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

The pros and cons of alternative long-term BBC funding models

There are seven potential long-term core funding models² for the BBC's UK services: continuing with the TV licence fee; subscriptions (once all the relevant devices have conditional access technology);³ advertising; general taxation; a flat universal household levy; a progressive universal household levy; and a hybrid model combining two or more income sources. This note summarises their pros and cons.⁴

Continuing with the licence fee

The TV licence fee's advantages are that it is simple, secure, predictable and associated in people's minds with paying for the BBC; it helps maintain the BBC's independence from commercial and political pressures; and it generates enough income for the BBC to be universally available at no extra charge.⁵ Its disadvantages are that:

- It is regressive - the same for rich and poor households - although, at 43p/day, it remains a bargain and households with an older member (aged 75+) receiving Pension Credit pay nothing
- Linking the BBC's core funding to the ownership of a TV set is becoming anachronistic as people increasingly consume its services using other devices
- It suffers from a significant and growing evasion rate, increasing from about 5.25% before 2015 to 7.25% in 2019/20,⁶ encouraged by

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² That is, in addition to the income from its commercial activities and any government grants for BBC World Service foreign language services.

³ Replacing the licence fee with subscriptions will not be technically feasible until all the devices used for subscription-funded BBC services have conditional access technology so that those who have not paid can be excluded. It's hard to see this happening until fast broadband is both universally *available* across the country and universally *adopted* in every home (at a significant cost to households that otherwise would not have adopted it: Lindsay Mackie, 'Let them eat Netflix', New Weather Institute, 28 February 2020, <https://www.newweather.org/2020/02/28/let-them-eat-netflix/>). This would enable the BBC to switch off its digital TV networks, Freeview and Freesat, without cutting off millions of households' access to BBC Television. BBC Online could also be limited to subscribers if the Government wished. BBC Radio would, presumably, still be free and universally available, funded in another way, such as out of general taxation. Realistically, this option looks unlikely to be feasible until the mid-to-late 2030s at the earliest.

⁴ For a more detailed analysis, see *The War Against the BBC* Chapter 10 and Appendix D, summarised in Patrick Barwise and Peter York, 'What's the Right Long-Term Funding Model for the BBC?' in John Mair, ed., *The BBC: A Winter of Discontent?*, Bite-Sized Books, 2020, pages 66-70.

⁵ House of Commons, DCMS Committee, *Future of the BBC*, 26 February 2015, page 71.

⁶ Yago Zayed, *TV Licence Fee Statistics*, House of Commons Library Research Briefing, 24 January 2022, <https://researchbriefings.files.parliament.uk/documents/CBP-8101/CBP-8101.pdf>.

'grassroots' campaigns such as *TV Licence Resistance*⁷ and *#DefundThe BBC*.⁸

In addition to these genuine disadvantages, there are also several mythical ones. In particular, it is often suggested that it is expensive to collect (it isn't⁹); and that households that do not use the BBC's services are nevertheless forced to pay - although those making this claim have never produced any evidence that there is a material number of such households, never mind that the licence fee represents a serious burden for them.¹⁰

Another recurrent claim is that (unlike other taxes) the licence fee would be 'fairer' if evasion were decriminalised. In 2014, culture secretary Sajid Javid appointed David Perry QC to review this claim. Perry's independent review unambiguously rejected it, describing the existing system as "*broadly fair and proportionate [and providing] good value for money (both for licence fee payers and taxpayers)*".¹¹ Nevertheless, the idea of decriminalising licence fee evasion keeps coming back and remains under review.¹²

Subscriptions (once all the relevant devices have conditional access technology)¹³

Suppose we assume that by, say, the late 2030s, the Government will have managed to crack the conditional access problem so that the long-heralded switch to subscriptions is, at least, technically feasible. The rational policy – and political – question at that point is: what would be the impact of the switch on households and voters?

Obviously, the impact will depend on the specific proposal.¹⁴ Proponents of the subscription model have so far been extremely vague about that. But, even

⁷ <https://tvlicenceresistance.info/>.

⁸ <https://www.defundbbc.uk/>. For the evidence that *#DefundThe BBC* is an 'Astroturf' campaign, rather than a genuine grassroots one, see *The War Against the BBC* pages 272-5.

⁹ The collection cost is about 3% of revenue, far less than the income generation costs of subscriptions or advertising (both 20%-plus), discussed later.

¹⁰ In reality, 99 per cent of households use the BBC's services *every week*. The idea that a material number don't use it in the course of a *whole year* is nonsense (see *The War Against the BBC*, page 31).

¹¹ David Perry, *TV Licence Fee Enforcement Review*, DCMS, July 2015, page 6.

¹² In February 2020, less than five years after Perry, culture secretary Nicky Morgan launched a new consultation on decriminalisation, claiming that the licence fee needed to be kept "*relevant [in a] changing media landscape*" (DCMS, *Consultation on decriminalising TV licence evasion*, 5 February 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863584/Consultation_on_decriminalising_TV_licence_evasion.pdf). There were over 150,000 consultation responses, which took many months to process. A majority from all three groups (individuals, stakeholder representatives and – especially – campaigns) opposed decriminalisation and the Government again backed down - but said it would still keep it under review (DCMS, *Government response to the consultation on decriminalising TV licence evasion*, 21 January 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/953930/Government_response_to_the_decriminalisation_consultation_-_21_January_2021.pdf).

¹³ For a more detailed, up-to-date analysis, see Patrick Barwise and Peter York, 'Why making the BBC a subscription service is unworkable', *Prospect* (online edition), 7 March 2022.

¹⁴ For instance, would all the BBC's UK services be bundled together with an all-in price or would there be different tiers at different price levels? What would happen to BBC Radio, BBC Online, the BBC World Service and all the other activities currently funded out of

without a concrete proposal about what the offer would be, how it would be priced and how other BBC services – notably radio – would be funded, there are three things we can confidently say.

First, if the BBC were funded by subscriptions, not every household would subscribe (otherwise, what's the point?) so *it would no longer be a universally available public service broadcaster* - a shared source of information, entertainment and trusted news, drawing people together across the country. To those who see no value in public service broadcasting this wouldn't be a problem. But it certainly wouldn't help unite or level up the country: we now have clear evidence that people in countries with strong public service broadcasters (including the UK) are more resilient to online disinformation.¹⁵ The value of such resilience should be obvious as we finally emerge from a pandemic prolonged by antivax disinformation, some of it state-sponsored, while the US (with highly partisan commercial broadcasters and minimal public service broadcasting) struggles with QAnon, 'Stop the Steal' and other divisive conspiracy theories.

Secondly, subscription funding would give the BBC a clear financial incentive to *prioritise programmes likely to appeal to middle- and upper-income households*, maximising both the number of subscribers and how much they would be willing to pay. It would lose the inclusivity that has always been central to its mission and culture.

Finally, to sustain its investment in local, regional, national and international content, *the average subscription level would need to be much higher than the licence fee* to cover both the missing revenue from non-subscribers and the huge marketing and customer service costs inherent in any subscription system. Sky's 2017/18 sales, general and administration expenses for the UK and Ireland were £2.7bn – 35% of its direct consumer revenue and 80% of the BBC's total licence fee revenue after top-slicing. The BBC's general overheads were just 5.7% of its total costs (which were roughly equal to its total income). A switch to subscriptions would require something like a fourfold increase in the BBC's general overheads.

No one (including those advocating a switch to subscriptions) knows *how much* higher the average subscription would need to be, compared with the licence fee, but it is hard to see how it could be less than 50% higher to support the same investment in programmes and services. That may explain why the subscription model has limited public support – only 16% in YouGov's latest survey on how the BBC should be funded.¹⁶ Presumably, most people know that the typical pay TV subscription is more than the £13.13/month licence fee and correctly sense that they would end up paying more under a subscription model, even if they know little about the underlying economics.

licence fee income? Would households with members aged 75-plus and receiving Pension Credit still have free access to all BBC services?

¹⁵ Edda Humprecht, 'Why resilience to online disinformation varies between countries', LSE Media Policy blog, 8 April 2020, <https://blogs.lse.ac.uk/medialse/2020/04/08/why-resilience-to-online-disinformation-varies-between-countries/>.

¹⁶ YouGov tracker, 'How should the BBC be funded?', December 2021, <https://yougov.co.uk/topics/media/trackers/how-should-the-bbc-be-funded>.

Advertising

The attraction of advertising is that it looks like a free lunch: advertisers pay for the programmes, while viewers and listeners pay nothing - all they have to do is watch and listen during the commercial breaks in big enough numbers to justify the advertisers' investment. In the YouGov surveys, advertising is consistently chosen by more respondents than any other BBC funding option – 33% in December 2021.¹⁷

So why did the 1985-86 Peacock Committee, whose chairman had initially favoured BBC advertising, so firmly reject it? Two reasons. First, the evidence was that most of the BBC's advertising revenue would be captured from commercial media, especially ITV and Channel 4, but also newspapers and commercial radio stations, severely damaging them and reducing their ability to invest in content.¹⁸ Secondly, advertising funding would give the BBC an incentive to prioritise advertisers' needs over those of viewers and listeners.

Both these arguments still apply – the first one even more today, as traditional advertising-funded media are now under greater financial pressure because of competition from free-to-air online-only media like Google and Facebook.

Further, the Peacock Committee completely missed two other important arguments against BBC advertising:

- Other things being equal, *audiences prefer not to have their viewing and listening interrupted by commercials*
- *Advertising involves substantial end-to-end income generation costs:*¹⁹ the broadcaster's internal advertising salesforce costs, including research and sales administration; and, externally: media agency fees, creative agency fees and commercial production costs. I estimate these costs, in combination, at 20-25 per cent of the advertiser's campaign investment²⁰ - at least twice the equivalent figure for the licence fee (3 per cent collection cost plus 7 per cent evasion, total 10 per cent).

For all these reasons, we think an independent "Peacock II" committee would, rightly, reject advertising even more firmly than the original committee did in 1986.

General taxation

Funding the BBC out of general taxation would be less regressive than the licence fee because richer households would pay more than poorer ones. Its big drawback is that the BBC's funding would be even more vulnerable to cuts by hostile politicians arguing that they'd rather spend the money on the NHS.

¹⁷ Ibid. 23% chose the licence fee, 9% general taxation and 3% something else. 16% said "Don't know".

¹⁸ This concern goes back to the BBC's foundation in 1922, when it was forbidden from selling radio advertising because of the newspapers' justified fear that this would reduce their high-margin advertising revenue.

¹⁹ Defined as the proportion of TV/radio advertisers' total campaign investment that does not end up available to invest in programmes and cover broadcasters' non-income-generating overheads.

²⁰ *The War Against the BBC*, page 171.

This problem would be mitigated if the funding level were determined by a genuinely independent panel of experts based on the BBC's remit and financial plan to deliver it,²¹ agreed with the National Audit Office, and with proper public consultation and parliamentary scrutiny.

A flat universal household levy

In recent years, several countries, starting with Germany, have switched their PSBs' core funding from a TV licence fee to a flat universal household levy on the grounds that the content is available to every household, regardless of the device(s) they use to consume it.²² This also reduces collection costs by eliminating the need to find out which households have a TV set.

Switching to a flat universal household levy would retain all the advantages of the licence fee and address two of its three genuine disadvantages: the increasingly anachronistic link with TV set ownership and the growing evasion rate (a universal levy is harder to evade).

A progressive universal household levy: the fairest system - but harder to implement

A flat universal household levy would, however, like the licence fee, still be regressive as all households would pay the same, regardless of household size and income. This could be mitigated by giving some households a discount or exemption, as in Germany, but a better – although more politically challenging – alternative would be to collect the levy in a way that automatically meant bigger, richer households paid more. There are two technically straightforward ways to do this, neither of which involves material collection costs. The first is to add the levy as a fixed percentage to electricity bills, the other is to add it to Council tax. Both electricity bills and Council tax are higher for bigger, richer households.

A progressive universal household levy would be the fairest and most efficient model. It's the model I would recommend if we were starting from scratch - but we aren't. As with any tax change aimed at generating the same revenue, there would be losers (bigger, richer households) as well as winners. Although the increase in what the losers would be paying would be trivial for most of them, some – those most hostile to the BBC - would fight the change tooth and nail and they would be loudly supported by the BBC's enemies – including those currently objecting that the licence fee is regressive!

Introducing a progressive universal household levy would require political courage and statesmanship. Realistically, a flat universal household levy (perhaps with some discounts and/or exemptions) seems more likely to happen. Either way, the level should be set by an independent panel of experts with access to the necessary data (again, as in Germany).

A hybrid model

²¹ Incorporating projected demographic trends, industry cost trends, planned service launches/improvements/cuts/closures, technology investment, efficiency savings and commercial income generation.

²² Phil Ramsey and Christian Herzog, 'The end of the television licence fee? Applying the German household levy model to the United Kingdom', *European Journal of Communication* 33 (4), 2018, pages 430-444.

Finally, there are many hybrid options combining two or more models. In practice, the one with most political traction is the combination of public funding (licence fee, general taxation or a universal household levy) for 'public service' content and subscriptions for everything else (mainly entertainment shows).

There are three problems with this option.

First, the distinction between 'public service' and other content is not clear-cut. Many successful programmes, such as David Attenborough's wildlife series, manage to inform, educate and entertain simultaneously – and the balance between these three benefits is not always obvious in advance.²³ A rough-and-ready solution to this definitional problem is to say, like Andrew Neil,²⁴ that all the BBC's news, current affairs and arts programmes (to which I'd add children's programmes) are 'public service', everything else is 'entertainment'.

Secondly, however 'public service' is defined, it will certainly include news and current affairs – the very programmes governments most want to influence by tacitly (or, in Nadine Dorries's case, explicitly²⁵) seeking to reduce the BBC's editorial independence by threatening its future funding.

Finally, all the problems with subscriptions outlined earlier would apply equally whether they were used to fund all the BBC's UK programmes and services or only some of them. Worse, the hybrid model would be even less efficient than the pure subscription model as most of the extra overhead costs required for a subscription system are fixed, so they would be an even higher proportion of revenue if only part of the BBC were subscription-funded.

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²³ A case in point is *The Great British Bake Off*. Before it launched, *Bake Off* sounded like a typical - educational and rather worthy - public service programme. It took five years for the production company to get it commissioned and the initial reviews were dire ("As if anyone really cares which amateur baker is slightly less bad than the other" – *Daily Telegraph*; "Competitive baking is a contradiction in terms" – *The Guardian*). But it turned out to be the highest-rating programme in Britain and a global blockbuster, with almost every country in the world showing the original programme and twenty also making their own versions. See *The War Against the BBC* pages 182-5.

²⁴ Jake Kanter, 'Veteran presenter Andrew Neil calls for BBC subscription model', *The Times*, 1 March 2022.

²⁵ Glen Owen and Georgia Edkins, "'It's over for the BBC as long as I am in this job": Stark warning from Nadine Dorries as working-class Culture Secretary takes the fight to the BBC over its "Left-wing bias"', *Mail on Sunday*, 15 January 2022, <https://www.dailymail.co.uk/news/article-10406587/Nadine-Dorries-allies-warn-BBC-days-state-run-television-OVER.html>; Craig Meighan, 'Nadine Dorries: "Nick Robinson has cost the BBC a lot of money"', *The National*, 24 October 2021, <https://www.thenational.scot/news/19669504.nadine-dorries-nick-robinson-cost-bbc-lot-money/>.