DEPARTMENTAL OVERVIEW 2019

BRITISH BROADCASTING CORPORATION (BBC)
This overview summarises the work of the BBC including what it does, how much it spends, recent and planned changes, and what to look out for across its main business areas and services.

The National Audit Office (NAO) helps Parliament hold government to account for the way it spends public money. It is independent of government and the civil service. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether government is delivering value for money on behalf of the public, concluding on whether resources have been used efficiently, effectively and with economy. The NAO identifies ways that government can make better use of public money to improve people’s lives. It measures this impact annually. In 2018 the NAO’s work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £539 million.

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About the BBC

Introduction
The British Broadcasting Corporation (BBC) is the United Kingdom’s (UK’s) main public service broadcaster. It is principally funded by the television licence fee and its constitutional basis is a Royal Charter, which establishes its independence, primary mission and public purposes. Its mission is to act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain. The BBC is a public corporation of the Department for Digital, Culture, Media & Sport.

Key facts
- 9 pan-UK TV services
- 56 radio stations
- 10 pan-UK
- 6 national
- 40 local, across England and the Channel Islands
- 91% of adults use BBC services each week
- BBC World Service has a weekly reach of 319 million people
- 3.6 billion programmes were requested on iPlayer in 2018

Commercial activities
Alongside the BBC Public Service, the Royal Charter 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.

Public purposes
The current Royal Charter, which was introduced in 2017, sets out the BBC’s five public purposes.

01. Provide impartial news and information to help people understand and engage with the world around them.
02. Support learning for people of all ages.
03. Show the most creative, highest quality and distinctive output and services.
04. Reflect, represent and serve the diverse communities of all the United Kingdom’s nations and regions and, in doing so, support the creative economy across the United Kingdom.
05. Reflect the United Kingdom, its culture and values to the world.

BBC Commercial Holdings Limited

BBC Studios
Funds, creates, distributes and commercialises content for the BBC and other companies, both in the UK and internationally.

BBC Studioworks
Provides studios and post-production services to major TV broadcasters and production companies.

BBC Global News
Operates the TV channel BBC World News and bbc.com, funded by advertising, sponsorship and income from pay TV operators who show the channel.
DEPARTMENTAL OVERVIEW 2019 [BBC]

DEPARTMENTAL OVERVIEW 2019 [BBC]

OVERVIEW

The BBC Public Service is the largest element of the BBC Group and generates the most revenue, through the licence fee (as set out on the next page).

How the BBC is structured

The BBC Public Service is the largest element of the BBC Group and generates the most revenue, through the licence fee (as set out on the next page).

The BBC Public Service

BBC Commercial Holdings Ltd

BBC Studios

BBC Studios Productions

Parent to six subsidiaries

BBC Studios Distribution

Parent to 90 subsidiaries

BBC Global News Holdings Ltd

Parent to seven subsidiaries

BBC Studioworks

BBC Children’s Productions

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. BBC Children’s Productions, and the six subsidiaries of BBC Studios Productions, are special purpose vehicles enabling the BBC to access tax credits from the UK government for the production of high-quality programmes. BBC Children’s Productions is not a subsidiary of BBC Studios as the production of children’s programming, as a genre, remains within the BBC’s public service.

3. The corporate functions used to sit within the former DDG Group. The Deputy Director General (Anne Bulford) departed from the BBC in 2019, at which point the division was no longer labelled the DDG Group. The BBC will not be replacing the role of the DDG, instead they have appointed Bob Shennan as Group Managing Director. The functions of the division remain the same but they now follow different reporting lines.

Recent structural changes

In April 2017, the BBC established BBC Studios Ltd (content production) as a commercial subsidiary, representing a significant development in the BBC’s commercial activities.

Subsequently, in November 2017, the BBC decided to merge the activities of BBC Studios Ltd and BBC Worldwide (sales and distribution) under a single entity, “BBC Studios Ltd” (BBC Studios), which integrated programme production, sales and distribution, and began trading in April 2018.

Here and throughout, ‘BBC Studios’ refers to the company created in April 2018. BBC Studios Productions and BBC Studios Distribution refer to its subsidiaries.
The BBC Group generated its income in 2018-19 as follows:

- The BBC Group generated a total income of £4,889 million in 2018-19, in comparison to £5,062 million in 2017-18 – a decrease of 3.4%.

- The revenues generated by the commercial entities include both third-party sales and sales between BBC entities. Of these revenues, sales between BBC entities in 2018-19 are £500 million – this is excluded from total Group Revenue.

- BBC Studios generated a share of revenue from joint ventures of £184 million. This is also excluded from total BBC Group revenue. Instead, a £36 million ‘share of profits from associates and joint ventures’ is included in the Group income statement to account for these operations.

- How the BBC Group generated its income in 2018-19:
  - £5,573 million: sum of all revenues
  - £500 million: sales between BBC entities
  - £184 million: joint venture revenue
  - £4,889 million: total BBC Group Revenue
Where the BBC Public Service spends its money

The management of the BBC’s resources must be in keeping with the Royal Charter, and the BBC must not cross-subsidise its commercial activities using the licence fee or grant-funded activities. Public Service transactions must meet the intended purposes of the BBC, and prices charged for services provided between the Public Service and commercial activities are determined on an arm’s-length basis.

<table>
<thead>
<tr>
<th>Category</th>
<th>2018-19</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Television</td>
<td>£6.92</td>
<td>£6.40</td>
</tr>
<tr>
<td>Radio</td>
<td>£2.17</td>
<td>£2.06</td>
</tr>
<tr>
<td>BBC World Service</td>
<td>£1.24</td>
<td>£1.06</td>
</tr>
<tr>
<td>Other services and production costs</td>
<td>£0.80</td>
<td>£0.67</td>
</tr>
<tr>
<td>BBC Online</td>
<td>£1.08</td>
<td>£0.91</td>
</tr>
<tr>
<td>Licence fee collection and other costs</td>
<td>£0.33</td>
<td>£1.15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£12.54</strong></td>
<td><strong>£12.25</strong></td>
</tr>
</tbody>
</table>

Percentage of £12.54 monthly household fee

- 2018-19: 56.2% Television, 17.3% Radio, 9.9% BBC World Service, 6.4% Other services and production costs, 2.6% BBC Online, 1.1% Licence fee collection and other costs
- 2017-18: 55.2% Television, 17.3% Radio, 9.9% BBC World Service, 6.4% Other services and production costs, 2.6% BBC Online, 1.1% Licence fee collection and other costs

Percentage of £12.25 monthly household fee

- 2018-19: 52.2% Television, 16.8% Radio, 8.7% BBC World Service, 5.5% Other services and production costs, 7.4% BBC Online, 5.5% Licence fee collection and other costs
- 2017-18: 52.2% Television, 16.8% Radio, 9.4% BBC World Service, 7.4% Other services and production costs, 7.4% BBC Online, 9.4% Licence fee collection and other costs

Licence fee expenditure by service, 2017-18 and 2018-19

The table demonstrates how much each household is paying for different BBC services and associated costs.

In 2018-19, 5p in every £1 was spent distributing BBC services to audiences, and the cost of collecting the licence fee was 2.5p per £1 collected.

The percentage of the monthly household licence fee that went on licence fee collection and other costs reduced from 9.4% in 2017-18, to 2.6% in 2018-19, as the BBC’s overheads fell to around 5% of total costs, pension costs were reallocated into core spend and the BBC’s broadband contribution obligations have reduced. The overheads represent the costs of running the organisation, whereas the remaining 95% is controllable spend, focused on content and delivery.

All other areas of BBC spend have increased in terms of the percentage of the monthly household licence fee.
**Royal Charter**

The current BBC Royal Charter gained Royal Assent in December 2016 and came into force on 1 January 2017, lasting for 11 years. The Charter introduced a number of changes to BBC governance and operations that are now being implemented.

The Department for Digital, Culture, Media & Sport will carry out a mid-term review of the Charter, focusing on governance and regulatory arrangements. This review is not a full Charter Review and so will not look at the BBC’s mission, purpose or the method by which it is funded.

**Governance**

The Royal Charter introduced the new Unitary Board responsible for ensuring that the BBC’s strategy, activity and output are in the public interest – replacing the external BBC Trust and internal BBC Executive. The Commercial Holdings Board is responsible for ensuring that the commercial subsidiaries deliver against the agreed strategy. This board must include a non-executive director from the main BBC Board as chair, and one non-executive director that is not a member of the main BBC Board.

**Licence fee for over-75s**

Until 31 March 2018 the BBC received grant funding to cover the full cost of the over-75s TV licence concession from the Department for Work & Pensions (DWP). This funding is being phased out over three years, with the BBC taking on full responsibility for any concession from 2020-21.

The BBC issued 4.47 million free licences to those aged over 75 in 2018-19, with a value of £672 million. The BBC issued 3% more licences to over-75s in 2018-19 than 2017-18, compared with a 0.7% decrease in paid licences.

In 2018-19 DWP funding for this concession was capped at £468 million. The BBC received £204 million less than it would have done when the concession was fully funded by the government.

In June 2019, the BBC announced that from June 2020, a free TV licence will only be available to a household with someone aged over 75 who receives pension credit. The BBC carried out a consultation, receiving more than 190,000 responses, asking for a view on a range of options. The new scheme will cost the BBC around £250 million by 2021-22, depending on the take-up. The impact of removing free licences for the over-75s who will have to pay for their licences in future has been the subject of significant media interest.

**Viewing habits**

The media sector is changing rapidly because of technological developments, new competition and shifting consumer behaviour. Audiences, particularly younger generations, are shifting away from live programmes towards on-demand and online content. Similar shifts are seen in the audio market.

Traditional broadcasters, such as the BBC, are facing increasing competition from online providers. The BBC has referred to the need to "ride two horses": to serve both those who are watching and listening on traditional channels, and also those who have adopted the internet as their primary medium. The BBC and other UK broadcasters also need to adapt to ensure that their content continues to appeal, and that it is available where and when audiences want it.
Financial performance

The BBC had a net deficit of £69 million in 2018-19. Factors which contributed to the deficit in-year include:

- a decrease in licence fee income by 4% (£140 million). The BBC received £204 million less than it would have if the over-75 licence fee concession was fully funded by government. This was partially offset by the increase in the licence fee from £147 to £150.50 (increase in line with inflation);
- the cyclical impact of major sporting events, such as the FIFA World Cup and the Commonwealth Games;
- the cost of launching BBC Sounds; and
- the cost of launching the BBC Scotland Channel.

The BBC managed the deficit by drawing down on its cash reserves in the year, reducing its cash balance by £55 million (from £523 million to £468 million).

A dividend of £73 million (2018: £38 million) was declared by BBC Commercial Holdings to the BBC Group. Revenue growth and cost control in the commercial subsidiaries have enabled the commercial businesses to deliver a year-on-year EBITDA (earnings before interest, tax, depreciation and amortisation) growth of 68%.

The BBC Group accounts 2018-19 give a true and fair view of the state of the BBC Group’s affairs and of its deficit for the year; and the accounts have been properly prepared in accordance with the relevant accounting standards.

For spend to be regular, the management of all of the BBC’s resources must accord with the provisions of the Royal Charter, Framework Agreement and other agreements the BBC enters into with government.

The Comptroller and Auditor General (C&AG) qualified his audit opinion on regularity in relation to the recognition of a £12 million provision in the BBC’s accounts. The provision is for settling retrospective claims that HM Revenue & Customs (HMRC) may have against presenters engaged by the BBC in respect of any misclassification of their employment status and therefore historic incorrect tax payment. The provision was deemed an acceptable cost to the licence fee by the BBC Board. However, the BBC is not legally responsible for any tax underpayment by these presenters. The provision was estimated by looking at individuals affected and then applying assumptions, based on conversations with HMRC, recent tax tribunal rulings; and the advice of external advisers. See the section on personal service companies on page 14 for more details.
Use of key BBC services

The time people spend with the BBC is trending downward year-on-year for both BBC TV and BBC Radio. Nevertheless, the BBC is still the media provider that UK adults overall use the most.

Number of TV licences issued, including over-75 free licences, 2013-14 to 2018-19

Sales volumes for 2018-19 were 0.14% below 2017-18

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>26,000</td>
<td>25,353</td>
<td>25,478</td>
<td>25,562</td>
<td>25,638</td>
<td>25,930</td>
<td>25,964</td>
<td>25,927</td>
</tr>
</tbody>
</table>

The BBC has seen a decline in the number of TV licences issued, resulting in revenue growth that was less than the BBC expected.

Source: BBC Trust Statement 2018-19

Age-related trends

2018-19 saw the steepest year-on-year decline in the amount of broadcast TV watched by under-35s on the TV set – down around two hours per week in a year to 10.5 hours. By contrast, the time this age group spent using the TV set for purposes that include streaming video on demand (SVOD) services, YouTube and gaming increased – up an hour a week to eight hours weekly. Music streaming by young adults also rose by around an hour a week to almost six hours weekly.

While the changing landscape has so far affected young audiences the most, increasing it impacts the media behaviours of older audiences. For example, in 2018-19 more than half of over-35s used the TV set for purposes such as SVOD, YouTube and gaming and one in six used music streaming services each week.

Television

The BBC remains the most used purpose for a TV set. However, hours spent watching TV have fallen the sharpest for the BBC, compared with most other broadcasters, between 2013-14 and 2018-19.

Music

The BBC remains the most used provider of music (radio and streaming). However, the use of all BBC Radio has fallen since 2013-14, whereas the use of all commercial radio and music streaming has increased.

Weekly use of BBC Television and Radio compared with other providers

Time spent using the TV set for different purposes per week 2013/14-2018/19, hours:minutes

<table>
<thead>
<tr>
<th>Adults aged 16+: Average weekly time per head (hours:minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All BBC television</td>
</tr>
<tr>
<td>Other broadcast TV channels</td>
</tr>
<tr>
<td>All ITV television</td>
</tr>
<tr>
<td>Other uses of the TV set*</td>
</tr>
<tr>
<td>All Channel 4 television</td>
</tr>
<tr>
<td>All Channel 5 television</td>
</tr>
</tbody>
</table>

Time spent using radio services/music streaming per week 2013/14-2018/19, hours:minutes

<table>
<thead>
<tr>
<th>Adults aged 15+: Average weekly time per head (hours:minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All BBC Radio</td>
</tr>
<tr>
<td>All Commercial Radio</td>
</tr>
<tr>
<td>Music streaming</td>
</tr>
</tbody>
</table>

Notes

1. BARB = Broadcasters’ Audience Research Board
2. RAJAR = Radio Joint Audience Research
3. MIDAS = A RAJAR Survey
Licence fee and concessions from government

Concessions

In July 2015 a funding deal was agreed between the government and the BBC. The key element was that the BBC would take over funding of free TV licences for the over-75s in return for certain financial gains.

Over-75s licence fee

Under the previous Royal Charter, free TV licences for the over-75s were funded by the Department for Work & Pensions (DWP). Under the current Royal Charter, the following funding will be provided by DWP:

- Prior to April 2018 – DWP provided grant funding to cover the full cost of the over-75s TV licence concession.
- In 2018-19 – DWP provided a contribution of £468 million to the cost of the over-75s TV licence concession.
- In 2019-20 – DWP will provide £247 million to the cost of the over-75s TV licence concession.
- From 2020-21 – DWP will no longer provide grant funding to support the costs of the over-75s TV licence concession. Instead the concession will change so that a free TV licence will only be available to a household with someone aged over-75 who receives pension credit. The BBC estimate that this will cost the BBC around £250 million by 2021-22.

Increase in the cost of a TV licence

The government agreed to tie the cost of a TV licence to the consumer price index (CPI) over the Charter period. Prior to this, the licence fee had been frozen at £145.50 per annum between 2010 and 2017.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of a licence fee (£)</th>
<th>Licence fee revenues – excluding government funding for the over-75s free licence concession (£m)</th>
<th>Value of licences issued to over-75s (£m)</th>
<th>Funding received from DWP in respect of over-75s licences (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>145.50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td>147.00</td>
<td>3,174</td>
<td>656</td>
<td></td>
</tr>
<tr>
<td>2018-19</td>
<td>150.50</td>
<td>3,222</td>
<td>672</td>
<td>468</td>
</tr>
<tr>
<td>2019-20</td>
<td>154.50</td>
<td>3,157</td>
<td>630</td>
<td>247</td>
</tr>
</tbody>
</table>

Closing the iPlayer loophole

In September 2016, the government brought forward legislation to ensure the ‘iPlayer loophole’ will be closed. Previously, the licence fee did not encompass ‘video on demand’ use. The new legislation applies to all devices used to access iPlayer (for example, laptops and smartphones) as well as through third-party services such as Sky, Virgin or BT. The BBC estimates that £45 million of benefits will be obtained each year after introducing the legislation.

Phase-out of the Broadband Levy

The BBC’s contributions to the roll-out of superfast broadband will be phased out from £150 million as at 2017-18 to zero in 2020-21. The payments must be used by the Secretary of State to enable and encourage the provision and use of broadband infrastructure and of services provided through this infrastructure, in a manner that supports the BBC’s Mission and Public Purposes.

An analysis of the cost impact of these changes is presented on the following page.
Licence fee and concessions from government continued

Analysis of licence fee concessions

We have analysed the financial impact of each concession, and shown their collective net impact in the graph below.

Cost impact of concessions 2016-17 to 2020-21

<table>
<thead>
<tr>
<th></th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20 (Estimated)</th>
<th>2020-21 (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in licence fee income (excluding over-75s) from 2016-17</td>
<td>0</td>
<td>17</td>
<td>65</td>
<td>133</td>
<td>198</td>
</tr>
<tr>
<td>Broadband Levy</td>
<td>-150</td>
<td>-80</td>
<td>-20</td>
<td>-10</td>
<td>0</td>
</tr>
<tr>
<td>iPlayer loophole</td>
<td>-45</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cost to the BBC for over-75s</td>
<td>0</td>
<td>0</td>
<td>-204</td>
<td>-425</td>
<td>-250</td>
</tr>
<tr>
<td>Net cost impact of concessions won and lost</td>
<td>-195</td>
<td>-62</td>
<td>-159</td>
<td>-302</td>
<td>-52</td>
</tr>
</tbody>
</table>

Source: National Audit Office

Assumptions

1. The BBC estimates that closing the iPlayer loophole will bring projected benefits of around £45 million a year. The loophole was closed in September 2018. Our analysis assumes that the BBC will save £45 million each year from 2017-18.

2. Total licence fee income for 2019-20 and 2020-21 is not yet known. CPI rates (predicted by the International Monetary Fund (IMF)) have been applied to the 2018-19 licence fee income (excluding over-75s) to estimate the income in 2019-20 and 2020-21.

3. When the BBC announced its decision to means-test the over-75s (June 2019), it estimated that the annual cost to the BBC for the licences issued to those over-75 will be £250 million. This figure has been used as the cost to the BBC for over-75s in 2020-21.

4. The cost to the BBC for licences issued to those over-75 in 2019-20 is unknown. The DWP funding will fall from £468 million to £247 million in 2019-20. To estimate the cost in 2019-20, we have applied an increase of £221 million to the cost to the BBC in 2018-19.
Commercial and competitive environment

Commercial activities

The BBC cannot undertake commercial activities directly, but must do so through commercial subsidiaries. In 2018-19, the BBC had four main commercial subsidiaries of varying size and complexity to manage its commercial activities – BBC Studios Distribution and BBC Studios Productions (whose parent company is BBC Studios), and Global News and BBC Studioworks.

The commercial subsidiaries support the BBC’s public service mission and generate income for the BBC Group. These companies maximise the value of the BBC’s intellectual property, while supporting the UK’s television industry on the world stage.

Grating the NAO access to the commercial subsidiaries for the first time, under the current Royal Charter, is an important step in improving the transparency of the BBC’s operations.

The commercial businesses delivered a year-on-year EBITDA (earnings before interest, tax, depreciation and amortisation) growth of 68% in 2018-19. This measure of the businesses’ financial performance is driven by the figures in the table below.

The creation of BBC Studios Productions

In April 2017, BBC Studios Ltd (now renamed BBC Studios Productions) launched as a commercial subsidiary as part of a major change to the BBC’s content supply. As a result it no longer has guarantees of business from the BBC Public Service, but it is able to pitch programming to other commissioners for the first time.

This change was granted by the former BBC Trust in December 2016, following extensive regulatory assessment and public consultation, ensuring the new commercial activity meets the criteria set out in the Royal Charter and Agreement.

The principal activity of the company is to develop and produce programme content for the BBC. Once established as a company, it entered into an intercompany loan agreement with BBC Commercial Holdings to fund approved expenditure.

The operation of the former BBC Studios division within BBC Public Service transferred, along with net assets totalling £49.5 million. The consideration for the transferred assets was, by way of the issue of shares, equivalent to this value. Programme assets were included in the assets transferred; however, existing intellectual property rights did not transfer and remained with BBC Public Service.

Studios merger

Subsequently, in November 2017, the BBC decided to merge the activities of BBC Studios Productions and BBC Studios Distribution (sales and distribution) under a single entity, BBC Studios.

The principal commercial challenge facing BBC Studios is the extent to which these businesses can generate and exploit new intellectual property for the benefit of the BBC Group.

<table>
<thead>
<tr>
<th></th>
<th>2018-19 EBITDA</th>
<th>2017-18 EBITDA</th>
<th>Year-on-year growth(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC Studios</td>
<td>£159m</td>
<td>£105m</td>
<td>51%</td>
</tr>
<tr>
<td>BBC Global News</td>
<td>£8m</td>
<td>£2m</td>
<td>300%</td>
</tr>
<tr>
<td>BBC Studioworks</td>
<td>£6m</td>
<td>£3m</td>
<td>100%</td>
</tr>
</tbody>
</table>
## Commercial and competitive environment

### Recent commercial deals and investments

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BBC Sounds</strong></td>
<td>The BBC launched the BBC Sounds app in October 2018. It is a new audio-product that brings together live and on-demand radio, music and podcasts into a single personalised product. By April 2019 the app had been downloaded more than two million times.</td>
</tr>
<tr>
<td><strong>BBC Scotland Channel</strong></td>
<td>Scotland, as a region, has previously reported the least favourable general perception scores of the BBC. The BBC launched a new dedicated channel for Scotland in February 2019.</td>
</tr>
<tr>
<td><strong>BBC’s deals with Discovery</strong></td>
<td>The BBC and Discovery intellectual property have entered into a series of agreements.</td>
</tr>
<tr>
<td><strong>1 Content deal</strong></td>
<td>Discovery paid BBC Studios £300 million to provide its natural history and factual TV programmes for Discovery’s new global SVOD service for 10 years. The content rights will be effective in all territories outside the UK, Ireland and Greater China. This is the BBC’s largest content deal in history and is an example of BBC Studios exploiting the intellectual property it owns.</td>
</tr>
<tr>
<td><strong>2 UKTV</strong></td>
<td>Under the terms of the UKTV deal, the BBC will acquire the seven UKTV channels most closely aligned to its content strategy (entertainment channels), with Discovery acquiring the remaining three lifestyle channels. This will be an important element of the BBC Studios business for the long term, simplifying the way BBC Studios can offer its programme rights to the market in the UK. As part of the agreement, BBC Studios will make balancing payments of £173 million to Discovery over two years.</td>
</tr>
<tr>
<td><strong>3 Co-productions</strong></td>
<td>The BBC and Discovery will also work together to film new natural history programmes, which will be screened by the BBC in the UK. This partnership will nurture ideas and get content funded, produced and shown through BBC platforms.</td>
</tr>
</tbody>
</table>

In the US and Canada, subscribers to BritBox, a paid-for video streaming service (also known as subscription video on demand, SVOD) reached the half million mark in under two years. In July 2019 the BBC and ITV signed an agreement to launch BritBox in the UK in the fourth quarter of 2019. This will be an SVOD partnership with ITV and others, under the BritBox brand, to which BBC Studios will supply content for UK audiences.

The BBC proposed to change iPlayer from a service where programmes are available to ‘catch-up’ for 30 days after broadcast, to one where programmes are available for 12 months as standard, with some available for longer. Ofcom, the BBC’s regulator, carried out a competition assessment. In August 2019, Ofcom announced its final determination, which concluded that the public value justifies the adverse impact on fair and effective competition identified. The BBC can proceed with its plans, subject to certain conditions.
In the early 2000s, the BBC had no preference as to whether it engaged freelancers directly as sole-traders or indirectly through PSCs. When the BBC became uncertain about the employment status for tax purposes of its news presenters in 2004 and other presenters in 2008 it introduced policies requiring freelancers engaged in longer-term or higher-value presenter roles to be hired through PSCs, reducing the risk for the BBC.

Before April 2017, responsibility for assessing the employment status of freelancers working through a PSC, and therefore also paying the right tax, lay with the PSC. After April 2017 public bodies, like the BBC, had to determine the employment status of PSCs they hired and ensure the correct payment of tax. The BBC started using a new HMRC tool to assess the employment status for on-air roles. Between August 2017 and June 2018, it assessed 92% of on-air freelancers as employed using HMRC’s tool, whereas before it had assessed most such freelancers as self-employed.

In March 2018, an open letter from more than 170 presenters expressed dissatisfaction with how the BBC handled the April 2017 changes. Some individuals claimed that the BBC bears some responsibility for meeting HMRC’s tax demands relating to the period before April 2017, as they only started operating through PSCs because the BBC required them to do so and felt that they had received misleading or limited information.

The BBC has taken steps to help affected individuals, for example bridging loans to three people totalling £2,550, to enable them to overcome short-term cash-flow problems, and contributions towards additional book-keeping fees arising from compliance changes to 33 people, totalling almost £12,000.

The BBC decided to resolve most of the retrospective claims that HMRC may have against past and current presenters in respect of employment status misclassification and has set aside a £12 million provision for this. This resulted in the C&AG qualifying his audit opinion on regularity grounds.

For more, see the NAO’s Investigation into the BBC’s engagement with personal service companies.
Terms and conditions reforms

In 2016 the BBC began a review of its terms and conditions to help improve consistency and fairness. The reforms, which represent a considerable achievement, include a new job framework for staff, with the previous 5,000 job titles mapped onto just 600, grouped within 27 job families and six broad pay bands. All jobs have market-informed pay ranges and the BBC has frozen some older allowances and updated other policies.

Reform within the BBC’s commercial subsidiaries is ongoing and the BBC needs to implement changes carefully to ensure it achieves its aim of allowing people to move between the two sides, while also keeping its commercial pay competitive.

The BBC invited staff to submit queries about their past pay. By April 2019, the BBC had received 1,275 queries, including questions on equal pay (with a gender component), fair pay (on relevant place within a pay band) and other issues, and had resolved 1,111 of these.

Gender pay gap

The BBC’s median gender pay gap fell between 2017 and 2018:

- 2017: 9.3%
- 2018: 7.6%

The BBC has set itself a target to close its gender pay gap in its Public Service to within plus or minus 3% by 2020.

Equalities and Human Rights Commission investigation

In March 2019, the Equalities and Human Rights Commission launched an investigation into equal pay at the BBC, due to conclude by the end of 2019. This relates to historic policy and pay practices and will determine if there has been unlawful pay discrimination and whether the cases raised by staff have been adequately resolved.

On-air roles

The BBC has improved the structure, consistency and oversight of on-air freelancer negotiations and has kept spend in this area in Public Service flat overall to 2017-18, although this has increased in 2018-19.

BBC spend on on-air roles, 2013-14 to 2018-19

Number of on-air individuals earning more than £150,000 a year

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<tbody>
<tr>
<td>Number</td>
<td>48,290</td>
<td>50,332</td>
<td>49,755</td>
<td>48,350</td>
<td>49,899</td>
<td>29,952</td>
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<tr>
<td>Percentage</td>
<td>6.4%</td>
<td>7.6%</td>
<td>9.6%</td>
<td>7.6%</td>
<td>9.8%</td>
<td>7.6%</td>
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Source: National Audit Office analysis of BBC data

Number of on-air individuals earning less than £150,000 a year

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<tbody>
<tr>
<td>Number</td>
<td>43,500</td>
<td>49,403</td>
<td>50,000</td>
<td>49,000</td>
<td>49,000</td>
<td>35,048</td>
</tr>
<tr>
<td>Percentage</td>
<td>83.6%</td>
<td>82.4%</td>
<td>80.4%</td>
<td>92.4%</td>
<td>90.2%</td>
<td>82.4%</td>
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Source: National Audit Office analysis of BBC data

For more see the NAO’s report Managing the BBC’s pay-bill.
Renewing the *EastEnders* set

The BBC built the external filming set for *EastEnders* (including ‘Albert Square’) in 1984, and originally planned to use it for two years. It has lasted for 34 years but is no longer fit for purpose. The BBC is replacing the external filming set and the core infrastructure at BBC Elstree Centre as part of a programme of activity called ‘E20’ which, among other objectives, aims to enable improved audience engagement with *EastEnders*.

While the case for the programme, and the rationale for the current approach, is clear, the BBC will not be able to deliver value for money on the E20 programme in the way that it envisaged in 2015. Some of the reasons for this were built into E20 at the outset and could have been addressed earlier. These include insufficient construction project management expertise that contributed to a lack of appropriate technical challenge, inadequate integration between the programme team and end users, and early planning processes that led to underestimation of aspects of complexity, cost and risks of its revised approach.

The programme costs have also been adversely impacted by inflation in the construction industry across the UK, which has had a greater impact than it would have done had the programme completed without any delays.

E20 has been subject to ongoing scrutiny and reporting and, in the past 18 months, the BBC has made many improvements to the programme and various elements of E20 have been completed. Furthermore, the benefits of the programme still appear to be broadly achievable, albeit at a later date.

### Budget and timeframe

**OCT 2015**

The initial budget in 2015 was £59.7 million.

Between 2015 and 2018 the programme's budget was revised in increments, to £62.1 million, partly to account for new activity such as removing asbestos from the galleries and undertaking additional surveys.

Subsequently, following contract negotiations and more realistic planning, the programme team submitted a paper to the BBC Board in May 2018 to request an increased budget of £86.7 million – £27 million (45%) more than what was approved in 2015; and an estimated delay of 31 months to complete the programme – from October 2020 to May 2023.

The BBC spent £28.2 million on E20 up to the end of September 2018, with some elements of the programme already completed at that date.

### E20 budgets, 2015 to 2018

The budget has increased by 45% up to £86.7 million

<table>
<thead>
<tr>
<th>Source: National Audit Office analysis</th>
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<tr>
<td>Original budget, October 2015</td>
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<td>Approved budget, prior to May 2018</td>
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<td>Restated 2018 budget, from May 2018</td>
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### Project management

The BBC had insufficient expertise in construction project management to identify critical issues. The programme team and *EastEnders* production were not sufficiently integrated and the BBC faced other issues, such as higher than expected inflation in the construction sector and asbestos and obstructions in the ground.

The BBC has made many improvements to its project management of E20 over time, particularly since mid-2017. For more see the NAO’s report *E20: renewing the EastEnders set*. 