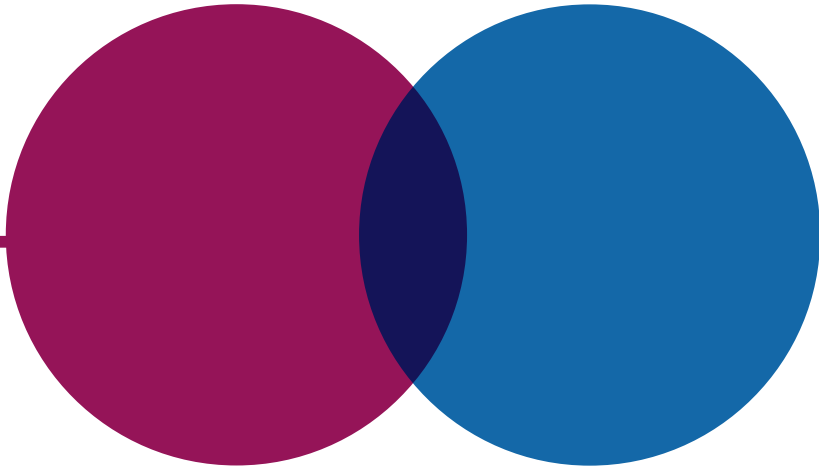




National Audit Office



REPORT

BBC Studios

BBC

SESSION 2024-25
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National Audit Office

BBC Studios

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Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

12 November 2024

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Key facts

£1,837mn

income generated by BBC Studios in 2023-24, compared with £1,189 million in 2018-19

£202mn¹

profit generated by BBC Studios in 2023-24, compared with £159 million in 2018-19

£1,906mn

the value of returns to the BBC by BBC Studios in the seven years to 2023-24

9% to 11%

published target annual profit margins set by the BBC for BBC Studios in 2018, which BBC Studios has met or exceeded each year between 2018-19 and 2023-24

£1.5 billion

published target set by the BBC in 2021 for financial returns from BBC Studios to the BBC between 2022-23 and 2027-28, against which BBC Studios had delivered £687 million by the end of 2023-24

100%

BBC Studios' ambition for the growth in income, profits and free cash flow between 2021-22 and 2027-28

30%

the average proportion of production income from 'work for hire' contracts, where the intellectual property and distribution rights from commissioned programmes are retained by the programme commissioner, in 2022-23 and 2023-24, compared with an average of 3% between 2018-19 and 2021-22

£272 million

the value paid in March 2024 by BBC Studios for the full acquisition of BritBox International, a streaming service providing British content in North America, Australia and the Nordics

¹ The BBC's chosen profit measure is Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA), which is consistent with market practice. BBC Studios calculates EBITDA by taking its statutory operating profit for the year and adding back the following operating expenses: depreciation; non-content-related amortisation; impairments; earnout costs and non-cash settled long-term incentive plan costs; transformational restructuring costs; and other non-recurring exceptional items. BBC Studios also offsets costs with production tax credits it has received, in line with market practice.

Summary

1 The BBC is the UK's main public service broadcaster, providing a wide range of television, radio and digital services in the UK and internationally. In 2023-24, it received public funding of £3,660 million from television licence fees to meet its public service commitments.

2 The basis of the BBC's activities is a Royal Charter establishing its independence, primary mission and public purposes. Under its Charter, the BBC can also undertake commercial activities, but they must be carried out by commercial subsidiaries of the BBC, and not directly by the BBC itself. The BBC's commercial activities must:

- fit with the BBC's mission and public purposes;
- exhibit commercial efficiency, being undertaken with a view to generating a profit and not funded by the licence fee;
- not jeopardise the BBC's reputation or the value of its brand; and
- not distort the market or create an unfair competitive advantage because of their relationship with the public service functions of the BBC.

3 The BBC oversees both its public service functions and commercial activities within a group structure, which for this report we refer to as 'the BBC'. Within this structure, the BBC's commercial activities are overseen by its wholly-owned subsidiary, BBC Commercial, and delivered by two principal commercial subsidiaries, BBC Studios and BBC Studioworks. Of these, BBC Studios is by far the largest, generating income in 2023-24 of £1,837 million, compared with £37 million from BBC Studioworks. BBC Studios was formed out of a merger in April 2018 between two of the BBC's commercial subsidiaries – its former content production and distribution businesses. BBC Studios aims to deliver value to licence fee payers through its mandate to deliver long-term, sustainable returns to the BBC.

4 BBC Studios comprises two main lines of business: Content Studio and Global Media & Streaming. Its Content Studio makes and sells programmes to UK and international broadcasters and streaming services. In 2023-24, productions included *Doctor Who*, *EastEnders* and *Dancing with the Stars USA*. The Global Media & Streaming business includes a portfolio of broadcast channels including UKTV; digital services such as its international website, BBC.com; and streaming services including BritBox International.

5 As a public corporation, the BBC is operationally and editorially independent of government but sponsored by the Department for Culture, Media & Sport (DCMS) and regulated by Ofcom, the communications regulator. Ofcom is responsible for setting the BBC requirements for ensuring that the BBC's commercial activities do not benefit from an unfair advantage over competitors by virtue of their relationship with the BBC.

Focus of our report

6 Under the 2016 Framework Agreement between DCMS and the BBC, the National Audit Office may carry out examinations into the economy, efficiency and effectiveness with which the BBC and its commercial activities have used their resources in discharging their functions. We last published an examination, on the performance of BBC Studios, in 2020 following the 2018 merger.² The report concluded that there was a clear strategic rationale for the merger and that BBC Studios had met its overall profitability target in its first full year of operation. However, we identified that a highly dynamic and competitive market for ownership of intellectual property (IP) meant that BBC Studios was facing a rising risk profile in its business. In addition, we found that, despite improvements in the governance of BBC Studios, there was still scope for improving the reporting to the BBC's boards of its performance to support effective governance.

7 This report focuses on the performance of BBC Studios and does not cover the performance of BBC Studioworks, due to its small size. It follows on from our 2020 report and covers:

- the performance of BBC Studios from the 2018 merger to date (Part One);
- BBC Studios' future plans (Part Two); and
- the governance and oversight of BBC Studios (Part Three).

Key findings

Performance of BBC Studios to date

8 BBC Studios' income and profits grew between 2018-19 and 2022-23, meeting or exceeding expectations set out in November 2018. Between 2018-19 and 2022-23 income increased by £901 million (76%) from £1,189 million to £2,090 million and profit increased by £81 million (51%) from £159 million to £240 million, above expectations set by BBC Studios in November 2018 following the merger.³ BBC Studios has also met or exceeded the BBC's published profit margin target for it of between 9% and 11% between 2018-19 and 2023-24. In addition, in the seven years to 2023-24, BBC Studios provided £1,906 million of financial returns to the BBC through dividend payments and contributions made as part of its work as the BBC's main production and distribution partner, exceeding its targets for this period (paragraphs 1.9 and 1.11 to 1.13).

9 BBC Studios' income and profits fell in 2023-24, partly due to challenging market conditions and its own investment needs. In 2023-24, BBC Studios' income fell by £253 million (12%) to £1,837 million and profits fell by £50 million (20%) to £202 million.⁴ This was partly due to challenging market conditions, including a reduction in spend by commissioners, including the BBC and global streamers, on the production of programmes and the ending of some high-value contracts which generated significant income in 2022-23. In addition, its profits were reduced by higher costs as BBC Studios invested in its digital services such as BBC.com and BritBox International to support its future growth (paragraphs 1.8, 1.14, 1.19 and 1.33).

3 The BBC's chosen profit measure is Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA), which is consistent with market practice. BBC Studios calculates EBITDA by taking its statutory operating profit for the year and adding back the following operating expenses: depreciation; non-content-related amortisation; impairments; earnout costs and non-cash settled long-term incentive plan costs; transformational restructuring costs; and other non-recurring exceptional items. BBC Studios also offsets costs with production tax credits it has received, in line with market practice. The profit margin is calculated as EBITDA as a proportion of income. The BBC uses EBITDA as this measure avoids one-off items that could distort performance and make year-on-year comparisons difficult.

4 To ensure consistent comparisons, we have used a restated 2022-23 profit figure of £252 million in paragraph 9 and the original figure of £240 million in paragraph 8. In 2023-24, the BBC updated how its commercial activities measure profit (EBITDA) in order to more accurately reflect market practice. Under the new approach certain costs are excluded which had previously been included in profit calculations. When using this new approach to report its 2023-24 financial performance, BBC Studios also restated the profits it reported for the previous financial year, 2022-23, increasing these from £240 million to £252 million.

10 BBC Studios has adapted its business strategy in response to changing market conditions and audience behaviours. BBC Studios has adapted its strategy to reflect the movement of global audiences away from traditional broadcast TV to on-demand streaming and digital services. Although its strategy has previously included providing streaming and digital services, BBC Studios has increased its focus on these areas in response to market changes and to provide it with greater resilience in the event of a downturn in some of its markets. BBC Studios has invested in the growth of its digital and streaming services including BBC.com, U (formerly UKTV Play) and BritBox International. In addition, global streamers have become an increasingly prominent commissioner of BBC Studios' productions. Streamers often require production to be on a 'work for hire' basis where the IP and distribution rights from commissioned programmes are retained by the streamer. The proportion of production income from 'work for hire' contracts has increased significantly from an average of 3% between 2018-19 and 2021-22 to an average of 30% between 2022-23 and 2023-24.⁵ There are advantages and disadvantages to BBC Studios from such work. For example, it can be highly profitable in the short to medium term but does not generate longer-term returns through the sale of distribution rights (paragraphs 1.7, 1.16, 1.24, 1.25, 1.29, 1.31, 1.33 and 2.9).

11 BBC Studios has diversified how it generates income from its production and distribution of content, but has not met its targets for generating new IP. A large proportion of BBC Studios' business comes from its production of programmes for customers in the UK and overseas. It has significantly increased the amount of such income that comes from non-BBC third parties. In 2018-19, most came from the production of programmes for the BBC, but by 2023-24, half was generated from contracts with non-BBC third parties. BBC Studios has adapted and diversified its content production strategy to reflect market conditions. Although it still stresses the importance of generating new content and the related IP, from 2022-23 it has increased its focus on other ways of generating income, including increased 'work for hire' contracts (paragraph 10) and exploiting already successful brands such as *Doctor Who* and *Bluey*. Through generating new IP, BBC Studios can create long-term sustainable returns as it can sell distribution rights to programmes in the UK and internationally. In our 2020 report, we identified that BBC Studios had been less successful than planned in winning new commissions and generating IP. Since then, although generation of new IP has grown, BBC Studios has not met its targets in this area and remains reliant on the IP from BBC programmes created before it was first established in 2016. In 2023-24, of the 10 titles from its production business which provided the most profit to the BBC, only one was from new IP generated by BBC Studios (paragraphs 1.22 to 1.26 and 2.8).

⁵ These data do not include wholly owned labels and international production and formats as data for these were only included in BBC Studios' reporting from 2022-23 onwards.

BBC Studios' future plans

12 BBC Studios plans to double its size between 2021-22 and 2027-28 by further transformation of its business model. In October 2021, the government announced that it would increase the borrowing limits placed on the BBC's commercial activities from £350 million to £750 million between 2022-23 and 2026-27. In October 2022, BBC Studios announced its ambition to double the size of its business between 2021-22 and 2027-28 by using this increased borrowing capacity to make investments across its business and thus double its income, profits and free cash flow.⁶ BBC Studios' plans for growth involve a significant transformation of its business model by 2027-28. This includes: a larger share of income and profits to come from digital and streaming services; the production of more content for non-BBC third-parties; and exploiting existing successful key brands such as *Doctor Who* and *Bluey*. In particular, BBC Studios intends to increase its profitability in its Global Media & Streaming business through its investments in BritBox International, which it fully acquired in March 2024 for £272 million, U (formerly UKTV Play) and BBC.com (paragraphs 1.33, 2.2, 2.5 to 2.7 and 2.9 to 2.12).

13 BBC Studios is seeking to manage both internal and external risks to growth. BBC Studios is targeting growth in areas and markets where it considers there is scope for its expansion. In March 2024, it forecast that, to meet its ambition, it needed to achieve above-average market growth rates in most of its key markets. Delivering such levels of growth is made more difficult by adverse market conditions in recent years, which have led to falls in advertising income for broadcasters and intense competition in the streaming market. The focus of the streaming market has also shifted towards achieving profitability rather than subscriber growth. These factors have contributed to a reduction in content spending, with an impact for companies such as BBC Studios. BBC Studios is aware of these risks and is seeking to manage them, including by mitigating the impact for risks outside of its control. It seeks to identify new risks each quarter and regularly revisits its plans and business model in light of developments in fast-moving markets. BBC Studios has shown its willingness to make significant adjustments to its plans when market assessments suggest this is necessary, for example, its decision not to expand BritBox International to 25 countries as originally planned (paragraphs 1.7, 2.13 to 2.15 and 2.17).

⁶ Free Cash Flow (FCF) is a measure of a company's financial performance. It is calculated as the cash generated through the ordinary course of business less cash payments for leases and capital expenditure. It excludes tax, interest, acquisition investments and dividends paid.

14 The BBC has not updated its published financial targets for BBC Studios despite significant changes to its business model and the market in which it operates. The BBC has two published financial returns targets for BBC Studios; a target to achieve profit margins between 9-11% set in December 2018 (paragraph 8) and a five-year financial returns target of £1.5 billion between 2022-23 and 2027-28 published in March 2021. In the period following the publication of these targets, BBC Studios has made significant changes to its business model to adapt to changing market conditions and audience behaviours (paragraph 10) and is planning further transformation in the future (paragraph 12). However, the BBC has not updated its published financial targets to reflect these changes. The BBC intends to undertake a review of its commercial activities, as required under its 2016 Framework Agreement with DCMS, before December 2027 and will be guided by the results of this as to whether it needs to update the published profit margins target (paragraphs 1.9 to 1.11 and 2.3 to 2.4).

BBC oversight and governance

15 The BBC has improved governance and risk management arrangements for its commercial activities, including BBC Studios. In April 2022 the BBC restructured the governance arrangements for its commercial activities. This included appointing a new Chair and a majority of non-executive directors to its BBC Commercial Board, which oversees the BBC's commercial activities, including BBC Studios. These changes were designed to ensure that Board members provide more challenge and support to management, with senior figures from the industry appointed as non-executive directors for their commercial, financial, digital and global expertise, and with a view to achieving BBC Studios' growth ambitions. Reviews of the refreshed governance arrangements by Ofcom (June 2022), and DCMS (January 2024), have been positive about these changes. The BBC has also refreshed its approach to risk management for its commercial subsidiaries. This included establishing a subgroup to the BBC Commercial Board in 2023 to provide independent challenge on the appropriateness of the controls and processes in place for commercial subsidiaries (paragraphs 3.3, 3.4 and 3.11).

16 The BBC has clarified its approach to balancing its own needs with those of its commercial subsidiaries when deciding the dividends to be paid. In our March 2018 report *The BBC's commercial activities: a landscape review*, we highlighted the challenge the BBC faced in striking the right balance between the payment of dividends to itself by its commercial subsidiaries, and the subsidiaries' need for investment. The BBC has subsequently agreed a mandate under which its commercial subsidiaries would seek to maximise the financial returns to the BBC, while prioritising long-term sustainable returns over short-term ones. The BBC has also taken a more structured approach to deciding the levels of dividend payments, including issuing guidance and introducing annual checks on the proposed dividend levels. The BBC discusses the level of dividends with its commercial subsidiaries, based on its assessment of what is needed for the delivery of the BBC's public service functions, as part of its annual budget-setting. BBC Studios' financial plans assume increases in annual dividend payments based on its discussions with the BBC, but, in March 2024, the BBC flagged up it needs extra savings of £100 million in each of 2026-27 and 2027-28, at least some of which could come from BBC Studios (paragraphs 3.5 to 3.7).

17 The BBC has complied with the regulatory requirements surrounding its commercial subsidiaries. Between 2018-19 and 2023-24, the BBC received independent assurance each year that, in line with Ofcom requirements, it had established and applied a system of internal controls to ensure that its commercial activities do not benefit from an unfair advantage over competitors by virtue of their relationship with the BBC. In June 2022, Ofcom found two areas where it was not satisfied that the BBC had appropriate controls and procedures: secondary content sales by BBC Studios; and some of the administrative processes relating to the BBC's supply of goods and services to BBC Studios. In both areas, Ofcom was content with the action that the BBC subsequently took (paragraphs 3.9 and 3.10).

18 BBC Studios has improved its internal performance reporting since we last reported in 2020, but there is room for further development. In July 2023, BBC Studios improved its internal performance reporting, including setting clear, forward-looking financial and non-financial key performance indicators (KPIs) which are more aligned with its strategy. However, there are still some weaknesses in its reporting regime which we consider make it difficult for the BBC Commercial Board and BBC Studios' own Executive Committee to identify whether BBC Studios is meeting its performance targets, and to make good strategic decisions. These include rolling forward of internal targets over a three-year period resulting in no reporting against the original target set for the period, and KPIs not being agreed for the beginning of the 2023-24 financial year. In addition, BBC Studios regularly reforecasts its financial metrics during the year and subsequently reports performance against these re-forecasted levels rather than the original budget, making it more difficult to use these reports to track performance over time (paragraphs 3.14 to 3.16).

Conclusion on value for money

19 To date, BBC Studios has succeeded in delivering increasing returns to the BBC. In the seven years up to and including 2023-24, it had returned £1,906 million to the BBC in dividends and payments through its production and distribution work with the BBC, exceeding its targets for this period. BBC Studios has met its returns targets by substantially growing both its income and profits. Between 2018-19 and 2023-24, income increased to £1,837 million and profits to £202 million, such that BBC Studios has consistently met the BBC's published profit margin target for it of between 9% and 11%. BBC Studios has adapted to changes in the market to enable its growth to date, investing in its digital services, including its website and streaming, and increasing its production of programmes for third parties, including global streamers. It will need to ensure its strategic plans continue to evolve to deliver success in a dynamic and challenging market. It will also need high-quality internal performance reporting to identify areas for development in its business and monitor its progress in meeting its objectives.

20 The BBC and BBC Studios face challenges in ensuring that returns to the BBC are sustainable in the longer term. BBC Studios has ambitious plans to double its income and profits between 2021-22 and 2027-28, which, if achieved, will support it in providing increased returns to the BBC in the future. However, to do so, BBC Studios must significantly grow the size and profitability of its digital services in a competitive market facing macro-economic challenges, and focus on generating new IP while continuing to exploit existing IP and brands. In parallel, the BBC must balance its immediate need for commercial dividends as licence fee income falls with ensuring that BBC Studios has sufficient cash available for investment.

Recommendations

21 We recommend that the BBC and BBC Studios take the following action:

- a** **BBC Studios should review the risks associated with not meeting its targets for generating new BBC Studios' owned IP.** It should consider whether it fully understands the risks to the delivery of its long-term strategy associated with its current mix of income from 'work for hire' and from the production of new content whose IP it owns, and whether any action is necessary to ensure long-term, sustainable returns to the BBC.
- b** **The BBC should review its published financial targets for BBC Studios.** As part of the intended review of its commercial activities, the BBC should consider whether its December 2018 profit margin targets for BBC Studios of between 9% and 11% and its March 2021 target for returns to the BBC of £1.5 billion need updating in light of the significant changes to its business model and the market in which it operates, and its future plans.

- c** **The BBC should ensure that BBC Studios' strategic plans for delivering the growth ambition continue to evolve to reflect market developments.** The BBC should include within the intended review of its commercial activities an examination of whether BBC Studios' growth strategy is still likely to deliver success in a dynamic and challenging market.
- d** **BBC Studios should improve the consistency and effectiveness of its internal performance reporting.** It should ensure that it strikes the proper balance between allowing flexibility in its performance framework to respond to market developments and corresponding changes to its plans, while maintaining sufficient consistency so that it is possible to track and compare progress and trends over time.

Part One

Performance of BBC Studios

1.1 This part of the report introduces BBC Studios and the market within which it operates, and assesses its financial and non-financial performance between 2018-19 and 2023-24.

Introduction to BBC Studios

1.2 The BBC is the UK's main public service broadcaster and is responsible for serving audiences with impartial, high-quality, distinctive services that inform, educate and entertain. In 2023-24 it received public funding of £3,660 million from television licence fees to meet its public service commitments and deliver a range of television, radio and digital services in the UK and internationally.

1.3 The basis of the BBC's activities is a Royal Charter establishing its independence, primary mission and public purposes. Under its Charter, the BBC can undertake commercial activities, but these must be carried out by commercial subsidiaries of the BBC, and not directly by the BBC itself. The commercial activities must:

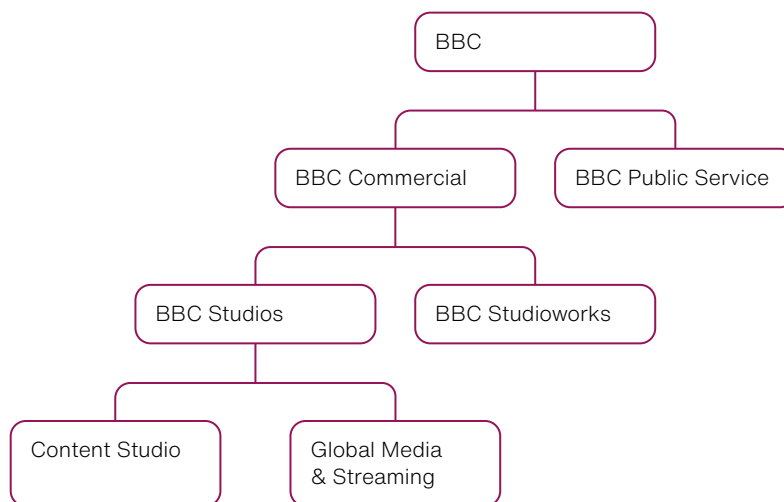
- fit with the BBC's mission and public purposes;
- exhibit commercial efficiency, being undertaken with a view to generating a profit and not funded by the licence fee;
- not jeopardise the BBC's reputation or the value of its brand; and
- not distort the market or create an unfair competitive advantage because of their relationship with the public service functions of the BBC.

1.4 The BBC oversees both its public service functions and commercial activities within a group structure, which for this report we refer to as 'the BBC'. Within this structure, the BBC's commercial activities are overseen by its wholly-owned subsidiary, BBC Commercial, and delivered by two principal commercial subsidiaries, BBC Studios and BBC Studioworks (**Figure 1**). Of these, BBC Studios is by far the largest, generating income in 2023-24 of £1,837 million, compared with £37 million from BBC Studioworks. BBC Studios was formed out of a merger in April 2018 between two of the BBC's former commercial subsidiaries, BBC Studios, its former content production business, and BBC Worldwide, its content distribution business. BBC Studios aims to deliver value to licence fee payers through its mandate to deliver long-term, sustainable returns to the BBC.

Figure 1

Structure of the BBC's commercial activities as at August 2024

Within the BBC's group structure, its commercial activities are separate to its public service functions and are delivered by two commercial subsidiaries, BBC Studios and BBC Studioworks

**Note**

1 The above is the structure as at August 2024.

Source: National Audit Office analysis of BBC documents

1.5 As a public corporation, the BBC is operationally and editorially independent of government but sponsored by the Department for Culture, Media & Sport (DCMS) and regulated by Ofcom, the communications regulator. Ofcom is responsible for setting the BBC requirements for ensuring that there is no market distortion or unfair advantage as a result of the relationship between the BBC and its commercial subsidiaries.

1.6 BBC Studios has two main lines of business, Content Studio and Global Media & Streaming (Figure 1). Its Content Studio makes and sells programmes to UK and international broadcasters and streaming services. In 2023-24, productions included *Doctor Who*, *EastEnders* and *Dancing with the Stars USA*. Its Global Media & Streaming business includes a portfolio of broadcast channels including: UKTV; digital services such as its international website, BBC.com; and streaming services including BritBox International.

1.7 BBC Studios operates in a dynamic and competitive market. Traditional broadcasting is in decline as global audiences continue to move from traditional broadcast channels to video-on-demand (VoD) services. For example, in the first quarter of 2024, 68% of UK homes had access to a subscription VoD service such as Netflix or Disney+, compared with 47% in the first quarter of 2019, and this trend is expected to continue. This switch in viewing has resulted in a relative decline in advertising income for broadcast channels as advertisers do more business with VoD providers. The global VoD market is very competitive, with many providers making substantial losses as they invest in content to grow their subscriber numbers. Their demand for new content has contributed in recent years to high levels of inflation in the costs of producing such content. Recently, the market has shifted from a focus on growth in subscriber numbers to improving profitability. This switch in focus and the decline in advertising revenue for traditional broadcasters have contributed to a reduction in content spending and the consolidation of some media companies, such as the purchase of Paramount Global by Skydance Media in 2024. BBC Studios operates within this market both as a provider of broadcast and VoD television, and as a producer and distributor of content to broadcast and VoD providers, including global streamers.

1.8 The media industry, including BBC Studios, has faced challenging market conditions in recent years, including the following.

- The COVID-19 pandemic caused cancellations and delays in productions due to pandemic restrictions and supply chain disruptions, increasing production companies' costs while reducing their income at the same time. There was a significant fall in advertising revenue in 2020-21 as companies reduced their advertising spending. In 2021-22, the industry, including BBC Studios, recovered quickly as productions restarted and global streamers sought more content.
- From 2022, broadcasters and streamers have cut back on expenditure on content in response to poor macro-economic conditions, including rising interest rates, high inflation and falling advertising revenue. These conditions have also meant that the cost of producing programmes has continued to increase, making it more difficult for production companies to attract financing to produce programmes.
- The US actors' and writers' strike in 2023 caused a number of productions to stop and content spend to decrease.

Financial performance

Financial performance of BBC Studios against published BBC targets

1.9 The BBC is required by DCMS and Ofcom to set targets for its commercial subsidiaries. As part of its Framework Agreement with DCMS, the BBC must set and publish meaningful target measures to assess whether its subsidiaries exhibit commercial efficiency. The BBC's chosen measure for this is profit margin, a profitability measure which calculates profits as a proportion of income.⁷ This measure is consistent with industry practice and allows comparison of BBC Studios' profitability with similar competitors'. In December 2018, the BBC published a target profit margin for BBC Studios of between 9% and 11%. In addition, Ofcom requires the BBC to set, but not publish, a target profit margin for each line of business within BBC Studios that is in line with margins achieved by similar companies. The BBC reports on its performance against all its margin targets to Ofcom each year. BBC Studios has met or exceeded its target profit margins between 2018-19 and 2023-24, achieving between 11% and 14% in this period.

1.10 The BBC also periodically publishes a five-year financial returns target for its commercial subsidiaries which attempts to measure the financial value that these return to the BBC. This target effectively applies to BBC Studios only, given that it hugely surpasses the other commercial activities in size (paragraph 1.4). The returns consist of two elements: the value of dividend payments to the BBC as the owner of the subsidiaries; and the value that BBC Studios delivers as the BBC's main producer and distributor of content. This latter element includes BBC Studios' upfront contributions to the financing of BBC programmes (for those that it produces itself); its payments to the BBC for the right to use intellectual property (IP), including archive material; and the right to use the BBC brand.

1.11 BBC Studios has delivered returns to the BBC totalling £1,906 million in the seven years up to and including 2023-24, exceeding its targets.

- It exceeded the target set in October 2015 to deliver £1,168 million of financial returns to the BBC in the five years to 2021-22, delivering returns of £1,219 million.⁸
- The BBC set a new five-year returns target in March 2021 of £1.5 billion from 2022-23 to 2026-27. In the first two years, BBC Studios has delivered returns of £687 million, compared with £575 million expected in March 2021.

⁷ The BBC's chosen profit measure is Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA), which is consistent with market practice. BBC Studios calculates EBITDA by taking its statutory operating profit for the year and adding back the following operating expenses: depreciation; non-content-related amortisation; impairments; earnout costs and non-cash settled long-term incentive plan costs; transformational restructuring costs; and other non-recurring exceptional items. BBC Studios also offsets costs with production tax credits it has received, in line with market practice. The profit margin is calculated as EBITDA as a proportion of income. The BBC uses EBITDA as this measure avoids one-off items that could distort performance and make year-on-year comparisons difficult.

⁸ The October 2015 target initially applied to BBC Worldwide but was then continued when BBC Worldwide merged with BBC Studios in April 2018.

Financial performance of BBC Studios against internal targets

1.12 BBC Studios uses its own key financial indicators to assess performance at an overall and business line level. These include income, profit, profit margin, and the level of free cash flow available for either investment or dividend payments.^{9,10}

1.13 BBC Studios' income and profit increased between 2018-19 and 2022-23 (**Figure 2**), exceeding expectations set out by BBC Studios in November 2018 following the merger (paragraph 1.4). Between 2018-19 and 2022-23:

- annual income increased by £901 million (76%) from £1,189 million to £2,090 million, above expectations at the time of the merger that income would reach £1,704 million by 2022-23; and
- annual profits increased by £81 million (51%) from £159 million to £240 million, above merger expectations that profits would reach £228 million by 2022-23.

1.14 BBC Studios' income and profits then fell in 2023-24, meeting its profit forecasts but falling below expected income. Income fell by £253 million (12%) to £1,837 million, and profits by £50 million (20%) to £202 million.¹¹ These falls were partly due to challenging market conditions, its own investment needs and the ending of several high-value contracts which had generated significant income in 2022-23.

1.15 In line with its income and profits, BBC Studios' free cash flow increased from £111 million in 2018-19 to £204 million in 2022-23, before falling back to £57 million at the end of 2023-24.

1.16 BBC Studios' Global Media & Streaming line of business has grown at a much faster rate than its Content Studio business, and now accounts for almost a third of all income (**Figure 3** on page 20). The BBC has also transferred to BBC Studios between 2021 to 2024 news, audio, youth and children's TV operations from BBC public service functions and other BBC commercial subsidiaries. BBC Studios agreed to these transfers as it saw opportunities for growth in these markets. Having a more diverse portfolio of businesses would also increase its resilience in the event of a downturn in some of its markets.

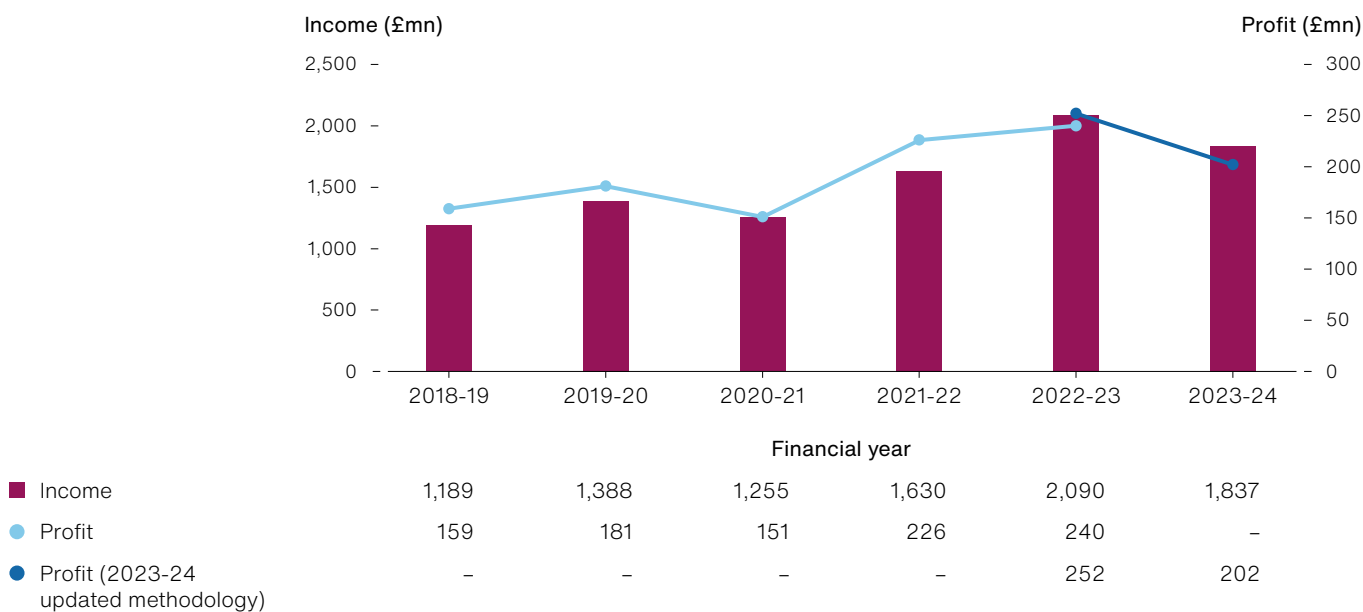
⁹ BBC Studios uses EBITDA as its primary profit measure.

¹⁰ Free Cash Flow (FCF) is a measure of a company's financial performance. It is calculated as the cash generated through the ordinary course of business less cash payments for leases and capital expenditure. It excludes tax, interest, acquisition investments and dividends paid.

¹¹ To ensure consistent comparisons, we have used a restated 2022-23 profit figure of £252 million in paragraph 1.14 and the original figure of £240 million in paragraph 1.13. In 2023-24, the BBC updated how its commercial activities measure profit (EBITDA) in order to more accurately reflect market practice. Under the new approach certain costs are excluded which had previously been included in profit calculations. When using this new approach to report its 2023-24 financial performance, BBC Studios also restated the profits it reported for the previous financial year, 2022-23, increasing these from £240 million to £252 million.

Figure 2
BBC Studios' income and profits, 2018-19 to 2023-24

BBC Studios' income and profits rose to 2022-23, but fell back in 2023-24



Notes

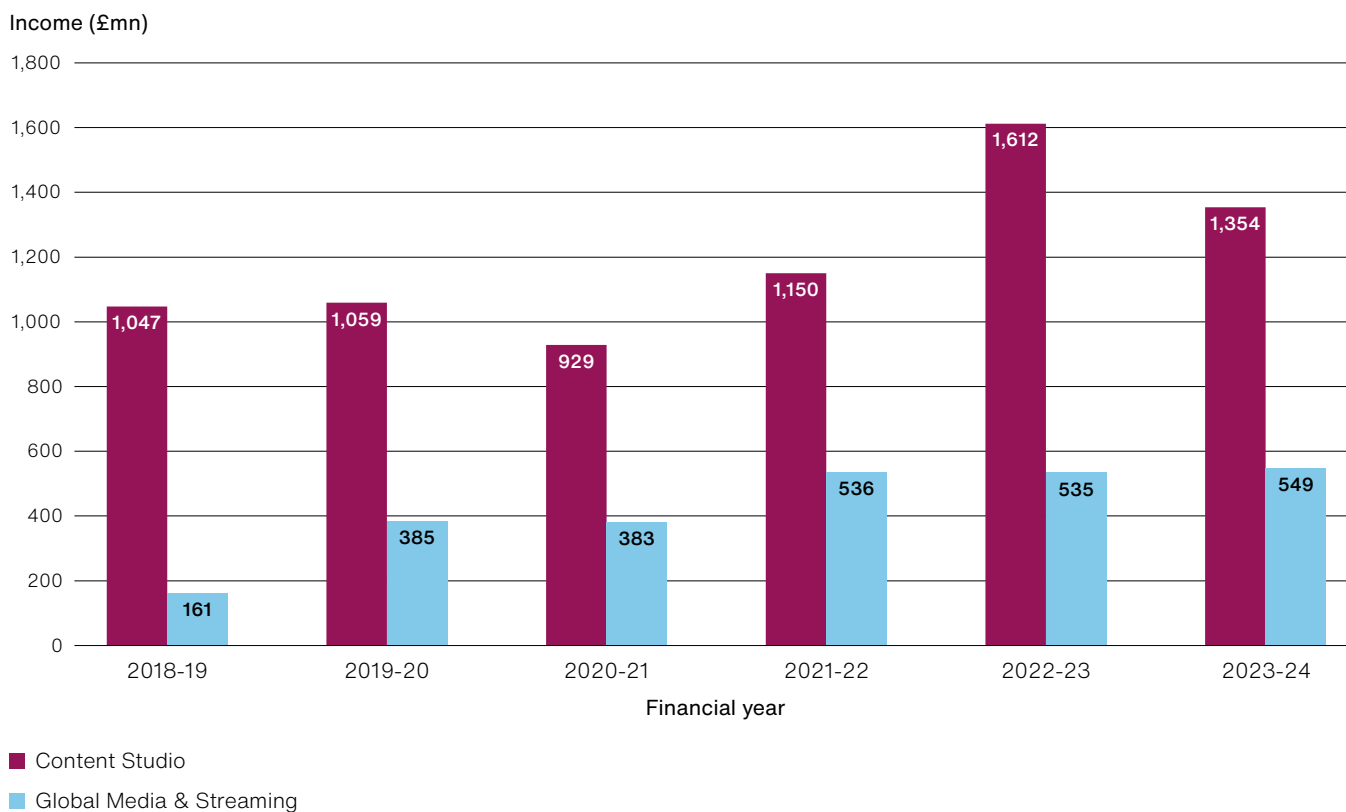
- 1 The BBC's chosen profit measure is Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) which is consistent with market practice. BBC Studios calculates EBITDA by taking its statutory operating profit for the year and adding back the following operating expenses: depreciation; non-content-related amortisation; impairments; earnout costs and non-cash settled long-term incentive plan costs; transformational restructuring costs; and other non-recurring exceptional items. BBC Studios also offsets costs with production tax credits it has received, in line with market practice.
- 2 In 2023-24, the BBC updated how its commercial activities measure EBITDA in order to more accurately reflect market practice. Under the new approach certain costs are excluded which had previously been included in profit calculations. When using this new approach to report its 2023-24 financial performance, BBC Studios also restated the profits it reported for the previous financial year, 2022-23, increasing these from £240 million to £252 million.
- 3 All figures are at cash values and have not been adjusted for inflation.

Source: National Audit Office analysis of published BBC Annual Report and Accounts 2018-19 to 2023-24

Figure 3

Income for BBC Studios' lines of business, 2018-19 to 2023-24

BBC Studios' Global Media & Streaming line of business now accounts for almost a third of all its income



Notes

- 1 The income figures above for Content Studio and Global Media & Streaming include income generated from business with each other. This income is excluded when calculating income for BBC Studios as a whole. In 2023-24, such 'eliminations' totalled £66 million, to give total income for BBC Studios as a whole of £1,837 million.
- 2 All figures are at cash values and have not been adjusted for inflation.

Source: National Audit Office analysis of BBC Studios' documents

Performance of Content Studio

1.17 Content Studio generates income from the production and distribution of programmes and the sale of consumer products in the UK and internationally.

- **Production:** Content Studio produces programmes for customers in the UK and overseas. It also generates production income from programmes it has partially funded which have been produced by other companies, including those it has invested in. Production is the largest element of BBC Studios' business, generating around 40% of all its income between 2018-19 and 2023-24.¹²
- **Content sales:** Content Studio sells content produced by itself and third parties to broadcasters and streamers in the UK and overseas. Content sales accounted for around 30% of all BBC Studios' income between 2018-19 and 2023-24.
- **Consumer products:** Content Studio sells merchandise and experiences associated with programmes it owns or distributes, such as merchandise for the TV show *Bluey* or the *BBC Earth Experience* in London. Consumer products accounted for less than 10% of all BBC Studios' income between 2018-19 and 2023-24. Given its small size, this report does not include further detail on this area of business activity.

1.18 In line with the overall trend across BBC Studios (paragraphs 1.13 and 1.14) and exceeding forecasts, Content Studio increased its income by 54% and profits by 72% between 2018-19 and 2022-23. These then fell by 16% and 22% respectively in 2023-24, below expected forecasts (**Figure 4** overleaf).

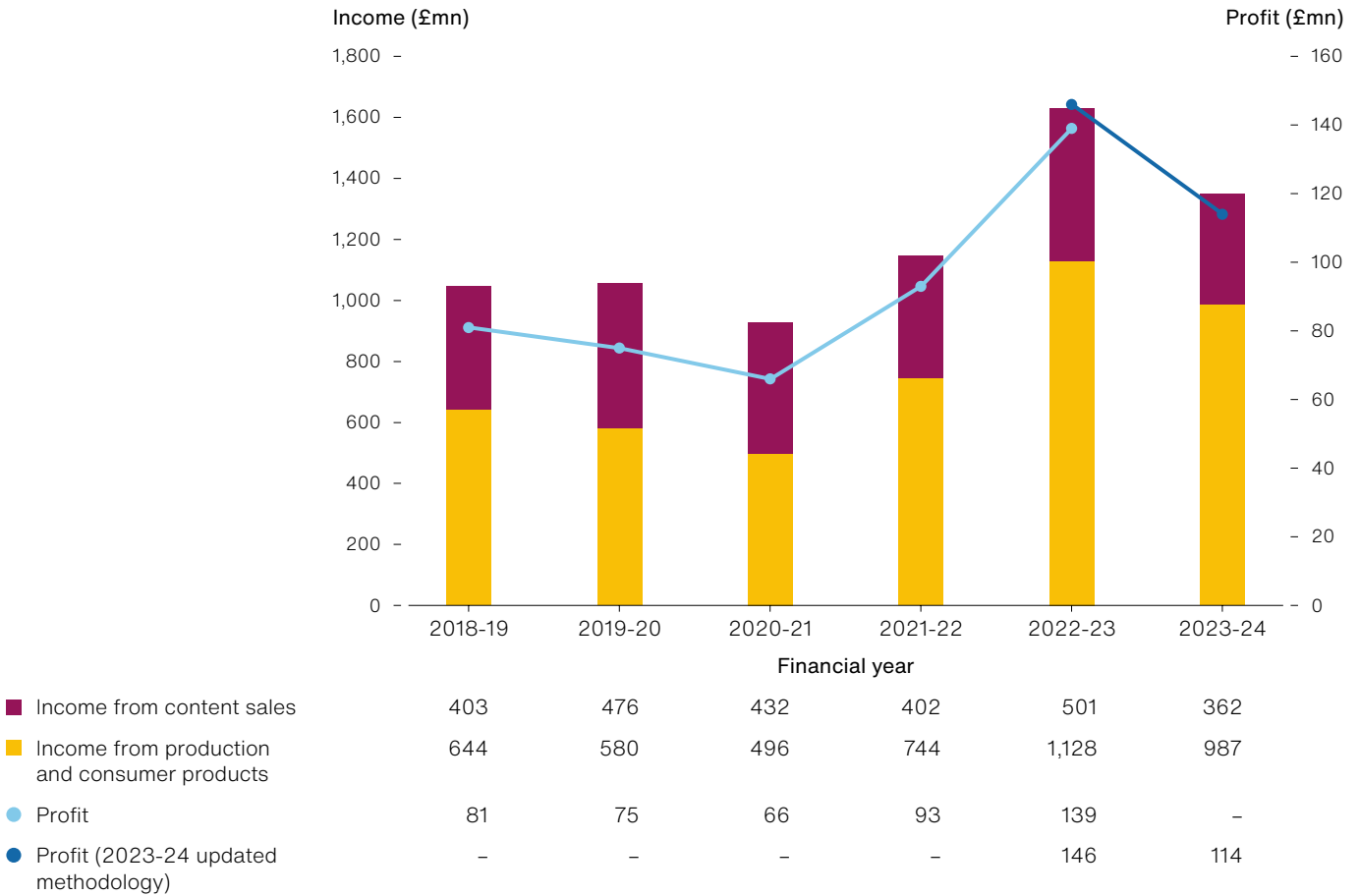
1.19 Content Studio's income fell in 2023-24 due to reductions in both production and content sales (Figure 4). Production income fell partly due to a global slow-down in content spend and the consequent commissioning of fewer programmes, and due to the ending of some high-value contracts which generated significant income in 2022-23. Content sales income also fell due to significant reductions in the value of several large contracts. A significant proportion of Content Studio's income across production and content sales is derived from a small number of short- to medium-term high-value contracts. It is therefore reasonable to expect fluctuations in income between years as some contracts end and are not immediately replaced.

¹² These percentages include income generated by business carried out with other areas of BBC Studios.

Figure 4

Total profit and income by business area for Content Studio, 2018-19 to 2023-24

Content Studio’s income and profit fell in 2023-24 due to reductions in both production and content sales



Notes

- 1 The income figures above for consumer products, content sales and production include income generated from business with each other. This income is excluded when calculating income for BBC Studios as a whole.
- 2 Incomes from production and from consumer products have been combined in this figure due to the relatively small size of the consumer products business.
- 3 In 2023-24, the BBC updated how its commercial activities measure EBITDA in order to more accurately reflect market practice. Under the new approach certain costs are excluded which had previously been included in profit calculations. When using this new approach to report its 2023-24 financial performance, BBC Studios also restated the profits it reported for the previous financial year for Content Studio, increasing these from £139 million to £146 million.
- 4 All figures are at cash values and have not been adjusted for inflation.

Source: National Audit Office analysis of BBC Studios’ documents

Production

1.20 The BBC is the main commissioner of BBC Studios' productions, accounting for around half of its production income. There are two ways in which BBC Studios generates production income from the BBC.

- Through producing returning series commissioned by the BBC that existed before the creation of BBC Studios, such as *EastEnders*. The IP for these shows is retained by the BBC. BBC Studios must compete for these shows when tendered on the same terms as other companies.
- Through producing new programmes for the BBC. The IP for these shows is retained by BBC Studios.

1.21 BBC Studios' production income from commissions using BBC Group IP fell by £56 million (13%) between 2018-19 and 2023-24, from £416 million to £360 million.¹³ This was due to: the BBC decommissioning some programmes produced by BBC Studios, such as *Doctors* and *Holby City*; BBC Studios' decision not to bid for some commissions that were retendered by the BBC; and the loss of some commissions following tendering. Up to April 2024, BBC Studios had tendered for the commission of 14 BBC returning series and had been successful for ten of these.

1.22 BBC Studios' production income from new programmes produced for the BBC has increased but has not met its targets for growth. Income grew by £79 million (416%) from £19 million in 2018-19 to £97 million in 2023-24. However, in 2022-23 and 2023-24, BBC Studios fell short of its target income for newly generated IP for the BBC. This is partly due to a slowdown in commissioning by the BBC for new content.

1.23 The proportion of total production income coming from work for the BBC has fallen between 2018-19 and 2023-24, while BBC Studios has increased its work for third parties. In 2018-19, most production income came from the production of programmes for the BBC, but, by 2023-24, half of the production income was generated from contracts with non-BBC third parties.

1.24 The production business has adapted to market conditions, and BBC Studios has diversified how it generates third-party production income. Its strategy up to 2021-22 focused on the generation of new IP which could be sold to commissioners in the UK and globally. Changes in market conditions, including the increasing prominence of global streamers and changes in viewer behaviour, led BBC Studios to adapt this strategy. Although its strategy still stresses the importance of IP generation, there is an increased focus on income from third-party commissioners and other ways of generating returns from IP. Key areas where BBC Studios increased its activity include (**Figure 5** overleaf):

¹³ Data in paragraphs 1.21 to 1.23 do not include wholly owned labels and international production and formats as data for these were only included in BBC Studios' reporting from 2022-23 onwards.

Figure 5

Examples of key areas of BBC Studios' Content Studio business

There are a number of key areas where BBC Studios has been increasing its activity

Case study – 'Work for hire' contract: *Prehistoric Planet*



BBC Studios produced two seasons of *Prehistoric Planet* for Apple in its largest ever 'work for hire' contract.

Prehistoric Planet is a documentary series produced by BBC Studios Natural History Unit. It was a high budget production which used Computer Generated Imagery (CGI) to reanimate dinosaurs and other prehistoric animals from 66 million years ago.

BBC Studios received income to produce the series for Apple who released this through their premium platform – Apple TV+. Apple TV paid BBC Studios to produce the show. The production therefore involved low commercial risk for BBC Studios as its revenue and profits were not linked to whether the show was successful.

However, Apple own the distribution rights for the show in perpetuity. This means that BBC Studios will receive no further income from *Prehistoric Planet*, regardless of how successful it is. As the owner of the distribution rights, Apple can sell the rights to show *Prehistoric Planet* to broadcasters and streamers globally, which may lead to longer term revenue and profits.

Case study – Production investment: *Bluey*



BBC Studios is a co-commissioner of *Bluey* along with the Australian Broadcasting Corporation (ABC), and it also holds distribution and ancillary rights. Ludo Studios is the production company which owns the IP to *Bluey*.

Bluey is an animated kids' television show which premiered in Australia in 2018 and was launched internationally in 2019. *Bluey* has become a success internationally, being voted as the number one kids show across all streaming in the US, winning an International Emmy in 2020 and a BAFTA International Children and Young People Award in 2022.

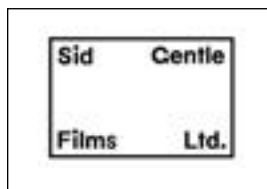
BBC Studios earns income from *Bluey* through various routes. It receives a distribution commission from TV and VoD sales, a percentage of merchandising income and a share of net profits for the series. *Bluey* has been consistently overperforming against BBC Studios' original income targets, and this trend is expected to continue in the future.

Case study – Co-production: *Doctor Who*



In March 2022 the BBC Board agreed plans to transform *Doctor Who* into a global franchise. In order to help meet the increased production costs required to bring this about, in September 2022, after testing the market, it signed a partnering agreement with Disney. Under this, Disney contributes to the costs of making the programme and, in return, takes exclusive rights outside the UK to those episodes made with the help of its contributions. In order to facilitate this deal, the BBC ended early existing distribution deals for *Doctor Who* with partners in North America, Australia and New Zealand.

Case study – Company acquisition: Sid Gentle Films



As at April 2024, BBC Studios owned outright or owned shares in 19 production companies, the same number as in June 2019. However, between these two dates, there was movement in its portfolio of companies as BBC Studios spent about £77 million investing in new companies or increasing the size of its existing shareholdings.

Sid Gentle Films Limited, the makers of premium dramas, such as *Killing Eve* for the BBC and *The Durrells* for ITV, was one of those companies in which BBC Studios increased its stake. In October 2022 it exercised its option under its original investment deal to purchase the remaining 49% of the company that it did not already own.

- increased ‘work for hire’ contracts, where it produces programmes for third parties, but does not retain the underlying IP;
- a focus on exploiting already successful brands such as *Doctor Who* and *Bluey*, where it either owns the IP or has the distribution rights; and
- acquisitions of, and investment in, independent production companies to provide it with access to high-value IP.

1.25 BBC Studios has significantly increased the proportion of its production income from ‘work for hire’ contracts since its merger with BBC Worldwide, from an average of 3% between 2018-19 and 2021-22 to an average of 30% between 2022-23 and 2023-24.¹⁴ Global streamers such as Netflix and Disney+ have become increasingly important commissioners of content since 2018-19. These streamers often commission production companies, including BBC Studios, on a ‘work for hire’ basis. There are advantages and disadvantages to BBC Studios from such work. It can be profitable in the short to medium term, especially if BBC Studios wins repeat commissions for such work, avoids the need for BBC Studios to invest its own capital in the commissioned programme, and provides BBC Studios with a mixed portfolio of production work, increasing its resilience (paragraph 1.16). However, it does not generate longer-term returns which can arise from the ownership of IP, such as from the sale of distribution rights.

1.26 BBC Studios has not met its targets for new IP in 2022-23 and 2023-24, the first years in which targets were set covering both BBC Studios’ UK and international production operations. In our 2020 report, we identified that BBC Studios had been less successful than planned in winning new commissions and generating IP. Since then, although IP generation has grown, it remains reliant on the IP from BBC programmes created before it was established in 2016. In 2023-24, of the 10 titles providing the most profit to BBC Studios, only one was from new IP generated by BBC Studios itself (**Figure 6** overleaf). While the global streamers’ preference for ‘work for hire’ contracts was a factor in BBC Studios not meeting its targets, macroeconomic conditions have also led to reductions in commissioning budgets in what is already an inherently uncertain business.

Content sales

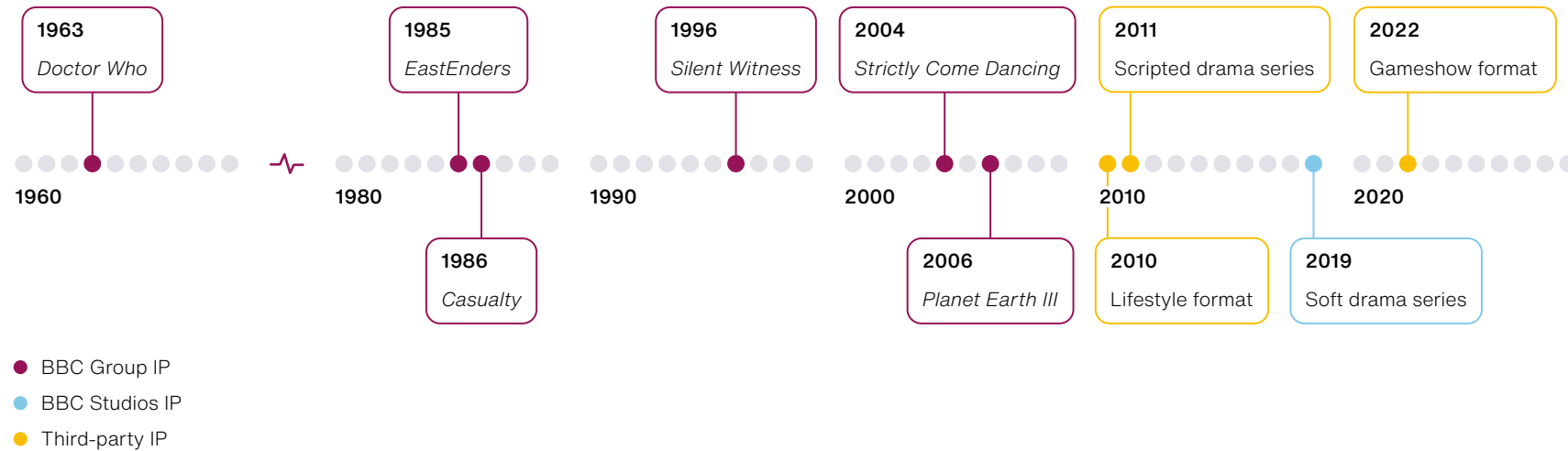
1.27 BBC Studios’ content sales to its own businesses, such as UKTV and BritBox International, have increased. Between 2018-19 and 2020-21 such sales averaged around £75 million a year, making up roughly 18% of its content sales income over this period. Between 2021-22 and 2023-24, average income increased to around £105 million and made up roughly 25% of content sales. This increase mainly reflects BritBox International and UKTV spending more on content from BBC Studios in order to grow their businesses.

¹⁴ These data do not include wholly owned labels and international production and formats as data for these were only included in BBC Studios’ reporting from 2022-23 onwards.

Figure 6

BBC Studios' most profitable programmes by intellectual property (IP) ownership in 2023-24

Only one of BBC Studios most profitable programmes in 2023-24 was developed by BBC Studios itself



Notes

- 1 BBC Group IP is intellectual property (IP) created by the BBC before the creation of BBC Studios in 2016. The IP is therefore owned by the BBC, rather than BBC Studios.
- 2 BBC Studios IP is created by BBC Studios following its formation. The IP is owned by BBC Studios.
- 3 Third-party IP is IP created and owned by a third party. BBC Studios has invested in the production of this programme and therefore receives some income when the show is released.
- 4 The programme names for third-party IP and BBC Studios IP have been anonymised due to commercial sensitivity.
- 5 This figure is based on profits from BBC Studios' production of programmes, where relevant, and its sales of these programmes around the world. The figure includes only programmes where BBC Studios has invested up-front in these.

Source: National Audit Office analysis of BBC Studios' documents

Performance of Global Media & Streaming

1.28 BBC Studios' Global Media & Streaming business generates advertising and subscription income from a portfolio of traditional broadcast channels and direct-to-consumer services delivering content to audiences over the internet.

- UKTV: This is the largest UK-owned, non-public service broadcaster in Britain. Since June 2019, BBC Studios has owned outright seven UKTV channels, including Alibi, Dave and Eden. UKTV also operates U (formerly UKTV Play), its VoD service (**Figure 7**).
- Rest-of-world channels: This covers international BBC-branded channels such as BBC First, BBC Nordic and BBC America.¹⁵
- International digital services including streaming services, such as BritBox International, and the BBC.com website.¹⁶

Figure 7

BBC Studios' acquisition of UKTV

BBC Studios took full ownership of UKTV and its seven entertainment channels in June 2019

In June 2019, BBC Studios took full ownership of UKTV and its seven entertainment channels. Prior to the acquisition, UKTV was a joint venture between BBC Studios and Discovery Inc.

The **strategic rationale** for the acquisition was to:

- control BBC Studios' routes to market in the UK so that it can decide how its rights are utilised in the UK, in line with the BBC's strategy;
- preserve and protect the profit streams from UKTV, both BBC Studios' dividend stream from UKTV's commercial revenues, and the value of BBC's content supply into the business; and
- control the seven broadcast channels in UKTV which rely on BBC content.

Success of the deal: According to BBC post-implementation reviews, all the strategic benefits of the deal have been achieved and UKTV's financial performance has exceeded expectations, with payback being achieved quicker than planned. UKTV's growing share of the commercial market also reflects an overall positive performance.



Source: National Audit Office analysis of BBC Studios' documents

¹⁵ BBC Studios sold its stake in BBC America to AMC in November 2024.

¹⁶ In 2019 the BBC entered into a joint venture with ITV for a new subscription VoD service in the UK, BritBox UK. This was separate to its existing overseas joint venture with ITV, BritBox International. The majority of BritBox UK was owned by ITV, while the BBC held a 10% equity stake. BritBox UK also had an agreement with BBC Studios for the supply of content. In 2022, the BBC sold its 10% share to ITV, and BBC Studios entered into a new supply agreement.

1.29 BBC Studios has significantly increased its income from Global Media & Streaming between 2018-19 and 2023-24 by £388 million (241%) from £161 million to £549 million (**Figure 8** on pages 29 and 30). This is mainly due to the expansion of digital services, its acquisition of UKTV in 2019 and the development of its streaming services. Profits over the same period have been variable, primarily because of the volatility of the advertising market affecting BBC Studios' broadcast and online channels, and, in recent years, investment in growing its digital services. Despite this volatility, Global Media & Streaming has consistently exceeded its profit expectations over this period.

Performance of UKTV

1.30 Income from UKTV's broadcast channels is declining as advertisers respond to the migration of younger audiences towards streaming services. Although total income has fallen since 2021-22 (**Figure 9** on page 30), UKTV has performed well in this declining market. It has grown its share of the commercial market over the last few years, increasing from 7.76% in 2019 to 8.81% in 2023.

1.31 BBC Studios has invested in the expansion of UKTV's digital services, increasing its investment in U and launching UKTV's first free FAST channels in 2023-24.¹⁷ Viewership for these platforms has nearly tripled between 2019 and 2023, exceeding BBC Studios' targets for 2023. As a result, income from U has increased, but profits have fallen due to the increased cost of investment.

Performance of rest-of-world channels

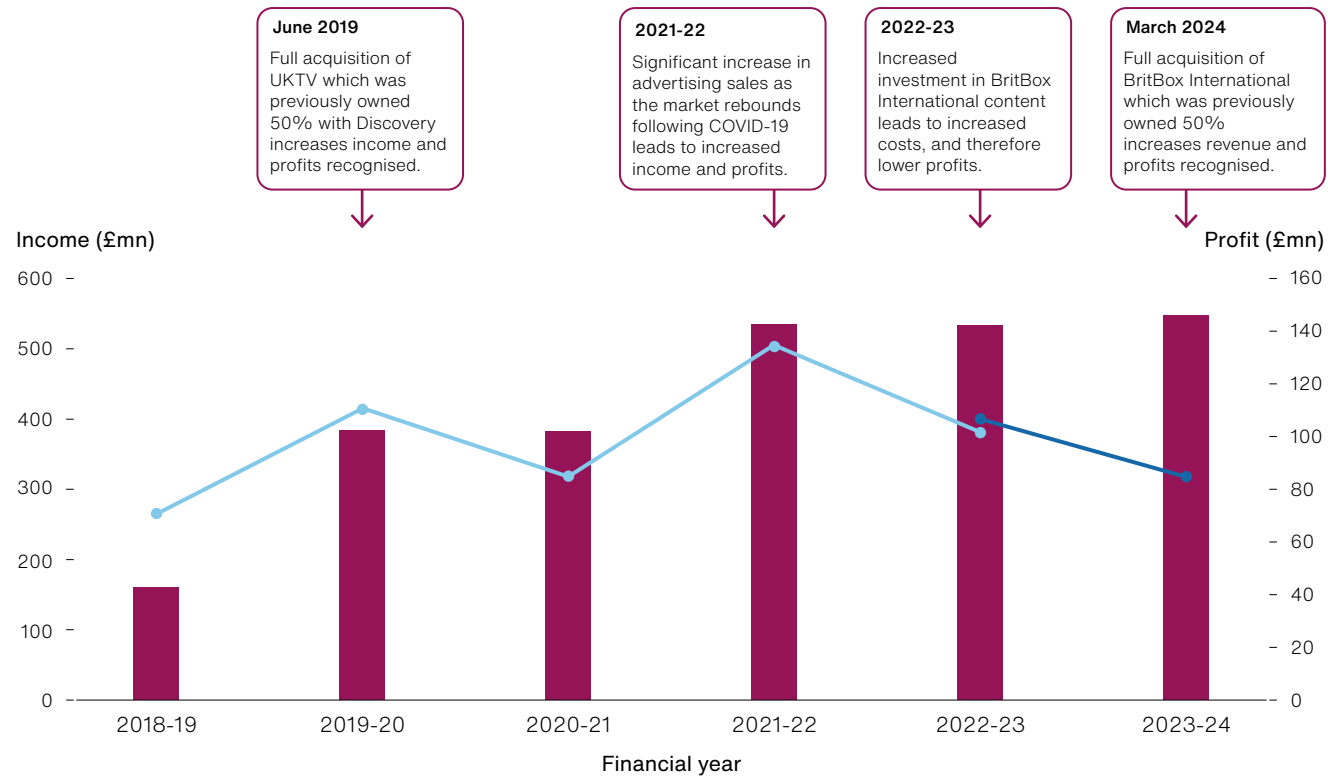
1.32 BBC Studios' income from its rest-of-world channels has grown between 2018-19 and 2023-24 (Figure 9), despite a decline in the market as viewers move to digital services such as streaming. BBC Studios' strategy has been to maximise its income and profitability by focusing its investments in countries where the broadcast market remains strong, such as Poland, and consolidating its offer where this market is not as strong, such as Scandinavia. In 2023, it launched a new broadcast channel in Scandinavia, BBC Nordic, which combined existing BBC Brit and BBC Earth channels with new lifestyle content. In addition, income has risen due to the transfer of BBC Global News Limited into BBC Studios in 2021.

¹⁷ 'FAST' stands for free ad-supported streaming. It is a streaming TV service, available on connected TVs, mobiles, tablets and other internet-enabled devices, but in the format of a traditional broadcast TV channel. The streaming service sets the schedule, and viewers tune in to watch the content live. Viewers do not pay a subscription as the channels are funded by adverts shown during breaks between programmes.

Figure 8

Income and profits for Global Media & Streaming, 2018-19 to 2023-24

Global Media & Streaming's income has increased significantly since 2018-19, but profits have been variable



Income	161	385	383	536	535	549
Profit	71	111	85	135	102	-
Profit (2023-24 updated methodology)	-	-	-	-	107	85

Figure 8 *continued*
Income and profits for Global Media & Streaming, 2018-19 to 2023-24

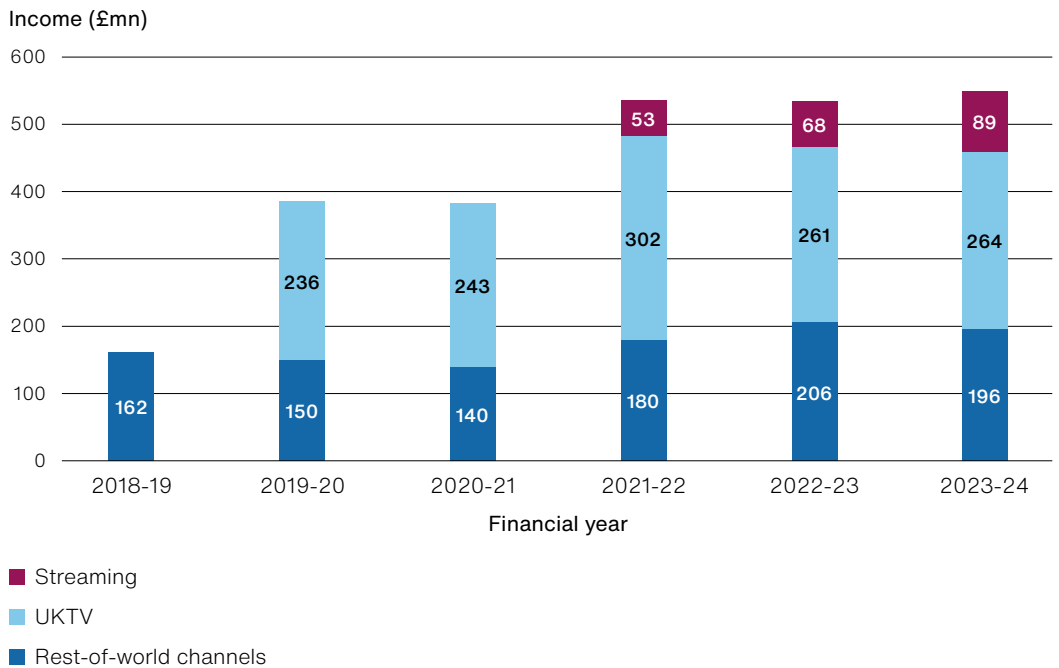
Notes

- 1 The above figures include income and profit generated from Global Media & Streaming’s business with Content Studio.
- 2 In 2023-24, the BBC updated how its commercial activities measure EBITDA in order to more accurately reflect market practice. Under the new approach certain costs are excluded which had previously been included in profit calculations. When using this new approach to report its 2023-24 financial performance, BBC Studios also restated the profits it reported from Global Media & Streaming for the previous financial year, 2022-23, increasing these from £102 million to £107 million.
- 3 All figures are at cash values and have not been adjusted for inflation.

Source: National Audit Office analysis of BBC Studios’ documents

Figure 9
Income for Global Media & Streaming, by business area, 2018-19 to 2023-24

Global Media & Streaming’s income figures from all its business areas have increased to 2023-24



Notes

- 1 The income figures above for rest-of-world channels, streaming and UKTV include income generated from business with each other. This income is excluded when calculating income for BBC Studios as a whole.
- 2 Income from UKTV starts from 2019-20 as BBC Studios took full ownership of UKTV in 2019.
- 3 Income from streaming starts from 2021-22 as BBC Studios launched BBC Select in 2021. Income from BritBox International is only included from March 2024, as BritBox International was a joint venture (JV) between BBC Studios and ITV up until March 2024. Therefore, in line with commercial accounting standards, BBC Studios only included a share of the JV’s profits in its financial figures, and did not include any of the JV’s income or expenditure.
- 4 All figures are at cash values and have not been adjusted for inflation.

Source: National Audit Office analysis of BBC Studios’ documents

Performance of international digital services

1.33 BBC Studios has made significant investments in its international digital services as this market grows, including the following.

- The launch of BBC Select in North America in February 2021. This is an ad-free streaming service for which users pay a subscription and which is dedicated to factual content.
- The relaunch of BBC.com and the associated app in 2023-24, offering more localised reporting to its audiences, with income generated from advertising.
- Initial investment and subsequent full acquisition of BritBox International. In 2017, BBC Studios entered into a joint venture with ITV for BritBox International, a subscription streaming service which, by 2023-24, provided British programming to North America, Australia and the Nordic countries and had reached 3.8 million subscribers. In March 2024, BBC Studios paid £272 million for the full acquisition of BritBox International, with plans to accelerate the growth in this service.

1.34 BritBox International exceeded its targets for subscriber numbers and revenue per subscriber in its main market, North America, in 2023-24. BBC Select also met its targets for increasing the number of paid subscribers in 2023-24. In contrast, BBC.com did not meet its user and income targets in North America for the year. BBC Studios assessed that, as the new BBC.com website, app and data platforms were launched during the year, it was too soon to use the new platform to grow audience numbers.

1.35 BBC Studios' investment in international digital services has led to an increase in income between 2021-22 and 2023-24 (Figure 9), although these services are not yet profitable.¹⁸ Between 2021-22 and 2023-24, income grew by 68% as BBC Studios expanded the services. However, it has not yet reached profitability, partly due to the high cost of this expansion. BBC Studios forecasts that the services will become profitable by 2026-27, as income rises from increased users of its services.

¹⁸ Up until March 2024, BritBox International was a joint venture (JV) between BBC Studios and ITV. Therefore, in line with commercial accounting standards, BBC Studios only included its share of the JV's profits in its financial figures, and did not include any of the JV's income or expenditure. BBC Studios' income figures for its international digital services only include income from BritBox International from March 2024 when BBC Studios purchased the JV outright.

Part Two

BBC Studios' future strategy

2.1 In its 2024-25 annual plan the BBC set out its aim for BBC Studios to achieve sustainable growth and fulfil its mandate to deliver long-term value back to the BBC. This part of the report examines the BBC's future targets for BBC Studios and its plans to meet them.

Future targets

2.2 The BBC successfully made the case to the government that an increase in its commercial borrowing limits would enable the increased growth of BBC Studios and lead to higher financial returns to the BBC in the longer term. In October 2021 the government announced that it would increase the borrowing limits placed on the BBC's commercial activities, including BBC Studios, from £350 million to £750 million in stepped phases between 2022-23 and 2026-27. In October 2022, BBC Studios announced its ambition to double the size of its business over the next five years. It aims to double its income, profits and the level of free cash flow available for dividends between 2021-22 and 2027-28. In order to achieve these ambitions, by 2027-28:

- income would need to be at least £3,300 million (compared with £1,650 million in 2021-22);
- profits would need to be at least £444 million (£222 million in 2021-22); and
- free cash flow would need to be at least £294 million (£147 million in 2021-22).

2.3 The BBC has not updated its published profitability and financial returns targets for BBC Studios (paragraphs 1.9 and 1.10). In the period following the publication of these targets, BBC Studios has made significant changes to its business model to adapt to changing market conditions; for example, diversifying how it generates third party production income (paragraph 1.24) and investing in its international digital services (paragraph 1.33). However, the BBC has not updated its published financial targets to reflect these changes or its future plans.

2.4 Under the terms of its 2016 Framework Agreement with the Department for Culture, Media & Sport (DCMS), the BBC must carry out two or more reviews of its commercial activities before the end of its Royal Charter in December 2027 and, in carrying out these reviews, set and publish targets for its commercial subsidiaries. As at August 2024, the BBC had undertaken one review in 2018 in line with the deadline for the review in the Agreement, and had published profitability targets in December 2018 based on this review (paragraph 1.9). It intends to undertake a second review before December 2027 and will be guided by the results of this as to whether it needs to update its published profitability targets. However, this will mean that the December 2018 targets will have remained unchanged for at least six years by the time of this review, during which both the market (paragraph 1.7) and BBC Studios have undergone significant change.

Delivery strategy

2.5 BBC Studios intends to use its increased borrowing capacity to make investments in both of its lines of business, Content Studio and Global Media & Streaming, to meet the ambition to double the size of its business by 2027-28. Its plans for future growth involve a significant transformation of its business model by 2027-28. If successful, BBC Studios will have a more diversified and resilient business, including the following: a larger share of business from digital and streaming services, both in the UK and overseas, and from the provision of news; its production of more content for third parties and the BBC therefore accounting for a smaller share of its content commissions; more overseas production of content; and better exploitation of key brands such as *Doctor Who* and *Bluey*. BBC Studios started to deliver its plans in 2023-24.

Content Studio

2.6 BBC Studios aims to grow Content Studio's share of the content production market so it becomes the biggest British production partner for global streamer original commissions. In line with this, it plans to double its income from 'work for hire' from 2023-24 to 2027-28.

2.7 BBC Studios also aims to increase its ownership of high-value, distributable intellectual property (IP). It plans to more than double its income from new IP, partly through the acquisition of production companies and through its own investment in content of just over £1 billion from 2023-24 to 2027-28. It also plans to increase its exploitation of the existing IP it either owns or has a share in. For example, it aims to develop further existing successful shows such as *Bluey* and *Doctor Who*, and to increase the number of formats it can sell overseas.

2.8 BBC Studios is also looking to expand its production business outside the UK in markets where it sees room for growth. For example, in 2023 and 2024, BBC Studios bought three overseas production companies, STV Production in Scandinavia, Brutal Media in Spain, and Werner Film Group in Australia, to complement its expanded ownership of Rapid Blue in South Africa in 2022.

Global Media & Streaming

2.9 BBC Studios has taken expected future market trends into account when drawing up its plans for growth in its Global Media & Streaming business. It intends to focus investment in areas of global growth such as digital services and streaming, while maximising the profitability of traditional broadcast channels for as long as possible as the global market for these declines.

2.10 BBC Studios plans to consolidate its international digital services into a single high-quality digital offering. This would combine its existing digital services – BBC.com, its international news and sports apps, BBC Select, BBC Podcasts, and BBC Sounds international – into a single, multi-territory service.^{19,20} It expects that such a service will attract more customers and thereby generate more income. In November 2023, after three years of development, it launched an upgraded BBC.com website and BBC app in the US, its main market, at an initial estimated cost of £25 million. The revamped service offers a new homepage, more video content, more live coverage and new newsletters. It subsequently rolled out the service to the rest of the world in March 2024. It expects to start to combine the remaining digital services into a single service over the course of 2024 and 2025, and to consider options for generating new revenue streams from this service in future.

2.11 BBC Studios also wants to significantly grow its BritBox International streaming service. It has been providing this service in partnership with ITV to overseas customers since 2017. By the end of 2023-24, the service had attracted 3.8 million subscribers, 27% more than at the end of 2022-23. It plans to expand the service to reach 5 million subscribers by 2027-28 by pursuing new distribution partners in the US and Canada, and increasing brand awareness among potential subscribers. As at March 2024, it had no plans to offer the service in new countries, reflecting its market assessments that, in some countries, traditional pay-TV viewing, for example via cable TV, is not declining in the face of competition for streaming services. This is in contrast with its 2020 plans to make the service available in over 25 countries. To facilitate its current plans, in March 2024, BBC Studios bought out ITV to acquire BritBox International outright (**Figure 10**).

19 BBC Select is BBC Studios' existing ad-free subscription service which it launched in February 2021 and offers documentaries and factual programmes in the US and Canada via platform deals with, for example, Amazon and Apple. By the end of 2023-24, it had 275,000 paid subscribers.

20 BBC Studios launched its Podcast Premium service in 2021-22. By the end of 2023-24, it was available in 166 countries on Apple Podcasts and Amazon Music.

Figure 10

BBC Studios' acquisition of BritBox International

In March 2024, BBC Studios took full ownership of BritBox International



In March 2024, BBC Studios took full ownership of BritBox International, acquiring ITV's 50% stake for £272 million, comprising a £255 million payment for ITV's equity and a £17 million payment for ITV debt held with BritBox International. This was the largest acquisition it had ever made. The net cash investment was lower at £192 million as BritBox International had £80 million of cash at that date. Total net assets acquired, including cash, had a total book value of £128 million and fair value of £367 million. The difference between the two values was almost wholly accounted for by £214 million of intangible assets arising from customer relationships. BBC Studios undertook the acquisition as full ownership aligned with its growth ambitions and it was expected to deliver a financial return.

Source: BBC Group Annual Report and Accounts 2023-24

2.12 BBC Studios intends to maximise the profitability of its overseas broadcast channels by focusing on stronger broadcast markets and increasing further the number of its FAST (free ad-supported streaming) channels, which had reached 36 by the end of 2023-24. It intends to deliver growth in its UK business, UKTV, mainly by focusing on its digital offer. It has invested in the development of U (formerly UKTV Play), UKTV's ad-supported streaming service, in areas such as content, product, marketing and data, with the aim of attracting more users and therefore increasing income and profits. In July 2024, UKTV rebranded itself as U as part of its strategy to link its broadcast channels with its streaming service.²¹ It also aims to increase UKTV's share of the commercial TV market from 8.81% in 2023 (paragraph 1.30), and to develop existing FAST channels and launch new ones.

Challenges and risks to BBC Studios' growth ambitions

2.13 BBC Studios will find it challenging to deliver its ambition to double the size of its business within five years. It is targeting growth in areas and markets where it considers there is scope for its expansion. In March 2024 it forecast that it needed to achieve above-market growth rates, and consequent gains in market share, in five of its seven key markets. In the UK video-on-demand (VoD) and US digital markets, it forecast that it would achieve at least double the overall estimated market growth rate. As at December 2023, BBC Studios expected that the overall market would continue to be difficult over the next 12 to 24 months, but would then recover. However, the timing, scale and mix of the recovery were uncertain. BBC Studios' plans will be at risk if the market does not recover as expected, difficulties continue for longer than forecast, or it does not achieve the expected above-market growth rates.

²¹ Under the rebranding exercise, UKTV Play became U, and UKTV's free-to-air linear channels became U&Dave, U&DRAMA, U&W and U&YESTERDAY.

2.14 In response to market challenges, commissioners have started to spend less on new content. The latest annual survey of the members of PACT – the UK screen sector trade body for independent production and distribution companies – in July 2024 indicated that spending on UK primary TV commissions fell to £1.784 billion in 2023, down 10% on 2022’s record high of £1.986 billion (**Figure 11**).²² In March 2023, the BBC announced that it would be producing 1,000 fewer hours a year of original programming from 2023-24 in response to the freezing of the TV licence fee in 2022-23 for two years at a time of high inflation.²³ Global streamers have also announced plans to cut back on their spending on new content as they switch their focus to achieving profitability rather than subscriber growth (paragraph 1.7). According to the PACT survey, international digital commissions in the UK also fell in 2023, although only by almost 2%, to £684 million from a record high of £696 million in 2022. Owing to the lead times involved in production, decisions to cut back on new content take time to take effect. In December 2023, BBC Studios not only expected the content production market to continue to be difficult over the next 12 to 24 months but also had doubts about content spend in the medium term (years 3 to 5). If these doubts were to be realised, its plans for delivering growth would be more difficult to achieve.

2.15 BBC Studios’ future plans for growth are also ambitious as they involve a significant transformation of its business model by 2027-28 (paragraph 2.5). However, its plans for growth will be put at risk if, for example, its plans to transform its UK and international streaming businesses (paragraph 2.11) are not successful. The global streaming market is very competitive, with many new entrants in recent years, most of whom had yet to make a profit by August 2024. However, BBC Studios considers that its streaming services operate in more niche markets and are therefore not in direct competition with global streamers, such as Netflix. For example, it considers that BritBox International specialises in offering overseas audiences what it terms “comfy British crime” programmes, like *Death in Paradise* and *Midsommer Murders*, and that its competitors are specialist streamers, such as AcornTV and CrunchyRoll.

2.16 BBC Studios recognises that managing its cost-base is as important as revenue expansion in achieving its future financial targets. As at December 2022, although its overheads as a proportion of income were below the median in 2021-22 compared with other relevant companies (20% against average of 22%), it aimed to reduce this proportion further by 2027-28 to 16%, and had therefore begun to review its cost base at the end of 2023. As at March 2024, it was budgeting for its overheads to be about 18% of total income in 2024-25. However, as at May 2024, BBC Studios was having to identify extra savings of £20 million in 2024-25 on top of its existing savings plans when it did not pursue a business opportunity planned for the year.

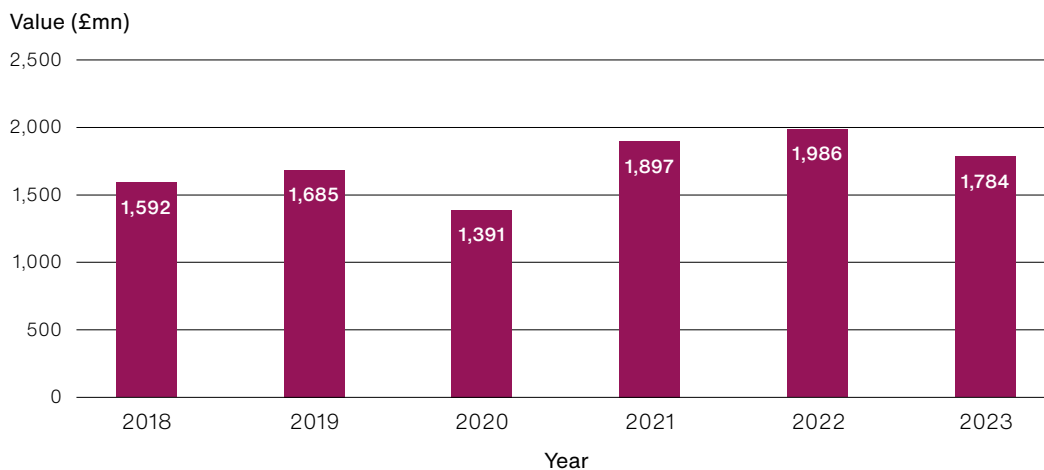
22 UK primary TV commissions involve the production of new programmes commissioned by UK broadcasters or channels.

23 For example, in line with this decision, in October 2023 the BBC announced that it was ending the BBC Studios-produced programme *Doctors*.

Figure 11

Spending by UK primary TV commissions, 2018 to 2023

Spending on UK primary TV commissions fell in 2023 compared with 2022, from £1.986 billion to £1.784 billion

**Notes**

- 1 UK primary TV commissions involve the production of new programmes commissioned by UK broadcasters or channels.
- 2 All figures are at cash values and have not been adjusted for inflation.

Source: PACT, UK Television Production Survey: Financial Census 2024, July 2024

2.17 BBC Studios is aware of the risks highlighted above and is seeking to manage them or mitigate their impact for those risks outside its control. In April 2024, it identified that, even if a number of these risks were to materialise, there were actions it could take to ensure that it could still meet its profit and dividends targets. It also seeks to identify new risks each quarter, and regularly revisits its plans and business models in light of developments in fast-moving markets. It has been willing to make significant adjustments to these, if necessary, for example increasing the amount of ‘work for hire’ it does (paragraph 1.25) and halting the wider roll-out of BritBox International (paragraph 2.11).

Part Three

Governance and oversight

3.1 In our January 2020 report *BBC Studios*, we found that the BBC had strengthened its governance of BBC Studios, but it was too early to tell how effective the changes would be. In addition, we identified that performance reporting was focused on BBC Studios' financial performance and that there were areas for improvement in its reporting of non-financial performance.

3.2 This part of the report considers governance and oversight, including the effectiveness of BBC Studios' governance arrangements, its compliance with regulatory requirements, its approach to risk management and the effectiveness of its performance reporting.

Governance arrangements

3.3 In April 2022, the BBC restructured the governance arrangements for its commercial activities, including BBC Studios (**Figure 12** on pages 39 and 40). Prior to these changes, responsibility for the oversight of these activities rested largely with the BBC Commercial Holdings Board where non-executive directors, who are independent of BBC management, were in the minority.²⁴ In April 2022, the BBC reconstituted the Board as the BBC Commercial Board with a new Chair and, for the first time, a majority of non-executive director members.^{25,26} At the same time, BBC Studios streamlined its own internal governance arrangements, for example by merging previously separate committees.

²⁴ From April 2019, the Board contained six executive and four non-executive directors.

²⁵ The Chair was also appointed Deputy Chair of the main BBC Board in December 2022.

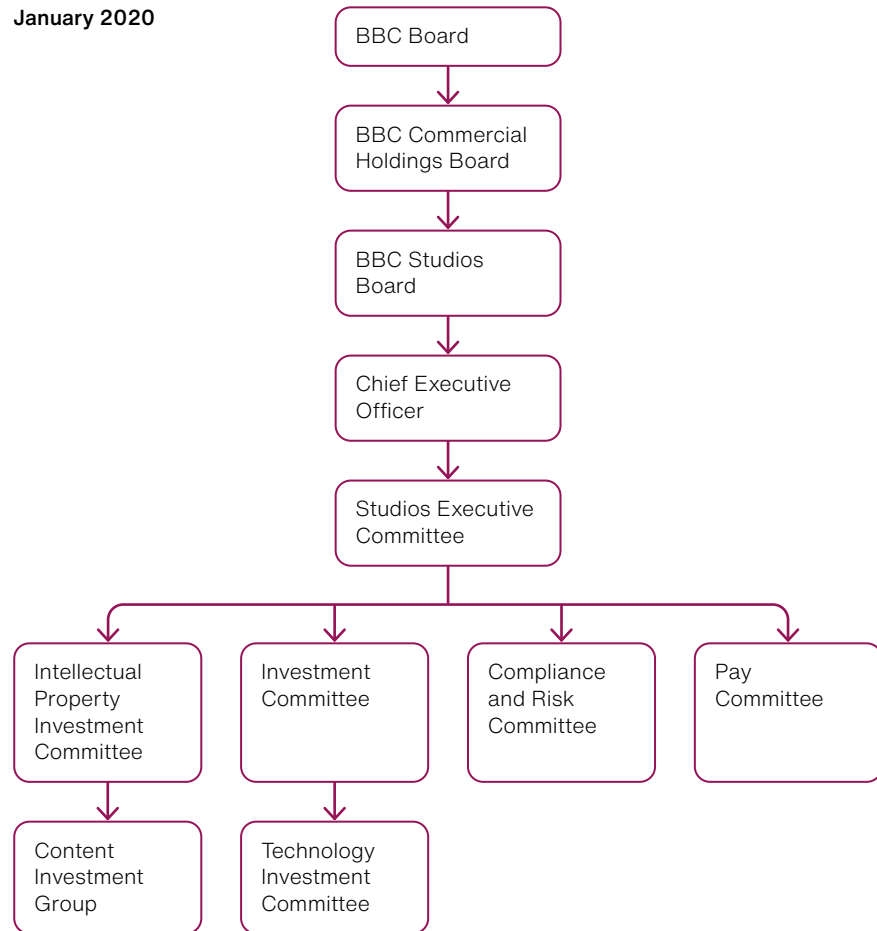
²⁶ From April 2022, the Board consisted of three executive and six non-executive directors. In April 2023, membership of the Board was expanded to include a seventh non-executive director to bolster the Board's expertise.

Figure 12

Governance structure for the BBC's commercial activities, as at January 2020 and from April 2022

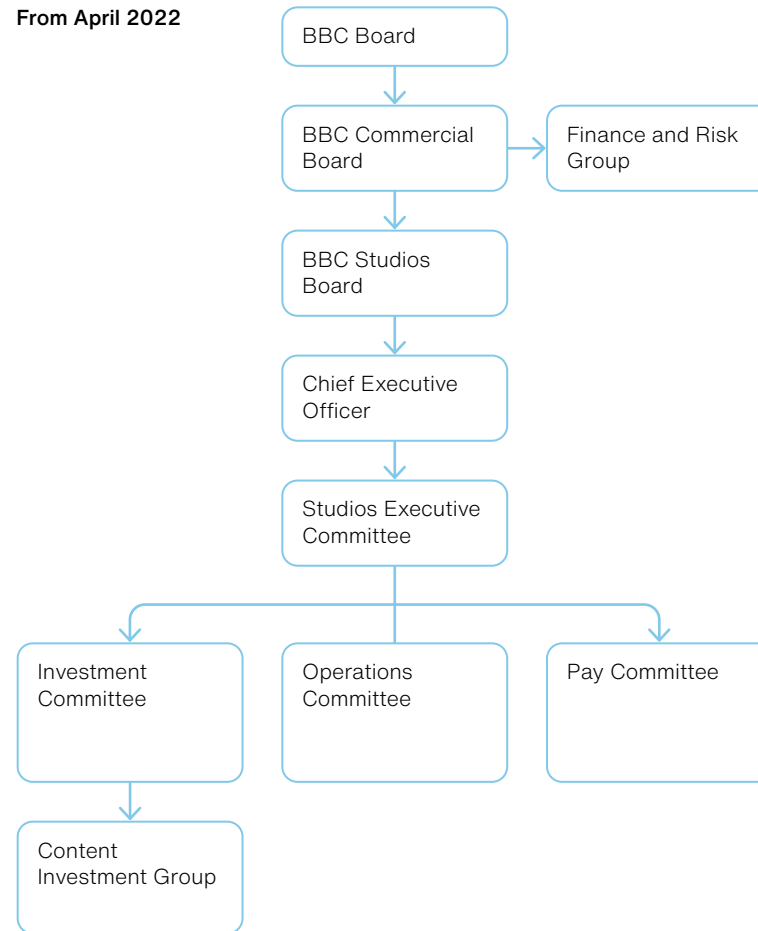
The BBC amended the governance structure of its commercial activities in April 2022

January 2020



→ Direction of oversight

From April 2022



→ Direction of oversight

Figure 12 *continued*

Governance structure for the BBC's commercial activities, as at January 2020 and from April 2022

Notes

- 1 The BBC Studios Board has a deliberately narrow role which is limited to statutory functions such as the signing of annual accounts. BBC Commercial Board leads on all other board governance matters for BBC Studios.
- 2 The Studios Executive Committee is the key decision-making body for BBC Studios, with decision-making in some areas delegated to a number of sub-committees. It comprises BBC Studios' senior management.
- 3 Prior to April 2022, the Intellectual Property Investment Committee dealt with all investments in intellectual property (IP), including investments in programmes, BBC-invested production companies and external IP, while the Investment Committee considered non-content investments on, for example, technology and acquisitions. In April 2022, BBC Studios merged these separate committees into a single body to streamline decision-making on investments.
- 4 Prior to April 2022, the Compliance and Risk Committee managed BBC Studios' risk and compliance framework and monitored compliance with external audit recommendations and Ofcom's regulatory requirements. In April 2022, BBC Studios reconstituted the committee as the Operations Committee and expanded its remit to cover operational decisions, freeing the Executive Committee to focus on more strategic issues and idea generation.
- 5 The Pay Committee is responsible for remuneration issues.
- 6 In June 2023, the BBC Commercial Board established its own Finance and Risk Group to provide an additional layer of independent challenge on the appropriateness of the controls and processes in place in the commercial subsidiaries.

Source: National Audit Office analysis of BBC and BBC Studios documents

3.4 The BBC changed the membership of the BBC Commercial Board to ensure that the Board provided more challenge and support to management. It appointed as the non-executive directors senior figures from the industry with commercial, financial, digital and global expertise, and with a view to BBC Studios' growth ambitions. In June 2022, Ofcom reported that it was encouraged that the above changes would help to bring greater balance and independence to the BBC Commercial Board.²⁷ For its part, in its January 2024 *BBC Mid-Term Review*, the Department for Culture, Media & Sport (DCMS) found that there was evidence that the April 2022 refresh was proving to be successful, but it was still too early to fully assess the effectiveness of the new arrangements.²⁸ It therefore recommended that the BBC should keep the effectiveness of the new BBC Commercial Board under review, potentially including this in its next review of BBC commercial activities required by the 2016 Framework Agreement with DCMS (paragraph 2.4). As at July 2024, the BBC Commercial Board was about to undertake its first externally led review of its own effectiveness.

²⁷ Ofcom, *Review of the interaction between BBC Studios and the BBC public service*, June 2022.

²⁸ Department for Culture, Media & Sport, *The BBC Mid-Term Review*, January 2024.

3.5 In our March 2018 report *The BBC's commercial activities: a landscape review*, we highlighted the challenge the BBC faced in striking the right balance between the payment of dividends to the BBC by its commercial subsidiaries and the subsidiaries' need for investment, and the need for it to keep a detailed account of its rationale for the level of dividend it takes. Since our report, the BBC has sought to address this challenge. In October 2022, the BBC agreed a mandate for its commercial activities which set out how it would seek to balance the interests of the commercial and public service parts of the BBC. Under this, the commercial subsidiaries would seek to maximise the financial returns to the BBC but would prioritise long-term sustainable returns over short-term ones.

3.6 The BBC has also taken a more structured approach to deciding the levels of dividends to be paid by the commercial subsidiaries.²⁹ In December 2022, and again in March 2024, the BBC Board issued guidance on the setting of dividends, reflecting commercial good practice. Under this guidance, the BBC Board can request a dividend from BBC Commercial as the sole shareholder in the company, based on its assessment of what is needed for the delivery of the BBC's public service functions. The level of any dividend to be paid is set on a rolling three-year basis as part of the BBC's annual budget-setting, after discussions between the BBC Board and BBC Commercial Board and also BBC and BBC commercial management, with the BBC Board having final budget approval. Actual dividends to be paid at the end of each year are declared by the BBC Commercial Board after it has checked that the payment of these will not result in liquidity issues nor risk the commercial subsidiaries defaulting on their borrowing facilities. In March 2023, the BBC Commercial Board approved a framework, containing five financial checks designed to provide it with assurance on these points.

3.7 Despite the introduction of a more structured approach, the BBC has some flexibility regarding decisions about dividends. For example, during its budgeting for 2024-25, the BBC assessed the affordability of the future dividends to be paid by BBC Studios to BBC Commercial over a different time period to that it used when examining the affordability of dividends payable by BBC Commercial to itself. The BBC also flagged up in March 2024 its need for extra savings of £100 million in each of 2026-27 and 2027-28, at least some of which could come from BBC Studios.

²⁹ In line with normal business practice, the BBC's commercial subsidiaries, including BBC Studios, pay dividends to the commercial group holding company, BBC Commercial Limited. BBC Commercial Limited, in turn, makes its own dividend payments to the BBC. If agreed by the BBC, BBC Commercial Limited can retain the dividends it receives to help fund developments in the commercial group, which it has done in the past.

Compliance with regulatory requirements

3.8 Ofcom's role in respect of the BBC's commercial activities is to make sure these entities do not benefit from an unfair advantage over competitors by virtue of their relationship with the BBC (paragraph 1.5), for example, when the BBC commissions content from production companies, such as BBC Studios. In July 2017 Ofcom put requirements in place to ensure there is appropriate separation between the BBC and its commercial subsidiaries and that the relationship between these is at an arm's length and on commercial terms. These requirements include the need for the BBC to put in place appropriate, robust controls and procedures.

3.9 The BBC's compliance with the above requirements is overseen by the Fair Trading Committee, a committee of the main BBC Board.³⁰ As part of its oversight, the Committee publishes an annual independent assurance report of the BBC's controls for ensuring compliance with Ofcom's requirements for adequate separation as part of the BBC's annual report and accounts. Each of these reports for 2018-19 to 2023-24 stated that the BBC had established and applied a system of internal controls that provided reasonable assurance that it had complied with Ofcom's requirements. Despite this, there is still the perception among some of BBC Studios' competitors that it is benefitting unfairly from its relationship with the BBC.

3.10 In its June 2022 report on the relationship between the BBC and BBC Studios (paragraph 3.4), Ofcom found two areas where it was not satisfied that the BBC had appropriate controls and procedures in place to ensure its compliance with Ofcom requirements, and where the BBC needed to take action. These covered secondary content sales by BBC Studios and some of the administrative processes relating to the supply of goods and services by the BBC to BBC Studios. In both areas, Ofcom was subsequently content with the action that the BBC took.

Risk management

3.11 The BBC has refreshed its approach to the management of risks in its commercial subsidiaries, including BBC Studios. For example, in June 2023, the BBC Commercial Board established its own Finance and Risk Group to provide an additional layer of independent challenge on the appropriateness of the controls and processes in place in the commercial subsidiaries. The Group meets three times a year. The BBC Commercial Board also reviews on a quarterly basis the risk and compliance matters that could impact on the achievement of its commercial objectives. For its part, BBC Studios has developed its approach to classifying and reporting risks to be consistent with practice across the BBC. In its quarterly risk updates, it identifies its top strategic risks and maps these to its priorities, supported by key metrics.

³⁰ From September 2024 the Fair Trading Committee was subsumed into the Audit and Risk Committee, with the latter committee taking over responsibility for overseeing the BBC's fair trading arrangements.

3.12 BBC Studios' approach to managing deals is proportionate to the size of the relevant deal. Depending on the deal's value and impact, review and approval is undertaken first by the Investment Committee, and then by BBC Studios Executive Committee, BBC Commercial Board and the main BBC Board as appropriate. For its largest deals, such as the purchase of BritBox International and its co-production deal with Disney for *Doctor Who*, BBC Studios examines how the deal fits with its strategic priorities and plans, identifies the risks and opportunities involved, and takes account of the market environment and how that is expected to change in the future. In April 2022, BBC Studios received increased authority to incur expenditure without seeking prior approval from the BBC.

Performance reporting

3.13 In our 2020 report, we identified gaps in BBC Studios' performance indicators for non-financial performance. Our report recommended that BBC Studios finalise non-financial performance indicators, including its performance in winning new work and creating new intellectual property (IP) and the size and strength of the content delivery pipeline to enable the boards to monitor and challenge performance. Since our report, BBC Studios has improved its reporting of non-financial indicators, and its monthly reporting now includes performance against the indicators outlined above. This enables both the BBC Studios Executive Committee and the BBC Commercial Board to have better oversight of non-financial performance and provide challenge where necessary.

3.14 In July 2023, BBC Studios improved its internal performance reporting, including setting clear, forward-looking financial and non-financial performance indicators which are more aligned with its strategy. However, there are still some weaknesses which, we consider, mean that it is difficult for the BBC Commercial Board or the BBC Studios Executive Committee to identify whether BBC Studios is meeting its performance targets, and to make good strategic decisions. These include rolling forward of targets over a three-year period resulting in no reporting against the original target for the period, regular changes to how KPIs are reported, and KPIs not agreed for the beginning of the 2023-24 financial year.

3.15 BBC Studios also provides monthly updates to the BBC Studios Executive Committee and BBC Commercial Board on the performance of key financial metrics, including income, profit, free cash flow and net debt, against forecast and prior year figures. However, BBC Studios re-forecasts its financial metrics three times during the year following its initial budget exercise, and subsequently reports performance against these re-forecasted levels. Again, we consider that this makes it more difficult to use these reports to track financial performance in the year. BBC Studios considers that this approach is the best way to manage and direct business in a dynamic market.

3.16 In July 2024, BBC internal audit looked at the production pipeline for BBC Studios and found that there was a need for better end-to-end information and analysis of financial performance in order to support better decision-making. Although this was a known issue within BBC Studios, internal audit found that there was limited visibility of timescales and scope for making improvements.

Appendix One

Our audit approach

Our scope

1 We reached our independent conclusions on whether BBC Studios was meeting its strategic objectives and was well placed to continue to do so in the future following analysis of evidence collected primarily between April and September 2024. Our work follows on from our 2020 report on the performance of BBC Studios following its merger in 2018 with BBC Worldwide, and covers BBC Studios' performance since this report, BBC Studios' future plans, and the governance and oversight of BBC Studios.

2 At the start of the study, we developed our evaluative criteria and used these to shape our collection and analyses of evidence. We used the following high-level evaluative criteria.

- Do the BBC's governance and structure of its commercial activities effectively support BBC Studios to deliver its strategic objectives?
- Has BBC Studios' performance to date met the BBC's expectations?
- Does BBC Studios have a plan in place to sustainably meet the needs of the BBC in the longer term?

Our evidence base

3 In forming our conclusions, we drew on a range of study methods and a variety of evidence sources, which are set out below. We also worked closely with colleagues from our internal expert teams. This included colleagues with expertise in quantitative and qualitative analysis, risk management and commercial business practice, as well as colleagues undertaking the audit of the annual report and accounts of the BBC and its commercial subsidiaries.

Interviews and meetings with the BBC and BBC Studios

4 We held 10 interviews with key senior management staff from the BBC and BBC Studios. We also interviewed two non-executive directors from the BBC Commercial Board, including that board's Chair, who is also Deputy Chair of the BBC.

5 Interviews took place between March and July 2024 and were carried out online. They typically lasted one hour. The topics covered across these meetings were varied, and included, but were not limited to:

- BBC Studios' structure and performance to date;
- BBC Studios' assessment of market developments;
- BBC Studios' plans for the future, including the key risks and challenges ahead;
- the role of intellectual property (IP) and deal-making in BBC Studios' business;
- governance, assurance and oversight of the BBC's commercial activities, including BBC Studios; and
- monitoring progress, internal and external reporting, and the financial and non-financial data and metrics used to oversee the performance of BBC Studios.

6 Interviews were used to explore particular subject areas and guide subsequent requests for and review of documentation, as well as to support points of detail within the report. The information from the interviews was analysed thematically, against the evaluative criteria for the study.

External stakeholders' perspectives

7 Between June and August 2024, we interviewed a number of external stakeholders to discuss their views on BBC Studios' performance to date and its plans for the future, as well as their experience of market developments. Bodies consulted included:

- AudioUK, the trade association for professional audio production companies;
- Department for Culture, Media & Sport (DCMS), the BBC's sponsoring government department;
- Enders Analysis, a research and advisory firm, specialising in media, entertainment, mobile and fixed telecoms;
- Ofcom, the regulator of the BBC;
- Producers Alliance for Cinema and Television (PACT), the UK screen sector trade body for independent production and distribution companies; and
- Teledwyr Annibynnol Cymru (TAC), the trade association for the independent TV production sector in Wales.

Document review

8 We reviewed published and unpublished documents to assist with:

- defining the scope of the audit and deepening our understanding of BBC Studios and the commercial markets in which it undertook business;
- informing further discussion and follow-up with the BBC; and
- informing our findings and triangulating findings from other sources including interviews and data analyses.

9 The documents we reviewed included but were not limited to:

- papers presented to relevant boards and committees regarding BBC Studios, and minutes of meetings that considered these papers;
- BBC Studios' strategy documents, investment cases and assessments of market developments;
- BBC Studios' financial planning and budgeting papers;
- internal reports monitoring BBC Studios' financial and non-financial performance;
- correspondence between the BBC and Ofcom regarding its commercial activities;
- BBC annual reports and accounts; and
- external reports, such as Ofcom's requirements and guidance for the BBC's commercial and trading activities, and DCMS's *BBC Mid-Term Review* (July 2024).

10 Our review was carried out between February and September 2024. We reviewed each document thematically, in line with our evaluative criteria. We consulted with our internal experts to guide our analysis of the business case documentation.

11 We also reviewed the National Audit Office's back catalogue of reports on the BBC and its commercial activities, frameworks, and good practice guides for relevant guidance to aid in the scoping of the audit and in analysing our findings. Our review was carried out between February and September 2024.

Quantitative analysis

12 We analysed the following data relating to BBC Studios.

- Financial data from covering the financial years 2018-19 to 2023-24 and financial forecast and budgeting data through to 2027-28.
- Non-financial data from internal BBC Studios' documents covering 2018-19 to 2023-24.
- Data relating to staff numbers and survey results covering 2018-19 to 2023-24.

13 Key data sources were the BBC's annual report and accounts and internal BBC Studios' documents. Our analysis took place between April and August 2024 and is used within the figures of the report as well as to support points of detail. All financial figures we used in our report are in cash nominal values.

14 There were limitations to the evidence we collected and reviewed.

- In 2023-24, the BBC updated how its commercial activities measure profit (Earnings Before Interest Taxation Depreciation and Amortisation – EBITDA) in order to more accurately reflect market practice. Under the new approach certain costs are excluded which had previously been included in profit calculations. Excluded costs include the staff component of earnout costs; non-cash settled long term incentive plan costs; transformational restructuring costs; and merger and acquisition deal costs. BBC Studios used this new approach when calculating its EBITDA for 2023-24. It also recalculated its EBITDA for 2022-23, in order to identify the change in EBITDA over 2023-24. However, there are no recalculated EBITDA figures for years earlier than 2022-23.
- BBC Studios' data on income by IP type over time did not include income generated by its international production and formats business and by the independent production companies that it owned in whole or in part until 2022-23. We therefore excluded data for 2022-23 and 2023-24 relating to these two businesses when examining the trend in this income from 2018-19 to 2023-24 inclusive.
- All financial figures are on a cash basis and have not been adjusted to reflect annual inflation.

Case studies

15 We reviewed BBC papers relating to some of the more significant deals undertaken by BBC Studios since its merger with BBC Worldwide. Deals included the following.

- BBC Studios' acquisition of UKTV in 2019.
- Its acquisitions of production companies House Productions Limited and Sid Gentle films Limited in 2021 and 2022 respectively.
- Its purchase of ITV's share of BritBox International in March 2024.
- Its relationship with Ludo Studios, the producers of *Bluey*.
- Its production and distribution partnership in 2022 with Disney for *Doctor Who*.
- The transfer to BBC Studios between 2021 to 2024 of news, audio, youth and children's TV operations from the BBC's public service functions and other BBC commercial subsidiaries.

16 Our analysis took place between April and August 2024, and consisted of document reviews and interviews. We used our analysis to:

- triangulate findings from interviews;
- produce figures within the report; and
- illustrate and support key points of detail within the body of the report.

Market comparison

17 We consulted a variety of sources for usable data to identify general developments in BBC Studios' markets, and reviewed key sources, such as published Ofcom papers, press articles and market briefings from Enders Analysis. We used the results of our review to triangulate the contents of BBC Studios' own market assessments and to comment on market developments in our report.

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