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

The European Broadcasting Union is the world's leading alliance of public service broadcasters, comprising 116 organisations in 56 countries.

We write with respect to the Special Committee of the House of Lords' enquiry on BBC funding, and more specifically how the BBC might be financed sustainably in the future. We respectfully share our thoughts on the current funding model for the BBC, drawing upon our experience of different systems and reform processes across Europe.

*PSM in Europe – the Context*

During the COVID-19 crisis, PSM all over Europe rose to the challenge, providing citizens with crucial information, educational/social support and inspiring entertainment. At the high point, we saw viewership up 20% on average across our members (with a 40% increase among the younger demographic) as PSM rushed to react and adapt schedules, formats and production methods to ensure service continuity. Never before has the core purpose of, and reason for, PSM been so vivid: as a trusted source of objective and impartial information; a reliable provider of high quality and cultural content; a guardian of pluralistic and minority views; above all, as a reference point in times of national crisis.

Governments widely recognise that it is now more important than ever to nurture and maintain a strong and trustworthy PSM able to reach out to and include the whole of society. Yet PSM's existence and sustainability continues to be under serious threat in many of our member countries. This is in part due to multiple extraneous market pressures, including global platforms able to compete almost unregulated in national European markets and technological changes that threaten to bury public service content online. The gap in economic size between PSM and their commercial competitors gets wider every year. End 2020, top-10 tech giants already together had revenues 30 times higher than all EBU PSM combined. Global tech giants saw their revenues doubling between 2016 and 2020, a trend accelerated by the COVID-19 crisis. Amazon alone now has European revenues surpassing all EBU PSM.

These conglomerates are highly diversified and global, and they are flexible enough to adapt to and enter European national markets with dedicated offers. We also see a strong consolidation wave, creating diversified global competitors that are fully vertically integrated, buying content rights, controlling platforms and delivering to the European consumer. The EBU is working particularly closely with the EU to try to build smart and effective regulation that protects European broadcasters in a future online ecosystem.

At the same time, we see very intensely changing viewer habits, particularly

among the younger generation. Time spent on linear channels has been steadily declining in most European countries, and, despite a surge noticed during the 2020 lockdowns, its share of daily viewing time is dropping overall in Europe.

In spite of all these challenges, the universally greatest threat to many of our members continues to be inadequate and/or unstable funding. Overall, cumulative PSM funding dropped by 1.2% from 2016 to 2020 in the EBU area. When taking inflation into account, this drop represents a significant contraction in financial resources: -6.9% in real terms for the whole EBU area. Most European public broadcasters are functioning with decreasing resources once adjusted for inflation. Yet research demonstrates that PSM funding per capita positively correlates with performances in their respective radio and TV markets. Lack of funding and overall government commitment to public service media stifles its ability to adapt, innovate and compete in markets that are now global and intense, putting at risk the existence of European broadcasters and the promotion of media pluralism and democratic values in society.

#### *EBU Public Funding Principles for PSM and the relevance of licence fee*

The EBU has long endorsed the licence fee as the optimum model for the funding of PSM. It is still the main mechanism of public funding among EBU members by some distance, contributing 60% to total funding in 2020. It is relatively stable (compared to, for example State budget or commercial funding)<sup>1</sup> and relatively independent from political interference. It also creates a connection between viewer and PSM which is crucial in building the trust and accountability PSM should embody. Generally, licence fees in Europe are far cheaper than equivalent pay-TV subscriptions. So, where a licence fee system is working and remains effective, the EBU would not advocate any change. However, where the system is patently no longer delivering (due for example to serious structural flaws and/or a public resistance to pay), other models and solutions must urgently be considered.

It was exactly with these scenarios in mind that the EBU published its Public Funding Principles for PSM, a set of non-binding principles to assist EBU members, authorities and governments in considering and assessing current and future PSM funding models.<sup>2</sup> The Principles were envisaged as a guide and benchmark against which different funding models can be measured and compared:

- Stable and adequate (ie, up-to-date and providing sufficient funding to carry out the public purposes, on all platforms, in all forms);
- Fair and justifiable (ie accepted by the public, who are connected to the PSM by the system);
- Independent (ie from politics and from commercial interests);
- Transparent and accountable (ie efficient and open use of public funds).

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<sup>1</sup> PSM advertising revenues have dropped by nearly 40% in the EBU area since 2008.

<sup>2</sup> [https://www.ebu.ch/files/live/sites/ebu/files/Publications/EBU-Legal-Focus-Pub-Fund\\_EN.pdf](https://www.ebu.ch/files/live/sites/ebu/files/Publications/EBU-Legal-Focus-Pub-Fund_EN.pdf)

As mentioned above, the EBU advocates the licence fee model as the preferred funding mechanism for PSM. It may not always be the optimum solution for countries that have never had one (eg in central and Eastern Europe) because the introduction of a licence fee system from scratch requires enormous effort, expense and a social/cultural buy-in. But where a licence fee system already exists, the EBU always advocates to maintain it, albeit with any necessary modifications to make it a truly effective system of funding. Where licence fee systems are instead dismantled, its clear benefits (independence, stability, connection of the audience) are lost for good. The risk is then to undermine the crucial role of PSM in society, to the significant detriment of their own citizens in the long run.

### *The BBC and the UK context*

The BBC is considered among our members and abroad more generally as a "gold standard" public service broadcaster. The quality and diversity of BBC programming and content is widely acknowledged as being second to none amongst our members. When engaging in the sharing and exchanging of expertise and experience within our EBU community, the BBC's guidelines, best practices, innovation and technical know-how are always the first to be considered. Overall, we consider the BBC's success and standing in Europe to be down to a virtuous circle of: stable and adequate funding and its efficient use; investment in objective news, information and high-quality content; and a public perception of a strong democratic/cultural/social function in society that encourages citizens to contribute.

International benchmark of PSM funding must always be defined carefully, due for instance to national specificities and varying scope of remit. However, an interesting financial benchmark consists in comparing the PSM public income per capita in the various European countries. Data shows that the monthly contribution paid by UK citizens to their public broadcasters was EUR 5.74 per month in 2020. The UK ranked only 10<sup>th</sup> in 2020 across the EBU area and the UK amount was smaller than in all Nordic countries, Germany or Austria. The UK contribution per citizen was for instance 45% less than in Norway and Germany.

We note that in the UK the licence fee was modified in 2016, among other things, to extend the obligation to pay the licence fee to BBC catch-up services (iPlayer). This "modernisation" reflects the evolution of digital markets and over two thirds of PSM licence fee systems across Europe have been adapted in this way. The new BBC Charter will be in place until end of 2027, but the question of the appropriate and most effective method of funding PSM is open and constant across Europe. We consider that experiences and debates in other countries can serve as important reference points.

The provision of a PSM service and the production of PSM content require high levels of investment and long-term planning. A PSM's main cost drivers are determined by the scope of the public interest remit, which, in addition to the high production value of sports and entertainment content, always includes the obligation to produce quality news, as well as diverse culturally and socially relevant original programming. In order to stay relevant, PSM needs adequate

funding to be able to plan, innovate and create on all platforms.

### *Reforming PSM funding in the UK?*

The EBU is frequently engaged in discussion with its members, governments, authorities and other stakeholders about the best and most effective funding mechanisms for PSM. Accepting there is no “one-size-fits-all” approach for countries with different legal and constitutional systems and social and cultural norms, there are a number of indicators to consider when assessing PSM funding mechanisms, including:

- Evasion rates;
- Efficiency of collection methods;
- Suitability in the face of technological change;
- Public perception.

Unlike many of our member countries, the UK has a low evasion rate of 7%, linked to a relatively effective **enforcement system** (making evasion a criminal offence). In countries like Italy (previously 31% evasion rate) or Poland (previously 70% evasion rate), the need for reform was clear and urgent. Steps have been taken in both countries to address this. In 2020 we noted high rates still in Poland (28%), as well as Ireland (15%) and Czech Republic (14%), leading to severe underfunding of a PSM that is hardly able to fulfil its public interest role.

Similarly, and linked, the **licence fee collection method** is important. The EBU advocates collection mechanisms that are effective and low cost, whilst mindful of local cultural and social factors. Collection by the post office, for example, has been shown to be one of the least efficient and effective means and Ireland has one of the highest evasion rates in Europe based on that system. There are a number of different approaches in place across Europe. Broadly, their effectiveness depends on social and cultural context and tradition, as well as arguably striking the right balance between ease of payment and penalties for not doing so. Where penalties for non-payment are weak, it may be argued that automatic collection systems are more efficient and cost effective. Our data shows that PSM themselves are actually on average more efficient for organizing the collection themselves (sometimes contracting with a private company like in the UK, where the average cost of collection is significantly lower than in the EBU area as a whole).

Depending on the mechanism, automatic collection might be carried out by tax authorities (noting that collection by any private company like a telecoms or electricity provider is generally not advised, given that they might have limited interest in effective processes, and they may even be competitors). In such cases (eg France and Finland), it is preferable that the tax collected is kept in a separate and independent fund for PSM (as for example, in Finland), and not paid into any central state budget. In the UK however, voluntary payment systems remain effective, particularly when facilitated with automated systems like direct debit.

The licence fee model must also be **up-to-date and relevant**. Noting that a

system based on the ownership of TV/radio alone does not fit with how broadcasting content is accessed today (particularly among the younger generation), the UK has already extended the obligation to pay the licence fee to cover the BBC iPlayer (catch up content). This issue is also strongly linked with public perception of the funding model and the PSM itself: the funding mechanism must be modernised to match a modernised PSM.

Some countries have gone further, completely overhauling their funding system to meet a digitalised society. In Germany, the traditional licence fee (based on ownership of a radio or TV) was scrapped and replaced by a household fee, whereby every household (and business) pays a set fee for PSM based on the property ownership/residency (and subject to specific social exemptions and reductions). This new system is justified by the fact that every household is deemed to have at least one device that enables access to PSM content (whether a traditional linear device or a connected device, such as a phone or tablet etc). In Finland, meanwhile, a different, but also fundamentally revised, approach was taken, scrapping the licence fee for a tax (called the "Yle tax" after the national PSM, Yle), which is paid as part of salary/revenue taxes (subject to means testing and certain social exemptions). The tax collected is paid not into the state budget but into a dedicated state fund that is earmarked for Yle, thereby avoiding undue political influence.

Both reforms have worked well in their respective countries, ensuring adequate and stable funding, preserving independence and transparency and, crucially, achieving a high degree of social acceptance and perception of fairness. They measure up well against the EBU's Funding Principles for PSM (see above) in the abstract, noting however that different cultural, institutional and taxation systems may call for different approaches.

Other countries have adopted a different approach, the most common being direct funding from the state budget. This method of funding may be effective in certain circumstances, notably where there is a strong tradition of democracy and transparency, and where there is high public trust in state/governmental institutions and bodies. The abolition of the licence fee in favour of direct state funding has for example been broadly successful in Norway, without resulting in any reduction or other disruption of PSM (NRK). However, in other countries it has been much more problematic and volatile. In the Netherlands for example, the abolition of the licence fee led to an immediate and substantial (over 20%) reduction in funding to NPO, decided by the incoming coalition government. Similar cases are Romania, Denmark and North Macedonia, where the switch to budget funding has arguably undermined the overall goals and purposes of PSM, with the broadcaster subject to direct political pressure.

As a general rule, the EBU would only advocate state budget funding for smaller countries which either have a high level of trust and transparency in state structures (and, as is the case for Norway, relatively high PSM funding), or do not have the means and finances to implement and enforce an independent licence fee system (eg Central and Eastern Europe region). In the latter case, the risk of politicisation has sometimes been countered by stipulating a set percentage of GDP or state budget to be paid to the PSM annually, in line therefore with the performance of the economy (eg, Serbia, Montenegro, North

Macedonia, although in practice the rule is not always respected for political reasons).

### *Level of the BBC Licence Fee*

Finally, it should also be mentioned that in any reform of the PSM funding system, close attention should be made to **how the level of the fee is set**, which should be according to objective parameters on the cost of delivering the public remit. The level should be linked directly with the cost of providing the public interest services as set out in the PSM's legal remit, whilst also allowing for innovation and adaptation to fast changing markets. It should ideally be linked to inflation and it should be immune from politically motivated sudden cuts.

There are a variety of approaches to setting the level of the licence fee (or PSM funding) across Europe, and always taking into account legal, constitutional, political, cultural and other factors. Some countries involve an independent body of experts to assess the cost forecast proposed by the broadcaster to fulfil its public service remit (e.g. the KEF in Germany or the Broadcasting Council in Switzerland). This independent body may challenge the broadcaster's assessment and ensures that a rigorous analysis of expected costs is carried out (incorporating appropriate efficiency goals), before making a final budget recommendation to the government (or parliament). The involvement of such a body promotes independence of the PSM and is optimised where the remit and activities of the PSM are fully up-to-date, allowing it to innovate and adapt to existing and future trends.

In some countries (eg, Ireland, Austria, Netherlands, Italy, France), public funding is complemented by commercial revenues, either advertising or separated commercial services. Again, approaches vary according to different social and cultural norms and an overall perception of how PSM should be structured. Commercial revenues may allow a PSM more autonomy (particularly where public funding is unstable or politicised), but it may also undermine the public's perception of PSM as not-for-profit and public interest. We advocate for both models (or a hybrid). However, it should be noted that a **subscription funding model** (as opposed to advertising) could never be a solution, since it fails against every benchmark on how the mechanism should be. First, it could never guarantee secure and stable funding, allowing PSM to plan, innovate and adapt. Second, it breaks the integral concept of universality of PSM services, meaning that the content is only available to the few who can and will pay, rather than to the whole spectrum of society. Third, it lacks adequate independence from either commercial or political interests. Overall, a subscription-based PSM would not be PSM at all, since it would be driven only the most popular and commercial content only.

### *Conclusion*

In summary therefore, the EBU would urge caution before undergoing any wholesale reform of the licence fee in the UK. Any change should be made according to a careful and rigorous process, which fully analyses, considers and consults on potential outcomes. Fundamental changes in PSM funding require enormous investment and structural change and should always be accompanied

with effective and widespread explanation about the role and relevance of the PSM for democratic society. Where a funding mechanism is effective and efficient, providing stable and adequate funding in a fair way, change should not be undertaken lightly. If nevertheless reform is necessary, the German and Finnish approaches may provide context on how it might be implemented in an effective way that ensures a stable PSM for the future, duly universal and connected to its audience.

A voluntary pay system meanwhile - or some other kind of subscription-based PSM - would be the first of its kind in Europe and would not in our view constitute PSM at all. The PSM viewer is a citizen, not simply a consumer - PSM content is tailored to reach and include all, not only the fee-paying few.

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