



Submission to Lord Burns' seminar on the BBC Licence Fee
by the Commercial Radio Companies Association

"We are committed to sustaining a vibrant, dynamic commercial sector"

"In a world where there is more choice than ever in TV and radio, it is vital that the BBC is able to justify the privilege of the licence fee"

(A public service for all, the BBC in the digital age, DCMS White Paper, March 2006)

The Commercial Radio Companies Association (CRCA) represents Commercial Radio stations in the UK and welcomes the opportunity to contribute views on the licence fee settlement to the work Lord Burns is undertaking. Any productive debate regarding setting the appropriate level of the licence fee needs to be informed by an assessment of which services the income will be used to fund, and how those services, and their level of funding, impact upon the wider broadcasting market.

In this paper, CRCA addresses

- The current settlement
- Industry wide issues, cost pressures and efficiencies
- The BBC Bid

Finally, we consider a report commissioned from Indepen by CRCA into the impact of the licence fee settlement on Commercial Radio.

We conclude that:-

- a) **BBC Radio is currently using public money unnecessarily to deliver services which damage plurality of provision and commercial enterprise, by competing for the most commercially-attractive audiences, while providing minimal public purpose benefit.**
- b) **Evidence of profligate presenter salaries suggests both other extravagances and that licence fee payers may not be getting good value from current BBC Radio services. The lack of accountability and transparency prevents proper scrutiny.**
- c) **The BBC has, in the past, demonstrated a strong conviction that it should provide every possible service to every possible audience. We know of no constraint that has been placed on this by the Governors.**
- d) **Even those Governors who are to move over to the BBC Trust continue to champion the BBC, giving licence fee payers and commercial broadcasters no confidence that the new regime will operate any differently.**
- e) **The BBC wastes public money, as evidenced by ill-judged talent negotiations and a building programme that is over budget and behind schedule.**
- f) **The only way to constrain the expansionist tendencies of the BBC and to ensure that it spends licence fee payments responsibly and with any sense of real prioritisation is to cut the licence fee to take account of the efficiency savings identified by BBC managers (and also asking the NAO to identify what further savings could be made), and cap it at that level (with only RPI increases).**
- g) **Thereafter, the BBC licence fee should be determined by the amount of money it needs to run individually approved services. If the Trust believes**

a service is no longer required, the licence fee should be reduced accordingly. Any increase to the licence fee should only be agreed on the basis that it relates to a specific service which has, following a Public Value Test, received the approval of the Trust. Furthermore, we recommend that the profits of BBC Worldwide should be used to reduce the licence fee rather than to subsidise expansion of the BBC.

1. The current settlement

BBC dominance and the move away from public service broadcasting

- 1.1 BBC Radio currently dominates the market, having recently increased its share of audience listening to over 55%¹. For the most part, this turnaround has been achieved through the major repositioning that has taken place at Radios 1 and 2. Implementation of a concerted strategy to target younger listeners² (typically those of Commercial Radio), underpinned by budgets significantly in excess of comparable commercial stations, has enabled the BBC to attract the most sought after broadcasting talent from commercial broadcasters. Without doubt it has been a remarkable success when measured in audience listening to an extent that many, even within the BBC, may recognise as being excessive.
- 1.2 Output that delivers the new public purposes described firstly in the Green Paper and now the White Paper for the BBC is difficult to identify during the daytime output of Radios 1 and 2. News bulletins are a notable exception to this, but their inclusion in a daytime schedule otherwise dominated by entertainment and music is not exclusive to BBC Radio. CRCA's submission on the Green Paper explored these themes in more detail, and, for convenience, accompanies this paper.
- 1.3 CRCA contends that if Radios 1 and 2 are to deserve continuing public funding, their daytime output must focus more accurately on the delivery of the core public purposes.
- 1.4 We conclude that significant elements of BBC Radio do not currently warrant public funding, thereby undermining any claim that existing services require or demand an increase in funding via the licence fee.

The BBC as stewards of public money

- 1.5 BBC Radio is generously funded, its total budget equal to or even exceeding that of Commercial Radio.
- 1.6 Leaked reports suggest that large amounts of the income of Radios 1 and 2 are being spent on the parts of their output which deliver the least public purpose benefit. For example, independent monitoring commissioned by CRCA found that only 20% of the speech on Radio 1's Chris Moyles Breakfast Show made any contribution to one of the new public purposes and, of that 20%, the overwhelming majority was delivered in news bulletins. It is believed that Mr Moyles is paid in excess of £600,000, or the equivalent of almost 5,000 licence fees. Jonathan Ross's show on Radio 2 delivered still less public purpose speech, again almost exclusively through news bulletins. Mr Ross is reputed to earn >£500,000 per annum for one show per week.³
- 1.7 Other parts of the daytime schedule demonstrate that it is possible for Radios 1 and 2 to remain popular and credible with their audience while still delivering

¹ From 50% in 1999.

² In PR Week, 7 April 06, the producer of the new Chris Evans daily drivetime show on Radio 2 described the station's core audience as being aged 35-44 and further noted that, in respect of this new flagship programme, "we expect to gain a younger audience".

³ Chris Moyles is reported to earn £630,000 a year, Jonathan Ross £530,000 (*The Guardian*, 18 April 2006).

public purpose benefit, and at less expense to licence fee payers. Pete Tong and Bob Harris, for example, present programmes with greater public purpose benefit that are popular and have wide appeal, at considerably less apparent expense to licence fee payers, but these programmes are consigned to marginal parts of the schedule. There are also times when BBC Radios 1 and 2 are getting the balance right in daytime too; Jeremy Vine's programme being a prime example.

- 1.8 The BBC argues that it must pay market prices to secure the best talent. However, it appears that this money is not always being wisely spent: CRCA has learned that one presenter recently moved from a national commercial radio station to a BBC national radio station after being offered almost 7 times his commercial radio salary on a like-for-like basis. Given that the BBC was also able to offer the presenter a multi-platform presentation deal which, in itself would have been sufficient incentive for the presenter to move, and that no other station was in the bidding process, this represents a woeful waste of public money.⁴
- 1.9 Other BBC Radio networks do not give rise to such concerns. Radios 3 and 4 deliver significant and substantial public purpose benefit. Whilst their budgets are generous, and efficiency savings could be achieved as the result of the type of external audit we hope will follow from the new regulatory arrangements in the next Charter, they clearly deliver a public purpose dividend to licence fee payers.

2. Industry wide issues, cost pressures and efficiencies

New services – not additional ones

- 2.1 As the communications market develops there may be a need for new BBC services. CRCA believes however that, as a presumption, these should be instead of, rather than in addition to, existing services. This presumption follows naturally from a view that the current level of intervention, which in radio amounts to ten national services and around forty local/regional ones, is sufficient in a market which continues to grow in terms of the number of station at both the commercial and community level.
- 2.2 To illustrate: Radio 1 was established to lure younger listeners back to the BBC from the so-called pirate off-shore broadcasters of the 1960s. When Commercial Radio launched in the seventies to provide, amongst other things, a legitimate and privately funded music entertainment service for younger people, there was no commensurate reduction in the BBC's provision for this market i.e. even though the market was now providing a service for an audience which had previously only been served by a state-funded enterprise, the public was still required to pay for the state version. The Broadcasting Act of 1990 set out to enhance the number and variety of Commercial Radio services still further. Again, this resulted in no commensurate reduction in the BBC's provision. Since 2000, the BBC has seen fit to introduce new stations to target younger listeners, such as 1-Xtra. It has done so without a reduction in its existing provision and has not chosen to refocus its existing services on the new needs of licence fee payers. Similarly, rather than using Radio 2 to champion alternative music from outside the mainstream for popular music listeners in their 30s and 40s, the BBC chose instead to launch 6Music.
- 2.3 Looking to the future, we can envisage (although we do so with considerable dread) the BBC suggesting that it needs to launch a mainstream popular music service aimed at the over 45s. The arguments might go along the lines of

⁴ Due to the short timescale involved in preparing this paper, it has not been possible to gain the approval of all the relevant parties to enable mentioning the individual concerned. However, this can be provided in confidence by contacting CRCA.

needing to ensure that current listeners to Radios 1 and 2 have somewhere to migrate to as their tastes mature, or the need to address the popular music demands of the increasing number of people in the older age demographics. These arguments would, of course, ignore the fact that BBC Radio has chosen to refocus what was the natural home for these listeners, Radio 2, into Commercial Radio's heartland. Such a new service would threaten the investments that Commercial Radio has made in launching services of this sort, for example Saga Radio, in much the same way as BBC7's launch stifled the development of Commercial Radio's digital speech innovation OneWord.

- 2.4 We mention this because, examined in isolation, the arguments in favour of new BBC services can appear compelling. Unless there is a presumption that the BBC is big enough already, it will always be tempting for the BBC Trust to view its expansion as the best way to serve licence fee payers.

An ever-expanding BBC

- 2.5 The BBC has an insatiable appetite for launching new services at public expense as exemplified by the current plan to launch five new BBC local radio services. Rather than considering whether, for example, listeners in Bradford are already sufficiently well-served by the fourteen analogue radio services⁵ available in the city, the BBC has decided that, because Bradford does not have the same BBC provision as, say, Liverpool, a new service must be required. **Viewing new services from a BBC-only perspective, rather than understanding them within the context of the overall media ecology, is a habit we hope will not be taken up by the new BBC Trust.**
- 2.6 The proposal for 60 ultra-local TV stations and the BBC's expanding interest in local online operations further demonstrates the BBC's well-funded march towards a local media marketplace squeezed clean of commercial operators. Commercial attempts to make viable ultra-local television broadcasting, such as Channel M in Manchester, will inevitably falter if the BBC is permitted to expand in this way, whilst regional and local newspapers' websites are already feeling the effect of state-funded local sites. The impact on small-scale Commercial Radio, already surviving on the margins of financial viability, needs little spelling-out. Although the BBC will inevitably create some local jobs through these enterprises, they will do so at the expense of local wealth creation and independent creativity, and in doing so, will further damage plurality of provision. **That the BBC can fund this enterprise through internal savings, which we understand amount to £33m, demonstrates that there is no current lack of money within the corporation.**
- 2.7 Each new BBC service benefits from lavish content investment, availability on a range of multi media platforms and extensive cross-media marketing on other BBC television and radio services and elsewhere. The sheer size of these risk-free, publicly funded endeavours inhibits Commercial Radio's ability to innovate and take privately funded risks in similar ventures. If the Government really "supports an equally vibrant and innovative commercial sector"⁶, then it must reject any application for an increase to the licence fee.
- 2.8 The BBC's appetite for new services stifles wealth generation across the board. The Met Office's subscription-funded, on-line MetWeb service for leisure sailors, walkers, aviators and other outdoor hobbyists is being withdrawn at the end of April. The information which MetWeb sought to make available in tidy and useful fashion as a subscription service is purchased at public expense and made available by the BBC's on-line services. Why should the general public be forced to pay for this rather than those who directly benefit?

⁵ In addition to the BBC's five national and Commercial Radio's three national stations, Bradford is served by Pulse AM & FM, Sunrise Radio, BCB, Galaxy & Real Radio.

⁶ A public service for all: the BBC in the digital age, *Department for Culture, Media & Sport*, March 2006

- 2.9 CRCA therefore does not believe that a possible need for new BBC services is a justification for an increase in the licence fee since we believe these should normally be instead of, rather than in addition to, existing BBC services.

Who wants more?

- 2.10 We believe it is important to address the question: who is asking the BBC to do more? In a media market where some consumers feel sated by ever increasing choice, we question whether most listeners and viewers actually want *more* services. We suspect they want better, or different services, and perhaps actually fewer of them. Of course, a handful of individuals will ask for a particular provision, such as a BBC local radio service in Dorset, but mass unprompted demand appears unlikely.
- 2.11 Pilots for new services are a neat way around this: a new service is trialled and consumer reaction is tested. What consumer is actually going to say they don't want a new service which carries no adverts and is, at first glance, free? However, the service is, of course, not actually free; it represents licence fee money which could have been refunded, and a market intervention which could damage plurality, innovation and wealth creation.
- 2.12 The answer to the Who Wants More is: the BBC. BBC managers, producers and executives want to do more. They are ambitious, competitive and anxious to make good programme and products. But they are not the stewards of public money. In the past, the notion that these ambitions can be tempered has been sustained by the BBC Governors. **We know of no example of a proposal from BBC management for a new service being turned down by BBC Governors.**
- 2.13 The White Paper seeks to reassure us that the BBC Trust will be different. However, the BBC's chief cheerleader, Michael Grade, has been appointed as chairman of the Trust and has recently demonstrated that he believes the BBC has no case to answer over commercial radio's concerns about Radios 1 and 2⁷. Now three other existing governors have been appointed to the Trust, further fuelling industry's concern that existing conditioned reflexes will become part of the new status quo.
- 2.14 Within a Charter and Agreement which clearly leaves a good deal open to interpretation and the judgement of the Trust, the only way to ensure that only the most essential new services are launched is to base the licence fee on the actual services that have been approved.

3. The BBC Bid

A ten-year settlement?

- 3.1 If a week is a long time in politics, ten years in broadcasting is an epoch. Ofcom's recent seminar on 'The Future Of Radio Licensing' identified that new legislation may be needed to keep pace with developments in the communications industry, even though the Communications Act is not yet three years old.
- 3.2 While the BBC needs a degree of certainty to enable it to plan effectively and invest efficiently, in today's fast moving and changing communications world, ten years is an excessive time frame.
- 3.3 Very few, if any, public, and still fewer private, bodies have their income guaranteed for a ten-year period. While there may be deeply held political and

⁷ An exchange between Michael Grade, BBC, and Daniel Owen, Chrysalis Radio, Westminster Media Forum seminar, March 2006.

private convictions that the BBC will still have a role in ten years time, there is absolutely no certainty that it will need to be its current size, let alone 23% better-funded⁸ a decade from now.

- 3.4 We believe that a five-year settlement is the maximum advisable, and a three-year settlement would be the most appropriate.

Settle up, or settle down?

- 3.5 Charles Allen recently argued⁹ that, given the £4bn of efficiency savings the BBC is currently making, the BBC's income could actually drop by that amount over the next funding period without impacting at all on its current programming provision. We find this argument very persuasive. **We would further recommend that the NAO is invited to scrutinise BBC expenditure before the 2007 settlement is agreed and that any further savings it identifies are added to the reduction in the licence fee.**
- 3.6 The BBC has clearly allowed 'fat' to grow on its corporate bones. This has happened despite its vehement lobbying ten years ago that it needed additional income to meet its programming and technological obligations. An upward settlement at this stage would give the green light for similar waste in the future and would be at odds with the Government's wish to maintain a balanced media ecology at a time when commercial broadcasters are significant financial uncertainty (see section 4 below).
- 3.7 We agree with the Secretary of State when she said¹⁰ "The test for the BBC will be for it to generate consensus on the public value it creates among licence fee payers and among the commercial sector alike". We think this test must be passed in relation to the BBC's current provision before any new money is handed over.

4. The Impact of the BBC Licence Fee Settlement on Commercial Radio

- 4.1 In early 2006, CRCA commissioned an independent economic analysis of the impact on Commercial Radio of an increase in the BBC licence fee.¹¹ The author's findings, entitled 'A Licence to Kill? The Impact of the BBC Licence Fee Settlement on Commercial Radio', were published in February.
- 4.2 The report indicated that the growing dominance of BBC Radio, fuelled by an increase in investment, expansion in service provision locally and nationally (both analogue and digital) and a concerted shift in strategy to compete with Commercial Radio for listeners, is undermining innovation and choice in the UK radio market. The result has been the BBC assuming a 55% share of audience listening (up from 50% in 1999).
- 4.3 If this success was founded upon an expansion in genuine public service radio broadcasting, then Commercial Radio would have few grounds for complaint. The reality however is very different. The BBC is increasing its output of more populist and youth-orientated formats, and consistently adopts innovations from Commercial Radio, including for example the basic mix of information and entertainment speech with popular music, radio phone-ins and specialist, niche interest stations including urban and black music and ethnic-specific services.
- 4.4 The adoption by the BBC of Commercial Radio formats and innovations has shifted the balance of power in the market considerably towards the BBC. With budgets significantly in excess of those for Commercial Radio, the BBC

⁸ 2.3% extrapolated over 10 years

⁹ Broadcast, 13 April 06

¹⁰ Appearing before the Lords Special Committee on BBC Charter Review 20 April 2006

¹¹ A Licence to Kill? The Impact of the BBC Licence Fee Settlement on Commercial Radio, *Indepen*, February 2006.

continues to lure many of the most talented radio broadcasters from Commercial Radio to provide services that depart significantly from the BBC's new public purposes and compete head-on with Commercial Radio for the most commercially-attractive audiences.

- 4.5 The combined effect of the BBC's radio strategy threatens the very innovation, choice and talent that the BBC itself relies upon. Continuing with the current strategy will result in, potentially, a significant threat to the viability of smaller Commercial Radio stations, and potentially the industry more generally, and all that implies for future innovation and plurality of choice.
- 4.6 CRCA believes that, in its popular music radio services, the BBC has overreached itself far beyond its public service core remit. In doing so it is undermining innovation and competition across the sector, contrary to Government policy as set out in its recent White Paper.

5. Conclusion

- 5.1 As the White Paper makes clear, it is not the desire of Government policy-makers to see the BBC dominate the market and stifle innovation. The risks therefore of increasing the licence fee – and, assuming a commensurate increase in spending on BBC Radio services – are very great and in the view of CRCA, certainly outweigh any benefits. For this reason **CRCA urges rejection of the BBC's bid for an increase in the licence fee of 2.35% a year.**
- 5.2 Instead, in the interests of protecting choice and plurality in radio, **the BBC licence fee should be capped at its current level less the efficiency savings identified by the BBC plus those which should be identified by an NAO audit. Furthermore, we recommend that the profits of BBC Worldwide should be used to reduce the licence fee rather than to subsidise expansion of the BBC.**
- 5.3 Correspondingly, a new strategy should encourage the development of a BBC more strictly focused on its public purpose broadcasting remit. This may entail a diminution in the range BBC Radio services, but would increase the public purpose dividend to licence fee payers.

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