



Communications and Digital Committee

Corrected oral evidence: BBC future funding

Monday 23 May 2022

2.35 pm

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

Evidence Session No. 17

Heard in Public

Questions 129 – 140

Witnesses

I: Tim Davie CBE, Director-General, BBC; Richard Sharp, Chairman, BBC; Clare Sumner CBE, Director of Policy, BBC.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Tim Davie, Richard Sharp and Clare Sumner.

Q129 **The Chair:** This is another Communications and Digital Committee hearing as part of our inquiry into BBC future funding. We are very pleased this afternoon to be joined by people from the BBC. Mr Richard Sharp is the chairman of the BBC, Tim Davie the director-general, and Clare Sumner the director of policy. We are currently transmitting live on the internet and a recording is being taken. A transcript will also be taken and published in due course. We have heard from a range of witnesses and today we have four categories of questions that we will explore. The first will be on the strategic challenges and purpose of the BBC. Then we will come on to the principles underpinning funding, alternative funding models and, finally, the BBC's role in leading change. There may be some overlap as we go through those different areas of questions, but I hope you will feel able to answer as openly and honestly as you can.

The first question is to you, Mr Davie, as director-general. In your own public statements, most recently this month when you were at the end of an analysis conference, you have said, "The biggest challenge for the BBC is relevance". Evidence to this inquiry has highlighted two areas where the BBC is under pressure, the first being the pace of technological change and the impact that is having on audience viewing habits. In other words, the decline in traditional or linear television audiences which, of course, is affecting all broadcasters.

The second pressure is providing programming and news coverage that reflects and appeals to different sectors of UK society. The latter is particularly important for the BBC, because every household with a television has to pay. How do you describe the role of the BBC now, and will that role still be relevant in 10 to 15 years' time? If it is the same, how much do you need to change to keep pace with the changing world? If it is not the same, what role do you think will be required of the BBC in 10 to 15 years' time?

Tim Davie: Thank you, Chair. First, as we analyse the situation, the scale of change in the market is extreme. The stakes, as I said at that conference, are extremely high for something I hope we all care about, which is public service broadcasting and the UK creative industries. In that light, and to your point, we are facing extreme change in technology. The internet, frankly, strips away distribution advantage in having two out of four channels or FM frequencies. No one at the BBC is under any illusions that that is a significant change and a challenge to delivering relevance.

The other point you make is also right, which is that you then have to make significant choices, because that also leads to enterprises of significant scale that are capitalised by hundreds of billions of dollars. Our assessment at the moment in the positive column is that any research that we do suggests the purposes that underpin what we are all trying to do with public service media: remain valid and strong. I am

doing a lot of work on that right now. Seventy-three per cent of the world's population do not live with a free press.

The trends are pretty disturbing globally. But when we talk to audiences, the validity of some of the things we do—content that is locally made, local news and the various things we can do as the BBC that are radically different from a fully commercialised global operation—remain valid. I have no complacency about that; we need to stay close to our audiences and be humble about it. But that remains true.

What is definitely pressing for us is how we deliver that, what type of services we do and how they are distributed, over time making sure that we are delivering value, not just primarily through linear operations, but through on-demand operations. We have certainly made significant progress in that area, but have no doubt there is jeopardy if we do not make that transition, and important things at stake.

The Chair: In essence, you are saying that the role of the BBC today will remain absolutely the same in its underlying purpose—what the BBC is for—in 10 or 15 years' time. You are not expecting that to change.

Tim Davie: Some of the core purposes are an independent press, local provision, drama that people see made by people of their nation, of their area—I could go on. Another is radio services or audio services that nurture talent coming from this nation as well as globally, which puts us in a very different position from all other public service broadcasters in Europe and beyond. Globally, the demand for trusted sources of information and quality entertainment will absolutely be here in 10 to 15 years. The question is making choices with limited resources where we play to our differences and become continually distinctive versus players who just have bigger budgets and will just flood the market with a volume of stuff that is frankly going to keep growing in the medium term.

The Chair: Is it about being distinctively British in a global market? Is that what you are saying?

Tim Davie: It is definitely distinctive, and if I say British storytelling, I am not trying to be evasive. If you are in India, there are values in the BBC Hindi service that I would not describe as British, but they are underpinned by British values and how we tell stories in this nation. It is not a coincidence that we have fantastically successful creative industries, and anyone who wants to get a flavour of the BBC can just get on the plane and talk to people about the reputation of this institution, and that counts. It is about British values. It is about democratic values. It is about independence.

The Chair: In a world where there is more choice for people and they can access and get what they want from a range of sources—television, radio, other media platforms—how concerned are you about the legitimacy of continuing with a funding system that is compulsory and everyone pays the same, if not everybody is using it in the same way?

Tim Davie: At the top level, we believe in something that is available to all and delivers on public service objectives. Beyond that, you have to be

open-minded as the world evolves to say, "Okay, what's the right funding mechanism for that?" The primary question, by the way, is: what are we trying to do with public service media, and what is the scope of it? I hope that any process, for what it is worth, is led by that purpose discussion on what we are trying to do and the funding mechanic flows out of that.

Over many years, the licence fee has successfully delivered on that. As the BBC, we care most not about a funding mechanic, but about our values, and the fact that we are available to all and are an impartial, independent media operation. As per your introduction, we will come on to the various mechanics, the things we could talk about, but, at the end of day, that is what we are driven by.

Q130 The Chair: May I direct a question to you, Mr Sharp, in this context? We know from some of the research that we have seen, particularly that provided by Ofcom, that one of the areas the BBC is not performing in as strongly as it might do, in comparison to its other purposes, is providing for all parts of society. How do you feel that can be addressed? What will the BBC do differently to address the gap that exists now if it is still to be relevant in the future in an increasingly competitive market in terms of choice for audiences?

Richard Sharp: This is the first time I have met this committee, so thank you for having me here, but also thank you for orchestrating this discussion, because the governance of this whole process matters. We will get on to the board governance later, but part of the governance is a scrutiny by Parliament, and this is an opportunity for the BBC to operate in this discussion. It should be a deliberate and thoughtful process with independence, and the fact that this is being conducted by you gives us the opportunity to participate in it, because there is an independent context for this whole discussion.

Context is very important to the BBC, which, as you all know, is a centuries-old institution that has potential for multigenerational value in the future, not just to this nation but to the world. It influences the ecosystem, it is important in terms of value, and, as one of your witnesses stated, "It is a public service as well as delivering public services". It is a public service to who we are as a nation and to our nations, our people.

In that context, value for all matters on a day-to-day basis, but it is not a singular yardstick that measures value for an individual through their lifetime or through generations, because from time to time there will be segments and pockets that do not view us as intimately as we would like them to at any given point in time.

Take youth, for example—the obvious point. Youth should be media promiscuous. They are being delivered unprecedented opportunities for entertainment, fulfilment, engagement, whether it is video gaming, TikTok, social media and collaboration communication. The fact that the BBC may not be engaging a cohort during a particular period of time does not in itself diminish the value of the BBC to them as a public

service to the nation in terms of what we delivered, how we influence the ecosystem, how we are accountable to the people.

We regard ourselves as an organisation that is owned by our licence fee payers—in that sense, a mutual organisation that is digitally connected to households. Within households, different people will be involved with us at different times, in different ways and in different parts of their lifetime. They may not be there as youth, but they may be there when they engage with their children with what we offer in education and inspiration, so we observe that.

The data is incredibly important in how we track our engagement and deliverance of value, but, if there are pockets at time to time, there may be good reasons why we are not connecting or there may be bad reasons—what we are offering and the quality of what we are doing—and we have to look at that as a board and challenge the executive to see what the reasons are, why different communities are not engaged. Certainly, looking at prior generations—I look at Lord Hall here—there has been a lot of deliberation about this. The BBC has changed dramatically over the last 10 years with its “value for all” proposition, but that does not mean that, at any given point in time over a sustained period or time, there will not be elements that do not connect to us in the way that others do.

The Chair: Do you think it is just an age profile thing, or different parts of society and their perspective, their outlook, on the world? Is there something else in the way you are serving everybody that is currently a concern to you?

Richard Sharp: Looking at our history, I think one of your members said that he grew up in a BBC household where ITV was not part of the way they lived. When I joined the BBC and I was on a call, one of the young women said, “I grew up in an ITV household”. So it goes deeper than that. There is an issue about the offerings that we give to make sure that our nations and our nation as a whole communicate with the BBC, and a lot of work has gone into that, whether that is in Ireland, Scotland or Wales, and into the socioeconomic classes, and I think there has been significant progress.

Clearly, more progress can be made in any given areas, and we have to make sure, within our budget constraints, that we do that. Localism, which Tim will go on to, is an important component of that. We see segments that we can do better with, and that is where data is our friend. We now have the capacity to evaluate that, and we do. But it is not just age; there are socioeconomic areas that we want to improve on, and there are also offerings for different minority communities that we have to engage with. We constantly have to keep refreshing and evaluating ourselves on that. It is not just the youth.

The Chair: Okay, but you see that a connection between offerings for everybody and not meeting everybody's expectations can put at jeopardy the continuation of the licence fee, as you see it now.

Richard Sharp: Yes. If you look at any large media organisation—Disney, for example, or Netflix—they have aggregated offerings and they will have to be dynamic in changing that. We have an aggregated offering that includes radio, local, sports, entertainment. You will come on to distinctiveness later, but the challenge for us is whether what we offer in aggregate engages as a consequence of being aggregated together and adding value because of the different propositions that we have. We then look at that against a template of actual engagement, which we now have through our digital evolution, and we ask ourselves whether the executive is executing appropriately against our goals. Our goal is to be value for all, but we recognise that there will be periods, given budget constraints, when we will not meet those.

Clare Sumner: There is another part of this, which relates to what Tim said earlier about public service media. One of the other questions is around societal impact and how you bring people together and at different points of their lives. Particularly during the Covid pandemic, we have seen the BBC do that in a very effective way. There are moments, and Ukraine is another one, where that value of what the BBC does is part of what we also need to look at in this debate.

Q131 **Baroness Bull:** It is nice to see you all. We have heard from various witnesses over the inquiry about the need for the BBC to continue to innovate in order to compete. Some of its focus has inevitably been on the innovations and technical capabilities that enable it to keep pace with the SVODs and survive in that marketplace. I am interested to hear your views on technological innovations more broadly: how much it is part of the core mission and how much it is part of a strategic approach. I wonder if you might pin some of your responses to the five public purposes, so that we can get not just a real sense of an overarching ambition to innovate, but some examples of how that technological innovation might deliver for licence fee payers.

Tim Davie: This is central to the BBC going forward, but it is a recalibration based on the new world versus history. The history of the BBC innovation is incredible, whether it be the hardware of computers or various things we have done. We see ourselves in the following context. We have limited resources when we have to make tough choices, but we do think we are in the game with regard to products services—iPlayer, Sounds, those platforms. To my mind, we have enough investment, but we need to put more in. Over the last year and a half since I took over, hopefully you will have seen those products. This was started with a huge amount of innovation over the last 10 years, but we were really doubling down on making sure that we are in that game.

The way we are delivering that, though, is slightly different from history. We need partners, and we have to accept that we will get a high churn of individuals. I have more vacancies in that area than anywhere else. That is where the pressure is, and we rely on people like our new fantastic chief product officer, who came from Just Eat and took a big discount to serve the nation. We are in the game, though, and I think we have the

capability to do that, and we can make choices on where we partner, where we buy in tech.

We cannot do it all and we cannot bespoke everything. Having said that, we are not an organisation that buys wholly off the shelf, because one thing we need to do is construct public service platforms and services—ie news and iPlayer. iPlayer is not trying to replicate Netflix. How do we present local news? How do we use the real-time data we have now to get a better offer to our licence fee payers? There is huge potential if we get this right, by the way. We now have about 20 million signed in, and that is growing rapidly. Over time, we will see the BBC evolve to deliver more value through digital, because it will be more relevant.

It is a game for us, because we are not a commercial operation constantly trying to get to hyper-personalisation; if you buy something on Amazon, for example, it will recommend the same thing to you. We also know the BBC is valued by people for being a matter of record. We need to balance the stories we see as important editorially with personalisation. The opportunities for us to increase localisation and relevance are profound for the BBC and could unlock a lot of value for us. But we are in the game.

Clare Sumner: In this debate, one of the issues is actually building on things, as Tim said. Last year, for example, there were 6.1 billion streams on iPlayer, and iPlayer in particular is holding up very well in the market. But we have to recognise what licence fee payers want. We need to keep improving iPlayer. One of the biggest regulatory interventions recently, and it seems crazy saying this now, was that you could only get content for 30 days. You can now get content for 12 months. You can get box sets. We have to keep building this. We need a regulatory framework that recognises that we need to move from a linear to a digital proposition. We need that enabling behind the scenes to really help us make this transition. You have heard evidence from other witnesses that this is about both the pace of that market and the length of time it will take to get there fully.

Baroness Bull: Richard, you started talking about history. The BBC has been very much at the forefront of innovation, largely because it had the resources others did not have, and it saw itself as having a responsibility to share its innovations to provide a sector service. Is it still the case that there is a responsibility, when the BBC has innovated, to share that wisdom—that know-how—more broadly with the sector?

Richard Sharp: Yes, clearly. Part of the BBC's public service is that we have contributed constructively to the media ecosystem in this nation. You will have seen that from some of the witnesses you had from the commercial sector, who wanted the BBC to be well funded. I was very pleased to see the Sky person mention that there was a highly collaborative relationship. Obviously we are competitors, but we recognise that there is a synergy in co-existing constructively.

We should not forget that ARM, the chip manufacturer, would not exist without the BBC. Acorn was part of that. The BBC should be an innovation hub. Candidly, our challenge is keeping our people. In the

past, we were a home for some of the great technologists in this nation. The unfortunate shakeout in the tech industry should give us the opportunity for talent, but it has been a real challenge for us attracting and hanging on to technical talent. But certainly when it comes to technology, and given our strong position, we have an absolute duty to be collaborative with the existing ecosystem, albeit that they are competitors for people's attention.

Tim Davie: One point that we have not talked about is the platform work we have done in innovation, because it is critical to the ecosystem, for want of a better word, in the public service media landscape of the UK, which is Freeview, Freesat and so on. Commercial radio and the BBC have debates about certain topics, and we have come together in developing the Radioplayer, which is now being adopted in cars. So we are in with a shot at really making sure that we have the right prominence for public service broadcasters. We could do with some legislative help, as ever, but we got that prominence of Radioplayer in cars by us working together.

One of the things that we want to work together on is next-generation platforms. I was a big supporter of the BBC's technical interventions on DAB, which in some ways was a route by which the BBC diluted share but grew the market. We do not need share domination in any way, shape or form. We just need enough hours to justify the intervention and the funding and to offer great value for £13 a month, or 44p a day.

It is really important that the BBC has this catalytic role to create platforms. What is the next-generation platform for television? It does not necessarily always mean merging the brands—ITV Hub or iPlayer—but it can be common technical standards and infrastructure to ensure prominence and scale when, frankly, we have that all around us. That is an important role for the BBC going forward.

Baroness Bull: Aside from platforms, thinking of the purposes and of the BBC as an organisation, where else does technological innovation play a key role in your vision for the BBC's evolution?

Tim Davie: This goes to the purposes in terms of the creative future of the nation. There are now myriad possible applications. I will give you a couple of examples. One is our Disinformation Unit and what we have been doing in Ukraine, where we can assemble more information, cross-check facts and build databases in a way we have never been able to before. That is really interesting. I chaired a meeting with many of the world's leading news organisations. They are looking to the BBC for how we, as a leading actor in this, can provide watermarked content so that people know what they can trust.

We have a role to play in this globally, we are global leaders, which also enables private enterprises to come and help with those solutions. That goes directly to the purposes in terms of how we affect the world and how the world looks at us. I could go on. There are a number of applications where we can use technology in this way. It is a great question, because it directly affects our purposes: what local services people get, how they can get proper local information. Technology can

unlock a lot of this for us. We have to make some choices in that, but there are some really good, interesting and exciting possibilities.

Richard Sharp: If we are future-looking at the fact that the BBC is arguably in 26 million households now, there are areas of how we connect to each household—data management, collaboration, privacy issues. We will deal with a number of those areas and set the best standards, which could have broader importance for healthcare records, data records, privacy, personalisation, and the BBC is working on that to try to improve it.

Baroness Bull: I would love it if you had an example of education and learning, because I do not think we have talked enough about the BBC's role in education and learning. You may have a quick one just to humour me, but you might want to come back to it.

Tim Davie: You are absolutely right. We are having discussions. Last week, for example, I discussed with the Open University how we develop our partnership and how we can increase accessibility. We have announced 1,000 apprenticeships. The interesting thing about those 1,000 apprenticeships is that they are catalytic. The apprentice hub we have in Birmingham brings more apprentices in, and we can bring them into learning via technology via the Open University. There are a number of applications for how we take Bitesize forward. To be honest with you, the licence fee settlement is a bit of a limitation. It has slightly restrained our ambitions there, because I would like to do more. The apprentice hub in Birmingham, working with the metro mayor in the way we are, is pretty impressive. I would like to be doing more of that. The BBC could play an even bigger role. It is incredibly important, and technology unlocks a lot of that.

Q132 **Lord Lipsey:** I would like to go back to where you started, because you gave a very eloquent account of the BBC's purposes. Then, I think, you said that the method of funding flowed from these purposes. This is not a distinction I find easy to sustain. There are all sorts of things you want to do more of, but there are all sorts of limitations on every method of finance that could be thought of, many of which indeed affect some of the objectives you have. If, for example, we have part-subscription as a model, that means that it will not be absolutely universal anymore.

I would love to see a recognition that you are focused on the hard choices you have to make and not just on, "We'll do everything, we'll do more of everything, we'll do everything for everybody. Just find us some money, would you mind, oh politicians, so that we can do that". I would like to perhaps see some clear priorities coming. It is not obvious to me that you should spend a vast amount of money trying to attract young audiences, when the audiences among those who most enjoy your output are older audiences. I would not like to see them cut back just so you can produce yet more choices for my 12 year-olds and 14 year-olds.

Tim Davie: I agree. I have two points on that. One is on the finance models. We will come to it, but I do not think you can split the finance model from the editorial output and intent of the organisation. It is as

simple as that. This is why the stakes are so high. What we choose to go to will directly lead to what comes out. That is why I was suggesting that you do purpose first. We have to understand as a nation what we want in public service broadcasting, and then we can decide. That was my only point. There are consequences. If you choose a funding mechanic, it necessitates certain choices.

Secondly, we debate value for all and universality a lot, and it worries me slightly, if I am honest. If you look at what we have been working on in the BBC over the last year, it does not mean "Do everything for everybody". We do not need everyone's media time. Currently, we are defying gravity to a certain extent, and 90% of people still come to the BBC for 18 hours a week. It is amazing. We are doing okay, but that will come under pressure, so you have to make choices. To be fair to us, we were never asking for a massive increase in the licence fee. We recognise that we have to make choices and cut back. That has meant a pretty difficult balancing act over the last few years, and we have cut back on volume a little bit. I know everyone likes a service to kill, but those shop windows work for us, and actually BBC Four does not cost that much and is well liked by a certain audience.

We have done a couple of things. One is that we have cut back, as I said. We still make thousands of hours—this is not about us not being a broad BBC—but we do not need every podcast we make. There are choices we have to make, and we will do that. We will reduce volume a bit. We have to. We have to make choices. The other thing that is driving that, by the way, is that episodes cost more. The market is global. An hour of drama costs a lot more than it did a few years ago, let alone in the current inflationary environment. That was happening before we got into this. So we have to make some choices. We are not expansionist in that way at all. We want to double down on where we are differentiated.

I agree with you that any "lurch to youth" is a strategy that should not be deployed across the whole BBC. We have services. I think sometimes we self-flagellate a bit too much. We are still the biggest media brand for 16 to 34 year-olds—we are 80% a week. That number is, by and large, holding up, but hours are a bit under pressure. I am not being naive; we have our challenges. We must absolutely be serving our core audience, but our objective is not to take up all someone's media time. We know that people love the BBC and think we are exceptional value. If they have a few hours a week—five to 10—that is utterly differentiated and special to them, and that is what we have to achieve.

On the current financing versus having cut 30% in 10 years, the BBC has lost 1,200 people in the last 18 months, and I am sure we will have to go further in public service. We will have to make those choices. But I will do everything I can to make sure that those choices are not affecting the content, which is what people care about.

Lord Lipsey: I found that vastly more compelling, and still eloquent, than your first presentation. Just to concretise it, why did you bring back linear BBC Three?

Tim Davie: It was because the incremental cost was marginal.

Lord Lipsey: How much?

Tim Davie: It was £5 million to £10 million, roughly. The incremental cost was marginal versus the reach you get for doing that. I would rather make slightly less content and make sure that it has the right prominence. This is why I welcome the media Bill, because you have to have prominence. Having the right prominence is absolutely critical, a debate that I know this group has been helpful with. Others that do not have linear marketing channels want them, because trying to cut through when you have infinite choice in the market is a challenge.

Q133 **Lord Vaizey of Didcot:** Your point about extending content from 30 days to 12 months was presumably a decision that had to be signed off by Ofcom.

The Chair: It did.

Lord Vaizey of Didcot: In terms of the BBC's relationship with Ofcom, is it making decisions in a timely enough fashion for you to adapt to the changing tastes of the market?

Clare Sumner: As you know, the Government's mid-term review, which will look at governance and regulation, is coming up, and one of the issues is pace. That decision, if you remember, took over a year, and in a dynamic marketplace where Netflix, Amazon and others are changing almost by the second, it is taking too long at the moment. We should look at it much more as a dynamic global marketplace, as that is what we are competing in, but within a different construct. We should be regulated, because we receive public money. We are not pushing back on being regulated, but we need the framework to be a more fit for purpose, and some of that is about pace and about looking at what is happening in the global market and in the UK. Actually, we have moved from the four-channel position now to much more choice in the market. That means that everybody is under pressure, which is probably partly why Netflix and others are, in effect, supportive of the UK media ecology. It brings something different, but it does need to be regulated in a way that recognises that.

Q134 **Baroness Harding of Winscombe:** Tim, you have alluded to this, and almost all our witnesses have said the same: that it is important that we assess different funding models based on a set of principles. What should they be?

Tim Davie: We as the BBC need to work now on what we think we can contribute. We are working on a couple of things at the moment. One is principles. It is interesting that you mention principles, because it is exactly where our heads are; we believe that we need a clear set of principles. The second is consultation, because the people who should decide what happens to the BBC will obviously be elected officials, but we need to make sure that the licence fee payer and the public are heard and seen. Therefore, we will put proposals forward in the coming weeks, not months, on the BBC.

Baroness Harding of Winscombe: Are you talking about models or

principles?

Tim Davie: Principles and consultation, because we need to know what things we need to look at when we are looking at various options. We are open-minded. I think we are tuning those now. To give you a steer with regard to some of the critical factors we see alongside the purposes of the BBC—people know that I am particularly passionate about this—one is: does this solution benefit the UK creative industries economically and socially? This is an incredibly important sector. Does this drive growth? One of the things I sometimes find lacking in the debate is a proper analysis of the economic societal benefits of what we have constructed in this country. It is so valuable. The UK creative industries were growing four times as much as the rest of the economy going into Covid. We have a GVA to be proud of; it is well ahead of our competitors. One of the principles is to make sure that we protect that for the future, and we have an incredible strength in the UK, so we must double down on it.

As I am now talking about principles, one of the others is independence. I go around the world, and this year, or certainly in the last 18 months, journalists have been expelled from China, from Russia. The latest press freedom report, which I urge you to look at, referred to the 73% that I mentioned, and I am worried about it. I am worried about the free press, truth and funding mechanisms linked to independence. That is the principle: that we are independent. For all the debates about impartiality, all the things we get involved in, at the end of day we are editorially independent, and I think we all care about that at the BBC.

Is it fair for licence fee payers? Is it a fair system? No system is perfect, but is it as fair as we can get it? Does it offer great value? Is it a good deal? We have a few other things to think about; that was not a finished list. We will have a think about this quite soon and with some intent—Richard might want to talk about this—because ultimately this will be owned by the board, not the executive. We need to say that these are the principles by which we judge success as the BBC, and we will be very clear about that.

Richard Sharp: One reason to have a deliberate process is to consider unintended consequences of change. When you have an existing system, you can see its flaws. When you make a change to a new system, you have to be incredibly thoughtful to evaluate the benefits of what you currently have from the unintended consequences versus the intended consequences that you achieve. In clarifying the principles from the board—I remind you that the board has a majority of non-execs, and our strategy approach is led by the non-execs working with Tim—it is very much looking in the longer term and being deliberate.

I know there is a desire for pace in change, but if you look around the performance of different mechanisms to satisfy this objective with different public service broadcasters, it is certainly striking that even the EBU, in its written evidence to you, talked about us as being the world's leading public service broadcaster, and we are. The fact that we cannot be replicated by the countries does not mean that we are not the envy of those countries in what we offer. There is jeopardy in change.

Baroness Harding of Winscombe: Can I just push on one thing that you have said and one that you have not actually said. It is probably a subset of your fairness principle, which is universality. You have talked a little bit about it, Tim, but focusing on the principles space, how are you thinking about universality? Should it be a principle that we should be assessing funding models against or, in a modern media world where we all increasingly want individualised content, is universality not relevant?

Tim Davie: Sitting above it all is public service. Universality is a word you can debate and come at from different angles. The concept that this is accessible to all is important to the delivery of public service objectives. You have to get to what you are trying to build before you get to the funding mechanic. My sense is that what we are trying to build together as a team—Richard can speak for the board—is a public service organisation with a purpose to lead. In that, accessibility is a hugely material factor and sits, frankly, above the lot.

Baroness Harding of Winscombe: Does that mean that everything has to be accessible?

Tim Davie: You have to keep an open mind on that question. I say that, because even now we have things like UKTV in the secondary market in the UK. The BBC does not have anything commercial in the UK, and that is a fact today. In the end, there is a public service provision that is accessible to all, which we can talk about, and, critically, it is driven not by market failure but by making the market, which is far more exciting and why we are admired worldwide. If you want to see a market failure option, there are options available in the US. I do not think the majority, including when we speak to licence fee payers, want to see that happen.

The Chair: Thank you. As you were saying, Mr Davie, there was a time when the choice seemed to be market failure or universality. Just so I am clear, what you are now saying is that the choice, from where you are sitting, is between accessibility and market failure. I do not think that is the only choice we are talking about, and I just want to be clear whether that is what you are saying.

Tim Davie: I am saying accessibility for all.

The Chair: Accessibility for all would be completely—

Tim Davie: I am just trying to understand the question. Sometimes universality is represented as doing everything for everyone.

The Chair: Or a reason not to change.

Tim Davie: Or a reason not to change. Well put. That is why I am just exploring it with you, because it is an interesting question. I absolutely think that we, as the BBC, are not everything to everybody and trying to fill every gap in the market. That strategy would be doomed to failure. It is about differentiation and focus. It is not about being sub-scale. I think one of the joys of the BBC is the wonders of BBC One's multi-genre offer, and the fact that Radio Four takes you on a serendipitous journey during the day. These lead to scale, and they affect society and the economy. That is why we move off market failure, if you wish to call it that, and

call it accessibility for all. You could also call it universality, but with parameters. We are in the semantics here. I am sure you understand that it does not mean everything to everyone. That is the point I am trying to make.

The Chair: I am pushing on this just because I know that historically the BBC has argued for no change. I note what you said, Mr Sharp, about there being jeopardy in change, but there is jeopardy in no change too, particularly when you are faced with the kind of challenges that you are faced with. It was just about understanding that accessibility for all is not a new way of talking about universality or a different way of coming at the problem, but I think you have answered my question: that it is not.

Baroness Harding of Winscombe: I risk putting words in your mouth, but it is very interesting that you reminded us about UKTV. What you are saying about your first cut of principles is that you would not rule out some form of two-tier BBC on the basis that you already have a two-tier BBC.

Richard Sharp: Just to be clear, the board has not ruled out anything. We have been charged with the fact that the BBC faces an existential question, and the board has to take very seriously the charge to look at all options without preconceptions. The fact that we understand the value of public service broadcasting informs that, but it does not rule out certain mechanisms, adjustments or changes we might need to make. My point about changes is not that we do not have to change. Of course we have to change. iPlayer, BBC Sounds et cetera—we have to remain relevant. The issue is that change has to be thought through, particularly if it is fundamental change to the financial proposition and the strategy, to make sure that it does not have the unintended consequences of diminishing the public service delivery.

Clare Sumner: One of the things missing in the debate sometimes is that we are hybrid today. We have the UKPS funded primarily by a licence fee, but we have commercial revenues, as do many of the other models in the EBU, and we have a big part for that commercial engine. We are committed to growing it at the moment, and that is another thing we are being proactive about.

When it comes to universality, there are many different dimensions to it, and when we talk about it we all talk about it in different ways. It could be talked about as, "Everybody pays, so everybody gets something", which is quite familiar language. It could be talked about in terms of accessibility, which is not just about tech but about making sure that experiences are enabled for everybody and things are not behind paywalls, so that people have the choice whether they consume them, not so that they necessarily have to consume them. Entertainment is important too, so that people are not necessarily priced out.

It also potentially enables a value proposition. It enables, in effect, something that is kept relatively low-priced compared to other market interventions. There are different dimensions, so I understand why you are posing the tension that comes through the different lenses of universality. What we are saying is that we are not defending the

ground. We are not being so defensive. In times gone past, we would say, "Well, it's got to be this, so that you can't do that". What we are saying now is "We've got to really look at that very carefully, because that's going to have trade-offs and potentially unintended consequences".

It is interesting that in the EBU system none of the public service broadcasters have gone down a subscription route. Many of them have advertising, but, as you know, in this media ecology so do the commercial PSBs. So, again, in the UK terms, we have a very different PSB ecology to many of the other places that we look at, and we must look at those. This hybridity is a really interesting area, and one we will have to look at very carefully.

The Chair: We will come on to the models in a minute, but it is quite a breakthrough if the BBC is willing to look at universality in a very different way to the way it has up to now.

Clare Sumner: What I am saying is that we have to look at it through the different prisms of universality. I think Tim is pointing out the importance of that. This is why there has to be evidenced and proper analysis of all the options and what they mean.

The Chair: I am saying that, in the past, universality of access has also been a principle that has determined the universality of everybody having to pay, and the virtuous circle that has not been broken. Thank you for the clarification if you mean that virtuous circle, albeit that you want to look at it through different lenses.

Tim Davie: I am not sure we are in the right place here for a breakthrough, because it is not that simple. What we are saying is that we want to preserve accessibility, but not universality being interpreted as doing everything. That, to me, has to be absolutely about ensuring that there is open and clear access to our services. I have said, and we may go on to this, that we are open-minded on how to deliver that. This is not a radical shift or a breakthrough. If it is about restating what we know to be true now, which is that we are in a market where there are massive-scale competitors around us, we have to make our choices.

The Chair: I will be less excited then than I was a moment ago.

Tim Davie: Sorry to dampen the excitement.

Q135 **Lord Griffiths of Burry Port:** I am not likely to increase your excitement, as I have been granted a question on universality that seems to have been chipped away at several times already. I will grasp in despair at a part that links it to something that Mr Sharp said, or perhaps it was you Tim—I do not know—which is that the BBC is the people's BBC above all. Andrew Neil—let it be said that I am quoting Andrew Neil, I think for the first time in my life—last week identified the public service remit of the BBC in terms of certain activities and areas of life that at all costs must constitute the public service responsibility of the BBC. He highlighted, just off the cuff, 10 or 12 such items, and then said that such a list would, of course, be open for public debate and that

people could then come to an agreement about this being what the public service remit of the BBC amounts to.

Beyond that, where the BBC is in competition with other agencies and corporations and bodies in the field of entertainment or whatever it is, the commercial factor kicks in in a much more obvious way. How you manage that and present that is, of course, a very different thing. But at least it gave coherence, in my mind, to the fact that the BBC cannot be everything for everybody all the time, but that I would like to feel that it was something quite specific, as agreed by the population—as far as they can be consulted—for as much of the time as possible, and that the accessibility for ordinary people is to activities that come within that definition.

I hope I have got Andrew Neil right, but it is the coherence I am searching for, as we have discussed one model after another after another, with shades of overlap here, there and everywhere. I found some coherence last week, and I wonder if that might be challenging. The question I am officially given is: does universality mean that you need to offer everything to everyone at the same price? We have already covered that.

Tim Davie: You have to decide what you are offering at the same price universally. That is important. That does not detract from the accessibility point, but it is not everything for everyone. We have got through that, I think. The interesting point about Andrew Neil's diagnostic is where the dividing line is and how that works.

I worry if that dividing line is about market failure, as I have said, which is the so-called "high-fibre bit"—let us do news over here, let us do something else here. This is why we need to bring licence fee payers en masse into this debate. If you look at the appreciation for UK drama, 15 out of 18 of the top UK dramas with an audience of over 10 million in 2021 were, guess what, made by the BBC. The BBC only makes about 30. There is a reason for that; it is because it connects with those stories. Are we competing? Yes, we are for that hour of your time, but we are competing with gaming, we are competing with everything.

The truth is that it is highly distinctive drama in the way we brief it. We are not trying just to make a commercial return; we are trying to deliver for the UK. We can, out of London, talk to Stephen Knight in Birmingham and to Tony Schumacher making "The Responder" in Liverpool. We can talk about what is happening in Belfast with "Bloodlands" and the various writers there. As we stand today, we can build a drama and be the catalyst for drama investment around the UK, and not only that; we can create drama that will not be made by someone who is making a return for a subscription business.

The dividing line has to be about purpose and what we are here to do. I worry if it is about genre; it is as simple as that. Genre might be easier, but if you look at what is really affecting the market and how the BBC works—

Lord Griffiths of Burry Port: Forgive me for interrupting, but again and

again we have heard the need for content that has a real British feel about it. This is the comparison with Netflix and others, and you are describing precisely that. If we were making the kind of list I suggested, or that Andrew Neil suggested, a strong case could be made for drama that has a British focus to it.

Tim Davie: Indeed.

Lord Griffiths of Burry Port: How to do that would be an interesting public debate.

Clare Sumner: In some of the research we have done, it is exactly the right debate to be had, because sometimes when this discussion happens people immediately go to saying that the BBC should just do inform and educate. There is a competitive market for drama. You do not need to be in this anymore. Every time we go to the audience and give them 100 chips to vote on the mission to inform, educate and entertain, on average 48 chips go on entertain. Yet I agree with you that it is about something that is distinctive that is based in Britishness, in values and in very high content standards. We probably have some of the highest content standards globally. This is part of the debate that we think you should have at the top before you get into funding answers, because some of the audience reaction is different to some of the perceptions and assumptions made.

Richard Sharp: I should add that I said that we should think of ourselves as a national mutual. That is relevant, because it is not just a script; it informs the values that we have. It is not that our values do not overlap with the values of other media organisations, but because we are not seeking to make a shareholder return, the priorities are our values and lead to what is distinctive in aggregate about the value proposition that we represent to the nation and the world. It is no accident that we are the most trusted news organisation in the United States, and we need to think about those values in respect to the future and the proposition of the BBC in the nation and the world in relation to the commercial ecosystem. Funding can have implications for that, because that distorts and alters priorities.

Lord Griffiths of Burry Port: Thank you. I found that very useful.

Q136 **Baroness Buscombe:** I am listening to you all and thinking about the consultation you will have. I will wonder at the person who is going to interpret all this in a way that the listener and the viewer can understand. When you talk about “accessible to all”, people could read that in myriad ways. A lot of people do not know what public service means. Universality we are already confused about. I will just put that in your thoughts.

Tim Davie: That is extremely well put. The debate about accessibility is semantic and confusing. Universality comes down to what people value, and we can ask what they—

Baroness Buscombe: Can we say “want”?

Tim Davie: Yes, what they want, absolutely. We also want to make sure that the research we do is properly based, because in some ways just listing what you want is not enough, sorry. You have to go to the heavier stuff, which is what people really value in their lives as different, and look at their usages as well as their attitudes to what society they want to build.

I absolutely think this should be driven by what people are using. You will have seen that we recently did a deprivation analysis with people who say that they do not use the BBC. We took the BBC away from them for a few days and then went back to them, and pretty much three-quarters said, "We'd like the BBC back, please". That is important when it comes to how people are actually using our services, which is the backbone of this, and then look to the future and understand what that looks like in a fully non-linear world, because those demands are on us too. We have to make sure that we can deliver scale in that time.

Clare Sumner: I agree with you. In terms of the debate, we should be really clear what we mean.

Q137 **Lord Foster of Bath:** Thank you very much. It is great to have you here. You probably understand that we fully grasp the need to be clear about what we want the BBC to do before you can even begin to look at how it will be funded. We are gradually moving in our questioning towards the funding method, or the funding mechanic as you call it. But, as you rightly pointed out, Clare, we currently have a hybrid system, and no doubt in the future we will probably continue to have a hybrid system, whatever it might be, that will include a commercial component.

Before we move on to the funding mechanics—I know Lord Vaizey will want to ask about this too—I just want to explore a bit more about that commercial component. Tim, perhaps you can kick off on this question, given your background before you became director-general. There are a number of things that you have done recently—BBC Select, Podcasts Premium, taking children's programming to BBC Studios and so on. I am sure you have other things up your sleeve, but can you just share with us your thinking about where the commercial income of the BBC will fit, alongside whatever else the alternative might be?

Tim Davie: Very simply put, there are two significant commercial opportunities for the BBC that are global and are largely beyond the UK boundaries: production, and supplying productions through our BBC Studios business. We had linear channels around the world, but there are now opportunities in an over-the-top environment for online and on-demand services. One of the good parts of the licence fee settlement was, of course, the increase in the borrowing we could make as BBC Studios to facilitate that growth. We should be incredibly proud of the performance of BBC Studios for the last few years—I say that as a loaded witness—but I think you will continue to see good growth. In the UK—

Lord Foster of Bath: I am sorry to interrupt, but, just as a sidebar, you are aware that the NAO was not necessarily critical, but noted that the BBC "has been relatively cautious and tried not to use the borrowing

limits unless necessary". With a higher borrowing limit that you are obviously welcoming, are we going to be slightly riskier and slightly more innovative?

Tim Davie: Entrepreneurial ambitions can be funded a bit more aggressively with that funding, there is no doubt about it. If you look at the acquisition of the rest of UKTV in the last few years and at the joint venture on BritBox, you can see the acquisition of independent companies that have done very well for us in terms of making sure we have the right IP, because this story is also critically about what IP we have in the UK, not just what we produce.

When it comes to the commercial objectives of the BBC, there are a couple of points that are critical. First, it is driven globally by furthering the BBC's purposes. It is not a business that is purely there to make profit at all costs. We are a public service media organisation with a commercial arm that sits alongside the world service globally.

Secondly, we use the commercial arm to increase and improve the value for the UK licence fee payer. The licence fee is the BBC's biggest revenue by a mile. It is £3.8 billion out of £5.3 billion-odd. That is precious, and the priority for the BBC globally is to make sure that every dwelling in the UK gets good value out of £13 a month. That is helped by the commercial arm, so nothing we do should compromise that.

In the UK, we have some choices: how much we put on iPlayer, how much we put to offer value to the licence fee payer, and how much we put in the commercial side in the UK. In recent times, you will have noticed that iPlayer is a bit thicker, that we are doing less business with the likes of Netflix in the UK while actively growing our co-production business with Netflix around the world as good partners, as they said in their evidence. But it is about ensuring that value for the licence fee is growing, and that is what the commercial arm does. It does not just diminish or thin the offer in the UK; it grows it. That is what I am trying to achieve.

Lord Foster of Bath: Could we delve into this a bit more? If we look at the current figures—I am being very broad brush here—£1.5 billion is brought in from your current commercial activity, but the actual contribution that makes to the BBC's activities generally is about £250 million.

Tim Davie: Correct.

Lord Foster of Bath: That is a relatively small return. In part, we understand that will be because production costs are very high at the moment. The second reason, which you expressed incredibly well and we absolutely understood it, is that you are not just trying to make a commercial return from your drama, and you have reiterated that more recently. We accept those two points. Are you suggesting that in the future all these other activities will similarly have a relatively small return for a very significant investment?

Tim Davie: That is a very good question. The points you make structurally about the financing are critical, because I hear a lot of talk

about growing the commercial arm et cetera. This is not a blind defence of the licence fee. It is simply saying that you get £3.7 billion in, and the cost to collect is not much more than £100 million. You can then spend it, and you spend it against the purposes, you are held to account, and you get as efficient as you can on that, but you do not have to make a return to shareholders. It is absolutely a clear model. Then you have another clear model, which is a commercial business. We can talk about the EBITDA margin, benchmarks for Studios versus other players. We are within Ofcom's targets, and if we get it right I think we will be slightly ahead. We are an effective commercial business, but there is definitely more we could do.

It is interesting to note that linear channels always had a high margin. On-demand services require investment, which is evident if you look at the economics of some of the other players, so you are probably into margin dilution to grow scale. But there is no scenario in which you are seeing 30% or 40% margins in the future. A 10% to 15% margin is a reasonable business in production and OTT services.

Therefore, if you do the maths, it can be said that the commercial arm, if doubled or trebled, has a hugely beneficial effect on being able to bring high-quality content back to the UK, there is no doubt. We cannot even deliver our 30-odd dramas a year without that co-pro investment and the commercial return, so already it is necessary for certain genres and elements. It also allows us to keep talent in the organisation. It does not transform our finances fundamentally for the long term and get us out of this question. However, even with aggressive growth targets that we have, we are very ambitious about the commercial arm, and we are excited by it. This can grow UK creative industries, but in terms of transforming the landscape, particularly when it is inflating around the world, you also have to cope with these big companies taking dramas. If you do the maths, it is quite difficult to get to a point where it is transformational in the medium term.

Lord Foster of Bath: I am very grateful, and we had some discussion about this prior to you coming. It would certainly be enormously helpful to the committee if we could have a more detailed briefing on some of those figures on the current returns and the various things you have in mind for the future, and what those returns will be.

Just so I am clear about you said earlier and the funding mechanics and your preparation for what is happening, my understanding is that you are at the stage where it is the board that is now being charged with looking at it. Could you just tell us what you expect to come up with? What is the end product of that? Can you just clarify precisely what the BBC collectively is doing, bearing in mind the debate that is going on?

Richard Sharp: If I understand your question right, this is a strategy review to determine what the strategy of the BBC should be in delivering its public purposes as a public service broadcaster. What are the potential funding options? What are the implications of those options, and where should the BBC be positioned to be competitive against an anticipated global media environment in the future? In order to do that,

you have to obtain expert advice and then make risk-based judgments about the evolution of a highly dynamic industry. The opportunities for that industry to deliver product direct to UK consumers and then the board—particularly the non-execs, because we have an independence—holds up an objective evaluation of that to test the hypothesis that goes around alternative strategic solutions to create that value. That is what we will do and have started doing in terms of enhancing the resources available to us so that we can actually look at the different alternatives.

Part of what will inform that will also be ensuring that we have the information from households about wants and needs, those are two separate things—coming back to what Baroness Buscombe said—and their opinions on the fairness and value propositions. We will take those into account as an iterative process, and no doubt we will also be part of discussions, as we should be, with the DCMS itself and with Parliament, both in the other place and here.

Q138 Lord Hall of Birkenhead: Just one question, Tim, about something you referred to earlier. We had a lot of evidence from a number of people—Andrew Neil was certainly mentioned—talking about one of the answers being a top-up subscription. Mark Oliver went through the process of how you would do that. You said earlier that you would not want to make the genre differences and say, “That all goes on top-up and this all goes on the universal licence fee paid service”. It would be really helpful to understand, from the BBC's point of view, what else you would need to believe if an option were to be a top-up subscription. What else would you need to do, quite apart from making choices about genres, to make that into a business that could help the BBC in the long term?

Tim Davie: First, primarily we need to make sure that the public service offers outstanding value for money at its core. We must debate how the core is funded, and we should be very open-minded about what that core is. When I say the core, I mean that it has to deliver against the purposes in the round, and that is the primary job for us. I do not think we are at a point yet where we are saying that will be part of the process and what the options are for a hybrid model now, but we make choices based on delivering public service value holistically in terms of the licence fee and the licence fee payer. I would not go beyond that at this point, because I think that is the essence of it.

Lord Hall of Birkenhead: Mark Oliver mentioned the costs of maintaining subscriptions. He talked about a five-year period to move to any model like that, because you need to build up a relationship with your audiences. He talked about an investment pot, when I pressed him, of about £10 billion over five years. It would be a very big.

Tim Davie: The point is that any transition needs to be incredibly well planned. The unintended consequences here could be very high if we get it wrong. The stakes are incredibly high in making the right choices, and whatever model evolves you will have to have a significant transition. We have six million households with a low broadband connection and three million who do not have any. We are miles away from being at a point where we could say, “Okay, we can jump over here, and everything

would be fine". We have a lot of work to do in any transition. I keep coming back to our current position, which is that we have to be open-minded about the models, but we also want to make sure that we protect the value of the public service offer. That is what is driving the success of our creative industries at the moment, and there are a lot of implications if you move away from a system that did not do that.

The Chair: There is a distinction to draw between commercial funding options and different ways of collecting a public funding, and we have not really touched on this. In the course of your deliberations so far—the chairman, Mr Sharp, has outlined how you will consider this as a board—where do alternative public funding options come in? Is it via a household by adding it to council tax or utility bills, that sort of thing?

Richard Sharp: The board has already started looking at all options, and we will continue through this process, because I think Parliament/you/the people would look for us to have an opinion on the implications of different ones. Obviously, those models are familiar to you. You have studied them. There is more work that we need to do to actually see how they sit in the UK in the way it operates. We have different norms, different behaviour patterns, so we also need to look at different alternatives and see how they look as a template against who we are as a nation. Then, of course, it is a decision for Parliament to make, but they should absolutely expect us to do the work in looking at every option and having a point of view on them.

Q139 **Lord Vaizey of Didcot:** In a perfect world for the BBC, you would probably want the licence fee to increase every year and to keep the services you offer now and then increase those services. Part of the problem you have is that one never feels that the BBC is producing innovative thinking about changing its model. In the last charge review I was involved in, John Whittingdale came up with the idea of an audience content fund using some of the licence fee to pay for public service content for other platforms. That would never have come from the BBC. Do you think it is a problem that the BBC is always on the defensive, defending the licence fee in defending the status quo, rather than "leaping ahead" and offering a vision of the future that represents where we are today?

Richard Sharp: Barry Diller once said that, "When companies have something to defend, they are most vulnerable". If I had been sitting here, maybe as recently as six years ago, you would probably all have a BlackBerry. The fact is that we are operating in a technologically dynamic world, and all the consumers in the UK are participating in that and judging us against commercial market competition, so we embrace the opportunity now. This board embraces the opportunity to look at this, because if we do not embrace it we lose our value proposition. But, first, we have to draw up the strategy and then look at the funding model that fits that strategy to see where the inconsistencies or consistencies lie. We are open-minded about creativity in thinking about different ways to engage.

As a recent chair, there are a lot of things going on that I had not been aware of. I had not been aware of our connection to local journalism, the training programmes, the involvement in different communities where we operate, whether it is in Cardiff, Belfast, Glasgow, for example. You saw an incredible response during the pandemic with education that was nimble by any standards—extraordinary, probably, by BBC standards—in delivering education and other options for people into their homes, so I am not sure I entirely agree with you on that point.

Tim Davie: On an economic point, there are typical behaviours of successful legacy operations that are 100 years old that continue to do pretty well in terms of their current numbers, and I would add that the public justification of the BBC is one of the joys of the job. Therefore, I think you do get pressures where you can ask if the BBC is being too defensive. It does not represent where we are if you think that, as a board and a group, we are not open-minded and interested in how to evolve the BBC over time.

We do not see the future as simply increasing services and spreading forth. You have seen the beginnings of choice, reducing the number of people and reducing the amount of content. We make less content in some of the genres than we did. We are cutting back to increase impact. People get nervous when I mention cutting back people, because they say that the BBC is getting too skinny, but that is not what we will be. We are a broad-scale intervention, but you are right to challenge us. The world is moving incredibly fast into a non-linear world. We need to reshape ourselves to address that, but we are confident we can do it. It is such a valid mission to try to build public service media over the next five to 10 years, but the idea that the BBC is just digging its heels in is wrong. I think we are confident, but we know that the market is unforgiving and we need to make our choices.

Lord Vaizey of Didcot: I just want to raise one specific point which develops my point briefly. For example, the BBC would not launch its own TikTok or Spotify as it is not in that game and it would be a big bit to chew off. You mentioned gaming earlier, and you will probably do licencing when it comes to gaming—I am sure there is a “Doctor Who” video game out. I am interested in radio, for example, and you mentioned the Radioplayer. It is a great thing. I looked it up again on the app store once you mentioned it. All the commercial radio stations and the BBC are co-operating in it, which to me is kind of nirvana.

We also have BBC sounds. In its evidence to us, Global said that there is a nascent podcast market developing, and guess whose two big left feet have plonked themselves in this developing market—the BBC. There is also BBC Radio 1 Dance, which is not my specialty, but my instinct is that the UK, or the world, does not need another dance music station, particularly with the growth of digital radio. Do you think you give the commercial media, who are your competitors obviously, enough space to develop their markets before jumping in and competing?

Tim Davie: We are very sensitive to it, and we consider these things very seriously. Aside from the regulatory environment in which we exist,

which is appropriate, and you are aware of this argument, the playlists of our services are radically different, and no one is a bigger supporter of the job that Global and Bauer have done. We can be very proud of the radio industry facing big structural challenges, but we have to spend more time developing, as we have with Radioplayer, and look at the way we can ensure prominence together.

As you know, when I was working in the radio market, I was fascinated by trying to ensure the growth of the radio market as a whole. If you look at international trends around linear radio or local press, the UK is probably in a stronger position and the BBC has been largely helpful in driving the issue. That is not to say that there are not valid questions and valid issues. We can talk about this stream or that stream, but, broadly speaking, we have a market that is performing better than those globally. A lot of these changes are structural—the biggest competition on the ground where I live is probably nextdoor.co.uk; it is close to your patch—but these things are changing the market so dramatically that I think sometimes we fight small battles when we need to win big wars. The BBC can be incredibly important and a positive builder of the UK market, and that is what we need to do. It is in our and everyone's interests to do that.

Clare Sumner: I just want to follow up very quickly on your earlier question. It is also interesting when you go to our audiences and talk about these questions. We have been running a survey for at least a decade, and the licence fee is still people's preferred method, at 46%, with things like subscription at around 26% and advertising at 24%. Again, to your point about the debate around us, the audiences still see it as something that they value, and they understand some of the consequences that we will also have to look at.

A final question comes back to the heart of some of this debate: what value are we providing audiences, and do they feel that it is something that they want to continue? That is why we keep coming back to the prior question. I think it is important to add that as you consider this issue.

- Q140 **Baroness Buscombe:** To bring this to a close, in a sense, but just thinking about a number of things that you focused on, one of the things that you stressed at the beginning was independence. You have an opportunity here, you have said, and you welcome it. We are talking about a period of time before we reach the next licence fee renewal process. Are you saying that you really are up for the fight for this to be different, in the sense that it is high risk? It is also about what Archie Norman said last week about the "permission to disappoint", because change will always disappoint someone somewhere, or sections of the community. You have the public, Parliament and DCMS to please. Are you confident that you are the ones who should have the leadership and ownership of this change and therefore will build on that strategy to persuade us all, because perhaps leadership and change should come from within?

Richard Sharp: You heard the same from Sir Peter Bazalgette. The BBC has a duty to lead this, but it has to be humble enough and recognise that the decision is for Parliament, because Parliament as a whole represents the people. We will be sophisticated enough to conduct an objective evaluation that will be collaborative and involve significant consultation. We have to be forward-looking in relation to technology, which requires expertise. As I have said, it is not just about wants, it is also about needs, and we collectively have to think about the value proposition and the needs that the BBC satisfies not just domestically but for the 500 million, potentially billion, people around the world, a proposition that delivers for the local economy and does not crush competition. The BBC operates in a sophisticated way in this space, of course, so we should take a leadership in this, but it is not for us to be making a final judgment. We have to be subject to scrutiny and constructive criticism from all parties, and we should welcome that.

Tim Davie: The way you have framed it is absolutely as I see it. The market is changing too fast for us to be sitting here saying that we do not want to lead change. That does not necessarily mean by definition a funding mechanic, but it definitely means—to Lord Vaizey’s point—that doing what we have done historically and trying to expand to cope with the changing market is not a sustainable strategy for us at the BBC. It will be about choices. You begin to see that on the ground in the BBC, a wry smile about your point that you may disappoint people. Internally, we are going through an enormous amount of reform and will continue to do that. We will lead with what we have talked about today, which is that we will set some clear principles.

What are the principles here behind the purposes of what we are trying to do with public service broadcasting, but also in the context of the new reality of the market, which is wholly changing, and the world, which has changed completely through the internet? Alongside those principles, we believe that we have 90% of the UK population every week and pretty much all the population every month. As the BBC, it is appropriate that we lead a proper discussion with those who are using our services about, to your question, what they want. It is a beautifully phrased, simple point. That is what we need to do as the BBC, and we need to lead that.

As the board, I am sure we will have an opinion and some thoughts on where we go forward. That is our role as the BBC, while delivering flawlessly throughout this. Then it is up to Parliament and others, which is why this work is so critical. We must calmly think through the options and the unintended and intended consequences and make a decision. That is where we are, but I can tell you that at the centre of the BBC there is no defensiveness about this. The defensiveness is simply about public service broadcasting and the preciousness of what we have in the UK and globally. We really care about that, and we care about it more than any other thing that sits above all this.

Richard Sharp: It is important that the process and the timeframe allow it to be evidence-based and thoughtful. We are dealing with multi-dimensional chess here, and we need to be very careful about the change. It does not mean that we do not go as quickly as we should or

can do. But, at the same time, we should not be hasty, because there are a lot of implications here. There is a lot at stake for the economy and consequentially also for the nature of the UK, because we are a public service entity so we will be deliberate, and we will be thoughtful.

The Chair: Thank you. Just to sum up, it is encouraging to hear from you an enthusiasm to lead the change in this, and that is an important change in tone and attitude from the BBC. Forgive me if these were not words out of your own mouth but out of the mouth of one of my colleagues, but “up for a fight” is a phrase I would be cautious about, because that could be interpreted as you defending the status quo.

Tim Davie: They were not our words, Chair.

The Chair: The critical thing that people are looking for from the BBC in showing leadership on, and what you were not showing leadership on, is the maintaining of the status quo. If that is what you were doing, there would be no difference at all. So I am grateful for that.

It is also important when you are listening to your audiences—going back to the beginning of this conversation—to reflect the fact, which the evidence shows, that there is a plurality of people in the UK who are paying but who are still feeling that they are not seeing themselves properly reflected on the BBC or necessarily respected in the way the content serves them. It is important that we do not ignore them in the work that you do. I am very grateful to you for being here today, for your testimony and your openness with us.