

Oliver & Ohlbaum

Review of BBC Global News reporting and governance structures

A report for the News Media Association

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O&O

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1 Introduction

In support of discussions with the BBC around the scope of its impact on other news providers in the UK market (both those solely operating in the UK and those with significant international news businesses), the News Media Association (NMA) has commissioned O&O to review the current level of public reporting that exists around the BBC's international commercial news services and the governance structures in place around those operations.

The battle for international revenues – a key concern for UK commercial news brands

The opportunity to grow audience reach in overseas markets is increasingly important to the sustainability of the UK's commercial news sector. Faced with the challenges of transition from print to digital-first business models and strong competition for news audiences in the UK market many commercially funded news providers are looking to their potential global audience reach to offset lower advertising yields and greater cross media competition for advertising spend.

Today, international advertising revenues play an important and growing role in the financing of the UK's commercial news media. For national players such as The Guardian, around two-thirds of global audience traffic is now generated from markets outside the UK, with the Anglophone and Anglophile markets (e.g. USA, Canada, Australia) the most prominent locations for international readers of UK news brands. This means that international reach – and the commercial exploitation of that reach via advertising – is playing a critical role in the ability of leading news brands to offer sustainable and high quality choice, plurality and diversity in the UK market.

Via the BBC World Service and Global News output, the BBC is also a major player in the provision of news to markets around the world. In BBC Global News, the BBC is also participating in local advertising markets and can be seen to some extent as being in competition with other UK news brands for commercial revenues. The fear from the commercial news sector is therefore that a more aggressively commercial BBC, able to exploit its unique, licence fee funded international newsgathering resources, could increasingly come to dominate the market opportunity for UK news brands in overseas markets, limiting the future growth potential for other UK news brands as they seek to build reach and revenues outside of the UK.

A need for greater transparency in how the BBC trades overseas to ensure a level playing field

The BBC's international commercial news services comprise mainly of TV news channel output (BBC World News) and the international version of the BBC news website (BBC.com). Both of these operations make substantial use of BBC newsgathering resources in their delivery, benefiting from the scale and scope of the newsgathering network operated in large part for the BBC's UK licence fee funded news outlets.

Where the BBC's licence fee funded resources are being used to underpin competitive commercial ventures – both in the UK market and overseas – a high level of transparency is desirable to ensure that each commercial venture is paying a fair market price for its access to public service resources. Further, the rationale for the BBC's commercial ventures should be that they return benefits to the UK licence fee payer – either in terms of the direct funding, content or services available within the UK, or as the most cost effective route to achieving the BBC's broader aims of representing the UK in international markets.

In order to make informed decisions about whether the BBC's commercial subsidiaries, including the commercial news ventures groups together under BBC Global News Ltd, are delivering on these objectives, the reporting of these activities should enable adequate public scrutiny and the governance of these activities should provide for clear accountability and dividing lines between public service and commercial activities.

The BBC Trust's Commercial Framework sets out four criteria that each of the BBC's commercial services should meet. These are¹:

- Fits with the BBC's public purpose activities;
- Exhibits commercial efficiency;
- Does not jeopardise the good reputation of the BBC or the value or the BBC brand; and
- Complies with the principles set out in the Trust's fair trading policy and with the BBC's fair trading guidelines, and in particular avoids distorting the market.

In this short report, we have looked at the current level of published information that exists to describe BBC Global News – both in terms of how it operates and is governed - and to what extent the reporting of its financial performance enables licence fee payers to make a judgment on the way in which their newsgathering resources are being utilised to deliver commercial news services around the world.

The conclusions of this report include:

- The current public financial reporting around BBC Global News Ltd. does not provide sufficient transparency to enable an outside party to assess whether the trading relationships between BBC Global News services and BBC Public Service news resources is fair and without scope to distort competition
- While there is no evidence of any attempt to distort competition versus commercial rivals, nor is there the basis to form a view that this is not occurring
- Greater transparency is also desirable in terms of how BBC Global News is governed, how its Directors are remunerated and in how it is required to balance its need to grow commercial revenues with its wider market impact and obligations to the BBC brand

¹ BBC Protocol C4 – Commercial Services, April 2015

2 The governance of BBC Global News

As many of the UK's leading news brands now have significant businesses in overseas markets (e.g. The Guardian, Daily Mail, etc.) BBC Global News now provides services which compete directly with UK based commercial news providers for audiences, sponsorship and advertising income. As a result, many in the wider news industry believe that there should be greater transparency in terms of how BBC Global News is run, including reporting of funding, its consumption of licence fee funded resources and the transfer pricing arrangements for these activities between BBC Global News and BBC Public Service. These issues have been examined, to some extent, in work conducted by the BBC Trust, via two related processes:

- **Strategic Framework for BBC Commercial Services:** following a Governance review which focused on the relationship between the BBC Executive and the BBC Trust, the Trust developed a high level framework to clarify its remit and priorities in respect of the BBC's commercial activities. The framework was subject to public consultation with the final version taking effect in April 2015. This resulted in findings relating to the BBC's Fair Trading Policy and identified a need to commission an independent review of the BBC's transfer pricing arrangements.
- **Fair Trading Policy Review:** The Trust conducts a periodic review of its Fair Trading Policy, which defines the BBC Executive's responsibilities, to ensure that the policies continue to be relevant and effective. The last review was conducted in 2011 and resulted in an update to the policy at that time. The latest consultation was announced in 2014, with the consultation taking place in July 2015 and an updated policy expected to be published in Autumn/Winter 2015. As part of this process, the BBC Trust also commissioned an independent report from Fingleton Associates to review the BBC's current fair trading regime.

The documents associated with each of the above have touched upon issues which are directly relevant to the transparency of the relationship between BBC Global News and BBC Public Service. In the following sections of this report, we assess the publicly available information in relation to BBC Global News, draw on the existing work to set out where reporting gaps have been found to exist and discuss some options for how these might be addressed.

2.1 The importance of transparency

Transparency around the BBC's commercial news ventures is important for two principal reasons:

1. It allows licence fee payers and whichever bodies are concerned with oversight of the BBC's activities to determine whether operations represent good value for money in the pursuit of the BBC's overall objectives; and
2. It allows external parties to assess whether the BBC is distorting in-market competition through the cross-subsidy of commercial services from public service resources

As outlined in O&O's previous report for the NMA, *News at the Crossroads*, the importance of overseas news markets to the size, shape and plurality of the UK news market is increasing. In the print era, newspapers often had relationships with overseas print sites that enabled them to serve international markets but this was mainly to an ex-pat and UK traveller market and represented only a very small proportion of overall revenues. Today in the globalised internet era, the UK's online news brands have the potential to compete for a much larger audience in international markets, yielding commercial revenues that help to sustain the news distribution model in the UK. Diversification of revenues away from sole dependence on the UK news consumer is now a key part of the strategy to build sustainable business models for the long-term in the commercial news sector.

Taking the example of The Guardian, roughly one third of its total online audience is attributable to UK-based consumption of its output, with the remainder of the audience coming from other large English-speaking markets – most notably the USA and Australia. If UK commercial news outlets in the UK are to remain free to users at the point of consumption, advertising models will need to be sustainable at a global level in order to underpin the scale of revenues required to support strong, original newsgathering. Without the international

opportunity, UK commercial newsgathering and reporting resources will be reduced and plurality of news provision that has a high reach / is accessible to all, is likely to suffer.

As a competing commercial news provider in international markets, one that has clearly stated growth ambitions of its own but that also benefits from use of UK licence fee funded resources, BBC Public Service management and BBC Global News have an obligation to ensure that the trade between the two entities is transparent and fair in terms of reflecting industry norms and benchmarks. Without this transparency, the organisation will remain open to challenge and suspicion from the commercial sector that there is a degree of favourability in the terms of trade that BBC Global News enjoys.

At present, there is a perceived lack of transparency between the two sides of the BBC – licence fee funded international news operation and its commercially funded sibling, BBC Global News – that sits at the heart of the commercial tensions between the UK’s global news providers and the BBC. BBC Public Service’s obligation to provide value for money to licence fee payers while delivering against its public purposes means that sharing content and resources with its commercial arm makes sense – but it is required to do so in a way that ensures a market rate of return to BBC Public Service. To do otherwise would effectively cross-subsidise BBC Global News’ competition with the commercial sector; while doing so could help Global News to expand its commercial activities, it would delay returns to Public Service and could also have unintended consequences on market development.

As a publicly funded body the BBC is not permitted to subsidise its commercial operations and the BBC’s Fair Trading policy exists to prevent instances of state aid. Getting this right requires clear separation between BBC Public Service and its commercial operations, both operationally and financially. Having policies in place to marshal the BBC Executive’s behaviour in these areas is one approach that the BBC Trust can, and does, take to ensuring that appropriate separation exists and that content and services provided by BBC Public Service to BBC Global News are paid for at market rates. But this, in itself, does not provide the assurance desired by the industry. Providing clarity on arrangements around issues such as Director sharing, transfer pricing and specifics on how these issues are audited and controlled would give greater confidence to commercial news providers that they are competing on a level playing field – particularly given the BBC’s intention to more aggressively commercialise global news.

2.2 Ownership, governance, and services

Unlike the majority of the BBC’s services, BBC Global News does not have a corporate website, which makes it difficult to find up-to-date and verifiable information on ownership, key personnel, and even the services it provides – and how these services are structured and delivered. As far as we have been able to ascertain, there is no information currently in the public domain on how content is shared between the BBC’s UK-focused Public Service News offering – which is supported by its global newsgathering operation – and its internationally focused services under BBC Global News.

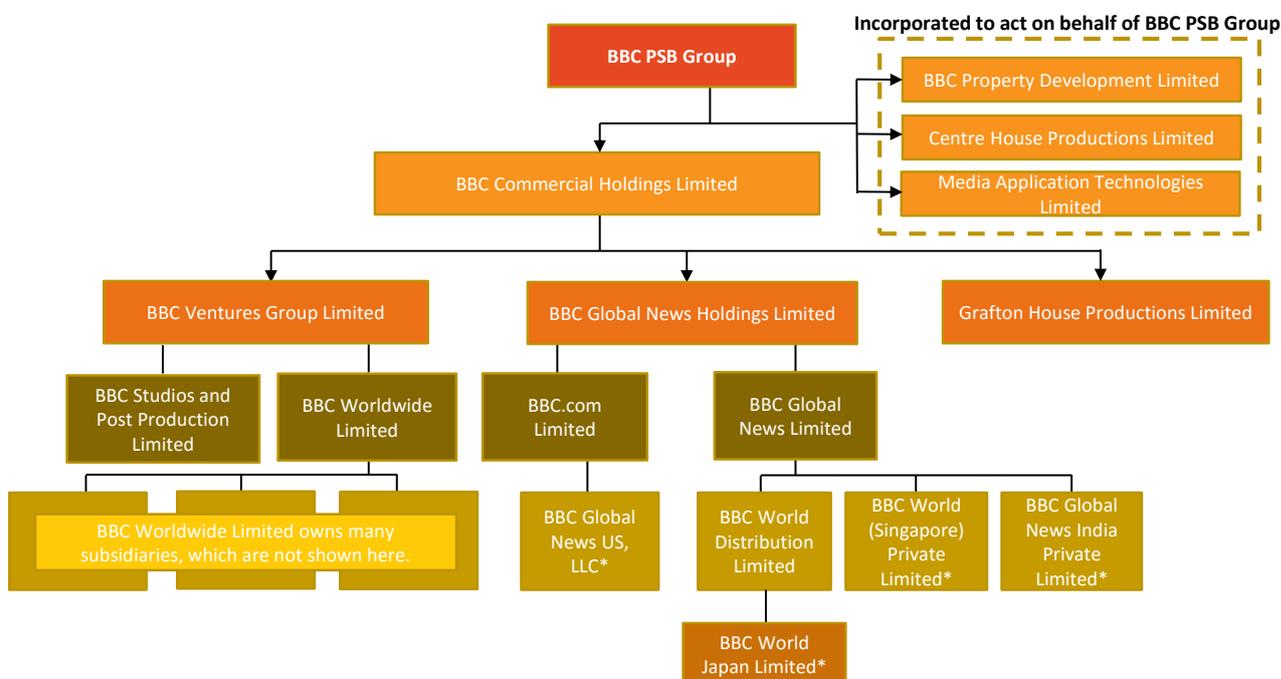
In this section, we set out the information which is in the public domain covering the structure, ownership, and personnel involved in BBC Global News, the services it provides and the extent to which there may be potential to share content and related resources.

2.2.1 Structure and ownership

The BBC owns commercial organisations because it is not permitted to provide commercial services directly and, instead, does so through commercial subsidiaries in order to generate a return which can be reinvested in public service activities, ultimately to the benefit of licence fee payers. The BBC PSB Group owns four subsidiaries directly, three of which exist to act on behalf of BBC PSB Group, while one, BBC Commercial Holdings Limited, is the BBC’s main commercial subsidiary. **Figure 1** shows that the BBC’s commercial operations are contained within BBC Commercial Holdings Limited, which owns: BBC Ventures Group Limited, BBC Global News Holdings Limited, and Grafton House Productions Limited.

BBC Global News Holdings Limited is the lead company responsible for BBC Global News, though Global News’ activities are not captured in one company, rather it consists of several layers of subsidiaries. BBC Global News Holdings Limited directly owns BBC.com Limited and BBC Global News Limited, which represent the two main activities which sit within Global News. Between them, these companies own four further companies directly and one indirectly – incorporated in the UK, the US, Singapore, India, and Japan.

Figure 1: The ownership of BBC Global News



Note: All relationships represent a 100% holdings
*incorporated overseas

Source: Company accounts, Oliver & Ohlbaum analysis

The organisational structure of Global News forms part of a complex web of BBC owned companies, incorporated across several countries. This is one factor which makes it difficult to understand the flow of funds between each organisation. We examine the available financial information in more detail in Section 3.

2.2.2 Scope and scale

The group structure offers some indication of the services which Global News provides and these are set out in more detail in the BBC's annual report and accounts. The main services delivered by BBC Global News are the BBC's two commercially funded international news services – BBC World News and BBC.com.

The BBC's annual report and accounts explains that the performance of BBC Global News is measured in terms of reach, quality and value. It enjoys a significant and growing global reach, which increased from 388 million households in 2014 to 398 million households in 2015. In recent years growth has been most notable in the US where BBC World News is available in 40 million households, compared to just 5 million in 2012. Audiences have also expanded significantly for BBC.com. Driven by a rapid increase in mobile consumption, BBC.com achieves over 85 million monthly unique browsers on average. As well as providing commentary on the extensive reach of Global News, the quality and value of the service are appraised with reference to recent awards and its improved financial performance in 2015.

The BBC has stated its desire to commercialise Global News to a greater extent. In September 2015, Lord Hall offered to match any increase in public funding for the World Service, if it is allowed to more heavily commercialise Global News outside the UK. Since then, the Government has announced increased funding of World Service; with £34 million a year provided in 2016, and £85 million a year from 2017, to cover digital, TV, and radio services – the next review of this funding will be in 2020. This funding is designed to help the BBC expand its global reach to half a billion people, with planned investments including:

- Enhancement of existing TV services

- New services for audience in North Korea, Ethiopia, Eritrea, India and Nigeria
- Content improvements for the BBC Arabic service, Somalia, Thailand, and Russia

Ahead of this announcement, Global News already had plans to invest in regional editions in Africa, India, and Australia, and has successfully expanded its reach in recent years through syndication agreements with online partners. Several services have partnered BBC Global news to bring services to news audiences, including Flipboard, MSN, LinkedIn, and Internet.org (Facebook's initiative to improve internet access in emerging markets). Each of these expansionary initiatives increase the degree of competition faced by the UK's commercial news providers when trying to attract overseas audiences and, given the extent to which these services overlap with those provided by BBC Public Service, it is important to be clear that there is no undue support from licence fee payer money.

As audiences for the BBC's online news content have increased, video has become an increasingly important part of digital news. This convergence is creating greater overlap between the traditional television based news service and the newer online content, both in terms of the extent to which content can be used across multiple platforms and the fact that there is ever increasing scope to share production skills and resources. This could provide a growing opportunity for Global News to benefit from BBC Public Service's resources; we examine the extent to which personnel and resources may be shared in the next sections.

2.2.3 Key personnel

Given the lack of a corporate website for BBC Global News, there appears to be no single BBC site which sets out who the key personnel are at BBC Global News – though this information is available from Companies House. **Figure 2** shows those appointed as officers of BBC Global News Holdings Limited and its direct subsidiaries, BBC.com Limited and BBC Global News Limited, along with their positions within those entities, and their occupations.

Figure 2: The Governors of BBC Global News

Name	Position	Global News Holdings Limited	BBC.com Limited	Global News Limited	Occupation
Lindsey North	Secretary	✓	✓	✓	Company Secretary
Christopher Davies	Director	✓	✓	✓	Director of Sales & Marketing
James Egan	Director	✓	✓	✓	Chief Operating Officer
Gary Gibbs	Director	✓	✓	✓	Finance Director
Colin Lawrence	Director	✓	✓	✓	Commercial Director
James Montgomery	Director	✓	✓	✓	Director of Digital Content
Richard Porter	Director	✓	✓	✓	Deputy Controller English, Global News
Francesca Unsworth	Director	✓	✓	✓	Defined as a Journalist by Companies House, but Deputy Director, News and Current affairs within Public Service

Robert Norman	Director	x	x	✓	Chief Digital Officer GroupM Worldwide
Jonathan Miller	Director	x	x	✓	Founder of Fuel Media and Commerce
Ralph Rivera	Director	x	x	✓	Director of Digital

Note: Ralph Rivera was appointed as a Director of BBC Global News Limited on 15 September 2015 and is therefore not mentioned in the latest accounts.

The Figure above shows that Directors are shared between BBC Global News Holdings Limited and its subsidiaries; while some may have other Directorships, we understand that all Directors of BBC Global News Holdings Limited work at the BBC full time, as does Ralph Rivera, who was appointed as Director of BBC Global News Limited in September 2015. Robert Norman and Jonathan Miller are Non-Executive Directors of BBC Global News Limited, so sit outside of the management team, and their main occupations lie outside of the BBC.

While there is no explicit indication given as to where overlap exists between BBC Global News Directors and BBC Public Service Directors, this cross-over does exist. Since the BBC does not readily disclose the Directors of BBC Global News it does not make clear where cross-over exists between the directors of Global News and the Directors of BBC Public Service or, indeed, where any such overlap exists between the two organisations. We conducted our own research on this and understand that Francesca Unsworth and Ralph Rivera are currently employed as Directors by both BBC Global News Limited and BBC Public Service.

Sharing of key personnel between BBC Global News Limited and BBC Public Service may be sensible where the roles can be conducted by one individual and provide strategic alignment which will benefit licence fee payers – but this could require careful management. Sharing Directors brings a risk of conflicts of interest between their commercial and public service roles and also raises issues around how salary and other costs are allocated between the organisations. During our review we were not able to find any public declaration of where conflicts of interest have been considered and, where necessary, managed; there is also a lack of transparency as to how salary and other associated costs are allocated.

Under the current reporting arrangements, identifying the overlap in roles is not straightforward and the process of allocating associated costs between the organisations is also unclear. The accounts of BBC Global News Limited provide details of the overall payment to Directors, in terms of both salary and pension, including the amount paid to the highest paid Director. This commentary acknowledges that salary costs are split between the BBC and BBC Global News, but does not provide a breakdown or explanation of how the split is defined and reviewed. With so little publicly available information about BBC Global News, this sharing of staff raises questions about how costs are shared, and whether BBC Global News is unduly benefiting from resources and expertise paid for by BBC Public Service, and thus to some extent being funded from the licence fee.

3 Financial reporting

As for basic information on the structure, services, and personnel involved with BBC Global News, detailed financial information is not readily accessible. The accounts for BBC Global News Holdings Limited do not provide insight into the relationship between Global News and BBC PSB, so it is not possible to draw conclusions on which services, resources, and personnel may be shared between the businesses, nor is it clear from the accounts how shared services are priced – i.e. the specifics of any transfer pricing arrangements between the organisations. In this section we provide a brief overview of the financial information which is available in relation to BBC Global News, both from the BBC PSB accounts and the Global News accounts.

3.1 BBC Public Service 2015 accounts

The BBC's overarching accounts are presented on a consolidated basis so as to include the financial position based on all of its activities. This means that the balance of funding flowing back to BBC PSB as a result of the BBC's commercial activities is disclosed. **Figure 3** shows the overarching results of the BBC's commercial trading, as presented in its 2014-15 accounts.

Figure 3: Results of the BBC's commercial trading activities, 2014-15

Organisation	Headline sales		Headline Result	
	2014-15 £m	2013-14 £m	2014-15 £m	2013-14 £m
UK PSB Group	192	516	n/a	n/a
BBC Worldwide	1,002	1,042	139	157
BBC Global News	93	101	(5)	(7)
BBC S&PP	29	29	(1)	(3)

In the BBC's consolidated accounts, BBC Global News is reported to have made a loss of £5m against revenues of £93m in 2014-15. Accounts for BBC Commercial Holdings Limited are also prepared on a consolidated basis and provide no further insight into the performance of BBC Global News, nor indication of the value and nature of transactions between BBC Public Service and Global News.

3.2 BBC Global News 2015 accounts

BBC Global News Holdings Limited does not itself undertake any commercial activity and operates exclusively as a holdings company for BBC.com Limited and BBC Global News Limited. The BBC does not present its accounts on a consolidated basis, so they provide no visibility of the performance of BBC Global News as a whole. The accounts of BBC.com Limited and BBC Global News Limited are the first organisational level at which more granular financial information on the activities of BBC Global News Holdings Limited's subsidiaries is available, though again these accounts are not prepared on a consolidated basis and therefore do not reflect the performance of the next tier of subsidiaries, as shown in Figure 1, which are largely incorporated overseas.

The reported performance of BBC.com and BBC Global News Limited is set out in **Figure 4**. The results are not comparable with those reported in the BBC Public Service accounts since they are not consolidated and thus do not reflect the performance of BBC Global News as a whole. The results are also presented before tax. While basic information is available on revenue and costs, the level of granularity provided is insufficient to understand what payments are made to BBC Public Service in exchange for content or services. Indeed, both sets of accounts take advantage of Related Party Reporting exemptions set out in FRS 8, which mean that they are not required to disclose details of transactions between themselves and the BBC or its subsidiaries – This also applies to BBC Global News Limited's UK incorporated subsidiary BBC World Distribution Limited.

Figure 4: Results of BBC.com and BBC Global News Limited, 2014-15

Organisation	BBC Global News Limited	BBC.com Limited
	2014-15 (£000)	2014-15 (£000)
Turnover	44,908	26,784
Cost of sales	(64,046)	(16,591)
Administrative expenses	(4,385)	(5,670)
Change in fair value of derivative financial instrument	(10,103)	-
Operating profit / (loss)	(33,626)	4,523
Interest payable and similar charges	(1,179)	-
Income from fixed asset investments	7,936	-
Profit / (loss) on ordinary activities before tax	(26,869)	4,523

Looking at the profit or loss on ordinary activities before tax, and the costs associated with the revenues generated by these companies provides a view of the overall performance of the business, but also, crucially, the level of costs incurred. Staff costs (including Director emoluments, which totalled £1,005k in 2015²) for each of these companies are declared in the accounts at £6.2 million for BBC Global News Limited and nil for BBC.com, since staff services are provided by BBC Global News Limited. It is not clear how these staff costs are allocated between cost of sale and administrative expenses, but this leaves total combined costs of £84.5 million³ which are not explained by direct staff costs. The amount paid to the BBC Public Service in exchange for the content and resources it provides to BBC Global News is expected to be included within this figure.

Clearly there are likely to be other expenses included in the £84.5 million, not just a payment to BBC Public Service, and the profit or loss on ordinary activities is stated after a number of specified charges which are included in the costs incurred by these businesses. These costs include further charges relating losses on foreign currency, depreciation, operating lease rentals, auditor's remuneration and payments to third parties for directors' services. The additional charges totalled £5.6 million, leaving a total of £78.9 million of costs incurred by BBC Global News Limited and BBC.com which are not broken down in the accounts. This could therefore be considered as the upper bound of the potential amount charged by BBC Public Service for the content and resources it shares with BBC Global News.

There are, of course, limitations to this analysis: payments could also be made to BBC Public Service by the subsidiaries of BBC.com and BBC Global News Limited, increasing the maximum potential payment by BBC Global News as a whole; there may also be significant other costs incurred by these businesses, which are not broken out, and so the actual amount paid to BBC Public Service could be considerably lower. Finally, even if the amount paid to BBC Public Service were directly disclosed, this number must also be seen in the context of the content and services which are provided by public service to BBC Global News and with reference to their relevant market rate. Greater transparency in terms of the level of the recharge, and the content and resources shared, would provide the necessary assurance that Global News is not being cross-subsidised.

² A further £136k paid to third parties in respect of directors' services. Directors' remuneration is disclosed in the accounts of both BBC Global News Holdings Limited and BBC Global News Limited since the latter has several more directors. Director remuneration for BBC Global News Limited also includes payments to Beverley Tew, who resigned on 30 April 2015.

³ i.e. total cost of sales and administrative costs of BBC Global News and BBC.com less total direct staff costs

4 Potential areas of cross-subsidy

The BBC's commercial services must fit with the BBC's six Public Purposes which are set out in the Royal Charter and Agreement; the constitutional basis for the BBC. These six purposes include bringing the UK to the world and the world to the UK – this is the key purpose relevant to BBC Global News because providing an international news service is an important means of 'bringing the UK to the world', through top quality trustworthy journalism. Cooperation between the BBC's international and domestic news divisions is therefore important in delivering against this objective and BBC News is the primary supplier of news content to BBC Global News, helping it to provide the best news service possible for international audiences and to effectively represent the UK by using, building, and maintaining the BBC brand.

Given that the nature of an international news service is so similar to that of a domestic news service, one would expect to see considerable overlap between the resources required by BBC Global News and BBC Public Service news provision. Just as sharing the expertise of some key personnel between the BBC Public Service and BBC Global News may be sensible, the same is true for finished content and other resources. As there are several areas where cross-over exists, in the absence of more detailed reporting these are also where there is a risk that Global News is being – at least partially - cross-subsidised by BBC Public Service.

Some of the areas where cross-over exists between the activities of BBC Global News and BBC Public Service News are set out below, to provide examples of where Global news is likely to be using BBC Public Service resources (and hence where transparent reporting of payments and consumption volumes are likely to be required):

1. **Finished content:** this is clearly an area where BBC Global News can benefit from its relationship with the BBC. Given that the BBC's domestic news division reports on events internationally, much of its output, both UK and internationally focussed, is relevant to Global News services. The BBC's website declares that BBC News is the most significant supplier of Global News, but does not specify what proportion of BBC News content is recycled. BBC Global News exists across all of the platforms – television, radio/audio, and online – where public service news is active, so to a large extent, this readymade content should be usable by BBC Global News with minimal alteration.
2. **Newsgathering – UK specialists, news desks and reporters:** As many of the BBC's most high profile journalists are based in the UK (including leading specialist areas such as Business, World Affairs, Defence, etc.), the output of BBC Global News is likely to make call on UK-based newsgathering resources in providing its daily news output and in the creation of commissioned 'built' programmes. BBC Global News accounts state that the division employs 22 Editorial staff, suggesting that much of its reporter-led output comes from elsewhere in the BBC
3. **Newsgathering – International news bureau:** Global News also originates its own news content for the international audience and for services targeting specific international markets. Where this is the case, Global News could make extensive use of the BBC's existing newsgathering bureau network. In order to deliver its public service news content, the BBC needs to maintain a global network of correspondents able to react to events as they occur. One would expect Global News to use these same correspondents
4. **'Built' / Commissioned programmes:** As part of its World News output, Global News commissions programmes from BBC News and Current Affairs (in-house production) in order to build its daily broadcast schedule. These should be commissioned at market rates and should not commercially disadvantage any external provider of news programmes who could equally deliver on a specific commission. Currently there is little transparency around this process.
5. **News archive:** As part of the wider BBC, Global News will likely have access to the BBC's recent archive of news footage and reporting. This has a direct financial benefit if delivered to the division at no incremental cost (versus the situation for commercial news providers where footage has to be paid for from third party agencies in many instances). Where the footage has originated from BBC Public Service news reporting, this trade could constitute a form of cost avoidance / aid.
6. **Office space and IT services:** BBC Global News is currently located in New Broadcasting House, sharing office space with BBC Public Service. Clearly, where spare capacity exists in BBC premises to house its commercial services, this makes sense; though defining the market rate for such unique tenancy arrangements is clearly challenging. It is apparent that BBC Global News is co-located with BBC Public

Service, but the details and approach to determining an appropriate re-charge are not made public, nor is it clear whether and how BBC Global News is charged for complementary shared services such as IT systems and related support, and on what basis.

Similarly, BBC Global News may be supported by BBC Public Service's other back office functions such as finance and HR. Once again, whether or not this is the case is not made public, nor are the benchmarks used to establish an appropriate recharge rate – clearly economies of scale mean that this would not be as simple as allocating some of the BBC Public Service costs to Global News.

7. **The BBC Brand:** BBC Global News' use of the BBC brand is important from a public purpose perspective due to the role it plays in 'bringing the UK to the world'. Clearly the BBC's brand already has a strong presence globally and association with that brand is extremely valuable to BBC Global News in maintaining its existing reach as well as growing its reach in new markets. As well as driving audiences, the BBC brand has proven attractive to premium brands from an advertising perspective, examples of which include Rolex, Du Pont, and Shell.

UK based commercial news operations do not necessarily have the same access to brands with such immediate international resonance. As such, the use of the BBC's brand may give Global News a competitive advantage when competing with UK based commercial news providers overseas. Such a valuable asset should have a cost attached to it, in recognition of the investment which would be required to build a similarly prominent brand in international markets. At present, Global News has an obligation to avoid damaging the BBC's brand, but it is not clear if a fee is charged for use, or how this is established.

It may indeed be that, while cross-over exists in these areas, they are all charged to BBC Global News at market rates and thus no cross-subsidy exists and no undue commercial benefit is accruing to BBC Global News as a result of its relationship with the licence fee funded BBC News. However, without more detailed public reporting of transfer pricing arrangements and the approach to benchmarking these specific areas, it is not possible for the BBC to demonstrate that this is the case to licence fee payers and other participants in overseas news markets.

5 Recent developments

Issues of fair trading in relation to BBC Global News have been touched upon in recent reviews by, and commissioned by, the BBC Trust. The Trust's work has drawn on public consultations and has therefore considered the views presented by the industry. Overall, it appears that the understandable concerns of the commercial players have been acknowledged and understood, but are yet to be acted on. It remains to be seen how far the Trust will go to increase transparency.

5.1 Strategic Framework for BBC Commercial Services

In December 2013 the BBC Trust and Executive published the conclusions of a joint review of the BBC's internal governance arrangements. This report was designed to clarify the roles and responsibilities of the BBC Trust and the BBC Executive respectively and remove confusion caused by perceived overlap, which could undermine confidence in BBC governance. This report concluded that the BBC Trust would issue framework documents stating the boundaries for relevant areas of BBC activity not covered by the existing Service Licence regime – which defines the scope of individual BBC services – including its commercial business and distribution activities.

The Trust conducted a public consultation on the strategic framework for commercial services during 2014, and published its final report and framework in February 2015 – the framework took effect from April 2015. The Trust published consultation responses (where it had permission) alongside its final report and provided an overview of the responses in the report itself. In presenting the finalised framework, the Trust also responded to the issues raised in the responses, setting out where it felt the framework would provide adequate assurance around the issues raised and acknowledging where additional work would be required.

The consultation focused on the high level principles, defined in the framework, that all commercial subsidiaries are expected to comply with. The key points relating to BBC Global News and the Trust's position on them are summarised below, along with a brief summary of the framework:

5.1.1 Issues raised by respondents

Respondents were concerned about the lack of transparency

- The framework was perceived not to go far enough to address the potential for cross-subsidy from licence fee payer funds
- This was primarily based on the view that there is lack of clarity around transfer pricing arrangements
- The lack of disclosure means it is not known whether commercial subsidiaries are explicitly charged for use of the BBC brand and goodwill.

Issues were raised relating to operational separation

- There was a perceived lack of clarity on when cooperation between public and commercial services might risk undermining operational separation
- One respondent felt that the Trust should set a limit on the number of BBC Executives serving on the board of commercial services

5.1.2 BBC Trust

The Trust made some adjustments to the proposed framework to address the issues; the Trust:

- believed it addressed the issues raised about the separation requirements; and
- that competitive tendering is not necessary in every case to determine market rates; but
- acknowledged that suspicion exists around whether or not the Trust's requirements around separation and transfer pricing are being applied.

The Trust initiated a periodic review of compliance with the commercial framework, including separation and transfer pricing, to be conducted at least once every five years – and an initial review, focusing on separation and transfer pricing, during 2015-16

- The Trust concluded that it would not be possible to introduce greater transparency without compromising the BBC services and their position in the market.
- Though it acknowledged that while the rules may be seen as reasonable, the doubt across the industry around compliance should be addressed
- When feeding into the terms of reference for the annual audit of fair trading compliance, the Trust will ensure that auditors are directed to pay close attention to separation and transfer pricing
- A periodic review covering compliance with all aspects of the commercial framework, including separation and transfer pricing, will take place at least once every five years – though the first one unlikely to take place before the new framework has been given time to bed in
- The Trust therefore commissioned an additional independent review on separation and transfer pricing as part of its 2015-16 work plan

This review will cover the levels of transparency and compliance when the BBC's commercial services buy rights to BBC content or pay to use its premises or services. The review will assess whether the necessary controls and procedures are being applied to ensure that fair market rates are being paid.

5.1.3 The Strategic Framework

Alongside its response to the consultation, the BBC Trust published the framework covering the BBC's commercial services – details of which are also included in the BBC's annual report and accounts. There are four principles for governing commercial services:

1. Strategic alignment between licence fee-funded and commercial services
2. How, where, and when commercial business may be conducted
3. How to assess commercial performance and prevent distortion in the market
4. How to maintain financial and operational separation between publicly funded and commercial activity

As part of the new framework, the Trust sets out how it will decide whether each commercial service is performing sufficiently to avoid any market distortion. The requirements are as follows:

- Each service must generate a long-term return on investment to the BBC appropriate to the market it is operating in and must demonstrate to the Trust that it is not distorting the market.
- The Trust will review the annual performance, budget proposals and market evidence for each commercial service to ensure that this requirement is being met.

5.2 Fair Trade Policy Review

The Trust conducts a periodic review of its Fair Trading Policy, which defines the BBC Executive's responsibilities, to ensure that the policies continue to be relevant and effective. The last review was conducted in 2011 and resulted in an update to the policy at that time. It began the latest consultation process in summer 2014, which consists of an independent report from Fingleton Associates (looking at the BBC's current fair trading regime) and a public consultation which ran to October 2015. The Trust is now in the process of preparing its updated policy, which it plans to publish before the end of 2015. Although not focused on BBC Global News, or the issues around the transparency of its reporting and transfer pricing in particular, these issues are touched upon in the Fingleton report.

Some of the key findings from the Fingleton report, relating to BBC Global News, are set out below:

- **A lack of information on BBC Global News:** Global News has no corporate website and there is very little information about it in the public domain
- **A lack of transparency on transfer pricing:** Published accounts are available from Companies House – though reporting is not sufficiently granular to understand the flow of funds from Public Service. In addition, the Trust does not routinely assess transfer pricing arrangements

- **A lack of clarity on sharing of directors, and how they are paid:** Some Directors are shared with the BBC and paid by both the BBC Public Service and Global News.
- **Operational separation varies between commercial entities:** There is no clear definition from the Trust on the meaning of ‘operational separation’ – Global News has less separation than the other commercial organisations, which the Executive believes is necessary.

While the Trust is yet to publish an updated fair trading policy, it responded to the Fingleton review in its public consultation paper and set out its proposals for improving the existing policy. This response included confirmation that the independent review of separation and transfer pricing issues will take account of the concerns expressed in the Fingleton report, including how transparency around these arrangements might be improved. The findings from that review will be published.

5.3 Next steps

The BBC’s review of transfer pricing arrangements between public service and commercial services is not expected to conclude and publish its findings until 2016. In anticipation of that we set out below some approaches which the Trust may be able to take to increase transparency without compromising the overall commercial position of BBC Global News by publishing:

- **Basic information online:** having basic information on Global News in one place would help improve visibility and public understanding of what Global News does and how it operates. It should have key details in one place, such as Director names, overlap with BBC Public Service Directors, and policy around how the time and cost of Directors serving both Global News and BBC Public service are split.
- **Information on the content and resources which are shared:** as described in Section 4, there are many areas where scope exists to share content and resources between BBC Public Service and Global News. Revealing where cross-over exists and thus in which areas the Trust’s separation and transfer pricing rules apply would go some way to allaying concerns that benefits such as the BBC brand, or office space are not provided to Global News without due consideration of cost and value.
- **The approach taken and benchmarks used to determine market rates in each area of overlap:** the BBC Trust’s framework requires that an element of market benchmarking is conducted to ensure that an appropriate transfer price is paid. Disclosing the specific approach to benchmarking for each element of cross-over would provide greater assurance to industry participants that appropriate benchmarks are being used.
- **The steps taken to identify conflicts of interest where Directors serve both BBC Global News and BBC Public Service:** the Trust’s framework requires that careful consideration is given to potential conflicts of interest which might arise and the Executive must have formally recorded arrangements in place for managing these. Making such arrangements public would provide assurance that these issues are being properly considered.