



Government Response
to House of Commons
Select Committee on
Culture, Media and Sport
5th Report of Session 2008-09:
BBC Commercial Operations

*Presented to Parliament by the
Secretary of State for Culture, Media and Sport
by Command of Her Majesty
June 2009*

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GOVERNMENT RESPONSE TO HOUSE OF COMMONS SELECT COMMITTEE ON CULTURE, MEDIA AND SPORT 5th REPORT OF SESSION 2008-09: BBC COMMERCIAL OPERATIONS

Introduction

The Government welcomes the Select Committee's Fifth Report of the 2008-09 session and is grateful to the Committee for its consideration of these issues. The Government considered very carefully the evidence presented to the Committee and notes the conclusions and recommendations set out in the report.

The Government remains firmly of the view that the BBC should be encouraged to generate income through commercial activity, including the sale of programme rights. The transparency of the BBC's commercial activities is, however, vital and for that reason the 2006 Charter and Agreement introduced safeguards to ensure that the terms of transactions between public services and commercial activities remain clear at all times.

The Government said in the Digital Britain Interim Report that it would discuss the future activities of BBC Worldwide with the BBC Trust and we will return to this issue in the final Digital Britain Report, to be published shortly.

Response to conclusions and recommendations

The Government notes that the majority of the recommendations are for the BBC Trust and BBC Executive to respond to rather than Government but makes the following responses.

Recommendation / conclusion 1: We recognise that significant benefits are realised from the BBC undertaking commercial activities. Clearly, the profits generated by the exploitation of its intellectual property allows the BBC to invest more in its public service remit than would otherwise be the case. We also note the positive sentiments expressed by significant sections of the creative economy in relation to the business practices of BBC Worldwide, although we are conscious that the industry is unlikely to bite the hand that feeds it. The principle that the BBC should be able to maximise the value of its brand by exploiting its intellectual property, subject to appropriate safeguards, in order to relieve pressure on the licence fee is clearly sensible. We share the view of the public and the Government in this respect. In the chapters which follow in this report, however, it is the manner in which some of the BBC's commercial revenue is generated, and the governance arrangements within which Worldwide operates, which give rise to legitimate concern. (Paragraph 16)

The Government notes the Committee's view.

Recommendation / conclusion 16. We recognise the financial pressure Channel 4 is experiencing and we restate our view that it is essential to retain plurality in the provision of UK-produced public service content. We appreciate that a partnership between Channel 4 and BBC Worldwide could deliver financial benefits that may go some way towards closing Channel 4's funding gap. However, we are sceptical as to whether a wide-ranging partnership or even merger with BBC Worldwide would be the best solution for Channel 4, for the licence fee payer, or for the media industry as a whole. While we do see some value in the direct transfer of assets—particularly Worldwide's UKTV channels—to Channel 4, we believe that a broader and more complex arrangement would have a number of drawbacks. The extra businesses in which Worldwide would have a stake in would be likely to make Worldwide an even more aggressively commercial organisation. Furthermore, we see no obvious synergy between Channel 4, which produces no content of its own, and Worldwide, which is primarily a content distributor. It is also apparent that any partnership, however great the scope, would still only account for a proportion of Channel 4's £150 million annual funding gap. (Paragraph 103)

As indicated in the Digital Britain interim report, the Government recognises the pressures on Channel 4's business model and the importance of maintaining plurality of provision of public service content. We have been considering a range of structural options for the creation of the sustainable second public service organisation, drawing on Channel 4's assets, that we outlined in the interim report. We shall announce our conclusions in the final Digital Britain report, to be published shortly.

The Government notes the Committee's concerns about the possible effects of any wide-ranging partnership or merger between Channel 4 and BBC Worldwide. In considering the options, we have taken into account the implications not only for Channel 4 itself but also for audiences and for industry. The scope for synergies to create extra value for reinvestment in public content has been central to our considerations. As regards the Channel 4 'funding gap' referred to by the Committee, the Government believes that any such figures will need to be assessed in the light of Channel 4's future role and remit, and in the broader public service context.

Recommendation / conclusion 17. While a partnership between Channel 4 and BBC Worldwide would be likely to increase funding for Channel 4, at the same time it would also reduce the revenue returned to the BBC by Worldwide, thereby putting more pressure on the licence fee. We believe it would be far cleaner and simpler to effect this funding change directly. We therefore reiterate our previous recommendation that, instead of the proposed partnership, a proportion of the licence fee should be made available to Channel 4, in order for it to sustain its public service programming. (Paragraph 104)

The Government notes the Committee's view that a proportion of the licence fee revenue should be made available to Channel 4, in preference to any indirect transfer of value by means of a partnership between Channel 4 and BBC Worldwide. As indicated above, one of the key questions we have been considering in relation to Channel 4 is the scope for synergies that can create additional value, rather than simply re-distributing existing resources.

Recommendation / conclusion 18. We believe that the issues we have identified in relation to Worldwide's activities and governance will still need to be addressed even if a partnership with Channel 4 is established. Whatever the decision on any proposed partnership, we believe that the rest of our recommendations in this report continue to stand. (Paragraph 105)

The Government notes the Committee's view.

Recommendation / conclusion 20: There are major benefits from the BBC undertaking commercial activities. Most importantly, the profits generated by the exploitation of the BBC's intellectual property can be reinvested in the BBC's public services, to the benefit of licence fee payers. We fully support this principle. However, the manner in which some of the BBC's commercial revenue is generated, and the governance arrangements within which the BBC's commercial arm—BBC Worldwide—operates, cause us and others increasing concern. Worldwide has proved successful in recent years in exploiting new commercial opportunities. Its expansion was largely made possible by a loosening of the rules that govern the limits to its operations. However, there is clearly a balance to be drawn, between Worldwide generating a return for the BBC, and limiting Worldwide's operations in order to ensure it upholds the BBC's reputation and does not damage its commercial competitors. (Paragraph 112)

The Government notes the Committee's views and agrees that it is important to ensure that BBC Worldwide's activities do not jeopardise the value of the BBC brand or distort the market. These are two of the criteria set out in the Charter and Agreement.



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