



Communications and Digital Committee

Corrected oral evidence: BBC future funding

Tuesday 22 March 2022

2.44 pm

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Members present: Baroness Stowell of Beeston (The Chair); Baroness Featherstone; Lord Foster of Bath; Lord Griffiths of Burry Port; Lord Hall of Birkenhead; Baroness Harding of Winscombe; Lord Lipsey; Baroness Rebuck; Lord Vaizey of Didcot; Lord Bishop of Worcester; Lord Young of Norwood Green.

Evidence Session No. 5

Heard in Public

Questions 38 - 53

Witnesses

I: Richard Broughton, Research Director, Ampere Analysis; Mark Oliver, Chairman and Co-founder, Oliver & Ohlbaum Associates.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Richard Broughton and Mark Oliver.

Q38 The Chair: Welcome to the Communications and Digital Committee. This is the fifth session of our inquiry into BBC future funding. I am delighted to welcome Mark Oliver and Richard Broughton. Before I get going, can I ask you both to briefly introduce yourselves? Mark, why not start with you?

Mark Oliver: I founded and lead a company called Oliver & Ohlbaum Associates, which has been advising media, sports and entertainment companies for over 25 years. Before that, for my sins I was the BBC's first head of strategy.

The Chair: Thank you very much. Richard?

Richard Broughton: I am one of the co-founders and research director at Ampere Analysis. We are a firm that provides primarily data and research to entertainment and media companies. The data areas that we work in and around are market sizing and forecasting, consumer behaviours and content supply. We have been running Ampere for about seven years now. Prior to that I was an analyst at another research firm.

Q39 The Chair: Thank you very much. We are live on the internet. A transcript of this session will be taken and published in due course. The purpose of this session is to explore in some detail possible alternative funding models for the BBC. Before we get to those main options—we will come on to them in subsequent questions—I wanted to start with what I might describe as scene-setting questions.

In previous sessions we have heard about the changing media landscape and how technology is likely to develop. We have also concentrated on the way society has changed, and continues to change, and what that means for people's expectations of the BBC. We have looked at how the BBC meets people's expectations and the impact that has on their views on how it is funded and their willingness to pay.

In all the different sessions we have talked about the fact that people are now openly questioning whether it is right that everybody should be required to pay for the BBC through a flat-funded licence fee. These people might in some respects break down into different groups in society. Some feel strongly that they are not getting what they want, or they do not feel that they are getting what they want, from the BBC, while at the same time they consider the cost of the licence fee to be quite high. There are also people who feel dissatisfied with the BBC and, even though they might be able to pay that money, are also questioning the licence fee because they are able to get what they want elsewhere.

We are starting to look at possible future alternatives to the licence fee. In this scene-setting context, I want to draw on your expertise in the media world to understand how the demands on the BBC to fulfil its purpose play a role in deciding what priorities should inform a funding model that might be different from the licence fee.

Richard Broughton: If we think about the market context at the BBC, it is facing a sector that is increasingly challenging from a competitive standpoint. It is increasingly globalised, by which I mean that we are facing global, typically US-funded, organisations operating directly to the consumer in the UK market in a way they have not been able to operate historically. That has implications for funding and the flow of content, and it is increasingly fragmenting the viewership.

Some of the pressures on the BBC and other UK broadcasters stem from the ability to compete at scale with some of these global platforms. Netflix and Disney, Comcast and other US studio groups each spend more on content than the entire UK TV industry does. The BBC is facing a lot of pressure from investments in content and how that impacts audience behaviours.

With that in mind, my view, from the policy angle, is that policymakers need to consider one of two options. One is to ensure that the BBC is focused primarily on its core public service and public interest output—news, public interest documentaries perhaps, education, maybe kids’ content—but to leave aside the entertainment output. The downside of doing that is that if you reduce or maintain funding in those areas, you know that audiences will decrease across the board for all that content, and it has a knock-on effect on the UK onward production industry.

The alternative is that you look at increasing funding to allow the BBC to compete on a more even footing with some of those international giants. That is not necessarily an easy option because of how well funded many of the groups are, particularly the US groups. If you do that, however, and it works, you preserve the distinctiveness of the UK TV market and you protect the supply chain in the UK.

From my perspective, those would be the decisions that policymakers need to make.

Mark Oliver: The public purpose of the BBC is not just about gap filling, which is probably just a statement. It is about doing all kinds of programming but with a different purpose and in a different way. It is also about raising standards and expectations across all genres. I am not for the gap-filling role of the BBC, education and news only. Even for the licence fee it should be broader than that. It should aim to provide something for everyone but perhaps not every week. Something good occasionally is better than something mediocre every week. That kind of vision has implications for the overall funding need for the public version of the BBC and what will be politically acceptable and acceptable to licence payers and audiences going forward.

This is why, and we will come on to this, a type of top-up subscription fee is necessary for a different kind of BBC—a BBC for me as opposed to a BBC for everyone—so that the institution of the BBC can continue to grow, attract talent and be vibrant. If it does not, if it ties itself to any form of public funding—we will come on to the different types of public funding—at best it is looking at a stagnant future and less relevance, and at worst it is looking at a gradual but relentless decline and irrelevance. That also comes, in both cases, with more political interference, because

you depend for your entire income on an income that is set, indirectly but still set, by government.

Therefore, as I said, the purpose of the BBC as a public organisation should be broad and multi-genre and have a different purpose for each frame of the commercial market. It should not aim for something for everybody every week—that is probably not possible anymore in a fragmented market—but something good for everybody every month. That is a good aim across all demographics.

The Chair: Are there specific areas where the BBC needs to invest in order to compete? Are there areas that you would consider important to it, which may not necessarily be the news or the most obvious PSB? Are there any areas where you think it should not compete?

Mark Oliver: Areas are difficult, because then you home in on a genre or sub-genre. It is more about the approach to the genre. No genre should be off limits; when it does drama it should do something different, and when it does entertainment it should be aiming to do something different. It is more about its approach. There is a demographic issue in that it finds it difficult to reach younger audiences, which is not necessarily its own fault. Younger audiences have a lot of competitors for their attention and have not grown up with the BBC as much as previous generations, so there might need to be a shift of resources to serve them a bit better. Other age groups have not been served as well as in the past, as you know, although they have been super-served in some ways. The flip side of that is that if those people want more from the BBC, they should pay extra for it.

Q40 Lord Lipsey: This question is about young people and old people. Let me make an analogy with classical music. Classical music audiences are old, but nobody quite knows whether that is because only people who absorbed classical music 40 or 50 years ago want a go now, or whether, as you get older, you change your attitude and stop going to pop concerts and go to classical music. The same question applies with the BBC. Do they really need to be attracting young audiences now to keep them when they become old, or could they continue to target their output as they do now and find that people will naturally come to them as they become old?

Mark Oliver: Yes. It is called the cohort effect versus the age effect. It is a bit of both: that as people age they will come to certain things that they do not want when they are young. Also, a generation that has not grown up with just the BBC and ITV will have a different attitude to that content. In music, it is the same thing. I would say it is probably a bit of both; if they do not have as much exposure to it, they will be less interested. That means that it is harder to get them exposed, which might mean that the public benefit of doing so is actually greater.

Richard Broughton: In terms of where the BBC can compete, or may need additional funding to compete, in the UK market it is particularly strong in some of those core public service areas, as well as in local content that resonates well with local audiences: light entertainment,

certain public interest documentaries, cultural output and listed sporting events.

I do not think it is sensible to look at sport as an area for further competition. That market is served pretty well by the commercial sector. Where it may need additional support, and this potentially ties in with some of the other areas that I suspect we will come on to later in the session, is in the globalised TV market and how it competes in scripted content at the high end—its drama output. If we think about the output of the big US groups and where a lot of audiences are spending an awful lot of time, they tend to be particularly strong in high-end drama, and they are spending \$1 million, \$2 million, \$3 million, \$4 million, \$5 million per hour on content on their TV series. The BBC, ITV, and others cannot spend to the same degree. That obviously has implications for UK audiences.

On the commercial opportunities for the BBC, if it is selling internationally in order to compete on a relatively even foothold, it needs to have sufficient domestic funding to be able to subsidise, at least in the short term, the creation of the sort of content that goes head to head or stands toe to toe with some of the biggest US groups. That would be a policy choice. It may not necessarily be something that policymakers would want to invest in, but that is one area where the BBC currently has a challenge, and you could take it one way or the other, depending on your perspective.

Q41 **Lord Bishop of Worcester:** Thank you very much indeed, both of you. Mark, I would like to explore something that you said, if I may, but Richard, feel free to add. You said that no genre should be off limits, but that the purpose should be different from that of a commercial provider, which, in a way, takes us to the heart of what a national broadcaster should be for. Do you mean purpose in a Reithian sense?

Mark Oliver: Yes, purpose in a Reithian sense. If it is doing entertainment, it is more likely to have some educational element to it. All the things in the BBC's charter about its purposes—helping people to understand the world around them, and things like that—should come into play in anything it does. It should be able to do any genre. It can do sport, but its role is adjusting even as we speak to supporting the growth of women's sport and of new sports, and maybe of second-tier sports that need help. It always has a role and it has to adjust to what the commercial market is doing. It is still an important platform.

No genre is off bounds, but what the BBC is supposed to be there for is shown clearly in the charter as its purposes, and each programme must do its bit to reflect that. The programmes do not need to be equal in the sense of all doing the same amount and having the same balance of purposes, but that is what it should be about. It is for those who judge the performance in the charter to judge whether it is doing that job or not. That is what it should be about.

Richard Broughton: Yes, I would broadly agree. One point to add is that, again, it depends how much you want to consider the

commercialisation of the BBC's output in this global market. Content that serves a specific local policy purpose in the UK may not be as attractive to international audiences as another piece of content that has a deliberate entertainment angle and is deliberately has international audiences in mind. There is certainly a contrast between the two approaches that needs to be considered.

The Chair: Mark, before we move on, can I check whether you gave a view on whether there was anywhere where you felt that the BBC should not be competing in the future?

Mark Oliver: Not if you asked me by genre, no. If you asked me about specific programmes, my view of whether the BBC should have done them or not is a different issue. Every type of programming can be done in a public service way. Every type of legal programme can be done in a public service way, and that should be the test: is it done in a public service way? Is it done with that purpose in mind?

The Chair: One reason for coming back to that was that, looking at the paper you wrote albeit some time ago, it appeared that there were perhaps some areas.

Mark Oliver: Some genres are more likely to be served by the commercial market. As the debate on that has progressed, people have got fixed on the genre, which does not help, because you start saying that they should not do popular entertainment, and they go, "No popular entertainment". Then they say, "Well, actually, there are kinds of popular entertainment that might be public service". You start to go back and say that it is not about the genre. As soon as you go to genre definitions, you are going down completely the wrong line. I have rolled back from identifying genres, because as soon as you do, they become useless.

The Chair: For you, the critical thing is the distinctiveness in the way the BBC approaches the different kinds of programming that could cover the waterfront?

Mark Oliver: Yes. There may be something in the mix of genres. There is no genre that they should not be in, but the mix of genres may be more public service than others. You might expect more arts from the BBC than from ITV and a bit less entertainment, but that is not the same as saying that we should not do any entertainment and should do all arts. That is a very different argument, which I would not support.

The Chair: We may come back later to explore any views you have on the extended borrowing limit that has been given to the BBC.

Q42 **Baroness Rebuck:** I will move to the funding options and levies in particular. The BBC itself, along with much of our written witness evidence, would prefer to keep the licence fee for the foreseeable future, but it could see a value in exploring a variety of levies, such as broadband levy or a model linked to household bills such as council tax or electricity bills. Others have referenced a flat or progressive household levy, and some suggest a hypothecated income tax or public service fees, such as in Sweden. The question is: how effective could such

models be in the UK, especially the various household levies, and how could they operate in practice?

Richard Broughton: I have taken the liberty of updating a few scenarios for some of these to give some illustrative figures. I will kick off on the tax funding. If the BBC licence fee was shifted to an income tax basis, there are a variety of different ways in which you could do that, but let us imagine that we wanted to keep the equivalent funding. The current level of the licence fee is £3.7 billion. There are currently about 32 million basic rate taxpayers in the UK, so if you run the numbers you end up with an increase in income tax of about £115 to £120 per year per household. That works out roughly as a change of about 0.7 percentage points of basic rate above 20%, so there is a small increase.

In theory, that is a much more progressive way of funding, where you do not find lower-income households being forced to pay the same as higher-income households. The one consideration I would highlight with an income tax-based model is that you effectively end up with about half the population paying for the entirety of the BBC funding, somewhere in the region of 70% to 75% of households. In other words, about 25% of households effectively get a free TV licence on the back of that.

Again, that may not necessarily be an issue, but I would highlight that the demographics of who is paying for the BBC at that point become somewhat mismatched against those who are spending the most time consuming the BBC output. That is potentially okay as a policy choice if you think that it is a public service, but it is worth considering.

An alternative option would be to put the BBC licence fee in the higher-rate tax band, but at that point you end up with around 6% of the population paying roughly £900 a year on top of their bill, and that may be a little more unpalatable. It is certainly feasible, but it depends what rate you want to set the fee.

Another alternative could be a telecoms tax. Again, it looks nominally feasible, and there are a variety of ways you could do this. If you wanted to replace the entire licence fee with a telecoms tax, you could apply it to fixed broadband or fixed broadband and mobile connections. If you applied it to fixed broadband alone, you would probably need to increase your monthly broadband fee by about 40%. If you applied it to fixed broadband and mobile connections, the costs would increase by roughly 10% for fixed broadband and around 17% for mobile connections.

Both are theoretically possible, given that around 90% of households in the UK have broadband—there are 28 million connections—and the figure is similar for mobile. What you will not be able to do is get the telecoms companies to absorb that into their margins, because that will eat into their profits. BT margins are about 8%, Vodafone's 20%, so that cost would be passed on to the consumer. You then end up with some households effectively having the choice of no broadband or public service programming.

Baroness Rebuck: That is the problem, is it not?

Richard Broughton: Yes. It could work in terms of the numbers, but you would definitely need to consider how you help households that have affordability issues to finance that. I am not convinced that it necessarily offers anything better than the current licence fee system.

Mark Oliver: All those things are feasible in the UK. We are perfectly able to adopt a different system. When you assess them, there are different factors that you look at. There is the issue of progressiveness, because the licence fee is, by its nature, a flat fee. A lot of suggestions about alternatives are of a more progressive nature, which may be more politically acceptable, because it might be argued that the level of the licence has been determined by the people who can least afford it. Perhaps there would be more buoyancy in the licence fee if those who could least afford it were not paying as much, or nothing. That is at the heart of some of the discounts for pensioners, for example.

Then there is the efficiency and effectiveness, which gets into the whole issue of the criminal law versus a civil law and whether the BBC pursuing just its bill, which often it is not, is less politically acceptable than if it was lumped on to the council tax. Enforcement would then be through the council tax, so someone else would get the blame and it would be lost in a number of things that were being pursued.

Then there is the feasible level. As I said in relation to progressiveness, it might be easier to hit a higher overall income. Those are all the points that I wanted to add.

Baroness Rebuck: Coming back to Richard, you sound as if you would favour the household levy—council tax or whatever it may be. Would you feel confident that the level of income raised would be similar? You did say that it was similar to the licence fee: in other words, that the output would not be affected.

The other side of it is how expensive or complex it would be to bring in, given that currently some 25 million people are paying a licence fee, 75% of whom are on direct debit. I know that there are some issues around the edges, but essentially the core of it is there. Would you like to comment on the practicalities?

Richard Broughton: From a tax practicality perspective, if you are charging it simply as an increase in the basic rate as part of income tax, it should be relatively straightforward for government to do. The practicality point is more about how it impacts the perception of the BBC: how does the BBC maintain a degree of impartiality?

The practicalities are more about how you ring-fence that number to ensure that, first, Governments do not put undue pressure on the BBC to adjust the output in the short term and, secondly, that there is no perception of that happening behind the scenes. I would say that the practicalities are more about making sure that 0.7%, or whatever the number set out is, is deliberately separated from the base income tax in citizens' minds so that they do not feel that the BBC has been undermined somehow by having its funding structure changed.

Baroness Rebuck: You favour the hypothecated individual tax as

opposed to a household tax of some kind or another.

Richard Broughton: If I am honest, I am unsure about that, because I have a slight hang-up about the value, and who is obtaining the most value versus who is paying. It is certainly more progressive, and it all ties in with what we think the function of the BBC should be and what the public service obligations are, and whether we think, therefore, that public output is something that every taxpayer should be contributing to. I am not sure I have made my mind up on that one.

Baroness Rebuck: If there was to be a change, or if a change was to be considered, what kind of body would be the right one to decide on the methodology and the amount? Secondly, how long would it take? How feasible would it be to consider it, say, in 2028 at the next charter review, or are we talking a longer period of time?

Richard Broughton: It never makes sense to rush these sorts of big changes, because things inevitably go wrong, either from a communications standpoint or from a funding standpoint. I would suggest doing it after the charter review and making sure that there is a period when it is filtered in and the right structure is put in place. There should be an independent body associated with this tax to ensure that it is not seen as part of government spending and government decisions. I do not know who that would be, but it should be separate.

Mark Oliver: I probably missed out the issue that Richard mentioned in relation to the security of that funding and political interference, which is one criterion and is why I would not go anywhere near the tax system.

Baroness Rebuck: Is there one that you would favour? Would it be a household tax?

Mark Oliver: Probably. Whether it is with the council tax or not is another question, but I would suggest a household fee. It works in Germany, where they have an independent collection agency.

Q43 **Lord Foster of Bath:** I have a quick follow up, if I may, on what you were both saying just now about ring-fencing and so on.

Under the licence fee current regime, we know that Governments of all persuasions in the past have tried to top-slice it, taking money off broadband rollout in one case and children's programming in the other. Before we move on and look at a range of different funding models, is it your view that, whatever the funding model, the money that is generated from that should be used solely for purposes of the BBC and not be available for any other source? It appears to me you have indicated that it is, but I would like to clarify that.

Richard Broughton: Again, it again comes down to the governance, what is done with that money and the potential options that are on the table. If policymakers can choose to change that mix of funding and who gets it, there is the opportunity otherwise to be seen as influencing the output of the BBC. If you put too many things into the bucket of organisations that could receive funding, there are potential political interference risks. I would have to see what is in that bucket before I

made a decision, but, broadly speaking, it is safer to keep the BBC separate and ring-fenced.

Mark Oliver: It is not necessarily the BBC licence fee; it is the licence fee that has become the BBC licence fee.

Lord Foster of Bath: Exactly.

Mark Oliver: I would say that the vast majority of the money should go to the BBC for clarity and transparency about what is being funded, but that does not mean that all of it necessarily has to be. If Channel 4 was in trouble, I would think that it might qualify as it is a public service organisation. I am against the Arts Council funding individual programmes, because that can get very complicated. The BBC funds S4C, so the top-slicing has in a way meant that the licence fee goes to other things, to public service institutions, and there may be a case to be made that that could be shared because they are institutions, but I would not want it cut up into 100 pieces and divvied out.

Q44 **Lord Hall of Birkenhead:** A follow up to Mr Broughton's point. You mentioned a body to oversee any change. Would that extend to a body to look at the level of whatever tax or licence fee? It is much harder with income tax, because that is the Chancellor's business, but do you think there is some way in which there might be a body to suggest what the right level of funding for the BBC might be?

Richard Broughton: It is a difficult one to answer, because it partly comes back to the original question about the purpose of the BBC and where money should be spent. A few scenarios that I have covered—perhaps we can talk about them later—would require greater or lower levels of funding. It feels that fundamentally those decisions should at least be made by policymakers initially, and then bounds set around the ranges that could be influenced or informed by what a body feels necessary. They would not have unlimited scope for changing it, but some degree of flexibility and ability to control around the margins of what can be spent in any given year would probably make sense, as well as whether you need more funding up front or in a couple of years' time.

Lord Hall of Birkenhead: Mr Oliver, do you have a view?

Mark Oliver: Yes. It should be separate and transparent. We certainly need a separate body saying what it should be, but we need to consider whether it would be advisory or whether it should have the power to do it, because we know about public service pay and advisory. It would at least be out there that someone who is not the Government says it should have less or more money, and it can be debated. If it had the actual power to set it, it would be more powerful, but that would also mean that it would need to be more carefully structured.

Lord Hall of Birkenhead: Thank you.

Q45 **Lord Vaizey of Didcot:** I have a slightly odd question, given that Lord Hall sits on our committee, and you may need to fact check this, but the Government forced the BBC to take on the free pensioners' licence and

they came up with a very elegant solution to link it to the pensioners' tax credit. Would it influence your thinking that you could be more creative with the licence fee by linking it to other sets of data? For the sake of argument, you could have a higher licence fee for a higher-rate taxpayer and a lower licence fee for a lower-rate taxpayer. People on benefits could pay a lower licence fee.

Richard Broughton: It is possible, but it would become slightly more of an administrative headache running the checks on who is a higher-rate or lower-rate taxpayer at any given point in time. Theoretically you would probably have a higher administrative burden and greater scope for people getting hit with a giant bill when they can least afford it, or vice versa. There are a few risks associated with that, but it is not impossible.

Mark Oliver: Linking it to a system that already differentiates would help, but you would still have to go through the whole process yourself. It would not be linking it to the tax system itself, so it would be protected. That would be something to look at to make it more progressive, but the biggest issue is in accordance with wealth, not income.

Lord Vaizey of Didcot: Yes, we could link it to windows.

Mark Oliver: People tried to do that in the past.

Q46 **Lord Lipsey:** I was on the Davis tax committee on the licence fee 23 years ago. If somebody had told that committee that the licence fee would be broadly unchanged 23 years later, we would probably have laughed out loud. Five or 10 years would have been quite enough for us, but it does show that any new tax is a lot more difficult than continuing to collect one that people are used to.

I will float two new possible funding mechanisms: subscriptions and advertising. Let us start with advertising.

Mark Oliver: I looked at advertising on the BBC in 1986 and it still is not there. I am not in favour of advertising on the BBC. Not only is there a limited pot of money—it is possibly slightly more money, but it means that you are immediately dipping into rivals', some of which also have public service obligations—but advertising funding tends to make you very ratings focused, which might draw against the public purposes. So for practical reasons such as there being a limited amount of money and it having a direct impact on many others directly, and because of the purposes and the conflict between them, I would not want advertising.

Subscription is a different matter. The BBC is clearly a subscription broadcaster already; it is just that everybody has to pay a single fee. I would not say subscribe for the whole BBC as, again, this is a hybrid model. The arguments about replacing the licence with a subscription or something similar are not helpful, because by definition you will block people from seeing it, and how can a universal service not be available to everybody? You get into this corner where you cannot argue for it. The

universal service, as a definition, needs to be universally available and funded by one of the means that we have talked about.

The BBC as an institution needs a source of income that is growing. The problem with the licence fee is that it is still here, but resistance to its growth has been enormous, leaving the BBC as a stagnating organisation, funding itself through efficiencies for ever. That cannot last. The reality is you cannot push up, so either it needs to be progressive, as we discussed, which might make it more acceptable, and/or—because it could be a small alternative—it needs another, more buoyant source of income, a way to grow its own income.

If, over a period of 10 or 20 years, the BBC is going to keep the licence fee at a politically acceptable level, that needs to be a significant source of income and not just a group of commercial activities that may contribute 5% or 7% of total activity. It has to be a service that has heft, and it would have helped if that had been done 10 years ago, because the market has moved on and other people have services that have heft. However, there are a number of people who would pay for a top-up service and would not have a problem with that if it was sold in the right way.

Richard Broughton: I agree with everything Mark said there, and I would just add a little context to the numbers to help provide some details. The UK TV advertising market—by which I mean the broadcast TV advertising and the associated long format-supported video products—is worth about £4.3 billion to £4.4 billion a year. If we are thinking about an ad-funded model in the context of the BBC, in order to completely replace the licence fee with TV advertising revenue you would need to almost double that figure, and that is not going to happen: the BBC does not have a 50% viewing share. Even if it did, injecting that much advertising inventory into the market would cause significant reduction in pricing.

In reality, if you were looking at switching all the TV and radio services over to an ad-supported model, you could be reasonably optimistic and it would make £2 billion to £2.5 billion a year, but it would have a negative effect on Channel 4, ITV and Channel 5 and so on. You would end up with a shortfall of between £1.2 billion and £1.4 billion compared to the current licence fee model.

It is clear to me that advertising alone will not sustain the BBC. If you end up with that number, the BBC has to reduce its output and you end up with a number that is far lower in the end, unless you top it up with a licence fee or tax funding. There are a number of problems with advertising both in terms of the ability to fund the BBC and the knock-on effect on other organisations in the market.

Similarly, subscription alone cannot replace the licence fee. If you think of the scale of Netflix or Sky, both are huge in the UK; Sky has 9 million or 10 million subscribers, and Netflix is heading for 15 million subscribers. If you imagine all the BBC products and services available by subscription, running the numbers, depending on the price points you put in, you will probably end up with a figure of between £1.4 billion and

£2.3 billion per year. Again, that would be a shortfall relative to the licence fee, and that is before you even touch on all the effects that Mark has mentioned, such as who actually gets access to public service programming in those instances. If you ring-fence a portion of output for public service purposes, you reduce the value of the core offer.

Neither of those models, either alone or in combination, if you were to launch a subscription service with advertising, can replace core licence fee funding. If you are thinking about those models, it would have to be either a top-up or looking towards international markets and using BBC programming to generate significant revenue in the same way the big US groups have done with their global subscription streaming services.

Q47 Lord Hall of Birkenhead: A brief question to Mark. When you talked about the top-up service, you twice said, "if it was sold in the right way". I wonder whether you could unpack what selling it in the wrong way and selling it in the right way would be?

Mark Oliver: Part of that is transition. If you say, "You used to get this. Now you're not getting any of it and you have to pay", or, "You're not getting a large part of it", that may cause a bit of negativity among licence payers. It has to be phased in. In terms of the balance of public value and subscription value, you are not going to suddenly rip the heart out of public value. We are in a period of high inflation, which may help, but you have to have a model where, over a period of time, you keep it flat or it comes down a bit in nominal terms, which in real terms is coming down but bases it over 10 years so that it is not a cliff edge.

You provide a service that is still broad and has a lot in it that people consume, but over time you start to top up with other things. The BBC is doing it with iPlayer; some content on iPlayer is exclusively there for a while. So it is a migration to a subscription service over, say, 10 years, and sold as a benefit to people to upgrade, rather than as losing something. Time is a great healer. Inflation helps, as would marketing it as a benefit.

This would lead to a BBC that could be 50% bigger than now in total income terms. The licence fee part will be smaller, but the total size of the offering to consumers and licence payers will be 50% bigger, which will give us a much more powerful and robust institution in the UK after 20 years of stagnation.

Lord Hall of Birkenhead: Windowing would be another factor.

Mark Oliver: How you window, yes, and again you have to be clever about that, because you do not want people to think that they used to get something for free and now they need to pay for it. It is about the churn of strands and making sure that you introduce it. Pre-windows and things can work. I have recently discovered that the Royal Opera House does that very well with members of different grades. This is a well-known route for people who have to look at other ways of funding, and it can be sold as a benefit, because you associate some benefits with those things. It is not just higher prices for nothing. That is what I mean by selling it in the right way.

Lord Hall of Birkenhead: Thank you very much.

Q48 Lord Griffiths of Burry Port: I was going to ask precisely the same question, but perhaps I can come in with something else. Regressive tax always interests me, and I am asking your advice on this one. For many really poor households, media are the only source of entertainment, so they place a higher value on it even though they pay the licence fee. Has anyone measured some of the subjective as well as objective statistical verifiable factual stuff, like how poor people judge what they pay?

All kinds of statisticians are arguing their case, but I am not always convinced that they really understand the subjective elements, such as measuring the value to poor people of the stuff that we are talking about. Perhaps you can enlighten me. There are groups out there that work with poor people. Perhaps we have garnered wisdom from them, or have we even seen the question as worth pursuing?

Mark Oliver: It has been looked at, usually for socio-economic groups, which is partly income level and partly educational level, as you know. You have to be careful with this. It is absolutely true that many poor people rely on free TV and the BBC a lot, and consume and value it a lot. That takes you down a rather dangerous path of thinking that, because they value it a lot, their demand curve is quite steep, which means you can put the price up so that you give them a lower price. I call it Giffen good territory. Poor people value it a lot, because maybe it is one of the only things that they do and can afford. Poor people valuing basic foods more does not take you down the line of saying that there are not some aggressive elements to the pricing of food. It is not the same issue. Value also comes from the alternatives, and one reason why they value it more highly is that they do not have many other alternatives, given their limited spending power. Free TV is great and it may be good value, even if you have to pay a licence fee.

It has been looked at, and should be looked at even more. A lot of people say things and there is not much evidence behind it, but I am sure a lot of them do value free-to-air TV and the BBC quite highly. They are also the most vociferous about saying that they would like to have a lower licence fee, because they would.

Lord Griffiths of Burry Port: That is helpful. For parents of young children who cannot afford it, television is their childcare. My mother could not afford anything, so apart from her visits to the bingo hall, television was all she had. People in the thinking class who make assumptions on behalf of people like my mother, for example, sometimes cause their own sorts of resentment.

Mark Oliver: Absolutely. Nowadays the babysitter is probably the internet, and there lies a big social problem in a sense.

Richard Broughton: I will add one thing, which is more of a future gazing point about what the licence fee will represent, not now but perhaps in 10 to 15 years if it remains in place. If we think of the way the consumption of TV and video is changing, you could imagine a future 10 or 20 years ahead, maybe longer, where consumers watch content

primarily through video-on-demand products, and they do not need to connect TVs to aerials anymore. In my household, I have it connected just to the internet and I use the online services belonging to the broadcasters and streaming services to watch content. In that context, the licence fee essentially becomes a de facto subscription; if you are not watching live content from the PSBs or iPlayer, you do not actually need to pay the licence fee in those instances.

You may well see a future, albeit some time out, where that model will be tested and households could more reasonably choose not to pay. That highlights a potential flaw in the funding model in the long term if you want to maintain funding and viewing is eroded. There is a point in the future where we will see the BBC licence fee becomes essentially a subscription, albeit billed by a different mechanism.

Q49 **Baroness Featherstone:** I will make both my points at the same time. First, you both dismissed advertising, so I assume that will go out the window. Whatever the method of commercial funding, what do you think it will do to that central facet of universal access?

Secondly, I was a bit horrified when you said that you could top up bits, because that would be a bit like sport, which was taken off by the commercial providers. I am allowed to see a certain final now and again because I belong to this country, but most of the good stuff would have been elevated to someone who could pay for it rather than me at the bottom. On those two things, I want to understand what might be happening socially.

Mark Oliver: That is why I said that it must be done over a period of years, with sensitivity, and it has to lead to a BBC that is bigger. If you take away with one hand and give with the other, you will get people thinking, "We used to get this and now we don't. We have to pay for it".

Baroness Featherstone: But that will be what happens.

Mark Oliver: At the margins, yes. But that happening at the margins is doable if you made it substantial, a bit like with sport. A lot of premium sport disappeared off TV over a period of eight to 10 years. Applied to all output, that would cause a lot of resentment, but I do not think you have to do that as long as you accept that the licence for your public funding is of a certain level, and that it allows a certain amount and quite a considerable amount of output. Pay TV is definitely a top-up, and that is the way it needs to be sold. It needs to be sold politically as well as economically. If you do it in the margins and over a long period of time, you would avoid that.

What people would have with the licence fee offer would still be substantial, and it might be more focused in a way, because some of the things the BBC is currently trying to provide for the licence fee are stretching its resources. You might find that you could please more of the people more of the time by having a service that was not trying to stretch its resources in order to compete directly with the likes of Netflix, and just admit that if you want that kind of thing, you have to pay more. It does not mean that there is no drama on the BBC, but it is drama that

is of a certain type, which was what all drama was 10 years ago. We have become used to Netflix standards and everybody else has raised their standards. It can be made for lower budgets and still entertain people, and probably more people would enjoy it. It is not quite the high-end stuff which Netflix does.

If you keep on stretching the limited resources, everybody gets it, but the BBC is stretched so it cannot deliver it all and everybody suffers because they all see there is a stretched BBC. If you focused much more on providing what should be provided for public service and stop stretching resources to try to keep up with Netflix and so on, that would allow the BBC to do both but not charge everybody for doing both.

This is the flip side of what you said. Yes, you are getting a great service, but the price is going up, and what you get at the moment is the political resistance to the price going up, which means that the price does not go up. The BBC is pushed to do all these things. All you get is a gradual reduction in what it can do and pressure on the institution. That is a short-term answer, because efficiencies and things can be done, but it is not a long-term answer. We have to stop kicking the can down the road. We have been doing that for 30 years. The BBC needs buoyancy in its revenue; otherwise, it will stagnate or decline, and we will just come back again saying, "Does it need more money? No one wants to pay any more".

Baroness Featherstone: Is it your view, then, that a commercial top-up, even if it was a progressive licence fee, is the only answer?

Mark Oliver: A progressive licence fee could help, and that is why it has to be a multiple thing; you make the licence fee slightly more progressive and you have a top-up. All these things should be adopted to migrate to a new model rather than one thing being the answer. A progressive fee would make it more acceptable because of the people who have most resistance. However, the resistance does not come just from people who cannot afford it. A lot of resistance comes from people who do not want to be forced to pay for it. Demographically they are a very different group, and you will never solve that resistance.

Baroness Featherstone: Do you think that if people are not paying for the top-up, there will be an impact on the universality of the BBC?

Mark Oliver: There will be at the margins.

Baroness Featherstone: I do not know how big these margins are.

Mark Oliver: The alternative is simply to say, "We'll continue with the licence fee or a single public service charge", and it gets thinner and thinner compared to what is available in the market. The BBC is then a zero-growth organisation; it loses the best talent and is always in retreat. To paraphrase Henry Kissinger, no great institution can always be in retreat. At some point, it has to turn around and get some growth back, otherwise it just disintegrates.

Baroness Featherstone: Well argued.

Richard Broughton: I am not convinced that the UK market is the one we should be looking at from a subscription standpoint. The UK video sector is very well served by a whole array of subscription streaming services and pay TV services. If we have a mixed model, there is a very real risk that the product you end up with is judged by consumers to be inferior.

Baroness Featherstone: Not as good as Netflix but not the original BBC.

Richard Broughton: Exactly, yes. BritBox is probably a bad example here, because it does not have a lot of original fresh concept, which is what you need.

Mark Oliver: The BBC has pulled out of it anyway.

Richard Broughton: But you can imagine a scenario where something like that happens. It would be less problematic, from a fairness perspective, if we looked to international audiences and a commercialisation of the BBC's output outside the UK from a subscription standpoint. There, BritBox or a BBC product could look very different. That could bring funding back into the UK to help support that.

Baroness Featherstone: We already sell "The Crown" around the world, and things like that.

Richard Broughton: They do.

Mark Oliver: Unfortunately, the BBC does not sell "The Crown".

Baroness Featherstone: Whatever.

Richard Broughton: It does. This brings us to the point about how some of the big US groups have changed the way they work, and that is by taking a long-term view of where the opportunity is. It has typically cut back production for its broadcast assets and focused all that into its streaming businesses. It would be very difficult for the BBC to do something like that domestically, but you could imagine that internationally it could take the view: "We're not going to be selling our high-value content to third parties. We'll take a short-term financial hit and move it on to a subscription service". I do not think the BBC has sufficient high-quality, internationalised output to be able to make that work right now, so there would probably need to be a short-term boost to funding.

Baroness Featherstone: The streamers have bought all our talent.

Richard Broughton: That is certainly not going to help on the question of cost.

Q50 **Baroness Harding of Winscombe:** I was going to ask you about hybrid models, but you have gone into quite a lot of detail, so we are clear what you both think at a high level.

I want to go to the next level down—hybrid. Mr Oliver, could we start with your hypothesis of this top-up? I am trying to understand how your argument, on the one hand, is that it is only at the margins that people

will feel disenfranchised because they cannot pay for the top-up, but, on the other hand, that the top-up is a process whereby the BBC will be able to be much bigger. How can it be both much bigger and only a marginal difference for what will be the majority of the population?

Mark Oliver: The factor that squares that seeming inconsistency is time. At any one time, there is a marginal shift that, over 10 years, is quite a substantial shift into a subscription product that is well invested in and attractive, and the public service product has not grown but is still providing quite a lot of what people want. A marginal change over 10 years becomes a substantial change.

To give an example using figures, if you have made a 3% reduction to the BBC's programme budget each year and you try to live within that—this is in fact what the BBC has been asked to do anyway—and then you create a subscription service that replaces that 3% plus another 3% to 4%, over 10 years you get to a substantial subscription service with substantial programming, which is attractive. That is a licence fee service that is smaller but is still providing value. Marginal changes over a long period become a substantial cumulative change.

That is what I am arguing for, because you have to do it with sensitivity. Go back 10 or 15 years and compare that to what the BBC is doing now. It used to be successful in rerouting money from efficiencies into the schedule, cutting overheads and so on, but now the actual quality of the schedule and its ability to afford high-cost things have increased. That, plus co-production money from co-producing with other broadcasters, means that what people get for their money now is much better than it was 10 years ago and much better than 40 years ago, although in real terms they are not paying any more.

All I am saying is that from now on we do not do that. From now on, we do not put the extra quality into the PSB system. We put it into a top-up service, because it has gone as far as it can go and there are no more efficiencies. The ability to attract co-production money from others is reducing, because all those co-producers now have their own platforms. HBO was a co-producer. Now it has HBO Max. It will be part of Discovery very soon and it will be taken off the BBC. In fact, it already has, because it does it with Sky instead.

What we have achieved over the last 20 years in increasing the value to the consumer, the licence payer, cannot be repeated for the BBC with no increase in charge. It increased in 1998 and then came down again. That is an opportunity, because you can make people pay extra for the next stage of increased quality.

Baroness Harding of Winscombe: Paint me a picture, as a citizen, of what my free-to-air service looks like in 10 years' time. What programmes are no longer available to me, what genre, what types? What would it look like compared to today, as opposed to having been the slowly boiling frog that has not noticed that you have been making things worse over 10 years?

Mark Oliver: You will not be getting any more premium drama than you get now, and you might get slightly less. It does not mean that you will not be getting drama. Rather than having premium dramas, you might get a few less premium dramas, which is a way of saving money. The same will be true for any genre. You will not get any more premium-end stuff than you do now. You might get a little less, but not much less.

That is what I mean when I say that if you do it over 10 years, it is hardly noticeable, because what the last 20 years has done is increase the quality of what is on screen through efficiencies for a fixed sum. All we have to say is that, going forward, there is a fixed, nominal sum that is reducing in real terms. That is then partly met by efficiency, although there is always a limit to that, and any increase in standards which the BBC has to make as an institution to keep up with the growth in the sector, which is growing by 6% or 7% a year, is put into the top-up service. The single charge will not take that politically; you cannot do it. The BBC has caused its own problem; over 20 years, it has substantially increased what is on screen and on the airwaves at no extra cost.

Baroness Harding of Winscombe: Your proposal is that for the next 10 years the BBC will just get slightly worse for me. As a basic rate taxpayer, will I pay the same amount, whether that is through a licence fee or some other form of levy-in your model? Do you want me to accept that in 10 years' time that service will be marginally worse? How am I going to think that this is a BBC I want to support?

Mark Oliver: Do you mean marginally worse in the calculation of how much I consume versus what I get? Maybe. Do you mean marginally worse in terms of a public service institution delivering public value? Maybe not. As I said, one of the problems with what the BBC has been doing over the last 10 or 20 years is that, as well as redirecting the money and giving people more with no extra increase in charge, it has stretched itself to do everything that is possible, and it may not be doing some of those things very well anymore. When you say worse, I would not agree with that. It may not appear worse to lots of people, and it could actually appear better to some people, because the BBC is not trying to use a licence fee to fund things that are paid for by the subscription service, which means that the licence fee can now pay for more of what people actually want.

Baroness Harding of Winscombe: In your hybrid world there would be no cross-subsidisation, no cross-subsidy, between the two services.

Mark Oliver: The BBC itself is a not-for-profit organisation, so if the subscription service was lucky enough to make a surplus, it would be perfectly at liberty to use that to fund the public services. You would hope that it would earn a surplus and that that surplus would go into helping to reduce the licence fee so you have a virtuous circle. It would not necessarily get worse over time. If you pulled off the subscription service, it might even get a bit better, because eventually you would have more surplus in the subscription service to fund back into the licence fee.

The transition is key in this. You need a long period, a very good plan of transmission, and a very good communications strategy to tell people what is happening. The BBC has suffered from the fact that it has been very good at improving what is on the screen for no extra money. It can still do that by being more public service, but it cannot do it by trying to be a second-tier Netflix or a second-tier Sky Sports. It has to move away from that, because it cannot afford it.

Lord Griffiths of Burry Port: Politically we are not terribly good in this country at long-term, systematic, coherent planning.

Mark Oliver: I am not sure anybody that will argue with that, will they?

Q51 **Baroness Harding of Winscombe:** Thank you, that is very helpful. Mr Broughton, your hybrid version, as I understand it, is accepting that the BBC is hybrid-funded today, the hybrid being international revenue?

Richard Broughton: Yes.

Baroness Harding of Winscombe: Can you give a bit more detail on what the BBC's hybrid funding model would look like in your world in 10 years' time?

Richard Broughton: Let us take an extreme scenario as a hypothetical, where we say that we want to see whether we can replace all the licence fee, save UK consumers all the money they are spending, and get international consumers to pay for it instead. You would need about 58 million subscribers paying around \$7 a month outside the UK, which is about a quarter of what Netflix has achieved and about half of what Disney+ has achieved.

The problem with doing that is that you need to spend an awful lot on content to get to that sort of scale. Disney+ is spending somewhere in the region of about £5 billion a year on content. If you wanted to build a global business that is effectively self-sustaining, you would more or less need to boost BBC funding in the short-term to allow it to create the sorts of programmes that would appeal to international audiences and drive it to a scale over five to eight years where it becomes self-sustaining. Those 58 million subscribers would pay for all that content.

The problem with that is that you effectively have a BBC that is creating content for international audiences, not UK audiences. You could imagine that that would allow a lower licence fee, or lower tax funding, domestically just to produce the central public interest programming, and you then rely on the global subscriber base to sustain a high level of slightly more globalised, albeit still UK-centric, output. That is a highly risky venture. The market is incredibly competitive at the moment. It is not clear whether it would definitely work and, if it was done wrong, it would not work. But it is not beyond the realms of possibility. I will put it that way.

Baroness Harding of Winscombe: Okay, thank you.

Q52 **Lord Hall of Birkenhead:** Richard, you are arguing that to get to your sustainable position with subscriptions outside the UK, you need to have

a pretty massive investment over four or five years in programmes to get to the point when people are prepared to buy them.

Richard Broughton: Yes.

Lord Hall of Birkenhead: Mark, I wonder whether the same issue applies with what you are arguing. You would need to have a large investment in content for people to think that what they are getting over and beyond the licence fee is worth it, and that in the short term that is a sum that an awful lot of people would blanche at.

Mark Oliver: First, that is why I would argue that you need to do it in the UK and internationally. All these people are based in the US, their core market, and then they go international. It would be rather unusual to have an international service that was just spending money on content but not getting any advantage from also spending money in the UK. There is some crossover from the licence fee, but, as you said, the problem is that they cannot afford enough of the Netflix-type series for the BBC licence fee. You want a UK service that is co-funding that with the international. But, yes, the number would be large, which is one reason why you need the UK market as well as the rest. We will probably go on to the borrowing limit and whether that is sufficient, so I will answer your question before you ask it. The answer is no.

The Chair: Would it be your position to go further on its borrowing limit?

Mark Oliver: It is not just the size, it is also the source of funds.

Baroness Harding of Winscombe: What sort of funding do you think you would need for the first five years of your top-up service?

Mark Oliver: In the UK, you would probably need £1 billion to £2 billion.

Baroness Harding of Winscombe: Per annum?

Mark Oliver: That is also predicated on the fact that you are doing it internationally.

Baroness Harding of Winscombe: Yes. Per annum, presumably.

Mark Oliver: No, sorry. This is the funding deficit that you would need to fund. Subscribers come in slowly, and you would need probably towards £2 billion to fund that kind of service. Debt would be rather risky with what is quite a risky service already, so you might have to prepare to convert some of it into equity. How do you raise equity? There are ways in which you can raise equity. I am involved with sports bodies that have just raised lots of equity. Sports bodies are not-for-profit organisations. The sport part is run by the sport, the commercial part is a special purpose vehicle, and they have attracted equity. There are ways in which you can do that. The BBC has implicitly attracted equity from its partners through its partnerships.

Q53 **The Chair:** I want to explore the question of transition and stages. We think that the licence fee settlement that is in place now is here until 2027. Is that right?

Mark Oliver: Until 2027, yes.

The Chair: If you were to go down the route that you are describing, what transition timetable do you have in mind?

Mark Oliver: There are two timetables. One is for deciding to do it, the other is for doing it, and they have to be aligned. I would say that there needs to be a full review about the future, with an answer in 2024 or 2025 at the very latest, which is probably just after the next election.

The Chair: In terms of the model?

Mark Oliver: Yes. Even then, you might have to extend the current charter, because you do not want it extending through a transition period. You would have to extend it to allow for some kind of first transition, such as if you said that you will hold a licence fee fixed at a nominal price, or maybe even at a reduced nominal price, and to allow for what that means for the real price, given the inflation, and the schedule would have to adapt to that. Then you would start to invest this £1 billion to £2 billion in the pay-to-view users. Clearly, you would want the full 10 years of a new charter period to perform that transition, and it might accelerate over that period, so the first few years would be a minor change, and then it would accelerate for the second part of that period.

You would want a chance in the middle to say, "Oh, dear, it's not going quite right", because you are going into a marketplace. So there should be a 10-year transition, possibly extending the current charter to allow for more things to be put in place before you went for the full new model. You might extend perhaps to 2030 to give it three more years, and then you tell people, "From 2031 onwards we'll go for this new model, and the licence fee will be fixed nominally or decline slightly nominally. If you want more, the BBC is coming up with lots of new services that you can pay more for". They will take five years to break even, and that will have a funding requirement. There will also have to be a debate about who provides that funding and how.

The Chair: If you were still director of strategy at the BBC, would you be advising the board that they need to grasp this now and get on to the front foot and start talking about themselves now?

Mark Oliver: You are advising the board of management, and nowadays the board of management and the trustees of the public service are the same thing. In my days they were not. One would probably have said in my day that it was a decision for the governors, not the management, because it is a strategic decision. The management could propose but not decide.

The Chair: But there is a board.

Mark Oliver: Yes, but they should certainly have a plan B in place for what this transition would look like and how they would make it work. They should start thinking about that now, if the review of what they are doing will be in 2024-25.

The Chair: What I am getting at is whether, if you were still director of strategy, you would be saying to the combined board that the BBC itself

could be taking control and coming forward with a proposal like the one that you have just described.

Mark Oliver: Yes, I would. But going back to my role before, there are issues involved in it that will be above the pay grade of the directors of strategy.

The Chair: I know you are not the decision-maker. I am just asking you if that is what you would say.

Mark Oliver: This is based upon an observation that the political will to allow for an increase in licence fee is not there; it has not been there for 24 years, and it might not be there for another 15 years. Even if it was increased, a new Government might put so many more obligations on you that you are no better off or, in fact, you are worse off because you have to do more things for slightly more money. Therefore, you need to pursue this alternative. It is not the ideal alternative, but it is the best alternative given what you know about the future direction of the licence fee and what the implications are for the institution if it just holds on to this one funding source.

The Chair: If there was the top-up subscription model that you have described, do you have a preferred levy option, such as a household levy or taxation? That was the one thing I was not clear on from what you said earlier when we were talking about levy options.

Mark Oliver: I would prefer the household levy, which ideally would be progressive. There might be discounts or reductions for social security. I say this warily, but you might also link it to council tax, because there is some level of progressiveness to it, although we all know that it is so outdated it might cause all kinds of anomalies, especially older people living in big homes and so on. You would have a complex system of council tax plus reductions for state pensioners and so on, which is a bit like we have now on credit.

Yes, I would probably move from a single licence fee to something that was a bit fairer and a bit more progressive, because the political acceptance issue is just going to get worse. As I said, political acceptance is not just about income level; it is also about being forced to pay for something that you do not use very much in this day and age.

The Chair: I feel that Mark Oliver has painted a clear picture. Before we finish, do you have a preferred model in mind if the licence fee was not to continue into the future?

Richard Broughton: If I were making the decision, switching to a more progressive model, either a household levy or an income tax model, would be sensible. Also, I would offer a short-term boost to improve the BBC's competitiveness on the international scale. One thing I keep coming back to in this debate is that the BBC is not just competing in the UK; it is competing, whether it likes it or not, with Netflix, Amazon, Disney, Apple, Comcast and so on. Any European broadcaster, by virtue of the scale of any individual European market, will struggle on that basis, because we simply do not have enough consumers in our territories to support the levels of investment that are required to

compete on an even footing. So a form of hybrid model that relies on a domestic levy and an international subscription push with a boost in funding in the short term are needed.

Additionally, with regard to timescales, the market will be heading towards saturation by 2035, and this may be a bit of a political problem here in that 2028 or 2030 is too slow for the commercial market. It is almost too late if that is when the rollout of some of these products and services start. That may be an insurmountable problem.

The Chair: You would start sooner.

Richard Broughton: I would start sooner, yes.

The Chair: But certainly not a can to be kicked.

Richard Broughton: Definitely not. It will be too late.

The Chair: Do you want to add to what you have already said, Mr Oliver, about your preferred model?

Mark Oliver: No. On Richard's point about timescale, yes, the market is saturated, but there will be a shake-out quite soon. There will be a second wave when some people exit the market.

Richard Broughton: I have something to add to the point that Mark made at the beginning of the session about it being better for the BBC to have a good piece of content once a week rather than an average piece of content once a day.

Mark Oliver: I said a month.

Richard Broughton: Was it a month? Okay. It comes back to the central issue that many broadcasters face, which is that they have to programme for the average viewer in any given time slot. On-demand services do not. They can take one of two options: either super-serve niches, which is effectively what Netflix has done, or very high-value content that has widespread appeal, which is what Disney has done. If you are a broadcaster, you cannot do that in a given time slot. You have to pick something that is broadly appealing.

The BBC and other public and commercial broadcasters are stuck, because they cannot plough the investment into their on-demand services and adopt one of those strategies whilst simultaneously supporting a broadcast market. One slightly radical option would be to have a second digital switchover where everything gets shifted towards an on-demand model. That frees up the BBC and ITV and others to turn off their linear channels, move to an on-demand based model and make all those choices without having to support the average viewer anymore. That might actually be in the public interest. It is not an easy thing to do, but I wanted to highlight it as an option.

The Chair: Radio begs the question in that.

Baroness Featherstone: I am not sure that we really received an answer to what you thought any of the funding models will do to universality other than it will destroy it.

Richard Broughton: Subscription models will have an effect, in my view. Levy-based models do not necessarily have to, with the exception of how you manage, say, a telecoms or a broadband tax, because if you get that wrong you could cut off people's internet connections, and that is bad news for certain BBC services. Depending on whether you pick a top-up model or not, it will or will not.

Baroness Featherstone: It will have an impact. It will make it worse. Okay. I just wanted that on the record, because if you do not say it out loud, it does not get written down.

Mark Oliver: The BBC would not only be providing universal services, but it does not do so currently anyway. It owns UKTV, which is not a universal service.

Baroness Featherstone: Whatever, most of us think that we are buying into the same thing, and we see that we are privy to the same programming. Should we turn it on and have a licence?

Mark Oliver: We were on BBC1, BBC2, BBC Three and BBC Four. It will continue in the future. It is just that there will be a top-up available, as UKTV is currently.

Baroness Featherstone: Maybe.

The Chair: Thank you both very much for your evidence and for giving up your time to be with us this afternoon. It has been very helpful.

Baroness Featherstone: It has been really good, thank you.