

## **HM Government - Department for Digital, Culture, Media and Sport—written evidence (BFF0058)**

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

1. The Department for Digital, Culture, Media and Sport welcomes the Committee's investigation into BBC Future Funding, and is pleased to respond to the Select Committee's call for evidence. The BBC is a great national institution and a global British brand. The Government wants to see the BBC thrive for decades to come, supported by a sustainable and fair funding model that is fit for the digital age. We recognise that the future funding of the BBC is a topic of interest to many Parliamentarians, the public, and people across the world who value the BBC's content. We also need to consider how decisions over the licence fee will impact other BBC services such as radio, the World Service (which is funded by both the licence fee and FCDO grant funding), and the Welsh language broadcaster S4C (which receives all of its public funding from licence fee income).

#### **The Licence Fee Funding Model**

2. The UK has six public service broadcasters (PSBs) as part of our mixed broadcasting ecosystem, of which the BBC is the largest. The UK has a world-class broadcasting sector, and our PSBs are key to that success, underpinning much of the production sector and the wider creative economy. The PSBs play a vital role in making the UK an attractive place to invest and create high-quality content, with the BBC's responsibility to support the creative industries across the UK made clear in its Royal Charter.
3. The BBC receives its public funding through the licence fee. However, the licence fee funding model is increasingly under pressure. Technology has revolutionised viewing habits, with audiences now having much more choice about how, when, and where they can access and watch content. We are seeing an increasing number of households choosing not to hold a TV licence, with uptake of TV licences falling by around 700,000 from its peak of 26 million in 2017/18.<sup>1</sup> The number of people who are not required to hold a TV licence is likely to continue to rise. Although not a perfect indicator of whether a household needs a TV licence, recent evidence suggests an increasing trend of viewers moving away from broadcast content, particularly young audiences. For example, 42% of users of subscription-based video-on-demand services such as Netflix and Amazon Prime Video said they could envisage not watching broadcast TV at all five years from now, and 16-24s spend only a quarter of their average viewing time on broadcast TV in 2020.<sup>2</sup> Should this trend continue there are clear challenges ahead for the sustainability of the licence fee as a means of funding our largest PSB.

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<sup>1</sup> BBC Television Licence Fee Trust [Statement](#) for the 2020/21

<sup>2</sup> Ofcom Media Nations UK [Report](#) for 2021

4. In addition, the Government remains concerned that the current licence fee model involves enforcement by criminal sanctions. We see this as disproportionate and unfair in a modern public service broadcasting system, particularly due to the stress and anxiety that this can cause people. These concerns about fairness are highlighted by data showing that around three quarters of people who are convicted for TV licence evasion are female.<sup>3</sup> In addition, we remain concerned about the risk of prosecution for vulnerable elderly people, though we note the BBC's recent statement that no enforcement action has been taken against over 75s at this stage. The Government continues to be deeply disappointed with the BBC's decision to restrict the over 75 licence fee concession to only those in receipt of Pension Credit, and believes free TV licences for over 75s should be funded by the BBC.
5. There are other criticisms of the licence fee model. It is a regressive tax that does not take into account wealth or income. It is a compulsory requirement for households that watch or record programmes as they are being shown on TV, on any channel, or watch or stream programmes live on an online TV service, regardless of whether people use that television to watch the BBC or not.<sup>4</sup> The licence fee is also specifically linked to ownership of a television or watching iPlayer online, which does not fully align with the broad range of BBC activity it funds, including its radio and online output which can be legally accessed without holding a TV licence. It is also an inefficient use of resources, with licence fee collection costing the BBC £136m in 2020/21.
6. Concerns about the licence fee model are longstanding and deep rooted. For example, the Peacock Committee in 1986 outlined a number of flaws with the model, many of which are still relevant today. When the Government last reviewed the licence fee model as part of Charter Review in 2015/16, it recognised that there were a number of drawbacks to the model, but that no funding option is perfect and all involve trade-offs between separate and, at times, competing objectives.<sup>5</sup> The review concluded that the licence fee remained the most appropriate funding model for the BBC for this Charter period, with the consultation finding that the majority of the public did not think the current BBC licence fee model needed to be changed.
7. However, given the pace of change in the broadcasting sector and in media consumption patterns, we think it is appropriate to look at this again and ask serious questions about the long-term funding model

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<sup>3</sup> Ministry of Justice [publication](#) on Statistics on Women and the Criminal Justice System, 2019

<sup>4</sup> A TV licence is also required to download or watch any BBC programme on iPlayer. The legislation which details when a television licence is required can be found in the Communications Act 2003 and the Communications (Television Licensing) Regulations 2004.

<sup>5</sup> <https://www.gov.uk/government/consultations/bbc-charter-review-public-consultation>

of the BBC. Therefore the Government has committed to undertake a review of BBC's funding model in advance of the next Charter period. No decision has yet been made on what the BBC's future funding model will look like, and the department is considering all possible options to ensure the Corporation's long-term sustainability in a rapidly changing, digital world.

8. The funding of public service broadcasters like the BBC is not just a debate confined to the UK, and we are planning to look at how other countries fund their public service broadcasters. For example, in recent years Germany has replaced its licence fee equivalent with a 'household fee', and Nordic countries have moved to approaches based on taxing individuals, which are generally means tested.

### **Review process**

9. The Government recognises that this issue will be of significant interest to a wide range of stakeholders, including the BBC, S4C, other broadcasters, the wider UK creative industries, and audiences. Parliament and the public will also have a strong interest. We have not yet determined the process by which we will carry out this review, but are committed to ensuring that interested parties will have the opportunities to contribute. We will set out further detail in due course.

### **Issues to consider**

10. As the Committee has highlighted through the five questions it has posed in its call for evidence, there are a range of complex issues that will need to be considered as part of this review. The Government looks forward to seeing the evidence that is submitted to the Committee, which will helpfully contribute to the debate on the important questions it has set out.
11. The Government has been clear that over the remainder of the Charter period we want to see the BBC diversifying its income streams, becoming more commercially successful, and less reliant on the licence fee. To support this, we recently agreed to increase the BBC's commercial borrowing limit from £350 million to £750 million, pending the agreement of appropriate oversight mechanisms, to support the BBC in accessing capital and investing in ambitious growth plans. The Government sees this as a priority separate to decisions on the future funding model, as it not only supports a more sustainable BBC, but also drives increased investment in great British content and new British talent, supporting the growth for the UK creative economy as it recovers from the impacts of the coronavirus pandemic.
12. The Government also wants to see the BBC continuing to make savings. On 17 January the Secretary of State announced that the licence fee will be frozen for the next two years, and will rise in line with inflation for the following four years. This settlement sends an

important message about keeping costs down while also giving the BBC what it needs to deliver on its remit. As Tim Davie said in his first speech as director-general of the corporation, the BBC must be a “simpler, leaner organisation” that offers “better value” to licence fee payers. We agree with that, and the settlement strikes the right balance between protecting households and allowing the BBC to deliver its vital public responsibilities, while encouraging them to make further savings and efficiencies.

13. Beyond funding, there are other areas Government wants to see the BBC taking steps to deliver reform over the next six years, that we see as vital to the BBC’s long term sustainability. This includes taking action to improve on its impartiality, which is central to the BBC’s Mission and to maintaining trust with audiences. We therefore welcome the BBC’s 10-Point Impartiality and Editorial Standards Action Plan, published in October 2021. The BBC must also continue to consider how it addresses Ofcom’s findings that in recent years the BBC has not delivered equally for all audiences, and that the BBC must do more to attract and retain younger audiences. To remain sustainable under any form of funding, the BBC must remain relevant and retain trust.

*14 March 2022*