

RADIOCENTRE RESPONSE TO PUBLIC ACCOUNTS COMMITTEE

BBC STRATEGIC FINANCIAL MANAGEMENT

BACKGROUND

1. The Public Accounts Committee [call for evidence](#) on the strategic financial management of the BBC provides a timely opportunity for its members to question the BBC on a number of areas of significant importance to licence fee payers. The commercial radio sector has a number of important questions (at the end of this submission) that we believe would be helpful for the committee to put to the Director General and the Chief Operating Officer at its hearing on Monday 22nd March.
2. Having reviewed carefully the call for evidence we felt that it was important for the commercial industry to highlight some key issues for the committee to consider in the context of its inquiry. While value for money for licence fee payers is important, the protections for other media providers, underscored in the Charter and Framework Agreement, must also be considered when addressing the remit and impact of the BBC. Future focus around the BBC in the coming years should continue to ensure a significant distinctive public service role of the broadcaster, but it must also ensure sufficient safeguards are in place to minimise its overall market impact, especially in those markets where it remains a significant or dominant player such as UK radio and audio.
3. Commercial radio plays an important role in the UK radio sector, particularly with its distribution of public service content. Alongside the BBC's radio services, it provides choice and plurality of news, music and entertainment to huge audiences across the country. 36 million people (around 66% of the population) tune in to commercial radio for an average of 13 hours each week.
4. However, the BBC remains the dominant force in radio and audio in the UK. It continues to have a market share of around 50% of listening time (more than double that of its nearest competitor), a significant funding advantage, preferential access to broadcast spectrum and huge marketing and cross promotion power across TV, radio and online. The BBC currently receives around £3.5bn pa of licence fee funding to support its operations, to be increased by inflation over the next year ahead of a new funding settlement, in addition to commercial and other revenues. According to Ofcom the BBC spends over £740m of this funding on UK radio services, more than the total revenues of the entire commercial radio sector.
5. Given this background – and the continued development and expansion of BBC radio and audio services – we believe that it is crucial that the BBC's role and remit is clear, with appropriate levels of external regulation and scrutiny. Commercial radio has traditionally supported universal funding for the BBC for it to deliver distinct, public service radio content. We have not supported privatisation of BBC radio and there is currently no viable subscription model for radio in the UK. However, due to its funding model and powerful position in UK broadcasting, it is right that the BBC is subject to independent regulation, as well as specific obligations on distinctiveness and market impact.
6. In 2016 Radiocentre welcomed the new obligations on the BBC in exchange for guaranteed licence fee income, with Ofcom taking on the role of external regulator. Specifically, the Charter and Framework Agreement stated that Ofcom “must seek to increase the current requirements on the BBC as a whole to secure the provision of more distinctive output and services”¹.

¹ BBC [Framework Agreement](#), Schedule 2, Section 2

7. The Charter and Framework Agreement included specific guidance on what will be expected of BBC services in future. The clear direction to Ofcom when creating the BBC operating framework was to: increase the current range of regulatory requirements and have a presumption against the removal of existing requirements. For radio this included specific measure to re-enforce the distinctiveness of Radio 1 and Radio 2. Despite this guidance, Ofcom has overseen a reduction in the obligations on BBC radio services and the BBC has sought to entrench its market dominance by outlining plans for new radio services and expanding its range of online services on the BBC Sounds platform (which is not currently subject to requirements under the BBC Operating Licence).
8. Therefore, it is surprising and perhaps counter-intuitive for Ofcom to be proposing measures ahead of the DCMS mid-term review of the BBC Charter (and in a recent speech²) that would appear to pave the way for fewer requirements on BBC services and less accountability. This is not only counter to the guidance provided by Government and approved by Parliament, but would also undermine Ofcom's ability to measure and assess the delivery of the BBC's public purposes in any meaningful way.
9. Moreover, if Ofcom believes that there is a case to modernise BBC regulation and the operating framework to support distinctiveness and the future of Public Service Broadcasting, it would be much more appropriate for Government to have the opportunity to examine these issues in further detail as part of the mid-term review of the BBC Charter that is due to commence at the start of 2022.

PUBLIC VALUE OF COMMERCIAL RADIO IN THE UK

10. The public value of commercial radio is significant, including national and local news bulletins, community and social action, music, technology and innovation. However, this important public value is at risk when the BBC, without due regard to its impact on competition, introduces new services or expands current services to target audiences which are essential to ensure the viability of the commercial radio sector. This approach not only leads to a lack of distinctiveness in radio but undermines the viability of commercial radio services and their important public value.
11. A recent survey of listeners³ found that 77% see radio as a trusted source of national news, more than any other media, with social media the least trusted. The same report also found that commercial radio plays a particularly strong role in providing reliable news and information to audiences that are much less likely to access news on other media. This includes more than 12 million people for whom radio is their principle source of news updates at key points throughout the day and during emergencies.
12. Commercial radio stations in the UK provide an extensive range of public value content for all audiences. On average each station provides around 10 hours of public value output, made up of news and sport, travel, weather, local events and charity appeals a week. Collectively, radio stations also organise and attend over 10,000 local and charity events a year and directly raise over £30m for charity.

² <https://www.thetimes.co.uk/article/bbcs-arts-and-religion-shows-at-risk-in-plan-to-loosen-strict-quotas-pl6lrmvq7>

³ [Beyond the Bubble](#) (Radiocentre, Dec 2020)

13. Commercial radio is funded almost entirely by advertising and operates in a highly competitive market, generating £703 million in ad revenues in 2019⁴. It also supports £683m in gross value added to the UK economy and over 12,000 jobs. Its advertiser-funded model enables it to provide content for audiences that is high-quality and free at the point of use.
14. Radio advertising spend provides a substantial boost to the UK economy and businesses. Part of this boost is through the return on investment (ROI) that advertisers enjoy as a direct result of investing in the medium. Previous research⁵ has found that radio provides an average return on investment for advertisers of £7.70 for every £1 they spend. Applying this to advertising revenues for the entire industry means that the total ROI over £5.2bn.
15. The diversity of the commercial radio audience is also notable, particularly when compared to the UK radio industry overall. For example, the sector reaches 62% of black, Asian and minority ethnic (BAME) listeners, compared to a 42% reach by BBC services. It also reaches 67% of listeners considered to be in a lower socio-economic classification (C2DE), with only 52% reached by the BBC.
16. The public value of commercial radio is perhaps best encapsulated during times of emergency. At these crucial times commercial stations are extremely well placed to provide listeners with up-to-the-minute coverage of both local and national emergencies. There are numerous examples of incredible responses that radio stations have provided to recent significant events, including terror attacks, national weather emergencies, and more recently COVID-19.
17. Research suggests that more and more people are turning to trusted news and entertainment during lockdown. A recent survey from research company DRG for Radiocentre found that a significant proportion (34%) of listeners are listening for an extra 1hr 53 minutes per week on average⁶. According to the DRG research, the reasons people give for listening longer to the radio as they spend more time at home are unsurprising and include the following: – Keeps me in touch with the outside world (90%) – Keeps me informed (89%) – Keeps me company (84%) – Makes me feel happy (77%) – Delivers trusted news (64%).
18. Despite the very difficult circumstances over the past year, commercial radio is providing significant value for audiences and has stepped up the frequency and duration of news coverage across the vast majority of stations and networks. This has meant additional news coverage and regularly refreshed bulletins 24 hours a day every day, as well as special coverage of Government daily news briefings and breaking news flashes.

QUESTIONS FOR THE COMMITTEE TO RAISE WITH THE BBC DIRECTOR GENERAL AND CHIEF OPERATING OFFICER

19. Fundamentally, the extremely important public value provided by the commercial radio sector (documented above) is at risk should the BBC continue to use its market dominance to encroach on competition from other UK media providers. The following questions cover key areas that will likely be of interest to the committee and its inquiry.
 - **Distinctiveness** – Ensuring that the BBC delivers distinctive content is paramount to its role as a public service broadcaster, funded by the licence fee. Early indications from Ofcom that quotas in the operating licence could be reduced is likely to be seen as a significant

⁴ <https://www.radiocentre.org/the-audio-market/ad-revenues-and-forecasts/>

⁵ <https://www.radiocentre.org/roi-multiplier/>

⁶ <https://www.radiocentre.org/radio-listening-surges-during-november-lockdown/>

departure from the requirements set out in the Charter and Framework Agreement. How will the BBC ensure distinct content is delivered across a broad range of areas (while having minimal overlap with existing commercial media content) if its services have no clearly defined remit or conditions?

- **Transparency** – The BBC’s flagship audio app, BBC Sounds, has evolved significantly since its launch in 2018. New services and content is being added incrementally to BBC Sounds, with no consultation or comprehensive analysis of the market impact of these changes by Ofcom. We understand that there is very limited transparency around costs, changes and the performance of the BBC Sounds platform itself. Will the BBC commit to providing greater transparency around future changes and the performance of Sounds, along with publication of its analysis of potential market impact of such changes?
- **Global competition** – While the BBC does face competition from global players, there is a real risk that as the BBC seeks to address this issue that it underestimates its impact on the UK’s domestic media market. Does the BBC recognise that changes that may be small to global players such as Netflix and Spotify, may be very significant to UK media broadcasters?
- **Value for money** – The Charter and Framework agreement set the direction for the BBC, but they also help to limit its significant impact on other UK media. There are legitimate concerns therefore about value for money for licence fee payers when the BBC seeks to emulate services already provided by commercial competitors. Surely the BBC would provide greater public value (and limit market impact) by focusing its investment in radio and audio content on areas not already well catered for by UK media and less in areas already well served?

ABOUT RADIOCENTRE

Radiocentre is the industry body for commercial radio. We work on behalf of more than 50 stakeholders who represent over 90% of commercial radio in terms of listening and revenue.

www.radiocentre.org

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