

# DISCUSSION PAPER

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## Concessionary TV licences and the landscape of intergenerational fairness

October 2018



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## EXECUTIVE SUMMARY

The BBC has been funded by a licence fee since it was founded. Until 2000, the licence fee was primarily universal: all households who received the BBC paid for it. In 2000, the government decided to fund free television licences for the over-75s. The reason given for introducing the concession was largely based on equity, as older pensioner households were disproportionately concentrated at the bottom of the income distribution. The concession's cost was met by the government, with a grant made to the BBC reimbursing the cost of each concessionary licence issued.

In 2015, the government decided that it would no longer pay for the over-75s licence fee concession, and that any such concession would in future have to be paid for by the BBC. The vast majority of the BBC's funding is from the TV licence fee. Therefore, the cost of any such concession will have to be considered against the BBC's ability to provide high quality public service broadcasting content for all audiences. The current concession is set to fall away in 2020, and Parliament has given the BBC the duty to consult on what the policy should be for the older population.

In September 2015, the BBC first commissioned Frontier Economics to begin a workstream with a view to exploring longer-term funding options relating to the over-75s concession. In advance of publishing that full report, we were asked to write and publish a short discussion paper to set out some important context including the changing landscape. In our view this discussion paper and its publication is a sensible and appropriate step in the context of the report, the consultation and the decision that are to follow.

Specifically, this paper looks at the changing context since the concession was first introduced in 2000, in particular the issues of intergenerational fairness and the overall financial context. In 2001/02, the concession cost the government £365 million. If the BBC were to replicate the current concession, we forecast that by 2021/22 the cost to the BBC would be £745 million, equivalent to 18% of current BBC service spending. This increase reflects the fact that the UK population is ageing rapidly. By the end of the decade, the annual concession cost will rise to over £1 billion.

Much has changed since the over-75s concession was introduced in 2000 – not least the financial crisis of 2008 and government policy responses aimed at reducing the budget deficit. A growing part of the debate around these responses has been on intergenerational fairness, the changing economic opportunities and circumstances of older and younger people and how they have been affected by policy changes.

Over the last two decades, older households have seen a marked improvement in their absolute and relative living standards. In 1999/2000, approaching half (46%) of households with someone aged 75 or more were amongst the poorest in terms of incomes. By 2016/17, that proportion had fallen to fewer than one in three (32%). This has come about because incomes of over-75 households have grown much more rapidly than average. Incomes, wealth and life expectancy of older people

have improved significantly, pensioner poverty rates have fallen, and older households report higher well-being on a range of metrics.

These changes give cause for reflection on what an appropriate approach to providing concessionary licences to older households might look like. We will shortly publish a detailed report which will explore the impact of continuing the current over-75s concession and a range of possible options for reform.

These options will be assessed against the evaluation criteria set out in the Terms of Reference for that report: Financial impact; Distributional impact; Feasibility; and Economic rationale.

As with our forthcoming report, this discussion paper is not a consultation document. It will be for the BBC to consult to make a decision in due course.

# 1 INTRODUCTION

In September 2015, the BBC first commissioned Frontier Economics to begin a workstream with a view to exploring longer-term funding options relating to the over-75s concession.

In advance of publishing that full report, this short discussion paper sets out some important context. Specifically, it looks at the changing context since the concession was first introduced in 2000, in particular the issues of intergenerational fairness and the overall financial context.

## 1.1 The BBC has a duty to consult on its important decision on the future of concessionary licences for the older age group. The over-75s concession

All households that watch or record television programmes as they are being shown, or those watching or downloading BBC content on iPlayer, are required to have a television licence. In 2018/19, the cost of a colour licence for one year is £150.50.<sup>1</sup>

The BBC has been funded by a licence fee since it was founded. A universal television licence fee was introduced in 1946 and a radio licence existed before this. Discounted licence fees for those with visual impairments and those in residential care homes, supported housing or sheltered accommodation have been introduced.

Since November 2000, any individual aged 75 or over has been entitled to a concessionary licence for their primary residence, regardless of who they live with. Around 4.55 million households currently receive the over-75 concession (DWP, 2018 A).<sup>2</sup> The best evidence suggests that take-up of the concession is almost universal (DWP, 2018 B).

The concession was introduced following the publication of the Davies Committee Report, submitted to the (then) Department for Culture, Media and Sport (DCMS) in July 1999 (Davies et al., 1999). The Davies Committee did not recommend using licence fee revenue to introduce a concession for over-75s (Fiddick, 2000), largely owing to concerns that it would be funded by increases in the licence fee for others, with particular implications for lower-income households.

In the Pre-Budget Report in 1999, the government announced that all individuals aged 75 or over would be entitled to a free licence which would not be funded using licence fee revenue. The concession was justified largely on equity grounds, based on evidence that older pensioner households were disproportionately concentrated at the bottom of the income distribution, and to provide help for pensioners who may have difficulty paying the licence fee.

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<sup>1</sup> <http://www.tvlicensing.co.uk/check-if-you-need-one/topics/tv-licence-types-and-costs-top2>

<sup>2</sup> Including those living in residential care or sheltered accommodation who would be covered by the ARC concession. <https://www.tvlicensing.co.uk/faqs/FAQ83>

## 1.2 Changes to funding of the concession

Until recently, the cost of the concession was met entirely by the government, with a grant made from the Department for Work and Pensions (DWP) to the BBC reimbursing the cost of each concessionary licence issued.

In 2015, the government decided that it would no longer pay for the over 75s licence fee concession. The government funding is being phased out and the BBC began to take on the cost of the concession in financial year 2018/19. The grant from DWP to the BBC will be reduced over a three-year period, ending in full in 2020/21.

The current licence fee concession falls away in June 2020. In 2017, Parliament gave the BBC the duty to consult on what policy should be established for the older population aged over 65 beyond June 2020.

The context of the decision which the BBC needs to take is different from the one which the government took in 2000. As we describe below, the landscape in terms of intergenerational fairness and the cost of a concessionary licence for all over-75s has altered significantly over the last 18 years. In addition, it will be the BBC itself, rather than the government, that will have to cover the costs of any concession going forward. Therefore, the cost of any such concession will have to be considered against the BBC's ability to provide high quality public service broadcasting content for all audiences.

## 2 THE CHANGING LANDSCAPE SINCE 2000

The over-75s concessionary licence was introduced almost 20 years ago.

Clearly much has changed since then—not least the financial crisis of 2008 and government fiscal policy responses aimed at reducing the budget deficit in its aftermath. A growing part of the debate around these responses in recent years has been on intergenerational fairness, the changing economic opportunities and circumstances of older and younger people and how they have been affected by policy changes.

The financial landscape in terms of the cost of providing a concession to all over-75s has also changed.

These significant changes—not all of which could have been predicted at the time the concession was introduced—give cause for reflection on what an appropriate approach to providing concessionary licences to older households might now look like.

### 2.1 Intergenerational fairness

#### Introduction

There has been considerable debate in recent years around the idea of ‘intergenerational fairness’—a view that younger people have been hit hardest by recent economic events (such as the financial crisis and its aftermath) while older people have been relatively protected. The UK population is also ageing rapidly. In 1996, 15.9% of people were aged 65 or over, reaching 18% by 2016 and a projected to reach 20.5% by 2026.<sup>3</sup>

Together, these factors have provoked fears of a rupturing in the ‘intergenerational contract’ (House of Commons Work and Pensions Committee, 2016; Resolution Foundation 2018). This is the idea that public spending on older generations is funded by the tax revenues of working-age adults, who in turn should be funded by future generations, while seeing an overall improvement in living standards from cohort to cohort.

Much of the analysis of intergenerational fairness has been economic, but the debate has also been a political one. Two parliamentary inquiries have convened on the subject: the House of Commons Work and Pensions Committee Inquiry on Intergenerational Fairness (2016) and the current House of Lords Select Committee on Intergenerational Fairness and Provision. Nor has the debate been confined to the UK: the European Commission’s (2017) *Annual Review of Employment and Social Developments in Europe* also set intergenerational fairness its main focus, for example.

This wider debate is relevant when considering what a concessionary licence fee available only to older generations might look like.

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<sup>3</sup> Office for National Statistics, *Overview of the UK Population*, July 2017



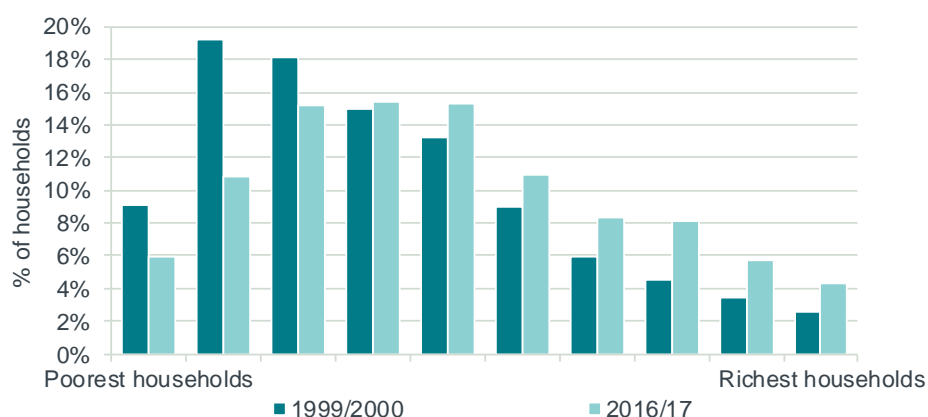
## Incomes of over-75 households have grown more rapidly than average

When the concessionary licence was introduced in 2000, the government focused on a fairness rationale: that the benefits would (largely) go to poorer households. Then Treasury Minister Dawn Primarolo argued that:

*“Older pensioner households are more likely to be on low incomes, which is why additional resources will be directed at the 75-plus group. Free television licences to people aged 75 years and over, nearly 50 per cent of whom are in the lowest three income deciles, is a significant measure for poorer pensioners...”<sup>4</sup>*

Our analysis of household income data for 1999/2000 confirms this: 46% of households with someone aged 75 or more were in the bottom three income deciles that year.<sup>5</sup> But the story has changed markedly. By 2016/17 (the last year for which data are currently available), fewer than one in three over-75 households (32%) were in the bottom three deciles, with particularly large falls in the poorest two income deciles (Figure 1).

**Figure 1** Share of over-75 households by After Housing Costs income decile, 1999/2000 and 2016/17



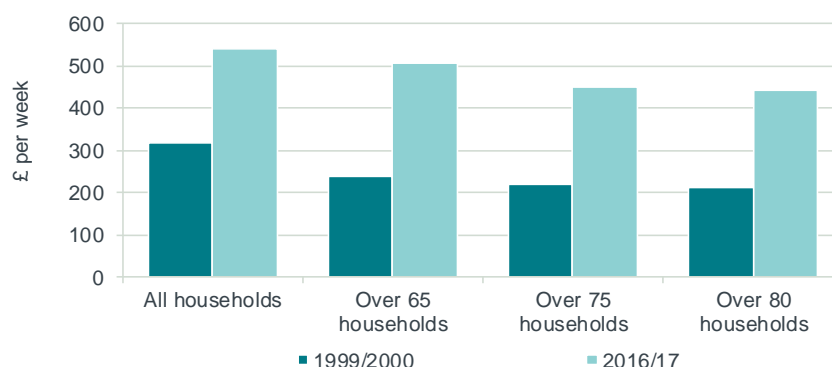
Source: FRS, Frontier calculations

This shift has occurred because income growth for over-75 households has been much faster than average. Between 1999/2000 and 2016/17, average (mean) incomes for all households grew by 71%, from £318 to £543 per week. But among households containing someone aged 75 or over, average weekly incomes more than doubled, from £220 to £452 (Figure 2). Put another way, in 1999/2000, the average income of an over-75 household was 69% of that for all households. By 2016/17, it had increased to 83%. In the following sections we explore some of the reasons behind this catch-up.

<sup>4</sup> <http://www.publications.parliament.uk/pa/cm199900/cmhansrd/vo991221/text/91221w33.htm>

<sup>5</sup> We divide all households in the Family Resources Survey 1999/2000 and 2016/17 into ten equally sized groups ('deciles') based on weekly household income, net of housing costs (rent, mortgage interest, water rates, structural insurance and some smaller charges). Our measure is income from all sources, net of direct tax and housing costs but including benefits. Over-75 households are those containing anyone aged 75 or more. We examine the share of over-75 households by decile in each year. Incomes are adjusted (equalised) for household composition using the Modified OECD scale.

**Figure 2 Mean equivalised weekly income after housing costs, by age of oldest household member, 1999/2000 and 2016/17**



Source: FRS, Frontier calculations

## Pensioner household living standards have improved relative to working-age households

This is true when we look at incomes...

These figures are consistent with a wide range of other analysis, which focuses on older households (generally those with someone above state pension age) rather than over-75s specifically.

Many studies use median income (the income of the household in the middle of a given income distribution) to explore trends in relative living standards across age groups.<sup>6</sup> On this basis, the nature of the income catch-up among older households is even greater than shown above. Data from DWP (2016, 2018 C) show that between 1999/2000 and 2014/15, median income for families headed by someone aged over 75 rose from 56% to 80% of the median for working-age families.<sup>7</sup> Even more strikingly, median income for families headed by those aged 65 to 74 overtook that of working age households in 2009/10 (Figure 3).

Analysis published by the Resolution Foundation's cross-party Intergenerational Commission (Corlett, 2017) also demonstrated that income for pensioner households is now around £20 per week higher than income for working-age households (median income, after housing costs). This represents a significant change from 2000, when median pensioner household income was approximately £70 per week lower than that of working-age households (Figure 4).

<sup>6</sup> The mean can sometimes be skewed by a small number of very large incomes, so may not be a 'representative' measure for most households in a certain age group. Median income is often considered more representative.

<sup>7</sup> The DWP statistics use benefit units as the unit of analysis, whereas our analysis of the FRS used households. Benefit units are defined as a single adult or a married/cohabiting couple and any dependent children.

**Figure 3 Working age and pensioner benefit unit real median annual income after housing costs, 1994/95 – 2016/17**



Source: *Pensioner Income Series (DWP, 2016, 2018, D)*

Note: *Incomes are expressed in terms of 2016/17 prices. Incomes are measured at the benefit unit level; as such they are not directly comparable with other income measures presented in this Chapter which are household incomes. Working age income data is not available for 2015/16 or 2016/17 in this series.*

**Figure 4 Real median household net annual income after housing costs, by life stage, 2000 to 2016**



Source: *Resolution Foundation analysis of DWP, Households Below Average Income*

Note: *Adjusted to 2014-15 prices using a CPI variant that excludes all housing costs.*

The Intergenerational Commission's analysis also looked at how incomes have changed for poorer pensioners and poorer working-age households. The pattern was the same: pensioners at the 20<sup>th</sup> percentile of the pensioner income distribution have seen faster income growth than working-age households at the 20<sup>th</sup> percentile of their income distribution (Figure 5). In other words, the relative improvement in income for pensioner households compared with working-age households has come both at the bottom and the middle of the income profile.

**Figure 5 Real household net annual income after housing costs at the 20<sup>th</sup> percentile, by life stage, 2000 to 2016**



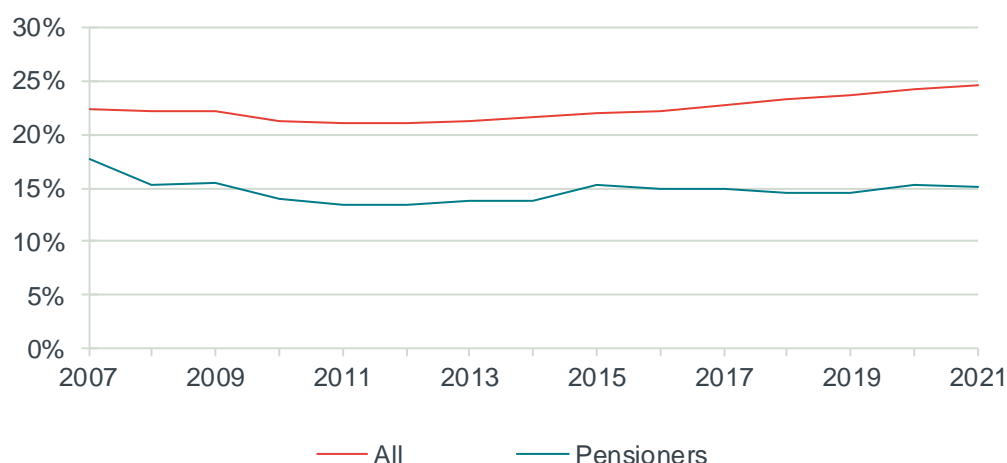
Source: Resolution Foundation analysis of DWP, *Households Below Average Income*

Note: Adjusted to 2014-15 prices using a CPI variant that excludes all housing costs.

This income growth means that pensioners are now less likely than any other age group to be in either relative or absolute income poverty (Hood and Waters, 2017).<sup>8</sup> In 2015, the share of pensioners in relative poverty was 15%, significantly below the average poverty rate of 22%, and down from 18% in 2007.

These differences also look likely to grow. Using forecasts of future income distributions based on historic trends and expected policy changes (in particular cuts ahead for working age benefits and the ongoing triple lock for state pensions), the Institute for Fiscal Studies (IFS) estimates that while overall poverty rates are likely to increase to 24% by 2021, pensioner poverty will remain flat (see Figure 6, taken from a recent IFS report).

**Figure 6 Relative poverty rate forecasts, by life stage (IFS estimates)**



Source: Institute for Fiscal Studies (Hood and Waters, 2017).

Notes: Poverty line is 60% of contemporaneous median income. Pensioners are those aged 65 or over.

Similarly, the share of pensioners in absolute poverty was 13.5% in 2015, compared with 20% for the population as a whole. Absolute poverty rates were

<sup>8</sup> Relative poverty is measured as the fraction of pensioners living in households with less than 60% of median income in a given year. Absolute poverty is measured against 60% of 2010 median income in real-terms.

predicted to remain flat until 2021 on average, but to fall further to 11% among pensioner households.

These figures are based on definitions of relative and absolute poverty. More recently, the independent Social Metrics Commission (2018) identified a new way of measuring poverty in the UK which also showed an improving picture for pensioners. The Commission's proposed measure, while still relying on income, better accounts for material resources available to households (such as savings) and additional costs of inescapable circumstances such as disability or childcare. On this measure, the Commission find that the share of pensioners in poverty fell from 20.8% in 2008 to 11.4% in 2017. For working age adults, by contrast, poverty rates rose from 20.1% in 2011 (below the pensioner poverty rate that year) to 21.6% in 2017 (almost double the pensioner poverty rate that year).

### ... and when we look at other indicators of living standards

Incomes are only one indicator of living standards. But trends in other measures also point to older households performing relatively better in recent years.

One example is wealth, often tied up in housing. Concerns about housing costs and the ability of younger generations to own their own home are well-documented and have been subject to a range of policy initiatives. Corlett and Judge (2017) find that only 30% of those born after 1980 owned their home at age 30—half the rate of their parents' generation.<sup>9</sup> IFS research shows that average inflation-adjusted house prices rose by 152% between 1996 and 2016, while average incomes rose by only 22% (Cribb, Hood and Hoyle, 2018).

This trend is not just confined to housing. Analysis of financial wealth data shows that working-age households are no longer accumulating wealth at faster rates than preceding generations (see Figure 7, taken from recent Resolution Foundation analysis).<sup>10</sup> This implies that future pensioners will have lower savings to draw on (adjusted for inflation) than the current pensioner generation if these trends persist.

Among over-65s, financial wealth at a given age has been increasing across cohorts—consistent with improved living standards and wealth accumulation across generations. For example, those born in the early 1940s had median financial wealth of around £17,000 per person at age 70, compared with around £12,000 for those born in the late 1930s at the same age. But for younger cohorts, this has reversed: those born in the early 1960s, for example, had median financial wealth of around £2,000 per person at age 50, compared with more than £5,000 per person for those in the late 1950s. Strikingly, average financial wealth levels among older cohorts increased between the late 2000s and the early 2010s (the period around the financial crisis), whereas among younger cohorts average financial wealth was flat or declining.

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<sup>9</sup> <https://www.resolutionfoundation.org/app/uploads/2017/09/Home-Affront.pdf>

<sup>10</sup> Including savings and shares, for example, but excluding pensions and housing.

**Figure 7 Median real family net financial wealth per adult, by cohort, 2006-08 to 2012-14**



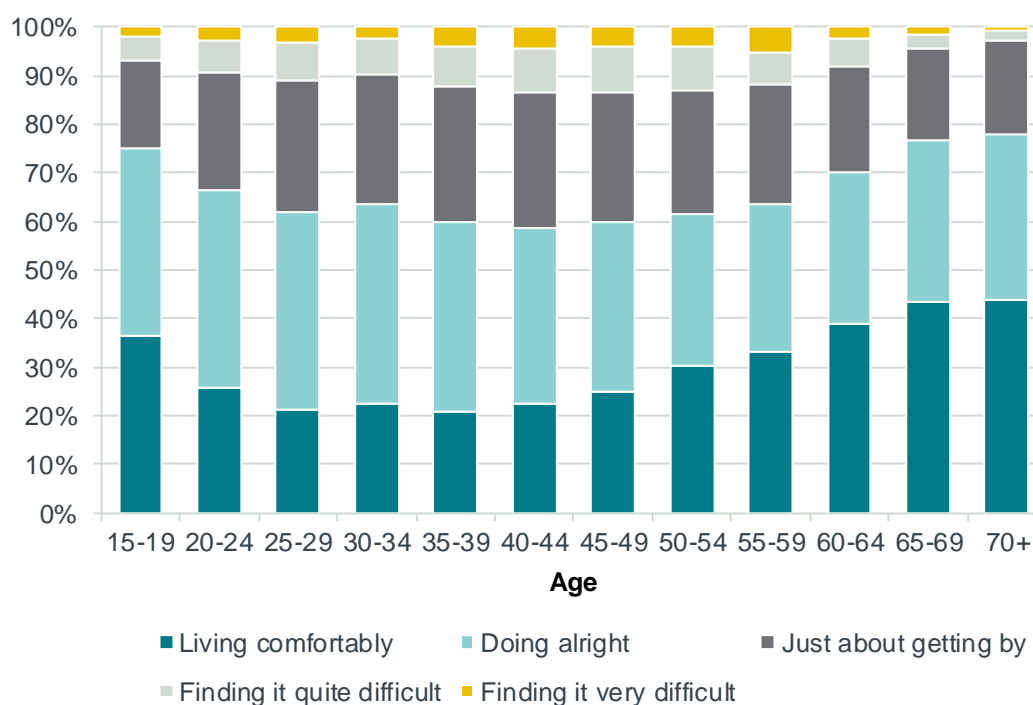
Source: Based on Resolution Foundation analysis of Wealth and Assets Survey.

Note: Figures are in 2017 prices.

Older people also appear to enjoy greater self-reported well-being. Analysis by the ONS finds that average life satisfaction and other measures of well-being are higher for older households than younger households, particularly compared with those in middle age. Corlett (2017) suggests that:

*“The differences might also be driven by socio-economic factors. For example, those in their younger years and those who are retired may have more free time to spend on activities which promote their well-being. In contrast, those in their middle years may have more demands placed on their time and might struggle to balance work and family commitments.”*

Those aged over 70 are also more likely than any other age group to consider themselves ‘living comfortably’ and least likely to consider themselves to be ‘finding it quite or very difficult’, as shown in Figure 8 below taken from recent Resolution Foundation analysis.

**Figure 8 Self-reported views on financial management, by age group**

Source: Resolution Foundation analysis of Understanding Society Wave 5

### Policy choices have driven some of these trends in relative living standards between older and younger people

Corlett (2017) estimates that of the increase in pensioner income since 2000, approximately 25% is attributable to changes in policies around benefits for older households. This includes reforms to the Basic State Pension where a ‘triple lock’ (tying increases to the largest of inflation, earnings growth or 2.5% each year) was introduced in 2010. This has come at a time when broader benefits policy has sought to make savings. The Work and Pensions Committee Inquiry reported that reductions in working-age benefits amount to a total of £22 billion per year, increasing to £40 billion by 2020 (House of Commons Work and Pensions Committee, 2016). Universal Credit, which seeks to wrap up a number of income-related benefits for working-age households into a single system, has been subject to cuts since it was first announced (Keen and Kennedy, 2016).<sup>11</sup> In addition, previously universal benefits such as child benefit have been made income-contingent.

The Intergenerational Commission observed that deficit reduction:

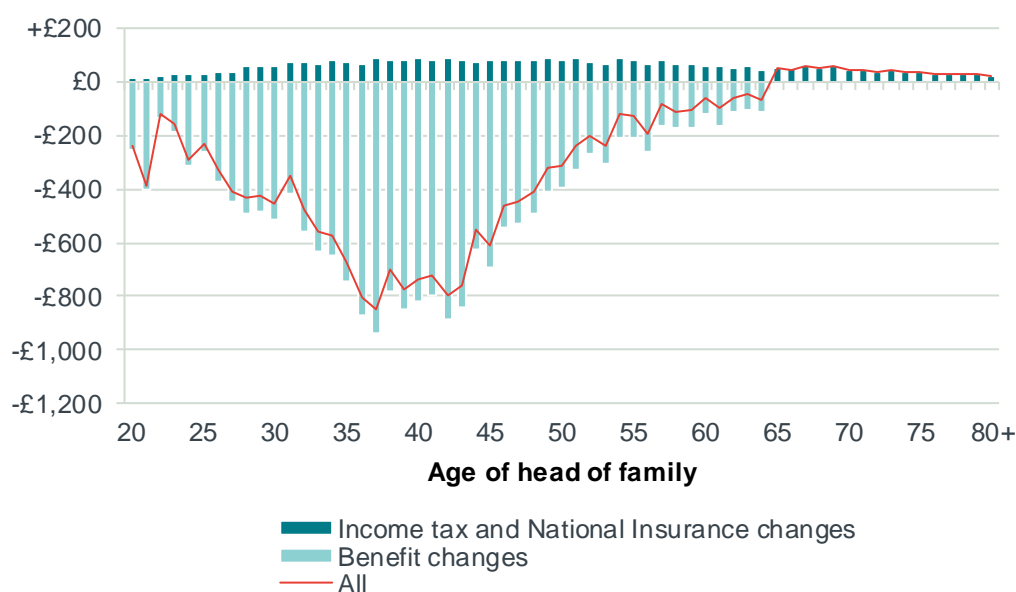
<sup>11</sup> The Summer Budget 2015 announced a series of changes to Universal Credit and, in advance of the full introduction of Universal Credit, to tax credits. These included a reduction in the income threshold in tax credits and an increase in the tax credit withdrawal rate, reductions in the “work allowances” for most Universal Credit claimants, limiting the child element of tax credits and Universal Credit to two children and removing the family element in tax credits (and the corresponding first child premium in Universal Credit). <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7446>

“...(has been achieved) entirely by reduced generosity for working-age adults and children, mainly due to freezes to their benefits and cuts to Universal Credit.” (Intergenerational Commission, 2018)

At the same time, pensions and pensioner benefits have been protected. Analysis by the IFS found that between 2010 and 2016 the value of the state pension increased by 22%, compared with 8% earnings growth and 12% price inflation. This has increased the value of the basic state pension to its highest share of earnings since 1988 (Emmerson, 2017). In 2016/17, pensioners accounted for 55% of total government social security spending, up from 52% in 2009/10. This figure is projected to rise to 57% by 2020/21, even after accounting for increases in the state pension age (House of Commons Work and Pensions Committee, 2016).

Recent tax and benefit changes are estimated to have reduced annual net family incomes for those in their late 30s and early 40s by around £800 per year, while slightly increasing income for those aged 65 and over. These results are shown below in Figure 9, taken from the final report of the Intergenerational Commission.

**Figure 9 Mean change in annual net family income from recent tax and benefit policy changes, by age**



Source: Intergenerational Commission, 2018

The House of Commons Work and Pensions Committee (2016) concluded, among other recommendations, that universal benefits for older households ‘should not be off limits when spending priorities are set’.

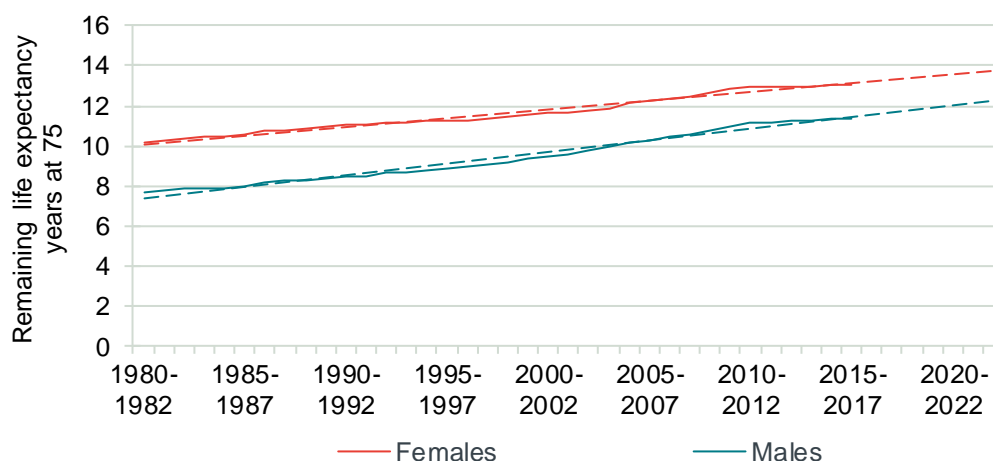
## There are significant implications for current and future generations of pensioners

The debate around intergenerational fairness has focused heavily on the different economic experience of older and younger people through the last two decades. Of course, improved living standards for older households are a good thing – enabling people to live happier, healthier lives for longer.



Life expectancy has been increasing steadily. Drawing on estimates for England published by the ONS,<sup>12</sup> we estimate that a woman reaching age 75 in 2020 can expect to live 1.9 years longer than a woman reaching age 75 in 2000. For men the increase is higher, at 2.5 years (see Figure 10).<sup>13</sup>

**Figure 10** Life expectancy at age 75 in England, 1980-82 to 2020-22



Source: Frontier calculations based on ONS (2018 A).

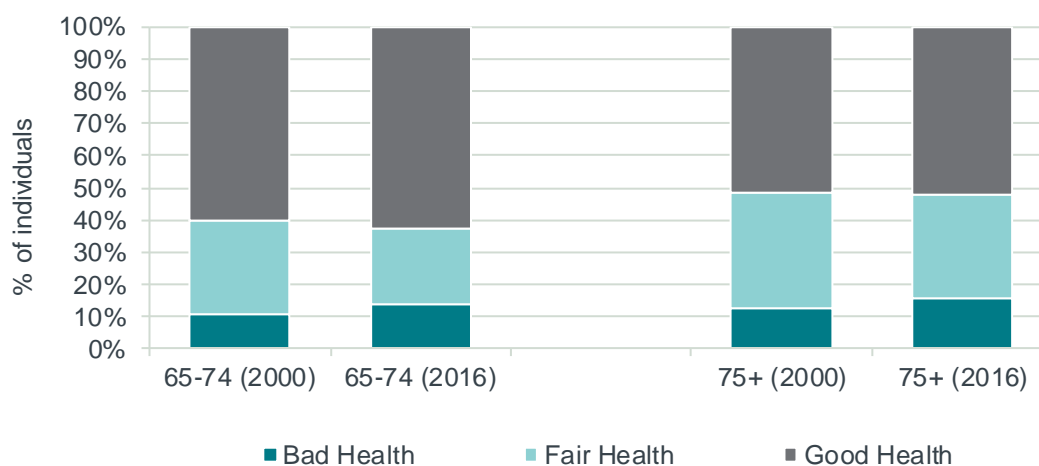
Note: Figures post 2015-17 are a linear extrapolation of the long-term trend since 1980-82

Similar increases have been seen for healthy life expectancy at age 65. And there is some evidence from survey data that self-reported health, particularly for younger pensioners (aged 65 to 74), has improved over time, though there has also been a small rise in pensioners reporting poor health as well (Figure 11).

<sup>12</sup> Data on remaining life expectancy at 75 is not available for the rest of the UK over such a long period. However, the results presented above are roughly in keeping with other data collected by ONS (2017) covering England and Wales and by Eurostat (2017) covering the UK. Specifically ONS's England and Wales data show that by 2020, women claiming the concession for the first time would expect to live around 1.9 years longer than those first claiming in 2000, and men claiming would expect to live around 2.4 extra years. The equivalent figures from Eurostat are 2.2 years for women and 3.1 years for men.

<sup>13</sup> It is important to note that in the most recent period for which data is available (2015-17) conditional life expectancy fell very slightly for both men and women relative to the previous period (2014-16). However, the trend observed over the overall period (since 2000) is unambiguously positive.

**Figure 11 Self-reported health of younger and older pensioners in England, 2000 and 2016**



Source: NHS Digital Health Survey for England, 2000, 2016. Frontier calculations

Increases in life expectancy have profound implications around planning for retirement and health and social care costs. The most recent long-term public finance projections from the Office for Budget Responsibility (2018) show combined health and social care spending rising from 8.3% of national income today to 9.7% in 2027/28, and to 15.7% by 2067/68.

## Conclusions

Over the last two decades, older households have on average seen a marked improvement in their absolute and relative living standards. Incomes, wealth and life expectancy have improved significantly. Pensioners are now the least likely age group to live in poverty. And older households report higher well-being on a range of metrics.

These are changes for the better, but it has been argued that that they have come about at the expense of younger people through explicit policy choices. Part of this story has been the introduction and preservation of targeted benefits for older people, including the concessionary television licence.

## 2.2 The changing financial context of an over-75s concession

The economic situation facing different age groups over the last 20 years is only part of the story of what has changed since the current over-75s concession was introduced. Another critical part is the cost of providing a concessionary licence to over-75s.

## The cost of the concession has increased and, if replicated, would continue to rise

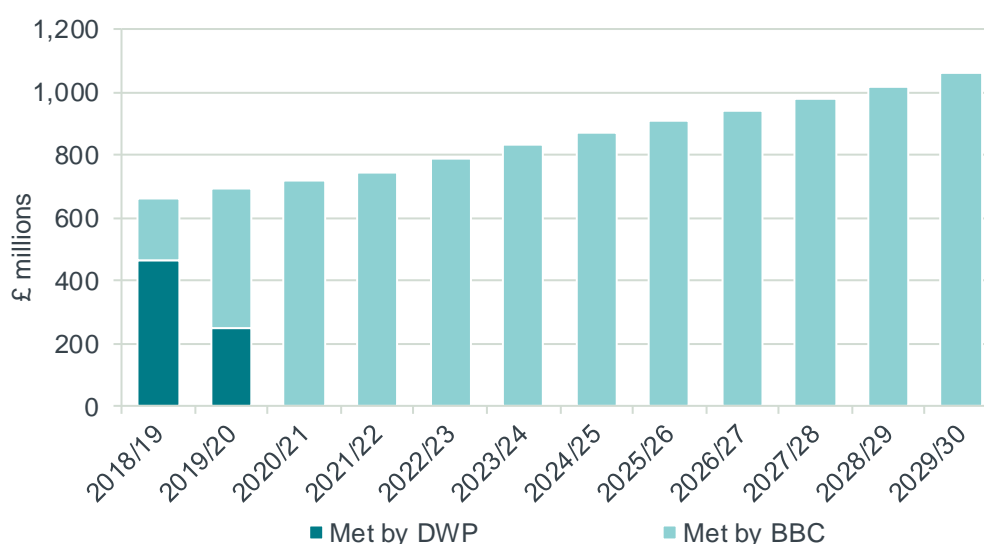
The cost of the over-75s concession has been rising steadily over time, reflecting the ageing population and increases in the cost of the licence fee.

In 2001/02, the first full financial year after it was introduced, the concession cost £365 million, met by the government.

Were the BBC to simply replicate the current concession, by 2021/22 we estimate the cost to the BBC would be £745 million, over double the cash cost twenty years earlier. This is equivalent to 18% of current BBC service spending. It is also larger than the £656 million the BBC spent on all radio services, and the £481 million spent on BBC Two in 2017/18 (BBC, 2018).

We also estimate that the costs of replicating the current concession will continue to rise after that: by the end of the next decade (2029/30), we estimate the annual cost will rise above to £1 billion (Figure 12).

**Figure 12 Forecast cost of the over-75s concession, 2018/19 to 2029/30**



Source: BBC, DWP, ONS, Frontier calculations

Note: Figures are in nominal terms

Since the over-75s concession was introduced, the profile of licence fee funding for the BBC has also changed.

Over the course of the last ten years, the BBC has had to absorb inflation and the cost of significant new financial obligations imposed by government (such as paying for the World Service and S4C). For much of this period - between April 2010 and April 2017 - the licence fee was frozen in cash terms. By 2017/18, licence fee income available for UK public service broadcasting services had fallen by around 20% in real terms. Put another way, after taking account of inflation and government-imposed financial obligations, the BBC has 20% less to spend on services for UK licence fee payers.<sup>14</sup>

<sup>14</sup> <https://www.bbc.co.uk/mediacentre/speeches/2018/tony-hall-rt>

## Conclusions

In June 2020 the current scheme to provide free TV licences to those aged over 75 is set to come to an end, along with the government funding for it. From that date, any new scheme to provide concessions relating to TV licences for older age groups will be for the BBC to consult on and then decide on.

Frontier presents this Discussion Paper as relevant to the context for the consultation and decision which the BBC has to take.

## 3 NEXT STEPS

### 3.1 Criteria to assess approaches

The BBC has asked Frontier Economics to prepare an independent report, for publication, which addresses the following two questions:

- a. What are the implications of re-instating the existing concession, and what are the key features of a case for reforming the concession?
- b. Are there particular options for reform which Frontier Economics recommends that the BBC should be thinking further about?

They have also asked for these questions to be considered in the light of certain evaluation criteria set out in the Terms of Reference (see Annex A):

- **Financial impact:** how would any option affect BBC finances and the money available to provide high-quality programming and services?
- **Distributional impact:** which groups would be most affected by any reform option?
- **Feasibility:** what implementation issues, including financial and compliance costs, could be associated with any change and how easily could they be overcome?
- **Economic rationale:** is there a compelling economic case for options to reform eligibility to the concession?

### 3.2 Frontier's report

There have been profound economic changes in the two decades since the current over-75s concession was introduced. These changes have given rise to political debate around intergenerational fairness and the different economic trends that have faced younger and older cohorts since the financial crisis. They have also had implications for the financial position facing the BBC, at the same time as the media landscape has become increasingly competitive.

Frontier Economics's forthcoming report for the BBC will consider these issues further. It will also consider both the implications of continuing with the current concession, and the case for reform of the concession from 2020, including identifying potential options in this regard and evaluating these against the criteria discussed in Chapter 3.1 above.

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## ANNEX A TERMS OF REFERENCE

### Context

1. In 2000 the government introduced free television licences for households with at least one occupant aged over 75, with the government reimbursing the costs of free licences to the BBC.
2. New funding arrangements were announced in July 2015. The reimbursement position has changed: the BBC will be liable for the cost of any concession from 2020/21.
3. Following the funding settlement, the BBC now has responsibility for the policy in relation to the concession. The Digital Economy Act 2017 amended the Communications Act 2003 to grant the BBC power to determine a concession for anyone aged 65 and over, effective from 1 June 2020. The BBC must consult before making a decision.
4. In addition the 2017 BBC Charter and Agreement allows the BBC to accept voluntary payments, and so give eligible households an opportunity to contribute to the cost of BBC services.

### Terms of reference

5. In September 2015 the BBC first commissioned Frontier Economics as an independent economics consultancy, to begin a workstream with a view to exploring longer-term funding options relating to the over-75s concession, including voluntary payments. This project has been led by the Chairman (Europe) of Frontier Economics and former Cabinet Secretary, Lord Gus O'Donnell. There have been subsequent developments since September 2015, including the passage of the Digital Economy Act 2017, which sets out the BBC's statutory powers in relation to age-related concessions, and significant changes in the UK media market.
6. The BBC has asked Frontier Economics to prepare an independent report, for publication, which addresses the following two questions:
  - a. What are the implications of re-instating the existing concession, and what are the key features of a case for reforming the concession?
  - b. Are there particular options for reform which Frontier Economics recommends that the BBC should be thinking further about?
7. In considering these key questions, Frontier Economics is asked in particular to consider these four criteria:
  - a. financial impact (including effect on BBC finances and the money available to provide high-quality programming and services);
  - b. distributional impact (effect on different groups);



- c. feasibility (including implementation issues, financial and compliance costs, and how easily any issues could be overcome); and
  - d. economic rationale (economic case for any course).
8. Frontier Economics is asked specifically to consider:
- a. the possibility of voluntary payments, as permitted under clause 49 of the BBC Charter Agreement;
  - b. the possibility (allowed for by the statutory scheme) of a concession for over-65s.

## The role of the BBC

9. The BBC has a statutory duty to consult. It will need to do so at a time when any proposals for reform are at a formative stage, giving sufficient reasons and allowing informed responses for its conscientious consideration. It can express provisional views and put forward particular options.
10. The work carried out by Frontier Economics will assist the BBC as it considers how to approach the consultation exercise. Frontier's final report will not be a consultation document, nor will it include an impact assessment or address the public sector equality duty under s149 of the Equality Act 2010. These are all matters that the BBC will address independently as part of its consultation, appraisal and determination.
11. Having conducted a detailed and open consultation process, the BBC will then ultimately make an informed choice, identifying what it considers to be the right answer on the merits, and giving its reasons.

