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The BBC is one of the world’s great programme makers. On 7th September 2015, the BBC published its strategic and investment plans for the next Charter, including its ambition to transform the majority of its in-house production unit into BBC Studios, a wholly-owned subsidiary of the BBC Group. BBC Studios will operate in the market, producing programmes for the BBC and other broadcasters in the UK and internationally, and returning all profits to the BBC Group. It will be committed to supporting the BBC’s public service mission and values, and will keep programme-making at the heart of the BBC, producing much loved titles such as Doctor Who, Strictly Come Dancing, EastEnders and Big Blue Live. As part of these plans, the BBC is also proposing to remove its overall in-house guarantee of 50%, meaning that external producers would be able to compete for a much greater proportion of BBC network commissioning spend. The BBC believes this proposal is the best way to keep delivering fantastic creative programmes for audiences and long-term value for licence fee payers.

The purpose of this document is to provide more detail on our proposals and invite further dialogue with stakeholders. In Part One, we set out the strategic rationale for these proposals. In Part Two, we describe the way BBC Studios will be set up and how it will operate in practice. We also outline the benefits our proposals will bring to licence fee payers and the creative industries. In Part Three, we explain how we will ensure that the proposals are fully compliant with legal and regulatory requirements. Finally, Part Four provides an overview of the approval process.

The BBC has been making programmes since its inception, but we recognise that a newly constituted BBC Studios is an important development for the sector and we want to hear a wide range of views to make sure we get this right. The BBC Trust also intends to consult on these proposals as part of its wider programme of engagement on the BBC’s plans for the next Charter. Further detail on how to respond is available at the end of this document and on the BBC Trust’s website.
PART ONE: WHY ARE WE DOING THIS?
1.1 The BBC’s mixed supply model has worked well for audiences

Everything the BBC does for its audiences starts with the programmes and services it provides. This means it has a strategic imperative to nurture a creative supply base that can deliver fantastic content—popular and specialist—with a focus squarely on the UK audiences that fund it.

The BBC is committed to supporting this supply base in a number of ways: for example, through targets for production out of London, through an unrivalled breadth and depth of training, and through creating business propositions that direct benefits back to producers (e.g. BBC Store). The various regulatory interventions, alongside the demand for quality content generated by the PSB system, have also helped deliver a strong and diverse supply base.

Today, the BBC’s framework requires that it commission 50% of network programme hours from BBC production, 25% from qualifying independents, and the remaining 25% from any supplier, through the Window of Creative Competition (WoCC). In 2014, the BBC sourced 56% of its programmes from BBC production, and 44% from the wider market, spending over £400m with external suppliers. This mixed model has worked well for audiences and the creative sector. Both in-house and external suppliers deliver excellent programmes, and quality ratings, genre by genre, are on a par. The process of competition, and the visibility for commissioners who deal with the different parts of the supply base, ensures that the BBC gets the best quality and value for money for licence fee payers. Both internal and external suppliers compete internationally for investment and content sales, helping to draw in additional funding to make better programmes.

The BBC also gains distinct benefits from the different parts of its supply base. The scale and diversity of the external market—with over 500 companies ranging from micro businesses to global conglomerates—ensures a breadth of treatments and perspectives, while its exposure to other broadcasters and media companies in the UK and internationally helps drive innovation and the flow of ideas around the sector. At the same time, BBC production offers the BBC an unrivalled range and depth of expertise and experience across every specialism, a commitment to making programmes across the whole UK, and the highest standards of training and production craft. It also provides the BBC’s only source of wholly-owned intellectual property (IP), which is the engine of BBC Worldwide and generates significant financial returns for licence fee payers.

Sherlock, produced by Hartswood Films

Have I Got News For You, produced by Hat Trick

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1 As set out in the Broadcasting (Independent Productions) (Amendment) Order 2014, to qualify as an independent producer a producer may not have a shareholding of greater than 25% in a broadcaster or be a body corporate in which a UK broadcaster has a shareholding of more than 25%, or in which any two or more UK broadcasters together have an aggregate shareholding greater than 50%.

2 BBC internal figures based on eligible network television hours across all genres excluding News.

3 Based on estimates contained in Pact’s Independent Production Sector Financial Census 2015
1.2 Changes in the market are putting pressure on the current model

Today, however, the production sector is undergoing radical change. In a competitive global media market, access to content and ownership of IP rights are now vital strategic assets for broadcasters and online video services seeking to differentiate themselves and capture value which has been fragmented across multiple digital windows. Broadcasters and global studios have responded by acquiring production companies, to the point where over 50% of the UK ‘independent’ sector’s revenues are now generated by companies owned by broadcasters. This process has brought benefits: investment into the UK creative industries, stronger, more sustainable companies and a bigger market for producers to play into. But it also raises new challenges to the UK supply model which has worked so well for audiences, broadcasters and producers alike. Ofcom’s third review of Public Service Broadcasting (PSB) noted that “There is a growing risk that consolidated companies focus on the most commercially attractive genres, leading to a lack of innovation in the less commercially attractive genres.”

As audience demand evolves, some content needs, such as premium drama, are well served by the global English language production sector—but in other areas supply may become weaker or less effective. And it may become harder for public service broadcasters to access the best content for their audiences: Ofcom again notes that “there is the potential risk that greater vertical integration between broadcasters and production companies could reduce the number of companies competing for PSB commissions and so limit commissioner choice, particularly in genres which can achieve substantial international revenues.”

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The UK independent production sector in 2003
£1.3bn total revenues

The UK ‘independent’ production sector today
£2.3bn total revenues

Ownership of key groups:

- **Independent**
- **Broadcaster-owned**

**Notes:**
- Total excludes revenues from companies’ overseas operations;
- Numbers in brackets indicate number of other UK production companies owned by the broadcaster;
- Revenues of UK indies acquired by ITV Studios included in total sector revenues; other ITV Studios revenues excluded.

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Owning production and intellectual property is vital to the BBC’s future

The changing market is putting direct pressure on the existing regulatory framework. This was created for a very different UK market, to support an emerging independent production sector. Today we see a much more mature market with thriving independent producers, and the new presence of large, vertically-integrated global studios in the market, as well as global digital video services. As more and more leading production companies cease to qualify for the independent quota due to acquisition by broadcasters, commissioners may find themselves with less room for manoeuvre in their decision-making: there is a risk that the quota framework begins to work against its intention and constrain creativity. In particular, the individual 25% quotas for independent producers on BBC One and Two are already becoming difficult to fulfil without distorting editorial choices.

It is also putting pressure on the BBC’s in-house production unit. Over the past 50 years, BBC production has made many of the best-loved programmes on the BBC: EastEnders, Doctor Who, Top Gear, Strictly Come Dancing, The Office, Frozen Planet, Children in Need, Panorama and many more. But as the market has rapidly become more commercial and more global it faces growing challenges. Its unique set-up, with a level of guaranteed business, has protected areas of specialism but prevented it from offering programmes to other broadcasters. It is finding it harder to attract and retain the very best talent, who sometimes feel that the independent sector offers them greater creative freedom and a fairer share of reward for their success. BBC programme makers compete with one hand tied behind their back: they can only sell their ideas to one customer—the BBC—and if they lose business they cannot make it up elsewhere. These challenges are making it a less effective source of content for the BBC, and major change is needed to secure its long-term creative health.

The BBC believes that the policy framework and regulatory interventions need to be kept under review to ensure that they continue to deliver the desired policy outcomes and benefits. It is important that the BBC’s proposals for reforming its supply arrangements are considered in the context of the overall policy and regulatory framework for the sector, including the 25% independent quota and the Terms of Trade, noting that this framework is set out, in part, in primary legislation.

The priority for the BBC is a supply base that enables it to continue commissioning fantastic content for its audiences and delivering long-term value to licence fee payers. To do that, the BBC needs to keep the benefits of a mixed model of internal and external supply.

Secure access to high quality content will become increasingly important if the BBC is to deliver its public mission successfully in the next Charter period. As vertical consolidation and globalisation in the sector continues, it is likely to become harder to access rights on the open market. Netflix securing the rights to make the £100m biopic The Crown and Amazon signing the Top Gear team in a reported £160m deal are just two recent examples of increased competition in the industry. The costs of premium content will continue to grow, and if the BBC is to meet its audiences’ expectations in a way that delivers value for money it must ensure secure access to a sustainable—and affordable—source of intellectual property rights. In addition, as new distribution platforms increase the value of content beyond the primary transmission window, controlling rights through ownership rather than simply taking a broadcast licence will be critical to generating a return on the BBC’s investment in original UK content.

The only way to do this is by maintaining a vibrant wholly-owned production unit. The fact that huge hits such as Doctor Who, Strictly Come Dancing and Top Gear were made in-house gives the BBC, together with BBC Worldwide, the greatest flexibility in managing and promoting them in the UK and around the world, and ensures that all the value returns to the BBC for reinvestment in programmes. The BBC
retains 100% of the net return on in-house programmes, compared to a standard of 15% where programmes are made by external suppliers. This income is returned to the BBC in the form of the BBC Worldwide dividend and is reinvested in content and services for UK licence fee payers.

Owning IP allows the BBC to innovate, too—the critical mass of programming made in-house provided the foundation for launching the iPlayer and BBC Store and will be vital to the development of new platform initiatives and partnerships in future as the BBC continues to find different ways to reach its audiences.

An element of vertical integration between production and commissioning functions is a standard model in the media industry. UK broadcasters such as ITV and US networks such as 21st Century Fox are responding to the changing market by growing their share of commissioning spend on in-house production, as well as acquiring new production assets. The BBC cannot hope to remain a global player, bringing UK creativity to the world, without maintaining BBC production as a stable source of content.

But production is about more than generating income: it is about keeping the BBC a creative powerhouse. Programme making has been the beating heart of the BBC throughout its existence. Having production teams within the BBC keeps it connected to all parts of the creative community. The BBC’s excellence as a programme maker is founded on the writers, directors, actors, researchers, producers, camera operators, set dressers, costume designers, technicians and many more that pass through its buildings around the country every day. The BBC cares deeply about production and has invested in generations of talent that have gone on to work in the wider sector. The range of programming produced by BBC production means that talent crosses boundaries until it finds its specialisms, its passions and projects that break through. Without production, the BBC would lose something essential to its make-up, and the industry would lose a well of talent, expertise and dedication to all forms of television programming, right across the UK.
Maintaining a mixed model of content supply is not about a trade-off between growing the creative industries and preserving BBC production—the BBC and its production unit are a central part of those industries. Instead, we aim to ensure that all parts of the sector can thrive, by offering new opportunities to external providers and by strengthening BBC production, not diminishing it.

The BBC is proposing to do this through two major initiatives:

• We will transform the majority of BBC production into BBC Studios, a wholly-owned commercial subsidiary of the BBC Group producing programmes for the BBC and other broadcasters in the UK and internationally

• We will open around 80%5 of the BBC’s overall TV network slate to competition from external suppliers in a typical year by removing the guarantee for BBC production across the genres included in this proposal. This will grow the level of competition in the market

This package will help to sustain the flow of new British talent, creativity and story-telling in a global supply market. We believe it offers significant benefits:

• It will benefit the BBC’s audiences, because greater competition will mean commissioners have the freedom to choose the most creative ideas

• It will benefit licence fee payers, because BBC Studios will offer a long-term source of intellectual property to generate value for them

• It will benefit the creative industries, because it opens up millions of pounds of new business—drama series and serials, comedy sitcoms, landmark documentaries and entertainment shows—to competition from external producers, while keeping a British-owned engine of training and standards in the sector that can help underpin the sustainability of the UK production ecology

At its heart, this proposal is about greater creative freedom, with fewer caps on creative ambition for internal and external producers. It is about greater competition, building on the growth and vibrancy of the UK creative industries. And it is about greater balance, recognising that the strength of the UK sector is its diversity, and that all parts of it generate value that should be nurtured.

5 Based on retaining a guarantee for those genres remaining in-house (Children’s, Sport and Current Affairs)
PART TWO:
THE BBC STUDIOS PROPOSALS
### 2.1 Mission, purpose and values

BBC production has always created well-loved programmes, and played a central role in developing and supporting the full range of television genres and specialisms. BBC Studios will build on these strong foundations. But it will also be a new creation. One that looks outwards to the UK market and the world rather than only to the BBC. More entrepreneurial, and no longer protected by a guarantee. Empowered to determine its own strategy, aligned with but distinct from that of BBC commissioning. Able to take its rich experience of programme-making to other broadcasters rather than being beholden to the decision of a single commissioner. And offering a fantastic environment for talented people to work. In short, a renewed creative force making innovative public service content worthy of a global stage, and securing long-term value for licence fee payers.

BBC Studios will have a clear mission: to inspire audiences at home and around the world with bold British creativity. It will support the BBC’s public mission, keep programme-making and creativity at the heart of the BBC, and continue to provide the solid foundations for a vibrant UK creative sector.

BBC Studios will be very different from its peers in the production sector.

**BBC Studios will:**

- Put creative opportunity and its role in delivering the BBC’s public mission at the forefront of everything it does
- Embrace production across the UK, and help to ensure audiences benefit from the creative talents and voices from all around the country
- Delight in range and specialism rather than just those genres with the most commercial appeal
- Provide a home and investment for British production talent seeking creative autonomy within an operation of scale, and maximise creative opportunity for talent both in the UK and overseas
- Preserve the programme-making DNA of the BBC

To do this, it will also need to become a thriving, commercially sustainable production company creating programmes we are proud to have the BBC name on. It will work with BBC Worldwide to operate in the global market but will focus on serving UK audiences and the UK creative sector. It will help grow the BBC’s commercial revenues by ensuring the British public benefits from the ownership of valuable intellectual property. All profits will flow to, and be reinvested by, the BBC Group. This will deliver great value for money for licence fee payers by enabling a virtuous circle of content investment and commercial return, which can be reinvested in new programmes for audiences.

There will be lots of production companies in the UK market in future. But only one of them is guaranteed to be owned in this country and operated on behalf of the British public; focused on reflecting and representing different cultures, needs and interests and fostering local creative economies; and committed to returning value for reinvestment in the UK creative economy.
2.2 Legal status

BBC Studios will be set up as a private limited company, wholly-owned by the BBC Group, with special provisions in its framework documents and those of the wider group which set out its role in the BBC’s public mission. It will fall within the BBC’s established framework for the operation of commercial subsidiaries (such as BBC Worldwide and BBC Studios & Post-Production), and will be subject to state aid and competition law, currently enshrined in the BBC’s Fair Trading Policy and Guidelines. Unlike BBC production today, it will not benefit from the current guarantee of business from the BBC, and will need to demonstrate that it can survive on a commercially efficient basis by winning commissions in the open market.

Further details on the steps the BBC will take to ensure that these proposals are carried out in a legally compliant way are contained in part three of this document.

2.3 The scope of BBC Studios

Television
BBC production today makes programmes in a wider range of genres than any other production company, and BBC Studios will build on that legacy. It will comprise all the network production departments that are currently part of BBC Television: Drama (including the BBC’s continuing drama series such as EastEnders), Comedy, Entertainment, Events (including the teams producing coverage of ceremonial events as well as festivals such as Glastonbury and BBC live events), and Factual (including the Natural History Unit, Features & Daytime, Specialist Factual, Documentaries and Popular Factual). The Music Television department, currently part of BBC Radio, will also move into BBC Studios.

Radio
The BBC’s in-house Radio Comedy department will also become part of BBC Studios. This team is already fully integrated with the Television Comedy department, since there are benefits to be gained from sharing ideas and talent between the two, and we believe that keeping these departments together is the best way to continue to deliver a strong comedy offering to BBC audiences across both platforms.

The rest of the BBC’s Radio division will remain within the Public Service, and the other Radio teams that are currently integrated into Television production departments (Natural History and Religion) will be moved into BBC Radio. The BBC has recently announced proposed changes to BBC Radio’s content supply strategy.

Digital
The core business of BBC Studios will be creating long-form television programming. However, there is a growing demand from audiences for new forms of content for digital platforms, and BBC Studios will need to be equipped to serve the BBC’s needs in this area, as well as explore opportunities with other commissioners. Different genres are moving at different paces on the journey towards digital: BBC Studios is likely to focus on areas where the internet is enabling new formats and new ways of reaching audiences, and where new creative skills and storytelling methods are needed to preserve the BBC’s traditional strength. We expect BBC Studios to grow its capability in this area gradually over time, as the level of demand increases and the BBC and other commissioners continue to move towards a digital future.

Television production areas delivered in the Public Service
The BBC Studios proposals are a strategic response to a changing context in television supply, and do not apply to all the BBC’s in-house production activity. News programming will continue to be delivered solely by in-house teams, and the BBC has announced its intention to retain Current Affairs production in the Public Service as part of BBC News. This is to ensure that the BBC has the ability to deliver the sort of sensitive, risky investigations that require clear editorial oversight from the Director of News and, in some cases, the Director-General. The BBC will retain an in-house guarantee for Current Affairs, and will continue to work with independent producers in this genre.
The BBC has also announced that Children's and Sport production will remain in the Public Service at this stage. For Sport, this is to ensure that the BBC can continue to deliver its multiplatform service to audiences—involving close working between Television, Radio, Online and News teams—and that it can guarantee the critical mass of production skills needed to deliver major global sporting events such as the Olympics and the World Cup. For Children's, this is to preserve the BBC's offer to this critical audience. BBC Children's is likely to undergo profound transformation in the next few years as it responds to changing media behaviours amongst young people, and we need to ensure that the department can focus on delivering the best possible service to audiences, working closely with interactive and technical teams across BBC Digital. As with Current Affairs, the BBC will retain an in-house guarantee as well as upholding its commitment to commissioning content from external providers in both these genres.

2.4 BBC Studios in the Nations & Regions

The BBC's television production activity today is spread across seven main bases: London, Bristol, Birmingham, Salford, Cardiff, Glasgow and Belfast. This is a reflection of the BBC’s ambitions to create programmes that fully reflect different cultures and communities, and its strategy of developing sustainable production ecologies around the UK, supported by targets of spending 50% of network budgets outside London, including 17% in the three devolved Nations.

The BBC will remain committed to spending on programming outside London, and a presence across the UK will likewise be central to BBC Studios’ heritage and public service mission. It will make it a distinctive entity in the UK market, and will enable it to draw on an unrivalled breadth of creativity, experience and expertise across the country. It will also ensure that it can continue to serve the BBC’s commissioning needs, as well as exploring opportunities with other commissioners.

In the long term, it will be for the Director of BBC Studios and the BBC Group as a whole to shape BBC Studios’ presence around the UK, but BBC Studios is likely to build on existing in-house production centres of excellence wherever it can. For example, Glasgow with its expertise in specialist Factual programming; Cardiff—the home of Doctor Who and Casualty—a strong player in Drama; or Bristol, building on the heritage of the Natural History Unit. Activity will continue in Belfast, Birmingham and Salford, though several key production departments located in these bases (Current Affairs, Children's and Sport) will remain in the Public Service part of the BBC.

The BBC intends to include all network production teams across the genres described in section 2.3 in BBC Studios, wherever they are located. The BBC would however welcome views as to whether production units focused on making programmes solely for local audiences in the Nations would be best served by being retained in the Public Service or becoming part of BBC Studios as well. These teams often work closely with their co-located network colleagues (such as the Doctor Who team in Cardiff), and local production can act as an effective training ground for producers looking to develop their careers. There is a case for including these local teams within BBC Studios, strengthening the bases in each Nation and bringing all the BBC's television production activity across Drama, Comedy, Factual and Entertainment together in a single vibrant new entity. However, we need to give careful consideration to the different context in each Nation: the market for local-only content is much smaller than network, with more fragile ecologies of independent producers. In addition, this output plays a unique and important role in the BBC’s programming portfolio, meeting the distinctive needs of audiences that may not be well served by other broadcasters. The BBC is keen to ensure that it considers the full range of issues in reaching a final decision in this area.
The BBC Studios proposal aims to keep programme-making at the heart of the BBC Group. Alongside our Commissioning, Channels and Sales & Distribution activities, BBC Studios will be central to the way the BBC generates public value by investing in content that meets the needs of its audiences.

**Corporate governance and management**

The BBC Group will be the sole shareholder in BBC Studios. The BBC’s Executive Board will approve the strategy and business plan for BBC Studios each year, within the overall strategic and financial framework for the BBC Group, and will set shareholder objectives as appropriate. The Director of BBC Studios will be the single point of accountability for BBC Studios, reporting to the Director-General of the BBC. The Director will be responsible for delivering these objectives, working with his management team and colleagues across the BBC Group as relevant. The BBC Trust’s role in overseeing the activity and performance of the BBC’s commercial services will also apply to BBC Studios.

BBC Studios will be subject to the BBC’s overall branding and editorial guidelines, and the BBC Group will set parameters determining what work it can undertake for third parties using the BBC brand. The BBC has well-established protocols in this area for BBC Worldwide, and proposed arrangements will be scrutinized as part of the BBC Trust’s regulatory approval of these proposals. The BBC already operates these types of arrangements successfully today across its group structure.

**Relationship with Commissioning**

Meeting the needs of BBC Commissioning will be the primary strategic focus for BBC Studios given its role as a key customer for BBC Studios. The leadership of BBC Studios will need to work with the leadership of the rest of the BBC, in a fair and appropriate way, to ensure that the BBC can deliver its long-term editorial strategy, in the same way as our other commercial subsidiaries operate. In particular, BBC Studios will play an important role in meeting the BBC’s distinctive supply needs, including the production of content in the Nations & Regions, and in specialist genres such as religious programming or ceremonial events.

In future, just as today, commissioning content that delivers quality, range and value for money to licence fee payers will be the BBC’s highest priority. The strategic alignment of the BBC’s objectives at a Group level will remain separate from commissioning decisions. The BBC’s Commissioners and Channel Controllers will continue to make choices about individual programmes in licence fee payers’ interests, on the basis of creative merit and value for money. We will ensure that all the BBC’s suppliers are treated in a fair and non-discriminatory way (further detail on this is contained in section 3.5).

**Relationship with BBC Worldwide**

BBC Worldwide today is an important strategic distribution partner for BBC production and other UK producers, and provides valuable upfront investment that helps to get programmes made, in return for a range of secondary rights. In turn, BBC production is the main contributor to BBC Worldwide’s content pipeline, enabling it to generate revenues by selling programmes and ancillary content around the world.

BBC Worldwide will be a key strategic partner for BBC Studios in future. Since both entities will operate within the commercial part of the BBC Group, there will be no state aid or competition law restrictions on interactions between them. The BBC will seek to build closer strategic alignment between the primary production activities undertaken by BBC Studios and the secondary exploitation of content by BBC Worldwide through its Sales & Distribution and Channels business, as is standard practice for producers of scale around the world. This will enable it to develop an integrated creative and business strategy for delivering the maximum returns to licence fee payers, based on a better view of the full value of the BBC Group’s content.

Within this strategic framework, we expect BBC Studios to continue to be a key content partner to BBC Worldwide, but in some circumstances it will work with other distributors where this is the best way to maximise the value of the content it creates. BBC Worldwide will continue to act as a distributor for programmes produced by independent producers, and will maintain its range of partnerships with independent producers.

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Culture and operating model
The BBC Studios proposal aims to keep programme-making at the heart of the BBC, and our guiding principle in setting it up will be to put in place the conditions needed for creativity to thrive: a flatter structure, with fewer hierarchies and more autonomy for talented individuals; a flexible operating model, supporting best-in-class commercial efficiency; and an entrepreneurial culture, ready to respond to new opportunities wherever they may arise.

It is likely that these goals will be best served by a range of structures within the organisation. We are currently considering the detailed operating model and organisational design for BBC Studios including the option of moving towards a 'label' structure. It will be the responsibility of the Director of BBC Studios, along with his team, to develop the approach that, over time, will best deliver on their ambition.

Staffing and talent
Production is a people business, and BBC Studios’ staff base will be critical to its success. BBC production currently has a fluctuating workforce of around 2,000 people across the genres set out in section 2.3. As we develop our plans for BBC Studios and secure the necessary regulatory approvals, we will finalise our operating model and staff resourcing plans and will update the BBC Trust, unions and staff accordingly.

In future, creating the best possible creative culture and environment, where on and off screen talent want to come to do their best work, will be a key strategic priority. BBC Studios will build on the BBC’s heritage, preserving what attracts talented people to BBC production today:

- A focus on identifying and nurturing new talent, from all backgrounds
- Unrivalled breadth, with opportunities across all genres and all around the UK
- A global reputation and a commitment to the highest standards

As a commercial company, BBC Studios will also have more freedom to reward success—not by paying over the odds, but by finding fair ways to incentivise creative talent and give them a share in the risks and rewards of their creative endeavour, as is standard practice in the wider industry. Any arrangements would be subject to BBC Group oversight.
How BBC Studios will generate value

BBC Studios will generate income by developing ideas for programmes, winning commissions from broadcasters—whether the BBC or others in the UK and internationally—and producing the programmes in return for a fee. Where it can, it will also seek to secure third-party investment in its programmes to supplement the funding provided by the broadcaster, as BBC production does today and as is standard practice across the industry.

The BBC intends to transfer to BBC Studios the right to continue producing the series that it makes today. Further detail is provided in section 3.4 as to why we believe this approach is in the best interests of licence fee payers. BBC Studios will obtain only a limited commissioning contract to produce these series. The underlying intellectual property rights will be retained by the Public Service, and the secondary exploitation rights will remain under termed licence with BBC Worldwide (or another distributor), where it has invested to secure these on a market basis.

In the case of new programmes that BBC Studios creates for the BBC or other commissioners, the underlying IP will remain within the Group, as is established practice for vertically-integrated media companies. As well as making a margin on the production of the programme, BBC Studios will be able to generate additional value for the BBC Group through the secondary exploitation of these rights via BBC Worldwide or other distributors.
2.8 BBC Studios’ financial outlook and position in the market

On the basis of this business model, we believe BBC Studios has the potential to become a vibrant and creative producer with a path to long-term growth. There is no question that BBC Studios will face challenges: it will enter a highly competitive market, filled with hugely experienced and entrepreneurial production companies, and will no longer have a guarantee of business from the BBC. Transforming its culture and operating model to prepare for this new world will take time and effort. But BBC Studios will have highly experienced staff, and a reputation for quality built over half a century, as well as a greater ability to attract talent, set its own strategy, and explore a wider creative canvas than today. The BBC is confident that BBC Studios will be able to win new commissions from the BBC and other broadcasters.

Forecasting the performance of BBC Studios is challenging given market uncertainties. However, we have undertaken preliminary analysis of BBC Studios’ likely position.

Revenue and market share
Based on its current business, BBC Studios will have total revenues of around £400m at launch, and will receive a share of below 15% of total UK commissioning spend. Our ambition is for this share to stay relatively stable over the near term as BBC Studios faces greater competition from the market for business with the BBC, but also has the opportunity to win commissions from other broadcasters. BBC Studios will derive the majority of its revenues from the BBC. In future, this commissioning spend will be contestable rather than subject to the in-house guarantee, growing the overall addressable market. BBC Studios will depend on the continued strength of its ideas and programmes to win recommissions and new commissions. The revenue that it derives from other broadcasters—that is, spend already in the market today—will likely be only a small proportion of the total available in the UK. In addition, BBC Studios will aim to win commissions in the global English-language content market that continues to grow strongly.

We estimate that BBC Studios’ position at launch would make it one of the largest producers by UK revenues. When international and secondary revenues are factored in, it would be a smaller player: ITV Studios has total global revenues of almost a billion pounds, and FremantleMedia and Endemol-Shine of well over a billion. The parent companies of some leading UK producers are even larger: 21st Century Fox has a global turnover of £19bn, Time Warner of £18bn, and Liberty Global of £12bn.

Commercial efficiency
A key part of the regulatory approval process requires any BBC commercial venture to be commercially efficient. We expect that BBC Studios will be well placed to satisfy this test both at the time of launch and in the medium/long term.

The BBC Trust will consider the business case for BBC Studios as part of any approval process.

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7 Based on primary revenues for network production across the genres and areas outlined above in section 2.3, as well as commercial revenues from co-production and upfront investment.
8 Based on BBC Studios’ forecast primary commissioning revenues as a share of total spend on commissioning original content by UK broadcasters (PSB and multichannel).
2.9 Reforming the BBC’s quota framework

As we have noted, it is important that the BBC’s proposals for reforming its supply arrangements are considered in the context of the overall policy and regulatory framework for the sector. We have already announced our desire to reform the BBC’s specific supply quotas during the next Charter period, subject to the approval of the BBC Studios proposals. The current framework—with 50% of network hours guaranteed for BBC production, 25% guaranteed to qualifying independents and a 25% WoCC open to all suppliers—is out of kilter with the realities of the market and is no longer fit for purpose. Provided we can secure approval for the BBC Studios proposals, we are proposing that the overall in-house guarantee and the WoCC for all network programming in Drama, Comedy, Entertainment and Factual genres be removed. This will increase opportunities for external suppliers and ensure that commissioners enjoy greater freedom to make the right creative choices.

Other parts of our quota framework should remain in place, where protections are necessary to secure healthy supply outcomes. We have set out our view in response to Ofcom’s PSB Review that the overall 25% independent production quota should be retained as it provides valuable support to qualifying independents. We have, however, indicated that the level of the quota may need more dynamic management in future, if further consolidation starts to distort creative commissioning decisions and/or the interventions no longer target the businesses that need support the most. We will also seek a change in the individual independent quotas for BBC One and BBC Two as part of Charter Review, since as independent producers continue to lose their qualifying status through acquisition, it is becoming harder to meet these targets without compromising creative commissioning decisions.

The BBC will remain committed to sourcing programmes from outside London and across the Nations of the UK.

The net result of these proposals for the BBC’s quota framework will be increased opportunities for external producers to win BBC commissions through an opening up of our schedules to a greater level of competition for the best ideas on screen. The removal of the 50% in-house guarantee will make around 80% of BBC network hours contestable and subject to competition on creative and value for money grounds in a typical commissioning year. In addition, the balance of opportunity will be weighted towards supporting smaller businesses, with 25% of the overall network schedule remaining ring-fenced for qualifying independents.

In the longer term, the removal of the in-house guarantee will make an additional c£250–300m of the BBC’s annual network commissioning spend, previously reserved for BBC production, open to competition for the first time—drama series and serials, comedy sitcoms, landmark documentaries and entertainment shows. The scale of new funding immediately available will depend on the overall value of the BBC’s network slate when these changes come into effect, and commissioning decisions made between now and then on existing in-house programmes. Funding available will grow towards the stated level over time as existing series are decommissioned and new commissions become open for competition on a fair and open basis.

9 Based on retaining a guarantee for those genres remaining in-house (Children’s, Sport and Current Affairs)
10 Based on the approximate value of BBC production programming made within the in-house guarantee, across the genres that will become part of BBC Studios (and which will therefore have the guarantee removed). The figure is subject to change in future depending on the BBC’s overall funding position.
Collectively, these proposals will deliver important benefits to audiences, licence fee payers and the creative industries. If successfully executed, they will:

- Boost the creative industries, by increasing the amount of commissioning spend available for production companies to compete for
- Drive creativity and value for money for audiences and licence fee payers by promoting competition within the supply base and providing more choice for commissioners
- Sustain the range and breadth of programmes that the BBC needs to fulfil its public mission, including in more specialist genres where the market has less incentive to invest
- Preserve the existence of a strong British-owned production company operated on behalf of the UK public, focusing on the needs and interests of UK audiences and the creative industries
- Enable the BBC to help find and nurture the next generation of British talent in drama, natural history, comedy, entertainment and factual programmes
- Grow the BBC’s commercial revenues by ensuring it benefits from the ownership of valuable intellectual property. This delivers value for money for licence fee payers by enabling a virtuous circle of content investment and commercial return, which can be reinvested in new programmes for audiences
PART THREE: THE REGULATORY FRAMEWORK FOR BBC STUDIOS
The BBC’s proposals are designed to fit with UK and EU state aid and competition law, and the BBC’s Fair Trading frameworks. This section describes the mechanisms that we will have in place to ensure that BBC Studios complies with these and all other relevant regulatory requirements.

The essential elements of assurance are already well-established: an approval process by the BBC Trust (explained in the next section); adherence to the BBC’s Fair Trading framework; and on-going compliance with the four commercial criteria for BBC commercial activity. To ensure compliance with state aid and other regulatory requirements, our approach will adhere to the following core principles:

- No cross-subsidy from the Public Service to BBC Studios, ensuring that there is no use of the licence fee to subsidise the costs or inflate the prices paid to BBC Studios
- Demonstrable separation between the management, finances and operations of BBC Public Service and the new BBC Studios so that BBC Studios does not gain any unfair advantage in the market as a result of its links to the BBC
- Arm’s length commissioning, with any commissions offered to BBC Studios by the BBC subject to the same range of tariffs and terms as are available to external producers

Further to this, we want the sector to have full confidence in the BBC’s proposals. We have given careful consideration to the concerns that third parties have raised with us to date about the BBC Studios proposals and have designed a robust legal and practical response to each.

Overview

Clause 69 of the BBC Agreement sets out the Four Commercial Criteria, which state that “Commercial Activity undertaken by the BBC must: fit with the BBC’s Public Purposes; not jeopardise the good reputation of the BBC or the value of the BBC brand; exhibit commercial efficiency; comply with the Trust’s Fair Trading Policy, the BBC’s Fair Trading Guidelines and, in particular, avoid distorting the market”
The BBC is entrusted by the UK government with the spending of the licence fee to deliver its public service remit. This remit is set out in the BBC Charter and Agreement as well as the BBC’s various service licences which describe how the BBC will deliver its services within the boundaries of its overarching public purposes. But the BBC’s current production and commissioning arrangements are not set in stone. We have the flexibility to organise our activities in the way that we consider best meets the BBC’s public service remit and the interests of licence fee payers, as long as they are in line with the terms of the Charter and Agreement and comply with the relevant regulatory obligations. This includes having commercial subsidiaries, provided that such subsidiaries are not unfairly cross-subsidised using state funds. The BBC has historically commissioned public service content from commercial production companies as well as from BBC production. The creation of BBC Studios sits within this established model and is not a change to the public purposes with which the BBC has been entrusted nor to the amount of public funds the BBC receives. It is a change to the way the public purposes are delivered, driven by a strategic judgement about what is going to provide the best outcome for licence fee payers.

We have designed the Studios proposals to ensure compliance with state aid law and the BBC’s Fair Trading Policy and Guidelines—which go above and beyond legal requirements. In setting up and operating BBC Studios, the BBC will ensure that no selective advantage is conferred either by treating BBC Studios more favourably than the market or through inappropriate cross-subsidy. Selective advantage is an essential component of state aid and ensuring that it does not occur offers assurance that the BBC will not be distorting the market.

It is worth noting that there are strong precedents for these proposals. The BBC already has a track record in delivering this kind of structural reform and in working with commercial subsidiaries (most recently, market testing for BBC Worldwide and the creation of BBC Store) to ensure compliance with regulatory obligations.

### Market impact and competition law

BBC Studios will be amongst the larger UK-based suppliers of TV programmes. However, our analysis suggests that it will have a market share of below 15% of UK commissioning spend at launch, and a much smaller share of the growing global market for English-language content.

The BBC will have to demonstrate that BBC Studios will not distort the market as part of the Trust’s regulatory approval process. The BBC’s Fair Trading Framework also requires that any commercial subsidiary must comply with competition law as part of its continuing obligations under the four commercial criteria. BBC Studios will be subject to normal competition law, and the UK competition authorities have extensive powers to investigate suspected abuse of dominance and, where they find an infringement, to impose substantial financial penalties and remedies to correct abusive conduct.

In addition, our proposals will increase the level of competition for BBC commissioning slots by removing the overall in-house guarantee, and therefore grow the addressable market for UK producers in a pro-competitive way.

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12 The BBC is a Service of General Economic Interest as defined by Article 86(2) of the European Treaty. Public funding of SGEIs is permitted under EU law subject to the requirement that there is an explicit entrustment of a clearly defined public service remit and funding is proportionate to the public service that is to be delivered.
3.3 Transfer of assets

The transfer methodology adopted will ensure that the transition of BBC production from the Public Service to a commercial subsidiary will not provide BBC Studios with an unfair advantage.

Firstly and most importantly, only a limited number of assets are expected to transfer to BBC Studios. All existing IP rights in programmes will remain with the Public Service and will not be transferred to BBC Studios, except for such limited rights as may be required to continue to make programmes which are made in-house today and have been recommissioned. Secondly, the separation mechanics proposed comply with EU state aid rules and have been used by the BBC when creating commercial subsidiaries in the past. Transfer from the Public Service to Commercial Holdings will be a group restructuring under common control with the Public Service obtaining 100% of the shares in the new company. Any assets that are transferred to BBC Studios, together with any transferring liabilities, will be fairly valued at that time and audited in accordance with our normal procedures. Within this overall approach, the current expectations include the following:

1. BBC Studios will pay an appropriate brand royalty fee in return for a brand licence
2. Valuation of any contracts for series BBC Studios continues to make will be undertaken according to normal accounting principles
3. Access to equipment, facilities, technology, archived materials and core services in the Public Service for BBC Studios will be governed by the Fair Trading Guidelines and charged under the BBC’s existing transfer pricing methodology as set out in those Guidelines. The transfer pricing methodology is subject to review by the Trust this autumn.

3.4 Transfer of returning series

The BBC intends to transfer the production of returning series to BBC Studios at launch. This is in the interest of licence fee payers and is compatible with our regulatory obligations. The quality of the returning programmes such as Doctor Who, Stargazing, Mrs Brown’s Boys and Antiques Roadshow is high; the BBC creative teams that produce them are well-established and strong; and the series are loved by audiences. The production of these programmes by BBC Studios is necessary to ensure continuity of supply to licence fee payers. The underlying IP rights for these series will not transfer to BBC Studios, but remain with the Public Service.

We are against an arbitrary process of forced tendering of all slots regardless of whether they are currently filled by successful BBC productions. Of course, over time, if programmes under-perform they would be reviewed and eventually decommissioned and the slots would be opened up to competition.

The process we intend to use is fair and open. All returning series will be re-commissioned on the decision of the relevant Commissioner: In most cases, commissions will be made for a year at a time; any exceptions to this approach will be on a clear and objective basis and reflect current market practice i.e. similar to the multi-annual commissioning deals already offered to external producers by the BBC and other UK commissioners. The transfer of the production of returning series will not constitute an inappropriate cross-subsidy as BBC Studios will be delivering a service for a price that is based on published, market-based tariffs and any transitional arrangements will be informed by a fair valuation of all assets and liabilities passed over.

3.5 Commissioning process

The BBC has a good track record in dealing fairly with all its suppliers. In operating the WoCC, BBC Commissioning has demonstrated that it works with suppliers in a fair and objective way and selects the best programmes irrespective of source. The Trust’s WoCC Review (2013) said: “The evidence … strongly suggests that the selection of the best programme ideas takes precedence over pre-determined quotas, buying models or programming slates.”

The BBC will continue to ensure fairness in the relationship and dealings with all suppliers to ensure no selective advantage is conferred on BBC Studios:

- In terms of the commissioning process, commissioning content that delivers great value and quality to licence fee payers will remain our top priority in future. All decisions about individual programmes—whether they are commissioned, re-commissioned or dropped—will be made by BBC Commissioners. Their decisions will continue to be made in licence fee payers’ interests, on the basis of creative merit and value for money.
- In terms of the contractual dimensions of the relationship, any commissions offered to BBC Studios by the BBC will be subject to the same range of tariffs and terms as are available to external producers. For example, at the moment, all commissioning decisions are made on an annual basis, except for a small number of instances where the BBC enters into a multi-year contract with the producer. Our approach to BBC Studios will follow this model, unless BBC Commissioning changes its approach to contracting with other external producers.
- BBC Public Service will allocate development spend between external producers and BBC Studios on a fair basis appropriate for the relevant commission. Beyond this, BBC Studios will be expected to fund development on a commercial basis.

At a Group level, the BBC will need to ensure a degree of alignment in setting and delivering its long-term strategic priorities and financial plans. As with arrangements between BBC Worldwide and BBC Television today, all arrangements will be compliant with state aid law, as reflected in the BBC’s Fair Trading framework, to ensure that no selective advantage is conferred to BBC Studios as a result.

The BBC’s Commissioning Code of Practice agreed with Ofcom already sets out guidelines for the BBC’s commissioning process, and will offer further assurance in this area. The Code makes it clear that the BBC’s priority in commissioning is to provide producers with access to clear information about its commissioning requirements and to commission producers openly and fairly, taking into account the quality and price of their proposals. It would be our intention to continue to apply the principles of the Code to all producers including BBC Studios, in addition to the new oversight and regulatory safeguards we are proposing to put in place (see 3.7).

We will look at whether this may require clarification in the Code and Commissioning Guidelines but we believe that the Code is sufficiently flexible to continue applying to all suppliers.

14 Window of Creative Competition BBC Trust Review March 2013, p6
Fair pricing for programmes

The BBC will ensure that the pricing arrangements for BBC Studios are fair and do not distort the market or constitute state aid.

The BBC already has a system of tariffs in place to ensure that commissioners secure a fair price for content that delivers the best value for money for audiences.

Analysis of data supplied to the BBC Trust suggests that the price per hour paid by Commissioning for programmes from BBC production and independent producers is on a par today (see Figure 2). In many cases, these programmes have been awarded following competition in the WoCC.

In future, delivering value for money for licence fee payers will continue to be a key priority for Commissioning. Our intention is that BBC Commissioners will continue to publish programme tariff ranges and will apply these to all programmes commissioned from BBC Studios in the way that they do for external producers today. All suppliers will be expected to work within these tariffs, allowing the BBC to ensure that its pricing is fair and appropriate across its supply base. BBC Studios will be expected to deficit-fund programmes—as BBC production and other suppliers do today—in cases where the price agreed with Commissioning does not cover the full cost.
3.7 Oversight—regular ex-post review

To ensure that the BBC complies with the above principles in moving ahead with the BBC Studios proposals, we are proposing a range of oversight measures.

As set out above, the BBC is obliged under the Charter and Agreement to comply with the Trust’s Policy on Fair Trading and the BBC Executive’s Fair Trading Guidelines. The Trust will rigorously examine arrangements for financial and operational separation between the BBC Public Service and BBC Studios and can impose additional safeguards if necessary.

Under the BBC’s governance arrangements, before the proposals go ahead, the Trust must be satisfied that BBC Studios will meet the four commercial criteria designed to protect the market from distortion and protect the BBC’s public purposes.16

This is an ongoing obligation on which each BBC commercial subsidiary must report annually on compliance. It has also recently been supplemented by the publication of the Trust’s Strategic Framework for Commercial Services.17

To provide further comfort and demonstrate that there is no selective advantage being conferred upon BBC Studios, the BBC is proposing a periodic ex-post review of the new arrangements. This would be conducted through an external regulatory process, with the first to begin within 12–24 months of operation. The exact scope of the review should be defined at the appropriate time by the regulator; but it could look at pricing, range of commissioning opportunities available, and access to commissioning, as well as recommending changes if the new arrangements are not ensuring fair treatment and working in the interests of licence fee payers. The BBC will also undertake benchmarking studies (consistent with its ‘Compete or Compare’ framework) where appropriate to ensure its pricing arrangements are competitive.

16 The Four Commercial Criteria state that “Commercial Activity undertaken by the BBC must: fit with the BBC’s Public Purposes; not jeopardise the good reputation of the BBC or the value of the BBC brand; exhibit commercial efficiency; Comply with the Trust’s Fair Trading Policy, the BBC’s Fair Trading Guidelines and, in particular, avoid distorting the market”. Compliance with competition and state aid rules is a requirement of the Fair Trading Guidelines.

17 http://www.bbc.co.uk/bbctrust/our_work/commercial/commercial_framework
PART FOUR: APPROVALS PROCESS AND TIMETABLE
The first stage of the BBC’s production proposals is the establishment of BBC Studios within the Public Service under the leadership of a dedicated Director, reporting directly the Director-General. Peter Salmon has been appointed as Director of BBC Studios. We aim to complete this stage within this Charter period; that is before the end of 2016. The second stage would be the establishment of BBC Studios as a wholly-owned commercial subsidiary.

The regulatory framework around the BBC’s content production is being considered as part of the Government’s Charter Review process. The Government’s consultation document sets out a number of options. By providing further details on the BBC’s proposals, this document is intended both as an input into that process and also an opportunity for the BBC Executive to continue the dialogue with stakeholders and seek further views on the proposals. We will respond in more detail to the Government’s policy questions in October.

The BBC Trust is also seeking stakeholder views on the Executive’s proposals for the creation of BBC Studios and the removal of the in-house guarantee. Following the consultation, it will submit advice to the Government on whether the proposals represent an appropriate approach to best serve the interests of licence fee payers. The details of its consultation process are set out on the BBC Trust’s website at http://www.bbc.co.uk/bbctrust/have_your_say/bbc_studios.

The BBC Trust would, in accordance with the Charter and Agreement, need to apply its established regulatory processes for assessing BBC Studios’ compliance against the approvals framework for the BBC’s commercial services, including compliance with the Trust’s Fair Trading Policy and with relevant law.