

The image shows the exterior of the BBC Broadcasting Centre, a modern building with a curved glass facade. The building is surrounded by a paved plaza where several people are walking. The BBC logo is visible on the building's facade.

Broadcasting by consent:

The BBC,
Public Service
Broadcasting and
Charter Renewal in
2017

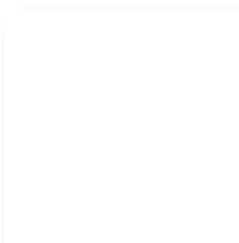
Jacque Hughes

CENTRE:FORUM

Broadcasting by consent: The BBC, Public Service Broadcasting and Charter Renewal in 2017

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Edited by Stephen Lee



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The views expressed, and any errors are of course the author's.

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■ Contents

1 – Introduction	4
2 – Public Service Broadcasting: relevance & application in the digital age	7
3 – The response of the BBC	19
4 – The case for the BBC	24
5 – How should the BBC be governed and managed	43
6 – Conclusions and recommendations	59
Appendix 1: Current Roles of Ofcom and BBC Trust	62
Appendix 2: List of interviewees	65

1 Introduction

'This instrument can teach, it can illuminate; yes, and it can even inspire. But it can do so only to the extent that humans are determined to use it to those ends. Otherwise it is merely wires and lights in a box. There is a great and perhaps decisive battle to be fought against ignorance, intolerance and indifference. This weapon of television could be useful.'

Edward R. Murrow¹

Our worldview is frequently shaped more by the media than our personal experience. We know that people receive most of their information about the world from the media, and put their trust in television over and above other media forms. The BBC is the keystone of Britain's public service broadcasting model; a £3.7bn annual investment – or intervention – into the creative economy.²

It is, depending on one's perspective, the underpinning of the UK's creative economy or unfair direct competition with commercial broadcasters using a private tax to distort competition instead of concentrating on market failure. It is the oldest and largest (by number of employees) broadcast institution in the world.

As the BBC approaches its eleventh Charter renewal, it faces a level of scrutiny unlike any other in its history. Along with continuing ideological opposition, it faces a range of adversaries – some old, some new. Traditional commercial broadcast rivals have indicated that they expect the BBC to share its largesse: civic institutions are keen to press the BBC into new, formal and informal partnerships, and a new breed of global content generators (Google etc.) are arguing that media should be regarded as any other market good, free of intervention or control, and bound by competition regulation only.

But perhaps the biggest challenge the BBC faces is the rapidly changing nature of the wider media sector and transforming viewer habits. The UK broadcast industry has seen radical change in only five years as the impact of digital switchover, the rise of broadband connectivity and the take up of smart mobile devices have begun to radically alter the consumption of TV content.

Audiences now have a much greater choice of what they watch, when, where

1 Murrow, E. R. (1958). Speech to the Radio and Television News Directors Association (RTNDA) convention in Chicago. 15 October 1958.

2 BBC (2014). *BBC Full Financial Statements 2013/14*. 4.

and how. The generation gap between older and younger audiences also appears to be getting wider: younger audiences watch increasingly less television and are taking those habits with them as they age.³ And the very latest research shows Public Service Broadcasters (PSBs) losing some of their distinctiveness: some consumers – especially the young and tech savvy – no longer appear to distinguish between Public Service Broadcasting (PSB) and non-PSB channels, but rather report that a wide range of organisations are producing content delivering the PSB purposes and characteristics.⁴

Together, these trends represent a significant challenge to the BBC and to the very fabric of the PSB system that underpins and funds it.

‘The fundamental principles and trajectory of existing broadcast policies are based on the economics of technological and market conditions present a century ago and this compounds the challenges facing policy makers today because contemporary conditions are so different.’⁵

Pressure for change – radical or incremental – in the upcoming BBC Charter settlement emanates from three principal sources:

- ideological/political discourse about the purpose and nature of broadcasting in general and the BBC in particular;
- a response to structural forces in the external environment (globalisation, technological advance etc.);
- changes in the nature of the broadcasting market driven largely by the first two factors listed above.

Whichever side of the argument you fall on, each of these three forces for change appear intricately combined. Together they fuel the current debate about the purpose, role and standing of the BBC going forward.

In considering this, we will examine if the BBC has fulfilled its public purposes to date, and whether its current manifestation – both scale and scope – as well as its funding mechanism and governance model are fit for purpose and fit for the future.

The report unapologetically focuses on the BBC’s television output. Television remains the most effective way for the BBC to deliver its public purposes, thanks to its high audience reach. Despite the increasing availability and use of online media, the vast majority of television is still watched live and on a TV set. 81% of people watched BBC television each week in 2013-14, compared to 66% who listened to BBC radio and 49% who used the BBC online.⁶

3 Ofcom (2014). *Public Service Content in a Connected Society: Ofcom’s third review of public service broadcasting*. 3.

4 Ofcom (2014). *Public Service Content in a Connected Society: Ofcom’s third review of public service broadcasting*. 2.

5 Picard, R.G. and Siciliani, P. (2013). *Is there Still a Place for Public Service Television? Effects of the Changing Economics of Broadcasting*. Reuters. 3.

6 BBC Trust (2014). *Service Review of BBC Television: BBC One, BBC Two, BBC Three & BBC Four*. 9.

Methodology

The research for this report followed a mixed methodological approach.

Initial archival research of historical sources has been combined with extensive review of contemporary primary and secondary sources spanning academic, regulatory, professional and practitioner literature.

Analysis has followed a grounded theory approach to the data, incorporating open and axial coding at the initial stage. It employed selective coding in applying initial findings to confirmatory analysis through selective, semi-structured interviews with key respondents.⁷

Interviewees were selected to cover a broad range of relevant stakeholders in an analysis of the BBC and its future form, scope and role post Charter renewal. Senior BBC executives and BBC Trust personnel (past and present), industry regulators and respected commentators comprised the sample frame.

Where utilised, quotations taken from these interviews are provided in the main text to inform and reinforce the arguments developed in the narrative. To preserve anonymity these quotes are assigned as follows: Senior BBC Executive; BBC Trust Trustee; BBC Trust Executive; academic; industry analyst; independent production company executive; senior broadcasting regulator; media commentator. A list of interviewees (their names and relevant occupation) is provided in Appendix 2 to this report.

7 Quinlan, C. (2011) 'Business Research Methods'. London: Cengage. 426-427.

2 Public Service Broadcasting: relevance and application in the digital age

Public Service Broadcasting (PSB) is an elusive and evolving concept.

In the beginning, broadcasting was viewed as a utility. Negotiating spectrum allocation internationally necessitated government involvement. As did mediating the competing demands of domestic wavelength users: the armed forces, merchant shipping, emergency services, telecommunications, and so on.

The need to finance broadcasting also suggested state intervention. Unlike other forms of cultural activity, radio and television were enjoyed in people's own homes and as Scannell points out, appeared therefore as natural resources, available at the turn of a switch.⁸ It was not immediately obvious how to pay for something which undoubtedly cost money. The British answer was to establish a single company (not corporation) to oversee all broadcasting and to levy a charge on all households with a wireless.

Since then, the universal provision of a broadcast service has become laden with all manner of important cultural, political, social and civic functions.

*'How the concept of public service broadcasting came to be grafted onto what were originally a set of ad hoc, practical arrangements and the shifting terms of debate about what it has meant, can best be traced through the various committees on broadcasting set up by successive governments from the beginning through to the present.'*⁹

It is in the very first of these committee reports that we find the original idea of broadcast as a public utility; *'a valuable form of public property'* – and the notion that wavelength assigned to any particular interest *'should be subject to the safeguards necessary to protect the public interest in the future'*.¹⁰

John Reith built on these early foundations. He was evangelical about the power of broadcast to spread evidence of the highest human achievements and

8 Scannell, P. (2002). 'Public Service Broadcasting: the history of a concept', in *Television: Critical Concepts in Media and Cultural Studies*, ed. Toby Miller. Routledge. 46.

9 Scannell, P. (2002). 'Public Service Broadcasting: the history of a concept', in *Television: Critical Concepts in Media and Cultural Studies*, ed. Toby Miller. Routledge. 46.

10 Sykes Committee (1923). *The Broadcasting Committee Report* (Sykes Report). London: HMSO. 6.

endeavour to all citizens, and to do so to the highest possible standards. He also had no doubt about its important political role, its potential to contribute to an informed citizenry and so aid democracy. He saw the power of broadcast as a unifying force, exposing people to shared cultural experiences previously denied them.

This early pitch for universal provision, high standards, the idea of shared cultural space and democratic dividend remains the basis for today's defence of PSB, and the BBC as its dominant institution.

Since Sykes, eleven government instigated committees have wrestled with various aspects of broadcasting, not least the tension between the view of public service broadcasting as *'an expression of cultural values and the view that it is predominantly a commercial activity; a tension which is besieging the entire broadcasting ecology today'*.¹¹

In the fifties, the Beveridge Report worried about the BBC's monopoly position.¹² In the sixties, Sir Harry Pilkington's report looked at programme quality following the establishment of ITV. It worried about trivialisation, and identified the concept of public service broadcasting as always to provide *'a service comprehensive in character; the duty of the public corporations has been, and remains, to bring to public awareness the whole range of worthwhile, significant activity and experience'*.¹³

In the seventies Lord Annan's report found the BBC and ITV had created a cosy 'duopoly' providing similar programmes with a roughly equal share of the audience. It recommended the break-up of the then current broadcast institutions.¹⁴

It has been noted that from Annan onwards, old certainties crumbled. If PSB had been widely accepted in a largely unquestioning way to this point, from Annan onwards it was over. In the mid-eighties, the Peacock Report marked yet another, significant break with the past.

Other committees had considered broadcasting in social, cultural, and political terms. Peacock applied a stringent economic approach: broadcasting was a commodity—a marketable good like any other—provided for consumers. He rightly identified that the then BBC/ITV duopoly *'could not be cocooned indefinitely from technological change and market forces'*.¹⁵

By the nineties the political consensus around the public sector was changing, and PSB and the BBC were not immune. Margaret Thatcher's memoirs make clear her position at this time: *'Politically, broadcasting was one of a number of areas – the professions such as teaching, medicine and the law were others – in which special pleading by powerful interest groups was disguised as high-minded commitment to some greater good'*.¹⁶

11 Noonan, C. (2008). *The Production of Religious Broadcasting: The Case of the BBC*. University of Glasgow. 26.

12 Beveridge Committee (1951). *Report of the Broadcasting Committee, 1949* (Beveridge Report). London: HMSO.

13 Pilkington Committee (1962). *Report of the Committee on Broadcasting, 1960* (Pilkington Report). London: HMSO. 9.

14 Annan Committee (1977). *Report of the Committee of the Future of Broadcasting* (Annan Report). London: HMSO.

15 *The Telegraph* (2014). 'Professor Sir Alan Peacock – obituary'. 04 August 2014.

16 Thatcher, M. quoted in O'Malley, T. (1994). 'Closedown? The BBC and Government Broadcasting Policy 1979-92'. 67.

The 1990 Broadcasting Act saw the auction of the ITV franchises, and a subsequent relaxation of ITV's PSB obligations.¹⁷ Despite the newest commercial channel, Channel 5, having some PSB obligations embedded in its licence, the broadcast story since the end of the nineties has been one of continued deregulation, changes to the rules on media ownership and a paving of the way for digital media.

The BBC, however, has remained largely untouched. Indeed, it has grown in scale and stature.

Despite decades of review, debate and inquiry, Parliament to date has continued to support the PSB system in securing a set of economic, citizen, cultural and social benefits it deems important. Its support is exercised via a series of legislative and regulatory interventions. In return for access to spectrum, prominence on the electronic press guide (EPG) and funding (the licence fee), certain TV channels make available – universally and free-to-view – certain types of programming that it has determined are in the public interest (for example, original UK made programmes, news and current affairs programmes).

Now a toxic combination of rapid technological change (most notably digitalisation), a political and commercially driven call for the end of positive regulation of broadcast, and continued broader economic challenges, has produced an 'end of television' story, a broadcast pessimism that is reaching a new peak.

The BBC – despite its strength and stature – is not immune to this call. Indeed, its very dominance of the PSB landscape and receipt of considerable government largesse places it firmly in the crosshairs of the current debate.

Defining Public Service Broadcasting

In all the discourse around PSB, it is possible to identify a set of shared principles, but it's important to note that these are malleable and have altered over time. Some appear attached to the nature of the offer to audiences (education, information, entertainment) some with production values ('high quality'), some with economic expectations ('value for money').

Most public service broadcasters do variations on the following:

- provide a universal service;
- provide high quality programmes which inform and educate;
- offer impartial news and current affairs;
- cater for a wide diversity of interests;
- be independent;
- have some form of public funding.

This contemporary codification of PSB owes much to the 2003 Communications Act.¹⁸ The Act gave rise to the establishment of Ofcom. Ofcom measures the delivery of content by the public service broadcasters (BBC, ITV, ITV Breakfast,

¹⁷ Broadcasting Act 1990, c. 42: <http://www.legislation.gov.uk/ukpga/1990/42/contents>.

¹⁸ Communications Act 2003, c. 21. 264-271.

Channel 4, Channel 5 and S4C) against four objectives, or ‘public service purposes’. They also capture an element of industrial policy, by way of favouring nationally and regionally produced content.

The public service purposes are set out in Table 1 below.

Table 1: The purpose and characteristics of Public Service Broadcasting

PSB purposes
Purpose 1: Informing our understanding of the world – to inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas
Purpose 2: Stimulating knowledge and learning – to stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning
Purpose 3: Reflecting UK cultural identity – to reflect and strengthen our cultural identity through original programming at UK, national and regional level; on occasion, bringing audiences together for shared experiences
Purpose 4: Representing diversity and alternative viewpoints – to make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere
PSB Characteristics
High quality - well-funded and well produced
Original – new UK content rather than repeats or acquisitions
Innovative – breaking new ideas or re-inventing exciting approaches, rather than copying old ones
Challenging – making viewers think
Engaging – remaining accessible and attractive to viewers
Widely available – if content is publicly funded, a large majority of citizens need to be given the chance to watch it
Trust – news programmes are unbiased and trustworthy

By contrast, the BBC’s *raison d’etre* is to fulfil six similar – if heftier – public purposes, as set out in the 2006 Royal Charter and Agreement:

- sustaining citizenship and civil society;
- promoting education and learning;
- stimulating creativity and cultural excellence;
- representing the UK, its nations, regions and communities;

- bringing the UK to the world and the world to the UK ;
- delivering to the public the benefit of emerging communications technologies and services.

High-level, serious, ambitious and comprehensive; both sets of criteria are an attempt to set a standard clear enough to hold broadcasters to account while 'giving competitors some certainty, and enough flexibility to allow them to serve the public in the digital age'.¹⁹

But as the House of Lords Communications Committee review of PSB reported:

'Neither Ofcom's nor the BBC's set of objectives is sufficiently discriminating to distinguish between those programmes and services that merit public finance and special regulatory treatment and those that do not. Few programmes screened by any UK broadcaster would not satisfy at least one of the objectives'.²⁰

Giving evidence to the same committee, Lord Birt (BBC Director General from 1992 to 2000), said public service broadcasting *'is a programme tradition [with] the citizen rather than the consumer in mind'*. He did not attempt a new definition but added: *'If you are in the system, you truly know the difference'*.²¹

The claimed advantage of this lack of precision is that it provides flexibility, which encourages innovation and the production of popular programmes. Others have said that a public broadcaster should be all-encompassing, since the commercial market is not to be trusted with providing anything of value: *'The aims of PSBs are 'non-quantifiable, non-definable aims'*.²² But if this is the case, how does the policy maker know whether or not its aims are being met?

In answer, Ofcom has developed a comprehensive way of assessing the effectiveness of the public service broadcasters, taken together, in delivering PSB. This includes an audience tracking survey to evaluate audience opinions, as well as broadcaster spend, output and viewing data. The aim is to provide a common basis for understanding delivery of PSB, and results are presented in PSB Annual Reports.²³ While the purpose is to show how PSB is being achieved in the UK as a whole, it also looks at the contributions of the individual PSB channels, including the BBC.

In addition, the BBC Trust has created a set of purpose remits for the BBC. These show the priorities it has set the Executive Board and how it will assess the Board's performance against them. To monitor the Executive's performance, the Trust also carries out an annual tracking survey. This asks respondents to express

19 Tambini, D. (2014). 'Funding Reform: First Agree What the BBC is for'. LSE Media Policy Project blog.

20 House of Lords Select Committee on Communications (2009). *2nd Report of Session 2008–09 'Public service broadcasting: short-term crisis, long-term future?'* HL paper 61. 6.

21 Birt, J. Oral Evidence to the House of Lords Select Committee on Communications review of Public Service Broadcasting (2008-09). Q 391.

22 Rumphorst, W. (1998) 'Public Broadcasting: No end to the Misunderstandings?' *Diffusion – quarterly journal of Economics* (66). 103-126.

23 Ofcom (2014). *PSB Annual Report 2014*. 99-122.

their views on the importance they attach to the purpose priorities and on the BBC's current effectiveness in delivering them.²⁴

From this, it is reasonable to discern that while the overarching direction of travel in the last two decades has been toward deregulation of the broadcasting industry, the definition and regulation of PSB – and the BBC in particular – are both, in principle at least, highly codified, closely observed and monitored by their regulatory and governing bodies. The intent remains to ensure the fulfilment of the high-level public purposes agreed at Charter renewal, or in the case of commercial PSBs, licence renewal.

Despite repeated attempts to address them, two interrelated issues remain unresolved:

1. Defining and breadth of scope of PSB and the BBC. Should PSBs (and the BBC in particular) range across all areas of broadcasting? If so, how in practice can we clearly differentiate them (in terms of type and quality of content) from commercial broadcasters?
2. The impact of technological advance on market transition: the continuing impact of market liberalisation and the overriding question about the continuance of a public service ethos in a digital age.

Definition of breadth of scope

Supporters of the BBC argue that all its output is consistent with PSB, and that making that output available on all current and future platforms is a natural extension of its mission, rather than representing empire building or mission creep.

It is easy to see how commercial broadcasters are left searching for an inch of lawn that doesn't have a BBC tank parked on it, and left demanding clarity on the BBC's scope.

*'Public broadcasters are increasingly seeking to establish a foot in both the public sector and commercial camps. At the same time, they have largely failed to redefine the role which they are to play within a multi-channel environment.'*²⁵

Trust Chair Rona Fairhead has acknowledged the challenge and called for:

'A simpler articulation of these public purposes. Because it ought to be crystal clear what the BBC has agreed to do as part of its public service remit.

That should also include greater clarity about the costs that go with such purposes. If the BBC continues to provide dedicated services to the constituent parts of the UK, that has significant cost. If it continues to

24 BBC Trust (2014). 'Understanding audiences: Consultations, research and Audience Councils: those we heard from and what they said', in *BBC Annual Report and Accounts 2013/14*.

25 Brown, C. (1997). *The New Economics of Audio-Visual Production*. FT Media and Telecoms/Pearson Ltd.

provide a world-beating World Service or World News, that has significant cost. We ought to be explicit about the deal that is being struck in any new Charter and the financial consequences of it'.²⁶

Ofcom recognises the continuing regulatory challenges that emerge from such a diffuse and all-encompassing conceptualisation of PSB: *'in a world of increasing choice of programmes, platforms and services, keeping PSB relevant to large audiences and making it available where consumers want it are critical challenges'.²⁷* Yet its own role in defining the PSB scope and context of delivery itself is somewhat compromised by the statutory limits on its oversight of the BBC.

In announcing the third review of PSB to be published in Spring 2015, Ofcom has made clear that its analysis will sidestep any debate about funding mechanisms for the BBC and consideration of whether there might be a 'more optimal mix' of institutions for delivering public service content in the future.

"We will not seek to ask or answer questions in relation to the BBC which are matters for the forthcoming Charter review process, [...] Our work on the BBC will focus on its role in the overall delivery of the public service broadcasting purposes and objectives, to establish both the contribution and impact of the BBC as part of the system of public service broadcasting."²⁸

Moving forward in a period of immense industry innovation, transformation and market turmoil, who is the best adjudicator of the efficiency, effectiveness and appropriateness of PSB, and how should they, the regulator, be defined and re-sourced to best meet the PSB challenges of the future?

Opponents of Ofcom argue that it is wrong, in principle, to have what is essentially a competition authority for the commercial sector look after the 'competition' – the BBC. We don't agree.

It is precisely because Ofcom has this function and oversight that the BBC – in every sense – must be within its remit. Equally, the BBC's own measurement of a slightly different set of public purposes than those defined by the 2003 Communications Act seems a repetitive and redundant activity. Consideration of both the optimal mix and optimal funding of PSB by the regulator must consider the funding of the BBC as the keystone institution of the PSB environment.

PSB and the proliferation of channels and media platforms

Thanks largely to the BBC – its long history, stability and scale of provision over time – Britain has enjoyed more enduring support for PSB than much of the rest of Europe. However, it is by no means assured of this going forward. Much of the support for PSB in principle in the UK is based on the perceived current success

²⁶ Fairhead, R. (2015). Speech to the Royal Television Society. 02 February 2015.

²⁷ Ofcom (2014). *Annual Report and Accounts for the period 1 April 2013 to 31 March 2014*. 28.

²⁸ Ofcom (2014). *Ofcom's Third Review of Public Service Broadcasting: Terms of Reference*. 5.

and value of the BBC. This is quite risky: if trust in and support for the BBC falters, support for PSB itself could be put at risk.

Running counter to this – and posing a new and different risk to the BBC and the current PSB system – is the industry research that shows there are now hundreds, if not thousands, of online media services contributing to the public service objectives. Currently, most are used by relatively small audiences and virtually none have the reach and impact of the PSB system's TV Channels yet. But this trend is backed by audiences, who say they believe a wide range of organisations are producing content that delivers to them PSB purposes and characteristics. Existing PSB channels are losing some of their distinctiveness, and the portfolio channels of the PSBs (which are not legally classified as PSBs) are viewed as equally important as the main channels.

This all suggests the need for a fresh and clear statement on what PSB for this age is and should be. Then policy makers can outline and prescribe the delivery of PSB, via whichever institutions, services and outputs it sees fit.

We support Ofcom's current view that PSB is still worthy of government support because *'the public service broadcasters are in a strong position to continue contributing to a successful and innovative sector'* and that *'viewers still value programmes from the public service broadcasters'*.²⁹

However, we believe that to ensure PSB's future survival and strength, parliament must consider some radical measures to offset the challenges to the current set up. We support the principle of PSB and don't want to see it injured. We agree with ongoing intervention to support those elements of broadcasting that government decides are functions of PSB and are not satisfied by the market.

We accept the BBC as the organisational centre of our expression of PSB, and that its place at the heart of a PSB ecology remains significant. But we signal this next Charter period as one of transition. We wish to make clear to the BBC that while its portfolio channels' contribution to PSB delivery will be taken into account, its ongoing, exclusive access to the funding of PSB is not guaranteed.

One option – which has been proposed previously (Broadcasting Policy Group 2004, Oliver, 2009, Ofcom, 2007) – is for government to support public service content via the creation of a contestable fund, open to all providers of content that satisfies public service objectives, rather than just the BBC. This fund will be managed by Ofcom.

Latest Ofcom research reports the important and growing contribution of the non-PSB channels towards the fulfilment of the PSB purposes and objectives, which suggests this option is worthy of revisiting.

29 Ofcom (2014). *Public Service Content in a Connected Society: Ofcom's third review of public service broadcasting*. 9.

Contestable funding

Calls for top-slicing the licence fee are based on the usually sound economic reasoning that contestability promotes competition, dynamism and innovation.

Outgoing Ofcom chair Colette Bowe is clear on this, believing the licence fee – or some proportion of it – should be open to other media companies to bid to make public service broadcasting programming.

*'I have got sympathy with the idea that some more of the funding currently available for public service broadcasting should be contestable. Because on the whole I am on the side of the people in the sector who believe that what we need is even more competition and dynamism and innovation than we have got.'*³⁰

Commercial PSBs have renewed their calls on the BBC to share some of its licence fee to fund news operations (ITV) and research and development (Channel 4).³¹

³² The BBC has always fiercely resisted the calls for top-slicing, preferring the language of partnership.

No government or policy maker considering the best way to support public service broadcasting from scratch would conclude that putting the whole of its investment (of public money) into one broadcast organisation was a good idea. However, the generous and predictable funding of the BBC over time has allowed it to grow into a residually strong organisation capable of output of scale and stature, able to unite the nation at key moments in the national conversation. Arguably, this singular investment over time has also allowed the BBC to grow into our only global media brand.

We see this next Charter period as one of transition; setting the BBC on a new journey, which will undoubtedly see it lose some of its income to contestable funding. At the same time – and in recognition of the fact that financial support via government funding might fall in this model – the BBC should be freed up to maximise the commercial exploitation of its products. The BBC's default position should be 'how do we monetise it', with guidance from the Trust and Ofcom on the scope for sponsorship, commercial partnerships, and other forms of exploitation.

The BBC's commercial arm, BBC Worldwide, should concentrate on driving the profitable exploitation of BBC content, domestically and internationally, to deliver reinvestment to the BBC.

30 Bowe, C. quoted in Brown, M. (2014). 'Ofcom boss: 'BBC licence fee should be shared with other broadcasters''. *The Guardian*. 14 February 2014.

31 '[T]here is a case to examine in detail the merits of making some of the licence fee currently spent on news available to the market to encourage and sustain plurality.' ITV Plc (2014). 'Written evidence submitted by ITV Plc [FBB0066]'. DCMS Select Committee Inquiry on the Future of the BBC.

32 'Channel 4 believes that the BBC should seek to partner more with fellow PSBs especially in the case of developing technology and distributing content.' Channel 4 (2014). 'Written evidence submitted by Channel 4 [FBB0067]'. DCMS Select Committee Inquiry on the Future of the BBC.

Market liberalisation and the digital economy

On the political front, the revival of market liberalism as ‘*the dominant public philosophy*’ reached its zenith during 18 years of Conservative rule under Margaret Thatcher and John Major and has shaped broadcasting policy ever since.³³ In turn, as Goodwin has noted, this drive has also ‘*conditioned the response of broadcasters*’.³⁴

The idea that only the free market can create the ideal conditions of efficiency and competition, and that the sovereign choices of individuals are the only indicator of what media people want (and therefore should be supplied), has been the underlying drumbeat of media policy throughout the past three decades.

The case for less intervention and further deregulation has been bolstered by technological changes and media convergence. Since the launch of satellite in 1983 the impact of new technology on the future of public service broadcasting and the sector as a whole has been discussed, debated and dissected.

The arrival of cable, digital broadcasting, multichannel TV, Pay TV, online content, time shifting, on demand viewing digitalisation, interactivity and internet broadcasting (media convergence in full) has only added to the sense that a broadcaster ‘born and matured within the technological constraints of analogue terrestrial transmission’, is now fundamentally challenged.³⁵

Digitalisation, the argument goes, diminishes barriers to entry and allows a competitive, pluralistic market to emerge, removing the need for regulation. In addition, the end of spectrum scarcity has removed key regulatory levers (the granting of broadcast licenses).

Most recently, a Reuters Institute report into the effects of the changing economics of broadcasting found that while analogue broadcasting provided a rationale for public intervention to increase the quality and diversity of programming, this does not carry forward to digital broadcasting, and that multichannel pay TV achieves broadly optimal programme outcomes.³⁶ In a digital world, consumer market failures no longer provide a strong basis for major public intervention in television broadcasting. Therefore, the case for PSB must rest its social benefit for citizens.

Set against this view is the idea that society’s non-economic goals for television remain, and that while convergence and the achievement of a multimedia environment may be inevitable (even if the speed of their arrival may be slower than some are currently predicting), the social and cultural roles of the media will be no less significant with new forms of delivery.

33 Gamble, A. (1994). *The Free Economy and the Strong State: The Politics of Thatcherism*. London: Macmillan. 4.

34 Goodwin, P. (1997). *Public Service Broadcasting and New Media Technology: What the BBC has done and what it should have done*. The Public Vol.4. 60.

35 Goodwin, P. (1997). *Public Service Broadcasting and New Media Technology: What the BBC has done and what it should have done*. The Public Vol.4. 60.

36 Picard, R.G. and Siciliani, P. (2013). *Is there Still a Place for Public Service Television? Effects of the Changing Economics of Broadcasting*. Reuters.

'There will continue to be a need for institutions and mechanisms, other than the market process, to enable discourse about these roles to take place between media professionals, politicians and the public and to preserve the values that all of them represent'.³⁷

In other words, beware technological determinism. As Curran and Seaton point out:

'We, as yet, can only speculate about the likely effects: but they will clearly influence the future of democracy. Yet we have seen thirty years of speculation driving policy. Audience behaviour has proved more stable'.³⁸

While this may have been true up until very recently, it is evident that audience behaviours and consumption patterns are changing rapidly, and along with them presumptions about the function and standing of PSB.

The technological challenges and political climates may have changed over time but a sense of unsettlement, challenge and threat has endured.

Conclusion

The polarised – and politicised – nature of the debate to date has tended to result in unqualified support for the status quo. The debate is inevitably cast as one between maintaining PSB as it is, or eliminating it altogether. As others have noted, this has led to policy compromises. But given the changed broadcast landscape and economics, this issue can no longer be shirked: now is the time to ask essential questions about the scale and scope of the BBC and the funding of PSB generally.

The economics of traditional broadcasting have fundamentally changed. Digital broadcasting along with the arrival of Pay TV have effectively removed two economic justifications for PSB: spectrum scarcity and the inability to exclude non-payers. Policy makers need to consider afresh what the ideal 'market' for PSB for citizens and consumers looks like, and which interventions and funding options may move the market closer to that ideal.

Without clear policy objectives and clarity around the long term goals, size, scope and remit of public service broadcasting in the digital age, the BBC and the creative economy it underpins are left second guessing the political mood, and able to commit to only short-term investments plans.

We agree with the Ofcom view that while the existing PSB 'compact' appears to be sustainable for the next five to ten years, there is considerable uncertainty and the potential for structural changes in many areas. While it is impossible to accurately predict how these changes will play out, the debate about PSB's objectives and the manner in which they are to be achieved and accounted for in the

³⁷ Gibbons, T. (1998). *Regulating the Media*. London: Sweet and Maxwell.

³⁸ Curran, J. and Seaton, J. (1981). *Power Without Responsibility: The press, broadcasting, and new media in Britain*. London: Routledge. 194.

public context has to start now. The BBC should remain the central architecture of the system for now, but be given notice that its exclusive access to this position and funding will transition over the next Charter period.

Are the current public purposes still valid and achievable? If not, what should the new objectives be and how should the 'market' for PSB be organised?

Given the global nature of the creative economy, only long term signalling can support maximisation of the creative, commercial and soft power dividend that PSB – with the BBC at its heart – injects into the international media environment.

As Tambini notes: *'We need to look at ways of garnering cross party support for the long term principle that the BBC does have a permanent role in the UK Media'*.³⁹

39 Tambini, D. (2014). 'Funding Reform: First Agree What the BBC is for'. LSE Media Policy Project blog.

3 The response of the BBC

Lack of definition of the future role and objectives of PSB has provided a public policy vacuum that the BBC has itself been keen to fill, promoting its self-definition agenda moving forward.

At the launch of the first satellite services into the UK, thirty years ago, the BBC stood accused of fuelling a ‘crisis of imagination’ around PSB. Critics pointed to the BBC’s obsession with winning the ratings war with ITV, its centralised London bias, failure to express the public’s full political and cultural diversity, its cultural imperialism, historically bad industrial relations and instinct to preserve the BBC as an institution rather than act as a conduit of popular views and pressures. The corporation was also, unsurprisingly, in the Tory Party doghouse, attacked as over-staffed, wasteful and ‘run by a bunch of pinkoes’.⁴⁰

It is widely accepted that Peacock’s legacy has been to fuel an ongoing campaign to re-fashion broadcast regulation away from its focus on the allocation of scarce spectrum and the securing of public service objectives, to the rule of the free market. Such shifts, some argue, lead to ‘the perceived imperative to deregulate in order to open up markets and so maximise the benefits of globalisation’.⁴¹

The UK was not alone: the European consensus at the time shared a vision of a communications market in which sector specific regulation would be unnecessary, the removal of technological constraints would see an end to natural monopolies and market failure, and market mechanisms would deliver the widest and most efficient choice and optimal social welfare.⁴²

Smith has summed it up thus:

*‘The establishment of Ofcom is best understood as representing a shift in the focus of UK television policy, rather than just a regulatory ‘tidy up’ prompted by technological change’.*⁴³

He goes on to describe how its making was shaped by New Labour’s commitment to free market principles, as well as UK commercial media interests and their attempts to use convergence to justify deregulation.

40 *The Telegraph* (2014). ‘Professor Sir Alan Peacock – obituary’. 04 August 2014.

41 Lunt, P. and Livingstone, S. (1996) *Rethinking the focus group in media and communications research*. Journal of Communication, 46 (2). 2.

42 Verhulst, S. and Marsden, C. (1999). *Convergence in European Digital TV Regulation*. Blackstone Press.

43 Smith, P. (2006). ‘The Politics of UK Television Policy: The Making of Ofcom’, *Media, Culture and Society*, 28 (6). 929.

The arrival of digital technology – heralding the end of spectrum scarcity and ushering in an explosion of channels and platforms – could, quite easily, have further strengthened the hand of critics calling for an end to regulated broadcast. Instead, courtesy of some failed government interventions in the new broadcast technologies – along with some fancy footwork on its behalf – the BBC redefined (with the full support of government) its place in a multichannel, digital landscape, and that place was confidently, unrelentingly dominant.

Key to this resurgent BBC was the onset of the digital revolution across broadcasting and the UK government's apparent inability to know how to respond.

The BBC and the digital revolution

During the late 1980s and 1990s, the making of the UK's digital policy was overshadowed by the presence of BSkyB. This, along with the European Community's Television Without Frontiers Directive, combined to '*effectively end the UK government's sovereignty over who could or who could not broadcast to UK viewers*'.⁴⁴

The new regulatory system was immediately exploited by Rupert Murdoch's satellite broadcaster, Sky. Classified as a 'non-domestic' service and so exempt from cross media ownership rules, Sky was not required to fulfil any of the 'semi-public service' duties of the officially licenced satellite broadcaster BSB. A messy merger (described by some as a takeover) between the two organisations soon followed and the emergent BSkyB quickly became the UK's dominant pay TV broadcaster.

UK policy makers turned their attention to the potential of digital technology. The policy ended in tatters in 2002; the only credible rival to a dominant BSkyB consortium collapsed and UK digital television had become, in the words of one commentator: '*A pay television phenomenon heavily dominated by Sky*'.⁴⁵ The government's twin aims of driving analogue switchover and preventing BSkyB extending its domination of analogue pay TV into digital, had failed.

Enter the BBC and Freeview, its free to air Digital Terrestrial Television (DTT) offering, championed by then Director General Greg Dyke. Dyke saw Freeview as a way to get the nation turned on to digital via the BBC. Effective take up of Freeview held the potential to deliver two important strategic outcomes highly favourable to the BBC; first, it had the capacity to get as many services as the BBC wished to as many homes who took the service and second, in achieving this, it provided an effective instrument in resisting calls for the BBC to become funded by subscription.

'Freeview makes it very hard for any government to try and make the BBC a pay-television service. The more Freeview boxes out there, the harder it will be to switch the BBC to a subscription service since most of the boxes can't be adapted for pay-tv. I suspect Freeview will

44 Smith, P. and Steemers, J. (2007). *BBC to the Rescue! Digital switchover and the reinvention of public service broadcasting in Britain*. Javnost/the Public. Vol.14, No.1. 39-56.

45 Smith, P. and Steemers, J. (2007). *BBC to the Rescue! Digital switchover and the reinvention of public service broadcasting in Britain*. Javnost/the Public. Vol.14, No.1. 39-56.

ensure the future of the licence fee for another decade at least, and probably longer.⁴⁶

Take up of Freeview was rapid; in only 18 months around 3.4 million homes were receiving digital television this way. As one academic put it: *'The BBC had rescued the UK government's digital television policy'*.⁴⁷

In an astute political move the BBC built its case for the last Charter renewal on an offer to play a leadership role in digital transition, pledging to invest in its *'infrastructure, content services and promotion to help bring the benefits of the new digital technologies to everyone'*.⁴⁸

The government took up the BBC's offer, in turn committing to a BBC of 'scale and scope', adding 'Building Digital Britain' to the BBC's core purposes. So, the BBC was secure in its funding, secure in its remit to grow beyond traditional television and radio services, and secure in the knowledge that government needed it as much as it needed government – until this forthcoming Charter at least. As Smith and Steemers put it, *'Britain is almost unique in giving its incumbent public service broadcaster, the BBC, a leading role in driving digital, thereby hoping to hasten digital switch over.'*⁴⁹

As far as the BBC was concerned, it had hit on a winning formula: until 'Digital Britain' had been built at least, it could consolidate and grow its position at the heart of the media landscape while claiming the moral high ground via espousal of public value. The corporation took all this as a clear mandate to grow with the new technical possibilities, offering new provision on all relevant platforms enabling individuals to create their own personalised public service from a variety of traditional and new resources.

Before long the BBC's newly expansive mood saw it turn to online, recognised as a powerful 'third medium'. Justification followed the usual lines – trusted guide; for citizens not consumers – and led to the launch of bbc.co.uk, its free website. Its immediate success and seemingly limitless boundaries and resources led to complaints from commercial rivals. A 2004 Department for Culture, Media and Sport (DCMS) report by Philip Graf criticised the BBC's broad remit and highlighted examples where it was little different from commercial operators. He identified a 'fundamental lack of trust' in BBC online among its rivals, which he blamed on the 'wide interpretation' of its remit, 'early expansion', 'poor communication', 'opaque financial information' and a policy of linking to external websites which seems 'unfair and discriminatory'.⁵⁰ In summary, Graf took issue with the BBC's 'self-appointed' role in digital take up as something which had *'yet to be sufficiently tested for delivery or appropriateness as a legitimate role for a single broadcaster'*.⁵¹

46 Dyke, G. (2005). *Greg Dyke: Inside Story*. London. Harper Collins. 87.

47 Smith, P. and Steemers, J. (2007). *BBC to the Rescue! Digital switchover and the reinvention of public service broadcasting in Britain*. Javnost/the Public. Vol.14, No.1. 44.

48 BBC (2004). *Building Public Value: Renewing the BBC for a Digital World*. London: BBC, March. 61.

49 Smith, P. and Steemers, J. (2007). *BBC to the Rescue! Digital switchover and the reinvention of public service broadcasting in Britain*. Javnost/the Public. Vol.14, No.1. 39.

50 Graf, P. (2004) *Independent Review of BBC Online* (Graf Report).

51 Graf, P. (2004) *Independent Review of BBC Online* (Graf Report). 9.

It is clear that without firm, pre-emptive internal governance, the BBC's default position was – and many argue still is – to use its substantial resources, expansionist instincts and risk-free funding to expand into all new areas of content delivery. Its recent announcement to launch a suite of new services – a catch up channel, personalisation, online purchasing, and so on – is further evidence of this instinct.

Many of those interviewed for this report, while supporting the BBC in principle, claimed it ran an 'ersatz' public service, adopting the high level language of the BBC's early high ideals, while in reality acting as an aggressive, competitive, reach-obsessed broadcaster that has repeatedly reduced its commitment (as represented by spend and hours) to key public service genres (arts, music, religion, current affairs) without any public debate.

Unfettered by the checks and balances that might have been levied on management by the BBC Trust, critics say senior BBC Executives focused time, energy and effort in favour of chasing reach, developing commercially exploitable, mainstream output to build a position of significant dominance in the marketplace. That this happened on the Trust's watch amounts to a failure of the current BBC governance model.

With regard to research and development into new platform and means of delivery, the BBC has been criticised for using the licence fee to develop services that already exist, rather than concentrating R&D on supporting BBC channels on the myriad of new platforms already out there:

'The BBC needs to be modest about where it can innovate, and where it can't. Most importantly it has to recognise where its role should be to support other companies driving innovation – and this is where their record is poor'

Industry analyst

Interviewees were also uneasy with the *principle* underpinning the BBC's latest vision for personalisation. While important in helping the BBC to assert a position of unparalleled market dominance, the personalised manner of its achievement might also herald the seeds of potential demise going forward.

'Up to now the BBC's services have effectively been bundled and because they are mostly broadcast over the airwaves cannot be unbundled. We all pay the same licence fee and accept – more or less willingly – that we share the cost of the whole package.'

One question that must surely arise in the unbundled "My BBC" world, once I've picked out the bits of the BBC I use and value, is why should I pay for the rest? And because the technology of on-demand delivery that un-

derpins the whole project allows subscription in a way that broadcast TV and radio don't – at least not easily – “My BBC” will inevitably in time reignite the question of subscription funding, for some BBC services at least’.

Media Commentator

Conclusion

We believe that, for the next 10 years at least, the BBC remains the right keystone institution on which to rest our national expression of support for a strong PSB.

We base this on a number of beliefs. First, there remains (for the next Charter period at least) an ongoing responsibility around channels as ‘filters’ that consumers understand as an organising principle for the delivery of content. Indeed, it could be argued that as choice of content and platform proliferate, consumers have even greater need for such ‘filters’.

Second, the quality threshold associated with the BBC as a producer or buyer of content still resonates with viewers. Indeed, it is our view that the BBC should prioritise producing more distinctive and innovative content going forward.

Third, the enduring value of an impartial news service remains. Fourth, the importance of the brand ‘BBC’ both at home and abroad (and the soft power benefits of this) still has intrinsic value. Finally, the investment in the BBC has a substantial cumulative effect on the UK’s creative sector.

But we also believe that its core purposes, how these are translated into outputs and how, in turn, these outputs are assessed, needs some adjustment. In addition, for the BBC to be the best it can be, three things are needed: firm and effective governance and regulation, strong competition, and a clear and fair funding formula.

In future, we expect its interpretation of the appropriate mix of programmes necessary to fulfil its PSB obligations to be agreed in advance by its governing body, the BBC Trust. This will alleviate ongoing concerns that, left to its own devices the BBC does not always pursue the public interest, but rather its own corporate interests.

4 The case for the BBC

The BBC has the second largest budget of any UK-based broadcaster. It has enjoyed exclusive access to monies raised via the licence fee for over 40 years. In 2013/14 that translated into an expenditure of £3.0997 billion on production and delivery of content (television, radio and online).⁵²

To date, the broadcast market has been deemed worthy of significant public funding interventions for two reasons. First, the economic and technological nature of broadcasting means the market does not and cannot function like a normal consumer market (the market failure argument). Second, broadcasting has all characteristics of a ‘public good’.

One important characteristic of a ‘public good’ is that it is non-rivalrous (consumption of a service by an individual doesn’t limit or preclude consumption by another), so there is no need to ration by price. The fact that a programme costs the same to produce regardless of whether one or one million people watch it favours the drive for audience maximisation. Pressure to maximise audiences favours oligopoly. Public goods are also non-excludable; it is unfeasible or prohibitively expensive to exclude non-payers. Analogue terrestrial broadcasting could be said to display both these properties, making it a public good. However, digitalisation, cable and satellite systems have enabled encryption technology and other measures to exclude non-payers, removing at least one property of public goods.

Intervention has always had two elements: consumer concern (will the market provide content people want?) and citizen concern (broadcasting serves broad social purposes, a matter for more than just the individual viewer).

Economist Gavyn Davies is robust in his assertion that: *‘There is much in the unappealing language of economics which can help justify the role of the BBC... economics is relevant to more than a calculation of the consumer value to the BBC’*.⁵³ He makes a strong case for why hinging the debate about the BBC’s existence on the ‘market failure mechanism’ is valid enough. *‘Without market failure, the government should not intervene in the commercial market-place, and the BBC should be privatised’*.⁵⁴

52 BBC (2014). *BBC Full Financial Statements 2013/14*. 8. (Figure includes content, distribution and infrastructure/support costs).

53 Davies, G. (2004). *The BBC and Public Value*. Social Market Foundation. 8.

54 Davies, G. (2004). *The BBC and Public Value*. Social Market Foundation. 10.

Davies accepts that even without the BBC there would be much ‘Reithian’ television produced by other suppliers; *‘But there may not be enough to attain the socially optimum level’*. He rejects the idea that the BBC should produce only those programmes absent in the market place: *‘Since practically everything is produced to some degree by the free market, such a rule would soon leave the BBC producing absolutely nothing at all’*.⁵⁵

In this chapter we analyse and assess the case for and against the maintenance of the BBC as it stands today. We do so through five principle lenses, each offering strategic insight into the future possible direction of the BBC post-Charter renewal negotiations through to 2017. The lenses selected originate from the deliberations of the DCMS select committee review of the BBC currently under development.⁵⁶ They are:

- funding arrangements;
- the protection of independence;
- maintaining universal provision;
- guaranteeing quality of provision;
- assessing value for money.

As stated earlier, it is possible to discern a set of qualities and objectives asked of PSB: universality, quality provision (catering for all audiences), independent and impartial outputs. The problem with the debate around the BBC to date is that these essential characteristics have become conflated with the issue of funding – both the scale and mechanism.

The BBC has gone to great lengths to prosecute the idea that these objectives are intrinsically linked to a licence fee of scale. Any change to the level of funding or mechanism, would, they say, undermine the key principles of PSB. We don’t agree. The objectives of PSB remain the same regardless of the funding mechanism. Whether or not the BBC has delivered the key objectives of PSB is an important debate to be had when considering if it is a worthy recipient of its privileged status going forward. As such it must be decoupled from the debate about the merits or demerits of the funding mechanism. This section takes the PSB objectives and analyses both the BBC’s delivery against them, as well as the contribution – or otherwise – of the existing funding mechanism to that delivery. It ends with a consideration of which alternative model of funding might best support the delivery of these objectives.

Funding the BBC

It is instructive to start this analysis by considering how PSB broadcasting is funded in other countries with similar broadcasting systems to the UK. Tambini has been working on a 60 country study of media policy around the world. He is clear about the *‘political messiness and contestedness’* of broadcasting policy worldwide, but says in countries with similar, large public broadcasters, the terms of

55 Davies, G. (2004). *The BBC and Public Value*. Social Market Foundation. 11.

56 Department for Culture, Media and Sport. Select Committee Inquiry into the Future of the BBC: Terms of Reference.

the debate around funding PSB are much the same as those found in the UK.⁵⁷

He reports that in Europe, 23 countries use a form of licence fee funding. Spain and Estonia have never had one, Portugal, Hungary, Finland, Cyprus, and the Netherlands abolished theirs.

Overall, the burden of PSB funding is shifting from licence fees to taxation.

In Germany PSB funding is now levied on all households regardless of equipment or usage; in the Netherlands, PSBs are federated membership organisations; in Finland all adults pay income tax, part of which is earmarked for broadcasting.

In Greece a licence fee is paid through electricity bills, in Denmark a digital licence fee applies to all TVs, computers with internet access and devices that can receive broadcast. France has a form of licence fee collected with residence tax, combined with advertising.

In Canada, PSB enjoys mixed funding: government funding via taxation, some subscription and some advertising. Australia's ABC is funded directly by government from taxation.

Comparative data relating to the cost levied and form of PSB funding of broadcast media in countries with a similar socioeconomic profile to that of the UK are set out in Table 2 opposite.

From this it is clear that there is no obvious, preferred, or off the peg answer as to which funding model to adopt in the UK. Most countries (including the UK) have a mixed funding model that has emerged over a considerable period and which has reflected the growing fragmentation of both broadcast provision and the broadcast markets that it is targeted toward.

The current position in the UK reflects a similar, though less well developed progression toward a mixed funding position. Whilst the licence fee still dominates BBC finance, income from commercial operations and direct funding of the World Service promote at least the opportunity for further diversification, should such an option be contested.

The preservation of the licence fee?

The BBC's main source of funding is the licence fee: an annual charge levied on each household receiving broadcast television. BBC licence fee income has fallen 6% in real terms over the period from 2008 to 2013. The BBC has reduced spend on its television services by £372m in real terms, a reduction of 12.5%.

The total income from licence fees was £3.726 billion in 2013/4.⁵⁸ Government provides £607.8 million (13%) of that total by way of licence concessions for the over 75s.⁵⁹ Commercial activity makes up the rest of the BBC's total income of £5.066 billion.⁶⁰

57 Tambini, D. (2014). 'Funding Reform: First Agree What the BBC is for'. LSE Media Policy Project blog.

58 BBC (2014). *BBC Full Financial Statements 2013/14*. 4.

59 BBC (2014). *BBC Full Financial Statements 2013/14*. 29.

60 BBC (2014). *BBC Full Financial Statements 2013/14*. 4.

Table 2: Comparative analysis of Public Service Broadcasting models by cost and form

Country	Current Price	Payment Information
Germany	€215.76 per year (£160)	Top-sliced broadcasting fee, paid per household. All households are required to pay, regardless of equipment or television/radio usage.
Finland	0.68% of a taxpayer's income	Ring-fenced funding through means-tested direct tax. Calculated per head not per household. Everyone, not just those who own a TV, pays the tax.
Denmark	2,436 DKK per year (£242)	Denmark has a 'media licence fee', covering all televisions, computers, tablets and Internet-enabled phones, regardless of usage. PSB has advertising, but may only broadcast commercials <i>between</i> programmes.
Japan	¥18,160 per year (£99)	"Voluntary" payment (non-payment decriminalised). 80% of the population pay. Licences are required for televisions, smartphones and car navigation equipment.
Australia	Total annual budget: A\$1.22bn (£61.5m)	Licence fee abolished in 1974 in favour of public funding as a fairer method. The Australian Broadcasting Corporation has no commercials, and is funded entirely through government grants of public money.
France	€133 per year (£98)	PSB is part-funded by advertising, and part-funded by licence fee. Licence fee is a flat-rate, paid alongside residence tax.
New Zealand	Television is commercial	Licence fee abolished in 1999 because of high collection costs. 95% of Television New Zealand's income comes from advertising. 5% comes from government sources, and is directed at specific projects. Radio New Zealand is government funded.

The cost of the licence is set by government and enforced by criminal law. In essence, the licence fee is a hypothecated *ad rem* tax – set and collected by the state, earmarked for a specific purpose. The licence fee pays for the right to receive a live TV signal, not to pay for the BBC.

Criticism of the licence fee is easy: it is a regressive flat tax; it is unfair if viewers only want to watch commercial TV as they still have to pay; it is expensive

to administer; it encourages evasion; it offers no mechanism by which to judge consumer satisfaction; and the fact that is set by government implies a level of political control. Criticism of the fee on principle or moral grounds can also often mask vested interests, political or commercial motives.

By contrast, supporters of the mechanism claim it offers stability of funding; preserves the independence of the BBC; spreads the cost widely making it value for money; and that it enables the BBC to focus on quality output.

When the coalition came to power in 2010, a briefing paper on value for money in public services summed up the tone and tenor of the debate around the licence fee to date:

*'Is the television licence a sustainable way of funding the BBC long term? When fewer people watch the BBC's output, and more choose to watch the hundreds of available digital channels, can the continued imposition of a regressive tax to fund Strictly Come Dancing be justified? And how should the level of the licence be set – enough to maintain and develop the BBC's current activities or, to take a contrary view, barely enough to fund a public service stub? A broadcaster of worthy content the market would not otherwise provide?'*⁶¹

More recently – and more worryingly for the BBC – Culture Secretary Sajid Javid has made it known he is prepared to be radical in reconsidering its funding.⁶²

The Department for Culture, Media and Sport (DCMS) Select Committee is currently holding an in-depth inquiry into the BBC ahead of its current Royal Charter ending in December 2016. It includes consideration of how the BBC should be funded beyond 2016 and whether there is a case for distributing funding for public service content more widely beyond the BBC.

From the evidence assessed so far it is reasonable to say that the majority of submissions support the principle and continuation of the licence fee for the next Charter period at least. This support is based on the same, enduring beliefs that have sustained it over past decades and which comprise the basis for the analysis of the case for the BBC as outlined here:

- that the licence fee's 'one-step removed' (from direct government funding) nature guarantees the BBC's political independence;
- universality means the BBC is compelled to offer something for everyone;
- that immunity from commercial or shareholder pressure allows the BBC to focus on quality, not just ratings;
- that it's fairer – all owners of TV sets have equal access to output;

61 Danby, G. (2010). 'Future of the BBC' in *Key Issues for the New Parliament 2010, Value for money in Public Services*. House of Commons Library Research. 52.

62 Kirkup, J. (2014). 'BBC licence fee could be cut under Tory government'. *The Telegraph*. 15 June 2014.

■ that the fact it is levied universally makes it good value for money.⁶³

As the analysis that follows demonstrates, many of these underlying assumptions are open to challenge, in both principle and practice.

Do the current funding arrangements protect the BBC's independence?

Even a cursory look back at the history of the BBC reveals governments repeatedly and unashamedly prepared to wield control of the licence fee as a threat to secure their own objectives. The BBC's courting of government in an attempt to evade restrictions on its reporting have been a feature since the beginning of its existence. This has made the BBC susceptible to bullying as at various times as *'it was implied that the licence fee might not be allowed to rise or its licence to broadcast terminated altogether'*.⁶⁴

It is not unreasonable to claim that the dominant status of the BBC in the media landscape, especially the news supply, also exposes the BBC to far greater political scrutiny than any other broadcaster. Late last year Tory party chairman Grant Shapps made what was described as *'the most explicit threat by a cabinet minister against the broadcaster'* when he suggested the BBC could lose its exclusive right to the licence fee, while making clear his real target was the tone of the BBC's news reporting, which he claimed was biased against the government.⁶⁵

Shapps was merely continuing a tradition made famous by Prime Minister Harold Wilson who, *'disatisfied with coverage of the Labour Government, confronted a senior BBC Executive claiming that 'hell will freeze over before you get a licence fee increase unless we get a better deal out of you'*.⁶⁶

That the licence fee establishes a direct bond between citizens and broadcaster and that the BBC's shareholders are its audience (not the government) is the simplest expression of the mechanism as a guarantor of independence. To fund the BBC from more general taxation would, the argument goes, break that bond and undermine independence, leaving the BBC at the whim of political forces and fiscal pressure. This is the theory, and it is a good one.

However, in practice, the reality is different: *'In truth, the licence fee has been used as a lever by governments of all political hues, to try to influence programming at the BBC'*.⁶⁷

Most academics and observers agree that whenever the BBC asks parliament to increase the licence fee (or even not reduce it), it becomes vulnerable to political pressure. Add in any combination of rising costs, inflation, or general spending cuts and the political game is set.⁶⁸

63 Department for Culture, Media and Sport. Select Committee Inquiry into the Future of the BBC. 2013-15.

64 Curran, J. and Seaton, J. (1981). *Power Without Responsibility: The press, broadcasting, and new media in Britain*. London: Routledge. 118.

65 Shapps, G. quoted in Ross, T. (2013). 'BBC could lose right to licence fee over 'culture of waste and secrecy''. *The Telegraph*. 26 October 2013.

66 Franklin, B. (2005). *Key Concepts in Journalism Studies*. Cardiff: SAGE Publications. 131.

67 Franklin, B. (2005). *Key Concepts in Journalism Studies*. Cardiff: SAGE Publications. 131.

68 O'Hagan, J. and Jennings, M. (2003). 'Public Broadcasting in Europe: Rationale, licence fee and other issues', *Journal of Cultural Economics*, 2003, vol. 27, issue 1. 31-56.

The level of the fee is usually decided following periodic and often lengthy negotiations between the government and the BBC's sovereign body the BBC Trust. It is then set by the Secretary of State for Culture, Media and Sport by the use of statutory instruments.

Since 1991 the whole of the licence fee has been granted to the BBC (under the terms of an agreement between the BBC and the government) and as others have noted:

'The fact the whole of the revenue is handed over to the BBC and that the BBC is empowered to spend its income according to its own judgement is the basis of its claim to editorial and institutional independence'.⁶⁹

However, this point of principle has been quietly but fundamentally broken in the past decade.

In October 2010 – as part of a bruising and hurried financial settlement between government and the BBC – the current fee was frozen until the Charter is renewed at the beginning of 2017.

The DCMS select committee report on the 'unexpected' nature of the settlement was damning:

'the opportunity to consult licence fee payers and Parliament was lost, undermining confidence in both the Government's and the BBC's commitment to transparency and accountability. We recommend that this model for setting the licence fee is not used again.'⁷⁰

As one media analyst described it, *'in attempting to justify spending some of the licence fee on somebody else's service, the BBC Trust had been 'forced to sell the pass'.⁷¹*

New Chair of the BBC Trust Rona Fairhead supports continuation of the licence fee but concedes that the BBC's own research suggests it should be set by an independent body: *'People see a need for independent scrutiny and regulation, but they prefer this to be done by a separate body representing licence fee payers, not by government or MPs'.⁷²*

What is clear and needs stating is that the licence fee mechanism is no more a guarantor of the BBC's independence than any other funding mechanism. It's hypothecated nature might offer greater chance of securing a better funding settlement than one from general taxation – given its genuine association in licence fee payers minds with a quality of service its provides – but the BBC's independence needs more than the licence fee in its armoury.

Hewlett is clear that the BBC's independence is, *'a fragile flower – depending*

69 Hood, S. quoted in Cardiff, D. (1983). 'Time, money and culture: BBC programme finances 1927-1939' in *Media, Culture & Society*. July 1983 5: 373-393.

70 House of Commons Culture, Media and Sport Committee (2011). 'BBC Licence Fee Settlement and Annual Report: Fourth Report of Session 2010-12'. 3.

71 Suter, T. (2014), 'A crisis of independence' in *Is the BBC in Crisis?* Ed. Mair, J., Tait, R., Lance Keeble, R. Abrams Publishing. 271.

72 Fairhead, R. (2015). Speech to the Royal Television Society. 02 February 2015.

on an array of understandings and conventions...that in turn, rely on all parties understanding and respecting them'.⁷³ Far from being a shield of independence, the current method of financing associated with the establishment of the Charter (the licence fee) gave and gives the BBC no guaranteed protection of its independence.

We believe that the level of funding of PSB should be decided by parliament, on advisement from Ofcom, and taking into account evidence from the BBC Executive and Trust, and the NAO audit.

We believe this system, along with measures suggested in other parts of this report – the structures around governance, management, third party scrutiny of the BBC's finances and the proposals for a degree of autonomy around income generation – together amount to a guarantee of greater independence than the organisation has enjoyed to date.

The BBC: upholding universality?

Supporters of the BBC cite the practice of universality as one of its core strengths. Under its mantra, no section of the audience who pays for the BBC should be left uncatered for. As Barnett put it in evidence to the DCMS enquiry into the BBC,

*'From the beginning, a core purpose of these (PSBs) broadcasters has been the provision of a wide range of high quality programmes to virtually every household in the country for no more than the cost of the licence fee. That principle of universality has become all the more important as, increasingly, broadcasting is commodified and pay-TV becomes the only way of accessing certain kinds of programming.'*⁷⁴

Yet critics point out a paradox.

Striving for universality has forced the BBC to chase audience share (and reach) very closely because any weakening of performance here would undermine the same principle. In order not to fall prey to political enemies (keen to argue that it no longer merits public funding), the BBC is forced to pursue ratings battles with its commercial rivals in order to attract a respectable share of the audience. Pursuance of such a strategy risks confirming a trend towards conformity in programming and editorial policy – the antithesis of the innovation and distinctiveness supposedly afforded by the privilege of public funding.

'The BBC is forced to offer high volumes of middle-of-the-road or populist output, most of which is indistinguishable from that of the commercials sector...a good 90% of television output lacks real distinctiveness, let

73 Hewlett, S. (2013). 'Grant Shapps may have crossed the line on the BBC – but so did Tony Hall'. *The Guardian*. 1 December 2013.

74 Barnett, S. (2014). 'Written evidence submitted by Professor Steven Barnett, University of Westminster [FBB0078]'. DCMS Select Committee Inquiry on the Future of the BBC.

alone the independence of market share measures that the purity of the licence fee funding is meant to allow'.⁷⁵

Interviewees for this paper were consistent in their belief that the BBC had allowed a near obsession with audience reach and share to dictate its commissioning agenda. As one senior BBC executive put it:

'For as long as it is a measure of success for a director of television that you minimise loss of reach and maintain a competitive share position against ITV (if you're running BBC1) and that's what they judge themselves by ...they are all scared shitless of being the one in charge and it all goes tumbling down. This has really affected the mindset of everyone in television...you have very smart corporate people really worrying that BBC2 has lost a bit of reach...well we said it would! If you want to be more distinctive, it's going to happen. That's fine, we are very comfortable with that'.

BBC Trust Executive

Audience share, said interviewees, is the altar on which distinctiveness and reach are sacrificed.

In its evidence to the DCMS select Committee, ITV was robust in its critique of the BBC for chasing ratings and market share, citing BBC1 show 'The Voice' as an example of unnecessary copycatting of The X Factor.

'The BBC's pursuit of audience share regardless of distinctiveness or innovation has been evident where the BBC has rushed to commission or produce almost identical programmes to those by ITV ... we can see no obvious justification for the BBC commissioning existing formats such as 'The Voice' for the UK audience.'⁷⁶

There is another challenge associated with the commitment to universality given the rapidly converging, connected world. Changing demographics – particularly the gap between younger and older audience's habits – are already beginning to challenge the notion of universal reach via traditional services and channels.

A failure to adequately reflect a more diverse society also amounts to a failure to satisfy all viewer needs. Similarly, if audiences continue to demand niche programmes ahead of mass reach UK-wide programming, universal reach may be challenged by current output plans. As audiences use a greater range of platforms and devices to watch TV and TV-like content, (and a decreasing proportion of TV viewing is delivered by linear channels on traditional platforms), it may be appropriate to ask the BBC to deliver its content across a new range of platforms and devices.

75 Elstein, D. (2014). 'On the licence fee' in *Is the BBC in Crisis?* Ed. Mair, J., Tait, R., Lance Keeble, R. Abrams Publishing. 276.

76 ITV Plc (2014). 'Written evidence submitted by ITV Plc [FBB0066]'. DCMS Select Committee Inquiry on the Future of the BBC.

The BBC's claim that commitment to universal provision is a positive characteristic of the funding mechanism is both questionable and in need of radical reconsideration given changing viewing habits and technology.

The BBC: a guarantee of quality?

Arguments about the 'quality' of BBC output have raged since the launch of television itself: the balance between popular and highbrow and the rightful ranking of the holy trinity (educate, inform, and entertain) have always been fiercely contested.

Spotting the BBC's 'Golden Age' is an enduring pastime. Media historians report that those involved in periods of creative excellence reference the same few things: discreet management, simple and confident commissioning systems, freedom to experiment, low stakes and high ambition.⁷⁷

Many interviewees for this report argue that those conditions are in short supply today. Frequently cited were the BBC's lack of distinctiveness and imagination, its tendency to follow rather than lead in certain genres, its penchant for groupthink and repetition of successful formula. The most vehement critics describe this as a squandering of privileged position and public money.

Cited below are two very different views of the public service broadcasting model dominant in the UK. They eloquently capture the essence of the debate surrounding it. One attributes the system as largely responsible for producing high quality, memorable programming and securing the public good. The other laments the fact that public subsidy hampers a free press while constraining competition.

*'I first saw television when I was in my late teens. It made my heart pound. Here was a medium of great power, of potentially wondrous delights, that could slice through all the tedious hierarchies of the printed word and help to emancipate us from many of the stifling tyrannies of class and status and gutter press ignorance... switch on, tune in and grow.'*⁷⁸

Dennis Potter 1993

*'Public service broadcasters in this country have paid a price for their state sponsored privileges. That price has been their freedom. British broadcasters depend on government for their protection. When you depend on government for protection, there will come a time when that government, no matter its political complexion, will exact a price. The pressure can be overt or, more likely covert. The result is the same either way: less than independent, neutered journalism.'*⁷⁹

77 Higgins, C. (2014). 'The BBC informs, educates and entertains – but in what order?' *The Guardian*. 01 July 2014.

78 Potter, D. (1993). The James MacTaggart lecture at the Edinburgh International Television Festival 1993.

79 Murdoch, R. (1989) quoted in *Media Studies: The Essential Resource*. Ed. Rayner, P. et al. Routledge. 208.

Rupert Murdoch 1989

Freedom from shareholder pressure, advertiser influence and chasing ratings should allow the BBC to concentrate purely and simply on providing high quality, distinctive, innovative, challenging content that is highly regarded by all viewers.

How then can we best judge quality in the context of the BBC?

One simple measure is audience share: are viewers attracted to BBC content in sufficiently high numbers compared to alternative offerings? Another measure is to ask if audiences find BBC output sufficiently distinctive, original and innovative, compared to that on offer from other providers.

In its own evidence to DCMS, the BBC points out that over this Charter period, usage of the BBC has stayed strong and steady despite increasing media choice and decreasing share of revenues:⁸⁰

- almost all of the UK (96% of UK adults) uses the BBC each week, and these audiences spend a considerable amount of time with BBC services (around 19 hours per week, on average);
- the public consumes the BBC for substantial periods of time across multiple platforms: almost nine in ten people watch BBC TV overall each week;
- BBC One reaches more people than any other channel in the UK irrespective of age, socioeconomic group and location;
- two-thirds of all adults listen to BBC Radio each week;
- half of all adults use BBC Online each week (62% of online adults), and it is the only UK-owned website in the top ten most-used websites in the UK.

The BBC attributes this high usage directly to audiences' high appreciation of the quality and impact of BBC content. Data from Ofcom shows that BBC One and BBC Two are rated as higher quality than the other PSB channels.⁸¹ The BBC also emerges as a global leader on quality – in a recent international survey of 14 countries, BBC One was rated highest out of 66 major TV channels.⁸²

But as independent media analysts have noted, beneath the headlines lie some important contrary details. First of all, there is the difference between what the public at large think of the BBC (the ultimate shareholders of the BBC), and what BBC TV audiences think. Only the latter is captured in these statistics.

There are important demographic differences too, with a strong skew in BBC TV viewing share towards 55+ (14.9 hours a week compared to 7.9 hours per week for the 35-54 age band). Latest research shows reach amongst 25-34 year olds has fallen by over four points and amongst 16-24 year olds by over three points in three years.⁸³

BBC television has lost some appeal to viewers in lower income households.

80 All bullet points taken from: BBC (2014). 'Written evidence submitted by the BBC [FBB0097]'. DCMS Select Committee Inquiry on the Future of the BBC.

81 Ofcom (2013). *Public Service Broadcasting Annual Report 2013*. 21-22.

82 Hall, T. Speech at the Voice of the Listener & Viewer Conference. 27 November 2013. Research conducted by Populus for the BBC September-October 2013.

83 BBC Trust (2014). *Service Review of BBC Television: BBC One, BBC Two, BBC Three & BBC Four*. 13.

Reach amongst lower income viewers remains higher than amongst higher income viewers and they continue to watch more BBC television on average than higher income viewers. However BBC television's reach has fallen more amongst lower income viewers than it has amongst those with higher incomes.⁸⁴

The BBC has served audiences from black, Asian and minority ethnic (BAME) backgrounds less well than it has white audiences for many years. In the past three years, BBC television's reach has dropped more amongst BAME viewers than it has amongst white viewers.⁸⁵

Recent research reports demonstrate a strong positive correlation between diversity of schedule (assessed by the proportion of key public service genres) and between audience perceptions of quality in the main public and private TV channels.⁸⁶

The BBC Trust surveys adult opinion on various statements of significance and delivery every year – the single most relevant statement here is: *'The BBC makes high quality programmes or online content'*. 83% of the adult population cite this as important and 76% feel the BBC delivers on it: a seven percentage point performance gap.⁸⁷

However, there is a considerable and unchanging performance gap – and serious questions to be addressed – about the BBC's commitment to distinctive and innovative programming. Of the statement: *'The BBC has lots of fresh and new ideas'*, 79% of respondents agreed this was important, only 56% felt the BBC delivered on it – a staggering 23 points performance gap. More significantly, this performance failure has been a repeat finding since 2009.⁸⁸

Some of the BBC's own genre specific research has been highly critical of certain areas of output. In 2014 Sir Howard Stringer was asked to consider how the BBC might double its global audience to 500m by 2022. In coming up with some innovative and novel suggestions, Stringer declared the BBC to be punching well below its weight in the digital world. He said the BBC's web presence lacked 'character and personality' compared with younger rivals (such as Vice Media and BuzzFeed) and criticised the BBC's web presence as having the *'neutral tone of a news bulletin'* compared with the vibrant presence of its social media rivals.⁸⁹

A BBC Trust report into the corporation's current affairs output concluded it was failing to stand out, and often lagged behind rivals like Channel 4. It criticised the lack of on and off screen diversity and the low awareness of current affairs content on BBC2 and BBC radio, with *'people often unable to cite any key/flagship programmes or many stand-out moments'*.⁹⁰

'We are concerned that this programming is often failing to gain credit from audiences, even when consumption is fairly high,' the report says. The Trust said some

84 BBC Trust (2014). *Service Review of BBC Television: BBC One, BBC Two, BBC Three & BBC Four*. 5.

85 BBC Trust (2014). *Service Review of BBC Television: BBC One, BBC Two, BBC Three & BBC Four*. 16.

86 BBC (2013). *Public and Private Broadcasters across the world: the race to the top*. 1.

87 BBC Trust (2013). *Purpose Remit Survey UK report: Winter 2012-2013*. 5.

88 BBC Trust (2013). *Purpose Remit Survey UK report: Winter 2012-2013*. 14.

89 Stringer, H. (2014). Quoted in Conlan, T. 'BBC News should learn lessons from BuzzFeed in digital strategy'. *The Guardian*. 21 May 2014.

90 BBC Trust (2014). *BBC Trust Review BBC Network News and Current Affairs*. 38.

audiences find the BBC's output *'distant in tone and subject matter'*.⁹¹

A byzantine system of guarantees and quotas for in-house, independents, nations, regions and outside M25 producers has led to what many call commissioning by quota, rather than commissioning for quality. Independents who pitch and produce programming for the BBC describe a confusing, slow and byzantine commissioning process, having to deal with *'layers and layers of people who can't even say no'*, and a process so opaque they often had no clear sense of what had happened to an idea.

The BBC has plans to reduce or get rid of in house guarantees, and in future commission purely on quality of idea: *'Proper competition and entrepreneurialism requires a level playing field. We should have regulation in the TV supply market only where it's needed so that we can let creativity flourish [...] A level playing field doesn't tilt'*.⁹²

It's a fine sentiment. If carried out, these proposals would amount to the biggest shake up of BBC structure in its history, effectively turning the BBC into a super-sized commissioner/broadcaster with all that flows from that: greater outflow of resources to the independent sector, concomitant reduction in size and scale of the corporation itself – including its physical presence around the UK.

We support this move. The Trust is looking at the Executive's plans, but should take a proactive role – consulting with all the interested players before arriving at its own vision for a model that will allow the BBC to be able to commission the best programmes at the best price. The danger is that the Executive will fudge a solution, which leaves either Production with a cost base that is unsustainable or the BBC picking up significant property and back office costs, which could lead to challenges in the courts from the powerful independent sector.

Industry magazine *Broadcast's* annual survey of independents said this:

*'Management plans to end output guarantees for in-house production is a positive move, which should result in clearer, transparent lines of commissioning management, as well as a sense that all ideas are being seen by the same people who are indeed in a position to say no, or yes, to an idea. It should result in ideas being chosen on merit, and not according to a pre prescribed quota formula. It remains to be seen if the idea will be given the green light, not face any European challenges on illegal cross subsidy, and how, if approved it will roll out in practice.'*⁹³

Looked at over the past decade, not only has there been a significant reduction in the BBC's investment in original content overall, but there has been a de-prioritisation of investment in key public service genre: music and arts, current affairs, religion and children's programming.

91 BBC Trust (2014). *BBC Trust Review BBC Network News and Current Affairs*. 31.

92 Hall, T. (2014). Speech at the 'Future of the Licence Fee' seminar, City University, London. 10 July 2014.

93 *Broadcast* (2014). 'Broadcast Indie Survey 2014'. 20 March 2014.

Ofcom has sent out a general warning for all PSBs on just this issue, highlighting the ‘significant pressures on arts, classical music, current affairs, children’s, religious programming, regional news, nations news and nations non-news programming’.⁹⁴ While it is fair to say that commercial PSBs are most challenged with regard to these genre, we have found that the BBC – despite its secure funding base – has also chosen to significantly reduce spend in these areas.

In the absence of a national, public conversation about the BBC’s relative prioritisation of programme genre, we should have been comforted by the knowledge that the Trust was both driving and supporting such shifts in the best interests of the licence fee payer. That cannot be said to have happened, and so must be judged a failure of strategic oversight.

In response, the BBC accepts the broader challenge to maintain quality in a rapidly expanding and changing media landscape:

‘As broadcasters face increasing competition, some have questioned whether PSB channels still offer something distinctive from commercial networks... the main challenge for PSB is sustaining high levels of reach impact and value to audiences...it is increasingly difficult to maintain channels that help bring the nation together around a diverse schedule of content that informs, educates and entertains against competition from niche channels and services’⁹⁵

It also points to the inevitable impact of £800m in efficiency savings on output: for example, the proposed closure of BBC3 as a linear TV channel, saving £50m pa, the 15% cut to its live sports budget, saving £30m per annum.

It is fair to record that the BBC and its sovereign body the BBC Trust have accepted the findings of these most recent reports, that the Trust continues to press the BBC on distinctiveness, and that the new Director General and top team are open about mistakes of the past. There is an acceptance that some of the priorities and focus of the past became maybe too obsessed with ratings chasing and that the resourcing of certain key public service genre was inadequate.

In oral evidence to the DCMS inquiry into the BBC, Ofcom chair Ed Richards said that these were very legitimate questions for the BBC to answer, adding:

‘If I were running one of the commercial broadcasters I would feel very strongly about those sorts of matters... I think they are the absolute essence of what the BBC management must have at the front of its mind, along with the BBC Trust, because the question must always be that this is the use of public money, and the use of public money must be focused on the core public purposes and

94 Ofcom (2014). *Public Service Content in a Connected Society: Ofcom’s third review of public service broadcasting*. 102.

95 BBC (2013). *Public and Private Broadcasters across the world: the race to the top*. 2.

*the distinctiveness and the distinctive contribution that the BBC makes in the context of a wider market.*⁹⁶

One further important point. The investment represented in the BBC by the licence fee can also drive a virtuous circle by raising the audience expectations of all broadcasters. The theory that the BBC's privileged funding position offers a guarantee of quality output and creates competition for quality across the sector is certainly plausible and realisable and is one of the stronger arguments for on-going financial intervention on the current model.

BBC: Value For money?

There is a strong consumerist argument for a licence fee funded BBC, especially when set against the subscription costs of pay TV and broadband connections. That the licence fee is levied on all households with TV sets (regardless of levels of consumption) provides a widespread funding base for the BBC, which can quite rightly trumpet its '40p a day for all that' (four TV channels, 10 national radio stations, a network of local radio stations, and an internationally acclaimed website) claim.

While a majority of UK adults (57%) judge the licence fee 'good value for money', a worrying 43% do not, many citing affordability as a concern.⁹⁷ Except for 16-24 year olds whose BBC approval rating was 57% despite lower engagement with BBC TV programming, approval is correlated with age, rising to 61% for those 55-64 and 65% amongst those 65+.⁹⁸

Amongst the nations, approval is higher in England (58%) and Wales (60%) than in Scotland (50%) or Northern Ireland (47%).⁹⁹

In response, the BBC's position going into Charter renewal is to focus on the value for money by spreading the burden to each household argument, with a promise to target people more cleverly with content that they would extract value from.

Director of Public Policy James Heath set out and answered this very question:

*'...what about the lack of choice or welfare loss for those who say they value the BBC at less than the cost of the licence fee? Unlike most public services, there are very few households that pay the licence fee but do not actually consume BBC services. The best response, in my view, is for the BBC to increase the value that we give these audiences and we're developing plans to do that.'*¹⁰⁰

Since 2008 the BBC has analysed and reported on the economic impact of the licence fee on the broader economy and creative sector and found that the effect of its £4 billion spend on TV, radio and online services is 'multiplied' as it ripples

96 Richards, E. (2014). Culture, Media and Sport Committee Oral evidence: Future of the BBC, HC 315. 02 July 2014. Q508.

97 BBC Trust (2013). *Purpose Remit Survey UK report: Winter 2012-2013*. 4.

98 BBC Trust (2013). *Purpose Remit Survey UK report: Winter 2012-2013*. 4.

99 BBC Trust (2013). *Purpose Remit Survey UK report: Winter 2012-2013*. 7.

100 Heath, J. (2014). 'Why the licence fee is the best way to fund the BBC'. The BBC Blog. 14 July 2014.

through the economy. The latest report reflects spend in 2011/12. Total operating expenditure in the UK – including public service and commercial subsidiary UK expenditure – was £4.341 million, generating a gross value added (GVA) of £8.323 million. In brief, two pounds of economic value are created for every one pound of licence fee investment.¹⁰¹

It is a compelling case for the continuation of the role of the licence fee as seed corn for the creative economy per se, and one supported by industry trade body PACT and many other media analysts.^{102 103}

One of the most important ways the BBC could reclaim the value for money agenda is to open its spending plans and performance to third party scrutiny.

Late last year, former Culture Secretary Maria Millar made it clear she wanted to grant the National Audit Office unfettered access to the BBC's finances '*without hindrance or delay*'.¹⁰⁴ The BBC's response – supported by Labour's Harriet Harman – was to resist on the grounds of protecting its political independence, citing the NAO as an administrative part of government. Currently – by reference to the Charter – the BBC is exempt from the NAO's rights to examine public institutions for efficiency and effectiveness, in other words, value for money.¹⁰⁵

The BBC and some interviewees for this report are resistant to formalising the NAO's scrutiny of the BBC, but it is our view that this should be agreed by way of withdrawing or limiting that exemption during this Charter review process, or giving the NAO full financial auditor status.

Its terms of reference can be so designed to prevent involvement in the editorial or creative risk aspects of the BBC which should remain with the BBC exclusively. Other publicly funded creative organisations (i.e. the Arts Council, National Theatre) are so scrutinised without any apparent compromise of mission. Financial responsibility and transparency has nothing to do with independence of operation.

Alternative funding models

Any consideration of the current funding arrangements remains academic until set against credible alternatives. The main alternative models are:

- funding the BBC entirely through direct taxation;
- subscription;
- advertising and sponsorship of programmes (which could cannibalise the static revenues currently funding the commercial broadcasters);
- making greater demands of BBC commercial arm to generate increased revenue for the BBC;

101 BBC (2012). *The Economic Value of the BBC: 2011/12*. 4.

102 Oliver & Ohlbaum Associates Ltd (2014). *A New Age of UK TV Content Creation and a New Role for the BBC: A report for Pact*. 57.

103 Enders, C. (2014). Culture, Media and Sport Committee. Oral evidence: Future of the BBC. HC 949. 14 January 2014. Q18.

104 Millar, M. (2013). Quoted in 'BBC has had annus horribilis, says culture secretary'. *BBC News*. 11 September 2013.

105 Morse, A. (2014). Culture, Media and Sport Committee. Oral evidence: Future of the BBC. HC 315. 2 July, 2014. Q536.

- levying a tax on the revenues of the cable and satellite Broadcasters to part-fund the BBC's services.

Research for this report amongst selected interviewees detected little appetite for the two most obvious alternative funding mechanisms: allowing the BBC to accept advertising, or a move to subscription-based funding – the model first recommended by the Peacock report 30 years ago.

The former is the audiences' known least favourite option (they consistently report valuing the BBC's 'no ads' position), and it is resisted by commercial broadcasters who feel a BBC set on shaping programming to maximise advertiser revenue would very significantly prejudice their activities.

While digital switchover makes it technically possible (at cost) to charge households directly for the BBC's TV services and exclude non-subscribers, research suggests that were it entirely subscription-funded, the BBC would need to charge £20 per month, 65% higher than the current licence fee, for the same number of services.¹⁰⁶

In addition, subscription would undermine the public benefits of universality and likely see the BBC incentivised to provide services to maximise revenues and/or profits. That said, the majority of those interviewed as part of this research predicted a subscription model would be the most likely form of funding on offer at the next Charter renewal in 2026.

Funding the BBC from direct taxation is the most favoured credible alternative and preferred way of dealing with the regressive nature of the licence fee. It is worth remembering that the BBC is already partly funded through direct taxation courtesy of the £600 million the Department for Work and Pensions pays to fund the over 75s licence fee. Funding through direct taxation would also deal with the cost of evasion and collection (together estimated at £300 million)¹⁰⁷ and remove the issue of the hidden costs borne by the justice system for processing (and sometimes imprisoning) non payers.

Those against direct taxation funding claim it breaks the bond between citizens and the BBC and puts the BBC at risk of annual rather than periodic direct political interference.¹⁰⁸

But if there is to be shift to a less regressive and more efficient funding mechanism there needs to be robust debate about the size, scope and remit of the BBC and PSB in general. Ofcom's current consultation is considering just these issues for the wider sector and inviting policy makers to revisit some ideas around funding for PSB, including redistribution of monies from the wider sector, tax breaks, and reconsideration of regulation around advertising and re-transmission fees.¹⁰⁹

It is clear that if some form of hypothecated tax (licence fee) is to remain, it must be reconfigured to take into account the consumption of all media services

106 Heath, J. (2014). 'Why subscription isn't the best way to fund the BBC'. The BBC Blog. 15 July 2014.

107 Bourn, J. (2002). *The BBC: Collecting the television licence fee*. National Audit Office. 15.

108 Barnett, S. (2014). 'Written evidence submitted by Professor Steven Barnett, University of Westminster [FBB0078]'. DCMS Select Committee Inquiry on the Future of the BBC.

109 Ofcom (2014). *Public Service Content in a Connected Society: Ofcom's third review of public service broadcasting*.

provided by the BBC: online, iPlayer, and so forth. Its current device-dependency must be removed and the BBC must promote the fact that paying the fee is not only paying for live broadcast, but for all content and media services developed and delivered by the BBC. The BBC should go further and remind people that when they pay their fee they are not just getting programmes and content, but making a personal investment in British culture.

On the balance of the arguments presented to us, we conclude that the licence fee funding mechanism should be retained at least through the next Charter period. This will afford the BBC and the wider commercial market some degree of stability as the BBC is challenged to transition away from its current structural and financial model toward a more balanced PSB/commercial model. However, we agree that the scope of media embraced by the licence fee itself should in future be expanded to include the right to consume any form of PSB on any platform at any time. We consider that the positives associated with the licence fee mechanism – the stability it affords, the duration of the funding cycle funding it encompasses and its direct association with exchange and consumption – outweigh the arguments for a direct taxation funding mechanism such as the one introduced recently in Germany.

If we want to change the funding mechanism of the BBC, it needs to be given a clear pathway to change, with an indicative timescale, coupled with long term policy commitment to the future size and independence of the BBC. The survival of the licence fee is not a matter of corporate life or death, as devotees claim, but rather needs fresh consideration of whether or not it is still ‘the least worst’ option for funding the BBC.

Former Guardian editor Peter Preston ably sums it up:

*‘We’re not talking the end of civilisation: merely ends, ways and means. It’s probably a bad idea to try to send people to court for not paying up. Let’s just settle down quietly - pushing meddling politicians out of action - and decide, as sentient stakeholders, what we want to do next’.*¹¹⁰

Conclusion

It makes absolute sense to task Ofcom – as part of its strategic review of PSB – to include the BBC in its assessment of the funding challenges facing PSB provision.

We reject moves to fund the BBC by advertising revenue and the development of a universal subscription process on the grounds of their lack of public appeal and cost effectiveness compared to the existing licensing system. At present, the licence fee maintains, in our view, an important association with consumption of service and as such should be rebranded to represent the right to consume PSB on any platform at any time. It should be extended to every UK household,

¹¹⁰ Preston, P. (2014). ‘A licence (fee) to kill? Changing BBC funding needn’t be so dramatic’. *The Guardian*. 30 March 2014.

regardless of equipment or consumption levels. This model future-proofs the association between payment and receiving PSB – not just the BBC – which, as described earlier, may not in future be the sole recipient of PSB funding.

We support greater contested funding for wider elements of what currently constitutes the licence fee over the period of the next Charter and support a transitional rebalancing of the BBC's sources of income to include a greater reliance on commercial income sources as public funding diminishes.

If we are to change the funding mechanism of the BBC, it needs to be given a clear route to change, with an indicative timescale, coupled with a long term policy commitment to the size and independence of the BBC. We believe that the period of the next Charter should provide that timescale.

We recommend that the NAO should be granted direct, unfettered access to audit the BBC's financial affairs. This should be agreed by way of withdrawing or limiting current exemption during this Charter review process, or by giving the NAO full financial auditor status.

5 How should the BBC be governed and managed

'Good management is what is necessary to provide the conditions in which good programmes – far more important – can be made'.

John Reith

If, as we contend in this report, there is a case for the maintenance of the BBC in its current basic format through the course of the next Charter review, the question then becomes, what are the best arrangements for the governance and management of the BBC post 2017?

Governance concerns the structures, functions, processes, and organisational traditions that have been put in place *'to ensure that an organisation is run in such a way that it achieves its objectives in an effective and transparent manner.'*¹¹¹ It is the *'framework of accountability to users, stakeholders and the wider community, within which organizations take decisions, and lead and control their functions, to achieve their objectives.'*¹¹² Effective governance adds value by improving the performance of the organisation through more efficient management, more strategic and equitable resource allocation and service provision, and in holding the management accountable for the delivery of strategy.

By contrast, management is responsible for the effective delivery of day-to-day operations within the context of the strategies, policies, processes, and procedures that have been established by the governing body. Whereas governance is concerned with *'doing the right thing'*, management is concerned with *'doing things right.'*¹¹³

In the context of the BBC, the central purpose of governance is to establish the broad parameters of strategy and the policies and procedures that assure its deliverance. Our principle focus in this chapter is therefore on the governance arrangements that we believe should be applicable to the BBC moving forward over the next ten years. If implemented in practice as well as in intent, more efficient and effective management should largely follow.

111 Institute of Chartered Secretaries and Administrators International. *Principles of Corporate Governance for Charities*. 2.

112 United Kingdom Audit Commission (2003). *Corporate Governance: Improvement and Trust in Local Public Services*. 4.

113 Tricker, R. (1998). *Pocket Director*. 8.

Recent events have seen the catastrophic implosion of a BBC management mired in chaos and confusion. The Newsnight/Saville crisis, justifications of its senior executive pay, overly generous severance deals and the loss of £100m of public money on a failed technology project have all contributed to criticism and concern regarding the governance and management of the BBC. A very public scrap between senior BBC executives and their sovereign governing body, the BBC Trust, in front of a parliamentary select committee did nothing for the BBC's reputation, nor did losing its 16th Director General after only 54 days in post.

Ten years earlier (also around the time of Charter renewal) a similar collapse of managerial and governance structures had been delivered to the BBC, courtesy of Lord Hutton and his inquiry into the handling of the weapons of mass destruction story on BBC radio.

Hutton's report signalled the death knell for a system of governance that had served the BBC for over 80 years.¹¹⁴ Because of the acute nature of the crisis that precipitated it – then as now – the debate about future governance of the BBC instigated by the Hutton enquiry, *'started with the question "what should replace the governors" rather than "how can the BBC's governance be improved" the argument for reform, rather than replacement, was probably lost before the debate began'*.¹¹⁵

Similarly, the Public Accounts Committee's report of 2013 was stinging in its criticism of BBC governance and management, describing a *'dysfunctional relationship between the BBC Executive and the BBC Trust that casts doubt on the governance model of the BBC [...] at present the governance is broken'*.¹¹⁶

The National Audit Office report into Digital Media Initiative (DMI) echoed these views in equally damning terms:

'Governance arrangements for the DMI programme were inadequate for its scale, complexity and risk... The BBC did not appoint a senior responsible owner to act as a single point of accountability and align all elements of the DMI. Reporting arrangements were not fit for purpose'.¹¹⁷

As in 2004, the BBC was left promising self-reform in the face of growing hostility and a very real sense that others would be the architect of its next governance and managerial incarnation.

The governance of the BBC

It is impossible to examine a new model for BBC management and governance without reference to the past.

114 Hutton, J. (2004). *Report of the Inquiry into the Circumstances Surrounding the Death of Dr David Kelly C.M.G.* HC 247.

115 Tait, R. (2014). *Is the BBC in Crisis?* Ed. Mair, J., Tait, R., Lance Keeble, R. Abrams Publishing. 19.

116 Public Accounts Committee (2013). *BBC severance packages*.

117 National Audit Office (2014). Memorandum prepared by the Comptroller and Auditor General presented to the BBC Trust. *British Broadcasting Corporation: Digital Media Initiative*. 8.

It is easy to forget that the creation of the BBC was an expedient solution to a technical problem (massive demand for broadcast licenses that needed control), and that the systems and processes that flowed from the establishment of a single company were as much an accident of history as design.

The Crawford Committee (1926) rewarded Reith's British Broadcasting Company's *'strenuous application to its duties, aided by the loyalty of its staff'*, by accepting the necessity of a broadcasting monopoly and replacing the company with a corporation, established by Royal Charter. Publically appointed Governors, or 'trustees of the public interest' replaced the directors of the private company and the basis of the model we have today was born. Twelve Governors (including Chairman) were to be appointed by the Secretary of State and would go on to appoint the Director General, approve the BBC's strategic direction and make sure management implemented it.

From day one Reith and the Governors argued about how responsibility should be divided between them – an irony that will not be lost on students of today's BBC. The appointment of Chair of Governors also gave government real power over the BBC. The Nolan Committee on Standards in Public Life found there was clear evidence of political bias and in the specific case of the BBC, there was evidence of direct interference in appointments to the Board of Governors.^{118 119}

Trouble on board: the formation of the BBC Trust

Whatever its flaws and failings, the model of twelve independently appointed Governors of the BBC lasted 80 years, until the current iteration of governance – the BBC Trust – was established at the time of last Charter, 2007. A number of gathering forces predicated the demise of the previous system of governance, not least the long-term issues of the sense of lack of separation between the management of the BBC and the Governors and the fallout from the Hutton Inquiry (described above).

Former Chair of Governors Michael Grade described it thus:

*'By 'lack of separation' I mean that the Governors' evidence—papers that the Governors required—were prepared by the management and the Governors only saw what the management wanted them to see.'*¹²⁰

He described ongoing mutual distrust between management and governors.

In his final report on the death of Dr David Kelly (and the Today programme's treatment of the story) Hutton was damning of the Governors response to his report:

'The Governors should have recognised more fully than they did that their duty to protect the independence

118 Nolan Committee (1994). *First Report on Standards in Public Life*.

119 Curran, J. and Seaton, J. (1981). *Power Without Responsibility: The press, broadcasting, and new media in Britain*. London: Routledge. 207.

120 House of Lords Select Committee on Communications (2011). 2nd Report of Session 2010–12. The governance and regulation of the BBC. HL Paper 166. 10.

of the BBC was not incompatible with giving proper consideration to whether there was validity in the Government's complaints.¹²¹

Tessa Jowell, Secretary of State for Culture, Media and Sport at that time, described the fallout from the Hutton inquiry as revealing *'insufficient independence and clarity about the Governors' role in relation to the executive.'*¹²²

Many of those interviewed for this paper have pointed out that, despite being a new model of governance – designed with the express intention of being a 'modern solution' to a modern world – the Trust has proved as 'prone to capture' by the BBC as the old Governors were, and that this is as much down to personnel as to underlying structures. This stresses the point that much about good governance comes down to the type of people appointed.

'The best kind of trustees are beady eyed people for whom regulation is meat and drink: university professors, economists, non-political, more independent – people with substantial corporate experience who know how to get things done. The current trustees are the same kind of people who were trustees and governors before...they are variations on the great and good. They lack the necessary skills and courage.'

Senior BBC Executive

In addition, while the new model of governance promised greater separation between the executive and the Trustees, in reality it preserved the confusion: the Chairman of the BBC is the Chairman of the Trust, often presented as chief cheerleader while practicing as chief regulator. In evidence to the select committee, Professor Charlie Beckett summed up the view of many:

*'The BBC Trust is not working well in terms of either managing the BBC or providing the public with an advocate. The contradiction of the Trust role was brought out in the case of the Entwistle appointment and subsequent Saville/Panorama/Newsnight debacle. Whatever the personal strengths of the Trust chairman may be, the position is contradictory and conflicted. For example, he appointed the last DG, helped shape BBC policy with him, defended him and then belatedly sacked him and presided over the replacement and review.'*¹²³

121 Hutton, J. (2004). *Report of the Inquiry into the Circumstances Surrounding the Death of Dr David Kelly C.M.G.* HC 247, 212.

122 House of Lords Select Committee on Communications (2011). 2nd Report of Session 2010–12. *The governance and regulation of the BBC.* HL Paper 166. 10.

123 Beckett, C. (2014). 'Written evidence submitted by Professor Charlie Beckett [FBB0022]'. DCMS Select Committee Inquiry on the Future of the BBC.

Yet the Charter clearly requires separation between the Executive and the Trust: *'The members of the Trust and the members of the Board shall never act together as a single corporate body'*, and *'The Trust must maintain its independence of the Executive Board.'*¹²⁴

It is the failure to observe this separation that has most angered critics. At every level of importance, they say, executive and governor have been seen to have acted together.

The Commercial Broadcasters Association (COBA) is scathing in its criticism of this arrangement:

*'We view this joint approach as raising serious questions over the effectiveness of the Charter's requirement for separation, and as particularly ill-advised as it is a review of the BBC's governance systems. Put simply, the body being governed is jointly leading the review into how it is governed. This is a scenario we cannot envisage happening for any other UK broadcaster, yet the BBC, with its privilege of public funding, should be held to the highest standards.'*¹²⁵

The dichotomy between the established principles of governance and practice

There is little doubt that despite the legal requirements of the Charter, the model of governance as currently practiced has offered little comfort as to their observance. There has also been criticism of how the Trust chose to interpret its remit. The Charter sums up the Trust's role thus:

*'The main roles of the Trust are in setting the overall strategic direction of the BBC, including its priorities, and in exercising a general oversight of the work of the Executive Board. The Trust will perform these roles in the public interest, particularly the interest of licence fee payers.'*¹²⁶

It goes on to afford the Trust fairly wide ranging oversight of the Executive:

*'wherever it has a function under this Charter or any Framework Agreement, it may always fully exercise that function as it sees fit and require the Executive Board to act in ways which respect and are compatible with how the Trust has seen fit to exercise that function.'*¹²⁷

124 Department for Culture, Media and Sport (2006). *Copy of Royal Charter for the continuance of the British Broadcasting Corporation*. Cm 6925. 4.

125 The Commercial Broadcasters Association (2014). 'Written evidence submitted by the Commercial Broadcasters Association [FBB0072]'. DCMS Select Committee Inquiry on the Future of the BBC.

126 Department for Culture, Media and Sport (2006). *Copy of Royal Charter for the continuance of the British Broadcasting Corporation*. Cm 6925. 3.

127 Department for Culture, Media and Sport (2006). *Copy of Royal Charter for the continuance of the British Broadcasting Corporation*. Cm 6925. 4.

Critics point to numerous examples of perceived BBC failings where the Trust has been either silent, or light touch, citing the limit of its remit for its inability to hold management effectively to account.

As one former BBC Governance Unit member told us:

‘Unfortunately, all too often, the Executive would bring its plans to the Trust once they had been hatched, rather than the Trust being involved from the beginning’.

BBC Trust Executive

The NAO picked up on this during its review of the failed DMI, saying the Trust had questioned the executive about delays and likely knock-on effects to the benefits of the project, ‘but then applied limited challenge until July 2012’.¹²⁸ It identified a ‘gap in reporting’ in the first part of 2012, which neither the BBC nor the BBC Trust addressed.¹²⁹ If the Trust didn’t feel it had any locus over the loss of £100m public money, how can it be said to get the best value out of the licence fee?

One interviewee expressed his frustration at the Trust’s interpretation of its remit and was clear that this narrow view meant it had failed to make the BBC do something fundamentally important: serve every kind of licence fee payer. He said the BBC’s record on diversity was dire, and that certain genres had been massively underperforming – citing high quality drama and current affairs in particular:

‘The system is failing because the trustees are defending what is going on... Effective governance says what is not working, demands to know why it is not and insists on a far reaching plan for putting it right. Failure to so do has real consequences’.

Senior BBC Executive

In late 2014 BBC Trustee David Liddiment told the DCMS select committee inquiry, ‘There was a fault line in the way the Trust was set up that I think we only properly came to grips with quite recently. That was getting granular and very specific about responsibilities.’¹³⁰

He admitted that the Trust had acquitted itself ‘clearly not very well’ in recent years during a series of crises, adding there was a widespread view that the ‘Trust is not fit for purpose. Whether that is fair is a separate issue.’¹³¹

128 National Audit Office (2014). Memorandum prepared by the Comptroller and Auditor General presented to the BBC Trust. *British Broadcasting Corporation: Digital Media Initiative*. 9.

129 National Audit Office (2014). Memorandum prepared by the Comptroller and Auditor General presented to the BBC Trust. *British Broadcasting Corporation: Digital Media Initiative*. 9.

130 Liddiment, D. (2014). Culture, Media and Sport Committee. Oral evidence: Future of the BBC. HC 315. 21 October 2014. Q727.

131 Liddiment, D. (2014). Culture, Media and Sport Committee. Oral evidence: Future of the BBC. HC 315. 21 October 2014. Q727.

Maintaining Independence

In evidence to the current DCMS inquiry into the Future of the BBC, numerous stakeholders have expressed concern at the increasingly ‘politicised’ nature of the BBC’s activity, and suggested removing the role of government in appointing the governing body as a first step.

Others go further. To ensure greater equity and fairness in the conduct of Trust appointments the contention is that membership of the Trust board should be elected, not appointed.

Other critics have suggested taking the patronage away from DCMS and giving it to the civil service, via the parliamentary Commissioners.¹³²

The challenges of accountability become more complex as the UK moves towards an ever more federal-like policy:

‘With the Parliament in Edinburgh and Assemblies in Cardiff and Belfast having legitimate expectations of –at the very least- having an appropriate level of involvement in the accountability processes which the BBC –and (not incidentally) Channel 4, S4C, the Gaelic Media Service and not least OFCOM are required to meet.’¹³³

On many issues – editorial standards, impartiality reviews and complaints, for example – the Trust has been robust and clear and found itself under attack for being too hardline. It is also fair to point out that all of the Trust’s work on the performance of services, on impartiality and on market impact has been conducted in a transparent fashion, and has been grounded in the evidence from extensive public consultation and audience research, ‘*We exist to provide independent scrutiny of the BBC on behalf of everyone who pays for it*’.¹³⁴

Moves to steady the governance ship

In 2014 the Trust announced a series of changes designed to address and repair perceived inadequacies in the operation of effective governance. These included:

- publishing the objectives it sets for the BBC Executive;
- issuing framework documents that state the boundaries for relevant areas of BBC activity not covered by the existing service licences;
- asking the public, as shareholders, to help set the priorities for the BBC each year;
- removed engagement with the Executive’s managerial decision-making;
- only approving individual investment decisions worth more than £100 million that affect the overall direction or reputation of the BBC;

¹³² Interview with industry analyst.

¹³³ Beveridge, R. (2014). ‘Written evidence submitted by Professor Robert Beveridge [FBB0020]’. DCMS Select Committee Inquiry on the Future of the BBC.

¹³⁴ Coyle, D. (2014). ‘A 21st Century BBC’. Speech to the Polis and British Government at LSE. 23 June 2014.

- implement a streamlined Trust committee structure focusing on the BBC's future direction and current performance.

We support all of these important initiatives.

For its part in this attempt to resist the calls for the Trust's head, the BBC Executive agreed to strengthen its own Executive Board by the appointment – with Trust approval – of additional experienced non-executive directors, as provided for in the Charter, with an increase in numbers from four to six, and to abolish unnecessary boards and committees throughout the organisation.

Despite this proactivity, many of the proposed changes were considered mere 'window dressing' by those in Whitehall.¹³⁵

Calls for the Trust to be abolished and oversight of the BBC to be passed to the communications regulator Ofcom, have come from many quarters, whilst delegates at the 2013 Royal Television Society's Cambridge Convention voted overwhelmingly for this model. There is little evidence that the new structure has rebuilt valuable, lost confidence in the governance structure. Regenerating confidence that the BBC is well governed is a must.¹³⁶

Faced with these enduring challenges and a market place in radical transition in the face of rampant technological advance, what should be the proper basis for effective and appropriate arrangements for the governance and senior management of the BBC going forward?

Governance not regulation

*'Governance is the establishment and enforcement of norms, rules and decision-making procedures. It is not the "law" as such, but rather a structure by which everyone agrees to abide, which can be captured locally by specific laws.'*¹³⁷

The principle of separate oversight of BBC activity 'in the public interest' was established from the first Charter. Even supporters of the BBC interviewed as part of this research feel the existing system does little to protect its core values. Good governance should ensure that the BBC represents not only good value for its public money and high performance against agreed targets but also that it adds cultural value.

There is much about the governance framework introduced with the creation of the Trust that is manifestly of value:

- the establishment of a properly resourced, professional staff independent of BBC management empowered to independently review performance against clearly set out service licences is clearly valuable;

135 Hewlett, S. (2013). 'Tony Hall has made a good start at the BBC – but now it's time for the big idea'. *The Guardian*. 15 December 2013.

136 Hewlett, S. (2013). Royal Television Society Cambridge Convention 2013: 'Session Seven: Governing the BBC - What Next?'

137 Woodward, A. (2012). 'Viewpoint: Changing the way the internet is governed is risky'. *BBC News*. 15 June 2012.

- running public consultations to allow audiences and competitors a voice, along with impromptu reviews of individual genre, services or aspects of output add to an evidence base for judging – and, if necessary, altering – BBC services;
- subjecting all new BBC plans or significant changes to existing services to Public Value Tests in order to analyse market impact as well as public value are vitally important governance tools;
- and despite the headlines around Executive pay, it is only fair to record that the Trust has pressed a resistant Executive hard on this issue since 2008, demanding a freeze on bonus payments and a 25% reduction in the executive pay bill.

Any significant changes to the BBC governance structure have to take place as part of Charter renewal; the Charter underpins the BBC's unique governance structure, explicitly committing the Government of the day to respect the editorial and operational independence of the BBC.

In calling for a different model of governance and regulation of the BBC – and especially when listening to the call for Ofcom to take on some of this role – it is important to be clear about the difference between regulation and governance. Ofcom is an industry regulator with extensive powers, including co-regulation responsibilities with the BBC Trust over the BBC. These are set by Parliament and in the BBC Charter and Agreement. Changes to governance and the regulatory framework are a matter for the Secretary of State and Parliament.

Appendix 1 sets out the respective roles of the BBC Trust and Ofcom with regards to the regulation of the BBC.

In evidence to DCMS, Ofcom Chief Executive Ed Richards was clear on maintaining the distinction between regulation and governance.

‘These are different functions, which are often elided. There is a regulatory function and there is a governance function. One of the problems in this debate is that people think they are the same and I really don’t think they are, so we have to separate them out. In relation to governance, there has to be a governance model and that should not be Ofcom or anybody else. It has to be associated with and close to the BBC. The role there is to be the custodian of the licence fee on behalf of all of us and that role is going to exist whatever happens. The question is whether the trust model is effective in that regard.’¹³⁸

His evidence went on to capture the essence of the issue here: are there structural flaws in the current set up? Is the structure fine, but have there been

¹³⁸ Richards, E. (2014). Culture, Media and Sport Committee Oral evidence: Future of the BBC, HC 315. 02 July 2014. Q515.

performance or effectiveness failures; or are the failures down to relationship problems? If the latter, then calls for structural change are premature.

Some experts interviewed as part of the research for this paper indicate that the flaws in governance are indeed structural.

For example, industrialist Howard Davies describes the Trust's governance arrangements as an accident waiting to happen and is clear that the origins of these flaws lay in the 2005 founding documents of the Trust.¹³⁹ Our interviewees stated that delivery of good governance comes down more to the type of people appointed to undertake that governance role. Grade makes the point that the BBC is unusual in that it is neither wholly of the state or the market, independent of both, but interwoven with both: *'When accountability – both to the public it serves and to those with whom it competes – must be reconciled with independence of editorial and creative decision-making, there will always be tensions whatever the mechanism of governance'*.¹⁴⁰

Davies, among others, is clear that what the BBC needs now is a: *'good conventional structure, with a careful, non-political chair, uninterested in his public persona and focused on ensuring that the board does those things which it ought to do and not those things which it ought not to do'*.¹⁴¹

We agree with Davies and contend that the current basic governance structure incorporating the dual board approach is the correct structure for the immediate future. The governance problems have not been with the architecture but rather with the manner in which the architecture has been managed.

Given the continuing substantial funding of the BBC through the licence fee, it remains imperative that the determination of strategy and accountability for the disposal of that funding rests with an independent, self-governing institution which itself has no interest save serving the public interest in the provision of public service broadcasting.

It is vital then that the BBC Trust is fully capable of asserting its own independence from any political party, from vested interests in the commercial or other sectors, and from the interests of BBC Executives.

It follows therefore that we also conclude and recommend that appointment of the Chair of the BBC Trust, should continue to be made by the relevant Secretary of State, but made via the recommendation of a potential appointee (or potential appointees) identified through an independent and open recruitment process managed by the civil service commission. The same arrangement should be put in place for the appointment of all non-executive directors to the BBC Trust Board.

The job and person specification for the role of Non-Executive Chair of the BBC Trust should reflect their key responsibility for governance of the Trust's and the

139 Davies, H. (2014). 'The need for clarity at the Corporation' in *Is the BBC in Crisis?* Ed. Mair, J., Tait, R., Lance Keeble, R. Abramis Publishing, 260.

140 Barnett, S. (2014). 'Written evidence submitted by Professor Steven Barnett, University of Westminster [FBB0078]'. DCMS Select Committee Inquiry on the Future of the BBC.

141 Davies, H. (2014). 'The need for clarity at the Corporation' in *Is the BBC in Crisis?* Ed. Mair, J., Tait, R., Lance Keeble, R. Abramis Publishing.

BBC's affairs – not the management of the BBC.

Further, we reinforce the view that the BBC Trust Board should be supported in its work by an entirely independent secretariat, with senior appointments achieved through open competition overseen by the relevant sub-committee of the BBC Trust Board.

Leave it to the regulator to regulate: An enhanced regulatory role for Ofcom

Many criticisms of the current Trust governance model put to us in interview amounted to the same thing: the governing Trust has too many duties – some of these duties could more appropriately lie with Ofcom, leaving a simpler focus on strategy formulation and scrutiny, with a particular focus upon value for money and quality of service at the heart of the Trust's governance of the BBC.

We conclude that much of the work on market impact assessments and testing currently undertaken by the Trust, could easily become Ofcom's responsibility; as could the editorial standards work – the processing of complaints about breaches of the Broadcasting Code and editorial guidelines. At present, the latter is a complex interplay between Ofcom and Trust oversight of standards which can see complaints bounce between the BBC itself, the Trust and Ofcom. And what might be called 'perimeter policy': deciding on the size, scale and funding of the BBC is an easy fit with Ofcom's broader oversight of public service broadcasting. And as stated earlier, having two separate definitions of PSB's Public Purposes – one for the BBC and one for the rest – thereby necessitating separate policing is unnecessary duplication and confusing activity.

A clearer, more focused governance role for the BBC Trust

While Ofcom could take on more of the regulatory work currently undertaken by the BBC Trust, it is still essentially a regulator with responsibility for promoting competition in markets.

Giving Ofcom more regulatory powers over the BBC alone does not 'fix' the governance issue of the BBC. The BBC is a public institution, public interest rests in the institution and its governing body should be demonstrably independent and itself accountable for its responsibilities.

A significant minority of those interviewed in connection with the development of this report advocated settling the issue of the continued confusion in the governance structures of the BBC once and for all by moving to enshrine the BBC via primary legislation.

We do not agree with this approach, which we believe would open the BBC up to greater potential immediate political manipulation by the government of the day and which would end the current semi-detached funding arrangements associated with a fixed term licence fee designated over a medium (five year) time span.

To be truly effective, governance of the BBC and the funding that sustains its PSB must remain independent and separate from the government of the day, from Ofcom and from the BBC Executive.

'The idea that a public body spending £4bn a year of other people's money can be run entirely by its board of management – on-the-ball non-execs and a hawkish NAO and PAC notwithstanding – with no separate body to protect the public interest and public value, is frankly insane. The BBC matters too much, and the public investment in it is too great.'

BBC Trust Trustee

But, if the Trust is to fulfil two key but simple functions: setting the right strategy for the licence fee payer, and ensuring that the licence fee is being spent efficiently and prudently (i.e. scrutiny of the strategy implementation), it needs a reboot.

The Trust should be empowered to 'own' the BBC strategy and should be responsible for holding the BBC Executive Board to account for its efficient and effective implementation. As such the Trust must be part of the BBC conversation that sees strategy translated into effective outputs.

The Trust should take the lead in developing and shaping the strategy for the BBC (including programme strategy) before stepping back from matters concerned simply with operational implementation, this being the task of the BBC Executive Board. The Trust must, however, retain sufficient independent powers of scrutiny to be able to hold the BBC Executive Board to account for the timely and appropriate implementation of the agreed strategic objectives. It should not confine itself, as at present, to merely reviewing past outcomes, after the event.

In regard to the ability of the Trust to hold the BBC Executive Board properly to account, we discovered high levels of frustration regarding the current operating practices of the Trust from a range of different respondents. Concern was expressed with both the length of time the Trust takes to review BBC services and, in particular, the 'after the fact' nature of the findings that are currently generated.

If the Trust is to be enabled to genuinely help shape the BBC's strategy it must have more extensive powers of pro-active inquiry. It should be empowered with a level of scrutiny commensurate with the ability to hold the BBC Executive Board to account for the implementation of plans it proposes to instigate against the agreed strategic objectives set by the Trust for the BBC.

Scrutiny by the Trust should focus upon the forward implementation plans of the BBC Executive Board that have direct bearing and impact on the broad direction of travel of strategy implementation as a whole. This level of scrutiny – undertaken in advance of implementation – would clarify any proposed plans by BBC Executive staff to shift focus from one area of PSB activity to another, and would open the BBC Executive Board up to proper independent examination and account.

A redefined Trust – less prone to capture – with a robust Chair who understands

the need for clear, distinct and visible separation from the BBC Executive, from government and from Ofcom, and who is not scared of upsetting the BBC (if and when necessary), is essential. The success of a revived Trust will be determined by the Chair and the Trustees *being seen* to do their job properly. Robust, clear thinking about the lines of responsibilities and an end to the confused issue of who is the Chair of the BBC is key.

Is there a best practice model? We would wish to follow the best practice model established within The Financial Conduct Authority Listing rules.¹⁴² This would require the BBC Trust to establish a non-executive chair at the head of a board made up of appointed non-executive directors.

The Chair of the Trust should continue to be appointed by the designated Secretary of State. But the appointments process, as for each of the Non-Executive Directors of the Trust Board, should be delegated to the civil service commission and should be open to public, impartial competition.

This would create a very direct link – on a non-executive level – into the inner workings of the BBC, but would protect the independence of the Trust Board from both political and executive interference.

The Director General of the BBC (its Chief Executive) should run the day to day business of the BBC through the BBC Executive Board which the Director General would Chair. The BBC Executive Board would have full responsibility for strategy implementation together with regulatory compliance to Ofcom and to other external regulators as is deemed necessary. As with any other Executive Board, this Board would have powers to appoint executive and non-executive members.

The Executive Board of the BBC is responsible and accountable to the BBC Trust Board for the effective implementation of the BBC's strategy. The BBC Trust Board will be responsible and accountable to the Secretary of State for the overall governance of the BBC; the agreement and discharge of its PSB responsibilities and the establishment of a coherent strategy for the BBC that ensures that this is achieved.

Both boards (the Trust acting as Trustees of the BBC and the Executive Board representing the principle reporting officers of the BBC) should be held to account for the financial affairs of the BBC through annual independent audit undertaken by the National Audit Office. Its audit report would be a publicly available document laid before Parliament and made available to the Secretary of State.

Managing the BBC

Dealing with governance of the BBC is only part of the story. How the BBC itself is run and managed is also key to its success. Put 'BBC Management' into a Google search and dominant among the returns are articles and book chapters, opinion pieces and academic articles capturing the views of many that the BBC management is too big, bureaucratic, top heavy, over managed, complex and distant.

Others contend that too much power in terms of its locus and breadth across

142 Financial Conduct Authority Listing Rules (LR): <http://fshandbook.info/FS/html/FCA/LR>.

the organisation is vested in its leader the Director General, regarded by some as *'potentates: as grand as Medicis, their territories stretching as far and as wide as kings' domains [...] but for all that [...] vulnerable creatures. A twist of politics can destroy them'*.¹⁴³

Concerns continue to be expressed as to the lack of competition and the stifling of creative innovation that results from the management of the commissioning procedures within the BBC.

The establishment of a management elite

Throughout the managerialism of the 1980s, the BBC (like many public institutions) was urged to become more efficient and demonstrate a willingness to be managed better. It was not immune to the effects of the steady privatisation of public sector utilities – which saw public service practice replaced by private sector habits. Salaries of BBC management increased on the grounds of market value, and new perks such as private healthcare and bonuses were introduced.

The curse of two cultures had arrived: managers offered the trappings of private sector employment – with none of its harsh scrutiny – while retaining the comfort of public sector benefits. As the BBC found itself in a booming, commercial, increasingly global media market, these roles with these packages went virtually unremarked.

It was only when the scale of such salaries and worse – the awarding of severance packages worth £2m beyond contractual obligations – were revealed during select committee scrutiny did the BBC realise how toxic an issue it had fostered. New BBC Trust Chair Chris Patten publicly expressed his shock at the number of senior, highly paid managers, while wringing his hands at his inability to influence any salaries beyond that of the Director General.¹⁴⁴

Impact on culture and esteem

Exposing the pay, privileges and perks of senior management did nothing for staff confidence in its management. A worrying, and recurring issue running through our research is the enduring sense of schism between management and graded staff. Far from 'One BBC', there is a sense of mutual suspicion and distance, a sense that senior management has a knack for self-preservation while their very actions have damaged the BBC's reputation *'which could have an effect on the licence fee'*.¹⁴⁵

Successive staff satisfaction surveys show disappointment in management effectiveness: the latest pan BBC staff satisfaction report reveals fewer than 60% of employees believe that leaders act in the best interests of the BBC or would recommend it as a good place to work, and only 30% felt communications were effective across the organisation.¹⁴⁶

A recent report into the BBC's working environment (commissioned in the light

143 Higgins, C. (2014). 'The big beasts who shaped the BBC'. *The Guardian*. 15 May 2014.

144 *The Telegraph* (2011). 'BBC Trust chairman Lord Patten signals pay cuts for senior executives'. 03 July 2011.

145 Conlan, T. (2014). *Is the BBC in Crisis?* Ed. Mair, J., Tait, R., Lance Keeble, R. Abramis Publishing.

146 *BBC News* (2012). 'BBC staff survey produces mixed results'. 11 October 2012.

of Jimmy Savile's sex crimes) by Dinah Rose QC was damning. She found '*broader issues of bullying and the inappropriate use of power of which sexual harassment is only one manifestation*'.¹⁴⁷ A former Senior Executive described network television as a terribly unhappy place:

'They're conservative, miserable, scared, unhappy...It's terrible!'

Senior BBC Executive

Anonymised staff surveys published earlier this year offer little more comfort. While commending the work-life balance on offer and '*excellent opportunities*', the majority of reviewers criticised management throughout the organisation.¹⁴⁸

One interviewee commented:

'End the culture of impunity for senior managers. The ones who make serious mistakes or don't do anything should be fired, not promoted sideways.'

Senior BBC Executive

Another described the corporation as a:

'monumentally cumbersome bureaucracy'.

Senior BBC Executive

Director General Tony Hall made this the subject of one of his first speeches, pledging to cut 'at least 60% of pan-BBC boards' in order to 'speed up decision-making and ensure that all staff understand where responsibility lies'.¹⁴⁹ He signalled a shift in the balance on the Executive board by increasing the number of non-execs from 4 to 6. The BBC had already promised to slash the number of senior managers from 2.5 to 1% of the workforce as part of its '*Delivering Quality First*' programme of cuts.

The role of the Director General

Director Generals of the BBC have vast responsibilities: they are the editorial, operational and creative leader of the BBC, with responsibility for a 20,000 strong global workforce and all the Corporation's services across television, radio and online. They act as Chief Executive Officer, Editor-in-Chief and Chair of the BBC's Executive and Management Board.

A majority of those interviewed as part of this research indicated that many of the problems that the BBC has faced and continues to face are not helped by vesting so much in one position. We contend that the establishment of a stronger BBC Trust Board focused upon its core governance role, Chaired by an independently

¹⁴⁷ Rose, D. (2013). *Respect at Work Review*. BBC.

¹⁴⁸ Perry, K. (2014). 'BBC bureaucratic and a white, middle class organisation, say employees'. *The Telegraph*. 21 May 2014.

¹⁴⁹ Hall, T. (2013). Quoted in "Complicated" BBC to get rid of 'unnecessary committees'. *The Telegraph*. 11 Dec 2013.

appointed, Non-Executive Chair and supported by non-executive board members and an independent secretariat, would free up the Director General to concentrate on managing the effective implementation of strategy, not least in the context of assuring creative delivery. If the BBC is to deliver on its stated vision *'To be the most creative organisation in the world'*, it needs to ensure all staff feel connected to a shared endeavour.¹⁵⁰

The current Director General, Tony Hall, has made a good start by reducing the number of boards, shortening the length of the creative chain, pledging to limit senior pay and severance packages and agreeing to a new working relationship with the Trust.

It is important that the working relationship between Director General and the Chair of the BBC Trust is clear in this respect. Most important, it should be crystal clear that the two roles are not a partnership; one governs and holds accountable the other (BBC Trust Chair); one implements strategy and manages the institution within the parameters agreed within that strategy and the fiscal constraints that apply to it (the Director General).

Conclusion

More effective governance of the BBC should lead to more effective management. Affording the Trust 'ownership' of BBC strategy should lead to less obfuscation, duplication and a clearer role for management. The interplay between governance and management will remain, but the relationship between the two functions is made clearer.

For an organisation the size and scale and with the history of the BBC – now forced to play in a global media market – an open mindedness to change, changing structures and processes is key.

Director General Tony Hall has made it clear he is alert to this, and wants to revive employee trust in the fact they are well managed. He has a good base to work from: BBC employees report overwhelming pride and commitment (90 and 97% respectively) to the organisation.

Those interviewed for this report detect a changing management culture, one alert to some of its own Achilles' heels, and at once smaller and more coherent. But some hangover tendencies remain. For example, to inflict severe cuts to on-the-ground staff while mushrooming the management positions.

150 Inside the BBC. 'Mission and Values': http://www.bbc.co.uk/corporate2/insidethebbc/whoweare/mission_and_values.

6 Conclusions and recommendations

The future of Public Service Broadcasting

Technological advance, market development and globalisation of media production and delivery are providing new and multiple opportunities for consumers to benefit from public service broadcasting.

In light of this, we need a fresh and clear statement of what PSB, in principle, should be in this age. Policy makers can then outline and prescribe the delivery of PSB, via whichever institutions, services and outputs it sees fit.

Ofcom has developed a comprehensive way of assessing the effectiveness of public service broadcasters, taken together, in delivering PSB.

We conclude that Ofcom is the best adjudicator of the efficiency, effectiveness and appropriateness of PSB, and within this, the determination of the future role of the BBC in delivering it.

The level of PSB funding, including provision for a maintained licence fee, should be decided by Parliament on advisement from Ofcom and taking into account evidence presented by the BBC Trust, the BBC Executive and the NAO audit.

Linked to BBC Charter renewal in early 2017, we recommend that definition of the future objectives of PSB (and the BBC's role within its delivery), should not be conflated with the definition and discussion of the principle funding mechanism(s) associated with the delivery of PSB (currently for the BBC, the licence fee).

The future of the BBC

We believe that, for the next 10 years at least, the BBC remains the right keystone institution on which to rest our national expression of support for strong PSB.

But we also believe that the BBC's core purposes, and how these are translated into outputs and how, in turn, these outputs are assessed, needs some adjustment.

Charter renewal in 2017 should provide to the BBC a clear and firm instruction that the BBC must itself transition over the next decade. This transition will gradually transform the BBC's current mission and operating base into one that is more closely aligned with a pluralistic, competitive, digitalised broadcast industry.

Firm and effective governance and regulation, the promotion of strong

competition (internally and externally) and a clear and fair funding formula for the BBC through this transition period will be important.

Funding the BBC

We recommend tasking Ofcom – as part of its strategic review of PSB – to include the BBC in its assessment of the funding challenges facing PSB provision.

We reject moves to fund the BBC by advertising revenue or the development of a universal subscription process on the grounds of the lack of public appeal of these solutions and questionable cost-effectiveness compared to the existing licensing system.

We recommend retaining the licence fee as the principal funding mechanism supporting the PSB remit established for the BBC through the forthcoming charter period.

Further, we recommend that the reach of the licence fee should be extended to cover all UK households and that its scope should be reconfigured to embrace consumption of all media services provided by the BBC regardless of equipment or consumption levels.

We support greater contested funding for what currently constitutes the licence fee over the period of the next Charter.

We support and recommend a transitional rebalancing of the BBC's existing sources of income. Gradually, this will mean a greater reliance on commercial income sources and a planned and graduated decline in the level of public funding sources over the course of the next Charter period.

If, as part of the Charter renewal, it is decided to change the funding mechanism of the BBC, the BBC needs to be given a clear pathway for this change, with an indicative timescale, coupled with long term policy commitment to the size and independence of the BBC. We believe that the period of the next Charter should provide that pathway and timescale.

We recommend that the NAO should be granted direct, unfettered access to audit the BBC's financial affairs. This should be agreed by way of withdrawing or limiting current exemption during this Charter review process, or by giving the NAO full financial auditor status. The audited accounts of the BBC should be made publicly available and laid before Parliament annually.

The governance of the BBC

We contend that the current basic governance structure incorporating the dual board approach is the correct structure for governance of the BBC throughout the next Charter period.

The governance problem has not been caused by the architecture itself but rather with the manner in which the architecture has been managed.

It is vital then that the BBC Trust is fully capable of asserting its own independence from any political party, from vested interests in the commercial or other sectors and from the interests of BBC Executives.

The existing governance principle of separation between the role and the activities of the BBC Trust and the BBC Executive Board, together with attendant clarity of the separation of powers, responsibilities and duties between the BBC Trust Chair and the Director General of the BBC, should be reasserted and strengthened.

We therefore recommend that appointment of the Chair of the BBC Trust should continue to be made by the Secretary of State for Culture, Media and Sport, but made on the recommendation of the civil service commission after the conclusion of an independent and open recruitment process.

The same arrangement should be put in place for the appointment of all Non-Executive directors to the BBC Trust Board.

The job and person specification for the role of Non-Executive Chair of the BBC Trust should reflect their key responsibility for the governance of the Trust's and the BBC's affairs. Not the management of the BBC.

The BBC Trust Board should be supported in its work by an entirely independent secretariat appointed by open competition and overseen by the relevant sub-committee of the BBC Trust Board.

The Trust should be empowered to 'own' the BBC strategy and should be responsible for its creation and for holding the BBC Executive Board to account for its efficient and effective implementation.

The Trust should take the lead in developing and shaping the strategy for the BBC (including programme strategy) before stepping back from matters concerned simply with operational implementation, this being the task of the BBC Executive Board.

The Trust must, however, retain sufficient independent powers of scrutiny to be able to hold the BBC Executive Board to account for the timely and appropriate implementation of agreed strategic objectives.

We conclude that much of the work on market impact assessments and testing currently undertaken by the Trust should become Ofcom's responsibility, as should the editorial standards work and the processing of complaints about breaches of the Broadcasting Code and editorial guidelines.

The BBC Trust should hold the BBC Executive Management to proper account in establishing and maintaining a simplified and equitable strategy for programme commissioning that is based predominately on consideration of quality.

Appendix 1: Current roles of Ofcom and BBC Trust

	Role of the BBC Trust	Role of Ofcom
Programme and output quotas		
Original television production quotas	Responsible for BBC compliance. Must agree quota levels with Ofcom.	The Trust must secure Ofcom's agreement to the appropriate level of original productions.
Nations and regions television programming	Responsible for BBC compliance. Must consult Ofcom about quotas.	The Trust must secure the agreement of Ofcom before reducing any quotas below the level prevailing in 2002.
Nations and regions television production	Responsible for BBC compliance. Must agree quota levels with Ofcom.	The Trust must secure the agreement of Ofcom before reducing any quotas below the level prevailing in 2002.
Independent television production	Responsible for BBC compliance with quotas set by Secretary of State.	Able to direct BBC to make up any shortfall in subsequent years.
Window of creative competition	Responsible for BBC compliance.	No role.
Radio and online independent production	Responsible for BBC compliance.	No role.

	Role of the BBC Trust	Role of OFCOM
Oversight of public service broadcasting		
Delivery of public value	Responsible for ensuring the BBC delivers its public purposes.	Assesses the overall delivery of the public service broadcasting purposes and characteristics by the public service broadcasters taken as a whole, including the BBC.
Duties regarding the quality of content	Duty to ensure high-quality BBC content. Service reviews assess the extent to which each BBC service is delivering high-quality content.	Responsible for maintaining and strengthening public service broadcasting by the public service broadcasters taken as a whole, including the BBC.

Licensing		
Oversight of BBC television, radio and online services	Issues service licences for the BBC's public services (television, radio and online). Each service is reviewed at least five years against the requirements in the service licence.	<p>Issues broadcast licences for the BBC's commercial television services (including joint ventures). Does not licence the BBC public services.</p> <p>Compliance with the obligations in these licences is a legal requirement.</p>
Editorial Guidelines	The BBC Trust approves Editorial Guidelines against which the BBC must operate and the Trust judges performance against them. BBC Editorial Guidelines provide ways in which BBC should meet Ofcom codes. Also, they explain to producers how they should conduct themselves in creating content for programmes. Guidelines include some things which are forbidden. The BBC Trust has sole responsibility for impartiality and accuracy in BBC programmes on the BBC's public services.	<p>Ofcom sets the Broadcasting Code for the whole industry. These rules apply to the BBC's public services, except for matters of impartiality and accuracy. These rules apply in full to the BBC's Commercial Services.</p> <p>The Ofcom rules on commercial communications in radio programming and commercial references in television programming also do not apply to the BBC's UK public services except in the case of rules reflecting European and UK law on product placement in television programmes (which is prohibited on the BBC's UK public services).</p>
Programme complaints	BBC Trust can sanction (but not fine): can ask for on-air apology and for disciplinary proceedings against staff member if felt necessary.	<p>The public can complain to Ofcom about BBC editorial matters, except in relation to impartiality and accuracy in the case of the BBC's UK public services.</p> <p>Ofcom does not deal with complaints about commercial communications in radio programming or commercial references in television programming (except product placement) on the BBC's UK public services. Ofcom handles complaints about all areas of the Broadcasting Code relating to the BBC's commercial services. Ofcom can impose statutory sanctions (including fines) on both the BBC's public and commercial services. It also has the power to revoke the broadcast licences of the BBC's commercial services.</p>

Programme recordings		BBC must retain for 90 days and supply copies of programmes to Ofcom, if requested.
Competition		
Fair and effective competition	Responsible for setting policy on fair trading and competitive impact of the BBC's activities on the wider market. Also responsible for compliance with these policies and competition law.	Ofcom can investigate breaches of licence condition to ensure fair and effective competition in the provision of broadcast services – if a complaint is brought to us by a third party.
Spectrum		
Efficient use of spectrum	Duty to secure the efficient use of the spectrum available to the BBC.	Duty to secure the overall optimal use of spectrum – manages and allocates spectrum frequencies.
Other roles and duties		
Television access services	Responsible for BBC compliance with Ofcom code.	Duty to publish Code on access services and secure compliance by all broadcasters.
Independent television production sector – Terms of Trade	Responsible for approving BBC Code and ensuring compliance with Ofcom guidance.	Duty to draw up guidance regarding terms of trade for commissioning from independent producers.
Appointment of Chair and Trustees	Appointments overseen by Parliament.	No role.
Promoting equal opportunities	Oversight of Executive compliance with BBC Agreement.	Ofcom has a duty to require all broadcasters (except the smallest) to make arrangements to promote equality of opportunity in relation to employment and training.

Source: Written evidence submitted by Ofcom to the Select Committee Inquiry on the Future of the BBC, 2014.

■ Appendix 2: List of interviewees

David Abraham, Chief Executive, Channel 4
Stephen Barnett, Professor of Communications, Westminster University
Peter Barron, Director of Communications and Public Affairs, Google
Floris Bauer, Global Head of Corporate Development & Strategy, Endemol
Peter Bazalgette, Chair, Arts Council England
Peter Bennett-Jones, leading theatrical agent
John Birt, Baron Birt, former Director-General, BBC
Baroness Bonham-Carter of Yarnbury, spokesperson on Broadcasting and the Arts and former producer, Brook Lapping Productions
Magnus Brooke, Director of Policy and Regulatory Affairs, ITV plc
Dorothy Byrne, Head of News and Current Affairs, Channel 4
Danny Cohen, Director of Television, BBC
Simon Cole, Chief Executive, 7digital
Stuart Cosgrove, Head of Programmes (Nations and Regions), Channel 4
Tim Davie, Chief Executive, BBC Worldwide & Director of Global, BBC
Peter De Val, Head of Legal, BBC Trust
Clare Enders, founder, Enders Analysis
Alison Gold, Head of Public Service Strategy, BBC Trust
Alex Graham, co-Founder and former Chief Executive, Wall to Wall Television
James Heath, Director of Policy, BBC
Steve Hewlett, writer, broadcaster and media consultant
Mathew Horsman, Managing Director, Mediatique
Richard Houston, Corporate Affairs, BBC
Adam Kemp, Chief Executive, Aeon Ltd
David Liddiment, former Director of Programmes, ITV and former BBC Trustee
William Miller, former Director of Talent and Brand Ventures, BBC Worldwide
John McVay, Chief Executive, Pact
Julian Petley, Professor of Screen Media, Brunel University
James Purnell, Director of Strategy & Digital, BBC
Sophie Turner Laing, former Managing Director of Content, BSkyB
Martin Walker, Ernst and Young
Peter Weil, Chief Executive, CTVC
John Whittingdale MP, Chair, Culture, Media and Sport Select Committee
Christopher Woolard, Director of Strategy and Competition, Financial Conduct Authority