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(BFF0028)**

**House of Lords Communications and Digital Committee inquiry into BBC
future funding**

I am an expert in the television and screen media industries and audiences, with specific expertise in public service media and the impact of the internet on television industries and audiences. This submission supplements the oral evidence provided to the Committee on 22 February 2022, which addressed questions 1 and 2, and draws on a number of research projects conducted in the Centre for Participatory Culture at the University of Huddersfield.

Summary:

Q3: What principles and priorities should inform the choice of the BBC's future funding model? And how would any alternative funding models affect what the BBC can provide?

- There are five principles that should underpin any public service media (PSM) funding model:
 1. Stable and adequate
A stable and predictable source of funding enabling full coverage of the public service remit in the digital media age.
 2. Independent from political interference
Not reliant on political favour, thereby promoting public trust in PSM and its role as a truly indispensable service.
 3. Fair and justifiable
Fair and objectively justifiable to the public and the market.
 4. Transparent and accountable
An open and clear funding mechanism holding PSM accountable to its audience.¹
 5. Support the provision of merit goods
Ensuring the provision of programming (across all genres) and services that create positive benefits for society, but that people are likely to under-consume.
- There are some limitations to the current licence fee funding model. 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

¹ The first four principles come from the EBU, see Burnley, R. (2017) *Legal Focus: Public Funding Principles for Public Service Media*, EBU.

use or device ownership) on a progressive basis, set and collected by an independent body.

- There is strong evidence that changing the funding model for PSM can undermine the legitimacy of PSM as a system and the public service broadcasters within that system.

Q4: 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 long term?

- It is essential that the BBC continues to invest in its online services while maintaining its linear offer. Moving forward, it will be increasingly important for the BBC to invest in the useability of BBC iPlayer to provide a user experience that matches those of its commercial competitors.
- The BBC will also need to address the length of time that it licences content for and how it releases content to linear and iPlayer as people increasingly come to expect VOD services to provide access to large catalogues of content available for a significant length of time.
- The possibility of a single 'PSB' VOD service would face a number of challenges given that the UK's public service broadcasters remain in competition with each other for audiences, and have very different remits, brands and funding models.
- The BBC needs to work harder to increase its diversity, both on- and off-screen if it is to secure its future legitimacy. This needs to be addressed in the BBC's own hiring, retention and promotion activities, its working culture and in the ways in which it commissions and funds independent production companies, which has a direct impact on the diversity of the workforce.

Q5: What actions and consultations are needed from the government to inform its future BBC funding plans?

- Any proposals for new funding models should be accompanied by economic and socio-cultural evaluations against the principles set out above to ensure that it will enable the BBC to fulfil its role as a public service broadcaster in the current media market.
- The key issue that the government needs to address moving forward is the impact of the wider platformisation of the media ecosystem on the UK's national media system, including public service media.
- There is a compelling argument that within this environment PSM becomes more, rather than less, important to UK democracy, society, culture and economy.
- With the growing public and political recognition that platform power has a negative impact on the public interest, there is the opportunity to recognise the UK's world-renowned PSM system as a vital tool in confronting platform

power. This will require bringing together debates about platform and PSM regulation which are currently taking place separately.

1. How will new technologies and consumer habits change the future broadcasting landscape?
2. What is the purpose of a national broadcaster?

My answers to questions 1 and 2 are covered in my oral evidence, which drew on the 'Routes to Content' research project at the University of Huddersfield, consisting of qualitative interviews conducted in August/September 2019 and May 2020, plus a representative quantitative survey of 1,500 UK residents conducted in May 2021. Interim findings from the survey will be published in April 2022. The findings from the two phases of qualitative research can be found in two reports and accompanying policy briefs, both accessible at <https://research.hud.ac.uk/institutes-centres/cpc/ourprojects/routes/>

3. *What principles and priorities should inform the choice of the BBC's future funding model? And how would any alternative funding models affect what the BBC can provide?*

Ensuring adequate funding is essential for the future legitimacy of PSM. Research from the EBU demonstrates a clear correlation between funding on the one hand and spend on programming and market share on the other.² The better funded public service broadcasters (PSBs) spend more on original programming and are better able to attract viewers and listeners to their content, and resources and support from stakeholders. Put simply, funding cuts decrease the ability for PSBs to serve the public interest through high quality and diverse original programming, undermine the support that they provide to national creative economies, and undermine the relevance and legitimacy of PSM as a system.

The European Broadcasting Union (EBU) has set out four principles that should underline the funding of public service media (PSM):

1. Stable and adequate

A stable and predictable source of funding enabling full coverage of the public service remit in the digital media age.

2. Independent from political interference

Not reliant on political favour, thereby promoting public trust in PSM and its role as a truly indispensable service.

3. Fair and justifiable

Fair and objectively justifiable to the public and the market.

4. Transparent and accountable

An open and clear funding mechanism holding PSM accountable to its audience.³

² EBU Media Intelligence Service (2020) *Funding of Public Service Media 2020*, EBU, December, pp.7-9.

³ Burnley, R. (2017) *Legal Focus: Public Funding Principles for Public Service Media*, EBU.

In addition, I would add that any funding model for PSM should:

6. Support the provision of merit goods

Merit good are goods and services that create positive benefits for society, but that people are likely to under-consume and which ought to be subsidised and/or provided free at the point of use. The concept of merit goods is particularly appropriate for PSM which is a system that provides access to a wide range of programming (across genres from news and current affairs, to arts, culture, drama, children's, sports etc.) the value of which cannot be known in advance. Consumption of merit goods should not depend on ability to pay.

We can evaluate the current **BBC licence fee** against these principles:

1. Stable and adequate: The current licence fee has the benefits of providing the BBC with a stable and predictable form of funding, although cuts over the past decade mean that the funding is increasingly inadequate for the BBC to fulfil the increased demands of operating the linear and online services required to remain relevant in the 21st Century.
2. Independent from political interference: The licence fee as it is currently constituted in the UK does leave the BBC subject to potential political interference because the amount and terms are set directly by government. This is mitigated in other contexts by establishing an independent body that is responsible for determining the level of the licence fee.
3. Fair and justifiable: Although a flat licence fee means that everyone pays the same amount, it is not a particularly progressive model and could be seen as penalising those on lower incomes. However, the current UK licence fee remains a highly cost-efficient way of generating revenue that ensures the production of diverse and high-quality UK content. UK audiences paying the licence fee and an average cable/satellite subscription are still paying just over half the amount that the average US citizen spends on cable/satellite TV alone.⁴
4. Transparent and accountable: The licence fee is a clear and transparent form of funding and ensures that the BBC is directly accountable to the public as citizens. However, tying funding to use of the BBC brings with it the challenges of enforcement against free riders (who avoid paying but still use the BBC's services).
5. Supports the provision of merit goods: The licence fee model ensures the provision of PSM as merit goods by requiring that the BBC fulfils certain public purposes in exchange for public funding, evaluated through regulation.

As we can see, there are some limitations to the current licence fee funding model. In terms of alternatives, this submission argues that *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*

⁴ Lotz, A., Potter, A. and Johnson, C. (2021) Understanding the Changing Television Market: A Comparison of the Macroeconomy of the United States, United Kingdom and Australia, *Convergence: The International Journal of Research into New Media Technologies*, Online First.

body. The move to a household fee of some kind has taken place in a number of European countries (such as Germany and Finland), largely to address the shift of broadcast consumption away from TV and radio sets which has made a licence fee tied to ownership of a TV or radio set anachronistic.

We can evaluate the **household fee** as a model against the above principles as follows:

1. Stable and adequate: Can be established, as with a licence fee, to provide predictable funding over a significant length of time (e.g. 10 years). A recent study that modelled the impact of the UK shifting from the licence fee to a household levy (along the lines of the German system) based on all adults contributing claimed that the household levy could generate more revenue for UK PSBs if evasion rates were 3.6% or below. However, if the UK's evasion rate matched that of Germany's (5%) there would be little financial benefit to the taxpayer of shifting away from the licence fee.⁵
2. Independent from political interference: Household fee models can be more easily subject to political interference/pressure than licence fee models, particularly if tied to other forms of taxation, such as council tax payment. Any shift to a household fee needs to be set up with safeguards to minimise political interference. Appropriate safeguards would be the establishment of an independent body whose board was appointed by a cross-party panel with responsibility to set the level of the household fee with the requirement that it is sufficient to enable fulfilment of the BBC's public service remit.
3. Fair and justifiable: The shift from a licence fee dependent on use of the BBC to a flat fee paid by all could be unpopular with some members of the public, although it is a widespread means through which democratic societies pay for public services (such as health and schools). However, there is the opportunity for a more progressive model of funding than the licence fee by tying the level of payment to council tax bands, for example. A progressive model payable by all, but tied to ability to pay would reduce the problems of enforcement and could be deducted directly, reducing collection costs.
4. Transparent and accountable: The household fee retains the direct connection between PSM and citizen and the requirement for PSBs to be accountable to the public.
5. Supports the provision of merit goods: As with the licence fee model, the household fee model should ensure the provision of PSM as merit goods by requiring that the BBC fulfils certain public purposes in exchange for public funding, evaluated through regulation.

As we can see from the above, the household fee, while bringing with it some benefits, also has some drawbacks and its potential to fulfil the core principles of PSM very much depends on how it is set up.

⁵ Ramsey, P. & Herzog, C. (2018) The End of the Television Licence Fee? Applying the German Household Levy Model to the United Kingdom, *European Journal of Communication*, 33:4, pp.430-444.

There are three other potential funding models, none of which satisfies the core principles for funding PSM outlined above:

1. **Advertising:** Advertising as a sole form of funding for PSM lacks the transparency and accountability of forms of public funding. Ultimately, advertiser-funded broadcasters are accountable to advertisers above citizens. As a consequence, advertiser-funding does not support the provision of merit goods. Indeed, advertiser-funding leads to a de-emphasis on certain kinds of programming (evident, for example, in ITV's reduction of children's and other public interest programming).⁶ Advertising is also not a stable form of income. Shifting the BBC to a full or partial advertiser-funded model would present significant challenges to UK's other advertiser-funded PSBs, given the 13.5% decline in broadcast ad revenues between 2010-2019.⁷
2. **Subscription:** Funding via a subscription paid directly only by those that use a public service broadcaster is not an appropriate funding model for PSM. Subscription-funding depends on ability to pay. This means that a subscription-funded public service broadcaster would only be accountable to those who paid for its service, and not to all citizens. As a model, therefore, subscription funding does not support the provision of merit goods. As with advertising, subscription funding is also not a stable form of funding.
3. **State budget:** In this model, public service broadcasters are funded directly from government. The major difficulty with state funding is that it does not enable sufficient independence from political interference and lacks the transparency of a licence fee or household tax.

The final factor to consider when evaluating potential funding models for the BBC is the consequence of adopting a new funding model. Examining other countries in Europe that have adopted new forms of public funding over the past decade *there is strong evidence that changing the funding model for PSM can undermine the legitimacy of PSM as a system and the public service broadcasters within that system*. For example, Finland, Switzerland and Germany all faced challenges to the legitimacy of PSM when seeking to amend their funding models in the past decade. This led, for example, to a referendum on PSM in Switzerland in 2018,⁸ the need to divert funds from programming to promote the value of PSM in Finland,⁹ and legal complaints against the revised funding model in Germany.¹⁰ As such, even if a new funding model could address some of the limitations of the licence fee, there are significant risks that

⁶ Steemers, J. (2017) Public Service Broadcasting, Children's Television and Market Failure: The Case of the United Kingdom, *International Journal on Media Management*, 19:4, pp.298-314.

⁷ Lotz, et al. (2021) Understanding the Changing Television Market.

⁸ Mombelli, A. (2018) Swiss Licence Fee Vote: The Demands and Potential Consequences, [swissinfo.ch](https://www.swissinfo.ch/eng/radio-and-television_swiss-licence-fee-vote--the-demands-and-potential-consequences/43824266), 18 January 2018: https://www.swissinfo.ch/eng/radio-and-television_swiss-licence-fee-vote--the-demands-and-potential-consequences/43824266

⁹ Herzog, C. & Karppinen K. (2014) Policy Streams and Public Service Media Funding Reforms in Germany and Finland, *European Journal of Communication*, 29:4, p.427.

¹⁰ Ibid., p.423.

the introduction of a new funding model could undermine the legitimacy of PSM and lead to legal challenges.

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 long term?*

Given the changes in audience behaviour outlined in my oral evidence, *it is essential that the BBC continues to invest in its online services while maintaining its linear offer.* Our 'Routes to Content' project suggested that broadcaster video-on-demand (BVOD) services, such as BBC iPlayer and ITVHub, were often found wanting in comparison with subscription video-on-demand (SVOD) services, particularly amongst those who were heavier viewers of on-demand TV.¹¹ For example, participants complained of difficulties signing in, delays in getting content to load and problems with audiovisual quality when using BBC iPlayer. For some, this stopped them from using the service altogether. *Moving forward, it will be increasingly important for the BBC to invest in the useability of iPlayer to provide a user experience that matches those of its commercial competitors.*

The BBC will also need to address the length of time that it licences content for and how it releases content to linear and iPlayer as people increasingly come to expect VOD services to provide access to large catalogues of content available for a significant length of time. This could be facilitated through increased collaboration between the UK's PSM organisations. However, *there are a number of challenges to this, given that the UK's public service broadcasters remain in competition with each other for audiences, and have very different remits and funding models.* A single PSM BVOD service could have benefits to the public in providing a single point of access to a large catalogue of high-quality public service content. It might also make it easier for PSM organisations to negotiate for availability and prominence. However, there are significant costs involved in developing a new service and the additional danger that it could undermine the BBC's brand identity.

In addition, *the BBC needs to work harder to increase its diversity, both on- and off-screen.* While some progress has been made, it has been far too slow and perceptions continue that the BBC is an elitist and exclusive organisation run by decision-makers who are removed from the realities of the majority of contemporary Britain. It is vital for the future legitimacy of the BBC that it reflects the lived experiences of the UK in all its diversity across and within all of its programmes and services (from BBC Radio 4 to BBC One). This needs to be addressed in the BBC's own hiring, retention and promotion activities, and in its wider working culture. It also needs to be addressed in the ways in which the BBC commissions and funds independent production companies. As the primary investor in UK original production, the BBC plays a significant role in shaping the wider working cultures in the UK's creative industries.¹² Research suggests that

¹¹ Johnson, C., Dempsey, L. and Hills, M. (2020) *Routes to Content: How People Decide What Television to Watch*, University of Huddersfield, January: <https://research.hud.ac.uk/institutes-centres/cpc/ourprojects/routes>

¹² Oliver & Ohlbaum, *UK Television Production Survey: Financial Census 2020*,

budgetary pressures on independent production companies lead to employment practices that actively work against increasing diversity across the sector.¹³ For example, truncated lead times leave little time for hiring and lead to a reliance on employing staff within existing networks, reducing diversity. Tight budgets lead to excessive working hours and low levels of pay that discriminate against those with caring responsibilities or without external financial security. Combined, these create a workforce that does not adequately reflect the diversity of the UK and undermines the legitimacy of the BBC as a national broadcaster serving the needs of all of the UK.

5. What actions and consultations are needed from the government to inform its future BBC funding plans?

Any proposals for new funding models should be accompanied by economic and socio-cultural evaluations against the principles set out above to ensure that it will enable the BBC to fulfil its role as a public service broadcaster in the current media market. It is important to evaluate, not only the economic impact of shifting to a new funding model, but also the impact on the public interest.

As mentioned in my oral evidence, *the key issue that the government needs to address moving forward is the impact of the wider platformisation of the media ecosystem on the UK's national media system, including public service media.* The UK's national media providers are operating in a media landscape where a small number of global platforms dominate the basic infrastructures required to deliver services online. Between them Amazon, Apple, Google and Facebook dominate the basic infrastructures that are required to deliver services online; from app stores, online search, social networking, digital advertising, cloud infrastructure and devices. This has a cumulative impact. All of these different areas are mutually beneficial and work together to support the underlying business model of platforms, based on the extraction and manipulation of large amounts of user data that can be commodified and turned into tradable products/services and used to shape user behaviour on and offline.

This gives these global platforms gatekeeper power (the ability to pick losers and winners), control over infrastructure (used to surveil businesses to maintain competitive advantage) and intermediary roles that are used abused to entrench and maintain dominance.¹⁴ The media companies beyond the platforms that have been successful in operating in this environment (such as Disney and Netflix) do so because they operate at international scale, have access to significant amounts of capital (that would never be available to a national broadcaster) and have strong international brand recognition.

The UK's national broadcasters find themselves in the position of content providers (not just programmes, but also services, such as iPlayer) to platforms

August 2020, p.16.

¹³ Aust, R. (2022) *The Currency of Gratitude: Care in the TV Industry*, Screen Industries Growth Network.

¹⁴ Subcommittee on Antitrust, Commercial and Administrative Law of the Committee on the Judiciary, (2020) *Investigation of Competition in Digital Markets*, US House of Representatives: p.6-7.

against which they also compete for audiences, legitimacy and ad revenue in a market where the platforms set the terms of engagement. They are operating services that depend on online infrastructure controlled by a small group of platforms operating at a global scale.

The key issue for the government in seeking to assess the role and funding of the BBC in this environment is to better understand the impact of these platforms and their business models on the UK's media ecosystem, and PSM in particular. There is a compelling argument that within this environment PSM becomes more, rather than less, important. Public service broadcasters offer a range of programming not found on other services. The growth of mis- and disinformation online, bolstered by the business models of the platforms, also makes the role of PSM as trusted sources of information even more pressing. The growing internationalisation of the media landscape makes the argument for national broadcasters with a specific remit to produce a wide range of universally accessible content in and for the diversity of the UK's nations and regions more important.

Indeed, with the growing public and political recognition that platform power has a negative impact on the public interest, there is the opportunity to recognise the UK's world-renowned PSM system as a vital tool in confronting platform power, given that we have an existing media system established with a civic public remit. The government should, therefore, be consulting on how to amend platform and PSB regulation to strengthen the ability for our PSM system to tackle the potential harms stemming from platform power. Such consultations should be value led – starting by setting out the values that should underpin a media ecosystem that operates in the public interest and then examining what platform and PSM regulations might enable those values to be achieved. *Crucially, this means bringing together debates about platform and PSM regulation which are currently taking place separately.*

In relation to the future funding of the BBC, this requires examination of what measures are needed to ensure that the wider market works in (rather than against) the public interest. This might involve addressing areas such as:

- access to data, which is currently used by platforms to maintain market dominance
- terms of trade, such as addressing the rights to carry services, the ability of PSBs to negotiate ad revenues when placing their content on social media platforms, and the balance of IP rights between PSBs and production companies
- prominence and visibility across all services and platforms, not just smart TVs
- how we measure and evaluate the audience for PSM, such as measuring reach and engagement with programmes from PSBs even when they are viewed on other services

- amending public interest tests to better reflect the changing market conditions (in which PSMs are no longer the largest players) and to place greater value on the public interest
- investigating what regulatory measures might be introduced that would instil a level of public interest across all media providers (including platforms).

Responses to additional questions from the oral evidence session:

1. **(All)** Baroness Featherstone asked about psychological studies or associated data on the impacts of fragmented audiences, and algorithms driving different and individualised viewing habits. We would be grateful if any of you have information you could provide on this.

I am not aware of any psychological studies specifically on fragmented audiences and the impact of algorithms on viewing habits. Our Routes to Content research demonstrated that there are multiple factors that combine to shape people's viewing habits, and specifically the content that they find and choose to watch.¹⁵ We found five factors that combine to inform people's awareness of content and their decisions about what to watch:

- Platform/service features, such as user interface design, recommendations, algorithms.
- Word of mouth, including conversations with friends and family in person and online.
- Marketing, such as trailers, including on-air trailers and trailers within on-demand services.
- Content features, such as a particular interest or preference for a specific genre, director or actor, which tends to shape decision-making, but is less important in informing awareness of content.
- Reviews, both professional and unprofessional, on TV, radio, print and online.

Typically, these factors combine to shape how people find and discover content. While people might be influenced by the content that appears most prominently in the interfaces of on-demand services, their decision to watch that content is typically shaped by other factors. For example, they might first watch a trailer, or look up a review. Or they might be drawn to content that is already familiar to them because it has been discussed by friends, they have previously encountered marketing for it, or because it sits within a genre, or contains an actor, that they love.

In relation to individualised viewing habits, we found a significant shift towards more communal viewing during Covid-19.¹⁶ In the first phase of qualitative

¹⁵ Johnson, C., Dempsey, L. and Hills, M. (2020) *Routes to Content: How people decide what TV to watch*, University of Huddersfield, January: <https://research.hud.ac.uk/institutes-centres/cpc/ourprojects/routes/>

¹⁶ Johnson, C. and Dempsey, L. (2020) *Covid TV: Routes to Content During Covid-19*, University of Huddersfield, October: <https://research.hud.ac.uk/institutes->

research in August/September 2019, a number of our participants described habitual patterns of individualised viewing, particularly using streaming services on mobile devices. In the second phase, in May 2020, these were less common and there was increased communal viewing, with people placing greater value on television viewing as a means of coming together for shared experiences with family and friends at a time of stress. We have not yet done a third wave of research to examine whether this was specific to lockdown, or whether any of these behaviours carried over post-lockdown. However, the research does demonstrate that our viewing behaviours are not just shaped by available technologies or online services, but is also shaped by wider social factors.

2. **(Dr Johnson)** Lord Foster's question to Dr Johnson about the debate around platform regulation and broadcaster regulation.

This is addressed to my response to question 5 above.

3. **(Paul Lee, all)** Lord Foster's question about the prognosis for potential collaboration between PSBs

This is addressed in my response to question 4 above.

4. **(All)** Lord Vaizey's question about whether the public is aware of the BBC halo effect; and separately about how well do different ethnic groups feel they are represented? We would be grateful if any of you have information you could provide on this.

Ofcom should have relevant audience research to address these questions.

March 2022