

# BBC Funding Briefing

December 2022

The Broadcasting White Paper in April 2022 confirmed the Government would carry out a review of the licence fee funding model before the next Charter (2028). We await the publication of the Terms of Reference for the Review which has been delayed because of changes in government.

In its first response to the Lords Committee recommendations on BBC Funding the Government declined to commit to national public engagement over BBC Funding. It highlighted concerns about:

- The need to give citizens a 'greater choice' as an increasing number of households choose not to have a TV Licence.
- The fairness of the model – criminal sanctions which disproportionately impact on women.
- The idea of a funding model tied to watching live TV seems increasingly outdated

In a further letter to the Committee on November 10<sup>th</sup> 2022 the Government said:

- It will carry out a formal public consultation on any changes to the BBC's funding model as part of the broader Charter Review process.
- They will allow Parliament to scrutinise and debate changes to the BBC's funding model as part of Charter Review.
- They also committed to publishing an assessment of the market impact of any decision.

## VLV concerns

As the national broadcaster, the BBC should be a 'merit good' that contributes to the creation of a stable, democratic and peaceful society. It should provide a universal service which is free at the point of access. It should comprise a wide range of content for all age groups, for all the nations and regions of the UK, reflecting the interests and identities of British citizens. It should provide training for staff and conduct research and development, especially in new technology.

**Universality:** VLV strongly supports universality as the foundation of the funding model for the BBC. We believe this is essential if, as the national broadcaster, the BBC's reach is maintained and it can continue to bring the nation together. Universality also keeps the cost per household down.

**Independence:** The BBC's funding model should safeguard the independence of the BBC from political interference. VLV does not believe that the BBC's independence is secure under the current Charter and Agreement model. In practice its independence has been undermined since 2010 as TV Licence income has been diverted for purposes other than services for UK audiences.

**Process to set funding:** VLV believes the process for setting BBC funding should be reformed. VLV [commissioned the drafting of a Bill to](#) establish a new body to oversee BBC Funding in 2015. We propose that negotiations should not be conducted behind closed doors without any parliamentary or public scrutiny. The independent body should recommend a level of funding for the BBC. No decision should be reached until there has been Parliamentary debate. This process would provide greater transparency and reinforce the independence of the BBC, including protection from political decisions by the Government of the day. Such a change in process is needed especially now it is clear that public trust in media is declining.

**Commercial Pressure:** VLV opposes further pressure on the BBC to become more commercial as its public funding declines. VLV research shows that the BBC's real terms public funding has declined by 25% since 2010. In order to

make up the shortfall, the BBC is increasingly being forced to become more commercial, selling its content around the world.

**Accountability:** In order to ensure the legitimacy of a universal fee to fund the BBC and to maintain trust in the corporation, any funding system should be fair and justifiable and the governance of the BBC should be designed so that its operations are transparent and it is accountable to the public who fund it.

**Public Service Audio:** VLV considers it is likely that audio content will increasingly be put behind paywalls as commercial organisations find ways to monetise such content. We suggest that the BBC should be instrumental in setting up an aggregation platform for UK PSB audio content so that free of charge access to high quality, societally beneficial audio content is maintained for citizens.

**A Progressive Household fee:** VLV would accept changing the existing licence fee into a household-based fee as the model to fund the BBC, but it should not be related to consumption so that every household contributes to the funding regardless of whether they use BBC services. Enforcement of such a fee would be cheaper and evasion would be reduced. VLV would support measures to make BBC funding more progressive, so that those on lower incomes pay less than those with high incomes.

**Other funding models:** VLV opposes any model of funding which results in any BBC services being behind a paywall. We also oppose advertising as a funding model because this would not be popular with audiences and would undermine the UK's public service broadcasting ecology because it would put the BBC in direct competition for revenue with the commercial PSBs. We would not support the BBC being funded by a direct grant from the government because this will undermine its independence further.

**Parliamentary scrutiny of the new model:** VLV proposes that a cross-party parliamentary commission should be established to examine the issue of BBC funding and to scrutinise government proposals. We make this recommendation because we are concerned that there are very limited means for citizens and Parliamentarians to prevent the government from changing the funding model for the BBC since the Charter and Agreement are not governed by statutory legislation.

**Public Consultation:** If the government does propose to change the funding model of the BBC it should ensure that the public are fully consulted and the outcome reflects their wishes. The government should not prejudge the outcome of these consultations, as they appear to have done in the recent DCMS Channel 4 privatisation consultation when the consultation clearly stated the government's preferred course of action.

**Government support for the BBC:** While the BBC remains popular, the Licence Fee appears to be less so. VLV considers that the government has a responsibility to promote and highlight the benefits the PSB system and the BBC bring to the UK – societally, economically and culturally. Instead, in recent years, the government has appeared to be more focused on holding the BBC to account. This antagonistic approach does not serve the BBC, the government or citizens of the UK well because it undermines public trust in the legitimacy of a universal fee for a broadcasting system which we should be proud of and is acknowledged to be one of the best in the world.

### **Advantages of the Licence Fee model:**

- The licence fee is a stable and predictable form of funding for publicly funded public service broadcasting.
- It ensures a universal service which is appropriate for the national broadcaster.

### **Disadvantages/ Criticisms:**

- The government setting the level of the TV Licence and using it for other purposes undermines BBC independence.
- Requiring all citizens to pay regardless of use is increasingly unpopular.
- A flat rate system is not progressive.
- Criminal sanctions for non-payment of the TV Licence (or rather, non-payment of the fine for not paying the TV Licence) are perceived as too severe, although VLV believes the impact of civil sanctions could be equally harsh.

# Useful Background Information

## Lords Communications Committee Report (July 2022)

The Lords' report set out six core principles against which future funding options should be judged:

- **Independent:** the funding model must safeguard the BBC's editorial independence.
- **Transparent:** the funding model and means of collection must be transparent and publicly trusted.
- **Legitimate:** the funding model, and the way in which decisions on it are taken, must be viewed as legitimate by all parts of the population the BBC exists to serve.
- **Sufficient and sustainable:** the funding model should provide sufficient income to enable the BBC to plan and deliver its mission with certainty and provide the flexibility to adapt to future challenges and uncertainties.
- **Fair:** the funding model should be fair. If the funding system enables a variable fee, concessions should be made for those least able to afford it.
- **Proportionate:** any changes to the funding model should be proportionate to the returns gained in terms of public and financial value.

They also reiterated a call VLV has been making since 2015 for an independent body to be established to provide recommendations on the level at which public funding should be set for the BBC.

A summary of the recommendations of the Committee were as follows:

- BBC to provide a clear definition of its understanding of universality, detailing how this will shape its future decisions on its programming and allocation of resources.
- The Government must set out how the BBC's future funding model and remit will incentivise the corporation to strike the right balance between addressing market failure and shaping markets for the benefit of the UK creative industries and wider economy. The Government must commit to commissioning and publishing independent market impact studies ahead of any decision on the BBC's future funding model.
- When responding to its independent review the Government should safeguard the BBC World Service.
- The Government should publish an assessment of the benefits that the BBC's international output, including the World Service, provides to UK soft power and wider objectives in foreign policy, international trade and inward investment. This should set out how changes to the BBC's funding might affect these benefits.
- The BBC should publish a comprehensive long-term vision that sets out its role, and how it will deliver value and distinctiveness in a rapidly changing world. This vision must include costed options for future funding mechanisms, and how these would affect the BBC's ability to deliver on its mission in the next decade and beyond.
- The BBC should continue to improve its on- and off-screen representation.
- Ofcom should set out how it intends to provide a swifter approach to regulatory changes.
- We do not recommend the BBC moves to a purely advertising-funded model.
- We do not recommend the BBC moves to a purely subscription-funded model.
- The Government should analyse the implications of retaining an opt-in approach, or changing the funding model to a universal levy which everybody has to pay. The BBC should undertake a similar assessment.
- We do not recommend that the BBC is funded by Government grant.
- We do not recommend contestable funding as a primary alternative to the licence fee. But the Government should consider the merits of contestable funding as an additional supplement to support underserved areas of public service content. This would need to be separate from the BBC's existing income.
- The BBC should explore and publish costed options for hybrid domestic and international subscription models.
- The costs and complexities of developing conditional access technology for digital terrestrial television would be disproportionate to the benefits. We do not recommend the Government pursues this.
- We do not recommend a funding model that places BBC radio behind a paywall unless and until both FM and DAB radio listening decline to the point that a switch-off is feasible. We do not believe this is likely within the next 15 years at least.
- The Government should publish a plan and timeline for how it intends to engage the public in discussions and decisions about the BBC's future funding model. It must commit to holding national public consultation in advance of it proposing a funding model. The Government's proposed funding model must be debated in Parliament in advance of any decision to introduce it.

## **House of Commons Library – Briefing from *Media Bill: Policy Background (15 June 2022)***

Under the BBC's Royal Charter and Agreement, the BBC is funded primarily through the licence fee. The licence fee model is intended to safeguard the BBC's independence from government and the market.

Under the 2003 Communications Act a licence is required to watch or record any programmes on any device live on TV on any channel; to watch or stream programmes live on an online TV service; to download or watch any BBC programmes on iPlayer.

On 17 January 2022, the Government announced the cost of a TV licence would remain at £159 for two years, before rising in line with inflation from April 2024.

The use of a television receiver without a valid licence can lead to prosecution, a court appearance and a fine of up to £1,000. In some cases, where there is a refusal to pay the fine and where all other enforcement methods have been tried, a person can be sent to jail. The current position is controversial and there have been calls for non-payment to be decriminalised – see the Library Briefing TV licence fee non-payment: should it be decriminalised? (PDF).

### **The future of the licence fee**

In a February DCMS Select Committee 2015 report on the future of the BBC the committee concluded that the licence fee was becoming “harder and harder to sustain given changes in communications and media technology and services, and changing audience needs and behaviours”.

In its November 2019 report, the House of Lords Committee on Communications and Digital, claimed the licence fee was the “guarantor of the BBC's financial independence and underpins its unique quality”. A move to a subscription model, as favoured by some, would undermine the “fundamental principle of universality” that the BBC should be free-to-air.

### **Other models used elsewhere**

In its March 2021 report on PSB, the DCMS Committee noted a “significant minority” of PSB countries in Europe had moved away from a traditional licence fee model attached to a device which had resulted in less stable funding and erosion of broadcasters' independence from politicians.

Countries that have switched from the traditional licence fee model have moved to a universal fee under the following four models:

- A household fee – Germany (2010-2013), Switzerland (2015-18)
- A state grant - Iceland, Netherlands, Romania.
- State budget – Norway (2015-2020), Denmark (2018-2022)
- Hypothecated tax – Finland (2011-13), Sweden (2018-19)

## **Advantages and Disadvantages of Different Models**

### **Advertising funded**

**Advantages:** content would remain free to air and could be universal; public funding would cease.

**Disadvantages:** It would not generate enough income; commercially driven BBC; adverse impact on other PSBs; fluctuating income.

### **Subscription**

**Advantages:** improved choice for citizens.

**Disadvantages:** It would not generate enough income; not universal; fluctuating income; undermine the BBC's purpose as a national broadcaster; commercially driven BBC.

### **Hypothecated Tax on income**

**Advantages:** could be progressive and transparent.

**Disadvantages:** a new tax might not be popular; 70-75% of households would pay for the BBC which is less fair; fluctuating income.

## **Telecommunications Levy**

**Advantages:** easier to collect through broadband providers.

**Disadvantages:** not progressive; make internet connectivity more expensive.

## **Household levy**

**Advantages:** minimise evasion if deducted directly and paid by all; collection easier and cheaper; universal; could be progressive if linked to council tax.

**Disadvantages:** everyone has to pay which may not be popular.

## **Grants from Government**

**Advantages:** None

**Disadvantages:** undermines BBC independence from government.

## **Contestable Funding**

Could be used to fund underserved content but not a replacement for the Licence Fee.

## **Hybrid Commercial funding**

The BBC already operates under this model – £1.2bn of its £5bn is generated by commercial activities. Such an approach would offset the BBC's reliance on public funding.

## **Part Domestic subscription**

**Advantages:** public service content could be universal, other content subscription; increases choice for citizens whether to pay; could lead to a potential reduction in engagement with PSM.

**Disadvantages:** fairness; not appropriate for the national broadcaster; fluctuating income; people might balk at having to pay for things which used to be free; disproportionate set up costs.

## **International Subscription**

**Advantages:** leverage UK's international reputation.

**Disadvantages:** would not compromise universal access in UK; significant investment in rights required to provide a catalogue of content.

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