

RADIOCENTRE RESPONSE TO CULTURE, MEDIA AND SPORT COMMITTEE INQUIRY INTO BBC CHARTER RENEWAL

1. EXECUTIVE SUMMARY

1.1 Radiocentre welcomes the opportunity to contribute to the Culture, Media and Sport Select Committee call for evidence on BBC Charter Renewal. In responding to this consultation we have drawn on our members' experience of working alongside and competing with the BBC in radio, audio and music output. This submission deals with the key questions raised by the Committee that are of relevance to radio – grouping the questions into three areas: scale and scope; governance; and regulation and funding.

- **Scale and scope**

1.2 **There is lack of clarity in the BBC's mission that has led to an undue focus on the growth of audience reach and share** without any guarantee of distinctiveness and quality. It should refrain from trying to be all things to all people. A requirement for universality is not the same as saying there are no limits on the BBC's activity.

1.3 **The BBC's share of the UK radio market remains at a high level (54%),** much higher than any other media. This dominance has been underpinned mainly by the mass market proposition provided by its largest music radio services (Radio 1 and Radio 2) at peak times.

1.4 **Key BBC radio services are falling short on distinctiveness and public service content** (especially in daytime). Listeners want BBC radio services to be different from their commercial rivals, but according to independent audience research commissioned by Radiocentre they rate key services Radio 1 and Radio 2 lowest of all BBC stations for 'distinctiveness'.

1.5 **The BBC must also be more cognisant of market impact when expanding into new areas.** The impact and the potential to work in collaboration with other UK media companies should be a more important motivation for the BBC than attempting to gain the largest possible audience.

- **Governance and regulation**

1.6 **Deficiencies in the BBC's system of governance and regulation have perpetuated its dominance.** The regulatory framework and the range of powers available should be reformed to provide improved focus on distinctiveness and accountability.

1.7 **The BBC's public purposes should be revised.** They should include a greater commitment to distinctiveness; a limit to market impact; and more rigorous performance monitoring from the BBC's governing body. These priorities should also be central features of more detailed service licences in future.

1.8 **The BBC requires an external independent regulator alongside a unitary board to hold it accountable.** This is likely to involve a greater role for Ofcom. The BBC's regulator must be able to evaluate it against the public purposes more effectively and take action when it falls short.

- **BBC funding**

1.9 **The licence fee should be retained for the next Charter period.** The advantages of this system outweigh the disadvantages at present, as it maintains a direct link between the public and BBC

services, ensures stability and preserves the BBC's independence. However, reforms to the licence-fee should be considered. Alternative funding models such as a universal levy may also need to be assessed for the future.

- 1.10 **The case for making licence-fee funding available to other providers of public service content should be examined further**, as well as genuine partnership proposals. Commercial broadcasters provide considerable public service content which often serves audiences in parallel with the BBC. Therefore there is a case for distributing licence-fee funding for public service content beyond the BBC.
- 1.11 **There should have been a more open and public debate on the level of licence-fee funding.** Undertaking negotiations behind closed doors risks politicising the BBC, and in future all BBC funding agreements should be put out to consultation.

2. BACKGROUND

- 2.1 The BBC is one of the finest broadcasting organisations in the world. Its best radio content is unrivalled in range and quality while being valued highly by listeners. However, the BBC also holds an extremely privileged position due to the scale of public funding it receives and preferential access to limited broadcast spectrum (in radio it owns four out of five national FM stations, including the only two national FM pop services Radio 1 and Radio 2).
- 2.2 There will be a range of views on how the BBC should exercise these privileges and whether it has the right mission, purposes and values in place to determine the focus of its services – or the necessary regulatory framework to ensure that this is enforced effectively. However, the rationale for the BBC to continue as the cornerstone of the UK's public service broadcasting system should not be in doubt.
- 2.3 There is still a strong rationale for the BBC to continue as a publicly funded body offering a range of high-quality content across radio and other media, despite the dramatic changes in technology and media consumption in recent years. As the Green Paper points out, public intervention in broadcasting can bring significant benefits to citizens and consumers. It can help ensure high-quality public service content at a level that the market alone would not be able to provide. For example, no commercial radio operator could sustain a service like Radio 4, with its extensive commitment to news, current affairs, drama, comedy and documentaries (and its content budget of £88m).
- 2.4 Despite its undoubted strengths, the BBC's mission does need to be more clearly defined and implemented. The widespread support for the rationale behind the existence of BBC should not be taken as an endorsement of the way this is operated in practice. The broad purposes of the BBC (and its subsequent scale and scope) require reform as part of the Charter Review process, in order to reflect its changing role and the choices that are now available to consumers.
- 2.5 There have been dramatic changes in technology and media consumption over the past ten years. As a result high-quality content is much more widely available and accessible to audiences. Consumers of radio and audio content in the UK not only have access to 57 BBC radio stations, but 340 licensed commercial radio stations and 200 community radio, not to mention 20,000 radio stations from around the world via the TuneIn Radio app. In addition to broadcast radio it is now also possible to access music and speech content on demand in a variety of locations and from a range of different sources, using platforms like iTunes or streaming services like Spotify.

2.6 Against this background the BBC needs to work even harder to demonstrate that it is providing additional value through the quality and distinctiveness of its output – and should not seek to be judged by ratings alone. Unfortunately some BBC services have been allowed to shift gradually towards a broader and more mainstream audience, duplicating what is offered by the commercial sector (particularly at peak times). This approach provides poor value for the public as it limits the range and diversity of output available rather than extending choice.

2.7 Radio 1 and Radio 2 are particularly good examples of this trend and we provide further evidence and analysis of these stations later in this document, in response to the questions on appropriate scale and scope. Elements of programming on Radio 3, 5 Live and BBC Local Radio have also been identified as falling short on distinctiveness.

3. SCALE AND SCOPE

The argument that the BBC should become smaller and more focussed on a narrower, core set of broadcasting and online services

3.1 The Green Paper on Charter Review rightly identifies the tendency for some BBC services to over extend their entertainment offering, at the expense of its public service mission to also inform and educate. The Government identifies two significant issues that are likely to have contributed to this – a broad interpretation of the BBC’s requirement for ‘universality’ and deficiencies with the BBC’s public purposes and service remits.

3.2 Universality is not the same as saying there are no limits on BBC activity or that it should seek to provide everything it possibly can for audiences. Instead it should focus on providing something for the broad range of people that fund the BBC with an emphasis on output that is distinctive. Otherwise the BBC may feel compelled to expand the range of services it offers still further and widen its scale and scope. This is the environment that has been created in recent years due in part to the ambiguity in the BBC’s mission, with the impact being particularly evident in the UK radio market.

3.3 The BBC’s overall share of the radio market remains at high level (54 %), much higher than any other media. While it has not grown further in recent years, the BBC has consolidated its dominant position following strong growth throughout the 2000s, as both Radio 1 and Radio 2 shifted to a more populist approach. Between 1999 and 2014 the gap in audience share between BBC radio and commercial radio grew from 2 % to 11 %. During this period the shift in audience in the core 25-44 age bracket (the demographic most valued by advertisers) was particularly significant, with BBC radio eroding commercial radio’s share from 60 % to nearer 50 %.

3.4 The growth in audiences for BBC radio services risks weakening the provision by the commercial sector which depends on audiences to raise advertising revenue and remain sustainable in an increasingly competitive market. Radiocentre commissioned consultants Prospero to try and assess the impact of audience losses on commercial radio’s advertising revenue. This research found that even just the audience which have migrated from commercial radio to the BBC since 1999 could have contributed to higher net revenues to the commercial sector of between £50-60m a year¹. This is a significant impact on an industry like commercial radio that only has total net revenues of around £575m a year, high fixed costs and relatively small margins.

¹ Prospero Consulting, [The Impact of Rising BBC Radio Audience Share on Commercial Radio](#), Sept 2014

- 3.5 The dominant market share of the BBC's radio services – and its appeal to the commercial radio 'heartland' audience of 25-44 year olds – has been driven and sustained largely by an expansion in its mainstream pop music services. In particular the daytime output of the main BBC music stations has become less distinctive and focussed primarily on audience size, rather than on the delivery of a clear public service remit.
- 3.6 This lack of distinctiveness is unfortunate and a missed opportunity as the BBC is capable of using the advantages of its funding and scale to produce high quality radio content that other broadcasters simply cannot provide. However, due to the way that this content is scheduled and promoted it fails to make a sufficient impact on listeners and bring enough of its unique content to daytime audiences.
- 3.7 BBC radio services are falling short on distinctiveness and public service content (especially in daytime). Listeners want BBC radio services to be different from their commercial rivals, but according to independent audience research commissioned by Radiocentre they rate key services Radio 1 and Radio 2 lowest of all BBC stations for 'distinctiveness'².
- 3.8 Analysis of audience perspective, music output and speech content also highlight a lack of distinctiveness (further details are included in Radiocentre's submission to the Green Paper³).
- Audience perspective – Audiences for BBC radio (especially music radio) do not see it as particularly distinctive and are unaware of much of the public service output.
 - Music output – Music on the main BBC stations is not as distinctive as might be expected, particularly during daytime (when 65% of Radio 2 output and 53% of Radio 1 output can be heard on comparable commercial radio stations).
 - Speech content – BBC music radio is under delivering in its range and diversity of high quality public service speech content, particularly in peak times.
- 3.9 The BBC's cross-promotion and marketing activities reinforce its dominance and can play a powerful role in securing the mainstream market positioning of many of its services and programmes. The scale and focus of this cross-promotion is not justified and there should be tighter rules on what the BBC is able to promote.
- 3.10 The future scope of the BBC should be determined by significant improvements to the service remits and more effective regulation. The current service licence remits are much too vague and are not enforced effectively. BBC services should be required to deliver on a tighter and more demanding set of public service targets overseen by its regulator. If BBC services were provided with a clearer definition of what is being required of them in terms of distinctiveness (and were held to account for the delivery of these requirements) this would benefit the BBC, its listeners and result in a healthier and more diverse radio sector in the UK.

The importance of the BBC's role in training and technical innovation and its support to the UK creative economy overall

- 3.11 As a public service broadcaster, the BBC's expansion into some technical areas should primarily be as an enhancement and extension to its broadcast role, and secondly as a pioneer of new technologies which commercial providers cannot afford to test and develop in the same way. In the interests of UK media, the BBC should collaborate on technology, while competing on content.

² Kantar Media research for Radiocentre, August 2015

³ <http://www.radiocentre.org/wp-content/uploads/2015/10/Radiocentre-response-to-DCMS-Green-Paper-on-BBC-Charter.pdf>

- 3.12 However, public investment does mean that the BBC has an important role in supporting growth and innovation as well as a diversity of media services and content. Previously this has included the roll-out of digital television and broadband, in future it should include a commitment to improving the scale and quality of digital radio. There will be constraints on the BBC following the recent licence-fee agreement, but the BBC's role in supporting digital radio is especially critical. Without the support of the BBC (and Government) it would not have been possible to agree the build out of local digital radio coverage from 66% of the UK population to over 80% in the past few years (with a plan to get to around 90% by 2017).
- 3.13 In order to sustain the momentum in expanding digital radio the BBC will need to work with Government to develop a solution that will expand coverage beyond the levels agreed in the current plan, so that rural and low population areas are reached. In addition, the BBC should commit to carrying its local radio network on the existing local multiplexes for the duration of their licences (until 2030). A further boost to digital listening might be to consider moving an entire network – for instance, Radio 1, on to digital only platforms (DAB and online).
- 3.14 Another good example of effective partnership and innovation, where BBC and commercial sector have worked together is the success of Radioplayer. This technology allows listeners to discover and listen to live and on-demand radio from any BBC or Ofcom licensed radio station. It attracts an average of 7 million listeners each month, has launched free phone and tablet apps, and the technology is being licensed overseas. The common data and interface model that Radioplayer employs is also being used by radio providers to develop connected technology in cars and hybrid radio.
- 3.15 However, Radioplayer is also an example of how the BBC acts without due care and attention to the wider creative economy. In 2012, Radioplayer launched its mobile app: a single point of access for all licensed radio stations in the UK. Unfortunately, the BBC launched its version of the iPlayer Radio app only one week later. The BBC iPlayer Radio application severely limited the impact of an innovation developed in partnership with commercial broadcasters. The on-air publicity and branding afforded to iPlayer Radio meant that by December 2012 it had been downloaded 10 times more than Radioplayer. In 2014, 28% of all mobile radio listeners listened to BBC iPlayer radio, only 7% to Radioplayer.⁴
- 3.16 The launch of iPlayer Radio is an example of when the BBC could be more aware of its own market impact and the damage it can do to commercial operators. It entered a congested emerging market, invested time and resource into developing an app that offers access to its radio services in the same way as one which already existed (and it had developed in partnership with commercial operators).
- 3.17 iPlayer Radio also illustrates a wider problem: a lack of obligation for the BBC to provide links out to commercial broadcast content. Users accessing iPlayer Radio and BBC Online still find it very difficult to access and find commercial equivalents within these platforms. Instead they are being locked into BBC-specific content.
- 3.18 The BBC must be more cognisant of wider market implications and opportunities when attempting to expand into new areas in the future. The impact and the potential to work in collaboration with other UK media companies should be a more important motivation for the BBC than attempting to gain the largest possible audience in order to justify the licence-fee.

⁴ http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr15/UK_3.pdf, pp. 250-1.

3.19 Unfortunately this does not appear to be the case at present. Only recently the BBC outlined proposals to introduce an interactive radio service and music streaming platform making available online the 50,000 music tracks it broadcasts each month⁵. This proposal risks stifling innovation and competition in the radio and audio market, as new entrants (and potentially existing operators) will be unable to compete with a BBC service funded by the licence fee, free at the point of use, containing no advertising. The introduction of such a service would be a perverse outcome from the Charter Review process, as it would mean increasing the BBC's dominance in the radio and audio market. It also seems contrary to the rhetoric from BBC management that rejects claims that it is being expansionist in its ambitions.

4. GOVERNANCE AND REGULATION

The governance of the BBC and mechanisms for holding the Corporation to account for the public money it receives and spends in line with the expectations of those who fund it

- 4.1 Since it was established in 2007, the BBC Trust has gone some way to address the shortcomings identified in the previous system (BBC Governors) but confusion and uncertainty has remained around strategy, enforcement and financial management. The current structure also means that the Trust is fundamentally conflicted as a both regulator and cheerleader for the BBC.
- 4.2 Deficiencies in the current system of governance have led to distortions in the radio market and perpetuated the dominance of the BBC. Well-intentioned public purposes have been misinterpreted by the BBC to fit an expansionist approach which focuses on amount of audience, rather than quality of content, and this has been left unchecked by a governing body that lacks the regulatory powers to guide it effectively.
- 4.3 There is a consensus is that the current model of BBC regulation and governance is unsustainable. Even the Chairman of the Trust has accepted the structural deficiencies inherent in the current system and is proposing a move towards more external regulation. An external independent regulator (probably alongside a BBC unitary board) could help achieve much greater clarity about the role of the Executive and the regulator. There are two main options for future regulation – a new standalone regulator or passing greater responsibility to Ofcom.
- 4.4 A new standalone regulator (such as a Public Service Broadcasting Commission or OfBeeb) would have some benefits over the Trust model. It could at least help address the structural challenge of needing a regulator that is genuinely separate and completely independent from the BBC. It would also be able to concentrate entirely on its role as regulator without being conflicted or suffering from confusion as to its primary function.
- 4.5 However, there are considerable risks in establishing a new single purpose regulator that will deal only with the BBC, including over dependence on the BBC or the organisation becoming so close to the body it regulates that it is unable to act in the public interest (leading to a form of 'regulatory capture'). There may also be the issue of potential confusion with the powers and responsibilities of Ofcom. Therefore moving to a standalone regulator is possible but not an ideal solution. It would create a number of new challenges which would need to be worked through in detail during the implementation process.
- 4.6 In which case the best model is likely to involve Ofcom assuming a greater role in regulation of the BBC, due to its range of expertise and successful track record. However significant steps would be required to mitigate the risks of undue concentration of power, the potential disruption

⁵ BBC, British Bold Creative, September 2015

to Ofcom (or the BBC) and lack of clarity over its responsibilities. This is likely to mean establishing a separate team, division and even management board within Ofcom to specifically with the BBC.

- 4.7 It is also crucial to ensure that the right regulatory powers are available and clearly understood. While the model of regulation is important it only provides the framework. Regulatory powers such as service licences and Public Value Tests should be reformed and new tools developed in order to maximise public service content and minimise market impact effectively. Holding the BBC effectively to account is critical, so a range of meaningful sanctions should apply. These matters should be considered in detail by the independent review overseen by Sir David Clementi into how the BBC is governed and regulated⁶.
- 4.8 For the new model to be effective there must also be a very clear division of responsibilities between any external regulator and the proposed unitary board. Unless the external regulator assumes the primary role and key regulatory powers any changes risk reducing the level of external scrutiny and oversight of the BBC's activities (for example, if the BBC unitary board was to take on matters previously dealt with at arm's length by the BBC Trust).

The effectiveness of public consultation on BBC services and content choices to meet the needs of audiences, and how these consultation mechanisms might be strengthened

- 4.9 An open and transparent public broadcaster should have an open and transparent process of consultation and evaluation for its services. The next body to govern the BBC should have stronger regulatory powers and hold the BBC to account against more prescriptive service licences. While powers such as service licences, public value tests and independent regulation of editorial standards were a significant steps forward from the previous system they now require further development.
- 4.10 The current service licences are too broad in their scope and language. The Trust sets 'conditions' as the only measurable targets within licences, but many lack appropriate metrics or clarity of purpose (or sanctions if these targets are not met). Therefore the remits lack specificity, ambition or guidance on strategic priorities.
- 4.11 Tighter, more demanding public service targets in BBC service licences, which focus on how these services can offer distinctive content, would significantly increase the public value generated by the BBC. To date, the Trust has not demanded this, partly because the public purposes underpinning this regime have lacked clarity and sufficient emphasis on distinctiveness.
- 4.12 More precise service licences, re-developed by a more independent body, would increase the impact of public service impact significantly. Many of the ideals within the purposes are well-intentioned, but much of the public service message of the BBC is subsequently lost because of the vague way the purposes are written and the way they been interpreted by the BBC Trust.
- 4.13 Providing BBC management with a guide of what is expected from their services should be a priority. Service licences for the BBC portfolio should be revised to include more tangible and quantifiable targets. The process of reviewing licences should then be used more effectively to do more to ensure its TV and radio stations are better positioned to deliver the BBC public purposes and consider the wider market impact and the needs of licence-fee payers.

⁶ <https://www.gov.uk/government/news/independent-review-into-how-the-bbc-is-governed-and-regulated>

4.14 There also needs to be a revaluation of what is contained within a service licence. BBC services have now expanded across platforms, and launched new brand extensions or ‘products’. These products currently appear outside the scope of service licences, and therefore expand without regulation. Specifically, BBC Online now incorporates significant amounts of BBC content which ranges from international news to Playlister, whilst iPlayer can feature anything from a Radio 1 video channel to a standalone children’s CBeebies audio streaming service.

5. BBC FUNDING

The possible replacement of the licence fee with a universal household levy; and a longer-term possibility of a move to a degree of subscription for BBC services

5.1 Public investment in BBC services (including radio) provides significant benefits. The market alone would simply not be able to deliver the full range and diversity of high-quality content of which BBC radio is capable.

5.2 On balance there are enough advantages in retaining the current system at least for the next Charter period. This will maintain the direct link between licence-fee payer and BBC services; preserve the BBC’s independence from Government; and ensure stability during a period of financial change. The licence-fee does require reform to address some of its shortcomings, including its regressive nature and the fact it does not cover online viewing. In the short term, the ‘iPlayer loophole’, which allows non-licence-fee payers to access on-demand BBC services over the internet, should be closed. It is an anomaly for UK residents who do not contribute to the BBC to be able to access its content.

5.3 Alternative funding models may also need to be considered in the next few years, but are not necessary or appropriate at this stage, particularly given the next Charter period commences in little more than a year from now. A universal household levy might provide some advantages, as it could be implemented in a more progressive way and reduce the difficulties associated with evasion. However, there are a number of disadvantages that have not been addressed adequately, including the costs associated with the transition, the basis for any concessions and how to deal with those households not consuming BBC services.

5.4 In addition, large scale subscription is not appropriate as a means of funding core BBC services. Such an approach would be complex, costly to implement and contrary to the principle of BBC services being available to UK households on an equal basis. As the Green Paper notes, for any significant subscription model to be introduced this would need to include TV services, which would require a major infrastructure roll-out, take a number of years to complete and have significant costs associated with it. Crucially for radio the sort of conditional access technology that would be required to implement subscription does not even exist for broadcast services on FM, AM or DAB, so an alternative solution would be required to fund radio.

The availability of funds offered on a contestable basis to others for the production of PSB content

5.5 There is a case for some BBC funding being made available on a contestable basis. The process, administration and criteria for the sort of content or services that would qualify would clearly need detailed consideration. However, it is conceivable that plurality of supply and value for money could be improved in certain areas of radio content if the BBC was to make funding available to support projects or programming of clear public value.

5.6 A Public Service Broadcasting (PSB) fund is something is already being considered and put into practice in other European Union states. Switzerland has embraced a version of top-slicing for

commercial operators for nearly two decades; Finland, Iceland and Germany have recently moved to fund their PSBs via a similar direct ring-fenced taxation; whilst the Republic of Ireland continues to consult on a shared PSB fund between commercial operators and the public service broadcaster.

- 5.7 In the UK this could include funding ring-fenced for specialist music events or concerts such as those provided by Classic FM in partnership with some of the UK's leading orchestras. Licence-fee funding might also be made available on a contestable basis for other public service programming such as documentaries or children's programming.
- 5.8 The area of public service content that has attracted most attention in recent months has been the provision of local news. Specifically the BBC has outlined a proposal to work in partnership with local media to support a Local Accountability Reporting Service of 100 public service reporter across the country, while also develop a News Bank of regional video and audio content.
- 5.9 While it is encouraging to see the BBC seeking to develop a partnership approach to local media (assuming that these opportunities would also be available to local radio) some commercial operators will be concerned that this could lead to an expansion by the BBC into local reporting with the funding of an additional 100 of its own journalists. This could implications for local media market and plurality if it expanded the BBC's role in local newsgathering at the expense of local press and radio.
- 5.10 However, the recent comments by the Secretary of State on this issue were encouraging, stating that *'I would therefore hope that the BBC would not seek to recruit or employ these journalists directly. Instead they should look to commission content from qualifying local media organisations and news agencies perhaps on the basis of tender'*⁷.

The process for setting the level of funding for public service broadcasting

- 5.11 Radiocentre – along with many other interested parties – would have appreciated the opportunity to share some of the above perspectives with Government before the recent negotiations about BBC funding were concluded. Although the deal reached appears to be sensible and balanced from the perspectives of those around the negotiating table, the implications on the Charter Renewal process mean that a broader discussion would have been preferable.
- 5.12 Undertaking negotiations behind closed doors in this matter risked politicising the BBC and the deal itself could give the false impression that the BBC is seen as an arm of Government. The next Charter should set out much more clearly the process by which decisions on the BBC's public funding will be made. There should be a legal obligation for Government to consult publicly with stakeholders as part of any funding negotiations, and financial changes should be explicitly part of Charter Review discussions in order to consider the direct programming implications.
- 5.13 On the broader question of the appropriateness of a 10 year Charter Review period, we are concerned that this lacks the adaptability necessary for a modern multimedia organisation like the BBC. Given the pace of change in modern multimedia organisations – and the scale of changes that are being considered to future governance and regulation – there would appear to be a strong case for a shorter Charter period on this occasion (or to at least conduct a mid-term review of performance and progress). This would enable the BBC, Government, stakeholders and a future regulator to at least have the opportunity to deal with any issues that arise in the interim, without waiting another ten years for these to be resolved. A shorter period could also have the

⁷ <https://www.gov.uk/government/speeches/culture-secretary-keynote-to-rts-cambridge-convention>

benefit of separating Charter Review from General Elections, which should avoid over-politicising the process.

6. About Radiocentre

6.1 Radiocentre is the industry body for commercial radio. We work on behalf of over 40 stakeholders who operate 278 licensed radio stations across the UK and represent 90% of commercial radio in terms of listening and revenue.

We perform three main functions on behalf of our members:

- Drive industry revenue by promoting the benefits of radio to advertisers and agencies through a combination of marketing activity (e.g. events, advertising, PR, and direct mail), research, and training
- Provide UK commercial radio with a collective voice on issues that affect the way that radio stations operate, working with government, politicians, policy makers and regulators to secure the best environment for growth and development of the medium
- Ensure advertising messages on commercial radio stations comply with the necessary content rules and standards laid out in the BCAP Code of Broadcast Advertising and the Ofcom Broadcasting Code.

www.radiocentre.org