

# BBC Funding: Much Ado about the Cost of a Coffee a Week

PATRICK BARWISE

## Abstract

BBC funding (the licence fee model and the funding level) has been turned into a big issue out of all proportion to the low financial stakes—equivalent to the cost of one takeaway coffee a week for the whole household, excluding those with free TV licences. This article first proposes and explores three possible reasons for all the fuss: that licence payers take the BBC for granted, underestimating the value they get from it; that the attacks on BBC funding are part of a wider ‘war’ against it, driven by commercial or political vested interests; and that at least some of the criticisms of the licence fee reflect genuine, although much exaggerated, disadvantages. The article then evaluates four alternative funding models: advertising, subscriptions, general taxation and a universal household levy. It argues that the best long-term model would be a flat, universal household levy, with exemptions for those least able to pay, as in Germany, with the funding level set by an independent body organised by Ofcom; and that, because the licence fee is becoming harder to sustain, this new funding model should be introduced at the start of the next BBC Charter in January 2028.

**Keywords:** BBC funding, TV licence fee, subscriptions, advertising, taxation, household levy

THAT SO MUCH of the debate on the BBC is about funding is a tribute to its enemies’ success in making a mountain out of a molehill. The cost of a TV licence (£169.50/year in 2024 with a range of easy payment options, equivalent to £3.25/week) is trivial for the great majority of households that have to pay: less than the cost of one takeaway coffee a week for the whole household.<sup>1</sup> And it’s free if the licence payer or their partner is aged over 75 and receiving Pension Credit, a means-tested government welfare payment. The average British adult still consumes the BBC’s TV, radio and online services for over two hours a day—far more than any other product, service or media brand. The average cost per user—again excluding those who pay nothing—works out at just 10p per hour for adults, with no charge for the under-16s.

<sup>1</sup>The average cost of a coffee in UK branded coffee chains was £3.25 in January 2023 and rising fast: ‘UK branded coffee chains defy economic challenges to achieve strong growth’, *Allegra World Coffee Portal*, 19 January 2023;

<https://www.worldcoffeeportal.com/Latest/News/2023/January-%281%29/UK-branded-coffee-shop-market-defies-difficult-tra>

Given the BBC’s popularity and value for money, why all the fuss about its funding? Three possible reasons come to mind. First, the BBC is so much part of most people’s everyday life that they take it for granted, underestimating the value they get from it. Second, the endless attacks on its funding are part of the wider ‘war’ against it by its, mostly right-leaning, enemies. Thirdly, like every funding model, the licence fee inevitably has some disadvantages—albeit, much exaggerated by the Beeb-bashers. This article starts by discussing each of these. It then builds on the analysis of the third point—the pros and cons of the licence fee—to ask if there is a better alternative. At the time of writing (December 2023), the government has just—finally—launched its long-awaited review to address that question.<sup>2</sup> The article evaluates four alternative models: advertising, subscriptions, general taxation

<sup>2</sup>Department for Culture, Media and Sport, *BBC Funding Model Review: Terms of Reference*, DCMS, 7 December 2023; <https://www.gov.uk/government/publications/bbc-funding-model-review-terms-of-reference/bbc-funding-model-review-terms-of-reference>

and a universal household levy. It concludes that the best and least risky long-term option is a flat, universal household levy, with exemptions for those least able to pay and with its level set by an independent panel organised by Ofcom, largely replicating the system introduced in Germany in 2013.<sup>3</sup> Although the licence fee's disadvantages have been much overstated, its arbitrary link to whether anyone in the household ever watches live TV is steadily becoming unsustainable, with the evasion rate now over 10 per cent. It should therefore be replaced sometime in the next five years or so, ideally at the start of the new BBC Charter (January 2028).

Turning to the first of the three hypothesised reasons for all the fuss about BBC funding: what is the evidence that licence payers take the BBC for granted and underestimate the value they get from it?

## Taking the BBC for granted

We've known for some time that if respondents are given time to reflect on, and discuss with their families, their initial answers to a survey question on the value for money of the licence fee, their second, more considered, response becomes much more positive.

In 2014, the BBC—rather courageously—decided to put this finding to a stronger test. It commissioned research on how respondents' views of the licence fee's value might change if they and their households were 'forced' to live with no BBC for a time. The resulting 'BBC deprivation' study focussed on the substantial minority of respondents (28 per cent) who, in an initial survey, said the licence fee—then £145.50, equivalent to 40p per day—did *not* offer good value. After nine days with no BBC, and having received a cash payment of £3.60 (that is, 9 × 40p) in return, 69 per cent changed their minds, deciding that it was good value after all. Their reasons included that they had missed the BBC more than they had expected; that it offered content they could not get elsewhere; that it was advertising-free; and that they had not realised the licence fee funded BBC radio and online as well as TV. Many also expressed

surprise at how little it was costing them ('That's peanuts, really').<sup>4</sup> When the study was repeated six years later, the proportion of 'BBC sceptics' (people who initially said the licence fee was not good value) who changed their minds after nine days with no BBC actually *increased* marginally, from 69 per cent in 2014/15 to 70 per cent in 2020/21, although the difference is not statistically significant.<sup>5</sup> These studies confirm that many people—over two-thirds of those who initially say the licence fee is poor value—do indeed take the BBC for granted, underestimating how much value they get from it. Only after being 'forced' to live without it did they realise how much they and their families were using its services and how little it was costing them.

This research is only about the BBC's direct value to licence payers as consumers. The implicit question is: 'Do you and your household get enough personal value from the BBC's TV, radio and online services to justify the cost of the licence fee?'. This largely ignores the BBC's many—and, arguably, even more important—social, cultural, economic and geopolitical contributions, discussed elsewhere in this issue.

## The 'war' against the BBC

What about the second proposition, that the attacks on the BBC's funding are part of a wider 'war' against it by its, mostly right-leaning, enemies—the 'SMET' newspapers (*Sun*, *Mail*, *Express* and *Telegraph*), right-wing politicians and Tufon Street think tanks?<sup>6</sup> The evidence here is less straightforward than on whether people take the BBC for granted, because those attacking it rarely identify themselves as its enemies or mention any commercial or political vested interest they might have for undermining it. Instead, they almost invariably claim to be either countering its supposed bias or negative influence—on

<sup>4</sup>MTM, *Life without the BBC: Household Study*, August 2015, summarised in P. Barwise and P. York, *The War Against the BBC*, Penguin, November 2020, pp. 32–3 and Appendix A.

<sup>5</sup>MTM, *Deprivation Study: What is Life Like Without the BBC?*, April 2022; <https://www.bbc.co.uk/aboutthebbc/documents/mtm-bbc-deprivation-study-2020-2021-final-report.pdf>

<sup>6</sup>Barwise and York, *The War Against the BBC*.

<sup>3</sup>See A. Sehl, 'Funding of public service media in Germany', in this issue.

public opinion, societal values, value for money, consumer choice, or whatever—or say they are trying to ‘save it from itself’.

A rare exception was Dominic Cummings’s 2004 blog post urging the Conservatives to attack and undermine the BBC in a range of ways, while also introducing a UK equivalent of Fox News and US-style right-wing radio phone-in stations and removing the ban on political advertising. There was no pretence of a motive for these proposals other than party political advantage.<sup>7</sup>

Despite the BBC’s enemies (apart from Cummings) never revealing a commercial or political agenda, there’s plenty of evidence to justify the term ‘enemy’, mainly of the form ‘Ye shall know them by their fruits’. In August 2023, even the veteran Conservative journalist Sir Max Hastings—a former editor of the *Daily Telegraph*—referred to the ‘Tory war on the BBC’ in a *Times* article criticising the cuts at the BBC World Service. He argued that, in today’s world, the UK’s armed forces can contribute only at the margin to the defence of liberal democracy but we still possess ‘priceless soft power assets, of which the BBC is much the most significant’.<sup>8</sup>

## The depth of the real-terms funding cuts since 2010

The World Service cuts, which Sir Max described as ‘madness’, are part of the BBC’s forced adjustment to the deep, and continuing, reduction in its real-terms funding since 2010 through (i) below-inflation increases in the licence fee; (ii) diverting (‘top-slicing’) some of its, already reduced, licence fee income to fund the World Service (previously funded by the Foreign Office) and other activities such as broadband rollout and the Welsh language channel S4C; and—especially—(iii) George Osborne’s decision in 2015, at the second attempt, to force the BBC to take over responsibility for the free TV licence concession for the

<sup>7</sup>R. Mason, ‘Dominic Cummings think tank called for “end of BBC in current form”’, *The Guardian*, 21 January 2020; <https://www.theguardian.com/politics/2020/jan/21/dominic-cummings-think-tank-called-for-end-of-bbc-in-current-form>

<sup>8</sup>M. Hastings, ‘Lose BBC local radio but save the World Service’, *Times*, 14 August 2023.

over-75s, first introduced by Gordon Brown in 2000 as a tax-funded welfare benefit.

These funding cuts are happening in a tough market context: ever-growing competition for audiences; rising real-terms costs for programmes and production facilities, driven by the growth of the deep-pocketed US streamers; and the cost of having to support both broadcast and online distribution systems (‘riding two horses’) for the next 10–15 years while simultaneously, like all established media, investing in digital transformation. Osborne imposed the 2010 and 2015 funding settlements with no published analysis, public consultation or parliamentary debate—although in 2015 he did consult Rupert Murdoch and his executives in six secret meetings before forcing an unprecedentedly harsh settlement on the BBC.<sup>9</sup>

By 2019/20, the real-terms public funding of the BBC’s UK services was already 30 per cent down on 2010/11. If it had merely kept pace with general inflation since 2010, it would have been 43 per cent—nearly £1.4 billion a year—higher in 2019/20.<sup>10</sup> By March 2025, the funding gap will be even wider, thanks to the two-year licence fee freeze from April 2022 imposed by Nadine Dorries as culture secretary (again, with no published analysis, public consultation or parliamentary scrutiny) and now Lucy Frazer’s decision (ditto) to award a 2024/25 licence fee increase 2.3 per cent below the average monthly inflation rate—renewing on Dorries’s commitment that, after the two-year freeze, it would rise in line with inflation.<sup>11</sup>

Without these cuts in the BBC’s real-terms funding—much deeper than most people realise—it could do pretty much everything demanded of it, investing in digital

<sup>9</sup>J. Jackson and J. Martinson, ‘George Osborne met Rupert Murdoch twice before imposing BBC cuts’, *The Guardian*, 18 December 2015; <https://www.theguardian.com/media/2015/dec/18/george-osborne-rupert-murdoch-bbc-cuts-news-corp>

<sup>10</sup>Voice of the Listener & Viewer, ‘After a decade of cuts, serious dangers lie ahead’, *VLV Bulletin*, Spring 2020, p. 6; P. Barwise and P. York, ‘It’s the money ... stupid!’, in J. Mair and T. Bradshaw, eds., *Is the BBC Still in Peril? Notes for the New Director-General Tim Davie*, London, Bite-Sized Books, June 2020.

<sup>11</sup>A. Farber, ‘BBC TV licence fee to rise by £10.50 a year’, *Times*, 7 December 2023.

transformation and new content and services for younger viewers and listeners while maintaining its investment in news, classical music, children's programmes and services for its traditional, mostly older, audiences. It now faces increasingly bleak choices about what to cut, certain in the knowledge that—wherever the axe falls—there will be accusations of vandalism, dumbing down, an obsession with 'yoof', turning its back on its most loyal supporters, and so on.<sup>12</sup> The real reason for the cuts—the funding settlements imposed by Osborne, Dorries and now Frazer—is rarely mentioned.

In 2020—even before Dorries's two-year licence fee freeze—the BBC already had to choose whether, and if so, how much, to cut the funding of BBC4 (mainly watched by older viewers) to enable it to make BBC3 (mainly aimed at 16–34s) a broadcast channel again, rather than being available only online. But BBC4's total annual budget then was £44 million—just 3.2 per cent of Osborne's almost £1.4 billion per annum funding cut (in 2019 pounds) from 2010 to 2019. BBC4 has now been reduced to, essentially, a repeats channel, purely to save a tiny percentage—less than 2 per cent—of the total funding cuts.

The BBC has managed to soften the impact of these cuts through continuing efficiency gains (its overheads are now below the industry average—former chairman Richard Sharp, a banker, was surprised by how low they were) and strong commercial income growth, mainly exports of programmes and formats.<sup>13</sup> (Led by the BBC, the UK is the world's second biggest exporter of programmes after the US and the top exporter of programme formats).<sup>14</sup> It is also doing more international co-productions, accepting some loss of creative control in return for bigger production budgets. But, as the squeeze continues, it will increasingly have to

cut programme and channel budgets, directly reducing the range and quality of TV, radio and online services available to the British public, and indirectly weakening the whole UK broadcasting ecology.

The 'war' against the BBC also includes endless attacks on its impartiality, overwhelmingly from the right. However, these have spectacularly failed to convince most of the public: typically, only about 20 per cent agree that the BBC has a systemic left-wing bias, while at least as many think the exact opposite, that it tends to favour the Conservatives and/or the right. The 60 per cent in between—the real silent majority—either explicitly say it's neutral or respond 'don't know', which hardly fits the 'left-wing BBC' story.<sup>15</sup> This may be why so much of the 'war' against the BBC now focusses on undermining its funding: its right-wing enemies, having failed to persuade most of the public of its supposed left-wing bias, may instead be trying to 'salami-slice' it to death through endless real-terms funding cuts.

The BBC's enemies have had rather more success convincing the public that the licence fee is unfair and unsustainable in today's media and technology landscape. This brings us to the third possible reason for all the fuss about BBC funding: the genuine—although much exaggerated—disadvantages of the licence fee funding model. Under the current BBC Charter, the licence fee, although not its level, is guaranteed until December 2027. There should be time for the Department for Digital, Culture, Media and Sport (DCMS) review to consider its pros and cons fully against the alternatives by the autumn, although, with the election so close, not for this government then to build its preferred model into the next Charter.

No funding model is perfect, and the licence fee does have disadvantages. Although the cost is trivial for most households, it is 'regressive' in the sense that everyone (apart from those with free TV licences) pays the same price for the same service. There is also a growing number of, mostly younger, households who avoid paying, either because they—probably mistakenly—think they consume no live TV and/or no BBC

<sup>12</sup>C. Simpson, 'BBC "vandalising" British culture with classical music cuts, says Simon Rattle', *Daily Telegraph*, 25 April 2023; P. Howse, 'The BBC's evisceration of Newsnight is a craven admission of defeat', *Byline Times*, 1 December 2023.

<sup>13</sup>J. Arlidge, 'Richard Sharp's vision for the BBC: more guts and no more liberal bias', *Sunday Times*, 4 December 2022.

<sup>14</sup>D. Sandbrook, *The Great British Dream Factory*, London, Allen Lane, 2015; J. K. Chalaby, *The Format Age: Television's Entertainment Revolution*, Oxford, Polity, 2015.

<sup>15</sup>P. Barwise and P. York, 'Is the BBC left-wing? Not according to 80% of the British public', *Press Gazette*, 13 June 2023. The figures are from YouGov's quarterly public opinion tracker.



services, or because they see themselves as freedom fighters against TV Licensing, or just because they can get away with it.

It is sometimes suggested that licence fee evasion should be decriminalised. However, in 2014/15, the only time decriminalisation has been independently evaluated, the Conservative-commissioned Perry Review firmly rejected it, concluding that the existing enforcement system was ‘broadly fair and proportionate [and] good value for money (both for licence fee payers and taxpayers)’.<sup>16</sup> Culture Secretary Lucy Frazer disagrees, even describing the current enforcement system as ‘morally reprehensible’—but without revealing either her preferred alternative or why Perry’s analysis was wrong or is no longer valid.<sup>17</sup>

## Pros and cons of the licence fee

In 2015, the House of Commons DCMS committee discussed the pros and cons of the licence fee. They said its advantages were that it was simple, secure and predictable; associated in people’s minds with paying for the BBC; protected its commercial and political independence; and enabled its services to be universally available. None of these is seriously contested. They listed three disadvantages: it was ‘regressive’; compulsory, including for households that ‘do not use [BBC] services’; and ‘expensive to collect’, with a 5.5 per cent evasion rate.<sup>18</sup> Let’s consider these:

(1) *Regressive*: the licence fee is the same for rich and poor families and, therefore, a higher proportion of poor families’ income. The same applies to all paid-for media, and the licence fee, at £3.25 a week, costs much less than most of them. Most pay TV subscribers pay at least £10 a week. The basic Netflix package, with advertising, costs only £7.99 a month (£1.84/week) but most subscribers pay £17.99 a month (£4.14/week), on top of the cost of broadband and a smart TV, for the ad-free premium version. As we’ve seen, the usage of the BBC remains huge, although

it is often taken for granted. Free-to-air TV and radio are the main source of information and entertainment in poorer households. The regressive nature of the licence fee has been much overstated. Nevertheless, the future funding model should, ideally, reduce the cost to the poorest families, as discussed later.

- (2) *Compulsory*: like all taxes, the licence fee is compulsory. But the number of households that pay but don’t directly benefit is negligible. No one knows the exact number, but it is tiny. The last time, in 2015, when household consumption of the BBC was measured, 99 per cent consumed at least some of its services in a single week.<sup>19</sup>
- (3) *Expensive to collect*: collection costs increased after the BBC, forced to take over responsibility for the over-75s free TV licence concession, limited it to households with members receiving Pension Credit. Part of the extra cost was for a communication campaign that persuaded over 90 per cent of the households no longer eligible for free licences to pay up. But, even now, collection costs are only 3.7 per cent of licence fee revenue.<sup>20</sup> The evasion rate has increased more, partly because more households are watching only online and claiming they ‘never watch live TV’, but also encouraged by campaigns such as the ‘grassroots’ #DefundTheBBC campaign.<sup>21</sup> By 2022/23, licence fee evasion was 10.3 per cent, making a total collection and evasion cost of 14 per cent of licence fee revenue (3.7 per cent plus 10.3 per cent). This is higher than at the time of the Commons report, but still less than

<sup>19</sup>BBC, *BBC’s response to DCMS green paper: BBC charter review*, Audience appendix, 2015; [http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc\\_charter\\_review\\_audiences\\_appendix.pdf](http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc_charter_review_audiences_appendix.pdf). This excludes consumption of BBC content on non-BBC services.

<sup>20</sup>BBC Television Licence Fee, Trust Statement for the Year Ending 31 March 2023, page 31; <https://www.tvlicensing.co.uk/ss/Satellite?blobcol=urldata&blobheadername1=content-type&blobheadervalue1=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1370006714391&ssbinary=true>

<sup>21</sup>For the evidence suggesting #DefundTheBBC is, in reality, a US-style ‘Astroturf’ (fake grassroots) campaign funded by dark money associated with Leave. EU, see Barwise and York, *The War Against the BBC*, pp. 272–275.

<sup>16</sup>D. Perry QC, *The Perry Review: TV Licence Fee Enforcement*, DCMS, July 2015.

<sup>17</sup>A. Farber, ‘BBC condemned by minister over TV licence prosecutions’, *Times*, 8 December 2013.

<sup>18</sup>House of Commons, DCMS Committee, session 2014–15, *Future of the BBC*: fourth report of session 2014–15, 26 February 2015, p. 71.

the equivalent costs for both advertising and subscriptions.

What are the alternatives to the licence fee? The DCMS committee discussed four: advertising, subscriptions, a revised licence fee (or another earmarked tax) and general taxation.

## You can rule out advertising

Advertising is a non-starter. It was rejected by the Peacock Committee commissioned in 1984 by Margaret Thatcher, who had initially favoured at least some advertising on the BBC, as had Professor Peacock at the start of the review. The committee gave two reasons for rejecting it, saying it would (a) damage other advertising-funded media and (b) distort the BBC's incentives.<sup>22</sup> These disadvantages are even greater today, with most commercial media under financial pressure and the BBC facing more competition than ever.

Two other big reasons for rejecting BBC advertising—astonishingly not even considered by Peacock—are that audiences dislike having their viewing and listening interrupted by commercials; and, less obviously, broadcast advertising has large hidden overhead costs—creative agency fees, media agency fees, commercial production costs, and the direct and support costs of the broadcaster's airtime sales operation. These amount to 20–25 per cent of advertisers' campaign expenditure, well above the 14 per cent combined collection and evasion costs of the licence fee.<sup>23</sup> There are now no serious stakeholders advocating advertising on the BBC and (especially important in an election year) it is opposed by all the big newspaper groups.

## What about subscriptions?

The most widely touted alternative model is subscriptions. The main options are either a single monthly fee or a tiered system with a lower-priced basic package and one or more higher-priced premium packages. Both should be rejected because of their many disadvantages:

- They would require every device used to access the BBC's subscription services

<sup>22</sup>Barwise and York, *The War Against the BBC*, pp. 170–171.

<sup>23</sup>*Ibid.*, p. 171.

to have 'conditional access' technology to exclude non-payers. It's unclear how long it would take, and how much it would cost, to achieve this.

- Once this technical barrier has been overcome (say, in the late 2030s, partly depending on which services are behind the paywall), subscription funding would give the BBC a financial incentive to prioritise the content preferences of those best able to pay.
- The BBC would no longer be a universal public service, shared equally by all. John Reith's famous claim 'There is no first and third class' would no longer be true.<sup>24</sup>
- Finally, to maintain the BBC's content investment, the average subscription price would need to be much higher than the licence fee, for two reasons. First, not everyone would subscribe, so those who did would each need to pay more to generate the same revenue. Second, less of the revenue would be available to invest in programmes because, like advertising, subscriptions involve much higher overhead costs (marketing, customer service, technology) than the licence fee.

To illustrate the scale of these costs, consider Sky, widely seen as a well-managed company. In 2017/18, the last year in which it published this level of detail, Sky's general overheads ('sales, general and administration expenses') were £2.7 billion, 35 per cent of its direct consumer revenue.<sup>25</sup> In the same year, the BBC's general overheads were only 5.7 per cent of its revenue.<sup>26</sup> A switch to subscriptions would be likely to increase its general overheads at least threefold to, say, 20 per cent of subscription revenue, maybe more.

It gets worse. These two factors—non-subscribers and higher overheads—would create a vicious circle: because less of the revenue would go into programmes, reducing value for money, more households would choose not to subscribe, further reducing the revenue, and so on. No one knows what the eventual outcome would be. But, to maintain the current level of

<sup>24</sup>S. Knight, 'Can the BBC survive the British government?', *The New Yorker*, online edn. 11 April 2022.

<sup>25</sup>And, incidentally, 80 per cent of the 'behemoth' BBC's total licence fee income after 'top-slicing'.

<sup>26</sup>Barwise and York, *The War Against the BBC*, pp. 329–330.

total, and original UK, BBC content investment, it's hard to see anything less than a 50 per cent increase in the average subscription compared with the licence fee. The alternative—say, an average subscription only 25 per cent higher than the licence fee—would lead to smaller programme budgets, more repeats and less original UK production.

All these problems apply whether the proposal is for a 'full-fat' free-market model, with all the BBC's core funding provided by subscriptions, or a 'semi-skimmed' hybrid model, with some BBC services funded by a lower licence fee or general taxation and everything else by subscriptions, as sometimes proposed. A hybrid model would be even less efficient than the 'full-fat' one, because many of the additional overheads would be the same. They would therefore represent an even higher proportion of subscription revenue, broadly comparable with Sky's 35 per cent in 2017/18.<sup>27</sup>

## General taxation

General taxation is attractive in theory, but the results have been mixed in countries that have switched to it. Ringfencing the funding and ensuring it covers several years (the model introduced in Finland in 2013, followed by Norway and Sweden) offers PSBs some protection from political interference and funding cuts. Other countries such as Denmark and Canada, where the PSB has to compete for government funding every year as part of the annual budget round, have found it harder to keep politician-proof.<sup>28</sup>

<sup>27</sup>This relates to a hybrid model in which the premium subscription-funded services are sold directly to consumers. An alternative would be a model in which platforms such as Sky, Virgin and Netflix market and distribute the BBC's premium services to their subscribers. That would involve lower BBC overheads than a standalone direct-to-consumer model, but less revenue per subscriber, and it would exclude those unable to pay the combined (platform and BBC) subscription.

<sup>28</sup>J. Steemers, *The Funding of Public Service Broadcasting in Europe*, King's College London, Research Portal, 30 March 2020; [https://kclpure.kcl.ac.uk/ws/portalfiles/portal/127002082/4\\_Europe\\_Report\\_Licence\\_Fee\\_Criminalisation\\_copy.pdf](https://kclpure.kcl.ac.uk/ws/portalfiles/portal/127002082/4_Europe_Report_Licence_Fee_Criminalisation_copy.pdf); D. Taras and C. Waddell, *The End of the CBC?*, Toronto, University of Toronto Press, February 2020.

The 2014/15 DCMS committee rejected funding the BBC out of general taxation because of the likely threat to its political independence, concluding that the licence fee, perhaps with some modifications, was the 'least worst' short-term option, while the best long-term one would be a different hypothecated tax. There are good reasons to agree with this. In particular, a universal household levy, with exemptions—as in Germany since 2013—looks like the best long-term option.<sup>29</sup> The German system (also adopted by Austria in January 2024) is a universal flat fee of €18.36 per month in 2023—about 20 per cent higher than the UK licence fee—paid by every household, with some exemptions and discounts. It is also paid by every company and public institution, although it would take a brave politician to propose that here. The multi-year fee level is determined by an independent expert panel, the KEF.<sup>30</sup> In 2013, the Germans found collection costs were even lower for a universal levy than for the licence fee and evasion was minimal, so they were able to reduce the price slightly.<sup>31</sup>

## A progressive levy?

A more progressive levy would be one based on a fixed percentage supplement to, say, electricity and/or broadband bills so that bigger, richer households paid more than smaller, poorer ones. This would be cheap to administer and with minimal evasion. However, switching to any progressive system that generates the same revenue as the licence fee would be politically challenging as there would be losers as well as winners.

## What should the DCMS review recommend?

Although the disadvantages of the licence fee have been much overstated, the evasion rate is now over 10 per cent and the arbitrary link with whether anyone in the household ever watches live TV is hard to sustain. The review should recommend switching to a new model

<sup>29</sup>Sehl, 'Funding of public service media in Germany'.

<sup>30</sup>Barwise and York, *The War Against the BBC*, p. 282.

<sup>31</sup>P. Ramsey and C. Herzog, 'The end of the licence fee? Applying the German household levy model to the United Kingdom', *European Journal of Communication*, vol. 33, no. 4, August 2018, pp. 430–444.

before these challenges become too great, ideally at the start of the new BBC Charter in January 2028.

There will be proposals for subscription-based or hybrid funding. The review will need to look at the assumptions behind these: which BBC services would be behind the paywall; how would they be bundled and priced and how would its other services (notably, BBC Radio) be funded; how many households are projected to subscribe at each price level; how much of the resulting revenue would be available to invest in programmes, after allowing for the increase in overheads; what are the strategy, cost and timescale to drive the switchover and ensure all devices used to access the BBC's subscription services have conditional access technology to exclude those who have not paid?

A subscription-based, or hybrid, model is unlikely even to be technically feasible until well after 2028. The review can also reject advertising funding for the reasons discussed above. The only other alternatives to the licence fee in, or soon after 2028, are taxation and a universal household levy.

Among tax-based models, the Finnish version (multiyear ringfenced funding) would be better than the Canadian one (annual funding out of general taxation). But even the Finnish model would be risky for the BBC's core funding, given the UK's more polarised media, society and politics and the continuing 'war' against the BBC.<sup>32</sup> There is, however, a strong case for reinstating ring-fenced government funding for the whole BBC World Service.

A universal household levy is the best and least risky alternative to the licence fee. That still leaves a choice between a progressive levy

based on household utility bills (which would, arguably, be fairer, but would involve facing down the objections from bigger and better-off households) and a flat one with exemptions and/or discounts, as in Germany, which would be politically easier to introduce. Given the relatively trivial cost for most households, the simpler option—a flat universal household levy, with exemptions for those least able to pay and everyone else paying the same—is, in my view, the best practical option. But either would be better than the alternatives.

Finally, who should decide the level of the BBC's funding? We need to ensure it has the resources to deliver its remit. To protect it from hostile politicians, that means handing responsibility for future funding settlements to an independent body, administered by Ofcom at arms' length from the government, similar to the KEF in Germany.<sup>33</sup> The new UK body should start with the Charter: what are we asking the BBC to do? It should then look at projections of the number of households, the evasion rate, industry costs, continuing efficiency savings and the contribution from commercial activities, and set the recommended levy accordingly. (The KEF has been doing this in Germany since 1975, first for the licence fee and, since 2013, the household levy.) The government should be required to follow this recommendation or, if not, explain the reasons for not doing so and defend its decision in the media and in Parliament.

*Patrick Barwise* is Emeritus Professor of Management and Marketing at London Business School and Chairman of the Archive of Market and Social Research.

<sup>32</sup>E. Humprecht, 'Why resilience to online disinformation varies between countries', LSE Media Policy blog post, 8 April 2020; <https://blogs.lse.ac.uk/medialse/2020/04/08/why-resilience-to-online-disinformation-varies-between-countries/>. In principle, the political risk of a model based on general taxation could be largely eliminated, even in the UK, if decisions about the multiyear funding level were based on legally binding recommendations by an independent expert body, as in Germany. Whether this would work in practice would depend on future UK governments' willingness to follow the recommendation.

<sup>33</sup>Barwise and York, *The War Against the BBC*, p. 282; Sehl, 'Funding of public service media in Germany'.