



Department for
Digital, Culture,
Media & Sport

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Tim Davie
Director General
BBC

Richard Sharp
Chair
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Dear Tim and Richard

CONFIDENTIAL: Initial determination of the 2022 Licence Fee Settlement

Thank you for your ongoing cooperation in the 2022 Licence Fee Settlement preparations, including your detailed response to my letter of 10 November 2020 and subsequent productive discussions with myself and the Prime Minister, and between our officials.

In accordance with Article 43 of the BBC Charter, I have considered the information you have provided, and am writing to you to convey my initial determination for the settlement before making my final decision.

I am aware of your arguments regarding inflationary pressures in TV production, and the challenges presented by changing media consumption habits and increasing competition from global players. However, following the outbreak of COVID-19 and the resulting economic impact, we must also ensure that any settlement also takes account of the financial pressure currently being felt across the nation and by individual households, requiring tough decisions.

The Prime Minister and I are therefore minded to provide a six year settlement which maintains the current level of the Licence Fee (£159) for the first two years, which then increases annually from 1 April 2024 in line with CPI inflation for the remainder of the settlement period, until 1 April 2028.

This is also the first year that S4C will be fully funded by the Licence Fee. I have given full consideration to S4C's own submission of need, separate to the BBC's, and its unique position to support the Welsh economy, culture and society. I recognise the particular impact that the rise of streaming and Video on Demand services is having on S4C's offering; while this is not a challenge exclusive to S4C, it does have a specific impact on the viewing habits of those younger and multilingual audiences who are vital for ensuring the future of the Welsh language.

Therefore, I am minded to consolidate S4C's current Licence Fee funding (£74.5 million per annum) with its current DCMS grant income (£6.85 million per annum). I also intend to award S4C a further £7.5 million per annum from the Licence Fee to support its digital development, which is now necessary for the continuation of the service in the modern media landscape. In total, this will provide S4C with approximately £88.85 million in Licence Fee funding per annum, rising in line with any stepped settlement arrangements in parity with yourselves. I have informed S4C of this determination, in parallel to this letter.

In addition, I have determined that we should continue to pursue Contestable Funding through the Licence Fee for the entirety of the settlement period. This will see £15 million of Licence Fee funding (0.4% of total funding) being used annually for the first two years of the settlement period, before that figure rises by CPI in line with the overarching settlement. The existing pilot schemes are functioning effectively and the continuation of contestable funding in this way will see a very small amount of Licence Fee income used to enhance the provision of public service broadcasting and encourage innovation, providing additional value to the public.

Additional considerations

We are at a crucial juncture for the BBC, when the Corporation needs to balance an ambitious agenda and pursue long-term sustainability in a highly-competitive and rapidly-evolving domestic and international market. Similarly, given the nature and requirements of the Licence Fee, it is important that the BBC ensures it is as focused as possible on securing and maintaining the trust of those who pay it.

To that end, I consider now is the appropriate time to update the Framework Agreement so as to record in an open way the priority commitments you have constructively put forward in the course of our engagement over recent months and which the Government both welcomes and expects the BBC to deliver.

These commitments should include the measures you have outlined around how the BBC makes best use of its resources and supports growth and opportunities across the UK (e.g. through skills and apprenticeship programmes), as well as the BBC's savings plans. I would also like to capture the BBC's commitment to reflecting the UK's culture and values to the rest of the world, in which we would expect the BBC to maintain its current level of Licence Fee funding for the World Service. We anticipate these commitments will be specific and measurable so as to allow you to report on progress in your Annual Report which will demonstrate transparency to the public.

Separately, you have presented new measures to ensure greater impartiality in BBC content and output, in line with the corporation's Mission and first Public Purpose. Consistent with the government's intention to ensure public transparency at the BBC, we will also look to enshrine these new commitments in the Framework Agreement.

We will also look closely at the BBC's request to increase the BBC's commercial borrowing limit from £350 million to £750 million. I recognise that you have set out how this additional borrowing could facilitate an ambitious growth plan that delivers a step-change in the BBC's commercial operations, leading to increased revenues that could sustainably supplement BBC income beyond the current Charter period. However, as you are aware, this decision impacts public sector net debt and must be considered in the round at the next fiscal event, and if agreed, the Government will

likely require greater transparency from the BBC to provide assurance that the BBC is managing its debt profile.

Next Steps

I believe that this determination is fair: one that reflects the current financial climate, while providing for a sustainable BBC which can efficiently and effectively fulfil its Mission and promote its Public Purposes, to deliver for all audiences across the UK and truly compete on the global stage. In determining a six-year rather than five-year settlement, I have acknowledged your request for certainty of funding over the course of this settlement period.

I welcome the BBC's consideration of this letter and a response as soon as you are able, which I will take into account as I make my final determination. As we have previously agreed, it is important that this initial determination remains confidential at this stage, to enable further free and frank discussion and ensure that Parliament is informed of my final determination at the same time as the press and public.

Concurrently, I invite you to work over the summer with my officials to specify the details of the reform commitments, calibrated in accordance with the funding settlement I have outlined in this letter, and to agree on their incorporation into the Framework Agreement. My officials will be in touch to progress the next phase of the discussions and are on hand to answer any questions you might have.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Minister for Media and Data, and my Permanent Secretary.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Oliver Dowden', followed by a long horizontal flourish.

Rt Hon Oliver Dowden CBE MP
Secretary of State for Digital, Culture, Media and Sport