



SATELLITE AND CABLE BROADCASTERS' GROUP (SCBG): EVIDENCE TO THE 5 MAY 2006 LICENCE FEE SEMINAR

Background Summary

- **The BBC's current settlement** was based on inadequate financial information and forecasting. For a decade the licence fee has been higher than needed, resulting in the "jacuzzi of cash" so aptly described by the present BBC Director-General. As a result, the BBC has spent far more than has been necessary to provide a full range of excellent services, has wasted public money (e.g. on its White City and Broadcasting House developments) and has driven up costs in the whole of the broadcasting market.
- **Cost pressures** in the remainder of the broadcasting industry, notably in independent production and in the operation of independent channels, have led to increased efficiencies to which the BBC remains impervious. There is insufficient internal or external scrutiny of BBC expenditure to ensure that it accords with best practice and industry norms.
- **Technological developments** should be regarded by the BBC as an opportunity to generate revenue and keep the licence fee low, not as an excuse for demanding further hyper-inflationary increases from the licence fee payer. In particular, any High Definition services planned by the BBC should be paid for either from savings elsewhere or by subscription; and the BBC's internet services that do not derive directly from programmes should increasingly be charged to the user. The BBC's responsibilities for promoting digital switchover (which are shared by commercial businesses without licence fee subsidy) should be costed separately and added to the basic annual licence fee.
- **The BBC's own future funding proposals** lack the financial detail necessary to justify an annual licence increase far above inflation. No other public or private institution would be granted such a massive increase based on such scant factual data. Until proper detail is provided and can be subjected to Ofcom and NAO analysis, the licence fee should be frozen at its 2006/7 level and thereafter be linked to RPI.

- **Public service broadcasting beyond the BBC** needs to be sustained by measures that include examination of how the licence fee can be used differently. Ofcom's proposals in this regard should be accepted and implemented urgently

1. Uses of the licence fee

Independent reviews by Ofcom, by both Houses of Parliament and by the independent panel chaired by Lord Burns at the request of the DCMS all supported the continuation of a licence-fee-funded BBC. But they all also qualified their support with a call for a review of the future uses of the licence fee and of broadcasting funding.

Lord Burns' panel concluded that: "A new economic model or funding structure must be available to incentivise commercial public service broadcasters. An element of competition for licence fee funds is one model that could ensure the continuation of 'competition for quality' that has defined the UK broadcasting system to date." They, like the House of Lords Committee, suggested that a review of funding methods should take place in 2012.

Ofcom, however, recognized that this timetable would be too late. In its evidence to the DCMS Ofcom insisted that "Prior planning and early action are needed to help ensure that other PSB providers remain in the system alongside the BBC. This means bringing forward the Government's reviews of PSB funding to ensure that they are completed by the end of the decade." Ofcom argued that this would help to ensure that any required new mechanisms could be put in place before digital switchover is complete. Otherwise, it would be too late to secure the effective supply of PSB for the future.

Ofcom further proposed that even in advance of the funding reviews, more immediate steps should be taken to help finance pilot schemes for new forms of public service broadcasting. It suggested an enhanced licence fee to pay for them.

It is already evident that Ofcom's proposed timetable is the right one. ITV's rapid move away from PSB genres, its output now dominated by purely commercial digital channels, is soon to be replicated by Channel Five. This will massively increase advertising revenue pressure on Channel 4, and on those many independent digital channels that already show substantial amounts of programming in PSB genres. They will be squeezed between commercial rivals concentrating on high-rating popular output, and a powerful and expanding BBC with no financial pressures. Action is needed now.

SCBG therefore proposes:

- That DCMS should bring forward its proposed review of funding for public service broadcasting, and commission Ofcom or an independent body to conduct it in 2007. DCMS need make no commitment to accept its findings, but the results would equip Government and regulators with the mechanisms to maintain and strengthen public service broadcasting before digital switchover.
- That Ofcom's proposed pilot schemes should be set in train from 2007 onwards.
- That the licence fee should be fixed at a level which funds the BBC generously but also provides finance for these pilot schemes from 2007 to 2011.
- That, if these pilot schemes are successful, from 2012 when digital switchover is complete to 2016 when the current Charter period ends, up to 10% of the licence fee should be allocated for PSB uses by services other than the BBC.

2. The level of the licence fee

Secure but not excessive

It follows that the BBC should be funded securely to carry out its responsibilities, but not excessively so that it can dominate UK broadcasting unfairly or drive up costs generally in the broadcasting market. We are now in that familiar cycle of BBC promises to cut expenditure and curb excess, which occur close to the beginning of every new licence period. Such promises have never resulted in a reduction in the licence fee, and in recent years have been so ineffective that the fee has risen annually above inflation. This has been true even in the frequent periods when other broadcasters have been forced to keep their expenditure below inflation and to make genuine cuts in areas such as salaries, US programme acquisition and marketing expenditure – all of which continue to rise inexorably in the BBC.

Failure to implement cost efficiencies

The BBC has failed to learn from or to implement the cost efficiencies that independent producers and independent channel operators now regard as fundamental to the security of their businesses. Instead, the BBC continues to spend more and ask for even more. Technological developments now give the BBC an opportunity to charge for certain services which are not part of its core public purpose. These include High Definition television and a wide range of internet downloads. (The BBC does not give away DVDs of its programmes, and

there is no reason why equivalent downloads should be subsidized by the licence payer.)

The last licence settlement financed the BBC went far beyond what was necessary to provide the UK with a wide variety of excellent, universal services. It enriched BBC senior executives and contracted artists, with the result that the BBC led cost inflation in the whole broadcasting market. The next settlement should be more rigorous, and should ensure that the level of all BBC expenditures act as a brake on broadcasting inflation.

Detailed assessment of future expenditure

The proposals presented to Government by the BBC to support a 2007-2016 licence fee rising annually at 2.3% above inflation are insubstantial and derisory. They would not be accepted by any other business or institution, under any form of private or public governance. They consist of a few scant paragraphs which seek to justify general increases on the grounds that the Government has set out new "challenges" for the BBC - notably responsibilities for the promotion of digital switchover. The proposals are accompanied by a mass of so-called background documents which omit financial detail, and are either irrelevant or serve simply to extol the BBC's virtues. They assume that all present expenditures and services are appropriate, and that all should expand at above inflationary cost. No other public institution in Britain would show such contempt for the people who pay for it.

The BBC has been wallowing in its "jacuzzi of cash", to quote the present Director-General, because the current licence-fee arrangements were made on the basis of an equally vague prospectus. The new arrangements should be based on a thorough and detailed analysis of proposed expenditures and measured against industry – not BBC – standards.

SCBG therefore proposes that:

- Fully detailed 5 and 10-year expenditure proposals should be published and scrutinized against industry norms, by Ofcom and the NAO, before any licence fee settlement is made.
- These proposals should be based on funding for the BBC that remains the same in 2007/8 as in 2006/7, and is thereafter linked to RPI.
- All existing BBC budgets other than employee costs should be frozen for the year 2007, to help the fight against licence-fee inflation and to assist the new BBC Trust in forming a view about future services and expenditures.

- The elements of BBC expenditure that are specifically related to digital switchover should be separately and independently costed in detail. They should *not* include expenditure which consists of promoting BBC programmes and services, since other channels undertake similar promotions which also increase digital take-up but receive no licence-fee subsidy. The total annual cost should be specified publicly by the Secretary of State and added to the licence fee each year. This should be the only reason for any rise in the licence fee beyond RPI.

3. The role of the BBC Trust

The new BBC Trust is placed in a difficult position because its Chairman is so inextricably linked with the policies of its predecessors, especially in promoting and defending the BBC management and its latest licence fee proposals. Nevertheless, it is incumbent upon the Chairman and Trust in their newly separate, regulatory role to take a clear view of their responsibilities to licence payers in keeping the fee within reasonable bounds.

SCBG therefore believes it essential that the Chairman and Trust commit themselves to an early review of all BBC expenditures and revenue opportunities. In particular, they should seek new opportunities to earn revenue by charging for services at market rates, with a commensurate reduction in licence inflation and a reduction in market distortion.