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

Alternative funding mechanisms for the BBC

Purpose of this document

1. The BBC licence fee is currently under review, and policy-makers are actively considering alternative options for funding the BBC following the end of the current Charter period in 2027.
2. This document explores a variety of these options through a series of simple scenarios, and aims to provide policy-makers with core information relating to whether each option could realistically replace licence-fee funding.
3. For the purposes of this document, and to simplify the number and range of scenarios considered, Ampere has assumed that policy-makers' core objective is to maintain BBC funding at an equivalent level to the current licence fee. Should policy-makers want to decrease/increase BBC income, model inputs should be adjusted accordingly. Care should be taken in cases where there are fundamental market constraints which impact the realistic funding levels achievable via a particular model.
4. For simplicity, models use current (2021) market sizing and fees when considering the different scenarios.
5. Ampere's Research Director Richard Broughton discussed many of these options with the House of Lords Communications and Digital Committee on the 22nd of March 2022. A recording of the meeting can be found [here](#).

Four core options under consideration

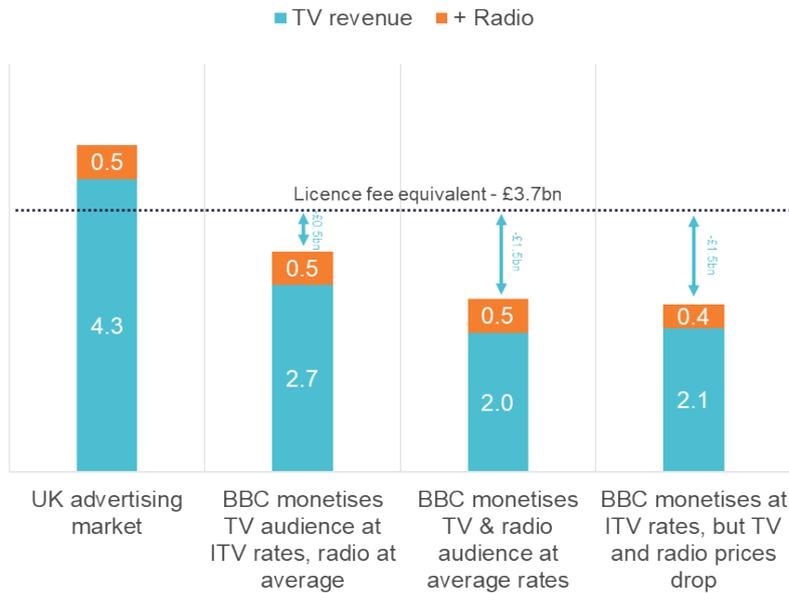


Advertising

The UK TV ad market is not large enough to allow complete replacement of the fee

1. The UK TV advertising market (encompassing broadcast advertising and long-form online video advertising on broadcaster-led streaming products) generated roughly £4.3bn in net advertising revenue in 2021.
2. The radio market is worth a further £0.5bn per year in net advertising revenue.
3. Assuming advertising was sold across the BBC Radio and TV suite, the BBC would have to generate advertising revenues at a scale equivalent to 75% of the current UK market total.
4. The BBC currently has an audience share of ~32% of the TV market, and ~50% of the radio market.
5. In a best-case scenario, in which the BBC monetised audiences at ITV-equivalent pricepoints and radio at average pricepoints, there would still be a shortfall relative to current licence fee levels of roughly £0.5bn.
6. In reality, the doubling of radio advertising inventory and the increase in TV inventory by ~40% would act to drive unit pricing down, both for the BBC and for rival commercially-funded groups.
7. This would lead to the realistic revenue opportunity being substantially impaired compared to the best-case scenario. Ampere estimates a realistic value would be £2.5bn per year – a shortfall of £1.2 relative to current licence fee.
8. In such a case, public funding would be required to 'top up' revenue to ensure that the BBC's output was not impacted. Should such a top-up not occur, BBC output would be impaired, its viewing share would drop, and the revenue opportunity would decline further.
9. Whether BBC revenue was 'topped up' or not, secondary effects on the commercial market would be felt – broadcasters reliant on advertising, including ITV, Channel 4, Five, and Sky would be subject to negative unit pricing pressures – leading to onward negative effects on the wider UK TV distribution and production sector, as well as on the radio sector.

Advertising scenarios (£bn annual revenue)



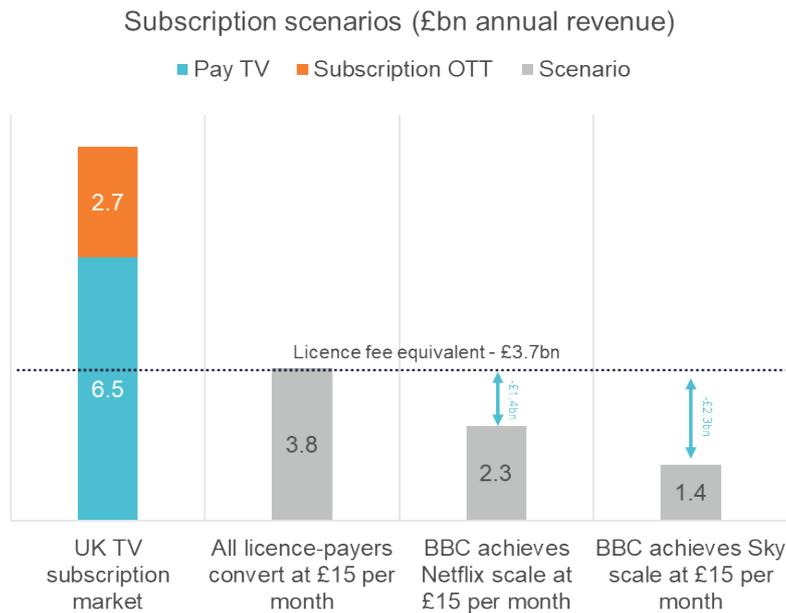
Source: Ampere Analysis data and estimates, GroupM data

Subscription (i)

The UK market is likely to be inappropriate for a subscription-based system

1. The UK subscription television market (encompassing pay TV products such as Sky and Virgin, as well as online video services like Netflix, Disney+ and Amazon Prime), generated £9.2 in revenue in 2021 by Ampere's estimates.
2. Monthly subscription pricepoints and the scale of subscription services vary hugely, and are determined heavily by the content offer of the service.
3. Technical access would be a key consideration when deploying a BBC subscription. The simplest route to using a paywall would be an online streaming product, avoiding the need for new consumer premises equipment, but limiting access to online households.
4. Netflix currently has the greatest reach of any single service in the UK, at over 14m paying subscriptions at end 2021, by Ampere estimates, each paying an average of £10-11 per month.
5. Sky has over 9m satellite subscribers and a further 1.5m+ NOW subscribers. Sky's satellite subscriptions are more expensive than those of Netflix, averaging at over £50 per month, by Ampere's estimates.
6. A BBC subscription would be unlikely to be able to justify Sky rates, lacking premium movies and premium sport in particular.

7. Taking an optimistic pricepoint of £15 per month, the BBC would need to convert almost all current licence-holders (including the 1.3m 'free' licences) to match current licence fee revenue.
8. At Netflix scale, the BBC could generate £2.3bn in subscription revenue at £15 per month – a shortfall of £1.4bn relative to the licence fee. And at Sky scale, it would generate just £1.4bn, a shortfall of £2.3bn relative to the licence fee.
9. Such a move would limit access to BBC programming, which would be challenging to square with public service obligations. If certain areas of key public service programming were kept outside a subscription, the value of the subscription itself would be diminished, negatively impacting the commercial opportunity.
10. In reality, Ampere believes that any BBC-led UK-based subscription product would likely achieve far lower scale than in the scenarios illustrated. In addition, reduced population reach also impacts the viability of any hybrid advertising/subscription model.
11. A positive impact, however, of placing some or all BBC content behind a paywall, would be felt by commercially-funded groups – including Channel 4, ITV and Five – which would gain audience share.



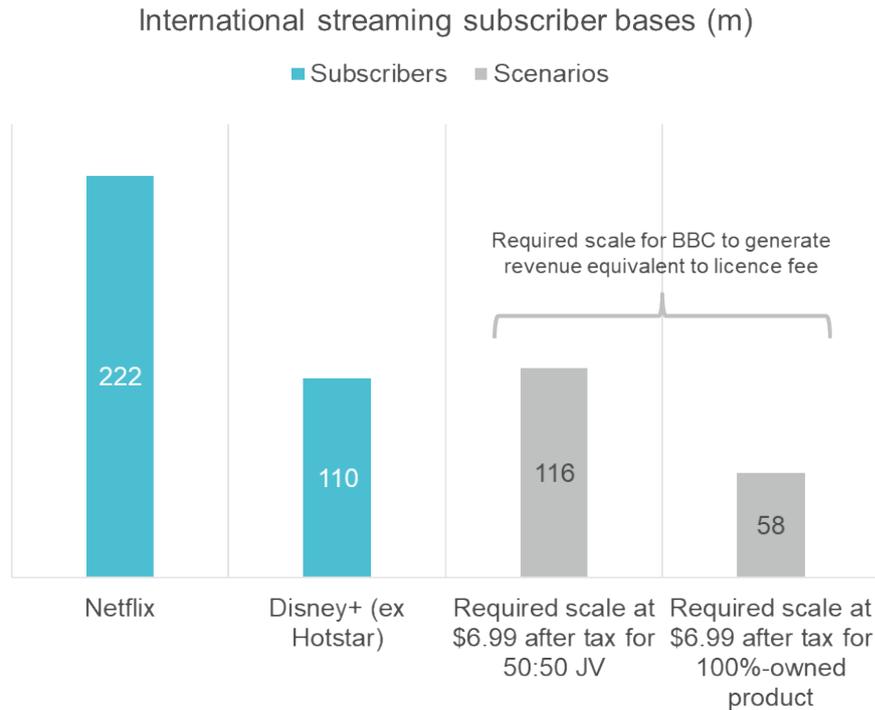
Source: Ampere Analysis data and estimates

Subscription (ii)

The international market is large, but requires up-front funding

1. Currently, the BBC is a 50% shareholder in Britbox International (it sold its stake in Britbox UK to ITV in early 2022). Britbox International has a relatively modest target of 10-12m subscribers by 2030.

2. For the BBC licence fee to be matched by international subscription revenue, and on the simplistic assumption that the BBC would derive a 50% share of revenue, Britbox would need to reach a scale of 116m customers at an average pricepoint of \$6.99 (after sales tax is deducted). This figure would be roughly equivalent to that of Disney+, and half that of Netflix.
3. Were the BBC to launch a 100%-owned product, it would need to reach a scale of 58m subscribers at the same \$6.99 pricepoint to match licence fee revenue. But subscription services can only achieve scale through extensive content investments and heavy marketing spend.
4. Disney spent over £2.5bn on Disney+ content in 2021 – 80% more than the BBC's annual £1.4bn TV content expenditure. Netflix spent over £10bn. Netflix also spent £1.9bn on marketing in 2021 in order to support subscriber acquisition and retention.
5. The BBC does not spend enough on content – and, given its focus on UK-centric TV – produce sufficient content suitable for an international streaming product to drive subscribers to this sort of level.
6. For a global subscription scenario to look at all realistic, Ampere expects that annual TV content spend would have to be at least doubled from the current £1.4bn levels, refocused on internationally-relevant content, and coupled with a further £0.5bn+ annual marketing budget.
7. In addition, the BBC would cannibalise a portion of BBC Studios, which drives ~£0.2bn in returns to the BBC each year from programme sales and distribution.
8. The costs incurred by a global subscription service would mean that the BBC would not be able to replace the licence fee through subsidisation via international subscriptions – however a reduction in the scale of the fee could be feasible.
9. Up-front investment of multiple billions of pounds – on top of the licence fee - would be required to kick-start a viable large-scale international streaming business, with no firm guarantee of success.
10. A larger BBC content slate would have negative impacts on domestic peers like ITV, Channel 4 and Sky.



Source: Ampere Analysis data and estimates, company financials

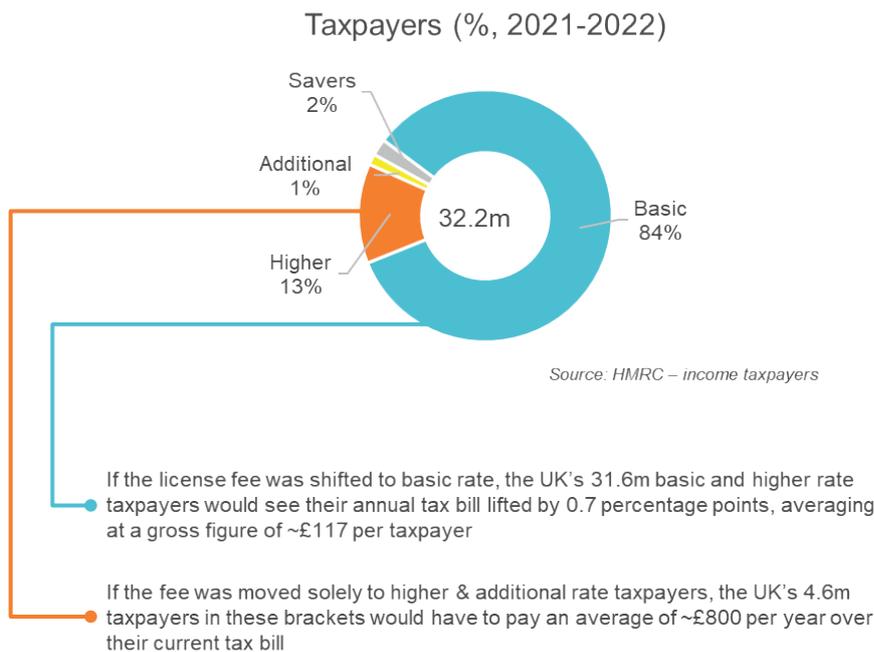
Tax

Tax would be viable financially, but system would need to be ring-fenced

1. Tax may represent a more progressive alternative to the licence fee, as many taxes scale with personal or household income, unlike the current flat fee system.
2. There are currently nearly 32m basic and higher or additional rate income taxpayers in the UK.
3. If the licence fee was shifted to an income tax basis, the 20% basic rate would need to be increased by approximately 0.7 percentage points, generating an average return of £117 per taxpayer.
4. In this instance, roughly half of the population, spread across three quarters of UK homes, would fund the BBC. For comparison, the current system provides 5% of households with a free TV licence.
5. While the system is more progressive, taxpayers are likely to be less extensive users of BBC services. 40% of the tax burden in this scenario would fall on the under 45s, and 25% on the under 35s, by Ampere's estimates. Adults 16-34 consume 60% less BBC programming per day than the average person according to Ofcom estimates.
6. A household levy, scaled to household income or value, has also been proposed as an alternative to an income tax measure. While similarly

workable in theory, administrative complexities related to determining correct household banding and eligibility would be more challenging to work through.

7. As a consequence, a collection apparatus comparable to TV Licensing would likely be needed in this instance, limiting cost-saving opportunities for switching to an alternative funding mode (TV Licensing costs ~£130m per year). Council tax would be an unconventional mechanism for collecting tax dedicated to a national (rather than local) programme.
8. Regardless of collection mechanism, any tax-based system would have to be sufficiently ring-fenced to avoid i) short-term interventions from government designed to influence BBC output ii) the perception of the BBC's independence being damaged by the risk of government intervention.
9. As a consequence, the portion of any tax dedicated to the BBC should be clearly marked to taxpayers, a review system similar to the existing BBC charter periods put in place, and review processes ideally overseen by an independent body.



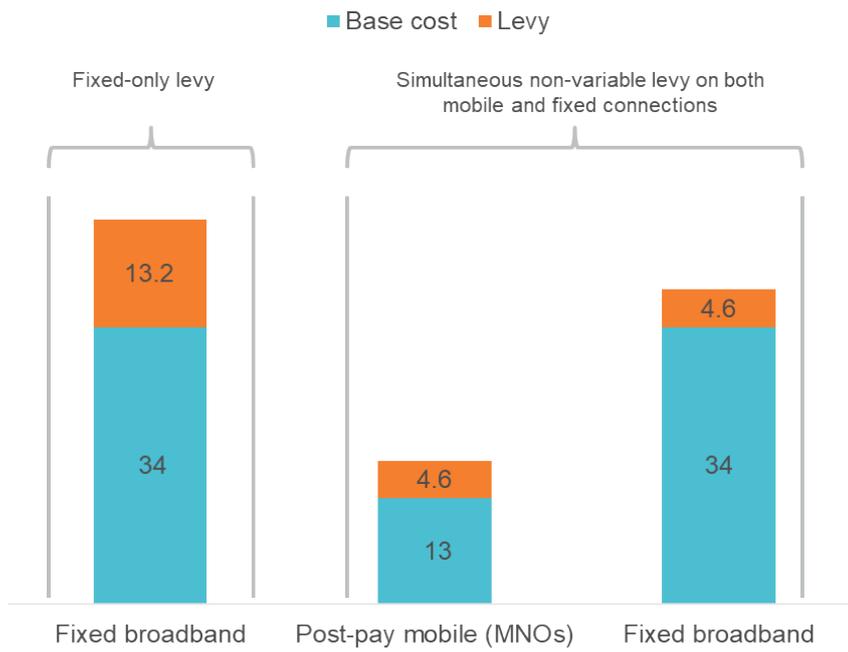
Telecoms levy

Functional, but risks accentuating digital divide in some communities

1. A telecoms tax or levy has also been proposed as an option for funding the BBC.

2. A levy or tax could function in a range of ways, and could be applied to either or both fixed and mobile connections.
3. An annual tax on turnover (Spain, for instance, uses a tax of 0.9% of telco revenues for contributing to RTVE funding).
4. A fixed fee per connection.
5. A fee proportional to the cost of each connection.
6. In the instance that a fee applied to the UK's 28m fixed broadband connections, each monthly bill would have to be increased by an average of roughly £13 (accounting for VAT), for takings to match the licence fee. If passed onto consumers in full, this would represent an increase of approximately 40% over the base connection cost.
7. Similarly, if the fee was made applicable across the fixed and contract mobile market, the average contract would need to increase by £4.6 per month. As a flat levy, this would represent an increase of 9% in fixed broadband pricing, and 17% in mobile pricing. A variable levy would raise the impact on broadband prices and reduce the impact on mobile pricing.
8. Fees under a mobile and fixed levy would scale with household size, which would affect significantly those homes with multiple teenage children.
9. Telecoms companies are unlikely to be able to absorb the added cost into their margins, which would ensure that costs are largely passed directly onto consumers.
10. The resultant increase in pricing would seriously risk locking income-constrained consumers out of many telecommunications products and potentially out of the online world entirely.
11. As a result, a telecoms levy or tax is unlikely to be a realistic alternative to the licence fee, as it carries with it too many downside risks.

Scenarios: Telecoms costs (£/month)



Source: Ampere Analysis data and estimates, company financials – illustrative. Broadband base assumes 2-play connection.

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