

*Championing
excellence and diversity
in broadcasting*

Founded in 1983 by Jocelyn Hay CBE



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**RESPONSE BY THE VOICE OF THE LISTENER & VIEWER (VLV)
TO THE BBC TRUST CONSULTATION
ON
THE FUTURE OF THE BBC'S SUPPLY ARRANGEMENTS**

November 2015

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INFORMATION ABOUT THE VLV

Voice of the Listener & Viewer Limited (VLV) represents the citizen and consumer interests in broadcasting and speaks for listeners and viewers on the full range of broadcasting issues. It uses its independent expertise to champion quality and diversity in public service broadcasting, to respond to consultations, to produce policy briefings and to conduct research. VLV has no political, commercial or sectarian affiliations and is concerned with the issues, structures, institutions and regulations that underpin the British broadcasting system. VLV supports the principles of public service in broadcasting. It is a charitable company limited by guarantee (registered in England No 4407712 - Charity No 1152136).

EXECUTIVE SUMMARY

1. Overall VLV believes that the Guiding Principles laid out in the BBC Trust Review of the supply arrangements for the BBC published in June 2015 are the correct principles to guide any future changes to the BBC's content supply arrangements.
2. While we welcome many of the principles underlying the BBC Executive's *British, Bold Creative BBC Studios* document, we do not believe it provides enough detail on the operational model for BBC Studios for VLV to be able to fully support the proposals. In many instances the proposals are expressions of aims which, while they are admirable, do not explain how the BBC will deliver the outcomes necessary for this model to be successful. We look forward to seeing more detail of the operating model and organisational design promised in these proposals.
3. Without the provision of greater detail, our position has not changed significantly from that stated in our submission to the Trust's review of BBC's arrangements for the supply of content in March 2015. While we understand much of the underlying rationale behind these proposals, we do not believe that they guarantee a better provision of content for licence fee payers.
4. It is our understanding that the primary driver for these proposals is to ensure financial sustainability for the BBC in future, increase income for the BBC by producing content for other broadcasters and ensuring the BBC retains its IP rights to maximise returns for licence fee payers. In order to allay the concerns of the independent production community the BBC will open up 80% of its commissioning to independent producers.

5. We agree that the principle of choosing the *best ideas regardless of their source*¹ is an important one and should be supported however there are risks inherent in removing the guarantee of commissions for BBC production teams which should not be disregarded.
6. We do not believe that removing production guarantees for in-house productions will necessarily guarantee the delivery of more original content. In our view a BBC with strong in-house production departments is beneficial for licence fee payers and provides a vital seed bed for innovation and training.

INTRODUCTION

7. VLV welcomes this opportunity to comment on the proposals by the BBC Executive for the creation of BBC Studios and the removal of the BBC's in-house guarantee in most genres, however it is our view that the terms of reference for the consultation are limiting, so while we attempt to follow the requested format in addressing the six models proposed by the BBC Trust, we have additional comments to make which would not be adequately covered by this approach.
8. Overall VLV believes that the Guiding Principles laid out in the BBC Trust *Review of the supply arrangements for the production of the BBC's content* published in June 2015 are the correct principles to guide any future changes to the BBC's content supply arrangements. Namely: securing high quality and creative content across all genres, providing value for money to licence fee payers, using a wide range and diversity of supply with fair access across all genres and from across the UK, securing a sustainable production supply in terms of skills and capacity, and maintaining appropriate separation between publicly funded BBC activity and its commercial services.
9. As stated in our submission to the Trust's review of BBC's arrangements for the supply of content in March 2015, while we understand much of the underlying rationale behind these proposals, we do not believe that they guarantee a better provision of content for licence fee payers. Whether they lead to an improvement in the quality and range of content and make the BBC more financially sustainable in the future depends on many factors, none of which are guaranteed.
10. VLV agrees with the BBC Executive that the current trend of global media organisations to buy UK independent production companies and the vertical integration of companies may undermine the cost effective provision of a wide range of public service content and the distinctiveness of such content.
11. We agree with the BBC Executive that retaining its own intellectual property rights is a growing necessity for the BBC² as it needs to maximise its income for the benefit of licence fee payers.

¹ *BBC Trust Review of the BBC's arrangements for the supply of television and radio content and online services, January 2015, page 6*

² *BBC Trust: The supply arrangements for the production of the BBC's television content, radio content and online content and services, June 2015, pg 13*

12. While we welcome many of the principles underlying the BBC Executive's *British, Bold Creative BBC Studios* document, we do not believe it provides detailed enough proposals for VLV to be able to fully support it. In many instances the proposals are expressions of aims which, while they are admirable, do not explain how the BBC will deliver the outcomes necessary for this model to be successful. We look forward to seeing more detail of the operating model and organisational design promised in these proposals.
13. It is our understanding that the primary driver for these proposals is to ensure financial sustainability for the BBC in future, increase income for the BBC by producing content for other broadcasters and ensuring the BBC retains its IP rights to maximise returns for licence fee payers. In order to allay concerns of the independent production community the BBC will open up 80% of its commissioning to independent producers.
14. Ancillary benefits of these proposals are that they could lead to greater choice for commissioning editors and greater competition could lead to greater creativity and better value for money, although neither are guaranteed. They could also lead to a greater diversity of suppliers which might benefit smaller, newer production companies, but there is no guarantee of this outcome either.
15. Potential risks are that BBC Studios producers will shift their focus away from the need to fulfil the BBC's public purposes onto commercial considerations; an increase in the commissioning of content from independents which will mean less control of IP rights for the BBC; a reduction in the guaranteed training of the next generation; and ultimately the potential privatisation of BBC Studios.
16. Our main concern is that a move to a commercial model may jeopardise the imperative for the BBC to make public service content. We believe that the goal of any proposals for the coming Charter should be that the BBC maximises its investment in content which explores and reflects the cultural and social concerns of the population of the UK, including the coverage of international issues. Therefore we believe that the focus of all commissioning and editorial management within the BBC should continue to be on providing content which delivers the BBC's public purposes. While we acknowledge the need to ensure financial sustainability for the BBC in the years to come by increasing international sales and retaining IP rights, the focus needs to remain on public service content for UK audiences. If there is a commercial benefit which accrues from overseas sales that is beneficial but that should be a secondary concern.
17. We would welcome further detail on how the operational structure of BBC Studios will ensure that the provision of high quality content for licence fee payers is prioritised.
18. With reference to the current Terms of Trade, we question whether large international media companies should benefit from them because they were originally designed to support a fledgling UK independent production sector. We understand that Ofcom is currently reviewing the Terms of Trade on behalf of the Government and look forward to seeing the outcome of this review. We acknowledge it is likely to have an impact on these proposals.

COMMENTS ON THE PROPOSALS

19. The proposals say that they will *deliver important benefits to audiences, licence fee payers and the creative industries*³. While we acknowledge it is a benefit to UK PLC to have a thriving independent production sector, VLV believes that the BBC should focus its efforts on the benefits for licence fee payers rather than be concerned with the success of the creative industries as a whole.
20. It is also unclear to us how with a more commercial focus BBC Studios will ‘find and nurture the next generation of British talent in drama, natural history, comedy, entertainment and factual programmes’⁴. The BBC’s continued investment in training and skills development for the wider economy is crucial in the context of rapid technological change and innovation in the communications industry and we are concerned that the current proposals do not provide enough detail on how training will be maintained under the proposed model. We would welcome more detail on the proposals related to maintaining skills in the industry and training.
21. We agree with the BBC Executive that existing long running strands should remain in-house. Those series which are currently successful, with established in-house production teams, should not be disrupted by these proposed changes. If the proposals are implemented, we believe it would be sensible to reassess such series on an annual basis.
22. We welcome the proposal to retain the quota that overall 25% of commissions should be provided by independent producers. Whatever structure is decided upon, VLV is concerned that smaller independent producers should continue to be supported because they ensure a range of home-grown ideas which may not be available from larger, internationally owned companies. We note with concern evidence that the revenues of smaller independent companies which are not part of bigger groups have reduced over the last decade.
23. We agree that News and Sport should remain in house although from these proposals we do not fully understand the rationale for children’s and current affairs content production remaining in-house. We would welcome a better articulation for the reasons for keeping children’s content and current affairs in-house.

Comments on the BBC Trust Review of Supply Arrangements

24. With reference to the conclusions the BBC Trust published in its Review of supply arrangements for the production of BBC Content, we would like to make the following comments.
25. **The Television WoCC:** We agree with the Trust’s conclusion that the television WoCC, as currently constituted, is not sustainable in the long term as it is no longer stimulating wide, creative competition as effectively as it has done in previous years.

³ *British, Bold, Creative. BBC Studios: Strengthening the BBC’s role in the Creative Industries*, September 2015, pg 19.

⁴ *Ibid.*, pg 19

26. We note that external producers have been winning the majority of the WoCC commissions over several years, particularly in drama and entertainment. We note the increase in the proportion of commissioning from non qualifying independents (NQI's) from 2% in 2007-8 to 9% in 2014-15. We agree that the growth of NQI's could lead to a narrower pool of smaller qualifying independents which makes fulfilling the 25% independent production quota more difficult and means that the space which was originally intended to support SME's is increasingly taken up by commissioning from a smaller number of big producers.
27. We note that within 10 years it is estimated that the UK-based arms of bigger, consolidated producer groups 'could account for around 80% of the current UK PSB commissioning revenues'⁵ and that this could impact on supply strategies of the PSBs over the long term. We agree that there is likely to be a shift of balance from broadcasters to bigger global producers and this could undermine the ability of the PSBs to commission content at a fair price.
28. VLV agrees that there needs to be regulatory change designed to support SME's and thus ensure a continued supply of content from a wide range of producers. In light of this, we would support the reduction or removal of the in-house guarantee if the Trust believes that such a move would mean that commissioners have access to a wider range of high quality and distinctive content, while supporting smaller independent production companies and encouraging the entrance of new SME's into the market.
29. **Radio:** VLV agrees with the BBC Trust's conclusion that the radio WoCC and independent quota should be reconsidered and welcomes statements made by Helen Boaden in June this year that the BBC Executive foresees a growth in the radio WoCC.⁶ We believe this might better meet the needs of licence fee payers and help develop the wider market because it will allow commissioners greater freedom to commission content from a wider range of suppliers.
30. **Online:** VLV agrees that the production of online content is likely to increase in importance for the BBC during the coming Charter period and that therefore it is appropriate to review the quotas for production of online content in order to better meet the needs of licence fee payers and help develop the wider market.
31. **Network Television Supply in the Nations and Regions:** VLV believes that the BBC's network supply strategy with the target that 50% of network television production spend should be commissioned from outside London, with at least 17% of its network production spend from Scotland, Wales and Northern Ireland, has been successful. It has increased the plurality of supply and contributed to the growth of production skills outside London. Therefore we question whether recalibration in the overall approach is required.

⁵ BBC Trust: *The supply arrangements for the production of the BBC's television content, radio content and online content and services*, June 2015, pg 8

⁶ Helen Boaden Speech to RIG AGM, June 2015

COMMENTS ON THE FOUR PROPOSALS SUGGESTED BY THE BBC TRUST FOR TELEVISION.

Model 1: Retention of the current arrangements with no changes made to quotas

Principle One: Securing High quality and creative content across all genres

Strengths:

32. The current system works effectively to:
- provide competition for BBC in-house production teams
 - provide a range of content from a plurality of suppliers
 - ensure provision of more diverse, less London-focused content which more accurately reflects the nations and regions of the UK
33. The Executive and the Production teams of the BBC work to fulfil the public purposes and are not distracted from this goal by the need to provide content for other broadcasters.
34. The current system means that BBC production remains close to the BBC Executive which we believe is beneficial because it means that priorities for both teams remain aligned.

Weaknesses:

35. As stated above, the trend for concentration in the independent sector, predominantly under foreign ownership, has led to the WoCC being dominated by NQI's.
36. We agree that in time this may lead to reduced diversity of supply and a reduction in the number of SME's, making entry to the marketplace by new companies more difficult and this could reduce the originality of fresh, new ideas.
37. We acknowledge that the BBC says it is difficult to retain staff because they are frustrated that they cannot pitch ideas which are not commissioned by the BBC elsewhere, however we do not believe this is a persuasive reason for change.

Principle Two: providing value for money to licence fee payers

Strengths:

38. Maintaining the current system would mean the licence fee can be spent on content for viewers rather than on implementing structural changes within the BBC.

Weaknesses:

39. It can be argued that greater competition might lead to better value for money because competition tends to drive down prices, although we note that this is not guaranteed.

Principle Three: using a wide range and diversity of supply with fair access across all genres and from across the UK

Strengths:

40. The current system ensures:
- provision of more diverse, less London-focused content which more accurately reflects the nations and regions of the UK.
 - growth of skills outside London
 - support for the independent production sector

Weaknesses:

41. As stated above, the supply of the range and diversity of public service content may reduce in time with the growth of large foreign-owned independent companies.

Principle Four: Securing a sustainable production supply in terms of skills and capacity

42. Because there is not enough detail in the BBC proposals on training, we believe the current model best ensures a sustainable supply of skills and training for new entrants into the market.

Principle Five: Maintaining appropriate separation between publicly funded BBC activity and its commercial services

43. Without greater detail from the BBC on the operational model for BBC Studios, we believe this option provides the best separation between BBC activity and its commercial services.

Model 2: Retention of the current arrangements with changes to the quotas

44. We are not convinced that changes to quotas will effectively mitigate the potential negative impact of the growth of NQI's as identified by the BBC Trust and BBC Executive.

Strength:

45. If the WoCC were extended to 50%, for example, it is possible that this would provide greater competition and allow smaller independents and NQI's to compete for a larger proportion of BBC expenditure, although we note that this outcome is not guaranteed.

Weaknesses:

46. There is a risk that the majority of any WoCC funding could continue to be won by NQI's as it is now, although it would open up the BBC to greater competition and this could be beneficial for viewers.
47. The risk would remain that sourcing 25% of production from smaller independent producers might lead to a sourcing of ideas on the basis of a quota rather than on the basis of their merit.

48. If quotas for in-house production are reduced, there will be less guarantee of the BBC owning the majority of its intellectual property which would mean less income to return to fund BBC content.

Model 3: Removal of quotas for BBC TV commissioning alongside a new commercial production businesses wholly owned by the BBC and free to make programmes for other broadcasters

49. There is a risk that if BBC in-house production were moved into a commercial company, that in due course this company could be privatised. VLV considers this a considerable risk and if these proposals were to go ahead we would want safeguards put in place to ensure that this could not happen.

Principle One: Securing High quality and creative content across all genres

Strengths:

50. This model would foster greater competition which *could* lead to better ideas and quality but there is no guarantee of this.
51. This model would encourage the principle of choosing the *best ideas regardless of their source*⁷ and on this basis we would welcome it.
52. In principle, we recognise and welcome the ambition by the BBC Executive to open up the BBC to greater competition. To quote Tony Hall:

"I want a less regulated system that ensures that both our own BBC producers and those of the independent sector have creative freedom. I want a level playing-field between BBC producers and independent ones. I want both a BBC production powerhouse that is a beacon for creativity, risk-taking and quality; and an amazing, world-beating independent sector".⁸

Weaknesses:

53. We do not believe that removing production guarantees for in-house productions will necessarily guarantee the delivery of more original content. While it is certain to provide greater competition, we believe there is a risk it could lead to insecurity among staff and ultimately lead to less originality of ideas. Currently BBC staff have the freedom to take risks and generate original ideas because their jobs are secure. In our view a BBC with strong in-house production departments is beneficial for licence fee payers and provides a vital seedbed for innovation.
54. While we recognise that it may also be attractive to be able to pitch ideas to other broadcasters, this could undermine BBC output being the primary focus for BBC Studios and could lead to a shift away from public service content to more commercially viable content.

⁷ BBC Trust Review of the BBC's arrangements for the supply of television and radio content and online services, January 2015, page 6

⁸ Tony Hall Speech, July 10th 2014

Principle Two: providing value for money to licence fee payers

Strengths

55. Competition could reduce overall commissioning costs.

Weaknesses

56. There will be a cost involved in setting up a new system of production which will impact on the amount of money available for production of content.

Principle Three: using a wide range and diversity of supply with fair access across all genres and from across the UK

57. Due to the lack of detail in the BBC proposals, we are unable to comment on whether this option will lead to a wider range and diversity of supply.

Principle Four: Securing a sustainable production supply in terms of skills and capacity

Weakness

58. We question how training would be managed under the new proposals because there is not enough detail provided on this important aspect of the BBC's operations.
59. If the proposals were to go ahead, we would suggest that a budget for training would need to be built into every production budget and training targets for BBC Studios would have to be set annually by the BBC Executive.

Principle Five: Maintaining appropriate separation between publicly funded BBC activity and its commercial services

60. There is not enough detail in the proposals to fully understand how the separation between publicly funded BBC activity and its commercial services will be affected by change, therefore we cannot comment on this point.

Model 4: Directly scaling back BBC in house production

61. While there may be those who would suggest that on the basis of the success of C4C the publisher broadcaster model should be considered for the BBC, VLV does not support this approach for a number of reasons. We believe that such a model would divorce the production of content too far from the BBC Executive and could undermine its delivery of public service content and it would also significantly reduce the BBC's income from the distribution of its in-house content for which it owns 100% of the IP rights. Scaling back BBC in house production would constitute a significant departure from the current model of BBC operations which has worked effectively for the past 100 years and we believe it would undermine delivery of high quality public service content and value for money.

Principle One: Securing High quality and creative content across all genres

Weakness:

62. We believe that retaining a strong and stable in-house production capability is important in delivering public value and ensuring the provision of high quality content in the future.
63. It is VLV's view that such a production capability is essential if the range and quality of programming which audiences expect is to be maintained. Therefore we believe that following a publisher broadcaster model would be very detrimental to the organisation, leaving it with less control over its supply of content.
64. We echo the Director-General's view that the BBC should not become a publisher broadcaster: "*Production is at the heart of the BBC. We have been, we are, and we always will be a great programme-maker. We will never simply be a publisher broadcaster – that would be to deny our essence.*"⁹

Principle Two: providing value for money to licence fee payers

Weakness:

65. This model would not maximise BBC income through intellectual property rights and therefore would provide less value for money for licence fee payers. Instead it would direct more profit to the shareholders of independent production companies.

Principle Three: using a wide range and diversity of supply with fair access across all genres and from across the UK

Strength:

66. This model would guarantee more work and income for the independent production sector which *could* encourage a greater range and diversity of supply.

Principle Four: Securing a sustainable production supply in terms of skills and capacity

Weakness:

67. There would be no guarantee of training provision under this model.

Principle Five: Maintaining appropriate separation between publicly funded BBC activity and its commercial services

Strength:

68. This model would provide separation between publicly funded BBC activity and its commercial services.

⁹ Tony Hall, speech, March 2nd 2015

RADIO AND ONLINE

Model 1: Retention of the current arrangements with no changes made to quotas

Principle One: Securing High quality and creative content across all genres

Strength:

69. The strength of the current model is that BBC production remains close to BBC Executive which we believe is beneficial because the public service priorities of the BBC will be aligned.

Weakness:

70. The weakness is that the current system does not encourage growth in the independent radio production sector which may be limiting the creation of fresh, new ideas.

Principle Two: providing value for money to licence fee payers

Weakness:

71. As with television, if the current model is retained there is a possibility that the lack of competition may mean higher production costs.

Principle Three: using a wide range and diversity of supply with fair access across all genres and from across the UK

Weakness:

72. As with television, there is a possibility that the range and diversity of supply will not increase if quotas are maintained at their current levels.

Principle Four: Securing a sustainable production supply in terms of skills and capacity

Strength:

73. As with television, we believe that the provision of training is best guaranteed if in-house production is maintained.

Principle Five: Maintaining appropriate separation between publicly funded BBC activity and its commercial services

74. As with our comments on television, there is not enough detail in the proposals to fully understand how the separation between publicly funded BBC activity and its commercial services will be affected by change, therefore we cannot comment on this point.

Model 2: Retention of the current arrangements with changes to the quotas

75. We broadly support the proposals put forward by Helen Boaden in June this year.
76. From these, we understand that daily news output, weather, schools programming and coverage of State occasions will be exempt from change and that 60% of eligible network radio hours will be opened up to competition.¹⁰

Principle One: Securing High quality and creative content across all genres

Strength:

77. If the WoCC for radio is increased to 60% this could encourage growth in the independent radio production sector which could lead to a greater flow of fresh, new ideas.

Principle Two: providing value for money to licence fee payers

Weakness:

78. The BBC will not fully own the IP for commissions from independent producers, however we note that the potential to sell radio content in international markets is limited, so this impact will not be significant.

Principle Three: using a wide range and diversity of supply with fair access across all genres and from across the UK

Strength:

79. This option would potentially provide a wider range and diversity of supply.

Principle Four: Securing a sustainable production supply in terms of skills and capacity

Weakness:

80. As with television, we do not believe that training needs will be as well met if a significant amount of production moves to independents and would propose that measures need to be put in place to ensure that training continues within the BBC.

Principle Five: Maintaining appropriate separation between publicly funded BBC activity and its commercial services

81. As with our comments on television, there is not enough detail in the proposals to fully understand how the separation between publicly funded BBC activity and its commercial services will be affected by change, therefore we cannot comment on this point.

¹⁰ Helen Boaden speech June 25th 2015 to RIG AGM.