



House of Commons  
Culture, Media and Sport  
Committee

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**Future of the BBC**

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**Fourth Report of Session 2014–15**

*Report, together with formal minutes relating  
to the report*

*Ordered by the House of Commons  
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## The Culture, Media and Sport Committee

The Culture, Media and Sport Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Culture, Media and Sport and its associated public bodies.

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All the evidence relating to this Report can be found on the Committee's website.

### Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), Grahame Danby (Second Clerk), Kevin Candy (Inquiry Manager), Hannah Wentworth (Senior Committee Assistant), Keely Bishop (Committee Assistant) and Jessica Bridges-Palmer (Media Officer).

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## Summary

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This inquiry is the first step in a wider process of examining the role and position of the BBC, as well as the way it has been managed, governed and held accountable, before the current Charter expires at the end of 2016. Over the last few years, at times, the BBC has been beset by mistakes of its own making but despite this many people judge the broadcaster first and foremost on the quality of its content, on its programmes, on its journalism, on the value for money they consider it delivers, and on the societal and cultural contributions it makes.

The BBC makes a valuable contribution to many people's lives as the nation's broadcaster reaching 96% of the population on a weekly basis and many millions more overseas through the provision of its international services. Its continuing importance as a provider of impartial news and its capacity to bring the country together where its output remains universally available are aspects which many people continue to associate with the Corporation. Yet, given a public intervention of close to £4 billion is made in paying for the BBC's activities, key questions arise in determining what purposes justify an intervention of this magnitude and what scope and scale are appropriate for the Corporation as a publicly-funded broadcaster, in a world where content is available in much greater volumes, from a multitude of sources and consumed in more ways than ever before. Moreover, the BBC is a powerful player and unchecked there is a danger that it will, by accident or design, crowd out smaller rivals and inhibit their ability to grow.

There currently appears to be no better alternative to funding the BBC in the near-term other than a hypothecated tax or the licence fee. However, the principle of the licence fee in its current form is becoming harder to sustain given the changes in communication and media technology and changing audience needs and behaviours. We conclude that a degree of subscription could be a possibility in the future if the BBC moved to a more personalised service but as a minimum the licence fee must be amended to cover catch-up television as soon as possible. In any event, the BBC should look at the practicality of introducing controls for authorising access to the iPlayer.

Our view is that the justification for criminal penalties for non-payment of the TV licence fee and the way TV licensing enforcement is carried out is anachronistic and out of proportion with responses to non-payment for other services. Decriminalisation of the licence fee could be linked to introducing controls for access to television services or moving to a German-style broadcasting levy.

A move to a broadcasting levy on all households is our preferred alternative to the licence fee. Such a levy on all households would obviate the need to identify evaders and would be a fairer way of ensuring those people who use only BBC radio and online services contribute to their costs.

A broadcasting levy would enable a small proportion of the revenue raised to be used to fund public service content and services provided by others, enhancing plurality in certain types of content. For example, we support a small proportion of the licence fee (or broadcasting levy) being made available for public service content priorities such as

children's broadcasting and local and regional journalism. In addition, we recommend extending the BBC's independent production quota to cover local news.

We challenge the claim that the BBC needs to provide "something for everyone". The BBC should reduce provision in areas that are over-served or where the public service characteristics of its output are marginal or where others are better placed to deliver excellence and better value for money. As such, we believe the BBC needs to be able to make bigger, braver decisions on its strategy and inevitably must do less in some areas. In practice, the level of funding the BBC receives will be a principal lever in determining and adjusting the BBC's scope and scale.

Whilst we welcome the BBC removing in-house production guarantees and opening up the majority of BBC commissioning to competition, we are sceptical of the suggestion that the BBC should become solely a publisher broadcaster. Given the BBC's long successful tradition of making high-quality television programmes, we conclude that it should continue producing content where its output is distinctive from the market and where it makes economic sense to do so. The challenge lies in the BBC demonstrating a transparency in its commissioning processes in its pursuit of the best content, and not favouring old ties with BBC Production, and a transparency of costs if it is to eliminate suspicions of cross-subsidy of its commercial work and production of content for others.

We consider that the BBC Trust has not lived up to its expectation in the present Charter period and it was a mistake not to pass oversight of the BBC to an external body in 2007. We recommend that the BBC Trust should be abolished and new arrangements made for both the regulation of the BBC and its governance, clarifying lines of accountability. We recommend the BBC to have a unitary board with a non-executive Chair and a majority of non-executive directors where the board has complete responsibility for the BBC's corporate governance and operations, within the confines of the Charter and Framework Agreement with Government. A unitary board would be better placed to reshape the BBC in line with its core public purposes, to respond to its critics and be directly accountable for its performance and services.

The BBC Board must be subject to rigorous and independent scrutiny. We recommend that a new Public Service Broadcasting Commission (PSBC) be established with the role of scrutinising the BBC's strategic plan, assessing the BBC's overall performance, and determining the level of public funding allocated to the BBC and to others.

The Commission would be free to initiate public value tests on all the BBC services in reaction to valid and justified complaints that the BBC was drifting from its core public purposes. The Commission would have influence over the BBC by virtue of its role in advising Government on the level of the BBC's future funding requirement as well as through managing a fund for certain public service content and genres which was open to competition. As an ultimate sanction the PSBC would have at its disposal a backstop power to recommend withholding funding from the BBC in cases where there was a persistent disregard of its representations about the BBC.

Given the financial problems in the current Charter period which dented the BBC's reputation, the National Audit Office (NAO) must now be given unrestricted access to the BBC if it is to provide assurance that the Corporation is spending money wisely and

trading fairly. The NAO is held in high regard for its financial scrutiny of Government and has a good track-record of refraining from commenting on policy. There is no reason to doubt it would subject the Corporation to tougher and prompt financial challenge but refrain from comment on editorial matters.

We see Ofcom continuing to play its part in assessing BBC competition issues and acting as the final arbiter of all complaints regarding BBC content including on matters of impartiality and accuracy. We believe this transfer of responsibility will, if anything, strengthen the independence of the BBC, and make the complaints process simpler, and appear more transparent and fair.

The process for agreeing the future shape, funding and constitution of the BBC must be as thorough, open and democratic as possible. We recommend that the Government seek cross-party support for establishing an independent review panel now on the 2017 Charter Review, along the same lines as the panel led by Lord Burns in the run-up to the 2007 Charter. Our principal conclusions and recommendations in this report set out a basis for the terms of reference for this panel and the areas that need further, in depth analysis. Similarly, we recommend that Ofcom take a lead role reviewing the “terms of trade” between the BBC and independent producers given the proposal to allow the BBC to become a commercial provider of content to others.

It is our view that a Royal Charter for constituting the BBC has stood the test of time and that a new 10-year Charter remains the best constitutional arrangement for the BBC. However, should there be insufficient time to complete a comprehensive review of the BBC before the present Charter’s expiry, we recommend that the BBC be granted a short, supplementary Charter of no more than a two-year period to enable a full review to take place and to implement detailed plans to replace the BBC Trust.





# 1 Introduction

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*“...while the BBC has a duty to contribute its ideas to the debate, it also knows that the question of its future is not one that it itself can or should decide. That decision rests firmly with its owners, the British public.” – Building public value, June 2004, the BBC’s initial contribution in advance of its Charter expiry in 2006*

1. The BBC was founded in 1922, through a union of leading manufacturers in radio technologies who through a joint enterprise went on to become among the world pioneers in broadcasting. The BBC grew quickly into what many claimed, and continue to claim, to be the world’s most respected public service broadcaster. Since then the BBC has become a shared, everyday part of many people’s lives in the UK but it also touches upon many millions of other lives through its own international services and content exported to others. Most people can identify easily those BBC programmes and services they like, and some those they enjoy less or even dislike profoundly, but probably many people consume BBC content without any real conscious appreciation or consideration of what it might be like without a BBC or availability of high-quality public service content.

2. By 2017, following the expiry of the BBC’s current 10 year Royal Charter,<sup>1</sup> the BBC will have reached its 95<sup>th</sup> year and, should a further Charter be granted, it would most likely cover the BBC’s centenary. An important reason for establishing the BBC by a Royal Charter is the perceived security of tenure and independence it affords the Corporation, but a Charter also presents opportunity for periodic reviews of the strength of the case for having a publicly-funded national broadcaster such as the BBC, for taking stock of whether and how much the people who pay for it value it and of the extent of support for its continuance, and for considering its functions and structure.

3. More or less every 10 years the government of the day has led a review of the BBC, towards the end of its Charter period, to which Committees such as ours, with specific responsibility for broadcasting, have contributed. This has allowed a comprehensive review of the BBC’s performance and its place in the future.

4. Since the last Charter Review there has been a significant increase in the range and choice of content via a variety of communications platforms, services and devices available to consumers, and analogue TV has been switched off with the complete move to digital platforms. Nonetheless, one of the most surprising features of UK broadcasting since the last review has been the continuing popularity of viewing programmes as they are broadcast on traditional scheduled television channels. In the lead up to the 2006 review, many had anticipated that in the decade ahead people would have been likely to move away from watching “linear”, scheduled broadcasts,<sup>2</sup> to watching time-shifted programmes and video-on-demand supplied by many content producers via individual devices. The changes to traditional viewing have not been as rapid or dramatic as predicted. According to Ofcom people are still coming together to watch television in the living room.

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<sup>1</sup> Broadcasting—Copy of Royal Charter for the continuance of the British Broadcasting Corporation, Cm 6925

<sup>2</sup> That is, watching programmes at the time they are broadcast, usually on a television set

Nevertheless, habits are changing: younger people are watching less television than older people<sup>3</sup> and over a quarter of UK adults now use the internet to watch catch-up TV.<sup>4</sup>

5. Regrettably, during the current Charter period, the BBC has on occasions attracted attention for the wrong reasons. In 2012, the exposure of Jimmy Savile and other ex-BBC celebrities' legacy of criminal sexual behaviour has revealed a bleak period where a culture prevailed at the BBC, and more widely in parts of the broadcasting industry, which allowed a few individuals to get away with appalling behaviour. The BBC's culture and practices during this period, and the scale of the abuse that took place at the BBC whilst Jimmy Savile was there, are subject to an independent review by Dame Janet Smith. She is expected to report her findings shortly, which will feed into other investigations looking into historic cases of sexual abuse.

6. What made these matters even worse for the BBC was the news of serious editorial failings in its reporting of the Savile revelations which led to an allegation that there had been a deliberate attempt by the BBC to axe a Newsnight investigation exposing Savile's past in favour of a tribute programme on his life. This was followed by a further serious mistake in a Newsnight report which led to the late Lord McAlpine being wrongly implicated in child abuse. These mistakes were compounded by the BBC's handling of these events. George Entwistle, the newly-appointed Director General, was widely seen to have dealt with the crisis badly and was forced to resign from his post after only 54 days in the job. His severance terms then highlighted a whole raft of excessive pay-offs to BBC executives, many of which went well beyond contractual entitlements.

7. Nick Pollard, a former head of Sky News, was asked to investigate the way the Newsnight programme had dealt with allegations about Savile and the reasons why the investigation had been halted. His review cleared the BBC of the main accusation that there had been a deliberate move to protect the Savile tribute programme but reported significant managerial and editorial failings in the BBC's decision to drop the original Newsnight investigation and in the way the BBC had handled matters. However, even after the publication of his report, a cloud of uncertainty remains over what actually happened and who knew what about Savile at that time.

8. At the same time as the allegations of sexual misconduct and child abuse became public, there were several costly blunders which made the BBC's stewardship of the licence fee appear profligate and inept. The Digital Media Initiative, a major IT (production) project, was found to have been mismanaged on a large scale and was dropped having delivered few benefits at a loss of £100 million. Similarly, BBC Worldwide's move into risky commercial activities, not in line with the BBC's core public service remit, led to a similar loss through the acquisition and sale of the Lonely Planet publishing business.

9. There was also a growth in the BBC's senior management cadre and their salaries, and then a spate of excessive severance payments to a number of BBC executives, which culminated in the infamous appearance, in front of the Committee of Public Accounts, of BBC director generals and chairmen, past and present, attempting to justify the BBC's

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<sup>3</sup> Ofcom—*Public Service Content in a Connected Society: Ofcom's third review of public service broadcasting—Consultation, 15 December 2014*

<sup>4</sup> *Ofcom's International Communication Market Report 2013/14*

management culture and executive pay offs, and publicly arguing over who was to blame. Without doubt public trust in the BBC dipped as a result of these episodes. They seemed to demonstrate a mind-set at the top of the Corporation which was completely out of kilter with public sector principles and evinced a resounding failure in the BBC's governance mechanisms and accountability to the licence fee payers.

10. Following these events, in the autumn of 2013, whilst the BBC's woes were still being publicly felt, and a degree of ambiguity remained on exactly what had gone wrong, who was to blame and what the consequences should be, we announced our inquiry into the Future of the BBC. We could have examined any one of these events in depth but we agreed then that rather than dwelling on failures, it would be far more productive to look forward and to start the debate on the BBC's next Charter Review, whilst holding in mind what had gone wrong and the changes that were likely and desirable as a result. Even though the BBC has been subject to regular scrutiny of its annual report and accounts, and additional scrutiny by us and other parliamentary committees of some of the high-profile issues for which it had been subject to criticism, we believe the future course of the BBC should be determined in a large part by matters such as the purposes, boundaries and governance structures set by the next Charter and the equally important Framework Agreement with the Secretary of State<sup>5</sup> and so we decided to begin the consideration of the BBC's future position beyond 2016.

## Our inquiry

11. In October 2013 we announced our inquiry into the future of the BBC<sup>6</sup> and during 2014, we took evidence from a wide range of witnesses, and received written submissions from approximately 120 organisations and individuals in response to our call for evidence. As always we are extremely grateful to those who engage with our work and contribute to our inquiries. In addition, we conducted several visits to help us experience directly aspects of the BBC's work and to compare broadcasting environments elsewhere. We visited:

- Global Radio's headquarters in Leicester Square in November 2013;
- BBC Broadcasting House in January 2014;
- BBC North and ITV's studios in Salford in March 2014;
- Broadcasters and regulators in the Netherlands, Germany and Denmark in May 2014;<sup>7</sup> and
- A film set during the filming of *Woman in Gold* in London in June 2014 (a co-production by the BBC).

We express our appreciation to those who hosted us on these occasions and took the time to explain their roles, experiences and views on the BBC with us ahead of Charter Review.

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<sup>5</sup> [Broadcasting—An Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation](#), Cm 6872

<sup>6</sup> The terms of reference for the inquiry are set out in annex B

<sup>7</sup> See annex C for details of the Committee's visit programme

12. Finally, we ran a three-week web consultation on the Student Room website to hear younger people's opinions on the BBC and to find out about their media preferences more generally. We are grateful to the Student Room and its student community for assisting our inquiry in this way. We have produced a summary of the responses posted and have cited some of the comments left throughout this report.<sup>8</sup>

13. We also wish to note our gratitude to Ray Gallagher, our specialist adviser on broadcasting, who has continued to assist us throughout this Parliament and especially for his advice during this inquiry into the BBC.<sup>9</sup>

## Background

14. The BBC was initially set up as a private company to provide radio broadcasts. In its infancy, on 31 December 1926, the service provided by the British Broadcasting Company passed over to the British Broadcasting Corporation, which derived its authority from a Royal Charter. The principle of the licence fee was established, where a share of the revenue from wireless licences supported the BBC. Since then BBC Royal Charters have been granted in the following pattern:

- 1927 Charter—for ten years
- 1937 Charter—for ten years
- 1947 Charter—for five years followed by a Supplemental Charter extending it for six months
- 1952 Charter—for ten years followed by a Supplemental Charter extending it for two years
- 1964 Charter—for twelve years, extended by three years in 1976 and a further two years in 1979
- 1981 Charter—for fifteen years
- 1997 Charter—for ten years
- 2007 Charter—for ten years

15. The Charter establishes the BBC and defines its general objectives and functions, and is supported by a Framework Agreement with the Secretary of State which sets out how the BBC will meet its general obligations, the services it will provide, and the standards it will meet. As can be seen from above, not all BBC Charters have been granted as 10-year constitutional documents, and sometimes supplemental Charters were used to extend the duration of an existing Charter. The current Charter, the eighth, comes to an end on 31 December 2016.

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<sup>8</sup> See annex D below for a summary of the e-consultation on the Student Room website

<sup>9</sup> The Committee reappointed Ray Gallagher as its specialist adviser on broadcasting on 7 January 2014. Mr Gallagher's relevant interests were declared at the Committee's first meeting of this Parliament on 28 July 2010.

16. Substantial public funding is involved in the BBC's activities. In 2013/14 the BBC's income totalled more than £5 billion, comprising over £3.7 billion from the television licence fee, and £1.3 billion of commercial income from BBC Worldwide and grant-in-aid for the World Service.<sup>10</sup> From April 2014, the following BBC services have been funded through the licence fee:

- Nine national television channels (BBC One, BBC Two, BBC Three, BBC Four, CBBC, CBeebies, BBC News, BBC Parliament, and BBC Alba<sup>11</sup>);
- 10 national radio stations (Radio 1, 1Xtra, Radio 2, Radio 3, Radio 4, Radio 4 Extra, Radio 5 Live, 5 Live Sports Extra, 6 Music, and BBC Asian Network);
- National television and radio services for Scotland, Wales and Northern Ireland, and over 39 local radio stations and regional TV services for England;
- BBC World Service;
- BBC Red Button interactive TV; and
- BBC Online.

Additionally, the licence fee is used to support non-BBC services including local television services, broadband, digital transmission, BBC Monitoring and S4C.

## Previous Charter Review

17. In September 2003, more than three years before the expiry of the last Charter, Dame Tessa Jowell, as Secretary of State, appointed Lord Burns as her independent adviser on the BBC Charter Review. She also appointed an Independent Panel on 15 June 2004, to work alongside Lord Burns. The panel held a series of seminars to debate a number of key issues for Charter Review, which had been identified through an earlier DCMS public consultation launched in 2003. The public seminars ran from July to December 2004 and looked at a range of topics such as how the BBC was run and regulated, what its purposes should be, on television, radio and online services, and its role in education, citizenship, culture, representing the nations and regions of the UK and its international role.

18. The panel produced a report on "Emerging themes", including views on the BBC's public purposes and remit and how the BBC should be funded, in advance of a final seminar in December 2004. These themes were brought together to allow for a debate on the implications for three broad models of governance and regulation. The panel's final advice, which among other things recommended a new governance and regulation arrangement for the BBC, was presented to the Secretary of State in January 2005. The Government published a Green paper<sup>12</sup> on Charter Review in March 2005, and followed this with a White paper<sup>13</sup> a year later.

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<sup>10</sup> The BBC World Service has been financed through the licence fee since April 2014

<sup>11</sup> BBC Alba is a Scottish Gaelic language digital television channel jointly owned by the BBC and MG Alba

<sup>12</sup> *Review of the BBC's Royal Charter – A strong BBC Independent of Government*, March 2005

<sup>13</sup> *A public service for all: the BBC in the digital age*, Cm 6763, March 2006

## Preparation for the next Charter

19. In contrast, this time round, with less than two years to go before Charter expiry, the Government has yet to initiate any explicit Charter Review activity, and the Rt Hon. Sajid Javid, the Secretary of State for Culture, Media and Sport, has announced a postponement of Charter Review until after the general election. He told us that if the review had started before the election it might have unnecessarily got too politicised which would have risked distorting the process.<sup>14</sup> Despite this decision, we note that some work which has a bearing on Charter Review is already under way and other, indirectly related work may be started before the election. For instance, in November 2013, the Secretary of State set up a review into the possible effects of decriminalising licence fee evasion in response to Andrew Bridgen MP's call for such action during the Committee stage of the Deregulation Bill. The Secretary of State said that he did not want to pre-empt Charter Review but that "I want to ensure that, when it begins, it has a solid evidence base on which to draw."<sup>15</sup> In addition, the Government is planning to launch a consultation on carriage of Public Service Broadcasting (PSB) channels on cable and satellite platforms. And earlier, in 2013, the Government committed to consulting on discoverability of public service content on broadcasting platforms and the PSB channels' positioning on electronic programming guides.<sup>16</sup> Neither of the two latter consultations or reviews has started but they could, we believe, usefully inform Charter Review.

20. A timely occurrence is Ofcom's five-yearly review of public service television broadcasting which is under way and will be completed by the summer of 2015. Its focus will be on past delivery of public service content, with a view to maintaining and strengthening the PSB system. Among other things, it is considering the effects of the changes in broadcasting and wider communications sector since its previous PSB review in 2008. Ofcom has been clear that the review will not be seeking to ask or answer questions concerning the BBC which should be matters for Charter Review.<sup>17</sup> However, its research, analysis and conclusions will inevitably inform aspects of Charter Review and issues under consideration.

21. For it to be meaningful, Charter Review must allow sufficient time for a comprehensive analysis of all aspects of the BBC and enable members of the public and all other stakeholders the opportunity to voice their views on the BBC's future. Last time the DCMS and Lord Burns led a very open and consultative process. No less thorough and transparent an approach is merited this time round. The same must happen again. Philip Graf, a former Deputy Chairman of Ofcom, told us that, as part of the next review,

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<sup>14</sup> Q750

<sup>15</sup> Sajid Javid's speech at the Royal Television Society conference, 9 September 2014

<sup>16</sup> Electronic programme guides are available for television and radio programmes and the way viewers and listeners find channels and their offerings. They display programme scheduling information on Freeview and on those menus provide by cable, satellite, and internet protocol television providers. Broadcasters are given dedicated channels on these guides and in the UK PSB channels have up to now been given a priority listing as a quid quo pro for their provision of PSB content.

<sup>17</sup> Ofcom's Third Public Service Broadcasting Review—Terms of reference



research needed to be done to look at what people wanted from public service broadcasting and the BBC and on what they were willing to pay for BBC services.<sup>18</sup>

22. Leaving Charter Review until after the May 2015 general election is likely, in our view, to allow insufficient time. It would only give around half the time that was allowed before the 2007 Charter. Jon Zeff, the Director of the BBC Trust Unit, having previously been head of broadcasting at the DCMS during the last Charter Review, was able to draw comparisons with it. He noted that the 2005 general election had punctuated the last review, causing “quite a long hiatus” around the election itself. Yet Mr Zeff considered that it would be “perfectly possible to run a good process in a shorter period”.<sup>19</sup> Similarly, the Secretary of State thought starting the process in June 2015 would allow enough time to go through all the key issues.<sup>20</sup> According to Lord Burns, even with the general election approaching, there was no reason why work on Charter Review should not start straightaway.<sup>21</sup>

23. At this stage in the current Charter period, we are surprised that the Government has not started the Charter Review process and that the BBC Trust has only just begun to initiate a debate on the fundamental questions on the BBC, the body which it oversees.<sup>22</sup> We understand that Lord Patten’s unexpected and sudden departure, as Chairman, would have interrupted the Trust’s scheduled business but with a new chairman and director in place, the Trust must now ensure licence fee payers are properly engaged and consulted on the BBC’s future.

24. As the Government’s preferred candidate for Chairman of the BBC Trust, Rona Fairhead told us she planned to approach Charter Review with a “degree of open-mindedness” and “without baggage”<sup>23</sup> She explained that the debate on Charter Review needed to be “guided above all by the needs and demands of the audience, the licence fee payer—the BBC funders and users”. We hope that as the BBC Trust’s new Chairman Mrs Fairhead will see it as her prime responsibility to ensure the Trust enters Charter Review without any preconceptions or judgements on what the licence fee payers’ expectations are and accept that it is her task to initiate a full and frank discussion on all aspects of the future of the BBC.

**25. We agree with Lord Burns, the former Government’s adviser on the last Charter Review, that even with the timing of the general election, preparatory work for 2017 Charter Review should start as soon as possible. Consideration of the future of the BBC is too important to rush. The BBC Trust must demonstrate a readiness and willingness to ensure that a full and frank debate takes place on all aspects of the BBC as part of Charter Review including through its own engagement with licence fee payers on all the fundamental issues concerning the BBC.**

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<sup>18</sup> Q291 (Philip Graf)

<sup>19</sup> Q671

<sup>20</sup> Q750

<sup>21</sup> Q292

<sup>22</sup> Speech by Rona Fairhead, Chairman of the BBC Trust, to the Royal Television Society, 3 February 2015

<sup>23</sup> *Pre-Appointment Hearing for Government’s Preferred Candidate for Chair of the BBC Trust*, HC 637, Q2

26. The process for agreeing the future shape, funding and constitution of the BBC must be as thorough, open and democratic as possible. For this to happen, we recommend that the Government seek cross-party support for establishing an independent review panel now on the 2017 Charter, along the same lines as the previous Burns' model, led by a figure similar to Lord Burns, so that the vital preparatory work and research to inform Charter Review can begin without further delay. Our principal conclusions and recommendations in this report set out a basis for the terms of inquiry for the independent panel.

27. As with the previous Charter Review, the Government must ensure that the public and other stakeholders are fully consulted and able to put across their views on the future of the BBC. We expect sufficient time to be allocated for this and for the development of, and consultation on, Green and White Papers, and for parliamentary scrutiny on these and any draft future Charter and Framework Agreements. If there is insufficient time to undertake this properly before the current Charter expires another option would be to grant a supplementary Charter extending the current Charter for an appropriate period in which to complete the review process.



## 2 A public BBC?

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28. The BBC is seen by many as the standard setter in the provision of public service broadcasting content.<sup>24</sup> Lord Reith, the BBC's first director general, spoke about 'giving the public something slightly better than it thinks it wants'.<sup>25</sup> Although in the age of social networks and digitalisation some now might consider this view as being out-dated and too paternalistic, there is general agreement that the BBC should remain a standard setter. When considering the justification for a public BBC, many of the relevant questions are interdependent, and need to be considered in the round, as Lord Grade outlined to us:

Until we know ... what Parliament and the British people want from the BBC, what size it should be, what its mission is, you then decide how big it is going to be, how it is going to be funded, you can then decide what is the best method of governing the BBC.<sup>26</sup>

A public intervention of close to £4 billion<sup>27</sup> is made in paying for the BBC's activities, and a key question is what purposes justify an intervention of this magnitude. The level of funding for the BBC is not, nor should it be, the starting point for determining its ambit and ambitions. Rather, the purposes and remit set for the BBC, and the scope and scale deemed appropriate for the institution to deliver it, should determine the level of funding. We consider the merits and potential of different ways of funding the BBC and its scale separately later.<sup>28</sup> Here, we consider the case for a public BBC and its role but clearly the way the BBC is funded influences expectations about its output.

### Beyond market failure

29. In 1999, Gavyn Davies considered the future funding of the BBC on behalf of the Department for Culture, Media and Sport (DCMS). At that time, he identified 'market failure' as a rationale for public service broadcasting, where a natural definition of public service broadcasting was broadcasting which, for one reason or another was desirable, but which the market would not provide or could provide only in insufficient quantity.<sup>29</sup> Mr Davies has also described market failure, in a broadcasting context, as existing when there is an under-provision of "Reithian" broadcasting under free-market conditions.<sup>30</sup> More recently he explained:

in terms of does the BBC have to be justified in market failure language, I often wish I had not written that piece but I am usually brought down by logic. Logic to me says we cannot have an organisation that has 4 billion [pounds] of public funding to simply do what the private sector could do

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<sup>24</sup> For example, see Equity ([FBB0038](#)), para 3; Directors UK ([FBB0057](#)), para 7

<sup>25</sup> See: Arts Council England ([FBB0094](#)), para 2.2

<sup>26</sup> Q126

<sup>27</sup> This figure includes expenditure on broadband rollout, local TV, and S4C

<sup>28</sup> See Chapter six

<sup>29</sup> *The future funding of the BBC: Report of the Independent Review Panel*, July 1999

<sup>30</sup> *The BBC and Public value*, published by the Social Market Foundation, November 2004

more easily of its own accord. We have to believe that the organisation, in the round, is doing something that the private sector would not duplicate, left to itself.

30. In a similar way, in 2007, Mark Thompson, as director general of the BBC, said that the only economic justification for the BBC or any public intervention in broadcasting was market failure.<sup>31</sup> He argued that if “purely commercial media” could adequately deliver all of the public value that the public wanted, then there was no need for a BBC or Channel 4. Based on the public service purposes presented in the Communications Act 2003, Ofcom developed a range of purposes and characteristics to provide a detailed description of public service broadcasting—these are given in the following box.<sup>32</sup>

***PSB purposes***

**Informing our understanding of the world**—to inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas

**Stimulating knowledge and learning**—to stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning

**Reflecting UK cultural identity**—to reflect and strengthen our cultural identity through original programming at UK, national and regional level; on occasion, bringing audiences together for shared experiences

**Representing diversity and alternative viewpoints**—to make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere

***PSB characteristics***

**High quality**—well-funded and well-produced

**Original**—new UK content rather than repeats or acquisitions

**Innovative**—breaking new ideas or re-inventing exciting approaches, rather than copying old ones

**Challenging**—making viewers think

**Engaging**—remaining accessible and attractive to viewers

**Widely available**—if content is publicly funded, a large majority of citizens need to be given the chance to watch it

**Trustworthy**—audience should trust PSB programmes, especially news programmes.

<sup>31</sup> Delivering Creative Future: The BBC in 2012—speech given by Mark Thompson at QE2 Conference Centre, London, on 10 July 2007

<sup>32</sup> Ofcom’s *First Public Service Broadcasting Television review*, 2005

31. Recent Ofcom research, conducted as part of the public service television review, has revealed that a generational gap between younger and older people is widening, with significant differences in opinion, attitude and habits towards PSB and television. While younger audiences have always watched less television than older people, the research suggests the “connected generation” was watching less and less television, and that they may be taking the habit with them as they age. In addition, younger viewers did not appear to distinguish between PSB and non-PSB channels.<sup>33</sup>

32. The Voice of the Listener & Viewer (VLV) believe that ‘market failure’ should not simply refer to whether or not there are other providers in the marketplace. They referred to the fact that, whatever the number of providers in the market, the market may still fail the citizen if there is not a wide range of high quality, diverse and informative programming, especially in genres which may not be considered commercially attractive.<sup>34</sup> Similarly, it has been put to us by several witnesses that if the BBC only operated within a market failure envelope it would be self-defeating as the competition provided by the BBC is widely acknowledged to incentivise other PSB providers to meet the competitive challenge and broadcast better quality content.<sup>35</sup> According to BBC commissioned research, the BBC helps create ‘competition for quality’ between different institutions that grow the overall market.<sup>36</sup>

33. Steven Barnett, Professor of Communications, University of Westminster, believed that it was important to start with a clear statement of what the BBC is not—nor should ever be allowed to become—a broadcaster or content producer which simply provides what commercial operators are unable or unwilling to deliver. He explained that “this ‘market gap’ model—which is appropriate for most consumer goods and services—is not sufficient in the realm of culture, creativity and citizenship where the market-place was notoriously risk-averse and uninterested in contributions to public welfare.”<sup>37</sup>

34. The BBC pointed out that “there is a strong and long-standing consensus in favour of public service broadcasting as a means of promoting social and cultural goals that go beyond correcting ‘market failures’”.<sup>38</sup> These goals include: “reflecting and shaping the nation’s culture and values through a breadth of UK-originated content; securing plurality of high-quality news and information to help the public engage in the democratic process; and ensuring that content is universally available, easy to find, and free at the point of use.” In its view, “PSB also complements and underpins the editorial standards and risk-taking of the rest of the market.”

35. As it stands, the BBC’s non-commercial status and significant public funding has underpinned its role in the provision of high quality news services and a wide range of public service content, including comedy, drama, children’s programming and factual

<sup>33</sup> Ofcom—*Public Service Content in a Connected Society: Ofcom’s third review of public service broadcasting—Consultation*, 15 December 2014, para 1.14

<sup>34</sup> Voice of the Listener & Viewer ([FBB0030](#)), para 4

<sup>35</sup> Professor Beveridge ([FBB0020](#)); Campaign for Press and Broadcasting Freedom ([FBB0036](#)); ITV ([FBB0066](#)); Channel 4 ([FBB0067](#)); and Teledwyr Annibynol Cymru ([FBB0069](#)).

<sup>36</sup> *Public and Private Broadcasters across the world – The Race to the Top*, BBC, December 2013

<sup>37</sup> Professor Barnett ([FBB0078](#))

<sup>38</sup> BBC ([FBB0097](#)), para 18

formats. Since the BBC’s beginnings, the aim of public service broadcasting in the UK has been to provide for the mass market on a universal, free-to-air basis, albeit with an obligation on householders to pay a licence fee if they watch or record any television services as they are broadcast.<sup>39</sup> Inevitably, in the UK, the way broadcasting funding evolved was in part a consequence of it having not been feasible to exclude someone from receiving an analogue signal. Even though technologies now make conditional access possible, many people continue to place value on PSB services and programmes being universally available. Greg Dyke, a former BBC director general, told us that the importance of the BBC to him was that it was available to everyone.<sup>40</sup> We consider the case for conditional access to BBC television services later in this report.<sup>41</sup>

36. According to the BBC Trust, the BBC has a clear mission that is well understood by the people who pay for it—to inform, educate and entertain—and this does not need to change. The Trust believes that “even as broadcasting and technology changes, the BBC will continue to have enormous value as a national institution which contributes to the future growth of modern Britain—economic and creative, democratic and cultural.”<sup>42</sup> The Trust foresees this role being ever more important in the context of a global, digital media market.

## Quantifying public value

37. At a top level, the BBC Royal Charter states that “The BBC exists to serve the public interest” and that its “main object is the promotion of its Public Purposes”. In an effort to measure the BBC’s public value, in preparation for the 2007 Charter, the BBC proposed codifying its public purposes for the first time.<sup>43</sup> In so doing, the BBC set out what its public purposes could look like and how they might help measure its value. As a result, six public purposes were agreed by the Government in its White paper on Charter renewal<sup>44</sup> and subsequently incorporated in the 2007 Charter<sup>45</sup> as follows:

- sustaining citizenship and civil society;
- promoting education and learning;
- stimulating creativity and cultural excellence;
- representing the UK, its nations, regions and communities;
- bringing the UK to the world and the world to the UK; and

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<sup>39</sup> The requirement for licences for radio use was abolished in 1971

<sup>40</sup> Q77 (Greg Dyke)

<sup>41</sup> See para 237-245

<sup>42</sup> BBC Trust ([FBB0096](#)), para 21

<sup>43</sup> *Building Public Value, Renewing the BBC for a digital world*, BBC, June 2004

<sup>44</sup> *A public service for all: the BBC in the digital age*, Cm 6763, March 2006

<sup>45</sup> *Royal Charter for the continuance of the British Broadcasting Corporation*, CM 6925, October 2006, see para 4

- in promoting its other purposes, helping to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television.

The 2007 BBC Charter states that the BBC’s “main activities should be the promotion of these public purposes through the provision of output which consists of information, education and entertainment” by means of “television, radio and online services” and by similar or related services which make output generally available, including “by means of technologies which either have not previously been used by the BBC or which have yet to be developed.”<sup>46</sup>

38. The Charter states that the BBC “may also carry out other activities which directly or indirectly promote the Public Purposes”<sup>47</sup> but such activities should “be peripheral, subordinate or ancillary to the main activities”, “bear a proper sense of proportion to the BBC’s main activities”, and “be appropriate to be carried on by the BBC alongside its main activities.”

39. The means by which the BBC is, or is not, to promote its public purposes within this broad scope is not elaborated or in effect restricted in the Charter but—as with many other fundamental matters—is left to the Framework Agreement with the Secretary of State. The Charter does task the Trust with the function, *inter alia*, of “setting multi-year purpose remits, and approving strategies which include high-level budgetary allocations”, and of “defining suitable performance criteria and measures against which the effective promotion of the Public Purposes will be judged”, as well as “approving individual strategic or financial proposals where they stand to have significant implications for the fulfilment of the purpose remits and strategies”.<sup>48</sup>

40. Under the present Framework Agreement, the Trust sets purpose remits for each of the six public purposes which set priorities and specify how the BBC’s performance against them will be judged. The Trust must consult publicly in developing purpose remits and once they have been adopted, must keep them under review and may amend them. Before an amendment is made there must be a process of public consultation “appropriate to the nature of the change”. For example, any substantial change to the priorities set within a purpose “must be subject to a particularly thorough process of full consultation”.<sup>49</sup>

41. In its White paper in advance of the current Charter, the then Government also set out five characteristics that would distinguish BBC content: high quality; challenging; original; innovative; and engaging.<sup>50</sup> These do not appear as Charter requirements but are referred to in the Framework Agreement and every programme included in the BBC’s public services must exhibit at least one of these characteristics.

42. Since their introduction, the public purposes have assisted part of the BBC Trust’s oversight of the BBC. Each year the Trust commissions annual tracking surveys asking

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<sup>46</sup> *Ibid*, para 5

<sup>47</sup> BBC Charter, Clause 5.

<sup>48</sup> BBC Charter, Clause 24(2)(a), (b) and (e).

<sup>49</sup> BBC Framework Agreement, schedule 5

<sup>50</sup> *A public service for all: the BBC in the digital age*, Cm 6763, March 2006

people to express their views on the importance they attach to the purpose priorities and the effectiveness of the BBC in delivering them. It also has introduced service licences for each of the BBC’s television and radio channels as well as its online services. In its annual report to Parliament, the BBC Trust reports in part on the previous year’s survey findings and gives its assessment on the Executive’s performance in fulfilling the purpose remits. We have used the Trust’s accounts of BBC performance during our own regular assessments and scrutiny of the BBC.

43. Some consider that the BBC’s public purposes are too broadly set and consequently a wide variety of programming and activity can be justified by them. The Friends of Radio 3 suggested that the BBC could be set tighter “public service commitments” and that the Charter ought to make it clear that there was no obligation on the BBC in delivering its purposes to reach as many licence fee payers as possible.<sup>51</sup> Professor Patrick Barwise, Emeritus Professor of Management and Marketing at the London Business School, thought that the public purposes were broadly fine, although they could risk distracting the BBC from its main task of making and commissioning great programmes.<sup>52</sup> David Elstein, Chairman of openDemocracy.net and the Broadcasting Policy Group, argued that as the purposes stood they were too wide and could catch most programme types and were not useful in focusing the BBC on core PSB activity. He explained:

We can all set ourselves things that we know we are going to do. There cannot be a single programme the BBC transmits that does not fulfil one or other of the public purposes. That is the whole point of having them—that you cannot fail the test.<sup>53</sup>

**44. We recommend that the independent panel and formal Charter Review consult on the BBC’s current public purposes and purpose remits set out for them, to determine whether and how they might be revised and to examine their effectiveness in measuring the BBC’s public value. We believe a critical review of the purpose remits, and consultation and research on BBC performance, including on people’s willingness to pay for BBC services, could help clarify the BBC’s core purposes and suggest strategic and funding priorities.**

## Training as a public purpose

45. Training is not currently recognised within the BBC’s specific public purposes despite the BBC’s widely acknowledged role in training many newcomers and incumbents in Britain’s creative industries and within journalism. However, there is a training provision in the Framework Agreement. Clause 84 states that:

the Executive Board must make arrangements for the training and retraining of staff engaged in connection with providing any of the BBC’s UK public services or making programmes for inclusion in any of those services. The training and retraining under those arrangements must “make an effective

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<sup>51</sup> Friends of Radio 3 ([FBB0025](#)), para 3.1-2

<sup>52</sup> Professor Barwise, ([FBB0128](#))

<sup>53</sup> Q1



contribution” to “(a) the promotion of the BBC’s Public Purposes, and in particular that of stimulating creativity and cultural excellence”; “(b) the preparation and maintenance of a highly-skilled media workforce across the audio-visual industry”; and “(c) competitiveness and productivity in that industry.”

The clause also states that the Executive Board “shall use its best endeavours to work in partnership with others in the audio-visual industry in the planning and provision of training and retraining across that industry”.

46. According to Creative Skillset<sup>54</sup> the development of talent and skills for the creative media industries should become a new public purpose of the BBC in its future Charter.<sup>55</sup> This new purpose should come with the expectation that the BBC would continue to work in partnership with industry-wide organisations. Commenting on the BBC’s position, Professor Barnett explained that while the commercial sector had reduced funding to organisations like Skillset and the National Film and Television School, the BBC had continued to fund external training bodies as well as its own internal programmes.<sup>56</sup> According to Directors UK, without the BBC’s contribution there would be a “disastrous reduction” in training provision across the industry.<sup>57</sup> During our visit to BBC North’s centre in Salford, we met several young apprentices who were currently on a placement at the BBC and some who had recently secured permanent positions at the BBC. All of those we met were very positive about their experience with the BBC and displayed a realisation that they had been afforded a valuable opportunity.

## Working with others

47. Lord Hall of Birkenhead, Director General of the BBC, has made partnerships one of his key ambitions over the next few years.<sup>58</sup> As such, partnerships and collaborating with others could also be recognised in the BBC’s public purposes, or in a requirement that in undertaking activities to fulfil the public purposes, the BBC should do so in partnership and collaboration wherever practicable.

48. Several witnesses have suggested that the BBC will have to find new ways of working in partnership with others during the next Charter period in order to continue to benefit from the privilege of its public funding to ensure maximum public value. For instance, Professor Charlie Beckett, Director of Polis, hopes that the BBC will become an “Open Source, Open Studio” organisation that uses its training resources and its facilities as a support structure for local and national content creation rather than always seeking to provide those services itself.<sup>59</sup> One way this ethos could be achieved would be to recognise partnership working in the BBC’s public purposes.

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<sup>54</sup> Creative Skillset supports skills and training for people and businesses in the UK Creative Industries

<sup>55</sup> Creative Skillset ([FBB0084](#)), para 3.3

<sup>56</sup> Professor Barnett ([FBB0078](#)), para 11

<sup>57</sup> Directors UK ([FBB0057](#))

<sup>58</sup> See: Speech given by Lord Hall, BBC Director General, at the BBC Radio Theatre in London, 8 October 2013

<sup>59</sup> Professor Beckett ([FBB0022](#)), para 2.4

**49. Given the BBC's vital contribution to training and development of talent and skills in the UK's creative media industries and in journalism, we believe this function should be reflected in the BBC's core public purposes. Similarly, we believe that the success of a future public BBC will depend on its ability and willingness to collaborate and work in partnership with others at all levels to maximise its public value and that of others. The necessity for collaborative engagement should be enshrined in the BBC's public purposes.**



### 3 BBC's performance

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50. We have already touched upon the sequence of well-publicised incidents over the last few years which uncovered failings at the BBC and indicated a culture at the top of the Corporation that appeared out of step with serving the public interest and a public sector ethos. Coverage of these has undeniably dented the broadcaster's reputation. Yet some caution that the debate around the BBC is too often led by its detractors and that recent events and the ensuing criticism ought to be kept in context. We were reminded by several witnesses of the high esteem in which the BBC is held abroad for the quality of its content when compared to other broadcasters.<sup>60</sup> Gavyn Davies argued that the mistakes made were relatively small compared to the successes the BBC had achieved and that the debate was too often dominated by the BBC's competitors in the press, by its competitors in industry and by the political system.<sup>61</sup> He did not believe that the "silent majority" who pay the licence fee agreed with the critics.

51. It is without doubt the case that the BBC, over the last few years, has at times been mired in mistakes of its own making, and that it is essential, given its significant public funding and purposes, that it is held to account when failures occur. Yet many people will primarily judge the broadcaster on the quality of its content—on television, radio and online—its programmes, its journalism, on the value for money they consider it delivers and on the resulting societal and cultural contributions it makes.

#### Reach and audience appreciation

52. Since 2007, BBC services have stood up remarkably well to the fact that content is now available in much greater volumes from more sources, and that it can be consumed in more ways, than ever before. The internet and the emergence of new media and technology and digital giants, with colossal incomes at their disposal, have meant that the BBC and traditional media organisations have been facing ever-increasing competition while their conventional, once captive audiences have started to fragment. Evidence of the BBC's success has been its ability to face these challenges and evolve its services to satisfy new expectations, whilst continuing to produce significant amounts of public service programming and cater for specific demographics and niche tastes, such as Radio 3, 6 Music and the Asian Network's audiences. Similarly, the BBC provides services like BBC News 24 and children's channels which many appreciate even if they are not regular or direct users of these services.

53. In 2013/14, the overall weekly reach of BBC services rose to 96% of all UK adults, up from 93% in 2007. The BBC's contribution to digital switchover, through its role and investment in Freeview and other distribution strategies, played a significant part in digital television completely replacing analogue television in the UK at the end of 2012. BBC iPlayer was launched in 2007 and now receives over three billion programme catch-up requests a year.<sup>62</sup> Furthermore, BBC services have maintained high levels of appreciation

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<sup>60</sup> Pact ([FBB0080](#)), para 4.2

<sup>61</sup> Q83

<sup>62</sup> *BBC Annual Report and Accounts 2013/14*, page 63

among their audiences and users.<sup>63</sup> For instance, BBC One continues to reach more people than any other channel in the UK and was rated highest for quality out of 66 television channels in an international survey.<sup>64</sup> In a similar way, BBC local and regional radio services are valued by over nine million listeners who tune into them each week.<sup>65</sup> For last year, the BBC reported that each week:

- audiences spent on average 18.5 hours viewing and listening to BBC programmes and content;
- two-thirds of all adults listened to BBC radio; and
- half of all adults used BBC Online (over 60% of “online” adults).

54. While the overall reach figure is commendable, it needs to be put in context. Viewers and listeners need to have watched or listened to a service only for 15 consecutive minutes, and BBC Online used for three minutes, in a week to count as reached. Although overall reach when calculated this way is high, the reach of some individual services is low, even to their target audiences. As part of our annual scrutiny of the BBC and appraisal of individual services, we and predecessor Committees have noted the position of BBC Three on several occasions and queried claims being made by the BBC Trust and Executive for the channel. In 2013/14, the channel’s reach fell to 20.5%, meaning only one-fifth of the population watched the service for 15 consecutive minutes or more each week. Among its target audience of 16 to 34-year-olds its reach was 26.4%. Or, put another way, BBC Three reached less than three in 10 of the target audience to which it was launched a dozen years ago. Moreover, a proportion of its viewers watched solely for the imported US programmes and BBC One and Two repeats shown as part of its schedule, which in previous years has meant approximately only two in 10 watch BBC Three’s originated UK content. BBC Four’s reach is even lower than BBC Three’s, with only 14% of the population on average watching the channel each week.<sup>66</sup>

**Comments submitted as part of web consultation on the Student Room:**

*“I think that it's completely wrong for BBC 3 to become a purely online service, as a) not everyone has good internet, and b) watching live television should not be only available to older people. It's discriminatory.”*

*“I think the reasoning [for moving BBC 3 online] is that young people are less likely to sit in front of the TV and instead stream things and use Netflix and the likes. I know that's definitely true with me. I couldn't tell you the last time I watched the TV, I just stream everything either off the Xbox or my laptop linked to the TV.”*

<sup>63</sup> Last year audiences rated BBC’s network channels between 81.5 to 85.1 where scores were an aggregate of how people rated individual programmes, expressed as a number out of 100. On the same basis, BBC network radio stations scored between 71.3 and 83.8; BBC radio stations in the Nations between 78.1 and 83.8; and BBC Online had an audience appreciation score of 78.5.

<sup>64</sup> *Public and Private Broadcasters across the World—The Race to the Top*, 3 December 2013

<sup>65</sup> RAJAR Q4 2013

<sup>66</sup> *BBC Annual Report and Accounts 2013/14*, page 67

55. Since its launch in 2003, over £1 billion has been spent on BBC Three. In March 2014 Lord Hall announced plans, subject to the approval of the BBC Trust, to close BBC Three as a broadcast television channel in the autumn of 2015. This would result in the BBC saving over £50 million a year, £30 million of which would go into drama on BBC One, with BBC Three being “reinvented” as a channel online and on the iPlayer.

56. It was reported in January 2015 that two independent television production companies were planning to approach the Trust with a bid to buy the BBC Three channel with an offer likely to be in the region of £100 million which would preserve the service as a linear channel. However, there appeared to be a degree of scepticism as to the feasibility of the proposition. For instance, given that the spectrum used by BBC Three is a public asset, it would not be for the BBC to avail or profit from its sale.

**57. It is difficult to see how BBC Three could be judged a success after more than a decade and expenditure of more than a billion pounds of licence payers’ money, given the minority of the target audience reached. We believe it is right that the BBC Executive is considering alternative ways to reach BBC Three’s target audience and recommend that all BBC services be evaluated in terms of most effective delivery and value for money.**

58. The BBC Trust commissions and publishes research on licence fee payers’ perceptions each year. According to its latest survey for 2013/14, only 47% of people thought that the BBC provided programmes that no other broadcaster would make, while 58% thought the BBC offered good value for money or else did not know. Looked at the other way, this indicates that four out of 10 people did not think the BBC offered good value for money. Nevertheless, compared with 2007 survey results, last year people overall rated the BBC higher for quality, trust and in value-for-money terms than they did six years ago.

<i>How audiences rated the BBC</i>		
<b>Scores out of 10 or as a percentage</b>	<b>2007/08</b>	<b>2013/14</b>
Quality	6.3	7.6
General impression	6.6	7.3
Trust	5.9	6.5
Value for money	4.9	5.8
Fresh and new ideas	55%	61%
<i>Percentages</i>		
Provides high quality, independent journalism	67%	66%
Good at representing my region	41%	59%
Good at representing my ethnic group/culture	36%	47%
<b>Source:</b> BBC Trust Annual Reports and Accounts		

## Provision of news and coverage of national events

59. Several witnesses have identified the BBC’s provision of news, information and knowledge across its services as a core public service function. Last year 82% of UK adults

consumed BBC News (network and original) across television, radio and online.<sup>67</sup> Others have pointed to the BBC's position as being the "go-to broadcaster" with capacity to cover national events and its position in bringing the country together as an aspect people closely associated with the Corporation. The BBC's Olympics' coverage was highly praised around the world and watched by over 90% of the population.<sup>68</sup> Lord Grade advocated the continuing importance of the BBC's role as an impartial provider of news, where its output is universally available.<sup>69</sup> Given the continuous changes in commercial broadcasting and the media more widely, he expected the relevance of the BBC's output as being likely to increase.

## The World Service

60. The World Service's position as a reliable, respected foreign and English language news service continues at home and overseas; both the Foreign Affairs Committee and the House of Lords ad hoc Committee on Soft Power and UK influence have recognised the BBC's strength in promoting British values and the UK positively overseas. While the World Service's role remains vitally important, it is the case that states such as Russia and China are now investing far more in their global channels than the BBC.<sup>70</sup> Last year the BBC World Service had a global audience of 191 million, up from 181 million in 2007.<sup>71</sup> Even though its traditional radio audiences have declined in part owing to several shortwave signals being switched off, its now established foreign language television channels are growing. Nearly 60 million viewers watched either the BBC Arabic or Farsi television services on a weekly basis in 2013/14.

61. Several changes have occurred in the last few years. Since April 2014, the World Service stopped being funded through grant-in-aid by the Foreign Office and its costs are now met by the licence fee. The Service has left its old home at Bush House and co-located with the BBC News division in Broadcasting House, which is enabling savings to be made. A more recent change is that the new director of the World Service will combine this position with that of being the deputy director of BBC News and Current Affairs.

**62. We are concerned that combining the role of the BBC deputy director of news with that of the director of the World Service will dilute the influence and the independent voice of the World Service within the BBC, as the Service will no longer have a leader dedicated solely to developing and representing its interests. Given its new funding and oversight arrangements, we fear the importance of the World Service could be diminished. The extent to which the World Service's needs will be met from within the BBC must be monitored very carefully in the new Parliament. At a time when countries like Russia and China are significantly increasing their investment in global media outlets, including services aimed at the UK, we believe that the World Service has an increasingly important role in what is a global information war.**

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<sup>67</sup> BBC Annual Report and Accounts 2013/14, page 62

<sup>68</sup> See ITV ([FBB0066](#)), para 7; Professor Phil Redmond ([FBB0076](#)), para 39; NUJ ([FBB0079](#)), para 15

<sup>69</sup> Q130

<sup>70</sup> Professor Beckett ([FBB0022](#)), para 1.3

<sup>71</sup> BBC Annual Report and Accounts 2013/14, page 70

## Cultural and economic contribution

63. The UK's creative endeavours are exhibited domestically and more widely overseas through BBC content and its distribution and promotion by BBC Worldwide. The Arts Council described to us the BBC as an invaluable cultural asset to the UK which is an internationally recognised example of what British creativity and commitment can achieve.<sup>72</sup> Similarly, many understand that through its funding, the BBC provides a significant stream of venture capital to the UK's creative industries.<sup>73</sup> In 2013, in spending £2.4 billion on its PSB services across television, radio and online, the BBC was the single largest source of funding for original content (excluding sports) in the UK.<sup>74</sup> Last year, we considered the BBC's impact during our inquiry into Support for the creative industries.<sup>75</sup> We note that for every £1 of licence fee the BBC spent, it generated £2 of economic activity.<sup>76</sup>

## Serving all audiences

64. As part of its public purposes, the BBC aims to make programmes which reflect the lives, interests and experiences of its audiences. According to the BBC Trust, last year 52% of UK adults believed the BBC performed well in representing their nation or region.<sup>77</sup> People were more positive about BBC drama and comedy's depiction of their lives in their region.<sup>78</sup> However, in one part of the UK, Northern Ireland Screen, a creative industries agency, found that despite BBC Northern Ireland's strong delivery of regional programming, Northern Ireland had been "grossly short-changed by the BBC over a quite a considerable period of time." They found there was almost no identification between the Northern Irish audience and the BBC's network production.<sup>79</sup>

## Out of London strategy

65. In 2004, the BBC outlined a plan to move half of all its public service staff outside London by the end of 2016 and also to transfer several London-based departments to the North of England.<sup>80</sup> The rationale behind these proposals was that through moving people, resources and creative investment out of London it would be better able to reflect the life and experiences of the whole UK.<sup>81</sup> In addition, the move would deliver economic benefits to the North of England and realise financial benefits to the BBC. The BBC has now moved around 2,700 staff to BBC North,<sup>82,83</sup> and has set up a new finance centre in Cardiff.<sup>84</sup> A

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<sup>72</sup> Arts Council England ([FBB0094](#)), para 2.1

<sup>73</sup> Q18

<sup>74</sup> Enders Analysis ([FBB0098](#))

<sup>75</sup> Culture, Media and Sport Committee, Third Report of Session 2013-14, *Supporting the creative economy*, HC 674

<sup>76</sup> BBC Trust ([FBB0096](#)), para 9

<sup>77</sup> Purpose Remit Survey Report 2013/14, page 28

<sup>78</sup> *Ibid*, page 31

<sup>79</sup> Q461

<sup>80</sup> *Building Public Value—Renewing the BBC for a digital world*, page 18

<sup>81</sup> *Ibid*, page 98

<sup>82</sup> See [www.mediacityuk.co.uk/occupiers/bbc](http://www.mediacityuk.co.uk/occupiers/bbc)

National Audit Office value-for-money study was largely positive about the BBC's move to Salford. In light of this, the Committee of Public Accounts concluded that the BBC had met the challenge of moving several departments to its new regional centre in Salford "on time, within budget and without disruption to broadcast services".<sup>85</sup> Nevertheless, it found the scale of some of the allowances paid to staff to relocate to Salford had been difficult to justify. Following a visit, we were left impressed by what has been achieved in Salford at BBC North, but also by ITV and the other occupants who have moved to the Media City UK Development area.

66. While we were in Salford, Peter Salmon, Director of BBC North, told us the BBC planned to go further in collaborating with others across the North of England and that it was still "early days in a long term plan". According to City Broadcasting, a producer based in Manchester, there was considerable evidence that audiences in the North, in the North East particularly, were less well served by the BBC than other parts of the country.<sup>86</sup> Yet those we met believed the move of major BBC production departments to Salford had provided an opportunity to rebalance this but that there needed to be more BBC commissioning of independent productions both for television and radio from companies in the North. Northern Film and Media, based in Gateshead, recognised the BBC as being "instrumental in forging partnerships in the region with a range of organisations."<sup>87</sup>

<b>TV programming spend by region as a % of eligible spend</b>			
	<b>2007</b>	<b>2013</b>	<b>% of UK population</b>
London	64.7	47.5	13.13
Scotland	3.3	10.9	8.31
Wales	2.7	6.8	4.81
Northern Ireland	0.4	2.2	2.85
Total Nations	6.4	19.9	15.97
Midlands	4.1	2.7	25.31
North of England	10.2	17.3	23.48
South of England	11.9	8.5	22.1
Multi-regional*	—	4.1	—
Total Regions	26.2	32.6	70.89
Total Nations and Regions	32.6	52.5	86.86
Sources: 1. Spend percentages taken from BBC Annual Reports * Covers programmes made outside London but which the BBC say cannot be attributed to any one region or nation. 2. The figures in this table were compiled by the Campaign for Regional Broadcasting Midlands. 3. Population percentages taken from ONS mid-year 2013 population estimates mapped to the BBC Nations and Regions by the Campaign for Regional Broadcasting Midlands.			

<sup>83</sup> The BBC has reported that 37% of the staff at BBC North relocated from London, 29% came from its old centre in Manchester and 34% were new staff.

<sup>84</sup> *Driving efficiency at the BBC, To deliver quality content for the licence fee payer*, page 24

<sup>85</sup> Committee of Public Accounts, Twentieth Report of 2013-14, *The BBC's move to Salford*, HC293

<sup>86</sup> City Broadcasting ([FBB0073](#))

<sup>87</sup> Northern Film & Media Limited ([FBB0048](#)), para 2



67. The Campaign for Regional Broadcasting Midlands has pointed out that a region that has lost out in the current Charter period is the Midlands.<sup>88</sup> Over the last six years the percentage of BBC's spend on television in the Nations and regions increased by 61%. Yet in the same period the percentage spent in the BBC's Midlands region (which includes the East of England) fell by 34%. By the end of 2012, hardly any television and radio were being made for the national networks from Birmingham, which Equity considered could cause lasting damage to the local economy and the creative industries in the West Midlands.<sup>89</sup> The Midlands region had the lowest operational spend by the BBC in England in actual terms, lower than that in Scotland and Wales, and only marginally higher than in Northern Ireland. While 25% of the licence fee comes from the Midlands region (its proportion of population), only 2.5% is spent in the region.<sup>90</sup> Although the Campaign has highlighted this distribution as being unfair, since the appointment of Lord Hall as Director General, they have perceived a change of direction and are more optimistic that BBC investment will return to the Midlands region.<sup>91</sup>

**68. While we welcome the BBC's success in shifting spend out of London during the current Charter period through its move to Salford and through the concentration on "Centres of excellence", it is evident that some areas of the country have received a disproportionately small return of the licence fee which has meant they have missed out on economic activity. Although we accept the BBC cannot have a significant physical presence in all regions of the country, it must develop a more equitable commissioning and business strategy that fosters cultural variety and spreads its activity, as far as possible, across the country.**

## Diversity on and off screen

69. Over the last few years black audiences have been consistently less positive about the BBC compared to white and Asian audiences.<sup>92</sup> Last year, when asked specifically about how well the BBC represented their ethnic group, just 32% of black respondents agreed that the BBC was good at doing this. During the course of our inquiry we took evidence from Lenny Henry CBE, the actor and comedian, following his 2014 BAFTA lecture when he highlighted the under representation of black, Asian and minority ethnic (BAME) people on screen and behind the scenes in the broadcasting industry. To rectify this deficit, Mr Henry has recommended that broadcasters might take exactly the same approach the BBC took to tackling the lack of production in Nations and regions, where it set production and spend targets, introducing a similar structural solution by ring-fencing money specifically for BAME productions.

70. According to Creative Skillset, since 2009 the total number of BAME people in the television industry has fallen by 2,000 while the industry as a whole has grown by over 4,000. Mr Henry has identified several factors involved in BAME under-representation:

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<sup>88</sup> *Ideas for the BBC in the Midlands*, Campaign for Regional Broadcasting Midlands, December 2014

<sup>89</sup> Equity ([FBB0038](#)), para 25

<sup>90</sup> Q481

<sup>91</sup> *Ideas for the BBC in the Midlands*, Campaign for Regional Broadcasting Midlands, December 2014

<sup>92</sup> For example, see [Purpose Remit Survey UK report Winter 2012-2013](#), NatCen Social Research, page 4

- The demise of ITV's regional commitments which have reduced local opportunities for employment and portrayal.
- The increased casualisation of the industry, which poses challenges to all working class communities, including BAME.
- The near total absence of BAMEs in the key commissioning and controller roles, which decide what gets made, who writes it and who presents it.
- Ofcom's 2005 decision to allow ITV, C4 and others to keep their ethnic monitoring information confidential.
- The lack of BAME representation at the top of the industry, with only one of the 61 Board members in the UK broadcasting industry having a BAME background.<sup>93</sup>

71. Among the BBC Executive's priorities for 2014/15 are aims to increase access to the BBC for those from different social and ethnic diverse backgrounds and to take measures to increase the retention and development of disabled and BAME staff.<sup>94</sup> In June 2014, Lord Hall announced a plan to improve on and off air BAME representation at the BBC,<sup>95</sup> including: a leadership development programme for six talented people from BAME backgrounds; a £2.1million diversity creative talent fund, and more training internships alongside the BBC's existing apprenticeships. In spite of Lord Hall's commitments, Mr Henry told us there was "initiative fatigue" among BAME people in the industry.<sup>96</sup> He said that the BBC alone, in the last 15 years had run 29 initiatives to increase ethnic diversity and yet BAME representation had actually gone down. Patrick Younge, former Chief Creative Officer at the BBC, told us that initiatives will "ameliorate the pain or help deal with some of the symptoms" but he saw a structural problem that needed a more structural solution.<sup>97</sup> As we have noted above, the BBC's adoption of a structural mechanism to increase production in the Nations and regions has had success albeit not across all parts of the country.

72. Ethnicity is only one of the barriers to working in the industry: gender, social background and disability are also factors that often prevent access to openings and work for many writers, actors and others who work off screen.<sup>98</sup> Low pay and high costs of living, particularly in London, can act as a barrier to gaining experience and there is a perception that the whole structure of the industry is biased towards a self-perpetuating, middle class urban elite rather than being open to all on the basis of their talent. Creative Skillset report that around two-fifths of the television workforce are being forced to work unpaid in order to get into the industry.<sup>99</sup> **We believe it is crucial for the BBC and other broadcasters to**

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<sup>93</sup> Lenny Henry, Marcus Ryder and Patrick Younge ([FBB0129](#))

<sup>94</sup> The BBC plans to increase BAME representation at a senior level from the rate of 8.3% in 2014 to 15% by 2020.

<sup>95</sup> BBC plan to increase on-air BAME portrayal from 10.4% to 15% by 2017

<sup>96</sup> Q423

<sup>97</sup> Q424

<sup>98</sup> Creative Skillset note that with just 5.4% from a BAME background, 36% women and 1% disabled the creative industries are well below the national employment averages.

<sup>99</sup> Creative Skillset ([FBB0084](#)), para 2.14



**broaden the range of voices and backgrounds at commissioning level as well as on screen and in other areas of broadcasting.**

## Children's programming

73. A key PSB genre is children's programming. The BBC has produced and broadcast programmes for children since the 1930s and, in 2002, launched two designated children's channels, CBBC and CBeebies. Following analogue switch-off at the end of 2012, the BBC ended the tradition of broadcasting children's programmes on BBC One, using only these dedicated services for that content.

74. Ofcom notes that first-run UK children's originations on PSB channels declined by 28% between 2008 and 2013. This it attributed in a large part to the reduction in output by ITV and Channel 5.<sup>100</sup> Ofcom also reports that children are watching less television than they did in 2008, when the last PSB review was conducted, with a sharp drop in viewing by older children (10-15 years). As an alternative, older children appear to be watching short online video clips on sites such as YouTube.

75. According to the Children's Media Foundation, the BBC is "the only player in town for commissioning content for kids".<sup>101</sup> Similarly, the Producers Alliance for Cinema and Television (Pact) were concerned that the BBC had emerged as the last dominant investor and buyer of children's programming over recent years, with ITV and Channel 4 playing a noticeably lesser role in this space.<sup>102</sup> Nevertheless, the Commercial Broadcasters Association reported that its members' children's channels had increased their investment in UK children's content by 60%, to nearly £30 million.<sup>103</sup>

76. Overall, Ofcom reports that the proportion of children's content children are watching is rising, primarily due to increased viewing to non-PSB commercial children's channels.<sup>104</sup> However, CBBC and CBeebies still account for about a third of children's viewing of children's programmes in 2013.

77. While conceding that younger teenagers are one of the most difficult audiences to provide for with specific programming, the Children's Media Foundation claims that BBC output has little of relevance to the 10+ audience and that Radio 1 is aimed at the 15+ audience.<sup>105</sup> The Foundation attributes this deficit in part to the BBC not having sufficient funding to cater for this audience but also to Channel 4 falling short on its promise to this group. Similarly, it has been accepted by Ofcom, in its relicensing of Channels 3 and 5, that there will be no requirement for the commercial PSBs to produce content for children. **Without the BBC's supply of UK-originated content and programmes for children, many younger people would have to rely largely on a diet of acquired US television**

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<sup>100</sup> Ofcom—*Public Service Content in a Connected Society: Ofcom's third review of public service broadcasting*—Consultation, 15 December 2014

<sup>101</sup> Q401

<sup>102</sup> Pact ([FBB0080](#)), para 1.7

<sup>103</sup> Commercial Broadcasters Association ([FBB0072](#)), para 3.4

<sup>104</sup> Ofcom—*Public Service Content in a Connected Society: Ofcom's third review of public service broadcasting*—Consultation, 15 December 2014

<sup>105</sup> Q401

programmes, as the BBC is pretty much by itself in the provision of UK-originated children's output. This content plays a vital part of children's early learning experience and understanding of their cultural identity. Children's content must remain a core and priority PSB genre for the BBC beyond 2016. The BBC will need to be able to continue to innovate and develop new media and distribution strategies for children as the audience for traditional linear television programmes continues to decline over the next few years. We commend the BBC for the quality and provision of its content for children over the current Charter period.

### Stewardship of the licence fee

78. The BBC's success in holding a 42% share of television and radio consumption in the face of the massive proliferation of alternative television and radio outlets is to be commended, despite the obvious advantages given to it to attract audiences through gifted UK-wide digital spectrum and significant levels of public funding for the creation of high-quality original content. Nonetheless, this success has been overshadowed at times by its stewardship of the licence fee. As Equity put it to us, the public perception of the BBC could be that of an organisation that is at times incompetent and at other times complacent, but despite the real difficulties it has had to face (not least a significant real-terms cut in its licence fee), it has continued to produce good-quality programmes.<sup>106</sup> During the Charter period, the BBC's financial propriety has been called into question on several occasions. For instance, significant losses occurred owing to the mismanagement of a major IT project, the Digital Media Initiative, and (within its commercial arm) as a result of a misguided acquisition of the Lonely Planet publishing business. Furthermore, the pay of its senior executives and managers, and their number, and the reward paid to its top talent and performers became at odds with the ethos of a publicly-funded organisation. After directions from the BBC Trust, the Executive has reduced the costs of both but there still remain too many executives with extremely high levels of pay, pensions and entitlements.

79. The BBC's drive to reduce its senior manager cadre exposed a further disregard by the BBC of its status as a public body. Severance pay and terms made to many of its senior managers were extremely high and some beyond the contractual terms that should have applied. Since November 2010, the BBC has made at least 10 severance payments to senior managers, each worth more than £250,000. The highest payment was £949,000 to the BBC's former Deputy Director General, Mark Byford, and George Entwistle received £450,000 payment despite the criticism of his handling of the Savile affair and only 54 days as a director general. In its resulting review of BBC's severance payments, the NAO observed that although the savings that the BBC had made by reducing senior manager numbers had exceeded the cost of severance payments, the BBC had breached its own policies on severance too often without good reason, which had resulted in payments that had not served the best interests of licence fee payers.<sup>107</sup>

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<sup>106</sup> Q472 (Christine Payne)

<sup>107</sup> *Severance payments and wider benefits for senior BBC managers*, Report by the Comptroller and Auditor General, presented to the BBC Trust Finance Committee, 20 June 2013, para 17

## Savings and efficiency

80. In 2010, as part of a licence fee settlement agreed between the Government and the BBC behind closed doors and without any public or parliamentary consultation, the level of the licence fee was frozen for six years and the BBC agreed to take on approximately £500 million per annum<sup>108</sup> of new funding responsibilities during this period, including for the World Service, S4C, BBC Monitoring, and for distribution of local TV and a contribution to the roll-out of rural broadband. To fulfil its commitment under the 2010 settlement, the then Director General, Mark Thompson, set a savings target of 20% under an efficiency programme called Delivering Quality First<sup>109</sup> (DQF), which followed a series of previous savings programmes stretching back to the early 1990s. This was forecast to deliver savings of £700 million a year by 2016/17 and a loss of about 2,000 posts across the BBC.<sup>110</sup>

81. Since 2007, the BBC has stated that £1.1 billion of cumulative annual savings have been made out of its controllable costs.<sup>111</sup> These savings are intended to absorb inflationary costs, and to cover its new funding obligations. According to the BBC, so far 70% of its savings achieved have been through productivity gains and only 30% have been cuts expected to have an impact on audiences' appreciation or usage of BBC services. The NAO is auditing the BBC's progress in reducing its costs; it will report its findings shortly. The BBC needs to make over £1.5 billion of cumulative savings over the entire Charter period but has said the proportion of DQF savings made in the latter part of programme which are expected to impact on BBC output or quality of services will rise to 50 per cent. As Anne Bulford, BBC's Managing Director of Finance and Operations, put it:

It's really important that everyone gets that the efficiency programme is not something you can just keep on doing. It would be a worry if people thought you could sell Television Centre two or three times.<sup>112</sup>

82. The BBC has highlighted to us that over the last 20 years, the licence fee has stayed almost flat in real terms, but the BBC had expanded its offering, suggesting greater value for money and organisational efficiency.<sup>113</sup> David Elstein has, however, pointed out that the BBC's income has risen by 50% in those 20 years owing to the increase in the number of households paying the licence fee.<sup>114</sup>

**83. The BBC's achievement of cumulative savings of £1.1 billion since 2007 is commendable given the relatively small negative impact they have had on audiences' appreciation and on reach of its services. Whilst efficiencies of this magnitude may have been challenging for them to accomplish, especially on the back of earlier**

<sup>108</sup> See: *Driving Efficiency at the BBC, to deliver quality content for the Licence Fee payer*, page 9. BBC World Service costs taken on from April 2014.

<sup>109</sup> [Delivery Quality First](#), October 2011

<sup>110</sup> *Ibid*, page 11

<sup>111</sup> The BBC has pointed out that £566 million of costs met through the licence fee are not under its control. These include costs of rural broadband rollout, local TV, its pension deficit reduction payment, and licence fee collection costs. See: *Driving efficiency at the BBC, to deliver quality content for the licence fee payer*, page 12.

<sup>112</sup> See: 'BBC finance chief Anne Bulford: There are £400m in savings still to go', *The Telegraph*, 22 November 2014

<sup>113</sup> BBC ([FBB0097](#)), para 25

<sup>114</sup> Q8 (David Elstein)

initiatives, the fact that the BBC achieved the savings demonstrates it was right that the Corporation faced a tight spending settlement in 2010, notwithstanding the criticisms of the way that settlement was conducted.

84. The BBC still has £400 million of savings to make by 2017. Given that the likely opportunities for further productivity gains must be diminishing, the BBC will need to be bold and upfront in presenting the options for cuts to services or output which would allow it to stay on track for the savings target, while still meeting its public purposes and audience expectations.

85. We believe that the BBC has done well in the current Charter period, in light of increased choice and competition, in terms of overall reach and audience consumption and appreciation, but it has also had a few notable failures and underperformance in certain areas which the BBC has not always been ready to acknowledge until well after the fact. Over the course of the Charter period, in their annual reports, in our view, the BBC Trust and the BBC Executive have often tended to highlight favourable performance figures over the less favourable, burying the latter in lengthy narratives, or supplementary documents online, which has not facilitated an easy scrutiny of where the BBC had been doing well and where it had been less successful. In the remaining part of the current Charter, the BBC should aim to be a better, more transparent, self-critic. It should not be deterred from summarising and publishing the least favourable performance figures alongside those where it is doing well. We recommend that the independent panel, and the Charter Review process itself, must appraise the BBC's current performance measures and manner of reporting in order to determine whether changes should be made in the future to ensure the BBC presents a more balanced picture of its results.

## 4 Scope and scale

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*“The public look to the BBC to provide some of the essentials of their daily lives. But while it must remain a great national institution, it should be as small as its mission allows.”—Michael Grade, BBC Chairman, June 2004, in Building public value, the BBC’s vision for its future after its 2006 Charter expiry.*<sup>115</sup>

86. Many of the criticisms we heard about the BBC from competitors and commentators were to the effect that the BBC does too much—spreading its remit too broadly, or otherwise occupying space that others could, and would, fill. What the BBC can do is limited by both what it is legally allowed to do and the amount of money available to it. However, in neither of these areas is the BBC merely a passive recipient. The BBC Trust maintains that the scope and scale of the BBC is ultimately determined by the purposes set for it and the amount of funding provided to it.<sup>116</sup> Yet the BBC itself unquestionably has a significant role in determining how big or small it is and the scope of its activities.

87. While the public purposes and the requirement for the Trust to set multi-year purpose remits are fixed in the Charter (along with the Trust function of “defining suitable performance criteria and measures against which the effective promotion of the public purposes will be judged”), they are not set in stone for subsequent Charters, and the BBC can express its view on their evolution, including any desired expansion, contraction or redefinition. Moreover, the Trust sets the detail and the content of the service licences (which define the scope of each service, its aims and objectives, its headline budget and, where appropriate, other important features). The Trust also determines the BBC’s priorities and the practical scope and scale of the BBC. Put another way, the Trust has a significant degree of power and discretion in determining what the BBC actually does.

88. Moreover, the amount of funding provided to the BBC does not appear without any context: while the BBC cannot guarantee the level of funding it receives, the BBC itself is largely responsible for identifying its funding needs and putting forth its funding requests, depending not only on its assessment of licence fee payers’ interests but the BBC’s own ambitions for its scope and scale. For instance, the BBC can seek to: launch new or close existing services; propose new activities or reduce existing ones; or alter the level of provision of individual services or particular activities, subject to the parameters of the Charter and Framework Agreement with the Secretary of State (the latter of which also can be altered by agreement).

89. The brake on the ambitions of the BBC is provided not only by the Trust but also by Government. In its bid in November 2005 for a new licence fee settlement, for instance, the BBC sought a licence fee increase of RPI plus 2.3% a year from April 2007 to fund, among other things, a new requirement of £641 million for local investment including “ultra-local” television services. The then Minister for Media and Tourism, James Purnell, stated that the BBC’s licence fee proposal was being considered by the Government as the BBC’s

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<sup>115</sup> Chairman’s prologue to “Building public value: Renewing the BBC for a digital world”

<sup>116</sup> BBC Trust ([FBB0096](#)), para 27

“opening bid” and it was ultimately awarded a lower sum than sought. Following the BBC Executive’s formal proposal for new local video services in the new Charter period, the BBC Trust refused permission because it would not improve services enough to justify either the investment of licence fee funds or the negative impact on commercial media. Instead, it believed “the BBC’s priority should be improving the quality of existing regional services.”<sup>117</sup>

90. The Trust claims that it is difficult to put a complete stop to any significant parts of BBC activity, such is the support and loyalty shown by audiences to the services used. According to the BBC Executive, the BBC’s remit requires it to provide something of value for everyone and to offer a wide range of programmes and services in doing so. It noted, for instance, that when audiences are asked which of the 14 main genres covered by the BBC are important, they support nearly all of them in terms of the BBC serving the good of society as a whole.<sup>118</sup>

91. While it is true that the BBC has had to change plans to close down services because of the vociferous support of people who valued the threatened services, any estimate as to how widely listeners/viewers as a whole value specific services or genres depends critically on the exact question put to those surveyed. For example, different polls attempting to discover the value of the BBC as a whole resulted in figures of 57% support in a YouGov poll of May 2012 that asked “Do you think that there should or should not be a publicly-funded broadcasting service, such as the BBC?”, compared with an 80% figure for a BBC poll asking the question “Would you miss the BBC if it no longer existed”. Statistics from such broadly-worded surveys are not helpful in determining what the BBC should be offering and how much it should spend. Relevant follow-up questions to such research, to get a fuller picture, would ideally ascertain how willing respondents were to pay for all of the services for the good of society, how much they were willing to pay, and the extent to which they consumed content from particular genres.

92. Through the setting of the licence fee, the Government of the day can, if they wish, either squeeze or boost the BBC’s funding and, therefore, affect the scale of the BBC’s services and ambitions, even within a secure Charter period. Moreover, the Government is not required to pay to the BBC the whole of the licence fee revenue received. Lesser sums can be paid out as the Secretary of State may, with the consent of the Treasury, determine.<sup>119</sup> As we have set out above, the Government froze the licence fee and the BBC agreed to its funding additional services and new responsibilities under the 2010 settlement, at a time when all public spending was being cut. The BBC has stated that the freeze will equate to a 26% real terms cut in its funding by 2017.

93. In response, the BBC put in place a series of productivity and savings measures as part of the DQF programme. DQF involved some upfront service reductions—for example there are now no first-run daytime programmes on BBC Two and ‘network’ programmes are aired as part of local radio schedules at non-peak times. The more recent proposal to “re-invent” BBC Three online was also, in part, a response to the financial challenges of the

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<sup>117</sup> [http://www.bbc.co.uk/bbctrust/news/press\\_releases/2009/local\\_video\\_decision](http://www.bbc.co.uk/bbctrust/news/press_releases/2009/local_video_decision)

<sup>118</sup> BBC (FBB0097), para 30

<sup>119</sup> Framework Agreement clause 75(1)



licence fee settlement, although the BBC has also said that “people who watch BBC Three are more likely to be online and want new content and new forms of content online” and described the planned closure of the linear channel and move online as “the direction of travel ... earlier than what we might have liked, but it is what we would have done in the long term to give young audiences what they tell us they want”.<sup>120</sup>

## A smaller BBC

94. In 2011, Mark Thompson, the then Director General, spoke of a BBC that would become smaller in many ways but with a breadth of services and a creative fire-power which remained formidable.<sup>121</sup> He said that the 2010 Licence Fee settlement meant “some difficult and sometimes painful choices for the BBC” but that everyone inside the Corporation also had to accept that it would still leave the BBC with resources and capabilities and strategic options far greater than those enjoyed by almost all of its commercial counterparts. The BBC 2010 strategy review laid out a series of core principles, which included “doing fewer things better” whilst maintaining distinctiveness. The question which arises, though, is what is the optimal size for the BBC to deliver its core public purposes and what practical limits can be put in place to prevent it over-reaching itself.

95. As part of the debate into the future of the BBC, Professor Patrick Barwise and Professor Robert G. Picard completed a study comparing the 2012 television market with what it might have looked like if there were no BBC television.<sup>122</sup> Their work was intended to provide a basis for examining the possible long-term effects on UK-originated production if the BBC’s funding and share of industry revenue continued to reduce. The study also was designed to test the claim that BBC television “crowds out” content investment by commercial broadcasters. Overall, their conclusion was that without BBC television there could be as much as 25% less investment in content made by UK broadcasters and that spend on first-run UK content would be between 25% and 50% lower.

96. The modelling applied assumed that commercial broadcasters would continue to invest the same proportion of their total income in content as before, despite their revenues growing as a result of not being “crowded out” by the BBC. Under this scenario, given there would be no BBC television, it was predicted that the growth in commercial revenues would not be sufficient to cover the loss of the BBC’s licence fee-funded television content. Again under these circumstances, assuming there would be an uptake in pay-TV, overall people would either be “paying slightly more for slightly less choice” on television than they currently did with the licence fee, or “paying slightly less for much less choice”.<sup>123</sup> The study did not take into account the impact on BBC radio and BBC online.

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<sup>120</sup> <http://www.bbc.co.uk/blogs/aboutthebbc/entries/fa632091-9a8c-304e-a479-e054dc368c47>

<sup>121</sup> Speech by Mark Thompson, *The BBC after DQF*—speech at the Radio Festival, Salford, 1 November 2011

<sup>122</sup> *What if there were no BBC television—The net impact on UK viewers*, Patrick Barwise and Robert G. Picard, Reuter Institute for the Study of Journalism, February 2014

<sup>123</sup> *Ibid*, page 7

97. In 2012, the BBC's share of total television industry revenue had fallen to 22.1%, from 47.8% in 1985, although this reduction was not a steady fall: It was less severe in the period between 1998 and 2012 owing to a more generous licence fee settlement to enable the BBC to launch its new digital channels. BBC television now accounts for about one-third of total television viewing; by comparison it had nearly half of all viewing in 1985. Professors Barwise and Picard forecast, based on current policy and market trends, that by 2016, the last year of the current BBC Charter, total industry revenue, including that from online television, would have grown to £14.4bn, of which only £2.6bn (18.5%) would be BBC income allocated to television. In their view, a key policy question is what happens after 2016: If the BBC licence fee were to remain frozen and more and more of it was used to fund other activities whilst the rest of the market grew, then within a generation the BBC could be reduced to a "minor sideshow, the UK equivalent of PBS in America".<sup>124</sup>

98. In a critique of the Barwise/Picard study, David Elstein considered that it was risky to base a thesis on a snapshot analysis. For instance, there was evidence from Ofcom's annual public service broadcasting reviews to show that spending on first-run origination could decline even while television revenues were rising and that BBC spending on first-run origination has declined even as the licence fee revenue increased. Mr Elstein argued that if the BBC were to disappear from the scene, as was being hypothesized, a whole raft of established and popular productions would suddenly be available for others to do.<sup>125</sup> He thought it was simply illogical to imagine that no increase in share of revenue would go on origination, which was an underlying assumption of the study. He also noted:

To claim some special virtue for BBC TV as delivering 33% of viewing for 22% of TV revenues needs to be seen in the context of ITV and Channel 4 also delivering 33% of viewing, but for just 19% of total revenues. ... All this shows is that 100% distribution, and priority position on the EPG, TV listings and DTT multiplexes hugely influence the outcome.<sup>126</sup>

The debate between Professor Barwise and Mr Elstein continued in exchanges into which we were copied, but without reaching an agreed conclusion.

99. We recognise that, when assessing the value of the BBC, its contribution to UK originated content is just one measure. Professor Beckett told us that to measure the BBC in terms of the amount of first-run content as being the consumer's primary judgement of whether they were getting good media is "nonsense".<sup>127</sup> There are of course many other measures including the reach, quality and impact of programmes and services delivered that should be considered but also, significantly, whether or not people regard paying the television licence as good value in view of what is provided for them as consumers and as citizens.

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<sup>124</sup> *What if there were no BBC television—The net impact on UK viewers*, Patrick Barwise and Robert G. Picard, Reuter Institute for the Study of Journalism, February 2014, page 63

<sup>125</sup> David Elstein response to Barwise/Picard report, para 28, February 2014

<sup>126</sup> *Ibid*, para 32, February 2014

<sup>127</sup> Q276 (Professor Beckett)



## Something for everyone

100. Some, including the BBC itself, argue that, given its funding basis, the BBC is obliged to provide something for everyone.<sup>128</sup> Yet as Professor Beckett told us, universality should not mean the BBC trying to do everything and while the BBC has made some retreats, for example from major live football coverage, it needed to reconsider what it was doing in a more systematic way. In his view, the BBC has done an outstanding job of improving the quality of its core mass services but, in a world where quality mass entertainment was becoming ever more dominant in the commercial sphere, the BBC should concentrate on the added value of more intelligent, innovative, challenging content.<sup>129</sup>

101. While none of the BBC’s commercial competitors is arguing for it to become a narrowly focused PSB broadcaster producing only content that the market would not provide, there is a fundamental view that its licence fee funding means that it must act differently to the rest of the market. There is a strong expectation that it must create innovative content and formats and bring new talent to the fore.<sup>130</sup> Yet several witnesses complained that the BBC was by habit fixated on audience share and ratings rather than understanding its place in the broadcasting ecology and focusing on its distinctive role and strengths. Gavyn Davies thought that the BBC paid too much attention to ratings because there was no other “currency” for them. He explained:

[The BBC] don’t have revenue and they don’t have profits and it has been difficult to get other things like reach and distinctiveness measured in terms of a currency that make you a successful producer of television.<sup>131</sup>

102. Similarly, while it is generally accepted that the BBC does a lot of things that the market would not replicate at the same scale or volume by itself, several witnesses found that the BBC’s schedules too often contain programmes and formats that are seen elsewhere. For instance, we were told there was no obvious justification for the BBC buying in formats such as *The Voice* for the UK audience.<sup>132</sup> Lord Burns worried that over a 10-year period BBC One had ended up looking too commercial and had relegated quite a lot of what would be regarded as public service broadcasting to BBC Two, BBC Four and its children’s channels.<sup>133</sup> He observed:

“the BBC finds it very difficult to see success anywhere without wanting to have some of it for itself. ... They argue they have to have something for everybody and that is the very phenomenon that drives you towards the middle ground and trying to get the very large audiences. ... [the real issue] is between distinctiveness versus universality and reach.”<sup>134</sup>

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<sup>128</sup> Ofcom—*PSB Annual Report 2014*, para 6.102

<sup>129</sup> Professor Beckett ([FBB0022](#)), para 2.1

<sup>130</sup> See Q98 & Q317

<sup>131</sup> Q111

<sup>132</sup> Q312

<sup>133</sup> Q295

<sup>134</sup> Q298

103. While ITV did not think that the BBC should be precluded from providing popular content, they wanted its more mainstream material to be produced in a distinctive way that perhaps commercial broadcasters would find difficult to do themselves. In their view, the BBC should not be relying on old tried and tested formats or copying ideas of, or buying in formats from, other broadcasters. Instead, it should be using the financial security provided by the licence fee to develop new formats and content and show that it was fostering new talent. ITV suggested that one possible way to promote such behaviour could be to specify a clear framework in a new BBC Charter and Agreement which set out specific requirements for the distinctiveness of the BBC's services and output.<sup>135</sup> For instance, requirements such as a minimum number of unique titles in the evening schedule or a mandate for a variety of formats and genres of programming on BBC One could be codified in the Framework Agreement and regular reviews conducted to monitor compliance.

104. Many of our witnesses said that the BBC's public funding means that it must take risks in addressing socially valuable genres such as children's, arts, religious and regional programming where there is under-provision. Nevertheless, according to Channel 4, the BBC could be accused of spreading itself too thinly or attempting to be all things to all people.<sup>136</sup> They told us while appealing to the nation as a whole was a key part of the BBC's mission, it should not be seeking to serve the needs of niche groups at the expense of serving the needs of the wider population. For instance, the BBC should not be replicating provision where other PSBs had remits specifically designed to cater for these audiences. In ITV's opinion the issue of the BBC crowding out others was due to a significant extent to the disproportionate size of the BBC's budgets compared with those of most of its competitors. They explained:

One of the things we see on BBC One versus ITV1 is that there is around £200 million of difference in budget now, which is a pretty substantial difference between the two channels... It gets to a point where it becomes harder to compete against a BBC that is funded with a disproportionately larger amount of money than its key competitors.<sup>137</sup>

105. In its third review of public service broadcasting, Ofcom has noted that while the public service broadcasters as a whole (BBC and commercial PSBs) continue to account for the bulk of investment in first-run non-sport UK content, there has been a substantial fall in spend on all programmes, and investment in new first-run UK originations is substantially down since 2008, with a 17.3% real-terms decline in programme spend by the PSBs. However, non-PSB channels (the non-PSB portfolio channels of ITV and Channel 4 such as ITV2 and E4 and other multichannel broadcasters combined) have increased their investment in non-sport first-run originations by 43% since 2008, accounting now for 15% of all non-sport investment in first run programmes in 2013, up from 9% in 2008. Whereas in the past the BBC and commercial PSBs have been the sole providers of public service content, other entrants—with no public service funding, privileges or obligations—are contributing. News, arts and documentary programmes are among this output.

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<sup>135</sup> ITV Plc ([FBB0066](#)), para 20

<sup>136</sup> Channel 4 ([FBB0067](#))

<sup>137</sup> Q316

106. The Commercial Broadcasters Association (COBA) pointed out that non-PSB broadcasters in the commercial sector were one of the fastest growing parts of the UK television industry, doubling direct employment in the last decade, raising investment in UK content by 30% in the three years since 2011, albeit from a very low base, and increasing commissioning from independent producers by 50% in 2012. According to COBA, the multichannel sector accounted for 18% of all new UK television production and in many areas this commercially-funded content was comparable to PSB content.<sup>138</sup> BSkyB told us that, in 2014, they planned to invest £600 million in their own production and origination of content. This would be a significant increase, given that in 2013 the combined spend by commercial PSBs on their portfolio channels<sup>139</sup> and the multichannel sector<sup>140</sup> on first-run UK originations, excluding spend on sports programming, was only £345 million.<sup>141</sup> Even the 2013 spend represented a 43% increase in real terms from the equivalent spend in 2008.

107. We were told that one of the ways in which the marketplace has changed since the last Charter Review is the waning ability of commercial broadcasters to finance public service content by themselves. Gavyn Davies explained that, owing to the profound changes in the advertising market, particularly the move from expensive broadcast advertising to online advertising, it was becoming increasingly difficult for the private sector to sustain the traditional model of public service broadcasting, free-to-air, funded by advertising.<sup>142</sup> Mr Davies also drew attention to a proclivity in broadcasting towards a kind of natural market concentration and how such consolidation could threaten the health of public service broadcasting. He told us:

I always thought that broadcasting was a kind of natural market to have concentration in it; if you left it to the private sector you would end up with a concentrated position for one or two very large players. I believe that is happening and I don't think it is healthy for the public.<sup>143</sup>

## Enabling others

108. A way in which the BBC might use its privileged and publicly-funded position to help support public service contributions by others is through taking a more collaborative approach to the provision and production of content. Professor Beckett advocated the BBC collaborating and commissioning externally much more, including making partnerships with non-UK producers. He saw a need for the BBC to become an “open source” studio organisation that used its resources and facilities as the support structure for local and national content creation rather than always seeking to provide these services itself.<sup>144</sup> If more people participated in production in this way and more organisations had a stake in

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<sup>138</sup> Commercial Broadcasters Association ([FBB0072](#)), para 1.1

<sup>139</sup> PSB portfolio channels are considered by Ofcom to be the following CITV, ITV2, ITV3, ITV4, 4Seven, E4, Film4, 5\* and 5USA.

<sup>140</sup> Ofcom considers the multichannel sector to be made up of the following broadcasters: Sky, Viacom, UKTV, BT, Discovery, A&E Networks, Turner, Disney, CSC and the Baby Network.

<sup>141</sup> Ofcom—*PSB Annual Report 2014*, para 3.27

<sup>142</sup> Q89 (Gavyn Davies)

<sup>143</sup> Q77

<sup>144</sup> Professor Beckett ([FBB0022](#)) para 2.4

the BBC, then the Corporation would become more accountable and responsive. Similarly, Channel 4 believed that if the BBC were to engage in considered partnerships in areas where others had better expertise it could deliver an effective means of maximising the value of the licence fee.<sup>145</sup> Undoubtedly, the BBC has had a record of working in partnerships over the current Charter period.

#### Example of partnerships the BBC has undertaken since 2007

- Arts Council: several projects undertaken with the BBC such as *The Space*, a digital arts media service and commissioning programme.
- The BBC Academy partnered with Channel 4 and ITV on a number of initiatives to improve diversity in the media industry.
- BBC Alba and MG Alba's provision of a Gaelic television service.
- BBC Films—co-produces approximately eight British films a year.
- Creative Skillset: joint work on training and qualifications for the creative industries.
- Open University—OU programmes co-produced by the BBC, as well as joint online initiatives.
- Playlist—links to online streaming sites to allow BBC users to tag and play back music and clips which have featured in BBC material.
- Radioplayer—partnership with commercial radio that allows audiences to access radio stations online via a single console.
- S4C—BBC Cymru Wales provides a minimum of 10 hours of Welsh language programmes a week to S4C including its news service and the long-running TV-drama *Pobol y Cwm*.
- YouView—a partnership which built an open, internet-connected TV platform.<sup>146</sup>

109. The Arts Council would like the BBC to engage in more joint editorial relationships and create shared spaces within existing BBC online platforms and channels to help bring the arts to wider public attention.<sup>147</sup> This, they suggested, could be achieved by re-defining the BBC's remit in a future Charter and fundamentally increasing its partnership potential by extending to other public bodies and cultural organisations the special privileges it currently grants to the Open University. The Arts Council believed this could address many of the current barriers which prevent more collaboration, and could be an alternative to distributing the licence fee to other players.

<sup>145</sup> Channel 4 ([FBB0067](#))

<sup>146</sup> Partners included ITV, Channel 4, Five, BT, TalkTalk and Arqiva

<sup>147</sup> Arts Council England ([FBB0094](#)), para 3.10

## What next?

110. In his first major speech as Director General, Lord Hall outlined his vision for a more personalised BBC, delivered through the iPlayer, where the BBC would be in a position to recommend content to individuals based on their viewing habits, and the launch of the “BBC Store”, a new commercial service allowing the audience to buy and keep BBC programmes on a download-to-own basis.<sup>148</sup> Not all were won over by his vision. Lis Howell, Deputy Head of the Journalism department, City University, was critical of Lord Hall’s speech, describing it as “a very well-crafted piece of marketing which dealt at great length on technological advances which ... weren’t that dramatic at all”, and “not so much Netflix as net curtain—a thin veil with holes in it, stopping you from looking too closely”.<sup>149</sup>

111. Nevertheless, the viewing of television content online is growing in popularity. Ofcom reports that a third of adults (32%) now use the internet to watch catch-up TV (such as BBC iPlayer, Sky Go, ITV Player and 4OD) and that 14% of adults use their mobile phone for watching TV programmes/catch-up content.<sup>150</sup> This being the case, interactive services and a personalised BBC could and should increasingly over the coming years facilitate a more direct engagement between the BBC and its viewers and listeners, allowing them to provide feedback on BBC output and set out their views on the breadth of the services provided.

**112. We welcome the fact that Lord Hall has made partnerships one of his key ambitions over the next few years. We believe the BBC and its audiences have gained greatly from the Corporation working with others during the present Charter period. In order to ensure maximum public value, the BBC must be required to harness such joint working arrangements wherever it can appropriately do so if it is to continue to benefit from the privilege of public funding. Increasing its partnership potential should be a core purpose of the BBC.**

**113. While it is the case that the BBC’s purposes and funding will determine some parameters for the BBC’s scope and scale, it is also the Framework Agreement between the BBC and the Secretary of State and the interpretations and decisions taken by the Trust and any successor oversight body that affect these. In practice the level of the funding will be the main lever in preventing the BBC overreaching its remit as set out in the Framework Agreement.**

**114. The BBC’s audience share of television, comprising about a third of all UK television viewing, although it has fallen over the last couple of decades, continues to demonstrate the BBC’s central presence in the life of the country.**

**115. We consider that the BBC Trust’s view that it is difficult to put a stop to any significant parts of BBC activity, citing the support shown by the audiences to individual services, is questionable. The BBC must make the most effective use of licence fee payers’ money and should not be trying to do everything itself. The BBC**

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<sup>148</sup> Speech given by Lord Hall, BBC Director General, at the BBC Radio Theatre in London on 8 October 2013

<sup>149</sup> <https://www.opendemocracy.net/ourbeeb/lis-howell/tony-halls-speech-didnt-answer-any-of-real-questions>

<sup>150</sup> Ofcom—*PSB Annual Report 2014*, page 53

needs to be able to make bigger, braver decisions on its strategy and inevitably must do less in some areas. Similarly, we challenge the BBC’s justification for doing all that it currently does in order to provide “something for everyone”.

116. It is not incompatible for the BBC to provide “something for everyone” across its output whilst also reducing provision in areas that are over-served or where the public service characteristics of its output are marginal, or where others are better placed to deliver excellence and better value for money. The BBC has been given a privileged position and substantial public funding to serve under-served and under-represented audiences, as well as mass audiences, with content not created for commercial gain, allowing it to take risks and be distinctive, challenging, original and innovative.

### BBC One +1

117. As part of its proposal to move BBC Three online, the BBC Executive wants to launch a time-shifted version of its linear BBC One channel, a BBC One +1 service, in peak time—broadcasting an additional version of the output one hour later—and to extend CBBC, the BBC children’s channel, by an hour each evening.<sup>151</sup> The BBC has said that the proposal for a plus-1 channel is simply a case of it catching up with the rest of the market. ITV do not share this view. While they support the proposal to move BBC Three online, they oppose the move for a repeat channel, which they think would offer very little new to viewers at a cost that could instead be spent on creating new programming. They identified a contradiction in the BBC’s reason as follows:

...the justification that was given for the launch of One +1 was that it was what young people expected. They expect to be able to watch a +1 channel. Six months later, the closure of BBC Three was justified on the basis that young people want their services on demand and they are all moving online. So we struggle slightly to reconcile those two elements as well.<sup>152</sup>

118. As part of a package of changes associated with moving BBC Three online, Ofcom announced in January 2015 that a market impact assessment would include the BBC’s proposal to launch a plus-1 channel for BBC One. The BBC Executive said that their analysis indicated that the commercial impact of the plus-1 channel would be small and that impact on commercial advertising revenues would be minimal—potentially leading to a loss in revenues in the television advertising market of less than 0.5%.<sup>153</sup> **We do not find that the BBC has made a convincing case for launching a BBC One +1 service. Whilst we appreciate how such channels can be of particular value to commercial broadcasters, in bolstering audience share and generating advertising revenue through the additional viewing, we do not believe in the BBC’s case such a channel would represent public service value given the potential adverse impact on competitors and the availability of most BBC content on the iPlayer shortly after its initial airing. If the BBC no longer requires the scarce digital terrestrial spectrum it was granted and has used in the**

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<sup>151</sup> Up until now CBBC and BBC Three have shared the spectrum on Freeview, with CBBC closing at 7pm when BBC Three begins broadcasting each evening.

<sup>152</sup> Q325

<sup>153</sup> BBC ([FBB0140](#))



evenings for BBC Three, then it should be obliged to give this valuable public resource up for alternative, public value use.

## Radio services

119. We heard similar complaints about the BBC in respect of some its national radio stations being too middle-of-the-road and having an adverse impact on commercial radio's capacity to generate advertising income. Given its receipt of the licence fee, the BBC is expected to do a type of public service broadcasting that would not be economically viable for commercial radio. Despite this, RadioCentre, a trade body for commercial radio companies, told us that the BBC has explicitly chosen to use its spending power to grow audiences of its flagship national radio services, particularly Radio 1 and Radio 2. Since 1999, they estimated that the shift in listeners to the BBC had cost the commercial radio industry around £54 million a year.<sup>154</sup> From 1999 to 2014, commercial radio's share of the market has gone down from 48% to 42%.<sup>155</sup>

### **BBC Radio in the UK**

In 2013/14 the BBC spent a total of £650m on domestic radio, of which £115.4m was spent on output for English local radio services. Radio 1 cost £40.2m and had a weekly reach of 20% of the population. Radio 2 cost £47.8m and reached 28.9% of the population: it had the highest radio audience in the UK of any station.

120. According to RadioCentre, the BBC's presence in the marketplace made it "a lot, lot harder" for commercial radio.<sup>156</sup> The combined programming budgets of Radios 1 and 2 were greater than the equivalent budget for every commercial radio station in the country.<sup>157</sup> Given that commercial radio stations depend on advertising revenue, they need to maximise audiences. Despite BBC radio not being under the same obligation, and there being an expectation of BBC content being distinctive, Global<sup>158</sup> complained that Radio 1's daytime playlists were dominated by music that was in the charts and widely played on commercial radio, with new music and specialist music shows being broadcast only off-peak or during the night.<sup>159</sup> The BBC, on the other hand, gave examples of how Radio 1 and 1Xtra's schedules included a mix of news, speech and live events coverage.<sup>160</sup> Both stations run a 15-minute news programme twice a day, *Newsbeat*, and shorter news bulletins throughout the schedule, which reach over one million young people on average a

<sup>154</sup> RadioCentre ([FBB0086](#)), para 3

<sup>155</sup> Q157

<sup>156</sup> Q156 (Kip Meek)

<sup>157</sup> Q154 (Will Harding)

<sup>158</sup> Owners of Capital Radio, Classic FM, Heart FM and LBC

<sup>159</sup> Global Radio ([FBB0091](#)), Case study one

<sup>160</sup> BBC ([FBB0140](#))



week, and between them they featured over 40 new documentaries a year. In addition, the BBC set out how its music output on Radio 1 was different to comparable stations in that:

- 55% of the songs played on Radio 1 in the daytime were not played on any comparable station;
- While 52% of the tracks played by Capital could be heard on Radio 1, only 3% of the tracks played on Radio 1 could be heard on Capital;
- Across a month (all hours), Radio 1 played 3,613 different tracks—compared to just 188 a month on Capital; and
- 54% of Radio 1’s playlist included artists without a top 10 single, compared to 9% on Capital.

121. Global argued that there should be a lot more distinctive output on Radios 1 and 2. They believed that the BBC concentrates too much on maximising listener numbers and hours spent listening rather than focusing on high-quality and distinctive content and underserved audiences. Will Harding, Group Director of Strategy at Global, explained:

[The BBC] are chasing ratings with Radio 1 and Radio 2, they are not chasing quality and they are not chasing distinctiveness. If you sat in those radio stations four times a year when the radio listening figures are published, they would be looking at exactly the same metrics that we look at: share and reach. They should not be. They should be looking at something different.<sup>161</sup>

122. We also heard other complaints about Radio 5 Live and Radio 3. UTV Media, owners of TalkSPORT, described a dilution of 5 Live’s news remit which they also attributed to the BBC’s attempt to maximise ratings.<sup>162</sup> According to UTV’s analysis, in 2010 just 45% of 5 Live’s output consisted of news, against a service licence requirement of 75%. The Friends of Radio 3, a society of radio listeners, were concerned that the BBC’s attempting to make everything “accessible” to everyone led to “dumbing down”.<sup>163</sup> They argued that the BBC’s allocation of services and funding disproportionately centred on entertainment for a wide audience and consequently audiences with a special interest in the arts and other minority interests were particularly poorly served. Global thought that the BBC’s funding priorities were wrong. They considered the BBC’s local and regional stations were “very poor relations” to its national stations.<sup>164</sup> Similarly, RadioCentre believed that if the BBC focused more on underserved audiences, i.e. younger audiences and those over 65, the scale and size of the BBC’s footprint could reduce.<sup>165</sup> Undeniably, however, in radio as elsewhere the BBC faces a difficult balancing act: the narrower the focus, the lower the reach and the more likely it will be criticised for failing in terms of audience reach. Regarding Radio 4, with its flagship news and current affairs programmes, witnesses from the commercial sector agreed that this station would not exist without funding from the licence fee.

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<sup>161</sup> Q161

<sup>162</sup> UTV Media (GB), (FBB0110)

<sup>163</sup> The Friends of Radio 3 (FBB0025), para 2.2

<sup>164</sup> Q175 (Will Harding)

<sup>165</sup> RadioCentre (FBB0086), para 27

123. Several witnesses have questioned the effectiveness of the current governance mechanisms in holding the BBC Executive to account for delivery of public value on radio. While RadioCentre was not necessarily arguing for an enforced reduction in the BBC's market share, they wanted tighter, more demanding public service targets in place. Instead, what had happened, in their view, was that the Trust had largely endorsed the populist direction of the BBC's radio services.<sup>166</sup> Put more bluntly, Global said that the Trust had simply failed as the overseer of BBC output.<sup>167</sup>

## Patrolling the borders

124. Lord Grade described the BBC Trust's role as one of patrolling the borders between the public and private sectors in the media.<sup>168</sup> Since its formation, the Trust has issued and conducted service licence reviews and public value tests as a way of monitoring the BBC's public value and constraining any adverse impacts on the commercial sector. David Liddiment, the longest serving BBC Trustee,<sup>169</sup> described how the BBC's service licences worked:

The service licences ... set out what each BBC service is supposed to be doing. We review that twice in the charter period to first satisfy ourselves that the licence is still fit for purpose, that audience needs and the market changes perhaps mean that the service licence needs amendment, but particularly to satisfy ourselves that the ambitions in the service licence are being realised. To do that, we ask the public. We ask the licence fee payers what they think. We invite stakeholders and commercial competitors of the BBC to give their contribution to the process, and we do a great deal of research with specialist research organisations so that we understand how the licence fee payers are feeling about the service.<sup>170</sup>

125. According to the BBC, the service licence regime has created a "step-change in accountability" inside and outside the Corporation.<sup>171</sup> Lord Grade, who as Chairman of the Board of Governors was principally behind the concept of service licences, described them as "instrumental".<sup>172</sup> Since their introduction, he noted that complaints from the private sector against the BBC had been far fewer than they used to be. However, while RadioCentre found the reviews a welcome improvement on the previous regulation of BBC services, they believed the licences suffered from imprecise and unquantifiable targets which ultimately made it very difficult to judge the overall performance of a service, and consequently the system failed to maximise public value.<sup>173</sup> They argued that the

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<sup>166</sup> RadioCentre ([FBB0086](#)), para 15

<sup>167</sup> Q169

<sup>168</sup> Q140

<sup>169</sup> David Liddiment was appointed to the Board of BBC Trustees in January 2007. He stood down from the Trust, having served three terms as a trustee, at the end of October 2014

<sup>170</sup> Q678

<sup>171</sup> *BBC Internal Governance Review*, December 2013

<sup>172</sup> Q140

<sup>173</sup> RadioCentre ([FBB0086](#)), para 14

conditions and targets laid out in service licences were ultimately worthless if they were not enforced and accompanied by sanctions.<sup>174</sup>

### **Public value tests**

126. Public value tests (PVT) were introduced at the same time as service licences. Since 2007, any proposal by the BBC to launch a new service, or make a significant change to an existing one, should undergo a public value test by the Trust which is informed by a market impact assessment conducted by Ofcom. The Trust uses these tests to assess the value to the public of a new BBC service and also to estimate the impact it could have on the wider market. Proposed closures of BBC services are also subject to a test. So far the Trust has completed only four public value tests, just one of which was negative: a proposal (discussed earlier) for online local video service. At the time of publishing our report, the BBC Executive's plans for the closure of BBC Three as a linear channel and the introduction of a BBC One +1 service were before the Trust. In this case, we were surprised by the length of time it had taken for the public value test process to start. Despite Lord Hall announcing his proposal in March 2014, it was not until December, nine months later, that the Trust confirmed the formal proposal had been submitted which would allow the public value test to begin. We note that Ofcom's market impact assessment is taking a comprehensive approach, considering the impact of transferring £30 million of funding from BBC Three to BBC One's drama budget among the other changes announced.<sup>175</sup>

127. The delay in the proposal reaching the PVT stage illustrates a problem highlighted by the Commercial Broadcasters Association: COBA were concerned that the BBC Executive was able to announce significant proposals for new services without Trust approval, creating significant and unnecessary uncertainty in the market. They explained:

The changes to the iPlayer could have negative consequences on the rest of the market. Yet [BBC] Management made public announcements regarding the new iPlayer features as if they were a near certainty, despite the fact that they had not received Trust approval. In a highly competitive commercial online marketplace, where UK media companies are striving to gain even a minimal foothold, this creates unnecessary uncertainty, and calls into question how the BBC is governed.<sup>176</sup>

COBA also pointed out that the current governance system did not allow industry views to be taken adequately into account when the Trust was considering the market impact on existing services. We note that BBC Store, the new download-to-own service, was approved by the Trust without any formal, direct consultation of industry by the Trust or Ofcom.<sup>177</sup> And more recently, the Trust, having sought Ofcom's advice, did not consider it necessary

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<sup>174</sup> RadioCentre ([FBB0086](#)), para 16

<sup>175</sup> Ofcom, *Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC, MIA Terms of Reference*, 20 January 2015

<sup>176</sup> Commercial Broadcasters Association ([FBB0072](#)), para 7.6

<sup>177</sup> BBC Store will be a commercial service run by BBC Worldwide.

to carry out a public value test for a new Radio 1 video service.<sup>178</sup> In B SkyB's opinion, this only showed that "public value trumps market impact every time".<sup>179</sup>

**128. The BBC is a powerful player in broadcasting and, given the broad scope of its public purposes and resources, there is a constant danger that it will, by accident or design, swamp smaller rivals and inhibit their ability to grow and develop. It therefore needs some boundaries, to ensure that the market overall is working to the public good and the licence fee payer is getting best value for money. To this end, we welcome the current Charter's introduction of service licences and public value tests and support their continuance. However, given the infrequency of service reviews and high thresholds for initiating public value tests, we believe that the body responsible for overseeing the BBC should be more willing to react to reasonable calls to test whether existing BBC services are fulfilling their public purposes and service remits. We recommend an additional means be developed to trigger public value and market impact tests where there is prima facie evidence of the BBC crowding out others' endeavours and having an adverse market impact. We believe the independent panel and Charter Review process should consider this as part of the review.**

**129. Under any new governance arrangements we believe that Ofcom should continue to provide market impact assessments that inform the public value tests, which would be undertaken by the body holding the BBC Executive to account for its public value. Ofcom should also be invited to give advice in areas where the BBC's market impact should be considered even where it does not involve a formal public value test.**

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<sup>178</sup> *BBC Trust approves Radio 1 iPlayer plans*, BBC Trust Press Release, 3 November 2014

<sup>179</sup> Q388 (David Wheeldon)

## 5 “Compete or compare”

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130. In the previous chapter we considered the scope and scale of the BBC and ways in which it might reduce its scale and get “more for less” in the next Charter period, including through engaging others in its work and partnership arrangements, and through stepping back from areas that were already well catered for by others. In this chapter, we consider further issues that impact on the size of the BBC and areas where it could also increase engagement with others in the pursuit of the best content, in local journalism, in the sale and distribution of content, and in the development of technology. There is often an uncertain balance to be struck in all of these areas and even where the BBC has a good record of doing things itself, there may be opportunities for obtaining better value for money through commissioning, or greater creativity achieved where it willingly collaborates with others in meeting its public purposes.

### BBC Production

131. A few days before giving evidence to our inquiry, the BBC announced plans for a fundamental change to its production supply arrangements. As part of the next Charter Review, Lord Hall has proposed that the BBC should remove its in-house production guarantees, establish BBC Production as a standalone subsidiary operating on a commercial footing, and allow it to make shows for rival broadcasters in the UK and others abroad for the first time in the BBC’s history. However, news, sports and children’s programming are not expected to be open to competitive tender.<sup>180</sup> The BBC explained that increasing competition in this way would ensure it always commissioned the very best ideas wherever they came from.<sup>181</sup> Lord Hall also saw increasing competition in supply of content as being an important element of contestability of the BBC’s funding.<sup>182</sup>

#### ***The BBC content supply quotas***

- Currently, 25% of BBC television commissioning hours is guaranteed to independent producers, 50% is guaranteed to BBC in-house producers, and 25% is available to both in open competition under the Window of Creative Competition (WoCC), first introduced in 2007 as part of the last charter review.
- For radio, under separate requirements, at least 10% of hours must be commissioned from independent suppliers, with a further ten per cent open to competition between the BBC and independent sector.
- For online, 25% of content spend must be commissioned from independent suppliers.
- The radio and online quotas are not statutory requirements, unlike the 25% independent production quota for television. The latter applies to all UK public service broadcasters.

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<sup>180</sup> Q631

<sup>181</sup> Q619 (Danny Cohen)

<sup>182</sup> Q167

132. Over the last few decades the growth of the UK's independent TV production sector has been impressive; in 2013 the industry contributed over £3 billion to the British economy.<sup>183</sup> The establishment of independent commissioning quotas in the 1990s and the agreement of terms of trade between PSBs and independent producers contributed to this success. The aim of the independent productions quota was threefold: to promote cultural diversity, opening up the production system to new energies and voices; to stimulate the growth of small and medium-sized enterprises; and to tackle vertical integration within the UK programme supplier market.<sup>184</sup>

133. The sector has almost doubled in size since new terms of trade were agreed in 2004.<sup>185</sup> Another contributory factor to the industry's growth has been the diverse mix of funding in the UK television industry: a combination of the licence fee, advertising and subscription revenue supports UK production.<sup>186</sup> In the case of the BBC, in 2013, it spent £476 million on commissioning content from external producers, making it the biggest buyer of content in the UK market.<sup>187</sup>

#### **2004 'Terms of Trade'**

Among other things, the terms of trade between PSBs and indies, has allowed independent producers an equitable production fee and control of distribution of their shows after first transmission, including international rights, format rights, video and DVD royalties and merchandising, although PSBs take a 15% share of net profits. The rationale for the agreement was to counter-balance the PSB's power as broadcasters.

### **Window of Creative Competition**

134. Patrick Younge, a former chief creative director of BBC Production, told us that without the in-house guarantee, the BBC would not have been able to build a strong network of production bases in Bristol, Cardiff, Glasgow and Salford, and would not have made a meaningful contribution in Belfast.<sup>188</sup> In the last few years there has been significant acquisition and consolidation activity in the UK production sector, with several independent producers having been taken over by other production companies or by global studio groups, to create what have become known as "super indies". According to Ofcom, seven of the biggest 12 UK independent production companies are now vertically integrated with broadcaster-owned companies that have significant global scale.<sup>189</sup> This consolidation in the industry has led to some companies losing their qualifying indie

<sup>183</sup> *Independent Production Sector Financial Census and Survey 2014*, published July 2014

<sup>184</sup> See: First Delegated Legislation Committee, Draft Broadcasting (Independent Productions) (Amendment) Order 2014, 30 October 2014, col. 3

<sup>185</sup> *A New Age of UK TV Content Creation and a New Role for the BBC*, a report prepared for Pact by Oliver & Ohlbaum Ltd, August 2014, page 9

<sup>186</sup> Q130 (Lord Birt)

<sup>187</sup> *Independent Production Sector Financial Census and Survey 2014*, published July 2014

<sup>188</sup> Patrick Younge, former Chief Creative Officer, BBC Production 2010-2014 ([FBB0130](#)), para 2

<sup>189</sup> Ofcom consultation paper on its third review of public service broadcasting.

status: this has occurred where a parent company has a greater than 25% share interest in a UK broadcaster or a UK broadcaster has more than 25% shareholding in the production company. Where this has happened, and the producer has been a supplier of a returning show or series to the BBC, the commissioned hours have had to be attributed to the Window of Creative Competition (WoCC), despite there being no competition.<sup>190</sup> Mr Younge explained the position as being less about creative competition and more about accounting.<sup>191</sup> Danny Cohen, BBC Director of Television, told us there was now less and less room for small indies, and for BBC Production itself, to win commissions in the WoCC.<sup>192</sup>

<b>Summary of BBC television production supply</b>		
	<b>2012/13</b>	<b>2013/14</b>
<b>Proportion of all hours produced by:</b>		
BBC in-house	56%	55%
External supplier	44%	45%
<b>Percentage of WoCC won by:</b>		
BBC in-house	26%	22%
External producers	74%	78%
<b>Hours of qualifying programmes produced by independent producers</b>		
Independent producers	36%	36%
Source: BBC Performance against public commitments 2013/14		

135. Against that background, the BBC Trust remains open-minded over the make-up of the BBC's supply arrangements. The Trust told us that its overriding concern was for audiences and the BBC providing them the highest quality and creative output.<sup>193</sup> The Trust has announced a wide-ranging review looking at the way programmes and content are made and supplied to the BBC by either independent production companies or BBC in-house production.<sup>194</sup> The review will consider the changes to the BBC's approach to content supply proposed by the BBC Executive and the potential impact on quotas and targets. Following a full consultation, the Trust plans to publish a final report by summer 2015, with the conclusions forming proposals to Government ahead of Charter Review. In its consultation on its third review of public service broadcasting, Ofcom has also identified

<sup>190</sup> For example, So Television, makers of the Graham Norton Show for the BBC, no longer qualify for the terms of trade since the company was bought by ITV Studios.

<sup>191</sup> Q452

<sup>192</sup> Q625

<sup>193</sup> BBC Trust ([FBB0096](#)), para 32

<sup>194</sup> BBC Trust announcement, [Review of the BBC's content supply arrangements](#), 12 August 2014



key areas for further consideration including “rebalancing the relationship between PSBs and the production sector”.<sup>195</sup> It notes that any change in regulatory intervention that influences the relations between the PSBs and the independent production sector will need to be tested against a number of questions including: “will it increase investment in UK content, how might it improve the delivery of the [public service] purposes and characteristics, and can it be achieved without undermining the current success of the UK production sector?”.

### **Publisher-broadcaster model**

136. Some are calling for change. According to the Producers Alliance for Cinema and Television (Pact), the BBC should become a publisher-broadcaster like Channel 4.<sup>196</sup> In their opinion, all BBC demand for programmes could be filled and supplied by the market, which would drive efficiency savings in the BBC, releasing more funds for new content. Prior to Lord Hall’s ‘compete or compare’ speech, the Radio Independent Group, who represent radio production companies, told us they would like parity with the television indie quotas, where there is a minimum 25% quota and a 25% WoCC. In 2010, following a review of radio independent supply, the BBC Trust concluded that it had not been provided with a convincing case that increasing the 10% supply quota for radio would deliver greater public value to listeners of the BBC’s radio services. The basis of its conclusion rested on a case that the fixed costs of the BBC’s radio studio provision and technology meant a reduction in internal provision was unlikely to make BBC radio any less expensive. Instead, the Trust recommended the creation of a 10% WoCC for radio on top of the 10% (voluntary) independent supply quota that was already in place.<sup>197</sup>

137. A report prepared for Pact has projected that a move of television production outside the BBC could involve a reduction in BBC staff of between 3,000 to 4,000, along with a decrease in the BBC’s corporate overheads and support services.<sup>198</sup> Oliver & Ohlbaum estimate that through a combination of winding down BBC in-house production, contracting out, transferring some genres to BBC Worldwide, and management buyouts of some long-running, existing BBC Production strands, the policy could realise £575 million in benefits for the creative sector and £30 million a year of savings for the BBC licence fee payer, as well as dealing with the BBC’s major competitive and PSB concerns.<sup>199</sup>

138. Lord Grade shares Pact’s stance on the BBC going to the market for content and other ancillary services. He has suggested that all BBC production processes and facilities could be outsourced to “a private sector more capable of absorbing the work”.<sup>200</sup> This could release the BBC’s “capital expenditure, resource management, headcount, investment capital and much more besides”. He explained:

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<sup>195</sup> Ofcom Consultation on its third review of public service broadcasting, December 2014, para 1.38.3

<sup>196</sup> Q398

<sup>197</sup> BBC Trust, *Review of Radio Independent Supply*, published August 2010, page 5

<sup>198</sup> *A New Age of UK TV Content Creation and a New Role for the BBC*, a report prepared for Pact by Oliver & Ohlbaum Ltd, August 2014, page 16

<sup>199</sup> *Ibid*, page 97

<sup>200</sup> “Wither the BBC”, *Is the BBC in Crisis?*, published by Abramis academic publishing, 2014, page 2

In its early days [the BBC] had to do [everything] because there were no electronics manufacturers. It had to design and build cameras, it had to do everything for itself. It had to build its own studios. All that exists in the private sector today and the BBC is now into property and into post-production businesses. It is into everything and it has become far too big in areas that it does not need to be in. It has not kept pace with the growth of the private sector service industries that now exist. That relates also to programme making.<sup>201</sup>

### ***Open and fair competition***

139. At present BBC producers are able to pitch ideas for programmes only to BBC channel.<sup>202</sup> BBC Production operating commercially could open up a variety of opportunities and profit potential which could be to the BBC's benefit. Nonetheless, there are potential risks associated with the BBC adopting a publisher-broadcaster model, or indeed with BBC Production becoming a commercial entity, in that its PSB programme-making values could diminish. If the BBC did not have control over its own production departments (or companies), then over time a shortage of external suppliers of key PSB genres, such as children's programming, could occur. On the other hand, if public funding were made available for others for the production of children's programmes this could grow the supply of such content.

140. In a similar way, if BBC Production became commercially focused, it might concentrate on producing material which had export potential rather than catering for the needs of licence fee payers. A problem in the medium-term could be the BBC's ability to achieve its out of London production quotas, and its commitments to the Nations, if there were insufficient content producers spread around the country, and it was obliged to wind down its own regional production centres.

141. If BBC Production were permitted to compete for commissions from other broadcasters then there would have to be a transparency in costs and fairness of commissioning decisions as well as robust safeguards against licence fee revenue cross-subsidising BBC's commercial supply activity. Lord Hall reassured us that the BBC understood that it had to demonstrate that there would be an absolute level playing field in commissioning processes and the BBC was working through the fair trading guidelines to make sure that this would be clear to everyone.<sup>203</sup> Despite this, Pact told us that so far they had been unable to obtain information from the BBC on its programmes' cost per hour. Although we accept that there is a case for commercial confidentiality on some specific costs, benchmarking and transparency of decision making processes will be essential if the BBC is to take an even-handed approach to commissioning.

142. Pact's inclusion on a working group looking at the BBC's plans for its new supply model should afford them opportunity to engage with the BBC over such matters. For a commercial BBC Production subsidiary to be successful, the BBC would have to overcome

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<sup>201</sup> Q122

<sup>202</sup> Q406

<sup>203</sup> Q632

any suspicions that old ties between its commissioners and producers could lead to preferential treatment, even if arms-length arrangements were established. This could only be achieved with wholly transparent trading arrangements which were open to independent audit and scrutiny. We discuss the BBC's auditing arrangements in a later chapter.

143. ITV predicted that an end to the BBC in-house guarantee could deliver something akin to a 'big bang' for the UK creative economy, liberating talented BBC programme makers, driving value for money and maximising the opportunity for the UK to exploit programming in secondary markets.<sup>204</sup> Channel 4 believed that the BBC needed to retain a strong in-house production presence so that there would continue to be a healthy mix of both in-house production and externally produced content. They also pointed out that the BBC's in-house production departments were the training and development hub for the wider industry.<sup>205</sup>

### **Loss of training ground?**

144. A switch to a publisher-broadcaster model could put at risk the BBC's longer-term investment in people and shift its training role to the commercial sector. As we have set out above, there is wide support for the BBC's training function.<sup>206</sup> Yet if the BBC had no significant production capacity of its own, it is hard to see how it could offer apprenticeships in production and on-the-job training for the industry. In addition, the BBC Academy would lose a training ground. A report by Deloitte's estimated that the value BBC training offered to other media organisations in 2008/09 benefited the creative industries by £59 million a year through improved productivity.<sup>207</sup> Yet, the BBC's own investment in training has been declining as result of its Delivering Quality First savings programme: a 35% cut was imposed to the activities of the BBC Academy over three years.<sup>208</sup> Nonetheless, in 2014/15 the BBC will increase its apprenticeships to 170 placements.<sup>209</sup>

145. In theory, the licence fee could be used to fund training bursaries across the BBC's supplier base. In Lord Grade's opinion, the key thing was the funding, not the institution doing the training.<sup>210</sup> It has been suggested that indies are already spending approximately £40 million a year on training.<sup>211</sup>

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<sup>204</sup> ITV plc ([FBB0066](#)), para 26

<sup>205</sup> Channel 4 ([FBB0067](#))

<sup>206</sup> See paras 45-49

<sup>207</sup> Creative Skillset ([FBB0084](#)), para 2.9

<sup>208</sup> In 2013/14, the BBC funding of the BBC Academy was £17.3m

<sup>209</sup> *BBC Annual Report and Accounts 2013/14*, page 80

<sup>210</sup> Q136

<sup>211</sup> Study by Redshift Strategy Consulting for Pact, 2014

### Terms of trade

146. The BBC has indicated that the terms of trade need looking at again, given the changes that have taken place in industry players since 2003.<sup>212</sup> While the BBC owns all the rights to content produced in-house, the current terms of trade prevent the BBC and other PSBs from owning secondary rights on acquired content from qualifying indies. When purchasing from a qualifying indie, the downside is that the potential earnings of the BBC reduce from 100% of revenues post the 30-day broadcast window to 15% under the terms of trade.<sup>213</sup> So while the BBC and PSBs carry most of the production cost they have only a small stake in the potential for royalties from the material purchased from qualifying indies. Lord Grade considered that the terms of trade were now uncommercial and that they had been designed to encourage a fledgling sector. He remarked:

I do not know any industry in the world or any commercial transaction anywhere in the world where you pay 100% for something and you do not own it at the end of it. The terms of trade are very much skewed towards the independents. If the BBC were to follow the Channel 4 model then the terms of trade would have to be reflective of the investment that the licence fee payer is putting in. In other words, if you put in 80% of the cost of the programme you should get 80% of the upside. It is as simple as that.<sup>214</sup>

147. Nonetheless, the BBC and other PSBs are free to negotiate better commercial terms with external producers who do not qualify as an indie under the statutory provision. Despite this, Pact told us that the BBC, ITV and Channel 5 choose not to do so as they had worked out that the terms of trade did not necessarily damage them and were an attractive proposition for their suppliers.<sup>215</sup> Pact has led several renegotiations of the terms of trade since 2003. The last had allowed the BBC extended rights for content to be shown via the iPlayer for up to 30 days after transmission and in Channel 4's case for its re-run channel, 4Seven.

148. Pact also explained how independent production financing worked. Producers generally did not get fully paid for the cost of a programme they were making for a broadcaster; instead they had to pre-sell the rights of content to the international market in order to secure their budget, as under a deficit-financing arrangement. As a result, a production company would not recoup all its costs until after a show had been broadcast and sales revenues came in.<sup>216</sup> Ofcom has noted that even though the independent production sector has been consistently profitable since 2003, the overall margins are not particularly high and have fallen in recent years.<sup>217</sup>

149. A significant change since 2003, of course, has been the increase in channel supply with the growth of multi-channel services and digital switchover, and other content

<sup>212</sup> Q623

<sup>213</sup> Enders Analysis ([FBB0098](#)), para 15

<sup>214</sup> Q135

<sup>215</sup> Q413 (John McVay)

<sup>216</sup> Q415

<sup>217</sup> Ofcom—*Public Service Content in a Connected Society: Ofcom's third review of public service broadcasting—Consultation*, 15 December 2014, para 3.219

delivery platforms and services including iTunes, Netflix and Amazon Prime Instant Video. This increased competition has meant that power has transferred from the broadcasters and channel owners to the content providers, who are able to exploit the rights to content, generating in some cases significant earnings in global sales.

150. In respect of indie production companies, seven of the biggest 12 are now vertically integrated with broadcaster-owning groups that have significant global scale. According to Ofcom, there are only four remaining "super indies" whose commissions qualify for the terms of trade, although many smaller and medium sized companies continue to qualify.

<b>Qualifying and non-qualifying super indies</b>				
<b>Super indie</b>	<b>Parent company</b>	<b>Parent's UK channel</b>	<b>Parent's EU channel</b>	<b>Qualifying indie?</b>
All3Media	Discovery, Liberty Global	Discovery	Discovery	No
Avalon Entertainment	n/a	None	n/a	Yes
Endemol	Apollo Management/ 21 <sup>st</sup> Century Fox	Sky channels	Fox International Channels	No ( <i>if acquired by 21<sup>st</sup> Century Fox</i> )
Fremantle Media	RTL Group	None	RTL channels	Yes
Hat Trick	n/a	None	None	Yes
Hartwood Films	n/a	None	None	Yes
IMG Productions	n/a	None	None	Yes
Nutopia	n/a	None	None	Yes
Shed	Time Warner	Turner, CNN etc	Turner, CNN etc	No
Shine	21 <sup>st</sup> Century Fox	Sky and Fox channels	Sky and Fox channels	No
TwoFour Group	n/a	None	None	Yes
Zodiak Media	De Agostini	None	Antena 3 (Spain)	Yes
Note: Disqualification is where a production group or company is connected to a UK broadcaster. Qualification allows a company to qualify for the "terms of trade" and to count towards indie quotas.				

151. In a speech to the Royal Television Society last autumn, the Rt Hon. Sajid Javid, the Secretary of State for Culture, Media and Sport, indicated that the terms of trade and the related legislation on qualifying indies needed to be reviewed ahead of Charter Review.<sup>218</sup> Ed Richards, as chief executive of Ofcom, also believed the time was right for a review. He explained:

[The terms of trade] were established, as was the quota, for a time when the independent production company was independent and typically pretty small, sometimes two or three people operating in an office at the end of the garden. ... There has clearly been such change to the nature of those

<sup>218</sup> Sajid Javid's speech at the Royal Television Society conference, 9 September 2014

companies, particularly at the big end where you have some very substantial bodies now integrated into very big companies. It feels to me like the right time to have a thorough look at that.<sup>219</sup>

**152. Whilst we welcome the concept of removing the BBC's in-house production guarantees and opening up the majority of BBC commissioning to competition, it is important that commissioning decisions are not simply made on the basis of cost but also on quality. Clearly there would be a benefit to licence fee payers in the BBC producing content for others on a commercial basis given the financial return it could make. However, we believe there is a risk that such commercial motives could over time distract BBC producers from their principal role in meeting the BBC's public purposes. The BBC must remember the concerns expressed and previous overreach of BBC Worldwide. It must not allow commercial gain to trump the BBC's main purpose as a public service broadcaster.**

**153. We are sceptical of the suggestion that the BBC should become solely a publisher-broadcaster and retreat from producing any content itself. Given the BBC's long successful tradition of making high-quality television programmes, it should continue to produce content itself where its output is distinctive from the market and where it makes economic sense to do so. In future, when the BBC is commissioning content it will have to give careful consideration to the value of long-term ownership of intellectual property, as well as initial production costs. Where particular types of content can be provided by the market more easily and cheaply, and have less long-term value, the BBC must be willing to withdraw from these areas.**

**154. If BBC production is opened further and the BBC were to be permitted to compete for commissions from other broadcasters then it must be able to demonstrate a transparency of costs and a fairness in its commissioning decisions and processes with robust safeguards against licence fee revenue cross-subsidising BBC's commercial supply activity. This will not be easily achieved.**

**155. In taking on production work for others, BBC Production would become one of the largest production companies trading in the UK market. As such, the Government would need to consider what impact its commercial endeavours would have on smaller and medium-sized production companies operating in the UK market and consider what, if any, bearing this should have on any review of the terms of trade and other legislation in respect of independent content production.**

156. While the terms of trade have successfully achieved their original aims of supporting and growing a diverse supply of content production in the UK, we recognise claims that there is now too much of an imbalance in the industry in respect of the size and influence of production groups following the recent consolidation and growth in foreign ownership of providers. As well as there being a need for continued support for small and medium-sized independent production companies, we recognise the increasing importance that ownership of content is playing for broadcasters given the rise in on-demand viewing and download-to-own services. Such change means the traditional public service broadcasters'



business models are changing. We recommend that the terms of trade should be reviewed as part of the Charter Review process. Among other things, consideration must be given as to how the terms of trade might have to change in respect of the BBC if it became a commercial provider of content to others. As the terms of trade apply to all PSBs, Ofcom should have a lead role in this review. However, any changes to the terms of trade must not introduce any unintended consequences. For example, limiting the retention of rights to content to only smaller production companies could create incentives for broadcasters to deal with larger producers where preferential terms could be applied.

## Provision of local news and online content

157. There has been a running debate about whether the BBC's share of news output and its online presence is too dominant and whether it is posing too much of a competitive threat to regional journalism, as well as if the BBC potentially could have a key position in helping to sustain local media organisations through a more collaborative approach to the industry. The BBC's local output is provided through regional news on television, local and nations' radio services, and local websites. The service licence for BBC Online stipulates that it should provide content for licence fee payers in the different nations and local communities across the UK and that at the core of the offering there should be:

news, sports, weather and travel, alongside content in other areas which reflects the particular characteristics of each nation or locality and supports broader BBC initiatives, programmes and services.

It explains:

The BBC's online content may be syndicated to other providers in line with the BBC's syndication policy... [*and that* The Service] should actively seek to form partnerships with external organisations, particularly where these can help to promote the BBC's public purposes more effectively.<sup>220</sup>

158. Local newspapers are a vital component of our democracy as are their community-based journalists who keep a watchful eye over local government and other agencies and provide coverage of events that would otherwise go unreported. As of 1 January 2014, the regional and local press provided local news and information across 1,100 daily and weekly titles and 1,700 websites.<sup>221</sup> However, in the last decade the sector has suffered a steady decline in traditional paper circulations, owing to people moving online. Since the financial crisis of 2008, 150 local newspaper titles have closed with many more reducing the frequency of publication or the range of locally-specific news coverage.<sup>222</sup> In an effort to counter this, many regional newspaper groups have diversified by growing their own web audiences to allow them to compete with new media organisations online.

159. A decade ago, Philip Graf CBE, a former Trinity Mirror chief executive and later Ofcom Deputy Chair, conducted a review of the BBC's online services on behalf of the then

<sup>220</sup> See: *BBC Online and Red Button service licence*, April 2014, page 3

<sup>221</sup> Figures taken from the [Newspaper Society website](#), May 2014

<sup>222</sup> Early Day Motion 585, Closure of local newspapers, tabled 1 December 2014



Government.<sup>223</sup> At that time, he called for a “precautionary approach” to BBC Online investment and for at least 25% of the BBC’s online content (excluding news) to be supplied by external suppliers. He also recommended that BBC Online must include “more consistent and transparent links” to all relevant commercial and public sources, and not only link to BBC pages. These recommendations were incorporated as conditions in the Trust’s service licence for BBC Online.<sup>224</sup> The licence specifies that the service should:

- Commission at least 25% (by value) of eligible content and services from external suppliers; and
- aim to increase the volume of click-throughs to external sites from all parts of BBC Online year-on-year.

160. With local newspaper businesses now running their own websites, we were told that they were much more sensitive to coverage of local news by BBC Online, as they were now competing for the same audiences. Nevertheless, Geraldine Allinson, Chairman of the KM Group, told us that she was sure there was a way for the BBC to provide local services in a manner where the local press and the BBC could coexist:

We can do the commercial side and they can also provide local services but in a way where we are supportive of each other rather than actually in direct competition and fighting.<sup>225</sup> ... I do believe we can coexist for the best of each other and for the best of UK plc rather than just competing head-on.<sup>226</sup>

Nonetheless, there was concern that an unconstrained BBC through its non-commercial expenditure could wipe out the local press and eliminate all competition.<sup>227</sup> Yet Ian Murray, President of the Society of Editors, told us:

I do not think that the BBC genuinely wishes to trample on everyone and destroy us all and become one voice in the country. It does not want to do that. It can see the value as has been said of having newsrooms competing against each other, and I believe it understands. But I think it just treads in a little bit like a dinosaur from time to time and, “Oh I didn’t mean to squash you. I’m sorry I have.”<sup>228</sup>

161. The regional press have two principal concerns in relation to BBC’s online activity which impacts on their businesses and ability to compete fairly. First, they find that the scale of BBC investment in its regional websites is too high and that this is thwarting their efforts to build digital audiences.<sup>229</sup> Second that the BBC takes stories from them without properly attributing the content or linking a news item to the media website from where the story originated. While there is recognition that the BBC is starting to improve in this

<sup>223</sup> [Report of the Independent Review of BBC Online](#), DCMS, 8 May 2004

<sup>224</sup> See: [http://www.bbc.co.uk/bbctrust/our\\_work/services/online/service\\_licences/online\\_red\\_button.html](http://www.bbc.co.uk/bbctrust/our_work/services/online/service_licences/online_red_button.html)

<sup>225</sup> Q192

<sup>226</sup> Q196

<sup>227</sup> Q193 (Adrian Jeakings)

<sup>228</sup> Q218

<sup>229</sup> BBC must introduce quotas on web traffic sharing, *The Telegraph*, 6 August 2014

regard, in terms of referrals, we were surprised when the KM Group and Archant told us that only a tiny percentage of traffic to their sites came from the BBC's.<sup>230</sup>

162. The chief executive of Johnston Press, Mr Ashley Highfield (the BBC's former Director of New Media and Technology from 2000 to 2008), has called upon the BBC to introduce quotas on web traffic sharing, and asked for a more general commitment from the BBC to supporting regional papers. He has argued that the regional press should be allowed to take content, such as video, from the BBC and republish it on their websites, in effect reversing the traditional content flow, so long as local sites properly attributed the material to the BBC and were mindful of not juxtaposing inappropriate advertising. He explained:

A lot of local stories would benefit from having BBC content, particularly video, on our websites, and in return we could help bring a much bigger audience to the BBC ... Counter-wise, if [the BBC] is going to use our content, then properly attribute us and link back to us so the traffic flows two ways.<sup>231</sup>

163. Some see a paradox in the BBC Trust being there both to cheerlead the BBC and to constrain it. Ms Allinson told us despite attempts to contain the BBC, the Trust had encouraged BBC management to make BBC online services more local.<sup>232</sup> In 2013, the Trust's review of BBC Online had recommended that the BBC should develop and implement initiatives to improve its local online offer, particularly news, alongside broader actions to improve navigation and personalisation of the BBC's local sites.<sup>233</sup> In light of this, Mr Adrian Jeakings, President of the Newspaper Society, remarked that the industry was "girding its loins" for the same battle all over again.<sup>234</sup>

164. Several representatives of the local press see potential for a mechanism whereby local and regional press are appropriately rewarded for creating content which is shared with the BBC. The previous Government developed policy to introduce Independently Funded News Consortia (IFNCs), which could have been funded through a share of the licence fee, to fill any gap due to reductions in regional news coverage by Channel 3 licensees.<sup>235</sup> However, these plans were dropped by the incoming coalition Government, which instead proposed new commercial local TV in towns and cities, with funding for the IFNC pilots used to support the rollout of superfast broadband.

165. In line with this ambition for local TV, as part of the 2010 licence fee settlement, the BBC is obliged to earmark up to £5 million of funding per year (for three years) for the acquisition of local news content from the new local television stations.<sup>236</sup> However, so far only a few local TV services have been launched, of which London Live is probably the best

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<sup>230</sup> Q203

<sup>231</sup> Torin Douglas interviews the CEO of Johnston Press, Ashley Highfield, 5 November 2014

<sup>232</sup> Q192

<sup>233</sup> Service review of BBC Online and Red Button, BBC Trust, 25 May 2013

<sup>234</sup> Q225

<sup>235</sup> Independently Funded News Consortia (IFNC) were proposed as independently set-up groups providing local and regional news within various regions of the United Kingdom.

<sup>236</sup> The 2010 settlement also provided for up to £25 million in capital costs for local television

known. It appears this channel has got off to a slow start since launch, as it has only attracted small audiences. Another new TV station for Birmingham went into administration before it had launched; its licence has been passed to another media group.<sup>237</sup> **In the last two years, Ofcom has awarded 30 licences for local TV services and 15 stations have gone live. So far these services do not appear to have had any significant impact among audiences nor have they made a meaningful contribution to the provision of local news and content and as such their viability remains in doubt.**

166. The BBC's funding of local TV prompts questions of whether a similar model could be adopted to support regional news. Ms Allinson believed it could be possible for the BBC to support local journalism by commissioning content from third parties on a commercial basis where independent journalists and media groups bid for work. She envisaged local BBC newsrooms potentially identifying subjects that their local audience would be interested in, and possibly investigative journalism that might be unaffordable for local media to do by themselves, and pay them for doing this work. There could be framework agreements put in place to facilitate the sub-contracting of such work. However, Ms Allinson was at pains to stress to us that regional media groups, such as the Kent Messenger, were very much independent organisations and wanted to remain as such. She remarked: "any idea of any sort of subsidy I think would fill all of us with horror".<sup>238</sup>

167. A similar idea was expressed by SWNS (South West News Service), who pointed out that very little news content is bought-in by the BBC, as opposed to areas such as drama.<sup>239</sup> SWNS explained that local news agencies should be treated like "qualifying" independent producers where the BBC allocated 25% of its budget to buying content from local media organisations. In their opinion such outsourcing arrangements could gain better value for money as well as acting as an economic stimulus in local communities. SWNS highlighted that the BBC already had such arrangements in place with an independent news agency in Wales, which established a proof of concept.

168. Moreover, SWNS believed that the BBC should not expect to receive content or leads from services like its own free of charge. Support in this way could help keep journalists 'on the ground' in communities. Against this background, SWNS proposed setting up public service reporting schemes where a percentage of the BBC's regional budgets could be made available for court reporting, but where the BBC did not control the process. They suggested that such public funding could be open to bidders via an independent source on a non-profit basis for "qualified independent providers". Providers would be expected to maintain high journalistic standards. Such work could help train new journalists in local communities.

169. The BBC has recently sounded receptive and encouraging to proposals being put forward by the industry to foster partnerships between the BBC and local news groups. In November 2014, James Harding, BBC director of news and current affairs, told the Newspaper Society that he believed there was a revival underway in local journalism and

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<sup>237</sup> Kaleidoscope given Birmingham local TV licence, *BBC News*, 24 November 2014

<sup>238</sup> Q209

<sup>239</sup> SWNS (South West News Service), ([FBB0145](#))

that the BBC wanted to be a part of it.<sup>240</sup> He explained that the BBC would look to see what it could do with local organisations of all kinds to make it happen. The BBC has agreed to pilot BBC syndication of content to other local news providers in the north-east of England where the BBC would share its most popular pieces of content with local news providers. There were mixed views on the BBC paying others for content. However, the BBC was examining activity in the regions to see how many new stories were sourced by the BBC and what kind of funding streams might be made. In addition, the BBC had also discussed the idea of a fund to ensure local courts were covered in a more comprehensive way. Conversations have also been underway between the BBC, the Press Association and the Ministry of Justice.

170. Introducing competitive funding for local journalism would be challenging. A disadvantage of such public funding could be that it had the perverse consequence of discouraging investment by local media in their newsgathering. At present, there appears to be considerable variation across the country in both the quantity of local news provision and the quality of local journalism. Whilst some areas are well-served, others are devoid of proper local coverage and it is not at all clear how a fair and effective allocation of funding could be made. We look at the case for contestable funding of the licence fee for public service content in our next chapter.

**171. We believe there must be a more symbiotic relationship between local media and the BBC, where each benefits from the other. The BBC as the dominant partner must always be mindful of the effect of its activities on regional media groups and their ability to turn a profit, given the greater certainty resulting from its publicly-funded position. The BBC Trust's conclusions from its 2013 review of BBC Online, where it called on the BBC management to make sites more local, demonstrated a disregard for the health of local journalism.**

**172. Whilst the BBC appears to make the right gestures in supporting local and regional media organisations in the run-up to Charter Reviews, we believe more definite commitments in respect of its interactions with the press must be codified into any future Charter framework.**

**173. The BBC must not expect to receive others' news content without providing something in return. We are attracted by the idea of exchanges of content and information, where the BBC local websites link to the source of local material they have used, and in return the BBC allows others to use its content and embed BBC clips on their sites, where these would be of local interest, under a licence agreement. There need not be a financial transaction. However, we also see the case for the BBC outsourcing the supply of some local content on a commercial basis, where there is an ongoing requirement for such material, and it is a more cost-effective way of meeting this need. We recommend this be ensured by extending the BBC's independent production quota to cover local news.**

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<sup>240</sup> Speech by James Harding, Director of BBC News and Current Affairs, to the Society of Editors conference in Southampton, 11 November 2014

## BBC Worldwide

174. Over the past couple of decades successive Governments have encouraged the BBC to engage in commercial activity, in part to relieve pressure on the licence fee. This is achieved principally through BBC Worldwide, a wholly-owned subsidiary and the main commercial arm of the BBC. Worldwide exists to support the BBC's public service mission and to maximise profits on its behalf. It does so through investing in programmes and commercialising and showing content from the BBC around the world, in a way expected to be consistent with BBC standards and values. The business also builds the reach and reputation of the BBC brand overseas and champions British creativity.

175. Worldwide is the largest programme distributor in the world outside the US major studios, selling programmes and formats produced by the BBC and by over 200 UK independent producers.<sup>241</sup> In addition, it generates advertising and subscription income through running channels, some part-owned, on a commercial basis both at home and overseas.<sup>242</sup> In order to supplement traditional DVD sales, Worldwide will soon launch BBC Store, an online commercial service for audiences to buy and keep BBC programmes from its archive. Profits and commercial income from these activities are returned to the BBC through dividends to the BBC's public service arm, as well as Worldwide's own direct investments in BBC co-productions.

### ***Worldwide's financial performance in 2013/14***

Last year, Worldwide generated headline profits of £157.4 million, through (headline) sales of £1,042.3 million. It returned £173.8 million to the BBC, of which it invested £88.9 million in BBC commissioned productions. Worldwide's net profit, after tax and other adjustments, was £98.1 million.<sup>243</sup>

176. The BBC Executive told us that, despite limited access to capital, BBC Worldwide had delivered a strong financial performance, and that it now provided up to 75% of the funding for some of the BBC programmes to which it contributed.<sup>244</sup> Since 2007 Worldwide has returned nearly £1.2 billion to the BBC, including £467 million in dividend payments and £650 million of content investment. Looking beyond 2016, the BBC Trust has, however, forecast that sustaining the level of returns generated for the BBC by Worldwide over recent years will be challenging, and that it expects these returns will continue to represent only a small part of the BBC's overall funding.<sup>245</sup>

<sup>241</sup> See: *Supporting the creative economy*, Third Report of Session 2013–14, HC 674, Ev 320 (BBC)

<sup>242</sup> For example, UKTV is a multi-channel broadcaster, supported by advertising revenue, jointly owned by BBC Worldwide and Scripps Networks Interactive

<sup>243</sup> *BBC Worldwide Annual Report, 2013/14*

<sup>244</sup> BBC ([FBB0097](#)), para 381

<sup>245</sup> The Trust indicated that (leaving aside investment in content production) Worldwide's annual dividend was equivalent to around 4 per cent of the total cost of running the BBC in 2012/13. See BBC Trust ([FBB0096](#)), para 40

177. Some have argued that Worldwide should be privatised to allow it more operational independence. In 2004, a report by the Broadcast Policy Group, chaired by David Elstein, recommended that divestment of Worldwide from the BBC would allow it greater efficiency and access to capital markets to finance its activities.<sup>246</sup> The Group argued that separation from the BBC would give independent producers greater confidence in its distribution skills and independence of function. They believed that a divested business could flourish as organisations with “social objectives” were rarely “the best parents” for commercial ventures.<sup>247</sup>

178. The Charter sets a framework for the BBC’s commercial activities; they must comply with all the following criteria:<sup>248</sup>

- Fit with the BBC’s public purposes;
- Exhibit commercial efficiency;
- Not jeopardise the BBC’s good reputation or the value of the BBC brand; and
- Comply with the BBC’s fair trading guidelines, in particular avoiding market distortion.

To enable transparency, the BBC is required to report publicly each year on compliance with these requirements.<sup>249</sup>

179. A very costly mistake by the BBC was the purchase of the Lonely Planet publishing business in 2007: a transaction that led to a loss of £100 million when it was sold in 2013. It was the BBC’s diversification into areas that were not closely aligned to its public remit and core programme making, and which risked an adverse impact on other market players, that troubled our predecessor Committee and led them to hold an inquiry into the BBC’s commercial operations.<sup>250</sup> In 2008, the Committee strongly disagreed with BBC’s management and the Trust in their persistence in claiming that the purchase of the travel guide publishing business was in accordance with the BBC’s commercial criteria.<sup>251</sup> It was the Committee’s view that the acquisition represented the “most egregious example” of BBC Worldwide’s expansion into areas where the BBC had no, or limited, interests. Furthermore, the Committee was especially critical of BBC’s management and the Trust’s “apparent arrogance” in its dealings with them with both at the time appearing to believe they had no case to answer.<sup>252</sup>

**180. There are major benefits from the BBC undertaking commercial activities as the profits generated by the exploitation of the BBC’s intellectual property can be reinvested in the BBC’s public services, to the benefit of licence fee payers. However,**

<sup>246</sup> *Beyond the Charter—the BBC After 2006*, Broadcasting Policy Group, published February 2004, para 7.4

<sup>247</sup> *Ibid*, page 9.4

<sup>248</sup> An Agreement Between Her Majesty’s Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation, Cm 6872, schedule 69

<sup>249</sup> For example see: *BBC Annual Report and Accounts 2013/14*, page 112

<sup>250</sup> *BBC Commercial Operations*, Fifth Report of Session 2008–09, HC 24, para 1

<sup>251</sup> *Ibid*, para 8

<sup>252</sup> *BBC Commercial Operations: Further Report*, Seventh Report of 2008–09, HC 968, para 15



**BBC Worldwide's activities must not risk jeopardising the reputation of the BBC or be allowed to have an adverse impact on its commercial competitors. We continue to believe that the approach of BBC's commercial activities should be limited to those closely linked to its programmes and its public service remit.**

181. **There is a potential risk that BBC dependence on returns from BBC Worldwide to fund UK public service content, as a co-producer of new content or through dividends to bolster the finance of the BBC's PSB operations, could lead to UK PSB content focused more on global commercial appeal and return rather than primarily aimed at serving domestic audiences in the first instance. We believe that investing in public service content for UK audiences must remain the priority for BBC Worldwide beyond 2016.**

182. **BBC Worldwide has an important role in marketing the BBC brand and the UK's creativity overseas, even if its financial contribution to domestic PSB remains reasonably modest. We recommend that the independent panel and Charter Review process consider whether changes are needed to existing oversight provisions in the Charter and Framework Agreement for BBC Worldwide and for the BBC's other commercial activities.**

### **BBC's technology development, standard setting and championing role**

183. In setting out his vision for the BBC, Lord Hall identified innovation as being a part of the BBC from its very foundation.<sup>253</sup> Since its formation in 1920s, the BBC has had a role in developing technology and promoting its use. The BBC was the first broadcaster in Europe to transmit programmes in colour on television and arguably it was the BBC in the UK that popularised home computing in the 1970s and more recently catch-up TV through its development of the iPlayer. In its early days the BBC had little choice but to develop its own equipment by itself as there were no others to turn to. The question today is whether the BBC still needs to be taking a key role in research and development on behalf of the industry or whether this work could now be left largely or wholly to others. Fiona Philpott, Director of Exhibitions & Design, National Museums of Liverpool, argued:

The BBC is full of some of the most creative and technical talent which exists in the UK today. It would be madness for the BBC not to channel this into developing new ways of delivering and distributing content.<sup>254</sup>

184. The BBC was widely credited in 2002 for leading a coalition of industry participants in rebuilding a free-to-air digital terrestrial television platform and launching Freeview following the collapse of ITV Digital and its predecessor ONdigital. Freeview is now watched in almost 20 million homes (75 per cent of all TV homes) and is the sole television platform in almost 11 million homes.<sup>255</sup> Yet there have been failures, too. The Digital

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<sup>253</sup> Speech given by Lord Hall, BBC Director General, at the BBC Radio Theatre in London, Tuesday 8 October 2013

<sup>254</sup> Fiona Philpott, [\(FBB0065\)](#)

<sup>255</sup> That is, homes without cable or satellite services. Freeview homes with broadband connections are able to receive television services by this means as well.



Media Initiative (DMI), an IT project that attempted to develop a fully digital, tapeless in-house production workflow system for BBC staff, was cancelled having delivered very few tangible benefits at a cost of £100 million. In the case of DMI, it has been suggested that while the BBC insisted on developing its own system there were existing industry-standard options that could have met the BBC's needs.<sup>256</sup> During a visit to the BT Sports studios at Queen Elizabeth Olympic Park, we were told that BT had acquired an off-the-shelf production system which was similar to the one the BBC had been seeking to develop and which had met its needs well.<sup>257</sup>

185. The 'sixth public purpose' of the BBC is "Delivering to the public the benefit of emerging communications technologies and services". In the box below are the priorities the Trust aligned with this purpose.

<b><i>Purpose priorities as set by the Trust:</i></b>
<ul style="list-style-type: none"> <li>• Make engaging digital content and services available on a wide range of digital platforms and devices.</li> <li>• Work with the industry to deliver a UK-wide network of digital television.</li> <li>• Increase coverage of DAB (Digital Audio Broadcasting).</li> <li>• Support Digital UK's communications activity to build awareness of, and readiness for, digital switchover.</li> <li>• Work in partnership with other organisations to help all audiences understand and adopt emerging communications technologies and services.</li> <li>• Support the Government's targeted help scheme to help the most vulnerable during digital switchover.</li> </ul>

In line with this purpose, the Framework Agreement with the Secretary of State requires the BBC to aim to maintain the BBC's position as a centre of excellence for research and development in broadcasting and distribution.<sup>258</sup> Wherever the BBC is involved in the development of new technologies, the Agreement requires it to consider doing so on the basis of 'open standards'. This means balancing the commercial exploitation of new intellectual property with the value that might be delivered to licence fee payers and the UK economy by making new developments widely and openly available. The BBC explained that its research activity provided value to the broadcast industry by:

<sup>256</sup> See: Professor Barwise ([FBB0128](#))

<sup>257</sup> Committee visit to BT Sports Studios, Queen Elizabeth Olympic Park, 2013

<sup>258</sup> An Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation, July 2006, schedule 87 (1)

- Providing risk capital for technological development as it could work on technology concepts well before they are commercially viable;
- Providing a strong voice for the broadcast industry; and
- Providing a training ground for broadcast technologists.<sup>259</sup>

186. Most industry players support a continuation of the BBC's research and development activity, as part of its remit. Nonetheless, there was general agreement, even among those more tentative about its role and record, that its public funding meant it had to work collaboratively and openly with the industry. Phil Redmond, a television producer and screenwriter, believed that, while much of what the BBC needed technically was probably available commercially; innovation always required a move away from the norm when the acquisition of custom-built technology could be both commercially and creatively sensitive, as well as more costly.<sup>260</sup> In his opinion, the BBC should be allowed to continue its traditional role of technological innovation arising from its role as a public service provider. He saw potential revenue opportunities through licensing such technology. Shed Media believed that if the BBC did invest in new technologies, such as in devices like the iPlayer, then they should be commercialised as fully as possible.

187. During the present Charter period the BBC developed YouView, an internet TV service, as a joint venture with ITV, Channel 4 and Channel 5, BT, TalkTalk and Arqiva. YouView allows TV sets to access television services through a broadband connection. The development started as Project Canvas in December 2008 as a partnership between the BBC, BT and ITV plc, with further partner joining later. Despite several delays, the consortium released a set-top box just in time for the London Olympic Games in July 2012. The YouView service is now mainly used by customers of telecom companies offering TV services which include access to the PSB channels.

188. Channel 4 explained that if the BBC were to partner with other PSBs and share technology it would doubtless save PSBs significant amounts of time and money which could be reinvested back into content budgets, benefiting viewers, the production sector and the PSBs.<sup>261</sup> Yet Global believed that the evolution of the internet services market had matured in the past decade and the need for a publicly-funded intervention from the BBC had been reduced.<sup>262</sup> They noted that even though the iPlayer was first of its kind, there were now many versions of catch-up television and for that reason the BBC no longer needed to keep financing such innovation.

**189. It is vital that BBC works in partnership when developing technology and broadcasting platforms, through joint ventures such as Freeview and Freesat, and through working with standards organisations and equipment manufacturers to sustain and improve the availability of its services. Wherever possible the BBC must turn to the market for its technology needs rather than attempting to do things itself if it is to avoid future costly mistakes, as was the case with the Digital Media Initiative.**

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<sup>259</sup> BBC ([FBB0140](#))

<sup>260</sup> Professor Phil Redmond ([FBB0076](#)), para 33

<sup>261</sup> Channel 4 ([FBB0067](#))

<sup>262</sup> Global Radio ([FBB0091](#))

Where solutions are not available to meet the BBC's future needs, then it should take the lead in developing new solutions but in conjunction with others so that the BBC's counterparts contribute and to ensure their needs may also be met.

190. We recommend that the BBC's sixth public purpose on communications technologies should be retained, but the means to achieve it should be clarified. The remit and priorities of the purpose should be revised and updated. They should, for instance, strengthen the requirement on the BBC to look first to the market for technology solutions and to ensure any development it undertakes is done in partnership with others, but where the market is not yet delivering innovation, the BBC should be required to take a leading role in pushing development in line with people's expectations.

## 6 Funding

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191. Probably the most distinctive aspect of the BBC is the way it is funded through a compulsory television licence, which some now see as anachronistic given the changes in communications and media technology and services over the last decade, and changing audience needs and behaviours. There is now a wide availability and choice of delivery platforms and mobile receiving devices, content (linear and non-linear) and services, social media, interactivity and connectivity. As a result, consumer behaviour is changing, such as the growing tendency for many now to use multiple devices at the same time. However, as noted earlier, many people's television viewing habits have not changed as much as the experts and commentators had anticipated at the last Charter Review; Lord Burns, for instance, told us that the PSBs had held on well to their audiences, beyond expectations, and that even though viewing of their main channels had declined, they had maintained their overall share of audiences as these were spread across their new digital and repeat channels.<sup>263</sup>

192. Alternative mechanisms for funding the BBC include advertising and sponsorship, subscription, and general taxation, or a mix of some or all of these. Many other countries' public broadcasters are funded by a combination of licence fee or taxation and advertising, for example in France, Germany and the Netherlands. Up to now in the UK, the public service broadcasters, both publicly-owned (BBC and Channel 4) and privately-owned (ITV and Channel 5), were granted privileged access to scarce spectrum in return for various content obligations; this has ensured the provision of free-to-air broadcasting in the UK.

193. As we have set out above, there remains a greater expectation on the BBC, given its public funding, to be more willing to innovate, take a long-term view, and invest in training, which benefits the whole industry, than there is on its private sector counterparts. Provided a household has a television set and has paid for a TV licence, the UK system has ensured the provision of certain types of welfare-enhancing programming that the market alone would not provide. However, the Secretary of State thought that £145 for a licence was for some families a lot of money.<sup>264</sup>

### Licence fee

194. As it stands, a television licence is required for each household where television programmes are watched or recorded as they are broadcast, irrespective of the signal method (terrestrial, satellite, cable or online) or the receiving device (TV, computer, mobile phone, tablet, set top box, DVR or games console). A licence is not required, however, if a television is only used to watch DVDs or play video games, or programmes are watched via catch-up services such as the BBC iPlayer or 4oD on a computer or connected TV after they have been shown on television.

195. The last settlement of the licence fee in 2010 froze the licence fee at £145.50 for six years until the end of March 2017. In 2013/14, the fee raised £3.722 billion. As the BBC

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<sup>263</sup> Q280

<sup>264</sup> Q767

stated, the fee represented a cost of 40p a day to each household paying the licence. There are of course advantages and disadvantages to the licence fee. We have summarised some of the points put forward below.

<b>Television licence fee</b>	
<b>Advantages:</b>	<b>Disadvantages:</b>
<p>Simple and straightforward</p> <p>Secure and more predictable source of income which allows for long-term planning</p> <p>Meant in theory to maintain the BBC's independence from commercial and political considerations</p> <p>Allows the BBC sufficient income to benefit from economies of scale</p> <p>Universality—where BBC's services are available on a free-at-the-point-of-use basis</p> <p>The charge is associated in people's minds with paying for BBC services</p>	<p>It is regressive—all pay the same regardless of income or size of household</p> <p>No choice: it is compulsory for TV homes that do not use BBC services</p> <p>Homes that watch only catch-up TV online, listen to radio and/or use BBC online get a free ride.</p> <p>Expensive to collect<sup>265</sup></p> <p>5.5% evasion rate<sup>266</sup></p>

196. In this chapter we consider the arguments for and against the continued existence of the licence fee, and its size and structure. The licence fee remains an area of concern for some members of the public, who dislike paying for a service they use seldom or not at all. According to an ICM poll conducted for *The Sunday Telegraph* in November 2013, 70 per cent of voters believed that the licence fee should be abolished or cut.<sup>267</sup> A more recent poll conducted by ComRes showed that four in 10 people opposed the existing licence fee model and an equal number supported it.<sup>268</sup> The BBC's latest annual report cites an Ipsos Mori poll conducted in 2014 which found that 53% of the public support the licence fee as the means of funding the BBC, compared with 26% for advertising and 17% for subscription.<sup>269</sup> Accordingly, the BBC claims that support for the licence fee is higher now than it was in 2004, when 31% backed it, and also higher than 20 years ago.

<sup>265</sup> In 2013/14, licence fee collection costs were £102 million

<sup>266</sup> BBC—*Television Licence Fee Trust Statement for the Year Ending 31 March 2014*, 21 July 2014

<sup>267</sup> <http://www.icmresearch.com/data/media/pdf/OIOM-Licence-Fee.pdf>

<sup>268</sup> <http://www.whitehouseconsulting.co.uk/comment-opinion/whitehouse-bbc-license-fee-poll-reported-across-uk-media/>

<sup>269</sup> *BBC Annual Report and Accounts 2013/14*, BBC Executive section, page 5

197. As can be seen there is no definitive data on what support exists for the licence fee. Opinion polls conducted by different bodies pose different questions which deliver varying results and there is no certainty as to whether support for the licence fee is overstated by the BBC or understated by others. Given this is the case, there needs to be robust independent research carried out to test people's attitude to the licence fee and their willingness to pay for the provision of BBC services, with a range of propositions put to them. For instance, Lord Burns told us that the notion of people not wanting to watch the BBC, despite its enormous reach, was an option that has to be recognised to a greater extent now than has been the case before. He also pointed to the challenge of people beginning to watch television content on other devices, on the iPlayer and other catch-up services, which he thought would make the concept of the need for a licence to watch television more and more cloudy.<sup>270</sup>

198. The BBC explains that alternative methods of funding the BBC appear to have significant drawbacks. In its opinion, subscription risks turning the BBC into a commercial operator with an incentive to provide services that maximise revenues and profits.<sup>271</sup> It also believes there is evidence that a subscription model would be likely to reduce its payment base, increasing costs for consumers who remain and therefore excluding many in society who could not afford to pay. Similarly, an advertiser-funded BBC could change its priorities and would have significant consequences for commercial broadcasters and the revenue available for investment in content. However, it has been pointed out that the BBC's incentives would change only if the BBC decided to change them.<sup>272</sup>

199. According to Professor Barnett there was “no convincing argument in logic, public interest or consumer interest” for changing the BBC's funding mechanism.<sup>273</sup> He believed it is now accepted that an advertising-funded BBC would significantly prejudice other advertising-funded media organisations and that subscription would immediately undermine the public benefits of universality.

200. We received a number of submissions from individuals sent in a personal capacity in response to our call for evidence. There was a mixture of people who really valued the BBC and its output and supported the TV licence and those who thought the fee should be abolished.<sup>274</sup> Those opposing the licence fee either did so because they did not value the BBC or found its reporting unbalanced, were critical of the way the BBC was run, or disagreed with the licence fee being compulsory and it being a flat fee which was a bad form of taxation. Those who disliked the BBC mainly called for it to be funded via subscription and some also for the BBC to be privatised. Some who disagreed with the licence fee on fairness grounds believed the BBC should either be funded through general taxation, advertising, or subscription, or a mixture of these. In respect of younger people's views, support for continuation of the licence fee was favoured by the largest proportion of

<sup>270</sup> Q307 (Lord Burns)

<sup>271</sup> BBC ([FBB0097](#)), para 51

<sup>272</sup> “The 40 lies the BBC tells about subscription”, OurBeeB, Open Democracy website, by David Elstein, 30 July 2014

<sup>273</sup> Professor Barnett ([FBB0078](#)), para 23

<sup>274</sup> For example see—Proponents: Rory Hegarty ([FBB0008](#)); Steven Norris-Tari ([FBB0143](#)); Peter Weitzel ([FBB0058](#)); Miriam Hall ([FBB0064](#)); Frances Christian Balfour ([FBB0081](#)). Opponents: Lee Taylor ([FBB0004](#)); Kenneth MacLean ([FBB0019](#)); Alan Morton ([FBB0023](#)); Andrew Reid ([FBB0039](#)); Mr. C. D. Lee-Koo ([FBB0049](#)).

respondents to our consultation on the Student Room website but this did not comprise a majority: 41% supported the TV licence, 28% supported advertising, 19.5% supported subscription and just under 10% supported general taxation.<sup>275</sup>

201. The advantages of funding the BBC directly from taxation would be that it would be a more progressive system relieving the burden on poorer homes, and eliminating collection and enforcement costs of the licence fee. A disadvantage, of course, could be that the BBC would be constantly subject to the whims of the government of the day for its income and as such its editorial and operational independence could be threatened. During the course of our inquiry we visited the Netherlands to compare the Dutch broadcasting system with our own. We were warned by most of those whom we met that since 2001, when the Dutch had moved to financing their public service broadcasting system mainly through general taxation, successive Governments had made significant cuts to the budget and further cuts were planned, despite assurances given that this would not happen. There has been a similar situation in Australia and Canada.<sup>276</sup>

202. While taking oral evidence, none of our witnesses recommended that the BBC be funded principally through general taxation. Greg Dyke explained he had reservations as to whether the licence fee would continue to be sustainable given the changes to people's consumption of content. Previously, he suggested a move to a fairer tax basis, but preferably not one where the BBC was funded through general taxation and the Treasury. He envisaged the level of funding raised via a hypothecated tax which would be protected from political interference. He told us:

It did not seem to me beyond the wit of man that Parliament could not have had some role in funding [the BBC] in that way, as opposed to the government of the day, because governments of the day always fall out with the BBC. It is inevitable.<sup>277</sup>

David Elstein also considered that an income-related tax would be a better option than the licence fee, although not the best option for the BBC.<sup>278</sup> For instance, under an income-related tax there would be no collection costs, no prosecutions for evasion, it would be socially fairer, economically fairer, and more efficient.

203. Some have argued that subscription could be a viable option in the future. Professor Beckett cautioned against Charter renewal rushing “profound changes such as the abolition of the licence fee” but thought that the BBC should prepare the ground for that possibility in the 2020s.<sup>279</sup> Although it was too early for the BBC to move to subscription now, in a more mutualised BBC model, where more people had a real stake in the BBC and where consumption was more personalised, he believed this might make sense. This could be based on a household subscription with additional levels to access different content or services. He noted that channel subscription was already happening to a degree with BBC Worldwide's channels for non-UK audiences.

<sup>275</sup> See Annex D.

<sup>276</sup> Q242 (Professor Barnett)

<sup>277</sup> Q101

<sup>278</sup> Q47

<sup>279</sup> Professor Beckett ([FBB0022](#)), para 1.1



204. Mr Elstein was our only principal witness arguing for a more immediate move to a direct funding mechanism for the BBC in the shape of voluntary subscription, the adoption of which, he believes, would have a major impact on the way the BBC operates.<sup>280</sup> His main objection to the licence fee is its compulsory nature and the lack of any choice people have about paying for BBC television services. The changes he foresees would lead to the BBC television offer becoming more varied, with viewers offered a choice of channels and packages. This would create an incentive for the BBC to offer a more “premium” product, such as high-cost drama, sport, arts and documentaries. Subscribing would be entirely voluntary but subscribers would need to set up each television set they owned or purchase a multi-set package.

205. We heard four main objections to the BBC moving to a subscription model. The first is that it would fundamentally change the nature of BBC programming, second that it would no longer be a universal service, third that it might reduce the overall investment in UK-originated content, and fourth that the majority of the population could be worse off.<sup>281</sup> It has also been pointed out that broadcasting funded through subscription on the whole only caters to pre-existing tastes and encourages people to pay only for things they like. In addition, it would not be possible to introduce subscription for radio and currently over one-sixth of licence fee income went to fund BBC radio services.<sup>282</sup>

206. If the BBC were to adopt subscription it is uncertain how this would affect the volume and variety of programmes currently shown on BBC TV channels. Rona Fairhead told us that alternative funding models to the licence fee could potentially change the nature of the BBC’s programming and its approach to satisfying its public purposes in an unwelcome way.<sup>283</sup> Mr Elstein envisaged the nature of the BBC changing under subscription, too. He suggested the BBC could withdraw from its current broad provision approach and instead produce fewer but higher quality programmes. He explained:

[My] view is that the BBC sacrifices quality for quantity too much. Nothing the BBC produces is rubbish—they are professional people—but if you have moderate budgets and moderate ambitions, you end up with moderate programmes. ... if the BBC were released from the obligation to make huge amounts of programming to meet everybody’s needs, it would pick and choose more and it would winnow some of the quiz shows, daytime shows or whatever in favour of some more higher-quality shows. It would also provide more variety of content in order to attract subscribers.<sup>284</sup>

207. Many consider ‘universality’ a defining characteristic of public service broadcasting, by which is meant content being accessible to everyone on all platforms and free at the point of consumption. Gavyn Davies saw universality as being at the heart of the BBC. He told us:

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<sup>280</sup> David Elstein ([FBB0104](#))

<sup>281</sup> See: Professor Barwise ([FBB0128](#))

<sup>282</sup> Q238 (Professor Barnett)

<sup>283</sup> Q711

<sup>284</sup> Q67

The two features that I think have been sustained—and the case for viewing public service broadcasting as a public good—are that it should have universal access and that it should be free at the point of use. Those two things are very difficult to attain in any mechanism other than a BBC-style funded mechanism.<sup>285</sup>

According to Lord Hall, starting to put BBC services behind pay-walls would begin diminishing the huge democratic focus that was universality, which was the essence of what the BBC stood for.<sup>286</sup> Others, however, predicted that the position could change in the years ahead: Richard Hooper CBE, a former Deputy Chairman of Ofcom, explained:

You ...have that theological debate, which is terribly important, about universality, free at the point of delivery, which is a central part of the success of public service broadcasting. My prediction is that up the track, five or 10 years out, there will be elements of the BBC that will be under some sort of subscription lock.<sup>287</sup>

208. According to BSkyB, the BBC was in many ways already under a subscription model—a “compulsory subscription”.<sup>288</sup> Professor Barwise thought the licence fee was no more regressive than subscriptions. Analysis by him suggested that subscription for the BBC could mean its television services would be more expensive for low-income households than under the licence fee and would not offer better value for money, with a consequence that the majority of the population could end up paying more for less total, and original, content. Nonetheless, Professor Barwise has said there could be some value in modelling a range of subscriptions scenarios but that he remained highly sceptical about the feasibility of finding a model that led to a better outcome than an inflation-adjusted licence fee.<sup>289</sup>

209. Gavyn Davies and others have advocated that the compass of the licence fee, if it is to remain, will need to be tweaked to account for online, catch-up viewing.<sup>290</sup> The BBC has said that currently fewer than two per cent of households watch only catch-up TV. However, the BBC pointed out that the definition of online viewing could itself start to create perverse incentives, with a fee payable for some ways of consuming BBC TV but not others.<sup>291</sup> James Purnell, Director of Strategy and Digital at the BBC, explained:

The licence fee used to be for wireless. There used to be a radio one and then a black and white TV licence, and in 2004 it was amended so that it applied on whatever device if it was live TV. It could be now amended for that to include catch-up service as well. We do think there is a slightly odd incentive that we have at the moment, which is to serve people if they are watching live

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<sup>285</sup> Q77 (Gavyn Davies)

<sup>286</sup> Q603 (Lord Hall)

<sup>287</sup> Q306

<sup>288</sup> Q375

<sup>289</sup> Exchange of correspondence between Professors Barwise/Picard and David Elstein, dated 3 May 2014

<sup>290</sup> Q100

<sup>291</sup> BBC ([FBB0097](#))

but not if they are on catch-up, even though catch-up is a very important, convenient way of consuming.<sup>292</sup>

210. One possibility for the BBC in the next Charter period could be to introduce a degree of subscription, where some core services and channels were publicly funded and others were on an opt-in basis for an additional fee. For example, a subscription channel might premier BBC films and programmes or cater for more niche tastes, such as specialist shows with an arts theme. Lis Howell, Deputy Head of Journalism, City University, thought a hybrid system should be considered.

There is no reason why you cannot have a mixed economy within the BBC where you have some subscription and you have a core licence fee paying for core services or useful services. This is what they have in Canada and it works extremely well.<sup>293</sup>

211. A drawback of a system funded partly by the licence fee and partly by subscriptions is that it would not avoid the high costs of collection of the fee. A way around this could be to fund the core service through a more general broadcasting levy which we consider below. In addition, the BBC suggested that if it were to go down the road of “top-up services” for offerings like BBC Four, so that they became commercially funded, it would be hard to raise the revenue to support such services through subscriptions without advertising.<sup>294</sup> A potential advantage of course would be that subscription could reduce the level of the licence fee (or broadcasting levy).

**212. There currently appears to be no better alternative for funding the BBC in the near term other than a hypothecated tax or the licence fee. However, the principle of the licence fee in its current form is becoming harder and harder to sustain given changes in communications and media technology and services, and changing audience needs and behaviours. Given this is the case, we do not see a long-term future for the licence fee in its current form.**

**213. We believe that the forthcoming round of Charter Review should not rush profound changes such as the abolition of the licence fee model but the BBC must prepare for the possibility of a change in the 2020s. We recommend that as a minimum the licence fee must be amended to cover catch-up television as soon as possible.**

**214. We conclude that a degree of subscription could be a possibility in the future if the BBC moved to a more personalised service and this could be in accordance with Lord Hall’s vision for personalisation of BBC content consumption. However, careful thought would need to be given as to what content should remain universally available and free-to-air, and how this should be funded, protected from inappropriate influence and delivered to the public.**

**215. We recommend that the independent panel and Charter Review process ensure there is robust comprehensive research, taking into account generational differences, of**

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<sup>292</sup> Q601

<sup>293</sup> Q232 (Lis Howell)

<sup>294</sup> Q603

**people’s attitudes towards the licence fee and their willingness to pay for BBC and public service broadcasting more widely, and in particular their openness to the idea of subscribing for certain services.**

## Decriminalisation

216. Section 363 of the Communications Act 2003 makes it a criminal offence for a person to install or use a television receiver without a television licence. A person guilty of an offence under this section is liable, on summary conviction, to a fine not exceeding level 3 on the standard scale, which is in line with other criminal offences such as using a vehicle untaxed or without insurance. A common misapprehension is that people are imprisoned for non-payment of the licence fee. Currently, members of the public cannot be imprisoned for licence fee evasion, only for subsequent non-payment of fines imposed for evasion.

217. We received several submissions complaining about the way TV Licensing collects the licence fee, especially in terms of the nuisance they can cause householders who do not watch live television and who do not hold a licence. The majority of the administration of TV Licensing is contracted to Capita Business Services Ltd. In the course of its collection, TV Licensing routinely writes to all addresses where there is no record of a licence or where the current licensing requirements are unknown. In 2012/13, TV Licensing sent approximately 56 million items of mail and 7.3 million electronic communications.<sup>295</sup> Approximately 1.3 million letters were sent to addresses where the occupier had informed TV Licensing that they did not require a TV licence.

218. In 2012, TV Licensing proceeded against approximately 182,000 people in magistrates’ courts.<sup>296</sup> Of those prosecuted in 2012, about 155,000 people were convicted and fined for non-payment of the licence fee.<sup>297</sup> In the same year, the number imprisoned for non-payment of the fine was 51. The BBC has confirmed to us that unlicensed viewers have been prosecuted who have watched live TV programmes on devices other than televisions but has not disclosed the number of such prosecutions or whether any have resulted in imprisonment for non-payment of a fine.<sup>298</sup> Whilst licence fee evasion cases make up around 10% of magistrate court criminal cases, the BBC has stated that the vast majority are heard uncontested and in bulk and that the average presentation time is only three minutes and 13 seconds.<sup>299</sup> Therefore, these cases account for a significantly smaller proportion of court time than their numbers might suggest.

219. On 4 March 2014, Andrew Bridgen MP tabled an amendment to the Deregulation Bill which would have had the effect of amending the Communications Act to decriminalise non-payment of the licence fee, making persons installing or using a TV without a licence liable to a civil penalty instead. By mid-March the amendment had been signed by over 150

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<sup>295</sup> Figures taken from the [TV Licensing website](#)

<sup>296</sup> HL Debates, 29 August 2013, WA383

<sup>297</sup> 68% of those prosecuted were female

<sup>298</sup> [BBC Executive’s responses to follow-up questions to 22 October 2013 oral evidence session](#), 23 December 2013

<sup>299</sup> BBC Note to MPs—Deregulation Bill amendment to change penalties for non-payment of the licence fee, March 2014. Analysis by TV Licensing. The BBC noted that this equated to about 0.3% of court time.

Members of the House of Commons. Although his proposed amendment did not provide detail on how a civil penalty for the licence fee would work, based on analogous offences, it would be likely that the BBC or its agents would issue a penalty notice to households believed to be evading the licence fee and, if the penalty was not paid, apply to the County Court for enforcement. Any County Court judgements granted would then be recorded against the individuals concerned and attempts could be made to recover unpaid sums. This is similar to the way local authorities deal with non-payment of Council Tax and in the case of parking enforcement, through penalty charge notices.

220. The BBC has said that a system of civil penalties would be likely to lead to a material increase in evasion and collection costs for the BBC. The BBC also say that as it is not presently possible to turn off people's ability to use BBC services if they do not pay the licence fee, they are more vulnerable to payment-evasion than pay-TV broadcasters who can disconnect non-payers, or some utility companies who can install pre-payment meters. The BBC believe that the criminal deterrent of non-payment has kept the estimated evasion rate to around 5.5%. Research conducted for TV Licensing has indicated that 93% of people considered the prospect of a court appearance was an effective deterrent to non-payment of the licence fee.<sup>300</sup>

221. According to the BBC, if decriminalisation led to a doubling of the evasion rate to around 10%, the Corporation would lose an estimated £200 million per annum, an amount equivalent to the combined budgets of BBC Four and its two children's channels. The BBC has also suggested that enforcement would be much more difficult under a civil penalties system, as it would be harder to justify the use of detection equipment—rarely used for offences attracting civil penalties. James Purnell told us that since Japan's TV licence system was decriminalised about 25 per cent of people did not pay. He explained:

Japan, for example, a very law-abiding country, has a system that is not voluntary but is decriminalised in effect and that is a system in which only 75% of people pay. Clearly, if you move to that, that would mean a big hike in terms of the licence fee for people who were paying or a massive reduction in BBC services.<sup>301</sup>

Nonetheless, it has been reported that one reason for the number of Japanese households not willing to pay the licence fee was the spate of high profile scandals over the last decade at NHK, Japan's national public service broadcaster.<sup>302</sup> Others have stopped paying because they have been angered by the revelation that so many were not contributing.

222. Following the tabling of Mr Bridgen's original amendment, the BBC sent a note to all Members of the House, in which it said that the licence fee enforcement system should be considered further as part of the review of the BBC's Charter and funding, and it proposed a working group be set up with the BBC, DCMS and Ministry of Justice to do this. Mr Bridgen accepted that time should be allowed for such a review to take place. To allow this to happen, he and the Solicitor General tabled revised amendments calling for such a

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<sup>300</sup> According to BBC Note to MPs—Source: TV licensing Brand and Communications tracker

<sup>301</sup> Q611

<sup>302</sup> "Japan's public broadcaster searches for a model amid scandals", *Taipei Times*, June 2006

review of the appropriate sanctions for non-payment of TV licences. The Commons Bill Committee voted in favour of their amendments.

223. In line with the Bill Committee's wishes, last October the Secretary of State announced the terms of the Government's review of TV licence enforcement.<sup>303</sup> The review team has been asked to report by the end of June 2015, setting out an assessment of the current and proposed enforcement regimes, and making recommendations for Government.

**224. We note the Government's review, which is looking at the possibility of the decriminalisation of non-payment of the licence fee. Our view is that criminal penalties for the non-payment of the licence fee and the way enforcement is carried out is anachronistic and out of proportion with the responses to non-payment for other services. We believe there is a strong case for making non-payment a civil matter pursued through the civil courts in the same way as non-payment of Council Tax, parking fines and utility bills. We also acknowledge the possibility, based on the evidence presented and international experience, that decriminalisation could lead to an increase in evasion and potentially, therefore, a reduction in the BBC's income. Below, we discuss two possible ways this could be addressed. In paragraphs 228 to 233 we discuss Germany's recent transition from an appliance based "licence fee" to a household broadcasting levy. This has made household investigations unnecessary. And in paragraphs 237 to 244 we discuss the potential for introducing conditional access technologies, which would obviate the need for criminal penalties.**

### **Alternative models for funding PSB**

225. During the course of inquiry, we considered how other countries fund their public broadcasters. Below is a table setting out a selection of countries and their method of funding and the domestic level of their licence fee or equivalent.<sup>304</sup> Two systems that stood out are the Finnish and German systems. Both have recently changed.

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<sup>303</sup> HC Deb, 21 October 2014, col. 78WS

<sup>304</sup> A selection of FCO Embassies and High Commissions were asked to provide information on their respective countries

International comparison of PSB funding (2014)					
Country	PSB funding mechanism	Level in Euros	Country	PSB funding mechanism	Level in Euros
Australia	Government grant	n/a	Ireland	Licence fee plus some advertising	€160
Canada	Government grant plus advertising	n/a	Italy	Licence fee	€113
Denmark	Licence fee	€327	Norway	Licence fee	€365
Finland	Income-related broadcasting (max) tax	€140	Japan	Licence fee	€132
France	Licence fee plus some advertising	€133	Sweden	Licence fee	€238
Germany	Broadcasting levy plus some advertising	€216	United Kingdom	Licence fee	€179

Source: FCO Posts

### *Finnish system*

226. Since the beginning of 2013, Finland's national public service broadcasting company (YLE) has been funded by a public broadcasting tax (also called YLE). This replaced Finland's television licence. The YLE is a personal tax that must be paid by individuals regardless of whether they own television sets or whether or not they watch TV. Consequently, there can be several eligible YLE taxpayers in the same household. However, all under 18s are exempt. The present rate of the YLE for individuals is 0.68% of their income but with an upper maximum contribution of €143. If a person's contribution is calculated at below €51 then that individual does not have to pay. Organisations and foundations are also expected to pay the tax.

227. The progressive nature of the YLE tax and the lower limit (€51) mean that all individuals on low incomes (e.g. the unemployed) pay a smaller amount or no contribution at all: for example, students with no or little income apart from study grants are exempt. According to official estimates, most people were expected to pay less under the new individual tax than what they would have paid under the licence fee system. The main losers have been those on reasonable incomes who do not own a TV set. Given that the system was only introduced in 2013, it is probably too early to judge its success.



## German system

228. During our visit to Germany we considered the introduction of Germany's new household broadcasting levy (called the "Rundfunkbeitrag"). The German system of financing public sector broadcasting was reformed as of January 2013. In place of the previous system where the fee was based on the number and types of broadcasting receiving devices (TVs, radio sets, computers) in a property, there is now a universal flat fee per household and so it is now immaterial how many adults live in the household or how many receiving devices they own or use. All households are subject to the charge regardless of television usage. Recipients of certain welfare benefits (such as unemployment benefit) can apply for exemption from the fee, as can students living away from home.<sup>305</sup>

229. Germany's change to the fee regime was prompted, in part, by the realisation that it was increasingly difficult—and impractical—to distinguish between device categories in a multimedia environment. Another factor, we were told, was the previous inspection regime had been heavily criticised and expensive to administer. The winners under the new German system are flat-sharers, cohabiting couples and young adults with an independent income who are still living with their parents, adults who have hitherto been liable to pay individual licences. An advantage of the new system is that there is no longer any need for the extensive investigatory measures used by the revenue collection service to determine people's living circumstances or to check the number of receiving devices in use in a property. Since it is a blanket fee charged to *all* households, the principal losers are households with no equipment of any sort capable of receiving broadcasts. Making everybody pay in effect has turned the old 'fee' into a 'tax'. However, when Germany introduced the new system, it discovered that the number of households previously evading the old licence fee was significantly higher than thought. This has led to the new broadcasting levy being set at a lower level than the old licence fee while maintaining funding levels for the public service broadcasters.

230. It is arguable that a broadcasting charge levied on all households in the UK to fund principally the BBC could be justified on the basis that the BBC reaches over 96% of the population. In addition, industry statistics from the Broadcasters Audience Research Board (BARB) show that around 96% of homes have a television set.<sup>306</sup> However, the BARB figure does not capture TV viewing on other devices such as laptops, tablets or mobile phones. Nonetheless, introducing a broadcasting levy on all households in the UK would be likely to be very unpopular for those who do not currently watch live television, but it would mean that those people currently consuming BBC radio and online services for free would now pay for these services. It would also obviate the need for, and cost of, TV Licensing's investigatory work in catching evaders of the licence fee.

231. Some may see the introduction of a broadcasting levy in the UK giving a stronger justification that a proportion of its revenue be made available on a competitive basis to support public service content by others and more plurality in PSB provision. In addition, a broadcasting levy would also be more in line with media convergence, i.e. people watching television content on a variety of devices, meaning it was no longer a "television licence".

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<sup>305</sup> Students living away from the parental home in receipt of a student loan or vocational training grant qualify for exemption from the levy.

<sup>306</sup> [The Viewing Report](#), BARB, November 2013

232. **The German model of a broadcasting levy on all households is our preferred alternative to the TV licence. Such a levy on all households would obviate the need to identify evaders and would be a fairer way of ensuring those people who use only BBC radio and online services contribute to their costs. A broadcasting levy which applied to all households regardless of whether or not householders watched live television would help support the use of a small proportion of the revenue raised for funding public service content and services by others, enhancing plurality.**

233. **We recommend that the independent panel and Charter Review process should investigate the advantages and disadvantages of a household broadcasting levy as an alternative to the licence fee and on how the broadcasting levy could be made more affordable for low income groups in the UK. We also believe that the new Finnish system, of a hypothecated tax specifically for broadcasting, based on an individual's income, although still its infancy, would still be worth consideration during Charter Review.**

### Collection costs

234. A criticism of the licence fee system is the high cost of its collection. Last year, it cost £102 million to collect the fee.<sup>307</sup> Nonetheless, in recent years the BBC has been successful in reducing this cost. Since the BBC has taken over collection from the Home Office, the collection costs have fallen from 6% to under 3% and the level of evasion has fallen from around 10% to just around 5%.<sup>308</sup> While the licence fee annual collection cost appears extremely high, BSkyB told us that £100 million was nothing compared to what the BBC would need to spend on marketing in order to retain subscribers.<sup>309</sup>

235. In France, the television licence is collected with the French equivalent of their council tax (taxe d'habitation). One advantage of collecting a licence fee with another tax or through a utility bill is that the collection costs can be shared with another body and reduced. If the licence fee were collected through the Council Tax or with a utility bill, non-payment could be pursued through the civil courts. Additionally, to a limited extent, if it were collected via the Council Tax there could be some way of applying simple means tests for certain demographic groups, for example pensioners in receipt of the Pensioner Credit, for whom concessions might be considered desirable. At present, all pensioners over 75 years of age receive a free TV licence, which costs £600 million a year, whatever their own income or the household's income.<sup>310</sup> Arguably, this is a badly targeted benefit and the money could be better used to support those for whom 40 pence per day represented a genuine burden. As this cost is met through the Department for Work and Pensions, and not through the BBC or the DCMS, it is not a matter that falls within our remit.

236. **We recommend that the independent panel and Charter Review look at what options might be available for sharing collection costs of the licence fee or a broadcasting levy with local authorities or utility providers.**

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<sup>307</sup> BBC Annual Report and Accounts 2013/14

<sup>308</sup> Q611

<sup>309</sup> Q375

<sup>310</sup> Department for Work and Pensions Annual Report and Accounts 2013-14, page 79

## Conditional access

237. Currently, access to the BBC's television services is not denied to anyone in the UK. Viewers can receive the BBC's television services by terrestrial, cable and satellite distribution as well as via fixed and mobile broadband. There is no technical obstacle preventing non-licence payers receiving the BBC's channels despite the illegality of doing so. One of the arguments made for maintaining criminal penalties for non-payment of the licence fee is that, unlike suppliers of other services such as utilities and pay TV, it is not possible to cut-off non-payers and that lesser penalties could tempt many more not to pay, maintaining their ability to receive the services illegally. Some form of "conditional access" could allow non-payers of the licence fee to be cut off from television, as well as the technical capability for offering different levels of BBC service, on an opt-in or opt-out basis, in future.

238. Estimates have suggested that about 35 million TV sets in the UK are not connected to a device with conditional access capability.<sup>311</sup> If encryption were introduced, the users of those TV sets would have to be equipped with an add-on device in order to access BBC television services or upgrade to televisions with that capability built in. Industry experts have suggested that each device would cost about £15, which would mean an overall cost of about £500 million. It is likely that it would take several years to roll these devices out. The Government would need to decide whether the basis of such a conditional access system was for all TV services, for example for BBC, ITV and Sky, or whether such a conditional system would be just put in place for receiving BBC television and BBC on-demand services. The BBC would also need to consider blocking viewers on the internet, such as those who watch the iPlayer.

239. Already 60 per cent of homes receive BBC television on at least one household set through a cable or satellite platform which can control access to channel packages and premium channels. Restricting access to BBC television services on the internet to authorised users (e.g. licence fee payers) does not require any additional technology; online services can limit access to only registered users, even for free services, or subscribers (e.g. Netflix).

240. The longer timescales and significant costs that would be involved in equipping all UK homes with technology capable of allowing the opt-in or opt-out of receiving the BBC's television services in whole or in part, or some element of payment, are in any event a result of the BBC's own earlier strategy to deter alternatives to the licence fee. As reported nearly a decade ago, Greg Dyke admitted that part of the rationale behind the launch of the digital terrestrial service Freeview when he was Director General was to introduce set-top boxes incapable of turning the BBC's channels into 'pay as you go' services at a later date.<sup>312</sup>

241. Lord Burns has suggested that the BBC should make iPlayer available on a conditional access basis for licence fee payers so that only people who were part of a household who could prove they had paid the fee could watch programmes via catch-up.<sup>313</sup> Alternatively,

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<sup>311</sup> ['Licence fee shake-up 'will cost BBC £500m'](#), *The Independent*, 30 March 2014

<sup>312</sup> [Dyke 'promoted Freeview to save licence fee'](#), *The Guardian*, 17 September 2004

<sup>313</sup> [BBC should encrypt iPlayer for licence fee payers, says Channel 4 boss](#), *The Guardian*, 10 July 2014

Lord Burns indicated that the iPlayer could be accessible to those who paid a subscription charge if they did not already have a TV licence.

242. Introducing conditional access for BBC services, however, would need to be considered in conjunction with arguments for the maintenance of universal access to BBC services, even for licence fee evaders. Professor Barwise has identified that if the Government were to move to introducing a conditional access system, the cost could be much reduced by mandating it for all new television sets and devices so that it was spread over the replacement cycle.<sup>314</sup> There could then be a judgment to make about the trade-off between the speed and cost of the transition to universal conditional access or to the point where the penetration was high enough to justify stopping unencrypted BBC-TV broadcasts.

**243. We believe that conditional access offers opportunities to ensure that only those households who have paid a licence fee or its equivalent would be able to access BBC or television services. Introducing a means of authorising access to television services would solve the criminalisation issue associated with non-payment of the television licence. However, as there would be significant costs attached with the widespread introduction of conditional access technology, the Government would need to decide over what timescale it should be introduced.**

**244. The independent panel and Charter Review should consider the desirability and feasibility of the BBC using conditional access to ensure its television services are available only to licence fee payers and authorised users in future. We recommend that Ofcom's advice is sought on current availability of conditional access technology and devices, market adoption trends and potential timescale for widespread adoption. Ofcom could also advise on the implications of requiring manufacturers to include conditional access technology in all receiving devices from a future date.**

**245. We recommend the BBC should look at the practicality of introducing controls for authorising access to the iPlayer as soon as is possible, as has been suggested by Lord Burns.**

## Setting the level of PSB funding

246. Earlier on in this Parliament we reported on the unsatisfactory nature of the 2010 licence fee settlement.<sup>315</sup> The BBC appeared to be put under pressure by the Government to take on new funding commitments for local TV, S4C, rural broadband, BBC Monitoring and the World Service, with no increase in funding, and the BBC accepted these new obligations. What was more concerning was that the settlement was agreed behind closed doors in just a few days and without any consultation with licence fee payers or Parliament.

247. We were surprised in 2010 that the BBC Trust did not hold its ground and insist on more time and some consultation about the settlement instead of agreeing to the Government's demands, even when threatened with a lower licence fee if they did not

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<sup>314</sup> Professors Barwise and Picard's response to David Elstein regarding a report entitled *What if there were no BBC Television?*, dated 3 May 2014

<sup>315</sup> Fourth Report of Session 2010–12, *BBC Licence Fee Settlement and Annual Report*, HC454

accede then. The duties set out in the Charter are unequivocal. In exercising all its functions the Trust must act in the public interest and, in particular, it must:

- a) represent the interests of licence fee payers;
- b) ensure that the independence of the BBC is maintained;
- c) carefully and appropriately assess the views of licence fee payers;
- d) exercise rigorous stewardship of public money;
- e) have regard to the competitive impact of the BBC's activities on the wider market; and
- f) ensure that the BBC observes high standards of openness and transparency.<sup>316</sup>

248. It is unarguable that the BBC Trust did not carefully and appropriately assess licence fee payers' views or observe high standards of openness and transparency in this instance. As a result, the Trust's representation of licence fee payers' interests, its exercise of rigorous stewardship of public money, and its independence, are all subject to question. Had the Government attempted to force through a lower licence fee in short order, in the face of the Trust exercising its fundamental Charter duties, we believe it would have faced adverse public reaction, especially if the Trust resigned, or threatened to resign, in protest.

249. Moreover, the Government could not have unilaterally required the BBC to take on new responsibilities and funding commitments, the cost of which, according to the BBC, built up to £500 million a year (13 per cent of the licence fee) by April 2014 and, in conjunction with a frozen licence fee, will have reduced the BBC's budget by 26% in real terms by the end of the licence fee period.<sup>317</sup> These new commitments required the BBC's agreement and amendment of the Framework Agreement between the BBC and Secretary of State, a foundation document in which the parties "affirm their commitment to the independence of the BBC" and in which the BBC has "voluntarily assumed obligations which restrict, to some extent, its future freedom of action".<sup>318</sup>

250. As it turned out, the BBC would not have been worse off if the Government had in fact lowered the licence fee by 10% since this would have had less financial impact than taking on new obligations accounting for 13% of a frozen licence fee.

251. Determining the level of PSB funding is handled differently in other countries. For instance, in Denmark up until 10 years ago, the level of the licence fee had been agreed annually: however, it is now set over a slightly longer period in line with objectives set for PSB by the Danish Parliament. A new political agreement on broadcasting was agreed last year for 2015 to 2018, where new provisions were approved for online and catch-up services for Danish Radio, its national broadcaster.

252. Whilst in Germany we learnt that the individual State governments, i.e. the Länder, were responsible for defining the function and purpose of PSB. Despite this, in 1994, the

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<sup>316</sup> Cm 6925, para 23

<sup>317</sup> *Driving efficiency at the BBC, To deliver quality content for the licence fee payer*, BBC, November 2004

<sup>318</sup> Framework Agreement, schedule 4

German Constitutional Court ruled that the evaluation of the licence fee should be a technical task and not a political one. Consequently, the level of the licence fee has been determined by the State governments and parliaments on the basis of recommendations of the KEF (the Commission for the Review and Determination of the Funding Requirements of Broadcasting Corporations). The KEF is an independent panel of experts which periodically examines PSB requirements and recommends an appropriate level of funding. The 16 Länder parliaments then set the level of the levy accordingly, usually for a period of five years.

253. In the UK towards the end of 2016 there will have to be a decision on the level of the next TV licence (the present six-year settlement ends in March 2017) and for how long the next settlement should be. At present, Parliament is only involved in the process in so far as it has an opportunity to reject the regulations which set the actual licence fee each year. A debate in the House of Commons last took place on a regulation at the instigation of the then Opposition in 2009.<sup>319</sup>

254. As things stand, several witnesses considered that the current licence fee was pretty much at the upper limits of what people could afford. Former BBC Chairman, Lord Grade thought that the BBC ought to face a challenge when the level of its future licence is set but that it should be a decision for the Government of the day without a vote in Parliament. Lord Grade explained:

I absolutely believe in the licence fee. It is pretty much at the upper limits of what is affordable. I would dearly like to see, in the next settlement, [the licence] set at a level with a programme of reduction of the BBC's costs through structural change—not just through salami-slicing more and more redundancies—and still trying to cover the same amount of turf.

but whatever changes are made, whatever system processes are, we must never lose the joy of the present system, which is that there is never a vote in Parliament on the BBC's level of funding or on its charter. There are debates, quite correctly, and there is a searching inquiry—this is the beginning of that process—but there is never a vote.<sup>320</sup>

Conversely, Professor Barnett believed the BBC should have a more secure settlement next time:

If the BBC is to continue as a significant national cultural and creative force into the 2020s, we cannot afford to inflict another round of real-terms cuts. It is therefore imperative that, post 2016, inflation-proofing for the licence fee is restored. This will provide the BBC with maximum stability in terms of its programme investment decisions, and ensure that no core services will need to be closed.<sup>321</sup>

Greg Dyke held a similar view:

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<sup>319</sup> HC Debates, 20 May 2009, col 1575

<sup>320</sup> Qq146-47

<sup>321</sup> Professor Barnett ([FBB0078](#)), para 24



I would not have thought it possible to increase the licence fee in the last round, personally. I think it would have been extremely difficult, given what was happening to the rest of the public sector, to do that. But at some point, obviously, we will hopefully emerge from this period of public sector squeeze and we will have to ask ourselves again how to fund the BBC so that it can retain this universality that we are arguing is crucial for it.<sup>322</sup>

**255. We believe that the current means of setting the licence fee is unsatisfactory. The 2010 settlement demonstrated that the BBC's independence can be compromised by negotiations with the government of the day that lack transparency and public consultation. Irrespective of any Government pressure, the BBC Trust breached its Charter duties and often-stated commitments to reflect the interests of licence fee payers first and foremost, in agreeing the settlement in the manner it did.**

**256. No future licence fee negotiations must be conducted in the way of the 2010 settlement: the process must be open and transparent, licence fee payers must be consulted and Parliament should have an opportunity to debate the level of funding being set and any significant changes to funding responsibilities. We recommend that the independent panel and Charter Review process consider the appropriate length of licence fee settlements and the period in which they should be reviewed and changes made.**

## Sharing the licence fee

257. The use of the licence fee to fund services and activities other than the BBC's is a contentious topic. Dame Tessa Jowell MP told us that the licence fee was for the BBC and was critical of the way the present Government had used it for other purposes.

I would ... make the point that there is a popular misunderstanding that the licence fee is the same as money raised through taxation. It is not. It is a sum paid every year by licence fee payers for the BBC. It is not available to the Government of the day to spend at will and it should be made much harder, in my view, for the Government to raid the licence fee for its own purposes.<sup>323</sup>

The position of using the licence fee for purposes other than the BBC, however, is not new. Previously, £600 million of the licence fee revenue was earmarked to support digital switchover, and the BBC also provided substantial licence fee funding to S4C for its use in programme production before the 2010 agreement.

258. A predecessor Committee discussed the question of whether the licence fee was the preserve of the BBC.<sup>324</sup> It noted the then Government's position that the television licence fee is not the "BBC" licence fee and that in principle the BBC has no exclusive right to it, with the device levy paid into the Consolidated Fund like any other tax, for the government of the day to determine how it is used. The Committee further noted historical information

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<sup>322</sup> Q97

<sup>323</sup> Q537

<sup>324</sup> *BBC Annual Report 2008-09*, Fifth Report of Session 2009-10, HC 515 (discussion in paras 9-19)



regarding retention of a proportion of the licence fee by the Treasury as an excise duty. It agreed that the licence fee is not of right the “BBC” licence fee but said it was important that there is clarity about the pros and cons of the licence fee being exclusively used for the BBC or shared with others. As noted earlier, the Framework Agreement also clearly states that the Secretary of State shall pay to the BBC “sums equal to the whole of the net licence fee revenue or such lesser sums as the Secretary of State may, with the consent of the Treasury, determine”.<sup>325</sup>

259. The 2010 settlement involved a significant extension of the use of licence fee revenue beyond the BBC than has happened before. Consequently, the debate has been on the appropriateness and legitimacy of funding these new purposes and on how broadcasting-related they are. Some are more directly BBC broadcasting related (World Service) or related to third-party broadcasters (S4C and local TV). In the case of BBC Monitoring, its work involves reviewing news and information from media sources around the world. The service was set up in 1939 to assess the use being made of radio by the Axis powers during WWII; since then, the closeness of Monitoring’s work to intelligence gathering meant that it was funded by grant-in-aid via the Cabinet Office. However, the information it collects is now provided to the BBC and a range of others including commercial media organisations, foreign governments, NGOs and universities, as well as the UK government. Similarly, BBC World Service until 2014 was funded through the Foreign Office given that its language services, although independent of Government, were widely seen to benefit UK diplomacy rather than provide a direct benefit to licence fee payers.

260. A less direct linkage to broadcasting is the Government’s decision to fund the rollout of the rural broadband infrastructure via the licence fee. Arguably there is a tangential link in that improving rural communities’ digital provision will allow people better connections to online media services but it seems to us this expenditure would more appropriately be met through general taxation. However, as part of the 2010 licence fee settlement, £150 million per year is being taken from licence fee revenue to support the rural broadband programme over four years.

261. In the run-up to the 2006 Charter Review, Ofcom had suggested that £300 million of new funding should be used to establish a “public service publisher” providing additional innovation and plurality in public service content provision. Ofcom had proposed a single not-for-profit creative organisation that would have been responsible for the whole process of commissioning, overseeing and distributing public service content from end to end.<sup>326</sup>

262. At the same time, Lord Burns, as independent adviser to the Secretary of State on Charter Review, recommended that wider distribution of licence fee funds, via competition, would help sustain plurality in public service content. Lord Burns envisaged the creation of an independent Public Service Broadcasting Commission, which would be able to award part of the licence fee revenue for public service provision by others than the BBC. Earlier in 2004, a panel chaired by David Elstein also advocated a similar entity, which would be independent of government, and would distribute “contestable

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<sup>325</sup> Cm 6872, schedule 75(1)

<sup>326</sup> *A new approach to public service content in the digital media age: the potential role of the Public Service Publisher*, Ofcom, 24 January 2007

funding”.<sup>327</sup> Under the latter proposal the BBC would have had to bid for all its public funding. Evidently, none of these proposals came to fruition.

263. ITV told us that it was inevitable that a debate about the future of the BBC would include a discussion about “top-slicing” the licence fee for other providers or users, with familiar arguments about the potential benefits and downsides. They suggested that the “increasingly challenging” market economics of news reflected in the declining newsgathering resources of the press both regionally and nationally and the power of the BBC’s editorial voice in a fully digital environment could mean this particular debate was now more pertinent and important than ever before.<sup>328</sup>

264. Conversely, the Voice of the Listener and Viewer (VLV) were against distribution of the licence fee for public content beyond the BBC. They saw this as undermining the clarity of the direct relationship between the licence fee and the BBC. Moreover, VLV did not support the 2010 licence fee settlement because it effectively diverted money from BBC programme-making budgets.<sup>329</sup> Similarly, Professor Barnett believed that it was vital that the “top-slicing”, introduced as part of the 2010 settlement, was removed.<sup>330</sup> He thought there was a real danger of licence fee revenue being treated as a communal source of public income from which Government departments could bid for any remotely relevant underfunded or unfunded scheme. Accordingly, he called for the money made available for local TV, for broadband rollout and for S4C to revert to departmental funding should a future Government wish to preserve them.

265. Last year, Dr Colette Bowe, the then Chairman of Ofcom, said she thought some BBC licence fee funding should be “contestable”, with other media companies allowed to bid to make public service broadcasting programming:

“I am an economist. There is a lot to be said for contestable funding on competition grounds ... The counter argument is that once you start stripping away great chunks of funding you weaken the stability [of the BBC],”

“I have got sympathy with the idea that some more of the funding currently available for public service broadcasting should be contestable. Because on the whole I am on the side of the people in the sector who believe that what we need is even more competition and dynamism and innovation than we have got.”<sup>331</sup>

266. While some believe that sharing the licence fee further would muddy the accountability of what the licence fee delivers, a degree of contestability of part of its revenue could keep the BBC alive to the privilege of its receipt. Lord Grade proposed that Channel 4 could be funded through the licence fee and be put in head-to-head competition

<sup>327</sup> *Beyond the Charter: The BBC after 2006*, The Broadcasting Policy Group, February 2004, Chapter 1, paras 11 to 19

<sup>328</sup> ITV plc ([FBB0066](#)), para 42

<sup>329</sup> Voice of the Listener & Viewer ([FBB0030](#)), para 13

<sup>330</sup> Professor Barnett ([FBB0078](#)), para 25

<sup>331</sup> [Ofcom boss: 'BBC licence fee should be shared with other broadcasters'](#), *The Guardian*, 14 February 2014

with the BBC if Channel 4's future commercial survival was under threat.<sup>332</sup> Contestability could also be a means of ensuring plurality of supply in key PSB genres such as children's programming and regional news. Nonetheless, there is a risk that some funding could transfer under these circumstances from licence fee payers to the benefit of shareholders of commercial companies. However, this would not be the case for non-private sector providers.

**267. Although there is nothing that states the licence fee revenue is the sole preserve of the BBC, we find the case for the licence fee as a source of funding for rural broadband and BBC Monitoring unconvincing.**

**268. It was wholly wrong that 2010 licence fee settlement, which permitted the licence fee revenue to be used for new purposes, was not subject to any public or parliamentary consultation. We recommend that income from the licence fee (or the broadcasting levy) be used only for the purpose of broadcasting or the production of public service content on television, radio and online. As a result, we believe that the Government must be prepared to remedy any existing spending commitments agreed in 2010 so that those not deemed appropriate for funding through the licence fee are met by other means such as general taxation.**

**269. The BBC should be the principal recipient of the licence fee (or broadcasting levy) but a small proportion should be made available for other public service content priorities such as supporting local and regional journalism, and children's broadcasting. We recommend that the independent panel and Charter Review consider how such contestable funds might operate and what types of public service areas they might support.**

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<sup>332</sup> "Wither the BBC", *Is the BBC in Crisis?*, published by Abramis academic publishing, 2014, page 4

## 7 Governance, regulation and accountability

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*I think it is a bit of a snare and a delusion that is part of the BBC DNA, to say whenever anything goes wrong that it is the governance that has gone wrong.*<sup>333</sup>—Lord Patten

270. In recent years all major public bodies, including the NHS and Parliament itself, have become subject to scrutiny by independent regulators. The extent to which the BBC Trust has been an effective, rigorous and independent overseer of the BBC is a matter of much debate. In recent years, the mistakes made over Savile, the Digital Media Initiative and severance pay have dominated the headlines, and the BBC’s acceptance of additional costs and responsibilities following its privately negotiated licence fee settlement with the Government in 2010 has had ongoing strategic and budgetary ramifications. We heard from a number of witnesses that the BBC Trust was not working well in terms of either governing or regulating the BBC or acting as an effective advocate for the public and licence fee payers.

271. At best it has appeared a critical friend but to many it has seemed to be an apologist for the BBC when mistakes have surfaced. However, Dame Tessa Jowell explained that the role of the Trust had been quite seriously misrepresented. She explained that the “cheerleading” function was for the BBC [Executive] itself and the Trust had always been there to represent the licence fee payer:

The role of the Trust is to represent the public interest in the collection and the expenditure of more than £3.5 billion year on year. I hope that we can write out of the argument, in critiquing the Trust, the idea that somehow it was created to be both cheerleader and regulator. It never was, it should not be, and in the future the cheerleading role should be very clearly attached to the BBC [Executive] itself.<sup>334</sup>

272. Frayed relations were exposed during the appearances of directors general, chairmen, and trustees, past and present, at the Committee of Public Accounts hearings in 2013 following the exposure of excessive severance payments to senior executives and the poor management of the Digital Media Initiative, leading that Committee to describe a “dysfunctional relationship between the BBC Executive and the BBC Trust that casts doubt on the effectiveness of the BBC’s governance model”, which it considered as “broken”.<sup>335</sup> During these occasions the public had seen different arms of the BBC appearing before parliamentary committees taking different positions which, in the opinion of David Liddiment, a founding member of the Trust, had not been in the interest of the BBC and had not shown good governance.<sup>336</sup> What was also exposed at this time was the BBC Trust

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<sup>333</sup> Oral evidence take before the Culture, Media and Sport Committee on 22 October 2013, Q1, HC 730-i

<sup>334</sup> Q540

<sup>335</sup> Committee of Public Accounts, Thirty-Third Report of Session 2013–14, *BBC severance packages*, HC 476, para 7

<sup>336</sup> Q727

Unit's<sup>337</sup> failure to identify problems that were occurring at the BBC Executive and to bring the problems to the attention of the Trustees. There appeared to be a breakdown in effective communications between the two boards, and on the Trust's part, a lack of alertness to indications of possible underlying problems at the BBC with organisational protocols being too rigidly adhered to.<sup>338</sup>

273. Prior to 2007, successive BBC Boards of Governors, who had governed the BBC since 1927, had performed a dual role in which they were responsible for leading and promoting the success of the BBC by directing and supervising its affairs, and representing and defending the institution, as well as judging its performance and representing licence fee payers and the public interest. This was a model widely seen as unsustainable in the run-up to the 2006 Charter review as the Governors could not continue to be both the regulator and "cheerleader" of the BBC. There was a strong belief that the Governors had, in effect, identified with the management of the BBC, leading to a perception that the BBC had been run in the pursuit of its own interests, rather than those of the licence fee payer, and that the governance arrangements lacked transparency, accountability and openness.<sup>339</sup>

274. In 2005, the Independent Panel on Charter Review appointed by the then Government and chaired by Lord Burns, recommended that the Board of Governors be replaced with a new independent body, a Public Service Broadcasting Commission (PSBC). This commission would have been independent of Ofcom, comprising Government-appointed non-executive commissioners, and would have taken over the BBC Governors' regulatory responsibilities including making sure the Corporation met its public service remit and provided value for money. It would have also advised Ministers on the level of the licence fee and would have allocated funding to the BBC and potentially some funding to others to produce public service content.<sup>340</sup>

275. The Panel had also recommended that the BBC be governed by a unitary board of executive and non-executive directors in line with best practice in corporate governance, with a non-executive Chairman at the helm. The board would have been responsible for deciding and delivering the BBC's programming output, subject to the oversight of the Public Service Broadcasting Commission, within its allocation of the licence fee. It would have been the BBC Board's responsibility to champion the BBC and be answerable to its critics.

276. There was surprise when Tessa Jowell, as Secretary of State, chose not to follow the recommendation of the Independent Panel which she had established. Instead, she opted for the model of the BBC Trust which more or less followed a structure that had been recommended by the BBC Governors, incorporating many features that had been outlined

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<sup>337</sup> Staff of the Trust Unit support the Chairman and Trustees in their work by providing independent advice and administrative support. The Trust Unit is made up of the Director and five teams and currently employs about 70 staff. In 2013/14, direct Trust expenditure was £9.3 million and it paid a further £2.7 million to Ofcom in regulatory fees.

<sup>338</sup> See: Oral Evidence taken before the Committee of Public Accounts on 9 September 2013, *Severance payments and wider benefits for senior BBC managers*, HC 476-ii, Qq277-302 and Qq360-64

<sup>339</sup> Further advice from the Independent Panel, Letter from the Lord Burns to Rt Hon. Tessa Jowell MP, Secretary of State for Culture, Media and Sport, dated 27 January 2005

<sup>340</sup> Lord Burn's independent panel's preferred option was called Ofbeeb.

in their 2004 strategy paper, *Building Public Value*. Reflecting on her decision, Dame Tessa Jowell explained that she had found the Panel's proposed structure had insufficiently represented the public interest and for that reason she pursued what had been a middle course of three options, i.e. neither to continue with the BBC's Board of Governors nor to move to an external regulator.<sup>341</sup>

## Creation of the BBC Trust

277. The two-tier structure of a BBC Trust and a BBC Executive board came into being in January 2007 and since then they have been the oversight and delivery institutions of the BBC. The Trust's 12 non-executive trustees and the Executive Board's seven executive and six non-executive directors together have the power to determine what the BBC does and does not do. Their respective roles and responsibilities are set out in the BBC's Royal Charter and Framework Agreement.

278. The BBC Trust is the sovereign body; it is responsible for approving the overall strategic direction of the BBC and for holding the Executive to account for delivering the BBC's services in accordance with its priorities. The BBC Trust sets 'purpose remits' for each of the public purposes laid down in the Charter, indicating the priorities it has set the Executive Board and how it will assess the performance of them. It also sets a service licence for every BBC service stating the scope, aims, objectives, headline budget and other important features of each service and how performance will be assessed by the Trust. The Trust also agrees the BBC's editorial guidelines and protects the BBC's independence. It is responsible for monitoring performance to ensure that the BBC provides value for money while staying true to its public purposes. The Trust is the final arbiter of complaints in respect of the impartiality and accuracy of the BBC's content. The BBC is also subject to Ofcom oversight in various areas.<sup>342</sup>

279. We heard that a fundamental flaw of the BBC Trust, like the BBC Board of Governors which preceded it, is essentially that it is impossible for the Trust to be the BBC's defender and champion whilst also providing independent regulation and scrutiny. Lord Burns told us that he continued to support his original proposal for a clear separation between the BBC and its regulator and believed that problems which had occurred since his report demonstrated that the BBC Trust system had not worked well.<sup>343</sup> A former member of his independent panel, Sir Howard Davies, was more forthright in recent comments:

The confusion of roles enshrined in the Jowell proposals, were put into effect in the last Charter, is at the heart of the problems we have seen. It was an accident waiting to happen. This is not an observation informed by hindsight. When the then-government put these proposals to Parliament they were widely derided...

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<sup>341</sup> Q544

<sup>342</sup> See: paras 334-340

<sup>343</sup> Q284



The system was well understood to be flawed from the start, has failed in exactly the way knowledgeable observers said it would fail, and therefore must be reformed in a structural way.<sup>344</sup>

280. According to Lord Burns, there needed to be one body which made sure the licence fee was spent in a way that fulfilled the requirements of the Charter and a totally separate body to run the BBC. Several other witnesses shared his view. Greg Dyke told us that the “BBC Chairman” should not be the chairman of the regulator. In his opinion, the creation of the Trust had been a ‘terrible fudge’ that had not worked:

You saw the disaster over Jimmy Savile, over the appointment of a director-general and the rest of it. That was because I do not think anyone was quite clear in that whole system who was responsible for what. ...What they did was they half-divorced and did not do it properly. What you need is the full divorce. Therefore, you need the regulator to be outside the BBC. It is either Ofcom or [OfBeeb]. I would have always gone with Ofcom personally. But [Ofbeeb] was the compromise that then was not acceptable to anybody.<sup>345</sup>

281. Lord Birt supported the idea of the BBC having a management board that learnt from private sector practice, through input from non-executive directors, but who were there not necessarily to examine whether the BBC was properly addressing the interests of every group of licence fee payers, but looking to ensure that the organisation was well run, that it had the right talent, that the right processes were in place, and that it was spending money efficiently.<sup>346</sup> Lord Grade pointed out that, although the object of establishing the Trust had been to create separation between those running the organisation and those overseeing it, there was a case that general responsibility for the oversight of the BBC’s income from the licence fee should be located inside the Corporation so that a check to ensure the proper use of public money could be applied from the start.<sup>347</sup>

282. Gavyn Davies told us that he had liked the role of the “BBC Chairman” as it was in the 1980s and 90s, especially the fact that the Governors had been independent of Government, the whole industry, and other regulators. In his mind, the establishment of the Trust had generated unrealistic expectations of what the Chairman of the Trust could do.<sup>348</sup> He supported the idea of the role of “BBC Chairman” being returned to the main BBC. This would far more clearly mark out the Trust as representing licence fee payers, which would be a better solution. Greg Dyke also pointed out that the relationship between the Chairman and the Director General was key and that this had broken down to a degree during the BBC’s handling of the Savile affair:

The relationship between the chairman and the chief executive is all-important in any organisation. It is the most important relationship probably

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<sup>344</sup> Sir Howard Davies, writing on “Need for clarity at the Corporation for who is responsible for what”, in “Is the BBC in Crisis?”, published in 2014 by Abramis academic publishing.

<sup>345</sup> Q116 (Greg Dyke)

<sup>346</sup> Q129

<sup>347</sup> Q128

<sup>348</sup> Q113



in the organisation. I thought at the stage at which George Entwistle was clearly in difficulty, he needed significantly more support than he had.<sup>349</sup>

283. On the other hand, Professor Barnett believed that it was too early to make changes to the BBC's governance structure. In his view, there would always be a learning curve to any new governance system, and so the Trust should be afforded a little more time to get things right:

Of course there have been mistakes, as there always will be. These are human beings involved. It is not an easy job. There is no counsel of perfection in terms of governance of the BBC. It is a public institution. It is part of the market and it is part of the state, but it is separate from both. It is complicated. There will always be tensions. I think it is important to give the Trust a little bit of time to get things right.<sup>350</sup>

Nonetheless, Professor Barnett could see the case for establishing a non-executive chairman of the BBC, 'whose job would be a lightning conductor, to take some of the flak', and also be able to stand up for the BBC, rather than principally for the licence fee payers.

284. In respect of his role as Director General, Lord Hall told us he was responsible to the Trust for the overall direction, operation, and spending of the BBC. The Executive and the Trust jointly agreed the overall strategy for BBC but it was the Trust's role to hold the Executive to account for delivery. Since 2011, there have been two internal reviews which have looked at how effectively the BBC's governance has operated.<sup>351, 352</sup> The second, in 2013, was a joint review between the Trust and the Executive, instigated as a consequence of the excessive severance payouts and other high-profile management failings. Whilst the review concluded that much of the arrangement worked well, it found that there was still confusion over which body was responsible for what in certain key operational areas and this had undermined confidence in the governance and operation of the BBC. As a result, several actions were taken to clarify respective roles and responsibilities and to make the oversight of the BBC more transparent. For instance, the Executive has strengthened the non-executive representation on its Board—although it still has a majority of BBC executives—and it has been made clear that the Trust should not involve itself in operational decision-making.

285. Sir Howard Davies described the Trust's 2013 governance review conclusions as trying "to apply sticking plaster to the wound". He noted, for instance, that one of the outcome actions of the Trust, to "not involve itself in operational decision-making", meant that it indeed had been involving itself in this way before, betraying "a remarkable lack of confidence in the executive", and foresaw that "A mere undertaking to be good boys and girls in future, and to say please and thank-you to each other, will not do the trick."<sup>353</sup>

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<sup>349</sup> Q199 (Greg Dyke)

<sup>350</sup> Q277 (Professor Barnett)

<sup>351</sup> *Review of BBC Governance*, BBC Trust, July 2011

<sup>352</sup> *Review of BBC Internal Governance*, a joint review by the BBC Trust and the Executive Board, December 2013

<sup>353</sup> Howard Davies, writing on "Need for clarity at the Corporation on who is responsible for what", in "Is the BBC in Crisis?", published in 2014, Abramis academic publishing

286. According to Lord Hall, it would be possible to adapt all sorts of models for the BBC's governance and regulation but he found that since the clarification of their respective roles in the 2013 review, the BBC Trust and Executive were making the current model work.<sup>354</sup> Given that Lord Hall spent eight years as a non-executive director on the Channel 4 Board, we asked him whether a unitary board structure could work for the BBC.<sup>355</sup> He pointed out that Channel 4 was a much smaller and less complex organisation than the BBC, not only in terms of how its income was earned but also in the way it was spent. He added: "The right way to govern something that is so fundamental to the UK and bigger in size than Channel 4 is that you end up with something that is very akin to a trust and executive board."<sup>356</sup>

287. In our opinion, when failings have occurred at the BBC in the present Charter period the Trust has not demonstrated the institutional independence necessary to scrutinise the problems at hand or be a candid critic of the Corporation and its executives. The Trust is, after all, part of the BBC: the Chairman of the Trust is entitled to be called the Chairman of the BBC and, unlike other regulators, it appoints the chief executive (in this instance, the director general) of the body it is intended to regulate and whose performance it is intended to judge objectively.<sup>357</sup>

288. In respect of regulation, Lord Birt told us that he wanted to see the BBC being regulated much more in the tradition of Ofcom, where it was overseen by a "more beady" regulator with staff more experienced in that field.<sup>358</sup> A question which arises is whether some of the Trust's oversight roles and responsibilities should transfer to Ofcom or whether it should pass to a separate external body with oversight of the money that was spent by the BBC and more generally to support public service content, as had been envisaged by Lord Burns' independent panel. Lord Birt told us:

I am more attracted to the notion of a stand-alone regulator. Why? Because of the scale and importance of the BBC in our national life. Do I think it would be a disaster if it went to Ofcom? No, because Ofcom has been an especially effective regulator, in my judgment, but it regulates an awful lot of stuff. I would start to be nervous that bringing in something that was so big, of such importance and, of course, has strong public policy purposes—Ofcom would then have the job of holding the ring, which, in the end, I would rather politicians do than delegate the holding of the ring between the public sector and the private sector in broadcasting to a regulatory body.<sup>359</sup>

289. Lord Burns continues to prefer a separate body rather than passing regulatory responsibility for the BBC entirely to Ofcom, for the same reasons. Yet he told us he could

<sup>354</sup> Q580

<sup>355</sup> Lord Hall was Deputy Chair of Channel 4 between 2012 to March 2013

<sup>356</sup> Q580

<sup>357</sup> Article 10 of the BBC Charter states that the Chairman of the Trust may also be known as Chairman of the BBC, although in view of Article 8 this is an honorary title, as the members of the BBC (all the members of the BBC Trust and the Executive Board) "will never act as a single corporate body, but only as members of the Trust or Board to which they belong."

<sup>358</sup> Q145

<sup>359</sup> Q145

easily envisage a situation where what was now the Trust became a subsidiary of Ofcom, where it undertook a different type of job to the one carried out for commercial PSBs because the BBC required detailed oversight of how the licence fee was spent and whether its Charter objectives were being met:

The issue to me is I think Ofcom could do the job, but it would be a much bigger addition to their role than it is to do that job for Channel 4, which is why I would still on balance be in favour of the proposal that we put forward 10 years ago, which was to have a separate organisation to do this. But I certainly think that having it in Ofcom would be an improvement over the ambiguity that we have under the present arrangement. As I say, it is the ambiguity that I see as the biggest problem to be resolved here. The question of where it goes to is a bit more finely balanced.<sup>360</sup>

290. Despite the problems that had occurred, Lord Burns told us that the Trust had done some “very good work” in introducing purpose remits for each BBC service and public value tests for assessing new and existing services.<sup>361</sup> Many witnesses told us they thought these mechanisms were valuable and wanted them preserved. For instance, David Liddiment pointed to the way the Trust had monitored the BBC’s distinctiveness and impact on the commercial sector. The Trust has been in a position to make adjustments to BBC service licences where it found them overstepping the mark. According to Mr Liddiment, the last thing that the BBC needed was light touch regulation:

[The BBC] is a big beast and it is operating in markets, so part of its instinct is to be competitive. That is a good thing but it does mean from time to time it is not always as focused on its public purposes or as being distinctive as it needs to be, and you need a body that keeps it in line. Do not get me wrong; not to tell it what to do but to give the appropriate tension between its public values and the efficiency and competitiveness of the entity itself. We want it to be efficient. We want it to be competitive. We want it to be well run, but we want it to be focused on the public purposes, on the public values.<sup>362</sup>

291. We see three key requirements for effective stewardship of the licence fee income, giving assurance that the money passed to the BBC is well spent in meeting its public purposes. First, the BBC must have robust internal governance and compliance mechanisms to ensure that its management determine and deliver BBC services to the high standards expected of the Corporation and within its funding limits. The BBC’s governance must also ensure that the Corporation has the correct resources in place to meet its objectives in accordance with its strategic aims. Second, there needs to be independent regulatory oversight to ensure the BBC is complying with its statutory obligations and achieving set quotas, adhering to its editorial guidelines and broadcasting codes, and that its activities are conducted fairly in a way that does not impact adversely on its commercial counterparts. Third, given that the BBC is in receipt of over £3.7 billion of public money, it must be scrutinised and held accountable—internally and externally—for

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<sup>360</sup> Q285 (Lord Burns)

<sup>361</sup> Q295

<sup>362</sup> Q746

meeting the strategic aims which have been set for the Corporation to achieve its PSB obligations, and ensuring that its activities secure the best value for money, and satisfy the expectations of those who pay for its services. This will involve consulting licence fee payers regularly to find out what is expected of the BBC and how well the BBC is serving audiences.

292. A number of our witnesses held the view that the Trust has neither acted as a fully effective governor nor a regulator of the BBC and consequently we consider the status quo is not an option.<sup>363</sup> While views on the best form of governance varied, there was general agreement with the principle of making a clear distinction between internal corporate governance and independent external regulation and oversight of licence fee payers' interests. To achieve this, there needed to be a unitary board of the BBC headed by a non-executive Chairman, as well as an independent external regulator. We consider options for this below.

**293. We believe that the establishment in the 2007 Charter of an oversight and regulatory Trust within the BBC has led to it being too close to the BBC Executive and it being seen on many occasions as being far too protective of the BBC as an institution, rather than acting as an effective and objective regulator and advocate of the licence fee payer and wider public interest. Incidents like its handling of the Savile affair, oversight of the Digital Media Initiative, and its representation of licence fee payers in the 2010 settlement have demonstrated that the BBC Trust has not lived up to its name and we believe it was a mistake not to accept Lord Burns' independent panel's recommendation at the time of the last Charter renewal for fully independent external oversight of the BBC. We believe that the BBC Trust should be abolished and new arrangements made for both the regulation of the BBC and for the BBC to be held accountable to licence fee payers.**

294. We have set out our own preferred model for governance and regulation of the BBC which, although based on external, independent oversight of the BBC, deviates from Lord Burns' 2005 model. The main difference between our proposals and his panel's is that we do not consider the oversight body should have a formal role in approving the BBC's overall strategy nor should it formally set the BBC's spending priorities. It will have an advisory role. If it were formally to approve strategies and service budgets this would confuse and undermine lines of accountability and give the BBC Board less control over its activities. If the BBC is to be properly held accountable then the body overseeing it must be completely separated from the BBC so that it is placed to appraise the Corporation objectively and recommend a strategic direction in line with licence fee payers' interests and wishes and in accordance with the needs of public service broadcasting.

## A unitary BBC Board

295. It is our view that the separate entities of a BBC Trust and an Executive Board of the BBC should be replaced by a unitary board comprising a non-executive Chairman, a

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<sup>363</sup> Lord Burns (Q284); Professor Beckett ([FBB0022](#)), para 4.2; Lord Birt, (Q145); BSkyB (Qq388-89); Channel 4 ([FBB0067](#)); Commercial Broadcasters Association (Qq389 & 396); Greg Dyke (Q199); David Elstein ([FBB0104](#)); Global Radio (Q169); Philip Graf (Q296); Richard Hooper (Q285); Lis Howell (Q277); ITV plc (Q346); KM Group (Qq192 & 226); Newspaper Society (Qq225 & 227); National Union of Journalists ([FBB0079](#)), para 35; RadioCentre ([FBB0086](#)), para 15.

majority of non-executive directors, and a small number of executive directors including the Director General. As previously proposed by the Burns' Panel, the board would follow the best corporate governance practice of other large and complex organisations as set out in the Combined Code on Corporate Governance, whilst recognising the BBC's uniqueness and the lack of obvious parallels. The Board's functions would include collective responsibility for promoting the success of the BBC by directing and supervising its affairs; leadership of the BBC, within a framework of prudent and effective controls enabling risk to be assessed and managed; determining the BBC's strategic aims, ensuring that the necessary financial and human resources were in place for the BBC to meet its objectives, and reviewing management performance. This would include formulating the strategic business plan with supporting detailed financial information to be scrutinised by an independent external body, the Public Service Broadcasting Commission (PSBC), and monitoring progress against that plan. The unitary board would also define the BBC's values and standards and ensure that they were met. The board would also maintain committees covering key matters including nominations (advising the board on recruitment of the Director General and other executive directors), remuneration (to advise the board on compensation arrangements for executive directors), audit (to further the highest standards of financial accountability), and complaints (with appeals to be referred to Ofcom on content code matters).

296. Such a structure for the BBC should enable the Corporation to be more agile and dynamic in undertaking corporate governance and taking strategic decisions on priorities in line with its public purposes. It would also restore the "critical friend" support role of a Chairman and non-executive directors that was removed in 2007. The non-executives would be at closer hand and be able more effectively to challenge and contribute to the development of strategy, scrutinise management, satisfy themselves that financial information was accurate and that financial controls and systems of risk management were robust and defensible, and determine appropriate levels of remuneration of executive directors, as well as have a stronger role in appointing and, where appropriate, removing senior management and in succession planning.

297. A unitary board, which we refer to from now on as the "BBC Board", should be the body accountable for the BBC's management and delivery of the BBC's strategic aims. If this were the case, then the BBC Board should set, agree and own its overall strategy. Others would contribute to the process through expressing views about the shape of BBC services and scrutinising the BBC's performance, but the BBC must approve its own strategy otherwise lines of accountability are obscured. We note, however, that in its advice the Burns Panel proposed that the Public Service Broadcasting Commission not only subject to open and transparent scrutiny the strategic plan for the BBC prepared by the BBC board, but also "approve it or reject it in response to that scrutiny and to oversee its execution". The strategic plan agreed between the PSBC and the BBC, it suggested, might cover such issues as the number and broad objectives of television and radio channels, online and other services, including commercial services; the broad allocation of expenditure by service, audiences and genre to meet the needs of all licence fee payers; specific targets for each channel in terms of type of content and measures of success (along the lines of service Licences); and arrangements for the periodic review of channels and other activities of the BBC, whether commercial or funded by the licence fee. We consider this further below.



298. Similarly, a BBC Board committed to fulfilling its Charter and Agreement obligations, with effective internal compliance mechanisms, which could be set out in the Agreement, should be the body setting the BBC's priorities and agreeing the parameters and remits of individual services, taking into account the input and recommendations of the external oversight body and licence fee payers. It should be required to do so in a clear and transparent way so that others may judge performance. In addition, the Board must be wholly in control of its spending.

299. The Director General, as the BBC's chief executive officer and editor-in-chief, should be responsible to the BBC Board for the BBC's content. He or she should be answerable to the Board in respect of the BBC's delivery, but it should be the Board that owns the BBC's business plan and editorial guidelines and it should be ultimately responsible for the BBC's performance, and be held to account when mistakes or problems occur. Finally, the BBC Board must through all of its efforts ensure that the BBC secures value for money, irrespective of the additional role of external oversight in this area, and it should be answerable for the BBC's expenditure of the licence fee.

300. Under the BBC's Board there would be a management team responsible for the operational delivery of the BBC's services. Through the Director General and the other executive directors who sat *ex-officio* on the BBC Board, the management team would be held accountable for its performance.

### **Licence fee payers' interests: Public Service Broadcasting Commission**

301. We envisage the establishment of a new Public Service Broadcasting Commission (PSBC) to hold the BBC Board to account for its performance, although it would also have wider duties in relation to public service broadcasting. The principal role of the PSBC would be to represent the public interest in public service broadcasting to which the BBC is expected to make the most significant contribution. A high-level responsibility of the PSBC would be to scrutinise the BBC to make sure the nearly £4 billion of public money it received each year was being well spent. The PSBC would be independent of Government and Parliament but answerable to both. The PSBC would be there to represent and champion licence fee payers' interests.

302. As noted above, the Burns Panel proposed a formal role for the PSBC in not only subjecting to open and transparent scrutiny the strategic plan prepared by the BBC board, but in formulating that plan, approving or rejecting it, and overseeing its execution. Our view is that this risks the re-creation of something very similar to the BBC Trust, including reintroducing additional layers of decision making and working counter to the objective of a more agile and dynamic BBC board able to make decisions and act more effectively. Our preference is that the PSBC not have a formal role in approving the BBC's overall strategy: its duty in the first instance would be to scrutinise the BBC's strategy in a very public way, publishing its views on the BBC Board's performance and future priorities. Similarly, the PSBC would scrutinise individual services against their purpose remits, as has happened with service licence agreements under the Trust, holding the BBC to account for performance and making recommendations on spending priorities and for changes to service remits. The PSBC would not formally set individual budgets nor would it have a role in formally approving service remits.

303. In respect of the BBC's commercial counterparts, it would be at the Commission's discretion to carry out public value tests on BBC services. The BBC would be expected to submit proposals for new services or closure of services to the Commission. The PSBC's appraisal on these occasions would be informed by market impact assessments conducted by Ofcom, as before. There would be an expectation on the BBC to follow the PSBC's conclusions by either abandoning a proposal or making adjustments to existing services, to avoid adverse impact and to assure public value.

304. A further role of the PSBC would be to conduct public consultations on the BBC's services and to make recommendations as a consequence. The PSBC would advise the BBC Board, in a similar way to how Ofcom currently advises the Channel 4 Board, on its performance and strategies in serving audiences and meeting its public service remit. Mr Liddiment told us that even after eight years of its existence, he would have thought that not many people knew what the Trust was for.<sup>364</sup> This must not be the case with the new Commission: it would need to establish a much more prominent and meaningful relationship with the public who pay for the BBC and its PSB content.

305. In terms of public funding for PSB, it would remain a responsibility of the Government to set the licence fee (or its replacement), following negotiations with the BBC, and through consultations and debates in Parliament, and taking into account the advice of the Commission. In advising the Government on this, the PSBC would take into consideration past performance of the BBC and others, future PSB requirements and importantly those of the BBC. The PSBC could be given a role in allocating a proportion of the licence fee (or its replacement) on a competitive basis to the BBC and others for production of PSB content.

306. In the course of its work, we would expect the chairman of the PSBC to produce an annual report for Parliament and for him or her to appear before parliamentary committees such as ours to account for their work and to assess the performance of the BBC and any other recipients of public money in producing public service type content.

## Regulation: Ofcom

307. Ofcom would carry out all other regulation of the BBC as it does for the commercial PSBs. Ofcom would also oversee production and statutory quotas related to the BBC, as well as take on responsibility for complaints over fair trading. A significant change would be that Ofcom would take on all content regulation for the BBC; we consider this change in further detail below. We believe that Ofcom, given its responsibility for the whole broadcasting sector, would probably remain best placed to carrying out PSB reviews of the entire sector, which would also significantly inform the PSBC, but this arrangement could be reviewed.

## Transparency in appointments

308. Currently, the Chairman of the BBC Trust is appointed by Government following an open competition and then subject to a pre-appointment hearing by our Committee. The



Chairman of the Trust is responsible for appointing the Director General, under a process that should be open and fair. This did not happen last time, following the resignation of George Entwistle. It was also the case that two other members of the Executive board were directly recruited by Lord Hall without the posts being advertised. We were told by the Trust that Lord Hall's appointment had been made under "exceptional circumstances".<sup>365</sup> Similarly, in the case of the direct appointments made by the Director General himself, again we were told there were exceptional circumstances that had led him to bypass an open recruitment process. Lord Hall explained:

When I was constructing the team and thinking about constructing the team, I felt that the BBC was in some crisis. I wanted to move quickly to get the top team in place, and so, in those exceptional circumstances, a mixture of direct appointments of people who are stars in their world was right, as well as moving some people and also having an open competition for some of the other jobs.<sup>366</sup>

309. We do not think that it is appropriate under the present system that the regulator appoints the Chief Executive and Chair of the body it oversees. Under our preferred structure, the Chairman of the BBC would be appointed by the Government, as now happens with the Chairman of the Trust. In all other appointments there must be a duty to operate in a fair and transparent manner, especially given the BBC is a public sector organisation. As we have stated, the Chairman of the BBC would appoint the Director General after an open recruitment process had taken place, in line with advice of the Board's nomination committee, which would be chaired by non-executive directors as usually happens on a plc-style board.

310. During our questioning of the BBC Executive, we were not convinced that the current challenge to BBC executives has been as robust as we would expect. The BBC Board would need to recruit non-executive directors who were likely to give a tough challenge to the BBC Executives and whose corporate governance experience and skills were suitable to the BBC's public service remit and its public sector position.

## Chairman of the BBC

311. The new Chairman of the BBC would be ultimately accountable for the BBC's performance. He would be answerable for the BBC's actions, be champion of its creative endeavours, and be the guardian of the BBC's independence, supported, of course, by the BBC's constitutional protections and a strong board. Whilst the PSBC would help secure the BBC's independence given its role in overseeing the BBC as an institution and representing the public interest in the Corporation, it would ultimately be the responsibility of the Chairman of the BBC to defend the broadcaster's position from political or other challenges which might be a threat to its position.

312. It would be likely that the type of character profile and experience needed for the Chairman of the BBC post would be different from the requirements sought for the head of

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<sup>365</sup> Q731

<sup>366</sup> Oral evidence taken before the Culture, Media and Sport Committee on 25 April 2013, HC1099-I, Q10

the Public Service Broadcasting Commission. Both would be demanding positions and attract a significant amount of media attention, but the former would require someone with considerable management experience at board level of a large public or private sector organisation whereas the latter would be likely to require a person who had come from a regulatory background.

### Composition of the PSBC

313. The Commission would consist of a small number of Commissioners. They would be non-executive and be of the type, experience and skills that would be expected in a role of public interest oversight of a broadcasting/communications sector. The Commission would be supported by a small administrative staff and professional advisers (as it would be scrutinising, rather than shadowing, the working of the BBC, it is likely that the Commission would be a smaller and less expensive body than the Trust). The Government, following best practice on public appointments, would appoint the Commissioners, including the chairman of the PSBC.

314. The PSBC would be a separate entity to Ofcom but it would have close ties to the main regulator. We believe it will be important that there is a distinction in approach between the BBC and the commercial public service broadcasters given the need to scrutinise the amount of public money spent by the BBC and to evaluate the Corporation's success in achieving its remit across all its services. However, the PSBC could be established on a similar footing to Ofcom's Content Board where it has its own Chair, board and identity. We see the Commission's staff coming from similar backgrounds to those in Ofcom, rather than from the BBC, and perhaps being seconded from the main regulator.

315. The following table illustrates our preferred division of roles for the oversight of the BBC.

<b>Oversight of BBC performance</b>		
<b>Governance</b>	<b>Regulation</b>	<b>Ensuring accountability</b>
<p><b>The BBC Board would be responsible for:</b></p> <ul style="list-style-type: none"> <li>• Promoting the success of the BBC by directing and supervising its affairs.</li> <li>• Determining and setting the BBC's strategic aims, ensuring that the necessary financial and human resources were in place for the BBC to meet its objectives and reviewing management performance.</li> <li>• Deciding and delivering the BBC output in line with its funding allocation and borrowing limits and public purposes.</li> <li>• Defining adequate systems to define and maintain editorial standards, ensuring value for money and dealing with complaints in the first instance.</li> <li>• Defining the BBC values and standards and ensuring they were met.</li> <li>• Maintain the BBC's editorial independence.</li> </ul>	<p><b>Ofcom would:</b></p> <ul style="list-style-type: none"> <li>• Conduct regulation of the BBC's commercial activities in respect of competition and fair trading.</li> <li>• Conduct market impact assessments (for the PSBC) on the BBC's proposals for new services or closure of existing services.</li> <li>• Oversee quotas for: hours of news and currents affairs programming, regional programming, original production and regional production.</li> <li>• Carry out periodic PSB reviews for the whole PSB sector.</li> <li>• Carry out content regulation of the BBC and be the final arbiter of complaints about BBC content, including matters of impartiality and accuracy.</li> </ul>	<p><b>The Public Service Broadcasting Commission would be accountable to Parliament and Government. It would:</b></p> <ul style="list-style-type: none"> <li>• Scrutinise the BBC's strategic plan and delivery against its objectives and public purpose remit.</li> <li>• Represent licence fee/broadcasting levy payers views and consult and engagement with them on BBC services.</li> <li>• Review and report on BBC service remits.</li> <li>• Initiate public value tests of BBC services and review proposals for new services and closures.</li> <li>• Recommend to Government and Parliament the overall level of the licence fee.</li> <li>• Advise on the allocation of the licence fee between the BBC and others.</li> </ul> <p><b>The NAO would:</b></p> <ul style="list-style-type: none"> <li>• Have unfettered access to the BBC in carrying out value for money investigations.</li> </ul>

316. We would envisage the PSBC having a significant power in its scrutiny over the BBC in a comparable way to that of select committees and their scrutiny of Government. The power of publicity should allow the PSBC to draw attention to matters of concern or to recommend alternative options that needed to be explored. We would see the PSBC working in conjunction with Parliament in a way similar to that of regulators such as Ofcom. The establishment of a PSBC would not negate the BBC's production of annual reports to Parliament and its accountability to Committees such as ours.

317. Clearly, our model for oversight of the BBC represents a departure from Lords Burns' panel's recommendation in 2005. Whilst we consider the BBC must have ability to manage its affairs, Charter Review would need to give careful consideration over what *ex post* sanctions and backstop powers might be necessary, in extremis, for the PSBC vis-à-vis the

BBC. We note that in the case of S4C, the Trust has a backstop power, that as a last resort, it has the ability to reduce or withdraw funding from the broadcaster should it be in dispute over a breach of the operating agreement between the two bodies. A similar power could be at the disposal of the PSBC in the case of its oversight of the BBC. As we have stated, we would envisage the BBC being in a position of advising on the level of the BBC's future funding as well as managing a fund which would be allocated on contestable basis for certain PSB content and genres to which the BBC would be a potential recipient. Such control and facilities would afford the Commission certain influence over the BBC and others and encourage adherence to its directions and recommendations. We have set out a comparison showing the Trust, Lord Burns' and our own proposed models for oversight of the BBC as annex A below.<sup>367</sup>

**318. We recommend that the BBC should have a unitary board with a non-executive Chair, on which the Director General and executive and non-executive directors sit, where the Board has complete responsibility for the BBC's corporate governance and operations. The Board should comprise a majority of non-executive members.**

**319. We recommend that the non-executive Chair of the BBC Board be known as the BBC Chairman. The Board should have the power to hire and fire the Director General in line with the advice of a nomination committee of the BBC Board.**

**320. We believe that a Public Service Broadcasting Commission should take on the role of scrutinising the BBC's strategic plan, assessing its overall performance, making recommendations to the BBC in line with its assessments, and advising Government and Parliament on the BBC's and other PSB funding requirements.**

**321. We recommend that the non-executive Chairman of the Board be appointed under the same process that currently operates for the Chairman of the BBC Trust. That is to say a process led by Government, overseen by the Commissioner for Public Appointments and subject to a pre-appointment hearing of our Committee. A similar process should be run for the Chair of the Public Service Broadcasting Commission.**

**322. The Public Service Broadcasting Commission will need to engender a much more direct and meaningful engagement with licence fee/broadcasting levy payers than its predecessor on BBC services and PSB more generally including through web technologies and social media. Beyond 2016, we would expect the PSBC to commission research on viewers' and listeners' attitudes, willingness to pay, and for greater independent and critical assessment of the BBC's services than has happened before.**

**323. We recommend that as an ultimate sanction, the PSBC should have at its disposal a backstop power where it could recommend withholding some funding from the BBC in cases where there was a persistent disregard for the views of licence fee (broadcasting levy) payers as represented through PSBC recommendations on BBC services and activities. We consider the PSBC would have influence over the BBC by virtue of its role in advising on the level of the BBC's future funding requirement as well as through managing a contestable fund for certain PSB content and genres. The independent panel should consider the design and scale of an appropriate sanction mechanism.**

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<sup>367</sup> See page 127

**324. We recognise that very careful consideration must be given in the Charter Review process as to where some of the functions of the unitary BBC Board and the external regulator/public interest oversight body best sit. We recommend that the independent panel consider which elements of BBC oversight and governance should be exclusively in the unitary board and which ones must be transferred to the external, oversight body in its role of providing independent scrutiny of the BBC.**

### Ensuring value for money

325. The National Audit Office has been conducting value for money examinations at the BBC for a number of years, both on behalf the BBC Trust and, before it, the BBC Governors. Unlike its reports on central government, these examinations are not performed under the statutory powers but are provided for by a framework agreement between the Secretary of State for Culture, Media and Sport and the BBC.

326. The coalition’s programme for Government included a commitment to “give the NAO full access to the BBC’s accounts to ensure transparency” by November 2011. In a letter to the then Secretary of State in September 2010, Amyas Morse, Comptroller and Auditor General, set out what the NAO needed in order to be able to do an effective job on behalf of Parliament examining value for money at the BBC.<sup>368</sup> He said that the NAO needed:

- the ability to decide on its programme of value for money work;
- unfettered access to information held by the BBC; and
- the ability to report independently to Parliament.

327. Amyas Morse went on to say that the NAO’s value for money work would be strengthened if it were to become the auditor of the BBC’s accounts. He said the case for the NAO to audit the BBC’s accounts stood on its own merits as the BBC’s funding was the only significant block of money voted by Parliament that was not audited by the Comptroller and Auditor General. However, the CAG made it quite clear that just as the NAO did not question the merits of government policy objectives, it should not question the BBC’s editorial judgements.

328. In a further letter to the Secretary of State in October 2010, Amyas Morse said that he was disappointed that it remained the Government’s view that any NAO reports should reach Parliament via the BBC Trust and the Secretary of State.<sup>369</sup> This meant that the CAG could not control the timing of publication. This raises the possibility that the BBC Trust or the Secretary of State could redact material or indeed not publish the report under the current arrangements. It also meant that the BBC, unlike other organisations, responded to the issues raised by any reports before they had been considered in Parliament.

329. Four years later, the CAG had still not obtained the access to the BBC he believed the NAO required and on occasions his officers still encountered lengthy delays in their

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<sup>368</sup> See NAO website: [Letter from CAG to the Secretary of State for Culture, Media and Sport, 17 September 2010](#)

<sup>369</sup> See NAO website: [Letter from CAG to the Secretary of State for Culture, Media and Sport, 22 October 2010](#)

requests for information.<sup>370</sup> The CAG pointed out that, although the situation had improved in recent years, in certain situations the BBC could still be very restrictive:

I would still say that I think it is possible, particularly in difficult areas, to find that the BBC does not provide evidence where, in their judgment, it is covered by commercial and confidentiality grounds or, indeed, information privilege grounds, privacy grounds. While those are in themselves not invalid, you get the sense of how widely those principles are being applied, and I have never seen them more widely applied.<sup>371</sup>

Sir Amyas Morse told us that he continued to want statutory access to the BBC for his work. This could be achieved by either specifying the NAO's right of access to the BBC in the BBC's Charter and Framework Agreement or by making the NAO the BBC's official auditor. Sir Amyas explained:

There are various ways that could be achieved, but I would like to have statutory access rather than access by agreement. A lot of things I have talked to you about, which are less obstructions than they used to be but still potentially there and actually there in some cases, [they] would not be there if I had a statutory right to do the work. So, for whatever means that I could get that, that would really transform our ability to do our work properly.<sup>372</sup>

330. As it stands, Sajid Javid, the Secretary of State, told us that he considered NAO access to the BBC was an important issue that should be looked at but the current arrangements could not change without going through the Charter review process.<sup>373</sup> In our view, given the BBC's willingness to compete and compare and benchmark its costs in a more transparent way we see no reason for maintaining restrictions on the NAO access to the BBC accounts. As the BBC is looking to move its production operation to a more commercial footing there is an even greater need for opening up the BBC to NAO value-for-money investigations where there is a culture of openness and co-operation. **We recommend that the BBC Charter and Framework Agreement are amended to allow the NAO to have statutory access to the BBC accounts. Clearly, if the BBC Trust is no longer in existence the process for publishing the NAO reports on the BBC will need to be revised. We see no strong reason why the NAO should not adopt the same publishing regime for the BBC as it has in place for its reports on Government departments and agencies.**

## Regulation of BBC content

331. The regulation of the BBC, and the roles for Ofcom and the BBC Trust, are currently set out in the Communications Act 2003 and in the BBC Charter and the BBC Agreement. Ofcom sets the Broadcasting Code for the whole broadcasting industry and the Code's rules apply to the BBC's public services, except for matters of impartiality and accuracy. The exclusion of 'impartiality and accuracy' from Ofcom's remit for the BBC is not set in

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<sup>370</sup> Q528

<sup>371</sup> Q527

<sup>372</sup> Q534

<sup>373</sup> Q799



the BBC Charter or the 2003 Communications Act but in the Framework Agreement between the BBC and the Secretary of State.<sup>374</sup> Ofcom's Code applies to the BBC in the following areas:

- Protection of under-18s;
- Harm and offence;
- Avoidance of inciting crime or disorder;
- Responsible approach to religious content;
- Prohibition of use of images of very brief duration; and
- Fairness and privacy.

332. Currently, the Trust approves the BBC's Editorial Guidelines against which the BBC must operate and judges the BBC's delivery against them. The BBC Editorial Guidelines provide the way in which BBC should meet Ofcom codes but are more demanding in terms of the standards expected. Where the Trust finds BBC content in breach of the Guidelines it can sanction (but not fine) the BBC and can ask for an 'on-air apology'. The public can complain to Ofcom about BBC editorial matters if they wish, except in relation to impartiality and accuracy. Ultimately, where Ofcom considers that its Code has been breached "seriously, deliberately, repeatedly, or recklessly", it can impose sanctions, which range from a requirement to broadcast a correction or statement of a finding to a fine of no more than £250,000.<sup>375</sup>

333. Clearly, at the very heart of the BBC is its role as an impartial news provider. In carrying out this function, it is essential that the BBC has complete freedom from any political or commercial pressures. The Trust has been positioned to defend and protect the BBC's independence, a role that we see passing to a new BBC Board and BBC Chairman.

334. Our inquiry did not examine the way complaints about BBC's output are handled in any depth but a significant amount of correspondence that we receive as a Committee relates to the BBC and its output and also the way complaints are handled by the BBC and the Trust. Given the importance of the BBC's impartiality, it is nearly always the case that it is inappropriate for us to intervene in individual cases. Nevertheless, a common theme we have noted is that members of the public who believe they have reason to complain are often dissatisfied that their complaint or point of view has not been considered independently. For many the BBC Trust is essentially part of the BBC and as such the Corporation is seen as a self-regulating body and there is great dissatisfaction that there is no option for an impartial adjudication of a complaint about the BBC by an independent body.

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<sup>374</sup> Cm 6872, Schedule 46 (2)(b)

<sup>375</sup> Ofcom ([FBB0085](#)), para 3.27



<b>Number of editorial and general complaints in 2013/14</b>
<ul style="list-style-type: none"> <li>The BBC received 192,459 editorial and general complaints: of which 485 went on to the BBC's Editorial Complaints Unit (the second tier of the BBC's complaints process) and 277 of these complainants appealed to the Trust for a third-tier review.</li> </ul>
<ul style="list-style-type: none"> <li>Ofcom dealt with 12,774 complaints (6,337 cases<sup>376</sup>) about broadcasting standards. Of these 11,732 complaints (6,804 cases) did not require further investigation or fell outside Ofcom's remit: 1,012 complaints (253 cases) raised substantial issues that warranted further investigation.</li> </ul>
Source: BBC Annual Report and Account 2013/14 and Ofcom Annual Report 2013/14

335. Richard Hooper and Philip Graf, both former Deputy Chairmen at Ofcom and former chairs of the Ofcom Content Board, told us that they favoured all content regulation of the BBC transferring from the BBC Trust to Ofcom. Mr Hooper believed that if this were to happen, it would have the effect of strengthening the BBC's independence. He explained:

I think it is in the BBC's interests for [responsibility for all content regulation] to move to Ofcom because when the right-wing press say the BBC is full of lefties and the BBC Trust has to adjudicate that, there is always a difficulty because you have the Mandy Rice-Davies issue of, "They would say that, wouldn't they?" Whereas if you give it to Ofcom ... [its] judgment on whether the BBC is full of lefties would have some independent power.<sup>377</sup>

Ed Richards, former Chief Executive of Ofcom, believed that it was a "red herring" that the Trust was somehow more independent of Government than Ofcom:

I regard this as a complete red herring and a poor argument, and let me tell you why. The essential point of interaction between the Government and Ofcom is the appointment of the chairman. The Government appoints the chairman, exactly the same as is the case with the BBC Trust. That is the primary point of interaction. After that, the BBC Trust's independence is secured through the Royal Charter but even in that territory, as we know from the post-Leveson debate, there are plenty of people who feel that that model itself is prone to and could be subject to political manipulation. In [Ofcom's] case, our independence is secured not only through primary legislation here but also our independence is legally protected in European law... I can tell you from very personal experience there has not been a single occasion in which we have been subject to inappropriate political pressure in relation to what we are talking about here, which is broadcasting, by a

<sup>376</sup> Individual complaints received by Ofcom are assigned cases. A case is opened when Ofcom is assessing a specific programme or issue and may consist of one or more complaints.

<sup>377</sup> Q285 (Richard Hooper)

Minister of the Conservatives, the Labour Party or the Liberal Democrats. I think that is because there is a very widespread and accepted understanding that those things should be dealt with completely independently by the independent regulator, and that has been the case.<sup>378</sup>

336. If Ofcom were to take on all final complaints on BBC content—those that appealed the BBC Board’s decision—it would be important that there was a level playing field in respect of its investigations. We believe that Ofcom’s Content Board would need to be given extra resources commensurate with this new responsibility. The BBC would continue to consider all complaints in the first instance, and attempt to resolve matters internally. The final level of review within the BBC would be to the BBC Board but in most cases such appeals would be delegated to an editorial complaints unit, as is the case now.

**337. We recommend that Ofcom become the final arbiter of complaints over BBC content including matters concerning impartiality and accuracy, but that complaints should be considered by the BBC in the first instance. Ofcom should be given additional resources for taking on this role which are commensurate with the responsibility and estimated workload. We believe this transfer of responsibility will, if anything, strengthen the independence of the BBC, and also make the complaints process simpler, and appear more transparent and fair.**

## S4C

338. S4C is a public service broadcaster, established by statute, which provides a Welsh language television channel both within Wales and across the UK. The Secretary of State for Culture, Media and Sport has a statutory duty to ensure sufficient funding for S4C. Under the terms of the licence fee settlement of October 2010, responsibility for the majority of S4C funding transferred from the DCMS to the BBC Trust through the licence fee. From 1 April 2013, 90% of S4C’s funding (£76 million) derived from the licence fee with 8% (£6.787 million) maintained by DCMS until March 2016. The DCMS contribution for 2016-17 is not yet known. The remaining 2% comes from commercial income. S4C values highly the duality of its funding, and see it as helping secure its independence. The statutory duty to ensure sufficient funding for S4C is now enshrined in section 31 of the Public Bodies Act 2011.

339. S4C maintains editorial, operational and managerial independence. It is overseen by the S4C Authority. In 2011, the BBC Trust and S4C Authority agreed a governance and accountability position in respect of S4C. The agreement lasts for the period up to the end of the current BBC Charter and is intended to ensure the editorial and managerial independence of the S4C service. It states that the BBC Trust will undertake and publish an annual performance assessment of S4C, measuring performance against the terms of an operating agreement. There is, *in extremis*, the ability of the BBC Trust to reduce or withdraw funding from S4C if the terms of the operating agreement are not being met.

340. Ian Jones, Chief Executive of S4C, told us that the status of the S4C Authority as an independent statutory corporation should not be adversely affected or undermined by the

granting of a new Royal Charter to the BBC.<sup>379</sup> We agree. **We recommend that the Trust's current oversight of S4C's licence fee funding passes to the Public Service Broadcasting Commission in 2017 should the majority of S4C's income continue to come through the licence fee (or a new broadcasting levy). It will be important that S4C remains independent operationally and managerially over its affairs and editorially over its content.**

## 8 Constitutional basis

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341. The main alternatives to a Royal Charter are to establish the BBC through either an Act of Parliament (i.e. the BBC would be a statutory corporation), or as a limited company. The BBC Trust believes neither alternative provides the same level of protection for the BBC's independence as the current system.<sup>380</sup> Nonetheless, as we have set out above, it is questionable how successful the Charter is in practice in protecting the independence of the BBC from Governments and politicians in light of the 2010 licence fee settlement, where the BBC was pressured to take on additional responsibilities.

342. According to the BBC Executive, the Charter terms are subject to extensive political debate at the time of Charter Review, ensuring appropriate parliamentary and public scrutiny, but with a relatively fixed period to provide room for the BBC to deliver on its commitments.<sup>381</sup> The BBC considered a ten-year term gives it a sufficient horizon over which to plan investment and helps to keep decisions on the BBC's remit out of step with the electoral cycle. However, this may not be the case if five-year fixed-term parliaments continue. The BBC also believed that the Charter has a "symbolic value", emphasising for the UK public and others the special role and responsibilities which the BBC has as an independent broadcaster and "trusted national institution".

343. We have received no representations calling for the BBC to have a statutory footing. The majority of witnesses told us that a ten-year Royal Charter remained the best mechanism for insulating the BBC and securing its independence. A key feature of Charter Review is that it provides the opportunity to allow external bodies to hold the BBC to account and allows committees such as ours to examine the BBC and the key strategic issues such as what the BBC is for, how it is governed and run, what resources it needs and how these might be delivered. Lord Burns considered a ten-year Charter was a good device for avoiding political interference in the BBC's affairs but allowing opportunity to remould the BBC to meet the needs of the next decade. However, he observed that last time Parliament should have had more involvement in the process of reviewing the BBC's Charter:

Although I would not like to see it dealt with in the same way as legislation whereby each line of the charter is worked over, I think there is something that is slightly strange to be able to bring forward such a complicated set of proposals, including also the issue of the level of the licence fee, and not to have a rather better oversight and discussion within Parliament about this. There is a moment in this whole process where Government suddenly has a great deal of power. I would like to find some mechanism that would somehow combine the benefits of the strength of the charter in giving independence to the BBC but where Parliament also has a part to play in this whole consultation and the process of reaching a decision. If I look back to

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<sup>380</sup> BBC Trust ([FBB0096](#))

<sup>381</sup> BBC ([FBB0097](#)), para 64

last time, I would say the people who were least consulted in all of this were the two Houses.<sup>382</sup>

344. Philip Graf believed that there might be an argument for a limited mid-term review of the BBC Charter given the speed and change of the broadcasting environment and the uncertainty ahead but that such a review should not re-open the debate on all aspects of the BBC.<sup>383</sup> Others argued that this could compromise the security and independence that the Charter gives.<sup>384</sup> However, as our report demonstrates, much of the detailed arrangements setting out the BBC's responsibilities are contained within the Framework Agreement with the Secretary of State and, if anything, there is a much greater need for this document to be subject to more rigorous scrutiny, as well as a debate about whether aspects contained within it should be incorporated into the Charter instead. Lord Hall was open to the idea of a mid-term review of the BBC's position:

I think the independence of the BBC is crucial and that would point me towards a 10-year period. If you were to say that because things move quickly, the industry changes quickly, there needs to be some sort of five-year "how are you doing" follow-up, I would be more than happy to say yes to that. Again, it is about accountability.<sup>385</sup>

Ed Richards pointed out that the setting of the licence fee should allow a type of mid-Charter Review<sup>386</sup> but, as we have set out earlier, the 2010 settlement did not involve any consultation of the public or Parliament. It has also been the case that amendments to the Framework Agreement receive little or no involvement by Parliament.

345. We believe there would be merit in holding five-yearly reviews of the Framework Agreement but that should not involve opening up a much wider debate on the constitutional issues and core purposes of the BBC, which a mid-term review of the Charter would inevitably lead to. For instance, a review of the Framework could consider issues such as the funding and range of the BBC's provision of services. **Parliament must have an increased role in scrutinising the BBC's Agreement with the Secretary of State, and any amendments to it, and in scrutinising the draft Charter itself. This should conclude with a debate on the draft Charter and Agreement on the Floor of the House.**

346. Our report's conclusions and recommendations have set out the questions and issues that must be considered during the Charter Review process on the BBC's position beyond 2016. It will be important these issues are properly considered and that the process is a consultative one so that Charter Review allows the UK public opportunity to influence what a future BBC should look like and how it should be funded.

347. **We believe that the BBC Royal Charter has stood the test of time and that it remains the best constitutional arrangement for establishing the BBC. We conclude that a ten-year Charter would provide the BBC with the security it requires, and**

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<sup>382</sup> Q294 (Lord Burns)

<sup>383</sup> Q294 (Philip Graf)

<sup>384</sup> Q507

<sup>385</sup> Q584

<sup>386</sup> Q507

**certainty for the wider broadcasting, media and communications and technology sectors. If full consultation and consideration can be given before the expiry of the current Charter, we recommend that the BBC be granted a further ten-year Charter, with a mid-term review of the Framework Agreement with Government or, alternatively, at any time, when substantial amendments are made to this document.**

**348. Should there be insufficient time to complete a comprehensive review of the BBC before the present Charter's expiry, or to implement the Committee's recommendations on governance, we recommend that the BBC is granted a short supplementary Charter of no more than a two-year period enabling the full review to take place and to implement detailed plans to replace the Trust.**

**349. We recommend that the Public Service Broadcasting Commission is established as a statutory body rather than having a parallel charter to that of the BBC.**

## Conclusions and recommendations

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### 2017 Charter Review process

1. We agree with Lord Burns, the former Government's adviser on the last Charter Review, that even with the timing of the general election, preparatory work for 2017 Charter Review should start as soon as possible. Consideration of the future of the BBC is too important to rush. The BBC Trust must demonstrate a readiness and willingness to ensure that a full and frank debate takes place on all aspects of the BBC as part of Charter Review including through its own engagement with licence fee payers on all the fundamental issues concerning the BBC. (Paragraph 25)
2. The process for agreeing the future shape, funding and constitution of the BBC must be as thorough, open and democratic as possible. For this to happen, we recommend that the Government seek cross-party support for establishing an independent review panel now on the 2017 Charter, along the same lines as the previous Burns' model, led by a figure similar to Lord Burns, so that the vital preparatory work and research to inform Charter Review can begin without further delay. Our principal conclusions and recommendations in this report set out a basis for the terms of inquiry for the independent panel. (Paragraph 26)
3. As with the previous Charter Review, the Government must ensure that the public and other stakeholders are fully consulted and able to put across their views on the future of the BBC. We expect sufficient time to be allocated for this and for the development of, and consultation on, Green and White Papers, and for parliamentary scrutiny on these and any draft future Charter and Framework Agreements. If there is insufficient time to undertake this properly before the current Charter expires another option would be to grant a supplementary Charter extending the current Charter for an appropriate period in which to complete the review process. (Paragraph 27)

### Public purposes

4. We recommend that the independent panel and formal Charter Review consult on the BBC's current public purposes and purpose remits set out for them, to determine whether and how they might be revised and to examine their effectiveness in measuring the BBC's public value. We believe a critical review of the purpose remits, and consultation and research on BBC performance, including on people's willingness to pay for BBC services, could help clarify the BBC's core purposes and suggest strategic and funding priorities. (Paragraph 44)
5. Given the BBC's vital contribution to training and development of talent and skills in the UK's creative media industries and in journalism, we believe this function should be reflected in the BBC's core public purposes. Similarly, we believe that the success of a future public BBC will depend on its ability and willingness to collaborate and work in partnership with others at all levels to maximise its public value and that of others. The necessity for collaborative engagement should be enshrined in the BBC's public purposes. (Paragraph 49)



### BBC Three

6. It is difficult to see how BBC Three could be judged a success after more than a decade and expenditure of more than a billion pounds of licence payers' money, given the minority of the target audience reached. We believe it is right that the BBC Executive is considering alternative ways to reach BBC Three's target audience and recommend that all BBC services be evaluated in terms of most effective delivery and value for money. (Paragraph 57)

### BBC World Service

7. We are concerned that combining the role of the BBC deputy director of news with that of the director of the World Service will dilute the influence and the independent voice of the World Service within the BBC, as the Service will no longer have a leader dedicated solely to developing and representing its interests. Given its new funding and oversight arrangements, we fear the importance of the World Service could be diminished. The extent to which the World Service's needs will be met from within the BBC must be monitored very carefully in the new Parliament. At a time when countries like Russia and China are significantly increasing their investment in global media outlets, including services aimed at the UK, we believe that the World Service has an increasingly important role in what is a global information war. (Paragraph 62)

### Serving all audiences

8. While we welcome the BBC's success in shifting spend out of London during the current Charter period through its move to Salford and through the concentration on "Centres of excellence", it is evident that some areas of the country have received a disproportionately small return of the licence fee which has meant they have missed out on economic activity. Although we accept the BBC cannot have a significant physical presence in all regions of the country, it must develop a more equitable commissioning and business strategy that fosters cultural variety and spreads its activity, as far as possible, across the country. (Paragraph 68)
9. We believe it is crucial for the BBC and other broadcasters to broaden the range of voices and backgrounds at commissioning level as well as on screen and in other areas of broadcasting. (Paragraph 72)
10. Without the BBC's supply of UK-originated content and programmes for children, many younger people would have to rely largely on a diet of acquired US television programmes, as the BBC is pretty much by itself in the provision of UK-originated children's output. This content plays a vital part of children's early learning experience and understanding of their cultural identity. Children's content must remain a core and priority PSB genre for the BBC beyond 2016. The BBC will need to be able to continue to innovate and develop new media and distribution strategies for children as the audience for traditional linear television programmes continues to decline over the next few years. We commend the BBC for the quality and provision of its content for children over the current Charter period. (Paragraph 77)

### Savings and efficiency

11. The BBC's achievement of cumulative savings of £1.1 billion since 2007 is commendable given the relatively small negative impact they have had on audiences' appreciation and on reach of its services. Whilst efficiencies of this magnitude may have been challenging for them to accomplish, especially on the back of earlier initiatives, the fact that the BBC achieved the savings demonstrates it was right that the Corporation faced a tight spending settlement in 2010, notwithstanding the criticisms of the way that settlement was conducted. (Paragraph 83)
12. The BBC still has £400 million of savings to make by 2017. Given that the likely opportunities for further productivity gains must be diminishing, the BBC will need to be bold and upfront in presenting the options for cuts to services or output which would allow it to stay on track for the savings target, while still meeting its public purposes and audience expectations. (Paragraph 84)

### BBC performance

13. We believe that the BBC has done well in the current Charter period, in light of increased choice and competition, in terms of overall reach and audience consumption and appreciation, but it has also had a few notable failures and underperformance in certain areas which the BBC has not always been ready to acknowledge until well after the fact. Over the course of the Charter period, in their annual reports, in our view, the BBC Trust and the BBC Executive have often tended to highlight favourable performance figures over the less favourable, burying the latter in lengthy narratives, or supplementary documents online, which has not facilitated an easy scrutiny of where the BBC had been doing well and where it had been less successful. In the remaining part of the current Charter, the BBC should aim to be a better, more transparent, self-critic. It should not be deterred from summarising and publishing the least favourable performance figures alongside those where it is doing well. We recommend that the independent panel, and the Charter Review process itself, must appraise the BBC's current performance measures and manner of reporting in order to determine whether changes should be made in the future to ensure the BBC presents a more balanced picture of its results. (Paragraph 85)

### Partnerships

14. We welcome the fact that Lord Hall has made partnerships one of his key ambitions over the next few years. We believe the BBC and its audiences have gained greatly from the Corporation working with others during the present Charter period. In order to ensure maximum public value, the BBC must be required to harness such joint working arrangements wherever it can appropriately do so if it is to continue to benefit from the privilege of public funding. Increasing its partnership potential should be a core purpose of the BBC. (Paragraph 112)

### Scope and scale

15. While it is the case that the BBC's purposes and funding will determine some parameters for the BBC's scope and scale, it is also the Framework Agreement between the BBC and the Secretary of State and the interpretations and decisions

taken by the Trust and any successor oversight body that affect these. In practice the level of the funding will be the main lever in preventing the BBC overreaching its remit as set out in the Framework Agreement. (Paragraph 113)

16. The BBC's audience share of television, comprising about a third of all UK television viewing, although it has fallen over the last couple of decades, continues to demonstrate the BBC's central presence in the life of the country. (Paragraph 114)
17. We consider that the BBC Trust's view that it is difficult to put a stop to any significant parts of BBC activity, citing the support shown by the audiences to individual services, is questionable. The BBC must make the most effective use of licence fee payers' money and should not be trying to do everything itself. The BBC needs to be able to make bigger, braver decisions on its strategy and inevitably must do less in some areas. Similarly, we challenge the BBC's justification for doing all that it currently does in order to provide "something for everyone". (Paragraph 115)
18. It is not incompatible for the BBC to provide "something for everyone" across its output whilst also reducing provision in areas that are over-served or where the public service characteristics of its output are marginal, or where others are better placed to deliver excellence and better value for money. The BBC has been given a privileged position and substantial public funding to serve under-served and under-represented audiences, as well as mass audiences, with content not created for commercial gain, allowing it to take risks and be distinctive, challenging, original and innovative. (Paragraph 116)

### BBC One +1 proposal

19. We do not find that the BBC has made a convincing case for launching a BBC One +1 service. Whilst we appreciate how such channels can be of particular value to commercial broadcasters, in bolstering audience share and generating advertising revenue through the additional viewing, we do not believe in the BBC's case such a channel would represent public service value given the potential adverse impact on competitors and the availability of most BBC content on the iPlayer shortly after its initial airing. If the BBC no longer requires the scarce digital terrestrial spectrum it was granted and has used in the evenings for BBC Three, then it should be obliged to give this valuable public resource up for alternative, public value use. (Paragraph 118)

### Measuring public value

20. The BBC is a powerful player in broadcasting and, given the broad scope of its public purposes and resources, there is a constant danger that it will, by accident or design, swamp smaller rivals and inhibit their ability to grow and develop. It therefore needs some boundaries, to ensure that the market overall is working to the public good and the licence fee payer is getting best value for money. To this end, we welcome the current Charter's introduction of service licences and public value tests and support their continuance. However, given the infrequency of service reviews and high thresholds for initiating public value tests, we believe that the body responsible for overseeing the BBC should be more willing to react to reasonable calls to test whether existing BBC services are fulfilling their public purposes and service remits.

We recommend an additional means be developed to trigger public value and market impact tests where there is prima facie evidence of the BBC crowding out others' endeavours and having an adverse market impact. We believe the independent panel and Charter Review process should consider this as part of the review. (Paragraph 128)

21. Under any new governance arrangements we believe that Ofcom should continue to provide market impact assessments that inform the public value tests, which would be undertaken by the body holding the BBC Executive to account for its public value. Ofcom should also be invited to give advice in areas where the BBC's market impact should be considered even where it does not involve a formal public value test. (Paragraph 129)

### Production

22. Whilst we welcome the concept of removing the BBC's in-house production guarantees and opening up the majority of BBC commissioning to competition, it is important that commissioning decisions are not simply made on the basis of cost but also on quality. Clearly there would be a benefit to licence fee payers in the BBC producing content for others on a commercial basis given the financial return it could make. However, we believe there is a risk that such commercial motives could over time distract BBC producers from their principal role in meeting the BBC's public purposes. The BBC must remember the concerns expressed and previous overreach of BBC Worldwide. It must not allow commercial gain to trump the BBC's main purpose as a public service broadcaster. (Paragraph 152)
23. We are sceptical of the suggestion that the BBC should become solely a publisher-broadcaster and retreat from producing any content itself. Given the BBC's long successful tradition of making high-quality television programmes, it should continue to produce content itself where its output is distinctive from the market and where it makes economic sense to do so. In future, when the BBC is commissioning content it will have to give careful consideration to the value of long-term ownership of intellectual property, as well as initial production costs. Where particular types of content can be provided by the market more easily and cheaply, and have less long-term value, the BBC must be willing to withdraw from these areas. (Paragraph 153)
24. If BBC production is opened further and the BBC were to be permitted to compete for commissions from other broadcasters then it must be able to demonstrate a transparency of costs and a fairness in its commissioning decisions and processes with robust safeguards against licence fee revenue cross-subsidising BBC's commercial supply activity. This will not be easily achieved. (Paragraph 154)
25. In taking on production work for others, BBC Production would become one of the largest production companies trading in the UK market. As such, the Government would need to consider what impact its commercial endeavours would have on smaller and medium-sized production companies operating in the UK market and consider what, if any, bearing this should have on any review of the terms of trade and other legislation in respect of independent content production. (Paragraph 155)

26. We recommend that the terms of trade should be reviewed as part of the Charter Review process. Among other things, consideration must be given as to how the terms of trade might have to change in respect of the BBC if it became a commercial provider of content to others. As the terms of trade apply to all PSBs, Ofcom should have a lead role in this review. However, any changes to the terms of trade must not introduce any unintended consequences. For example, limiting the retention of rights to content to only smaller production companies could create incentives for broadcasters to deal with larger producers where preferential terms could be applied. (Paragraph 156)

### Local TV

27. In the last two years, Ofcom has awarded 30 licences for local TV services and 15 stations have gone live. So far these services do not appear to have had any significant impact among audiences nor have they made a meaningful contribution to the provision of local news and content and as such their viability remains in doubt. (Paragraph 165)

### Local and regional media

28. We believe there must be a more symbiotic relationship between local media and the BBC, where each benefits from the other. The BBC as the dominant partner must always be mindful of the effect of its activities on regional media groups and their ability to turn a profit, given the greater certainty resulting from its publicly-funded position. The BBC Trust's conclusions from its 2013 review of BBC Online, where it called on the BBC management to make sites more local, demonstrated a disregard for the health of local journalism. (Paragraph 171)
29. Whilst the BBC appears to make the right gestures in supporting local and regional media organisations in the run-up to Charter Reviews, we believe more definite commitments in respect of its interactions with the press must be codified into any future Charter framework. (Paragraph 172)
30. The BBC must not expect to receive others' news content without providing something in return. We are attracted by the idea of exchanges of content and information, where the BBC local websites link to the source of local material they have used, and in return the BBC allows others to use its content and embed BBC clips on their sites, where these would be of local interest, under a licence agreement. There need not be a financial transaction. However, we also see the case for the BBC outsourcing the supply of some local content on a commercial basis, where there is an ongoing requirement for such material, and it is a more cost-effective way of meeting this need. We recommend this be ensured by extending the BBC's independent production quota to cover local news. (Paragraph 173)

### BBC Worldwide

31. There are major benefits from the BBC undertaking commercial activities as the profits generated by the exploitation of the BBC's intellectual property can be reinvested in the BBC's public services, to the benefit of licence fee payers. However, BBC Worldwide's activities must not risk jeopardising the reputation of the BBC or

be allowed to have an adverse impact on its commercial competitors. We continue to believe that the approach of BBC's commercial activities should be limited to those closely linked to its programmes and its public service remit. (Paragraph 180)

32. There is a potential risk that BBC dependence on returns from BBC Worldwide to fund UK public service content, as a co-producer of new content or through dividends to bolster the finance of the BBC's PSB operations, could lead to UK PSB content focused more on global commercial appeal and return rather than primarily aimed at serving domestic audiences in the first instance. We believe that investing in public service content for UK audiences must remain the priority for BBC Worldwide beyond 2016. (Paragraph 181)
33. BBC Worldwide has an important role in marketing the BBC brand and the UK's creativity overseas, even if its financial contribution to domestic PSB remains reasonably modest. We recommend that the independent panel and Charter Review process consider whether changes are needed to existing oversight provisions in the Charter and Framework Agreement for BBC Worldwide and for the BBC's other commercial activities. (Paragraph 182)

### Research and development

34. It is vital that BBC works in partnership when developing technology and broadcasting platforms, through joint ventures such as Freeview and Freesat, and through working with standards organisations and equipment manufacturers to sustain and improve the availability of its services. Wherever possible the BBC must turn to the market for its technology needs rather than attempting to do things itself if it is to avoid future costly mistakes, as was the case with the Digital Media Initiative. Where solutions are not available to meet the BBC's future needs, then it should take the lead in developing new solutions but in conjunction with others so that the BBC's counterparts contribute and to ensure their needs may also be met. (Paragraph 189)
35. We recommend that the BBC's sixth public purpose on communications technologies should be retained, but the means to achieve it should be clarified. The remit and priorities of the purpose should be revised and updated. They should, for instance, strengthen the requirement on the BBC to look first to the market for technology solutions and to ensure any development it undertakes is done in partnership with others, but where the market is not yet delivering innovation, the BBC should be required to take a leading role in pushing development in line with people's expectations. (Paragraph 190)

### Funding

36. There currently appears to be no better alternative for funding the BBC in the near term other than a hypothecated tax or the licence fee. However, the principle of the licence fee in its current form is becoming harder and harder to sustain given changes in communications and media technology and services, and changing audience needs and behaviours. Given this is the case, we do not see a long-term future for the licence fee in its current form. (Paragraph 212)



37. We believe that the forthcoming round of Charter Review should not rush profound changes such as the abolition of the licence fee model but the BBC must prepare for the possibility of a change in the 2020s. We recommend that as a minimum the licence fee must be amended to cover catch-up television as soon as possible. (Paragraph 213)
38. We conclude that a degree of subscription could be a possibility in the future if the BBC moved to a more personalised service and this could be in accordance with Lord Hall's vision for personalisation of BBC content consumption. However, careful thought would need to be given as to what content should remain universally available and free-to-air, and how this should be funded, protected from inappropriate influence and delivered to the public. (Paragraph 214)
39. We recommend that the independent panel and Charter Review process ensure there is robust comprehensive research, taking into account generational differences, of people's attitudes towards the licence fee and their willingness to pay for BBC and public service broadcasting more widely, and in particular their openness to the idea of subscribing for certain services. (Paragraph 215)

### Decriminalisation

40. We note the Government's review, which is looking at the possibility of the decriminalisation of non-payment of the licence fee. Our view is that criminal penalties for the non-payment of the licence fee and the way enforcement is carried out is anachronistic and out of proportion with the responses to non-payment for other services. We believe there is a strong case for making non-payment a civil matter pursued through the civil courts in the same way as non-payment of Council Tax, parking fines and utility bills. We also acknowledge the possibility, based on the evidence presented and international experience, that decriminalisation could lead to an increase in evasion and potentially, therefore, a reduction in the BBC's income. Below, we discuss two possible ways this could be addressed. In paragraphs 228 to 233 we discuss Germany's recent transition from an appliance based "licence fee" to a household broadcasting levy. This has made household investigations unnecessary. And in paragraphs 237 to 244 we discuss the potential for introducing conditional access technologies, which would obviate the need for criminal penalties. (Paragraph 224)

### Alternative model for funding

41. The German model of a broadcasting levy on all households is our preferred alternative to the TV licence. Such a levy on all households would obviate the need to identify evaders and would be a fairer way of ensuring those people who use only BBC radio and online services contribute to their costs. A broadcasting levy which applied to all households regardless of whether or not householders watched live television would help support the use of a small proportion of the revenue raised for funding public service content and services by others, enhancing plurality. (Paragraph 232)
42. We recommend that the independent panel and Charter Review process should investigate the advantages and disadvantages of a household broadcasting levy as an



alternative to the licence fee and on how the broadcasting levy could be made more affordable for low income groups in the UK. We also believe that the new Finnish system, of a hypothecated tax specifically for broadcasting, based on an individual's income, although still its infancy, would still be worth consideration during Charter Review. (Paragraph 233)

### Collection costs

43. We recommend that the independent panel and Charter Review look at what options might be available for sharing collection costs of the licence fee or a broadcasting levy with local authorities or utility providers. (Paragraph 236)

### Conditional access

44. We believe that conditional access offers opportunities to ensure that only those households who have paid a licence fee or its equivalent would be able to access BBC or television services. Introducing a means of authorising access to television services would solve the criminalisation issue associated with non-payment of the television licence. However, as there would be significant costs attached with the widespread introduction of conditional access technology, the Government would need to decide over what timescale it should be introduced. (Paragraph 243)
45. The independent panel and Charter Review should consider the desirability and feasibility of the BBC using conditional access to ensure its television services are available only to licence fee payers and authorised users in future. We recommend that Ofcom's advice is sought on current availability of conditional access technology and devices, market adoption trends and potential timescale for widespread adoption. Ofcom could also advise on the implications of requiring manufacturers to include conditional access technology in all receiving devices from a future date. (Paragraph 244)
46. We recommend the BBC should look at the practicality of introducing controls for authorising access to the iPlayer as soon as is possible, as has been suggested by Lord Burns. (Paragraph 245)

### Setting the level of funding

47. We believe that the current means of setting the licence fee is unsatisfactory. The 2010 settlement demonstrated that the BBC's independence can be compromised by negotiations with the government of the day that lack transparency and public consultation. Irrespective of any Government pressure, the BBC Trust breached its Charter duties and often-stated commitments to reflect the interests of licence fee payers first and foremost, in agreeing the settlement in the manner it did. (Paragraph 255)
48. No future licence fee negotiations must be conducted in the way of the 2010 settlement: the process must be open and transparent, licence fee payers must be consulted and Parliament should have an opportunity to debate the level of funding being set and any significant changes to funding responsibilities. We recommend that the independent panel and Charter Review process consider the appropriate

length of licence fee settlements and the period in which they should be reviewed and changes made. (Paragraph 256)

### Sharing the licence fee

49. Although there is nothing that states the licence fee revenue is the sole preserve of the BBC, we find the case for the licence fee as a source of funding for rural broadband and BBC Monitoring unconvincing. (Paragraph 267)
50. It was wholly wrong that 2010 licence fee settlement, which permitted the licence fee revenue to be used for new purposes, was not subject to any public or parliamentary consultation. We recommend that income from the licence fee (or the broadcasting levy) be used only for the purpose of broadcasting or the production of public service content on television, radio and online. As a result, we believe that the Government must be prepared to remedy any existing spending commitments agreed in 2010 so that those not deemed appropriate for funding through the licence fee are met by other means such as general taxation. (Paragraph 268)
51. The BBC should be the principal recipient of the licence fee (or broadcasting levy) but a small proportion should be made available for other public service content priorities such as supporting local and regional journalism, and children's broadcasting. We recommend that the independent panel and Charter Review consider how such contestable funds might operate and what types of public service areas they might support. (Paragraph 269)

### Governance, regulation and accountability

52. We believe that the establishment in the 2007 Charter of an oversight and regulatory Trust within the BBC has led to it being too close to the BBC Executive and it being seen on many occasions as being far too protective of the BBC as an institution, rather than acting as an effective and objective regulator and advocate of the licence fee payer and wider public interest. Incidents like its handling of the Savile affair, oversight of the Digital Media Initiative, and its representation of licence fee payers in the 2010 settlement have demonstrated that the BBC Trust has not lived up to its name and we believe it was a mistake not to accept Lord Burns' independent panel's recommendation at the time of the last Charter renewal for fully independent external oversight of the BBC. We believe that the BBC Trust should be abolished and new arrangements made for both the regulation of the BBC and for the BBC to be held accountable to licence fee payers. (Paragraph 293)
53. We recommend that the BBC should have a unitary board with a non-executive Chair, on which the Director General and executive and non-executive directors sit, where the Board has complete responsibility for the BBC's corporate governance and operations. The Board should comprise a majority of non-executive members. (Paragraph 318)
54. We recommend that the non-executive Chair of the BBC Board be known as the BBC Chairman. The Board should have the power to hire and fire the Director General in line with the advice of a nomination committee of the BBC Board. (Paragraph 319)

55. We believe that a Public Service Broadcasting Commission should take on the role of scrutinising the BBC's strategic plan, assessing its overall performance, making recommendations to the BBC in line with its assessments, and advising Government and Parliament on the BBC's and other PSB funding requirements. (Paragraph 320)
56. We recommend that the non-executive Chairman of the Board be appointed under the same process that currently operates for the Chairman of the BBC Trust. That is to say a process led by Government, overseen by the Commissioner for Public Appointments and subject to a pre-appointment hearing of our Committee. A similar process should be run for the Chair of the Public Service Broadcasting Commission. (Paragraph 321)
57. The Public Service Broadcasting Commission will need to engender a much more direct and meaningful engagement with licence fee/broadcasting levy payers than its predecessor on BBC services and PSB more generally including through web technologies and social media. Beyond 2016, we would expect the PSBC to commission research on viewers' and listeners' attitudes, willingness to pay, and for greater independent and critical assessment of the BBC's services than has happened before. (Paragraph 322)
58. We recommend that as an ultimate sanction, the PSBC should have at its disposal a backstop power where it could recommend withholding some funding from the BBC in cases where there was a persistent disregard for the views of licence fee (broadcasting levy) payers as represented through PSBC recommendations on BBC services and activities. We consider the PSBC would have influence over the BBC by virtue of its role in advising on the level of the BBC's future funding requirement as well as through managing a contestable fund for certain PSB content and genres. The independent panel should consider the design and scale of an appropriate sanction mechanism. (Paragraph 323)
59. We recognise that very careful consideration must be given in the Charter Review process as to where some of the functions of the unitary BBC Board and the external regulator/public interest oversight body best sit. We recommend that the independent panel consider which elements of BBC oversight and governance should be exclusively in the unitary board and which ones must be transferred to the external, oversight body in its role of providing independent scrutiny of the BBC. (Paragraph 324)

### Ensuring value for money

60. We recommend that the BBC Charter and Framework Agreement are amended to allow the NAO to have statutory access to the BBC accounts. Clearly, if the BBC Trust is no longer in existence the process for publishing the NAO reports on the BBC will need to be revised. We see no strong reason why the NAO should not adopt the same publishing regime for the BBC as it has in place for its reports on Government departments and agencies. (Paragraph 330)

### Regulation of content

61. We recommend that Ofcom become the final arbiter of complaints over BBC content including matters concerning impartiality and accuracy, but that complaints should be considered by the BBC in the first instance. Ofcom should be given additional resources for taking on this role which are commensurate with the responsibility and estimated workload. We believe this transfer of responsibility will, if anything, strengthen the independence of the BBC, and also make the complaints process simpler, and appear more transparent and fair. (Paragraph 337)

### S4C

62. We recommend that the Trust's current oversight of S4C's licence fee funding passes to the Public Service Broadcasting Commission in 2017 should the majority of S4C's income continue to come through the licence fee (or a new broadcasting levy). It will be important that S4C remains independent operationally and managerially over its affairs and editorially over its content. (Paragraph 340)

### Constitution and reviews

63. Parliament must have an increased role in scrutinising the BBC's Agreement with the Secretary of State, and any amendments to it, and in scrutinising the draft Charter itself. This should conclude with a debate on the draft Charter and Agreement on the Floor of the House. (Paragraph 345)
64. We believe that the BBC Royal Charter has stood the test of time and that it remains the best constitutional arrangement for establishing the BBC. We conclude that a ten-year Charter would provide the BBC with the security it requires, and certainty for the wider broadcasting, media and communications and technology sectors. If full consultation and consideration can be given before the expiry of the current Charter, we recommend that the BBC be granted a further ten-year Charter, with a mid-term review of the Framework Agreement with Government or, alternatively, at any time, when substantial amendments are made to this document. (Paragraph 347)
65. Should there be insufficient time to complete a comprehensive review of the BBC before the present Charter's expiry, or to implement the Committee's recommendations on governance, we recommend that the BBC is granted a short supplementary Charter of no more than a two-year period enabling the full review to take place and to implement detailed plans to replace the Trust. (Paragraph 348)
66. We recommend that the Public Service Broadcasting Commission is established as a statutory body rather than having a parallel charter to that of the BBC. (Paragraph 349)

# Annexes

## Annex A: Comparison of the Trust, Burns and the Committee's proposed models for oversight of the BBC

	<b>Under Trust model:</b>	<b>Under Burns panel's proposal:</b>	<b>Under Committee proposal:</b>
<b>Constitution</b>	Oversight body inside BBC.	External to BBC.	Same as Burns' recommendation.
	BBC Trust is the BBC's sovereign body.	Unitary BBC Board with non-executive Chair – separate external public-interest oversight and regulation i.e. by a new Public Service Broadcasting Commission (PSBC) and Ofcom.	Same as Burns' recommendation.
<b>Appointments</b>	Chairman of the Trust appointed by the Government following Cabinet Office public appointment process and now subject to a pre-appointment hearing by Culture, Media and Sport Committee	Government would have appointed Chair of PSBC and other commissioners following best practice public appointment rules.	Same as Burns' recommendation. The Government's preferred candidate for Chair of PSBC subject to a parliamentary pre-appointment hearing.
	Chair of the Executive Board appointed by the Trust.	Chair of BBC Board would have been appointed by Government following accepted best practice.	Same as Burns' recommendation. The Government's preferred candidate subject to a parliamentary pre-appointment hearing.
	Chair of the Executive Board can be appointed in an executive or a non-executive capacity (but so far always the former and the director general).	Non-executive Chair of unitary BBC Board would have been known as BBC Chairman.	Same as Burns' recommendation.
<b>Board</b>	BBC Executive has majority of executive members.	Non-executives would have been in majority on unitary BBC Board.	Same as Burns' recommendation.
<b>Governance/ accountability</b>	Trust sets the overall strategic direction for the BBC within the framework set by the Charter and Framework Agreement following proposals made by the BBC Executive.	PSBC would have subjected the BBC's strategic plan, prepared by the BBC Board, to open and transparent scrutiny. Plan would have included broad objectives of television and radio channels, online and other services, broad allocation of expenditure by service, audiences and genre.	The PSBC would neither formulate nor have to approve the overall strategy for the BBC, but would scrutinise and make recommendations.

	<b>Under Trust model:</b>	<b>Under Burns panel's proposal:</b>	<b>Under Committee proposal:</b>
	Trust approves high-level strategy and budgets in respect of the BBC's services.	PSBC would have approved or rejected high-level strategic plan and budgets in respect of the BBC's services.	PSBC would scrutinise and make recommendations about BBC Board's proposals.
	Trust defines suitable performance criteria and measures against which the effective promotion of the Public Purposes are judged.	PSBC would have defined suitable performance criteria and measures against which the effective promotion of the Public Purposes would be judged.	Same as Burns.
	Trust assesses the performance of the Executive Board in delivering the BBC's services and activities and holds the Executive to account for its performance.	PSBC would have assessed performance of unitary board and held it to account.	Same as Burns. PSBC to possess power to recommend ultimate funding sanctions.
<b>Purpose remits</b>	Trust sets multi-year purpose remits, and approves strategies which include high-level budgetary allocations.	PSBC would have had a similar role to the Trust.	BBC Board would set remits and budgets, PSBC would scrutinise them and make recommendations.
<b>Service licences/ service reviews</b>	Trust issues service licences for BBC services and monitors compliance with them	PSBC would have adopted the Trust's routine of service licence and periodic service reviews.	PSBC to review and report on BBC service licences, but final approval made by BBC Board. PSBC to possess threat of recommending funding sanctions.
<b>Public value tests (PVTs)</b>	Trust carries out public value tests and decides on whether the BBC may introduce new services or close existing ones. Ofcom carries out market impact assessments.	PSBC same as Trust. Ofcom's role unchanged.	PSBC to carry out public value tests of BBC services and review proposals for new services and closures. Also able to initiate PVTs on existing services. Expectation on BBC Board to adhere to PSBC's findings, backed up by threat of recommending funding sanctions.
	Trust approves individual strategic or financial proposals where they stand to have significant implications for the fulfilment of the purpose remits.	Not specified.	Scrutiny role but no formal approval role
	Trust, where appropriate, conducts investigations into any activity of the BBC which it has grounds to suspect does not comply with requirements supervised by the Trust.	Broadly PSBC same as Trust.	Conduct investigations into any activity of the BBC which causes concern.

	<b>Under Trust model:</b>	<b>Under Burns panel's proposal:</b>	<b>Under Committee proposal:</b>
<b>Value for money</b>	Commissions value-for-money investigations into specific areas of BBC activity. NAO conducts value for money investigations by agreement with the BBC Trust.	Broadly PSBC same as Trust.	In conjunction with an NAO having unfettered access to the BBC (but not commenting on editorial decision-making), PSBC assesses value-for-money of the BBC and its services.
	Trust acts as guardian of the licence fee and the public interest in the BBC and delivers ongoing programme of public consultations and engagement.	PSBC would have represented the public interest on all BBC activities and public funding in broadcasting and delivered ongoing programme of public consultation and engagement.	Same as Burns' recommendation.
<b>Regulation</b>	Ofcom responsible for regulation of competition, economic, spectrum and pan-broadcasting issues.	Same as existing arrangement.	Same as existing arrangement.
	Final arbiter of complaints regarding content over matters of impartiality and accuracy.	PSBC final arbiter of complaints regarding content over matters of impartiality and accuracy.	Ofcom final arbiter of complaints regarding BBC content including over matters of impartiality and accuracy.
<b>Independence</b>	Trust secures the independence of the BBC.	PSBC same as Trust.	PSBC would help secure the BBC's independence but it would principally fall to the Chairman of the BBC to defend and champion the BBC's position.
<b>Level of licence fee</b>	No role.	PSBC would have recommended to Government and Parliament the overall level of the licence fee and any other funding needed to support the BBC.	Same as Burns' recommendation.
<b>Contestable funding</b>	No role.	PSBC would have judged the allocation of the licence fee between the BBC and other broadcasters and ensured a degree of plurality in supply of certain areas of PSB content	Same as Burns' recommendation.
<b>Financial sanction</b>	Not applicable.	PSBC to possess potential backstop power to withhold some of the licence fee from the BBC	Same as Burns' recommendation.



## Annex B: Terms of reference for the inquiry into the Future of the BBC

*Released by press notice on 22 October 2014*

The Culture, Media and Sport Committee is holding an inquiry into the BBC ahead of its current Royal Charter ending in December 2016. The Royal Charter is the constitutional basis for the BBC. It sets out the public purposes of the BBC, guarantees its independence, and outlines the duties of the Trust and the Executive Board. It is supplemented by an Agreement with the Secretary of State that sits alongside the Charter, which provides detail on many of the topics outlined in the Charter and also covers the BBC's funding and its regulatory duties.

Since the last Charter renewal in 2006, the communications and media environment has evolved significantly, with an abundance of content, platforms and services accessed by an increasing number of people. Yet the popularity of traditional television and radio services remains strong. The Committee will consider the BBC beyond 2016 and invites written submissions on any of the following questions:

- What should the BBC be for and what should be the purpose of public service broadcasting?
- How well has the BBC performed in the current Charter period in achieving its mission and public purposes?

Are the public purposes in the current Charter the right ones? How might they change?

- What scope, scale and remit should the BBC have?
  - Should the BBC's output and services be provided to any greater or lesser degree for particular audiences?
- What balance should be struck in what the BBC produces in-house, commissions externally and leaves entirely to others to create?
- How have the BBC's commercial activities during the current Charter fitted with the BBC's public purposes and have they achieved an adequate return for licence fee payers? What should be the aims, scope and scale of such activities beyond 2016?
- What role should the BBC play in developing technology and new ways of distributing content?
- How should the BBC be funded beyond 2016?
  - Is there a case for distributing funding for public service content more widely beyond the BBC?
- What comparisons can be made with the provision of public service content in other countries?

- How should the BBC be governed, regulated and held accountable beyond 2016?

In a constantly evolving communications environment, does a 10-year Royal Charter and Agreement with the Secretary of State, together, provide the most appropriate constitutional framework for the BBC?

## **Annex C: Visit to the Netherlands, Germany and Denmark – comparative visit looking at public service broadcasting**

### Monday 12 May—programme in The Hague

General briefing with Sir Geoffrey Adams KCMG, HM Ambassador at British Embassy

Meeting with the Council for Culture to discuss future of PSB in the Netherlands

Meeting with the Ministry of Education Culture & Science

### Tuesday 13 May—programme in Hilversum

Meeting with the Dutch Media Authority (Commissariaat voor de Media)

Meeting with Netherlands Public Broadcaster (NPO)

Meeting with NL Broadcasters Council (College van Omroepen)

Meeting with VPRO and KRO/NCRV (two Dutch broadcaster associations)

Meeting with RTL

### Wednesday 14 May—programme in Mainz and Frankfurt

Meetings with ZDF (Zweites Deutsches Fernsehen)

Working lunch with:

- Dr. Dieter Dörr, Professor of Media Law, Johannes-Gutenberg-University, Mainz;
- Dr. Franz Rothlauf, Professor of Information Systems, Johannes-Gutenberg-University, Mainz;
- Dr. Peter Widlok, Spokesperson for the Association of German Media Authorities;
- Tabea Roessner, Member of Parliament and Member of the Committee for Media and Cultural Affairs; and
- Claus Grewenig, Director Association of Commercial Broadcasters (VPRT).

Meeting with Michael Hanfeld, Media Editor at the Frankfurter Allgemeine Zeitung

### Thursday 15 May—programme in Copenhagen

Meeting with the Danish Press Council (Pressenævnet)

Meeting with the Danish Journalist Association

Meetings with TV2

Meetings with Danish Radio

Meeting with the Ministry of Culture

*End of programme*

## Annex D: Online consultation: Students' views about the BBC and television

During the inquiry into the Future of the BBC the Committee decided to hold a short web consultation targeted at young people to canvass opinions on the BBC and on viewing and listening habits more generally. A three-week consultation was hosted on The Student Room (TSR) website, an online forum for students, just before the start of the new college year in September. TSR is open to people at any stage of education, although the majority of its members fall within the 14 to 24 age range.

The e-consultation was promoted on the Committee's own website, as well as on the Student Room's site, and included an introductory video by the Chair of the Committee setting out the inquiry and inviting students to participate through sharing their views and voting in polls.

Students were asked to respond to the following questions:

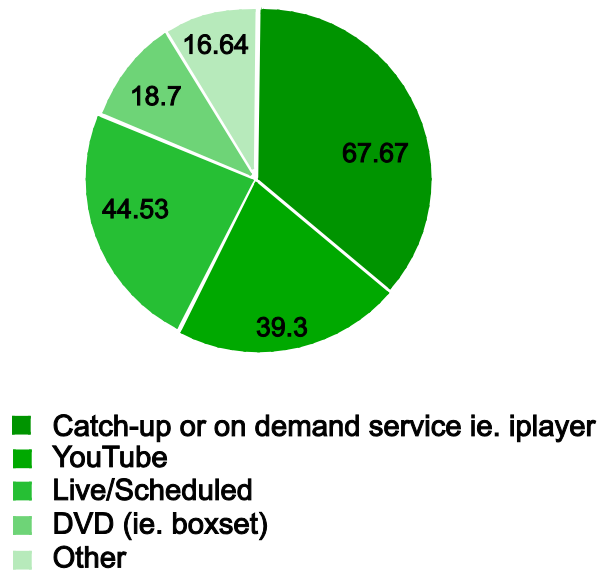
- How do you prefer to watch television and listen to the radio?
- How do you think the BBC should be paid for?
- Does the BBC appeal to you? What is your "go to" television? How does the BBC's content aimed at young people compare with the choice that is available elsewhere?
- Would you miss BBC programmes and content if they were no longer there? What would you miss?
- Who should pay for the BBC?
- The BBC has plans to make some of its content aimed at younger people available only on iPlayer. What do you think about that?

In total there were over 500 comments posted by 224 respondents. In one of the polls on viewing preferences over 600 votes were cast although not all of those who voted left comments.

Below is a summary of the points made in response to the questions asked and also a selection of some of the posts submitted.

## How do you prefer to watch TV and listen to the radio?

### Preferred method of viewing



- The majority of respondents to this question cited catch-up services as their preferred method of viewing television content. Many mentioned that they view programmes via the BBC iPlayer and 4oD. Sky Go was also a popular service, particularly due to its wide range of films.
- Many disliked the number of adverts that appeared on some on-demand services.
- In addition to broadcasters' catch-up sites, other popular services for viewing TV-like content were Netflix and YouTube.
- A general preference was for sport to be watched live—in particular football matches. Some respondents stated that watching sport was the only time that they viewed live TV.
- There was a limited response on radio preferences: many stating that they rarely listened to radio, and if they did, it was whilst travelling by car.
- A few respondents admitted that they streamed television programmes and films via illegal sites such as Pirate Bay.
- Many respondents did not own a television, but either used a laptop or tablet for viewing TV-content. As such, catch-up TV (particularly iPlayer) and Netflix were preferred as they were easier to access and aimed at those who watched online.

### Key Quotes:

“I think TV has fallen by the wayside and we are now entering a new era of on-demand content.”

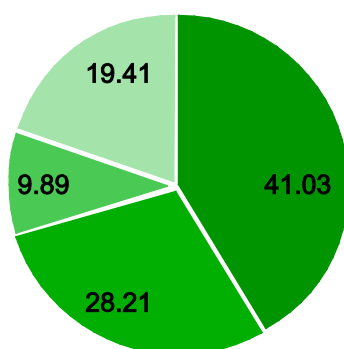
“I use both Netflix and YouTube on my TV. To be honest with you, I rarely watch “TV on the TV” (i.e. channels), I mean, in this day and age where you can access the internet at your fingertips I find the channels slightly boring.”

“The broadband around my area is the equivalent of dial-up in terms of speed and cannot cope with video streaming, although fibre is available. The BBC will be cutting off young people who either a) parents cannot afford internet or fast internet b) areas that have a poor internet connection c) those people who are experiencing lengthy periods of disconnection.”

“I try to watch scheduled TV. That’s because I love to watch it on my big screen, not as nice as on my 15" Laptop, but most shows I watch on-line. Radio rarely”

### How do you think the BBC should be paid for?

#### How do you think the BBC should be funded



■ TV Licence ■ Adverts on BBC ■ Tax ■ Subscription

- The majority favoured continuing with the licence fee. There was a general consensus that the BBC was something of a British tradition and as such, there was not a huge appetite to see it change. However, some respondents noted that the BBC earned income by selling programmes overseas and queried how this money was invested.
- Just under 20 per cent of those who voted in the poll wanted the BBC to be funded through subscription.
- Some respondents noted that the licence fee was a significant cost and one which was not easily affordable for students.



- Despite the fact that the Student Room's audience was probably one with less income, given that most are not in full-time work, the support for funding the BBC through advertising was not as extensive as might have been expected. Many who responded expressed a dislike for adverts and would not want to see them on the BBC.
- Many who said that they could not afford the licence fee reported that they avoided the charge by not watching live television, instead viewing programmes later via catch-up.
- While the licence fee was the preferred option, there was also a feeling among many that television and viewing methods were changing considerably and that the current licence fee model might not be sustainable.

### *Key quotes:*

“40p per day adds up to £150 for the year (ish) which is a lot of money for students. That's a month of food with enough left for some nights out. A lot of money”

“You can break anything you want down into price per day and it looks insignificant. Even if you said £1 a day it seems quite small. I feel however that there should be a much easier opt out...

The problem with the BBC is that the licence fee is not justified as it does nothing groundbreaking outside of BBC4 maybe, which is the only channel of its kind. Everything else [the] BBC does is done elsewhere, and is commercially viable, that is not what the licence fee is for.

“I still believe a TV licence is the best way of ensuring the BBC can produce high quality broadcasts. Adverts are a massive time waste and I would much rather have an ad-free experience. I feel having a taxable portion of an individual's income is a viable option but many people are disgruntled with the sheer volume of taxation they are coping with and since not all are regularly TV viewers it is most likely unfair to tax those who will have no benefit from what that taxation will fund. As for subscription they are too much hassle to maintain if those by Sky and other networks are anything to go by so in my opinion; a TV licence is the way forth. If it isn't broke don't fix it.

“I am a traditionalist when it comes to TV - the BBC is “Britain” ..... it's not hard to get nostalgic about it, it's a big part of our culture for me. I'm definitely not a fan of adverts, I watch most things on record so I can fast forward commercial breaks. A tax isn't all that fair given some people do not have televisions and unlike the NHS this really isn't a “life or death” situation.

“I genuinely groan when my yearly TV licence email comes through.... £100 straight out the account just before Christmas! Ouch! It seems like a lot of money at the time.

“It's frustrating that I choose to have a TV but my neighbour next door could plug in their tablet into a screen and watch iPlayer for free... with a 30 minute delay to live programming!

“Another subscription service would turn me off—I already pay for Virgin Media and Netflix and with that comes all the catch up channels. If that’s the way it has to go would the BBC work with providers such as Sky, Virgin Media and BT to build in the charge into the monthly/yearly cost of their packages like Sky Sports or Netflix?”

“To be honest, I think they should be run commercially, the idea behind the licence fee is that the BBC makes shows which are not economically viable for a commercially run station to produce. These days that is not the case, they see talent shows on ITV, and copy them, they are more than commercially viable these days, and should have to be funded as such.”

“I would like adverts in between as every other channel does this I don’t understand why BBC need to be funded differently?”

“Either that, or subscription similar to Netflix as such—that way, people who don’t get signal, don’t watch BBC etc are not obligated to pay for it.”

“I don’t think it is fair, but then again neither is funding nuclear weapons through direct taxation, at least the BBC provide a service which benefits most people.”

“Alternatively, we could even have a choice if we want to watch adverts or not, and pay for a premium package which is advert free.”

“I’d hate the idea of adverts personally. But the corporation makes many hundreds of millions from selling the rights to shows like Top Gear, Strictly Come Dancing and Doctor Who all over the world, the first two are among the most watched television shows globally. The BBC just needs to use the money from that more sensibly. Cut down the dross that it doesn’t need”.

“Given this shift away from TV, and the difficulty in preventing and tracking activity across a wide range of online, digital and radio services, I don’t think the current model is long-term sustainable unless the BBC finds a way to retain live TV viewing figures. I also think the current model isn’t progressive. If you’re unemployed and looking for work, the BBC’s documentaries, news, weather, current affairs, etc are useful, and I also don’t think poor people should have their light entertainment taken away from them because they can’t afford a TV Licence (it would be around 5% of many people’s weekly JSA). It’s hardly living the life of luxury having a TV, as the Daily Mail would like to portray. I also think that whilst not everybody purchases a TV Licence, almost everybody consumes BBC media in some form each year. Given that pretty much everybody does, and that it should be seen as a public service (after some reforms), I feel it should be paid for through general taxation.”

“The BBC should never have adverts! I would pay TV licence for all of the channels if it meant no adverts, however I think the TV licence should NOT work like a driving licence, it should work that the TV only works once you have paid the fee and then cut off if you don’t pay it, like how water, electricity and internet work. This would save the cost of having TV licence inspectors and mean bring down the fee of the TV licence as more people would be forced to pay it, meaning that each person would need to pay less!”

*Does the BBC appeal to you? What is your "go to" television channel? How does the BBC's content aimed at young people compare with the choice that is available elsewhere?*

- There was a consensus that the BBC did not appeal to a younger audience to the same extent as other broadcasters. Channel 4, E4 and Comedy Central were named as the channels of choice for younger viewers. Of the BBC channels, BBC Three received the most positive response and programmes such as *Bad Education* and *Being Human* were singled out as appealing to younger viewers.
- Several respondents commented that the BBC's output was biased.
- A common complaint was that while many enjoyed watching BBC Three, popular US imports such as *American Dad* and *Family Guy* were not available to view online.
- The BBC, particularly BBC One, was praised for its dramas. Programmes such as *Sherlock* and *Doctor Who* were particularly noted.

*Key quotes:*

"Most of my favourite TV shows are on the BBC—GBBO, *University Challenge*, *Question Time*, *Bang Goes the Theory*, *Doctor Who!* BBC 2 and BBC 4 always have good documentaries."

"The BBC doesn't really offer any TV shows that I deem are actually worth paying the licence fee for—they're all aimed towards an older generation (except for BBC 3 which is just full of repeats). I generally watch Channel 4 for the News and TV shows."

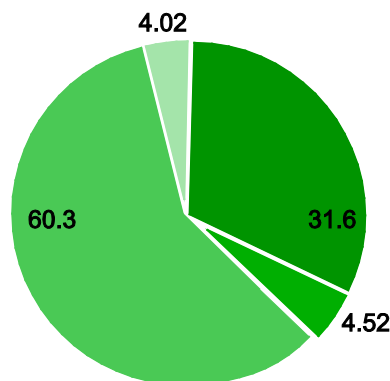
"I normally go to BBC3, I'm gutted they're axing it because they have great shows and can't show *Family Guy* online."

"Well I mainly go to BBC1 for dramas and BBC3 for real life documentaries/comedies and *Family Guy*. But if there is something of interest on BBC2 or 4 then I'll watch them."

"I think that the BBC should spend money on bringing US shows into the country, but they should also be working to develop their own original content. *Bad Education* and *Cuckoo* are two great series on BBC3 and they should be producing more shows like them."

"I love the BBC news channel it is my favourite channel! A bit weird for an 18 year old I know but I love the news! However, I love the *Bake off* and *Doctor Who* and I am gutted that BBC3 is being put online only as I love Russell Howard's *Good News* and watching the great comedies that have appeared on BBC3!"

"Everything apart from their news department is fine. BBC news is trash. Biased towards certain views and will do so subtly by using selective language in certain instances, reporting one side of an argument more than the other or leaving opposing opinions either as footnote at the bottom of an article, tucked away or not reporting it at all. It gets away with this due to its reputation for being unbiased with regards to political affiliation that people somehow think extends to other issues."

*Who should pay for the BBC?***Who Should Pay?**

■ Every household  
 ■ Every adult  
 ■ Those who watch or access the BBC  
 ■ Other

- There was overwhelming support for the idea that the BBC should only be paid for by those who view and access BBC services.
- A few people suggested that the licence fee as it stands should be abolished and the BBC should instead be funded by adverts.
- There was support for encryption so that it would be possible to exclude access to those who had not paid for BBC services.

*Key quotes:*

“With fewer people watching TV as it is being broadcast, people will require licences less, and whilst licence revenue increased slightly last year, I think it will peak as the younger generations realise they don’t actually need a licence.”

“(i) Encrypt BBC Freeview transmissions in the same way that Top up TV ....(ii) Restrict the use of live iPlayer streaming to customers who have signed up with an account and pay a subscription to the BBC.”

“I would happily never watch a BBC channel again if it meant not having to pay. I certainly don’t spend most of my TV watching time watching BBC and would easily stop watching to avoid paying. The BBC channels are some of the worst out there yet they are the ones we pay for.”

“I think, apart from the BBC news channel and BBC Parliament, the BBC should be privatised—the state’s role isn’t to entertain us. Entertainment is a privilege, not a right.”

“The TV licensing model is outdated because it focuses on those who consume BBC services but doesn’t correctly identify them—it relies purely on those watching TV as it is being broadcast, and ignores that pretty much everybody in the UK will engage with something from the BBC in some form or another every year.”

“It’s one of our national treasures. Publicly financed, largely independent of political bias, caters to the young and to the old, produces content that spans from the low brow to the highbrow, keeps Britain internationally relevant with its famous TV exports (Doctor Who, Top Gear, etc) and the BBC World Service, and really isn’t that expensive if you think about it.”

*The BBC has plans to make some of its content aimed at younger people available only on iPlayer. What do you think about that?*

- Several respondents commented that moving BBC Three to iPlayer would exclude those without good broadband connections. One respondent noted that the proposal was discriminatory as limitations were being applied only to content aimed at younger persons.
- On the other hand, some believed that reducing the spend on BBC Three could potentially reduce the BBC’s expenditure, which in turn could lead to a reduced licence fee.
- Some thought that the move online was a necessary step for the BBC to adapt to the way many younger people now chose to view content.
- There was disillusionment among some with BBC Three given its over-reliance on US imports and the number of repeats shown. Others enjoyed these American shows.
- Some thought that the BBC needed to improve its archive of programmes available online (similar to 4oD).

*Key quotes:*

“If BBC3 [does] go online only then we’ll lose Family Guy and American Dad as the BBC pays for their rights from Fox but on the other hand, it may reduce the TV licence fee. It may become unpopular because not everybody has access to the internet.”

“I think that it’s completely wrong for BBC [Three] to become a purely online service, as a) not everyone has good internet, and b) watching live television should not be only available to older people. It’s discriminatory.”

“I think the reasoning is that young people are less likely to sit in front of the TV and instead stream things and use Netflix and the likes. I know that’s definitely true with me. I couldn’t tell you the last time I watched the TV, I just stream everything either off the Xbox or my laptop linked to the TV.”

“Personally, I think it’s awful! The government of this country only really cares about the older generation, probably because this is the generation most likely to vote. I personally

have loved BBC3 and hope that there can be some way it can remain on TV, I love Russell Howard and many of the documentaries and comedies that have appeared on the channel.”

“BBC Three has been a joke for at least 6 years, and nothing like back when it was BBC Choice when it showed great shows like Coupling, Monkey Dust etc

All I watch on it now is Family Guy, American Dad, and some of the home grown stuff like Cuckoo which is tolerable but nothing like the good days of Coupling

I would rather it showed good programmes and stayed on TV than anything else, I hate streaming as I always find it lower quality than broadcast and I like a schedule rather than just random shows being available.”

“BBC3 broadcasts some good shows from time to time. I’ve watched quite a few documentaries on it and they were pretty interesting. I doubt I’d ever watch it if it went online only. I mostly watch it when I’m browsing through the channels and something catches my interests. It’s unlikely I’d go out of my way to check what is showing online.”

“iPlayer does need to boost its archives, admittedly, but it makes sense to transport BBC Three to digital only. Its quality has been dwindling for some time.”

“If younger people could access that channel without a TV licence that would be quite fair because we’d have to pair the broadband to require it.”

# Formal Minutes

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**Tuesday 10 February 2015**

Members present:

Mr John Whittingdale, in the Chair

Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Philip Davies

Paul Farrelly  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Mr Ben Bradshaw made a declaration of interest in relation to his partner's employment by the BBC.

Draft Report (Future of the BBC), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 22 read and agreed to.

Paragraph 23 read, amended and agreed to.

Paragraphs 24 to 26 read and agreed to.

Paragraph 27 read, amended and agreed to.

Paragraphs 28 to 57 read and agreed to.

Paragraph 58 read, amended and agreed to.

Paragraphs 59 to 71 read and agreed to.

Paragraph 72 read and amended.

Further amendment proposed, to leave out from "We" to the end of the sentence and add "We believe that people's background, ethnicity, gender, sexual orientation or regional accent should neither be a barrier nor an advantage for jobs at commissioning level or on screen within the BBC or at other broadcasters. Jobs should always be given on merit and merit alone without any formal or informal quotas or targets." — (*Philip Davies.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 2  
Conor Burns  
Philip Davies

Noes, 6  
Mr Ben Bradshaw  
Tracey Crouch  
Paul Farrelly  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.



Paragraph 72, as amended, agreed to.

Paragraphs 73 to 105 read and agreed to.

Paragraph 106 read, amended and agreed to.

Paragraphs 107 to 111 read and agreed to.

Paragraph 112 read, amended and agreed to.

Paragraph 113 read and agreed to.

Paragraph 114 read, amended and agreed to.

Paragraphs 115 to 121 read and agreed to.

Paragraph 122 read, amended and agreed to.

Paragraphs 123 to 138 read and agreed to.

Paragraph 139 read, amended and agreed to.

Paragraphs 140 to 153 read and agreed to,

Paragraph 154 read, amended and agreed to.

Paragraph 155 read and agreed to.

Paragraph 156 read, amended and agreed to.

Paragraphs 157 to 178 read and agreed to.

Paragraph 179 read, amended and agreed to.

Paragraphs 180 to 191 read and agreed to.

Paragraphs 192 and 193 read, amended and agreed to.

Paragraphs 194 to 196 read and agreed to.

Paragraph 197 read.

Amendment proposed, to leave out Paragraph 197. — (*Mr John Leech*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Mr John Leech

Noes, 5  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Philp Davies  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 197 agreed to.

Paragraphs 198 to 211 read and agreed to.

Paragraph 212 read and amended.

Further amendment proposed, to leave out Paragraph 212 and insert:

“We believe that the licence fee should be abolished and the BBC should be funded by voluntary subscription. Given that the BBC told us how the public feel the licence fee represents excellent value for money, they have nothing to fear from a subscription model as presumably the public would be happy to continue paying on a voluntary basis. Those who do not wish to access BBC services shouldn’t have to pay.” — (*Philip Davies.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Philip Davies

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Paul Farrelly  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 212, as amended, agreed to.

Paragraph 213 read and agreed to.

Paragraph 214 read and amended.

Further amendment proposed, to leave out Paragraph 214. — (*Mr John Leech.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Mr John Leech

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Philip Davies  
Paul Farrelly  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 214, as amended, agreed to.

Paragraph 215 read.

Amendment proposed, to leave out Paragraph 215. — (*Mr John Leech.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1

Mr John Leech

Noes, 7

Mr Ben Bradshaw

Conor Burns

Tracey Crouch

Philip Davies

Paul Farrelly

Steve Rotheram

Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 215 agreed to.

Paragraphs 216 to 223 read and agreed to.

Paragraphs 224 and 225 read.

Amendment proposed, to leave out from “decriminalisation of non-payment of the TV licence fee.” in Paragraph 224 to end of Paragraph 225, and insert:

“We recognise that the current system of licence fee payment compliance works well, and takes up very little time in the magistrates’ court. We question the motives of the vast majority of those arguing for decriminalisation of the licence fee, whose main aim is to see the scrapping of the BBC as a universal public service broadcaster, and see decriminalising the licence fee as a means of vastly reducing payment compliance and undermining funding to the BBC.” — (*Mr John Leech.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1

Mr John Leech

Noes, 7

Mr Ben Bradshaw

Conor Burns

Tracey Crouch

Philip Davies

Paul Farrelly

Steve Rotheram

Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraphs 224 and 225 disagreed to.

New paragraph (*Mr Ben Bradshaw*) brought up, read the first and second time, and inserted [now Paragraph 224].

Paragraphs 226 to 232 [now Paragraphs 225 to 231] read and agreed to.

Paragraphs 233 and 234 read.

Amendment proposed, to leave out Paragraphs 233 and 234, and insert:

“Whilst we were impressed with aspects of the broadcasting levy model in Germany and the hypothecated tax model in Finland we do not believe they dealt with the underlying unfairness within the licence fee of forcing people to contribute to a broadcaster that they may not wish to access. That is why we do not believe these models are as good as moving to subscription.” — (*Philip Davies*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Philip Davies

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Paul Farrelly  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraphs 233 and 234 [now Paragraphs 232 and 233] agreed to.

Paragraphs 235 to 257 [now Paragraphs 234 to 256] read and agreed to.

A new paragraph—(*Philip Davies*)—brought up and read as follows:

“It is our view that a further freeze in the licence fee in the period beyond 2017 would make the BBC concentrate more conscientiously on its core public service obligations as well as driving further efficiency improvements. During this inquiry we have heard no persuasive arguments for any licence fee increase in the next period.”

Question put, That the paragraph be inserted in the Report.

The Committee divided.

Ayes, 3  
Conor Burns  
Philip Davies  
Mr Gerry Sutcliffe

Noes, 5  
Mr Ben Bradshaw  
Tracey Crouch  
Paul Farrelly  
Mr John Leech  
Steve Rotheram

Question negatived.

Paragraphs 258 to 270 [now Paragraphs 257 to 269] read and agreed to.

Paragraph 271 read.

Amendment proposed, to leave out Paragraphs 271 to 341.—(*Paul Farrelly*.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 2  
Philip Davies  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 271 [now Paragraph 270] agreed to.

Paragraph 272 [now Paragraph 271] read and agreed to.

Paragraph 273 [now Paragraph 272] read, amended and agreed to.

Paragraphs 274 to 285 [now Paragraphs 273 to 284] read and agreed to.

Paragraph 286 read.

Amendment proposed, at the end of the paragraph to insert:

“During evidence sessions, we also expressed surprise about the apparent dis-connect between the BBC Board and the Trust when it came to recent major announcements by the Director General, without any accompanying detailed plans, and the understandable effect on the Trust’s ability to respond quickly in terms of scrutiny and approval, or otherwise. These recent major changes relate to BBC Production and the BBC3 channel and concerns have been expressed about the uncertainty they have prompted in the wider broadcasting sector.”— *(Paul Farrelly)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 286 [now Paragraph 285] agreed to.

Paragraphs 287 to 293 [now Paragraphs 286 to 292] read and agreed to.

Paragraph 294 [now paragraph 293] read, amended and agreed to.

Paragraph 295 read and amended.

Further amendment proposed, to leave out Paragraph 295 and insert:

“We set out below our own preferred model for governance and regulation of the BBC which, although adopting external, independent oversight, together with a unitary BBC Board, differs in one principal respect from Lord Burns’ 2005 model. This is that responsibility for final appeals

regarding viewers' and listeners' complaints about BBC content should transfer to Ofcom. One underlying theme in many of the BBC's failures in recent times has been lack of robust challenge, within both the BBC's board and the Trust. While attempting to strengthen the BBC's board, it would be exactly the wrong response to weaken the replacement regulator and its functions, and its potential to carry on the positive things the Trust has achieved, such as agreeing licences for BBC services. We agree in this respect not only with Lord Burns, and his 2005 recommendations, but also with David Liddiment: the BBC is a big beast in the UK broadcasting sector and the last thing it needs is light-touch regulation." — *(Paul Farrelly)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 295 [now paragraph 294], as amended, agreed to.

Paragraph 296 read.

Amendment proposed, to leave out from "to be scrutinised" to "(PSBC)".—*(Paul Farrelly)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Further amendment proposed, after "that plan." to insert "As we discuss further below, the BBC Board would agree its strategy and strategic business plan with the new external regulator, the Public Service Broadcasting Commission (PSBC), that would replace the Trust, along the lines recommended by the Burns Panel, to ensure it is compliant with the BBC's responsibilities under the Charter and Framework Agreement in pursuing its public service broadcasting remit."—*(Paul Farrelly)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 296 [now Paragraph 295] agreed to.

Paragraph 297 read.

Amendment proposed, to leave out Paragraphs 297 to 300 and insert:

“Such a structure for the BBC should enable it to strengthen its own internal corporate governance, while retaining its accountability to the Trust’s replacement as the representative of the licence fee payer - the new independent PSBC - as envisaged by the Burns Panel in 2005. It also recognises the uniqueness of the BBC in being a publicly funded body, without outside institutional shareholders to which a board would ultimately be accountable in the case of a publicly quoted company. The Chairman and non-executives would be in a majority on the new unitary BBC Board, and should be in a position to more effectively challenge the executive management. The fact that the BBC would remain accountable to the PSBC as a strong regulator should, however, further strengthen their hand to make poor decisions less likely. Regarding the determination of appropriate levels of executive remuneration, for example, we note that boards of publicly quoted companies are often criticised for their lack of restraint. Accountability to an independent PSBC, therefore, would help ensure that there would be less risk of the unitary BBC Board repeating the Corporation’s recent mistakes and devaluing its reputation in eyes of licence fee payers.

“A unitary board, which we refer to from now on as the ‘BBC Board’, would operate along the lines recommended by the Burns Panel. Regarding the strategic plan for the BBC prepared by the BBC Board, we note that the Burns Panel proposed that the PSBC should subject it to open and transparent scrutiny, and also ‘approve or reject it in response to that scrutiny and...oversee its execution’. The strategic plan agreed between the PSBC and the BBC, it suggested, might cover such issues as the number and broad objectives of television and radio channels, online and other services, including commercial services; the broad allocation and expenditure by services, audiences and genre to meet the needs of all licence fee payers; specific targets for each channel in terms of type of content and measures of success (along the lines of service licences, for which the Trust has won praise); and arrangements for periodic review of channels and other activities of the BBC, whether commercial or funded by the licence fee. We broadly agree with the Burns Panel’s line of thought, though the new Independent Panel we recommend should, of course, consider the detail carefully.

“The new unitary BBC Board committed to fulfilling its Charter and Framework Agreement obligations should set out its priorities in a clear and transparent way so that others, including the PSBC and licence fee payers generally, can effectively judge its performance.

“The Director General, as the BBC’s chief executive officer and editor-in-chief, should be responsible to the BBC Board for the BBC’s content. He or she should be answerable to the Board in respect of the BBC’s delivery and performance and the Board should be accountable to the PSBC, as the independent representative of the licence fee payer. The BBC Board must through all of its own efforts ensure that the BBC secures value for money, irrespective of the PSBC’s external oversight role, and it should be answerable for the BBC’s expenditure of the licence fee.” — *(Paul Farrelly)*

Question put, That the Amendment be made.



The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 297 [now Paragraph 296] agreed to.

Paragraphs 298 to 302 [now Paragraphs 297 to 301] read and agreed to.

Paragraph 303 read.

Amendment proposed, to leave out Paragraph 303 and insert:

“As noted above, the Burns Panel proposed a formal role for the PSBC in not only subjecting to open and transparent scrutiny the strategic plan prepared by the BBC Board, but in agreeing that plan, approving or rejecting it, and monitoring its execution. A major change, however, is that the Chair of the PSBC would not be the Chair of the BBC, nor would it have the responsibility of appointing the Director General of the Corporation it is charged with regulating – all of which we discuss further below. Unlike the Trust, therefore, it would be independent of the BBC and not replicate the confusion of the roles of ‘cheerleader or regulator’, over which the Trust has been rightly criticised. Retention of its strong formal role, however, as envisaged by Burns, would allow the PSBC to maintain aspects of the oversight for which the Trust has been commended, such as agreeing service licences and remits. Removing these roles from the PSBC on abolition of the Trust, and making it largely an *ex post* regulator with only backstop powers, would – we believe – be akin to throwing the baby out with the bathwater. Clearly, however, the precise detail of the role and powers of the PSBC in approving service remits and individual budgets requires careful consideration in the Charter Review process – and by the Independent Panel we recommend – so that the boundaries between external oversight and operational management are drawn appropriately.” — *(Paul Farrelly)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 303 [now Paragraph 302] agreed to.

Paragraph 304 read.

Amendment proposed, to leave out “expectation” and insert “requirement”.—*(Paul Farrelly)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 304 [now Paragraph 303] agreed to.

Paragraphs 305 to 307 [now Paragraphs 304 to 306] read and agreed to.

Paragraph 308 read.

Amendment proposed, to leave out from “A significant change” to the end of the sentence.—(*Philip Davies*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Philip Davies

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Paul Farrelly  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 308 [now Paragraph 307] agreed to.

Paragraphs 309 to 313 [now Paragraphs 308 to 312] read and agreed to.

Paragraph 314 read.

Amendment proposed, to leave out from second “The Commission” to the end of the sentence and insert:

“The Commission would be supported by an administrative staff and professional advisers. In this respect, during Charter Review it is important that the process – and the Independent Panel we recommend – considers carefully the make-up and performance of the BBC Trust Unit hitherto, so that appropriate lessons can be learned to guide the establishment of the PSBC’s administrative support function.”—(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 314 [now Paragraph 313] agreed to.

Paragraphs 315 and 316 [now Paragraphs 314 and 315] read and agreed to.

Paragraph 317 read.

Amendment proposed, to leave out Paragraph 317 and insert:

“While we would expect the PSBC to produce an annual report for Parliament, this would not negate the requirement for the BBC to produce an annual report, as currently, and for the Chair, Director General and members of the BBC Board to appear in front of Committees such as ours.”—  
(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 317 [now Paragraph 316] agreed to.

Paragraph 318 read.

Amendment proposed, to leave out Paragraph 318 and insert:

“Clearly, our model for oversight of the BBC largely follows the recommendations of Lord Burns’ Panel in 2005 and, had they been implemented then, some of the Trust’s failings since might have been avoided. Clearly, there could be other models, which might not give an external regulator such formal *ex ante* powers regarding the BBC, its strategy and broad expenditure on services. We note, for example, that in the case of S4C, the BBC Trust currently has a backstop power in that, as a last resort, it has the ability to reduce or withdraw funding from the broadcaster should it be in dispute over breach of the operating agreement between the two bodies. We consider, however, that the BBC as a whole is ‘too big a beast’ in the UK broadcasting sector for its relationship with the PSBC to be governed by such backstop powers, *in extremis*, alone. Relying, too, on the threat of adverse publicity to alter the behaviour of such a large Corporation in the event of a disagreement with a weaker regulator would also be misplaced. During recent mistakes, the BBC has repeatedly demonstrated its imperviousness to constructive criticism; in terms of its public relations, too, there has often been concern over the sheer amount of resources it deploys, which would always be far greater than those at the disposal of a regulator. As we have stated, we would also envisage the PSBC being in a position

of advising the Government on the level of the BBC’s future funding, as well as managing a fund which would be allocated on a contestable basis for certain PSB content and genres, of which the BBC would be a potential recipient. This would also strengthen the position of the PSBC as the representative of the licence fee payer. We have set out a comparison showing the Trust, Lord Burns’ and our own proposed models for oversight of the BBC as Annex A to this Report.”—(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 318 [now Paragraph 317] agreed to.

Paragraph 319 read.

Amendment proposed, to leave out “complete”.—(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 319 [now Paragraph 318] agreed to.

Paragraph 320 [now paragraph 319] read and agreed to.

Paragraph 321 read.

Amendment proposed, to leave out Paragraph 321 and insert:

“We believe that an independent Public Service Broadcasting Commission should take over the regulatory and oversight functions that currently lie with the BBC Trust—as recommended by the 2005 Burns Panel, with the exception of Ofcom becoming the final arbiter of complaints about content.”—(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 6  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 321 [now Paragraph 320] agreed to.

Paragraph 322 [now Paragraph 321] read, amended and agreed to.

Paragraph 323 [now Paragraph 322] read and agreed to.

Paragraph 324 read and amended.

Further amendment proposed, to leave out Paragraph 324.—(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Philip Davies  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 324 [now Paragraph 323] agreed to.

Paragraph 325 read.

Amendment proposed, after “providing independent” to insert “regulation and”.—(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Philip Davies  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 325 [now Paragraph 324] agreed to.

Paragraphs 326 to 337 [now Paragraphs 325 to 336] read and agreed to.

Paragraph 338 read.

Amendment proposed, after “workload.” to insert “This is our principal departure from Lord Burns’ 2005 model, but Ofcom is already well-versed in handling content complaints. Giving the role to Ofcom would allow the new Public Sector Broadcasting Commission to focus on its important, wider regulatory role.”—  
(*Paul Farrelly*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Paul Farrelly

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Philip Davies  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Further amendment proposed, to leave out Paragraph 338 and insert:

“We believe that the Public Service Broadcasting Commission should also become the arbiter of complaints over BBC content including matters concerning impartiality and accuracy, but that complaints should be considered by the BBC in the first instance. Given the nature of the BBC’s funding – and the fact that its income each year is guaranteed irrespective of how it performs – we believe that the BBC should meet a higher test than other broadcasters, and that the public have higher expectations of it. Therefore we do not see that Ofcom is the appropriate body to deal with complaints about the BBC as it would be left in the invidious position of having to treat complaints about various broadcasters differently which may undermine its more general regulatory role.”—  
(*Philip Davies*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Philip Davies

Noes, 7  
Mr Ben Bradshaw  
Conor Burns  
Tracey Crouch  
Paul Farrelly  
Mr John Leech  
Steve Rotheram  
Mr Gerry Sutcliffe

Amendment disagreed to.

Paragraph 338 [now Paragraph 337] agreed to.

Paragraphs 339 to 349 [now Paragraphs 338 to 349] read and agreed to.

Four papers were annexed to the Report, as Annexes A, B, C and D.

Summary read, amended and agreed to.

Question put, That the Report, as amended, be the Fourth Report of the Committee to the House.

The Committee divided.

Ayes, 5

Mr Ben Bradshaw

Conor Burns

Tracey Crouch

Steve Rotheram

Mr Gerry Sutcliffe

Noes, 3

Philip Davies

Paul Farrelly

John Leech

*Resolved*, That the Report, as amended, be the Fourth report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 24 February at 10.00 am



## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at [www.parliament.uk/cmscom](http://www.parliament.uk/cmscom).

### Tuesday 14 January 2014

*Question number*

**David Elstein**, Chairman, openDemocracy.net and the Broadcasting Policy Group, **Claire Enders**, founder, Enders Analysis Ltd, and **Steve Hewlett**, Guardian columnist and presenter, BBC Radio 4 "The Media Show"

[Q 1-74](#)

### Tuesday 11 February 2014

**Gavyn Davies OBE**, Chairman of the BBC Board of Governors—2001-04, and **Greg Dyke**, Director-General of the BBC—2000-04

[Q 75-121](#)

**Lord Birt**, former Director-General of the BBC—1992-2000, and **Lord Grade of Yarmouth**, former Chairman of the BBC Board of Governors—2004-06

[Q122-151](#)

### Tuesday 25 February 2014

**Travis Baxter**, Director of Content and External Affairs, Bauer Radio, **Will Harding**, Group Director of Strategy, Global Radio, and **Kip Meek**, Board Member, RadioCentre

[Q 152-189](#)

**Ian Murray**, President of the Society of Editors and Editor of the Southern Daily Echo, **Adrian Jeakings**, CEO Archant, and Newspaper Society President, and **Geraldine Allinson**, Chairman, KM Group

[Q 190-228](#)

### Tuesday 1 April 2014

**Professor Steven Barnett**, Professor of Communications, University of Westminster, **Professor Patrick Barwise**, Emeritus Professor of Management and Marketing, London Business School, **Professor Charlie Beckett**, Department for Media and Communications, LSE, and **Lis Howell**, Deputy Head of Journalism, City University

[Q 229-278](#)

### Tuesday 8 April 2014

**Lord Burns GCB**, former independent adviser to the Secretary of State on the BBC, 2006 Charter Review, **Philip Graf CBE**, former Deputy Chairman, Ofcom (between 2006-11), and **Richard Hooper CBE**, founding Deputy Chairman, Ofcom (between 2002-05)

[Q 279-311](#)

**Dan Brooke**, Chief Marketing and Communications Officer, Channel 4, and **Magnus Brooke**, Director of Policy and Regulatory Affairs, ITV plc

[Q 312-347](#)

## Tuesday 17 June 2014

**Adam Minns**, Executive Director, Commercial Broadcasters Association (COBA), and **David Wheeldon**, Director of Public Policy and Public Affairs, BSkyB [Q 348-397](#)

**Greg Childs**, Director, Children's Media Foundation, **Phil Critchlow**, Chair, Radio Independents Group, **Cat Lewis**, founder, Chief Operating Officer and Executive Director, Nine Lives Media, and **John McVay**, Chief Executive, Producers Alliance for Cinema and Television [Q 398-421](#)

## Tuesday 24 June 2014

**Lenny Henry CBE**, Actor, Writer and Comedian, **Marcus Ryder**, Head of Current Affairs, BBC Scotland and **Patrick Younge**, Founder and Director, WeCreate Associates Ltd and former Chief Creative Officer, BBC Television Production [Q 422-460](#)

**John Archer**, Owner, Hopscotch Films, **Ian Jones**, Chief Executive, S4C, and **Richard Williams**, Chief Executive Officer, Northern Ireland Screen [Q 461-471](#)

**Gerry Morrissey**, General Secretary, BECTU, **Christine Payne**, General Secretary, Equity, **Michelle Stanistreet**, General Secretary, NUJ, and President, Federation of Entertainment Unions, and **John F Smith**, General Secretary, Musicians' Union [Q472-493](#)

## Wednesday 2 July 2014

**Ed Richards**, Chief Executive, Ofcom [Q 494-524](#)

**Sir Amyas Morse KCB**, Comptroller and Auditor General, National Audit Office [Q 525-536](#)

## Tuesday 15 July 2014

**Dame Tessa Jowell DBE MP** [Q 537-560](#)

**Lord Hall of Birkenhead**, Director General, **Danny Cohen**, Director of Television, **James Purnell**, Director of Strategy and Digital, and **Dame Fiona Reynolds DBE**, Senior Non-Executive Director, BBC [Q 561-663](#)

## Tuesday 21 October 2014

**Rona Fairhead CBE**, Chairman, **David Liddiment**, Trustee, and **Jon Zeff**, Director, BBC Trust [Q 664-748](#)

**Rt Hon Sajid Javid MP**, Secretary of State for Culture, Media and Sport [Q 749-800](#)

## Published written evidence

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The following written evidence was received and can be viewed on the Committee's inquiry web page at [www.parliament.uk/cmscom](http://www.parliament.uk/cmscom).

- 1 Action on Hearing Loss ([FBB0037](#))
- 2 Alan Morton ([FBB0023](#))
- 3 Allan Levine ([FBB0052](#))
- 4 Andrew Reid ([FBB0039](#))
- 5 Ann Farmer ([FBB0018](#))
- 6 Annabelle Nason ([FBB0043](#))
- 7 Arqiva ([FBB0082](#))
- 8 Arts Council England ([FBB0094](#))
- 9 Ashley Dickenson ([FBB0074](#))
- 10 Avril E. Russell ([FBB0131](#))
- 11 BBC ([FBB0097](#)) ([FBB0107](#)) ([FBB0140](#))
- 12 BBC Trust ([FBB0096](#)) ([FBB0146](#))
- 13 BBC Watch ([FBB0041](#))
- 14 Bradford Unesco City of Film ([FBB0028](#))
- 15 British Film Institute ([FBB0071](#))
- 16 British Naturism ([FBB0061](#))
- 17 C.D. Lee-Koo ([FBB0049](#))
- 18 Campaign for Press and Broadcasting Freedom ([FBB0036](#))
- 19 Channel 4 ([FBB0067](#))
- 20 City Broadcasting ([FBB0073](#))
- 21 Classic FM ([FBB0090](#))
- 22 Commercial Broadcasters Association ([FBB0072](#))
- 23 Cornwall's Community Standards Association ([FBB0031](#))
- 24 Creative Skillset ([FBB0084](#))
- 25 Culture, Arts And Leisure Committee, Northern Ireland Assembly ([FBB0119](#))
- 26 David Careless ([FBB0053](#))
- 27 David Elstein ([FBB0104](#))
- 28 Department of Enterprise, Trade And Investment, Northern Ireland Executive ([FBB0105](#))
- 29 Design and Artists Copyright Society ([FBB0062](#))
- 30 Desmond Keohane ([FBB0099](#))
- 31 Directors UK Ltd ([FBB0057](#))
- 32 Dr Margaret Sealey ([FBB0021](#))
- 33 E.J.Matthews ([FBB0003](#))
- 34 Enders Analysis ([FBB0098](#))
- 35 Equity ([FBB0038](#))
- 36 Fiona Philpott ([FBB0065](#))
- 37 Frances Balfour ([FBB0081](#))
- 38 Friends of Radio 3 ([FBB0025](#))
- 39 Global Radio ([FBB0091](#)) ([FBB0117](#))

- 40 Graeme Thompson ([FBB0051](#))
- 41 H Myerscough ([FBB0112](#))
- 42 Hartwood Films ([FBB0027](#))
- 43 Howard Marshall ([FBB0141](#))
- 44 Howard Robinson ([FBB0102](#))
- 45 Ian McNulty ([FBB0137](#))
- 46 International Broadcasting Trust ([FBB0035](#))
- 47 ITV plc ([FBB0066](#))
- 48 John Martin ([FBB0007](#))
- 49 John Mepham ([FBB0056](#))
- 50 John Moylan ([FBB0121](#))
- 51 Jonathan Isaacs ([FBB0029](#))
- 52 Kay Mellor ([FBB0050](#))
- 53 Keith Martin ([FBB0136](#))
- 54 Keith Thompson ([FBB0108](#))
- 55 Kenneth MacLean ([FBB0019](#))
- 56 Kudos ([FBB0068](#))
- 57 Lee Taylor ([FBB0004](#))
- 58 Lenny Henry, Marcus Ryder And Patrick Younge ([FBB0129](#))
- 59 Lynda Rank ([FBB0109](#))
- 60 M.I.Raw Recordings ([FBB0125](#))
- 61 Magdalen Wiley ([FBB0044](#))
- 62 Malcolm McBain ([FBB0100](#))
- 63 Mallory Wober ([FBB0046](#))
- 64 Manchester International Festival ([FBB0075](#))
- 65 Mariela Ruiz ([FBB0013](#))
- 66 Miriam Hall ([FBB0064](#))
- 67 Mr Raymond Bona ([FBB0006](#))
- 68 Musicians Union ([FBB0026](#))
- 69 National Assembly for Wales ([FBB0133](#))
- 70 National Federation of Women's Institutes ([FBB0032](#))
- 71 National Union of Journalists ([FBB0079](#))
- 72 Neighbour Net Ltd ([FBB0115](#))
- 73 Nicholas Zelle ([FBB0017](#))
- 74 Northern Film & Media Limited ([FBB0048](#))
- 75 Northern Ireland Screen ([FBB0092](#))
- 76 Ofcom ([FBB0085](#))
- 77 Pact ([FBB0080](#))
- 78 Patrick Younge ([FBB0130](#))
- 79 Paul Cottingham ([FBB0120](#))
- 80 Paul Newnham ([FBB0111](#))
- 81 Peter Martin ([FBB0045](#))
- 82 Peter Ward ([FBB0116](#))
- 83 Peter Weitzel ([FBB0058](#))
- 84 Philip Lee ([FBB0040](#))

- 85 Phonographic Performance Limited ([FBB0060](#))
- 86 Professor Charlie Beckett ([FBB0022](#))
- 87 Professor Patrick Barwise ([FBB0127](#)) ([FBB0128](#))
- 88 Professor Phil Redmond ([FBB0076](#))
- 89 Professor Robert Beveridge ([FBB0020](#))
- 90 Professor Steven Barnett ([FBB0078](#))
- 91 PRS for Music ([FBB0070](#))
- 92 RadioCentre ([FBB0086](#))
- 93 Rev Neil McNicholas ([FBB0101](#))
- 94 Richard Camp ([FBB0011](#))
- 95 Richard Gifford ([FBB0126](#))
- 96 Richard Lee ([FBB0001](#))
- 97 Roger Farrow ([FBB0047](#))
- 98 Ron Eccles ([FBB0142](#))
- 99 Ron Hughes ([FBB0122](#))
- 100 Rory Hegarty ([FBB0008](#))
- 101 S4C ([FBB0132](#))
- 102 Safermedia ([FBB0059](#))
- 103 Scottish Newspaper Society ([FBB0055](#))
- 104 Shed Media Group Ltd ([FBB0083](#))
- 105 Sound Start ([FBB0118](#))
- 106 South West News Service (SWNS) ([FBB0145](#))
- 107 Steven Norris-Tari ([FBB0143](#))
- 108 TechUK 'Radio' ([FBB0089](#))
- 109 TechUK 'TV' ([FBB0088](#))
- 110 Teledwyr Annibynnol Cymru (TAC) ([FBB0069](#))
- 111 Terence Wilkinson ([FBB0106](#))
- 112 The Children's Media Foundation ([FBB0113](#))
- 113 The Radio Independents Group ([FBB0063](#))
- 114 TV Licensing Watch ([FBB0054](#))
- 115 UTV Media ([FBB0110](#))
- 116 Voice of the Listener and Viewer ([FBB0030](#))
- 117 Welsh Language Commissioner (Comisiynydd Y Gymraeg) ([FBB0042](#))
- 118 William Perrin ([FBB0114](#))

# List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the Committee's website at [www.parliament.uk/cmscom](http://www.parliament.uk/cmscom)

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2012-2013

First Report	The Gambling Act 2005: A bet worth taking?	HC 421
Second Report	Racism in football	HC 89
Third Report	Library Closures	HC 587
Fourth Report	Football Governance Follow-Up	HC 509
Fifth Report	Scrutiny of the Draft Public Bodies (Merger of the Gambling Commission and the National Lottery Commission) Order 2013	HC 1104
Sixth Report	Pre-legislative scrutiny of the draft Gambling (Licensing and Advertising) Bill	HC 905

## Session 2013-2014

First Special Report	Football Governance Follow-Up: Government Response to the Committee's Fourth Report of Session 2012-13	HC 156
First Report	Scrutiny of the draft Public Bodies (Abolition of the Registrar of Public Lending Right) Order 2013	HC 506
Second Report	Scrutiny of the draft Public Bodies (Merger of the Gambling Commission and National Lottery Commission) Order 2013	HC 256
Second Special Report	Scrutiny of the draft Public Bodies (Merger of the Gambling Commission and National Lottery Commission) Order 2013: Government Response to the Committee's Second Report of Session 2013-14	HC 646
Third Report	Supporting the creative economy	HC 674
Fourth Report	Nuisance Calls	HC 636
Third Special Report	Supporting the Creative Economy: Government Response to the Committee's Third Report of Session 2013-14	HC 945
Fifth Report	Pre-appointment hearing with the Government's preferred candidate for the Chairman of Ofcom	HC 933
Sixth Report	Online safety	HC 729

## Session 2014-2015

First Special Report	Online Safety: Responses to the Committees Sixth Report of Session 2013-14	HC 517
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First Report	Women and Sport	HC 513
Second Report	Pre-appointment hearing for the Government's preferred candidate for Chair of the BBC Trust	HC 637
Second Special Report	Women and Sport: Government Response to the Committee's First Report of Session 2014-15	HC 740
Third Report	Work of Arts Council England	HC 279