

Letter from SofS to Sir Michael Lyons, Chairman, BBC Trust

BBC FUNDING SETTLEMENT

I am writing to confirm the Government's decision to determine the level of the licence fee until the end of March 2017.

The BBC is one of the most respected broadcasters in the world and a national asset of extraordinary importance both to our country's culture and its democracy.

I believe the agreement we have reached provides certainty and security for the BBC over the settlement period. The requirement on the BBC to take on important new funding obligations and efficiencies provides the value to licence fee payers necessary in the current economic climate.

This Government will respect the BBC's editorial and operational independence both as a matter of principle and as an obligation for the full duration of its Royal Charter to 31 December 2016. Consistent with the Charter, any decision affecting the scale and scope of the BBC's UK public services, and its commercial and other operations, will remain a matter for the BBC Trust. The Government undertakes to provide a full financial settlement to the end of the year 2016/17, with no new financial requirements or fresh obligations of any kind being placed on the BBC and/or licence fee revenues in this period except by mutual agreement. All necessary legal and other steps, including any necessary legislative changes and State Aid notifications that are required to give this agreement force will be sought and effected by the Government, in consultation with and where appropriate by agreement with the BBC Trust.

Financial parameters

- Under the current licence fee settlement, the fee will remain at £145.50 in 2011/12 and 2012/13. This level will then be maintained in a new four-year settlement to 2016/2017.
- The current ring-fence of approximately £133m per annum will be raised to, and capped at, £150m per annum from 2013/4 to 2016/17 but repurposed for broadband, consistent with the BBC's public purposes.
- The BBC will assume responsibility for funding the World Service, BBC Monitoring, and S4C from the licence fee as detailed below.
- The overall effect of this settlement will require the BBC to achieve a 16% cash-releasing efficiency target, net of implementation costs, over the four years to 2016/17.
- The BBC will maintain its present borrowing limits for the BBC Group and BBC Commercial Holdings to the end of the Charter.

BBC commitments

As part of this new settlement, the BBC has undertaken to provide funding for some new broadcasting activities, set out below. We will now seek to agree with you the necessary amendments to the BBC Agreement.

Local media

- The BBC will play an active role in supporting new local television services through a partnership fund providing capital costs of up to a total of £25m in 2013/14 for up to twenty local TV services, subject to any necessary regulatory approval. The BBC will also commit to ongoing funding of up to £5m per annum from 2014/15 to acquire content for use on its own services from these new services. Should capital costs be required earlier then this will be facilitated by access to the existing digital switchover underspend by mutual agreement.

BBC World Service

- The Government will continue to fund World Service at CSR-agreed levels for 2011/12, 2012/13 and 2013/14. The BBC will be allowed to fund any World Service restructuring costs, at its discretion, during this period. The World Service will become part of the licence fee funded BBC from 2014/15.
- The BBC Trust sets the overall strategic direction of the BBC including the World Service.
- The BBC is independent in all matters concerning the content of World Service output, the times and manner in which this is supplied and in the management of its affairs. The BBC's Editorial Guidelines, Values and Standards are set by the BBC Trust and apply to the BBC World Service.
- The BBC will continue as now to set the objectives, priorities and targets for the BBC World Service with the Foreign Secretary and to obtain the written approval of the Foreign Secretary for the opening or closure of any language service.
- After extracting an efficiency dividend, the BBC will commit to providing sufficient investment in World Service to support its current plans for the period.

New partnership and funding model for S4C

- The Government remains committed to a strong and independent Welsh language TV service, but has concluded that the S4C model is not sustainable in its present form.
- The S4C service must retain its brand identity and editorial distinctiveness, as well as its special relationship with the independent production sector in Wales.
- Public funding for the service must be maintained at agreed levels over the period covered by the Comprehensive Spending Review.

- Having decided to reduce its own funding for S4C as part of the CSR, HMG holds that a new partnership model with the BBC is the best way of securing the long-term future of the service.
- Under the partnership, funding for S4C in future will come from three sources: the licence fee, a continued but reduced subvention from the Government, and commercial income
- There would be a BBC and S4C partnership along similar principles to BBC Alba to begin by 2013/14, with S4C coming under a BBC Trust Service Licence or other operating agreement which would be jointly agreed with the S4C Authority and which would set out the strategic goals and broad editorial requirements of the service.
- A combined Board of the Authority and Trust would oversee delivery of the Service Licence or operating agreement.
- The S4C service will be operated by a joint management board with a majority of independent directors, appointed by the BBC Trust and the Authority. The management board will operate its own commissioning structure.
- Further discussion will be required about the exact form of the partnership, and the Government will play its part in those discussions.
- The service would not be a BBC branded service
- The total content commissioning budget will be for independent producers (outside of the BBC's ongoing statutory commitments)
- In 2011/12 and 2012/13, the Government will continue to fund the service.
- In 2013/14 and 2014/15, the BBC will contribute £76.3m and £76m respectively in cash in addition to its statutory commitments, while the Government will fund at £6.7m in 2013/14 and £7m in 2014/15.
- There will be a further review of S4C's strategy and finances, to conclude in good time before the end of the period covered by the Comprehensive Spending Review.
- The exact level of BBC funding is not set beyond 2014/15. Whilst future funding will reflect continuing synergies and efficiencies it will remain consistent with the commitment to a strong and independent Welsh language TV service, with future services informed by the outcome of the proposed review.
- In the event that a new partnership model does not prove viable for any reason, the Government will not take licence fee money itself for this purpose. But in this situation the Trust will propose a one-off reduction in the level of the licence fee which would be equivalent to the contribution that the BBC would otherwise have made to S4C.

- The Government will continue to fund BBC Monitoring at CSR-agreed levels for 2011/12 and 2012/13 .
- BBC Monitoring will become part of the licence fee-funded BBC from 2013/14.
- BBC will agree a new framework for the adequate supply of monitoring services to the Government.

I also welcome the BBC's plans to enhance its national DAB coverage in the period of this agreement, and to match its national FM coverage as a switchover date draws near.

Thank you for your constructive co-operation in reaching this settlement. It represents a good deal for all parties and reflects the economic environment we are in, while maintaining the independence and funding certainty of the BBC and, most importantly, giving value for money to licence fee payers.

SECRETARY OF STATE