



Pointmaker

A LICENCE TO KILL?: FUNDING THE BBC

MARTIN LE JEUNE

SUMMARY

- The licence fee is an outmoded system that deprives consumers of choice and forces the BBC to offer a comprehensive range of content of variable quality, little of which is distinctive, and much of which could be provided by commercial organisations which are in day-to-day competition for viewers. This competition is the spur to improvements in quality, service and innovation.
- The availability of content which people choose to pay for and consume has never been higher. This has become increasingly clear in the past decade as the spread of superfast broadband has given people access to more services than ever before.
- Yet since 1995 the BBC has increased the number of its television channels by over four times, has doubled the number of its national radio stations, has developed a huge web presence and a dedicated and exclusive internet streaming service. It is now the largest public service broadcaster in the world.
- The removal of those BBC services which are not distinct, are already provided by its competitors (and would be provided more, were the BBC not in the way) would save £1.8bn – half the licence fee.
- That would still leave in place a very substantial BBC, which could later be trimmed. A BBC which costs less than £1bn per year is perfectly possible.
- The recent charter review had good points, but was only a marginal adjustment to the role of the BBC. Unfortunately, the media world today is not changing at the margins. It is revolutionary, and it is fast-moving.
- The charter review will need to be completely reopened at the review point in 2021 at the very latest, and the licence fee should be abolished at that date. The BBC should be directly-funded by the government, in the same way as the Arts Council or the NHS. As the government already determines the licence fee level, the alleged threat to editorial independence is spurious.
- The remit of the BBC should be simply and clearly defined as: “The task of the BBC is to produce audio-visual (including digital) news and other content which is distinctively different from that which the market provides, but which is important to the UK’s social, political and cultural wellbeing.”
- This would free commercial operators to compete on an equal basis; be fair to those who watch little or no BBC content (who can be sent to prison for not paying for a service they do not want); and above all enable the BBC to do a few things supremely well, rather than attempt to do everything moderately well.



1. INTRODUCTION

"It seems more likely that within ten, or at most 20, years, the licence fee will be indefensible in theory and unenforceable in practice."

Antony Jay, How to Save the BBC (CPS, 2008).

When John Whittingdale lost his job as culture secretary earlier this year, the BBC Newsroom allegedly erupted in cheers. Despite this response the BBC charter review Whittingdale had presided over had been celebrated by the BBC (quietly) and its cheerleaders (loudly) as a far better result than they had at first feared.

When it had been finally revealed in May, the much feared Charter Review was far weaker than anticipated. It was a missed opportunity for more radical and timely reform of the Corporation, which could have been good for choice, good for viewers, good for taxpayers, and above all, good for the BBC.

This might seem to be a paradox. But what appears on the surface to be a blessing for the BBC – a long charter period, the index-linked preservation of its vast income, the extension of the licence fee to on-demand, and a new governance structure largely unaccountable to outsiders, licence fee-payers or government – has simply locked the BBC into its present model of mass provision of content largely indistinguishable from the commercial sector.

That is not sustainable. The prospect of an eleven-year settlement at a time when the media landscape changes at lightning speed is fanciful. The government has already proposed a 'mid-term review' in 2021. That will need in practice to become a full charter review because the system by then will be even more ramshackle than it is now – and changes in media consumption will make that essential.

Indeed, it is possible that Whittingdale's successor, Karen Bradley, might take one look at the charter settlement and decide to have another crack.

This paper sets out what will need to be done when any review takes place.

2. THE HISTORY BOYS

When the BBC was established in 1922, the decision was taken to avoid the (assumed) dangers of a commercial broadcasting system funded by advertising, and the anarchy of competition, by creating a broadcasting monopoly funded via a compulsory levy (the licence fee) on those who owned the early wireless sets.

This degree of centralisation was, as can be seen in retrospect, a decision at odds with liberal democracy. But it was of its time, and at least while the BBC maintained its monopoly there was some justification for it.

However when commercial broadcasting was finally permitted in the 1950s, the licence fee was maintained. Those who owned television sets, regardless of whether they viewed BBC programming, would still be compelled to pay for it – and face fines or prison if they did not.

This injustice has become more stark over the years as the choice of television and radio has grown: yet the licence fee has remained.

2.1 Rapid expansion

The availability and range of media offered to the British population from sources other than the BBC (not requiring public subsidy), has exploded over the last two decades in particular. However, the BBC has expanded along with them, and just as rapidly.

In 1995 the BBC had two television channels, five national radio stations, and no online presence.



Twenty years later, it has eight channels and 10 national radio stations. It has a significant online presence; a dedicated and exclusive internet streaming service (the iPlayer); it occupies 60% of the UK radio sector. It has a commercial arm, shops, and production centres. The BBC is now the biggest public service broadcaster in the world.

The BBC's campaign to retain the licence fee well into the twenty-first century is understandable. Not simply because it gives the organisation an enormous financial advantage over its media competitors (commercial television and radio, newspapers and magazines, and digital outlets); but because the scope of the BBC and the licence fee are intertwined.

Restrict the BBC's expansion and the licence fee becomes less defensible; take away the licence fee and the requirement for the BBC to offer something for everyone on every platform is ended.

The problem remains that the public is thus legally required to pay the BBC to get bigger even though

the choices from alternative media providers are better and wider than ever before.

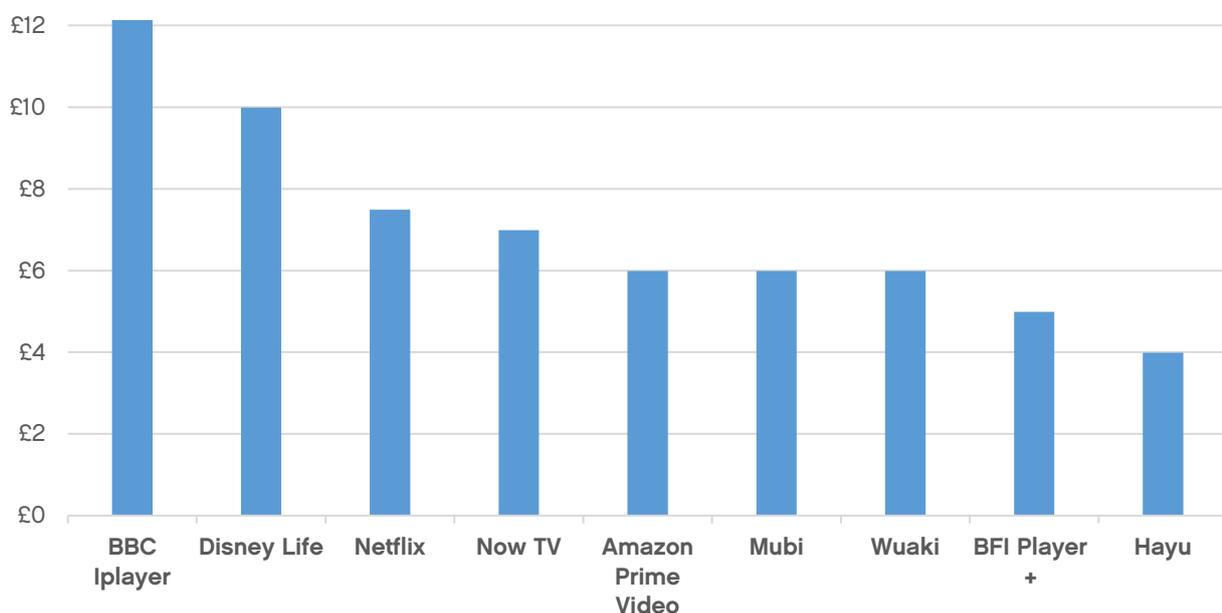
The charter review was the ideal opportunity to examine that paradox, and it is a huge disappointment that it was an opportunity that was missed.

2.2 Exposing the BBC to the market

On 1 September this year the licence fee will be extended to those viewing non-live "catchup" BBC programming. This means that payment of the licence fee will be a legal requirement for watching content on the BBC's iPlayer online streaming service.

This change will place the iPlayer in direct competition with other online streaming services such as Netflix, Amazon Prime Video and Now TV. Alternative streaming services such as these vary in the type of content they offer, and they compete

Figure 1: Price per month of online-only streaming services



Note: the above data shows the cost to iPlayer customers who do not wish to access any other BBC services.



fiercely on price.¹ Customers are able to choose the service and the monthly cost that is best suited to them.

Much of the content available on the BBC iPlayer is similar to that available from other service providers, and at £145.50 per year (or £12.13 per month) the iPlayer will become the most expensive option for customers considering their options – see Figure 1.

This presents a dilemma for the BBC. Customers who only wish to access the iPlayer will face an uncompetitive price for the product. Therefore the BBC either risks a decline in the popularity of the iPlayer; or it sets a new precedent, allowing customers to pay only for what they consume.

2.3 Five questions for a sustainable BBC

As the future of the BBC is considered, five important questions should be answered:

- What is the BBC for?
- What should it do?
- How should it be funded?
- What changes have taken place in the wider markets in which the BBC operates; and what are their consequences?
- How should the BBC be regulated?

The BBC should no longer seek to be bigger and to provide everything to everyone. There is no reason for providing that universal service via a compulsory tax, when people could choose instead how to spend their own money on what they really want.

It should instead specialise in what no-one else can do. In doing so it will become not only a

smaller organisation, but a better one – providing a genuinely necessary and distinctive service.

This can only happen through the abolition of the licence fee. The licence fee and the scope of the BBC are entwined in a way that makes reform difficult. Because paying the licence fee is a legal requirement for owning a television and watching live TV, the BBC is driven to try to provide something for everyone to justify it. That is bad for the BBC and bad for consumers.

3. TIME FOR CHANGE

Critics of the BBC often ascribe to it some form of deliberate political and social agenda – usually by suggesting it is prejudiced in favour of the Left. In response the BBC points to its disputes with Labour Governments to show it is unbiased.

The BBC is right. It may be correct to argue that it does not display overt political bias of a crude sort, preferring instead to create news and current affairs programmes that are fastidiously – sometimes comically – balanced between Left and Right. The recent referendum coverage was a case in point.

But this misses the real point. The BBC is a large bureaucracy. And like any other public sector institution, it displays classic bureaucratic tendencies:

- Expansionism. The BBC is always restless, always looking for areas into which to expand. Mission creep is inevitable in bureaucracies, and the BBC is especially prone to it in order to justify the continuation of the licence fee.
- Conservatism. Although the BBC often claims to be innovative, its record is more correctly described as imitative. It waits for others to

¹ Pocket-lint, *Which is the best movie streaming service in the UK? Netflix vs Amazon Prime vs Now TV and more*, July 2016.



innovate and then copies them. Examples of this are breakfast television and 24-hour news. Now the BBC is expanding into Netflix territory. The commercial broadcasting and digital sectors have been genuinely innovative, the BBC has not.

- Defensiveness. Bureaucracies must start from the position that what they do is of value. It follows that attempts to reduce their resources, staffing, or responsibilities are instinctively resisted.
- Solidarity. Conservative politicians who see left-wing bias in the BBC are conflating the natural affinity of a publicly-funded bureaucracy for other publicly-funded interventions in different markets – for example the NHS.

Brought together, these tendencies have resulted in an enormous organisation which has had a vast impact on the UK's political, cultural, social and media life, and which is known – and indeed generally respected – throughout the world.

But the world has changed, and it is time for the BBC to change with it.

The temptation in a BBC charter review is always simply to tweak. To play politics, to make big-sounding gestures which will have little impact. The BBC is after all so well established that radical changes would be disruptive to a huge range of organisations that depend on it. It employs a lot of vocal people on large salaries who have access to the newspapers. Incremental change is simply safer.

Unfortunately that was the path which, in the end, the government took. Little blame can be attached to John Whittingdale or his advisers.

They were indeed radical. But other influential voices were keen to avoid any upset at a politically febrile time.

4. THE WORLD TURNED UPSIDE DOWN

An incremental approach was however wrong because the world of media is itself not incremental. It is revolutionary, and it is fast-moving.

The sources of information and entertainment available to the average UK citizen today are both colossal and global. Content is available from more sources and via more devices than ever before. Services like Netflix, Apple TV or Prime are in essence TV-like provision over the internet. There is no reason to assume that this will stop. In fact, the pace of change will only increase.

The public is no longer restricted, as it was in the twentieth century, by access to a limited number of broadcasting channels or printed newspapers and magazines. And the choice of content will only expand further – in May BT announced a further wave of investment to extend superfast broadband and 4G coverage beyond 95 percent of the country by 2020.²

The idea that a BBC that tries to do everything should be clung on to, simply because it has always been there, is not logical. Everything else is changing, why should the BBC stay the same?

Nearly everything the BBC provides, is now provided to the same or better standard by other organisations which have to compete with one another and fight hard for every consumer penny. That competition is the spur to improvements in quality, service and innovation in all aspects of our lives.

² BT plc, [BT to invest billions more on fibre, 4G and customer service](#), 2016.



The BBC lacks this incentive to improvement and innovation. Its BBC war-chest is deep and its replenishment is guaranteed. Why else would the BBC have so many layers of management, such waste, so many lobbyists, strategists and apologists?

These lobbyists exist to protect the position of the BBC. In essence their mandate is to protect and increase the level of the licence fee; to ensure that the BBC has as few restrictions placed on its activities; and to ensure that new services are approved by the regulatory authorities.

The BBC has a choice. In a world of change the BBC can cling on to its privileged status and funding as long as powerful lobbying can sustain them.

Or – better – it can recognise that it is preferable to do a few things supremely well, than everything moderately well. It can take command of its own future.

What follows is a blueprint for how the BBC should change.

5. WHAT IS TO BE DONE?

The case for using the charter review to make radical changes to the BBC was a complex but compelling one. If carried through, the result could have been a much smaller BBC, focused on providing what the rest of the commercial and not-for-profit media sector cannot offer. That chance has not been taken, but the argument remains powerful and it will become even more compelling over the next few years, as the BBC wriggles out of the strait-jacket the Department for Culture, Media and Sport (DCMS) has designed for it – as it has in every charter review in the past – and the commercial sector realises that it still faces unfair competition from a state-funded colossus.

5.1 A BBC focused only on distinctiveness

There is no case for imposing a tax on people to fund an organisation that provides material which the commercial sector can – and indeed is – providing. But this cannot be a vague aspiration as the government has asked in its charter white paper – not least because it was also asked for in the previous charter review (2006) as well, only to be ignored. It needs to mean the end of BBC services which are simply not distinctive.

In simple terms this would mean that BBC 1, and Radios 1 and 2, would cease to be part of the BBC. BBC local radio would come to an end – to the relief, incidentally, of many hard-pressed local newspapers. (Although this is incidental: it is not the job of the government to arrange media policy to suit local newspapers).

This does not mean that many well-loved individual programmes would be scrapped or that popular performers would be left hanging forlornly around job centres. They would find a home in the commercial sector, which is what happens in practice anyway. It was a sign of the times when Top Gear migrated to Netflix.

Nor does it mean that some BBC content would not be popular. News programmes are distinctive and well-liked. But the BBC produces far too much programming that is neither distinctive nor successful, just to please some audiences.

The same rule should apply to parts of the BBC that are not linear broadcasting. This would deal with the BBC's incessant expansion online. There is a case for the BBC having a presence online, particularly when it comes to the provision of news and current affairs. The BBC has already made a few gestures to restrict its output – of which removing recipes created an enormous fuss as it was intended to do. After a decent interval, the BBC will creep back into soft areas again – as it must do, with the incubus of a licence fee driving



it. The result will be to restrict growth and innovation in the commercial sector.

The only justification for these channels, stations, programmes and websites is that everyone pays for the BBC so everyone has to get something back. It is a circular piece of reasoning, the BBC's own version of the Gordian knot. The way to cut the knot is to deal with both activities and funding at the same time.

5.2 A non-commercial BBC

The BBC's expansion is, as noted above, partly the result of the natural tendency of bureaucracies to expand, and the need to justify the licence fee.

But it is also fuelled by finding new ways of increasing the commercial income of the Corporation. Most of this is delivered by an entity called BBC Worldwide, which has profit of £200 million per year on revenues of £1 billion.

Commercially-driven expansion is not the fault of the BBC. Successive governments have wanted to keep the licence fee low, and in return have encouraged the BBC to seek as much commercial income as it can. This has led to fairly straightforward deals involving programme sales and formats, but has gone far beyond it.

At times the BBC has had a magazine empire, advertising income on bbc.com, foreign adventures in the US and Australia, and the (loss-making) BBC Global News.

The government's charter proposals will make this worse, by encouraging the BBC to develop subscription services which will compete directly with existing commercial providers, and allowing BBC Studios to become a commercial subsidiary. Exactly the wrong thing to do if commercial providers and new entrants were to be encouraged.

Unfortunately, this commercial activity, however well-intentioned, has two adverse effects. It puts the BBC into direct competition with commercial organisations; and, although there are supposed to be mechanisms to prevent commercial activities from being subsidised by the licence fee-payer, the relationships between the commercial and non-commercial parts of the BBC are opaque.

The difficulty this causes can be seen in the endless disputes between the BBC and other media bodies and regulators over the scope of the BBC's commercial activity. These are settled by regulators, never to anyone's satisfaction; and they never will be, because the tension between the BBC as a public service and the BBC as a commercial giant is unresolvable.

The BBC should instead outsource all its commercial IP to a completely separate organisation. Such an organisation could be fully private (essentially BBC Worldwide privatised), or a public-private partnership. In either case the taxpayer would receive an appropriate share of the income. The public service role of the Corporation would no longer be compromised by the pressure to seek income by undertaking non-core activity: because, simply enough, it would receive nothing back if it did so. Taxpayers would be better off as a result, and there would be far more clarity over the difference between activity that earned a return, and BBC vanity projects.

A BBC that avoided competing with the commercial sector would be a better, leaner and more focused organisation. There would be no income-generation distractions from its core purpose of providing a service that no-one else can.

5.3 A BBC without platforms

Throughout its history the BBC has done two things: it has produced content, much of it of a



very high standard (at least if longevity is a guide); and it has tried to own the means of transmission of that content, which it has usually handled much less well.

There is no reason why the BBC has undertaken the latter task, at least in modern times. Or at least no good reason. Platform initiatives like Freeview were part of a recurrent theme in the BBC's story – expanding its reach and defending its viewing share, in order to justify the continuation of the licence fee.

While it is clearly in everyone's interests for the BBC to make its content widely available, it is questionable whether this had to be done through spending licence revenue on new platforms, or indeed by developing the iPlayer – a walled garden approach to content that is more indicative of an aggressive commercial player than a public service organisation.

In future the charter should require the BBC to concentrate on the creation of content. How distribution can be regulated to ensure the greatest possible public access for the lowest cost, as it is with the presence of the BBC on the Sky satellite platform, needs consideration – but it should not be a matter for the BBC.

5.4 An open BBC

Apart from a relatively small slice of commercial income, licence holders have paid for everything the BBC has produced for nearly a century. **The presumption should be that they should all – whether companies, charities, or individuals, be able to access what the BBC has produced and use or adapt it for their own purposes: only saving the right of the BBC to be credited as the ultimate owner, and the requirement for commercial operators to play a fair price.**

Such a proposition might seem radical, but in reality it simply recognises the investment that has been collectively made, as a society, in the

BBC, and the payback for the privileged position it has enjoyed as the recipient of the licence fee. The BBC archive would represent an open source digital resource of incomparable richness that anyone would have the right to access and use: whether by a local history group showing footage of its community; a newspaper illustrating a feature; or a student making his or her first documentary feature for a degree.

The government's charter proposals recognise this, but they do not stipulate the immediate action that is required. The BBC has many years' experience of dragging its heels over sharing material. The government has to set targets and penalise non-performance.

This reform would be the single most important and useful stage in the transformation of the BBC from a quasi-commercial behemoth, to a genuinely public-spirited body seeking to provide the public with material it has already paid for.

6. DO NOT PASS GO

In the will of Caesar Augustus, he enjoined his successors to keep the Roman Empire within the boundaries he had set. Our politicians need to take a similar approach to the BBC. To do so means addressing the role of the BBC as presently set out. The BBC is currently notionally governed by a set of six vaguely expressed public purposes.

These are proposed by the charter review to be replaced by a single mission and five new purposes. The mission is: 'to act in the public interest, serving all audiences with impartial, high-quality and distinctive media content and services that inform, educate and entertain'; while the purposes are:

- Providing impartial news and information to help people understand and engage with the world around them



- Supporting learning for people of all ages
- Showing the most creative, highest quality and distinctive content
- Reflecting, representing and serving the diverse communities of all the UK's nations and regions
- Reflecting the UK, its culture and values to the world

The new purposes are little improvement on the old, and the mission essentially encourages the BBC to carry on expanding at will.

A specific single purpose for the BBC is needed that compels it to focus. All this verbiage could be replaced by a single mandate; such as:

The task of the BBC is to produce audio-visual (including digital) news and other content which is distinctively different from that which the market provides, but which is important to the UK's social, political and cultural wellbeing.

7. FOLLOW THE MONEY

Even a gentle and carefully applied axe would result in savings that licence fee-payers would immediately appreciate. According to the government's figures, the spending on areas ready for pruning, out of a total BBC licence fee income of £3.7 billion (2014-15), are as follows:

- BBC 1: £1.4bn.
- Radio 1: £54m.
- Radio 2: £60m.
- Radio1X: £11m.
- Local radio: £154m.
- Orchestras and other arts bodies: £33m.
- Licence fee collection: £100m (see next section).

Removal of these services, all of which offer content which is provided outside the BBC by competitors (and would be provided even more were the BBC not in the way) would save £1.8bn, roughly half the licence fee. And that leaves in place great swathes of the BBC which could well be trimmed in a more detailed review than is possible here. A BBC which costs less than £1bn per year is perfectly possible.

Each one of these services will have vocal champions for whom the sky would fall in if they were axed. That special pleading should be ignored. Even the government admits that BBC 1 and the radio stations are of limited distinctiveness. They exist simply in order to compete with commercial rivals and justify a universal licence fee. And that is the central issue that needs to be resolved.

How should the BBC be funded? Most schemes of reform have foundered on this apparently intractable issue. The licence fee is clearly out-of-date, but even the BBC's commercial rivals defend it, fearing a BBC competing for advertising income, or subscriptions. Better the well-funded but complacent rival than a competitor with a big name, web traffic to die for, and a much more competitive approach.

But the licence fee issue is only intractable if the BBC stays roughly the same size. If the BBC learns to do less, then it will have no need of the £3.7 billion or so it gets from the licence fee; and there is no reason at all why it should compete with the commercial sector for advertising or subscriptions.

The BBC should instead be directly-funded by the government, in exactly the same way as the Arts Council or the NHS.

This prospect is usually greeted with horror, as if it presaged a politically subservient BBC forever



adjusting its news coverage to suit the administration of the day.

This is false. The licence fee is set by the government in any case, on a regular cycle which could simply be replicated. The tawdry manoeuvres by which the BBC has been forced to take on responsibility for funding the World Service, for digital education in the UK, or now for the cost of free licence fees for the over-75s, have demonstrated conclusively that this is a funding deal – hammered out by politicians and BBC management without regard for what the BBC should be spending on its core services.

This is not an argument, incidentally, about the level of the licence fee. It may or may not be the case that the licence fee represents value for money, or that such-and-such percentage of people would gladly pay more – propositions which are regularly trotted out whenever the licence fee is discussed. They are irrelevant. Just get the BBC right, and the licence fee is unnecessary at any level.

A BBC that delivered material that the commercial sector cannot, that was prohibited from competing commercially, and which concentrated on producing creative content rather than platform development, would require a much more modest funding stream which could simply be provided from the receipts of general taxation.

This reform would incidentally do away with the cost of collecting and enforcing payment of a hypothecated tax, and avoid the looming difficulty of extending the licence fee to people who watch BBC content on online catch-up services, where enforcement is likely to be far more difficult and much more unpopular than the conventional version.

Above all it would be fair to those who watch little or no BBC content, who can currently be sent to

prison for paying a charge for a service they have never requested and do not want. That this state of affairs has been allowed to continue for so long is a tribute to the power of inertia; to the influence of the middle-class lobby for whom the BBC is really designed; and a genuine scandal.

The government's decision to exclude the question of funding the BBC from its charter review consultation was a major error. Without deciding funding, the role of the BBC cannot be determined; and without determining the role of the BBC, the funding question cannot be settled.

Both have to be considered, and soon: the licence fee is an accident of the 1920s which has survived too long.

8. CONCLUSION

Conservative politicians are fond of pointing out that most major advances in broadcasting in the UK have occurred when that party is in government: the foundation of the BBC, of ITV, of Channel 4 and satellite broadcasting and so on.

Unfortunately the 2016 charter review does not fall into that category. What led to so cautious a result, after so much effort had been expended, will remain hidden until papers are released or memoirs are written.

That, in a sense, does not matter. Every change in the media landscape is ultimately in favour of choice and freedom, and against the kind of giant nationalised throwback that the BBC has become. The charter settlement will not hold until 2027 because the world of the future cannot sustain it. The BBC celebrated its publication as a victory: it was a victory at its most Pyrrhic.



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Please contact Jenny Nicholson for more details:

Jenny Nicholson
Deputy Director, Events and Fundraising
Centre for Policy Studies
57 Tufton Street
London SW1P 3QL
020 7222 4488
jenny@cps.org.uk

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THE AUTHOR

Martin Le Jeune is a fellow of the Centre for Policy Studies and a frequent commentator on media issues. He began his career in the civil service where he spent over a decade in the Cabinet Office, specialising in public sector management and ethics. He subsequently worked as a communications and political consultant, in between times spending three years as director of public affairs at Sky. He is now a director at a leading London-based communications agency.

Martin is the deputy chairman of the Institute of Business Ethics and undertakes pro bono work for a number of charities.

He can be followed on Twitter @martinlejeune – where his views are, as in this publication, entirely his own.

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