



Communications and Digital Committee

Corrected oral evidence: BBC future funding

Tuesday 29 March 2022

2.40 pm

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

Evidence Session No. 6

Heard in Public

Questions 54 - 60

Witnesses

I: Professor Robert Picard, Fellow, Information Society Project, Yale University Law School; Dr Helen Weeds, Honorary Senior Research Fellow, Imperial College Business School.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Professor Robert Picard and Dr Helen Weeds.

Q54 **The Chair:** Hello and welcome to the Communications and Digital Select Committee. This is the sixth session of our inquiry into BBC future funding. I would like to welcome Professor Picard and Dr Weeds. We are transmitting live on the internet, and a transcript will be taken and published on our website in due course. Before I get to the questions, could I ask you to introduce yourselves briefly?

Dr Helen Weeds: Hello. I am an honorary senior research fellow at Imperial College. I am also a senior adviser at the Payment Systems Regulator, and I do some private consultancy work in competition economics.

Professor Robert Picard: I am a senior fellow at the Reuters Institute at Oxford. I have worked in the area of media, economics and policy for four decades both here in the UK and on the other side of the pond. My research in public broadcasting looks at financing, competition and adaptation to change.

The Chair: Thank you very much indeed. We have this hearing with you and then we are moving to a second panel later this afternoon where we will be joined by broadcasters from Europe and representatives from the EBU. With you, we want to focus on the relationship between funding options and strategic priorities for the BBC. I am going to start us off.

It is fair to say that, over the course of the inquiry so far, we have heard about the increasing choice in media to people through the continuing development of technology. We have also heard about fragmentation of audiences, some of that driven by the choice that is available to them, but also different segments of society feeling perhaps less well served or even dissatisfied with some of what they are receiving from the BBC. Among those groups, some struggle to pay the licence fee, or it is a financial burden for them, but it is not necessarily the case that those who might now be more inclined to use other media are finding it hard to pay the licence fee. The two are not necessarily the same.

There seems to be a consistent sense, through a lot of the evidence we have heard from our witnesses, of the BBC adding value as a national glue, as it were, but differences in view in terms of where the boundary might lie in how it acts as that, the different activities that it is involved in and the services that it provides. As a starting point, I wanted to ask for your view on the principles that should underpin any future decisions about our funding models.

Dr Helen Weeds: It is probably going back beyond the scope of this inquiry, but I would start from the principles behind PSB itself and why we have it because, from that, one can think more clearly about not just the role of the BBC in terms of the output it produces and the needs and objectives it is trying to fulfil, but the funding model, because those two are intimately related. I have written quite a bit about public service broadcasting since about 2005. As an economist, looking at what PSB

does and going back to the very early days of thinking about it, you can distinguish two main purposes.

One is consumer market purposes—making up for consumer market failings, at least in an analogue world. You could debate how much that still applies now. By that, I mean to what extent broadcasting fulfils the demands, needs and wishes of the individual viewer. There is a side of the BBC that is simply producing output that I and others want to watch, fulfilling our own needs. The other side of it is what economists would call positive externalities—wider benefits to people other than the provider and the consumer of the programming. We might think here of educational programming to children, things that educate adults as well and people's knowledge about news and current affairs. We might think there is a public benefit in everyone being well informed about what is going on with, for example, political matters.

To the extent that broadcasting can influence people's social attitudes or behavioural aspects, there is now quite a long literature evidencing that broadcasting can have these types of effects. Again, to the extent that those effects go beyond the individual viewer, that would be a positive externality. Now, standard economics tell us that, where a product or service brings about positive externalities, it will tend to be underprovided and underconsumed. Those are the aspects I would think about in terms of how to provide PSB but also how to fund it, because any funding model will have implications for the provision and the consumption—viewing, in this case—of the service.

You need to separate those two. For example, in meeting consumers' own needs and desires for programming, a subscription model works very well. It is also a mechanism that rewards the broadcaster directly for providing material that people want to watch. Arguably, as I have written, in digital, consumer market failures are much less and are greatly mitigated by multichannel and digital encryption techniques, and so on, so that you can charge viewers directly for what they want.

However, that does not necessarily meet the provision of programming that results in positive externalities. For that, again, standard economics would say that some form of public subsidy is needed, so there are choices about how you would do that. A licence fee is one model for doing it, but not the only one, and it has some drawbacks.

Let us think about the consumption side. We think about subsidy as a way of getting something provided. You are not going to get the external benefits unless programming is also watched by people, so, in the industry, people talk about universality. Funding models have implications for that. It is not clear that a licence fee is necessarily the best option in this sense any more. Some people choose not to pay it because, legally, if you do not watch linear television and you do not stream BBC iPlayer, you do not have to pay the licence fee. There is probably an increasing percentage of people who self-exclude because they can legitimately not pay the licence fee by not watching any BBC content. That group will probably grow as younger people, as I see in my

own children, consume video programming in far more diverse ways than sitting in front of a television set.

Again, we may need to think about the types of programming that generate positive externalities being on the services that people watch. If you have households that spend most of their time watching Netflix, that is a bit of a problem for the provision of public service broadcasting that meets positive externality-type requirements.

Professor Robert Picard: To me, the fundamental question is not one of financing but one of what kind of audio and visual environment the United Kingdom wants to have and to provide to its residents. That is going to be a mix of public service broadcasting, commercial broadcasting and streaming services. Somehow, one has to balance those to get the optimal outcome. Financing of public service is a major question. It is obviously the question before this committee, but the question of financing is separate from the question of how much should be financed. It comes down to the method that is optimal for collecting it and what role the BBC is to play in that mix of available audio-visual content.

When you are working your way through these issues of financing, you really want to be thinking about what approach provides the public and society with the best overall system and what we have to do to take care of the public service sector, because the commercial sector is going to take care of itself. The streaming sector is going to take care of itself internationally if not nationally, and, therefore, we have to see in this committee advice being given to society of how you go ahead to make sure that the BBC plays the kind of role that the others will not.

Today, you are looking at the BBC being about £3.75 billion of financing. The advertising sector is about £4.25 billion. If you change the financing and take some money out of the BBC by asking it to become more market-driven, it is going to directly attack that advertising base that the commercial broadcasters have. If you are satisfied with the kinds of things you are seeing on commercial television, that may not be bad, but the commercial providers are going to tell you that, if you take £500 million or £1 billion out of that advertising and divert it to public service, they are going to be harmed and they will provide much less service to the country than they do now.

In this balance of thinking about how you take money from one and give it to the other or how you collect it, you always have to look for how it is going to affect the other side of the environment.

The Chair: Dr Weeds, you said that the licence fee was not necessarily the best the option now and referred to younger audiences. Of the alternative models that might exist to the licence fee, bearing in mind what you said about universality, do you have a view on which would still support universality if the BBC was to be funded by something other than the licence fee?

Dr Helen Weeds: I would say up front that I do not have a best system overall, because it depends on what objective you are focusing on. One

objective is universality, or broad access and people actually watching it. I am focusing here on what I just said about how, to have these wider public benefits, the programming actually needs to be watched. Funding it out of a more general public pot, whether that is out of a household levy as, for example, Germany has moved to or some income-based levy as Finland has moved to, would remove the element I cited, which was that some households or individuals do not value watching the BBC highly enough to pay the licence fee for that reason. If they are happy just watching streaming services and not having a traditional TV set, they can perfectly legally do that.

The TV licence fee is a slightly weird amalgamation, being a compulsory payment. It is a tax in ONS accounts because, if you have a TV set, you have to pay it regardless of whether you consume the service, whereas, if you move fully online, which the younger generation is probably more inclined to do, it is a subscription. You have to pay it only if you consume the service. It is not one that uses a conditional access system.

Coming back to universality, anything that comes out of broader public finance will be paid anyway. People then might as well watch the service. They are not going to self-exclude for that reason. There are a whole lot of other drawbacks of paying for the BBC out of, for example, general taxation. I tend to eliminate that as probably not going to happen in any case, but, for example, putting it on council tax, as Germany has done the equivalent of, might be more politically feasible.

If you move to a subscription just for the BBC service itself, there is a big risk that a lot of people then do not value the service enough and do not pay it. Going back to the issue of where people are getting their TV consumption from these days, there are increasingly going to be people who solely watch streaming services such as Netflix. The universal licence fee is not actually going to ensure that those people watch it, although that might then call for a change in your model of provision. A BBC with its own service that is not very integrated with other services is no longer going to reach those individuals. You might need to distribute your public service funding more widely or have some mechanism whereby public service-type programming can go on to services such as Netflix and reach people like that.

Incidentally, there are other ways of doing this. Companies such as Sky are increasingly acting as aggregators that combine the content from what are separate services but, through its Sky Q box, integrate it in a way that, for the consumer or viewer, is a lot more user friendly and quite seamless. The consumer may not even be very aware of exactly which service that content is coming from. That form of integration or aggregation helps broaden the reach of your public service output. That is a slightly different model of delivery from just having the BBC with its own channels and its own iPlayer, which has, up until recently, been kept very separate from other streaming services and not very integrated.

Any advertising-funded broadcast service has a strong incentive to achieve high reach, at least among the groups of viewers that advertisers want to reach. To the extent that that is going to reach all of

the population, or all the population that you care about in terms of reach of public service output, that can be quite beneficial. Whether advertising is a good funding mechanism on other criteria, I will leave to one side for now, since you were not asking about that. It does have other drawbacks.

The Chair: Professor Picard raised advertising. It seems to me that the model that would be least attractive to everybody else in the media sector is if the BBC was to suddenly be subject to advertising itself. You mentioned, Professor Picard, the role of the BBC doing that which the commercial sector does not. Do you consider that an important principle in terms of informing decisions about funding models?

Professor Robert Picard: Public service broadcasting has a great deal of content that is different from commercial broadcasting, serving minority audiences, news and public affairs, national identity and things of that sort that are not well served by commercial funding.

The United States, as you know, has a public service broadcaster, which was not the original broadcaster but was brought in as a supplement to commercial broadcasting because there was such dissatisfaction with commercial broadcasting by the 1960s and 1970s. It gets 85% of its funding from corporations and foundations. It is not as dependent on advertising as some other public broadcasters around the world have been, but even that funding that is given to it as a gift from these companies comes with strings attached. That has resulted in certain types of programming being more likely to be funded.

Spain is a really interesting example of what can happen to public service broadcasting. Two decades ago, as the RTVE needed money, Spain allowed it to take on advertising and become primarily advertising-funded. Basically, it became commercial in nature. You could not tell the difference between RTVE and any of the other commercial broadcasters in Spain. It served the interests of the advertisers. It brought in large audiences, and it stripped funding out of the commercial market. Commercial broadcasters hated it.

Finally, the Government changed their approach. They are now funding it through tax revenues but also through spectrum fees and commercial broadcast revenue taxes, so that is another way that you can go. Others are looking at internet service provider fees of various kinds to adjust to the cost issues of streaming services, and that is another way to begin trying to find funding for those services that you want to be there.

The Netherlands is a very different kind of country when it comes to public service. It basically distributed public service broadcasting into multiple stations and networks around the country, both nationally and regionally, that were operated by what it calls the pillars of government. That included the political parties and religious institutions of the country. It collected licence fees for that, but discovered that was not very efficient. It has now moved to a tax system along the way that it finds more reliable and easier to collect and distribute.

There is no golden or silver bullet on this; it is a matter of finding what will get you the revenue you need without harming the system overall. There are multiple ways to collect, and you want to worry about whether you are taxing the community in a progressive or a regressive way. That is ultimately the question of where you are going to deal with that and whether you are creating so much competition that you harm the commercial sector so it cannot do what it does best. What it does best is not always the same thing that public service broadcasting such as the BBC can do.

Q55 **Baroness Bull:** It is quite a common argument now that the BBC or public service broadcasters are struggling to compete in specific areas with SVOD. People point to sport and scripted drama as being areas in which they simply cannot get into the same ballpark, as it were. Last week, witnesses argued that more sources of income would be needed over the next decade or two simply in order for the BBC to fulfil its existing remit. We heard that from Richard Broughton and Mark Oliver, both of whom said the same thing. I am interested in both of your views on that claim that it really will need additional sources of funding to do what it does.

Dr Helen Weeds: It is hard to answer a question such as this without going back to why you think you need PSB in the first place. By “commercial broadcasters”, I mean “paid-for broadcasters”. You would tend to use “commercial” to mean “advertising-funded”, but I mean it more generally. Commercial broadcasters and subscription services are providing the kind of content that people want to watch. You mentioned sport. The BBC lost Premier League football, for example, a long time ago. Indeed, it was Sky that developed that, and it had the capacity to carry a high proportion of the matches, so that particular ship has sailed.

In a sense, so what? Let us go back to what we think all this is for. Is the market able to give consumers the content they want? In sports, as you say, there is very high demand among broadcasters and streaming services for that content. It is not going to not be provided because the BBC does not provide it—quite the opposite. Scripted drama and so on is getting provided. If that is happening, why are we worrying about the fact that somebody else is doing it and not the BBC? It is there for people to be able to watch if they want to. They may have to pay for it, but, if they want it, they can pay for it.

Are we actually talking, then, about PSB being a bit more cut down and focusing on the areas where there is a genuine underprovision problem? That is generally because of some social externality that tells us that that programme will be underprovided and underconsumed if it is not there—so educational, news and maybe some programming that builds our community relations and so on. That is fair enough; there is an externality argument for having it.

If that is what we are talking about, what is the budget requirement for it? Others in this room will have a better view on that. Does it really require nearly £4 billion a year of public funding? I am not the best person to answer that, but I am certainly raising a question as to

whether that scale of funding is needed if that type of programming would genuinely be underprovided in this commercial market.

Baroness Bull: Is there a challenge of expectations in that, perhaps, the public have historically expected the BBC to be in every kind of area and that that is what they pay their licence fee for? Might there need to be a shift in how we think about what we get for our money?

Dr Helen Weeds: It probably used to be the case, but I suspect that changed a long time ago. If you are a sports fan, for a long time, you would never have found all your needs and wishes fulfilled by the BBC, PSB or even free-to-air television more generally. That went to pay TV a long time ago—the premium sports at least, not all of it. I suspect that, for much of the population, that shift has already been made. Again, look at the younger generation. Look at what they are actually watching. They are very happy to subscribe to Netflix or Amazon, or go to all sorts of niche services that you can get online. People like foreign content, foreign-language content and other cultures. They will probably find more of that online than they will ever find on PSBs or even on free-to-air TV in general.

Professor Robert Picard: Part of the issue that the BBC has faced occurred when digital television arrived. Essentially, the regulators said, “We’re going to quadruple the channels available to all existing broadcasters”, because they did not want to stop anyone. They basically wanted to give them the same number of channels within the mix that they had had as a percentage of the analogue broadcast. Suddenly, the BBC was faced with multiple channels that it had to fill. That actually hurt the BBC in many ways because it had to start splitting up its money over more channels to make that work. That exacerbated the debate over what the proper funding for the BBC is and what content it should have there. That is a conundrum that you are facing now: do we cut back to two or three channels or keep a range of channels there?

As you look forward, you are basically looking at two types of budgeting; this is hugely important. One is the annual operating budget that it needs to carry on its range of activities, do its normal programming, and use some of the surpluses year to year to upgrade its equipment and so on. Right now, it is accomplishing that. It has gone through a lot of efficiencies over the last two or three decades to get to where it is. Is it as efficient as it can be? That is debateable, but the same debates go on in the commercial sector.

The second issue of funding is more difficult, which is the needs for the future. What it will have to be available to do in order to compete in five or 10 years is what you start looking for. What kind of financing will it need to change its operations to sit in the environment it is in and to be able to compete with increasing streaming services—because the numbers are increasing—increasing availability of over-the-top services of all kinds and whatever changes we do not even begin to imagine as of yet?

Commercial broadcasters and the streaming services can deal with that through bond issues or stock issues. They can deal with it through a lot

of financial instruments that are not available to the BBC. For the BBC to fund those investments for the future, it is going to have to pull that money from licence fees, operating budget or elsewhere, and is not likely to be able to do so very effectively. Therefore, there may be some need for a different kind of investment or different sources of revenue to make that possible in the future. I have to agree with Mark Oliver that there is going to be a need, in the next 10 years, for some significant new revenue that is not being provided by the licence fee today.

Whether that comes through advertising, a fee on internet services or a different way of collecting the taxes, that is for somebody else to decide, but something is going to need to be there. It could come as just a state reinvestment into the BBC to help it adjust to the future. Some other countries have done that. It is not impossible.

My fear is that, if the licence fee is phased out and it comes in terms of some other taxation, collected at the council level or otherwise, it will still stay at about the level of the licence fee. The licence fee is woefully underfunding the BBC's operation today. It has stayed, in real terms, at about what it was three or four decades ago, yet it is providing many more services today than it did then, so, if you want those services, you are going to have to find out an efficient way to provide that and provide financing to make that happen. If you do not want some of those services, maybe it can adjust to do some of the things it needs to, but it cannot do all of what it needs to do in the next 10 years.

Baroness Bull: Do you have a sense of what sort of sum is missing? What is the gap in terms of the quantum of the funding?

Professor Robert Picard: The gap is probably at least £500 million, maybe even £1 billion. That is a huge gap to fill, and you do not want to fill it with advertising because you are going to strangle the commercial sector. They are going to tell you that this afternoon, quite frankly.

Baroness Bull: Dr Weeds, do you have a view on that funding gap and perhaps the appetite for people to see that level of investment?

Dr Helen Weeds: No. Mark Oliver and Professor Picard are probably much better to answer questions about funding gaps. It is not something that I have researched or estimated.

Q56 **The Chair:** Could I ask Dr Weeds a question based on something that Professor Picard said? Professor Picard was talking about competing in five to 10 years' time with the streaming services and whether the BBC will be adequately funded to do that. On the basis of what you said earlier, Dr Weeds, do you think the BBC should be competing with the streamers in the way in which people might interpret what Professor Picard is saying?

Dr Helen Weeds: Naturally, it will compete. Every broadcaster and streaming service is competing for eyeballs and potentially, if it is subscription-funded, for consumer spend. Where I probably differ in opinion from some of your other witnesses is in asking, "Why do we need the BBC doing as much?" There seems to be a starting point in that

debate that, if the BBC is not still getting whatever share of eyeballs or such and such a number of hours of viewing a week, there is something wrong.

In my answer to your question earlier, I was trying to say that, if the functions that the BBC was fulfilling, particularly consumer market functions and giving viewers the stuff they themselves want to watch, are being fulfilled by these other services, we do not need to worry so much about exactly what viewing hours the BBC achieves, either as an absolute number or as a share relative to other viewers. I had a quick look before this hearing at Ofcom's communications market report for last year. They are wonderful reports; there is a wealth of data in there.

It is very noticeable that, if you look at number of hours' viewing of BBC television, among the younger age groups—meaning both children and the 16-24 young adult age group—it has plummeted. When you look at that, you think, "Are you really saying we're going to somehow tax people more to keep on providing services for which the viewing is falling?", assuming that those people's patterns persist. Looking at my own children, it is hard to believe that they will not. They do not spend a lot of time sitting in front of TV channels at all, let alone the BBC. They do watch the BBC, actually. They like it, but it is not a high share of their overall audio-visual viewing.

In that world, is it right to have this mindset of, "We still need to make sure that the BBC gets its nearly £4 billion a year", or possibly more than that because it is going to have to outcompete these other services? It just seems a very strange way of looking at the issue. I would always tend to dig deep and ask what actual things we are trying to achieve here, in terms of both consumer market needs and, potentially, the broader social public positive externality effects we are trying to bring about. What is the best way of achieving that, bearing in mind that market provision can fulfil quite a lot of that and just thinking about where the gaps remain?

Q57 Lord Lipsey: I am picking up really from Professor Picard's point. He said an extra £500 million for the BBC or £1 billion. Personally, I would be absolutely delighted to fork out my share of that, but it is not going to happen. If you think of the licence fee settlement Lord Hall had to preside over and the recent remarks of the Culture Secretary, it will not happen for quite a simple political reason. The political reason is that the people who get the blame if the licence fee or whatever it is goes up are the politicians, and the people who get the blame if the programmes are not what people want are the BBC. Politicians are always going to place the blame on someone else.

This leads me back to what Dr Weeds was saying. We have to accept what the former chairman of the BBC called "the BBC on a diet". It is always going to be on a diet. Sorry, but it is. This makes me think that we have to think hard about genre. We were referring to sport earlier. Sports spending is down about £70 million a year, with the highest recently, but there is tons of sport available at quite modest prices for people who need it. I pay quite a lot for Racing TV, but sport on Sky on

top of the Sky service is less than £200 a year, so it is not going to cut everybody off totally.

Moreover, the more the BBC spends on sport, the more the prices for rights go up. A lot of this is just money being transferred so that footballers can be paid still higher salaries out of the broadcasters' generosity. Really, I am asking whether it is possible in an imperfect world to have a public service broadcaster that is some of the BBC, but definitely does not go into certain genres because they are expensive and not necessary to its more fundamental purposes. Thank you for nodding.

Dr Helen Weeds: That is aimed at me. Yes, I fully agree with your thesis there. Naturally, we are both economists, so it is quite hard not to reach those sorts of conclusions. What you said about sport echoes what I was saying. It is out there; it is there anyway. In fact, because of multichannel and streaming, access to sports is far greater than it was back when I was a child. Naturally, the BBC could not carry very much. It could carry only a tiny number of even Premier League football matches. It was multichannel TV that opened up the scope for that to be shown, and streaming is doing that all over again with more niche sports that will have a very devoted following. They are possibly not massive in numbers, but can be very high in personal desire.

The market can fulfil that. Hence, you need to look overall at what is being provided and think about it in consumer market terms—whether the market delivers what viewers themselves want to watch—as well as whatever you think are the broader externalities or the wider benefits of consuming certain types of programming.

Lord Lipsey, you are absolutely right. A lot of this comes down to certain genres. News and current affairs is clearly one. Children's and educational programming is another. Things that build our community values, diversity and knowledge of other groups in society and around the world could well fall into that, but then we need to think very carefully about provision and consumption. How does this actually reach people? If it is not consumed, there is not a lot of point to it being out there and having money spent on its provision.

Q58 Baroness Featherstone: If we took that thesis, and we said the BBC is going to reduce and is not going to compete with this or that, what would be the effect of different forms of funding on that universal side where we want the glue and the benefits? It might be an ever-decreasing circle if you got that wrong. How could we get it right?

Dr Helen Weeds: In order for it to provide that glue, it needs to be viewed as widely as possible. There is always competition, in the sense that there is competition for eyeballs. People choose what they watch. Whether that is some worthy programming on the BBC that you want people to watch or just the latest football match that is going to be on Sky, there is always that competition.

Subscription, where that means people having to subscribe to the BBC itself, is going to automatically exclude anybody who is not willing to pay

whatever the price of that ends up being. If that is what you care about, that would tend to tell you not to provide it through a dedicated subscription service. You might still think about how to get that form of content on to subscription services in general.

As I said earlier, if you have households who basically spend their time watching Netflix, you might want to think, "There isn't any news coverage on Netflix. How are we going to get that on there?" You are actually going to have a section of the population who are not getting news, current affairs and the things we think there is a wider societal benefit to people watching because their viewing patterns are towards those streaming services that, currently, do not have this form of intervention.

Baroness Featherstone: I am sure we will have seen during the Ukraine crisis or any crisis a turn towards the BBC of some sort, but what if it was no longer there?

Dr Helen Weeds: Yes, or news in general, which is why I am saying that you still need to fund certain types of programming that would be underprovided. It is not necessarily true that there would be no news coverage. Sky, for example, has Sky News. It is not publicly funded. It is loss making, but Sky, for its own reasons, decides to fund that, and that does get viewing as well and is a very highly regarded service. We should not fall into the trap of thinking that only public service broadcasters do these things, but we know from economics that, where there are positive externalities to society as a whole, there will be underprovision and underconsumption of that type of programming, such as educational.

Baroness Featherstone: There are some things that no one else is going to do, such as setting up shortwave in Russia. Maybe I am wrong.

Dr Helen Weeds: Do you mean the World Service?

Baroness Featherstone: Yes, but also so that Russians could access some form of communication on shortwave that would not be picked up, given that Russia has stopped all other communications. I am not quite sure how these things work.

Dr Helen Weeds: I see that as more being the remit of the World Service. That used to be funded by the Foreign and Commonwealth Office, as it was then. The Government took the decision a few years ago to load the funding of that on to the licence fee, but that was a political decision. That is not necessarily the right place for it to be. If you think you should match the funding source to who gets the benefits, that is our broader national benefit in attempting to convey more reliable news coverage to Russian people. It is not clear why that should be funded out of the licence fee. Sorry, I know that was a political decision a few years ago, but it is not a debate that you necessarily want to revisit.

Baroness Featherstone: Thank you. It is just my anxiety that change is throwing the baby out with the bathwater.

Q59 **Lord Hall of Birkenhead:** I have a really brief point. It is for Dr Weeds

primarily, but maybe Professor Picard wants to join in. In working out the BBC's remit, we are saying sport is not it because it is well provided. Can I just counter with two points that I would love to hear you comment on? One is the growth of women's sport, which the BBC has taken very seriously, and it has really made a difference there and made a market. How does that fit into the pattern you are outlining?

The second thing is the ECB, the England and Wales Cricket Board, which came to the BBC and said, "We have a problem being behind a paywall"—these are my words, not its—"We want to build new audiences, particularly diverse audiences. We need the BBC to help us do that". How does that fit into the division you have between the good societal benefits part of the BBC and those things that are determined by the market?

Dr Helen Weeds: You might take the view that women's sport has been, traditionally, very excluded. Having heard a bit about how the FA back in the 1920s basically shut down women's football, it is hard not to see that backdrop as being a reason why we need to promote it more, so that might fit into some of our wider public externalities. Also, if you worry about girls' participation in sport, that would be a very direct public benefit, as in a positive externality-generating benefit from having more women's sport on TV. If this encourages teenage girls to keep up sport, that would clearly have wide public benefits in terms of health and so on.

Where a sport comes along, wanting the BBC to show it because it does not want to be behind a paywall, that is absolutely within the choice of any sport or, indeed, any programme-maker. That is the trade-off they need to consider. A broadcaster pays a fee to the FA to cover the matches. The broadcasting licence of the content is only one source of revenue and of benefit in the longer term. You might be thinking about this for not just this year but the future. Any sports federation or seller of those rights will be thinking, "What can I get not just for this licence itself but also for the other streams of revenue that tend to be linked to viewing?", such as merchandise and advertising. The stadium advertising will be viewed more if there is wider viewing of it on TV.

To the extent that that builds longer-term interest in the sport, the sports federation might sacrifice something by saying, "I am not selling this to the broadcaster who will give me the very highest licence fee for it this year, but I will get some other revenue streams, which will be higher because of broader reach and broader viewing of it, advertising and merchandising et cetera, and I will be building the long-term profile of and future interest in the sport. That can then be monetised, but that decision can be made later".

These are exactly the decisions and trade-offs that are made by any sports federation or, indeed, any content seller in any field as to how to market their rights. It is by no means obvious that this always means pay TV. It does not always mean pay TV.

Lord Hall of Birkenhead: My point is that it is very hard to say you should not do a particular genre or whatever because, actually, there are

nuances within those genres.

Dr Helen Weeds: To the extent that the BBC is spending money it has been given for a public service remit, it may be a matter of whether that particular sport fits within that remit. As we just discussed with women's sport, there may well be a very strong one. For other sports, that might not be the case. The BBC is not the only entity capable of broadcasting free-to-air television in this world. It is not very clear that the ECB had only the choice of going to the BBC or to pay tv.

Lord Hall of Birkenhead: It had other choices, yes. That is true.

Dr Helen Weed: It could have gone to ITV or any of a number of other sports services including streaming. DAZN has come in as well as Sky. Those tend to be subscription, but there are free-to-air streaming services as well.

Professor Robert Picard: I am not a fan of walling off public service broadcasters from any particular genre, but the reality is that, when bidding for rights, they start running out of money very quickly because they cannot recoup it in as many ways. Sports does have social benefits, in terms of national identity, regional identity within the country and identity within different types of sports that might not generate the large audiences and large rights there are elsewhere.

We have talked about the audiences for the BBC declining. That is true if you compare it to 25 or 30 years ago. It was predictable purely by the number of channels that have been added and other such things. We need to note that commercial broadcasters' audiences have plummeted as well, as they have gone to more and more of these paid services, subscription services and others. When you look at audiences, they primarily want to watch sports and movies. These are two huge subscription areas that may or may not serve the interests of a country as well as public service and commercial broadcasters that have more universality available.

If you start losing services on the BBC, the question is what you are going to ask of commercial broadcasters and subscription services in exchange, and how you are going to balance the overall needs. There are, in most countries today, very few requirements put on commercial broadcasters or on streaming broadcasters. If you find that you are losing things that you want in the UK during this period, you have to look at whether you now need to rely on these commercial providers, whether they be over-the-air broadcasters or behind a paywall. How are we going to get what you want in this country?

You cannot just say, "This completely has no responsibility, and only the BBC has to take care of these responsibilities". You need to put it across the whole broadcasting system. That is why the EU put, for instance, content requirements just on the Netflixes, the Amazon Primes and others, saying, "You have to have something European in there". Certainly you can do the same thing with those services. With UK-based commercial broadcasters and services, you could put more and more things on there if you cut it out of the BBC. It does not have to be that

one provides public service and the others do not have to provide any. You have to decide how you distribute the responsibility for that public service.

Q60 The Lord Bishop of Worcester: Thank you very much indeed for your evidence so far, which has been really helpful. This final question, I suppose, asks you to sum up your position as to the basis on which the inherent trade-offs to which you have referred should be made. The Government noted in their written evidence that "no funding option is perfect and all involve trade-offs between separate and, at times, competing objectives". That takes us back to the evidence of Professor Stuart Allan who says that we really need to look at what the function of the BBC is. You have looked at that quite carefully.

In answering that question, I would be grateful if you could focus on what you referred to at the beginning, Dr Weeds, about broader externalities as opposed to the consumer factor. Some reference has been made to it, but those aspects of the national glue, as it has been referred to by some of our witnesses, the nurturing of talent for the broader industry and soft power are all associated with the Reithian objectives, although they are much broader. I wonder what sort of trade-offs you feel are necessary. You have not made much reference so far, as I have understood it, to a hybrid model of keeping a basic model and then a paywall that some of the programming would be behind. Would you give a summation?

Professor Robert Picard: The trade-off is about what content is no longer going to be available to the public without an additional fee, because there is a portion of the public who will not be able to access it with a financial charge. That is a huge trade-off. You have to figure out what is going to happen in that regard. On the other hand, in trading off, you also do not want to prevent your commercial sector being successful. It brings a lot of money into the Treasury and brings a lot of credit to the country, with high-quality programming in many ways, so you have to make sure that you are not hurting that.

The real question is what you want the BBC to be. National glue is a lovely concept. It sounds good. We want to support Britishness, common values, identity, education and all those kinds of things that hold a society together, but nobody wants to pay for it. Certainly, none of the politicians want to pay for it. They are going to be in trouble with the licence fee because nobody likes the licence fee going up. They are in trouble if they move it to other sorts of taxation because then they are balancing it against pensions, health services and other such things. Are you going to ringfence it so that it is protected constitutionally, as the Germans have done? Without a good constitution, that is a little harder to do.

The realities all come down to politics at the end, and somebody is going to get elected or not elected based on what happens along the way. There could be some mixture of a licence fee with a subscription fee for older content that is being brought in but is not critical. There is no reason why the BBC cannot charge for some of its old content, but, like

many of the other services, they have to cycle it back into their broadcasting. For maybe a couple of years, it will not be on broadcast, but then they will bring some back. That is about the only way I can see of bringing in some subscription without losing the core, bringing in some income and reuse along the way.

The Lord Bishop of Worcester: Can I just be clear? You are saying licence fee as opposed to some other form of funding through property or income taxes.

Professor Robert Picard: All the studies that look at people who pay licences, which are interesting, show that people feel a form of ownership: "That is mine". They do not feel that with subscription because so much of their subscription is for "take it or leave it" commercial services. With the BBC and many other public service broadcasters, they feel like writing letters. They feel like calling and saying, "Wait a minute. I didn't like that". Actually, complaints are a wonderful thing, and you get more complaints in public service than in commercial broadcasting, simply because the licence fee makes people feel, "This is mine. I have a part of this. This is us together doing this".

Giving up the licence fee, you are giving up that feeling as well. Certainly, you can get additional funding in other ways, but giving up the licence fee gives up a closeness that people feel to the broadcaster. I would not want to give that up without a fight or without really serious consideration.

The Lord Bishop of Worcester: That is really interesting. Thank you.

Dr Helen Weeds: I would not advocate against having a hybrid model. That may well be something that you want to do. In a sense, we do have that. The BBC gets quite a lot of commercial money out of selling its content, whether to domestic audiences on DVD or to international audiences through their broadcasters.

Going through the different things that you might look at, if we are talking about consumer market content, subscription is a good model in that people who want the content can pay for it. It also gives very good incentives. Complaints are certainly one route, but there is an even more direct route with a subscription service: do not pay it if the content is not delivering what you want.

I will focus more on the positive externalities type of broadcasting because that is where your issues really arise, and I think your question was pointing more to that. If this is content that we want to ensure broad viewing of, universality or broadness of access would tend to push against a dedicated subscription service. That is not to say that you would not want to think about ways of getting that content on to subscription services, to the extent that people increasingly spend their time watching subscription services and may not watch linear television any more.

Stability of the funding stream is something that we have not really touched on. The licence fee is fairly good, except that you are starting to get the drop-off from people who self-exclude because they just watch

streaming services that are not iPlayer. That may be something of an issue. Obviously, a household levy gets round that because it is automatically levied on every household. Subscription and advertising both make the broadcaster—the BBC—very prone to market and general economic trends. We saw that advertising revenues in the pandemic got hit quite badly for a period. They bounced back, but there is a danger there.

One issue we have not really touched on is influence. We have talked quite a bit about news and current affairs, but, when you are talking about news coverage, a particular issue arises of impartiality. We have a broadcasting code that does a lot of the work on that. None the less, bias tends to be in the eye of the beholder, a bit like beauty, but there is a danger that a publicly funded broadcaster tends to be the servant of its master. If the Government are ultimately controlling the purse strings, there is a certain amount of political influence there. There are some studies that are starting to look at this sort of thing for the BBC. Around the world, we can see instances of public broadcasters that are very prone to public influence.

On the other hand, there is some literature and analysis of how advertising-funded media tend to, for example, not highlight negative stories about major advertisers. Peter Osborne made this criticism of the *Telegraph* when he very publicly resigned in, I think, 2015. If you are thinking about impartiality, which is a particular issue for news and current affairs coverage, that might push you towards or away from certain forms of funding. Subscription is probably the least subject to bias, in that it is just individuals paying for the content and there is no other entity whose interests are being served there.

You have talked a lot, and heard from other witnesses, about how the interests of commercial broadcasters are going to be hit if the BBC suddenly carries advertising and takes the revenues away from them. While I appreciate that that is the industry view, as a competition economist I have to give the opposite view that, if you are an advertiser, you would see this as a jolly good thing.

Indeed, in 2008, when President Sarkozy in France issued an edict that the public broadcasters stop carrying advertising, this was seen as a great benefit to his friends in commercial television who would suddenly benefit from however many hundred million euros of advertising spend going in their direction, so it depends on your perspective. You could regard a whole chunk of viewing being cut off from commercial advertisers as a bad thing if you have the interests of advertisers at heart rather than those of the industry, so there are at least two sides of that question. That may not be the one you care about but, as I say, as a competition economist, that does tend to occur to me.

As a way of getting positive externality-inducing programming, it is totally standard economics that it calls for some sort of subsidy. You would not be funding that purely out of subscription and probably not purely out of advertising either. You might need some sort of public subsidy to that, hence a hybrid model that still involves an element of

public funding by whatever mechanism you think is best for doing that, which is not necessarily the licence fee, would still make sense.

The Lord Bishop of Worcester: Just as a very quick clarification, Professor Picard, are you suggesting that a licence fee has something that a household levy would not have in terms of ownership? You would support the continuing of the licence fee rather than a household levy.

Professor Robert Picard: Yes.

The Chair: Thank you very much indeed. I am very grateful to both of you for your time and for joining us this afternoon. I know that three of my colleagues did not get to ask the question that they were burning to ask. I suggest to them that, if they still feel the need, they email their questions. If you would allow us, we will then send you an email and invite you to provide the answers to those questions in written evidence, which we will also publish on our website. Thank you so much. We are very grateful to you both. We will take a pause now before we start our next session.