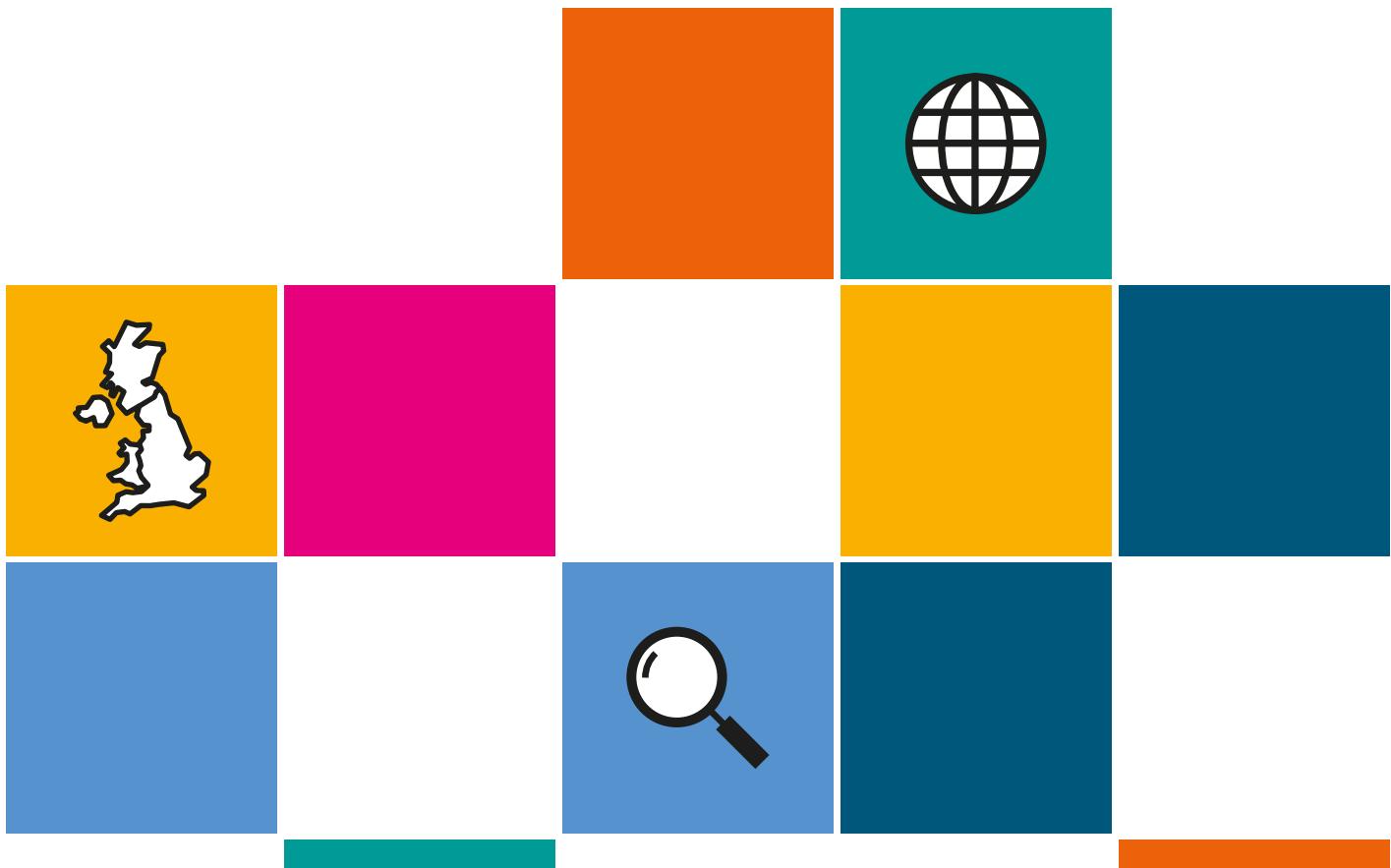




Department
for Culture
Media & Sport



BBC Charter Review

Public consultation



#yourBBC

16 July – 8 October 2015



BBC Charter Review Public Consultation

Presented to Parliament by the Secretary of State
for Culture, Media and Sport by Command of Her Majesty

July 2015



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Foreword



John Whittingdale
Secretary of State for Culture,
Media and Sport

The BBC is at the very heart of Britain. It is one of this nation's most treasured institutions – playing a role in almost all of our lives. The current Royal Charter, the constitutional basis of the BBC, is due to expire at the end of 2016. This paper launches the Government's process of consultation that will inform our decisions about the future of the BBC.

Last year, as Chair of the Culture, Media and Sport Select Committee, I heard evidence from a range of experts about the BBC on the challenges it has faced and the issues for its future. This has helped to establish what this Charter Review needs to consider. As Secretary of State, I want to hear from people all over the UK, so I can understand what this country wants from and for the BBC.

Ten years ago, the last time the Government ran a Charter Review, the media landscape looked very different. Millions of households still received a choice of just five television channels. Facebook was yet to reach the UK, YouTube was only just being launched and the iPhone was unheard of. When the Royal Charter came into force in January 2007 nobody could have predicted quite how the emerging technologies of the day would end up shaping the way we use the media and live our lives, nor the extent to which some things would stay the same.

The explosion in the use of the internet and mobile devices mean that people are

now spending more time using media and communicating than sleeping,¹ and are using mobile tablets and smartphones to stream live and 'on demand' video and audio content at the touch of a button. Yet this has not meant the 'death' of television or radio – instead we have seen the range of options increasing – with new services complementing rather than usurping the old. Just because lots of people are using the internet to access video on demand, to stream music and to find out the latest news, does not change the fact that today most people still want to watch television when it is broadcast, still rely on radio and still want to read newspapers.

The BBC has adapted to this changing landscape. It was asked to lead the way in the move to digital television, and has pioneered new services such as iPlayer, which saw 3.5 billion programme requests in 2014.² It has done this while continuing to provide programmes and services that we have come to rely on to inform, educate and entertain. We want the BBC to continue to adapt and thrive,

and to play its part within the wider Public Service Broadcasting and media landscape.

The BBC remains much-loved by audiences, a valuable engine of growth and an international benchmark for television, radio, online and journalism. It has showed this countless times over the last Charter period: coverage of events that bring us together like the Olympics; television that entertains millions like *Miranda*, *Sherlock* and *Bake Off* or that educates and informs like the BBC's many world-leading nature and history documentaries; award-winning radio, with half of adults in the UK listening to one or more of the BBC's music stations each week;³ the UK's most popular website; and trusted news coverage that is relied upon at home and abroad, with the World Service reaching a global audience of 210 million and continuing to play an important role in the way that the UK is perceived internationally.⁴ It has done this while targeting £700 million of annual savings through *Delivering Quality First*.⁵

Executive summary

The constitutional basis of the BBC is the Royal Charter. This is due to expire at the end of 2016. This consultation paper therefore seeks to engage the UK in a dialogue about the future of the BBC.

The BBC is one of the great institutions of Britain. But to continue to thrive it must continue to evolve. Charter Review will explore four areas of possible change:

- Mission, Purpose and Values – what the BBC is for, examining the overall rationale for the BBC and the case for reform of its public purposes;
- Scale and scope – what the BBC therefore should do, examining the services it should deliver and the audiences it should be seeking to serve;
- Funding – how the BBC should be paid for, examining not just future potential funding models but related issues such as how best to enforce payment; and
- Governance – how the BBC should be overseen, examining options for reform of the current Trust model alongside other governance issues.

“

The BBC has changed considerably over the nearly 100 years since it was established. So too has the world in which it operates.

Why the BBC? Mission, purpose and values

The BBC has changed considerably over the nearly 100 years since it was established. So too has the world in which it operates. In the decade since the current Charter was introduced we have arguably seen more change in the media sector than in any previous decade – with an explosion in choice for audiences both in terms of the ways of accessing content and the variety of providers. As these changes have occurred, some of the original arguments for the BBC have become less relevant. But the rationale for a publicly-funded BBC that “informs, educates and entertains” as part of a wider public service broadcasting ecology remains strong even in the current media age. The Government is therefore committed both to the future of the BBC and to its underlying Reithian mission.

This changed and changing media landscape does, however, raise some questions about how best to define the unique role of the BBC. One question that is particularly important is how we can best understand the idea of ‘universality’. As more and more options become available for how audiences watch, read and listen to content, the question of the extent to which the BBC should focus on providing programmes and services for all audiences, and on an equal basis, across every platform, or whether it should instead focus more on particular or underserved audiences with its output, becomes relevant. A second question relates to whether the BBC should instead have a more targeted or prioritised set of purposes to reflect its increasingly varied and competitive environment.

Executive summary

The BBC currently has six very broad public purposes, which were set at the last Charter Review. All of the BBC's activity should be working towards one or more of these:

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. Delivering to the public the benefit of emerging communications technologies and services.

In Charter Review the Government will consider the case for reforming these purposes, to provide greater clarity around what the BBC is there to achieve. It will also 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.

What the BBC does.

Scale and scope

The public purposes set the framework for what the BBC should be seeking to achieve. Moreover, the Charter states that the main activities of the BBC should be providing information, education and entertainment output through TV, radio and online services. But 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. This is particularly the case in the context of digital services – where there has been most development in the past decade. Charter Review will consider four main aspects of scale and scope:

– **Range of services.** The range of services that the BBC provides has increased dramatically over the last two Charter periods. Twenty years ago the BBC had just two television channels and five national radio stations. Now it is the world's largest Public Service Broadcaster, providing nine television channels, ten national radio stations with a huge online presence reaching millions of people every day. Charter Review is an opportunity to decide whether this is the right range of services for licence fee payers, or whether the public would be better served by a more focused range of BBC services. Alongside this, views are sought on the nature and extent to which the BBC should be migrating away from traditional broadcast platforms towards more of an online presence.

– **Impact on the market.** The way these services affect other organisations in the media sector is an important factor when thinking about what services the BBC is providing and how. The wider media sectors have grown over recent decades and the UK boasts one of the most vibrant media and creative economies in the world. The BBC can have both a positive and a negative impact on the activities of its competitors. It has arguably helped the development of the sector by encouraging high standards and through investment in independent production and the infrastructure of media distribution. However, others make the case that the level of public funding gives the BBC an unfair advantage and distorts audience share in a way that undermines commercial business models. The BBC has 60 per cent of the revenues of the radio sector in the UK, for example, while its provision of extensive free online content risks impacting a wide range of players.

Executive summary

– **Audiences.** The BBC remains highly valued and well-used by the majority of people within the UK. But there are variations across different groups and there are particular challenges in reaching black, Asian and minority ethnic audiences and in meeting the needs of younger age groups who increasingly access content online, rather than via the traditional platforms of television and radio. There is also variation across the nations and regions of the UK. Charter Review will consider the extent to which the BBC is meeting the needs of these different segments of the domestic audience. It will also examine how international audiences can best be served, in the context of the important role the BBC plays in the way that the UK is perceived internationally (BBC services now reach more than 300 million people globally each week).

– **Content mix, quality and distinctiveness.** Charter Review is also an opportunity to look at the content the BBC is providing. The BBC has made changes to its genre mix in recent years, and consideration needs to be given to whether it is striking the right balance in terms of its offer. In terms of quality and distinctiveness, the BBC's own data suggests that perceptions have 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.

The way that the BBC determines how it spends £2.4 billion on content is another important element of the scale and scope of its operations for Charter Review to consider. The way content is produced is shaped by two main elements: the broader regulatory framework including the Terms of Trade, which set out how the BBC and other broadcasters work with independent producers, and the BBC's quota systems. The quotas set minimum amounts of content that must

be produced by the BBC itself and by independent production companies, as well as setting other requirements such as 'out of London' production. These elements need to be looked at in the round to make sure that the BBC is able to continue to deliver great content to audiences, efficiently and cost effectively, while minimising any negative impact on the wider market and maximising any benefits. The BBC is developing its own proposals for a 'compete and compare' strategy that would remove quotas and turn the BBC's production operations into a commercial subsidiary. Charter Review will consider this proposal as well as other options for reform.

BBC funding

The licence fee has proven to be a remarkably resilient source of revenue for the BBC – providing £3.7 billion of public funding last year. While it has a number of strengths as a **funding model**, it also faces challenges:

- There are concerns about people being prosecuted for TV licence evasion, which is the subject of the recent independent review by David Perry QC;
- It is a compulsory flat rate which means those on low incomes pay as much as those on high incomes;
- It is struggling to keep up with technology as more people – particularly the young – are accessing only catch-up television online, and are exempt from needing a TV licence as currently constituted.

Executive summary

While there are issues with the licence fee, there is no easy solution in terms of reform. One option that could be considered for the longer term is a subscription model. While this has some advantages, the technology that would be required to introduce it – specifically access controls – is not yet widely available in homes. As such, if this option is considered desirable it would need to be introduced over a longer period. The three options for changing the funding model that are viable in the shorter term are:

- a reformed licence fee;
- a media levy;
- a hybrid licence fee and subscription model.

All of these bring benefits and costs and through Charter Review we want to look at which provides the best model for the future.

The Government has committed to bringing forward legislation in the next year to modernise the licence fee in order to cover Public Service Broadcast catch-up TV. This is important both to make sure that the television watching public gets a fair deal and that the funding of the BBC remains robust for future decades. Through Charter Review the question of how this can be done needs to be answered so that the Government can legislate to close this loophole.

A second funding issue relates to what areas and activities should have **protected funding**. Currently there are a range of projects and areas of work where it has been agreed with Government that a level of funding should be protected, rather than being left entirely to the discretion of the BBC. This applies to areas like broadband roll-out, digital switchover, local TV, the World Service and S4C. The BBC and Government have already agreed some aspects of this, but questions

remain about whether funding should be protected in other areas, such as for digital radio switchover, regional news and content. There is also an important issue relating to whether other broadcasters should be able to access some licence fee funding to enable them to produce more public service content than they would otherwise be able to afford.

Third, when looking at funding it is important also to assess the **value for money and efficiency** that the BBC achieves. 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.

Finally, there is also an important question for the Charter Review about **how the BBC generates its own income** through commercial activity. Commercial income currently represents about a quarter of the BBC's total income. This is important in maximising the return on the investment in content which can then be reinvested. The majority of the BBC's commercial activity is conducted by BBC Worldwide which, last year, returned over £200 million to the Corporation. 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. All options will be considered for how this can be delivered best.

Executive summary

BBC governance and regulation

The last issue, and one that ultimately underpins all the others, is governance and regulation. The last Charter introduced a new model, creating the BBC Trust. This established a body whose primary responsibilities are to represent the licence fee payer's interests and to hold the BBC to account on their behalf. While this made positive changes including the introduction of new elements such as Public Value Tests and Service Licences, this structure has come under sustained criticism throughout the Charter period.

There is a high level decision about the structures and organisations that make up the model of governance and regulation. There are three broad options:

- keeping the current Trust but reforming it;
- creating a new standalone regulator and giving the BBC a unitary board;
- moving regulation wholly to the existing media and telecoms regulator Ofcom and giving the BBC a unitary board.

These all have advantages and difficulties and the success of any model will lie in exactly where specific roles, responsibilities and powers sit. This detail will need to be developed through Charter Review. It is important that in any change, the progress made under the Trust is not lost. As such Charter Review will also consider whether Public Value Tests and Service Licences should be retained or further improved upon.

Charter Review process

Reviewing the BBC's Royal Charter is not just a case of publishing a consultation. We want to engage with the public and with industry to make sure that all views are given proper consideration. This is why we are engaging with people across the UK in a number of ways to make it easy for everyone to respond.

“

We want to engage with the public and with industry to make sure that all views are given proper consideration.

Have your say



We have created a simple way for the public to respond to this consultation online: **let us know your thoughts on www.gov.uk/government/consultations/bbc-charter-review-public-consultation**



You can also email your responses to the consultation questions to BBCCharterReviewConsultation@culture.gov.uk

Or you can write to us at:
BBC Charter Review Consultation
DCMS
100 Parliament Street
London SW1A 2BQ

**The consultation will be open
for 12 weeks from 16 July 2015
to 8 October 2015.**

One of the creations of the last Charter was the BBC Trust – set up to represent the licence fee payer. The Trust will, in this role, also be consulting on proposals for the future of the BBC. We will take full account of the Trust's work and work with them on a range of public and industry events to explore in detail the important issues in the coming months.

There are also some areas where studies, reviews and research are needed – to add technical expertise or independence from Government. We will be commissioning these in the coming months. This process will run through the autumn and will inform the proposals that the Government intends to put forward for further consultation in spring 2016.

The Government has also established an Advisory Group to support the Charter Review process, providing the Secretary of State with expert insight into the range of issues being considered.

More information about the Group and its membership is available at www.gov.uk/bbccharterreview

What is the BBC Charter Review?

The BBC is established by a **Royal Charter**, rather than an act of parliament, to underline BBC's independence from the government of the day.

It sets out the public purposes of the BBC and outlines the respective duties of the BBC Trust and the Executive Board.

How you can contribute to this stage of Charter Review

Consultation
begins 16 July 2015

[www.gov.uk/government/consultations/
bbc-charter-review-public-consultation](http://www.gov.uk/government/consultations/bbc-charter-review-public-consultation)



Online



Email

July

August



Engagement with the public and industry across the UK.



Advisory Group to support the Charter Review process.



Studies, reviews and research into a range of issues.

The current Charter, the eighth, came into full effect on 1 January 2007 and expires on 31 December 2016 (ten year period is the historical standard).

The Charter Review is the opportunity to consider all aspects of the BBC.

September



Write

Consultation
ends 8 October 2015

October

The Charter Review themes



1. Why the BBC?

- Why does the BBC exist?
- What do we want the BBC to be for in the years ahead?
- Its mission, its purposes and its values.



3. Funding: How we pay for it

- The funding model.
- Areas of protected funding.
- Value for money, efficiency and commercial.



2. The scale and scope of the BBC

- What the BBC does and how it does it.
- The audiences it serves.
- The role played by the BBC within the wider media and creative sector.



4. Governing the BBC

- How the current model works.
- Options for reform.
- Wider governance issues.

Questions

Why the BBC? Mission, purpose and values

- Q1** How can the BBC's public purposes be improved so there is more clarity about what the BBC should achieve?
- Q2** Which elements of universality are most important for the BBC?
- Q3** Should Charter Review formally establish a set of values for the BBC?
- What the BBC does: scale and scope**
- Q4** Is the expansion of the BBC's services justified in the context of increased choice for audiences? Is the BBC crowding out commercial competition and, if so, is this justified?
- Q5** Where does the evidence suggest the BBC has a positive or negative wider impact on the market?
- Q6** What role should the BBC have in influencing future technological landscape including in future radio switchover?
- Q7** How well is the BBC serving its national and international audiences?
- Q8** Does the BBC have the right genre mix across its services?
- Q9** Is the BBC's content sufficiently high quality and distinctive from that of other broadcasters? What reforms could improve it?
- Q10** How should the system of content production be improved through reform of quotas or more radical options?

BBC Funding

- Q11** How should we pay for the BBC and how should the licence fee be modernised?
- Q12** Should the level of funding for certain services or programmes be protected? Should some funding be made available to other providers to deliver public service content?
- Q13** Has the BBC been doing enough to deliver value for money? How could it go further?
- Q14** How should the BBC's commercial operations, including BBC Worldwide, be reformed?

BBC governance and regulation

- Q15** How should the current model of governance and regulation for the BBC be reformed?
- Q16** How should Public Value Tests and Service Licences be reformed and who should have the responsibility for making these decisions?
- Q17** How could the BBC improve engagement with licence fee payers and the industry, including through research, transparency and complaints handling?
- Q18** How should the relationship between Parliament, Government, Ofcom, the National Audit Office and the BBC work? What accountability structures and expectations, including financial transparency and spending controls, should apply?
- Q19** Should the existing approach of a 10-year Royal Charter and Framework Agreement continue?

1. Why the BBC? Mission, purpose and values

Why the BBC?

Mission, purpose and values

The BBC has evolved and expanded from its beginnings in the 1920s as the UK's sole broadcaster, to one of many, providing a multitude of channels and services. Beyond the UK's borders, the BBC is an internationally recognised broadcaster and brand, reaching a weekly global audience of 308 million people.⁷ But the context in which the BBC is operating has changed dramatically in recent years.

This chapter asks the question, what is the BBC there to do?

To do this it addresses:

- **the rationale for the BBC** – what it was originally, and whether and how this applies in a dramatically changing broadcasting and media landscape.
- **the BBC's public purposes** – whether these need to be changed, or reframed to reflect the audience's changing needs, expectations and priorities.
- **the BBC's values** – whether through this process of Charter Review they should be codified, identifying the ways in which the BBC might be expected to operate, and informing how the BBC might assess its performance.

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The BBC is an internationally recognised broadcaster and brand, reaching a weekly global audience of 308 million people.

Multichannel home

Following digital TV switchover every home is a 'multichannel home':



70 channels

Freeview offers over 70 channels and satellite and cable provides access to hundreds more



95% availability

By the end of 2017 superfast broadband will be available to 95 per cent of UK homes and businesses

The rationale for the BBC

As with Government intervention in areas such as health and education, the core rationale for the BBC, and public service broadcasting⁸ (PSB) policy more widely, is centred around the need for the state to intervene in the market to deliver social outcomes.

The original case for the BBC centred on limited competition. For the first half of the twentieth century, spectrum use (and competition) was extremely limited, with only one TV broadcaster until the 1950s. A Public Service Broadcaster was preferred to a private monopoly. Advancing technology has changed this. There has been a steady growth in spectrum used for broadcasting throughout the latter half of the twentieth century and the ten years of the current BBC Charter have arguably seen the most dramatic period of change in broadcasting and telecommunications since the BBC came into existence.

Following digital TV switchover every home is a 'multichannel home', with Freeview offering over 70 channels⁹ and satellite and cable providing access to hundreds more. 84 per cent of UK homes have internet access (compared with 57 per cent in 2006),¹⁰ and by the end of 2017 superfast broadband will be available to 95 per cent of UK homes and businesses.¹¹

The proliferation of mobile devices has also opened up a multitude of options for watching and listening alongside, or instead of, the traditional TV or radio set. For example, new services such as Netflix, Amazon Prime, Spotify and Deezer have already begun transforming peoples' media habits and expectations, and we would expect this to continue in the years ahead.

This increasingly challenges one of the original rationales for PSB – that the high barriers to entry require public intervention. The current generation of smart televisions,¹² and the growing number of catch-up and on demand services on offer, provide yet more choice; the consumer has never been so well served.

These trends raise questions around the continued relevance of public service broadcasting in a modern media age. But high quality PSB content has generally been seen as a 'merit good', which would

be under-provided in a free market. This is not to argue that private markets cannot deliver high quality broadcasting. There are multiple examples of where commercial broadcasters have in recent years delivered content of a quality traditionally seen as the preserve of the Public Service Broadcasters (PSBs). The award winning drama series produced by HBO are one notable case in point. But PSBs such as the BBC still deliver positive effects for society such as extending democratic knowledge through news and current affairs, helping extend the UK's influence and reputation abroad, addressing needs of audiences such as minority language groups, and serving audiences (such as children) where excessive advertising would be inappropriate. These goods would not be provided in sufficient volume by the market alone.

Despite technological change, there is still a strong rationale for the BBC continuing to exist in the twenty-first century.

The rationale for the BBC

The BBC's current mission, 'To enrich people's lives with programmes and services that inform, educate and entertain'¹³ has remained essentially unchanged since the Corporation's beginnings, centred on the values coined by the BBC's first Director General, Lord Reith.

There is 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. But it is not without its critics. In particular, it is a very broad mission, and one that risks the BBC competing for ratings not quality, or distinctiveness, under the 'entertainment' banner. On balance the Government believes 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.

Another long-standing part of the BBC's approach has been its universality. This means different things to different people:

- to some, this has meant the BBC should provide all types of content, and meet the needs of all audiences, regardless of the extent of provision by others;
- to others, this has been interpreted as providing due emphasis on covering single unifying events such as the Proms, Royal weddings, and election coverage; and
- to others, it has meant the requirement to be available and accessible on all platforms and devices, free at the point of use. In recent years, this has meant a focus by the BBC on expanding its digital and online services.

There are clearly questions over which of these definitions remains most relevant in the current media age, and whether it remains important for the BBC to continue to deliver everything that it currently does, or traditionally has done, or whether audience needs are better served by a more narrowly-focused BBC.

The BBC's public purposes

In the current Charter which came into effect in January 2007, the Government set out a high-level set of public purposes for the BBC (see Table 1 page 34-36), and the Trust subsequently set out purpose remits for each, to set priorities and criteria against which delivery would be assessed.

Six public purposes have underpinned the BBC's activity over the last Charter period, and have been part of the framework against which the BBC have assessed both the appropriateness and success of their content and services. This paper seeks views on the BBC's public purposes: whether they provide the right framework, whether the purposes themselves are right, and whether they could or should be redrawn or prioritised.

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The BBC's public purposes: whether they provide the right framework, whether the purposes themselves are right, and whether they could or should be redrawn or prioritised.

There is a case for maintaining these purposes. They define broadly what people expect of the BBC's output and by giving only high-level direction allow the BBC to take decisions about how these are best delivered. For example, 'representing the UK' has enabled the BBC to broadcast events of national significance, such as the Royal wedding, while 'bringing the UK to the world' helps support significant investment in the BBC World Service. The purposes are also still a relatively new set of high-level descriptors, so there might be a case for giving them time to 'bed in'.

But there is a case for reform of the purposes. They are very broad, and arguably it would be difficult for any programme or activity not to fall within one of them. By being cast so broadly, they do not reference directly key genres such as drama, natural history and news, widely considered to be at the core of what the BBC delivers. And they also do not set clear boundaries for what is or isn't appropriate output from the BBC. So arguably, 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. Conversely, some have argued for extending the purposes. For example, the BBC could have more specific responsibilities for partnership working, or supporting the wider sector through training and skills.

Question 1

How can the BBC's public purposes be improved so there is more clarity about what the BBC should achieve?

Question 2

Which elements of universality are most important for the BBC?

The BBC's public purposes

Table 1: The BBC's public purposes and purpose remits¹⁴

Purpose	Purpose remit 'What the BBC will do to deliver this purpose'
1. Sustaining Citizenship and Civil Society	<ul style="list-style-type: none">– Provide independent journalism of the highest quality.– Engage a wide audience in news, current affairs and other topical issues.– Encourage and enable conversation and debate about news, current affairs and topical issues.– Build greater understanding of the parliamentary process and political institutions governing the UK.– Enable audiences to access, understand and interact with different types of media.
2. Promoting Education and Learning	<ul style="list-style-type: none">– Stimulate informal learning across a full range of subjects and issues for all audiences.– Engage audiences in activities targeted to achieve specific outcomes that benefit society.– Promote and support formal educational goals for children and teenagers and support adult education, especially related to essential skills development.

Purpose	Purpose remit <i>'What the BBC will do to deliver this purpose'</i>
3. Stimulating Creativity and Cultural Excellence	<ul style="list-style-type: none"> – Provide output that is distinctive and creative on all its platforms. – Ensure enrichment for all audiences by covering a wide range of creative and cultural activities. – Encourage active participation in cultural activities. – Provide a wide range of enjoyable and entertaining content. – Foster creativity and nurture and support UK talent across a wide range of genres.
4. Representing the UK, its Nations, Regions and Communities	<ul style="list-style-type: none"> – Represent the different nations, regions and communities to the rest of the UK. – Cater for the different nations, regions and communities of the UK. – Bring people together for shared experiences. – Encourage interest in, and conversation about local communities. – Reflect the different religious and other beliefs in the UK. – Provide output in minority languages.

The BBC's public purposes

Purpose	Purpose remit 'What the BBC will do to deliver this purpose'
5. Bringing the UK to the World and the World to the UK	<ul style="list-style-type: none">– Build a global understanding of international issues.– Provide international news broadcasting of the highest quality.– Enable audiences and individuals to participate in the global debate on significant international issues.– Enhance UK audiences' awareness and understanding of international issues.– Broaden UK audiences' experience of and exposure to different cultures from around the world.
6. Delivering to the Public the Benefit of Emerging Communications Technologies and Services	<ul style="list-style-type: none">– Make engaging digital content and services available on a wide range of digital platforms and devices.– Work with the industry to continue to deliver improvements to the UK-wide distribution of public service content.– Increase coverage of Digital Audio Broadcasting (DAB).– Support Digital UK's communications activity to build awareness of, and readiness for, digital switchover.– Work in partnership with other organisations to help all audiences understand and adopt emerging communications technologies and services.– Support the Government's targeted help scheme to help the most vulnerable during digital switchover.

The BBC's values

The ways in which any public organisation delivers its mission, and the ways in which its people and structures operate, are arguably just as important as the mission itself. This is possibly even more the case for the BBC, in light of the unique place the organisation holds in the UK's media industry, its social and cultural life, and our collective sense of identity and British values.

Many organisations make public the ways in which they will operate through a statement of values. There are public documents which refer to BBC values; for example, the Trust is required to maintain the independence of the BBC and ensure it observes high standards of openness and transparency. The BBC also has a set of corporate values, setting out for its employees the ways in which the BBC is expected to operate. But nowhere is there set out a formal codified set of values.

“

The BBC is a public broadcasting organisation, and it is right that its values should reflect the views of the public.

The last Charter period has proved to be one of the most tumultuous in the Corporation's history, and numerous issues have arisen which placed the BBC's people and working practices under a great deal of scrutiny.

The BBC is a public broadcasting organisation, and it is right that its values should reflect the views of the public. This Charter Review presents the opportunity to consult on what a potential set of values might be, against which its performance can be judged and measured. Some potential values to consider are set out in Table 2 opposite. This includes a potential value around diversity, which may be merited in the light of the need to ensure continued progress by the BBC in this area (see Box 1 on page 40/41).

Table 2: Potential values for the BBC

Independent

Impartial

High quality

Efficient/value for money

Transparent

Distinctive

Diverse/representative

Question 3

Should Charter Review formally establish a set of values for the BBC?

The BBC's values

Box 1. Diversity

The BBC and the wider broadcasting sector have faced challenges in regards to how representative their workforces are, both on screen and in roles behind the camera. The BBC announced a diversity strategy in June 2014, including: a £2.1 million fund to help Black, Asian and minority ethnic (BAME) talent on and off screen to develop new programmes; more training internships; an Independent Diversity Action Group chaired by Lord Hall;¹⁵ and setting new targets to increase senior BAME staff in priority areas from 8.3 per cent to 10 per cent by 2017 and then to 15 per cent by 2020.¹⁶

The BBC has already made some progress in the last 12 months: the proportion of BAME staff was 13.2 per cent in February 2015¹⁷ (compared to 12.6 per cent in March 2014).

In addition, 31 graduate trainee interns from BAME backgrounds have been recruited from the Creative Access Programme and a further six potential 'Commissioners of the Future' have started training in a number of genres.

In terms of disabled staff numbers, the BBC still has some way to go. The proportion of disabled staff overall remained at 3.8 per cent.¹⁸ However, there has been some progress, for example setting up a work placement scheme for disabled people, 'Extend', which offers short-term paid work placements, and the introduction of ManageAble scheme this year, targeting placements in senior and decision making roles.¹⁹

The BBC has received significant criticism in recent years regarding its representation of women on screen, and has suggested that improving this remains a priority. However, there is a better picture when looking at its

workforce, with the number of female staff at 48.5 per cent last February, marginally lower than in March 2014. The number of female senior managers rose to 38.4 per cent and women in leadership to 41.1 per cent.²⁰

As part of its commitment to deliver high quality programming that reflects modern Britain, the BBC took an in-depth look at the portrayal and inclusion of lesbian, gay and bisexual people, including audience research and a public consultation. The resulting recommendations are currently being implemented, and as part of their Diversity Strategy, the BBC has also committed to a consultation on the portrayal of age across broadcasters to inform output and employment practice across the industry.²¹

2. What the BBC does. Scale and scope

What the BBC does. Scale and scope

This chapter examines the question of the appropriate scale and scope of the BBC, for the forthcoming Charter period, through the following lenses:

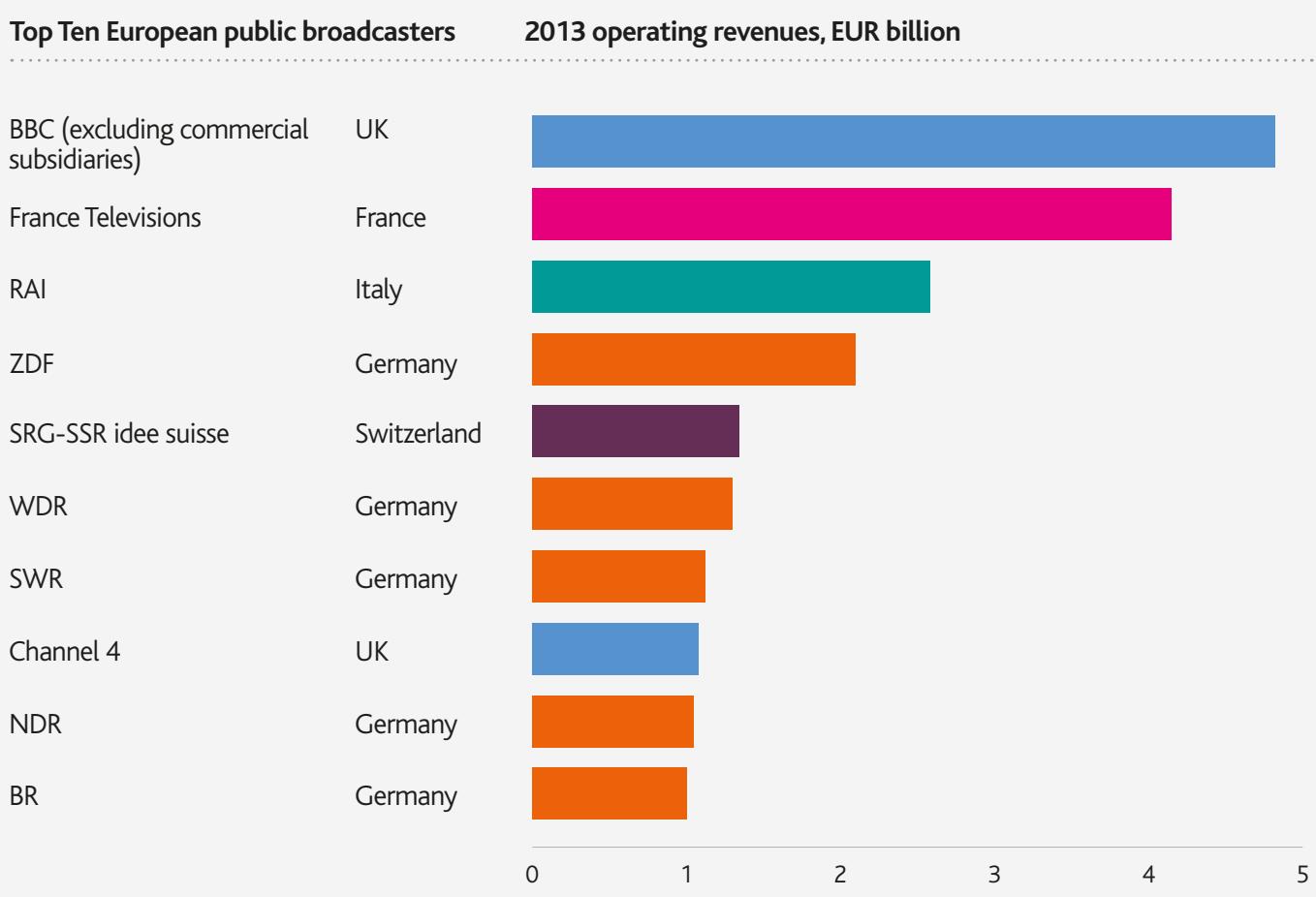
- **Services:** whether the BBC is offering the right range of services, taking into account market impact;
- **Audiences:** how well the BBC is serving different audiences;
- **Content:** whether the BBC is providing the right content mix, quality and distinctiveness; and
- **Production:** how the content should be produced.

The current Charter sets out the activities the BBC should undertake to deliver its public purposes in broad terms. It states that the main activities should be providing information, education and entertainment, through TV, radio and online services. The Charter also leaves the BBC free to carry out other activities where they support the public purposes.²²

This framework, with the broad public purposes considered in the previous chapter, has given the BBC the motivation and freedom to develop its services over the Charter period and builds on the BBC's growth, over recent decades, to become the world's largest Public Service Broadcaster (see Box 2 opposite for European comparisons). As part of Charter Review, we need to decide whether this scale and scope is right for the current and future media environment given the proliferation of choice.

Box 2: How does the BBC rank internationally?

Revenue of public broadcasters²³



Source: European Audiovisual Observatory, 2014 Yearbook, p.90

Services

The range of services provided by the BBC has grown over recent decades as digital technology created opportunities not available in the analogue age. This was allowed within the framework of the current Charter, enabled by the broad freedom it has given the BBC in determining how best to meet its public purposes.

BBC services have expanded in recent years (see Box 3 on page 48/49). Twenty years ago the BBC had two television channels, since then the number has increased to nine (including BBC Parliament) with the Red Button making large amounts of additional broadcast content available. The number of national radio stations has doubled from five to ten with the launch of BBC1xtra, BBC Asian, BBC 5 Live Sports Extra and BBC 6 Music on digital in 2002 and Radio 4 Extra (formerly Radio 7) which was relaunched in 2011. Combined with local services, the BBC now has 57 radio services. The BBC also has a huge online presence with the success of its iPlayer and with the weekly reach of its website in the UK increasing from 3.9 million in September 2002²⁴ to 24.7 million by September 2014.²⁵

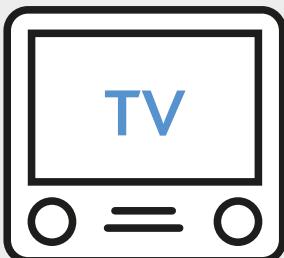
There are arguments that this service provision is broadly right in that the balance of traditional and online services meets the needs of audiences in an increasingly fragmented media environment and that the range of services helps the BBC to meet its current remit. There is also an argument that such provision played a role in the switch to digital technologies introduced in the late 1990s by broadening the number and type of free-to-all services available to viewers and listeners.

However, now digital television switchover has been completed and as the number of television and radio channels grow and the internet as a platform for television and radio content matures, there are 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. There is also an argument 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.

A recent example is the BBC Trust's report which found a sizeable crossover in audiences for Radio 1 and Radio 2²⁶ – something the BBC has subsequently worked to address. Given the vast choice that audiences now have there is an argument that the BBC might become more focused on a narrower, core set of services that can continue to meet its mission and objectives. A smaller BBC could see the public pay less for their TV licence and would also be likely to have a reduced market impact (see Box 4 on page 50/51).

Box 3: Expansion of BBC services

1994-95



2 channels

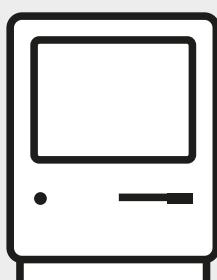


Radio

5 national

39 local

6 nations



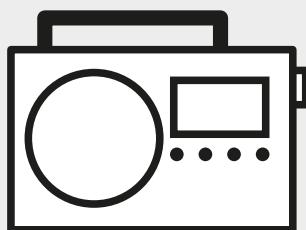
None

Online

2014-15



9 channels



Radio

5 national

5 digital

40 local

6 nations



Online

BBC iPlayer
BBC Online
BBC Red Button

Services

Box 4: Market impacts

It is important that we understand both the positive and negative effects the BBC can have on the wider market.

In terms of positive impacts, some say that:

- The BBC has an impact in raising broadcasting standards. The licence fee offers the BBC a stable, long-term source of funding, which allows it to invest in content, for example high-value flagship drama, and technology, such as the iPlayer. If commercial broadcasters want to keep up and deliver audiences to advertisers they need to match the BBC's quality and delivery. This could deliver more choice and quality to audiences.

- The BBC's ability to spend large amounts on both the people in its organisation and in UK content can result in positive effects for the creative industries, including independent producers, and in training skills and talent that benefit commercial parties, too.

On the other hand, it is argued that:

- The commercial television sector can struggle to compete with freely distributed BBC content. BBC News 24, for example, introduced in 1997, was aimed at broadly the same market as Sky News, and Channel 4 and ITV in particular are impacted by the BBC's provision for prime-time audiences.
- There is a longer term risk the BBC's radio market share could grow further unless commercial advertising revenues remain robust. The BBC accounts for around 60 per cent of total radio revenues and has held around a

55 per cent audience share during the current Charter.

- The BBC has a variety of impacts on online markets. For example, the popularity of BBC News in the UK (BBC News website had an average 27 million UK weekly browsers in early 2015, and more than 65 million worldwide)²⁷ has led to suggestions that the scale of BBC's online offer is impeding the ability of other UK news outlets to develop profitable business models, such as paywalls and subscriptions, in existing and new markets.
- Some sectors are impacted by more than one of the BBC's services. Local newspapers have found their business model eroded over recent years as new technologies, changes to consumer behaviour, loss of advertising and other market pressures have created significant challenges. The BBC does not provide services at as granular

a level as local providers but could, in providing a wide range of content online as well as on radio and TV, have an impact on efforts by local news groups to develop compelling online local and hyper-local services.

– the BBC's ability to cross-promote its own services has an impact on the wider market. There is a case for the BBC marketing its own services and programmes, particularly where it is directing people towards content such as documentaries and current affairs that they might not otherwise consume. But given other services are not able to advertise their content on the BBC there is a case for arguing that the nature and extent of this cross-promotion needs to be considered.

Services

The BBC also has the potential to act as an effective partner in a number of markets as it has, for example, within the arts and cultural sectors. In the instance of local newspapers and other local media providers, the BBC can help support the industry by giving exposure to regionally-produced content and clear attribution when it uses news stories originally generated by or developed by the local press.

Commercial partnerships are an approach that BBC Worldwide has used in other areas, for example the BBC is part of a joint venture which saw UKTV (which has six paid-for channels and four free-to-air) set up in 1997 and which has seen revenues grow in recent years.²⁸ The section on digital services below references the way in which the BBC has

begun to explore alternative delivery platforms to deliver content, such as the tie-in between YouTube and Radio 1. However, partnerships raise complex issues including, for example, the way in which the BBC chooses its partners.

Digital services

Of the BBC's services it is the digital services that have arguably seen the greatest rate of change, particularly with the development of the iPlayer.

The current Charter contains a sixth purpose: to deliver to the public the benefit of emerging communications technologies and services. The BBC has played a key role, as requested by Government, in developing digital infrastructure for the UK. This includes:

- Investing to extend digital terrestrial coverage of all BBC services to facilitate Digital TV Switchover (one of the UK's largest engineering projects)²⁹ and playing a leading role in introducing Freeview, the UK's largest television platform and FreeSat – the subscription free satellite service – both of which are

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During the current Charter period, the BBC has played a key role, as requested by Government, in developing digital infrastructure for the UK.

- operated with commercial broadcasters as joint ventures;
 - £150 million per year from 2013 to 2017 in broadband roll-out to enable 95 per cent of households to benefit from superfast broadband;³⁰
 - Making up to £25 million available from 2012 to 2017 to develop infrastructure for Local TV as well as up to £15 million to fund content produced by local TV services³¹; and
 - Extending national Digital Audio Broadcasting (DAB) services to 97 per cent of households by 2017 and supporting commercial radio's investment in local DAB coverage to improve digital coverage of BBC nations and local radio services³².
- Alongside the development of the hugely successful iPlayer the BBC is now exploring emerging online platforms for delivering content through providers such as Facebook and Netflix. It has also used new types of digital services to enhance traditional ones, such as Radio 1's YouTube channel which has 1.3 million subscribers (a third of them 13-17 years

old) and which led to the launch of a dedicated Radio 1 iPlayer video channel. This has been supported by research and development into audience behaviours.

Radio 1's YouTube channel has

1.3m subscribers

1/3 of which are 13-17 years old

Looking forward, there is an important question about the balance between traditional broadcasting, online and digital distribution. On the one hand, there is the view that by developing at the cutting edge the BBC is able to adapt to changing consumer demand and continue to serve diverse and fragmented audiences, particularly young people. However, there is the counter argument that the rapid growth in digital and online services more broadly means that the market is already well served and that the BBC, as a major player, potentially squeezes out others who want to develop new ways of managing and distributing content.

Services

These debates are currently being played out in relation to the decision to move BBC Three online. There is also a question of the BBC's role in digital radio (see Box 5 opposite) given the need for the BBC to make significant investment in upgrading FM and AM networks in the next ten years.

Of course, any decision to provide content on a variety of platforms needs to take into account the financial implications of this approach. And it remains the case that, despite the increase in online viewing, traditional broadcast television remains robust with the latest Ofcom Communications Market 2014 report setting out that live viewing still accounts for 89 per cent of total viewing.³³

Box 5: Digital radio

Digital radio listening has reached 40 per cent of all radio listening and nearly 55 per cent of adults listen to digital radio services at least weekly.³⁴ Supported by the growth of new commercial digital services, the radio industry expects digital listening to overtake analogue listening at some point in 2017. At that point, Government will need to consider the timetable for a future switch-off of analogue radio services at a date likely to start after 2020.



40% reach

Digital radio listening has reached 40 per cent of all radio listening



55% weekly

Nearly 55 per cent of adults listen to digital radio services at least weekly

The BBC has played a crucial role in the development of digital radio including taking leading role in the technical development of Digital Audio Broadcasting (DAB) and DAB+ services. Phase 4 of the roll-out of BBC national DAB coverage (covering more than 97 per cent of homes) will be completed by the end of 2015. The BBC is also funding a significant expansion of local DAB coverage as the result of a unique partnership with DCMS and Commercial Radio. This programme is due to be completed in September 2016.

There is a case for the BBC to play a central role in any future radio switchover, as it did with the successful television switchover programme. This will require the build-out of BBC national services to match the coverage of its national FM network. The BBC's analogue radio networks will require significant investment from the early 2020s onwards if no timetable for switchover is set.

The precise role of the BBC in the transition will depend on how a radio switchover is planned and delivered which will need to be considered after the 50 per cent listening threshold is reached. But it could include:

- supporting the long-term communications with audiences and industry that will be needed to support a switchover;
- working with commercial radio and industry on technical developments that will improve digital radio; and
- making support available to older and more vulnerable listeners, though the evidence from a successful switchover trial study in Bath found that the process to be much more straightforward than for television.

Services

There are also access and control implications for BBC content being available on a variety of other platforms, whether subscription or not. The BBC is among a number of organisations to trial a system where articles are hosted on Facebook, rather than the user following a link to the BBC, raising wider concerns about user data and the context in which content is viewed, which the BBC has acknowledged.

Research and development

It is argued that the media sector and the UK economy has benefited from the BBC's role in innovation with the BBC undertaking research and development which would not have been picked up by the wider market. This includes improvements in compression technology, the development of ultra HD standards and collaboration with groups such as the Digital Television Group and international

technical standards bodies. The BBC has also worked with Innovate UK (formerly the Technology Strategy Board) on a number of projects including Thira³⁵ and the RadioPlayer.

There are legitimate questions, however, about whether the BBC should continue to try to lead the way development of new technology ahead of the market. The cost of BBC development last year was £83 million.³⁶ The BBC's role in the development and deployment of new technologies – particularly online distribution – has the potential to impact negatively on the ability of commercial competitors to monetise emerging technologies, and could crowd out new start-ups. There may be savings to the licence fee payer from provision of some of these developments by the market.

Question 4

Is the expansion of the BBC's services justified in the context of increased choice for audiences? Is the BBC crowding out commercial competition and, if so, is this justified?

Question 5

Where does the evidence suggest the BBC has a positive or negative wider impact on the market?

Question 6

What role should the BBC have in influencing the future technological landscape including in future radio switchover?

Audiences

This section gives an overview of the BBC's audience and how the different segments are being served. This is important as it informs the question of what services the BBC should be delivering.

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Almost all adults in the UK use BBC services each week, giving the BBC a central place in people's lives.

The BBC is reaching a wide audience within the UK. According to BBC audience research almost all adults in the UK use BBC services each week,³⁷ giving the BBC a central place in people's lives. However, the BBC's reach and people's satisfaction with the BBC vary across different groups in society. Some groups appear to be served particularly well: broadly speaking, older age groups and people from a white British ethnic background are the most likely to use BBC services, with especially high figures for watching television and listening to the radio. Some groups appear to be served less well by current BBC programming: the BBC Trust's Purpose Remit Survey shows that audiences from black ethnic groups in particular are least likely to say that the BBC is effective at representing their ethnicity.³⁸ This is not only an issue for the BBC. Ofcom's third PSB Review found that more than half of viewers from black ethnic groups felt they were both under-represented and negatively portrayed by all of the PSBs.³⁹

Data also shows that BBC audiences are broadly equal across both genders, (with women watching only slightly more TV content than men), and by socio-economic groups.⁴⁰

Use of the BBC by different age groups is also important: 16-24 year-olds are engaging less with traditional television and radio than any other age group,⁴¹ a trend that has remained stable over the period of the current Charter and which covers all broadcast TV channels. At the same time, this age group is more likely to say that the BBC has something to offer them than some groups which are more likely to engage with traditional broadcasters.⁴² Ofcom's PSB Review also raises a number of pertinent points on audience behaviour and how audiences feel about PSB provision.⁴³ Understanding the BBC's audiences and their different needs and willingness to fund BBC services will be important in thinking about the scale and scope of the BBC's activities for the next decade.

Audiences

Local, regional and national

The BBC has clear obligations to provide services for all of its audiences, particularly as set out under the fourth public purpose ('Representing the UK, its Nations, Regions and Communities'). As well as drawing audiences together for events of national significance the BBC also needs to represent and reflect licence fee payers, including to the wider world.

The degree to which the BBC has succeeded in meeting these obligations is mixed. According to the BBC Trust, last year about six in ten UK adults agreed that the BBC performed well in representing their nation or region.⁴⁴ However, performance scores in 'Representing my nation/region in news/drama' in Scotland have remained consistently lower than in Wales and Northern Ireland throughout the Charter period. Information on minority languages is set out in Box 6 opposite.

Box 6: Supporting the different native languages within the British Isles

In serving specific communities, the BBC's role in supporting the different native languages within the British Isles is particularly important. This is a small market with limited potential to be served effectively by commercial broadcasters, and therefore a key area where public funding can support underserved audiences. For example, S4C, the Welsh language broadcaster, currently receives public funding both via direct Government grant (£6.8 million per year) and also via the licence fee (£74.5 million per year). And Gaelic language broadcasting in Scotland is provided through BBC Alba, a partnership channel between the BBC and the Gaelic authority, MG Alba.

Nearly two thirds of minority language speakers in the UK say that the BBC supports their language.⁴⁵ But while the BBC and licence fee funded services are clearly an important pillar for indigenous language communities there are also challenges: audience reach has been falling across some indigenous language services over the last few years, particularly in Wales.⁴⁶ And these services come at a cost; cost per hour of indigenous language radio content in Scotland and Wales is considerably higher than cost per hour for English speaking content which raises concerns about value for money.⁴⁷

Box 6: BBC nations and regions services

England

Twelve regions in England have daily television news output. 39 local radio services and 42 local websites.

Northern Ireland

Two radio services: Radio Ulster and Radio Foyle. TG4 – the Irish Gaelic language service is transmitted under a Memorandum of Understanding with the Republic of Ireland Government.

Irish speakers (2013)

201,000

(11.6% of NI population)

Ulster-Scots speakers (2013)

148,000

(8.1% of NI population)

Source: Ofcom 2014 Communication Market Reports for Scotland, Wales and Northern Ireland.

Scotland

Four TV channels: BBC Alba, BBC One Scotland, BBC Two Scotland and STV. Two radio stations, Radio Scotland and Radio Nan Gàidheal.

Gaelic speakers (2013)

87,000

(1.64% of Scottish population)

Wales

Four TV channels: BBC One Wales, BBC Two Wales, S4C & ITV Cymru Wales. Two radio channels: Radio Wales and Radio Cymru.

Welsh speakers (2013)

572,000

(19% of Welsh population)

Audiences

International audiences

The BBC also has a public purpose to bring the UK to the world and bring the world to the UK. This international audience has increased as connectivity and uptake have improved – around 46 per cent of households have internet access today compared to 18 per cent in 2005⁴⁸ – and new services and platforms give audiences around the world a better ability to access BBC services (see Box 7 on pages 66/67). To illustrate the reach of the BBC globally, the 50th anniversary episode of *Doctor Who* set a record for the largest ever simulcast of a TV drama: shown in 98 countries across six continents, in 15 languages. The BBC has a weekly global audience of 308 million people and the BBC's weekly international news audience is now 283 million people⁴⁹, compared to 233 million in 2006-07.⁵⁰ Additionally, the BBC is consistently rated the most trusted and best-known international news provider with global audiences rating

it more unbiased, objective and higher quality than other news channels.⁵¹ In the UK, licence fee payers support the BBC's delivery of its internationally focussed public purpose. *Bringing the UK to the world and the world to the UK*, received the highest rating of all the purposes in 2013-14.⁵²

The BBC's weekly international news audience is now

283m people⁴⁷

compared to

233m in 2006-07.

Serving this global audience has benefits for the UK. The BBC plays a big part in how the UK is perceived globally. Audiences who consume BBC services more frequently have more positive views of the UK than those who have less exposure to the BBC.⁵³ There is also a financial return for the UK: while news provision is free in the countries provided, BBC Worldwide sells BBC programmes for broadcast around the world bringing in revenue which is reinvested in the BBC's programming.

While the BBC has been very successful on the world stage, that stage is changing. The internet is making a global reach cheaper. Convergence of different services is bringing the BBC into competition with new players such as Amazon, Google and Apple. And in world news, in addition to well established providers like CNN, it is facing growing competition from Al-Jazeera and state funded broadcasters in Russia and China.

In this context Tony Hall, Director General of the BBC, has set an ambitious target of reaching 500 million people by 2022, the BBC's centenary.⁵⁴

Question 7

How well is the BBC serving its national and international audiences?

Box 7: BBC global reach

Key facts

BBC weekly global audience for TV, radio and online (2014-15):

308m

Adults worldwide using BBC News services:

1 in 16

World Service – single biggest audience for any country is the USA:

30m

A third of the total World Service audience is on the African continent:

100m

BBC ambition to reach a global audience of

500m people by 2022.

The BBC runs over 100 offices in over 70 countries:

 BBC Worldwide

 BBC Global News

Source: BBC Announcement, 21 May 2015

Source: BBC Report on The economic return to the UK of the BBC's global footprint Nov 2013, p.8





Content

At the heart of the BBC's delivery of its public purposes lies the content it brings to its audiences. The type and the quality of its content allows the BBC to inform, educate and entertain. A high standard of BBC content is crucial to the successful delivery of its mission and value to the licence fee payer.

“

The BBC's unique funding structure, receiving a substantial level of public funding, gives the BBC the ability to take risks with the content it provides and bring new and untested formats to its audiences.

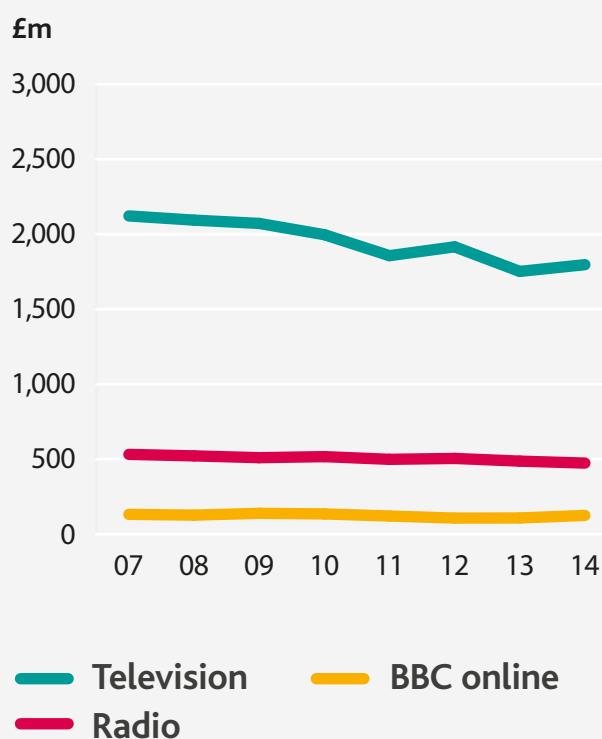
The Framework Agreement accompanying the current Charter sets out that BBC content needs to display at least one of the following criteria: *high quality, challenging, original, innovative and engaging*.

The BBC's unique funding structure, receiving a substantial level of public funding, gives the BBC the ability to take risks with the content it provides and bring new and untested formats to its audiences.

In this context, Charter Review will consider in particular:

- **Genre mix** – does the BBC have the balance right between genres;
- **Quality and distinctiveness** – the extent to which the BBC is meeting the Framework criteria, and audiences' expectations, for quality and innovation.

Content spend by service



Source: BBC Annual Report
and Accounts, 2006-07 to 2014-15.

Box 8: What the BBC spends

(cost per user hour in brackets)

Television

					
£1,434m (6.5p)	£533m (9.0p)	£114m (8.1p)	£63m (6.6p)	£100m (18.8p)	£41m (2.7p)
					
£9m (8.3p)	£63m (5.8p)	£10m (6.3p)			
			Total		£2,367m

Selection of other spends

Orchestras and performing groups	Development spend	BBC World Service operating licence	Licence fee collection costs	S4C direct funding	Local TV
£33m	£83m	£254m	£101m	£76m	£23m
Broadband rollout					
£150m					
		Total			£720m

Source: BBC Annual Report and Accounts 2014-15, p.139

Radio



£54m
(1.1p)



£60m
(0.5p)



£55m
(6.4p)



£116m
(1.4p)



£66m
(2.5p)



£6m
(1.3p)



£11m
(2.3p)



£13m
(0.9p)



£8m
(0.7p)



£11m
(3.1p)

BBC LOCAL RADIO



£154m
(3.8p)

£31m
(6.5p)



£6m
(18.9p)



£20m
(7.0p)



£18m
(19.2p)



£24m
(6.3p)

Total

£653m

Online

BBC Online and Red Button

Total

£201m

Content

Genre mix

The BBC's decisions about genre mix are a critical component for the value it provides to the public. These are set out at a high-level by the BBC Trust through Service Licences and delivered by the BBC through each of its services. There are two main ways of measuring genre mix within services and across the BBC: on television and radio through hours broadcast and across television, radio and online through funding (see Box 8 on pages 70/71).

Television

Television accounted for three quarters (£1.89 billion) of BBC content spend in 2014. Childrens' and factual together account for over 50 per cent of television hours. However, since different genres have very different costs some of the BBC's largest amounts of spend are on sports, drama and factual programming which together account for nearly half of BBC television content spend. Spend by genre has changed significantly over the Charter period, as the BBC has made a number of strategic choices by changing

the numbers of hours in the different genres (see Box 9 on pages 74/75). But the BBC also, like other broadcasters, had to deal with increases in costs, for example, in drama. The Charter period has also seen the value of sports rights continue to increase in an international market which puts pressure on the BBC's ability to retain live coverage of high-value sporting events, such as the Open Golf Championships.

Content spend (a subcategory of service spend)⁵⁵



£1.8bn television



£474m radio



£125m online

Radio

Radio accounted for around 20 per cent of content spend amounting to £474 million in 2014 (see Box 8 on pages 70/71).

The BBC spends around 55 per cent of its content spend on the five national stations (Radio 1, Radio 2, Radio 3, Radio 4 and Radio 5 Live), 6 per cent on the digital only stations and 39 per cent on BBC nations and local stations. The BBC's radio audiences have remained broadly stable over the current Charter period.

Online

BBC Online accounts for about 5 per cent of the BBC's overall content budget, amounting to £125 million⁵⁶ on a variety of online services. This includes expenditure on the BBC's desktop, TV, tablet and mobile online services covering the range of content provided by the BBC's websites. It also covers the digital interactive services delivered through the BBC's Red Button and the services available through the BBC's iPlayer. The BBC Annual Report and Accounts for

2014-15 also highlight the introduction of the myBBC programme, allowing greater personalisation of BBC services which started this year with the facility to personalise content on the BBC news app.⁵⁷

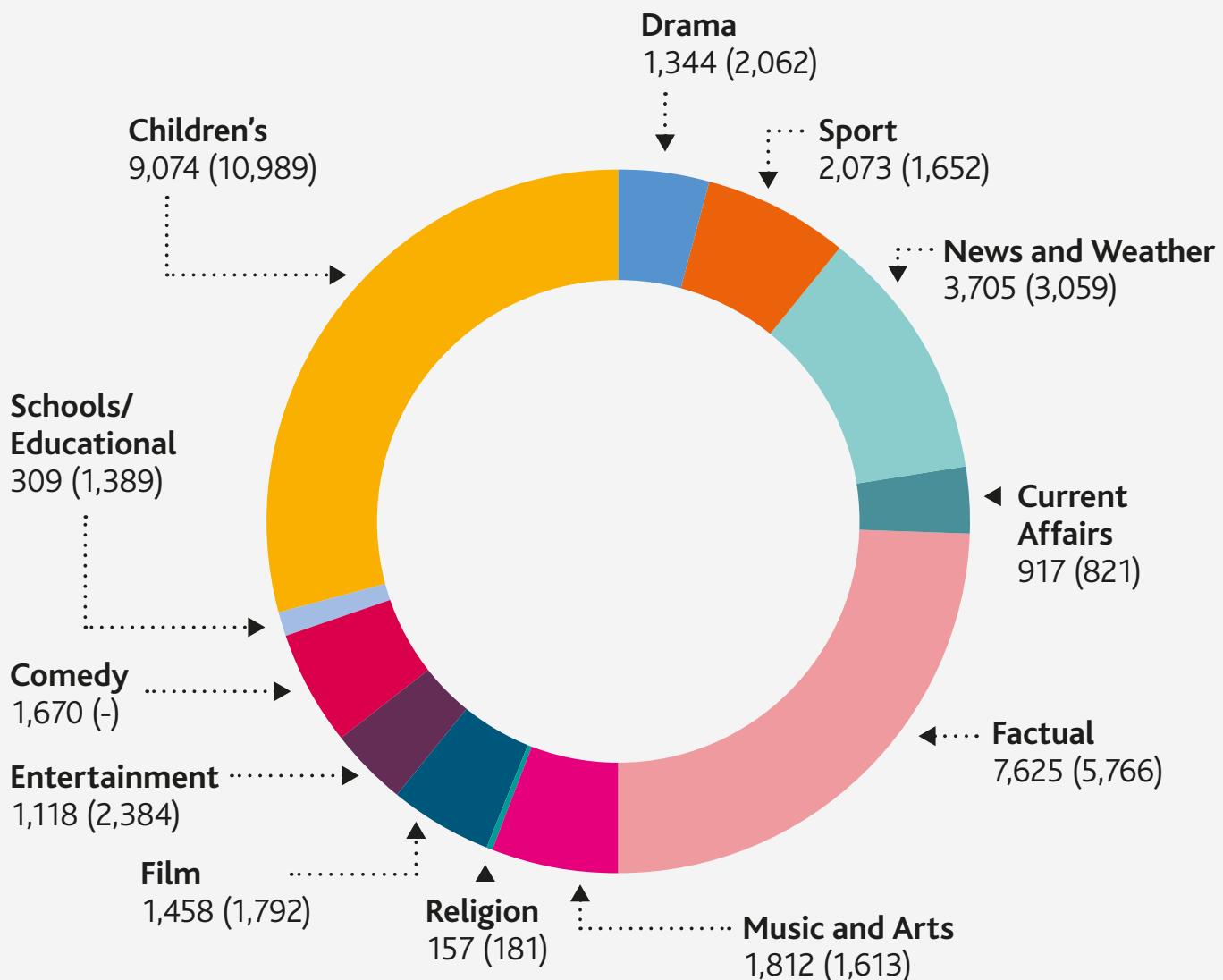
Quality and distinctiveness

The BBC can only meet its objectives if audiences see its content as a desirable and quality proposition, particularly in an increasingly competitive and global media landscape with ever more options for audiences' time and spending.

The BBC Trust's audience research suggests that the BBC has been reasonably successful in meeting audiences expectations of quality, showing that public views of BBC content and quality have been relatively stable across the Charter period and that audiences are largely satisfied with BBC content (See Box 10 on page 77).

Content

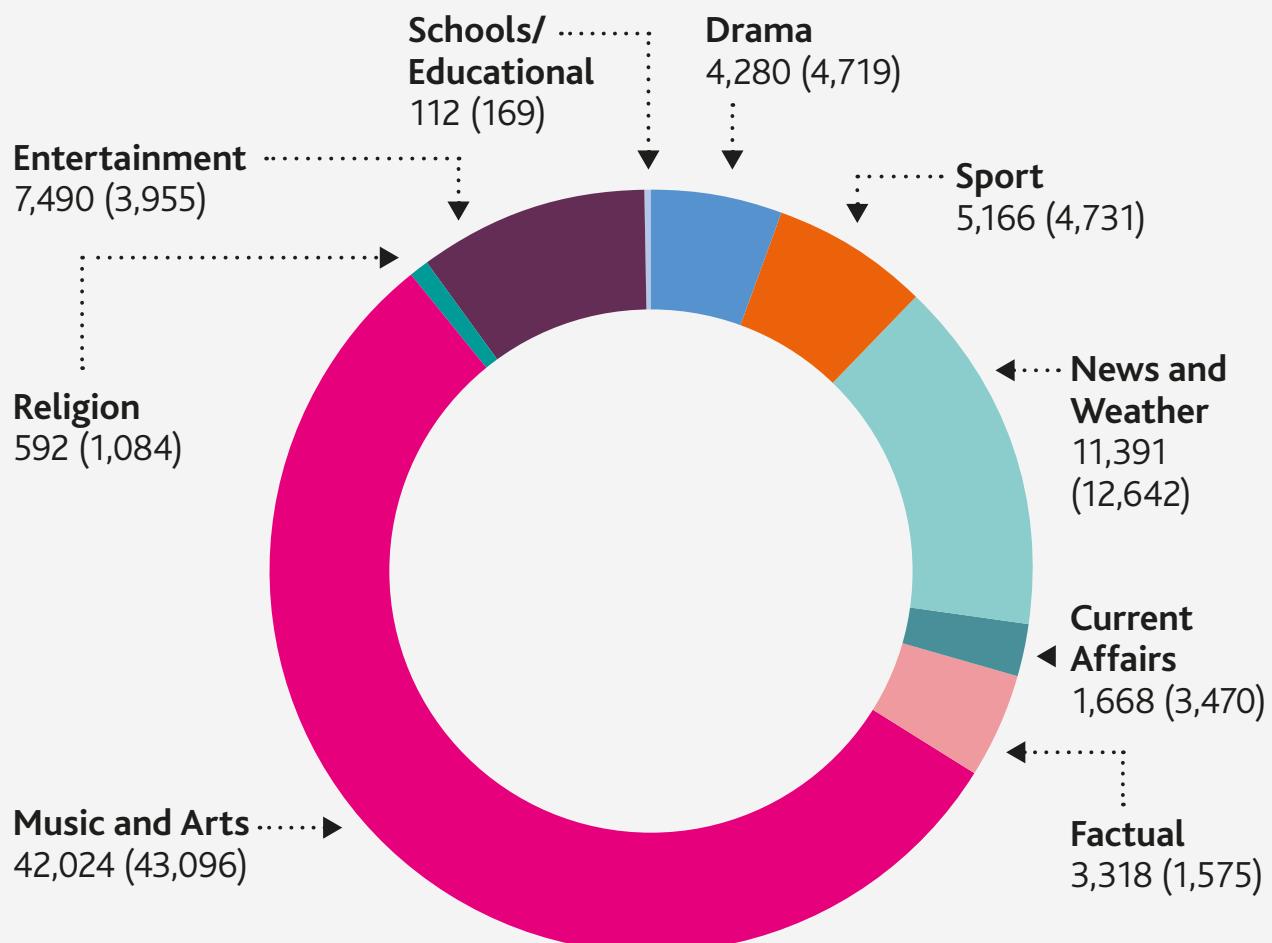
**Box 9: Network TV hours by genre in 2014
(2006 numbers in brackets)**



Source: BBC Annual Report and Accounts.

Note: Changes in genre classifications have occurred over the Charter period.

Radio hours by genre in 2014 (2006 numbers in brackets)



Source: BBC Annual Report and Accounts, 2014-15.

Content

A critical aspect of quality, as it relates to the BBC's news and current affairs provision, is that it is duly impartial and avoids bias towards particular views or voices.⁵⁸ This has been the subject of numerous independent and internal reviews, from the Lord Wilson Report (2005)⁵⁹, to the more recent Stuart Prebble Review of 'Breadth of Opinion Reflected in the BBC's Output', in 2013.⁶⁰

The second question on content relates to whether, across the various formats, the BBC is providing sufficiently distinctive content. The BBC provides a wide range of content across platforms which would either not be provided or under-provided by the wider market. For example, distinctive natural history series such as *Planet Earth*, in-depth classical music and arts programming on Radio 3, innovative documentary series such as a *History of the World in 100 Objects* for Radio 4, and quality science programming such as *Horizon*.

However, it also provides a range of programming which is arguably less distinctive from the content that its commercial competitors provide. In providing audiences with popular content the BBC is able to reach a wide base of licence fee payers, and an element of popular programming is essential to the BBC continuing to deliver services that audiences want to access. However, concerns have been raised that the BBC behaves in an overly commercial way, encroaching on TV genres and formats that could be served well by its commercial competitors, particularly during the peak hours that are crucial for their ability to raise revenue. This can play out at the level of services: the content budget for Radio 6 is £8 million compared to the combined almost £87 million for the arguably less distinctive Radio 1 and 2,⁶¹ while the BBC Trust has found that its highest spending service BBC 1 has the lowest score for 'fresh and new' of its main channels.⁶²

Box 10: What audiences think about BBC content⁶³

"The BBC makes high quality programmes or online content"



76%

"The BBC has lots of fresh and new ideas"



61%

"The BBC offers 'quite a bit', 'a lot', or 'everything I need'"



58%

"The BBC has a wide range of enjoyable and entertaining programmes and online content"



74%

"The BBC provides quality content that I find enjoyable and useful on the internet"



66%

interactive TV



58%

DAB digital radio



46%

"The BBC makes programmes and online content that no other broadcaster would make"



49%

Source: BBC Trust Purpose Remit Survey, 2013.

Content

This does not mean that the BBC should not be entertaining; it is about the BBC providing distinctive programming across all genre types. For example, the BBC acquired the format for *The Voice*. This was a singing talent show developed overseas, bought by the BBC at a reported cost of around £20 million⁶⁴ and similar to ITV's *X-Factor*. This is in contrast to *Strictly Come Dancing* which was developed by the BBC in-house and then sold abroad.

The BBC has faced similar questions about distinctiveness of its radio content, particularly in relation to its music stations in peak hours. In its recent report on BBC Radio 1, perhaps the BBC's most 'mainstream' radio service, the BBC Trust found that the overlap of music played on Radio 1 with five comparator commercial stations was low, at around one third of its output.

On the other hand, the Trust also found that BBC Radio 1's requirement to broadcast 40 new documentaries a year, while met by the station, currently has

relatively little impact among audiences: the current scheduling slot of Tuesday evenings at 9pm outside peak hours means that few tune in and audience awareness of this is low.⁶⁵

Similarly, questions have been raised about whether content carried on the BBC's website is sufficiently distinctive from content that can and is being developed and delivered by others. The growth of the internet as a medium for consuming information is one of the most notable developments over the current Charter period; in this context the challenge for the BBC will be in setting itself apart from others in the online space and potentially seeking to avoid providing services such as, for example, recipes where a range of other websites already do so.

The BBC, as a public institution, should not have the same imperatives as commercial companies such as trying to maximise audience share. However, given the difficulty in measuring quality in an objective way, figures such as

ratings can be given undue prominence by senior management. The question is, therefore, how to measure the success of programming when much depends on the BBC's ability to deliver its public purposes through its content, and how to make sure the culture of the BBC is focused on quality and distinctiveness rather than driven by ratings.

Question 8

Does the BBC have the right genre mix across its services?

Question 9

Is the BBC's content sufficiently high quality and distinctive from that of other broadcasters?

What reforms could improve it?

Content production

This section considers the regulatory framework around content production and the options for reform.

PSBs continue to play a vital role in the success of the independent production sector, investing (including sport) £2.5 billion in UK first-run content in 2014⁶⁶, and accounting for the bulk of investment in the UK's independent production sector.

The BBC accounted for more than half (almost £1.3 billion) of PSB investment in 2014, making the BBC the largest commissioner of television content in the UK market.⁶⁷ The regulatory framework surrounding the way the BBC commissions and produces content therefore has a significant impact on the independent production sector and the wider media and creative economy. It also affects the efficiency with which the licence fee is spent. It should be noted that Ofcom's Review has found that investment in new UK-originated content has fallen in recent years.

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The BBC accounted for more than half (almost £1.3 billion) of PSB investment in 2014, making the BBC the largest commissioner of television content in the UK market.

Current system

The current regulatory framework of content production has two main elements: quotas and Terms of Trade.

BBC quotas

The BBC commissions, produces and acquires vast amounts of TV and radio programming and online content. This output is shaped by the quotas the BBC is required to meet in respect of commissions and productions. These cover independent productions for TV, radio and online as well as original and regional productions for TV (see Box 11 on page 82). Over the course of the current Charter period, the BBC has delivered against these quotas, as reflected in the BBC Trust's report on the supply arrangements for the production of BBC content and services published in June 2015.⁶⁸

Content production

Box 11: Current BBC content supply quotas



Television

- 25 per cent of BBC television commissioning hours are guaranteed to independent producers, 50 per cent are guaranteed to BBC in-house producers and 25 per cent are open to competition from in-house and external production companies under the Window of Creative Competition (WOCC).
- There are also quotas for original productions, for out-of-London productions (50 per cent of network television spend from outside London by 2016) including production in Scotland, Wales and Northern Ireland (at least 17 per cent of network television spend).



Radio

- At least 10 per cent of eligible radio hours are independently produced with a further 10 per cent available through the radio WOCC, which was introduced in 2012.⁶⁹



Online

- The target is for 25 per cent of eligible online spend to go to independent suppliers.

Terms of Trade

The way the BBC commissions and produces content fits within a broader regulatory regime. The Terms of Trade, established in 2003 to address the imbalanced negotiating position between broadcasters and smaller companies in the independent production sector, require negotiations to comply with a code of practice approved by Ofcom (see Box 12 below). Under the current system the intellectual property rights associated with programmes typically accrue 85 per cent to the production company and only 15 per cent to the commissioner.

Box 12: Terms of Trade

Broadcasters have the right to use a programme a set number of times in the primary licence window (typically two years). On expiration of the window independent producers retain copyright and intellectual property rights, video and DVD royalties and merchandising. Net profits are shared on a negotiated basis but a typical position is an 85 per cent producer – 15 per cent broadcaster share.

Content production

Ofcom's recent PSB Review considered whether a re-balancing of the Terms of Trade is required and its conclusions are referenced below.

Rationale for reform

There are strengths to the current quota system. It has helped the independent production market grow on average 3.4 per cent each year between 2009 and 2013, generating nearly £3 billion in revenues in 2013.⁷⁰ It has also helped drive up production in the nations and regions with the total number of network hours originating in London decreasing from 65 per cent in 2009 to 41 per cent in 2013.⁷¹ At the same time it has enabled BBC in-house productions to continue to make high quality content.

While successful, there are a number of reasons for considering the content production picture through Charter Review. In particular:

– The impact of the current system.

In respect of television programming, the BBC has suggested the current structure sees innovation and creativity stifled, arguing its in-house production unit is restricted to only producing content for the BBC. Moreover, there is a question about whether the operation of the quota system is administratively burdensome for the BBC and the BBC Trust.

– The size of the quotas.

For radio content, the BBC's dominant position on speech radio, taken together with the comparatively low quotas for independent production, may be constraining a small but vibrant sector, which – as the recent New York Festival's International Radio Programme Awards has shown – delivers truly innovative content and formats. The BBC announced, on

19 June, the intention to phase out radio quotas and to give radio independents greater opportunities to compete for commissions.

- **The range of quotas.** For online content, the impact that the BBC's online presence can have on others should be considered – not least on local news outlets, some of which have raised concerns that the BBC's local presence is having an adverse impact on consumption of their content. This includes concerns that in some instances the BBC draws on content that local news organisations source without giving appropriate credit, so prompting calls for a specific local news quota to be established.

This changing environment prompted the BBC Trust to launch a review into the BBC's content supply arrangements earlier this year, which reported on 19 June.⁷² The report concluded that there are arguments for amending the quotas in place for TV, radio and online content but noted that full details of the BBC's

Studios proposal, set out below, and the outcome of Ofcom's Third PSB Review in respect of the overall position on Terms of Trade were required before coming to a full decision. Ofcom's report was published on 2 July and found that the consolidation and vertical integration (production companies being acquired by broadcasters) which has taken place in the UK's production market has led to benefits as well as risks for broadcasters.⁷³ Ofcom concluded that while it did not believe there was a strong case for reform of programming quotas for independent production it would continue to monitor developments in light of the fact that the sector will continue to change and may consolidate further. These findings, along with any further outcomes from the BBC Trust's and Ofcom's reviews will be considered during Charter Review.

Content production

There are three main options for reforming the current system (in addition to the related question for the case for amending the current Terms of Trade): amending existing quotas; the BBC Studios proposal; and directly scaling back in-house production.

Amending existing quotas

There is a range of options for amending the quota system:

- expanding the current quotas for independent production across TV, radio or online;
- including a quota requirement for local news provision;
- expanding the TV or radio Window of Creative Competition (WOCCs) and introducing a WOCC for online content;
- reviewing the arrangements for regional production;
- assessing quotas by value rather than hours; or
- any combination of the options above.

Government would be particularly interested in views on whether to lower the in-house guarantee, allowing a greater proportion of hours to be provided by external producers. This could either be as a new set quota for independent producers, expanded competition through the WOCC, or a combination of the two.

Box 13: Regional Delivery

The BBC has successfully transitioned parts of its organisation and spend outside of London, notably helping drive the media hub in Salford. However, there is still a question about whether it has yet found the optimal geographic spread. While there may be operational cost associated with having numerous regional hubs, some argue that the BBC could and should be doing more where it is cost effective to do so.

One such example is the BBC's spend in the Midlands. A recent campaign in the Midlands has highlighted a marked disparity between the level of licence fee collected in the region (citing £942 million), and the amount of the BBC's investment there (citing £80 million – or 8.5 per cent). The BBC have set out their plans to increase spending and jobs in the Midlands in the coming years, and to make Birmingham a centre of excellence for skills, training and development for the UK. However, such concerns are relevant to consideration of how successful the BBC has been in meeting its obligations over the Charter period.

Content production

The BBC Studios proposal

The BBC Executive has indicated that it believes change is needed to the way its content is produced, not least because of wider changes over the current Charter period, both in respect of supply of content and the way in which it is distributed. For example, digital switchover, improved connectivity and increasing use of the internet has led to a diversification of distribution models, with new competitors such as Netflix and YouTube making an entrance.

In the past year, Lord Hall has called for a 'compete and compare' approach. This would remove quotas from BBC production, allow independent producers to bid for BBC commissions (with the exception of current affairs, sport and children's content) and set up BBC Studios as a commercial subsidiary of the BBC, able to bid on a commercial basis for commissions and make programmes for other broadcasters.

The BBC argues that this proposal, the detail of which has not yet been published but is expected later this year, would increase competition and drive quality and diversity in programme-making. It would also, the BBC argues, address the challenges in-house productions face from changes to the supply chain, with growing consolidation in the production market.

These proposals have, however, attracted some criticism. Setting up the BBC's production unit as a commercial subsidiary would see it become one of the UK's largest content producers in direct competition with the approximately 400 production companies in the UK.

Concerns have also been raised publicly that such a move could potentially give rise to State aid concerns and that greater detail about the delivery of BBC Studios is required.⁷⁴ Government is seeking views on these proposals and welcomes evidence setting out any potential benefits or concerns BBC Studios may give rise to.

Content production

Directly scaling back in-house production

As noted above, the predominant way in which content is produced for the BBC, across television, radio and online, is through in-house production units (delivering 55 per cent, 78 per cent and 70 per cent respectively for television and radio hours and online spend for 2013-14). This has a number of benefits including retention of intellectual property rights allowing (under the current Terms of Trade) commercial exploitation, the development of a skilled production workforce, and delivery of high quality, well-received content.

There is, however, a need to consider the extent to which the BBC needs to operate as the country's largest single content provider employing some 2,000 people. While BBC productions has a well-earned reputation for quality, many independent production companies can offer similar production values – and indeed many of the BBC's most recognised programmes such as *Question Time* and *David Attenborough's First Life* are already produced by the independent sector. It is in this context that the former Director General, Lord Grade, said in evidence to the Culture, Media and Sport Select Committee and quoted in the Committee's final report, that the BBC should look to outsource production processes and facilities to "a private sector more capable of absorbing the work".⁷⁵

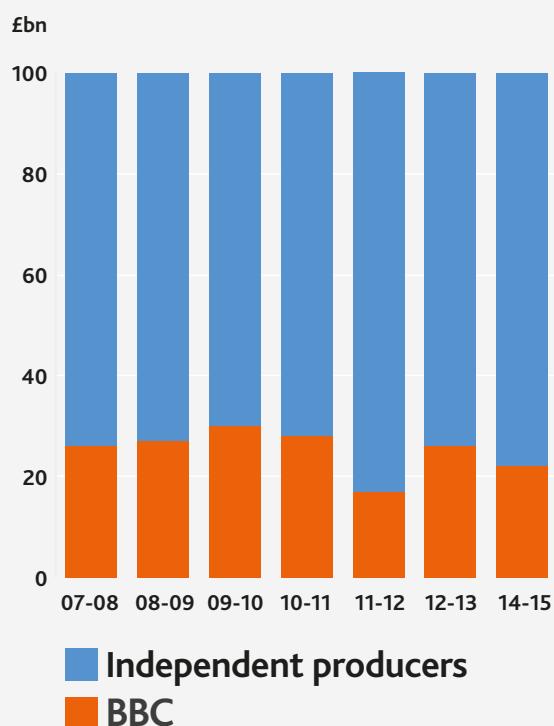
There are also questions about how well the BBC's in-house production compares, both on price and quality. In recent years, when the BBC has competed for commissions on an equal footing with independent producers through the WOCC, the BBC only won 17 to 30 per cent of commissions (see Box 14 opposite). This could imply that independent production companies deliver better value for money for the licence fee payer. As a result, Government is keen to understand whether there are arguments for scaling back the BBC's production capabilities and what the impact of this might be on audiences, other broadcasters and the production sector as a whole.

Question 10

How should the system of content production be improved through reform of quotas or more radical options?

Box 14: Window of Creative Competition

Share of total WOCC hours won by BBC and independent producers over the Charter period



Source:

07-08 – 11-12 Total data included in 'WOCC for Television BBC Trust Review' March 2013
12-13 – 13-14 Total data included in 'BBC Trust review of the BBC's arrangements for the supply of television and radio content and online services, January 2015'

3. BBC funding

BBC funding

We have looked at the scale and scope of the BBC and its purposes, which are clearly related to the amount of public money the BBC receives, who pays for it and how it is funded.

“

A licence is required by anyone in the UK viewing live (or nearly-live) TV from any source.

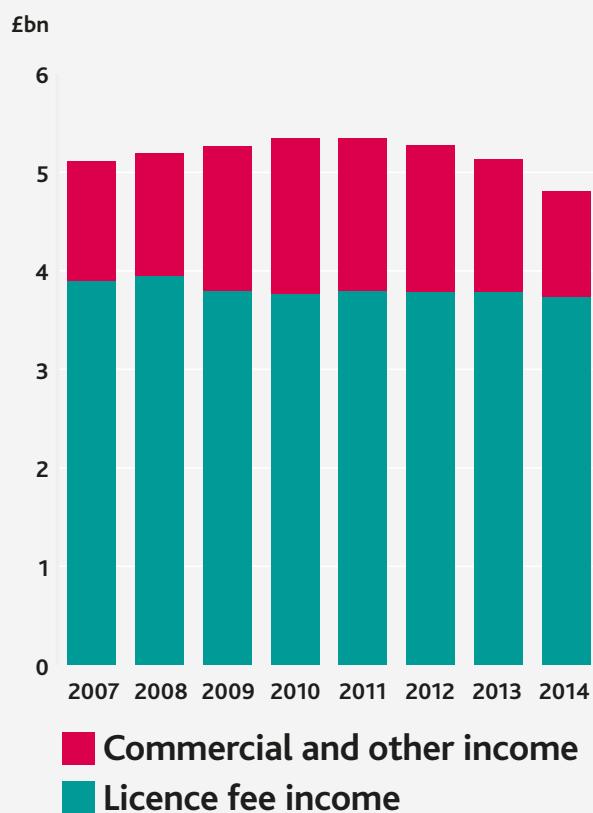
Included in an agreement with the BBC to take on responsibility for funding free TV licences for the over 75s, Summer Budget 2015 signalled a number of reforms which will be developed through Charter Review. These include the BBC's funding settlement and in particular the level of the licence fee (or alternative funding model), on which no decision has yet been taken.

The BBC currently receives over £3.7 billion of public investment each year from the TV licence fee. Public money is supplemented by commercial revenues generated by the BBC, giving the BBC Group an overall income of almost £5 billion a year. Commercial revenues are largely generated through BBC Worldwide and are reinvested in the BBC to pursue its public purposes through a dividend. The licence fee is a significant intervention in the broadcasting market and therefore it is right that Government look at this issue through Charter Review.

This chapter looks at four funding issues:

- **The funding model:** options for future funding models for the BBC including a modernised licence fee, an alternative household levy and elements of subscription. This section will also consider the issue of decriminalisation of TV licence evasion;
- **Protected uses of licence fee funds:** what the licence fee can and must be used for, including the option of contestable funding;
- **Value for money and efficiency:** how the BBC spends its money and the mechanisms for making sure it makes savings where possible;
- **The BBC's commercial activities:** how the BBC generates its own income.

Box 15: BBC income over the Charter period, in 2014 prices



Source: BBC Annual Report and Accounts

BBC funding

Box 16: The history of the licence fee

The first wireless licence fee was launched in **1923** and covered radio services only. It was collected by the Post Office with both the Post Office and the Treasury receiving a portion of the income.⁷⁶ The combined television and radio licence fee was introduced in June **1946** to cover the costs of operation of the 405-line (monochrome analogue television) service. In **1968**, following the commencement of colour transmissions, a colour television supplement was added to the licence fee and in **1971** radio-only licences were abolished.

In **1991** the BBC assumed responsibility for the collection and enforcement of the television licence fee from the Home Office. The BBC carries out this work under the trademark of "TV Licensing".

A licence is now required by anyone in the UK viewing live (or nearly-live)⁷⁷ TV from any source. The vast majority of the income from this is used for the BBC's provision of its services with a small portion used for other projects that support the BBC's purposes, such as digital switchover and broadband roll-out.

The current cost of a colour TV licence is **£145.50** and the cost of a black and white licence is **£49.00**. Concessions are available for blind people, those aged 75 and over, and those living in qualifying residential care accommodation.

The level of the television licence fee, concessions and payment plans are set out in the Communication (Television Licensing) Regulations 2004 (as amended).

Key dates



1923

The first wireless licence fee was launched.



1946

The combined television and radio licence fee was introduced.



1968

Colour television supplement was added to the licence fee.



1971

Radio-only licences were abolished.



1991

The BBC assumed responsibility for the collection and enforcement of the television licence fee from the Home Office.

Funding model

The primary source of funding for the BBC is the licence fee which has existed in various forms over time, as set out at Box 16 on page 48.

As a funding mechanism the licence fee has a number of strengths:

- it has provided a direct link between the licence fee payer and the service provided by the BBC;
- it has provided sustained, predictable levels of funding for the BBC that have allowed the organisation to invest and provide the services we enjoy today;
- it provides a degree of independence from the Government; and
- it helps enable the BBC to produce content that certain other forms of funding (such as subscription) may not provide.

“

No funding option is perfect and all involve trade-offs between separate and, at times, competing objectives.

However the licence fee has also attracted a number of criticisms:

- it is regressive and requires everyone to pay the same flat rate regardless of income;
- it is not correlated to use – someone who uses the BBC very little pays as much as someone who uses it a lot;
- it is compulsory for watching any TV channel, not just the BBC, which means there is also no choice for those who want to opt-out of BBC services;
- it is enforced by criminal sanctions; and
- there is an inequity in only requiring a licence to watch live television when it also funds radio, online and on demand content as well as other commitments such as broadband roll-out.

Options for change

There is a range of options for reforming funding of the BBC. No funding option is perfect and all involve trade-offs between separate and, at times, competing objectives (see Box 17 on page 100). The feasibility and desirability of any options will also change over time in reaction to changes in audience behaviours and the market, therefore any consideration of funding models will need to take a dynamic view.

Funding model

Box 17: Funding model criteria

In assessing the respective strengths and weaknesses of different models it is important to consider what criteria are desirable in a funding model.

They might include:

- **ability to pay/progressivity** – considering individuals' income and ability to pay;
- **fairness** – relating payment to the value of the benefits that a fee payer receives;
- **certainty** – giving the BBC the stability to invest in long-term projects such as the Digital Switchover and taxpayers certainty over their liabilities;
- **efficiency** – the BBC driving economic efficiency;
- **simplicity and low administration cost** – keeping the funding model simple and transparent and minimising administration costs;
- **acceptability** – the public's view on the relative merits of funding models;
- **sustainability** – future-proofing to prepare for technological change and to ensure it is relevant in the future;
- **feasibility** – technical, legal and financial implementation and delivery;
- **extent** – generating sufficient funds to pay for BBC services and any other commitments such as the World Service and broadband roll-out (covered in more detail in the protected uses of licence fee funds section below).

There are two options which are generally considered not appropriate for the BBC and which we are not minded to pursue in detail through this Charter Review:

– **Funding solely from advertising revenue.** This is not deemed appropriate because, as shown in evidence to the Culture, Media and Sport Select Committee's *Future of the BBC* review, there is little appetite for a move to an advertising model. Such a move is seen as undesirable because the market is not large enough to sustain an organisation the size of the BBC in its entirety. Moving to such a model would likely have significant negative impacts for others in the market, including other Public Service Broadcasters' ability to finance public service content, and an overall diminishing in value of advertising minutage. Audiences may also be negatively affected by such a change, as advert-free content is a popular aspect of the BBC.

– **Funding through general taxation.**

This is not appropriate because it would risk lessening the BBC's independence from Government. It could also potentially result in greater funding uncertainty and would have an impact on the Government's overall objective of deficit reduction.

In the longer term, there may be the potential to move the BBC towards a subscription model. This would have a range of benefits that derive from giving audiences greater choice and control over the services they receive and bringing to bear market pressures that would strengthen the BBC's incentives to be responsive to audiences. However, others argue that this would undermine the ability of the BBC to deliver such a wide range of quality public service content. Without some element of public subsidy the BBC incentives would be more commercial and as such we would expect output to prioritise commercial return rather than social benefit.

Funding model

There is also a question of feasibility and cost. As new technologies make it easier for content providers to control access to broadcast content, the feasibility of a subscription model increases. But this could not be implemented quickly. A transition to full subscription would need to happen over a number of years and would need collaboration between Government and industry in order to prepare, particularly concerning the roll-out of conditional access technology. We are therefore minded to consider this as an option for the longer term, and would welcome views on this through Charter Review.

Funding models

There are three options that are generally thought to be most viable for introduction in the short to medium-term.

These are explored in the table below:

- **a reformed licence fee;**
- **a universal public funding model,** similar to the German 'media levy'; and
- **a combination of public funding and subscription.**

Funding models for the BBC

Option	Strengths and weaknesses
Retain but reform the licence fee The licence fee would be retained but reformed to close the 'iPlayer loophole'.	<ul style="list-style-type: none">– Retains the advantages of the current system.– Removes the anomaly of the iPlayer loophole, ensuring the BBC's income is protected given future trends in consumption (this is discussed in a separate section on page 106).– Maintains an element of choice – currently only those who consume live TV need to purchase a licence. This option would continue to provide people with the choice to opt-out of buying a licence if they do not consume live TV. However, some of these individuals may consume radio or online content funded through the licence fee which does not require a licence and are therefore receiving this service without contributing to its costs.– Maintains a flat rate compulsory levy which is regressive.– The <i>TV Licence Fee Enforcement Review</i> (see page 106) recommends no change to the current enforcement regime (while the licence fee collection mechanism remains in place) as it is broadly fair and proportionate. However, it concludes that enforcement remains difficult given the need to prove that live TV is being consumed. It also recommends consideration of changes to the iPlayer loophole.

Funding model

Option	Strengths and weaknesses
Universal household levy One option that has gained much attention recently, and which the Culture, Media and Sport Select Committee alighted on as the most promising option in their <i>Future of the BBC</i> report, is a universal household levy. ⁷⁸ This is based on the German model under which all households pay a fee for provision of media, including TV, radio, online and on demand content. Concessions could be put in place, for example, to provide those in single occupancy households with the option to pay a lower fee.	<ul style="list-style-type: none">– Removes the anomaly of the iPlayer loophole, as the levy would be paid by all households (subject to concessions and exemptions) regardless of the method by which they consume BBC content.– Supports the concept of a universal service and better reflects the services funded, directly linking public funding to radio, online and other services, rather than just TV.– Could be used to address the regressive elements of the licence fee.– Under this option all households contribute to BBC services regardless of whether they consume BBC content. However, circa 97 per cent of individuals consume BBC content.⁷⁹– This would broaden the base of people paying for the BBC and therefore potentially allow for a reduction in the licence fee or increased investment in content.– May be costly to implement.– The <i>TV Licence Fee Enforcement Review</i> concluded that changing the method of collection could involve changing the method of enforcement, including reconsidering the case for decriminalisation of TV licence evasion. It also noted that a universal levy would meet many of the concerns which stand in the way of reform of the current enforcement regime.

Option	Strengths and weaknesses
<p>Mixed public funding and subscription</p> <p>There are several options for a mixed public funding and subscription model. The public funding element could retain the licence fee at some level, or move to a levy as described above. The subscription element could then be applied to certain elements of the wider BBC portfolio, for example by funding a 'core service' through the licence fee with a premium subscription top-up or by making iPlayer a subscription-only service.</p>	<ul style="list-style-type: none"> – Provides greater choice over consumption for audiences. – The BBC may not be able to provide 'something for everyone' as it is currently does. – Subscription for premium services may be more expensive than is the case under the current model and generate only a small saving to the licence fee payer. – 'Core service' vs. 'premium' packages may be difficult to determine with wide-ranging views on what should be included in the core package. – Consideration would need to be given to the availability of conditional access and other technology to enable subscriptions to be collected from all viewers. For example, this would be relatively simple to implement for online services using existing pay-wall technology, however, for TV services, a major infrastructure roll-out would need to occur to allow subscription to be possible. This would take a number of years and have a significant costs associated with it. – May be costly to implement. – The <i>TV Licence Fee Enforcement Review</i> concluded that changing the method of collection could involve changing the method of enforcement, including reconsidering the case for decriminalisation of TV licence evasion.

Funding model

iPlayer loophole

One area where Government is committed to reform is the so-called 'iPlayer loophole'. Whatever BBC services are consumed (radio, online, on demand), a TV licence is currently only required to watch television services that are broadcast live.⁸⁰ This means a licence is not required to watch on demand or catch-up services.⁸¹ It is estimated that 0.5 million people, around 2 per cent, legally watch on demand or catch-up programmes (on iPlayer and other services) but do not pay the licence fee.⁸² It is likely this figure will grow as more people choose to watch on demand only. Mediatique forecasts estimate that the TV share of on demand and time-shifted content will double from its current 12 per cent to almost 25 per cent of all viewing by 2017.⁸³

This presents four problems:

- 1. Money** – if more people watch BBC programmes on demand without a TV licence (as is currently legal), the BBC's income declines.
- 2. Fairness** – use of the iPlayer loophole to avoid paying the licence fee is unfair as licence fee payers are footing the bill for providing content that people only watching on demand get to enjoy.
- 3. Enforcement** – the ability to deter evasion is increasingly constrained by the proliferation of non-traditional TV receivers such as tablets and mobiles as it is easier to conceal these (or to claim legitimate use of them) from TV Licensing enforcement officers.
- 4. Clarity and simplicity** – the proliferation of devices combined with the iPlayer loophole risks creating confusion among the public as to who should be paying for a TV licence.

The Government has committed to bringing forward legislation in the next year to modernise the licence fee in order to cover public service broadcast catch-up TV.⁸⁴ The Charter Review will need to consider how to implement this commitment both in the short-term, under the current licence fee model, and in the future, under any of the alternative models.

There are a number of ways in which this could operate. Charter Review will also need to consider the practicalities of enforcement of such changes to the licence fee model, and how this change will relate to any alternative funding models. Government would welcome views on this issue as part of this consultation.

Funding model

Enforcement of the funding model

The *TV Licence Fee Enforcement Review*, 'Perry Review' was announced in September 2014 to consider whether the sanctions currently in place for TV licence evasion are appropriate and fair, and whether the regime represents good value for licence fee payers and taxpayers. This was prompted by concerns that the criminal nature of the current regime is not a proportionate response to the problem of TV licence evasion. And an independent review was duly commissioned from David Perry QC.

The Perry Review concluded that there should be no fundamental change in the sanctions regime as it applies to the current licence fee collection system. It found that the current regime represents a broadly fair and proportionate response to the problem of TV licence evasion and provides good value for money (both for licence fee payers and taxpayers).

The Perry Review did, however, make several recommendations towards improving the current regime, including urgent consideration of the 'iPlayer loophole'. It is to be noted that the Perry Review specifically focused on enforcement within the current licence fee collection framework. It noted that "should there be any change in the method of collection... a move to another method of enforcement will become more practicable and the question of decriminalisation will again fall for consideration".⁸⁵

The Charter Review will need to consider the recommendations of the *TV Licence Fee Enforcement Review* and their applicability to both the current, and alternative funding models.

Question 11

How should we pay for the BBC and how should the licence fee be modernised?

Box 18: TV licence fee enforcement key facts

The BBC Trust is responsible for overseeing the licence fee collection arrangements put in place by the BBC Executive Board, and ensuring they are “efficient, appropriate and proportionate”. This responsibility was set out for the first time in the 2006 Royal Charter. The Trust provides a review of licence fee collection each year as part of the BBC’s Annual Report and Accounts.



Number of people convicted of a TV licence offence in 2013-14:⁸⁶

153,369



Amount of Magistrates’ Court time taken up by TV licensing cases:⁸⁷

0.3%



Number of people imprisoned for non-payment of fines relating to a TV licensing offence in 2013-14:⁸⁸

32



Number of licensed households:⁸⁹

25.4m

Protected uses of licence fee funds

Box 19: What the licence fee funds

The licence fee is used to fund the whole range of BBC services:



57 radio stations



9 television channels



BBC Online



iPlayer and Red Button



BBC World Service

In addition the licence fee also funds some other services and projects including:



S4C (the Welsh Public Service Broadcaster)



Local TV



Broadband infrastructure roll-out

There are two key issues when discussing what the licence fee funds. Firstly, what areas of activity it should fund and secondly, whether any of these activities should have their level of funding protected. Both will need to be considered in the BBC's funding settlement.

The BBC has previously agreed to the use of the licence fee beyond the direct delivery of its services and channels, for a range of projects and programmes in support of public purposes. The 2010 licence fee settlement agreed a range of activities that the licence fee would fund including: the World Service, BBC Monitoring, S4C (the Welsh language Public Service Broadcaster), local television infrastructure roll-out and content,⁹⁰ and the roll-out of superfast broadband through Broadband Delivery UK⁹¹. Most recently, the BBC agreed to fund the cost of free TV licences for the over 75s at the 2015 Summer Budget. The BBC will also take on responsibility for how this concession should be set in the next parliament. Through the course of

Charter Review we will need to consider the practical steps needed to transfer this responsibility, including appropriate governance arrangements.

These, and other previous uses of the licence fee have, for example, supported the roll-out of digital infrastructure, the uptake of new technologies such as digital switchover, and public policy objectives such as helping more people to 'get online' and the provision of regional news and content. This Government is committed to continuing to fund the initiatives that will allow the media industry to grow and innovate and believes that it is appropriate for the licence fee (or an alternative funding model) to fund such commitments.⁹² Through Charter Review we want to discuss how the BBC's public policy objectives might continue to be supported in this way, (for example by supporting digital radio switchover or regional news and content).

Protected uses of licence fee funds

In previous licence fee settlements the Government has also asked the BBC to commit to funding some things at a specific level (a ringfenced amount) to ensure the ongoing protection of funding for that service. Most recently this has included funding for S4C, local television and the World Service (see Box 19 on page 110 and Box 20 right). While flexibility is an advantage for managing budgets, in some instances there is a particular reason to ensure a minimum level of funding to ensure certain services are protected. In the next funding settlement the Government will need to consider what services should be protected and we welcome views on this issue as part of this consultation.

Box 20: World Service

The World Service continues to be valued across the world for accurate, impartial and independent news, but it has faced challenges over this Charter period. As a result of decreased funding and the need to respond to changing audience needs, 15 language services closed, radio programming in a number of languages ended, and there has been a reduction in short-wave and medium-wave distribution. Despite this, the World Service has continued to thrive. It has launched Arabic and Persian TV services, and now provides TV, radio and online content in 29 language services and its audience has continued to increase, now standing at 210 million people.⁹³

But the context within which the World Service operates is changing. There is increased competition from other international providers such as Russian and Chinese state broadcasters, and new research suggests that digital news is dominated by a few successful brands with others struggling to reach a wider audience.⁹⁴ We want to look at how this important part of the BBC's service can continue to compete with other international providers and remain relevant in a changing global environment.

Funding for the World Service transferred to the licence fee during the last Charter and the BBC chose to increase its operating licence expenditure to £254 million in 2014-15.⁹⁵ Funding levels for 2015-16 are still to be confirmed. Making sure the World Service continues to have the funding it needs will be vital to allow it to continue to deliver value for the UK.



Protected uses of licence fee funds

Contestable funding

Currently the vast majority of licence fee income is spent on BBC services. In a world with increasing provision and diversity of media services, and with other broadcasters providing content and services with public service characteristics (for example, UK originated news, drama, documentaries, arts, and children's programming), the Charter Review should consider whether there is a case for alternative providers to be able to access an element of this funding. For example, children's programming is an area in which the BBC has a near monopoly, as highlighted in the most recent Ofcom PSB Review, and a small amount of contestable funding could introduce greater diversity of providers and greater plurality in public services provision. The principle of contestable funding was previously recommended by the Burns Panel, which advised the previous Charter Review process.

This money could still be available to the BBC to compete for, or could be solely for other providers, including via a match-funding arrangement. In either circumstance an alternative organisation would need to be identified to oversee the administration and governance of such a funding pot. This could be the BBC's regulator or an alternative organisation.

Contestable funding

Advantages

- introduces an element of competition, pushing the BBC and other PSBs to be more efficient;
- could improve plurality of supply for key genres; and
- could help sustain the broader public service broadcasting ecosystem.

Disadvantages

- adds an element of uncertainty into the BBC's funding which may weaken its stability;
- may be costly and complex to administer; and
- the extra accountability measures associated with public money may reduce demand from other broadcasters.

Question 12

Should the level of funding for certain services or programmes be protected? Should some funding be made available to other providers to deliver public service content?

Value for money and efficiency

The BBC is accountable to the licence fee payer for providing good value for the funding it receives.⁹⁶ Over the Charter period there has been extensive public debate of the BBC's efficiency record and value for money. It is right that in Charter Review this is scrutinised.

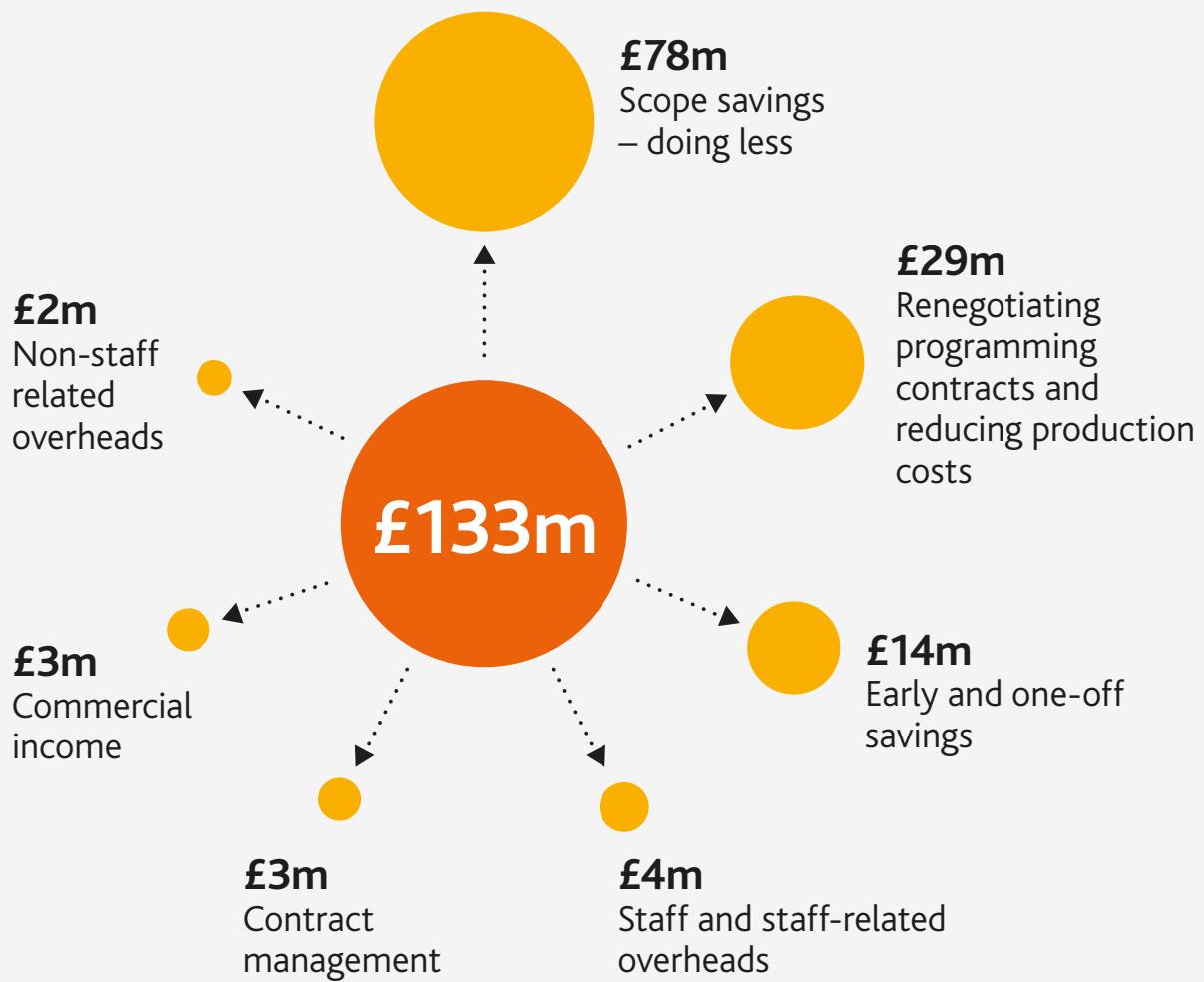
Following the 2010 funding settlement, the BBC, like many other public bodies, has had to make significant savings. The settlement resulted in the BBC taking on a number of new responsibilities while the licence fee remained frozen at £145.50 until 2016-17. These factors, set against growing revenues from a larger number of households and commercial services, resulted in the BBC needing to achieve a 16 per cent cash-releasing efficiency target over four years. The BBC responded to the funding settlement with a major efficiency initiative (*Delivering Quality First*), setting a target of £700 million of annual recurring savings by the end of 2016-17 compared to a 2011-12 baseline.

Box 21: Headline efficiency savings by the BBC

The main ways in which the BBC has found savings in the last years are in payroll bills, procurement, estates, IT and content reductions. For example, the Corporation cut staff costs by 17 per cent in real terms between 2011-12 and 2013-14 and the number of senior managers has fallen by 14 per cent since 2011, from 477 to 410; though in the first two years of *Delivering Quality First* there has only been a small reduction in headcount (1 per cent).⁹⁷

An example of how these savings have played out in the television division, a division with particularly large planned savings under *Delivering Quality First*, is set out opposite.⁹⁸ This breakdown shows that the largest proportion of the savings in the year 2013-14 were delivered through scope savings, where the BBC is doing less, followed by changes to contract management and production costs.

Savings in the television division 2013-14



Source: Reducing costs Through Delivering Quality First, National Audit Office, 2014

Value for money and efficiency

The National Audit Office found in its assessment of *Delivering Quality First* that the BBC has so far found a range of means to deliver against its efficiency targets (see Box 21 on page 116/117). While progress has been made, the BBC's record over the Charter period also shows up a number of instances where licence fee payers' money has not been used well, or where questions of value for money have been raised. For example:

– £100 million of licence fee income was spent by the BBC on its *Digital Media Initiative*, which aimed to deliver technology to allow BBC staff to develop, create, and share broadcast video and other content from desktop computers. The initiative failed, and delivered no tangible assets, and the National Audit Office noted, for example, that 'the executive board applied insufficient scrutiny...'.⁹⁹

- Questions have been raised about the way in which the BBC has modernised parts of its estate. For example, the £1 billion refurbishment¹⁰⁰ of the Broadcasting House complex in London, according to the National Audit Office, has far higher benchmarked running costs than similar buildings.¹⁰¹
- While the BBC recently capped severance payments for all staff at £150,000, this move came only after significant parliamentary pressure about the size and scale of BBC severance pay-offs over the Charter period, some of which went beyond what was contractually required of the BBC.¹⁰²
- In many respects senior remuneration at the BBC compares favourably with other broadcasters. For example, the Director General of the BBC received a total package of £466,000¹⁰³ in 2014-15 compared to the Chief Executive of

ITV who received a total package of £4.4 million in 2014.¹⁰⁴ But the BBC's annual report shows that at least 74 members of staff are paid more than the Prime Minister¹⁰⁵ and total numbers employed, unlike in many other parts of the public sector, have not reduced significantly.¹⁰⁶

– When considering the BBC Three and BBC One+1 proposals recently, the BBC Trust had to balance value for money concerns with potential market impacts. However it could be argued that where spare capacity for channels is available or unused, there may be other ways of delivering value for licence fee payers (see Box 22 below).

Box 22: BBC Three and BBC One +1 proposals – greater value for money?

The BBC Trust recently considered proposals from the Executive to move BBC Three online-only, realising savings to devote to drama content, and launching a 'BBC One+1' service.¹⁰⁷

While the BBC Three proposal was accepted by the Trust, subject to certain conditions and further consultation, the decision was taken not to agree the BBC One+1 service, given the potential impacts on the wider market.

Questions remain, however, over whether the multiplex¹⁰⁸ capacity which the BBC had intended to use for the new BBC One +1 service could deliver greater benefits, for example through an alternative public service use, or through being made available for use by commercial broadcasters.



Value for money and efficiency

While the licence fee is cheaper than most pay TV bundles (costing £12 a month compared to commercial competitors which typically start from around £20 a month), views on the value for money of the licence fee remain mixed. Latest figures from the BBC show that 57 per cent of respondents said that the licence fee was good value, and there has been little change to this score over the Charter period.¹⁰⁹ The proportion rises with the number of services used: 66 per cent of those who use all three BBC platforms (TV, online, and radio) reported that the BBC offers good value for money.¹¹⁰

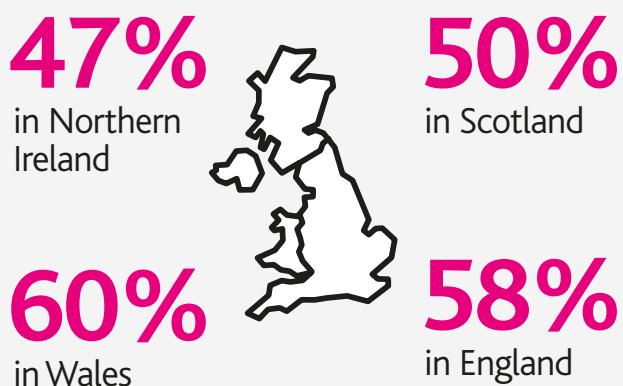
Latest figures from the BBC show that

57% of respondents

said that the licence fee was good value.

There are significant differences in the perception of the BBC's value for money across regions. In the same 2014 survey 60 per cent of Welsh respondents agreed that the BBC offers them good value for money, followed by 58 per cent in England, 50 per cent in Scotland and 47 per cent in Northern Ireland. Different ethnic groups also have significantly different views: 58 per cent among white audiences agree that the licence fee offers value for money compared to just 47 per cent among Black, Asian and Minority Ethnic audiences.¹¹¹

Perception of the BBC's value for money across regions



agreed that the BBC offers them good value for money.

Different ethnic groups also have significantly different views:

58% among white audiences

47% among Black, Asian and Minority Ethnic audiences

agree that the licence fee offers value for money.

Question 13

Has the BBC been doing enough to deliver value for money? How could it go further?

The BBC's commercial activities

The BBC makes and commissions content that is popular not just with audiences in the UK, but around the world. The current Charter enables the BBC to carry out a range of commercial activities to make money that can be invested back into its programming.

However, it has been given constraints: any commercial activity must fit with the public purposes, be commercially efficient, not endanger the BBC's reputation and brand and follow fair trading rules.

The BBC's commercial activities are conducted through the BBC's largest subsidiary, BBC Worldwide. BBC Worldwide is the world's largest TV distributor outside the large US studios,¹¹² and markets BBC content both in the UK and in the rest of the world. It generates revenues of around £1 billion per year. The BBC also generates £90 million of sales through Global News, which

operates BBC.com around the world, and £30 million through BBC Studios and Post Production, which rents out BBC production space. In the last year Worldwide returned £227 million to the Corporation.¹¹³ Together with in-house produced content, Worldwide thereby supports independent producers of BBC-commissioned content who through BBC Worldwide can access the scale and reach of the BBC's global marketing.

In determining the best way of returning value to the Corporation, BBC Worldwide has tested different strategies. BBC Worldwide profits have grown since the beginning of the Charter period with significant international successes such as *Sherlock*, *Doctor Who*, *Strictly Come Dancing*, and *Dancing with the Stars*, which has been exported to over 50 countries.¹¹⁴ However, not all decisions were successful, for example, Worldwide acquired and subsequently divested itself of *Lonely Planet*, a travel guide book publisher, at a significant loss. Worldwide

has now narrowed its portfolio of activities and concentrates on marketing BBC content.

A recurring issue for BBC Worldwide's global strategy is its ability to access finance: as it is subject to public bodies' spending rules, BBC Worldwide has a Government-imposed borrowing limit of £350 million. This, some have argued, acts as a brake on BBC Worldwide's ability to develop larger overseas markets such as the US.

As global audiences continue to expand, so too do the opportunities for driving growth in revenue. Clearly, making the most of existing BBC programming is a good thing, and can help the BBC continue to invest in high quality content. However, there are other factors to consider. It is important for UK licence fee payers that BBC output is not driven solely by the consideration of its retail value in international markets. Equally, the impact that the sale of BBC

intellectual property has on other UK broadcasters and producers, who may also be seeking to market British content to an international audience, must be given serious consideration. In this context, Charter Review will consider the full range of options for reforming the BBC's commercial operations, including full or part privatisation of Worldwide.

Question 14

How should the BBC's commercial operations, including BBC Worldwide, be reformed?

4. BBC governance and regulation

BBC governance and regulation

Good governance and regulation are vital to a successful BBC. It is what makes sure the BBC does what it is meant to. It means building the right framework of accountability, incentives, checks and balances necessary to make sure the BBC delivers for licence fee payers, takes account of its market impact, spends its money wisely and is held to account in doing so.

Getting this framework right is vitally important – but it is not enough on its own. The BBC also needs the right people, behaviours and organisational culture to thrive. Good governance and regulation are a precondition but not a guarantee for the future success of the BBC.

This section therefore looks at:

- The current model; and
- Options for reform.

It also looks at a range of wider governance issues:

- Service Licences and Public Value Tests;
- Public and democratic accountability; and
- Royal Charter.

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Good governance and regulation are a precondition but not a guarantee for the future success of the BBC

Box 23: How the Trust model came about

Until 2007 the BBC had a Board of Governors who were responsible for acting as trustees of the public interest by overseeing any complaints, approving the BBC's strategic direction, appointing the Director General and ensuring that BBC management implemented its strategy. The Secretary of State was responsible for approving new services.

This model came under some criticism, particularly that the Board of Governors were expected to be both a 'cheerleader' and 'critic' of the BBC, a model that led to a lack of clarity between the governance and regulatory functions and was ultimately unsustainable. This led some to a perception that the BBC had not been run in the interests of the licence fee payer and that the arrangements did not have sufficient transparency and accountability.

In 2005, an independent panel, chaired by Lord Burns, appointed by the Government recommended that the Board of Governors should be replaced by an independent Public Service Broadcasting Commission (PSBC).

The recommendation was that the PSBC would advise Ministers on the level of the licence fee as well as taking over the regulatory responsibilities held by the Governors and operating a contestable element of the licence fee. The Panel also recommended the creation of a unitary board. This recommendation was rejected by the then Secretary of State who instead introduced the Trust model.

The current model

The BBC is a unique organisation and the last Charter created a model of governance and regulation aimed at addressing the shortcomings of the previous model of a Board of Governors (see Box 23 on page 131) while respecting the independence of the BBC. The result of this was the Trust model. There were also a number of other innovations, such as Public Value Tests and Service Licences, and improvements in areas like transparency and complaints which are discussed in later sections.

There are three key groups that make up the current system of governance and regulation of the BBC: the BBC Trust, the BBC Executive and Ofcom.

The **BBC Trust** is, as described above, the sovereign body of the BBC. It is currently chaired by Rona Fairhead who, as Chairman of the Trust, may also be known as Chairman of the BBC. The overriding aims of the BBC Trust are to act as stewards of the licence fee, guardians of the public interest and to promote the public purposes. In doing this the Trust is responsible for setting the strategic direction of the BBC, approving the high-level strategy and budgets for services, and holding the Executive to account

in delivering this. This means it sets out what each service should do, decides how they should be assessed, monitors compliance and approves any changes. The Trust operates independently from the Executive with separate staff and budget – 61.8 full time equivalent staff and expenditure of £10 million¹¹⁵ in 2014-15.

The current model

The **Executive Board** is made up of a mix of Executive and Non-Executive members with a Chairman who can either be a non-executive or the Director General. Since the creation of the current governance model the Chairman of the Executive Board has in practice been the Director General (currently Tony Hall). The role of the Executive Board is, in short, to run the BBC. It is responsible for delivering the BBC's services, its editorial and creative output, and management of the BBC. It does all of this in line with the strategies and priorities set by the Trust.

The role of **Ofcom** in relation to BBC governance and regulation is important. As the regulator responsible for the wider broadcasting and telecommunications landscape it has a variety of responsibilities that relate to the BBC both directly and in terms of setting the wider framework. Key among these are its regulation of broadcast content (for example in relation to issues such as harm and offence), handling complaints on these issues, being consulted on the setting of quotas, and its role in Market Impact Assessments – some of these areas are addressed later in this section.

This current Governance model has some important advantages. In clearly separating the role of the BBC Trust and the Executive, with separate staff, finances and public reporting, the regulatory elements of the Trust's role are at greater distance from the Executive than they were under the Governor's model. This has helped to improve the rigour with which the BBC can be held to account. Giving the BBC Trust explicit

responsibility for representing licence fee payers recognises the importance of their interests and the Trust has over the last Charter period developed a range of mechanisms for engagement with the public. Through the introduction of a variety of mechanisms and tools the Trust has made sure the BBC's decisions are given improved scrutiny.

However, over the course of this Charter there have been a range of issues which critics suggest are symptomatic of ineffective governance structures:

- failed delivery of major projects such as the Digital Media Initiative;
- serious editorial failings, such as the cancelled report on Jimmy Savile and the *Newsnight*/Lord McAlpine allegations; and
- lack of clarity about responsibilities and insufficient scrutiny by the Executive and the Trust, as demonstrated by excessive severance payments to senior staff.

These concerns led to a review of BBC internal governance in 2013 which recommended changes to the way the governance principles were put into practice. However, many, including the new Chairman of the BBC Trust,¹¹⁶ and the Culture, Media and Sport Select Committee report on the future of the BBC¹¹⁷ have gone further, proposing that more fundamental reform may be needed to address systemic problems with the existing model. Criticisms remain that the Trust is conflicted as both regulator of and cheerleader for the BBC. The distinction between the Trust and the Executive, while set out in Charter, is not well understood or articulated. There are also suggestions that in the current model the Trust might lack the necessary powers and sanctions to effect change.

Options for reform

There is a range of options for reforming the model of governance and regulation.

The three strategic options are:

- a model based on the Trust;
- a new standalone regulatory organisation (such as the Public Service Broadcasting Commission set out in the Culture, Media and Sport Select Committee Report); and
- moving more regulation to Ofcom while abolishing the Trust.

The latter two options would likely see the BBC having a unitary board, which would set the strategy and be responsible for delivery, with an external body or bodies performing regulatory functions. All options have their benefits and weaknesses as set out below. In addition to this strategic question there will be many decisions about where responsibilities for specific elements of governance and regulation will need to sit.

Reformed Trust model

The first option is to retain the current framework, but to reform it further by:

- **Clarifying roles** – despite the formal structures, the separation of the Trust and Executive has not always been clear, and the wider public does not understand the division. This is often seen as contributing to the problems the BBC has had in dealing with some of the challenges it faced in the last Charter. Some of the confusion, both real and perceived, could be resolved by making clear the distinction between the BBC Executive and the Trust, further clarifying responsibilities, and including the monitoring of the division of responsibilities as an obligation.
- **Strengthening the strategic function of the Trust** – one criticism sometimes levelled at the Trust is that while it approves the BBC's formal strategy, it is too passive in setting the strategic direction of the organisation. Rather than being the driving force of what licence fee payers want, it is instead

seen as reacting to changes led by the Executive, as was shown with the proposal to add video to BBC Radio 1, or move BBC Three online. This could be resolved by changing the specific responsibilities of the Trust and how it relates to the Executive, or indeed by introducing specific mechanisms that would mean the Trust taking a more active role in setting the strategy for the BBC.

– **Strengthening powers of enforcement** – the Trust has a range of mechanisms for holding the Executive to account. Strengthening these in any way, for example by giving the Trust the ability to withhold funding, might help improve the effective regulation of the BBC.

An approach that modifies the existing system brings certain advantages over more radical reforms. All organisational change takes time, costs money and introduces disruption, risk and uncertainty. Smaller changes to the current system would reduce these risks and increase confidence in outcomes. It is also worth noting that the Trust is less than a decade old and with more time, and some of the structural changes suggested above, it might be able to reform further and address some of the criticisms levelled at it. But there are also substantial drawbacks to this approach. However far the roles of the Trust and Executive are clarified, the structure retains a fundamental tension in requiring the Trust to act as a regulatory body while remaining part of the BBC. With even the Chairman of the Trust describing a move from the Trust model to an external regulator as a front runner, it is clear that there is a case for more radical change.

Models of governance and regulation

Standalone regulator model

The notion of a standalone regulator model is used here to represent a range of options that each have a similar structure, sometimes referred to as 'OfBeeb'. Their common feature is a second body – completely distinct from the BBC and Ofcom – that performs some or all of the oversight and regulatory functions that currently sit with the Trust. Most commonly, this model sees the BBC adopting a unitary board which would consolidate the strategy setting and responsibility for operational delivery – although some of the strategic elements of this function could sit in the distinct body. An approach of this kind was the option that the original Burns report in 2006 and the Culture, Media and Sport Select Committee report in 2015 recommended.

In moving regulation to an external body fully separated in both structure and title from the BBC, this model removes much of the criticism about the conflict of being both regulator and cheerleader. It could also bring all of the key strategic and operational responsibilities together in a unitary board, with very clear lines of accountability and a strong non-executive membership that can ensure the interests of the British public are properly represented. A standalone regulator would also not risk being distracted by wider responsibilities.

But this model is not without its challenges. Single purpose regulators are difficult to set up in a way that does not lead to their being either overly dependent on or confrontational with the organisation they regulate, as historical examples, such as the Postal Services Commission (Postcomm) regulation of Royal Mail, demonstrate. A structure set up to regulate from outside the BBC may also struggle with being too far removed – unable to influence the decision making of a powerful unitary board.

There is also a significant risk that this would confuse the regulatory landscape by dividing media and telecoms responsibilities in an increasingly converging sector. This would be exacerbated if the regulator were given any additional responsibilities relating to public service broadcasting.

The detail of exactly what responsibilities and powers sit within this regulator would be up for debate and there are a range of proposals that could give the body strong powers. This could either be through changing the balance of responsibilities that this regulatory body and Ofcom have, or by giving the body responsibility for other decisions such as the allocation of any contestable funding (explored further in Chapter 3).

Ofcom

Ofcom is a well respected independent regulator with a strong track record, which is why it has been suggested by some that it could take on a greater role in the regulation of the BBC. The third option is therefore for the regulatory function to move to Ofcom with the delivery and governance functions likely residing with a unitary board. A version of this proposal was considered as an option in the Burns Report at the last Charter Review, and was revisited in the recent Culture, Media and Sport Select Committee Report.

This option would be similar in many ways to a standalone regulator. The specific ways in which Ofcom would need to change in order to execute such a role depend on the specific responsibilities it acquired but it would likely require significant extra resources and could involve additional structures within Ofcom itself such as independent advisory boards.

Models of governance and regulation

This option is attractive because Ofcom is already known to be an effective regulator, and it fully understands the broadcast and wider media and telecommunications sector. The cost and disruption of moving responsibilities to Ofcom would likely be lower than the creation of an entirely new body. Such a move would consolidate media and telecommunications regulatory responsibilities within a single body which has the benefit of simplicity and clarity, particularly within converging sectors. In clearly dividing governance and regulation in this way this model also effectively removes any potential conflict of interest.

However, there are also difficulties. The scale of this kind of activity could involve significant disruption which would need to be mitigated both for the BBC and potentially for Ofcom. While Ofcom does undertake measures of public value, it does not currently approve particular services. This change could also be seen as making Ofcom too powerful, expanding its already large remit and expenditure. Last year Ofcom had a budget of £117 million and nearly 800 staff.¹¹⁸

With all three models there is a question of who the governing body is ultimately accountable to. Under the current system this is the licence fee payer, described in such a way to encompass public interest more broadly. There are merits to this approach – it explicitly ties the thinking of the organisation to those who pay for it and provides a very clear link of accountability. However, we may want to think differently about this. Representing the public interest is a complex task – differentiating between the interests of audiences, special interest groups, and society at large, and taking into account the benefits not just for those who consume the BBC's content, but the UK as a whole. There is also clearly a need to consider the implications should the funding model change, as discussed in Chapter 3.

Question 15

How should the current model of governance and regulation for the BBC be reformed?

Models of governance and regulation

Box 24: Governance framework

To make informed decisions about the best approach to governance and regulation there needs to be a clear understanding of what it is trying to achieve and a framework for assessing this. A proposed framework is set out below. There are some principles of good governance which apply to all organisations. The BBC is no exception and already reports against these principles – codified in *The UK Corporate Governance Code* – in its Annual Report and Accounts. There are, however, some differences. This is why we are proposing an assessment framework that includes both general and BBC specific principles as well as taking into account the cost and delivery to ensure value for money for the public.

General governance principles

- Leadership: clear roles and responsibilities.
- Effectiveness: balance of skills and experience. Appropriate appointment and evaluation processes.
- Accountability: transparency, risk management and internal control systems. Relationship with auditors.

BBC specific principles

- Public accountability: accountable to the public as equivalent to shareholders, including transparency.
- Sensitive to market impact: mechanisms to ensure any impact is understood and justified.
- Independence: free from editorial interference.
- Regulation: appropriate regulatory framework.

Practical issues

- Value for money: governance model represents good value for the public.
- Deliverable: proportionate and appropriate governance model taking into account risk and cost of implementation.

Service Licences and Public Value Tests

The Charter Review process is an opportunity to set the framework for what we want the BBC to do and how it should do it. But there will undoubtedly be key decisions at other points in time. The last Charter put in place new mechanisms to ensure any changes properly reflect the public interest and take due account of market impact. These were Service Licences and Public Value Tests (PVTs).

The Service Licences set out what each service does and how, for example the BBC 1 licence sets out that it should be '...the BBC's most popular mixed-genre television service across the UK, offering a wide range of high quality programmes,' and '...the BBC's primary outlet for major UK and international events and it should reflect the whole of the UK in its output'. Service Licences are reviewed at least twice each Charter period. Each review involves consultation with industry and the public to ensure each service is still meeting the needs of licence fee payers. The PVTs are the mechanism by which any significant changes proposed to services are assessed. They are usually in response to proposals from the BBC Executive and have two key parts:

- an assessment of public value undertaken by the Trust and involving significant consultation with the public and industry; and
- a Market Impact Assessment (MIA) undertaken by Ofcom on behalf of the BBC Trust which seeks to understand and explain any impact on the market that the proposed changes might have.

Together these allow the BBC Trust to take a fully informed view of the costs and benefits of the proposed change. The subsequent decision can have material effects on the services audiences receive, as with, for example, the recent provisional decision of the Trust to approve the proposal for BBC Three to move online but to reject the proposal for a BBC +1 channel. The introduction of these processes has been broadly welcomed and is a significant step forward, however there may be the potential to strengthen the overall system by addressing some of the criticisms that have been made:

- The PVT can be too blunt an instrument, it is a single, relatively costly and time consuming process applied once proposals cross a threshold of relevance. It is therefore not always able to react to changes effectively; either taking too long to deliver or missing a change that did not meet the threshold of significance. This can be exacerbated by the time it can take for the Trust to receive a proposal.

- The use of PVTs is reactive, looking at a proposal in isolation rather than taking a view of the BBC as a whole and the role that each service should play within it.
- The Service Licences, while increasing the level of scrutiny and control may not hold the BBC to a high enough standard or contain enough specific details about output.
- The mechanisms for enforcement of Service Licence reviews may not be sufficiently robust. For example, there have been industry complaints that recommendations about the average listening age of the BBC's most popular radio stations have not been adequately enforced.¹¹⁹

Question 16

How should Public Value Tests and Service Licences be reformed and who should have the responsibility for making these decisions?

Public accountability

In addition to the overall governance and regulatory models and how changes are made during Charter we need to consider whether the direct accountability of the BBC should be reformed.

There are three main forms of direct public accountability:

- Research and Audience Councils;
- transparency; and
- complaints handling

Research and Audience Councils

One of the main ways in which the BBC engages with the public is through its programme of research. Some of this is done 'in-house', but much is commissioned from independent experts, polling and research organisations. It looks at all aspects of the BBC – TV, radio, and internet as well as editorial issues, the BBC as an organisation and different audience groups. The Trust also undertakes a wide range of consultations to inform decisions it is taking.

Audience Councils are a further way of providing a direct link between licence fee payers and the Trust. There is an Audience Council for each nation in the UK. Each feeds into their BBC Trust Board

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One of the main ways in which the BBC engages with the public is through its programme of research.

representative. These councils provide insights into what audiences want and expect from the BBC in their nations, and on how well the BBC is doing this. They also provide an Annual Report to the Trust. This provides a direct mechanism, but the system is not very visible to the public at large and it is unclear what the impact of these councils has been on the overall operation of the BBC.

Transparency

Transparency is a second key method for ensuring the BBC is acting in the best interests of the public and other stakeholders. Despite concerns around lack of transparency within the BBC, there have been a number of improvements over the last Charter. The BBC proactively publishes:

- executive pay and expenses;
- the minutes of BBC Trust meetings;
- details of planned changes in its public consultations and services;
- Service Licences; and
- protocols for how it operates.

The BBC is also subject to the Freedom of Information (FOI) Act (except for information held for the purposes of journalism, art or literature). These sources of information help civil society and the wider media hold the BBC to account. Stories about the BBC, often derived from transparency reporting or FOI requests, are regular features in many national newspapers, such as the Daily Mail's reporting of training costs at the BBC¹²⁰ or the Telegraph's reporting of IT thefts.¹²¹

However, there are elements of the BBC that are not as transparent, particularly in relation to commercial activities, and the scale and complexity of the organisation can make it difficult for people to understand how decisions are being made and how and when they can contribute their views. There are areas where full transparency may not be possible for commercial, journalistic or artistic reasons. But we need to make sure that the right balance is struck in making information available in the right way to build trust with licence fee payers. This could include looking at the way in which

Public accountability

the FOI Act applies to the BBC, whether a more detailed level of information can be published (for example, publishing salaries and staff structures in line with Government transparency requirements) and whether more commercial data could be made available. One area where transparency is particularly important is in relation to open and fair competition through their fair trading rules.

Complaints

In addition, the BBC relates to the public by listening to what people have to say when they write to and call the organisation. The BBC handles hundreds of thousands of editorial and general complaints each year (see Box 25 opposite). Editorial complaints make up the bulk of these and are handled initially by the BBC audience services team. Where this does not resolve the issue it is passed to the division that the complainant is concerned with. Where this is still unable to resolve a complaint it will be escalated to the Editorial Complaints Unit before being escalated

to the Trust and the Editorial Standards Committee if appropriate. The Committee regularly publish their decisions and an overview is provided in the BBC's Annual Report. There are separate protocols for general complaints and indeed complaints about the Trust itself.¹²² Ofcom are responsible for editorial standards across the broadcasting sector, which includes the BBC, with an exemption for impartiality and accuracy which is handled solely by the BBC Trust. This means that in many areas there can be an overlap with both the BBC and Ofcom having responsibility.

The process for handling complaints has been reviewed and improved over the last Charter period with 96 per cent answered on time in the last year.¹²³ However, concerns have been expressed around the dual line of reporting. The BBC and Ofcom have put in place procedures to make this dual reporting as streamlined as possible, however this in itself is not able to completely remove the duplication. Some have argued that it might be more effective to make changes so that one

organisation can take responsibility for the later stages of handling and adjudicating on all complaints. This could sit within the BBC, a standalone regulator or Ofcom so long as they were properly equipped to do so.

Question 17

How could the BBC improve engagement with licence fee payers and the industry, including through research, transparency and complaints handling?

Box 25: BBC editorial complaints statistics¹²⁴

Stage 1: Editorial and general complaints

259,886 complaints

96% answered on time

Stage 2: Editorial complaints to the Editorial Complaints Unit

583 complaints

85% answered on time

Stage 3: Appeals to the Trust's Editorial Standards Committee

326 complaints

98% answered on time

Democratic structures

In addition to its direct public accountability, the BBC is scrutinised by the democratic structures in the UK – Government and Parliament. This is supported by the role of the National Audit Office (NAO) in scrutinising its spending.

The BBC also has accountability to the devolved nations; for example, following the Smith Commission, a Memorandum of Understanding between the UK and Scottish Governments, the BBC and the Scottish Parliament has been agreed.

This requires the BBC to lay its Annual Report and Accounts before the Scottish Parliament and appear before their committees on the same basis as for the UK Parliament. As part of this review we will consider whether these scrutiny functions are proving effective, while safeguarding the BBC's independence.

Parliamentary Committees

Parliamentary Select Committees are set up to scrutinise the work of Government departments and their associated bodies, including the BBC, on behalf of the House of Commons and the electorate. The BBC is most often called before the Public Accounts Committee (PAC) or the Culture, Media and Sport (CMS) Select Committee, the latter also has a role in conducting a pre-appointment hearing

for the Chairman of the BBC Trust. The BBC also lays their Annual Report and Accounts in the UK Parliament at the end of every reporting year.

The CMS Select Committee can conduct inquiries into areas of current interest, for example in February 2015 it published the *Future of the BBC Report*.¹²⁵ During the previous Parliament the Committee conducted four separate inquiries into the BBC and the PAC conducted two. In addition the BBC was called to give evidence before several other Select Committees such as the European Scrutiny Committee. There is therefore extensive opportunity for Parliament to scrutinise the BBC. However, through Charter Review we would be interested in views as to whether any improvements could be made.

National Audit Office

The NAO conducts value for money examinations of the BBC, to a programme agreed with the BBC Trust. This is a requirement of the Framework Agreement between the Government and the BBC and access has been enhanced in recent years. Recent reports have included looking at the savings made through *Delivering Quality First* (March 2015) and on *Managing the BBC's estate* (January 2015) and have fed into parliamentary scrutiny. In recent years there have been calls for the NAO to have statutory access to the BBC's accounts, as they do with other Government departments and agencies. This would allow the NAO to audit the BBC's Annual Report and Accounts and subject the Corporation to greater scrutiny. Greater financial accountability is an important requirement, which should not undermine the BBC's editorial independence.

Democratic structures

Government

The BBC is formally independent from Government, but as a publicly-funded body its spending is included in the overall level of public expenditure as categorised by the Office for National Statistics. Ordinarily arm's-length bodies and other publicly-funded organisations must conform with controls on their expenditure and other guidance set out in HM Treasury's *Managing Public Money*.¹²⁶ At present this is not the case for the BBC, which has a different framework set out in the Charter and Framework Agreement and is regulated by the Trust. This means that the BBC has different reporting requirements and financial controls to other publicly-funded bodies.

Because it has a unique model it can be unclear whether targets designed for Government departments and agencies do and should apply to an independent broadcaster. The function of setting the BBC's requirements for accounting for its public funding is carried out through the Charter Review and licence fee settlements and as such we will consider how the BBC should be treated in respect of any obligations that might arise in between these reviews.

Question 18

How should the relationship between Parliament, Government, Ofcom, the National Audit Office and the BBC work?

What accountability structures and expectations, including financial transparency and spending controls, should apply?

Royal Charter

The BBC has been governed by a Royal Charter since 1927. The Charter is the constitutional basis of the Corporation and guarantees its independence from Parliament and Government.

Most of the detail of the operation of the BBC is then set out in a Framework Agreement between Government and the BBC. This includes its purpose remits, funding, how the Service Licences and PVTs are supposed to work, regulatory obligations, complaints handling and its relationship with Ofcom.

The BBC has been governed
by a Royal Charter since

1927

“

The Royal Charter is the constitutional basis of the Corporation and guarantees its independence from Parliament and Government.

There is some debate as to whether a Royal Charter and accompanying Framework Agreement remain the most suitable way to enshrine the BBC. There are many options for reform, among which the most relevant is the length of the Charter. There is no set length: there have been eight Charters which have varied in length between five and fifteen years, as well as occasional supplemental Charters. The most recent two Charters have both been for ten years.

The key trade-off is between the benefits of certainty and flexibility. Given the fast-changing media world the relative costs of being inflexible grow. One way of handling this might be to change the length of the Charter – reducing it to a timeframe over which we can be more certain. Alternatively, it would be possible to introduce a new mechanism that provides a point of review mid-way through a Charter period either to a fixed timetable or with a relevant trigger.

Question 19

Should the existing approach of a 10-year Royal Charter and Framework Agreement continue?

Endnotes

Glossary

BBC Executive

The Executive Board is responsible for the operational management of the BBC.

BBC Trust

The BBC Trust is the governing body of the BBC.

BBC Group

The BBC Group refers to the BBC and its commercial subsidiaries.

BDUK

Broadband Delivery UK— the delivery arm for the Government's broadband programmes (and part of the Department for Culture, Media and Sport).

Broadband

A term used by retail Internet service providers to describe their high-speed, always-on, access to the Internet. The term broadband originally refers to the range of high frequency signals used to carry the data being transmitted. Broadband is most often delivered via connection through a telephone line or cable service, but can also be delivered using wireless and satellite connections. A potential access speed of less than 512Kbps is deemed not to be broadband.

Catch-up TV

or TV 'on demand', is a system for watching TV programmes after they have been broadcast using a computer, phone, etc. that is connected to the internet.

DAB

Digital Audio Broadcasting – digital radio.

DCMS

Department for Culture, Media and Sport.

Delivering Quality First

Delivering Quality First (DQF) is the BBC's plan for how it can deliver the highest quality programmes and content to audiences until the end of the Charter in 2017.

Digital Switchover

The process of switching over the analogue television broadcasting system to digital, as well as ensuring that people adapted or upgraded their televisions and recording equipment to receive digital TV. This process was completed across the UK in 2012.

MIA

Market Impact Assessment – an element of the Public Value Test that looks at the impact of any new BBC service or significant change to an existing BBC service.

NAO

National Audit Office.

Ofcom

The Office for Communications – independent regulator and competition authority for the UK communication industries.

On demand

See 'catch-up TV' above.

PSB

Public Service Broadcasting (or Broadcaster) – in the UK these are: the BBC, ITV, Channel 4, S4C and Channel 5.

PVT

Public Value Test – the way of weighing public value against market impact. The BBC Trust uses PVTs to work out the value to the public of new BBC services and changes and to work out the impact it could have on the wider market.

Glossary

S4C

A Welsh language public service television channel based broadcast throughout Wales.

The first television channel to be aimed specifically at a Welsh-speaking audience, S4C is (after BBC One, ITV, BBC Two and Sky1) the fifth-oldest television channel in the United Kingdom (Channel 4 was launched in the rest of the country one day later).

Service Licence

Services Licences are issued by the BBC Trust for every UK public service. It defines the scope, aims, objectives, headline budget and other important features of each service and states how performance is assessed by the Trust.

Smart television

The integration of the Internet (and associated software applications) into television sets and associated devices such as Blu-Ray players, games consoles and set-top boxes. Consumers can browse the Internet and access a range of services (catch-up TV, video-on-demand, user-uploaded content), as well as linear broadcast TV content, via their TV screen.

Spectrum

Radio spectrum – those sections of the electromagnetic spectrum (typically defined as between 3KHz and 300GHz) which are used by a wide range of wireless based services including broadcasting, telecommunications and business radios.

Superfast Broadband

BDUK (see page 158) defines Superfast Broadband as having a potential headline access speed of at least 24Mbps, with no upper limit. Typically, at a wholesale level, the underlying capability can be measured in gigabits. The retail market then takes this capability and delivers affordable propositions.

Telecommunications

Conveyance over distance of speed, music and other sounds, visual images or signals by electric, magnetic or electromagnetic means.

Terms of Trade

Guidance produced by Ofcom (in their 'Code of Practice for Commissioning from Independent Producers') setting out how Public Service Broadcasters should negotiate agreements with the independent production sector over the commissioning of new works.

Ultra HD

Ultra-high-definition television (also known as Super Hi-Vision, Ultra HD television, UltraHD, UHDTV, or UHD) includes 4K UHD (2160p) and 8K UHD (4320p), which are two digital video formats proposed by NHK Science & Technology Research Laboratories and defined and approved by the International Telecommunication Union (ITU).

WOCC

Window of Creative Competition.

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