

BBC Trust

Response to the Department for Culture, Media and Sport's Charter Review consultation

Technical Annex C: Funding

October 2015

mtm

ICMUnlimited...

TOMORROW'S BBC

YOUR SAY

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Summary

- 1 The Government's Green Paper specifically consults on three specific medium-term options for BBC funding:
 - The continuation of the (modernised) licence fee.
 - A universal household fee.
 - A combination of public funding and subscription only services.
- 2 The BBC Trust held a public consultation on these ideas as well as testing them through qualitative and quantitative research, we received 40,058¹ responses to the consultation and the quantitative sample was 2,908 UK adults. The methodology for these three means of gathering evidence is set out in a technical note published alongside this Annex. This work was commissioned from independent agencies – analysis of the consultation responses and quantitative research were conducted by ICM; qualitative research was conducted by MTM. This document sets out their findings in more detail. In the Trust's view, based on the evidence we received set out later in this document, the key points are:
 - The BBC Trust's public consultation showed strong support for the licence fee with 53% of respondents giving the updated licence fee system a high score – and less support for a 'top-up' subscription option – with only 16% giving that option a high score. Quantitative research does not reveal a clear preference for any single one of the three Government options but less than a quarter favoured a part-subscription model whereas nearly 60% favoured a universal style fee (either the existing licence fee system, updated or a household levy).
 - MTM's qualitative research suggested that retaining but reforming the licence fee is considered to be the most acceptable funding method and that closing the iPlayer loophole was generally seen as sensible and fair. ICM's analysis of our public consultation indicated that in broad terms those who responded think that the licence fee works, but needs to be improved and modernised to reflect changes. Many of those felt that the licence fee needed to be updated specifically to include BBC iPlayer.
 - While gathering some support, no particular consensus was reached about the universal household levy. Some saw it could be more efficient and more progressive, which could lead to a lower fee overall and a fairer system if linked to income or household size. However, others were concerned it could lead to undue Government influence if it were gathered through what they saw as another means of taxation.
 - A mixture of public funding and subscription generated the greatest opposition in public consultation – 53% of respondents gave it a negative score. The option was appealing initially to participants in MTM's qualitative research, particularly those who were attracted to possible elements of choice. However, MTM's research report (set out later) shows that in discussion they also identified potential problems: that such a model could be complex and costly to administer, and that it could be more expensive and lead to escalating prices like some other subscription packages. Concerns were expressed about which services would be subscription

¹ Not all respondents answered all the consultation questions and this figure includes responses received by email, online, post, Mumsnet and twitter. The base number of respondents referred to in the charts below may therefore differ from this overall number.

only and who would decide what was basic and what was subscription only. This method was also felt to undermine the fundamental principle of the BBC being for everyone. Other specific concerns were expressed by respondents to the public consultation, including that if subscription funding led the BBC to compete more directly with commercial broadcasters, there might be a potential impact on the quality of programmes.

- 3 The Trust has set out, in our full response to the Green Paper, the conclusions we draw from the public's input and our independent research. We support the modernisation of the licence fee and oppose options for subscription funding. It is our view that, on top of the public concerns that are laid out in this document, there would be many practical issues with the introduction of a part subscription model for funding the BBC. Many people would have a different definition of what should be in the core licence fee funded part of the BBC and what should be only available only to subscribers – who would decide where the boundaries should be and how they should be drawn? How could BBC commissioners and content producers operate under the right incentives to deliver the core public service without being distracted by commercial incentives to increase subscription revenues? While TV and radio broadcasting continues to be based in large part on terrestrial transmissions, there are also significant practical and financial barriers to implementing a 'conditional access' system, which would undermine any attempts to section off parts of the BBC for subscribers only.
- 4 The quantitative research suggests the public hold mixed views about whether the licence fee should be shared with other organisations. The Trust itself has significant concerns about the idea of a contestable pot of funding from the licence fee that any broadcaster can bid for to provide programming in particular areas - on both principle and practicality; not least as experience shows that creative and editorial decisions are best left to editorial and creative leaders, as opposed to technocratic committees. It is difficult to test the general concept of contestability with audiences in the absence of a specific proposal, and our efforts to do so found no clear public consensus, although in MTM's qualitative research groups there was a degree of concern and confusion about how any contestable fund would be implemented, who would take the decisions and whether there would be damage to the BBC and the quality of its output.
- 5 This technical annex is one of seven that the Trust is publishing as part of its response to the Government's Green Paper, containing supporting data and analysis, and in particular providing the full results of the Trust's first phase of public consultation about the BBC's future.

Funding mechanisms

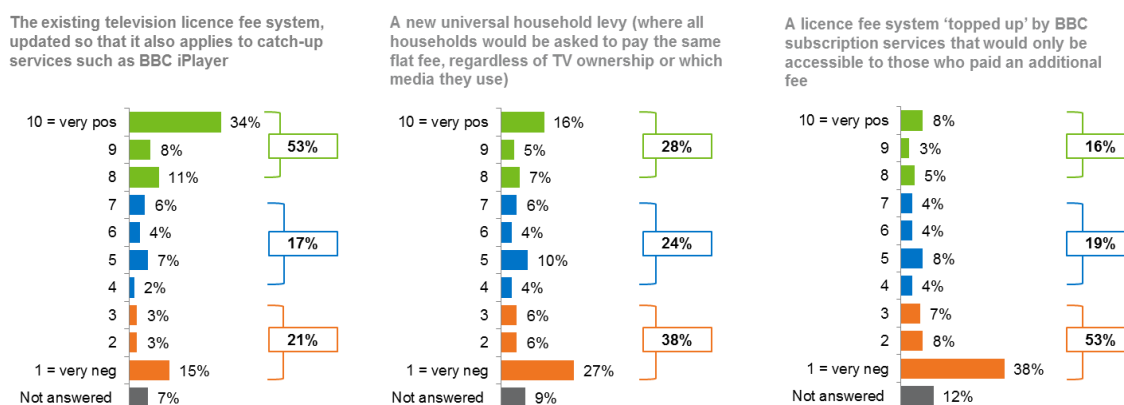
Views on the funding models

1. In the public consultation, as independently analysed by ICM unlimited, respondents² were asked to positively or negatively rate each of the three funding options from 1-10, with 10 being the most positive and 1 being the most negative, as summarised in Figure 1 below. People’s opinions on the three proposals tend to be polarised towards either end of the scale, generating strong feelings among those who support or oppose each. Although there was less initial warmth towards the alternative proposals, it should be noted that there was significant uncertainty over how the systems would work in practice, and even those who expressed a preference for the other options suggested it was difficult to make a conclusive judgement.

Figure 1: Public Consultation - Attitudes towards the funding options

Q11. We would like to understand your attitudes towards different funding approaches. Please tell us how positively or negatively you feel about the following, where 1 = very negative and 10 = very positive

Opinions are divided at each end of the spectrum



Base = 38,784 responses submitted online, mobile and letter

2. The strongest levels of support were voiced for the existing television licence fee system, updated so that it also applies to catch-up services such as BBC iPlayer. One in three (34%) gave the proposal the highest score of 10 out of 10, and when combined, just over half (53%) gave the proposal a score of 8-10. Conversely, 14 per cent gave the proposal a score of just 1 out of 10, and when combined 21 per cent gave the proposal a score of 1-3 out of 10. Responses to the open questions for this section indicate that support for this proposal was largely driven by two beliefs:

- Firstly, that the licence fee system was tried and tested and, having worked for years, there is no need for a radical overhaul

"Licence fee has worked to now, and an updated one would be best for the future."

(Age 35-44, public consultation)

² See interpreting results under consultation methodology for explanation

- Secondly, the notion of universality came through strongly; people believe in the idea that access to the BBC is equal to all

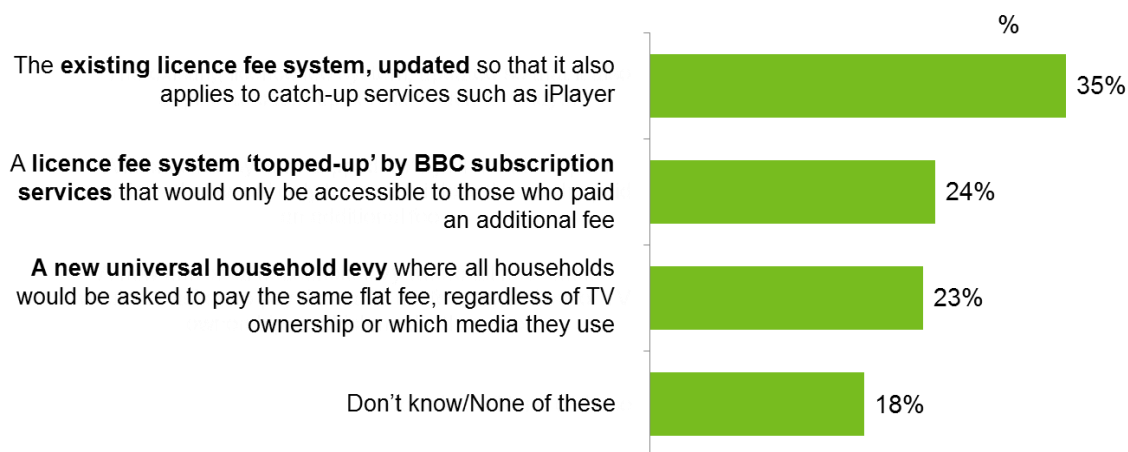
"The BBC gives a wonderfully full range of programmes to suit all ages, cultures and lifestyles. It informs, challenges and educates in equal measure"

(Age 35-44, public consultation)

3. The next preferred option among consultation respondents was a new universal levy. Almost three in ten (28%) gave the proposal a rating of between 8 and 10, with 16% awarding the top score of 10 out of 10. At the same time, opposition to the levy proposal is stronger than for licence fee: more than a quarter (27%) gave the proposal a score of 1 out of 10. The main perceived appeals of this system are its simplicity and universality – in particular, there was a desire to make it harder to avoid paying the fee.
4. The proposal involving a licence fee 'topped up' by BBC subscription services received the lowest levels of support from people responding to the consultation. More than half (53%) of respondents gave the proposal a rating of 1-3 out of 10, compared to 16 per cent giving it a score of 8-10. The most appealing aspect of the 'top up' proposal seemed to be that it introduces more choice into the system, meaning that people might not need to pay as much if they wish to use only a small range of BBC services. One argument voiced in favour of the top-up system in the public consultation was that it would mean people only pay for BBC services they actually use, and that this would introduce more choice.
5. The results do suggest some confusion around what the new household levy and the topped up licence fee would involve in practice. This indicates that the public would require a greater level of detail on how the system would work in practice in order to form an educated opinion.
6. As part of the qualitative research, as independently analysed by MTM, respondents were also shown a brief summary of each of the three alternative funding models for the BBC outlined in the Government's Green Paper.
7. After gaining initial impressions of the alternative funding models, a range of pros and cons for each model was then introduced to see if reactions changed.
8. Overall, the most appealing alternative funding model was 'Retain but reform the licence fee to close the iPlayer loophole', followed by 'Universal household levy' and the least appealing, 'Mixed public funding and subscription'.
9. Similarly, respondents were presented with the three options for funding the BBC in the future in our quantitative survey, as independently analysed by ICM Unlimited. A short description of each option was displayed on screen or read out to respondents, as set out in Figure 2 below.
10. When asked to make a choice between the three funding methods, research respondents were largely split about which option they most preferred. However, nearly 60% favoured a universal style fee (either the existing licence fee system, updated or a household levy). A quarter preferred a licence fee topped up by a subscription service, while almost one in five were not sure or did not favour any of these methods.

Figure 2: Quantitative research - Preferred method of funding the BBC

The public are split over their preferred method of funding the BBC

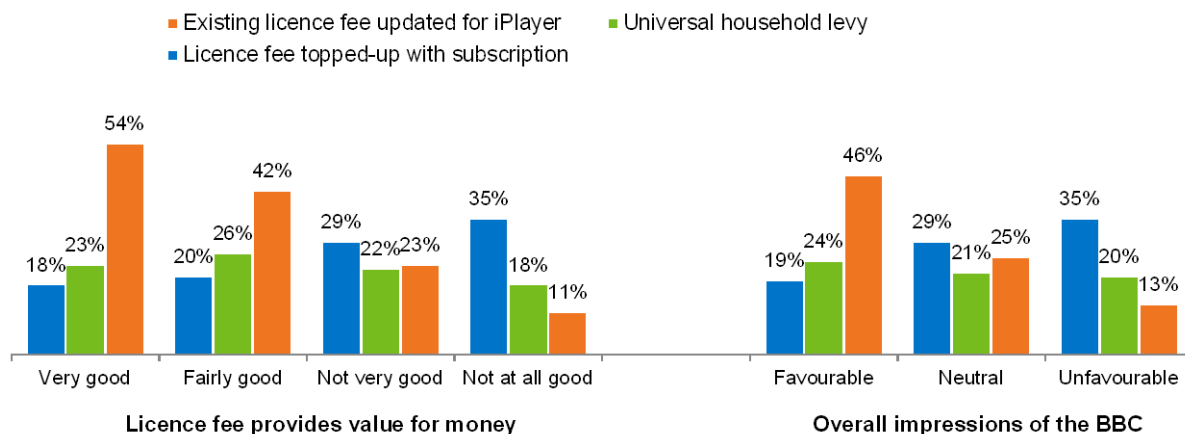


Q11. A number of possible ways of funding the BBC in the future are currently being considered. If you had to choose from the following three options, which one would you most prefer? Base: All respondents (2,908)

Preferred method of funding the BBC

11. In seeking to understand why people favour a particular funding method, it is helpful to analyse responses by attitude towards the value for money provided by the licence fee and overall impression of the BBC, as shown in Figure 3 below. A very clear pattern emerged: those who think the licence fee provides good value for money and who have a favourable impression of the BBC overall are strong advocates of the existing licence fee option updated for catch-up TV services. In contrast, those who do not think the licence fee represents value for money or who view the BBC overall unfavourably, tend to prefer the mixed licence fee and subscription approach. Interestingly, licence fee value for money and overall impression of the BBC make little difference to preferences concerning the universal household levy.

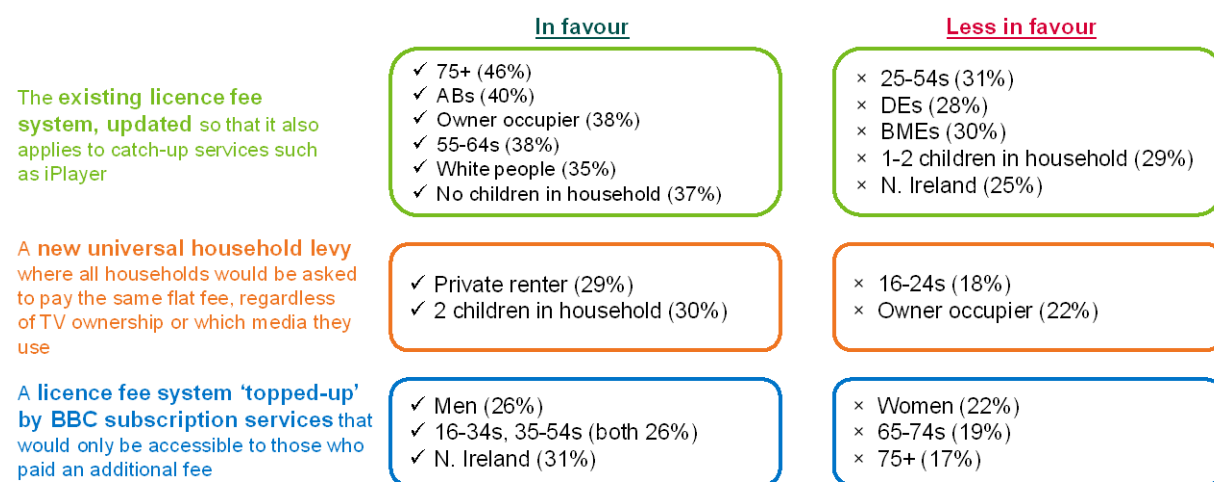
Figure 3: Quantitative research - Preferred method of funding the BBC by attitude to licence fee



Q11. A number of possible ways of funding the BBC in the future are currently being considered. If you had to choose from the following three options, which one would you most prefer? Base: All respondents (2,908)

- The level of support for each way of funding the BBC varied by demographic subgroup, as illustrated in Figure 4 below. Those who favoured the existing licence fee updated so that it also applies to iPlayer tend to be older, from higher socio-economic groups, owner occupiers, and to have no children in their household. Conversely, the existing licence fee enjoyed less support among young people, lower socio-economic groups, those with children and ethnic minorities.
- The licence fee system topped-up with subscription was particularly popular with men and those aged 16-54.

Figure 4: Quantitative research - Preferred method of funding the BBC by subgroups



Q11. A number of possible ways of funding the BBC in the future are currently being considered. If you had to choose from the following three options, which one would you most prefer? Base: All respondents (2,908)

Preferred method of funding the BBC: reasons why

- In the quantitative survey, as independently analysed by ICM Unlimited, respondents who stated a preference for a method of funding the BBC were asked the reason why they had selected this option. These responses were captured via an open question and are set out in Figure 5 below, with codes ranked from high to low for the existing licence fee updated with iPlayer option.
- The boxes shaded in blue highlight the pattern of responses and showed that a number of reasons are common to the existing licence fee updated for iPlayer and the universal household levy. Advocates of these ways of funding the BBC cite benefits related to perceived fairness and the fact that in their view everyone who uses the BBC should make a contribution. In addition, those who favoured the household levy also highlighted what they saw as the ease/convenience of this method and the consistency in the amount of money paid by all households.
- However, the belief that a person should pay for the services they access underpins support for the licence fee topped-up with subscription. Besides references to fairness and ease/ convenience, many supporters of this scheme also mentioned not having to pay for services they do not access or programmes they do not watch. As such, it is evident that some people who supported this option would not take up the subscription element.

Figure 5: Quantitative research - Preferred method of funding the BBC: reasons why

Q12. Please tell us why you prefer....?			
<i>Base: All respondents who prefer each option (973, 655, 702)</i>			
	Existing licence fee updated for iPlayer %	Universal household levy %	Licence fee topped-up with subscription %
Is fair/ fair for everyone	15	27	9
Everyone pays as we all use various mediums to access BBC	8	7	1
Good/The best option/I like it (Generic)	5	3	3
Ease/convenience	5	7	8
Dislike change/Prefer the way it is currently	5	1	0
Pay for what you watch/use	5	3	30
Everyone pays/pays the same	5	8	0
Current licence fee is effective/works well	5	0	0
Ability to use iPlayer	4	1	0
Ability to watch missed programmes/use catch-up service	3	1	1
Should be free/no charges	0	3	5
Cheap/affordable/good price	0	3	3
Accessible/good for everyone	0	2	1
Dislike fact everyone has to pay	0	0	4
Don't like/watch BBC/dislike programmes on BBC	0	0	7
Ability to choose/choose what you watch	0	0	7

17. The reasons given for preferred method of funding in the public consultation and the qualitative research (as independently analysed by ICM Unlimited and MTM) are described under each of the funding methods below.

Retain but reform the licence fee to close the iPlayer loophole

18. Qualitatively, those who did not take issue with the licence fee considered retaining it in its current form, but closing the iPlayer loophole, to be the most preferred alternative funding model. In addition, many of those who disliked the licence fee in its current form still maintained that this was the best of the three funding options. The majority of respondents felt that the BBC should adapt to the digital age by making those who watch catch up via BBC iPlayer pay the licence fee. It was felt to be only fair that those who use BBC services should pay for them. For the minority who took issue with this option, their reservations were borne out of a desire to see the licence fee reformed to take account of individuals' financial circumstances by introducing an income assessed payment scheme.

"You have to move forward with things. That's the way the world is going so they have to close the loophole. You should have to have a code to use it."

(Age 40-54, C2DE, High Appreciators, Belfast)

19. From the public consultation, as independently analysed by ICM Unlimited, there was also general consensus that the licence fee should be extended to include BBC iPlayer. Some feel that it is unfair that, in theory, someone could watch iPlayer without paying any licence fee, while it is a necessity for anyone watching through a TV.

"It seems unfair that some viewers no longer pay a TV licence because they can watch BBC programs on computers. This imbalance needs to be redressed."

(Age 35-44, public consultation)

20. There was also a belief among some respondents to the public consultation that the current licence fee system is wholly adequate, is a proven formula and has been in place for many years. Another view in the public consultation was that the current licence fee delivers value for money, given the range and quality of services provided by the BBC. Comparisons are made between the amount spent on the licence fee and the cost of other commercial subscription services; the conclusion is normally that the licence fee offers good value for money. Others break down the sum by week or by day, highlighting the fact that the licence fee is actually a relatively small sum given how much people watch and listen to BBC services.

"It's simple, fair, excellent value for money and it works. Why change it? And why spend money changing it, when there is no need to?"

(Age 35-44, public consultation)

21. A relatively small minority of respondents to the public consultation suggested that while they support the licence fee as a system, the actual sum is currently too expensive. However, there was a lack of consensus on what an appropriate figure would actually be, or what should be done about it.
22. Another relatively minor theme that came through from the public consultation was that the licence fee should be abandoned altogether. There was a view that the cost should be covered by other forms of taxation, although there was a lack of consensus on how this would work or how much would be charged.
23. Again, from the public consultation, another relatively small view in this area was that the BBC should become more like other commercial channels and introduce advertising, although there was also overt opposition to the idea in other responses to the public consultation.

"My own feeling is that the BBC should allow adverts to top up the licence fee and maybe eventually to eradicate the need for public funding altogether."

(Age 55-64, public consultation)

Universal household levy

24. The qualitative research, as independently analysed by MTM, showed that there was a mixed reaction to the universal household levy, with some seeing it as efficient and progressive (both higher and lower BBC appreciators) and others (particularly lower BBC appreciators) as unfair. Those who favoured this model liked that:

- It would be moving away from a TV-centric licence fee to a funding model which better reflected overall consumption of BBC services across radio, online and TV.

- A universal household levy could potentially successfully combat non-payment of the licence fee.
- As everyone would be required to pay the levy it might also result in a lower fee overall.

"I think that's a good one – it would be like Council Tax and everyone would have to pay it."

(Age 18-24, C2DE, Low Appreciators, Glasgow qualitative research)

"A flat rate household levy is much more manageable from a consumer point of view"

(Age 45-54, public consultation)

"That's just another poll tax."

(Age 55+, C2DE, Low Appreciators, Greenlaw qualitative research)

"I have never owned a TV. I am never going to own a TV. I will go to jail rather than pay a household levy for something I will never use."

(Age 45-54, public consultation)

25. Also, for some who viewed the licence fee as regressive (particularly for higher socio-economic groups) this option offered the potential for a fairer payment system, whereby the amount you pay could be tied to your income or house size, similar to Council Tax (and possibly collected in this manner too).

26. Those who disagreed with the universal household levy did usually on a point of principle. Their view was that households shouldn't have to pay a fee if they do not consume BBC services. There was also a concern that if the levy was in some way linked to general taxation, the government may exert undue influence on the BBC.

"Having any licence fee or universal levy is regressive because it doesn't depend on your ability to pay – so it doesn't accord with fair principles of taxation."

(Age 40-54, ABC1, High Appreciators, Glasgow qualitative research)

"I think a household levy would penalise those who use different media."

(Age 16-24, public consultation)

27. From the public consultation, as independently analysed by ICM Unlimited, respondents felt that the universal levy was a simple system. They felt that every household would pay the same amount and the system could be easier (and cheaper) to implement than the current licence fee.

28. Another reason to support this approach was reflected in the view that it would be more difficult to evade a universal flat fee compared to the current licence fee, because the same amount is paid by all. By reducing the number of exemptions, there was a belief it would be easier to eliminate licence fee avoidance.

"A universal household levy is fair and should be simple and cheap to collect and difficult to evade."

(Age 55-64, public consultation)

29. However, the most commonly voiced argument against the universal levy was that some people would lose out because it would be unfair for everyone to pay the same, irrespective of how much they use the services.

Mixed public funding and subscription

30. The mixed public funding and subscription model had some strong initial appeal, but for most this quickly faltered under closer scrutiny.
31. In the qualitative research, as independently analysed by MTM, the subscription aspect had the most appeal for some younger respondents (aged 18-39) and lower appreciators of the BBC as it implied that you would only pay for what you use. This element of choice was something that was felt to be lacking in the current licence fee for these audiences. For those aged 18-39 used to paying for subscription services, such as Netflix and Spotify, the idea of paying for just the services that are consumed seemed logical. After reflecting on some of the implications of the introduction of a subscription element to BBC services, many who were initially enthusiastic went became less positive about the idea. There was a concern that if a household opted for the full package it may be more costly than the current licence fee and that a subscription model may lead to creeping privatisation and escalating prices, as was seen to be the case with Sky.

"I think the mixed subscription would be quite good because then you would be paying for what you watch."

(Age 18-24, C2DE, Low Appreciators, Glasgow)

"I just think that might lead to people getting priced out of content they enjoy at the moment."

(Age 40-54, ABC1, High Appreciators, Glasgow)

32. In the public consultation, as independently analysed by ICM Unlimited, choice was also one argument in favour of the top-up system. It was felt that it would also introduce more diversity across the BBC. However, as seen in the qualitative research, there was confusion over the basis for the extra charge; for instance whether it would refer to different genres and content types, or whether it would refer to platforms and channels.

"My first choice would be to have a top-up system. Not everyone uses all the online or mobile services so why should they pay. Have a basic licence fee and top it up to use additional services."

(Age 55-64, public consultation)

"If the existing licence fee is 'topped up' with optional extras, then I might as well get those from a commercial provider (i.e. Netflix). I think the 'top-up' element is already out there."

(Age 35-44, public consultation)

33. A subscription service was seen to undermine a fundamental principle of the BBC: that BBC services and programmes should be for everyone. This was a theme that was raised in the qualitative research, as independently carried out and analysed by MTM and it also came through the public consultation, as independently analysed by ICM Unlimited. The notion that a subscription model might reduce the potential for all audiences to learn and encounter new things was a widely held concern in the qualitative research. Audiences wondered if a subscription service would lead to a two-tier situation in which those who could afford to subscribe to all BBC services reaped the benefits, and those who had a more difficult financial situation may only be able to afford to subscribe to the 'basics' and may become disadvantaged as a result.

"The BBC provides programming that entertains everyone in my family, from the one year old to the seventy year old. Its work to represent all the diverse people in the country is ongoing, but progress has clearly been made and I'm sure will continue to improve."

(Age 35-44, public consultation)

"The key things they offer in terms of providing news and information, supporting learning and education and people's access to these is going to be limited by a subscription model."

(Age 18-24, ABC1, High Appreciators, Cardiff qualitative research)

"With a top-up system only accessible for additional fees, those on low incomes likely to be subject to a secondary tier of accessibility, creating the 'haves' and 'have nots.'"

(Age 55-64, public consultation)

34. The mixed funding model and subscription service was also seen as likely to be very complex to introduce and administer. There was a recognition that it would be very difficult to determine which services should come under the 'basic package' and which should be subscription only. It was notable that when audiences were asked to pick which services would or would not be subscription only they were unable to reach a consensus. From the public consultation, there was some confusion over whether people would be able to subscribe to specific channels or genres, or whether additional services would be bundled in to packages.

"Some of these might be quite difficult to administer."

(Age 40-54, C2DE, Low Appreciators, Cardiff)

"To have a subscription system would be very hard to enforce and to set up. Also, would such a service become selective: 'I just wish to have documentaries, not sport?'"

(Age 55-64, public consultation)

35. Older (those aged 40+) respondents in the qualitative research, as independently analysed by MTM questioned this funding option and queried both who would make the decision on what should and shouldn't be subscription only as well as the potential complexity of having to decide what package to opt for. Respondents acknowledged that whilst BBC Four and BBC Parliament were more niche channels than, for example, BBC One or BBC Two, for certain audiences the former would be considered as core services and therefore it would be "unfair" to make them subscription only.

"If you say only BBC One and Two go into the basic package, that's an issue...some people may only want to watch BBC Three or BBC Four. You might be taking away a service which people who can't afford the subscription might want to watch."

(Age 55+, ABC1, High Appreciators, Prestatyn)

36. In the public consultation, as independently analysed by ICM Unlimited, there was a view, albeit held by a relatively small number of respondents, that the mixed public funding and subscription blurred the lines between the BBC and other commercial media providers. There was some confusion on how this would work and what the impact would be later on. Some believed that the top-up system would see the BBC trying to compete with commercial services rather than concentrating on its role as a public service broadcaster. This view was often connected to a belief that the pursuit of ever larger audiences could lead to the deterioration in the quality of programmes. Related to this is a view that the top-up system would lead to a form of populism that would mean that programmes that are perceived to be of a high quality, but with relatively small audiences would cease to exist.

"Top-up - not sure how this can work with a public broadcaster. Kind of goes against it."

(Age 45-54, public consultation)

"A subscription service would help facilitate a race to the bottom in terms of quality and diversity of programming. An organisation with its eyes on increasing subscriptions will pander to the worst of majority populism at the expense of variety and depth."

(Age 45-54, public consultation)

Contestable Funding

37. In the qualitative research, as independently carried out and analysed by MTM, a majority of participants rejected the idea that other broadcasters should be allowed to compete for a small proportion of the licence fee, on the basis that they had alternative revenue streams such as money from advertising. There was a concern expressed that the introduction of contestable funding could lead towards privatisation and that the current financial security the BBC experiences would be gradually eroded, potentially leading to a reduction in the quality of BBC services. In addition, there was a degree of confusion and cynicism about how contestable funding would be implemented and who would decide on which providers would receive the funding that is set aside.

"[The broadcasters] are already getting funding from their adverts. If you're going to take money away from the BBC, you would imagine that the quality of the programmes will reduce."

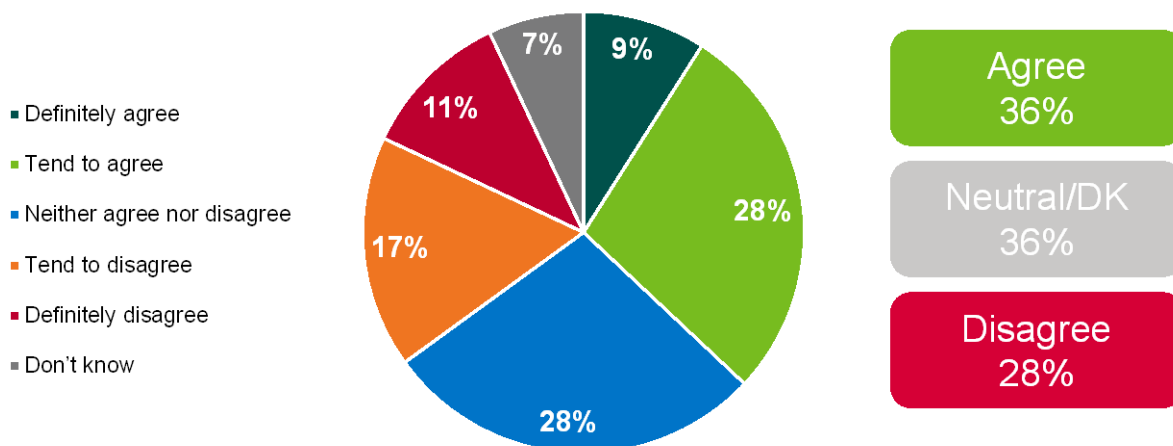
(40-54, ABC1, High Appreciators, Belfast qualitative research)

"What if a third party is getting some of the licence fee and then they are investing it in something that isn't for the public benefit?"

(40-54, ABC1, Low Appreciators, Reading qualitative research)

38. Results from the quantitative research, as independently analysed by ICM Unlimited, show that the public held mixed views about whether the licence fee should be shared with other organisations as shown in Figure 6 below³. When asked if the licence fee 'should fund projects that will benefit the wider media and communications industries such as digital radio switchover or providing funds for other regional news providers', just over a third (36%) of the population agree and three in ten (28%) disagree. A further 36 per cent neither agree nor disagree or state that they do not know.

Figure 6: Quantitative research - Sharing the licence fee



Q13. The Government believes that the licence fee should fund projects that will benefit the wider media and communications industries such as digital radio switchover or providing funds for other regional news providers. To what extent do you agree or disagree with this view? Base: All respondents (2,908)

³ Some figures in the pie chart are different due to 'rounding up'

39. While just over a third of the population in general agree that the licence fee should fund other projects, support for this initiative is higher among young people aged 16-34 years (45%), ethnic minorities (45%), households with children (43%) and those whose home has three or more adults (39%).
40. As there were no firm proposals, combined with the complexity of the issue, we decided not to include contestable funding within the consultation. It subsequently proved difficult to explore in the face to face qualitative research.