. However, they also entail greater risks. Simultaneous with these developments, advertisers in many countries are adapting to audience behaviour by spending more of their budgets online, putting pressure on the traditional business model for running TV channels, a development that affects both Worldwide and Global News (paragraphs 3.2 to 3.5 and 3.19 to 3.24).

16 The success of the BBC's commercial activities will be critical to the BBC as a whole, and therefore to licence fee payers, in the immediate years ahead.

The recently announced merger of Worldwide and Studios may lead to changes in the detail of the BBC's future plans for its commercial activities. However, the BBC expects many of these plans to remain unchanged, including the following:

- Increasing the financial returns to the BBC from the parts of the commercial activities currently known as Worldwide. In October 2015, the BBC set Worldwide a target to deliver £1.2 billion of financial returns between 2017-18 and 2021-22, a 21% increase on the previous five years. The BBC has great flexibility over how it builds up these returns, as it has not publicly specified the proportion that it aims to take as dividend payments or the proportion that will come in the form of contributions to BBC programme costs.
- Securing the success of Studios, in terms of its ability both to continue making a wide range of content for the BBC, at a time when more PSB commissions will be subject to competitive tender, and to win commissions from other national and international broadcasters.
- Putting Global News on a sustainable financial footing, in the light of risks to some of its existing sources of revenue, including through reducing costs and, potentially, alternative sources of income for some of its operations.
- Challenging Studioworks to make the most of its expanded capacity, following the reopening of studios in White City (paragraphs 3.12, 3.16, 3.17, and 3.24 to 3.26).

Concluding remarks

17 The BBC's commercial activities are undertaken on behalf of licence fee payers and exist to create value by exploiting the significant assets that licence fee payers have paid for. It is, therefore, a matter of public interest that these activities should be subject to independent scrutiny to help the BBC optimise the value for money it delivers.

18 The BBC has created value through its commercial activities to date, both in terms of dividends and other financial returns, and in terms of the contributions that these activities have made to its overarching public purposes. Commercial activities are of growing importance to the BBC's health and success, in part as a result of the BBC's most recent funding settlement with government and in part because of wider media trends and the BBC's strategic response to those trends.

19 As we begin our work auditing this part of the BBC's operations, it is already clear to us that the BBC faces a number of important challenges and risks. We will examine some of these in greater detail in future value-for-money reports. In particular, we note the following matters:

- a Developing new BBC-owned IP to drive growth.** Owning IP, primarily in the form of TV series and formats, is the cornerstone of the modern media industry. It has recently increased in importance relative to other parts of the media business, such as owning television channels or earning commissions from the sale of distribution rights. By creating Studios and through Worldwide's investment in independent production companies, the BBC has expanded its opportunities to create new IP to exploit. But both Studios and Worldwide (and, from April 2018, the new merged organisation) will need to manage risk carefully, and foster the right creative and commercial culture, to ensure that the funds they invest have the greatest impact possible in a crowded marketplace.
- b Setting meaningful targets to drive financial performance.** In October 2015, the Director-General set Worldwide a target to deliver £1.2 billion of financial returns to the BBC from 2017-18 to 2021-22. Since then, there have been continued changes to Worldwide's operating environment, and the BBC itself has made significant changes to the scope of both its PSB and commercial activities, in particular establishing Studios as a commercial subsidiary in April 2017 and proposing the merger of Studios and Worldwide from April 2018. The BBC may now wish to consider whether its financial returns target remains relevant or whether it could be improved, given both the changes that have occurred and the flexibility that currently exists to meet the target through a combination of contributions to BBC programmes (a cost to Worldwide that may or may not turn out to be profitable) and a share of profits.
- c Striking the right balance between paying dividends to PSB and increasing investment in the commercial activities.** In the coming years, the BBC and its Board will need to keep in view the relative merits of taking higher dividend payments to alleviate immediate financial constraints in PSB, and leaving more funding with the commercial subsidiaries where there is demonstrable potential to increase the value of BBC assets longer term. To allow it to assess retrospectively the impact of its choices, the BBC will need to keep a detailed account of its rationale for the level of dividend it takes.

- d Ensuring that the Board and others charged with oversight have meaningful and consistent information about commercial subsidiaries' performance at an appropriate level of detail.** The Board is not in the same position as a shareholder, but it is vital that in future it is able to think and act like a shareholder with regard to the commercial subsidiaries whenever necessary. It will need routine access to a wide range of commonly used commercial metrics and benchmarks, such as margin and return on capital employed, that provide the right level of detail to aid good decision-making and a good understanding of risk in commercial activities. As a minimum, the level of detail will need to be sufficient to meet Ofcom's requirement that the BBC inform it when a given line of business is not making an appropriate commercial rate of return. In taking decisions about the future of the commercial activities, the BBC will always have to consider financial data alongside evidence about the contribution an activity makes to the public purposes. It is important that the financial arguments in favour of, or against, a particular decision are always established separately from public purpose considerations, as far as possible.
- e Embedding a new culture of transparency in the commercial subsidiaries.** The Royal Charter has placed a greater expectation of transparency on the BBC's commercial activities than previously, including through our new audit rights and Ofcom's new regulatory role. This is fitting, especially given the expanded importance of commercial activities to the BBC as a whole. The BBC is putting significant corporate energy into adapting to these new demands and making the necessary cultural change. The Board will want to assure itself in the coming years that, across the subsidiaries and at BBC Group level, the BBC is taking a consistent approach to transparency, in line with the spirit of the new arrangements.

Part One

Scope and set up of the BBC's commercial activities

1.1 This part describes the scope of the BBC's commercial activities, including their basis in the BBC's Royal Charter. It explains how the BBC's commercial subsidiaries are organised, overseen and regulated. The latest Charter introduced new arrangements for auditing the commercial activities, including giving the Comptroller and Auditor General new powers to examine their value for money from April 2017.

Scope of the BBC's commercial activities

1.2 The BBC is the UK's main public service broadcaster. Its constitutional basis is a Royal Charter which establishes its independence, primary mission and public purposes. The latest Charter was issued in December 2016, came into force in January 2017, and will last for 11 years. Alongside public service broadcasting (PSB), it permits the BBC to undertake commercial activities, provided they:

- fit the BBC's mission and public purposes;
- are not funded through licence fee income; and
- are undertaken with a view to generating a profit.

1.3 An accompanying Framework Agreement between the BBC and the Department for Digital, Culture, Media & Sport provides further detail, including that any BBC commercial activity must satisfy the following four commercial criteria:

- fit with the BBC's mission and public purposes;
- exhibit commercial efficiency;
- not jeopardise the reputation of the BBC or the value of the BBC brand; and
- not distort the market or create an unfair commercial relationship due to its relationship to the BBC's public services or other activities.²

² The commercial activities are distinct from the BBC's trading activities. Trading activities, while also commercial in nature, are not designed with the primary aim of making a profit, although they may do so incidentally. Examples of trading activities include the sale of excess capacity in resources held by the BBC's PSB divisions and the licensing by PSB of rights to programmes created for the purpose of broadcasting in the UK. The BBC's trading activities are not within the scope of this report.

1.4 The BBC began undertaking commercial activities many decades ago, mainly focusing on selling finished BBC programmes to other countries: it incorporated BBC Enterprises Limited, the forerunner of BBC Worldwide, in 1979. The commercial activities have grown substantially in recent decades. In 2016-17, total revenue from these activities was £1.2 billion, and, in April 2017, they employed 4,900 staff.³ These activities, therefore, constitute a significant business in their own right and in comparison with other major UK media companies (**Figure 1**). They compete with these companies and also, increasingly in recent years, with new, well-financed global companies, such as Netflix and Amazon.

Figure 1

The scale of the BBC's commercial activities

The BBC's commercial activities constitute a significant business in their own right and in comparison to other UK media companies

	Revenue (£m)	Profit after tax (£m)
BBC commercial activities	1,196	39
ITV Group	3,064	452
Channel 4	995	(18)
Sky	12,916	691

Note

1 All figures are rounded to the nearest million, and are taken from the organisations' most recent published annual accounts.

Source: National Audit Office analysis

1.5 The BBC cannot directly undertake commercial activities, but must do so through commercial subsidiaries. It currently has four main subsidiaries of varying size and complexity, which run its commercial activities. They are underpinned by a range of commercial models and operate in many different markets:

- BBC Worldwide (Worldwide) is the BBC's largest subsidiary, accounting for about 90% of the BBC's commercial revenue in 2016-17. It sells and distributes British TV content and formats both in the UK and internationally, while also licensing or producing local versions of popular BBC shows (for instance, *Dancing with the Stars*, a version of *Strictly Come Dancing*, in a number of countries). It operates BBC-branded channels abroad, provides licences to third parties to produce merchandise and consumer goods (eg DVDs, magazines, toys and games), and owns stakes in other media companies including UKTV.

³ The figure of £1.2 billion is distinct from the BBC's 2016-17 licence fee income of £3.8 billion, which it received to fund its PSB operations. The figure excludes the costs incurred by the commercial activities in generating this revenue and relates to a period before the creation of Studios as a commercial company in April 2017.

- BBC Studios (Studios) is the BBC's second-largest subsidiary in terms of revenue. It has only existed as a commercial company since April 2017 (**Figure 2**). It creates and produces TV, radio and digital content for the BBC and other clients, and is seeking to build a portfolio of intellectual property (IP) whose secondary value it can exploit in the future.
- BBC Global News (Global News) provides international English-language news services overseas via the BBC World News TV channel and the BBC's international website BBC.com. It earns revenue from advertising sales and payments from other media companies that offer its channel to their subscribers.
- BBC Studioworks (Studioworks) provides studio and post-production facilities, equipment and crews to the BBC and other clients.

1.6 Two of the subsidiaries, Worldwide and Global News, have a substantial international presence, with subsidiaries registered in 16 countries (**Figure 3** overleaf). Studios and Studioworks are based in the UK. Studios has seven production bases across the UK,⁴ while Studioworks operates from Elstree and White City in London.

Figure 2 Creating BBC Studios

Creating Studios as a commercial subsidiary in April 2017 from parts of the BBC's in-house production operations has been the most significant change to the commercial activities in recent years.

During the period of the previous Royal Charter, BBC in-house production was guaranteed the right to make 50% of BBC output in network TV drama, comedy, entertainment, factual and daytime genres. It could bid for a further 25% alongside independent production companies in the so-called 'window of creative competition' (the WOCC), while the remaining 25% was only available to qualifying independent companies.

With the agreement of the new Charter, 25% of the BBC's commissioning budget remains reserved for independent companies. The in-house guarantee has been removed and the BBC is required to subject this part of its programming to full competition. By 31 December 2018, the BBC must open up to full competition at least 40% of the hours that were previously subject to an in-house guarantee, with 100% of the guarantee being opened to competition by the Charter's end in 2027.

Alongside the removal of the in-house guarantee, the BBC decided to create BBC Studios as a commercial company, allowing BBC producers to compete for the first time to make programmes for other broadcasters and media companies. Studios now competes for new BBC commissions and re-commissions alongside external producers in the market, while also bidding for work from other commissioners in the UK and internationally.

The BBC's aim is for Studios to be a self-sustaining, profitable business that creates new IP, in the form of TV and radio series, formats and digital content, for the BBC as a whole to exploit.

Currently, Studios makes some of the best-known BBC series, including *Strictly Come Dancing*, *EastEnders* and *Blue Planet II*.

Note

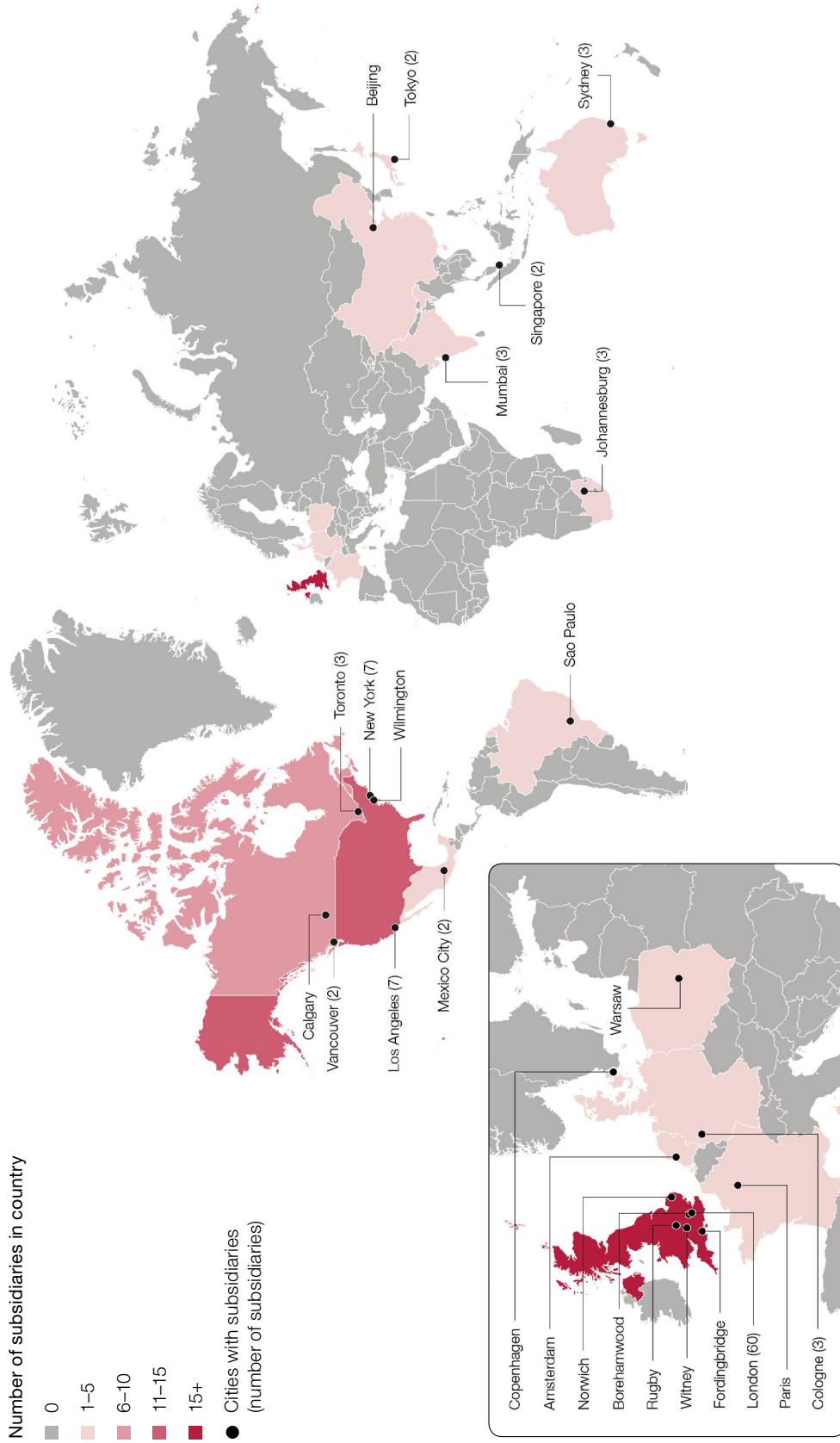
- 1 News and news-related current affairs genres are excluded from the move to full competition under the current Charter. News is excluded from all competition, while for network news-related current affairs, 40% of these will be produced in-house, 40% by independent producers, and 20% after full competition.

Source: National Audit Office analysis of BBC documents

4 The bases are in Belfast, Birmingham, Bristol, Cardiff, Glasgow, London, and Salford.

Figure 3
The global presence of the BBC's commercial subsidiaries

The BBC has commercial subsidiaries registered in 16 countries across the world



Notes

- 1 Worldwide organises its operations according to key markets: the UK; North America (including Latin America); Australia and New Zealand; and the rest of the world.
- 2 Global News has companies registered in the UK, North America, Japan, India, and Singapore.

Source: National Audit Office analysis of BBC documents

The organisation of the BBC's commercial activities

1.7 The BBC's four main subsidiaries are contained in a single holding company, BBC Commercial Holdings (Commercial Holdings). In addition, Studios and Worldwide belong to a further holding company, BBC Ventures Group (Ventures Group) (**Figure 4** overleaf). Until October 2017, Studioworks also belonged to Ventures Group, but the BBC removed it to allow Ventures Group to focus on the creation and exploitation of content and the related IP rights. This change was connected with the BBC's announcement, in November 2017, of its intention to merge Worldwide and Studios, the two main subsidiaries left in Ventures Group, from 1 April 2018, to create a new commercial entity, also to be known as BBC Studios. The structure of the commercial group may change further following this merger.

1.8 For operational purposes, all the main subsidiaries are run as individual consolidated businesses. However, three of them – Worldwide, Studios and Global News – have subordinate subsidiaries of their own. We have not examined the specific purpose of all the BBC's subsidiaries as part of this review, but a large number exist to facilitate the main subsidiaries' business operations in ways that are normal for international media organisations. These include subsidiaries to allow the BBC to access industry-standard TV tax credits, to embody collaborations with other organisations, to comply with regulatory and legal requirements for corporate entities in foreign countries, and to ring-fence the risks associated with new projects. As at July 2017, the BBC had 110 commercial subsidiaries in total, including its holding companies and the four main subsidiaries and their subordinates. Of the 110, 93 (85%) related to Worldwide, comprising the main company itself, 62 wholly owned subsidiaries, 22 associate companies,⁵ seven joint ventures,⁶ and one trust.

1.9 The main subsidiaries all have processes in place to review the proposed creation of new subordinate subsidiaries. The type of subsidiaries has changed over time, and the total number has fallen by 23%, from 142, since March 2012. This has been driven mainly by Worldwide's disposal or closure of some of its subsidiaries. Associate companies and joint ventures form an increasing proportion of Worldwide's portfolio, accounting for 31% of its subsidiaries in July 2017, compared with 22% in March 2012, due to Worldwide's recent strategy of acquiring equity stakes in independent production companies. The number of BBC commercial subsidiaries is in line with other international media companies operating in the UK – in 2016-17, ITV owned 437 companies, while Endemol Shine Group owned around 120.

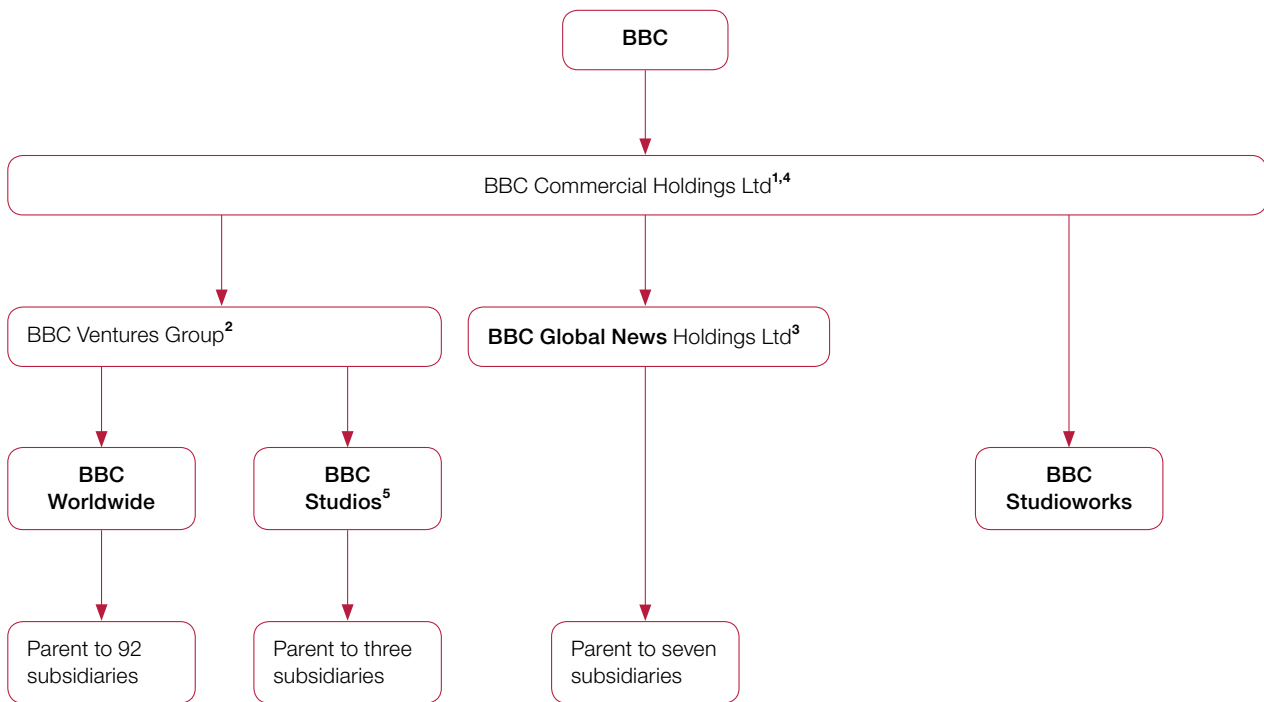
⁵ Associate companies are companies that are not fully owned by the BBC but over which it has a significant influence.

⁶ Joint ventures are companies in which the BBC has shared or joint control with another party and where it has rights to the net assets of the arrangement.

Figure 4

The BBC's commercial group

The BBC's commercial subsidiaries are organised in a group structure



➔ Parent/subsidiary relationship

Notes

- 1 BBC Commercial Holdings holds the debt facilities on behalf of all the BBC's commercial activities and lends funds from these facilities to subsidiaries at a commercial rate. It is through this company that the commercial subsidiaries make dividend payments to the BBC.
- 2 Any dividend payments from subsidiaries of BBC Ventures Group are paid to Commercial Holdings via Ventures Group.
- 3 This is the holding company for the Global News group of companies, including BBC.com Limited and BBC Global News Limited. The group is managed as a single business.
- 4 BBC Commercial Holdings has two direct subsidiaries that are not shown: BBC Store Limited and BBC Children's Productions Limited. BBC Store's operations were run by BBC Worldwide. BBC Children's Productions is a special purpose vehicle enabling the BBC to access tax credits from the UK government for the production of high-quality children's programmes. It is not a subsidiary of BBC Studios as the production of children's programming, as a genre, remains within the BBC's public service broadcasting.
- 5 In May 2017 the BBC transferred from Commercial Holdings to Studios three existing special purpose vehicle subsidiaries which enable the BBC to access tax credits from the UK government for the production of high-quality comedy, drama, and natural history programmes.

Source: National Audit Office analysis of BBC information

Governance and oversight

1.10 In April 2017, overall responsibility for oversight of the BBC's commercial activities moved to the new BBC Board, following the abolition of the BBC Trust. The Royal Charter establishes specific responsibilities for the Board with regard to the BBC's commercial activities. These include ensuring that the BBC has appropriate arrangements in place to assess the effectiveness of the commercial activities, and considering proposals for material changes to them.

1.11 The main subsidiaries are all ultimately accountable to the BBC Board, but each also has its own Executive Committee of senior managers, responsible for strategic decision-making and day-to-day operations (**Figure 5** overleaf). Additionally, Global News has a direct functional relationship with the PSB part of the BBC, as it belongs to the World Service Group within BBC News. This relationship exists to ensure a coherent editorial approach across the BBC's news output.

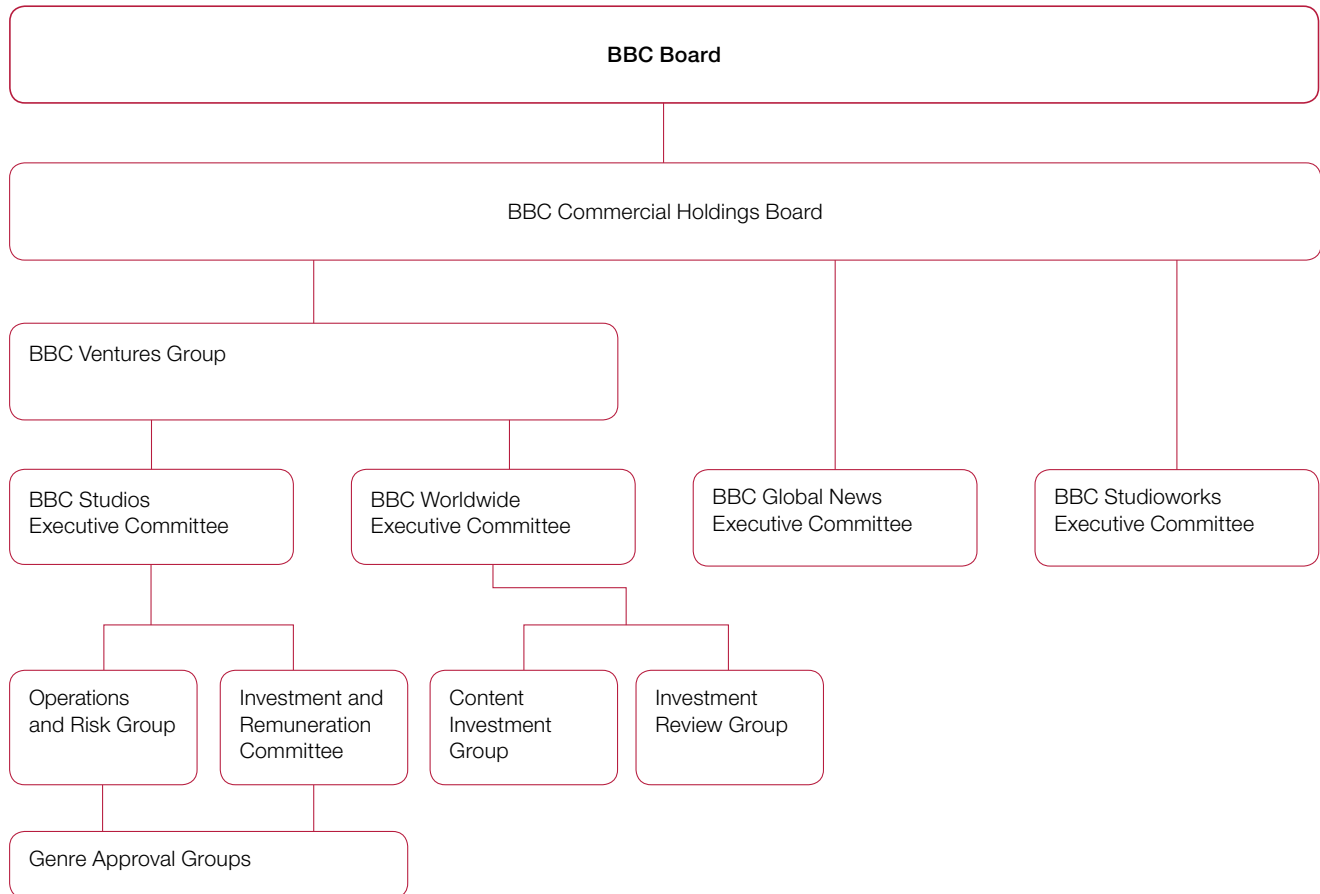
1.12 Between the BBC Board and the main subsidiaries' boards, the Board of Commercial Holdings now plays an important role in governance and oversight. Up to October 2017, the Commercial Holdings Board was only formally responsible for overseeing borrowing by the main subsidiaries and receiving and managing dividend payments from Worldwide. In contrast, the Board of Directors of each of the main subsidiaries was responsible for oversight, for example taking strategic decisions and reviewing performance. In October 2017, the BBC expanded the role of the Commercial Holdings Board to include oversight of the operations and performance of all four main subsidiaries, providing a forum for greater scrutiny than the main BBC Board could offer, given that board's wide overall remit. At the same time, the BBC reduced the role of the Board of each of the main subsidiaries to simply the performance of the directors' statutory responsibilities, for example, approving any dividend payments and the annual accounts.

1.13 The BBC also expanded the membership of the Commercial Holdings Board to include, for the first time, two non-executive directors. Neither of them are members of the main BBC Board, and none of the non-executive members of the BBC Board sit on any of the boards of the commercial subsidiaries. Although the BBC has agreed terms of reference for the enhanced Commercial Holdings Board, it is not yet clear how the various boards will interact in practice, particularly given the planned merger of Worldwide and Studios (paragraph 1.7).

Figure 5

Governance arrangements for the BBC's commercial activities, from October 2017

The main commercial subsidiaries are ultimately accountable to the BBC Board



Notes

- 1 BBC Ventures Group has a minimal role in governance, related to the passing on of dividends. In future, following the merger of Worldwide and Studios on 1 April 2018, it may have an expanded role.
- 2 The main subsidiaries also have boards of directors whose role has been limited from October 2017 to the performance of the directors' statutory responsibilities.

Source: National Audit Office analysis of BBC documents

Regulation

1.14 In April 2017, Ofcom replaced the BBC Trust as the BBC's regulator. Among other responsibilities, Ofcom now issues the BBC with the operating licence for its PSB services.⁷ It also has powers to regulate the commercial activities, with a primary focus being to ensure that the relationship between parts of the BBC funded by the licence fee and the BBC's commercial activities does not lead to market distortion or an unfair competitive advantage. Ofcom can assess material changes in the BBC's commercial activities, again with the aim of preventing market distortion or an unfair competitive advantage. It can ultimately require the BBC to pay a financial penalty of up to £250,000 for non-compliance with its regulatory requirements.⁸

1.15 An important part of Ofcom's regulation relates to the transactions that occur between the BBC's PSB divisions, funded by the licence fee, and its commercial subsidiaries (**Figure 6** on pages 22 and 23). All four main subsidiaries purchase support services from PSB, including business functions such as finance and human resources. Subsidiaries also make payments to PSB for the use of the BBC brand, and, in the case of Worldwide and Global News, for the right to show and distribute BBC programmes. Meanwhile, PSB's Content Division makes payments to Studios for creating new programmes. Ofcom requires the BBC to have sufficient controls to ensure that the trading across the boundary between PSB and the commercial activities does not cause market distortion or create an unfair competitive advantage.⁹ Among other things, Ofcom means by this that goods and services should be provided at market rates that do not contain hidden subsidies. Where it is not possible to identify a market rate, Ofcom has set out a pricing hierarchy involving the use of benchmarking or other costing methods.

1.16 At a high level, many of Ofcom's requirements are similar to those of the previous regulator, the BBC Trust. For this reason, the BBC has decided to continue with elements of its pre-existing fair-trading arrangements, including an annual fair-trading audit by an accountancy firm. Some third parties, such as the Producers Alliance for Cinema and Television (PACT), the UK trade association for independent content producers, and the Guardian Media Group, have signalled concerns about the adequacy of aspects of the BBC's fair-trading arrangements and the pricing regime for the BBC's services to its subsidiaries.¹⁰

7 All UK broadcasters licensed by Ofcom are subject to Ofcom's Broadcasting Code, which sets standards covering programmes on TV and radio, sponsorship, product placement, fairness, and privacy. In addition, UK public service broadcasters are subject to more detailed regulation by Ofcom, although its regulation of other public service broadcasters, such as ITV, Channel 4, Channel 5, and S4C, is not as wide-ranging as its regulation of the BBC's PSB services. For instance, Ofcom regulates all the BBC's UK TV channels, while only the main TV channels of the other public service broadcasters are subject to more detailed regulation.

8 In addition to its new responsibilities, Ofcom has a long-standing role in providing operating licences to Global News for its BBC World News channel and to BBC Worldwide for channels it broadcasts across the European Union.

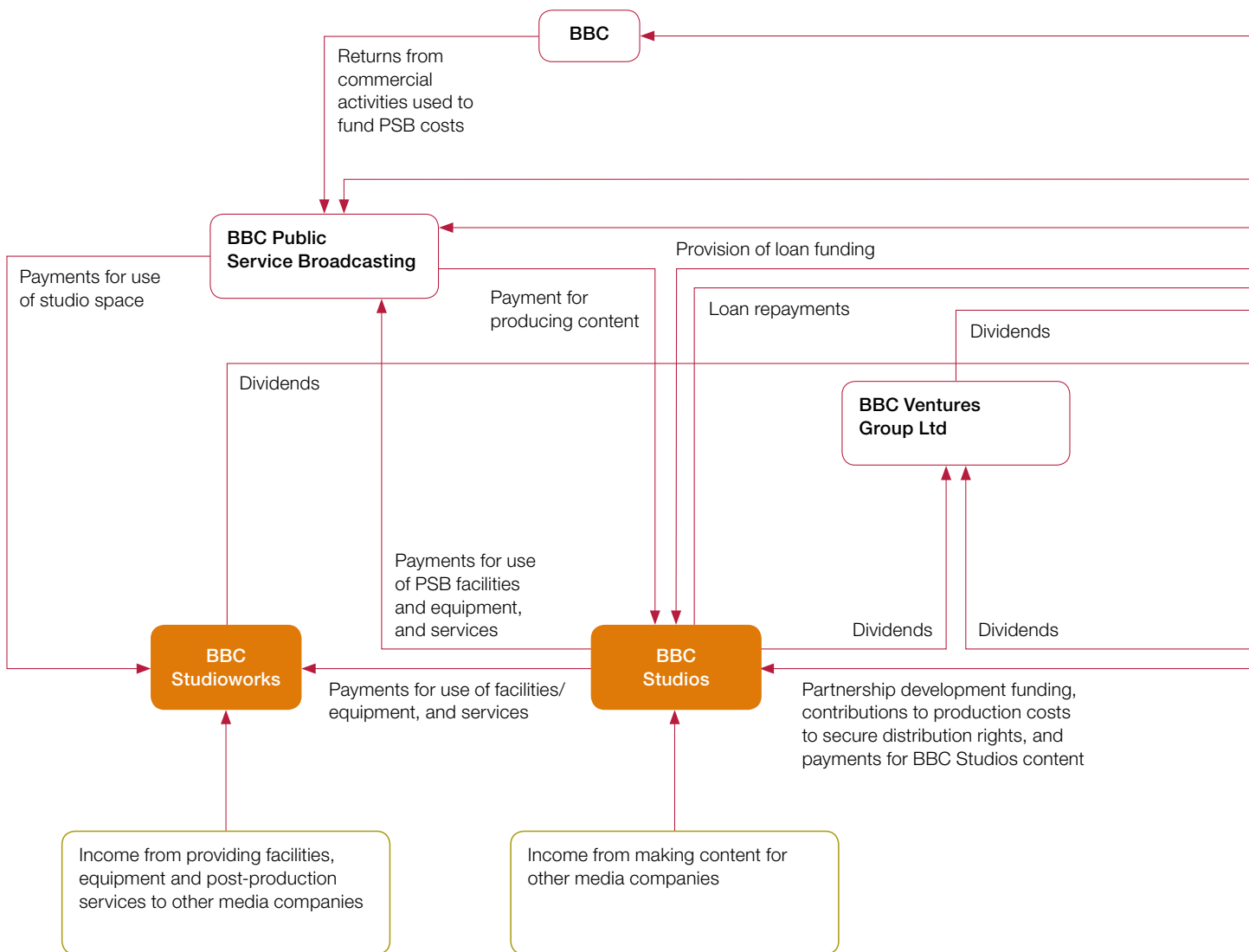
9 Ofcom, *The BBC's commercial and trading activities: Requirements and guidance* (26 July 2017), available at: www.ofcom.org.uk/__data/assets/pdf_file/0025/99412/bbc-commercial.pdf

10 See, for example, responses to Ofcom's consultation on the BBC's commercial activities on Ofcom's website: www.ofcom.org.uk/consultations-and-statements/category-3/bbc-competition-statement

Figure 6

Commercial subsidiary transactions with other parts of the BBC, October 2017

There are numerous transactions between each of the BBC's commercial subsidiaries and between these subsidiaries and the BBC's PSB divisions

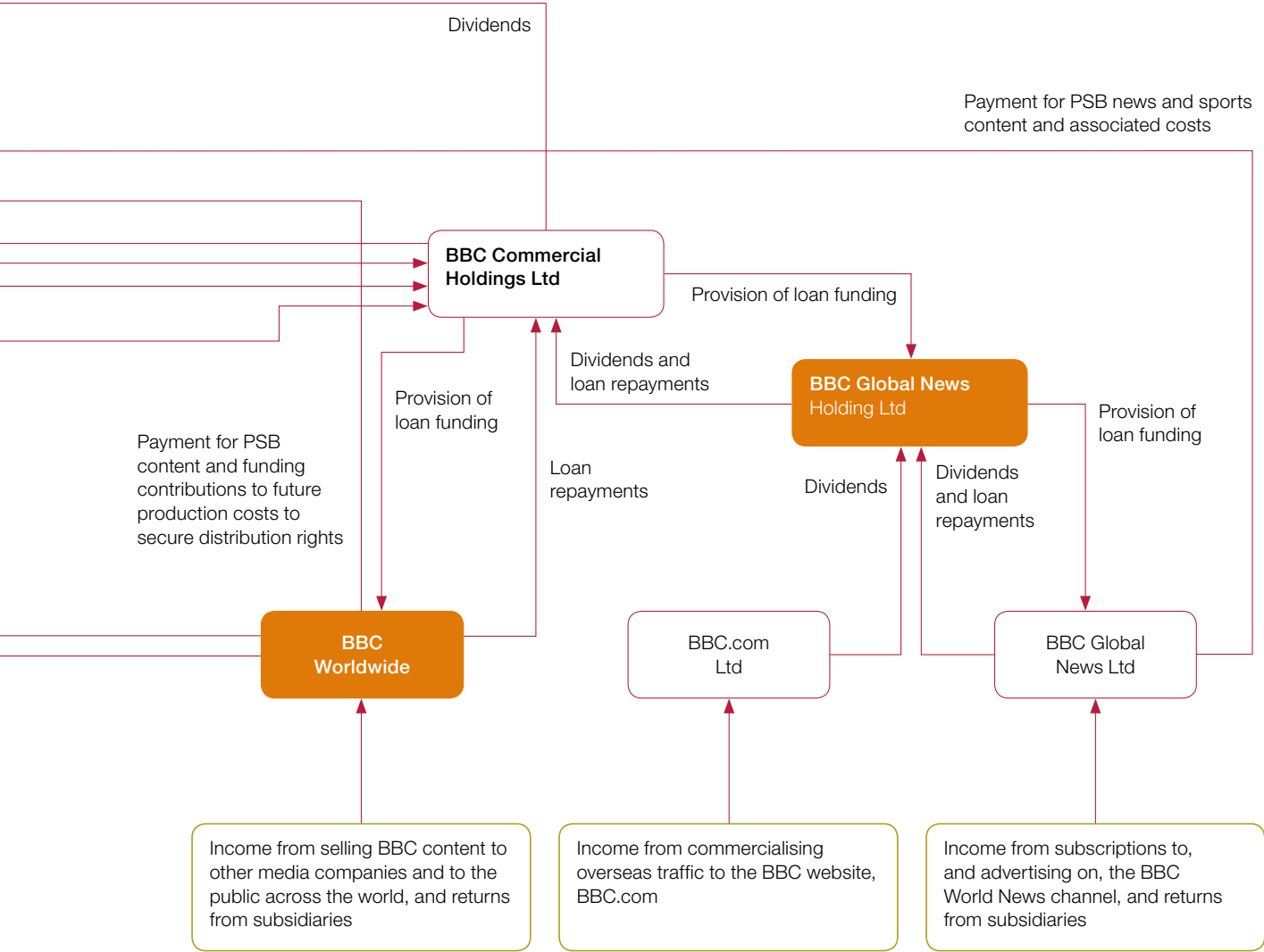


- The BBC's four main commercial subsidiaries
- External returns
- ➔ Transactions

Note

1 Not shown in the diagram are the numerous support services that the main subsidiaries purchase from PSB.

Source: National Audit Office analysis of BBC documents



1.17 In its initial months as regulator, Ofcom required the BBC to publish more information about the methodologies it uses to calculate the prices it charges subsidiaries for its services. Ofcom has also required the BBC to provide it with information on the financial performance and rate of return of each line of business in each of the commercial subsidiaries, and to notify it if any of these lines of business is not making a commercial rate of return. As at December 2017, Ofcom is continuing to review the information it has received from the BBC and will develop its regulatory approach and reporting requirements further in the coming months.

1.18 With regard to Studios, the Framework Agreement supporting the Charter requires Ofcom to decide within two years of April 2017 whether to review this subsidiary's operations. It is not yet clear how the scope of any such review might be affected by the BBC's decision to merge Studios and Worldwide.

Part Two

Performance of the BBC's commercial activities

2.1 This part examines how the BBC's commercial activities have performed in recent years, both in terms of their commercial performance and their contribution to the BBC's public purposes. Data on the performance of BBC Studios (Studios) are not yet available as Studios only became a commercial company in April 2017.

Commercial performance

2.2 The BBC uses three principal measures to track the commercial performance of its main subsidiaries: revenue, cash flow and profitability. These are described in detail below, with a consolidated set of financial information available at Appendix 3.

Revenue

2.3 The BBC's commercial activities have generated over £1.1 billion of revenue annually in each of the last five years (**Figure 7** overleaf). Revenue from commercial activities has been broadly stable across the five years, being some 3% lower in 2016-17 than 2012-13.

2.4 In recent years, BBC Worldwide (Worldwide) has generated approximately 90% of the BBC's commercial revenue. Over the period since 2012-13, Worldwide's revenue has not increased, being 5% lower in 2016-17 than in 2012-13. Reasons for this include a long-term decline in sales of consumer products, such as DVDs,¹¹ the transfer to BBC Global News (Global News) of the BBC.com website business in 2012-13, and the strategic decision to sell a share in the BBC America channel to an American broadcaster in 2014-15 (**Figure 8** on page 27). At the time Worldwide understood that, as a result of selling part of BBC America, it would have to share revenue and profit with its new partner. However, it considered that it would be in its long-term interests to have a large-scale partner in the critical US television market. Worldwide also received proceeds from the sale.

2.5 In 2016-17, according to an industry survey, Worldwide remained the largest UK TV distributor, responsible for 28% of all UK distributor revenues.¹² Content sales from these distribution activities contributed £422 million (40%) to Worldwide's total revenue in 2016-17.

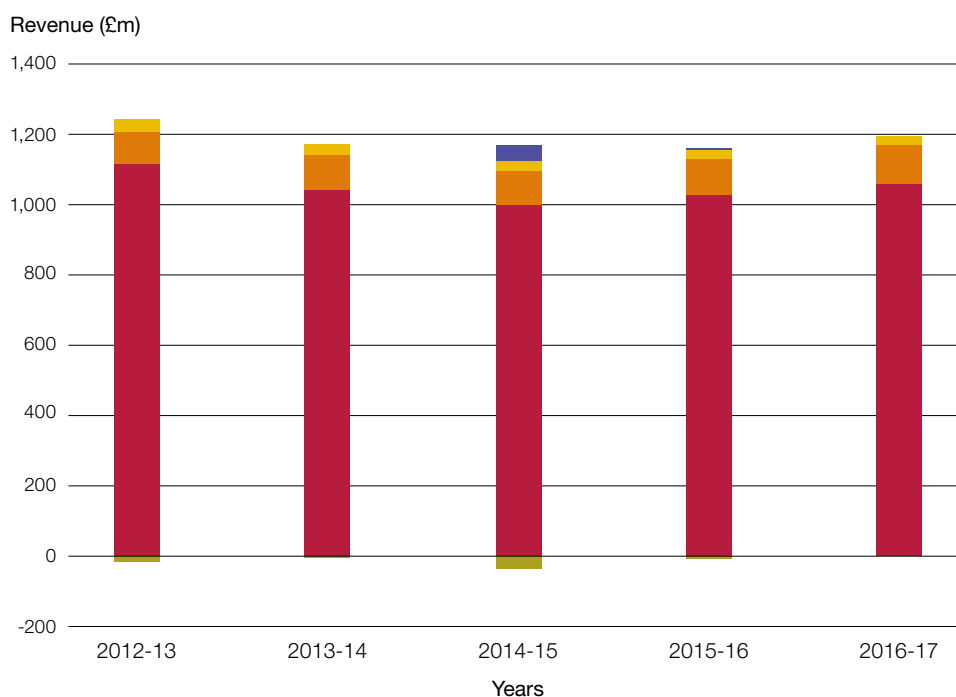
¹¹ Worldwide's revenue from sales of consumer products fell by almost 20%, from £181.6 million in 2012-13 to £146 million in 2016-17.

¹² Broadcast, *Distributors Survey 2017*.

Figure 7

Revenue from the BBC's commercial activities, 2012-13 to 2016-17

The BBC's revenue from its commercial activities has been broadly stable over the last five years



■ BBC Worldwide	1,115.8	1,042.3	1,001.8	1,029.4	1,059.9
■ BBC Studioworks	37.6	28.6	29.5	24.8	26.0
■ BBC Global News	91.7	100.9	93.7	101.4	110.4
■ Holding companies and others	0	0	44.3	5.8	0
■ Group adjustments	-16.7	-2.6	-36.8	-6.0	0

Source: National Audit Office analysis of published accounts of BBC Commercial Holdings

2.6 Global News' revenue was 20% greater in 2016-17 than 2012-13. This was in spite of a significant decline in income from TV advertising, which brought in £33.7 million in 2012-13 but only £26 million in 2016-17. The drop in advertising was offset by the transfer from Worldwide of the BBC.com website business. This transfer occurred because the BBC wanted to join the digital BBC.com business with the TV World News business.

2.7 BBC Studioworks' (Studioworks) revenue fell by 31% between 2012-13 and 2016-17. This was largely due to a reduction in the company's core studios from nine to three, the loss of work arising from the relocation of BBC Sport and BBC Children's from London to Salford in 2012-13, and the closure of its loss-making Digital Media Services division in 2015-16.

Figure 8

BBC America

In October 2014, BBC Worldwide sold a 49.9% stake in its BBC America channel, also known as the New Video Channel America, to AMC Networks (AMCN) for £123 million.

In selling part of what had previously been a wholly owned subsidiary, Worldwide wanted to access AMCN's greater negotiating power, sector knowledge and audience access in the United States to consolidate, and if possible improve, BBC America's market position.

The deal committed both partners to co-funding a number of productions each year and both have the option of exiting the partnership after years 15 and 25. Worldwide maintains a 50.1% stake, and retains a majority on BBC America's Board and editorial committee, but delegates day-to-day control to AMCN. The deal contains exit provisions to allow the partnership to end outside of agreed timeframes.

Source: National Audit Office analysis of BBC documents

Cash flow

2.8 The BBC closely monitors the cash flow of its commercial activities in order to understand the impact on its borrowing requirements, as the Department for Digital, Culture, Media & Sport has placed a limit on its net borrowing for commercial purposes of £350 million.¹³ The BBC borrows for commercial activities through BBC Commercial Holdings (Commercial Holdings). Commercial Holdings has arranged a £383 million borrowing facility which it can draw on either for its own use or to lend to the main subsidiaries at commercial rates of interest. Alternatively, it can lend to the subsidiaries from its own reserves, again at commercial rates.

2.9 Between 2012-13 and 2016-17, the value of Commercial Holdings' net borrowing for all the BBC's commercial activities did not exceed the £350 million limit (**Figure 9** overleaf). Over the same period, Commercial Holdings' use of its borrowing facility increased by 7% to £201 million. However, by using its cash reserves, Commercial Holdings was able to increase its lending to the main subsidiaries by much more than this. For example, its lending to Worldwide more than doubled to £198.5 million. By lending from Commercial Holdings' reserves, the BBC is able to avoid incurring the extra interest costs associated with additional use of the external borrowing facility.

¹³ "Net borrowing" is defined as all borrowing less cash balances and the value of short-term investments held.

Figure 9

Borrowing by the BBC's commercial subsidiaries, 2012-13 to 2016-17

Commercial Holdings increased its borrowing by 7% between 2012-13 and 2016-17 to £201.2 million

	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage change 2012-13 to 2016-17 (%)
	(£m)	(£m)	(£m)	(£m)	(£m)	
Total borrowing						
Commercial Holdings	187.5	157.2	209.4	231.9	201.2	7
Worldwide	79.2	99.4	135.8	167.9	198.5	151
Global News	34.4	36.6	47.4	54.1	53.1	54
Net borrowing¹						
Commercial Holdings	111.8	96.5	117.6	170.9	137.1	23
Worldwide	4.5	54.3	69.2	122.1	154.2	3,327
Global News	32.1	36.0	43.4	49.5	50.2	56

Notes

1 Studioworks has not borrowed from Commercial Holdings.

2 Figures in the table are from year-end and do not reflect movements to debt levels which occurred during the year.

Source: National Audit Office analysis of published accounts for Commercial Holdings, Studioworks and Worldwide, and management accounts for Global News

Profitability

2.10 The BBC undertakes all its commercial activities with a view to generating a profit. Assessing profitability is therefore central to performance management. Each year, the published accounts of the BBC Group report the headline profits of the BBC's main commercial subsidiaries. This measure represents the profits each subsidiary made from its normal business activities after taking account of all the costs normally incurred in the course of those activities. It excludes one-off costs arising from significant changes to the businesses, such as restructuring or the write-off of any losses following the closure of a line of business.

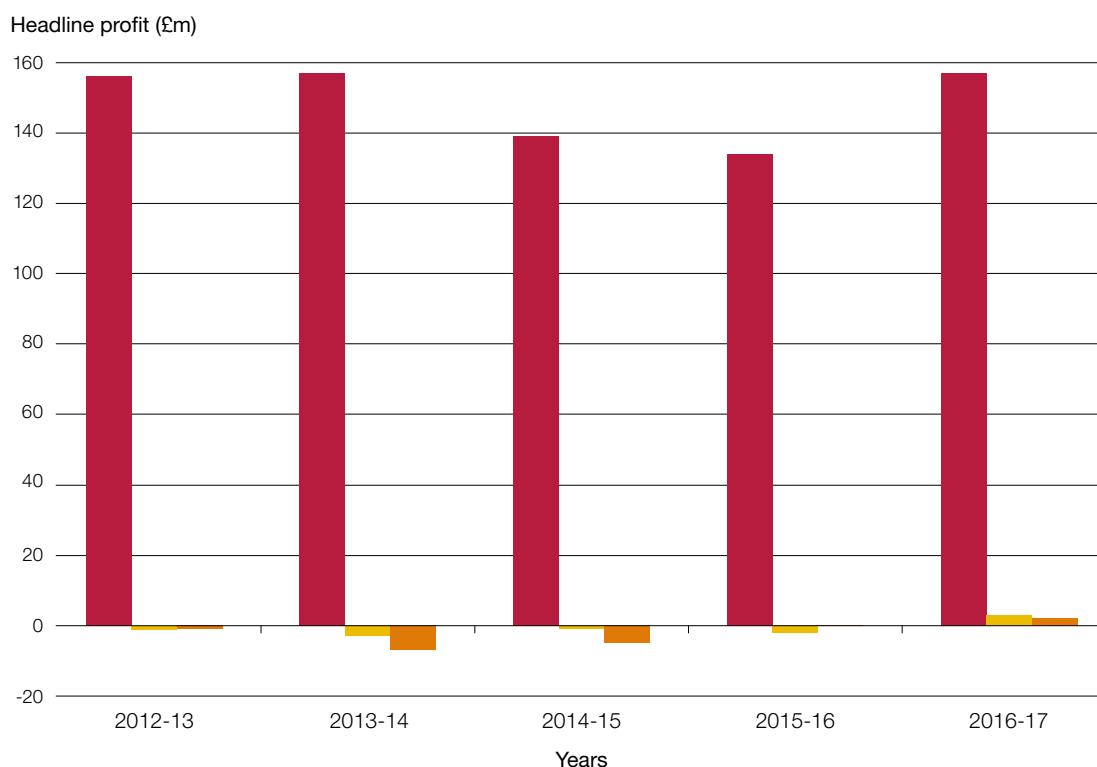
2.11 Worldwide generated by far the largest share of headline profits in every year between 2012-13 and 2016-17, and was the only profitable subsidiary until 2015-16 (**Figure 10**). Its headline profits dipped in 2014-15 and 2015-16, but recovered to total £157.3 million in 2016-17. Global News and Studioworks only moved into profitability towards the end of the period after making losses in earlier years. Global News made headline profits of £200,000 in 2015-16 and £2 million in 2016-17, and Studioworks £2.8 million in 2016-17.

2.12 We also analysed the main subsidiaries' profit after tax, also known as the bottom line. This measure represents the remaining profit a business has after taking account of all costs, including the one-off costs of change, tax, interest and depreciation.

Figure 10

Main commercial subsidiaries' headline profits, 2012-13 to 2016-17

Headline profit results for the main commercial subsidiaries have been mixed



■ BBC Worldwide	156.3	157.4	138.6	133.8	157.3
■ BBC Studioworks	-1.1	-3.0	-1.0	-2.1	2.8
■ BBC Global News	-0.8	-7.0	-4.6	0.2	2.0

Source: BBC Group and BBC Worldwide annual reports and accounts

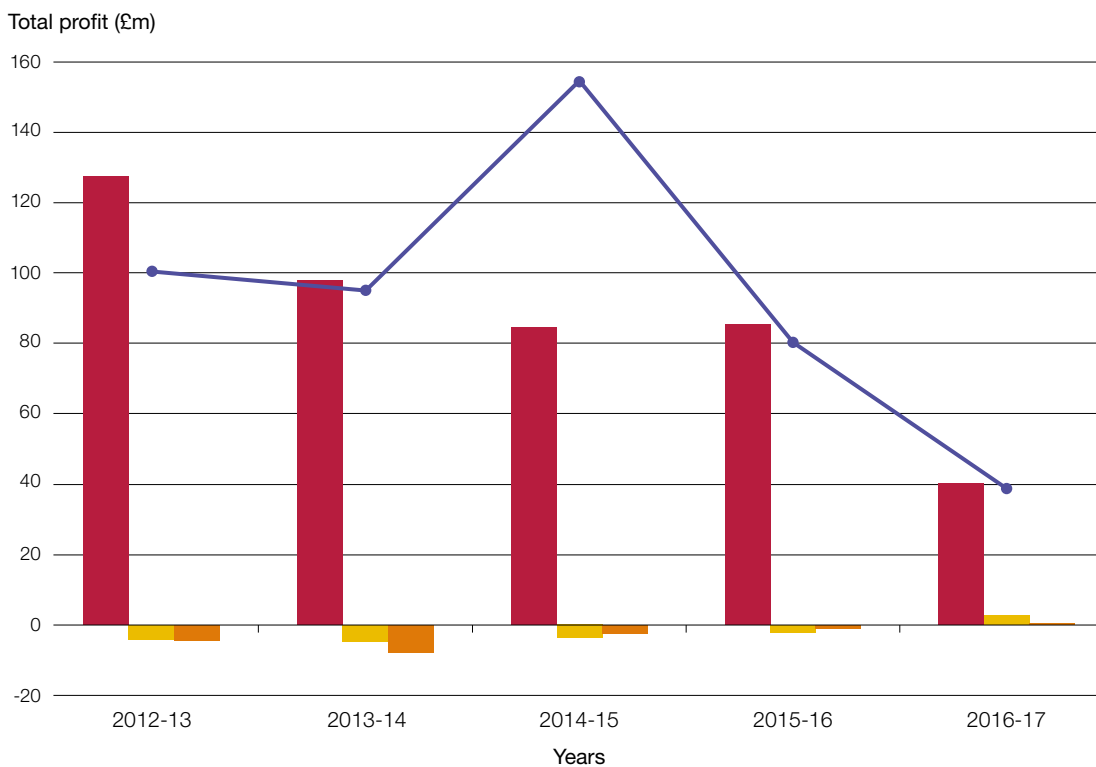
2.13 According to this measure, the commercial subsidiaries experienced a significant fall in profitability during the last five years (**Figure 11** overleaf). The BBC's total commercial profits after tax were 61% lower in 2016-17 than in 2012-13, £38.9 million compared to £100.6 million. This change was due to Worldwide's profit after tax being 68% lower, £40.4 million in 2016-17 compared to £127.6 million in 2012-13. As in the headline profit measure, both Global News and Studioworks were profitable in 2016-17 but had made losses in previous years.

2.14 This landscape review does not evaluate how well individual BBC subsidiaries are managed, nor does it seek to establish why profitability at particular subsidiaries has changed or why there are differences between profitability measures. However, our analysis of BBC documentation and other evidence indicates a number of developments that can help to explain recent trends.

Figure 11

Main commercial subsidiaries' profit after tax, 2012-13 to 2016-17

Profit after tax has fallen by 61%



■ BBC Worldwide	127.6	98.1	84.8	85.6	40.4
■ BBC Studioworks	-4.1	-4.6	-3.7	-2.1	2.8
■ BBC Global News	-4.4	-7.7	-2.4	-0.9	0.4
● Total profit	100.6	95.2	154.9	80.5	38.9

Notes

- 1 The individual profit figures for Global News, Studioworks and Worldwide, when added together, do not equal the figures for 'Total profit' for all commercial activities as the 'Total profit' figures are consolidated; that is, they exclude profits arising from transactions between the commercial subsidiaries. In contrast, the profit figures for the individual subsidiaries include profits made from transactions with each other.
- 2 The total profit figure for 2014-15 includes the extra dividend payments Worldwide made from its receipts from selling part of BBC America. In contrast, the Worldwide profit figure is calculated after the deduction of these payments.

Source: National Audit Office analysis of published accounts for Commercial Holdings, Studioworks and Worldwide, and management accounts for Global News

2.15 Worldwide's profits fell after 2012-13 in part as a result of its decision to sell a stake in BBC America, meaning that profits from the channel, which had previously flowed to Worldwide only, were now shared (Figure 8). In addition, in 2016-17, two large one-off costs explain most of the difference between headline profit and profit after tax:

- A cost of £67.9 million incurred due to a change in the accounting treatment for distribution rights, to reflect recent experience where the revenue accruing from ownership of these rights was being generated over a shorter period of time than was previously the case. Consequently, the BBC reduced the length of time over which it accounted for the costs of acquiring these rights to three years, thereby increasing the amount it charged annually for these costs. It also charged to its 2016-17 accounts the costs of those rights that it had bought more than three years previously, in line with this change.
- A cost of £12.5 million due to write-offs arising from the closure of BBC Store (Figure 12).

2.16 Early in the five-year period, Global News made significant editorial investment in its news channel. When advertising sales were lower than forecast, in line with wider industry trends, it implemented measures to reduce its costs in order to return to profitability.

Figure 12

Closure of BBC Store

In November 2017, Worldwide closed the loss-making BBC Store.

BBC Store was a Worldwide-operated business launched in November 2015 that allowed UK residents to buy and own digital copies of BBC shows. BBC Store was intended to take advantage of a growing download to own (DTO) market and to provide an alternative way for the BBC to monetise its content archive, in the face of declining DVD sales.

BBC Store required significant up-front investment of £17.5 million and the forecast payback period was longer than previous BBC investments. To reflect this, the BBC applied additional levels of editorial, marketing and fair-trading scrutiny during the approval stages. However, by the time BBC Store launched, consumer demand was already moving away from DTO and towards streaming video on demand services, meaning that the new business was less busy than expected.

After trying unsuccessfully to source new service partners, the BBC announced in May 2017 that it would close BBC Store. It made this decision due to ongoing poor sales and losses of around £400,000 a month. The closure of BBC Store resulted in Worldwide writing off £12.5 million in 2016-17.

The prompt decision to close BBC Store reflected one of the lessons that Worldwide had learned from its disposal in 2013 of Lonely Planet, after four years of poor trading performance, at a loss of £80 million.

Source: National Audit Office analysis of BBC documents

2.17 Studioworks sustained losses up to April 2016 in part because it incurred significant one-off costs, for example when relocating to Elstree to allow the old Television Centre site at White City to be redeveloped, and in part due to the performance of its Digital Media Services division (paragraph 2.7).

Overseeing commercial performance

2.18 The BBC reports quarterly to its Board on the three principal measures of commercial performance that it tracks – revenue, cash flow and profitability – providing information to Board members about each of the main subsidiaries. However, when reporting to the Board from April 2017, the BBC used different measures of profit for each of the subsidiaries, for example, reporting operating profit and profit before tax for Global News but gross profit and profit after tax for Studios (**Figure 13**). The BBC told us that it had focused on the financial indicators that best reflected each subsidiary's particular market and circumstances. In our view, this will have made it harder for the Board to compare the financial performance of the different commercial activities on a consistent basis. The reports to the Board also did not make regular use of a number of other commercial indicators that investors and analysts commonly use to judge and compare the health of companies. These include indicators such as margin and return on capital employed. In January 2018, the BBC introduced a standard set of profit measures for all four subsidiaries when reporting on their performance to the Commercial Holdings Board. It told us in February that it also intends to introduce a standard set of measures shortly in its reporting to the main BBC Board.

2.19 Since 2015-16, BBC management has commissioned two formal benchmarking reviews of Worldwide and one of Studios. The latest of these, in May 2017, found that Worldwide had higher levels of productivity and returns on capital employed than the median for its peers, but a lower margin. Management has used these exercises to inform business planning. However, it has not, as a matter of course, shared the findings of these exercises with the BBC Board. Thus, as at February 2018, the BBC had not shared the findings of the May 2017 Worldwide benchmarking with the Board. The Board is able to commission its own benchmarking if it considers this to be necessary.

Dividends

2.20 The level of dividends the subsidiaries pay is also an important way to assess their performance. Between 2012-13 and 2016-17, Worldwide was the only main commercial subsidiary to pay dividends. It made these payments to its parent company, BBC Ventures Group, which, in turn, paid dividends to its parent, Commercial Holdings. Commercial Holdings then made its own dividend payments to the BBC Group for the BBC to spend on its public service broadcasting (PSB) divisions. It is for the BBC to decide the level of dividends that is ultimately paid to PSB, after considering the cash requirements and wider business needs of both PSB and the commercial subsidiaries.

Figure 13

Reporting profitability

The BBC used different profit measures to report to its Board on the commercial performance of the main subsidiaries

Profit measure	Included in profit calculation		Subsidiary disclosing to Board
	Income elements	Cost elements	
Gross profit	Income from trading activity	Cost of sales	Studios
Operating profit	Income from trading activity	Cost of sales, operating costs, depreciation, amortisation, and exceptional items	Global News
Profit before interest, tax, depreciation and amortisation	Income from trading and non-trading activity	All expenditure except interest, tax, depreciation and amortisation	Worldwide
Profit before interest and tax	Income from trading and non-trading activity	All expenditure except interest and tax	Worldwide, Studioworks
Profit before tax	Income from trading and non-trading activity	All expenditure except tax	Global News
Profit after tax	Income from trading and non-trading activity	All expenditure	Studios

Source: National Audit Office analysis

2.21 In total, Worldwide paid £423 million of dividends between 2012-13 and 2016-17 (**Figure 14** overleaf). Over the same period, Commercial Holdings paid dividends of £312 million to the BBC Group, while retaining £111 million (26%) of the dividends Worldwide had paid. Of the £111 million, £83 million were dividends arising from the part-disposal of BBC America (paragraph 2.4).

2.22 Commercial Holdings' retention of dividends has contributed to an increase in its reserves from £122 million in March 2012 to £279 million in March 2017. The BBC has used these reserves to fund increased lending to its subsidiaries, including Worldwide (paragraph 2.9).

Figure 14

Dividend payments by commercial subsidiaries, 2012-13 to 2016-17

Worldwide made dividend payments of £423 million over the period, of which £312 million was paid to the BBC Group and £111 million was retained by Commercial Holdings

Dividend paid	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)	Total (£m)
Worldwide to Ventures Group	58	59	112	104	90	423
Ventures Group to Commercial Holdings	50	67	111	124	90	442
Commercial Holdings to BBC Group (ie PSB)	50	67	15	93	87	312
Difference between dividends paid by Worldwide and received by BBC Group	(8)	8	(97)	(11)	(3)	(111)

Source: National Audit Office analysis of published accounts for Commercial Holdings, Ventures Group and Worldwide, and of BBC documents

Contributions to the BBC's public purposes

2.23 The cash dividends that Worldwide's profitability enables constitute an important contribution to the BBC's PSB funding. Additionally, the commercial activities contribute to the BBC's public purposes in a number of other ways (**Figure 15**).

2.24 Alongside dividends, Worldwide makes up-front contributions to the financing of BBC programmes, such as *Blue Planet II*, which are shown on the BBC's PSB channels and other PSB services. It also pays PSB for the right to use intellectual property, including archive material and the BBC brand. Worldwide makes these payments in order to secure rights and content with which it seeks to make a profit. Worldwide's financial contributions to BBC programmes totalled £450 million over the last five years, increasing by around one third from £75 million in 2012-13 to £99 million in 2016-17 (**Figure 16** on page 36). Each year in its Annual Review, Worldwide combines the value of these payments with the value of dividends, and describes this as its financial return to the BBC. Between 2012-13 and 2016-17, Worldwide's total financial return to the BBC increased by 34% from £157 million to £211 million. This metric is unique to Worldwide and is not comparable with measures of financial performance used by other commercial media companies.

Figure 15

Contributions of commercial activities to the BBC's public purposes

Each of the main commercial subsidiaries makes strategic contributions in different ways

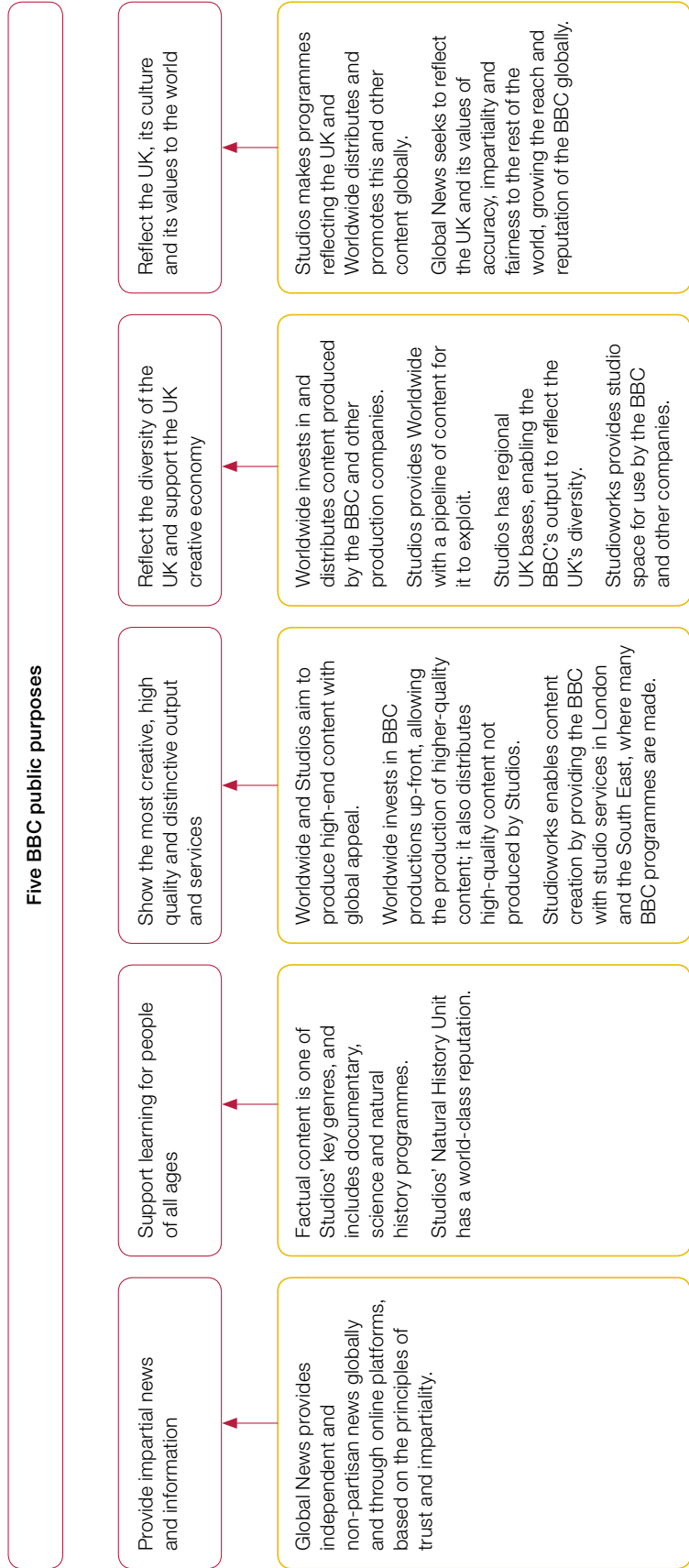


Figure 16

BBC Worldwide's financial returns to the BBC, 2012-13 to 2016-17

Worldwide's financial returns to the BBC increased between 2012-13 and 2016-17, totalling £989 million

	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)	Total (£m)
Contributions to BBC programmes	75	89	94	93	99	450
Dividends	58	59	44	89	90	340
Other ¹	24	26	20	24	22	116
Core returns	157	174	158	206	211	906
BBC America disposal dividend	0	0	68	15	0	83
Total returns	157	174	226	221	211	989

Note

1 The 'Other' category includes rights archive payments, brand fees, fees for the retransmission of the Wimbledon Tennis Championships, and fees for distribution rights for radio content.

Source: National Audit Office analysis of Worldwide documents

2.25 Among the BBC's key performance metrics for Global News, two aim to capture its contribution to the public purposes: the size of its global audience and the audience's views about the trustworthiness of the company and its content. Audiences for both the BBC World News TV channel and the BBC.com website increased significantly between 2012-13 and 2016-17 (**Figure 17**). Global News has also consistently been ranked top in terms of its trustworthiness, compared with seven other international news providers.

2.26 For Studios, the BBC has identified a number of key performance indicators for 2017-18, including audience metrics related to the programmes it makes and the percentage of its revenue generated from new business. For Studioworks, the BBC only monitors financial performance, although Studioworks' management also uses other indicators, such as studio and staff utilisation rates, to monitor its operational efficiency.

Figure 17

BBC Global News audiences, 2012-13 to 2016-17

Global News' audiences increased between 2012-13 and 2016-17

	2012-13 (million)	2013-14 (million)	2014-15 (million)	2015-16 (million)	2016-17 (million)
BBC World News channel					
24/7 subscribers	217	252	262	315	324
Total households	366	389	398	441	450
BBC.com website					
Monthly unique browsers	73	79	86	89	97
Page views	800	1,000	1,200	1,100	1,300

Note

1 All figures are rounded to the nearest million, apart from 'page views' which are rounded to the nearest hundred million.

Source: National Audit Office analysis of published accounts for BBC Global News Limited, BBC World Distribution Limited, and BBC.com Limited

Part Three

Opportunities and challenges

3.1 This part examines the opportunities and challenges that the BBC's commercial activities currently face, both as a result of the BBC's own changes and changes in the wider operating environment.

Strategic context

3.2 Like every other media organisation, the BBC's commercial activities are facing major changes to the environment in which they operate. These encompass changes to audience behaviour, the advertising and distribution sales markets, flows of investment, and new technology and competition. The short analysis that follows here is not intended to be exhaustive but to point out some key areas that are relevant for the BBC.

3.3 Audiences in many parts of the world are spending less time watching TV channels and buying fewer DVDs than in the past, and these downward trends look set to continue.¹⁴ Instead, consumers, particularly younger ones, are increasingly spending their leisure time on social media, getting their news from websites, and streaming content digitally via fast-growing global subscription video on demand (SVoD) services, most notably Netflix and Amazon.¹⁵ Advertisers in many countries have responded to changing audience behaviour, and to the opportunities created by new technology, by spending more of their budgets online, while falls in pay-to-view TV audiences have led satellite and cable TV companies to seek to negotiate lower prices for the content they purchase, all putting pressure on traditional media business models.¹⁶

3.4 The entry of well-financed new companies into the media market has created some important opportunities for established businesses. In particular, producers of content, as well as some broadcasters and distributors, have found new customers for their goods and services, and new partners with which to invest in co-productions and other projects.¹⁷ However, many experts have identified a significant rise in the costs of TV production as a side-effect of these developments, making certain activities more lucrative for some but also pricing a growing number of players out of markets where they were previously active.

¹⁴ See, for example, Enders Analysis, *Digital video retail market in the UK*, September 2016.

¹⁵ Ofcom, *Children and Parents: Media Use and Attitudes*, November 2017.

¹⁶ Mediatique, *Content market dynamics in the UK: outcomes and implications*, November 2017.

¹⁷ Enders Analysis, *PSB: Working with the Frenemy*, November 2017.

3.5 Increasingly, media companies place great emphasis on the ownership of intellectual property (IP) as a means of ensuring sustainable commercial returns in the medium and long term. As a result, they are more willing to invest large amounts up front to create new programmes, particularly new high-end dramas, to purchase global distribution rights, and to buy stakes in innovative or well-regarded production companies.¹⁸

The BBC's strategic ambitions

3.6 At the highest level, the BBC's response to these developments, and its own statement of strategic ambition for the coming years, is contained in its three-year strategy, published as part of its Annual Plan in October 2017. The strategy sets out an overarching aim to reinvent the BBC for a new generation. This applies equally to the BBC's PSB divisions and its commercial subsidiaries (**Figure 18** overleaf). A number of the 12 pan-BBC strategic priorities also apply to the commercial subsidiaries, including, specifically, priorities to grow both BBC Studios (Studios) and BBC Worldwide (Worldwide). Below this pan-BBC strategy, each main subsidiary has its own strategy, which is expected to align with the BBC's overall ambitions. We set out below some of the specific actions and issues that the BBC and commercial subsidiaries will be prioritising in the coming years.

Merging Worldwide and Studios

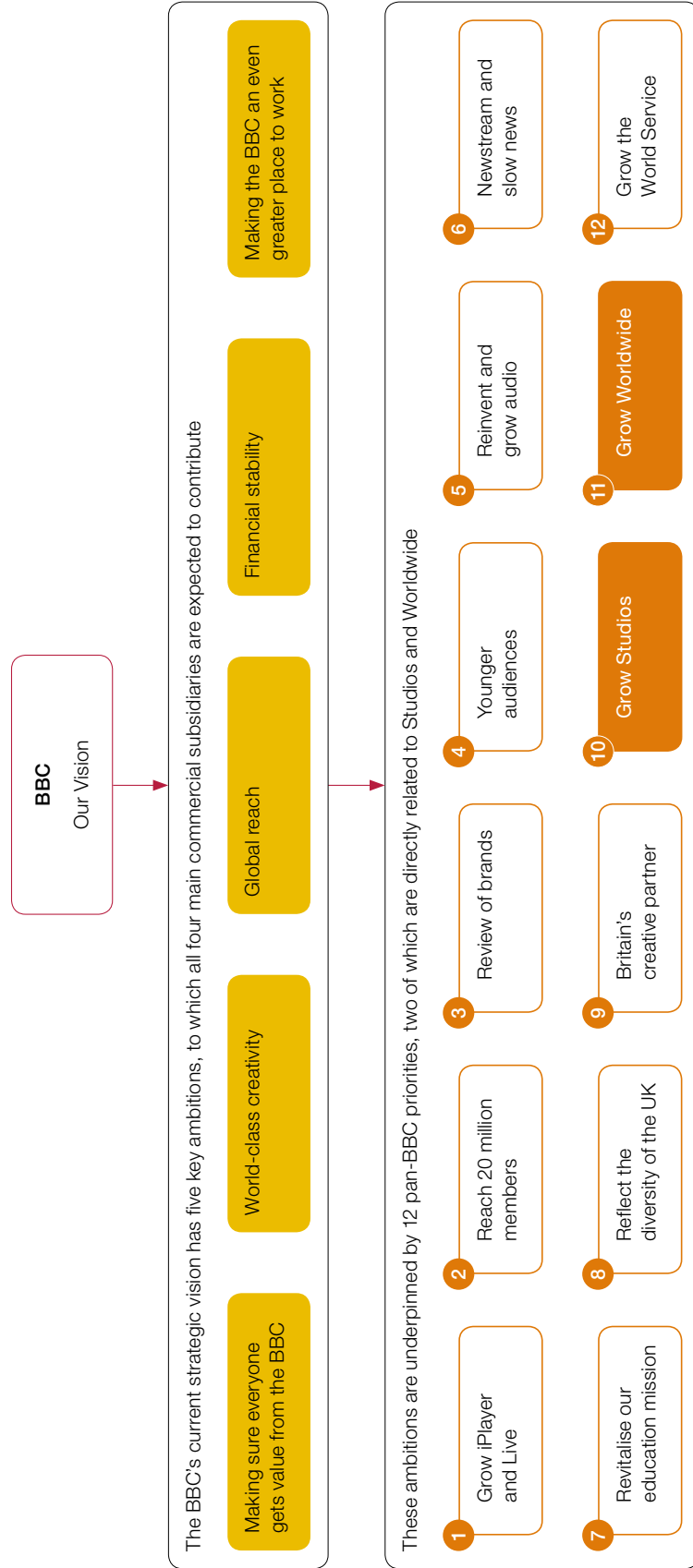
3.7 In November 2017, the BBC announced its intention to merge Worldwide and Studios from 1 April 2018 (paragraph 1.7). This will create a new commercial entity, known as BBC Studios, which will unite the BBC's commercial production, sales and distribution arms.

3.8 The BBC's stated aim in merging its two largest subsidiaries is to create a more integrated commercial business, with a single business plan. It believes this will be better able to create value from BBC IP and to compete in the increasingly competitive and consolidated global market. The relationship between the existing Studios subsidiary and Worldwide was already highly important to each business, with Studios providing Worldwide with around 300 titles to distribute each year. Worldwide also already had a 'first look' arrangement with Studios, which enabled it to have priority access to new Studios content. As at February 2018, Worldwide had made up to £11.5 million available to Studios in 2017-18 in recognition of the first look arrangement and of the long-term value Worldwide receives from Studios and its content, and in order to provide Studios with development funding for programme ideas. Some of this funding will be repayable to Worldwide should, for example, programmes in development subsequently enter into production.

¹⁸ Enders Analysis, *Netflix's edge over broadcasters*, September 2017.

Figure 18
The BBC's strategy, 2017-18 to 2019-20

The BBC has made it a strategic priority to grow its largest commercial subsidiaries over the next three years



Source: National Audit Office analysis of BBC documents

3.9 The BBC expects that the merger will bring important managerial challenges in the short term, as it restructures lines of business within the new subsidiary and rationalises certain business functions. However, it sees the merger as an evolution of its current approach. Consequently, in October 2017, the BBC Board determined that the development was not a material change to the BBC's commercial activities, and it therefore did not need to forward the proposal to Ofcom for regulatory approval. Ofcom may reach a different view as to whether the proposed change is material and may direct the BBC to carry out an assessment of the change against the four commercial criteria (paragraph 1.3). If it were to do this, this would then trigger a formal assessment by Ofcom which could result in the regulator determining that the BBC cannot carry out the change.

Generating new intellectual property (IP)

3.10 The principal commercial challenge for both the existing Studios subsidiary and the relevant parts of the new merged subsidiary is the extent to which these businesses can generate and exploit new IP for the benefit of the BBC Group. In recent years, a larger proportion of BBC commissioning budgets has been spent with independent production companies. This means that the BBC no longer owns the IP for increasing numbers of the TV programmes it shows. Not owning the IP for a programme substantially reduces a media company's ability to exploit its long-term value, and creates a risk that the company will lose access to the IP altogether, as, for example, in 2016 when Channel 4 outbid the BBC for the right to show future series of Love Productions' *The Great British Bake Off*. This risk was potentially increased with the introduction of contestability for an even larger proportion of BBC TV content under the terms of the new Charter.

3.11 The BBC's aim is for Studios and the relevant parts of the newly merged subsidiary to help it address this risk by securing the talent which generates programme ideas and related IP and by competing with other production companies in the market to win new commissions and own the resulting IP, not just for programmes shown on the BBC but for other UK and global media companies as well (Figure 2).

3.12 Both Studios and the BBC's senior management have told us that they recognise the scale of the challenge the subsidiary faces in order to succeed in a highly competitive marketplace. Studios has to bring about a change in its culture compared to when its constituent parts belonged to the public service broadcasting (PSB) part of the BBC, when staff were used to a large amount of guaranteed work. As part of this culture change, the subsidiary is seeking to foster the creative talent that can originate new ideas, and develop the necessary commercial skills to pitch successfully against more experienced competitors. In 2016-17, in response to the planned loss of the in-house guarantee, Studios remodelled its workforce, closing 300 posts. Up to February 2018, the subsidiary had had some success winning new commissions from organisations other than the BBC. Studios is particularly keen to produce more high-end drama, as the IP this creates is especially valuable at the present time.

3.13 While it seeks new commissions, Studios and the relevant parts of the new merged subsidiary also have to compete, over the next few years, to retain the right to make the programmes they currently make for BBC PSB channels and services. The BBC as a whole is not at risk of losing the IP for these programmes, as this IP is owned by the PSB part of the BBC. Nonetheless, retaining as much existing work as possible is of great importance to Studios' financial health.

3.14 Since April 2017, Studios has had some success in retaining business. As at February 2018, it had won three of the four existing programmes that the BBC had put out to tender, *A Question of Sport*, *Holby City* and *Doctors*, while losing the tender for *Songs of Praise*.¹⁹ There is a risk that, if Studios loses too many commissions in a particular genre, the ability of the BBC as a whole to make programmes in that genre could be diminished, or even lost. In addition to losing programmes in open competition, Studios could also lose work if BBC PSB decides to retire old formats. The likelihood of this happening increased in November 2017 when an internal PSB review of the tendering process for recommissioning existing programmes recommended retiring more shows, where this made sense from an audience point of view, in order to free up slots for new ideas. However, were this to occur, Studios would be able to compete for the new slots alongside external producers.

3.15 Studios is yet to complete its first year of operations and post its first financial results. Subsequently the financial performance of its constituent parts will be subsumed within the accounts of the newly merged subsidiary, but it will be important for the BBC to track those lines of business on a consistent basis in order to see how they are performing. According to the BBC's internal plans at the time it decided to create Studios, it intended for the business to be profitable from 2018-19 onwards.

Financial performance

3.16 In October 2015, the Director-General tasked Worldwide with delivering increased financial returns to the BBC over the first five years of the new Royal Charter period. Between 2017-18 and 2021-22, the subsidiary has a target to deliver returns of £1.2 billion, an increase of 21% compared with the returns of £989 million delivered between 2012-13 and 2016-17.²⁰ The BBC has not yet established how this target might change following the merger of Worldwide and Studios.

¹⁹ Studios also won many, but not all, of the slots for *Horizon* that were tendered.

²⁰ The target represents a 32% increase if the dividends of £83 million arising from the part-disposal of BBC America are excluded.

3.17 The BBC's definition of financial returns includes both the dividends Worldwide pays and other payments it makes to PSB for the supply of content and associated rights (paragraph 2.24). The BBC has great flexibility over how it builds up these returns, as it has not publicly specified the proportion that it aims to take as dividend payments or the proportion that will come in the form of contributions to BBC programme costs. The balance that the BBC decides to strike in future between dividend payments and contributions to programme costs will be important, as it will affect both the direct funding available to the PSB divisions and the extent to which Worldwide and its successor are able to use profits to drive long-term growth.

3.18 During 2017-18, Worldwide has been drawing up detailed plans to achieve the returns target. It intends to offer the BBC options that emphasise short-term financial needs and options that prioritise long-term growth, as well as targeting savings in overheads through internal reorganisation.

New investments and lines of business

3.19 In recent years, Worldwide has had to adapt to many of the major shifts in the wider media marketplace described earlier in this part. Previously, DVD sales were reliable areas of growth for Worldwide, as for other media companies. But, while still profitable, this line of business looks to have peaked in many parts of the world.

3.20 Worldwide's focus for future growth centres on securing a pipeline of new content to sell. This includes continuing to win the distribution rights to content produced by other (non-BBC) companies, as well as investing directly in content produced by Studios (following the merger this distinction will end) and other companies, acquiring equity stakes in other companies, and partnering with, or establishing its own, small regional production businesses. As a result:

- Between 2012-13 and 2016-17, Worldwide increased its investment in co-productions from £104 million to £153 million, and is likely to increase this investment in future.
- Worldwide had made up to £11.5 million available to Studios in 2017-18 as at February 2018 (paragraph 3.8).
- In 2016-17, Worldwide spent over £21 million acquiring stakes in independent production companies. As at March 2017, it had stakes in 16 such companies with a net asset value of £43 million, and the BBC plans for both it and the new merged subsidiary to continue such acquisition activity in future.

3.21 By increasingly investing more when it commissions programmes, Worldwide is acting in line with wider industry trends. This investment model has the potential to bring greater financial rewards, as Worldwide will have a greater stake in successful programmes in future. But it also means taking greater risks. Not all investments will pay off, but both the subsidiary, and those charged with overseeing it, have to be clear about, and keep under review, their appetite for risk. This is particularly important for the BBC as it faces an externally imposed limit on its ability to borrow to fund its commercial activities.

3.22 In order to address the long-term downward trend in DVD sales and other recent changes in audience behaviour, Worldwide has also been seeking to find new approaches to selling content to consumers. BBC Store was one attempt to do this, which proved to be unsuccessful (Figure 12). More recently, Worldwide has launched an SVoD service in the United States called BritBox in partnership with ITV (**Figure 19**). The current Charter and Framework Agreement also permit the BBC to provide services in the UK in forms it has not previously used, including through its commercial subsidiaries.²¹ Such services could include new UK subscription services.

Figure 19

BritBox

In November 2016, Worldwide formed a 10-year joint venture partnership with ITV to create BritBox, a subscription video on-demand (SVoD) service in the United States providing users with access to British shows.

In partnering with ITV, Worldwide considered that the overall risk profile of the investment would be lowered, and the offer of a British SVoD service made more compelling, given the involvement of two major British broadcasters. In December 2016, AMC Networks took a 19% share in BritBox. As a result of this, Worldwide registered a gain of £6.1 million in 2016-17 and saw its equity stake reduced to 40.5%.

The new service officially launched in March 2017.

Source: National Audit Office analysis of BBC documents

3.23 BritBox is only one of a number of important joint ventures and partnerships that Worldwide currently has. Others include its joint venture with AMC for the BBC America channel (Figure 8), and its joint venture with Scripps Network Interactive for the UKTV channels. In recent years, joint ventures and associate companies have been responsible for an increasing proportion of Worldwide's revenue and profits (**Figure 20**). Partnerships bring opportunities, including the ability to operate at greater scale or to access new expertise. However, relying on such partnerships can also pose risks, as partners' interests may not always remain aligned. Worldwide recognises these risks and has attempted to moderate them by agreeing, for example, legal protections in the case of a change in a partner's owners. In July 2017, Worldwide discovered that it would soon have a new partner for its UKTV joint venture, when Discovery Communications announced that it would purchase Scripps.

Figure 20

Worldwide revenues and profits from joint venture and associate companies

An increasing proportion of Worldwide's revenue and profits has come from its joint venture and associate companies

	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)
Total revenue	1,115.8	1,042.3	1,001.8	1,029.4	1,059.9
Worldwide's share of joint venture and associate company revenue ¹	147.2	150.3	150.5	174.0	183.6
Joint venture and associate company revenue as a percentage of total revenue	13.2%	14.4%	15.0%	16.9%	17.3%
Headline profit	156.3	157.4	138.6	133.8	157.3
Worldwide's share of results of joint venture and associate companies ^{1,2}	26.1	25.9	35.8	41.8	48.1
Worldwide's share as a percentage of its total headline profits	16.7%	16.5%	25.8%	31.2%	30.6%

Notes

1 The figures for the share of Worldwide's revenue and profits that come from joint venture and associate companies exclude the revenues and profits generated by Worldwide from its sale of content to these companies. These revenues and profits can be significant. For example, revenue from content sales to UKTV totalled almost £54 million in 2016-17, equivalent to 13% of Worldwide's total content sales in that year of £422 million.

2 In 2014-15, Worldwide sold 49.9% of BBC America (Figure 8), which consequently became one of Worldwide's associate companies.

Source: National Audit Office analysis of Worldwide's published accounts

BBC Global News

3.24 In line with other commercial providers of international news, Global News faces a significant challenge to achieve sustainable profitability in the coming years. It expects that structural changes to the TV advertising and distribution sales markets will continue to exert downward pressure on its revenue (paragraph 3.3). Also, from 2017-18, it is fully incorporating the BBC's TV and digital advertising sales operations. Previously, Worldwide sold such advertising on behalf of the World News channel, in return for a commission. Given the decline in sales in recent years, this commission no longer fully covered Worldwide's costs. Assuming direct responsibility for TV and digital advertising sales will require Global News to make economies, but the subsidiary also believes that it will allow for closer cooperation between editorial and advertising teams.

3.25 In response to these challenges, Global News plans to reduce costs or increase revenue across its operations by over £12 million a year by 2019-20. The BBC has also approached the government to discuss alternative sources of income for some of Global News' operations.

BBC Studioworks

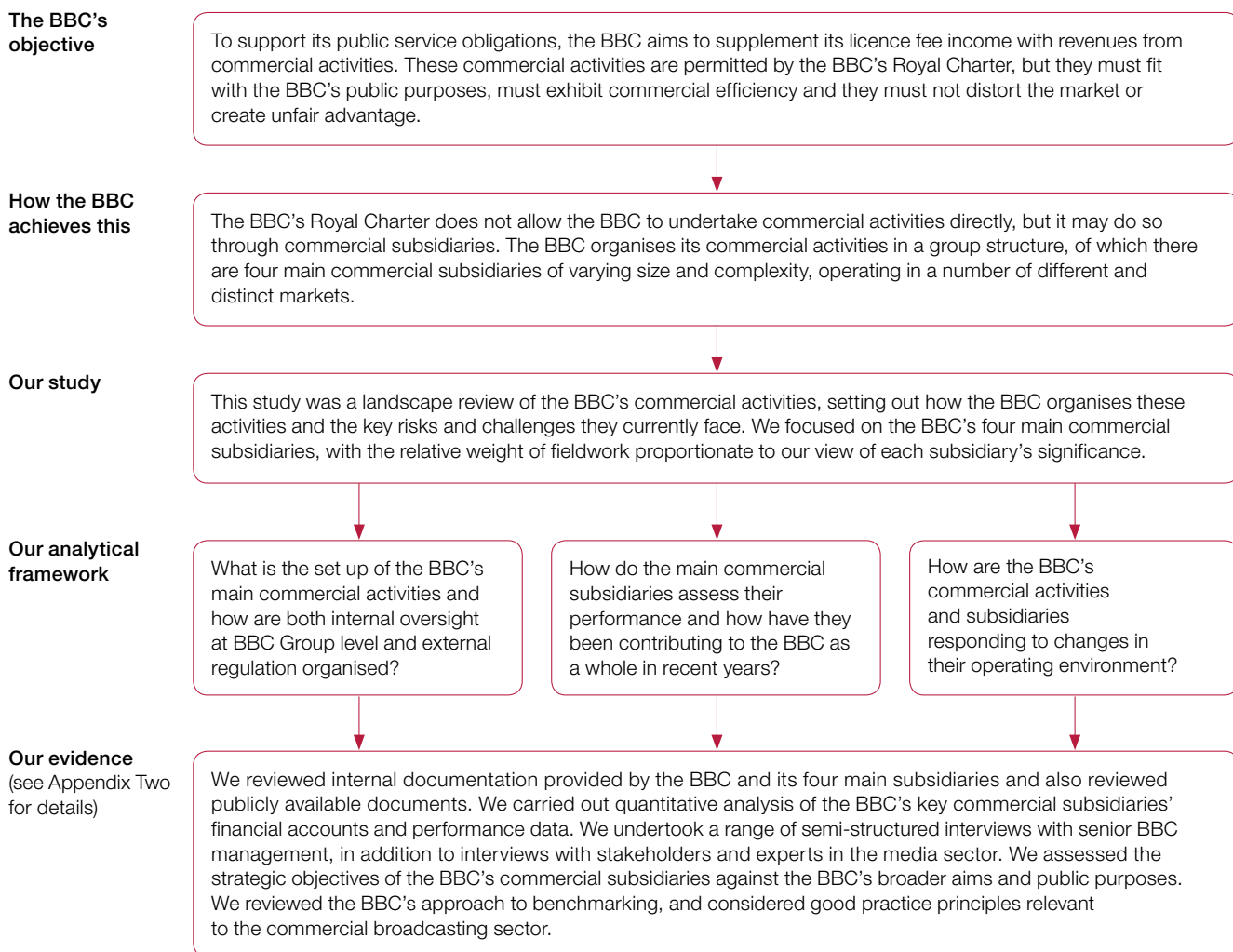
3.26 In September 2017, Studioworks occupied redeveloped facilities at Television Centre in White City. Combined with its existing facilities in Elstree, this broadly represents a doubling of its capacity. This is a major commercial opportunity for Studioworks at a time when other studios in London and the South East have closed either temporarily or permanently, although, according to Studioworks, its operating costs are significantly higher in Central London than in Elstree. It has already secured initial new business for its extra facilities.

Appendix One

Our audit approach

- 1 This study was a landscape review of the BBC's commercial activities. It reviewed:
 - the set up of the BBC's main commercial activities and how internal oversight at BBC Group level and external regulation are organised;
 - how the BBC's main commercial subsidiaries assess their performance and how they had been contributing to the BBC as a whole in recent years; and
 - how the BBC's commercial activities and its subsidiaries are responding to changes in their operating environment.
- 2 Our audit approach is summarised in **Figure 21** overleaf and our evidence base is described at Appendix Two.

Figure 21
Our audit approach



Appendix Two

Our evidence base

1 Our review of the BBC's commercial activities was primarily based on evidence collected between July and September 2017. Our audit approach is outlined in Appendix One.

Document review

2 We reviewed business cases, plans and strategies, minutes of board and management meetings, monthly and quarterly management reports, and other internal documents such as audit reports for each of the BBC's main commercial activities. We also carried out a wider literature review of relevant documents in the public domain, such as previous relevant reports by the BBC Trust and consultation documents by Ofcom.

Data analysis

3 We analysed the audited financial accounts of BBC Commercial Holdings, BBC Group, BBC Studioworks, and BBC Worldwide and the internal management accounts for BBC Global News for the last five completed financial years, 2012-13 to 2016-17, to understand recent financial performance in terms of revenue, profitability, costs and return on capital employed. We also reviewed key performance indicators to understand how subsidiaries have been performing against their own measures of success.

Interviews

4 We carried out semi-structured interviews with senior managers at the BBC's key commercial subsidiaries and with representatives from BBC Group Finance to understand how the BBC's commercial activities have developed over time and how the BBC maintains oversight of these activities. We also held meetings with stakeholders and experts in the broadcasting field, such as Ofcom, the Producers Alliance for Cinema and Television (PACT) and Enders, to understand their perspectives and to gain their views of the key risks and challenges in the sector.

Strategic mapping

5 We reviewed the objectives of the BBC's key commercial subsidiaries and mapped them against the strategic objectives of the BBC as a whole, to understand how subsidiaries contribute to the BBC's broader aims and its public purposes.

Benchmarking

6 We reviewed benchmarking reports previously carried out or commissioned by the BBC's key commercial subsidiaries. We sought to gain an understanding of the nature and scale of previous benchmarking exercises and how these have supported improvements in terms of market performance or internal efficiencies.

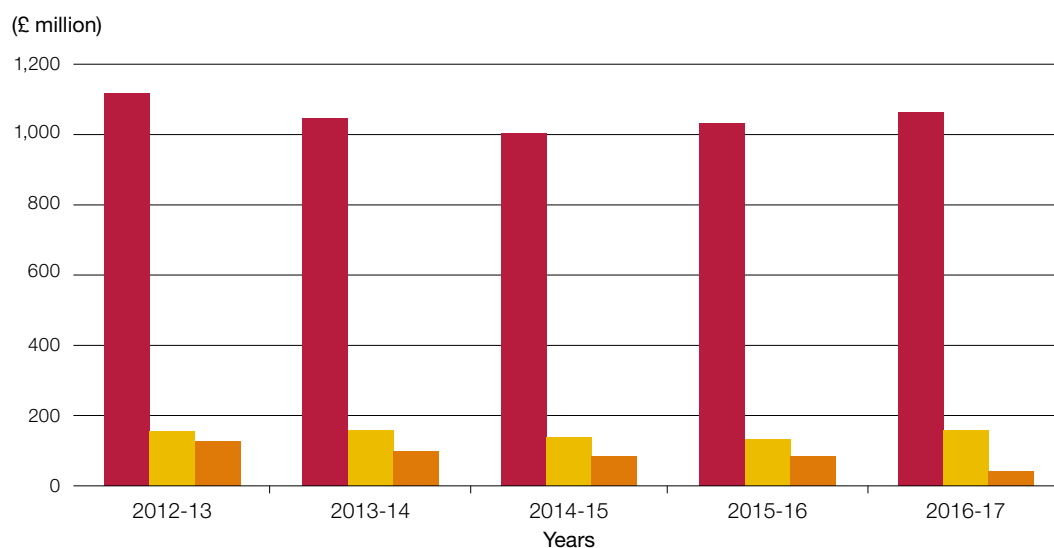
Consideration of commercial good practice

7 We gave consideration to the principles of good practice in the commercial sector by reviewing publicly available documents and meeting with academics and market specialists. We sought to gain an understanding of what an approach to managing the interaction between capital, risk, and returns would look like in commercial media and broadcasting markets, and used this in the development of our key findings and concluding remarks.

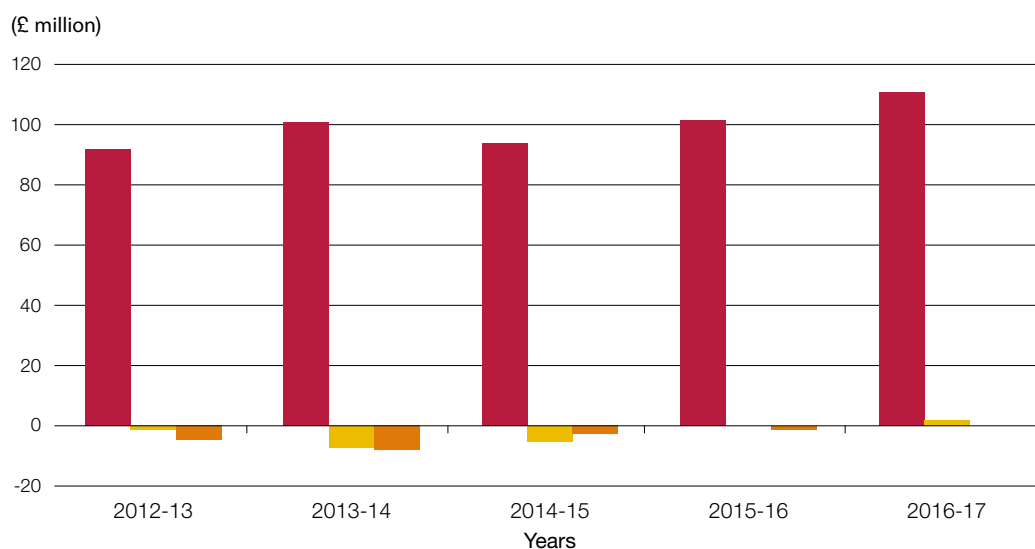
Appendix Three

The financial performance of the BBC's main commercial subsidiaries

1 In **Figure 22**, on pages 52 and 53, we provide the financial performance data previously presented at Figure 7, Figure 10, and Figure 11, organised according to each of the main commercial subsidiaries.

Figure 22Financial performance of the key subsidiaries, 2012-13 to 2016-17¹**Worldwide**

■ Revenue (£m)	1,115.8	1,042.3	1,001.8	1,029.4	1,059.9
■ Headline profit (£m)	156.3	157.4	138.6	133.8	157.3
■ Profit after tax (£m)	127.6	98.1	84.8	85.6	40.4

Global News

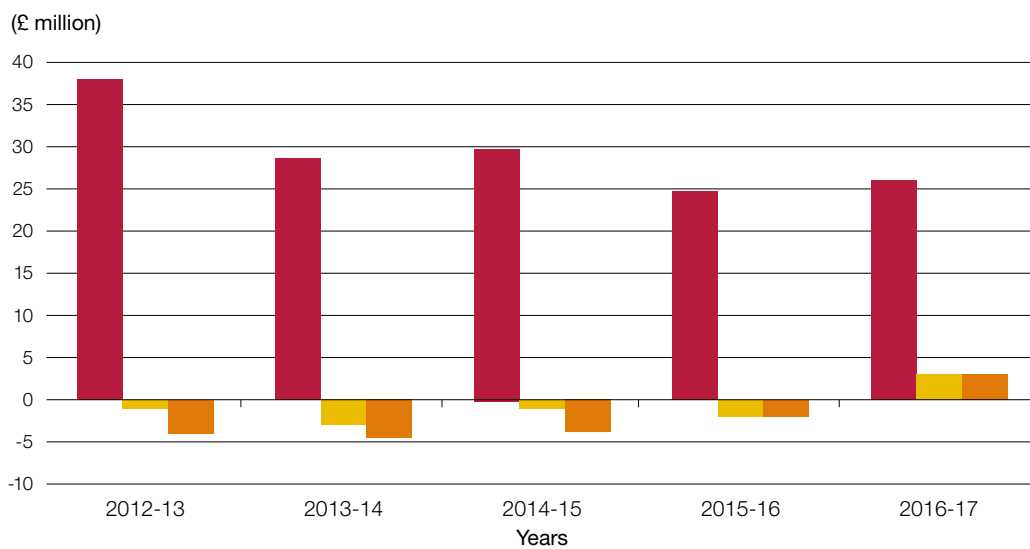
■ Revenue (£m)	91.7	100.9	93.7	101.4	110.4
■ Headline profit (£m)	-0.8	-7.0	-4.6	0.2	2.0
■ Profit after tax (£m)	-4.4	-7.7	-2.4	-0.9	0.4

Note

1 Studios is not included above as it has been a commercial subsidiary for less than one year.

Source: National Audit Office analysis of annual accounts for BBC Group, BBC Commercial Holdings, BBC Worldwide, and BBC Studioworks, and the management accounts for BBC Global News

Studioworks



■ Revenue (£m)	37.6	28.6	29.5	24.8	26.0
■ Headline profit (£m)	-1.1	-3.0	-1.0	-2.1	2.8
■ Profit after tax (£m)	-4.1	-4.6	-3.7	-2.1	2.8

Appendix Four

Glossary

Definitions of selected terms used in the report

Amortisation	The process of allocating the cost of an intangible asset or loan over time.
Cash flow	The net amount of cash and cash equivalents moving in and out of a business, used as a measure of the day-to-day health of a business.
Co-production	The production of a recording, theatrical work, television programme, etc, jointly with another or several other companies.
Depreciation	The process of allocating the cost of a tangible asset over its useful life.
Download to own (DTO)	Purchase of a recording, theatrical work, television programme, etc, through digital/online channels and media.
Dividend	The distribution of a portion of a company's earnings, decided by the board of directors and paid to its shareholder(s) or owners.
Gross profit	The amount earned by a company from its trading activities after the direct costs of those activities have been deducted.
Intellectual property (IP)	Unique and physically formed knowledge or creative ideas created by individuals or organisations that have commercial value and are protectable under relevant laws from imitation or infringement.
Joint venture	Business entity created by two or more parties (often for a specific aim or purpose).
Operating profit	Income from trading activity after the direct cost of sales, other operating costs, amortisation and exceptional items have been deducted.
Profit after tax (PAT)	The net amount earned by a company after all expenditure and related expenses have been deducted.
Profit before tax (PBT)	The net amount earned by a company after all expenditure and related expenses except tax have been deducted.
Profit before interest and tax	The net amount earned by a company after all expenditure and related expenses except interest and tax have been deducted.
Profit before interest, tax, depreciation and amortisation	The net amount earned by a company after all expenditure, except interest, tax, depreciation and amortisation, have been deducted.
Return on capital employed (ROCE)	Financial ratio, expressed as earnings before interest and tax divided by capital employed (ie total assets and other financing), often used to assess the relative efficiency with which companies utilise the capital that is available to them.
Subscription video on demand (SVoD)	Online subscription-based video services, eg Amazon Prime, Netflix.

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