

**VLV Briefing Note
BBC Funding Settlement
January 2022**

VLV analysis of the implications of the funding settlement awarded to the BBC which is due to run from April 2022 for five years shows that if inflation in production costs continues at its current level and the BBC continues to provide the services it does today, the BBC will be in deficit by between approximately £3bn and £5bn in 2027.

VLV, which represents citizen interests in broadcasting, is concerned that under such financial pressure the BBC is likely to be unable to continue to maintain the range and quality of existing services for UK audiences and is likely to focus on providing content which is more commercially attractive to broadcasters around the world. This would undermine the BBC's delivery of UK-specific public service content which benefits British society.

Summary:

- VLV analysis of public funding shows that public funding for BBC services for UK audiences had already declined by 25% since 2010 in real terms while production costs have risen considerably since then.
- The BBC has exceeded its savings goals set in 2015. Since 2016 it's predicted to have saved more than £950m, with the original forecast being £800m.
- The genres and channels which will see reduced investment in 2021/22 and are likely to continue to do so moving forwards are news/current affairs, especially in the regions/local, BBC 2 and BBC 4.
- Inflation in production costs is rising. Inflation varies according to the genre being produced but it ranges from 9% to 35% for drama, partly due to intense competition from streaming services.
- Emerging financial threats include campaigns to defund the BBC, encouraged by the continuing debate about decriminalisation of non-payment of the TV licence and a potentially inadequate funding settlement for the BBC.

Licence Fee Income & Inflation in Production Costs

VLV analysis is of **PUBLIC FUNDING** for the BBC since the 2010 licence fee settlement. Our focus is on public funding because we are concerned that licence fee payers are not aware that since 2010 a significant proportion of TV Licence income has been diverted to fund other projects (such as broadband rollout).

The problems with this approach for citizens are:

- It reduces the connection between the TV Licence and funding BBC output for the benefit of the audiences who pay for it (although the TV Licence is not specified to fund the BBC).
- It makes the process and system of funding the BBC more opaque.

- VLV would like to see a better process instituted to negotiate BBC funding which is more transparent and subject to public and Parliamentary scrutiny.

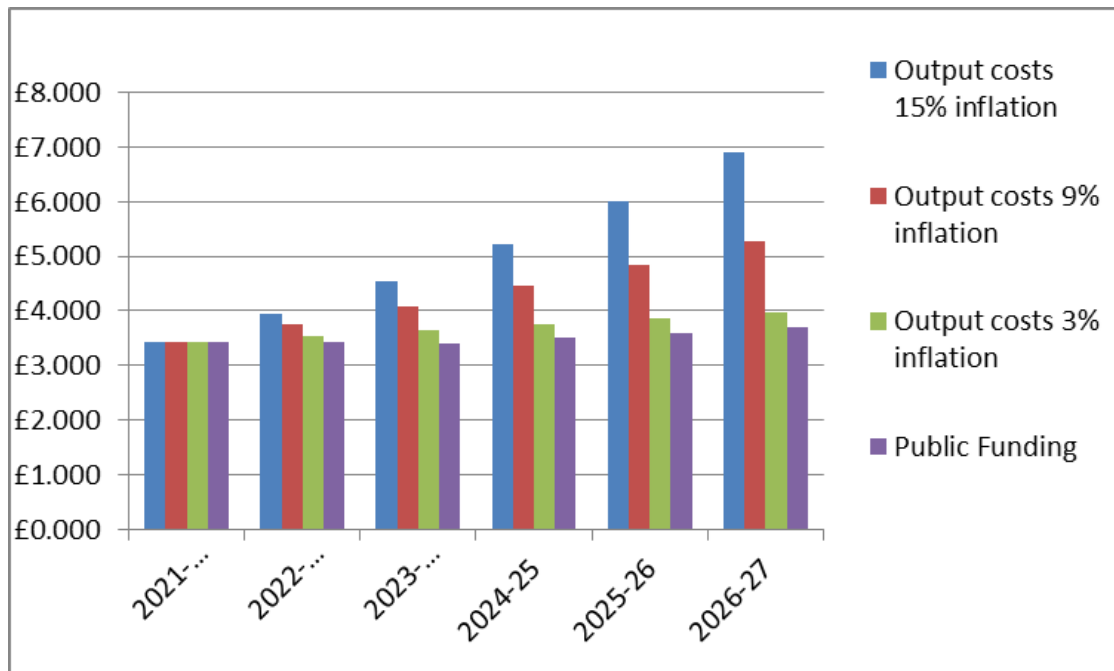
While predictions of inflation in the coming five years vary wildly, we have set CPI inflation at 3% as an average during this period. According to the *Financial Times* (6.10.21), RPI inflation is expected to peak at over 7% next spring and average about 4% over the next ten years, implying CPI inflation averaging 3%.

Inflation of production costs will put significant pressure on the BBC during the coming 2-5 years as can be seen in the charts below, leading to a guaranteed deficit unless the BBC makes further cuts:

BBC PUBLIC INCOME AND COST INFLATION PROJECTIONS 2022-2027

	Costs £m	Costs £m	Costs £m	Costs £m	Costs £m	Costs £m	5 year costs £m	5 year income £m	Deficit £m
Inflation	2021/22	2022/3	2023/4	2024/5	2025/6	2026/7			
3%	3,435	3,538	3,644	3,754	3,866	3,982	18,783.00	17,570.00	- 1,213.00
6%	3,435.00	3,641.00	3,860.00	4,091.00	4,337.00	4,597.00	20,525.00	17,570.00	- 2,955.00
9%	3,435.00	3,744.00	4,081.00	4,448.00	4,849.00	5,285.00	22,407.00	17,570.00	- 4,837.00

Inflation in television production costs currently stands at between 5% and 35% depending on which genre is being produced.
 BBC Chairman, Richard Sharp, in November cited average inflation of production costs as being 9%.



The chart below shows BBC public funding 2010/11 and 2020/21 onwards. It is not possible to calculate BBC inflation adjusted income for 2022 onwards because of uncertainty about the economy, but with inflation currently estimated to be 6% in 2022, BBC real terms income will be worth significantly less once it is inflation adjusted.

BBC Public Income and top slicing

Figures in £m

Year	2010/11	2020/21	2021/22	2022/3 flat	2023/4 flat	2024/5 CPI 3%	2025/6 CPI 3%	2026/7 CPI 3%
Income								
Licence Fee Revenues	3100	3747.0	3736	3722.0	3708.0	3805.0	3904.0	4006.0
Funding Monitoring/WS (Grant Funding)	266	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Over 75s income DWP	579	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Income	3945	3838.0	3824.0	3810.0	3796.0	3893.0	3992.0	4094.0
Additional costs to the BBC imposed by government								
BBC World service/monitoring	314							
BBC World service		214.0	214.0	214.0	214.0	214.0	214.0	214.0
BBC World Service grant		88.0	88.0	88.0	88.0	88.0	88.0	88.0
BBC Monitoring		4.0	4.0	4.0	4.0	4.0	4.0	4.0
S4C		75.0	75.0	89.0	89.0	89.0	89.0	89.0
Local TV	55	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Broadband Rollout	32	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Total additional costs	401	389.0	389.0	403.0	403.0	403.0	403.0	403.0
Balance to spend on UK services	3544	3449.0	3435.0	3407.0	3393.0	3490.0	3589.0	3691.0
Inflation adjusted income at 2020 rates	3544	2669.505						
Inflation adjusted per centage of 2010/11 income			75					
Other income (BBC Studios/WorldWide etc)	1479.6	1456.0						

The details of income can generally be found in the Notes to the Accounts pages in the BBC Annual Report

The details of expenditure can be found in the section 'Group Expenditure by Service'

Inflation calculated using the Bank of England inflation calculator.

Between 2010 and 2019, the BBC's real net public funding was cut by 30%. It has now managed to claw back some of that because over 90% of households that previously received free TV licences but are no longer entitled to them have paid up since August 2020, thanks to a well-executed communication campaign.

Allowing the TV Licence to increase by 4.4%, in line with general inflation, would be equivalent to just 13.4p/week from 2022, paid by all households except for those with someone aged 75+ in receipt of Pension Credit, who still receive free TV licences.

If the BBC is forced to make cuts, this will affect all UK households, but especially those with only free-to-air TV and radio, who tend to be less well-off and older.

The BBC remains by far the biggest investor in UK public service content, however defined, as well as the most trusted news source in Britain and around the world. Its defunding, in combination with the market and technology trends (more competition, changing consumption patterns and higher costs), represents the biggest long-term threat to UK PSB, trusted news and much else.

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