

**Government response to the House of Lords Communications and Digital Committee's
'BBC future funding' report, July 2022**

Department for Digital, Culture, Media & Sport response, October 2022

Introduction

1. The Government welcomes the Committee's recent inquiry into BBC Future Funding and subsequent report, "Licence to change: BBC future funding". We have carefully considered the report's findings and recommendations.
2. This has been a valuable and constructive contribution to the debate around the future funding of the BBC. We welcome the Committee's analysis and agree with the Committee's view that the drawbacks to the current licence fee model are becoming more salient. We also agree with the Committee's view that a comprehensive review of the licence fee system is both a necessity and a positive opportunity for the BBC to catalyse change, and that without change the BBC will be increasingly constrained in its ability to fulfil its purpose.
3. We note the Committee's assessment of alternatives to the licence fee, and the advantages and disadvantages of different models. We welcome the Committee's analysis and its proposed core principles against which future funding options should be judged. The Government will take these proposals into account as we prepare to launch a review.
4. As set out in our written submission to the Committee, the Government believes the BBC is a great national institution. We want to see the BBC thrive for decades to come, supported by a sustainable funding model that is fit for the digital age. Rapid changes in technology, viewing habits and increased global competition pose tough challenges for our public service broadcasters, and it is appropriate for the Government to consider what funding model can best support the BBC in addressing these challenges in the future.
5. The Government has also made clear its concerns about the licence fee funding model. As we set out in the *Up Next* broadcasting White Paper, there are clear challenges on the horizon to the sustainability of the licence fee, with an increasing number of households choosing not to hold a TV licence. We need to make sure that the BBC is sustainable in the long term, but also look at how we can give people greater choice which is important in a modern society.
6. We also have concerns about the fairness of the licence fee funding model, with the licence fee enforced by criminal sanctions which the Government sees as increasingly disproportionate and unfair in a modern public service broadcasting system. The Government also sees the ongoing disparity in the proportion of sanctions against women as unfair, with 74% of people convicted for TV licence evasion in 2019 being women.

7. The Government's view remains that the future of the BBC is a vital issue for the UK and we remain committed to conducting a review of the funding model. The Government will set out further details in due course.
8. The Government's response to each of the Committee's recommendations for the Government are set out below. We note that a number of the recommendations are for the BBC or Ofcom, and have not sought to provide responses to these recommendations.

BBC Purpose

Recommendation 1 - *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)*

Recommendation 2 - *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)*

Response

9. The BBC has a vital role at the heart of the UK's creative industries and public service broadcasting ecosystem. We recognise that however the BBC is funded, it will incentivise the BBC's behaviour in certain ways, and will also have an impact on the wider broadcasting sector and creative industries. We will consider this recommendation, and the potential for commissioning and publishing independent market impact studies, as planning for the review progresses.
10. The Government also notes that the BBC Mid-Term Review, which was launched in May 2022, is considering how the BBC and Ofcom currently assess the BBC's market impact and public value of the BBC in an evolving marketplace and how that relates to the wider UK media ecology, including with regard to commercial radio and local news sectors and other content makers and distributors.

Recommendation 3 - *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)*

Response

11. The Government fully recognises the important role the BBC World Service plays in promoting UK values globally through its independent and impartial broadcasting. The World Service is integral to the delivery of two of the five Public Purposes set out in the BBC's Charter (1 and 5). The upcoming review of the licence fee funding model will be

expected to work closely with the FCDO and ensure that the World Service is given proper consideration.

Recommendation 4 - *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)

Response

12. We recognise that any review will need to consider the impact of alternative funding models on the World Service and the BBC's international output, and the potential consequences for UK soft power. Under the existing Charter it is for the BBC to independently determine its international strategy and how that may fit with broader UK Government objectives.
13. We strongly value the work of the BBC World Service in promoting our values globally through its independent and impartial broadcasting. The Government's 2021 Integrated Review highlighted the role of the BBC's foreign language services as part of what makes the UK a soft power superpower. Existing research outlines the BBC's positive contribution to global perceptions of the UK, including its impact on the likelihood of influential consumers of BBC content visiting the UK for business reasons and making investments in UK services and products. The BBC regularly publishes reporting on reach and impact including the 2016-20 BBC World Service Performance Review, and have also commissioned independent research, such as 'The Impact and Influence of the BBC' undertaken by Tapestry Research and published in March 2022.

Strategic challenges

Recommendation 6 - *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)

Recommendation 7 - *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)

Recommendation 8 - 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)

Response

14. These recommendations are primarily for the BBC and Ofcom to lead on. However, we look forward to seeing the outcome of Ofcom's consultation on modernising the BBC's Operating Licence. Where it is within the Terms of Reference for the BBC Mid-Term Review, we will consider potential regulatory updates following Ofcom's consultation as part of that ongoing review, or separately where it is outside its scope.

Funding Models

Recommendation 9 - We do not recommend the BBC moves to a purely advertising-funded model. (Paragraph 110)

Recommendation 10 - We do not recommend the BBC moves to a purely subscription-funded model. (Paragraph 118)

Recommendation 11 - 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)

Recommendation 12 - We do not recommend that the BBC is funded by Government grant. (Paragraph 139)

Response

15. We welcome the Committee's analysis and for setting out its rationale for each of these recommendations. The Government notes the Committee's assessment of the key principles that will need to be considered when assessing alternate funding models. We welcome the Committee's detailed assessment of a range of alternative funding models, and the advantages and disadvantages that the Committee has outlined. The Government will set out its position on recommendations 9, 10, or 12 following the review.

16. In respect of Recommendation 11, the Government recognises that there will be differing implications for the BBC and for audiences between models that allow households to opt-in or out, compared to a universal levy. Any funding review would need to consider this question.

Future transition

Recommendation 13 - *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)*

Response

17. The Government acknowledges the Committee's concerns around contestable funding as a primary alternative to the licence fee, and its recommendation on contestable funding as a supplement to support underserved areas of public service content.
18. Following the conclusion of the Contestable Fund pilot on 31 March 2022, we are in the process of evaluating it to determine the fund's impact on its intended audiences, and on the provision and plurality of public service content for young audiences and radio across the UK. Although the pilot performed well, any further investment of public funding will need to be assessed against the fund evaluation and future public service broadcasting needs. Any decisions on the future of contestable funding will consider the outcome of this review.

Recommendation 14 - *We recommend the BBC explores and publishes costed options for hybrid domestic and international subscription models. (Paragraph 164)*

Recommendation 15 - *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)*

Response

19. The Government welcomes the Committee's analysis on the experience of other countries transitioning to new funding models, and the technological and commercial factors that will need to be considered as part of any transition. Clearly, the broadcasting landscape has changed enormously in recent years. Part of the reason we want to review the BBC's funding model is that audiences now have much more choice in how they access BBC content. The idea of a funding model tied to watching live TV seems increasingly outdated to many. Issues such as technology change, and how audiences are expected to access and watch BBC content in the years to come, are exactly the kind of issues that we expect the review to consider.
20. The Government made a clear commitment to Digital Terrestrial Television (DTT) as the primary delivery platform for live TV for many years to come. Our expectation, based on the high level of DTT used by homes across all parts of the UK, is that DTT will continue to be an important content distribution channel into the next decade as it is universal, free, reliable and secure. While all options for the future of distribution remain on the table, we do

recognise that developing conditional access technology for digital terrestrial television would pose challenges, and any review would be expected to consider these kinds of challenges, including whether the benefits of new technological changes/requirements would be proportionate to their costs.

Recommendation 16 - *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)*

Response

21. While we do not want to rule out options at this stage, we recognise there would be significant challenges with placing BBC radio behind a paywall at this time.
22. As regards the future of radio more generally, the Government agreed in our response to the Digital Radio and Audio Review that the time is not right for a formal switch-off of analogue services (i.e. AM / FM), and that this is likely to remain the case until at least 2030. Meanwhile, notwithstanding the growth of online listening (with smart speakers now representing more than 10% of radio listening in the UK), research carried out alongside the Review indicated that DAB is likely to represent a significant proportion of listening, and an important part of the radio landscape, for the foreseeable future.

Recommendation 17 - *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)*

Response

23. The Government recognises the importance of audience engagement and we appreciate that the funding of the BBC will be of significant interest to a wide range of stakeholders. We expect the review itself to engage widely with stakeholders and to consider public interests and attitudes.
24. Once the review concludes, the Government will carefully consider the evidence and any proposals in the normal way. The question of the BBC's future funding model will be finalised in the Charter Review, and we will of course follow the requirements for that Review as set out in the current Charter, including the requirement to consult the public and Parliament.