



Office of the Chairman and Director-General

9 March 2021

IN CONFIDENCE

The Rt Hon Oliver Dowden CBE MP
Secretary of State
Department for Digital, Culture, Media & Sport
100 Parliament Street
LONDON
SW1A 2BQ

Dear Secretary of State,

Thank you for your letter of 10 November. As requested, we are writing to set out the BBC's case for the licence fee settlement from 1 April 2022 for six years. There is a compelling case for sustained investment in the BBC. We believe that maintaining the licence fee in real terms will enable us to play a critical role in delivering value for licence fee payers and supporting the UK in its recovery from the pandemic.

Our ambitious '*A BBC for All*' six-year delivery plan, attached, sets out the biggest reform of the BBC's content, services and operations since the 1990s. We will grow value to our audiences across the UK, protect our democracy and help the UK build global competitiveness. As you requested, it requires the BBC to become increasingly efficient and grow its commercial revenues, while sensibly maintaining investment through the licence fee.

Further, this is also a plan to help the creative economy – a vulnerable industry in which the UK has a leading global position – recover. We plan to invest at least an extra £700 million more across the UK by 2027/28 which will generate at least £850 million of additional economic benefit over this period. This represents a total investment of over £1.5 billion in the economy outside London, through the multiplier effect of the BBC, driven by its preference of procurement within the UK.

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Over the next five years the UK's commercial entertainment and media market is forecast to grow by over 20%. The UK's video on demand market, including Netflix and Amazon, is projected to grow by around 40%. These global companies – and those operating in the wider media sector – are all non-UK companies, principally US or Chinese. Consequently, without sustained investment in the BBC, the UK's creative economy is harmed.

Notwithstanding the competitive threat to the BBC and the UK's creative industries, we recognise the UK's economic challenges and the pressure on household budgets. The licence fee is a great privilege, bringing surety of income and a duty on the BBC to ensure everyone gets value for money.

Our proposal is for the licence fee settlement to continue as it is today. We are proposing a status quo agreement, where the licence fee stays flat in real terms, linked to CPI which is a reduction to our income in real terms, and compared to media cost inflation.

Our six-year plan envisages the BBC remaining exceptional value as the most-used public service in the UK. Based on current CPI forecasts, in the first year of this settlement households would be asked to pay 4p a week more than they do at the moment and in 2027 it would be 40p more.

On average people are willing to pay over £19 a month for the BBC, 50% higher than its current cost. New research from Ipsos MORI (contained in the evidence pack) demonstrates an average willingness to pay higher than the current licence fee across all main demographics, including the poorest fifth of the population. Given the breadth of the BBC's offer, this is intuitively justified in light of increases in customer fees of other media services available to UK customers.

Because of inflation in the media industry our proposal also requires the BBC to deliver more with less. It represents a cut in BBC income of 3.3% in real terms by 2027/28 in the best scenario. And this is a sector that will see significant super-inflation of up to 9% a year over the period, pushing prices up much faster than the general rate of inflation.

Over the last 10 years the BBC has had to accommodate a 31% reduction in real terms. To manage the gap between this fall in income and market growth, we undertake to continue to do more to help ourselves. We will target new self-help of around £550m annually by 2027/28 consisting of £500 million in savings and at least a 30% growth in commercial returns.

To deliver more ambitious commercial growth by 2027/28 we are also asking for an increase to the BBC's commercial borrowing limit to £750 million. The current limit has not changed since 2003 and significantly constrains what the BBC can achieve.

In addition, we propose to explore with Government the potential for separate funding of up to £100 million over the next six years to support an ambitious post-16 skills and apprentice programme.

As you know we are working with the Foreign, Commonwealth and Development Office on a proposal to deliver a transformed World Service reaching a billion people. Our assumptions are based on the BBC investing £254 million per year with the Government investing around £230 million per year by the end of the Charter period.

We have also modelled, as requested, a scenario where the cost of a TV licence is frozen at its current level. The impacts of this scenario are severe and would continue a trend whereby the BBC has already been cut by 31% over the last decade. By 2027/28 this would mean our budget would be reduced cumulatively by £1.4 billion. This is not a level of savings that can be absorbed. It would mean a fundamentally diminished BBC offering much less value for audiences, less economic impact across the UK and significantly less influence across the world.

We do not think this outcome makes sense. The last year in particular has shown how much the BBC delivers for audiences from trusted news, to home-schooling, to great entertainment.

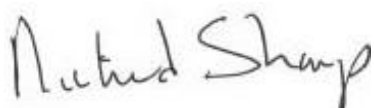
The BBC's 'A BBC for All' plan will put us at the heart of the recovery and future economic growth of the creative sector. A status quo licence fee supports a viable UK-controlled organisation capable of delivering the following five-point plan for the whole of the UK:

1. Getting closer to audiences across the UK, its Nations, regions and communities – spreading production and economic benefit across the UK
2. Protecting and nurturing democracy and civil debate, through impartial news and information
3. Stimulating the UK creative sector, through distinctive, high-impact content
4. Learning, education and skills for all
5. Delivering impact across the world, tackling propaganda and misinformation and reflecting the UK's culture and values.

We are submitting a detailed, confidential, evidence pack responding directly to the requests you have made as part of the Charter process. We look forward to discussing these ambitious proposals with you and your officials over the next few months.

We are copying this letter to the Minister of State and your Permanent Secretary.

Yours sincerely



Richard Sharp
Chairman



Tim Davie
Director-General