



Communications and Digital Committee

Corrected oral evidence: BBC future funding

Tuesday 29 March 2022

3.40 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. 7

Heard in Public

Questions 61 - 66

Witnesses

[I](#): Olav Nyhus, Director of Legal and Public Affairs, NRK; Peter Weber, Legal Adviser, ZDF; Dr Florence Hartmann, Media Intelligence Service Manager, European Broadcasting Union; Dr Richard Burnley, Legal and Policy Director, European Broadcasting Union.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Olav Nyhus, Peter Weber, Dr Florence Hartmann and Dr Richard Burnley.

Q61 **The Chair:** Hello, again. We are still the Communications and Digital Select Committee and I am delighted to invite another panel of witnesses this afternoon, who are with us over Zoom because they are all coming to us from Europe. Before we get to questions, could I ask you all very briefly to introduce yourselves and the organisation you represent?

Olav Nyhus: Hello. I am director of legal and policy at the Norwegian public service broadcaster, and president of the legal and policy committee at the EBU.

Peter Weber: I am director of legal affairs at ZDF German television and vice-president of a German-French cultural channel called ARTE.

Dr Florence Hartmann: I am an economist, compared to my eminent co-panellists' more legal backgrounds. I am the manager of the MIS—Media Intelligence Service—of the EBU, which is its market research unit.

Dr Richard Burnley: I am director of legal and policy at the European Broadcasting Union based in Geneva.

The Chair: Thank you very much. The purpose of this session with you is to hear about experiences of European broadcasters that have recently changed their funding models. It is very good of you all to give up your time. With four witnesses, we may not be able to include answers from all of you in all the questions that we will try to get through in this panel. I am going to get going straightaway and hand over to my colleague Baroness Harding.

Q62 **Baroness Harding of Winscombe:** I wanted to start by exploring why some European public service broadcasters have changed their funding models in recent years. Given that we have all four of you, I wondered whether we could start with Mr Nyhus on why Norway has made the changes it has, then go on to Mr Weber on Germany, and then open it out to Dr Burnley and Dr Hartmann for broader comparison. Could we start on Norway, Mr Nyhus? Why has Norway done what it has done?

Olav Nyhus: The licence fee was our dominant source of income, covering 98% of our budget. It was a levy on those households that possessed a TV set. Though 90% of households paid the licence fee, we could see 12 or 14 years ago that the increase of licence fee payers did not compare to the increase of numbers of households, so we thought there would be an erosion.

This was of course due to the general technical development and our own development of digital services, so you could access all our digital services without paying the licence fee, if you accessed our content on your computer or something like that. That is why we started work 10 years ago to change the licence fee, and we changed it in 2019 to a state budget grant, but based on a separate tax included in the general tax.

Baroness Harding of Winscombe: Thank you for your brevity. Might

we move to the same high-level overview of the German changes and the rationale behind them?

Peter Weber: We changed our licensing fee model in 2013, mainly to reflect the technical development in receiving devices at that time, which of course is still going on. You can receive, as you all know, our offers not only via traditional TV or radio but now via computers, tablets, mobiles and so on. Our old system, which linked the obligation to pay the licence fee to the possession of a TV or radio set, did not reflect the technical development at that time. Therefore, we changed to a model that charges the public licence fee in the private sector on the question of who occupies a dwelling. Per dwelling, one licence fee has to be paid.

We still have the two pillars; collecting licence fees in the private sector, as I just described, and, in the commercial sector, you also have to pay certain amounts to be able to receive our offers. The licence fee is now very much built on the opinion that what counts is the ability to receive our offers. That is charged with the licence fee. It does not matter whether you possess a broadcasting device and whether you really watch it. According to our system, the ability to receive our offers is decisive, and that led to a more equal burdening of the licence fee within the population according to those technical developments.

Baroness Harding of Winscombe: Dr Hartmann, would you like to open it up and talk more broadly about the rationale that has driven changes across Europe?

Dr Florence Hartmann: There is not only one reason, because there is no one-size-fits-all approach in terms of the PSB funding model. It is the same with the market conditions and the conditions leading to questioning the relevance or the obsolescence of the licence fee.

In Europe, in the various cases where countries wondered about the licence fee, there were several reasons. The first has been very well described by Peter and Olav on the technical obsolescence of the fees, with households being less and less equipped with TV sets. Another is the collection method, which varies from one market to another, and might no longer be suitable or might become obsolete. For instance, we have the case currently in France where the housing tax is being phased out and the licence fee has long been attached to that tax, so there is a need to reform the licence fee.

Another situation is high evasion, for instance a lack of willingness to pay for the public broadcaster. Another reason is political willingness to drop the fee and move to another system. It is interesting that, in most cases, these conditions leading to a rethink of the licence fee can be fixed within the licence fee scheme by reforming, readapting or modelling the scope of the licence fee. Following, for instance, the German case, by modernising the licence fee to a household charge, you can perfectly make your model more future proof.

The licence fee is still implemented in 25 European countries. It is still the main funding mode for 20 European countries, and it represents 60%

of the total funding of public broadcasters across the EBU area, so even beyond the EU. It is still very much used and often reformed.

Baroness Harding of Winscombe: Dr Burnley, is there anything else you would like to set the scene with?

Dr Richard Burnley: I can only echo what my colleagues and our members have said here. Just as a headline point, at the EBU, we advocate the licence fee model as the preferred model of funding for public service broadcasters. Why is that? It gives as much independence from government as there could be, really, as a funding mechanism, and it creates a close connection with the viewers and the public, who are the ultimate owners of public service media. Therefore, we certainly advocate the licence fee as a model. As Florence has rightly said, for 60% of our members, it is still the mechanism that they use.

If it is working as well as it could be, and it is not broken, we would not advocate fixing it because of the investment, effort and time that would go into implementing a new funding system. Those are just a couple of headline points that I would make at this stage.

Q63 **Baroness Rebuck:** My question is going to be about what we can learn in the UK from your experiences of moving from a licence fee to another form of funding. As you just said, Dr Burnley, you recommend the licence fee unless there are structural flaws or large-scale resistance to pay. I believe the UK is about 7% at the moment, so I do not know whether that would be in the danger zone. Based on your written evidence where you are talking about 30%, for example, it is not, but clearly we have a demographic of young people who are watching less public service, and people are consuming their media more online than they are on a television set.

I will start with the EBU. What can we learn from European broadcasters that have changed their models? How best could we prepare the UK population for a possible transition? Are there any key milestones to look out for? I am going to go to you first, Dr Burnley, mindful that I will ask some specific questions of Germany and Norway when we come to them.

Dr Richard Burnley: I understand. Of course, we have Germany and Norway here, so they can speak for themselves. Generally, one should not underestimate the effort, time and complexity of changing the mechanism completely, and certainly Olav and Peter can speak to that for their countries. One country not represented here that did the same is Finland, for similar reasons as described, which were basically the public feeling and perception that the way the licence fee was set up based on the devices of a TV and radio was maybe a little outdated.

They underwent an enormous exercise to bring in what they call an earmarked tax, which is now called a Yle tax. Yle is their public service broadcaster. It was accompanied by an enormous campaign in the country to explain to the public what public service media is for, what it is about and the cultural and democratic elements and contributions that it makes. It was all centred on, I believe, a campaign called Your Yle, meaning it belongs to the public. This is not to be underestimated. It has

been successful. The results show that, overall, Yle is one of the top two or three most trusted brands in Finland. It has been enormously successful, but that is of course a rather smaller country.

We should stress that there is not a race to change. These are still the exceptions rather than the rule. With Yle, there is a tax into an earmarked fund that stays outside government control because the tax collected goes into a special fund. Where there has been a switch to direct state budget funding, we have seen unfortunate consequences. The licence fee was taken away some years ago in the Netherlands, it was one of the first, and we have seen big reductions in the budget, allegedly linked to political influence, of up to 20% immediately after an election. So they had a budget for five years and, suddenly, it was cut by 20%. They have to somehow drop services because there is no way of delivering.

We have seen reductions in Romania, North Macedonia and Denmark, which also followed that approach, so we advocate strongly against direct budget funding because it means the public service can become simply a political football.

Baroness Rebuck: Dr Hartmann, do you have anything to add to that more generally?

Dr Florence Hartmann: I will be really quick, because Richard said it all, and you have two very valuable witnesses here who will speak for their own countries. Speaking about public acceptance, the timing and how long the transition might be, there is also the interesting case of Switzerland. When it decided to switch from a traditional licence fee attached to a TV set to the German model of a household charge paid by all households, it had a first vote in 2014 where it was accepted by the population. Then that led to another referendum questioning public funding at all for the public broadcaster there. The referendum happened in 2018, and the reform was adopted in 2019, so it took some years.

There was a massive effort and a big controversy, which ended very positively for the public broadcaster when the population massively voted in favour of it, including the younger generations. If you look at the vote statistics, younger generations voted for preserving the public broadcaster, but the whole process of reforming and changing took years and much effort.

Baroness Rebuck: Moving to Germany and Mr Weber, I believe you experienced some legal challenges when you switched to a household levy. I am interested in how long it took to get from the decision to the implementation and any advice you would have for the UK in terms of the milestones to look out for.

Peter Weber: Of course, there was a broad discussion before we changed that, with legal experts and hearings. There are different advantages, disadvantages and legal obstacles from that change. I can tell you that the system change was checked by a procedure of the constitutional court in Germany. With one exception, all of the new regulation was found to be in line with the German constitution. This

exception concerned secondary dwellings. It is a really minor aspect of the issue.

What are the main lessons to be learned? First, changing the funding model helped stabilise the total amount of the licence fee charge. In the German case, from 2009 until 2021, the licence fee was not only not increased but once, in 2015, it even decreased. That is because there is a broader payment basis for the licence fee and broader justice in payments per household. This led to more income in total and the individual fee was not increased and, as I said, in 2015 it was decreased.

Secondly, the costs of collecting the licence fee decreased substantially in Germany because, in the old system, you had to check whether individual households possessed receiving devices. The model is ridiculous in our times of course. If you simply fix it per household, no more are needed.

Thirdly, the household charge leads to greater independence of PSB from the state sector. It is not part of the state budget. It is not part of taxes and, therefore, it leads to more trust of the viewers in our content. Even in the younger sector, if you look at a crisis, whether it is Covid or the awful war, you will find younger people informing themselves more and more from PSB sources. All that was a success story, as it was from the legal aspect, because it led to more justice in the question of who has to pay, accepted and agreed by the constitutional court.

Baroness Rebuck: That is interesting. How progressive is your household levy system? Do larger houses pay more than smaller dwellings?

Peter Weber: No. There is one type; you have to pay the same amount of licence fee per household independent of how many people are living there. The legislator is allowed to find typical solutions there, and therefore the constitutional court ruled that it is justified to make a payment per household.

Baroness Rebuck: Is there an evasion rate? Is that an issue? Is there a percentage of people who do not pay?

Peter Weber: Of course, you always have a certain percentage not paying because they are not able to pay, but you have very few households that are not in the system because you have public registers where you can draw comparisons. That is allowed by law. Data afterwards are deleted if you do not need them any more, but the households are known, so people not paying are not paying because they simply cannot pay. You always have a certain percentage not paying, but that is also important. You have, of course, the people who are exempted from payments for social reasons or because they are simply not able to receive our content, for example disabled people.

Baroness Rebuck: Turning to Norway and Mr Nyhus, I believe you announced the switch to a levy on income tax in 2015, but it was implemented, you just said, in 2019. I thought it was 2020 but, anyway, I am interested in how you prepared the Norwegian people for the switch. Again, were there any milestones that we could learn from in the

UK?

Olav Nyhus: Yes, I think so. I will not try to sell you the Norwegian system because it is still to be developed further. We started, as I told you, 10 years ago, and we said we would be open-minded to any new financing model if it secured three basic principles. First, the funding model must safeguard, in our case, independence. Secondly, it must be sustainable for the long term. Thirdly, it must be perceived as fair and reasonable in society by the population.

With that start, the least preferred model was state funding. We all agreed on that, among politicians and the top management of NRK. Over the years, it changed, and we found no ideal model for Norway. It has something to do with the spirit of the time. A new separate tax was not ideal; we did not trust the licence fee any more, so we asked, "What sort of model could give us a broad political consensus?" That is the core reason why we ended up with a state budget, because there was a broad political consensus to determine the level of funding for a four-year term to avoid the yearly debate on the level of funding.

I should say this has proved positive so far. We have a good experience, but the first real test will be this autumn when it is the second period, so we no longer have the enthusiasm or the new model. Now we are going to check whether it will also be stable for the years to come, but, in Norway, there is broad support for public service broadcasting, for our remit and for the level of funding. That is why it is functioning well, but we have to make improvements. That is why I still think it has to be developed further to secure and safeguard those temporary shifts in the political atmosphere, so Governments will not be able to destroy what has been built up for almost 90 years. With the independence and the yearly debate over funding, it is still a fragile system.

Baroness Rebuck: Thank you for your clarity on that, because that was going to be another question—the extent to which it was perceived to be independent using this model. I have one other question as to whether there are any European examples of successful hybrid systems, in other words adding a substantial element of advertising, subscription or commercial services to a household levy, a licence fee or any other form of getting money in for PSB. Are there any examples of hybrid models that have worked in Europe? I will ask the EBU because you have an overview.

Dr Richard Burnley: As you said at the beginning, the question of funding is a constant and crucial one for many of our members. We are constantly discussing with members, authorities, Governments and even regulators what the best approaches are. Now, as I say, we advocate licence fee. If it is not broken, do not fix it, because it is enormous effort. If it is taken away, we cannot go back. Once it is gone, it is gone, and we have seen unfortunate events in some countries that have gone to direct state funding.

How you might top it up is a legitimate question. Florence will have some idea of statistics, but a number of our members have hybrid funding models. They have public funding and advertising revenue. The

advertising revenue can sometimes sustain things when there is a little too much interference in the public funding because it gives them a bit of autonomy. On the other hand, some members would say that undermines the concept of public service as a public good, so there are different approaches culturally depending on the country.

Very few have subscription services. There are a few, but they are rather niche and, I must confess, have not taken the world by storm because of the investment you need to put into marketing, building it and getting attractive content for people to pay. This is a global market now, and we are competing against enormous giants, so, in the end, I am afraid, you can go full circle and say it is an effective mechanism of public funding that we need to look at.

Q64 Lord Young of Norwood Green: My question was about the main differences between the BBC and European counterparts or between our national contexts that we should take into account when drawing comparisons. You have actually given us a lot of the main differences. I would like to vary it slightly by saying to you that we have seen three examples here of how to change from the existing licence fee to a new system. I thought Finland was fascinating inasmuch as it went a long way to recognising that we have to sell this to the public as a public good.

Germany took a different approach—it did the same thing but it took a long time—and Norway is still, if you like, finding the ideal solution. What do you think we should be aiming for? You rightly said, “Once it’s gone, it’s gone”. I will direct it to Dr Hartmann first.

Dr Florence Hartmann: Where should the funding model go and what is our opinion on that? For us, it is difficult to set one model and say, “This is the perfect model; this is the way to go.” It is clearly easier to define the no-go areas and where the reform should definitely not go. We spoke about direct funding from the state budget with no well-defined safeguards or a perennial, good framework. That is definitely not an option because that hinders the independence of the public broadcaster, which is a massive issue.

The EBU published some principles for the funding of public service broadcasters, and independence is one of the core principles, so direct funding from the state budget is really not something we would recommend. We mentioned this idea of the subscription model, which is also something we do not recommend. There might be some tiny supplementary revenues from niche or developing commercial services, but, as a main funding stream for the public broadcaster, subscription is not an option. It is implemented nowhere in Europe, and it really is a problem regarding universality, which is also a pillar principle for public broadcasters, so we do not recommend subscription at all.

There remain the options of modernising the licence fee, transforming it into a household charge like the German model or creating an earmarked tax like the Finnish model. If moving to the state budget, as we see in the Norwegian case, it would really have to be a very safeguarded

approach, such as an earmarked tax, going back to the Finnish model. Staying in the licence fee environment, it can also be fixed and adapted, so changing the collection method or adapting it in terms of devices to which it relates. A few years ago, the Italians reformed their licence fees, changed the collection system and the amount. They fine-tuned it and redefined all the parameters. It worked really well and was successful, so there is also a possibility of fixing the fee, while keeping it.

Lord Young of Norwood Green: Mr Weber, your system, you told us, was a bit of a regressive system inasmuch as it did not take into account the size of the household. Have you had any feedback from the public or resentment about the fact that this is just one tax and the size of your household does not matter? Has it caused any problems with ability to pay or evasion?

Peter Weber: Yes, of course. You always have discussions on a licensing fee model because every household and everyone who has to pay something is discussing that. Now, as I said, it was subject to a proceeding in the constitutional court, and the court found that it is justified, in a simplified way, to charge that licence fee per household. To charge it per citizen is a huge effort, really costly and very close to a tax system in the end. Those were reasons not to charge individual persons, assuming that there are households of average size where you can find a typical financial burden.

As I said, there are also different systems imaginable, but you always have to be careful. Are they too complicated or too costly? Are they still, in a way, balanced and accepted by the population? Overall, after several years of experience, I must say that the large majority of the German population accepted this model, despite the fact that there is always a discussion on whether you should have PSB at all and whether you should fund it. That, of course, remains a discussion everywhere but, if you decide for very good reasons to have public service broadcasting, which is to a large extent accepted in Germany, this has shown itself to be a good compromise.

Lord Young of Norwood Green: Dr Burnley, do you want to add anything in relation to that? While you are thinking about that, just to top it up, over here, we seem to have a problem in public service broadcasting in attracting the next generation. I wonder whether you could pick up that point.

Dr Richard Burnley: That is the case universally across Europe. All our members say that. That is a real cornerstone of how to develop and innovate for the future for all our members. We have to be digital; we have to be online; we have to offer catch-up; we have to offer video-on-demand services. There is no doubt about it. That is the way distribution is going. By doing that, by offering quality content and by explaining, you do catch the younger audience. Tactically and strategically, that is at the forefront of the minds of many of our members.

On the existing UK licence fee, as Florence mentioned, we have our funding principles, which we published in a non-binding way for authorities, Governments and our members to assess different models. If

one applies those, it seems to us that the UK licence fee works rather well, relatively. Evasion, as discussed before, is relatively low. In terms of absolute cost per individual, it is not excessive by any means. Florence will maybe nod if I get this right, but I think it is quite mid-range, so it is not a huge amount. This goes to fairness, perception, trust and all these aspects. It is doing rather well.

Q65 Lord Hall of Birkenhead: This is a question to NRK and ZDF really, but please chip in, EBU, if you feel you have something to add to this. It is a very specific point. We have heard a lot of evidence here that says the BBC could increase its income by increasing international services, maybe SVOD, building on BritBox and what it is already doing, plus sales internationally. I wonder whether you could help us. Maybe, Peter, you could start by saying whether this has been a route for ZDF to increase its funding in a considerable or a marginal way. Does it divert from its PSB objectives?

Peter Weber: The secondary sale of our productions, especially in Europe but also elsewhere in the world, is a really minor part of our income. We could certainly not build our financing on that aspect of earnings. It is a small part, but you must also take into account that, if we sell, for instance, independent productions, the producer participates, to a large extent, in the earnings. That is for good reasons and I do not contest it, but that already shows you. Copyright owners have to get their part; producers have to get their part; we get our part. In the SVOD/VOD world, the earnings you can get from there, in comparison to our financing needs, are minor, so you could not build your financing system on that.

I very much agree that, if you finance PSB, you need to finance it through a system that has long-term perspective, security and stability. That cannot be done simply by building on earnings out of selling individual services or the whole service abroad. It could be a small percentage, which could reduce the licence fee, but it is not the main pillar.

Lord Hall of Birkenhead: Olav, from the point of view of NRK, is it similar to ZDF?

Olav Nyhus: Yes, I would say so, because the Norwegian language does not have the same market as English.

Lord Hall of Birkenhead: You have done some very good crime series.

Olav Nyhus: As I mentioned initially, 98% of our budget comes from the state grant. In fact, we have reduced our focus on commercial income over the last 10 years and we do not foresee any significant change in that, I think.

Lord Hall of Birkenhead: Richard, is there anything you want to add from the EBU's point of view? Can you see any counterindications anywhere else in Europe among PSBs?

Dr Richard Burnley: I could be a viewer if the BBC expanded its operations internationally. An international iPlayer would have an

audience. There is a big diaspora, of course, of UK nationals and there is also very high-quality content. It is something, sometimes, you do not appreciate until you leave the UK. The BBC is one of the best exports of the UK in terms of a brand, and it is held in hugely high regard over here.

Whether the set-up cost, the cost of pan-European rights and the marketing involved can be off-set, given just how big that market it is, I am afraid it is very difficult to say. There are a number of international channels, and Peter mentioned one in Arte, which are spread across Europe. Their viewing figures are not always huge, but they produce fantastic content, and so there would certainly be a market. Whether it can top up the funding of the BBC in a sustained way is not for me to say, I am afraid.

- Q66 **The Chair:** I have just one supplementary, which I want to direct to Dr Burnley. You have mentioned a couple of times the evasion rate in the UK being that much lower than most other European public service broadcasters. Is that linked to the fact that in the UK non-payment of the licence fee has a criminal aspect to it? Is that unique in the UK versus most of the other EBU members?

Dr Richard Burnley: It is a good question. I think it is relatively unique. It is something that one discusses internationally quite frequently, for example in central eastern Europe, where they have gone through this transformation from being state broadcasters to launching public service media. When I have those discussions, they say that could never work in those regions. The idea of a criminal offence for non-payment of the licence fee just would not work and would have the opposite effect, so it is extremely cultural.

On the other hand, it is built into the system in the UK, is accepted as such, works very well and can be reason indeed for low rates of evasion. There is always a balance to be struck. When we look at efficient enforcement and low-cost collection mechanisms, where evasion is high or the enforcement mechanisms are rather diluted or weak, you would have conversations about making something automatic. That can be collection through electricity bills or whatever it might be. Where you have an established and culturally accepted system, why would you change it or disturb it?

The Chair: It has been reviewed a couple of times in the last five or six years. It continues to be a topic of political debate; let us put it that way. The other thing I am trying to get at is that the low evasion rate in the UK is not something that we should necessarily rely on as a comparison to other European countries when the penalty for non-payment is quite different from that which exists in other members of the EBU. That is helpful to understand.

Dr Richard Burnley: Yes. Where you pay together with tax, which is the case in France at the moment and with the Yle tax, there would certainly be consequences for not paying, and that is important.

The Chair: That is good to know. Thank you. We are all very grateful to

all four of you for joining us this afternoon and giving us the benefit of both your own experiences in Norway and Germany, and, via the EBU, a wider set of experiences across Europe. Thank you again.