



Library Note

BBC: Future Financing and Independence

This Library Note has been prepared in advance of the debate in the House of Lords on 10 September 2015:

[...] that this House takes note of developments regarding the future financing and independence of the BBC.

The BBC is established by Royal Charter, rather than an Act of Parliament. It was first incorporated by Royal Charter in 1927, with subsequent renewals running for various periods of five, ten, twelve and fifteen years. The current Charter, [Broadcasting: Copy of Royal Charter for the Continuance of the British Broadcasting Corporation](#), was laid before Parliament in October 2006. It came into effect in January 2007 and will run until 31 December 2016. The Charter sets out the public purposes of the BBC, guarantees its independence and provides the duties of the BBC Trust and Executive Board, which form its governance structure. It also makes provision for a Framework Agreement to be made between the Secretary of State and Director-General. This agreement provides more detail about those topics set out in the Charter but also those that are not, such as funding and its regulation. The current Agreement, [Broadcasting: An Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation](#), was laid before Parliament in July 2006.

On 16 July 2015, John Whittingdale, the Secretary of State for Culture, Media and Sport, announced the publication of a green paper as a first step towards the BBC's Charter renewal. Mr Whittingdale told MPs that the BBC Charter Review would consider four key questions:

- What is the overall purpose of the BBC?
- What services and content should the BBC provide?
- How should the BBC be funded?
- How should the BBC be governed and regulated?

The consultation will run until 8 October 2015 with responses sought by email, post or [online](#). This Library Note sets out background information about the BBC's purpose, funding and independence and explains the Royal Charter renewal process. It then provides an overview of the green paper's four themes and highlights the views on these of the BBC Trust and, where relevant, those expressed by parliamentary committees.

House of Lords Library Notes are compiled for the benefit of Members of the House of Lords and their personal staff, to provide impartial, politically balanced briefing on subjects likely to be of interest to Members of the Lords. Authors are available to discuss the contents of the Notes with the Members and their staff but cannot advise members of the general public.

Any comments on Library Notes should be sent to the Head of Research Services, House of Lords Library, London SW1A 0PW or emailed to purvism@parliament.uk.

Table of Contents

- BBC in 2015: Key Statistics..... 1
- I. The BBC Today..... 2
 - 1.1 Purpose..... 2
 - 1.2 Funding..... 2
 - 1.3 Independence 4
- 2. Royal Charter Review 5
- 3. Government Consultation..... 6
 - 3.1 Mission and Purpose..... 6
 - 3.2 Scale and Scope..... 8
 - 3.3 Funding..... 10
 - 3.4 Governance and Regulation 13

BBC in 2015: Key Statistics

BBC Services



9 national TV channels



5 national radio stations, 5 digital, 40 local and 6 nations



BBC iPlayer
BBC Online
BBC Red Button

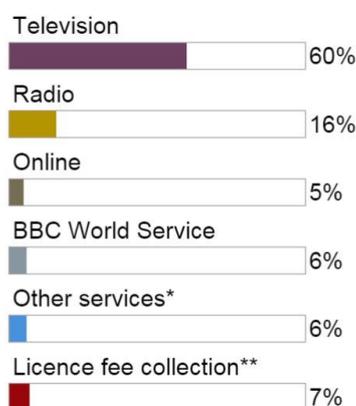
Licence Fee

Licence fee income: £3.7 billion

Number of licensed households: 25.4 million

Number convicted of a licence offence in 2013-14: 153,369

How BBC Licence Fee is Spent 2014/15 (%)



* includes production costs ** includes pension deficits

Cost per Household each Month

£12.13

Television £7.27

Radio £1.94

Licence fee collection & pensions deficit £0.85

BBC World Service £0.73

Other services and production costs £0.73

Online £0.61

Service Usage

97 percent of UK adults use BBC TV, radio, or online each week

18 hrs 17 mins: average time audience spends with BBC each week

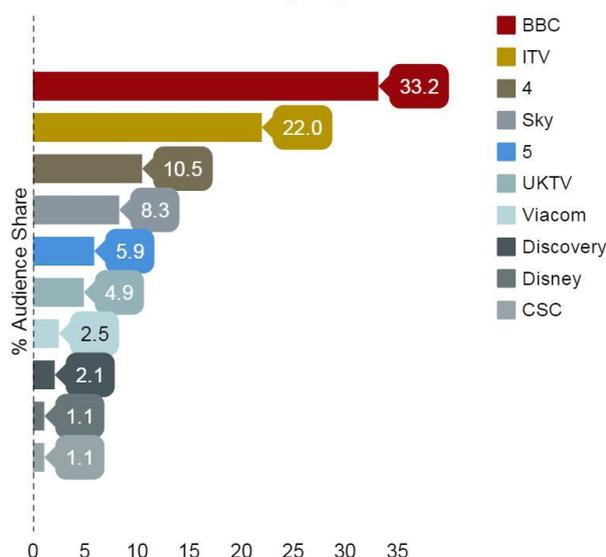
100,000 network television and radio hours in 2014

343 million iPlayer programme requests in January 2015

1 in 16 adults worldwide use BBC News Services

308 million: BBC weekly global audience

Share of UK TV Audience 2014 (%)



Sources: BBC Annual Report and Accounts 2015; DCMS, BBC Charter Review: Public Consultation 16 July–8 October 2015, July 2015, Cm 9116; Broadcasters Audience Research Board.

I. The BBC Today

I.1 Purpose

The Royal Charter explains that the BBC “exists to serve the public interest” and that its “main object is the promotion of its public purposes”. The “public purposes” of the BBC are:

1. sustaining citizenship and civil society;
2. promoting education and learning;
3. stimulating creativity and cultural excellence;
4. representing the UK, its nations, regions and communities;
5. bringing the UK to the world and the world to the UK;
6. 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.¹

The Charter stipulates how the BBC promotes these public purposes—through its mission to “inform, educate and entertain”—by means of television, radio and online services; and “similar or related services which make output generally available”.² The Charter also puts in place limitations: “the BBC may also carry out other activities which directly or indirectly promote the public purposes, but such activities should be peripheral, subordinate or ancillary to its main activities”.

I.2 Funding

For the financial year 2014/15, the BBC’s total operating costs were £4.9 billion.³ The BBC’s income for this period was £4.8 billion, of which £3.7 billion came from licence fee revenues. The funding of the BBC through licence fees has been a feature since the corporation’s inception in 1927.⁴ The BBC website explains that:

The annual cost of a colour TV licence is £145.50 (as from 1 April 2010). A black and white TV licence is £49.

[...] Everyone in the UK who watches or records TV programmes at the same [time] as they are shown on TV needs to be covered by a TV licence. This includes TVs, computers, mobile phones, games consoles, digital boxes and DVD/VHS recorders.

The Government sets the level of the licence fee. In January 2007 the licence fee was agreed for a six-year period with the amount being approved each year by Parliament. More recently the Government decided to freeze the licence fee at its 2010 level of £145.50 until 31st March 2017.⁵

¹ Department for Culture, Media and Sport, [Broadcasting: Copy of Royal Charter for the Continuance of the British Broadcasting Corporation](#), October 2006, Cm 6925, pp 2–3.

² *ibid*, para 5.

³ BBC, [BBC Annual Report and Accounts 2014/15](#), 14 July 2015, p 133. This was up from £4.7 billion the previous year, which the annual report explains was due to the costs of broadcasting the Commonwealth Games and the football World Cup.

⁴ See *Report of the Broadcasting Committee, 1925, 1926*, Cmd 2599, p 6, para 9; and *HC Hansard*, 14 July 1926, [cols 448–51](#).

⁵ BBC, ‘[The Licence Fee](#)’, accessed 17 August 2015. For the terms of the settlement in 2010, see the ‘[Letter from SofS to Sir Michael Lyons, Chairman, BBC Trust: BBC Funding Settlement](#)’, October 2010.

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);
- Ten 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.⁶

The BBC assumed responsibility for funding the World Service as part of the 2010 licence fee agreement.⁷ The licence fee is also used to support non-BBC services including local television services, broadband, digital transmission, BBC Monitoring and S4C.⁸ Details about this funding model, including permitted activities the revenue can fund, are found in the Framework Agreement and subsequent amendments.⁹

In July 2015, the Government announced that the BBC would be taking responsibility for the cost of free TV licences for the over-75s on a phased basis, starting in 2018/19 with the full liability met by the BBC from 2020/21.¹⁰ James Heath, director of policy at the BBC, explained that:

We estimate this will reduce the BBC's licence fee income by around £725m pa. We will give those eligible households an opportunity to voluntarily pay for a TV licence and so make a contribution to the cost of the BBC's services. In the next Parliament, the BBC will take-on responsibility for the over 75s policy and how this balances with funding services to audiences.¹¹

As part of the negotiations, the Government and the BBC also agreed that:

- The Government will bring forward legislation in the next year to modernise the licence fee to cover public service broadcast catch-up TV.
- The Government will reduce the broadband ringfence to £80m in 2017/18, £20m in 2018/19, £10m in 2019/20 and £0m in 2020/21.
- The BBC's grant to S4C may be reduced by an equivalent percentage reduction in funding to the percentage reduction made to BBC funding over the period 2018/19–2020/21. It will be up to the Government to decide how to make up the shortfall.

⁶ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 11, para 16.

⁷ DCMS, [Broadcasting: An Agreement Between Her Majesty's Secretary of State for Culture, Olympics, Media and Sport and the British Broadcasting Corporation](#), February 2011, Cm 8002.

⁸ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 11, para 16.

⁹ DCMS, [Broadcasting: An Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation](#), July 2006, Cm 6872, pp 39–41, para 75. Agreement amendments are available at BBC, '[Charters and Agreements](#)'.

¹⁰ HC Hansard, 6 July 2015, [col 25](#).

¹¹ James Heath, '[BBC Funding Arrangements](#)', About the BBC Blog, 9 July 2015.

- The Government anticipates that the licence fee will rise in line with CPI over the next Charter Review period, subject to: (a) the conclusions of the Charter Review, in relation to the purposes and scope of the BBC; and, (b) the BBC demonstrating that it is undertaking efficiency savings at least equivalent to those in other parts of the public sector.
- The Government will consider carefully the case for decriminalisation [of non-payment of the licence fee] in light of the Perry Report and the need for the BBC to be funded appropriately—no decision will be taken in advance of Charter Review.¹²

1.3 Independence

When the Broadcasting Committee reported to Parliament in 1926 it proposed that a public broadcasting corporation be set up “by Act of Parliament or be incorporated under the Companies Act”.¹³ However, the Government of the day decided that the corporation would be set up by a Royal Charter. Sir William Mitchell-Thomson, the Post-Master General, explained to MPs that:

My chief objection to a body set up by Statute is that it really tends to prejudice the position of the new body from the start by investing it in the mind of the public with the idea that in some way it is a creature of Parliament and connected with political activity. If broadcasting is to live in this country, I am certain its vitality will be increased directly as you can succeed in divorcing it from political activities.¹⁴

The current Royal Charter stipulates this independence. Paragraph six states:

The BBC shall be independent in all matters concerning the content of its output, the times and manner in which this is supplied, and in the management of its affairs.¹⁵

The Charter also sets out the governance arrangements. The 2007 Charter established the BBC Trust and the Executive Board. The Charter summarised this arrangement as follows:

These two bodies shall each play important, but different, roles within the BBC. In summary, the main roles of the Trust are in setting the overall strategic direction of the BBC, including its priorities, and in exercising a general oversight of the work of the Executive Board. The Trust will perform these roles in the public interest, particularly the interest of licence fee payers. The Executive Board has responsibility for delivering the BBC’s services in accordance with the priorities set by the Trust and for all aspects of operational management, except that of the Trust’s resources.¹⁶

Rona Fairhead is the current Chairman of the BBC Trust.¹⁷ Lord Hall of Birkenhead is Director-General of the BBC and chairs the Executive Board.¹⁸

¹² DCMS, ‘[BBC to Fund Provision of Free Television Licences for over-75s](#)’, 6 July 2015.

¹³ *Report of the Broadcasting Committee, 1925, 1926*, Cmd 2599, p 6, para 20(b).

¹⁴ *HC Hansard*, 14 July 1926, [cols 449–50](#).

¹⁵ DCMS, *Broadcasting: Copy of Royal Charter for the Continuance of the British Broadcasting Corporation*, October 2006, Cm 6925, p 3, para 6.

¹⁶ *ibid*, para 7.

¹⁷ BBC Trust, ‘[The Trustees](#)’, accessed 18 August 2015.

¹⁸ BBC, ‘[Executive](#)’, accessed 18 August 2015.

The House of Lords Communications Committee observed that this new structure represented a break with the past:

During the first 80 years of the BBC's existence there was comparatively little change in the way in which it was governed. From 1927—when the BBC was established by Royal Charter to be the monopoly broadcaster in the UK—until 2006—when the Royal Charter was last reviewed—the BBC had a Board of Governors which acted as trustees of the public interest.¹⁹

Further information about the BBC Trust and the Executive Board can be found on the [BBC website](#).

2. Royal Charter Review

The BBC's Royal Charter runs until 31 December 2016. On 16 July 2015, the Government published a green paper for consultation as the “first stage” of the charter renewal process.²⁰ The consultation would last for twelve weeks, from 16 July to 8 October 2015, with the Government's proposals based on this consultation to be published in spring 2016. A press release stated that “all views” would be “given proper consideration”, adding:

To support the Charter Review, Culture Secretary John Whittingdale has announced the appointment of a group of experts from across a range of industries and backgrounds. Its remit will be to provide expertise, challenge and advice during the Charter Review process.

The BBC Trust will play a very important role in the Government's plans to deliver a transparent, open and democratic Charter Review process.²¹

The BBC Trust announced it would run a series of public seminars and events to “ensure licence fee payers can give their views”.²² In June 2015, the House of Lords Communications Committee announced that it was launching an inquiry into the BBC's public purposes and mechanisms for funding.²³ The House of Commons Culture, Media and Sport Committee is also undertaking a further inquiry, following the publication of the Government's green paper.²⁴

2007 Charter Review

Previous BBC Charter Reviews have followed no set format. In September 2003, Lord Burns was appointed as an independent adviser to Tessa Jowell, the then Secretary of State for Culture, Media and Sport. A consultation was published by the Government in December that year. In June 2004, to work alongside Lord Burns, a panel was appointed, which subsequently ran public seminars from July to December 2004. These “looked at a range of topics such as how the BBC was run and regulated, what its purposes should be, on television, radio and

¹⁹ House of Lords Communications Committee, [The Governance and Regulation of the BBC](#), 29 June 2011, HL Paper 166 of session 2010–12, p 12, para 11.

²⁰ DCMS, [Press Release: Government Begins Debate on the Future of BBC](#), 16 July 2015.

²¹ *ibid.* For the advisory group's terms of reference see [BBC Charter Advisory Group: Terms of Reference](#), 12 July 2015.

²² BBC Trust, [Initial Response to the Government's Green Paper on BBC Charter Review](#), July 2015, p 5. The BBC Trust's consultation is available at [Tomorrow's BBC](#), accessed 26 August 2015.

²³ House of Lords Communications Committee, [What's the BBC for? Lords to Investigate](#), 26 June 2015.

²⁴ House of Commons Culture, Media and Sport Committee, [BBC Charter Review Inquiry Launched](#), 22 July 2015.

online services, and its role in education, citizenship, culture, representing the nations and regions of the UK and its international role”.²⁵ An initial report was published in December 2004 and a final report was presented to the Secretary of State in January 2005. The Government published a green paper on Charter Review in March 2005, and followed this with a white paper a year later.

In its *Future of the BBC* report published in February 2015, the House of Commons Culture, Media and Sport Committee recommended 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”.²⁶ It added that the Government “must ensure that the public and other stakeholders are fully consulted” and “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”. The Committee felt this was important, arguing, as a consequence, that:

[...] 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.²⁷

3. Government Consultation

On 16 July 2015, John Whittingdale, the Secretary of State for Culture, Media and Sport, made a statement to the House of Commons in support of the publication of a green paper about the BBC Charter Review.²⁸ Mr Whittingdale told MPs that the consultation posed four questions: “What is the overall purpose of the BBC? What services and content should the BBC provide? How should the BBC be funded? How should the BBC be governed and regulated?” Each of these questions is explored briefly below.

3.1 Mission and Purpose

The green paper observed there was “much to support a continuation of the BBC’s current mission. It has the weight of history behind it, is widely recognised and understood, and licence fee payers may well expect all three elements to be provided by the BBC”.²⁹ However, this was “not without its critics”, because, it noted, the BBC had a “very broad mission, and one that risks the BBC competing for ratings not quality, or distinctiveness, under the ‘entertainment’ banner”. The paper said that “on balance” the Government believed that “the arguments in favour of maintaining this historic mission are sound, although changes to the purposes, scale and scope may be required to ensure this does not result in an overly extended BBC”.

²⁵ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 11, paras 17–18. See also House of Lords Committee on the BBC’s Charter Review, [The Review of the BBC’s Royal Charter](#), 1 November 2005, HL Paper 50-1 of session 2005–06, p 10, table 1.

²⁶ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 14, paras 26–7.

²⁷ *ibid*, p 5.

²⁸ HC *Hansard*, 16 July 2015, [col 1120](#).

²⁹ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 15.

With regard to the BBC's six purposes, the paper said "they define broadly what people expect of the BBC's output". As they provided "only high-level direction" they allowed the BBC "to take decisions about how these are best delivered".³⁰ The paper noted, however, some of the criticisms of this broadness, for example "arguably it would be difficult for any programme or activity not to fall within one of them". It noted that "criticisms levelled at the BBC for being too large or too diffuse in what it does could be seen as a consequence of these very broad purposes set by Government". It added that there were also arguments for extending the purposes: for example to include more specific responsibilities for partnership working, or supporting the wider sector through training and skills. In his statement to MPs, Mr Whittingdale elaborated on the Government's thinking:

One key task is to assess whether the idea of "universality" still holds water. With so much more choice in what to consume and how to consume it, we must at least question whether the BBC should try to be all things to all people—to serve everyone across every platform—or if it should have a more precisely targeted mission.³¹

The House of Commons Culture, Media and Sport Committee endorsed a "critical review of the purpose remit" which it argued "could help clarify the BBC's core purposes and suggest strategic and funding priorities".³² The BBC Trust, in its initial response to the green paper, observed that:

The BBC is neither owned by the Government, nor by its management. It belongs to the public, who pay for it directly through the licence fee. Because almost every home in the United Kingdom pays for the BBC it has always been:

- Universal—the BBC attempts, and largely succeeds, in providing something for everyone, from the specialised to the popular, from the entertaining to the challenging. It also makes its content available free at the point of use, on as wide a range of platforms as possible.
- Independent—the BBC is neither a state broadcaster nor one driven by commercial interests. It makes its own editorial and creative decisions. It needs to stimulate, question and investigate if it is to entertain, educate and inform.

The BBC should continue to be constituted and funded in a way that fulfils these two central principles. It should be given a set of public purposes and values that set a broad mission and capture the public's high expectations of it.³³

With regard to values, the green paper said the Review would examine "the case for whether the BBC would benefit from having a clearly defined set of values, establishing through the Charter a set of unique features of the BBC including its independence and impartiality".³⁴ Impartiality has been described by the BBC Trust as "a key priority" for "it is essential to its independence that the BBC retains the public's trust as an impartial purveyor of news and programming".³⁵ Among its recommendations, the House of Commons Culture, Media and Sport Committee said it saw Ofcom "acting as the final arbiter of all complaints regarding BBC

³⁰ *ibid*, p 16.

³¹ HC *Hansard*, 16 July 2015, [cols 1120–1](#).

³² House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 20, para 44.

³³ BBC Trust, [Initial Response to the Government's Green Paper on BBC Charter Review](#), July 2015, p 3.

³⁴ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 4.

³⁵ BBC Trust, ['Impartiality'](#), accessed 18 August 2015.

content including on matters of impartiality and accuracy”.³⁶ However, BBC impartiality remains a contentious issue. For example, in March 2015, the House of Commons European Scrutiny Committee said it remained “deeply concerned about the manner in which the BBC treats EU issues”.³⁷

3.2 Scale and Scope

In his statement to the House of Commons, John Whittingdale said that the review provided an “opportunity” to look at the mix of the BBC’s content and its quality.³⁸ The green paper stated that:

[...] the Charter does not specify how much information, education and entertainment output to provide, the numbers and types of channels and services in which to provide this, the balance of provision between information, education and entertainment provision, or the level of provision to different audiences—in effect, what should determine the scale and scope of the BBC. Whether the present scale and scope is right for the current and future media environment, and delivers services that audiences want and are willing to pay for, are key questions for this Charter Review.³⁹

The paper set out that the Charter Review would consider four aspects of this: the range of services; the market impact; audiences; and content. These are explored in brief below.

Range of Services

The green paper noted there were arguments that the current service provision was “broadly right” in balance in meeting “the needs of audiences in an increasingly fragmented media environment” and that “the range of services helps the BBC to meet its current remit”.⁴⁰ However, there were also “counter arguments that the BBC does not need to be providing such a broad range of services in order to meet its public service objectives” and that “some of the services might be serving significantly overlapping audiences—failing to be sufficiently distinct not only from commercial output, but from other BBC services”. The paper cited the “sizeable crossover in audiences for Radio 1 and Radio 2” as an example.

Market

With regard to the BBC’s effect on the market, the paper noted the positive and negative impact on the activities of its competitors. The BBC, it said, “has arguably helped the development of the sector by encouraging high standards and through investment in independent production and the infrastructure of media distribution”.⁴¹ However, it noted the arguments that “the level of public funding gives the BBC an unfair advantage and distorts audience share in a way that undermines commercial business models”. As examples, the paper

³⁶ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 5.

³⁷ House of Commons European Scrutiny Committee, [Scrutiny Reform Follow-up and Legacy Report](#), 25 March 2015, HC 918 of session 2014–15, p 29, para 90. This issue was subject to review by an Independent Panel led by Lord Wilson of Dinton, [BBC News Coverage of the European Union](#), January 2005.

³⁸ HC Hansard, 16 July 2015, [col 1121](#).

³⁹ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 4.

⁴⁰ *ibid*, p 23.

⁴¹ *ibid*, p 4.

pointed to the fact that “the BBC has 60 percent of the revenues of the radio sector in the UK” and “extensive free online content risks impacting a wide range of players”.

Audiences

The paper stated the importance of “understanding the BBC’s audiences and their different needs and willingness to fund BBC”.⁴² It noted that “some groups appear to be served particularly well” such as “older age groups and people from a white British ethnic background”. In contrast, the BBC Trust’s Purpose Remit Survey, it observed, had shown “that audiences from black ethnic groups in particular are least likely to say that the BBC is effective at representing their ethnicity”. This, however, was “not only an issue for the BBC”.⁴³

Content

The Charter Review, the paper said, was also an opportunity to look at the content the BBC was providing. It said that the BBC had “made changes to its genre mix in recent years”, and consideration was now needed as to whether it was “striking the right balance in terms of its offer”.⁴⁴ The BBC’s own data suggested, it said, that perceptions had “remained broadly consistent in recent years” but “in this review we will ask questions about the quality and distinctiveness of BBC content and how success for the BBC is best measured”.

In its initial response, the BBC Trust said that it was “vital that the public are given the opportunity to have their say”, adding that a consultative process with the public would take place “throughout the summer and autumn [...] to ensure that licence fee payers can give their views”.⁴⁵ In written evidence to the House of Commons Culture, Media and Sport Committee inquiry, the BBC Trust had previously argued that “the scope and scale of the BBC will ultimately be determined by the purposes set for it and the amount of funding provided to it”.⁴⁶ However, it made two observations with regard to scale and scope:

- Individual decisions about the future of individual services must continue to be taken independently of Government in order to protect the BBC’s independence from political interference.
- While reductions in scope have been possible in the current Charter period [...] they have also been controversial. The Trust’s experience has been that it is difficult to put a complete stop to any significant parts of BBC activity, such as the support and loyalty shown by audiences to the services that they use every day or every week.

The House of Commons Culture, Media and Sport Committee considered the BBC Trust’s view on stopping services “questionable”. The Committee challenged “the BBC’s justification for doing all that it currently does in order to provide ‘something for everyone’”. The Committee argued:

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

⁴² Ibid, p 29.

⁴³ Ibid.

⁴⁴ Ibid, p 5.

⁴⁵ BBC Trust, [Initial Response to the Government’s Green Paper on BBC Charter Review](#), July 2015, p 5.

⁴⁶ [Written evidence submitted by the BBC Trust \[FBB0096\]](#), December 2013, paras 27–8.

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.⁴⁷

John Whittingdale told MPs that the Review would also “analyse the way that the BBC’s content is produced”.⁴⁸ It would consider the BBC’s proposals for a ‘compete and compare’ strategy that would remove BBC quotas for content produced by itself and turn the BBC production into a commercial subsidiary.⁴⁹ The House of Commons Culture, Media and Sport Committee had expressed concerns over this, stating that there was “a risk that such commercial motives could over time distract BBC producers from their principal role [...] It must not allow commercial gain to trump the BBC’s main purpose as a public service broadcaster”.⁵⁰ It also noted issues concerning competition, transparency and fairness, concluding that “in taking on production work for others, BBC Production would become one of the largest production companies trading in the UK market”. 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”.⁵¹

3.3 Funding

In his statement to the House of Commons, John Whittingdale said that there was “no easy solution to the broad question of how the BBC should be funded”.⁵² The licence fee, he said, was “regressive” but while a subscription model “could well be an option in the longer term” it was unworkable in the short term because “the technology is not yet in every home to control access”. He told MPs that “the three options for change that are viable in the shorter term” were “a reformed licence fee, a household levy, or a hybrid funding model”. He added that “in the longer term, we should consider whether there is a case for moving to a full subscription model. All have advantages and disadvantages”. The green paper also committed the Government to legislation to “modernise the licence fee in order to cover Public Service Broadcast catch-up TV”.⁵³

Responding, the BBC Trust said it continued to support “a universal form of public funding for the BBC” but was “concerned” the green paper appeared to question the principle of universality by raising the prospect of a “move to a subscription-funded model that would no longer conform to that principle”.⁵⁴ The BBC Trust stated: “we do not support the idea of subscription funding for the BBC’s public services”.⁵⁵

⁴⁷ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, pp 43–4, paras 115–16.

⁴⁸ HC *Hansard*, 16 July 2015, [col 1121](#).

⁴⁹ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 5.

⁵⁰ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 58, para 152.

⁵¹ *ibid*, paras 154–5.

⁵² HC *Hansard*, 16 July 2015, cols [1121–2](#).

⁵³ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 6.

⁵⁴ BBC Trust, [Initial Response to the Government’s Green Paper on BBC Charter Review](#), July 2015, pp 4–5.

⁵⁵ For detail as to why see James Heath, ‘[Why Subscription isn’t the Best Way to Fund the BBC](#)’, About the BBC Blog, 15 July 2014.

The House of Commons Culture, Media and Sport Committee concluded in its report that there appeared to be “no better alternative for funding the BBC in the near term other than a hypothecated tax or the licence fee”. Nevertheless, the Committee argued that “the principle of the licence fee in its current form is becoming harder and harder to sustain [...] we do not see a long-term future for the licence fee in its current form”. It said that “the BBC must prepare for the possibility of a change in the 2020s”. The Committee concluded that “a degree of subscription could be a possibility in the future if the BBC moved to a more personalised service” but “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”.⁵⁶ It recommended thought be given to a German-style broadcasting levy on all households which “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”.⁵⁷

Decriminalisation

Mr Whittingdale said that the Government would consider the case for decriminalisation of TV licence evasion as part of the Review, following the report of David Perry QC.⁵⁸ The report described the current regime as “broadly fair and proportionate” and recommended “no fundamental change in the sanctions regime as it applies to the current licence fee collection system”.⁵⁹ The House of Commons Culture, Media and Sport Committee has argued there was “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”.⁶⁰ In February 2015, the House of Lords passed an amendment to the Deregulation Bill that would mean regulations made under powers given to the Secretary of State with regard to sanctions that apply to the failure of having a TV licence would not be able to come into force before 1 April 2017.⁶¹ The Government brought forward its own amendments to the Bill on its return to the House of Commons.⁶² These can be found in sections 77 and 78 of what is now the Deregulation Act 2015.⁶³ Section 77 provided for David Perry’s review and stipulated that the Government’s response be laid before Parliament within three months of the review’s completion. The response should set out whether the Government intend to decriminalise or not, and a timetable for doing so.⁶⁴ Section 78 provides the Secretary of State, via secondary legislation, the power to change the sanctions but these would not come into force before 1 April 2017.⁶⁵

Licence Fee Settlements and Protected Funding

The Review will also explore further uses of licence fee funding and whether such funds should be protected. The 2010 agreement provided licence fee funding for the World Service, S4C and

⁵⁶ The Government has announced legislation would be forthcoming to this effect. See DCMS, ‘[BBC to Fund Provision of Free Television Licences for over-75s](#)’, 6 July 2015.

⁵⁷ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, pp 76–7, paras 232–3. See p 81 for information on the German broadcasting levy.

⁵⁸ HC *Hansard*, 16 July 2015, [col 1122](#).

⁵⁹ DCMS, [TV Licence Fee Enforcement Review](#), July 2015, p 6.

⁶⁰ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 79, para 224.

⁶¹ HL *Hansard*, 5 February 2015, [col 814](#).

⁶² HC *Hansard*, 10 March 2015, [cols 177–85](#).

⁶³ Deregulation Act 2015, [ss 77–8](#).

⁶⁴ *ibid*, [s 77\(3\)](#).

⁶⁵ *ibid*, [s 78](#).

superfast broadband roll-out.⁶⁶ The green paper said it was “appropriate” for licence fee money to fund “such commitments”: the Review would look at whether to use funds to support digital radio switchover and whether other broadcasters should be able to access some funding to enable them to produce public service content.

The House of Commons Culture, Media and Sport Committee found the case for using the licence fee in such ways “unconvincing”.⁶⁷ The “lack of parliamentary or public scrutiny” of such funding agreements was described by the Committee as “wholly wrong”. It recommended 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”. It added that the BBC should be the “principal recipient of the licence fee” but felt that “a small proportion should be made available for other public service content priorities such as supporting local and regional journalism, and children’s broadcasting”.

The BBC Trust has described the “experience of the recent Budget settlement” as “regrettable”.⁶⁸ It said that it “served to give an impression that the BBC is another part of Whitehall—which it is not”. As a consequence, it wanted “clearer protections” against both the withholding of licence fee funding and “the ring-fencing or ‘topslicing’ of funding for a particular Government purpose”. It warned against “entering any future arrangement for funding any part of the BBC by Government grant”.

The House of Commons Culture, Media and Sport Committee has criticised the licence fee negotiation process as “unsatisfactory”. With regard to the 2010 settlement, it argued:

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.⁶⁹

Value for Money and Income Generation

The Government would also be seeking views on value for money and efficiency. It said:

There are times over the current Charter period when this has been called into question—for example in terms of big redundancy pay-offs for senior executives and the failed Digital Media Initiative which cost £100 million before it was written off. The BBC is still cheaper than most pay TV bundles and delivers a wide range of services, but there are legitimate questions about whether, and how, it could do more to deliver the most value from the licence fee.⁷⁰

⁶⁶ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 55.

⁶⁷ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 90, paras 267–9.

⁶⁸ BBC Trust, [Initial Response to the Government’s Green Paper on BBC Charter Review](#), July 2015, pp 4–5.

⁶⁹ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 87, paras 255–6.

⁷⁰ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 6. For information on the digital media initiative see House of Commons Committee on Public Accounts, [BBC Digital Media Initiative](#), 10 April 2014, HC 985 of session 2013–14.

The House of Commons Culture, Media and Sport Committee recommended an enhanced role for the National Audit Office with regard to value for money:

We recommend that the BBC Charter and Framework Agreement are amended to allow the NAO to have statutory access to the BBC accounts. [...] 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.⁷¹

The BBC Trust noted its “better track record in this area”, citing that it is “projected to find £1.5 billion in annual savings over the course of the current Charter”.⁷² It added: “We continue to drive further efficiencies and to pursue other possible sources of revenue in light of the economic challenges that face the BBC”.

Finally, the Review would also consider income generation. The paper noted that the “balance to be struck is how this return can be maximised while ensuring BBC output is driven by its public value rather than its retail value in international markets”.⁷³ The paper stated the Charter Review would “consider the full range of options [...] including the full or part privatisation of Worldwide”.⁷⁴ The BBC Trust’s response stated it did not “see a convincing logic to any straight privatisation”.⁷⁵ BBC Worldwide, it said, “reduces the cost of the BBC to licence fee payers” and it would “explore options for any commercial partnerships or investment that could strengthen Worldwide’s position and deliver long-term growth”. The House of Commons Culture, Media and Sport Committee observed there were “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”. Its conclusion was that “the approach of BBC’s commercial activities should be limited to those closely linked to its programmes and its public service remit”.⁷⁶

3.4 Governance and Regulation

In his statement to the House of Commons, Mr Whittingdale spoke of the need for “effective governance and regulation” at the BBC.⁷⁷ He highlighted recent examples where the BBC had “fallen well short of the standards that we expect of it”, such as “editorial failures in the light of the Jimmy Savile revelations, the aborted digital media initiative, and the level of salaries and severance payments”. He argued that a “lack of clarity in the BBC’s governance structures” had “contributed to those failures” and there were three broad options the Review would consider: “reforming the trust model, creating a unitary board and a new stand-alone oversight body, or moving external regulation wholesale to Ofcom”.

In response to the green paper, the BBC Trust argued that “the current governance and regulatory system [...] has made the BBC more accountable and more responsive, both to the public and competitors” but said that the structure had “at times, led to confusion about who is

⁷¹ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 107, para 330.

⁷² BBC Trust, [Initial Response to the Government’s Green Paper on BBC Charter Review](#), July 2015, p 18.

⁷³ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 6.

⁷⁴ *ibid*, p 61.

⁷⁵ BBC Trust, [Initial Response to the Government’s Green Paper on BBC Charter Review](#), July 2015, p 19.

⁷⁶ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 66, para 180.

⁷⁷ HC *Hansard*, 16 July 2015, [cols 1122–3](#).

responsible for what, in particular around strategy and financial management”.⁷⁸ The BBC Trust, therefore, proposed:

- To separate completely the functions of the BBC’s regulator from those of its Board, by placing them with a separate body.
- To give the BBC a clearer, simpler set of public purposes and values and to give its regulator an obligation to measure the BBC’s performance more directly against those purposes and values.
- To improve the tools already available to the regulator, such as service licences and public value tests, so that they can be applied with greater flexibility and precision in future, and provide greater transparency for commercial operators.

The House of Commons Culture, Media and Sport Committee also thought changes were required. It said that “it was a mistake not to pass oversight of the BBC to an external body in 2007” and recommended “that the BBC Trust should be abolished”. It proposed in its place:

[...] 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.⁷⁹

The governance arrangements created in 2007 were criticised at the time by the House of Lords Committee on the BBC Charter Review as “confusing, misguided and unworkable”.⁸⁰ It feared “the BBC will remain judge and jury in its own case”. The Committee’s proposals sought:

[...] reforms that clarify the three distinct roles of management, governance and regulation and vest them in three separate bodies. For the governance of the BBC we propose a unitary board with a majority of non-executive members and a non-executive Chairman who together are responsible for a wide range of governance functions. The BBC’s management should be clearly separated from the governing board. The management committee should be chaired by the Director-General. We recommend that Ofcom should take final responsibility for adjudicating on appeals arising from complaints about all types of BBC content. This would secure clearly independent regulation and clarity for complainants and mean that the Ofcom Content Board would

⁷⁸ BBC Trust, [Initial Response to the Government’s Green Paper on BBC Charter Review](#), July 2015, p 4. The governance arrangements were also subject to a review by the BBC in December 2013, [Review of BBC Internal Governance: A Joint Review by the BBC Trust and the BBC Executive Board](#).

⁷⁹ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 4.

⁸⁰ House of Lords Committee on the BBC’s Charter Review, [The Review of the BBC’s Royal Charter](#), 1 November 2005, HL Paper 50-I of session 2005–06, summary.

have the same regulatory responsibilities for BBC content as for other terrestrial public service broadcasters.⁸¹

The green paper also sought views on reforms to service licences and public value tests (put into the 2007 Charter to ensure changes take into account public interest and market impacts); the public accountability of the BBC; and issues concerning democratic structures, in particular the role of parliamentary committees, the National Audit Office and the Government.⁸² With regard to future parliamentary scrutiny, the House of Commons Culture, Media and Sport Committee was clear that:

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 [of Commons].⁸³

The BBC Trust has called for a “legal obligation” for the “Government to consult publicly with the BBC's [future] regulator as part of any funding negotiations, and to seek Parliamentary approval for any change to the BBC's funding”.⁸⁴

The Government has also sought views on “whether a ten year Charter continues to strike the right balance between the benefits of stability and flexibility in the face of rapid changes”.⁸⁵ In 2005, the House of Lords Committee on the BBC's Charter Review took a critical view:

The Government support this method because they control it. It is entirely up to the Government of the day to decide what goes into the Royal Charter and the associated Agreement between the BBC and the Secretary of State. We believe that the BBC's mandate and structure should be defined in statute rather than by Royal Charter. The passage of an Act through Parliament is more democratic, more independent and more transparent. It provides for all-party involvement and thus protects the BBC from the pressures exerted by any one political party.⁸⁶

The House of Commons Culture, Media and Sport Committee thought the Charter gave the BBC “security of tenure and independence” and presented opportunities for “periodic reviews”.⁸⁷ It maintained a Royal Charter had “stood the test of time and that a new 10-year Charter remains the best constitutional arrangement for the BBC”. The House of Lords Communications Committee has described the Royal Charter as a “suitable process” but thought if it were to remain “enhanced transparency in the renewals process should be sought”.⁸⁸ The BBC Trust has said the Royal Charter would “probably continue to provide the best safeguard of the BBC's independence” but would like some additional “protections”. For example, it said there was “a case for an eleven year Charter to provide more time between

⁸¹ House of Lords Committee on the BBC's Charter Review, [The Review of the BBC's Royal Charter](#), 1 November 2005, HL Paper 50-I of session 2005–06, summary.

⁸² DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, pp 70–4.

⁸³ House of Commons Culture, Media and Sport Committee, [Future of the BBC](#), 26 February 2015, HC 315 of session 2014–15, p 113, para 345.

⁸⁴ BBC Trust, [Initial Response to the Government's Green Paper on BBC Charter Review](#), July 2015, p 4.

⁸⁵ DCMS, [BBC Charter Review: Public Consultation 16 July–8 October 2015](#), July 2015, Cm 9116, p 151.

⁸⁶ House of Lords Committee on the BBC's Charter Review, [The Review of the BBC's Royal Charter](#), 1 November 2005, HL Paper 50-I of session 2005–06, p 70, para 281.

⁸⁷ *ibid.*

⁸⁸ House of Lords Communications Committee, [The Governance and Regulation of the BBC](#), 29 June 2011, HL Paper 166 of session 2010–12, p 53, para 149.

fixed date General Elections and the end of the next Charter. It may also be preferable to provide for a more formal Parliamentary process for future Charter Reviews”.⁸⁹

The latter suggestion has also come from Lord Birt, a former Director-General of the BBC, who has called for legislation to provide a statutory framework for the charter renewals process.⁹⁰

⁸⁹ BBC Trust, [Initial Response to the Government's Green Paper on BBC Charter Review](#), July 2015, p 4.

⁹⁰ HL *Hansard*, 14 July 2015, [col 525](#).