



HOUSE OF LORDS

Communications and Digital Committee

1st Report of Session 2022–23

Licence to change: BBC future funding

Ordered to be printed 7 July 2022 and published 18 July 2022

Published by the Authority of the House of Lords

Communications and Digital Committee

The Communications and Digital Committee is appointed by the House of Lords in each session “to consider the media, digital and the creative industries and highlight areas of concern to Parliament and the public”.

Membership

The Members of the Communications and Digital Committee are:

[Baroness Bull](#)

[Baroness Buscombe](#)

[Baroness Featherstone](#)

[Lord Foster of Bath](#)

[Lord Griffiths of Burry Port](#)

[Lord Hall of Birkenhead](#)

[Baroness Harding of Winscombe](#)

[Lord Lipsey](#)

[Baroness Rebuck](#)

[Baroness Stowell of Beeston](#) (Chair)

[Lord Vaizey of Didcot](#)

[The Lord Bishop of Worcester](#)

[Lord Young of Norwood Green](#)

Declaration of interests

See Appendix 1.

A full list of Members’ interests can be found in the Register of Lords’ Interests:

<http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/register-of-lords-interests>

Publications

All publications of the Committee are available at:

<https://committees.parliament.uk/committee/170/communications-and-digital-committee/publications/>

Parliament Live

Live coverage of debates and public sessions of the Committee’s meetings are available at:

<http://www.parliamentlive.tv>

Further information

Further information about the House of Lords and its Committees, including guidance to witnesses, details of current inquiries and forthcoming meetings is available at:

<http://www.parliament.uk/business/lords>

Committee staff

The staff who worked on this inquiry were Daniel Schlappa (Clerk), Emily Bailey Page (Policy Analyst) and Rita Cohen (Committee Operations Officer).

Contact details

All correspondence should be addressed to the Communications and Digital Committee, Committee Office, House of Lords, London SW1A 0PW. Telephone 020 7219 2922. Email holcommunications@parliament.uk

Twitter

You can follow the Committee on Twitter: [@LordsCommsCom](#).

CONTENTS

	<i>Page</i>
Summary	3
Chapter 1: Introduction	5
Box 1: BBC funding: key facts	6
Figure 1: BBC expenditure	7
Box 2: Key terms	7
Chapter 2: BBC purpose	8
BBC purpose	8
Reithian mission	8
A universal service	13
Market failure or shaper?	14
Shaping markets and value to the creative industries	15
Figure 2: Creative industries' GVA in Europe	16
Soft power and international value	18
Chapter 3: Strategic challenges	19
Future media environment	19
Figure 3: Estimated cumulative content expenditure by major SVOD platforms	21
Figure 4: Breakdown of total UK video viewing age 4+	22
Figure 5: Online video service used in UK households to watch programmes or films	22
Figure 6: Breakdown of total UK video viewing, by age group	23
Figure 7: Adults (15+) share of audio consumption	24
Figure 8: Annual delivery of savings by category	25
Serving the whole of the UK	26
Figure 9: Audience satisfaction distribution	28
Responses from the BBC and Government	28
Chapter 4: Funding models	33
Principles for a funding model	33
Table 1: Selection of European countries that have abolished their TV licence fees in the past decade	33
Existing licence fee	35
Reforming the licence fee	36
Alternative commercial funding	37
Advertising	37
Subscription	39
Alternative public funding	41
Hypothecated tax on income	41
Telecommunications levy	42
Household levy	42
Grants from the Government	44
Contestable funding	44
Hybrid commercial funding	45
Part domestic subscription	46
International subscription	48
Chapter 5: Future transition	50
Technological and commercial factors	50

Radio	51
Figure 10: Audio (excluding visual) by device share percentage for all adults	51
An online-only world?	52
A hybrid future?	53
Industry developments	53
Political process and timing	54
Public consultation	55
The BBC's role	56
Summary of conclusions and recommendations	58
Appendix 1: List of Members and declarations of interest	63
Appendix 2: List of witnesses	65
Appendix 3: Call for evidence	71
Appendix 4: Visits and public engagement	72

Evidence is published online at: <https://committees.parliament.uk/work/6513/bbc-future-funding/publications/> and available for inspection at the Parliamentary Archives (020 7219 3074).

Q in footnotes refers to a question in oral evidence

SUMMARY

We are publishing this report in the midst of a rapidly transforming media landscape. Change is occurring at unprecedented scale and pace—both in the UK and across the world. Linear TV consumption looks set for long-term decline. Digital alternatives are proliferating. Consumer habits are evolving rapidly. Production costs are rising and the global market is dominated by international giants that enjoy vast strategic advantages in financing, data, and economies of scale. These changes are transforming the way audiences choose and consume media.

There is a vital role for the BBC in a changing world characterised by political realignments, technological revolution and expanding choice. We want to see a BBC that remains at the heart of British broadcasting—bringing the nation together, serving all sectors of UK society, and delivering a world-leading service that is respected across the globe. But its role must be more clearly defined. And the BBC must change to ensure it can deliver value for audiences and society in the years ahead.

The BBC must do more to maintain the legitimacy of public funding by doing a better job of representing the full range of perspectives and communities that make up our diverse society. It must adapt its services to remain relevant to younger audiences while supporting those who will rely on linear TV for at least the next decade. And it must make choices and be honest about what it can and cannot deliver in the context of rising costs, restricted funding, and a ruthlessly competitive future marketplace. It otherwise risks a future of gradual stagnation and decline.

The way in which the BBC is funded in future could have a major impact on how well it can navigate these challenges, and what it is able to provide. But discussions on funding have too often become locked in a binary ‘for or against’ licence fee debate. This is unhelpful. Our inquiry sought to move beyond this impasse and set out clearly the complexities and consequences of changing the funding model.

Our evidence was clear that some form of public funding for the BBC remains necessary. The licence fee is one option, but not the only one. It retains several benefits, but its drawbacks are becoming more salient. The link to a television set looks increasingly outdated. Its regressive nature means that regularly raising the fee to the levels the BBC requires will hit the poorest hardest.

There are alternatives to the current system. A universal household levy linked to council tax bills is one option which could take greater account of people’s ability to pay. A ring-fenced income tax is another. Reforming the existing licence fee to provide discounts for low-income households is a third. Each of these merits serious attention. The BBC will also need to expand its commercial operations. We are calling for it to be open minded about exploring more ambitious commercial options, such as domestic or international hybrid subscription services. There are several variations on how these could operate.

It is important to be clear about what will not work. Substituting the licence fee entirely for advertising would provide insufficient income whilst decimating the revenues of other public service broadcasters. A full subscription-based model would likewise deliver inadequate revenues and face major technical hurdles

and accessibility barriers. Funding the BBC through Government grant would risk undermining editorial independence.

Ultimately the decision on the funding model depends on what the BBC should be for and what it exists to provide. We are therefore calling on the BBC to publish a bold new vision. This must propose a strategic purpose that will guide it through the next quarter of the 21st century and set out what it will do differently, what it will stop doing and where it needs to innovate. This must include costed options for future funding mechanisms and how these would affect the corporation's ability to deliver on its purpose. This should represent a step change in how the corporation approaches the funding debate. Such work is essential to ensuring that discussions ahead of the next Charter renewal are sufficiently open minded, transparent, and well informed.

Any changes to the BBC's funding will require public support. We were concerned about the lack of plans for public engagement, and we call on the Government to commit to holding national consultations before proposing changes to the funding model. We also noted the need for a more nimble regulatory framework.

The BBC has a central role to play in the life of the nation, the creative economy, and the UK's soft power. But the status quo is not an option. Now is the time for the BBC to redefine its role and use this opportunity as a catalyst to drive much-needed change.

Licence to change: BBC future funding

CHAPTER 1: INTRODUCTION

1. We launched this inquiry in February 2022 to examine how the BBC should be funded in future. The BBC's main source of funding is the licence fee, providing roughly £3.7 billion of its current £5 billion annual income.¹ The remainder is generated through other, non-public means. The constitutional basis for the BBC and its governance comes from the Royal Charter (the Charter), which is typically reviewed every 10 years. The current Charter ends in 2027.
2. Questions around BBC funding are not new, but are becoming more pressing. The corporation faces growing competition, rising production costs, changing audience habits, concerns over representation and relevance, and constrained funding. The period between now and the next Charter renewal provides a window for taking crucial decisions that will influence the BBC's trajectory for decades to come.
3. In recent years successive governments have questioned whether the licence fee should remain. In April 2022 the Government published a White Paper on the future of broadcasting. This stated that there were "clear challenges on the horizon to the sustainability of the licence fee" and confirmed there would be a review of the BBC's funding model ahead of the next Charter period.² The Government subsequently confirmed it would launch an independent review in July 2022.³
4. Our inquiry builds on decades of previous debates. In 1986 the Peacock Committee held a major review of the BBC which recommended retaining the licence fee as the 'least worst' option.⁴ Various subsequent reviews have concluded along similar lines.⁵ In 2021 the House of Commons Digital, Communications, Media and Sport Committee called on the Government to "come out with a strong alternative to the licence fee that it can put

-
- 1 The Government can sometimes decide that the fee will be used for other purposes such as the digital television transition and superfast broadband rollout. The licence fee also funds S4C, the Welsh broadcaster. For details on BBC funding see BBC, *BBC Group Annual Report and Accounts 2020–21* (9 July 2021): <https://downloads.bbc.co.uk/aboutthebbc/reports/annualreport/2020-21.pdf> [accessed 10 June 2022]
 - 2 Department for Digital, Culture, Media & Sport, *Up next—the government's vision for the broadcasting sector*, CP 671 (29 April 2022): <https://www.gov.uk/government/publications/up-next-the-governments-vision-for-the-broadcasting-sector/up-next-the-governments-vision-for-the-broadcasting-sector#chapter-3-a-new-system-of-public-service-broadcasting-for-a-new-era> [accessed 8 June 2022]
 - 3 Oral evidence taken before the Digital Culture Media and Sport Committee on 19 May 2022 (Session 2022–23), [Q 82](#) (Nadine Dorries MP)
 - 4 Professor Alan Peacock, *Report of the Committee on Financing the BBC* (1986)
 - 5 For example, the House of Lords Select Committee on the BBC Charter Review found in 2005 that the licence fee was the "best way to fund the BBC over the next decade". In 2015 the Select Committee on Communications broadly agreed. See Select Committee on the BBC Charter Review, *The Review of the BBC's Royal Charter* (1st Report, Session 2005–06, HL Paper 50) and Select Committee on Communications, *BBC Charter Review: Reith not revolution* (1st Report, Session 2015–16, HL Paper 96)

to Parliament, or strongly support the current model for at least the next Charter period”.⁶

5. We sought to move the conversation on by shedding light on the practical implications of alternative funding options, and exposing the challenges which demonstrate why this issue is becoming more time-sensitive. In doing so we sought to move beyond the binary ‘for or against’ licence fee debate.
6. Any decision on changes to the funding model must flow from a clear vision of the BBC’s purpose. To that end, our call for evidence focused on what the BBC should be for and how it should be funded.⁷ We sought to hear perspectives from all sides of the debate. We held evidence sessions with a range of witnesses and visited the BBC in MediaCity UK, Salford. We held roundtable discussions in Salford with young adults, and online with members of the public from England, Scotland, Wales and Northern Ireland. We are grateful to all who helped with our inquiry.

Box 1: BBC funding: key facts

£3.75 billion—the amount the BBC received from licence fee income in 2021. This accounts for approximately 75 per cent of the BBC’s total revenue.

£1.31 billion—the amount the BBC generated in 2021 from non-public commercial and other activities, such as grants, royalties and rental income. This accounts for approximately 25 per cent of its income.

The BBC uses this funding to provide a range of services including a range of TV channels, the iPlayer, BBC Sounds, BBC Online, 10 UK-wide radio stations and over 40 national and local radio stations. The BBC World Service is also partly funded by the licence fee.

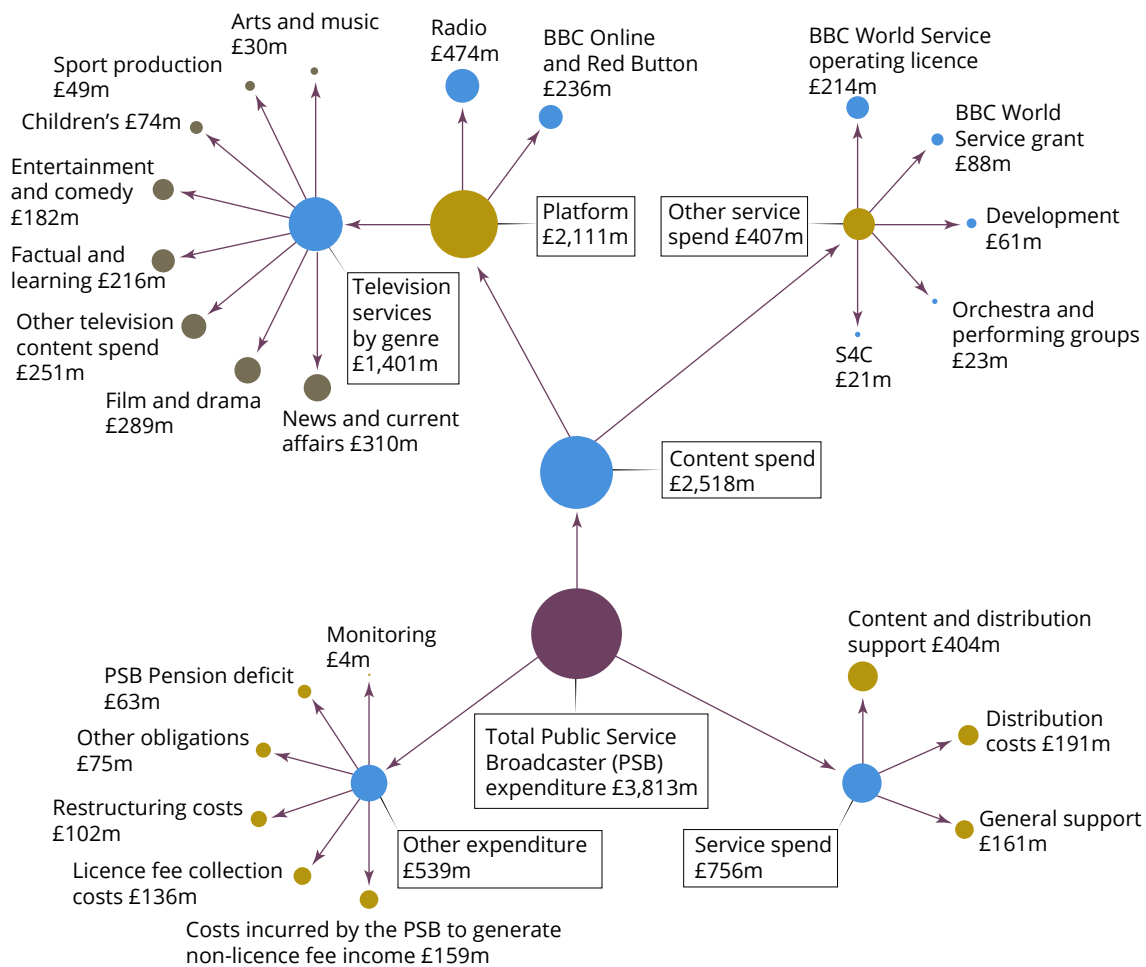
The annual TV licence fee is £159 for colour and £53.50 for black and white. The fee is frozen until 2024 then will rise in line with inflation for four years. Around 25.9 million TV licences were in force in 2019–20.

A licence fee is required to watch or record television programmes as they are being shown on any channel and on any broadcast platform (terrestrial, satellite, cable or the internet) or to download or watch BBC programmes on BBC iPlayer. 27 million or 95 per cent of all households in the UK owned a TV set in 2020. The annual average evasion rate in 2019–20 was 6.95 per cent.

Source: House of Commons Library, TV licence fee statistics, Research Briefing [CBP-8101](#), 24 January 2022

6 Digital, Culture, Media and Sport Committee, *The future of public service broadcasting* (Sixth Report, Session 2019–21, HC 156), para 65

7 The wider public broadcasting sector was out of scope. This has been examined in detail elsewhere. See Communications and Digital Committee, *The future of Channel 4* (2nd Report, Session 2021–22, HL Paper 108), see also Digital, Culture, Media and Sport Committee, *The future of public service broadcasting* and Ofcom, ‘Small Screen Big Debate’: <https://www.smallscreenbigdebate.co.uk/research> [accessed 8 June 2022]

Figure 1: BBC expenditure

Source: National Audit Office 'The BBC Group Departmental Overview 2020–21' (October 2021): <https://www.nao.org.uk/report/departamental-overview-2020-21-the-bbc-group/> [accessed 8 June 2022]

Box 2: Key terms

Public service broadcasting—content that is broadcast for the public benefit, rather than for purely commercial purposes. The UK's public service broadcasters are BBC, ITV, STV, Channel 4, S4C and Channel 5. Public interest obligations, such as universality, impartiality and programming quotas for independent productions, original UK productions and news are imposed in return for privileges such as prominence.

Subscription video on demand (SVOD)—services that provide online video streaming content for a subscription fee.

Broadcast video on demand (BVOD)—content made available online and on-demand by TV broadcast stations.

Linear TV—the traditional method of viewers watching scheduled TV when it airs on its original channel.

Source: House of Commons Library, TV licence fee statistics, Research Briefing *CBP 8101*, 24 January 2022 and Communications and Digital Committee, *Public service broadcasting: as vital as ever*, para 8

CHAPTER 2: BBC PURPOSE

7. The BBC has been a centre point of British life for 100 years. Its recent coverage of the Platinum Jubilee and the Ukraine crisis showcased the BBC's strengths and underscored the continued relevance and importance of public service broadcasting.⁸ The BBC provides a trusted source of information across the UK and the world. It creates much-loved entertainment for millions, and delivers unrivalled educational content to children and adults alike. Through this the corporation plays a leading role in stimulating the creative industries, developing skills, nurturing British talent and creating economic benefits across the country.⁹
8. Our evidence was clear that decisions about the BBC's funding model must be led by a clear vision of what the BBC is for. This question is becoming more pertinent in a world of expanding choice, personalised content and competitive market dynamics. This chapter sets out the key considerations relating to the BBC's purpose and why this needs to be clearly defined. The subsequent chapter explores strategic challenges facing the BBC and evaluates the corporation's response.

BBC purpose

Reithian mission

9. The BBC's mission is set out in the Charter. The broadcaster is to "act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain".¹⁰ This mission to 'inform, educate and entertain' was initially articulated by the BBC's first Director-General Lord Reith and has underpinned the BBC's work ever since. In the early 2000s 'public purposes' were introduced to help clarify the BBC's work and objectives.¹¹ These were updated ahead of the 2017 Charter, which tasks the broadcaster with delivering five public purposes:
 - to provide impartial news and information to help people understand and engage with the world around them;
 - to support learning for people of all ages;
 - to show the most creative, highest quality and distinctive output and services;
 - to reflect, represent and serve the diverse communities of all the United Kingdom's nations and regions and, in doing so, to support the creative economy across the United Kingdom; and
 - to reflect the United Kingdom, its culture and values to the world.¹²

8 [Q 141](#) (Julia Lopez MP)

9 Written evidence from the BBC ([BFF0040](#))

10 Department for Culture, Media and Sport, *Broadcasting: Copy of Royal Charter for the continuance of the British Broadcasting Corporation*, Cm 9365 (December 2016): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577829/57964_CM_9365_Charter_Accessible.pdf [accessed 10 June 2022]

11 For details on their development see Select Committee on Communications, *BBC Charter Review: Reith not revolution*, Appendix 6

12 Department for Culture, Media and Sport, *Broadcasting: Copy of Royal Charter for the continuance of the British Broadcasting Corporation*

10. In April 2022 the Government published a White Paper setting out its intention to review the broadcasting sector and replace the public service broadcasting purposes and objectives. The Government said this would support public service broadcasters in focusing on areas where they are “uniquely positioned to deliver and that would make us poorer as a nation—culturally, economically and democratically—if they were not provided.”¹³

Evaluating its mission

11. **Inform:** we heard consistent support for the BBC’s role in providing a trusted source of information. Many witnesses said the BBC’s news sources were crucial to ensuring that citizens could participate fully in the UK society and democracy—both local and national news coverage were highlighted in this regard.¹⁴ Trusted news sources are likely to remain valued in an increasingly complex information environment, particularly in the context of rising mis- and dis-information. Dr Richard Fletcher, Senior Research Fellow at Reuters Institute for the Study of Journalism, believed there would be an enduring desire for a prominent source of impartial news and fact-based reporting.¹⁵ This work is subject to significant challenges as set out in Chapter 3. The Reuters Institute’s Digital News Report 2022 found for example that BBC News had the biggest drop in trust compared to public service media brands across international markets, declining from 75 to 55 per cent between 2018 and 2022.¹⁶ We also noted there were wider areas the BBC could improve on, notably its business coverage.¹⁷
12. **Educate:** we heard similar consistent support for the BBC’s educational role. Polly Mackenzie, then Chief Executive Officer at Demos, said that initiatives such as the BBC’s partnership with the Open University and its children’s programming provided “extraordinary” value.¹⁸ Others praised the corporation’s work during the covid-19 pandemic.¹⁹ The BBC told us that 68 per cent of primary pupils and 81 per cent of secondary pupils used Bitesize in the 2020 summer term, and that it was the educational resource most recommended by teachers to parents.²⁰ We heard similar themes in our roundtable discussions with young adults in Salford.²¹
13. **Entertain:** overall our evidence suggested enduring support for the BBC providing high-quality entertainment, with more varied perspectives on the appropriate extent of provision. On the one hand, we heard that high-quality entertainment was what the public most wanted. The BBC cited studies showing that people tended to name ‘entertainment’ as the most

13 Department for Digital, Culture, Media & Sport, *Up next—the government’s vision for the broadcasting sector*, CP 671 (29 April 2022): <https://www.gov.uk/government/publications/up-next-the-governments-vision-for-the-broadcasting-sector/up-next-the-governments-vision-for-the-broadcasting-sector> [accessed 8 June 2022]

14 Q 21 (David Goodhart), Q 28 (Professor Stuart Allan), Q 30 (Prof Mazzucato). See also Charitable Journalism Project, *Local news deserts in the UK* (June 2022): <https://publicbenefitnews.files.wordpress.com/2022/06/local-news-deserts-in-the-uk.pdf> [accessed 6 July 2022]

15 Q 10

16 Reuters Institute, *Digital News Report 2022* (June 2022), p 17: https://reutersinstitute.politics.ox.ac.uk/sites/default/files/2022-06/Digital_News-Report_2022.pdf [accessed 30 June 2022]

17 QQ 25–26 (David Goodhart, Dr Adrian Wooldridge)

18 Q 23 (Polly Mackenzie)

19 Q 30 (Prof Mazzucato)

20 Written evidence from the BBC (BFF0040)

21 See Appendix 4

important aspect of the BBC's offer, scoring an average of 48 out of 100 points, compared with 30 for 'inform' and 23 for 'educate'.²²

14. We also heard that audiences valued the BBC's distinctively British content and its ability to cover socially important issues through the medium of entertainment.²³ This sets it apart from international streaming services which tend to contain fewer British cultural references and idioms,²⁴ as well as from other operators offering more general mass market entertainment.²⁵ We noted that some SVODs may be starting to produce more distinctively British content to retain and appeal to new customers in the UK market, but the effects remain to be seen and such approaches may change again in future.²⁶
15. Others suggested that the BBC's entertainment offer was becoming less relevant. Dr Helen Weeds, Honorary Senior Research Fellow at Imperial College Business School, said that younger audiences tend to find and pay for personalised entertainment online, reflecting a wider shift away from the expectation that the BBC would provide everything.²⁷ Young adults at our Salford roundtable discussion expressed similar sentiments.²⁸ These perspectives reflect the findings from a recent Ofcom study that "the BBC is seen to especially excel in providing informative and educational content and to a lesser extent in the provision of entertaining content", in part due to the volume and variety of alternative SVOD entertainment.²⁹ This issue relates closely to perspectives on market failure covered later in this chapter.

Bringing the nation together

16. Several witnesses highlighted the BBC's role in providing a 'national glue'. We heard that this was becoming both more complex and more important. Dr Adrian Wooldridge, Global Business Columnist at Bloomberg, told the Committee that the BBC's role was "to assert national unity in a world that is atomised and fragmented ... what is best in our traditions and ourselves."³⁰ Andrew Neil, a broadcaster and journalist, thought the BBC played a key role in defining "who we are, where we come from and where we hope we are going".³¹ Dr Rob Watson, Director of Decentred Media, and Jasmine Dotiwala, a broadcaster and producer, emphasised the BBC's role in bringing the nation together during the pandemic.³² We heard some

22 Licence fee payers were asked to divide 100 points between the elements of the mission depending on what their household wants the BBC to provide in return for their licence fee. 'Entertain' received 48 points out of the 100 on average, compared with 30 for 'inform' and 23 for 'educate'. The study was led by Yonder and comprised 3,797 adults in licence fee households, Dec 2020–Jan 2021. Owing to rounding, figures do not add up to 100. Study cited in written evidence from BBC (BFF0040).

23 Written evidence from the BBC (BFF0040)

24 Enders Analysis, 'Outsourcing culture: When British shows aren't "British"', 9 March 2021: available at <https://www.endersanalysis.com/reports/outsourcing-culture-when-british-shows-arent-british> [accessed 7 July 2022]

25 Q 21 (Dr Adrian Wooldridge)

26 The Drum, 'Netflix production chief on spending \$1bn-a-year on UK shows' (25 March 2022): <https://www.thedrum.com/news/2022/03/25/netflix-production-chief-spending-1bn-year-uk-shows-if-it-can-find-the-talent> [accessed 20 June 2022]

27 Q 55 (Dr Helen Weeds)

28 See Appendix 4

29 Ofcom, *Exploration into audience expectations of the BBC in the current media environment* (22 June 2022), pp 6 and 22: https://www.ofcom.org.uk/_data/assets/pdf_file/0031/239179/2-Exploration-into-audience-expectations-of-the-BBC-in-the-current-media-environment.pdf [accessed 22 June 2022]

30 Q 20

31 Q 126 (Andrew Neil)

32 QQ 33–34

perspectives questioning this logic—Dr Cento Veljanovski, Founder and Managing Partner at Case Associates, was “not sure that it is the role of a state broadcaster” to bring a nation together in these ways, for example³³—but the majority of our evidence emphasised the importance of this role.

17. Previous findings elsewhere support these views. A report by the Constitution Committee concluded that the BBC, alongside the NHS and the monarchy, provided some of the core foundations for a “shared heritage and history of the country” which underpins the UK’s cultural union.³⁴ Ofcom has judged the BBC to be successful in bringing audiences together in large numbers through drama, news and major live events.³⁵

Future challenges in delivering on its mission

18. We heard that the way in which the BBC delivers on its mission needed to adapt, and in some areas improve, to remain relevant. Three themes stood out: serving audiences, personalisation and strategic purpose. First was the need for the BBC better to meet the expectations of audiences who feel misrepresented and underserved. We heard there was a difficult balance in providing content for a range of audiences in an age of diverging values and cultural disputes, and there was increasingly a risk of alienating audiences through content choices.³⁶ David Goodhart, Head of Demography, Immigration and Integration at Policy Exchange, offered a warning about the importance of bridging rather than feeding such cultural divides:

“I look across the Atlantic at the United States and wonder whether we could develop our own version of the red state/blue state distinction that has evolved there and that seems to be tearing politics apart. Blue-state Britain would be metropolitan—big-city London and the other big cities. It would be value-diverse and very ethnically diverse ... well-educated white professionals [would live there], and the ethos would be much more liberal modernity and much less attachment to tradition, even to national norms.

Red-state Britain, on the other hand, would be small-town, suburban, rural, much more ethnically homogenous, with fewer graduates and much less well educated.”³⁷

19. He argued that a key part of the BBC’s function was to “act as a kind of bridge between these two” and warned the BBC needed to avoid “doing the splits. It cannot take sides in these great value divides”.³⁸ Dr Adrian Wooldridge similarly cautioned that the BBC should provide a common “reference point that the whole country can look at”. This was particularly true for news:

“I say this having lived in the United States for 13 years. What Fox television, and the reaction to it on the part of CNN and MSNBC, did to the culture and democracy of the United States was tragic beyond

33 Q 92

34 Constitution Committee, *The Union and devolution* (10th Report, Session 2015–16, HL Paper 149), para 66

35 Ofcom, *Annual report on the BBC 2020–21* (25 November 2021), p 6: https://www.ofcom.org.uk/data/assets/pdf_file/0029/228548/fourth-bbc-annual-report.pdf [accessed 9 June 2022]

36 Q 16 (David Goodhart)

37 *Ibid.*

38 *Ibid.*

belief. Having a world in which people cannot agree, not just on their values but on what constitutes reality, is death to democracy.”³⁹

20. Second was a need to balance audience expectations of individual personalisation against wider public value. We heard that online content was becoming increasingly tailored to individual preferences, with algorithms dictating what content people see on the basis of their previous interests and online profile.⁴⁰ Some thought these trends might undermine the BBC’s value in providing a common good and shared experiences, or insulate people from having to confront alternative perspectives.⁴¹
21. Others thought that increased personalisation could help the BBC use tailored content to nudge consumers towards areas that provide a wider public good.⁴² We noted however that doing so effectively would require better data and audience insight than the BBC currently holds.⁴³ These issues would need to be thought through as part of the BBC’s work on developing its future vision, which we call for in Chapter 3.
22. Third was the BBC’s overall strategic purpose. We heard concern that BBC needed to define and demonstrate better its driving purpose to the public in a future where people could be, and may wish to be, informed, educated and entertained by other providers.⁴⁴ We noted the BBC’s commitment to public service, value for all and Reithian content. In order to respond to the challenges outlined above, a clear strategic vision of what it is seeking to achieve and how will be essential.
23. Professor Stuart Allan, Professor of Journalism and Communication at Cardiff University, stressed that the new media environment was leading to “a very different conception of public service broadcasting; one that has to make a case for its own relevance”.⁴⁵ Archie Norman, former chairman of ITV, cautioned that “The last thing that any of us want to see is a BBC that carries on trying to do the same thing, in a legacy way, increasingly short of funds and therefore increasingly failing and disappointing people”. He thought that something further than standard transformation pledges was needed:

“Most organisations seeking to transform do not transform. It is normal for chief executives to say, ‘We are transforming’, but most of the time it does not happen ... Organisations transform when something very disruptive happens: you fracture the old culture, everybody changes seats, new people come in.”⁴⁶

24. The BBC told us that its mission to inform, educate and entertain remained “as relevant today as when we started broadcasting 100 years ago”, and that it was proud to play a key role in bringing the nation together.⁴⁷ When asked

39 [Q 20](#) (Dr Adrian Wooldridge)

40 [Q 17](#) (Polly Mackenzie)

41 [Q 22](#)

42 [Q 22](#) (Polly Mackenzie and Rory Sutherland)

43 [Q 119](#) (Archie Norman), [Q 120](#) (Sir Peter Bazalgette). See also BBC, ‘A digital-first BBC—BBC Director-General Tim Davie’s speech to staff’ (26 May 2022): <https://www.bbc.co.uk/mediacentre/speeches/2022/digital-first-bbc-director-general-tim-davie> [accessed 10 June 2022]. The BBC said it plans to improve on the number of signed-in users as part of its digital-first strategy.

44 [Q 16](#) (Polly Mackenzie), [Q 28](#) (Prof Stuart Allan) and [Q 126](#) (Andrew Neil), see also Appendix 4

45 [Q 28](#) (Prof Stuart Allan)

46 [Q 116](#)

47 Written evidence from BBC ([BFF0040](#))

about the BBC's relevance to individuals, Tim Davie, Director-General of the BBC, acknowledged opportunities to make the BBC more relevant, for example through improved localisation, but maintained it had to "balance the stories we see as important editorially with personalisation".⁴⁸ He added that the BBC was focused on producing distinctively British content, and that delivering an excellent public service was the driving force behind the BBC's work.⁴⁹ The then Minister of State for Media, Data, and Digital Infrastructure, Julia Lopez MP, said the Government would "look at the core purpose and future of the BBC in the Charter review" and was "keen to hear what the BBC's ideas are for the things that it should focus on."⁵⁰

25. **The BBC plays a key role in bringing the nation together—most importantly at times of crisis, celebration and big national moments, such as sporting events. This role as a national glue will only become more important, and more complex, in the context of increasing social, cultural and demographic change.**
26. **The BBC's mission to 'inform, educate, entertain' has stood the test of time. But the way in which it is delivered needs to change for it to remain relevant in this rapidly changing market and society. The BBC needs to be guided in how it should change by a clearly articulated strategic purpose and vision, as we set out in Chapter 3.**

A universal service

27. The concept of universality is commonly said to lie at the heart of public service broadcasting. The BBC said a universal service meant "everybody pays, sharing the costs, so that everybody gets great programmes and services."⁵¹
28. The issue of universality raises three questions when considering alternative funding options. First, some alternative public funding models would not guarantee equal access to all BBC services at the same price. A progressive system would involve some paying more and others less. We heard that this would need to be justified to the public but was not inherently problematic.⁵²
29. Second, subscription-based funding models would involve some people paying extra for certain types of content.⁵³ This raises the more complex questions of what should be free and what should be paid for, why, who decides and whether this model would still count as a 'universal service'. We explore this in more detail in Chapter 4.
30. Third, these different interpretations of universality raise more general funding implications. An expansive interpretation suggests that the BBC should provide a wide range of content and channels, requiring more funding. A narrower version focused on 'core' public service programming suggests the opposite.⁵⁴

48 [Q 131](#)

49 [Q 129](#)

50 [Q 141](#)

51 Written evidence from the BBC ([BFF0040](#))

52 [Q 31](#) (Prof Stuart Allan)

53 We explore these issues and funding models in Chapter 4.

54 Core outputs might include areas typically underserved by the market such as news, education and cultural programming. These are explored in further detail in Chapter 4.

31. These tensions were evident in our inquiry. Some thought it was the BBC's role to provide a wide variety of universally accessible content.⁵⁵ We heard about the Reithian value of drawing in audiences with entertaining universal programming.⁵⁶ Others thought the BBC provided too much universally accessible material. Andrew Neil argued that "not everything has to be universal".⁵⁷ Liam Halligan, an economist, said a more limited range of "public service output should continue to be freely accessible in the UK", with more premium content on a subscription-based iPlayer service.⁵⁸
32. Greg Dyke, former Director-General of the BBC, thought that it was easy to suggest that a universal service was becoming less important, but more difficult to anticipate the real-world effects of removing access to services.⁵⁹ He cited a study, commissioned by the BBC, showing that the majority of participants deprived of BBC content and services changed their minds and decided to pay the full licence fee or more in order to regain access.⁶⁰
33. Tim Davie said universality was "a word you can debate and come at from different angles" but he was clear it did not mean "do everything for everybody". We do not need everyone's media time."⁶¹ He said the concept should be understood as "accessibility for all". When asked about whether this notion was being used to defend the status quo and existing licence fee system, Tim Davie argued the BBC was focused on "ensuring that there is open and clear access to our services" but it was "open-minded on how to deliver that".⁶²
34. **The concept of universality remains integral to the BBC but suffers from a lack of clarity. It does not necessarily mean delivering everything for everyone across every platform, or that everyone must pay the same. We call on the BBC to provide a clear definition of its understanding of universality in response to this report, detailing how this, alongside its strategic purpose, will shape its future decisions on its programming and allocation of resources.**

Market failure or shaper?

35. Market failure is commonly said to play a role in the BBC's purpose. The concept is that the market does not generally provide public goods at socially optimal levels. As former BBC chairman Gavyn Davies has said, the 'inform, educate, entertain' mission must be delivered "in a way which the private sector, left unregulated, would not do. Otherwise, why not leave matters entirely to the private sector?"⁶³

55 Written evidence from the Voice of the Listener & Viewer (BFF0020)

56 Q 58

57 Q 126

58 Supplementary written evidence from Liam Halligan (BFF0062)

59 Q 126

60 The study involved depriving 80 households of all BBC content for nine days. At the end of the study, 70 per cent of those who initially said they would rather do without the BBC, or would prefer to pay less for it, changed their minds and were willing to pay the full licence fee or more in order to keep BBC content and services. BBC, 'BBC publishes results of deprivation study' (27 April 2022): <https://www.bbc.co.uk/mediacentre/2022/deprivation-study> [accessed 10 June 2022]

61 Q 132

62 Q 134

63 Department for Digital, Culture, Media & Sport, Report of the Independent Review Panel, *The Future Funding of the BBC* (1999), p 10: http://news.bbc.co.uk/hi/english/static/bbc_funding_review/reviewco.pdf [accessed 8 July 2022]

36. Opinions vary on the extent to which market failure should inform the BBC's purpose and outputs. Ryan Bourne, an economist, suggested that the private sector was increasingly able to provide services that had traditionally been the preserve of public service broadcasters.⁶⁴ Professor Patrick Barwise, Emeritus Professor of Management and Marketing at London Business School, however, argued that commercially driven media environments (notably the United States) tended to have more partisan news, less well-informed citizens, and greater problems with divisive narratives and conspiracy theories.⁶⁵
37. The majority of our evidence suggested that the BBC delivers valued content in areas typically underserved elsewhere—notably news, education, cultural programming and minority languages.⁶⁶ Some argued that the BBC should focus more exclusively on areas for which the market caters poorly.⁶⁷ We heard however that too heavy a focus on market failure would generate an uninspiring “eat your greens broadcaster—risk averse, earnest and unable to reach large sections of UK audiences”.⁶⁸ Such an approach would risk leading to falling viewing share and increasing irrelevance.⁶⁹

Shaping markets and value to the creative industries

38. Professor Mariana Mazzucato, Professor in the Economics of Innovation and Public Value at the Institute for Innovation and Public Purpose, University College London, argued that that the BBC was better understood as a “dynamic public sector organisation that shapes and creates new markets.” She said a focus on market failure was too narrow to account for the BBC's role in leading innovation, setting new standards, de-risking investment in new markets and providing high-quality consumer experiences.⁷⁰
39. The BBC told us that changes to its funding model could have “profound” consequences for the value provided to audiences and the UK's creative economy through its market-shaping activities.⁷¹ It is estimated that every £1 of the BBC's direct economic activity generates £2.63 in the wider economy.⁷² Over 50 per cent of the BBC's teams are based outside London and a similar proportion of its network television production is in the nations and regions.⁷³ Around half the BBC's economic impact is outside London, compared with an industry average of 20 per cent.⁷⁴ In 2020, 41 per cent of UK independent productions outside of London were commissioned by the BBC, accounting for £885 million worth of productions.⁷⁵ The BBC is also known for its work on sports, particularly youth sports and women's football, as well as its investments in orchestras, music commissions and live events.

64 Q 91 (Ryan Bourne)

65 Written evidence from Prof Patrick Barwise (BFF0056)

66 Written evidence from Prof Jeannette Steemers (BFF0045), Public Media Alliance (BFF0044) and Musicians' Union (BFF0019)

67 Andy Hayes (BFF0006)

68 Written evidence from Jean Prince (BFF0021)

69 Written evidence from Prof Jeannette Steemers (BFF0045)

70 Written evidence from Prof Marianna Mazzucato (BFF0052)

71 Written evidence from the BBC (BFF0040)

72 KPMG, *An assessment of the economic impact of the BBC* (March 2021): <http://downloads.bbc.co.uk/aboutthebbc/reports/reports/kpmg-economic-impact.pdf> [accessed 8 June 2022]. This report was prepared for the BBC.

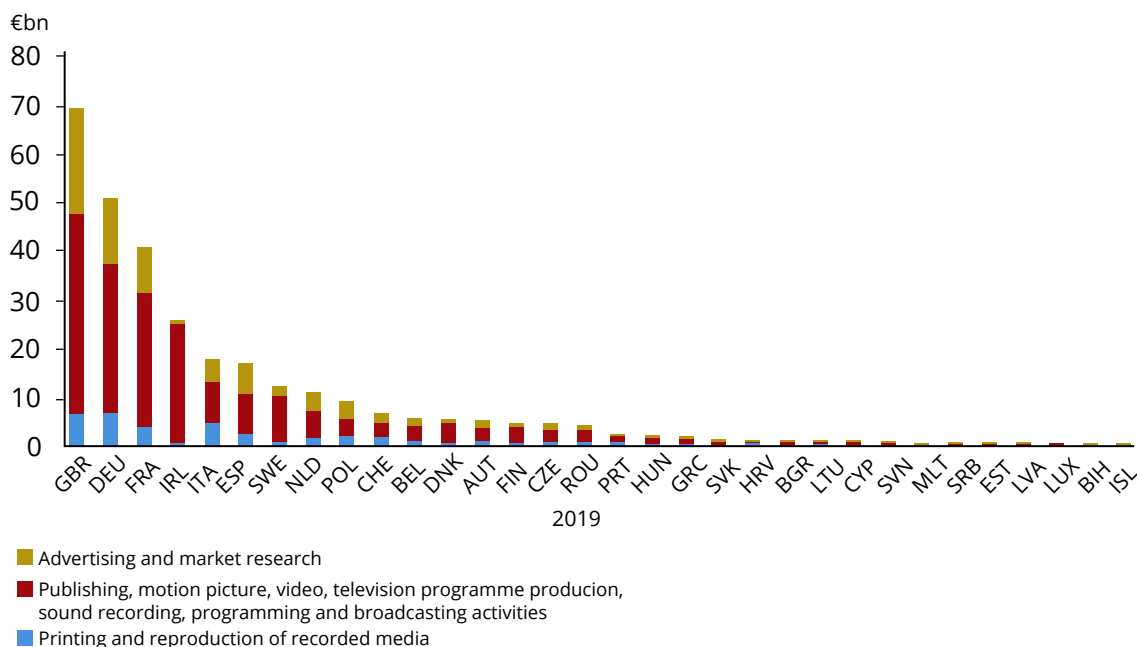
73 BBC, ‘Benefits for everyone: Making the case for a universal BBC’ (25 February 2021): <https://www.bbc.co.uk/mediacentre/articles/2021/making-the-case-for-a-universal-bbc> [accessed 9 June 2022]

74 KPMG, *An assessment of the economic impact of the BBC*, p 2

75 Written evidence from Cardiff University and PEC (BFF0053)

BBC Studios is the top international TV distributor outside Hollywood and generated exports valued at £800 million in 2021–22.⁷⁶ The UK's gross value added (GVA) for the creative sectors has been ranked as the highest in Europe (see chart below).

Figure 2: Creative industries' GVA in Europe



Source: Supplementary written evidence from Enders Analysis ([BFF0067](#))

40. Alistair Law, Director of Policy at Sky, said that the BBC's ability to invest in market-shaping areas—such as training, apprenticeships and producing original British programming—derived from its “unique funding position” which enabled the corporation to take greater risks than commercial operators.⁷⁷ Adam Minns, Executive Director of the Association for Commercial Broadcasters and On-Demand Services, said that the BBC's co-productions benefited commercial actors across the industry,⁷⁸ and that changes to the BBC's scope or funding “might benefit one part of our members' businesses but it might harm another part.”⁷⁹
41. Others cautioned that market-shaping work which ‘crowded in’ investment and activity had to be balanced against the risk of ‘crowding out’ other actors and duplicating commercial services.⁸⁰ The radio operator Global argued that the BBC generally erred on the side of crowding in the market through “additive and distinctive content” but sometimes “strays into areas that purely duplicate the commercial sector”, for example in podcasts.⁸¹ Magnus Brooke, Director of Policy and Regulatory Affairs at ITV, said the BBC's programming acquisitions were an “odd use of the licence fee” as the corporation competed with other UK public service broadcasters in bidding

⁷⁶ BBC, ‘BBC's Annual Plan set to deliver greater value for all’ (30 March 2022): <https://www.bbc.com/mediacentre/2022/bbc-annual-plan-2022-2023> [accessed 8 June 2022]

⁷⁷ [Q 88](#)

⁷⁸ *Ibid.*

⁷⁹ [Q 88](#)

⁸⁰ [Q 28](#) (Liam Halligan)

⁸¹ [Q 87](#) (Sebastian Enser-Wight)

for US content that would appear on UK terrestrial TV in any case.⁸² In June 2022 Ofcom called on the BBC to improve its approach to assessing the competition impacts of its services.⁸³

42. Archie Norman, former Chairman of ITV, noted the challenges in seeking to be a market-shaper in the context of constrained budgets and political scrutiny:

“If you are to innovate, you have to be prepared to take risks. Part of the problem is that failing is very dangerous for the BBC. If you make an investment and it falls over, or produce programmes that do not work, you attract a lot of criticism.”⁸⁴
43. This balance could affect the viability of different funding models. A BBC focused on market failure suggests a narrower range of programming, a smaller budget and reduced opportunities for private income as its activities would be skewed away from commercial prospects. But it would still require a substantial budget to sustain a core offering that engaged audiences. As Dr Helen Weeds noted, in order to deliver public benefits “the programming actually needs to be watched.”⁸⁵ A more expansive BBC focused on shaping markets would require greater funding and risk appetite, but would need to articulate with clarity how it was not duplicating offerings from the commercial sector.
44. Tim Davie told us that the BBC was valued because it was “driven not by market failure but by making the market ... 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.”⁸⁶ Sir Peter Bazalgette, Chairman of ITV, told us that other broadcasters would not wish to see this either, arguing that “A strong BBC is an organisation that ... ITV, Channel 4 and Channel 5 can collaborate with creating more value for everyone.”⁸⁷
45. **The BBC plays an important role in providing services that are underserved by the private sector. But this should not be its sole focus: we do not support a market failure model for the BBC. The corporation also plays a central role in supporting and shaping the UK’s creative economy. This market-shaping work should feature prominently in the future vision we are calling for.**
46. *When responding to the independent review the Government must set out how the BBC’s future funding model and remit will incentivise the corporation to strike the right balance between addressing market failure and shaping markets for the benefit of the UK creative industries and wider economy. In response to this report the Government should commit to commissioning and publishing independent market impact studies ahead of any decision on the BBC’s future funding model.*

82 [Q 83](#)

83 Ofcom, *Review of the interaction between BBC Studios and the BBC public service: Findings* (22 June 2022): https://www.ofcom.org.uk/_data/assets/pdf_file/0025/239155/findings-review-bbc-studios-and-public-service.pdf [accessed 22 June 2022]

84 [Q 119](#)

85 [Q 54](#)

86 [Q 134](#)

87 [Q 118](#)

Soft power and international value

47. We heard that the BBC's future funding should safeguard the corporation's international benefits, including its contribution to the UK's soft power. The BBC told us it was the only public service broadcaster in any country that reaches half a billion people across the world weekly and that its news service was the most trusted across the globe.⁸⁸ Many news consumers live in countries with limited press freedom, and the recent covid-19 pandemic and war in Ukraine underscored the importance of this work. Tim Davie told us the BBC was a world leader in combating disinformation using digital tools such as watermarked content to identify trusted news, for example.⁸⁹
48. Others highlighted how the BBC contributed to soft power by showcasing UK creativity and attracting overseas talent to the UK.⁹⁰ This benefits the UK's creative economy and tourism sectors, and helps the pursuit of UK foreign policy and trade objectives.⁹¹
49. Julia Lopez MP acknowledged the importance of the BBC's international footprint and the value of soft power but admitted the department did not hold assessments of how much value this provided to the UK or contributed to UK policy objectives.⁹²
50. **The BBC continues to provide an essential international service which promotes UK democratic values and informs people across the world. It delivers this through a range of means, including entertainment. This is ever more important in an era of declining press freedom and rising authoritarianism. When responding to its independent review the Government should commit to safeguarding the work of the BBC World Service, and if necessary enhancing it.**
51. *When responding to the results of its independent review the Government should publish an assessment of the benefits that the BBC's international output, including the World Service, provides to UK soft power and wider objectives in foreign policy, international trade and inward investment. This should set out how changes to the BBC's funding might affect these benefits. The BBC should provide the Government with scenarios and estimates to inform this work. The Government should provide an interim update on this work by 1 December 2022.*

88 Written evidence from the BBC ([BFF0040](#))

89 [Q 131](#)

90 Written evidence from Prof Joanne Garde-Hansen ([BFF0003](#))

91 Written evidence from the National Union of Journalists ([BFF0010](#)), Directors UK ([BFF0027](#)), Bectu ([BFF0036](#)), The British Broadcasting Challenge ([BFF0039](#)) and Cardiff University and PEC ([BFF0053](#))

92 [Q 145](#)

CHAPTER 3: STRATEGIC CHALLENGES

52. In this chapter we set out the challenges facing the BBC over the next decade and why a review of the licence fee system is both a necessity and a positive opportunity for the BBC to catalyse change. Without change, the BBC will be increasingly constrained in its ability to fulfil its purpose and deliver the benefits we set out in Chapter 2. We focus on two main strategic issues. First is the pace of developments across a rapidly evolving media landscape, and the impact this has on audience behaviours. The second is the need to deliver a valued service for all sectors of society in the context of social and political change. We then examine the BBC's response to these challenges.

Future media environment

53. Consumption of television and radio remains relatively strong in the UK: over 17 million homes access digital terrestrial television via an aerial, 8.4 million households subscribe to satellite television and 3.9 million have a cable TV subscription.⁹³ But technologies and audience habits are changing rapidly. Consumers are increasingly watching content on mobile phones, tablets, smart TVs, games consoles and streaming sticks. Almost half of UK adults now use online video services as their main way of accessing TV and film.⁹⁴ The rollout of 5G networks and full-fibre broadband will further enable streaming on internet-connected devices.
54. Linear TV looks set for long-term decline. According to Ofcom data, nearly three-quarters of households use a broadcast video on demand service such as BBC iPlayer or All 4, and a similar proportion use subscription video on demand (SVOD) services.⁹⁵ By contrast, linear TV's overall viewing share in the UK fell from 67 per cent in 2019 to 61 per cent in 2020, despite a pandemic-driven increase in the number of viewing hours.⁹⁶ These figures are in line with wider trends across the world.⁹⁷
55. Traditional broadcasters like the BBC face increasing competition for audience attention, particularly from large, well-funded international SVOD providers. Slower rates of SVOD growth can be expected following a 2020 boom brought on by the covid-19 pandemic.⁹⁸ But competition in the media landscape is nevertheless likely to continue to rise,⁹⁹ putting pressure on the whole of the UK's public broadcasting system.¹⁰⁰ Dr Jeremy Silver, Chief Executive Officer of Digital Catapult, highlighted that these issues are compounded by competition for attention from a variety of other areas,¹⁰¹ notably the gaming market which is worth around £7 billion in the UK.¹⁰²
56. Growing production costs are another challenge. The BBC told us that it provides the UK's "largest diet of British creativity across drama,

93 Department for Digital, Culture, Media & Sport, *Up next—the government's vision for the broadcasting sector*

94 *Ibid.*

95 Ofcom, *Media Nations UK 2021* (5 August 2021): https://www.ofcom.org.uk/_data/assets/pdf_file/0023/222890/media-nations-report-2021.pdf [accessed 8 June 2022]

96 *Ibid.*, p 6

97 Written evidence from Enders Analysis (BFF0047)

98 Ofcom, *Media Nations 2021 UK*, p 40 and written evidence from Enders Analysis (BFF0047)

99 Ofcom, *Media Nations 2021 UK*, p 40

100 Q 82 (Magnus Brooke)

101 QQ 4–7 (Dr Jeremy Silver)

102 BBC, 'The UK video games market is worth a record £7.16bn' (31 March 2021): <https://www.bbc.co.uk/news/newsbeat-60925567> [accessed 5 July 2022]

entertainment, and factual TV. BBC Bitesize provides a critical service for children”.¹⁰³ Serving audiences through attractive content is one of the core justifications for continued public funding. But paying for it will become more difficult. High inflation is straining budgets across the UK, but the BBC’s production cost challenges pre-date this and are likely to outlast it.¹⁰⁴ New streaming platforms—often loss-leading, loss-making or debt-funded—are investing heavily in content production, particularly drama. This has driven up costs.¹⁰⁵ The BBC’s costs of non-continuing drama production have reportedly increased by nearly two-thirds over five years.¹⁰⁶ Andrew Neil, broadcaster and journalist, told us that while the BBC’s £5 billion annual income was substantial, it was simultaneously restrictive given its aims and rising costs in the media world:

“Not that long ago it was inconceivable that an hour of BBC drama would cost more than £1 million per episode; it is now pretty inconceivable that it would cost less than that. Netflix is spending \$10 million per hour ... Even £5 billion is nowhere near enough to run a full television network with international ambitions these days.”¹⁰⁷

In 2021, the BBC’s content expenditure was £2.5 billion¹⁰⁸ and ITV’s was £1.2 billion.¹⁰⁹ In 2019 Channel 4’s content expenditure was £660 million.¹¹⁰ By comparison, in 2021 Netflix spent \$14 billion, and Disney \$18.6 billion (roughly equivalent to £10.4 billion and £13.8 billion respectively).¹¹¹

103 Written evidence from the BBC ([BFF0040](#))

104 [Q 132](#) (Tim Davie)

105 Written evidence from Enders Analysis ([BFF0047](#))

106 National Audit Office, *The BBC’s strategic financial management* (Session 2019–21, HC 1128), p 22: <https://www.nao.org.uk/wp-content/uploads/2021/01/The-BBCs-strategic-financial-management-Report.pdf> [accessed 8 June 2022]

107 [Q 123](#) (Andrew Neil)

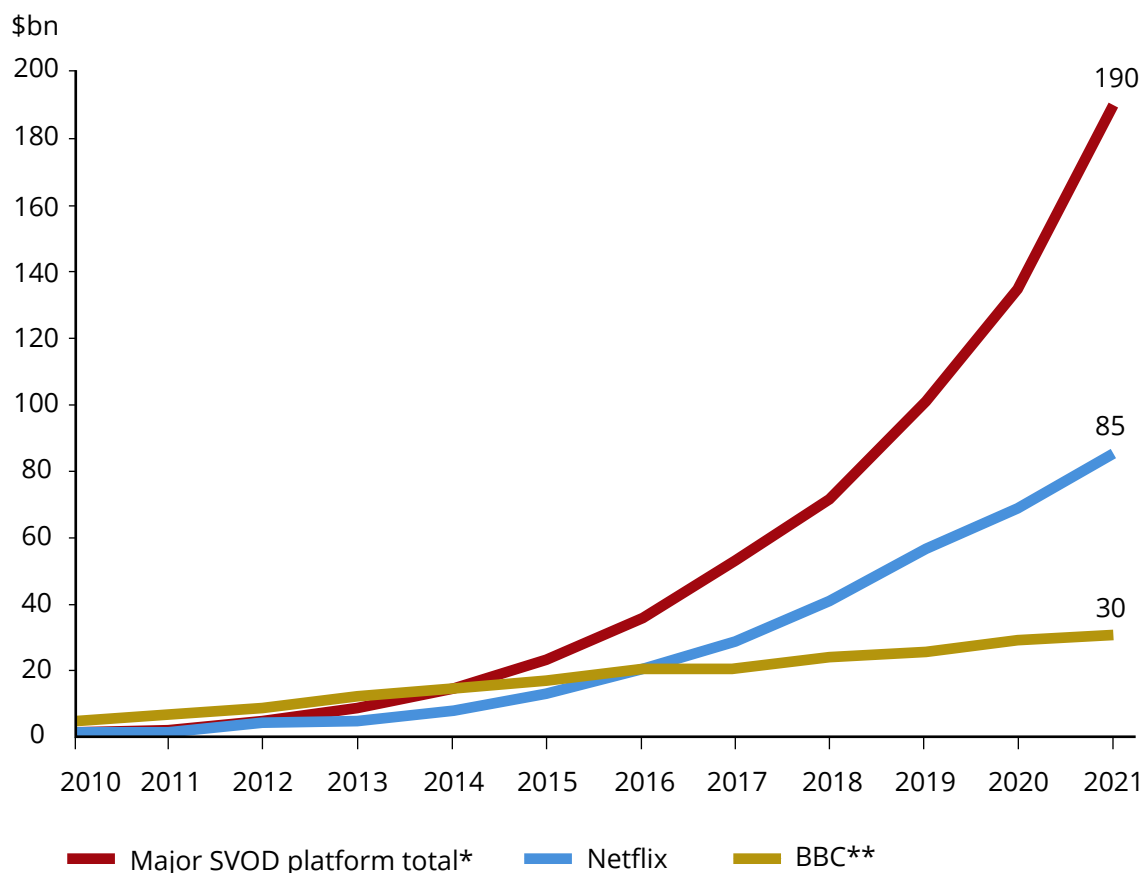
108 BBC, *Group Annual Report and Accounts 2020/21* (November 2021), p 46: <https://downloads.bbc.co.uk/aboutthebbc/reports/annualreport/2020-21.pdf> [accessed 6 July 2022]

109 ITV plc, *Annual Report and Accounts for the year ended 31 December 2021* (21 March 2022), p 33: <https://www.itvplc.com/~media/Files/I/ITV-PLC/documents/reports-and-results/annual-report-2021.pdf> [accessed 6 July 2022]

110 At the time of publication, figures for Channel 4’s 2021 content expenditure was not yet published and figures for 2020 were artificially low due to limitations on production as a result of the pandemic. See: Channel Four Television Corporation, *Report and Financial Statements 2020*, p 132: <https://assets-corporate.channel4.com/flysystem/s3/2021-06/Channel%20-%20-%20Annual%20Report%202020%20-%20FINAL%20%28Accessible%29.pdf> [accessed 7 July 2022]

111 Ampere Analysis, ‘Content spend sees double digit growth and reaches \$220 billion in 2021, driven by SVoD services’ (20 December 2021), p 2: <https://www.ampereanalysis.com/press/release/dl/content-spend-sees-double-digit-growth-and-reaches-220-billion-in-2021-driven-by-svod-se> [accessed 6 July 2022]

Figure 3: Estimated cumulative content expenditure by major SVOD platforms



Source: Supplementary written evidence from Enders Analysis ([BFF0067](#))

*Includes Netflix, Amazon Prime Video, Hulu, Disney+, Apple TV+, Warner Media (HBO Max), Discovery+, Paramount+ and Peacock

**BBC's expenditure on TV content excluding BBC News and BBC Parliament

57. With the huge scale of SVOD budgets comes significant power to influence what consumers want. Enders Analysis described Netflix's impact on the UK video market as "transformative":

"In just a decade, the way people view programmes, their expectations around quality and availability, and how they value TV content, has irrevocably changed. Driven by Netflix ... this shift has placed pressure onto legacy operators, overturning business models and accelerating a transition of power from localised networks to international platforms."¹¹²

58. Engagement with public service broadcasters' content is therefore decreasing in a range of areas.¹¹³ Traditional broadcasters' share of total UK video consumption fell from around 97 per cent in 2010 to around 70 per cent in 2021, according to Enders Analysis. Forecasts suggests a further decline to around 60 per cent by 2027.¹¹⁴ The pronounced decline in linear broadcast TV viewing has been only partially offset by increased viewing of BBC iPlayer. Between 2020 and 2021, the average viewing time of BBC TV fell by 6 minutes, whereas the average viewing time of iPlayer rose by 4 minutes.

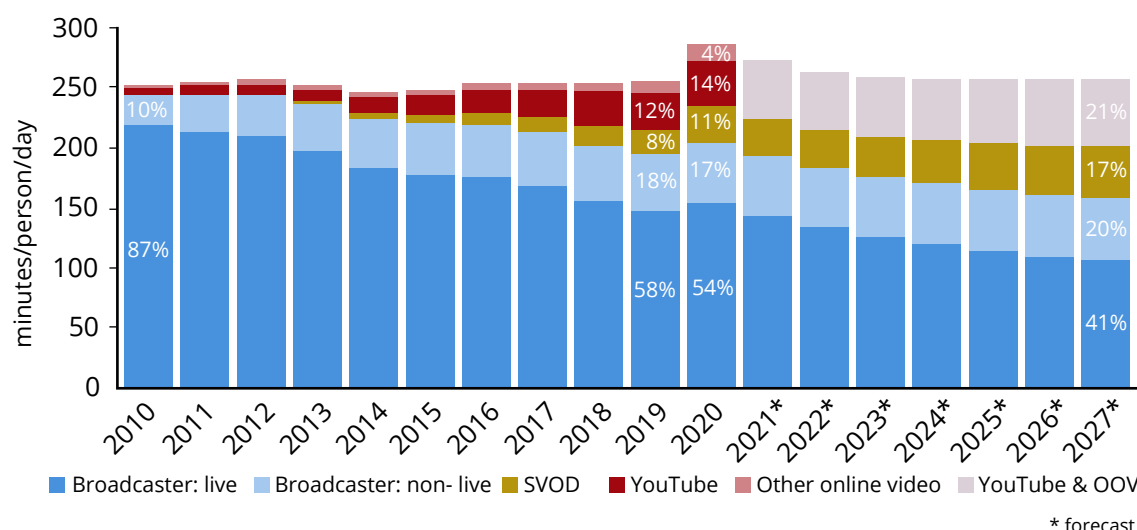
112 Enders Analysis, 'Netflix: A decade in the UK' (31 January 2022), p 1: available at <https://www.endersanalysis.com/reports/netflix-decade-uk>

113 Written evidence from the European Broadcasting Union ([BFF0060](#))

114 Written evidence from Enders Analysis ([BFF0047](#))

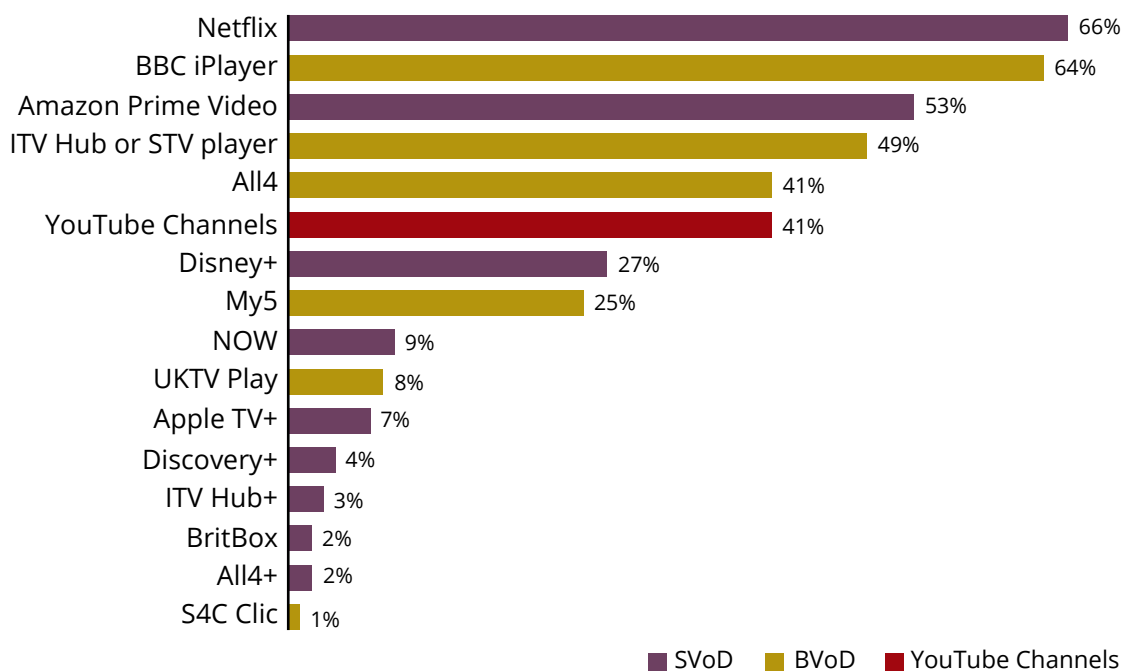
This was despite a pandemic-induced boost to linear TV viewing—Ofcom noted that in previous years linear decline was more severe, and it expects this trend to continue. Though time spent using the broadcaster is decreasing, the BBC still reaches large audiences, with 87 per cent of UK adults consuming some form of BBC content each week.¹¹⁵

Figure 4: Breakdown of total UK video viewing age 4+



Source: Written evidence from Enders Analysis ([BFF0047](#))

Figure 5: Online video service used in UK households to watch programmes or films

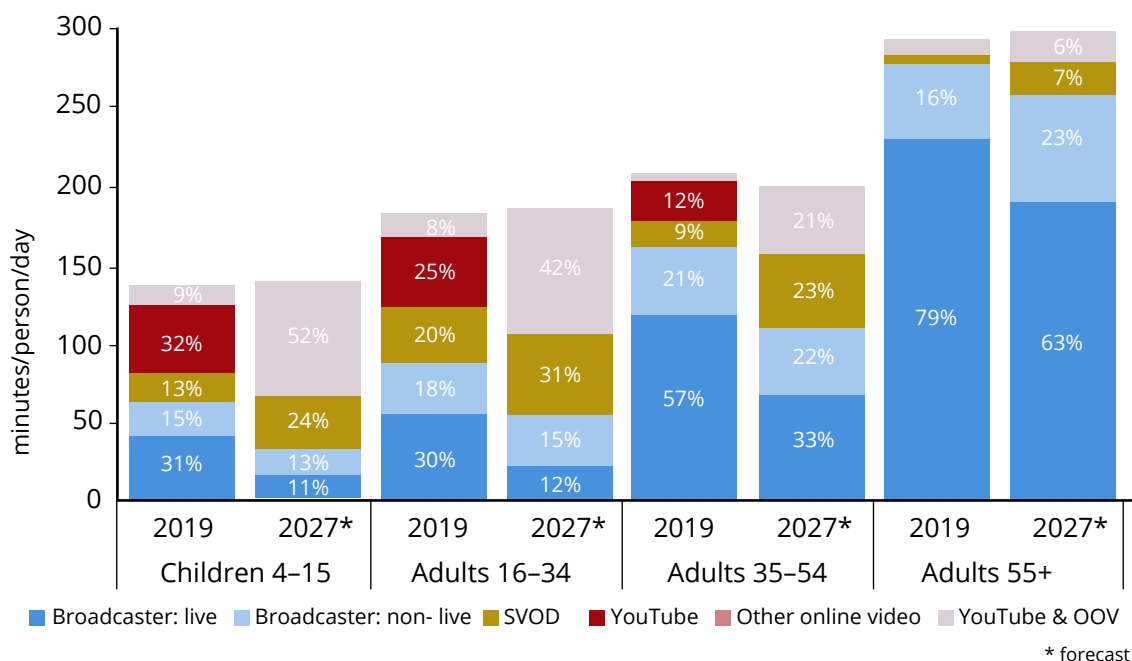


Source: Ofcom, *Media nations UK* (August 2021), p 16: <https://www.ofcom.org.uk/data/assets/pdf/file/0023/222890/media-nations-report-2021.pdf> [accessed 8 June 2022]

¹¹⁵ BBC, *Group BBC Annual Report and Accounts* (July 2021), p 20: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000946/BBC_Annual_Report_and_Accounts_2020-21.pdf [accessed 8 July 2022]

59. In terms of the means to access content, there is a widening gap between older viewers, who are likely to account for the majority of future broadcast consumption, and younger viewers preferring SVOD and other online services accessed through a range of devices.

Figure 6: Breakdown of total UK video viewing, by age group



Source: Written evidence from Enders Analysis ([BFF0047](#))

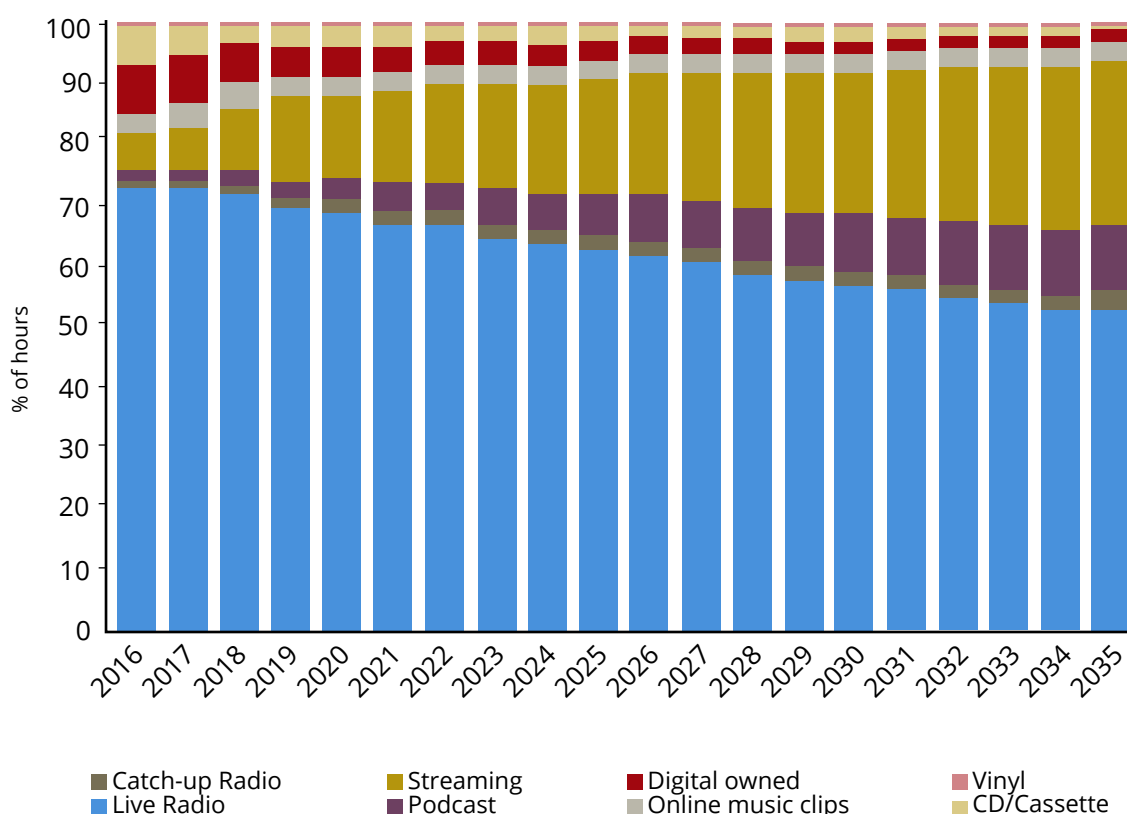
60. Radio provides a partial exception to such trends, where the BBC remains pre-eminent.¹¹⁶ BBC Radio 1, 2 and 4 account for over a third of all radio listening. An estimated 62 per cent of all adults are exposed to BBC radio each week.¹¹⁷ While audiences tend to be older, there remains a broad spread of engagement across age groups.¹¹⁸ As in other areas, the future of radio is gradually moving towards digital consumption. Smart speakers already account for six per cent of all audio consumption. Online podcasts are becoming increasingly popular, particularly among younger viewers. A 2021 Government report projected that live radio (both analogue and digital) will still account for over 50 per cent of UK audio listening in the mid-2030s.¹¹⁹

116 HM Government, *Digital Radio and Audio Review* (October 2021), p 7: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1027208/Digital_Radio_and_Audio_Review_FINAL_REPORT_double_view.pdf [accessed 8 June 2022]

117 Enders Analysis, 'Radio: protecting the core public value' (November 2021), p 9: available at <https://www.endersanalysis.com/reports/radio-protecting-core-public-value> [accessed 8 June 2022]

118 HM Government, *Digital Radio and Audio Review*, p 7

119 *Ibid.*, p 9

Figure 7: Adults (15+) share of audio consumption

Source: HM Government, *Digital Radio and Audio Review* (October 2021), p 27

61. We heard that the industry-wide shift towards online consumption was part of an ongoing trend that the BBC was working to embrace.¹²⁰ But it will become more difficult for broadcasters to be noticed in a crowded online marketplace. Audience engagement is likely to be influenced heavily by how easy it is to find and use public service broadcasters' content on future digital platforms, and how attractive the offer appears.¹²¹ Characteristics that draw viewers to online platforms—such as new content, large libraries and free or low-cost access—are likely to become more important, but often favour large international firms that enjoy economies of scale, technological advantages and deep pockets.¹²²
62. Responding to this suite of challenges will be difficult in the context of long-term financial constraints. In February 2017 the BBC introduced a £800 million savings programme up to 2022 following the 2015 licence fee settlement. By 2019–20, the BBC had increased its savings target to £1 billion. Following the 2022 licence fee settlement the BBC said it faced a £285 million annual funding gap up to 2027–28 and announced £500 million of additional savings and reinvestment.¹²³ The BBC's licence fee income was reportedly 30 per cent lower in real terms in 2020 than in 2010.¹²⁴

¹²⁰ Q 130 (Richard Sharp)

¹²¹ Q 3 (Prof Catherine Johnson)

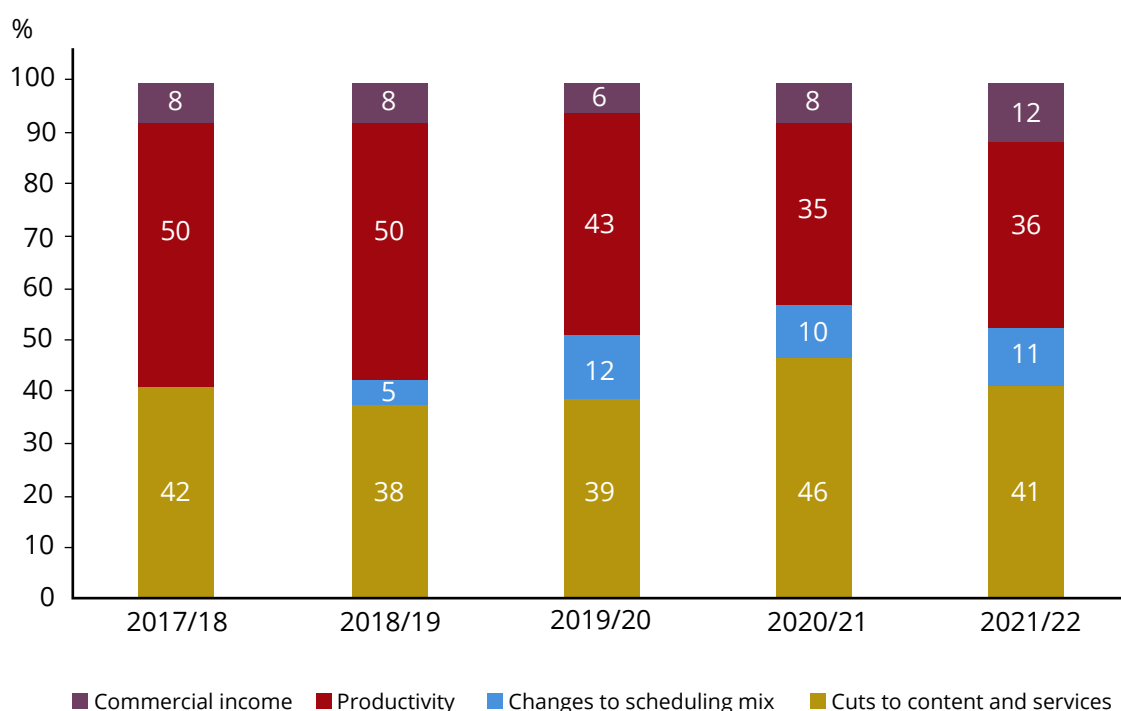
¹²² Written evidence from Enders Analysis (BFF0047)

¹²³ BBC, 'Plan to deliver a digital-first BBC' (26 May 2022): <https://www.bbc.co.uk/mediacentre/2022/plan-to-deliver-a-digital-first-bbc> [accessed 8 June 2022]

¹²⁴ Enders Analysis, 'BBC licence fee settlement: A diminished TV ecology' (10 September 2021): available at <https://www.endersanalysis.com/reports/bbc-licence-fee-settlement-diminished-tv-ecology> [accessed 8 June 2022]

63. Mark Oliver, Chairman and Co-founder of the media strategy consultancy Oliver & Ohlbaum Associates, observed that restricted licence fee levels were not a short term issue: “the political will to allow for an increase in the licence fee is not there, it has not been there [for decades] and it might not be there for another 15 years”.¹²⁵
64. On its current trajectory the BBC will likely find it increasingly challenging, though not impossible, to deliver productivity savings without affecting audience satisfaction. The National Audit Office found that the BBC’s early savings targeted productivity and overheads,¹²⁶ whereas later savings were likely to target audience-facing areas. It warned that the BBC “must now balance the need to proceed at pace in delivering savings and reform with taking care that its decisions about how to achieve this do not further erode its position with audiences.”¹²⁷ Gareth Davies, Comptroller and Auditor General at the National Audit Office, thought however that it was “very unlikely that an organisation the size of the BBC has run out of opportunities to make productivity gains” and that identifying further savings that would not affect programming would be an ongoing task.¹²⁸

Figure 8: Annual delivery of savings by category



Source: National Audit Office, ‘BBC savings and reform’ (17 December 2021), p 19: <https://www.nao.org.uk/report/bbc-savings-and-reform/> [accessed 8 June 2022]

65. Challenges to audience engagement matter for the BBC.¹²⁹ As we set out in Chapter 2, the broadcaster’s central mission is to deliver a valued service for the whole of the UK. Declining relevance to audiences affects the legitimacy

¹²⁵ Q 53 (Mark Oliver)

¹²⁶ National Audit Office, *BBC savings and reform* (17 December 2021), p 20: <https://www.nao.org.uk/wp-content/uploads/2021/12/BBC-savings-and-reforms.pdf> [accessed 8 June 2022]

¹²⁷ *Ibid.*, p 12

¹²⁸ Q 111 and Q 112

¹²⁹ Audience engagement is understood here as the number of viewers watching, reading or listening to BBC content, the amount of time spent, and their relative level of interest.

of, and support for, future public funding. And fewer viewers mean lower licence fee income. Between 2017–18 and 2019–20 the number of non-over-75 households buying TV licences fell by 450,000.¹³⁰ Archie Norman, former Chairman of ITV, worried that the BBC did not feel a sufficient degree of urgency to act when “time is passing, and the world is moving on dramatically”.¹³¹

Serving the whole of the UK

66. The other main challenge we found was representation of all UK audiences. We heard that the legitimacy of the BBC’s public funding is underpinned by its ability to deliver valued content that reflects and represents the spread of UK society.¹³² Our evidence suggested that this task is becoming both more important and more complex in the face of societal change and political realignments. The BBC must improve on two core interrelated areas.
67. The first is due impartiality. Ofcom’s 2020–21 annual report on the BBC found that achieving due impartiality remained a “complex challenge”.¹³³ Their data show that audiences scored BBC TV news highly for accuracy (71 per cent) and trust (68 per cent), but consistently rated it less favourably for impartiality, with just 55 per cent giving it a high score. The BBC website, app and BBC radio all perform better, with 65 per cent of BBC website and app users and 61 per cent of radio listeners rating these services highly for impartiality.¹³⁴ Research published by Ofcom in June 2022 found that audience perceptions of the BBC’s impartiality were not only influenced by the content itself but that other factors—such as relationships with news brands, personal views, cultural climate and the effect of other stories in the media landscape—played a “pivotal role in shaping perceptions of due impartiality”.¹³⁵ Ofcom also note that “BBC TV has a much greater number of regular news viewers than other TV channels, and therefore more people who consider it impartial”.¹³⁶
68. Several witnesses said that the BBC did not fairly reflect the spread of legitimate perspectives in the UK.¹³⁷ Dr Adrian Wooldridge said that the BBC had a “tendency to think about the classical political divisions of left and right” which did not necessarily capture the complexity of issues which it must take account.¹³⁸ He argued there were specific areas that merited particular improvement, such as BBC News’s business coverage, which he told us was “local, parochial and treats business as a boring embarrassment.”¹³⁹ David Goodhart, Head of Demography, Immigration and Integration at Policy

130 This was reportedly due to changes in audience viewing habits and increasing numbers of these households qualifying for a free over-75 licence. National Audit Office, *The BBC’s Strategic financial management* (Session 2019–21, HC 1128), p 7: <https://www.nao.org.uk/wp-content/uploads/2021/01/The-BBCs-strategic-financial-management-Summary.pdf> [accessed 9 June 2022]

131 [Q 121](#) (Archie Norman)

132 [Q 21](#) (Dr Adrian Wooldridge)

133 Ofcom, *Annual Report on the BBC 2020–21* (November 2021), p 3: https://www.ofcom.org.uk/_data/assets/pdf_file/0029/228548/fourth-bbc-annual-report.pdf [accessed 8 June 2022]

134 *Ibid.*, p 28

135 Ofcom and Jigsaw Research, *Drivers of perceptions of due impartiality* (June 2022), p 7: https://www.ofcom.org.uk/_data/assets/pdf_file/0027/239175/4-Drivers-of-perceptions-of-due-impartiality-the-BBC-and-the-wider-news-landscape.pdf [accessed 22 June 2022]

136 Ofcom, *Annual Report on the BBC 2020–21*, p 28

137 [Q 16](#) (David Goodhart), [Q 97](#) (Ryan Bourne), [Q 92](#) (Dr Cento Veljanovski) and written evidence from Liam Halligan ([BFF0062](#))

138 [Q 16](#) (Dr Adrian Wooldridge)

139 [Q 26](#)

Exchange, argued that the BBC needed to address criticism of insufficiently representative coverage “so that more of the country feel that their voices are there, as well as the completely legitimate liberal metropolitan one.”¹⁴⁰ Mercy Muroki, a researcher and journalist, said there was a “perception that the BBC looks down on some of the opinions ... whether that is in relation to politics, Brexit, concerns around immigration”, and believed the BBC needed to represent better audiences to ensure they felt it was worth paying for.¹⁴¹

69. We received mixed evidence on the prospects for improvement. David Goodhart believed the BBC had become more aware of these criticisms since the 2016 EU referendum.¹⁴² Andrew Neil thought the issue was more intractable, saying the BBC “reflects the biases of the metropolitan world, which are different from the biases of the red wall—or in some areas even the blue wall ... you will reflect these biases from the people you recruit.”¹⁴³ We also noted the complexity around discussions on impartiality. As Professor Richard Sambrook told us in a previous evidence session on BBC impartiality, “Impartiality is often subjective. What you think is impartial may not be what I think is impartial. Even the Ofcom code has a degree of subjectivity in it”.¹⁴⁴
70. Second, and relatedly, was the need to appeal to an increasingly diverse UK society. Jasmine Dotiwala, a broadcaster and producer, told us that “we have an increasingly diverse population and a healthy mix of worldviews”, and emphasised the need to “reflect honestly the wider society that we live in.”¹⁴⁵ Polly Mackenzie, then Chief Executive Officer of Demos, similarly noted the need to cater for “increasing diversity of cultural taste, religious background and media consumption.”¹⁴⁶
71. Data from Ofcom suggest that audiences with disabilities, those in Scotland and those from lower socio-economic backgrounds typically express lower satisfaction with the BBC.¹⁴⁷ Previous studies have shown that the BBC could improve on its ethnic and socio-economic diversity.¹⁴⁸ Ofcom data show that audiences rate the BBC poorly for representation and portrayal compared with its other purposes.¹⁴⁹
72. These themes were echoed by witnesses. Deborah Williams, Executive Director of the Creative Diversity Network, told us that as someone “young, black and disabled, I do not think that is a part of how the BBC sees its core demographic.” She also argued that more nuanced and relevant coverage was needed to avoid alienating underrepresented communities by portraying them as a “homogenous group”.¹⁵⁰ We heard the BBC needed to better cater

140 [Q 16](#) (David Goodhart)

141 [QQ 33–36](#) (Mercy Muroki)

142 [Q 16](#) (David Goodhart)

143 [Q 128](#) (Andrew Neil)

144 Oral evidence taken before the House of Lords Communications and Digital Committee, 14 December 2021 (Session 2021–22), [Q 2](#)

145 [Q 33](#)

146 [Q 16](#) (Polly Mackenzie)

147 Ofcom, *Annual Report on the BBC 2020–21*

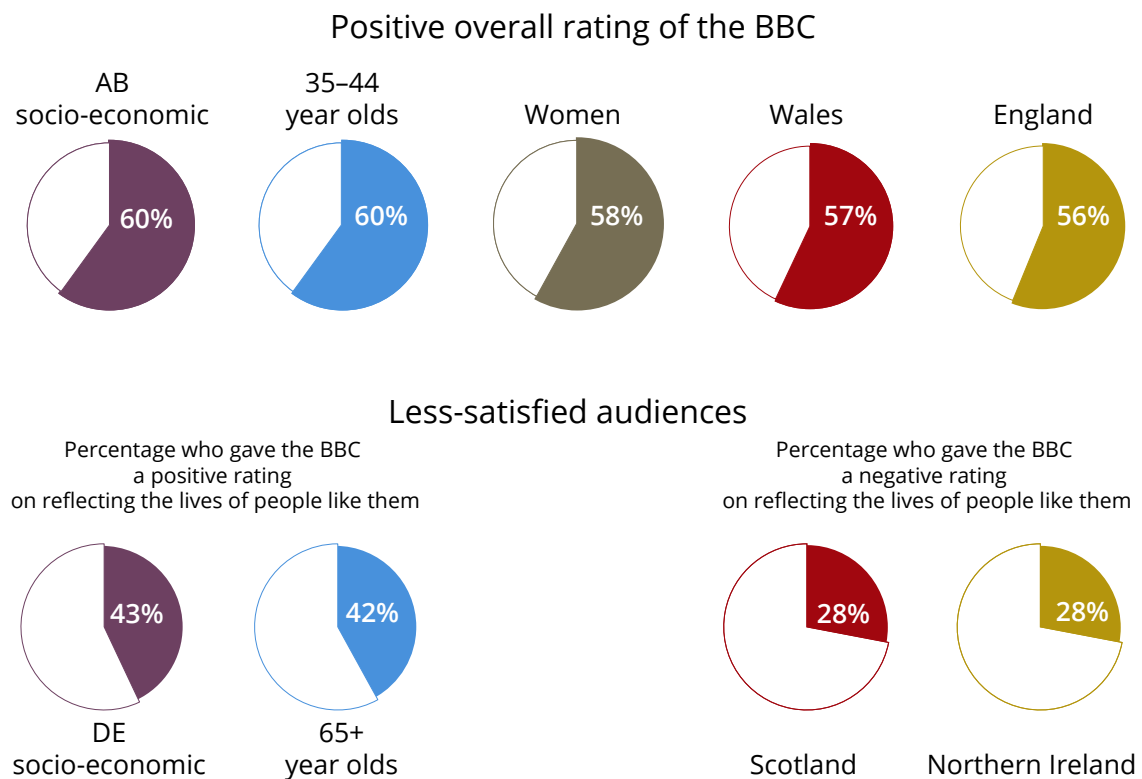
148 BBC, *Reflecting the ethnic diversity of the UK within the BBC workforce* (2018): <http://downloads.bbc.co.uk/diversity/pdf/bame-career-progression-and-culture-report.pdf> [accessed 8 June 2022] and BBC, *On screen diversity monitoring* (2018): https://www.ofcom.org.uk/data/assets/pdf_file/0019/124255/bbc1-bbc2-diversity-monitoring.pdf [accessed 8 June 2022]

149 Ofcom, *Annual Report on the BBC 2020–21*

150 [Q 33](#) (Deborah Williams)

for different needs, perspectives and interests, give a stronger voice to local and regional issues¹⁵¹ and reflect underrepresented communities sensitively.¹⁵²

Figure 9: Audience satisfaction distribution



Source: Ofcom, *Annual report on the BBC 2020–21*, p 54

73. As media and technology choices expand it will become increasingly important to reach all audiences, particularly underserved groups, across a variety of platforms, content formats and languages when catering for their varied preferences and expectations.¹⁵³ This requires the data to understand consumer interests and needs, the investment and technologies to engage them in the most appropriate ways, and the strategies to determine which areas to prioritise.¹⁵⁴ We noted the difficulties in achieving this given the significant reduction in the BBC's budget in real terms over the past decade.¹⁵⁵ We also heard that the BBC risked falling behind other providers in this area. Paul Lee, Global Head of Research for Technology, Media, and Telecommunications at Deloitte, noted that SVODs generally outperformed the BBC in tailoring content to non-white audiences, for example.¹⁵⁶

Responses from the BBC and Government

74. The BBC faces tough choices in responding to these challenges. It must deliver a strategy and vision that answers the BBC's commercial challenges

151 [Q 33](#) (Dr Rob Watson), written evidence from MG Alba ([BFF0049](#)), Teledwyr Annibynol Cymru ([BFF0043](#)) and [Q 33](#) (Deborah Williams)

152 [Q 33](#) (Dr Rob Watson) and [Q 37](#) (Mercy Muroki)

153 Written evidence from the UK Coalition for Cultural Diversity ([BFF0037](#))

154 [Q 118](#)

155 Written evidence from Cardiff University and PEC ([BFF0053](#))

156 [Q 15](#) (Paul Lee)

while addressing its cultural and public service obligations.¹⁵⁷ The dilemmas include:

- appealing to younger tech-savvy audiences while supporting those who will rely on linear services for at least the next decade;
- competing for audience attention against international rivals that are vastly better funded;
- have strategic advantages in procuring new content, on-screen talent, data and technical know-how; and are unencumbered by public service obligations and expenditure rules;
- balancing its finances to deliver savings and plan for an uncertain future while investing more in innovation and development;
- broadening its appeal to diverse audiences, representing more of the UK; and
- balancing its international and domestic roles, where it must respond to pressures in the global marketplace without creating distortions through an overbearing presence in the UK market.

75. The then Minister of State for Media, Data, and Digital Infrastructure Julia Lopez MP emphasised the need for speed and said the Government was launching an independent review to examine which funding approach would best enable the BBC to thrive in a fast-changing landscape. She said the Government had “not run any numbers” on alternative models and would be led by the results of its independent review, which is expected to last around 12 months.¹⁵⁸
76. Tim Davie told us “the scale of change in the market is extreme” and emphasised the challenge in retaining linear services while increasingly catering to digital consumption habits. He warned of “jeopardy if we do not make that transition”,¹⁵⁹ but said the BBC continued to innovate and explore new formats¹⁶⁰—for example using iPlayer, Sounds and social media channels such as Instagram¹⁶¹ and TikTok.¹⁶² He thought the BBC could “self-flagellate a bit too much”, noting that youth engagement remained at reasonable levels and older audiences stayed loyal.¹⁶³
77. In May 2022 the BBC published a plan to deliver a “digital-first BBC” involving £500 million of annual savings and reinvestment, 1,000 job reductions and £50 million of annual investment in product development.¹⁶⁴ This built on its earlier Annual Plan 2022–23, which focused on strengthening impartiality, creating distinctive content, transforming the BBC’s digital offer,

157 The BBC’s ability to make cuts is restricted by the number of quotas, obligations and targets to which it is subject. Under the terms of the Royal Charter and Agreement, the BBC is required to comply with regulatory quotas in Ofcom’s Operating Licence.

158 [Q 141](#) (Julia Lopez MP)

159 [Q 129](#) (Tim Davie)

160 [Q 131](#) (Tim Davie)

161 BBC, ‘BBC Instagram’: <https://www.instagram.com/bbc/?hl=en> [accessed 8 June 2022]

162 BBC, ‘BBC TikTok’: <https://www.tiktok.com/@bbc?lang=en> [accessed 8 June 2022]

163 [Q 132](#) (Tim Davie)

164 BBC, ‘Plan to deliver a digital first BBC’ (26 May 2022): <https://www.bbc.co.uk/mediacentre/2022/plan-to-deliver-a-digital-first-bbc/> [accessed 8 June 2022]

accelerating commercial and global growth and delivering organisational reforms.¹⁶⁵

78. We heard that the BBC needed support from a more effective and nimble regulatory framework. There are 148 different regulatory quotas and targets across TV, radio and online services with which public service broadcasters must comply.¹⁶⁶ Clare Sumner CBE, Director of Policy at the BBC, said it took over a year to change the rules to extend the timeframe for which iPlayer content remains available, whereas “Netflix, Amazon and others are changing almost by the second.”¹⁶⁷ We noted initial progress in this regard. The Government confirmed that regulatory reform would be considered in both the Mid-Term Charter Review and the forthcoming Media Bill.¹⁶⁸ In June 2022 Ofcom published proposals to update the BBC’s Operating Licence to incorporate better the BBC’s online services and give the BBC greater flexibility in how it meets audience needs.¹⁶⁹
79. The BBC addressed some of its representation challenges in its response to the Serota Review into editorial standards,¹⁷⁰ its accompanying action plan¹⁷¹ and also the *BBC Across the UK* strategy.¹⁷² When asked how it would better represent all sectors of society given ongoing criticism, Richard Sharp, Chairman of the BBC, contended that the corporation had changed “dramatically” in recent years but acknowledged that socio-economic diversity and minority languages warranted further improvement.¹⁷³
80. On whether the licence fee was the best option for helping the BBC address its challenges, Mr Sharp said the BBC Board was starting to consider “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?”¹⁷⁴
81. We explored what would be needed to turn these reflections into action. Archie Norman, former Chairman of ITV, told us that “Nobody has a divine right to exist, just because they are publicly funded”. He argued that the BBC leadership needed encouragement and space to:

“speak truth to the organisation and to say, ‘If we don’t change, we aren’t going to exist in our current form’, [because] it releases the energy in the whole organisation. You are saying what everybody already knows. But

165 BBC, *Annual Plan 2022–23* (March 2022): <https://www.bbc.co.uk/aboutthebbc/documents/bbc-annual-plan-2022-2023.pdf> [accessed 8 June 2022]

166 Written evidence from Enders Analysis (BFF0047)

167 Q 133 (Clare Sumner)

168 Department for Digital, Culture, Media & Sport, *Up next—the government’s vision for the broadcasting sector*

169 Ofcom, *Modernising the BBC’s Operating Licence* (22 June 2022): https://www.ofcom.org.uk/_data/assets/pdf_file/0023/239144/bbc-operating-licence-june-22.pdf [accessed 22 June 2022]

170 BBC, *The Serota Review* (October 2021): <https://downloads.bbc.co.uk/aboutthebbc/reports/reports/the-serota-review.pdf> [accessed 8 June 2022]

171 BBC, ‘BBC plan outlines push for fair, accurate and unbiased content’ (9 October 2021): <https://www.bbc.co.uk/mediacentre/2021/bbc-outlines-push-for-fair-accurate-and-unbiased-content> [accessed 8 June 2022]. The BBC’s plan set out commitments which included reviewing impartiality in voices and viewpoints, increased oversight on content, improved investigations, board-level monitoring of impartiality metrics and workstreams to improve editorial values and culture, training and transparency.

172 BBC, *The BBC across the UK* (March 2021): <http://downloads.bbc.co.uk/aboutthebbc/reports/reports/the-bbc-across-the-uk.pdf> [accessed 09 June 2022]

173 Q 130 (Richard Sharp)

174 Q 137 (Richard Sharp)

at the moment the Director-General cannot say that, because he would be seen to be criticising his own organisation and his own funding, and putting in peril the future funding and support for the BBC. It will not happen without a combination of strong political and governmental support, together with a leadership in the BBC with an appetite to take it on.”¹⁷⁵

82. We explored whether the BBC could be more open and dynamic in addressing its problems, and whether changes to the funding model would help address its challenges. Mr Sharp noted the “desire for pace in change” but cautioned that a considered approach was needed to understand the possibility of unintended—and potentially irreversible—consequences of new funding models that could jeopardise the BBC’s existing position as the “world’s leading public service broadcaster”.¹⁷⁶ Mr Davie acknowledged that there were “typical behaviours of successful legacy operations that are 100 years old that continue to do pretty well” but insisted “the idea that the BBC is just digging its heels in is wrong.”¹⁷⁷ In a subsequent speech he said “we all see a changing media landscape, and a need to listen, to evolve, and fast.”¹⁷⁸
83. **The BBC faces major challenges. The decade ahead will be characterised by rising competition and costs, and constrained funding. It will need to adapt to a digital future while serving those who will continue to rely on linear services for at least the next decade. It must deliver programming and news that matter, and balance the growing expectation for personalised content against its enduring unifying mission. It must compete with vastly better funded international streaming giants and respond to growing questions about its value in the face of expanding consumer choice and failure properly to represent all sectors of the UK. And it will need to explain more clearly to audiences the relationship between what it is for and how it should be funded. Achieving this will require a more clearly articulated strategic vision that goes beyond its existing published strategies.**
84. *The BBC should publish a comprehensive long-term vision that sets out its role, and how it will deliver value and distinctiveness in a rapidly changing world. This vision must include costed options for future funding mechanisms, and how these would affect the BBC’s ability to deliver on its mission in the next decade and beyond. This vision must be driven by a positive approach from the leadership. It will require fresh thinking and a more open-minded approach than has been shown in the past. It should include what the BBC will stop doing, what it needs to do differently and what it will start doing. This would provide clarity to the commercial sector, and greater structure and transparency to help Ofcom, Parliament and the public hold the BBC to account. The BBC should submit this work to the Government’s independent review.*
85. **The BBC cannot provide content that pleases everyone all the time. Yet we continue to hear that the BBC is not representing widely held**

¹⁷⁵ Q 120 (Archie Norman)

¹⁷⁶ Q 134 (Richard Sharp)

¹⁷⁷ Q 139 (Tim Davie)

¹⁷⁸ BBC, ‘BBC Director-General Tim Davie’s speech to staff’ (26 May 2022): <https://www.bbc.co.uk/mediacentre/speeches/2022/digital-first-bbc-director-general-tim-davie> [accessed 8 June 2022]

perspectives in the UK, which often do not divide neatly along party political lines. The legitimacy of a future funding model risks being undermined by dissatisfied audiences and declining viewing share. *We note the BBC's diversity initiatives and encourage it to continue to improve its on- and off-screen representation. The BBC should also embrace this opportunity to show more overtly that it respects, understands and reflects all sectors of UK society.*

- 86. The BBC will need to operate in a more flexible and nimble regulatory framework in future. It currently takes too long for sensible changes to be introduced. We welcome Ofcom's recent proposals to update the BBC's Operating Licence better to incorporate the BBC's online services and give the BBC greater flexibility in how it meets audience needs. *In response to this report, Ofcom should set out how it intends to provide a swifter approach to regulatory changes. The Government should likewise outline its plans for introducing regulatory updates.***

CHAPTER 4: FUNDING MODELS

87. In this chapter we set out the principles that a future funding model would need to fulfil. We then explore 12 options for funding the BBC, ranging from the existing licence fee to full commercialisation. We summarise how each funding mechanism would work, outline their merits and drawbacks, and set out the rationale for discounting some options and recommending others for further consideration.

Principles for a funding model

88. A number of European public service broadcasters have changed from licence fee funding models to alternatives in recent years.¹⁷⁹ Of the 56 markets that make up the European Broadcasting Union area, 20 rely mainly on a licence fee.¹⁸⁰ Plans to abolish France's TV licence are set to be introduced later this year.¹⁸¹

Table 1: Selection of European countries that have abolished their TV licence fees in the past decade

Selected countries	New funding model	Length of transition period	Impact
Germany	Universal household levy	2010–2013	Various legal challenges to the levy resolved in 2018.
Finland	Hypothecated income tax	2011–2013	Stable funding, preserving independence and transparency. Following significant debate, achieved a general social acceptance and perception of fairness.
Switzerland	Universal household levy	2015–2018	Significant debate, leading to a referendum on public service broadcasting.
Norway	State budget	2015–2020	No direct reduction in funding or significant disruption of public service media production.

¹⁷⁹ We note that direct comparisons between countries may be imperfect due to demographic, economic and cultural differences

¹⁸⁰ European Broadcasting Union, *Funding of public service media* (March 2022), p 11: https://www.ebu.ch/files/live/sites/ebu/files/Publications/MIS/login_only/funding/EBU-MIS-Funding_of_PSM_2021_Public.pdf [accessed 8 July 2022]

¹⁸¹ The Connexion, 'France prepares to end TV licence fee for millions of homes' (14 May 2021): <https://www.connexionfrance.com/article/French-news/France-prepares-to-end-TV-licence-fee-for-millions-of-homes> [accessed 6 July 2022]

Selected countries	New funding model	Length of transition period	Impact
Sweden	Hypothecated income tax	2018–2019	Addressed increasing issue of non-payment of the licence fee, achieved general social acceptance.
Denmark	State budget	2018–2022	Has been subject to some criticism that the move risks reducing the broadcaster's independence from government.

Source: NRK, 'Ny finansiering av NRK-spørsmål og svar'–NRK–Om NRK (September 2019): <https://www.nrk.no/informasjon/ny-finansiering-av-nrk--sporsmal-og-svar-1.14681657> [accessed 29 June 2022], Library of Congress, 'Finland: Tax on Public Broadcasting' (September 2012): <https://www.loc.gov/item/global-legal-monitor/2012-09-07/finland-tax-on-public-broadcasting/> [accessed 29 June 2022], Government Offices of Sweden, 'New financing of public service adopted' (November 2019): <https://www.government.se/articles/2018/11/new-financing-of-public-service-adopted/> [accessed 29 June 2022], rundfunkbeitrag.de, 'Der Rundfunkbeitrag': https://www.rundfunkbeitrag.de/welcome/englisch/index_ger.html [accessed 29 June 2022], Informa, 'Sweden replaces radio and TV licence fee' (January 2019): <https://omdia.tech.informa.com/OM004110/Sweden-replaces-radio-and-TV-licence-fee> [accessed 6 July 2022] and Public Media Alliance, 'Drastic changes ahead for Danish public broadcaster' (September 2018): <https://www.publicmediaalliance.org/drastic-change-ahead-for-danish-public-broadcaster/> [accessed 6 July 2018]

89. Following these recent changes, the European Broadcasting Union promoted a set of non-binding principles to assess future models:

- **stable and adequate** to provide predictable funding that enables long-term planning and full coverage of the public service broadcasting remit in the digital age;
- **independent** from political and commercial interests;
- **fair and justifiable** to the public and the market; and
- **transparent and accountable** to ensure an open and clear funding mechanism that holds public service media accountable to its audience.¹⁸²

90. Much of our evidence raised related considerations. Several witnesses emphasised that a funding model should empower the BBC to deliver on its purpose. Tim Davie emphasised independence and delivering a fair deal for the public.¹⁸³ Other factors to consider included evasion rates, the efficiency of collection methods, sustainability in the context of technological change, public expectation,¹⁸⁴ distributional impacts on different consumer groups, economic rationale and the proportional gain derived from any change.¹⁸⁵ From these we derived six core principles against which future funding options should be judged:

- **Independent:** the funding model must safeguard the BBC's editorial independence.

¹⁸² Written evidence from European Broadcasting Union (BFF0060)

¹⁸³ Q 134

¹⁸⁴ Written evidence from European Broadcasting Union (BFF0060)

¹⁸⁵ Frontier Economics, *Review of over 75s funding* (November 2018): <https://www.frontier-economics.com/media/2896/bbc-licence-fee-report-nov-18.pdf> [accessed 9 June 2022]

- **Transparent:** the funding model and means of fee collection must be transparent and trusted by the public.
 - **Legitimate:** the funding model, and the way in which decisions on it are taken, must be viewed as legitimate by all parts of the population the BBC exists to serve.
 - **Sufficient and sustainable:** the funding model should provide sufficient income to enable to BBC to plan and deliver its core mission with certainty, and provide the flexibility to adapt to future challenges and uncertainties.
 - **Fair:** the funding model should be fair. If the funding system enables a variable fee, concessions should be made for those least able to afford it.
 - **Proportionate:** any changes to the funding model should be proportionate to the returns gained in terms of public and financial value.
91. **When responding to the results of its independent review, the Government should publish its assessment of how alternative funding options relate to the principles of independence, transparency, legitimacy, sufficiency and sustainability, fairness, and proportionality.**
- Existing licence fee**
92. The existing licence fee is described in Box 1 in Chapter 1. We heard of three key benefits to the current system.
93. First, the licence fee provides sustainable funding which enables long-term business planning. Witnesses said the BBC’s ability to focus on market-shaping activities and invest in UK content was underpinned by the guaranteed nature of licence fee income which does not oscillate based on viewership, advertising or economic fluctuations.¹⁸⁶
94. Second was value for money. Claire Enders, founder of Enders Analysis, told us it was “incredible” that the licence fee provided a range of TV, radio and online services for the price of “five cappuccinos ... in a cheap location—and four at Starbucks—a month.”¹⁸⁷ Professor Catherine Johnson, Professor in Media and Communication at the University of Huddersfield, highlighted that the cost of the licence fee plus an average cable/satellite subscription for UK households was still only around half what US citizens spend on cable/satellite TV alone.¹⁸⁸ Beyond broadcast services, the BBC also provides value to audiences through its role in live music, festivals and providing support for new bands.¹⁸⁹
95. Third was a sense of shared national ownership. As Professor Robert Picard, Fellow of the Information Society Project at Yale University Law School told us, customers view commercial subscriptions as lifestyle choice “take it or leave it” services, whereas licence fees promote a “form of ownership”

186 Q 97 (Alistair Law)

187 Q 75

188 Written evidence from Prof Catherine Johnson (BFF0028)

189 BBC, *Group Annual Report and Accounts* (July 2021), p 64: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000946/BBC_Annual_Report_and_Accounts_2020-21.pdf

which makes audiences feel “This is mine. I have a part of this.”¹⁹⁰ Professor Steve Barnett suggested there is “something appealing” about the flat rate of the licence fee, with “every household contributing the same amount to an institution which is an integral part of British cultural and political life.”¹⁹¹

96. Others believed that the licence fee is poorly aligned with expectations of consumer choice. Professor Stuart Allan noted that “You can point out as many times as you wish that the BBC licence fee is a fraction of the price of a cup of coffee per day ... Many [young people] will still say that is a choice, they do not have a choice where the licence fee is concerned and it is expensive.”¹⁹² Growing choice in the market increases the pressure on the BBC to meet high standards of impartiality and representation; the more that audiences have alternative choices for their media consumption, the less enthusiastic they may be about paying for something that does not reflect them or their needs. The licence fee’s link to television ownership is also increasingly anachronistic for many people who consume media on phones, tablets and computers.¹⁹³ Falling numbers of licence fee payers pose a further risk to its long-term sustainability.¹⁹⁴
97. Fairness was a further concern. Many witnesses described the licence fee as “regressive” as it does not take account of individual households’ capacity to pay.¹⁹⁵ Andrew Neil told us it was “a poll tax, in effect, because we all pay the same regardless of circumstance.”¹⁹⁶ This is particularly problematic given the BBC’s financial challenges and a future of rising production costs: regularly raising the BBC’s funding levels would hit the poorest hardest.
98. Insufficient independence from the Government was also an issue. The Government ultimately sets the level of the licence fee, after negotiation with the BBC. Dr Tom Mills, Senior Lecturer in Sociology at Aston University and Chair of the Media Reform Coalition, said this meant the BBC did not have “authentic” independence from Government.¹⁹⁷ We heard calls for this system to be reformed: the Voice of the Listener and Viewer, Professor Catherine Johnson, Professor Steven Barnett and Professor Jeanette Steemers all said that any level of public funding should be based on the recommendations of an independent body, with no final decision made without parliamentary debate.¹⁹⁸ Our Committee’s report on public service broadcasting recommended that the Government establish an independent body to oversee the process for setting the licence fee.¹⁹⁹

Reforming the licence fee

99. We heard about options for making the licence fee more progressive without fundamentally changing the model. Richard Broughton, Research Director

¹⁹⁰ [Q 60](#)

¹⁹¹ Written evidence from Prof Steven Barnett ([BFF0032](#))

¹⁹² [Q 31](#)

¹⁹³ [Q 63](#) (Dr Richard Burnley)

¹⁹⁴ [Q 48](#) (Richard Broughton), National Audit Office, *The BBC’s Strategic financial management* (Session 2019–21, HC 1128), p 7: <https://www.nao.org.uk/wp-content/uploads/2021/01/The-BBCs-strategic-financial-management-Summary.pdf> [accessed 9 June 2022]

¹⁹⁵ [Q 34](#) (Rory Sutherland), [Q 43](#) (Liam Halligan), [Q 43](#) (Dr Tom Mills) and [Q 46](#) (Prof Stuart Allan)

¹⁹⁶ [Q 125](#)

¹⁹⁷ [Q 28](#)

¹⁹⁸ Written evidence from Voice of the Listener and Viewer ([BFF0020](#)), Prof Catherine Johnson ([BFF0028](#)), Prof Steven Barnett ([BFF0032](#)) and Prof Jeanette Steemers ([BFF0045](#))

¹⁹⁹ Communications and Digital Committee, *Public service broadcasting: as vital as ever* (1st Report, Session 2019, HL Paper 16), paras 201–04

at Ampere Analysis, said it could be possible to link the licence fee to other sets of data, for example by charging higher fees for higher-rate taxpayers. He highlighted possible administrative burdens involved in determining eligibility, which might change frequently, and the consequent possibility of people mistakenly “getting hit with a giant bill when they can least afford it, or vice versa.”²⁰⁰

100. Alternatively, further exemptions could be provided for those on low incomes. Over 75s receiving, or living with a partner who receives, pension credit are already exempt.²⁰¹ Around 1.5 million households could get a free TV licence under this scheme, which is estimated to cost the BBC around £250 million a year, depending on take-up.²⁰² This initiative indicates that there is scope for the existing licence fee to be reformed to make it more progressive for others too. A discount could presumably be extended to other low income groups across all ages, for example those receiving Universal Credit.
101. Any new discounts would need further funding to make up the shortfall or they would result in lower income for the BBC. This may risk full fee-payers feeling they were unfairly subsidising others. The BBC’s remit would also need to be framed such that programming did not become skewed to higher-paying households. These issues apply to other progressive alternatives explored later in this chapter.
102. **The licence fee is one option for funding the BBC. But it is not the only option. Our evidence was clear that many of the apparent advantages of the licence fee are under threat, and it has several drawbacks. Making the licence fee more progressive would be an improvement, as fees could be raised without disproportionately targeting those least able to afford them. But this should not preclude a comprehensive assessment of alternative funding options.**

Alternative commercial funding

Advertising

103. Under an advertising model, the licence fee would be replaced with revenue from commercial advertising. Adverts would likely be shown on its linear broadcast and radio channels and digital services including BBC iPlayer. Under the current terms of the Charter, the BBC does not show adverts on its main UK-facing channels (though since 2007 it has shown some advertising on its international platforms). The UK’s other major public service broadcasters (ITV, Channel 4 and Channel 5) carry advertising on both their linear and on-demand services.²⁰³ The UK’s TV advertising market is worth approximately £4.3 billion to £4.4 billion per year, and the radio advertising market approximately £700 million.²⁰⁴

200 Q 45

201 HM Government, ‘Get a free or discounted TV licence’: <https://www.gov.uk/free-discount-tv-licence> [accessed 9 June 2022]

202 House of Commons Library, *TV licences for the over-75s* (3 May 2022), p 4: <https://researchbriefings.files.parliament.uk/documents/SN04955/SN04955.pdf>

203 ITV and Channel 4 have premium versions of their on-demand streaming services, whereby viewers pay a subscription fee to view programming with no or reduced advertising.

204 Q 46 (Richard Broughton), see also [campaignlive.co.uk](https://www.campaignlive.co.uk), *Radio adspend recovers to pre-pandemic levels* (4 January 2022): <https://www.campaignlive.co.uk/article/radio-adspend-recovers-pre-pandemic-levels/1736565> [accessed 15 June 2022]

104. This model has two main advantages. First, BBC content would remain free-to-air without compromising universal access. Second, the requirement for public funding would cease, along with concerns about the licence fee's fairness, value for money and independence from Government. The Government would have no role in setting the level of BBC funding, as it would be derived entirely from commercial sources.
105. However, we found three significant drawbacks to this model.
106. First, it fails to fulfil the principle of sufficiency: Richard Broughton told us that advertising would likely generate income of around £2.5 billion a year, creating a shortfall of around £1.2 billion compared with income from the current licence fee.²⁰⁵ Dr Helen Weeds highlighted that if the BBC were to enter the advertising market it may lower costs for advertisers, increasing demand and thus growing the market.²⁰⁶ However, in order completely to replace current licence fee income with TV advertising revenue, the market would need to be almost twice its current size, which Richard Broughton told us "is not going to happen" as the BBC's viewing share is insufficient. Even if that were possible, increasing the level of advertising on this scale would cause significant price reductions in the market and still lead to reduced advertising income overall.²⁰⁷
107. This would likely necessitate significant cuts to BBC programming, which could mean refocusing more exclusively on core public service outputs. As Mark Oliver, Chairman and Co-founder of Oliver & Ohlbaum Associates, noted, public service content is typically least attractive to advertisers.²⁰⁸ Though broadcasting popular sport and national events may prove popular with advertisers, Enders Analysis told us that "commercially efficient content would be favoured over that which is less economically viable" such as children's, news, arts, and minority language and regional programming.²⁰⁹ RadioCentre argued that an advertising model "would undermine the public service broadcasting ecology in the UK and the range and quality of output for audiences."²¹⁰
108. Second, advertising does not meet the principle of proportionality due to the likely adverse effects on other public service broadcasters. As noted above, the size of the advertising market is unlikely to increase substantially, or if it did prices would likely be significantly lowered. Therefore, the BBC's entrance into the market would significantly affect the public service broadcasters who already rely on advertising. This in turn would reduce the public good derived from having multiple public service broadcasters. ITV, Channel 4 and Channel 5 all told us their biggest concern was to avoid a BBC funding model that undercut their share of advertising expenditure.²¹¹ We note that advertising may be unpopular with some audiences who find advertising annoying or disruptive. The BBC told us that support for advertising on the BBC has fallen since the early 2000s, with 24 per cent of UK adults favouring advertising over the licence fee in 2021, down from 31 per cent in

205 Supplementary written evidence from Richard Broughton ([BFF0063](#))

206 [Q 60](#)

207 [Q 46](#)

208 *Ibid.*

209 Written evidence from Enders Analysis ([BFF0047](#))

210 Written evidence from RadioCentre ([BFF0048](#))

211 [Q 85](#) (Magnus Brooke, Khalid Hayat, Mitchell Simmons)

2004. By comparison support for the licence fee rose from 31 per cent to 46 per cent over the same period.²¹²

109. Third, it does not meet the principle of sustainability. The advertising market can fluctuate significantly. The Government cited this as a factor in its decision to privatise Channel 4 and enable the broadcaster to diversify its revenues.²¹³ Archie Norman echoed these concerns:

“The year I joined ITV, the company was more or less on its knees because the advertising market had dropped by 15 per cent to 20 per cent in a single year ... we did not know what our income was going to be four to six months out. Part of the reason why you can have greater creativity, take more risks and make more investment in people at the BBC is that you have this flat licence fee running out into the year. It is a huge advantage”.²¹⁴

110. **A purely advertising-funded BBC is highly unlikely to be viable. It would likely mean a multi-billion pound reduction in income for the BBC whilst damaging the rest of the public service broadcasting sector which relies on advertising. The BBC’s programming may need to scale back to refocus on core public service programming under a significantly reduced budget, and still generate income from these genres that are typically least attractive to advertisers. Alternatively, the BBC may be incentivised to refocus on entertainment attractive to advertisers and spend the minimum amount possible to meet its public service broadcasting obligations. As the overall funding level would be significantly less, both entertainment and core public service programming would likely decline in quality. *We do not recommend the BBC moves to a purely advertising-funded model.***

Subscription

111. Turning the BBC entirely into a subscription service would involve putting all BBC content behind a paywall—a model comparable to commercial subscription services such as Netflix, Amazon Prime Video and Disney+. These charge fees on a monthly basis and have surged in popularity in recent years.²¹⁵
112. This offers the advantage of improved choice over whether to pay for BBC content. Currently, a household must pay the licence fee even if the occupants never watch BBC content but still watch live TV on any other channel, or stream live content on any online platform. Rory Sutherland, Vice-Chairman of Ogilvy UK, an advertising agency, suggested that “Ten years ago, if you claimed never to watch the BBC, you were probably lying, as it was largely implausible. If you said such a thing now, you are probably lying still, but it is just about plausible now.”²¹⁶ A subscription model would allow audiences to opt in to the BBC’s services more directly.

212 Written evidence from the BBC (BFF0040)

213 Department for Digital, Culture, Media and Sport, ‘Decision rationale and sale impact analysis for a change of ownership of Channel 4’ (28 April 2022), para 3: <https://www.gov.uk/government/consultations/consultation-on-a-change-of-ownership-of-channel-4-television-corporation/outcome/decision-rationale-and-sale-impact-analysis-for-a-change-of-ownership-of-channel-4> [accessed 9 June 2022]

214 [Q 127](#)

215 See Chapter 2.

216 [Q 16](#)

113. We heard significant concerns about a subscription model. Many witnesses suggested that a subscription service would be unfair and fundamentally undermine the BBC's purpose as a national broadcaster. Dr Tom Mills said that "one of the underlying assumptions of public service broadcasting is that we all need to have access to information that allows us ... to participate fully in society and in our democracy."²¹⁷ Professor Jeanette Steemers argued subscription would "destroy" the notion of a universal service.²¹⁸
114. Access to BBC news would suffer. Dr Richard Fletcher told us that, while audiences who are highly interested in news would be motivated to seek it out and pay for it under any circumstances, most audiences would not.²¹⁹ Dr Adrian Wooldridge told us an "essential function of the BBC is to keep us part of the reality-based community. It is to give us news that is true, objective and sensible and a reference point."²²⁰
115. Purely subscription-derived revenue would be insufficient for the BBC. If a subscription was £15 per month, a price Richard Broughton described as "optimistic", the BBC would need to convert almost all current licence-holders to subscribers in order to match current licence fee revenue. For comparison, if the BBC charged £15 per month and matched Netflix's 14 million UK subscribers, it would generate £2.3 billion in subscription revenue—a shortfall of £1.4 billion relative to the licence fee. If the BBC matched Sky's UK subscriber base (over 9 million) it would generate approximately £1.4 billion, a shortfall of £2.3 billion relative to the licence fee.²²¹
116. Subscription revenues fluctuate, providing a less stable revenue base. As Enders Analysis highlighted, audiences expect subscription fees to be paid monthly with the option of easy cancellation. This generates variation in subscription income, both seasonally and at the conclusion of prominent programmes.²²² Without access to considerable debt financing, predictably available investment would be difficult to attain. Netflix's total debt was \$14.5 billion at the end of March 2022.²²³
117. There are operational obstacles. An online paywall would be relatively straightforward, but BBC programming is also transmitted via FM and DAB radio signals and on Digital Terrestrial Television (DTT). These platforms are not compatible with the conditional access technology required to implement a paywall. It might be possible, though challenging, to develop this technology for DTT and DAB. It would not be viable for radio.²²⁴ We explore this in more detail in Chapter 5.
118. **A subscription service would generate insufficient income whilst introducing disproportionate barriers to access. This would undermine the BBC's ability to deliver a valued service to the UK. There would also be major technical difficulties to overcome. We**

²¹⁷ Q 28

²¹⁸ Written evidence from Prof Jeanette Steemers (BFF0045)

²¹⁹ Q 10

²²⁰ Q 20

²²¹ Supplementary written evidence from Richard Broughton (BFF0063)

²²² Enders Analysis, 'BBC and subscription: Impractical and not inclusive' (January 2022), p 6

²²³ Netflix, 'Financial Statements Q1 2022' (April 2022): <https://ir.netflix.net/financials/financial-statements/default.aspx> [accessed 8 June 2022]

²²⁴ Written evidence from Prof Jean Seaton (BFF0029), Q 69 (Shuja Khan) and Q 75 (Claire Enders)

do not recommend the BBC moves to a purely subscription-funded model.

119. **As these fully commercial options are not viable, continued public funding must be retained to ensure the BBC can deliver on its purpose.**
120. **We reiterate our view set out in previous reports that an independent body should be established. This would provide recommendations to Government on the level at which the licence fee, or a new form of public funding, should be set.**

Alternative public funding

Hypothecated tax on income

121. A hypothecated tax involves ring-fencing income from a tax to spend on a specific purpose. This funding model was adopted in some Scandinavian countries that abolished their licence fees. In 2019, Sweden replaced the 2,400 krona (£194) annual licence fee with a tax on all working adults, charged at one per cent of income up to a maximum of 1,300 krona per person.²²⁵
122. In the UK, a ringfenced system might involve receipts being paid into a dedicated pot for public service media. This could be done transparently to allay concerns that a tax-based model might expose the BBC to Government influence. This could be progressive, with individuals taxed relative to their income. Liam Halligan, an economist and journalist, told us this was the “most progressive” model which the public would support, particularly in light of the rising cost of living.²²⁶
123. However, a new tax appearing on payslips next to income tax, national insurance contributions and the health and social care levy could prove controversial. Richard Broughton said that if the current £3.7 billion of licence fee income were maintained, this would amount to an increase in income tax of around £115–120 per year per household. This would equate to an additional 0.7 percentage points of basic rate income tax.²²⁷ Unless adjusted for households, this tax could be applied to every individual, meaning a household with multiple occupants may end up paying substantially more than the current licence fee.
124. We heard that progressive fees gave rise to further questions about fairness. According to Richard Broughton, approximately 70 to 75 per cent of households would likely pay for the entirety of BBC funding under an income tax-linked model, with approximately 25 per cent of households effectively consuming BBC content for free. He suggested that given lower-income households tend to consume more hours of BBC content, “the demographics of who is paying for the BBC at that point become somewhat mismatched against those who are spending the most time consuming the BBC output.” He added “that is potentially okay as a policy choice if you think that it is a public service, but it is worth considering.”²²⁸

225 Government Offices of Sweden, ‘New financing of public service adopted’ (16 November 2018): <https://www.government.se/articles/2018/11/new-financing-of-public-service-adopted/> [accessed 10 June 2022]

226 [Q 31](#)

227 [Q 42](#)

228 *Ibid.*

125. The level of income from a hypothecated income tax will also vary from year to year, depending on the wider economic situation. This might make planning more difficult than under the current licence fee model.
126. **A hypothecated income tax could be a more progressive model of public funding which takes account of individuals' ability to pay. However, it may be more exposed to fluctuations than the current system, may prove politically controversial, and raises questions about its fairness, particularly for households with multiple occupants.**

Telecommunications levy

127. The existing television licence is levied on the device traditionally used to receive most BBC content, a TV set, alongside the use of iPlayer and watching live broadcasts on streaming services such as Amazon Prime. A more modern equivalent could involve a levy on fixed broadband, or fixed broadband connections and mobile connections.
128. In March 2020, the BBC suggested a broadband levy as an option for future BBC funding in response to the Government's consultation on decriminalising non-payment of the licence fee. While the BBC said that "this would be a significant change for the UK and we are not, at this stage, advocating it," the corporation noted that it raised "an interesting question as to whether the current system could be made much simpler, more efficient and more automated."²²⁹ A telecommunications levy could be easier to collect than the licence fee, with the money automatically collected through broadband providers.
129. However, a telecommunications levy would be no more progressive than the licence fee. It may introduce further unfairness by making internet connectivity prohibitively expensive for some. Richard Broughton told us that, if the current level of the licence fee were replaced with a levy on fixed broadband alone, monthly broadband fees would likely increase by approximately 40 per cent. If the licence fee were replaced by a levy on fixed broadband and mobile connections, the costs would increase by approximately 10 per cent for fixed broadband and approximately 17 per cent for mobile connections.²³⁰ We heard that this levy would most likely be passed on to the consumer.²³¹
130. **A telecommunications levy would offer few advantages over the licence fee, and its potentially negative impact on broadband access would make it less fair.**

Household levy

131. In recent years, some European countries have switched their public service broadcasting funding models from a TV licence fee to a universal household levy. Under this model, each household is required to pay a flat fee regardless of consumption.
132. A household levy could provide predictable and sustainable levels of income. If the same overall level of funding were collected, it would lead to a reduction

229 "TV licence fee could be replaced by broadband levy, says BBC", *The Guardian* (31 March 2020): <https://www.theguardian.com/media/2020/mar/31/tv-licence-fee-could-be-replaced-by-broadband-levy-says-bbc> [accessed 10 June 2022]

230 *Q 42*

231 *Ibid.*

in the level of the fee, as all households would pay rather than just those who opted in. Germany experienced this when introducing its universal household levy in 2013, and consequently reduced its fee.²³² Collection could be more efficient, driving down administration costs, as there would be no need to determine which households have a TV set.²³³ Collection costs for the licence fee were £136 million in 2020–2021.²³⁴

133. A drawback of a flat-rate household levy is that it would be regressive. An alternative, more progressive, system would involve linking the levy to systems that already differentiate on the basis of household wealth, such as council tax. Professor Patrick Barwise, Emeritus Professor of Management and Marketing at London Business School, suggested this would be “the fairest and most efficient model.”²³⁵ Professor Catherine Johnson argued “The only viable alternative that would address the limitations of the current licence fee model, would be a household fee payable by all citizens (regardless of media use or device ownership) on a progressive basis, set and collected by an independent body.”²³⁶ This model was advocated by some in written evidence.²³⁷ Linking the fee to existing systems might better meet the test of proportionality by avoiding creating an entirely new system to assess and administer fee levels. However, we note this would be subject to existing imperfections in the council tax system’s ability to accurately measure wealth, and outdated valuations upon which it is based. Elderly people on lower incomes in larger houses are one example of this.
134. Currently households do not have to pay the TV licence if they do not view licensable content. A household levy, alongside other universal funding options outlined above, envisages every taxpayer, telecommunications user or household having to pay the fee, regardless of consumption. We noted that compelling households to pay for a service they are currently able to opt out of may prove unpopular. However, if everybody paid the fee, the costs to each household would be lower. This might help mitigate the potential unpopularity of a universal charge, particularly if it were progressively applied.²³⁸
135. **A universal household levy could offer a viable alternative to the licence fee. It would need to be means-tested to make it fairer than the current model. Linking the fee to council tax offers one route to achieving this via an existing system. This could also reduce collection costs.**
136. *When responding to the results of its independent review, the Government should analyse the implications of retaining an opt-in approach, or changing the funding model to a universal levy which everybody has to pay, as would be the case under a household levy, communications levy, or hypothecated income tax. The BBC should undertake a similar assessment.*

232 P Ramsey & C Herzog, ‘The End of the Television Licence Fee? Applying the German Household Levy Model to the United Kingdom’, *European Journal of Communication*, vol 33 (2018), pp 430–44

233 Written evidence from Professor Patrick Barwise (BFF0056)

234 BBC, *Group Annual Report and Accounts 2020/21* (July 2021), p 50: <https://downloads.bbc.co.uk/aboutthebbc/reports/annualreport/2020-21.pdf> [accessed 6 July 2022]

235 Written evidence from Prof Patrick Barwise (BFF0056)

236 Supplementary written evidence from Prof Catherine Johnson (BFF0028)

237 Written evidence from A Owen (BFF0007)

238 Q 48 (Mark Oliver)

Grants from the Government

137. In this model, public service broadcasting would be funded directly from the Government's budget, coming out of existing general taxation. This model is used to fund public service broadcasters in Australia, the Netherlands and Iceland. The UK Government would give the BBC a set amount of funding for the year. The BBC World Service is currently funded partially by Government grant via the Foreign, Commonwealth and Development Office.
138. We did not receive strong evidence recommending this as a funding model. It does not satisfy the principles of independence or legitimacy. The Broadcasting, Entertainment, Communications and Theatre Union (Bectu) told us funding the BBC by Government grant "would jeopardise the BBC's editorial independence—or at least give such a perception—and likely make news programme editors think twice before running stories particularly critical of the Government."²³⁹ When the Netherlands and Iceland moved from a licence fee to a state budget model, this reportedly led to accusations of politically motivated interference and cuts to the provision of original programming.²⁴⁰ Decisions on BBC funding might be influenced by wider Government budget negotiations, creating more uncertainty over long-term funding and investment planning.
139. ***We do not recommend that the BBC is funded by Government grant.***

Contestable funding

140. Some witnesses raised the possibility of contestable funding. This would involve public funding being allocated to public service content on a programme-by-programme, rather than an institutional, basis. There are various options for such a model. It could be funded through new money, or top-sliced from the BBC's existing budget. Andrew Neil suggested that the BBC could be partly funded by a "commission of public broadcasting", similar to an Arts Council model, funded via taxation but at arm's length from the Government.²⁴¹ He said the commission could distribute funds to the UK's other public service broadcasters. Others were sceptical. Dr Cento Veljanovski told us that "an Arts Council approach and contestable funding has certain attractions" but could generate perverse outcomes. He cited the experience of a Gallic television service where producers generated "not that great programming in order to get the subsidy, and then they shunt it into some late-hour slot that no one watches."²⁴²
141. Contestable funding has been piloted to support underserved public service content.²⁴³ The Government has said it will evaluate the pilot to determine

239 Written evidence from Bectu Union ([BFF0036](#))

240 C E Berg & A B Lund, 'Financing Public Service Broadcasting: A Comparative Perspective', *Journal of Media Business Studies*, vol 9 (2012), p 18

241 Though our witnesses made comparisons with the Arts Council's funding of individual projects and programmes, the Arts Council also funds institutions through its National Portfolio investment programme.

242 [Q 94](#)

243 Since 2019 the Young Audiences Content Fund and Audio Content Fund have received almost £48 million of public funding and supported 220 hours of children's television content and more than 700 hours of radio content to date. See Department for Digital, Culture, Media & Sport, [Up next—the government's vision for the broadcasting sector](#), para 3.4

whether there is merit in implementing the approach more widely.²⁴⁴ Contestable funding may have the benefit of prioritising public service content over the preservation of the institutions that produce it. However, we heard contestable funding was best viewed as a supplement to BBC funding rather than a replacement.²⁴⁵ Others worried that the model would introduce risks of “political interference”²⁴⁶ and “complicated” bureaucracy.²⁴⁷

142. *We do not recommend contestable funding as a primary alternative to the licence fee. However, the Government should consider the merits of contestable funding as an additional supplement to support underserved areas of public service content. This would need to be separate from the BBC’s existing income.*

Hybrid commercial funding

143. As set out in Chapter 3, the BBC has increasingly been challenged to ‘do more with less’. Decisions on how much funding is required will need to be taken as part of the full Charter Review process, based on a clear future vision from the BBC, and costed options for delivering that under different funding models. As set out in Chapter 2, there are different views on what the BBC should deliver. Maintaining a similar scope and scale in future would require significant funding increases. A smaller BBC may require less funding, though it would still need attractive content and platforms to appeal to audiences. As Dr Helen Weeds has previously noted, beyond what is strictly necessary to fix market failure, broadcasters must also create “purely popular output” to draw viewers towards socially beneficial content.²⁴⁸
144. Finding new sources of revenue will be difficult, especially if there is insufficient public support for regular fee increases. Hybrid funding models offer a mechanism for supplementing public funding with commercial revenue.
145. The BBC told us that it already operates a “hybrid model”.²⁴⁹ The BBC’s current income is around £5 billion. Of this, around £3.75 billion is generated from the licence fee. The remainder is generated through other, non-public means. Over £1.2 billion of income in 2020 came from BBC Studios, its principal commercial arm, through a range of activities, such as selling content to international distributors.²⁵⁰ Although these activities generate significant annual income, its returns over that period were just £208 million—equivalent to under 6 per cent of licence fee income.²⁵¹ The

244 Department for Digital, Culture, Media and Sport, *Up next—the government’s vision for the broadcasting sector*, p 3.4

245 Written evidence from AudioUK (BFF0041) and written evidence from Cardiff University and PEC (BFF0053)

246 Q 43 (Richard Broughton)

247 Q 43 (Mark Oliver)

248 Helen Weeds, *Rethinking public service broadcasting for the digital age* (3 December 2020), p 20: https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0027/208827/helen-weeds-rethinking-psb-for-digital-age-report.pdf [accessed 10 June 2022]

249 Written evidence from the BBC (BFF0040)

250 BBC, *Group Annual Report and Accounts 2020/21* (9 July 2021), p 66: <https://downloads.bbc.co.uk/aboutthebbc/reports/annualreport/2020-21.pdf> [accessed 10 June 2022]

251 *Ibid.*, p 10

National Audit Office found that the BBC’s commercial activities did “not yet contribute significantly to its overall income position.”²⁵²

146. The BBC’s 2020–21 annual report announced a new financial returns target for BBC Studios of £1.5 billion over five years, starting in 2022–23. This represents a 30 per cent increase on the previous period and is ahead of forecast market growth.²⁵³ Alongside the January 2022 licence fee settlement, the Government more than doubled the borrowing limit of the BBC’s commercial arm to £750 million. The Secretary of State for Digital, Culture, Media and Sport, Nadine Dorries MP, said this would “enable the BBC to access private finance as it pursues an ambitious commercial growth strategy—boosting investment in the creative economy across the UK.”²⁵⁴
147. However, Julia Lopez MP acknowledged that the Government did not foresee these revenue streams offering “a substitute for a difficult debate about the right funding model for the BBC”.²⁵⁵ Tim Davie said the aim of the BBC’s commercial growth strategy was to enable it to maintain its current level of investment in programming in an increasingly competitive market, rather than significantly to increase them: “It does not transform our finances fundamentally for the long term and get us out of this [funding] question.”²⁵⁶
148. **We welcome the BBC’s commercial strategy and encourage it to continue to diversify its sources of revenue. But such income is limited. Without major changes, this will not offset the BBC’s reliance on wider public funding in the near future.**

Part domestic subscription

149. A hybrid model could combine free-to-air programming based on public funding, however it is collected, with a subscription streaming service for UK audiences. Some core BBC provision would remain publicly funded and free-to-air, with additional content behind a paywall.
150. Determining what remains free-to-air would be difficult. Andrew Neil suggested it could include “core” public service outputs: news, most documentaries, children’s television, arts coverage, some radio, major national events and experimental drama. The subscription service would then include “the ‘Strictly’, the drama, the ratings winners”.²⁵⁷ He estimated the “core” BBC service under this model might require approximately £1 billion of public funding per year, and that the subscription service could be financed by increased borrowing and international production deals.²⁵⁸
151. Such a model could retain universal access to the BBC’s public service programming that is most democratically and culturally important. It would increase choice for audiences about whether they pay for additional

252 National Audit Office, *The BBC’s strategic financial management* (20 January 2021), p 10: <https://www.nao.org.uk/wp-content/uploads/2021/01/The-BBCs-strategic-financial-management-Report.pdf> [accessed 10 June 2022]

253 BBC, *BBC Group Annual Report and Accounts 2020/21*, p 69

254 Department for Digital, Culture, Media and Sport, ‘DCMS Secretary of State’s oral statement on the licence fee settlement’ (17 January 2022): <https://www.gov.uk/government/speeches/dcms-secretary-of-states-oral-statement-on-the-licence-fee-settlement> [accessed 10 June 2022]

255 [Q 144](#)

256 [Q 137](#)

257 [Q 123](#)

258 [Q 124](#)

BBC content, while enabling the BBC to continue to produce high-end programming in a way that may be more commercially sustainable.²⁵⁹

152. The drawbacks, as with full subscription, would be around the fairness of putting content behind a paywall, the implications for the idea of a ‘universal’ service, and the fluctuating subscriber base. A model providing minimal popular entertainment on the core service would risk damaging the BBC’s brand and reduce engagement with public service programming.
153. An alternative approach would involve a ‘premium top-up’ service under which the BBC would continue to provide a broad range of free-to-air, publicly funded services in a full range of genres including entertainment and drama. Over time its more expensive content, including high-end drama, could be put behind a paywall. Future high-end content, for example immersive experiences, might also be included. Mark Oliver advocated such a system, suggesting the BBC could build on its existing strategy of putting some content exclusively on iPlayer, and gradually start charging for access.²⁶⁰
154. We heard criticism that this system might be unpopular if people felt they had to pay extra for something that used to be free. However, Mark Oliver argued that it might be better for the BBC not “to stretch its resources ... to compete directly with the likes of Netflix, and just admit that if you want that kind of thing, you have to pay more.”²⁶¹
155. We noted concerns that such a system might involve disproportionate costs. Mark Oliver suggested such a service would need upfront investment of between £1 billion and £2 billion over five years to build a content library of sufficient depth and quality to be attractive, and a well-communicated transition period of around a decade. Richard Broughton still perceived a “real risk that the product you end up with is judged by consumers to be inferior,” given that the UK market is well served by subscription and pay-TV services, and will be more so in future.²⁶²
156. It may be possible to develop a less expansive hybrid service, with experimentation in flexible payment models and ‘windowing’—for example, providing exclusive early access to a programme on BBC iPlayer for an additional fee. This may be less controversial and require less investment, and provide a basis for further future expansion and development.
157. **A hybrid domestic subscription offers an opportunity for the BBC to maintain a broad range of quality programming without requiring regular rises in the licence fee or alternative method of public funding. It would give audiences choice over whether to pay for the full range of BBC output while ensuring the BBC’s core programming remains universally accessible. But there would be significant commercial risk with no guarantee of success. It may involve trade-offs with universal access, which would have to be viewed as acceptable by audiences.**
158. **There are a range of possible versions of such a service, with varying levels of investment and risk. For an expansive version, multi-billion upfront investment would be needed to build a sufficient content library. A less expansive version, experimenting with new payment**

259 [Q 123](#)

260 [Q 47](#)

261 [Q 49](#)

262 *Ibid.*

models and content strategies, would involve less investment and risk, but could provide a basis for possible future expansion.

International subscription

159. An alternative hybrid model would focus on international rather than domestic markets. This would involve making content available to international consumers on a subscription basis, while it remains free-to-air in the UK. This approach would leverage the BBC's international reputation and avoid compromising universal access for UK audiences.
160. The BBC's brand already has a strong global profile. BritBox, a streaming service operated internationally by BBC Studios and ITV, is available in the US, Australia and South Africa, and a Nordic launch is planned for later this year.²⁶³ In 2020, the number of US and Canadian subscribers surpassed 1.5 million users.²⁶⁴ A report commissioned by Ofcom found that the BBC's content was viewed as among the best in the world by international audiences.²⁶⁵ In particular, data from interviews indicate the popularity of UK nature documentaries, drama and comedy, and revealed high levels of trust in the BBC World Service's output.²⁶⁶
161. Richard Broughton favoured this model over a hybrid domestic subscription.²⁶⁷ However, he said the BBC did not own the rights to enough high-quality output of international appeal to establish this service. He estimated significant upfront investment would be needed, with TV content expenditure needing to at least double from the current level of £1.4 billion, be refocused on internationally relevant content and a further annual marketing budget of at least £500 million would be needed.²⁶⁸
162. We noted the cost and complexity involved in establishing such a service. This would include acquiring the rights to the BBC's full back catalogue alongside investment in new productions and managing the associated trade-offs. For example, investing in co-production with SVODs or other broadcasters would be cheaper but the BBC may not be able to retain international distribution rights as part of a deal. Moreover, if the BBC were to invest in acquiring and retaining a greater proportion of international rights to programmes it commissions and co-produces, this could have a detrimental impact on the revenues of the independent production sector.
163. In delivering this model the BBC would also need to balance commissioning content that appeals to international audiences against its domestic obligation to provide programming that reflects a plurality of British tastes and experiences. A 2021 Enders Analysis report found that British-produced

263 City AM, *BritBox expands to Nordics in landmark streaming deal* (14 December 2021): <https://www.cityam.com/britbox-expands-to-nordics-in-landmark-streaming-deal/> [accessed 16 June 2022]

264 The Hollywood Reporter, *BritBox CEO Stepping Down as Streamer Hits 1.5 Million Subs* (6 October 2020): <https://www.hollywoodreporter.com/news/general-news/britbox-ceo-stepping-down-as-streamer-hits-1-5-million-subs-4071986/> [accessed 16 June 2022]

265 EY, *International perspectives on public service broadcasting* (October 2020), p 7: https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0026/204587/international-perspectives-on-psb.pdf [accessed 10 June 2022]

266 *Ibid.*

267 Q 49

268 Supplementary written evidence from Richard Broughton (BFF0063)

programmes commissioned for international audiences by SVODs have comparatively fewer distinctively British terms, reference points and idioms.²⁶⁹

164. **An international subscription service offers a further option for generating commercial income. It would avoid compromising universal access for domestic consumers. As with a hybrid domestic subscription, an international subscription service would involve commercial risk with no guarantee of success. *We recommend the BBC explores and publishes costed options for hybrid domestic and international subscription models.***

²⁶⁹ Enders Analysis, 'Outsourcing culture: When British shows aren't "British"' (March 2021), p 2: available at: <https://www.endersanalysis.com/reports/outourcing-culture-when-british-shows-arent-british>

CHAPTER 5: FUTURE TRANSITION

165. Projections from industry analysts and the experience of European counterparts indicate that the transition to a new funding model could take up to a decade.²⁷⁰ Olav Nyhus, Director of Legal and Public Affairs at Norway's NRK public broadcaster, told us that preparations for changing their licence fee to a universal levy started over 10 years ago.²⁷¹ He noted that identifying a viable alternative had not been straightforward, they eventually settled on a model that had not been a preferred option.²⁷² Dr Florence Hartmann of the European Broadcasting Union highlighted that securing public support could also be time-consuming. Switzerland took five years and a national referendum to agree a way forward, for example: "There was a massive effort and a big controversy."²⁷³ There are two key areas that will affect the viability of possible future funding models: technological and commercial factors, and the political process and timing.

Technological and commercial factors

166. The shift towards online-only BBC services will need to be balanced against the ongoing relevance of linear television. Free-to-air digital terrestrial television (DTT) remains the main way of watching TV for around 11.4 million, or 43 per cent of, households in the UK.²⁷⁴ DTT accounted for over half of all BBC viewing in the third quarter of 2021.²⁷⁵ While linear television's viewing share shows long-term decline, Arqiva's Chief Commercial Officer Shuja Khan argued that this masked DTT's continued relevance.²⁷⁶ He said the number of households taking up DTT had grown by 1.5 million over the last five years, as households subscribed to SVODs and replaced pay-TV packages (such as Sky or Virgin Media) with Freeview as a cheaper alternative.²⁷⁷
167. This continued prevalence of DTT poses challenges for a domestic subscription funding model. DTT is not currently compatible with the conditional access technology required to impose a paywall. Building conditional access technology around the DTT network, Shuja Khan told us, would be "extremely hard" and would require "a lot of investment", involving physical changes to the 1,100 DTT transmission towers in the UK.²⁷⁸ As the other channels currently delivered via DTT would remain advertising-funded and not take advantage of the conditional access technology, the cost of development would solely be to implement a paywall for BBC services. Any BBC subscription service content may therefore need to be online only.
168. **The costs and complexities of developing conditional access technology for digital terrestrial television would be disproportionate to the benefits. We do not recommend the Government pursues this.**

270 [Q 47](#) (Mark Oliver) and [Q 51](#) (Richard Broughton)

271 [Q 62](#) (Olav Nyhus)

272 [Q 63](#) (Olav Nyhus)

273 [Q 63](#) (Florence Hartmann)

274 [Q 68](#) (Shuja Khan)

275 Enders Analysis, 'BBC and subscription: Impractical and not inclusive' (28 January 2022), p 4

276 [Q 68](#)

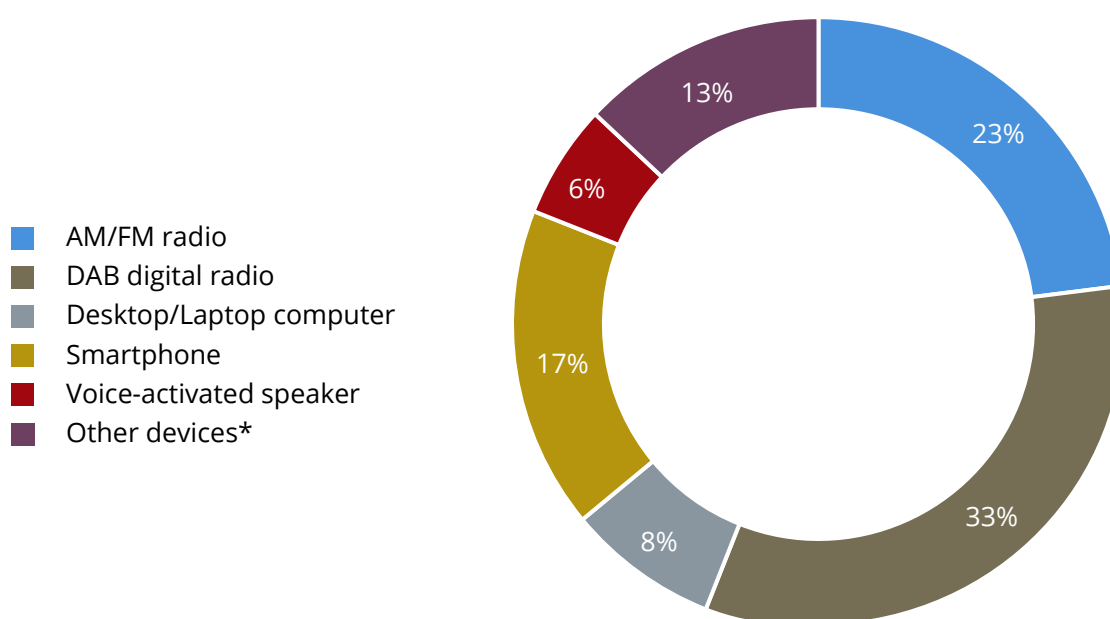
277 *Ibid.*

278 [Q 69](#)

Radio

169. Neither analogue nor DAB radio have the technology to support a paywall. This matters because of the scale of content on and public engagement with these services. Live radio is consumed on analogue (FM and AM), DAB and online—for example through BBC Sounds. Data from Radio Joint Audience Research, the official radio audience measurement body, indicate that DAB accounts for 33 per cent of overall audio listening share, AM/FM 23 per cent and smartphones 17 per cent.²⁷⁹ Similar to TV viewing, this is likely to change over time as younger audiences prefer digital channels.²⁸⁰ Mediatique, a media consultancy, predicts that analogue will account for 12 to 14 per cent of all radio listening by 2030.²⁸¹

Figure 10: Audio (excluding visual) by device share percentage for all adults



Source: HM Government, *Digital Radio and Audio Review* (October 2021), p 24: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1027208/Digital_Radio_and_Audio_Review_FINAL_REPORT_double_view.pdf [accessed 7 July 2022]

*Other devices includes Tablets, CD Players, Portable music players, Record players, TVs etc.

170. It is not technically feasible to develop conditional access technology for analogue radio. We heard it may be possible for DAB,²⁸² though Claire Enders told us this would not provide good value for money. All DAB sets would have to be replaced, including in-car radios. Noting that the switchover from analogue television to DTT cost approximately £500 million, she argued “the radio sector is not significant enough to find these resources. The overall income of radio advertising is not far north of £500 million anyway.”²⁸³

279 Department for Digital, Culture, Media and Sport, *Digital Radio and Audio Review: Ensuring a robust and sustainable future for UK radio and audio* (21 October 2021), p 24: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079580/Digital_Radio_and_Audio_Review_FINAL_REPORT_single_view.pdf [accessed 9 June 2022]

280 *Ibid.*, p 25

281 Cited in Department for Digital, Culture, Media and Sport, *Digital Radio and Audio Review: Ensuring a robust and sustainable future for UK radio and audio*

282 Supplementary written evidence from Shuja Khan(BFF0066)

283 Q 75

171. *We do not recommend a funding model that places BBC radio behind a paywall unless and until both FM and DAB radio listening decline to the point that a switch-off is feasible. We do not believe this is likely within the next 15 years at least.*

An online-only world?

172. Several witnesses speculated that the trend towards digital would continue to the point that a ‘second digital switchover’ may become necessary. Richard Broughton, Research Director at Ampere Analysis, suggested this could benefit the BBC and other public service broadcasters:

“The BBC and other public and commercial broadcasters are stuck, because they cannot plough the investment into their on-demand services ... whilst simultaneously supporting a broadcast market. One slightly radical option would be to have a second digital switchover where everything gets shifted towards an on-demand model. That frees up the BBC and ITV and others to turn off their linear channels, move to an on-demand based model ... without having to support the average viewer anymore. That might actually be in the public interest.”²⁸⁴

173. Catherine Colloms, Managing Director of Corporate Affairs and Brand at Openreach, told us that current connectivity levels are enough for “most people to do most things”.²⁸⁵ However, she noted that the network would need upgrading to full-fibre, gigabit-capable broadband to cope with all possible future demands.²⁸⁶ The Government has committed to nationwide UK gigabit-capable broadband by 2030.²⁸⁷ Catherine Colloms told us that the full-fibre rollout would likely not be completed until the early 2030s due to the difficulty of accessing hard-to-reach properties.²⁸⁸
174. Antony Walker, Deputy CEO of TechUK, agreed that a second digital switchover would require a universal full-fibre broadband infrastructure, capable of carrying the weight of the previous terrestrial traffic.²⁸⁹ Though he agreed with Catherine Colloms that the 100,000 hardest-to-reach UK premises would be connected in the early 2030s, they would still not receive the same level of connectivity as the rest of the country. For this group, he said digital terrestrial switch-off would be a significant concern, and they would be “a very vocal minority.”²⁹⁰
175. If universal access is to be maintained, the affordability and usability of internet-based television must be considered. While data indicate 96 per cent of UK premises have access to a superfast broadband connection, Ofcom estimates that only around 69 per cent actually have a superfast broadband subscription.²⁹¹ The Writers’ Guild of Great Britain told us that the cost of broadband remains prohibitive for a significant number of households.²⁹² A

284 Q 53

285 Q 70

286 *Ibid.*

287 Department for Levelling Up, Housing and Communities, *Levelling Up the United Kingdom* (February 2022), p 183: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052706/Levelling_Up_WP_HRES.pdf [accessed 3 June 2022]

288 Q 68

289 Q 75

290 *Ibid.*

291 Ofcom, *Connected Nations 2021: UK Report* (December 2021), p3: https://www.ofcom.org.uk/_data/assets/pdf_file/0035/229688/connected-nations-2021-uk.pdf [accessed 3 June 2022]

292 Written evidence from Writers’ Guild of Great Britain (BFF0034)

2021 survey by Citizens Advice found that 2.5 million people in the UK were behind on their broadband bills, with households on Universal Credit nine times as likely to be behind as those not on the benefit.²⁹³ Enders Analysis highlighted that there are just under 8 million adults in the UK who lack the means, or do not wish to pay for, any TV service beyond the licence fee, and rely on free-to-air television for entertainment and information.²⁹⁴

176. Even households that can afford broadband and a smart TV may still have difficulty using them. Professor Catherine Johnson told us that some sectors of the population, notably older audiences, “can really struggle to use these technologies, the smart television in particular.”²⁹⁵ Research by Lloyds Bank and Ipsos Mori found that 19 per cent of UK adults did not have “foundational digital skills”.²⁹⁶
177. **A second digital switchover, whereby digital terrestrial television, and DAB and FM radio would be turned off, is unlikely to be feasible until the early 2030s at the earliest. If conditional access were not developed for DTT and DAB, this would make full subscription unfeasible until this point. Were such a plan to become feasible its benefits would need to be balanced against the needs of households less able to pay for and use new technologies.**

A hybrid future?

178. The UK’s existing connectivity would support, however, a domestic hybrid top-up subscription service. Current superfast broadband speeds would be sufficient for the vast majority of the population. If, as Mark Oliver told us, developing and rolling out such a service would take around a decade, the capacity of the network will also have increased by the time such a service would launch.
179. A hybrid subscription service would not face the same challenges with digital terrestrial television and DAB/FM. Programming not part of the subscription service package could continue to be broadcast on these platforms. The pace of the UK full-fibre rollout has no implications for a hybrid subscription model targeting international markets.
180. **Current connectivity would support a hybrid online subscription model, as described in paragraph 157. The feasibility of these models will be determined primarily by decisions about the BBC’s purpose and commercial viability, not technological factors.**

Industry developments

181. Industry trends would affect the viability of a subscription service. A growing number of media and technology companies are launching new SVOD services. Between 2020 and 2022, Disney, NBCUniversal, Discovery and ViacomCBS all introduced new SVOD services, originally launched in the US, to UK markets. As new services become available, the market may

293 Citizens Advice, ‘2.5 million people are behind on their broadband bills’ (4 June 2021): <https://www.citizensadvice.org.uk/about-us/about-us1/media/press-releases/25-million-people-are-behind-on-their-broadband-bills/> [accessed 29 June 2022]

294 Enders Analysis, ‘Public service television: Something for everyone’ (17 January 2022), p 1

295 Q 3

296 Lloyds Bank, *Essential Digital Skills Report 2021: Third Edition—Benchmarking the Essential Digital Skills of the UK*, p 9: https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/211109-lloyds-essential-digital-skills-report-2021.pdf [accessed 9 June 2022]

become saturated, with consumers reluctant to pay for an increasing number of individual subscriptions.

182. The current Charter ends in 2027, with the BBC's funding model in place until then. Some witnesses argued that a transition to any subscription model should start well before then given market conditions. Richard Broughton suggested the market would reach saturation by 2035, and that if a full BBC hybrid subscription service were launched between 2028 and 2030, this would be "too slow for the commercial market."²⁹⁷ However, Mark Oliver predicted that, while the market is increasingly saturated, there would be a "shake-out" in the near future with "a second wave when some people exit the market."²⁹⁸ Nevertheless, he stated that a full review of the BBC's future needed to conclude "in 2024 or 2025 at the very latest", noting that there are "two timetables. One is for deciding to do it, the other is for doing it, and they have to be aligned."²⁹⁹ Richard Broughton agreed that planning for any transition should start sooner than 2027.³⁰⁰ However, as discussed in Chapter 4, a less expansive subscription service may require less investment and a shorter transition, and involve greater flexibility around timing and launch.
183. **The market for subscription services is becoming increasingly competitive and saturated. If the BBC were to develop a top up subscription service, preparations to launch would need to begin before the end of the current Charter period.**

Political process and timing

184. Julia Lopez MP, then Minister of State for Media, Data, and Digital Infrastructure, confirmed that the independent review of the licence fee would begin before Parliament's 2022 summer recess (i.e. 21 July 2022) and was expected to report within 12 months.³⁰¹
185. Robert Specterman-Green, Director of Media & Creative Industries at the Department for Digital, Culture, Media and Sport, told us that the independent licence fee review should not pre-empt the Charter review, which was the appropriate forum for re-evaluating the BBC's purpose. He stated that the review's terms of reference would outline strategic considerations, "without crossing the line" to making conclusions.³⁰² Julia Lopez confirmed that the final decision on the BBC's future funding model would be made as part of the Charter review process.³⁰³
186. If a decision on future funding were deferred until the Charter review process concludes in 2027, it may be too late for a hybrid subscription funding model to be viable, given market conditions. Robert Specterman-Green noted that the Government may respond with its preferred model when the review concludes in 2023, but it would not be able to give a firm guarantee.³⁰⁴ It would be difficult for the Government and the BBC to undertake the multi-billion pound financial preparations required for a subscription service in

297 [Q 53](#)

298 *Ibid.*

299 *Ibid.*

300 *Ibid.*

301 [Q 149](#)

302 [Q 151](#)

303 [Q 152](#)

304 *Ibid.*

the absence of a political decision and public support. The Government's timings suggest that might not be possible much before 2027.

187. **The political constraints surrounding the decision on the BBC's funding raise serious questions about the commercial viability of a hybrid subscription model. The Government must take account of how the timetable of the political process will affect the viability of some funding models. This should not, however, delay the BBC coming forward with the new strategic vision that we are calling for.**

Public consultation

188. Any future funding model of the BBC must satisfy the principle of legitimacy: the BBC's future funding, and the way in which decisions on it are taken, must be viewed as legitimate by the population the BBC exists to serve.³⁰⁵
189. A large proportion of our evidence argued that any proposed change to the BBC's funding model should be subject to extensive public consultation.³⁰⁶ The Media Reform Coalition told us that there should be "deep and widespread" public consultation about the value and purpose of the BBC, not just the narrower question of its future funding model.³⁰⁷ The Public Media Alliance noted that the discussion on the BBC's future "can be distorted by those that 'shout' loudest via social media" and any consultation must seek to avoid binary debate.³⁰⁸ The Voice of the Listener and View argued that to inform any public consultation the Government should carry out rigorous impact studies on any proposed change of the funding model.³⁰⁹
190. Changes to public service broadcasting funding models in European countries have involved different levels of public engagement. Switzerland's 2015 proposal to shift from a TV licence fee to a universal household fee generated significant public controversy, culminating in a reportedly divisive referendum.³¹⁰ When Germany changed its funding model to a universal household levy in 2013, various legal complaints were filed against the new fee. These legal challenges were ultimately resolved in favour of the fee in 2018.³¹¹
191. Written evidence from members of the public suggested that public consultation should be seen as the most important aspect of the decision-making process: Laura Phillips asked, "why is no one asking us, the licence fee payers, is this what we want for our BBC?"³¹² The BBC emphasised this issue, noting that the previous Charter Renewal Process consultation received 196,000 responses, and that on decriminalising non-payment of the licence fee received 150,000 responses.³¹³ Dr Tom Mills highlighted the

305 Written evidence from the Voice of the Listener and Viewer (BFF0020)

306 *Ibid.*

307 Written evidence from the Media Reform Coalition (BFF0030)

308 Written evidence from the Public Media Alliance (BFF0044)

309 Written evidence from the Voice of the Listener and Viewer (BFF0020)

310 Swissinfo, 'Swiss licence fee vote: the demands and potential consequences' (18 January 2018): https://www.swissinfo.ch/eng/radio-and-television_swiss-licence-fee-vote--the-demands-and-potential-consequences/43824266 [accessed 9 June 2022]

311 DW, 'German ZDF and ARD public broadcasting household levy ruled constitutional' (18 July 2018): <https://www.dw.com/en/german-zdf-and-ard-public-broadcasting-household-levy-ruled-constitutional/a-44721576> [accessed 9 June 2022]

312 Written evidence from Laura Phillips (BFF0018)

313 Written evidence from the BBC (BFF0040)

potential for citizen assemblies to inform decision-making on the future of the BBC.³¹⁴

192. We did not hear a clear plan from Julia Lopez MP for how the public would be engaged. She did not think citizens assemblies were likely to be considered by Government as a method of public consultation.³¹⁵ She believed the “public will find a way of raising this. Whether through individual campaigns, support for particular programming or whatever ... I do not think that there is a single thing that will be done to engage the public, there has to be a conversation in various arenas.”³¹⁶ She stated the Government had the right to disagree with the outcome of a consultation and come to a different conclusion based on its own analysis, as it did with the decision to privatise Channel 4.³¹⁷
193. The BBC told us it was planning to undertake its own consultation on the future of the BBC. Richard Sharp, the Chairman of the BBC, noted that 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.”³¹⁸
194. **We were concerned that the Government did not have a specific plan for public consultation on the future BBC funding model. This risks undermining the legitimacy of any changes it may propose.**
195. **Decisions on the BBC’s role and future must not be left to the last minute before the renewal of the next Charter. And these decisions should be taken more transparently than has previously been the case.**
196. *The Government should publish a plan and timeline for how it intends to engage the public in discussions and decisions about the BBC’s future funding model. It must commit to holding national public consultation in advance of it proposing a funding model. These could take the form of citizens’ assemblies. The Government’s proposed funding model must be debated in Parliament in advance of any decision to introduce it.*

The BBC’s role

197. The BBC has an important role to play in the decision-making process and transition to any future funding model. It holds valuable expertise which could be used to inform future assessments and public debate. Gareth Davies, Comptroller and Auditor General at the National Audit Office, told us for example that the BBC could build on what it has learned about its cost base in recent years to model the costs associated with delivering each of its public service objectives.³¹⁹

314 [Q 28](#)

315 [Q 151](#)

316 [Q 150](#)

317 [Q 153](#)

318 [Q 129](#)

319 [Q 115](#)

198. It also has the credibility needed to change minds. Sir Peter Bazalgette told us that

“The people who work for the BBC and would understandably be alarmed at big change, the independent producers who have programmes commissioned by it ... are opposing change ... without properly considering what these huge changes that are taking place to the broadcasting and media market entail. There is a massive battle to take on the conservatism of the broadcasting industry itself.”³²⁰

199. Archie Norman told us that the scale of transformation required for the BBC to tackle its existential challenges required “a combination of strong political and governmental support, together with a leadership in the BBC with an appetite to take it on.”³²¹ He added that it was “strongly preferable” that the BBC itself takes a leading role in the review of its future:

“Otherwise, you will get the usual thing of an external party that will essentially create a threatening effect to the BBC. The wagons will be drawn around the circle, all the reasons why we cannot change will be wheeled out and it will not happen. Change has to come from within”.³²²

200. **The BBC must use the debate on its future funding to embrace its challenges and seize the opportunity to generate momentum for change. The Reithian mission must be adapted for the next quarter of the 21st century. This will require confident and clear proposals from the BBC. Urgent thought is required about how the BBC fulfils its purpose in a changing society and market context. Regulation and the Government must play their part in furnishing the BBC with the tools it needs to transform itself successfully. But it is a discussion the BBC must lead, and it should consider creative and expansive ways to engage citizens. The question of the future funding model is important but only one part of this necessary broader re-evaluation.**

320 [Q 121](#)

321 [Q 120](#)

322 [Q 122](#)

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

BBC purpose

1. The BBC plays a key role in bringing the nation together—most importantly at times of crisis, celebration and big national moments, such as sporting events. This role as a national glue will only become more important, and more complex, in the context of increasing social, cultural and demographic change. (Paragraph 25)
2. The BBC’s mission to ‘inform, educate, entertain’ has stood the test of time. But the way in which it is delivered needs to change for it to remain relevant in this rapidly changing market and society. The BBC needs to be guided in how it should change by a clearly articulated strategic purpose and vision, as we set out in Chapter 3. (Paragraph 26)
3. The concept of universality remains integral to the BBC but suffers from a lack of clarity. It does not necessarily mean delivering everything for everyone across every platform, or that everyone must pay the same. *We call on the BBC to provide a clear definition of its understanding of universality in response to this report, detailing how this, alongside its strategic purpose, will shape its future decisions on its programming and allocation of resources.* (Paragraph 34)
4. The BBC plays an important role in providing services that are underserved by the private sector. But this should not be its sole focus: we do not support a market failure model for the BBC. The corporation also plays a central role in supporting and shaping the UK’s creative economy. This market-shaping work should feature prominently in the future vision we are calling for. (Paragraph 45)
5. *When responding to the independent review the Government must set out how the BBC’s future funding model and remit will incentivise the corporation to strike the right balance between addressing market failure and shaping markets for the benefit of the UK creative industries and wider economy. In response to this report the Government should commit to commissioning and publishing independent market impact studies ahead of any decision on the BBC’s future funding model.* (Paragraph 46)
6. The BBC continues to provide an essential international service which promotes UK democratic values and informs people across the world. It delivers this through a range of means, including entertainment. This is ever more important in an era of declining press freedom and rising authoritarianism. *When responding to its independent review the Government should commit to safeguarding the work of the BBC World Service, and if necessary enhancing it.* (Paragraph 50)
7. *When responding to the results of its independent review the Government should publish an assessment of the benefits that the BBC’s international output, including the World Service, provides to UK soft power and wider objectives in foreign policy, international trade and inward investment. This should set out how changes to the BBC’s funding might affect these benefits. The BBC should provide the Government with scenarios and estimates to inform this work. The Government should provide an interim update on this work by 1 December 2022.* (Paragraph 51)

Strategic challenges

8. The BBC faces major challenges. The decade ahead will be characterised by rising competition and costs, and constrained funding. It will need to adapt to a digital future while serving those who will continue to rely on linear services for at least the next decade. It must deliver programming and news that matter, and balance the growing expectation for personalised content against its enduring unifying mission. It must compete with vastly better funded international streaming giants and respond to growing questions about its value in the face of expanding consumer choice and failure properly to represent all sectors of the UK. And it will need to explain more clearly to audiences the relationship between what it is for and how it should be funded. Achieving this will require a more clearly articulated strategic vision that goes beyond its existing published strategies. (Paragraph 83)
9. *The BBC should publish a comprehensive long-term vision that sets out its role, and how it will deliver value and distinctiveness in a rapidly changing world. This vision must include costed options for future funding mechanisms, and how these would affect the BBC's ability to deliver on its mission in the next decade and beyond. This vision must be driven by a positive approach from the leadership. It will require fresh thinking and a more open-minded approach than has been shown in the past. It should include what the BBC will stop doing, what it needs to do differently and what it will start doing. This would provide clarity to the commercial sector, and greater structure and transparency to help Ofcom, Parliament and the public hold the BBC to account. The BBC should submit this work to the Government's independent review.* (Paragraph 84)
10. The BBC cannot provide content that pleases everyone all the time. Yet we continue to hear that the BBC is not representing widely held perspectives in the UK, which often do not divide neatly along party political lines. The legitimacy of a future funding model risks being undermined by dissatisfied audiences and declining viewing share. *We note the BBC's diversity initiatives and encourage it to continue to improve its on- and off-screen representation. The BBC should also embrace this opportunity to show more overtly that it respects, understands and reflects all sectors of UK society.* (Paragraph 85)
11. The BBC will need to operate in a more flexible and nimble regulatory framework in future. It currently takes too long for sensible changes to be introduced. We welcome Ofcom's recent proposals to update the BBC's Operating Licence better to incorporate the BBC's online services and give the BBC greater flexibility in how it meets audience needs. *In response to this report, Ofcom should set out how it intends to provide a swifter approach to regulatory changes. The Government should likewise outline its plans for introducing regulatory updates.* (Paragraph 86)

Funding models

12. When responding to the results of its independent review, the Government should publish its assessment of how alternative funding options relate to the principles of independence, transparency, legitimacy, sufficiency and sustainability, fairness, and proportionality. (Paragraph 91)
13. The licence fee is one option for funding the BBC. But it is not the only option. Our evidence was clear that many of the apparent advantages of the licence fee are under threat, and it has several drawbacks. Making the licence fee more progressive would be an improvement, as fees could be raised

without disproportionately targeting those least able to afford them. But this should not preclude a comprehensive assessment of alternative funding options. (Paragraph 102)

14. A purely advertising-funded BBC is highly unlikely to be viable. It would likely mean a multi-billion pound reduction in income for the BBC whilst damaging the rest of the public service broadcasting sector which relies on advertising. The BBC's programming may need to scale back to refocus on core public service programming under a significantly reduced budget, and still generate income from these genres that are typically least attractive to advertisers. Alternatively, the BBC may be incentivised to refocus on entertainment attractive to advertisers and spend the minimum amount possible to meet its public service broadcasting obligations. As the overall funding level would be significantly less, both entertainment and core public service programming would likely decline in quality. *We do not recommend the BBC moves to a purely advertising-funded model.* (Paragraph 110)
15. A subscription service would generate insufficient income whilst introducing disproportionate barriers to access. This would undermine the BBC's ability to deliver a valued service to the UK. There would also be major technical difficulties to overcome. *We do not recommend the BBC moves to a purely subscription-funded model.* (Paragraph 118)
16. As these fully commercial options are not viable, continued public funding must be retained to ensure the BBC can deliver on its purpose. (Paragraph 119)
17. We reiterate our view set out in previous reports that an independent body should be established. This would provide recommendations to Government on the level at which the licence fee, or a new form of public funding, should be set. (Paragraph 120)
18. A hypothecated income tax could be a more progressive model of public funding which takes account of individuals' ability to pay. However, it may be more exposed to fluctuations than the current system, may prove politically controversial, and raises questions about its fairness, particularly for households with multiple occupants. (Paragraph 126)
19. A telecommunications levy would offer few advantages over the licence fee, and its potentially negative impact on broadband access would make it less fair. (Paragraph 130)
20. A universal household levy could offer a viable alternative to the licence fee. It would need to be means-tested to make it fairer than the current model. Linking the fee to council tax offers one route to achieving this via an existing system. This could also reduce collection costs. (Paragraph 135)
21. *When responding to the results of its independent review, the Government should analyse the implications of retaining an opt-in approach, or changing the funding model to a universal levy which everybody has to pay, as would be the case under a household levy, communications levy, or hypothecated income tax. The BBC should undertake a similar assessment.* (Paragraph 136)
22. *We do not recommend that the BBC is funded by Government grant.* (Paragraph 139)

Future transition

23. *We do not recommend contestable funding as a primary alternative to the licence fee. However, the Government should consider the merits of contestable funding as an additional supplement to support underserved areas of public service content. This would need to be separate from the BBC's existing income.* (Paragraph 142)
24. We welcome the BBC's commercial strategy and encourage it to continue to diversify its sources of revenue. But such income is limited. Without major changes, this will not offset the BBC's reliance on wider public funding in the near future. (Paragraph 148)
25. A hybrid domestic subscription offers an opportunity for the BBC to maintain a broad range of quality programming without requiring regular rises in the licence fee or alternative method of public funding. It would give audiences choice over whether to pay for the full range of BBC output while ensuring the BBC's core programming remains universally accessible. But there would be significant commercial risk with no guarantee of success. It may involve trade-offs with universal access, which would have to be viewed as acceptable by audiences. (Paragraph 157)
26. There are a range of possible versions of such a service, with varying levels of investment and risk. For an expansive version, multi-billion upfront investment would be needed to build a sufficient content library. A less expansive version, experimenting with new payment models and content strategies, would involve less investment and risk, but could provide a basis for possible future expansion. (Paragraph 158)
27. An international subscription service offers a further option for generating commercial income. It would avoid compromising universal access for domestic consumers. As with a hybrid domestic subscription, an international subscription service would involve commercial risk with no guarantee of success. *We recommend the BBC explores and publishes costed options for hybrid domestic and international subscription models.* (Paragraph 164)
28. The costs and complexities of developing conditional access technology for digital terrestrial television would be disproportionate to the benefits. *We do not recommend the Government pursues this.* (Paragraph 168)
29. *We do not recommend a funding model that places BBC radio behind a paywall unless and until both FM and DAB radio listening decline to the point that a switch-off is feasible. We do not believe this is likely within the next 15 years at least.* (Paragraph 171)
30. A second digital switchover, whereby digital terrestrial television, and DAB and FM radio would be turned off, is unlikely to be feasible until the early 2030s at the earliest. If conditional access were not developed for DTT and DAB, this would make full subscription unfeasible until this point. Were such a plan to become feasible its benefits would need to be balanced against the needs of households less able to pay for and use new technologies. (Paragraph 177)
31. Current connectivity would support a hybrid online subscription model, as described in paragraph 157. The feasibility of these models will be determined primarily by decisions about the BBC's purpose and commercial viability, not technological factors. (Paragraph 180)

32. The market for subscription services is becoming increasingly competitive and saturated. If the BBC were to develop a top up subscription service, preparations to launch would need to begin before the end of the current Charter period. (Paragraph 183)
33. The political constraints surrounding the decision on the BBC's funding raise serious questions about the commercial viability of a hybrid subscription model. The Government must take account of how the timetable of the political process will affect the viability of some funding models. This should not, however, delay the BBC coming forward with the new strategic vision that we are calling for. (Paragraph 187)
34. We were concerned that the Government did not have a specific plan for public consultation on the future BBC funding model. This risks undermining the legitimacy of any changes it may propose. (Paragraph 194)
35. Decisions on the BBC's role and future must not be left to the last minute before the renewal of the next Charter. And these decisions should be taken more transparently than has previously been the case. (Paragraph 195)
36. *The Government should publish a plan and timeline for how it intends to engage the public in discussions and decisions about the BBC's future funding model. It must commit to holding national public consultation in advance of it proposing a funding model. These could take the form of citizens' assemblies. The Government's proposed funding model must be debated in Parliament in advance of any decision to introduce it.* (Paragraph 196)
37. The BBC must use the debate on its future funding to embrace its challenges and seize the opportunity to generate momentum for change. The Reithian mission must be adapted for the next quarter of the 21st century. This will require confident and clear proposals from the BBC. Urgent thought is required about how the BBC fulfils its purpose in a changing society and market context. Regulation and the Government must play their part in furnishing the BBC with the tools it needs to transform itself successfully. But it is a discussion the BBC must lead, and it should consider creative and expansive ways to engage citizens. The question of the future funding model is important but only one part of this necessary broader re-evaluation. (Paragraph 200)

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

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

Declarations of interest

Baroness Bull
Former Governor, BBC (2003–2006)
Occasionally makes programmes for, and appears on, BBC radio and BBC television for which she receives remuneration
Partner, freelance filmmaker and cameraman who is occasionally employed by the BBC or by independent companies commissioned by the BBC

Baroness Buscombe
No relevant interests to declare

Baroness Featherstone
No relevant interests to declare

Lord Foster of Bath
No relevant interests to declare

Lord Griffiths of Burry Port
Member has worked with the BBC Religion Department for 30 years
Member was on the frontbench for the Labour Party for their DCMS brief

Lord Hall of Birkenhead
Former employee and Director-General, BBC (member of the BBC pension scheme)
Former Board Member and Former Deputy Chairman, Channel 4
Former President, EBU (organisation which represents public service broadcasters across Europe, North Africa etc.)
Member has a family interest in one of the providers to the BBC

Baroness Harding of Winscombe
No relevant interests to declare

Lord Lipsey
No relevant interests to declare

Baroness Rebuck
Non-executive Member, Bertelsmann Media Group Management Committee
Non-executive Director, Penguin Random House
Non-executive Director, Guardian Media Group
Former Non-executive Director, BSkyB

Baroness Stowell of Beeston (Chair)

Former employee, BBC (2001–2010) and member of the BBC Pension Scheme (deferred membership)

Lord Vaizey of Didcot

Board Director, Tate (alongside Tim Davie, Director-General, BBC)

Regular panellist of BBC content (for which member receives remuneration)

Adviser, LionTree LLC (M&A advisory firm)

Advisory Board Member, NewsGuard Technologies Inc (which rates websites)

Chairman, Common Sense Media UK (a charity that provides ratings for children and their parents on content)

The Lord Bishop of Worcester

Member broadcasts occasionally for the BBC for which he receives remuneration

Lord Young of Norwood Green

Former Governor, BBC

Member, All-Party Parliamentary Group for the BBC

A full list of Members' interests can be found in the Register of Lords' Interests:
<https://members.parliament.uk/members/lords/interests/register-of-lords-interests>

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at <https://committees.parliament.uk/committee/170/communications-and-digital-committee/publications/> and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with ** gave both oral evidence and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

*	Dr Richard Fletcher, Senior Research Fellow, Reuters Institute for the Study of Journalism, University of Oxford	QQ 1–15
**	Professor Catherine Johnson, Professor in Media & Communication, University of Huddersfield	
*	Dr Jeremy Silver, Chief Executive Officer, Digital Catapult	
*	Paul Lee, Global head of research for technology, media, and telecommunications, Deloitte	
*	David Goodhart, Head of Demography, Immigration and Integration, Policy Exchange	QQ 16–26
*	Polly Mackenzie, Chief Executive Officer, Demos	
*	Rory Sutherland, Vice-Chairman, Ogilvy UK	
*	Dr Adrian Wooldridge, Global Business Columnist, Bloomberg	
*	Professor Stuart Allan, Professor of Journalism and Communication, Cardiff University	QQ 27–31
**	Liam Halligan, Economist and Journalist	
**	Professor Mariana Mazzucato, Professor in the Economics of Innovation and Public Value, Institute for Innovation and Public Purpose (IIPP)	
**	Dr Tom Mills, Senior Lecturer in Sociology, Aston University	
*	Jasmine Dotiwala	QQ 32–37
*	Mercy Muroki	
*	Dr Rob Watson, Director, Decentered Media	
*	Deborah Williams, Executive Director, Creative Diversity Network	
**	Richard Broughton, Research Director, Ampere Analysis	QQ 38–53
*	Mark Oliver, Chairman and co-founder, Oliver & Ohlbaum Associates	

★	Professor Robert Picard, Fellow, Information Society Project, Yale University Law School	<u>QQ 54–60</u>
★	Dr Helen Weeds, Honorary Senior Research Fellow, Imperial College Business School	
★	Olav Nyhus, Director of Legal and Public Affairs, NRK	<u>QQ 61–66</u>
★	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	
★★	Shuja Khan, Chief Commercial Officer, Arqiva	<u>QQ 67–73</u>
★	Catherine Colloms, Managing Director, Corporate Affairs and Brand, Openreach	
★★	Claire Enders, founder, Enders Analysis	<u>QQ 74–80</u>
★	Antony Walker, Deputy Chief Executive Officer, techUK	
★	Magnus Brooke, Director of Policy and Regulatory Affairs, ITV	<u>QQ 81–85</u>
★★	Khalid Hayat, Director of Strategy and Consumer Insight, Channel 4	
★	Mitchell Simmons, Vice-President, Public Policy & Government Affairs EMEA, Paramount Global	
★★	Alistair Law, Director of Policy, Sky	<u>QQ 86–89</u>
★★	Adam Minns, Executive Director, COBA	
★	Sebastian Enser-Wight, Chief Strategy Officer, Global	
★	Ryan Bourne, R Evan Scharf Chair for the Public Understanding of Economics, Cato Institute	<u>QQ 90–97</u>
★	Dr Cento Veljanovski, founder and Managing Partner, Case Associates	
★★	Kevin Bakhurst, Group Director, Broadcasting and Online Content and Board Director and Siobhan Walsh, Director, Content Policy, Ofcom	<u>QQ 98–108</u>
★	Gareth Davies, Comptroller & Auditor General, Kate Mathers, Executive Director and Louise Bladen, Director, BBC value for money audit, National Audit Office	<u>QQ 109–115</u>
★	Sir Peter Bazalgette, Chairman, ITV	<u>QQ 116–122</u>
★	Archie Norman, Chairman, Marks and Spencer	
★	Andrew Neil, Chairman, The Spectator	<u>QQ 123–128</u>
★	Greg Dyke, Chairman, London Film School	

- ★★ Tim Davie CBE, Director General; Richard Sharp, Chairman; Clare Sumner CBE, Director of Policy, BBC [QQ 129–140](#)
- ★★ Julia Lopez MP, Minister of State for Media, Data, and Digital Infrastructure (September 2021 to July 2022), and Robert Specterman-Green, Director, Media & Creative Industries, HM Government—Department for Digital, Culture, Media and Sport [QQ 141–153](#)

Alphabetical list of all witnesses

- ★ Professor Stuart Allan, Professor of Journalism and Communication, Cardiff University School of Journalism, Media and Culture ([QQ 27–31](#)) [BFF0061](#)
- Amazon Prime Video [BFF0070](#)
- ★★ Arqiva ([QQ 67–73](#)) [BFF0066](#)
- AudioUK [BFF0041](#)
- Professor Steven Barnett, Professor of Communications, University of Westminster [BFF0032](#)
- Professor Patrick Barwise, Emeritus Professor of Management and Marketing, London Business School [BFF0056](#)
[BFF0057](#)
- ★ Sir Peter Bazalgette ([QQ 116–122](#))
- ★★ BBC ([QQ 129–140](#)) [BFF0040](#)
[BFF0073](#)
- Bectu Union [BFF0036](#)
- ★ Ryan Bourne ([QQ 90–97](#))
- The British Broadcasting Challenge [BFF0039](#)
- ★★ Richard Broughton, Research Director, Ampere Analysis ([QQ 38–53](#)) [BFF0063](#)
- Cardiff University and PEC [BFF0053](#)
- ★★ Channel 4 ([QQ 81–85](#)) [BFF0065](#)
- Dr Tom Chivers, Research Associate, Cardiff University and PEC [BFF0061](#)
- ★★ COBA (The Association for Commercial Broadcasters and On-Demand Services) ([QQ 86–89](#)) [BFF0059](#)
[BFF0069](#)
- Rowan Conway [BFF0052](#)
- David Craig [BFF0005](#)
- Simon Deane [BFF0024](#)
- Directors UK [BFF0027](#)
- Ian Ditchfield [BFF0012](#)
- ★ Jasmine Dotiwala ([QQ 32–37](#))

★	Greg Dyke (QQ 123–128)	
★★	Enders Analysis (QQ 74–80)	BFF0047
		BFF0067
	Equity	BFF0033
★★	European Broadcasting Union (QQ 61–66)	BFF0060
★	Dr Richard Fletcher (QQ 1–15)	
	Dr Robert Frew	BFF0016
	Professor Joanne Garde-Hansen, Professor in Culture, Media and Communications, University of Warwick	BFF0003
★	Global (QQ 86–89)	
★	David Goodhart (QQ 16–26)	
★★	Liam Halligan (QQ 27–31)	BFF0062
	David Hardy	BFF0022
	Professor Jonathan Hardy, Professor of Communications and Media, London College of Communication, University of the Arts London	BFF0038
	Andy Hayes	BFF0006
★★	HM Government—Department for Digital, Culture, Media and Sport (QQ 141–153)	BFF0058
	William Herne	BFF0026
	Hoard	BFF0031
★	ITV (QQ 81–85)	
★★	Professor Catherine Johnson, Professor of Media and Communications, University of Huddersfield (QQ 1–15)	BFF0028
	Dennis Jones	BFF0004
★	Paul Lee (QQ 1–15)	
★	Polly Mackenzie (QQ 16–26)	
	James Marson	BFF0050
	Eleonora Maria Mazzoli, ESRC Research and Policy Advisor, London School of Economics and Political Science	BFF0052
★★	Professor Mariana Mazzucato, Founding Director of the UCL Institute for Innovation and Public Purpose (QQ 27–31)	BFF0052
★★	Dr Tom Mills, Chair, Media Reform Coalition (QQ 27–31)	BFF0030
		BFF0064
	MG ALBA	BFF0049

	Dr Maria Michalis, Reader (Associate Professor) in Communication Policy, University of Westminster	<u>BFF0051</u>
★	Mercy Muroki (<u>QQ 32–37</u>)	
	Musicians' Union	<u>BFF0019</u>
★	National Audit Office (<u>QQ 109–115</u>)	
	National Union of Journalists	<u>BFF0010</u>
★	Andrew Neil (<u>QQ 123–128</u>)	
	Netflix	<u>BFF0068</u>
	Dr Caitriona Noonan, Senior Lecturer, Cardiff University and JOMEC students	<u>BFF0042</u>
★	Archie Norman (<u>QQ 116–122</u>)	
★	NRK (<u>QQ 61–66</u>)	
★★	Ofcom (<u>QQ 98–108</u>)	<u>BFF0071</u>
★	Mark Oliver (<u>QQ 38–53</u>)	
★	Openreach (<u>QQ 67–73</u>)	
	Mr A Owen	<u>BFF0007</u>
	Pact	<u>BFF0035</u>
★	Paramount Global (<u>QQ 81–85</u>)	
	Mrs Laura Phillips	<u>BFF0018</u>
★	Professor Robert Picard (<u>QQ 54–60</u>)	
	Ms Jean Prince	<u>BFF0021</u>
	Public Media Alliance	<u>BFF0044</u>
	RadioCentre	<u>BFF0048</u>
	Mr Rijowhi	<u>BFF0001</u>
	Dr Andreas Schoeler	<u>BFF0014</u>
	Professor Jean Seaton, Director of the Orwell Foundation and Professor of Media History, University of Westminster	<u>BFF0029</u>
★	Dr Jeremy Silver (<u>QQ 1–15</u>)	
★★	Sky (<u>QQ 86–89</u>)	<u>BFF0072</u>
	Mrs Charlotte Smallwood	<u>BFF0017</u>
	Professor Jeanette Steemers, Professor of Culture, Media and Creative Industries, Kings College London	<u>BFF0045</u>
★	Rory Sutherland (<u>QQ 16–26</u>)	
★	techUK (<u>QQ 74–80</u>)	
	Teledwyr Annibynnol Cymru (TAC)/Welsh Independent TV Producers	<u>BFF0043</u>

	David Tyler	<u>BFF0009</u>
	UK Coalition for Cultural Diversity	<u>BFF0037</u>
★	Dr Cento Veljanovski (<u>QQ 90–97</u>)	
	Voice of the Listener & Viewer	<u>BFF0020</u>
	Alexander James Watson	<u>BFF0025</u>
★	Dr Rob Watson (<u>QQ 32–37</u>)	
★	Dr Helen Weeds (<u>QQ 54–60</u>)	
	Michael Wheller	<u>BFF0008</u>
	Mark Whitfield	<u>BFF0015</u>
★	Deborah Williams (<u>QQ 32–37</u>)	
★	Dr Adrian Wooldridge (<u>QQ 16–26</u>)	
	Writers’ Guild of Great Britain	<u>BFF0034</u>
★	ZDF (<u>QQ 61–66</u>)	

APPENDIX 3: CALL FOR EVIDENCE

BBC future funding

The House of Lords Communications and Digital Committee is launching an inquiry into the future funding of the BBC. The Committee invites written contributions by 11 March. The Committee expects to hold oral evidence sessions from the end of February onwards.

Background

The broadcasting landscape is changing rapidly—characterised by intense competition, rising production costs and changing viewing habits. Technological development has led to increasing consumer choice over media.

The BBC's current income is around £5 billion, of which roughly £3.6 billion is generated from the licence fee. The remainder is generated through other, non-public means. The Secretary of State for Digital, Culture, Media and Sport recently stated that it was time to “look further into the future” and confirmed that the Government will undertake a review of the overall BBC licence fee model, with discussions beginning “shortly”.

Aim of the inquiry

This inquiry will consider how the BBC should be funded in future to deliver what is needed from a national public service broadcaster. It builds on previous committee reports, including *Public Service Broadcasting: as vital as ever* (published 5 November 2019); *The future of Channel 4* (published 26 November 2021); and the House of Commons Digital, Culture, Media and Sport Committee's report *The future of public service broadcasting* (published 25 March 2021). The committee is keen to hear from interested stakeholders and individuals, including the general public, academics, Government, media organisations and industry analysts.

Questions

- (1) How will new technologies and consumer habits change the future broadcasting landscape?
- (2) What is the purpose of a national broadcaster?
- (3) What principles and priorities should inform the choice of the BBC's funding model? And how would any alternative funding models affect what the BBC can provide?
- (4) How should the BBC change over the next five years to adapt to evolving consumer habits and needs—and what does the Corporation need to do to prepare for the future in the longer term?
- (5) What actions and consultations are needed from the government to inform its future BBC funding plans?

APPENDIX 4: VISITS AND PUBLIC ENGAGEMENT

Visit to BBC and in-person roundtable

1. The Committee undertook a visit to the BBC and two public roundtables to inform this report.
2. On 12 May the Committee visited the BBC in MediaCity UK, Salford. In attendance were Baroness Stowell, Lord Griffiths, Baroness Harding, Baroness Rebuck and Lord Young. The purpose was to engage with the BBC outside of London to better understand its future priorities and efforts to address long-term challenges. The Committee received briefings from BBC executives and technicians.
3. The Committee then held public roundtable discussions with groups of students and young adults in Salford. The aim was to hear from younger audiences about their views on the BBC, its future and how it should be funded. Participation was open to those who had registered to attend. Publicity was targeted to local community groups. Each member sat at a table and facilitated discussion assisted by committee staff and staff from the engagement team. This was followed by a short plenary discussion. A summary of the discussion follows.

Discussion summary

4. Participants voiced a general appreciation of the BBC's work and value, and highlighted the benefits it provided to different communities. Many said that they regularly used educational services such as Bitesize. Others felt that they did not engage with many of the BBC's services on a regular basis.
5. We heard that the BBC provided good services for children and adults, but that there was a lack of content for teenagers. Some participants thought this group were better served by other providers such as Netflix, Amazon Prime, Disney+ and various social media channels. We also heard that younger viewers might grow into the BBC when they were older, but that at the moment it was not a main source of entertainment. Most participants said that they tended to engage with content on a variety of digital devices, though a few said that television was their main source.
6. There were mixed views on the principles that should underpin future funding decisions and the best way of funding the BBC. Some thought a subscription service for premium content could be an attractive option. Some thought it was important to maintain a service that everyone could access, and believed the license fee represented good value when compared to other services they purchased. Others said adverts would be a good source of revenue, and accepted adverts as almost inevitable in today's world. However, we also heard views that advertising might be frustrating, and that the absence of adverts was currently one of the BBC's attractive features.

Online roundtable

7. The Committee held an online roundtable on 25 May with members of the public. The aim was to hear perspectives on the BBC from individuals located across England, Wales, Scotland and Northern Ireland. Participation was open to those who had registered to attend. Publicity was targeted to local community groups. Following introductory remarks, participants

were divided into virtual breakout rooms to hold discussions facilitated by members, committee staff and staff from the engagement team. This was followed by a short plenary discussion. A summary of the discussion follows.

Discussion summary

8. We heard a range of views on the BBC's purpose and how it should be funded. Some participants felt that the BBC's purpose was becoming less clear in a fast-changing world, while others believed that the corporation continued to play an enduring and important role in bringing the nation together. We heard general agreement that the BBC could improve on its work in representing the whole of the UK in its coverage. Some also felt the BBC's coverage was insufficiently impartial, though others felt that the issue was complex and nuanced.
9. We received mixed views on the BBC's future funding. Some believed that the licence fee was becoming obsolete, and that viewers were increasingly opting to not pay for it. Others felt that it offered good value for money and was no worse than alternatives. Some participants felt that an advertising or subscription-based model could provide a viable alternative, particularly given that other platforms use these models. Other participants felt that introducing advertising might deter viewers, and that charging for the BBC's services would be controversial.