

RADIOCENTRE RESPONSE TO HOUSE OF LORDS COMMUNICATIONS AND DIGITAL COMMITTEE INQUIRY INTO THE FUTURE FUNDING OF THE BBC

SUMMARY

1. Radiocentre welcomes this inquiry into future funding of the BBC. Radio services from the BBC and commercial radio reach 90% of the adult population of the UK every week. These services are loved by audiences and provide significant public value through their mix of news, music, entertainment and information. Radio is consistently found to be the most trusted source of news and information available to audiences in the UK¹ and Europe².
2. Supporting this content with a sustainable funding model is essential for both BBC and commercial radio to continue to thrive. The licence fee has offered the best approach for funding BBC radio until now and will be in place until at least 2028.
3. New technology and changing consumer habits are evident for all media. These changes are starting to raise questions about whether alternative funding models should now be considered. When assessing these changes, it is worth noting the context for radio and the fact that the BBC remains dominant in in this market, so requires particular attention and robust regulation to ensure distinctiveness and minimise market impact.
4. In parallel with the considerations over BBC funding it is also right to review whether the purpose and remit of BBC are appropriate, or should be adapted to reflect the BBC's changing role. In particular, the Government may need to examine the way in which the BBC interprets its requirements around universality. These sometimes appear to provide a perverse incentive for the BBC to prioritise audience reach over distinctiveness.
5. The Government should also consider how its mid-term review of the BBC Charter could help to underpin clearer and more consistent and transparent, in order to ensure public value and distinctiveness of BBC services is secured. This is necessary to help ensure the best possible range and quality of output for audiences, while minimising the market impact on competitors.
6. On the options for BBC funding, Radiocentre is considering the implications of the Government's approach and review of licence fee funding in more detail. Our perspective, as set out below, is based on previous analysis and assessment of alternative funding options.
7. In summary, we continue to see the case for publicly funded BBC radio services which are distinctive and regulated effectively. **Currently none of the alternative options for funding the BBC (including advertiser funding; subscription; a household levy; or direct Government funding) would seem to be in the interests of radio audiences or the radio sector as a whole.**
8. Radiocentre and the commercial radio sector will engage constructively with Government on all options for BBC funding. This is clearly the beginning of a long process. As part of these considerations we would ask for the support of the Committee in emphasising the specific factors affecting radio and the different market context that it faces, to ensure that its important role is not overlooked.

¹ Ofcom survey '[News consumption in the UK](#)' (June 2017)

² European Commission ([Eurobarometer](#) 92, 2019)

NEW TECHNOLOGIES AND CHANGING CONSUMER HABITS

9. The emergence of new technologies and changing media consumption habits in recent years is indisputable and has been well documented, along with its impact on established broadcasters such as the BBC. However, we would argue that the focus of much of this discussion has been relatively narrow, in that it has considered the changes in TV and audiovisual but neglected the very meaningful differences in the impact on radio and audio.
10. There is no doubt that the advent of much greater competition in television followed by the entry of international audiovisual platforms such as Amazon Prime, Disney+ and Netflix has eroded the historic dominance of UK television broadcasters such as the BBC and challenged the ways that they reach their audience. Average audience reach for TV fell by nearly 10 per cent between 2015 and 2020 from 92 per cent to 84 per cent for all TV and from 81 per cent to 71 per cent for all BBC channels. This trend has also had an inevitable impact on average viewing hours, with a decline of 23 per cent for all TV and 29 per cent for BBC services between 2010 and 2019 following the arrival of global streaming services including Netflix (2012) and Amazon Prime (2014).
11. Radio is different. The UK audio market has not evolved in the same way as the audiovisual market in recent years. Radio reach and consumption has remained much more consistent, as has the BBC's position within it. Radio is of course facing its own form of digital disruption and competition, with a growing share of listening now on digital platforms and the emergence of new listening devices such as smart speakers with voice activation. To some extent it is also competing with digital streaming services such as Spotify and Apple Music as well as a growth in podcasts.
12. However, the reality is that audio markets are in general much less globalised than in television. Moreover, a great deal of the alternative audio listening available is complementary to radio, with music streaming services largely acting as a replacement for personal music collections or downloads. The radio industry is not complacent about these trends, but the fact is that live radio listening still currently accounts for 70 per cent of all audio listening (MIDAS)³ and is expected to remain the dominant form of audio consumption into the 2030s.
13. Consequently, the BBC remains the dominant force in radio and audio in the UK and is likely to remain so for the foreseeable future. Examples that illustrate the BBC's dominance in radio and audio are outlined below.
 - **Market share** – The BBC accounts for around a 50 per cent share of all radio listening in the UK, compared to a 28 per cent share in television. Its precise level of audience share has fluctuated but it has remained over 50 per cent on an annual basis for more than 20 years according to RAJAR the official audience measurement body.
 - **Funding** – The BBC spent around £745m on its UK radio services in 2019⁴. This is far in excess of what any of its competitors are able to invest in audio and 20 per cent more than the entire commercial sector revenue combined. This funding gap grew even further in 2020 (to 37 per cent) as commercial radio revenues dropped due to the impact of the pandemic. This is in stark contrast to the TV market where the BBC's expenditure does not dominate, giving commercial operators more space to compete.

³ https://www.rajar.co.uk/docs/news/MIDAS_Winter_2021.pdf

⁴ Ofcom Communications Market Report

- **Spectrum and distribution** – The BBC has benefited from a significant and long-term advantage due to its access to the most valuable broadcast spectrum. It owns four out of five national FM stations, including the only two national FM pop services Radio 1 and Radio 2. It has sought to duplicate this structural and legacy advantage on broadcast platforms to its distribution online through BBC Sounds, so that it becomes the leading UK platform for radio, podcast and music content.
 - **Cross promotion** – It enjoys huge marketing and cross promotion power across TV, radio and online. The scale and nature of this cross promotion is unjustified and inappropriate given that much of its focus is on content or services with little or no public value. While there have been some small steps towards improving transparency on cross promotion there are no clear limits in place, despite the scale of the BBC’s cross-media proposition and its role in cementing its dominance. In addition, the promotion of significant services such as BBC Sounds has not been assessed despite an estimated monetary value of BBC Sounds cross-promotion alone potentially being as much £394 million (66 per cent of UK radio advertising revenue)⁵.
14. We therefore believe the Government and regulators need to take adequate account of the persistent structural advantage that the BBC enjoys in the audio market, and the significant differences in the development of the audio market relative to the audiovisual market. Considering the specific issues facing audio should help to maximise the benefits for radio listeners by underpinning the public value required by BBC radio services, while supporting distinctiveness. This in turn should also provide an opportunity to limit any negative competitive impact or crowding out of commercial services.

PURPOSE AND REMIT OF THE BBC

15. The Committee has asked for views on the purpose and remit of the BBC as a national broadcaster. There will be a broad range of views on this question and how its purpose might change in light of shifts in the market and consumer behaviour. At a high level the BBC’s current public purposes and values appear to provide a laudable set of aims and objectives for the organisation, setting out its priorities in delivering of its mission “to act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain”⁶.
16. However, the effectiveness of the current public purposes in determining a clear role and remit for the BBC and its services is undermined by a number of factors, including the overarching requirements for universality; the broad language and terminology used to describe the public purposes which (means that it would be difficult to imagine any programme or activity not falling within one of them); and the practical interpretation and enforcement of regulation by Ofcom.

⁵ https://www.ofcom.org.uk/data/assets/pdf_file/0020/216371/radiocentre.pdf

⁶ <https://www.bbc.com/aboutthebbc/governance/mission>

17. On universality, this has been seen as one of the defining characteristics of the BBC and public service broadcasting in general, which is understandable given the funding mechanism of a licence fee charged to all users and the public ownership and accountability of the BBC. The concept of universality is sometimes drawn quite broadly, but is ambiguous and means different things to different people so it is difficult to rely on this term as an underpinning for the activities of the BBC. For example, it is used to justify the BBC's provision of all types of content to meet the needs of all audiences, regardless of the extent of provision by others, or that the BBC's services should be available and accessible on all platforms and devices, free at the point of use (e.g. digital and online services).
18. Yet certain elements or views on what universality means being emphasised at different points depending on the area of the BBC's activities that is being discussed. For the BBC to operate against such a background of ambiguity is unhelpful. It means that its mission is not defined adequately and can be interpreted incorrectly as providing the BBC with an obligation to offer every type of content, programme and service across all platforms, all of the time. As a result, there is a tendency for some BBC services to over extend their entertainment offering, at the expense of the public service mission to also inform and educate. In future we would welcome clarification that universality is not the same as saying there are no limits on BBC activity and should refrain from using this as a justification to provide all types of content being provided to all audiences.
19. Alongside this need to clarify the BBC's role on providing universality, it should also move towards a more tightly defined range of public purpose with remits and conditions, enforced by Ofcom as the external regulator. This is not the first time that Radiocentre and other stakeholders have proposed this approach. During the last Charter Review process 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"⁷.
20. 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 expending its range of online services on the BBC Sounds platform. We hope that the upcoming mid-term review of BBC regulation will examine this issues in further detail and look again at measures that were supposed to increase the distinctiveness of BBC radio and audio.

⁷ BBC [Framework Agreement](#), Schedule 2, Section 2

21. The mid-term review will also provide an opportunity to reconsider the current process for assessing the merits of proposed changes to BBC services or the introduction of new services. Whilst the current framework sets out a number of steps required if the BBC wishes to launch new broadcast radio or TV services (including a public interest test for the BBC Board and a competition assessment by Ofcom), this process has not been updated for a digital age. Consequently, the BBC has been able to launch a number of online services and radio stations, including Radio 1 Dance and Radio 1 Relax, without engaging in a formal consultation process. This is despite the lack of any apparent public value from such services or any clear articulation of how they fit within the BBC's remit.

BBC FUNDING MODELS AND IMPACT

22. Commercial radio has always supported licence fee funding for the BBC and its radio services, tending to describe it as the least-worst option, as all potential alternatives would appear likely to have a very significant negative impact on competitors and for radio audiences.

23. We can understand why the Government wishes to examine the options for future funding models, especially given some of the changing in listening and view habits, along with technological developments in recent years. The commercial radio sector will consider the implications of these changes and will engage with the relevant processes with its considered response. At this relatively early stage in the process of reviewing alternative funding models for the BBC we simply offer an overview of the position we have taken until now and our rationale.

24. In summary, commercial radio's view is that there is still a strong case for the BBC to continue as a publicly funded body offering a range of high quality content across radio and other media, despite the changes in technology and media consumption in recent years. When operated in a proportionate and targeted manner, 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 provide to the same extent. This was part of the original rationale for the BBC and a key reason why the system of public service broadcasting in the UK has retained the support of successive governments and the public.

25. As noted above, there are certain BBC services and programming that it would simply not be possible or commercially viable 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 £83m). In addition, the investment by other BBC radio networks in specialist music output, minority sports, local discussion and debate would be very difficult for commercial operators to support on a consistent basis.

26. There are several alternative options (or combination of options) for funding BBC services that appear to be being given consideration at this point. These include advertiser funding; subscription; a household levy; and direct Government funding – we address each of these in turn below.

27. It is worth noting that a future funding model could be a combination of these and other approaches. For example, the BBC could use its enhanced ability to increase borrowing to help drive international revenues to a much higher level, utilising this income alongside funding sources in the UK to secure its position.

Advertising

28. Requiring BBC content to become advertiser funded would fundamentally change the whole ethos of the organisation and create entirely new incentives. BBC services would need prioritise popular programming rather than ensure distinctiveness of its output, in order to maximise audiences that could be monetised with advertisers. This would undermine the public service broadcasting ecology in the UK and the range and quality of output for audiences.
29. From a radio perspective, opening up BBC services to commercial imperatives would also bring into question the viability of the most unique elements of its output. For example, it is unlikely that services such as Radio 4, Radio 3, Radio 5 Live or BBC Local Radio would be sustainable in anything like their current form. While it is possible to imagine popular music services like Radio 1 and Radio 2 being attractive to advertisers, the complexion and output of these stations would also change significantly, becoming even more similar to commercial stations.
30. Moreover, the disruption to the UK advertising market would be significant and damaging to existing broadcasters. The position of commercial radio for example would be significantly weakened and destabilised. At a stroke this could lead to the creation of the some of the largest commercial radio stations in the market being operated by the BBC, diverting significant advertising revenue away from existing stations. This would lead inevitably to the closure of current commercial radio services and a narrowing of choice for audiences.

Subscription

31. Subscription is one of the most widely discussed alternatives methods of funding the BBC. However, we do not support a move to large scale subscription for 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. There is also no viable subscription model for BBC radio, creating the need for a complex hybrid approach.
32. Any significant subscription model would require a major infrastructure roll-out for TV services (for example, changes to Freeview hardware), take a number of years to complete and have significant costs associated with it. Crucially from a radio perspective, the sort of conditional access technology that would be required to implement subscription does not exist at all for broadcast services on FM, AM or DAB which account for over 80% of BBC radio listening.
33. Therefore, broadcast radio from the BBC would probably need to be considered as part of a 'core' service, alongside other key elements of TV and online, which would continue to be paid for by other means. However, determining which services are 'core' and which are 'premium' will be difficult and occasionally arbitrary if it is also dependent on which platform particular content or service are being made available.

34. In addition, this hybrid funding model of subscription could fundamentally change the economics of funding the BBC. Depending on the method of implementation a smaller subscriber base would potentially increase the cost of the full range of BBC services quite significantly, but risk providing only limited reductions for those opting just for the core services. Some industry experts have also concluded that such an approach would bring into question the viability of BBC Local Radio; fundamentally change and undermine BBC network radio services; and potentially wipe out the profits of the commercial sector⁸.

Universal household levy

35. Another alternative option that was discussed as part of the last BBC Charter review in 2016 was the concept of a universal household levy similar to the model that operates in Germany. Whilst this has some advantages, the complexity of introducing such a system should not be underestimated.

36. The advantages of a universal household levy are clear enough. In particular, it provides a clear link between payment and the provision of a full range of BBC services and it could be implemented in a way that was more progressive, with charges levied in accordance with ability to pay rather than as a flat fee for all. As everyone would be required to pay, it could also increase the BBC's funding base and reduce the cost of evasion, providing more funds to invest in content.

37. However, the disadvantages of the universal household levy scheme are also numerous and have not yet been adequately addressed for this system to be introduced in the UK. For example, it is unclear what variations or concessions would be put in place and what would be the basis of these. It could also become increasingly difficult to justify charging a fee to those number of households claiming that they do not consume any BBC service (or indeed charge a significantly higher fee for the same service).

38. Collection and enforcement methods would also require reform under this model, most likely leading to the creation of an independent public body to oversee the levy that would be expensive and potentially difficult to establish. The cultural impact on the BBC of moving to a method of funding alongside council tax and other household payments should also be considered, as this is likely to lead to it becoming more like a public utility with possible implications for independence, audience expectations and demands.

Direct Government funding

39. Funding the BBC's operations directly by the Government has also been an option that has been discussed at various points. On the surface this appears to offer a degree of simplicity and certainty around funding for all parties.

40. However, the income to provide this funding would still need to be generated (perhaps using the levy approach outlined above) so there may be seen to be little or no benefit to the public from such as change. At the same time, it would mean that the BBC would be much more at the mercy of short term public spending decisions by Government rather than the delivery of a longer term mission under its Royal Charter.

⁸ <https://radiatorley.blogspot.com/2022/01/bbc-radio-in-subscription-world-update.html>

41. Most significantly direct funding would also remove the arms-length relationship between the BBC and Government, undermining its independence and potentially its editorial freedom to report impartially and objectively on matters of public interest.

HOW THE BBC NEEDS TO EVOLVE OVER THE NEXT FIVE YEARS

42. As competitors to the BBC it is not our role to seek to advise the BBC on its strategy or what it must do to prepare for the future in the longer term. Instead it may be useful to simply reflect on certain activities and behaviours from the BBC that might help to support a strong, diverse and sustainable radio sector over this period. This includes a focus on collaboration in some areas, as well as improved transparency and engagement in other areas.
43. For example, much of the innovation in radio and audio has been driven by the expansion of digital technologies. This has brought opportunities and innovation as radio stations seek to provide a greater range of content and choice for audiences. It has also presented challenges as audiences fragment due to intense competition and advertising investment is driven online. The radio sector has sought to address these issues in a number of ways, including through collaboration on technology and exploring new partnerships to support news and public service broadcasting more generally.
44. Collaboration on technology and platforms makes sense given growing proportion of radio listening is now online, through mobile phones, smart speakers and other internet enabled devices. While radio companies will wish to develop their own apps and online portals, there is also a value in radio broadcasters working together in this environment to keep radio listening simple and accessible for listeners.
45. One way that the sector has been seeking to do this is through the Radioplayer online listening platform, a joint venture between the BBC and commercial radio bringing together online radio listening and providing the opportunity for broadcasters to work together. This technology and joint approach has been exported and is now used in 14 countries, including the all major markets in Europe. This is important because as online listening and platforms continue to grow, so will the need for the radio industry to be able speak with one voice, especially with car companies, hardware manufacturers and technology platforms. Continued support for this work and co-operation in this area is vital.
46. On **transparency and engagement**, the BBC's unique funding model means that it has unique responsibilities to be open with stakeholders and competitors, especially when developing new services, making significant changes to existing services or even just reporting on performance (something that has been noted by Ofcom, which has highlighted "the need for the BBC to adopt greater openness and transparency"⁹). However, despite this responsibility there would appear to be a persistent issue with the BBC articulating its plans clearly or consulting in a meaningful way.

⁹ https://www.ofcom.org.uk/_data/assets/pdf_file/0024/222198/consultation-how-ofcom-regulates-bbc.pdf

47. This has been evident in the BBC's behaviour in the radio and audio sector, for example with the lack of transparency around the BBC Sounds service. Despite the fact that BBC Sounds is considered as the heart of the BBC's audio strategy, there is very little financial information or even audience data available publicly. This would appear to be attributable, at least in part, to the fact that BBC Sounds is not currently treated in the same way as other standalone BBC services, either as a service in the BBC Operating Licence or a UK Public Service subject to regulatory conditions and scrutiny.
48. The resulting absence of transparency makes it particularly difficult to regulate performance effectively, creating a situation where the BBC appears to be able to 'mark its own homework'. In addition, it can undermine or weaken processes designed to assess the impact of the BBC on competition if there are numerous incremental changes made to BBC services, without the necessary transparency and consultation with stakeholders to help understand and assess cumulative impact. Once again, the development of BBC Sounds and the addition of new functionality and services on this platform has been a case in point

GOVERNMENT ACTION AND NEXT STEPS ON FUNDING

49. We understand from the Government's statement on 17 January 2022 that it intends to commence a process shortly to examine long-term funding options for the BBC and look at alternatives to the licence fee. It would appear that this process will run alongside the mid-term review of the BBC Charter, which is expected to focus primarily on matters relating to the governance and regulation of the BBC.
50. We also note that the current BBC funding settlement runs for six years until 31 March 2028. Therefore we are only really at the beginning of a process, which likely to take a number of years in assessing and considering the options and evidence available. The commercial radio sector is committed to engaging with this process in good faith and will be happy to provide the Committee and Government with relevant insight and analysis regarding our particular area of interest and expertise.
51. In undertaking this important work we would emphasise the need to consider the specific context for radio, both on the impact of alternative funding models and the broader remit and regulation of the BBC. Due to the scale and dominance of TV and audiovisual services within the BBC and in the media generally there is a risk that radio can sometimes be neglected and its importance for audiences be underestimated.
52. In addition, any Government decisions that impact on the future funding of BBC radio services must be underpinned by detailed economic modelling and analysis of their impact, both on the BBC and the broader market.

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 measured by listening and revenue.
www.radiocentre.org

March 2022